

**DHH**

Sector: Cloud Computing

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# Another good M&A deal on an infrastructure-based target

DHH is a tech group that provides cloud computing solutions in IaaS, PaaS and SaaS mode to 120.000+ clients across southeast Europe (the so-called “Adriatic Sea area”), where expected growth is higher thanks to current lower digital penetration

## Connesi, infrastructure based B2B ISP

DHH has announced an agreement to acquire 69.15% stake of Connesi, an infrastructure based Italian B2B company providing Internet Access, VOIP and (on a lower extent) Cloud Services, mainly in Umbria and also in other regions such as Tuscany and Marche.

Connesi in FY21 has reported (ITA GAAP) €5.5mn Revenues, €1.1mn EBITDA and €2.2mn Net Debt.

Deal value for the 69.15% stake is ca. €5.5mn (ca. 6.1x EV/EBITDA<sub>22E</sub> based on our estimates) to be paid cash, while an additional 18.35% might be acquired in 2026 and be paid by cash and / or shares.

## Positive economic and financial rationale

We appreciate the industrial rationale of the acquisition allowing DHH to:

- 1) Carry on consolidation of regional infrastructure based B2B Internet Service Providers after the deal with Evolink in Bulgaria;
- 2) Target up-selling revenue synergies by means of providing value added Cloud Computing services to Connesi’s customer base;
- 3) Further increase the exposure on businesses with recurring revenue.

## 2023E: €34mn Revenues, €11mn EBITDA

We estimate Connesi to grow at ca. 10% annual pace boosting DHH 2023E EBITDA and Net Profit by 14% and 4% (pre-synergies) respectively. After the deal, in 2023E we forecast DHH to achieve some €34mn Revenues, €11mn EBITDA, €4.2mn Net Profit with a flat Net Cash position leaving room for further M&A deals.

We note that translating Connesi financials from ITA GAAP to IFRS could lead to some adjustment on Net Profit (up), but this is something that will have to be calculated in the next months.

Stock market wise, based on current €14.0 market price and updated estimates, DHH is trading at 6.2x-10.7x-16.5x EV/EBITDA, EV/EBIT and P/E 2023E.

Waiting for 1H figures to be disclosed in September we maintain unchanged our €22.1 fair value per share.

<b>Fair Value (€)</b>	<b>22.1</b>
<b>Market Price (€)</b>	<b>14.0</b>
<b>Market Cap. (€mn)</b>	<b>68.5</b>

KEY FINANCIALS (€mn)	2021A	2022E	2023E
REVENUES	19.8	28.3	34.4
EBITDA	6.9	9.0	11.0
EBIT	3.6	4.9	6.4
NET PROFIT	3.2	3.2	4.2
EQUITY	20.0	23.2	27.5
NET FIN. POS.	-0.9	-4.6	-0.1
EPS ADJ. (€)	0.58	0.65	0.85
DPS (€)	0.00	0.00	0.00

Source: DHH Group (2021A), Value Track (2022E-23E)

RATIOS & MULTIPLES	2021A	2022E	2023E
EBITDA MARGIN (%)	35.1%	31.8%	32.0%
EBIT MARGIN (%)	18.2%	17.3%	18.7%
NET DEBT / EBITDA (x)	0.1	0.5	0.0
NET DEBT / EQUITY (%)	5.0	20.0	0.0
EV/SALES (x) (**)	3.4	2.6	2.0
EV/EBITDA (x) (**)	9.7	8.1	6.2
EV/EBIT (x) (**)	18.6	15.0	10.7

Source: DHH (2021A), Value Track (2022E-23E)

(\*) EV adjusted for peripherals and treasury shares

## STOCK DATA

FAIR VALUE (€)	€22.1
MARKET PRICE (€)	14.0
SHS. OUT. (m)	4.9
MARKET CAP. (€m)	68.5
FREE FLOAT (%)	23.7
AVG. -20D VOL. (#)	850
RIC / BBG	DHH.MI / DHH.IM
52 WK RANGE	12.3 – 17.7

Source: Stock Market Data



## Business Description

DHH is a tech group that provides cloud computing solutions in IaaS, PaaS and SaaS mode to 100.000+ clients across southeast Europe (the so-called “Adriatic Sea area”), where expected growth is higher thanks to current lower digital penetration. Nowadays, there are eight autonomous and independent business units under management across seven countries (Bosnia-Herzegovina, Bulgaria, Croatia, Italy, Serbia, Slovenia, and Switzerland).

