

DHH

Sector: Cloud Computing

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Revenues +26%, EBITDA +7%, slowed by higher energy costs

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

1H22: Revenues and EBITDA +26% and +7% respectively

DHH released the full set of 1H22 figures. Key messages are the following:

- Revenue from Sales at €12.1mn in 1H22, up +26% y/y (+11.5% on a like-for-like basis) thanks to: 1) volumes growth across Italian and Balkan client base, 2) partial rebate to clients of energy inflation, 3) consolidation of the Bulgarian company Evolink acquired back in 2H21;
- EBITDA up a lower than proportional +7.2% y/y (at €3.7mn, EBITDA Margin at 30.2%), burdened by: i) energy costs increase (mainly on Seeweb and Evolink), ii) higher administrative and marketing costs (out of which some are non-recurring), iii) lower than budgeted performance in some subsidiaries;
- Net Cash Position end of June at €0.9mn (negative by €-0.9mn end of December 2021) highlighting DHH strong cash generation capabilities granted by pre-paid recurring revenues business model.

As for revenues breakdown by geography, we reckon a healthy increase in foreign revenues which account for ca. 41% of total. At the same time, we highlight a negative y/y performance in the Swiss market (-6%).

2022E-24E: Lower EBITDA, unchanged Net Fin. Position

We’re maintaining substantially unchanged our 2022E-24E Top Line and Net Financial Position forecasts, while we’re slightly revising downwards Operating and Net profitability. As far as 2023E figures are concerned, we now forecast €34.6mn Total Revenues; €10.5mn EBITDA (EBITDA margin at 30.4%), zero Net Cash position, leaving room for additional M&A deals.

Fair value updated at €20.2 (down from €22.1)

Based on current €14.8 market price and updated estimates, DHH is trading at 6.8x-12.1x-18.5x EV/EBITDA, EV/EBIT and P/E 2023E.

Unfortunately, lower Peers’ multiples and higher Italian Equity Risk Premium more than offset the value creation generated by Connesi deal and lead to an update DHH fair value per share at €20.2 (down from €22.1), coming from the simple average of DCF model (€22.6) and Peers’ analysis (€17.9). At fair value, the stock would trade at 2023E multiples of 9.3x EV/EBITDA, 16.6x EV/EBIT and 25.7x P/E.

Fair Value (€) 20.2
Market Price (€) 14.8
Market Cap. (€mn) 72.5

KEY FINANCIALS (€mn)	2021A	2022E	2023E
REVENUES	19.8	28.3	34.6
EBITDA	6.9	8.3	10.5
EBIT	3.6	4.2	5.9
NET PROFIT	3.2	2.8	3.9
EQUITY	20.0	22.7	26.6
NET FIN. POS.	-0.9	-4.6	0.0
EPS ADJ. (€)	0.58	0.57	0.79
DPS (€)	0.00	0.00	0.00

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

RATIOS & MULTIPLES	2021A	2022E	2023E
EBITDA MARGIN (%)	35.1%	29.3%	30.4%
EBIT MARGIN (%)	18.2%	14.8%	17.1%
NET DEBT / EBITDA (x)	0.1	0.6	nm
NET DEBT / EQUITY (%)	5.0	20.0	0.0
EV/SALES (x (**))	3.5	2.7	2.1
EV/EBITDA (x (**))	10.1	9.1	6.8
EV/EBIT (x (**))	19.3	18.1	12.1

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

(*) EV adjusted for peripherals and treasury shares

STOCK DATA

FAIR VALUE (€)	€20.2
MARKET PRICE (€)	14.8
SHS. OUT. (m)	4.9
MARKET CAP. (€m)	72.5
FREE FLOAT (%)	23.7
AVG. -20D VOL. (#)	1,247
RIC / BBG	DHH.MI / DHH.IM
52 WK RANGE	12.3 – 18.1

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	2022E	2023E	2024E
Total Revenues	19.8	28.3	34.6	37.5
Chg. % YoY	nm	42.9%	22.4%	8.3%
EBITDA	6.9	8.3	10.5	11.5
EBITDA Margin (%)	35.1%	29.3%	30.4%	30.7%
EBIT	3.6	4.2	5.9	7.0
EBIT Margin (%)	18.2%	14.8%	17.1%	18.6%
Net Profit	3.2	2.8	3.9	4.6
Chg. % YoY	nm	-12.9%	38.7%	19.5%
Adjusted Net Profit	2.8	2.8	3.9	4.6
Chg. % YoY	-750.8%	-2.0%	38.7%	19.5%
Net Fin. Position	-0.9	-4.6	0.0	5.1
Net Fin. Pos. / EBITDA (x)	0.1	0.6	nm	nm
Capex	-3.5	-2.5	-3.5	-3.8
OpFCF b.t.	2.7	5.5	6.7	7.4
OpFCF b.t. as % of EBITDA	38.5%	65.7%	63.2%	64.6%

