

**DHH**

Sector: Internet Software and Services

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# 3Q gross sales growing at 17% YoY rate

DHH is a tech group that provides “virtual infrastructures” to run websites, apps, e-commerce and SaaS solutions to 100.000+ clients across southeast Europe (the so-called “Adriatic Sea area”), where expected growth is higher thanks to current lower digital penetration

## In 3Q19 still growing at double-digit pace

DHH just announced 3Q19 gross sales figures at €1.5mn, +17% YoY highlighting a business acceleration with respect to an average +11% as of 1Q and 2Q 2019.

Positive results have been recorded across all geographies where the Group is currently active except for the Italian market, down at mid-single digit rate year-to-date, likely due to Tophost, a highly price-oriented business by nature.

The largest YoY growth has been recorded in the Serbian market (+€100K YoY), also thanks to the strong performance of the recently acquired company mCloud, that is continuing to outperform and increasing its brand awareness.

Good results have been achieved in Slovenia and Croatia as well, with local businesses recording a +18% and +7% YoY respectively, driven by the increasing focus on high end products / services.

Last but not least, the Swiss market is eventually accelerating (+86% YoY), with quarterly gross sales at ca. €100K for the first time since 4Q17.

## 3Q Gross sales in line with our full-year estimates

3Q19 gross sales figures are quite aligned to our 2019 full-year estimates, which incorporate a +17% YoY top-line growth. We expect Sysbee and mCloud, the in-house developed start-up and the recently acquired cloud computing business respectively, to foster DHH expansion in the coming quarters. We expect DHH to keep generating positive cash flows due to the subscription-based business model, with Net Cash position expected to stand in excess of €3mn in 2019E, likely to be exploited for M&A transactions.

## Fair value unchanged at €10

We confirm our €10 fair equity value per share (please see our latest in-depth note as of September 24<sup>th</sup> for more details on our valuation methodology). We appreciate not only the mere economic and financial performance of the company but also the “intangible” strategic value related to DHH competitive stance and geographic footprint. Furthermore, we underline how traded volumes are recently increasing (average latest 10days trades shares at ca. 15x 1-year figure), a sign of the high interest on the stock.

**Fair Value (€) 10.0**
**Market Price (€) 7.15**
**Market Cap. (€m) 10.6**

KEY FINANCIALS (€'000)	2018A	2019E	2020E
NET REVENUES	5,970	6,900	7,752
EBITDA	534	530	919
EBIT	173	310	704
NET PROFIT	103	221	449
EQUITY	7,571	7,799	8,298
NET FIN. POS.	2,604	3,075	3,760
EBITDA PF (*)	841	880	1,169
EBIT PF (*)	647	660	954

Source: DHH (2018A), Value Track (2019E-20E estimates)  
(\*) Adjusted for listing costs and non-recurring M&A costs

RATIOS & MULTIPLES	2018A	2019E	2020E
EBITDA MARGIN (%)	8.9%	7.7%	11.9%
EBIT MARGIN (%)	2.9%	4.5%	9.1%
NET DEBT / EBITDA (x)	nm	nm	nm
NET DEBT / EQUITY (x)	nm	nm	nm
EV/EBITDA PF (x)(*)	7.4	8.6	5.9
EV/EBIT PF (x)(*)	9.6	11.5	7.2
P/E ADJ. (x)	nm	35.1	19.9

Source: DHH (2018A), Value Track (2019E-20E estimates)  
(\*) Adjusted for listing costs and non-recurring M&A costs

## STOCK DATA

FAIR VALUE (€)	10.0
MARKET PRICE (€)	7.15
SHS. OUT. (m)	1.49
MARKET CAP. (€m)	10.6
FREE FLOAT (%)	32.8
AVG. -10D VOL. (#)	6,690
RIC / BBG	DHH.MI / DHH IM
52 WK RANGE	4.86-8.00

Source: Stock Market Data



## Business Description

DHH is a tech group that provides “virtual infrastructures” to run websites, apps, e-commerce and SaaS solutions 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 seven businesses under management across five countries (Croatia, Italy, Serbia, Slovenia and Switzerland).

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

## Key Financials

€'000	2017A	2018A	2019E	2020E
<b>Net Revenues</b>	<b>5,289</b>	<b>5,970</b>	<b>6,900</b>	<b>7,752</b>
Chg. % YoY	34%	13%	16%	12%
<b>EBITDA</b>	<b>531</b>	<b>534</b>	<b>530</b>	<b>919</b>
EBITDA Margin (% of Net Revenues)	10.0%	8.9%	7.7%	11.9%
<b>EBIT</b>	<b>350</b>	<b>173</b>	<b>310</b>	<b>704</b>
EBIT Margin (% of Net Revenues)	6.6%	2.9%	4.5%	9.1%
<b>Net Profit</b>	<b>245</b>	<b>103</b>	<b>221</b>	<b>499</b>
Chg. % YoY	64%	nm	nm	nm
<b>Adjusted Net Profit</b>	<b>284</b>	<b>148</b>	<b>296</b>	<b>536</b>
Chg. % YoY	5%	-48%	100%	81%
<b>Net Fin. Position</b>	<b>2,481</b>	<b>2,604</b>	<b>3,075</b>	<b>3,760</b>
Net Fin. Pos. / EBITDA (x)	nm	nm	nm	nm
Capex	350	92	125	150
<b>OpFCF b.t.</b>	<b>625</b>	<b>256</b>	<b>552</b>	<b>891</b>
OpFCF b.t. as % of EBITDA	118%	48%	104%	97%