DHH aims to consolidate leadership position in such countries thus benefitting from the natural growth trend already in place.

## Key Financials

€ mn	2021A	2022A	2023E	2024E
<b>Total Revenues</b>	<b>19.8</b>	<b>28.3</b>	<b>34.4</b>	<b>37.3</b>
Chg. % YoY	nm	42.9%	21.6%	8.4%
<b>EBITDA</b>	<b>6.9</b>	<b>9.0</b>	<b>11.0</b>	<b>12.0</b>
EBITDA Margin (%)	35.1%	31.8%	32.0%	32.3%
<b>EBIT</b>	<b>3.6</b>	<b>4.9</b>	<b>6.4</b>	<b>7.5</b>
EBIT Margin (%)	18.2%	17.3%	18.7%	20.2%
<b>Net Profit</b>	<b>3.2</b>	<b>3.2</b>	<b>4.2</b>	<b>4.8</b>
Chg. % YoY	nm	0.3%	29.6%	16.6%
<b>Adjusted Net Profit</b>	<b>2.8</b>	<b>3.2</b>	<b>4.2</b>	<b>4.8</b>
Chg. % YoY	-750.8%	12.9%	29.6%	16.6%
<b>Net Fin. Position</b>	<b>-0.9</b>	<b>-4.6</b>	<b>-0.1</b>	<b>5.1</b>
Net Fin. Pos. / EBITDA (x)	0.1	0.5	0.0	nm
Capex	-3.5	-3.8	-3.5	-3.5
<b>OpFCF b.t.</b>	<b>2.7</b>	<b>5.7</b>	<b>6.7</b>	<b>7.7</b>
OpFCF b.t. as % of EBITDA	38.5%	62.9%	60.5%	64.2%

Source: DHH Group (historical figures), Value Track (estimates)

## Investment case

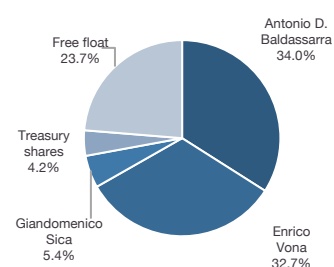
### Strengths / Opportunities

- ◆ Excellent geographic footprint, market leader in Croatia and Slovenia
- ◆ Ever increasing reference market, expected to grow at double-digit rate
- ◆ Outstanding track record in digital business and M&A activities
- ◆ High profitability ratios, sound Free Cash Flow generation deriving from subscription-based recurring revenues business model

### Weaknesses / Risks

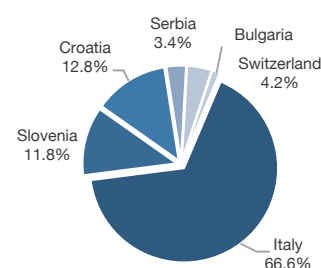
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with several players

## Shareholders Structure



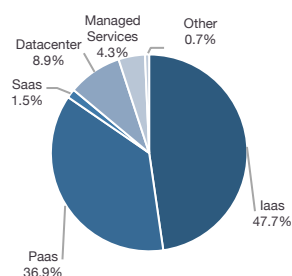
Source: DHH Group

## FY21 Revenues by Geography



Source: DHH Group

## FY21 Revenues by Segment



Source: DHH Group

## Stock multiples @ €22.1 Fair Value

	2023E	2024E
EV / SALES (x)	3.1	2.7
EV / EBITDA (x)	9.7	8.4
EV / EBIT (x)	16.6	13.5
EV / Cap. Empl. (x)	3.9	3.7
OpFCF Yield (%)	6.2	6.8
P / E (x)	26.0	22.3
P / BV (x)	4.1	3.4
Cash Div. Yield. (%)	0.0	0.0

Source: Value Track

## Connesi acquisition

DHH has announced an agreement to acquire 69.15% stake of Connesi, an infrastructure based Italian B2B Internet Access, VOIP and (to a lower extent) Cloud Computing service provider.