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

Investment case

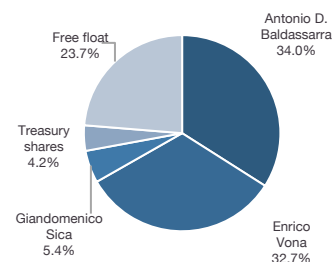
Strengths / Opportunities

- ◆ 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

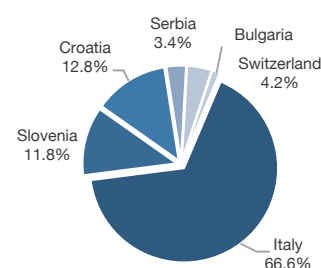
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with several players

Shareholders Structure



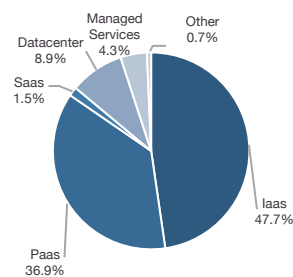
Source: DHH Group

FY21 Revenues by Geography



Source: DHH Group

FY21 Revenues by Segment



Source: DHH Group

Stock multiples @ €20.2 Fair Value

	2023E	2024E
EV / SALES (x)	2.8	2.5
EV / EBITDA (x)	9.3	8.1
EV / EBIT (x)	16.6	13.3
EV / Cap. Empl. (x)	3.7	3.6
OpFCF Yield (%)	6.8	7.3
P / E (x)	25.7	21.5
P / BV (x)	3.8	3.2
Cash Div. Yield. (%)	0.0	0.0

Source: Value Track

1H22: Top Line +26% y/y, EBITDA +7% y/y

1H22 interim results are on track with our full-year estimates as far as the top line is concerned, thus highlighting a steady business development, while short on profitability due to higher than expected Operating Expenses. More in details:

- ◆ Revenue from Sale up +26% y/y at €12.1mn, +11.5% on a l-f-l basis;
- ◆ Reported EBITDA up a less than proportional +7.2% y/y due to Opex up +40% y/y;
- ◆ Strong Operating Cash Flow generation, (OpFCF on EBITDA at 76%), leading Net Cash Position at €0.9mn (vs. € -0.9mn as of Dec'21).

DHH Group: Key Financial Items 1H21 - 1H22

(€mn)	1H21	1H22	y/y (%)
Revenue from Sales	9.6	12.1	26.0%
EBITDA	3.5	3.7	7.2%
EBIT	1.9	1.8	-1.5%
Net Profit	2.1	1.2	-42.1%
Adj. Net Profit	1.2	1.2	-2.1%
OpFCF before taxes	1.7	2.8	
Net Cash Position	2.5	0.9	

Source: DHH, Value Track analysis

Revenue from Sales up double digit at €12.1mn, in line with our expectation

Revenue from Sales came in at €12.1mn in 1H22, growing +26% y/y (+11.5% on a l-f-l basis), thanks to steady business expansion across different business units and pricing adjustments caused by inflation. Overall, 1H22 Sales are in line with our FY22E estimates of ca. €28mn as in 2H22 there will be also ca. €3mn revenues coming from the consolidation of the recently acquired Connesi.

In terms of 1H22 revenues by segment, we note that non-recurring ones such as Managed Services (basically customer assistance on infrastructure) were down by -19.1% y/y, while recurring “as-a-service” revenues were up double-digit. Overall, recurring revenues are now standing at 96% of total.

Moving to revenues breakdown by geography, foreign ones account for ca. 41% of the total, at €4.9mn (+60% y/y), consistent with the Group strategy to consolidate market positioning, particularly in the Balkans. We underline a negative -6% y/y performance in the Swiss market. On the other side, Italian revenues were up +10% y/y.

