

**DHH**

Sector: Cloud Computing

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# 3Q22/9M22 Top Line strongly up y/y

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

## High double-digit turnover growth in 3Q/9M22

DHH announced 3Q22 and 9M22 Consolidated Net Revenue from Sales at €7.9mn and €20.0mn respectively, growing at fast pace (+69.4% and +40.4% y/y respectively), and in line with our full year forecasts, driven by:

- ◆ Healthy organic growth across the Group with Seeweb, accounting approx. 1/2 of Group Revenues, organically growing at 14% y/y;
- ◆ Line by line consolidation (starting as of January 2022) of the Bulgarian cloud computing and ISP Evolink acquired back in 2H21;
- ◆ Line by line consolidation (starting as of July 2022) of the newly acquired Italian B2B Internet Service Provider, Connesi.

In terms of 3Q22 Revenues by country, we also underline the brilliant performance of Croatian subsidiary (+14% y/y), while Switzerland was the worst performing one, being flat y/y.

As far as the various business segments are concerned, non-recurring ones such as Managed Services were down -15% y/y, while recurring "as-a-service" ones were up double-digit and now account for ca. 95% of total.

We note that DHH has added a new business segment, "Internet Access", related to the provisioning of internet connectivity and other Value Added services to B2B customers by Connesi and Evolink.

## 2022E-24E estimates unchanged

We are maintaining unchanged our 2022E-23E Top line, Net profitability, and Net financial position forecasts.

However, given the brilliant 3Q22 Top line performance, we see some likelihood that 2022E actual Top line might outperform our forecasts by a few hundred euros. Overall, in 2022E we forecast €28.3mn Total Revenues and €8.3mn EBITDA (29.3% EBITDA margin). 2022 Year-End Net Debt should stand at €4.6mn (ca. 0.6x Net Debt / EBITDA) leaving wide room for additional M&A deals.

## Fair value per share at €21.1 (from €20.2)

DHH stock market price has remained pretty flat YTD (ca -5%) and is now trading at ca. 7.0x EV/EBITDA 2023E. Despite the unchanged forecasts, we are fine tuning upside our fair valuation at €21.1 p/s (from €20.2 p/s), coming from the simple average of DCF model (€22.6, unchanged) and Peers' analysis (€19.6, up from previous €17.9). At fair value, the stock would trade at 2022E multiples of 2.9x-9.7x EV/Sales and EV/EBITDA respectively.

<b>Fair Value (€)</b>	<b>21.1</b>
<b>Market Price (€)</b>	<b>15.0</b>
<b>Market Cap. (€m)</b>	<b>73.4</b>

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 (€)	0.65	0.57	0.79
DPS (€)	0.0	0.0	0.0

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

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 (x)	nm	nm	nm
EV/SALES (x) (**)	3.7	2.8	2.2
EV/EBITDA (x) (**)	10.7	9.7	7.2
EV/EBIT (x) (**)	20.6	19.1	12.8

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

(\*) EV adjusted for peripherals and treasury shares

## STOCK DATA

FAIR VALUE (€)	21.1
MARKET PRICE (€)	15.0
SHS. OUT. (m)	4.9
MARKET CAP. (€m)	73.4
FREE FLOAT (%)	24.2
AVG. -20D VOL. (#)	7,660
RIC / BBG	DHH.MI / DHH.IM
52 WK RANGE	12.30-17.71

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	2020A PF	2021A	2022E	2023E
<b>Total Revenues</b>	<b>19.8</b>	<b>28.3</b>	<b>34.6</b>	<b>37.5</b>
Chg. % YoY	nm	42.9%	22.4%	8.3%
<b>EBITDA</b>	<b>6.9</b>	<b>8.3</b>	<b>10.5</b>	<b>11.5</b>
EBITDA Margin (%)	35.1%	29.3%	30.4%	30.7%
<b>EBIT</b>	<b>3.6</b>	<b>4.2</b>	<b>5.9</b>	<b>7.0</b>
EBIT Margin (%)	18.2%	14.8%	17.1%	18.6%
<b>Net Profit</b>	<b>3.2</b>	<b>2.8</b>	<b>3.9</b>	<b>4.6</b>
Chg. % YoY	nm	-12.9%	38.7%	19.5%
<b>Adjusted Net Profit</b>	<b>2.6</b>	<b>2.8</b>	<b>3.9</b>	<b>4.6</b>
Chg. % YoY	nm	8.9%	38.7%	19.5%
<b>Net Fin. Position</b>	<b>-0.9</b>	<b>-4.6</b>	<b>0.0</b>	<b>5.1</b>
Net Fin. Pos. / EBITDA (x)	0.1	0.6	nm	nm
Capex	-3.5	-2.5	-3.5	-3.8
<b>OpFCF b.t.</b>	<b>2.7</b>	<b>5.5</b>	<b>6.7</b>	<b>7.4</b>
OpFCF b.t. as % of EBITDA	38.5%	65.7%	63.2%	64.6%