This deal follows the ones finalized in the latest two years, all aimed at strengthening DHH's competitive positioning in the Cloud Computing and Web Services fields respectively. Indeed, we remind that in 2020-22 DHH has already finalized the following acquisitions:

- ◆ **Mondoserver** (Italy, April 2021), cloud hosting and cloud computing provider active in the Italian market since 2003;
- ◆ **Optima Hosting** (Croatia and Bosnia, end of March 2021), focused on low-cost cloud hosting;
- ◆ **Evolink** (Bulgaria, November 2021), leading independent Bulgarian-based IaaS providers active in cloud computing, cybersecurity and provisioning of data transport services.

We note that Connesi is the second deal targeting an infrastructure based target and we believe that more could come in the future.

### Connesi at a glance

Connesi is the main independent B2B ISP player in Umbria region (but also other regions such as Tuscany and Marche), boasting ca. 3,000 clients among which top tier corporates (e.g. Lube Group, Listone Giordano) and public administrations (e.g. Comune Recanati).

In FY20 and FY21 Connesi achieved the following results, respectively:

- ◆ Revenues: €5.5mn, +6.6% y/y (2020: €5.1mn);
- ◆ EBITDA: €1.1mn, +4.0% y/y (2020: €1.1mn); EBITDA margin: 20.7% (2020: 21.3%);
- ◆ Net Financial Debt: €2.2mn (2020: €1.4mn).

Worthy to note, Connesi owns 250 radio beacons, 750km radio optic cables, 6.000 delivery points.

### Terms of the deal

The deal is structured in two phases:

- ◆ €5.5mn for the purchase of an initial 69.15% shares, to be paid entirely in cash;
- ◆ A call option to purchase an additional 18.35% stake within 90 days of the approval of Connesi's 2025 financial statements, and to be paid cash and /or with DHH shares, based on undisclosed multiple, depending on the growth of the company in the period.

We calculate that DHH is acquiring the initial 69.15% stake in Connesi at ca. 6.8x-6.1x EV/EBITDA'21A-22E multiple.

### Our view on the deal

We appreciate the rationale of the acquisition that allows DHH to:

1. Carry on consolidation of regional independent B2B internet service providers, a market segment already addressed with the Evolink deal in Bulgaria;
2. Target up-selling revenue synergies by means of providing value added Cloud Computing services to Connesi's customer base;
3. Further increase the exposure on businesses with recurring revenue (Connesi has a stable customer base with a rate of ca. 85% recurring revenue).

## Change in DHH 2022E-24E estimates

We are changing our 2022E-24E estimates to take into account of direct and indirect implications of Connesi deal:

- ◆ **Direct implications.** Connesi line by line consolidation starting as of July 1<sup>st</sup> 2022. By the way, we estimate Connesi to grow at ca. 10% annual pace (pre-synergies);
- ◆ **Indirect implications.** Lower Net Cash and higher financial charges due to M&A cash out.

Overall, we calculate Connesi deal to boost DHH 2023E EBITDA and Net Profit by 14% and 4% (pre-synergies) respectively.

### Connesi: P&L 2021A-24E

€mn	2021A	2022E	2023E	2024E
Revenues	5.5	6.0	6.6	7.3
EBITDA	1.1	1.3	1.4	1.5
Net Profit	0.1	0.2	0.2	0.3

Source: DHH (historical figures), Value Track (forecasts)

### DHH: Change in 2022E estimates

	2022E Old	Chg. Est.	2022E New	Chg. %	Connesi Deal impact	2022E New	Chg. %
Total Revenues	25.3	0.0	25.3	0.0%	3.0	28.3	11.9%
EBITDA	8.4	0.0	8.4	0.0%	0.6	9.0	7.5%
EBITDA Margin (%)	33.1%		33.1%		21.0%	31.8%	63.5%
EBIT	4.7	0.0	4.7	0.0%	0.2	4.9	4.1%
Net profit	3.1	0.0	3.1	0.0%	0.1	3.2	1.7%
Net Financial Position	3.1	0.0	3.1	nm	-2.2	-4.6	nm