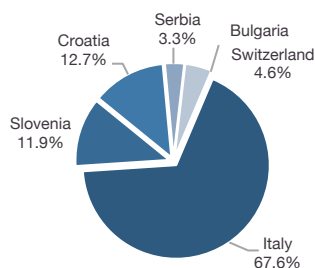
DHH Group: Revenue from Sales by segment 1H21-1H22

(€mn)	1H21	1H22	y/y (%)
laas	4.6	5.2	13.3%
Paas	3.5	4.0	14.4%
SaaS	0.1	0.2	50.1%
Datacenter & Networking	0.9	2.2	158.5%
Managed Services	0.4	0.3	-19.1%
Other	0.1	0.1	36.1%
Total Revenue from Sales	9.6	12.1	26.0%

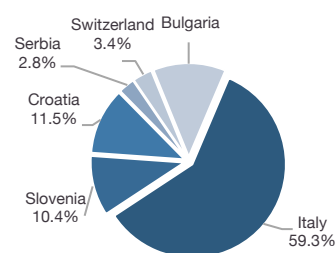
Source: Company figures, Value Track Analysis

DHH Group: 1H21-1H22 Revenue from Sales by geography

1H21 – Sales by geography (%)^(*)



1H22 – Sales by geography (%)



Source: DHH, Value Track Analysis

^(*) Bulgaria worth zero revenues in 1H21 as local subsidiary Evolink was acquired back in 2H21

EBITDA Margin down by ca. 600bps at 30.2%, Net Profit at €1.2mn

Despite the double-digit top-line growth, EBITDA was up “only” +7.2% y/y, at €3.7m and EBITDA Margin was down -596bps to 30.2% after Total Opex at €8.6mn (+40.3% y/y).

We note that net of Evolink, whose EBITDA margin 1H22 stood at 8% due to the below mentioned factors, DHH Group’s EBITDA margin would have stood at 33.6%.

The main drivers of such margin reduction are due to the combination of:

- ◆ Energy Cost increase on both Seeweb and Evolink not entirely rebated to clients;
- ◆ One-off marketing costs on the Seeweb.swiss project, not yet generating counterpart in revenues;
- ◆ Weaker than expected performance of some subsidiary (e.g. Tophost, Webtasi and Artera);
- ◆ Higher administrative and labour costs in the recently acquired (2H21) Evolink, as a part of the integration process.

Below EBITDA, higher D&A charges drove EBIT down -1.5% y/y at €1.8mn and Reported Net Profit at €1.2mn (€2.1mn in 1H21). Adjusted Net Profit was substantially stable (-2% y/y) at €1.2mn.

DHH Group: Income Statement 1H21 - 1H22

(€ mn)	1H21	1H22	y/y (%)
Revenue from Sales	9.6	12.1	26.0%
Other Revenues	0.0	0.3	
Total Revenues	9.6	12.4	28.3%
COGS	-4.0	-6.0	
Gross Profit	5.3	6.3	19.8%
Gross Margin (%)	54.8%	51.2%	-363bps
Labour costs	-1.5	-2.4	
Other Opex	-0.3	-0.2	
EBITDA	3.5	3.7	7.2%
EBITDA Margin (%)	36.2%	30.2%	-596bps
D&A	-1.6	-1.9	
EBIT	1.9	1.8	-1.5%
EBIT Margin (%)	19.5%	15.0%	-452bps
Net Financial Charges	-0.1	-0.1	
Taxes	0.3	-0.6	
Net Profit	2.1	1.2	-42.1%
Adjusted Net Profit	1.2	1.2	-2.1%

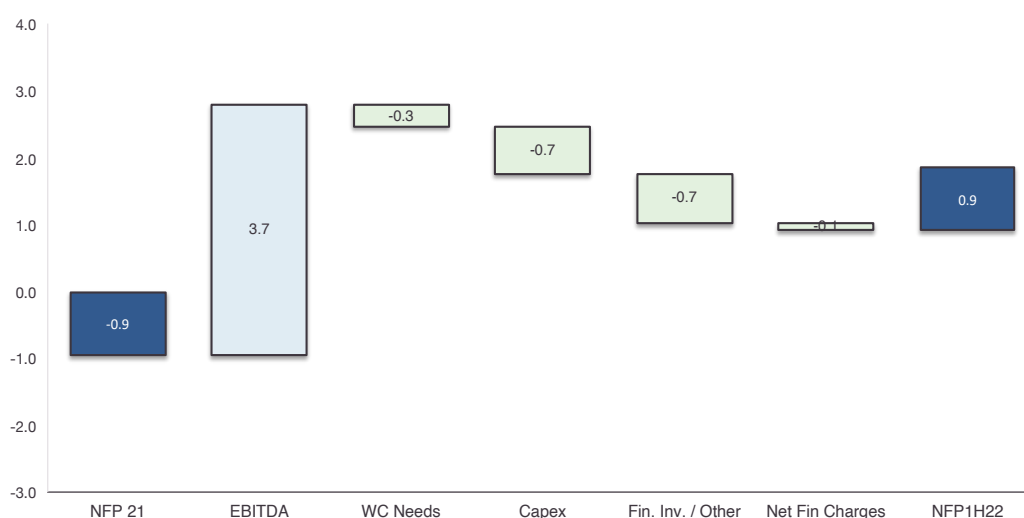
Source: Company figures, Value Track Analysis

