

DHH

Sector: Cloud Computing

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Cash on hands, an opportunity to exploit

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

1H21: Sales up 8% y/y, EBITDA Margin >36%

1H21 interim results are substantially on track with our full-year estimates, and highlight a healthy business development, featured by an extremely high incidence of annual recurring revenue, and a very low churn rate. In details:

- Revenues at €9.6mn in 1H21, up +8% y/y on a l-f-l basis thanks to steady business expansion across different business units;
- EBITDA substantially flat y/y, at €3.5mn and EBITDA Margin at 36.2%, slightly lower y/y due to product mix and to higher Opex;
- Reported Net Profit strongly up at €2.1mn, (+55.8% y/y, €1.2mn if adjusted for €855K one off positive tax recognition);
- Net Cash Position at €2.5mn highlighting DHH strong cash generation capabilities granted by pre-paid recurring revenues business model.

2023E like-for-like: EBITDA >€9mn, Net Profit >€4mn

First half results are broadly consistent with our projections that we are fine tuning estimates to take into account the recent acquisitions and the lower tax rate on one side and higher amount of investments on the other one. We now forecast: 1) Total revenues to increase at 10% CAGR20-23E up to €24.2mn; 2) EBITDA in excess of €9mn by 2023E (EBITDA margin at 38.5%); 3) Net Profit at ca. €4.2mn by 2023E; 4) Sound operating cash conversion leading Net Cash Position at ~€13mn by 2023E year-end.

Fair value per share revised up at €22.5 (from €20.4)

Cloud computing shares are performing extremely well in the latest months and we expect soon to come international IPOs to add further positive news flow. Upside potential on DHH shares is high, as updating DCF and Peers multiples returns **€22.5 fair equity value per share**, (up from previous €20.4), compared to current €14.9 stock market price.

€10mn cash pile, a further opportunity to create value

Thanks to sound organic cash flow generation DHH now owns ca. €10mn cash pile on its books, ca. 14% of current market capitalization. Devoting this cash to further expand the geographical footprint via M&A deals finalized at multiples in line with historical ones (ca. 5x EV/EBITDA on average) would lead to further €2.6-€4.7 additional value per share.

Fair Value (€) 22.5
Market Price (€) 14.9
Market Cap. (€m) (*) 72.9

KEY FINANCIALS (€mn)	2020PF	2021E	2022E
REVENUES	18.1	19.6	22.3
EBITDA	6.8	7.4	8.5
EBIT	3.8	4.2	5.4
NET PROFIT	2.6	3.7	3.7
EQUITY	16.4	20.0	23.7
NET FIN. POS.	1.5	4.2	7.9
EPS (€)	0.57	0.75	0.76
DPS (€)	0.0	0.0	0.0

Source: DHH Group (2020PF), Value Track (2021E-22E estimates)

RATIOS & MULTIPLES	2020PF	2021E	2022E
EBITDA MARGIN (%)	37.8	37.5	38.0
EBIT MARGIN (%)	20.9	21.3	24.2
NET DEBT / EBITDA (x)	nm	nm	nm
NET DEBT / EQUITY (x)	nm	nm	nm
EV/SALES (x) (**)	3.4	3.4	2.8
EV/EBITDA (x) (**)	9.0	9.1	7.4
EV/EBIT (x) (**)	16.2	15.9	11.7

Source: DHH (2020PF), Value Track (2021E-22E estimates)

(*) EV adjusted for peripherals and treasury shares

STOCK DATA

FAIR VALUE (€)	22.5
MARKET PRICE (€)	14.9
SHS. OUT. (m)	4.9
MARKET CAP. (€m)	72.9
FREE FLOAT (%)	23.6
AVG. -20D VOL. (#)	1,418
RIC / BBG	DHH.MI / DHH IM
52 WK RANGE	9.52-16.70