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

## Investment case

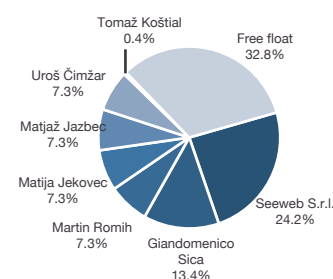
### Strengths / Opportunities

- ◆ 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
- ◆ Sound Cash Flow generation deriving from subscription-based business model

### Weaknesses / Risks

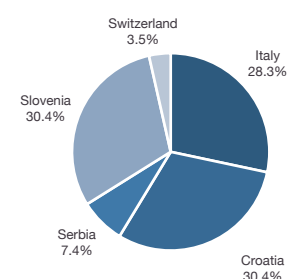
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with several players
- ◆ High incidence of listing and other non-recurring costs

## Shareholders Structure



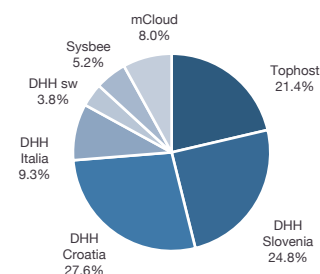
Source: DHH SpA

## Sales breakdown by country



Source: DHH SpA

## Sales breakdown by legal entity



Source: DHH SpA

## Stock multiples @ €10.0 Fair Value

	2019E	2020E
EV / SALES (x)	1.7	1.4
EV / EBITDA PF (x)	13.4	9.5
EV / EBIT PF (x)	17.9	11.7
EV / CAP.EMP. (x)	2.5	2.5
OpFCF Yield PF(%)	7.6	10.3
P / E (x)	49.1	27.8
P / BV (x)	1.9	1.8
Div. Yield. (%)	0.0	0.0

Source: Value Track

**DHH: Income Statement 2018A-2020E**

(€'000)	2018A	2019E	2020E
<b>Revenues from Sales</b>	<b>5,970</b>	<b>6,900</b>	<b>7,752</b>
Other Revenues	337	31	37
<b>Value of Production</b>	<b>6,307</b>	<b>6,931</b>	<b>7,789</b>
COGS	-3,957	-4,333	-4,845
Labour Costs	-1,816	-2,068	-2,025
<b>Reported EBITDA</b>	<b>534</b>	<b>530</b>	<b>919</b>
D&A	-361	-220	-215
<b>Reported EBIT</b>	<b>173</b>	<b>310</b>	<b>704</b>
Net interest income / expense	-20	-15	-10
<b>Pre-tax profit</b>	<b>153</b>	<b>295</b>	<b>694</b>
Taxes	-52	-74	-181
Minorities	1.4	0.0	-15.0
<b>Reported Net Profit (Loss)</b>	<b>103</b>	<b>221</b>	<b>499</b>
<b>Pro-forma EBITDA (*)</b>	<b>841</b>	<b>880</b>	<b>1,169</b>
<b>Pro-forma EBIT (*)</b>	<b>647</b>	<b>660</b>	<b>954</b>
<b>Pro-forma Net Profit (*)</b>	<b>526</b>	<b>484</b>	<b>684</b>

Source: Company figures, Value Track Analysis

(\*)Adjusted for non-recurring and extraordinary items

**DHH: Cashflows Statement 2018A-2020E**

(€'000)	2018A	2019E	2020E
<b>Reported EBITDA</b>	<b>534</b>	<b>530</b>	<b>919</b>
Op. WC requirements & Chg. in provisions	-185	148	122
Capex (not incl. Fin. Inv.)	-92	-125	-150
Cash Taxes	-52	-74	-181
<b>OpFCF a.t.</b>	<b>205</b>	<b>478</b>	<b>710</b>
Other (incl. Fin. Inv.)	-61	7	-15
Net Financial Charges	-21	-15	-10
<b>Change in Net Fin Position</b>	<b>123</b>	<b>470</b>	<b>685</b>

Source: Company figures, Value Track Analysis

**DHH: Balance Sheet 2018A-2020E**

(€'000)	2018A	2019E	2020E
Net Fixed Assets	<b>6,171</b>	<b>6,076</b>	<b>6,011</b>
Net Working Capital	-1,172	-1,313	-1,427
M/L Term non-financial liabilities	32.6	39.1	46.0
<b>Net Invested Capital</b>	<b>4,967</b>	<b>4,725</b>	<b>4,538</b>
o/w Group Net Equity	7,571	7,799	8,298
<b>Net Financial Position</b>	<b>2,604</b>	<b>3,075</b>	<b>3,760</b>

Source: Company figures, Value Track Analysis

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