Operating Cash Flow remains strong, i.e. OpFCF on EBITDA at 76%

As for the Balance Sheet / Cash Flow Statement, we note:

- ◆ Tangible and intangible investments (included RoU) at €-0.7mn in 1H22 vs. €-2.2mn in 1H21 (as 5.6% and 23.0% of Sales, respectively), down y/y mainly due to different split within the full year;
- ◆ Working Capital at €-1.2mn, positively benefitting from unearned revenue, typical of a SaaS / IaaS company, absorbing ca. €0.33mn vs. end of December 2021 due to Top Line growth;
- ◆ OpFCF before taxes (defined as EBITDA-Capex-ΔNWC-Δ Provisions) at 76% of the EBITDA, still highlighting the strong cash generation capabilities of the DHH business model granted by recurring revenues;
- ◆ Net Financial Position was positive (cash) at €0.9mn (out of which €4.1mn leasing payables related to IFRS16) vs -€0.9mn recorded in Dec'20, i.e. some €1.8mn Free Cash Flow in just six months;
- ◆ Cash available stood at €10.0mn, to be likely devoted to future M&A deals.

DHH Group: Bridge Cash Flow 1H22



Source: Company figures, Value Track Analysis

DHH Group: Balance Sheet 1H21 - FY22 - 1H22

(€ mn)	1H21	FY21	1H22
Total Current assets	3.0	3.9	5.5
Total Current liabilities	5.8	5.4	6.7
Net Working Capital	-2.8	-1.5	-1.2
Net Fixed Assets	20.3	23.9	22.7
Provisions	1.5	1.5	1.5
Total Capital Employed	16.1	20.9	20.0
Group Net Equity	18.5	20.0	20.9
Net Financial Position	2.5	-0.9	0.9

Source: Company figures, Value Track Analysis

What's next in 2H22

DHH hosted a Web Conference to shed some more colour on the next to come short term strategies, that are focused on both organic growth / costs' efficiency, and on further M&A expansion.

As far as the organic growth / cost's efficiency is concerned, we note that DHH is:

- ◆ Launching new highly innovative and value-added solutions («Next Generation Cloud Computing products» such as IoT applications, Cloud infrastructure for AI/ML, Cloud Server for HPC);
- ◆ Adopting more attention to cost controlling and to exploiting higher intra-group synergies.

As far as the M&A strategy is concerned, DHH is:

- ◆ Setting different geographic targets, Italy and Balkans in the short-term, and non European emerging markets (e.g. India, North Africa), in the medium one;
- ◆ Focusing on cloud-oriented B2B ISPs in terms of business segment.

DHH Group: Business and corporate short-term strategies

- Working on **new M&A opportunities** (cloud-oriented B2B ISPs)
- Particular **attention on cost controlling** in 2022H2, approach «*wait and see*» towards the macroeconomic scenario
- **Onboarding of Connesi** which effects will appear in 2022H2
- **Completion of Evolink onboarding** in the group
- Focus on improving the **intra-group synergies** and the **come back to physical events** after the pandemic peak (ref. DHH Summits)
- Testing on the market the «**Next Generation Cloud Computing products**» (ref. IoT applications, cloud infrastructure for machine learning)

Source: DHH Corporate presentation

DHH Group: Geographic footprint



Source: DHH Corporate presentation

Update of 2022E-onward financial forecasts

First half results are broadly consistent with our FY22E projections, as far as the Top Line and Net Financial Position are concerned, while a bit short on the Operating and Net Profitability side.