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 eleven businesses under management across six countries (Croatia, Italy, Serbia, Slovenia, Bosnia-Herzegovina 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	2021E	2022E	2023E
Total Revenues	18.1	19.6	22.3	24.2
Chg. % YoY	8%	nm	13.6%	8.6%
EBITDA	6.8	7.4	8.5	9.3
EBITDA Margin (%)	37.8%	37.5%	38.0%	38.5%
EBIT	3.8	4.2	5.4	6.1
EBIT Margin (%)	20.9%	21.3%	24.2%	25.1%
Net Profit	2.6	3.7	3.7	4.2
Chg. % YoY	45%	nm	1.4%	13.4%
Adjusted Net Profit	2.6	2.8	3.7	4.2
Chg. % YoY	45%	nm	32.3%	13.4%
Net Fin. Position	1.5	4.2	7.9	12.6
Net Fin. Pos. / EBITDA (x)	nm	nm	nm	nm
Capex	-1.2	-2.6	-3.7	-3.0
OpFCF b.t.	5.3	4.7	5.4	6.6
OpFCF b.t. as % of EBITDA	78%	63.7%	63.2%	70.7%

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

Investment case

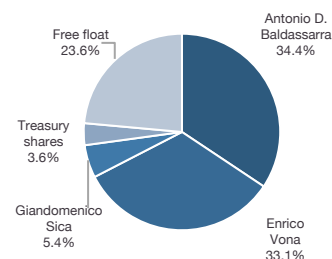
Strengths / Opportunities

- ◆ 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

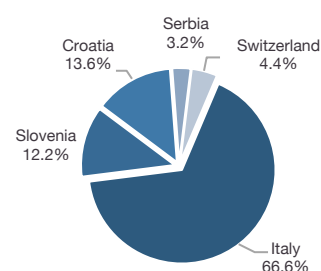
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with several players

Shareholders Structure



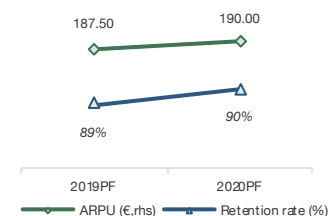
Source: DHH Group

Sales breakdown by country (2020)



Source: DHH Group

ARPU (€) and Retention rate (%)



Source: DHH Group

Stock multiples @ €22.5 Fair Value

	2021E	2022E
EV / SALES (x)	5.2	4.4
EV / EBITDA (x)	13.9	11.6
EV / EBIT (x)	24.5	18.3
EV / Cap. Empl. (x)	6.5	6.2
OpFCF Yield (%)	4.6	5.4
P / E (x)	30.1	29.7
P / BV (x)	5.5	4.6
Div. Yield. (%)	0.0	0.0

Source: Value Track

1H21: Sales up 8% y/y, EBITDA Margin >36%

1H21 interim results are substantially on track with our full-year estimates, and highlight a steady and healthy business development, featured by an extremely high incidence of annual recurring revenue, and a very low churn rate. Key messages are the following:

- ◆ Revenues up +8% on a like-for-like basis;
- ◆ EBITDA Margin stable above 36%, despite higher holding costs;
- ◆ Strong Operating Cash Flow generation, i.e. OpFCF on EBITDA at 85%.

DHH Group: 1H20 PF and 1H21 Key Financial Items

(€mn)	1H20 PF	1H21	y/y (%)
Revenue from Sales	8.9	9.6	8.2%
EBITDA	3.5	3.5	-1.5%
EBIT	2.0	1.9	-7.4%
Net Profit	1.3	2.1	55.6%
OpFCF before taxes	2.9	3.1	
Net Cash Position	1.5(*)	2.5	
Net Cash Position excl. IFRS16	5.7(*)	7.0	

Source: DHH, Value Track analysis (*) as of Dec'20

Sales up high-single digit at €9.6mn, in line with our expectation

Revenue from Sales came in at €9.6mn in 1H21, growing +8% y/y on a like-for-like basis, if compared to €8.9mn of 1H20 on a pro-forma basis, thanks to a steady business expansion across different business units. Overall, 1H21 Sales are almost in line with our 21E full-year expectation (+9% y/y).