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

## Investment case

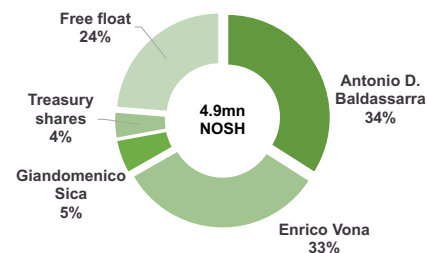
### Strengths / Opportunities

- ◆ 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

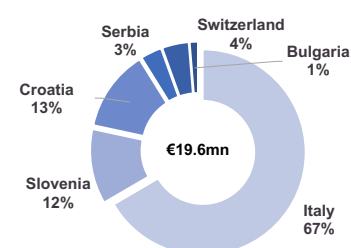
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with several players

## Shareholders Structure



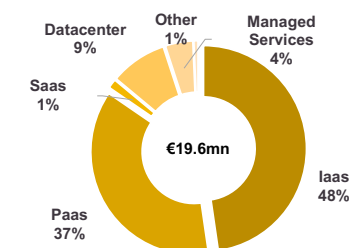
Source: DHH Group

## FY21 Revenues by Country



Source: DHH Group

## FY21 Revenues by Segment



Source: DHH Group

## Stock multiples @ €21.1 Fair Value

	2022E	2023E
EV / SALES (x)	3.8	2.9
EV / EBITDA (x)	12.8	9.7
EV / EBIT (x)	25.4	17.3
EV / Cap. Empl. (x)	3.9	3.8
OpFCF Yield (%)	5.1	6.5
P / E (x)	37.1	26.8
P / BV (x)	4.7	4.0
Cash Div. Yield. (%)	0.0	0.0

Source: Value Track

### 3Q22-9M22 Net Revenue from Sales y/y evolution by Country

#### DHH Group Revenues by Country 3Q22 (consolidated figures)

(€)	3Q21	3Q22	Δ YoY
Italy	3,140,788	5,406,518	72.1%
Slovenia	561,866	601,367	7.0%
Croatia	617,426	705,473	14.3%
Serbia	165,077	174,857	5.9%
Switzerland	205,967	208,557	1.3%
Bulgaria	-	851,201	nm
<b>Total</b>	<b>4,691,124</b>	<b>7,947,972</b>	<b>69.4%</b>

Source: DHH, Value Track Analysis

#### DHH Group Revenues by Country 9M22 (consolidated figures)

(€)	9M21	9M22	Δ YoY
Italy	9,609,952	12,564,554	30.7%
Slovenia	1,701,660	1,855,265	9.0%
Croatia	1,830,308	2,092,335	14.3%
Serbia	480,907	515,564	7.2%
Switzerland	643,217	617,005	-4.1%
Bulgaria	-	2,364,588	nm
<b>Total</b>	<b>14,255,044</b>	<b>20,009,311</b>	<b>40.4%</b>

Source: DHH, Value Track Analysis

### 3Q22-9M22 Net Revenue from Sales y/y evolution by Segment

#### DHH Group Revenues by Segment 3Q22 (consolidated figures)

(€)	3Q21	3Q22	Δ YoY
IaaS	2,227,562	2,939,285	32.0%
PaaS	1,463,225	1,888,868	29.1%
SaaS	66,022	69,849	5.8%
Internet Access	-	1,667,883	nm
Datacenter & Networking	700,613	779,910	11.3%
Managed Services	94,547	97,790	3.4%
Other	139,156	504,387	262.5%
<b>Total</b>	<b>4,691,124</b>	<b>7,947,972</b>	<b>69.4%</b>

Source: DHH, Value Track Analysis

### DHH Group Revenues by Segment 9M22 (consolidate figures)

(€)	9M21	9M22	Δ YoY
IaaS	6,794,730	8,115,115	19.4%
PaaS	4,993,623	5,928,292	18.7%
SaaS	207,097	281,606	36.0%
Internet Access	-	1,667,883	nm
Datacenter & Networking	1,554,950	2,988,362	92.2%
Managed Services	510,978	434,503	-15.0%
Other	204,665	593,549	190.0%
<b>Total</b>	<b>20,009,311</b>	<b>14,255,044</b>	<b>40.4%</b>

Source: DHH, Value Track Analysis

### 2022YTD Net Revenue from Sales y/y evolution by Country and by Segment

#### DHH: Revenues evolution from FY21 to 9M22 by Country

(€)	FY21	1Q22	2Q22	3Q22	9M22
Italy	13,021,457	3,495,698	3,662,338	5,406,518	12,564,554
Slovenia	2,303,120	643,909	609,989	601,367	1,855,265
Croatia	2,497,679	690,224	696,638	705,473	2,092,335
Serbia	656,078	167,160	173,547	174,857	515,564
Switzerland	823,499	203,583	204,865	208,557	617,005
Bulgaria	253,597	671,244	842,143	851,201	2,364,588
<b>Total</b>	<b>19,555,430</b>	<b>5,871,818</b>	<b>6,189,520</b>	<b>7,947,973</b>	<b>20,009,311</b>