That said, we're maintaining substantially unchanged our 2022E-24E Top Line and Net Financial Position forecasts, while slightly revising downwards Operating and Net profitability, in order to take into account the following factors:

- ◆ The rebate to clients of higher energy costs, in those subsidiaries where clients' contracts automatically adjust to costs inflation, should support the Top Line in the next quarters;
- ◆ The rebate to clients of higher energy costs, in those subsidiaries where clients' contracts do not automatically adjust to costs inflation, might temporarily burden profitability / make longer the times needed for costs optimization (e.g. Evolink);
- ◆ The recent signature of new credit lines with banks aimed at financing M&A should increase the financial charges amount also due to some one-off initial fees;
- ◆ Lower Capex requirements, also because of longer delivery times by suppliers, should offset the lower EBITDA thus supporting Free Cash Flow generation.

We remind that starting as of July 2022, the recently acquired Connesi will enter the consolidation perimeter. We estimate a 2H22 contribution to Group figures of roughly €3mn revenue with an EBITDA margin in excess of 20%.

DHH Group: New vs. Old estimates

(€ mn)	2022E			2023E			2024E		
	Old	New	Change	Old	New	Change	Old	New	Change
Total Revenues	28.3	28.3	0.0%	34.4	34.6	0.3%	37.3	37.5	0.5%
EBITDA	9.0	8.3	-7.7%	11.0	10.5	-4.2%	12.0	11.5	-4.5%
EBIT	4.9	4.2	-14.1%	6.4	5.9	-8.2%	7.5	7.0	-7.3%
Net Profit	3.2	2.8	-13.2%	4.2	3.9	-7.1%	4.8	4.6	-4.8%
Net Fin. Position [Net debt (-)]	-4.6	-4.6	0.0	-0.1	0.0	0.1	5.1	5.1	0.0

Source: Company figures, Value Track Analysis

As a result, our new 2022E-24E forecasts can be summarized as follows:

- ◆ Almost unchanged total revenues, expected to increase at 23.7% CAGR up to 2024E;
- ◆ Operating profitability slightly decreasing over the next three years with EBITDA and EBIT margin expected respectively at 30.7% and 18.6% by 2024E;
- ◆ Favourable Working Capital dynamics, implying a sound operating cash conversion with OpFCF / EBITDA ratio on average at 64.5% over the next three years;
- ◆ Net Cash Position, to peak at ca. €5.1mn by 2024E year-end, likely to be exploited for further M&A deals.

DHH Group: 2021A – 2024E P&L

(€mn)	2021A	2022E	2023E	2024E
Total Revenues	19.8	28.3	34.6	37.5
COGS	-8.5	-13.6	-16.5	-17.8
Labour costs	-3.8	-5.9	-6.8	-7.3
Other costs	-0.6	-0.6	-0.8	-0.9
EBITDA	6.9	8.3	10.5	11.5
<i>EBITDA Margin (%)</i>	<i>35.1%</i>	<i>29.3%</i>	<i>30.4%</i>	<i>30.7%</i>
Depreciation & Amortization	-3.3	-4.1	-4.6	-4.5
EBIT	3.6	4.2	5.9	7.0
<i>EBIT Margin (%)</i>	<i>18.2%</i>	<i>14.8%</i>	<i>17.1%</i>	<i>18.6%</i>
Net Fin. Charges	-0.2	-0.2	-0.3	-0.3
Non-Operating Items	0.0	0.0	0.0	0.0
Pre-tax Profit	3.4	4.0	5.6	6.7
Tax	-0.3	-1.2	-1.7	-2.1
Reported Net Profit	3.2	2.8	3.9	4.6
Adj. Net Profit	2.6	2.8	3.9	4.6

Source: DHH, Value Track Analysis

DHH Group: 2021A – 2024E Balance Sheet

(€mn)	2021A	2022E	2023E	2024E
Net Fixed Assets	23.9	30.0	28.8	28.1
Net Working Capital	-1.5	-1.1	-0.7	-0.4
Severance Pay and Other Funds	1.5	1.5	1.6	1.6
Total Capital Employed	20.9	27.3	26.6	26.1
Group Net Equity	20.0	22.7	26.6	31.2
Net Fin. Position [Net debt (-)]	-0.9	-4.6	0.0	5.1