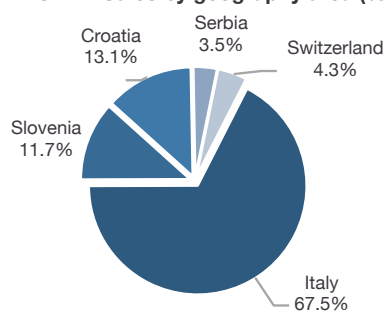
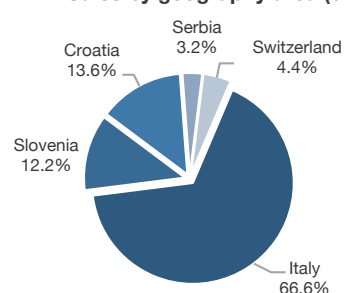
Moving to revenues breakdown by geography, we reckon a steady increase in foreign revenues which account for ca. 34% of total, at €3.3mn (+11% y/y), consistent with Group strategy to consolidate market positioning, particularly in the Balkans. We highlight a negative y/y performance in the Serbian market – still suffering negative implications of pandemic and in particular the cancellation of physical events – with first signs of growth recovery starting from 2Q. On the other side, domestic revenues increased by 6% y/y, resulting from a stable growth of both Tophost (+12% y/y) and Seeweb (+9% y/y), despite the invoice termination of DHH Italia occurred in 2H20.

Total revenues increased by 6%, negatively impacted by the lower incidence of “other revenues”, which stood at €50K in 1H21 (€240K in 1H20 PF).

DHH Group: Net Sales by business unit

Bookings - (€ mn)	1H20 PF	1H21	y/y (%)
Tophost	0.79	0.89	12.0%
DHH si	1.03	1.14	11.1%
DHH doo	0.92	1.03	11.7%
mCloud	0.31	0.32	0.5%
DHH Italia	0.11	0.00	nm
DHH SW	0.31	0.44	42.8%
Sysbee	0.20	0.19	-6.5%

Source: Company figures, Value Track Analysis

DHH Group: 1H20PF-1H21 Revenue from Sales by geography
1H20PF – Sales by geography area (%)

1H21 – Sales by geography area (%)


Source: Value Track Analysis

EBITDA Margin stable above 36%, Net Profit at €2.1mn inflated by tax asset

Despite the high single digit top-line growth, EBITDA came substantially flat y/y, at €3.5mn (-1.5% y/y) and EBITDA Margin was down 269bps from 38.9% to 36.2% after Total Opex at €6.1mn (+10% y/y).

Main drivers of such margin reduction are likely due to the combination of:

- ◆ A slightly different product mix, with Gross margin down 138bps y/y;
- ◆ Higher labour and other Opex incidence, linked to the holding structure, which also include M&A-related expenses.

Below the EBITDA, higher D&A charges led EBIT at €1.9mn (-7.4% y/y), and margin at 19.5% (-278bps). However, if adjusted for already mentioned “holding costs”. EBITDA came almost flat in 1H21 y/y, at €3.9mn (€3.8mn in 1H20), giving a better representation of the industrial profitability of the Group.

DHH Group: Income Statement 1H20 PF - 1H21

(€ mn)	1H20 PF	1H21	y/y (%)
Revenue from Sales	8.9	9.6	8.2%
Other Revenues	0.2	0.0	
Total Revenues	9.1	9.6	5.8%
COGS	-4.0	-4.3	
Gross Profit	5.1	5.3	3.2%
<i>Gross Margin (%)</i>	<i>56.2%</i>	<i>54.8%</i>	<i>-138bps</i>
Labour costs	-1.4	-1.5	
Other Opex	-0.1	-0.3	
EBITDA	3.5	3.5	-1.5%
<i>EBITDA Margin (%)</i>	<i>38.9%</i>	<i>36.2%</i>	<i>-269bps</i>
D&A	-1.5	-1.6	
EBIT	2.0	1.9	-7.4%
<i>EBIT Margin (%)</i>	<i>22.3%</i>	<i>19.5%</i>	<i>-278bps</i>
Net Financial Charges	-0.1	-0.1	
Taxes	-0.6	0.3	
Net Profit	1.3	2.1	55.8%
Adj. Net Profit	1.3	1.2	-8.0%