Source: DHH, Value Track Analysis

#### DHH: Revenues evolution from FY21 to 9M22 by Segment

(€)	FY21	1Q22	2Q22	3Q22	9M22
IaaS	9,327,799	2,426,058	2,749,772	2,939,285	8,115,115
PaaS	7,210,342	2,114,074	1,925,350	1,888,868	5,928,292
SaaS	288,127	107,440	104,317	69,849	281,606
Internet Access	-	-	-	1,667,883	1,667,883
Datacenter & Networking	1,744,864	1,029,010	1,179,442	779,910	988,362
Managed Services	850,503	149,535	187,178	97,790	434,503
Other	133,794	45,701	43,461	504,387	593,549
<b>Total</b>	<b>19,555,430</b>	<b>5,871,818</b>	<b>6,189,520</b>	<b>7,947,973</b>	<b>20,009,311</b>

Source: DHH, Value Track Analysis

## Valuation

Year-to-date DHH share price is down ca. 5%, outperforming both FTSE Italia Growth Index, and many of its domestic and foreign comparables.

Despite the unchanged estimates, we hereby update our **fair value per share at €21.1** (up from €20.2), as simple average of:

- ◆ Peers' analysis at €19.6, up from €17.9 and positively affected by higher Peers' multiples;
- ◆ DCF model at €22.6, unchanged.

At fair value, the stock would trade at 2023E multiples of 9.7x EV/EBITDA, 17.3x EV/EBIT and 26.8x P/E, at discount vs. peers on EV/EBIT and at premium on EV/EBITDA and P/E.

This compares with the following 2023E multiples based on current stock market price: 7.0x-12.4x-19.0x EV/EBITDA, EV/EBIT and P/E 2023E.

### Peers' analysis

Compared to October 3<sup>rd</sup> 2022, when we published our latest update on DHH, the share price of DHH peers (companies operating in the tech space, and somehow exposed to same capital markets) has remained pretty unchanged, but for OVH that is up some 20% after the release of its FY22 results. At the same time, the update of consensus figures has unveiled some downward revisions and this has led Peers multiples higher.

As a matter of facts, DHH Peers' 2023E EV/EBITDA, EV/EBIT and P/E multiples are now calculated to stand at ca. 8.6x, 21.8x and 17.8x, respectively and this leads to a Peers' based **fair equity valuation of DHH shares at €19.6 p/s** (up from previous €17.9).

#### DHH: Peers' stock trading multiples

Company	EV/EBITDA (x)		EV/EBIT (x)		P/E (x)	
	2022E	2023E	2022E	2023E	2022E	2023E
Growens	14.4	8.8	nm	nm	nm	nm
Relatech	6.7	4.8	9.8	7.2	14.7	10.7
Unidata	7.6	6.3	14.2	9.5	19.9	13.5
Digital 360	11.3	6.9	21.5	11.2	17.5	12.4
Intred	10.2	9.1	16.8	15.8	22.5	20.4
Reevo	13.4	9.7	19.6	14.1	34.0	24.0
WIIT	16.0	13.3	nm	27.1	34.5	24.9
Gigas Hosting	8.5	7.9	nm	nm	nm	nm
OVH	11.5	10.6	nm	nm	nm	nm
<b>Avg. Peers</b>	<b>11.1</b>	<b>8.6</b>	<b>28.8</b>	<b>21.8</b>	<b>23.9</b>	<b>17.6</b>
<b>DHH @ market price</b>	<b>9.4</b>	<b>7.0</b>	<b>18.6</b>	<b>12.4</b>	<b>26.4</b>	<b>19.0</b>
<i>DHH discount vs Average</i>	-16%	-19%	-36%	-44%	10%	8%

Source: Market Consensus, Value Track Analysis

## DCF Valuation

As far as the DCF Model is concerned, there are no changes in the parameters that we updated after 1H22 release.

As there are also no changes in our forecast, we confirm the DCF driven €22.6 fair equity value per share, based on a “target” capital structure with, Net Debt at 30% of the Capital Invested and 9.2% WACC (expanded CAPM approach) relying on the following assumptions:

- ◆ 2.0% Risk-free rate, 0.9x unlevered beta (average of internet and system application sectors), 7.82% Italian ERP (see Damodaran online web site), 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).

### 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
<b>Fair Enterprise value</b>	<b>110.3</b>
Net Fin. Position 2022E Year-End	-4.6
Minorities and Peripheral assets	-0.1
<b>Fair Equity value (€mn)</b>	<b>105.7</b>
<b>Fair Equity value per share (€)</b>	<b>22.6</b>

Source: Value Track Analysis

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