Source: DHH, Value Track Analysis

DHH Group: 2021A – 2024E Cash Flow Statement

(€mn)	2021A	2022E	2023E	2024E
EBITDA	6.9	8.3	10.5	11.5
Operating WC requirements	-0.8	-0.4	-0.4	-0.4
Capex (inc. RoU)	-3.5	-2.5	-3.5	-3.8
Change in provisions	0.0	0.0	0.0	0.0
OpFCF b.t.	2.7	5.5	6.7	7.4
Cash Taxes	-0.3	-1.2	-1.7	-2.1
OpFCF a.t.	2.4	4.2	4.9	5.4
Financial Investments	-4.7	-7.7	0.0	0.0
Net Financial charges	-0.2	-0.2	-0.3	-0.3
Dividends paid	0.0	0.0	0.0	0.0
Change in Net Fin. Position	-2.4	-3.7	4.6	5.1

Source: DHH, Value Track Analysis

Valuation

Year-to-date DHH share price has proven to be pretty resilient. Indeed, the share price is down ca. 8%, outperforming both FTSE Italia Growth Index, that is down some 23%, and many of its domestic and foreign comparables, that have suffered a severe multiples derating.

Based on updated estimates, we update our **fair value per share at €20.2** (down from €22.1), as simple average of:

- ◆ Peers' analysis (€17.9), negatively affected by lower Peers' multiples;
- ◆ DCF model (€22.6), burdened by higher Italian Equity Risk Premium.

At fair value, the stock would trade at 2023E multiples of 9.3x EV/EBITDA, 16.6x EV/EBIT and 25.7x P/E, at discount vs. peers on EV/EBIT and at premium on EV/EBITDA and P/E.

This compares with the following multiples based on current stock market price: 6.8x-12.1x-18.5x EV/EBITDA, EV/EBIT and P/E 2023E.

Peers' analysis

The widespread stock prices retracement of the latest months has driven a derating of the 2023E EV/EBITDA, EV/EBIT and P/E 2023E multiples of the Peers (companies operating in the tech space, and somehow exposed to same capital markets) that we usually consider to value DHH share.

Peers 2023E multiples are now calculated to stand at ca. 7.9x, 19.0x and 17.3x, respectively and lead to a Peers' based **fair equity valuation of DHH shares at €17.9 p/s** (down from previous €19.7).

DHH: Peers' stock trading multiples

Company	EV/EBITDA (x)		EV/EBIT (x)		P/E (x)	
	2022E	2023E	2022E	2023E	2022E	2023E
Growens	13.7	9.0	nm	nm	nm	nm
Relatech	7.0	5.1	10.4	7.9	13.8	11.1
Unidata	6.9	5.7	11.0	9.1	14.0	12.6
Digital 360	10.9	6.6	20.7	10.8	16.7	11.9
Intred	9.9	8.9	16.4	15.4	21.9	19.9
Reevo	14.2	9.5	28.4	14.2	44.7	29.2
WIIT	13.5	11.1	nm	22.5	26.9	19.5
Gigas Hosting	8.4	7.7	nm	nm	nm	nm
OVH	7.9	7.2	55.7	53.4	nm	nm
Avg. Peers	10.3	7.9	23.8	19.0	23.0	17.3
DHH @ market price	9.1	6.8	18.1	12.1	25.6	18.5
<i>DHH discount vs Average</i>	<i>-11%</i>	<i>-14%</i>	<i>-24%</i>	<i>-37%</i>	<i>11%</i>	<i>6%</i>

Source: Market Consensus, Value Track Analysis

DCF Valuation

We also update our DCF Model, which incorporates medium and long-term growth potential, albeit based on organic growth only.

Our model is based on a “target” capital structure with, Net Debt at 30% of the Capital Invested.

Thus, using an expanded CAPM approach, we get an overall WACC of 9.2%. The detailed calculation is based on the following assumptions:

- ◆ 2.0% Risk-free rate, 0.9x unlevered beta (average of internet and system application sectors), 7.82% Italian ERP (recently revised up from 6.42%, see Damodaran online web site for more details on this upward revision of Italian ERP), and additional 1.0% small size/ liquidity risk premium;
- ◆ Explicit financial statements projections from 2023E up to 2030E and Terminal Value at 2031E, obtained applying a 2% Perpetuity Growth Rate (PGR).

The result is **€22.6 DCF driven fair equity value per share** (down from €24.4).

DHH Group: Discounted Cash Flow based on “target” capital structure

(€mn)	
PV of future cash flows FY23E-FY30E	44.3
PV of Terminal value with PGR at 2%	66.0
Fair Enterprise value	110.3
Net Fin. Position 2022E Year-End	-4.6
Minorities and Peripheral assets	-0.1
Fair Equity value (€mn)	105.7
Fair Equity value per share (€)	22.6

Source: Value Track Analysis

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