Source: Value Track analysis

### DHH: Change in 2023E estimates

	2023E Old	Chg. Est.	2023E New	Chg. %	Connesi Deal impact	2023E New	Chg. %
Total Revenues	27.8	0.0	27.8	0.0%	6.6	34.4	23.7%
EBITDA	9.6	0.0	9.6	0.0%	1.4	11.0	14.4%
EBITDA Margin (%)	34.6%		34.6%		21.0%	32.0%	60.7%
EBIT	5.9	0.0	5.9	0.0%	0.5	6.4	8.7%
Net profit	4.0	0.0	4.0	0.0%	0.2	4.2	4.2%
Net Financial Position	7.6	0.0	7.6	nm	-2.2	-0.1	nm

Source: Value Track analysis

### DHH: Change in 2024E estimates

	2024E Old	Chg. Est.	2024E New	Chg. %	Connesi Deal impact	2024E New	Chg. %
Total Revenues	30.0	0.0	30.0	0.0%	7.3	37.3	24.2%
EBITDA	10.5	0.0	10.5	0.0%	1.5	12.0	14.5%
EBITDA Margin (%)	35.0%		35.0%		21.0%	32.3%	59.9%
EBIT	6.9	0.0	6.9	0.0%	0.7	7.5	9.5%
Net profit	4.6	0.0	4.6	0.0%	0.3	4.8	5.1%
Net Financial Position	12.8	0.0	12.8	nm	-2.2	5.2	nm

Source: Value Track analysis

As an effect, as far as DHH 2023E forecasts are concerned, we now expect some €34mn Revenues, €11mn EBITDA (EBITDA margin at ca. 32%), and Net Financial Position close to zero. We note that translating Connesi financials from ITA GAAP to IFRS might lead to some adjustment on Net Profit (up) but this is something that will have to be calculated in the next months.

#### DHH: 2021A-24E P&L Forecasts

€mn	2021A	2022E	2023E	2024E
<b>Value of Production</b>	<b>19.8</b>	<b>28.3</b>	<b>34.4</b>	<b>37.3</b>
Operating Expenses	-12.9	-19.3	-23.4	-25.2
<b>EBITDA</b>	<b>6.9</b>	<b>9.0</b>	<b>11.0</b>	<b>12.0</b>
<i>EBITDA margin (%)</i>	35.1%	32.0%	32.0%	32.3%
D&A&Provisions	-3.3	-4.1	-4.6	-4.5
<b>EBIT</b>	<b>3.6</b>	<b>4.9</b>	<b>6.4</b>	<b>7.5</b>
<i>EBIT margin (%)</i>	18.2%	17.5%	18.7%	20.2%
Net Fin. Income (charges)	-0.2	-0.2	-0.3	-0.3
Taxes	-0.3	-1.4	-1.9	-2.3
Minorities	0.0	-0.1	-0.1	-0.2
<b>Net Profit</b>	<b>3.2</b>	<b>3.2</b>	<b>4.2</b>	<b>4.8</b>

Source: DHH (historical figures), Value Track Analysis (forecasts)

#### DHH: 2021A-24E Cash Flow Statement

€mn	2021A	2022E	2023E	2024E
<b>Cash Earnings</b>	<b>6.5</b>	<b>7.4</b>	<b>8.9</b>	<b>9.6</b>
Working Capital Needs	-0.8	0.4	-0.9	-0.8
Capex (-)	-3.5	-3.8	-3.5	-3.5
Financial Investments (-)	-4.0	-7.7	0.0	0.0
Capital Injections	0.0	0.0	0.0	0.0
Other Sources / Uses	-0.7	0.0	0.0	0.0
<b>Net Cash generated</b>	<b>-2.4</b>	<b>-3.6</b>	<b>4.5</b>	<b>5.2</b>

Source: DHH, Value Track Analysis

#### DHH: 2021A-24E Balance Sheet

€mn	2021A	2022E	2023E	2024E
Net Fixed Assets	23.9	31.2	30.2	29.1
Net Working Capital	-1.5	-1.9	-1.0	-0.2
Severance pay and other funds	1.5	1.5	1.5	1.6
<b>Total Capital Employed</b>	<b>20.9</b>	<b>27.8</b>	<b>27.6</b>	<b>27.4</b>
Group Net Equity	20.0	23.2	27.5	32.5
<b>Net Debt</b>	<b>-0.9</b>	<b>-4.6</b>	<b>-0.1</b>	<b>5.1</b>

Source: DHH, Value Track Analysis

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