Source: Company figures, Value Track Analysis

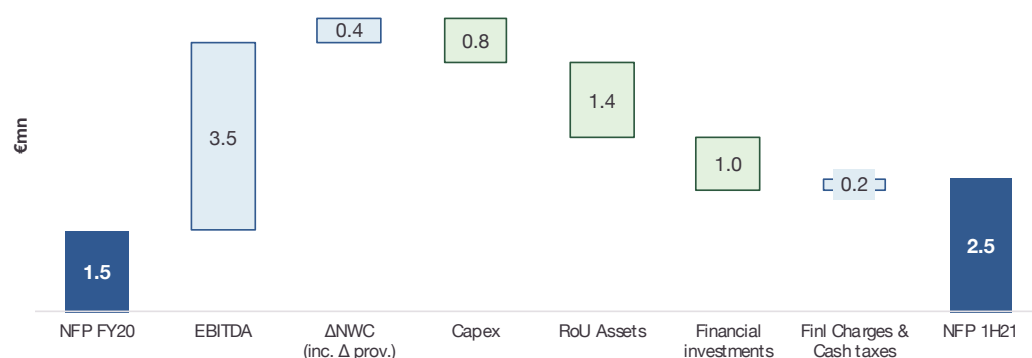
Roughly €75K financial expenses and €250Kmn positive taxes (based on temporary differences between accounting and tax treatment of deductible costs and taxable revenues for deferred taxes) drove Net Profit up at €2.1mn (+55.8% y/y, -8%.0% y/y to €1.2mn if adjusted for €855K tax asset).

Operating Cash Flow remains strong, i.e. OpFCF on EBITDA at 85%

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

- ◆ Tangible and intangible investments at €2.2mn, of which Rights of Usage (RoU) accounted for €1.3mn, ca. €0.5mn related to other intangible assets and the remaining €0.3mn stake was due to tangible investments;
- ◆ Negative working capital, at -€2.8mn, (-€2.3mn as of Dec'20), positively benefitting from unearned revenue, typical of a SaaS / IaaS company;
- ◆ OpFCF before taxes defined as (EBITDA-Capex-ΔNWC-Δ Provisions) at 85% of the EBITDA, still highlighting the strong cash generation capabilities of DHH business model granted by recurring revenues;
- ◆ Financial investments for €1mn, which relate to the acquisition of two small companies, one in Croatia (Optima Hosting) and the other one in Italy (Mondoserver), and the remaining 38% stake in Serbian subsidiary mCloud;
- ◆ Improving Net Financial Position, which came in with a positive Net Cash at €2.5mn vs € 1.5mn recorded in Dec'20.

DHH Group: Bridge Cash Flow 1H21



Source: Company figures, Value Track Analysis

DHH Group: Balance Sheet 1H20 - FY20 - 1H21

(€ mn)	1H20 PF	FY20	1H21
Op. Working Capital	0.3	0.4	0.4
Other Current Assets (Liabilities)	-3.1	-2.8	-3.1
Net Working Capital	-2.8	-2.3	-2.8
Net Fixed Assets	18.9	18.7	20.3
Provisions	0.6	1.5	1.5
Total Capital Employed	15.5	14.9	16.1
Group Net Equity	15.4	16.4	18.5
Net Financial Position	-0.1	1.5	2.5

Source: Company figures, Value Track Analysis

Update of 2021E-onward financial forecasts

First half results are broadly consistent with our FY21E projections, and the outlook remains unchanged compared to the one depicted in our previous equity notes.

That said, we are going to update our 2021E-22E and enlarging our projections to 2023E, as some fine-tuning is needed due to the following factors:

- ◆ Inclusion of recent acquisitions in the consolidation perimeter;
- ◆ €1.5mn financial investments, including the minority buy-out of mCloud and the subscription of a stake in Errera Technology Srl, an acquisition vehicle that aims to invest in fast-growing SaaS/cloud software businesses and to list them on a Multilateral Trading Facility;
- ◆ Higher Capex requirements and D&A charges, to include the recent RoU;
- ◆ Lower tax rate for 2021E to account for the already mentioned tax asset.

DHH Group: New vs. Old estimates

(€ mn)	2021E			2022E		
	Old	New	Change	Old	New	Change
Total Revenues	19.8	19.6	-0.6%	22.5	22.3	-0.7%
EBITDA	7.4	7.4	-0.8%	8.5	8.5	-0.6%
EBIT	4.4	4.2	-4.1%	5.6	5.4	-3.3%
Net Profit	2.9	3.7	24.1%	3.8	3.7	-3.4%
Net Fin. Position [Net debt (-)]	5.2	4.2	+1.0	8.9	7.9	-1.1

Source: Company figures, Value Track Analysis

That said, our new 2021E PF-23E forecasts can be summarized as follows:

- ◆ Almost unchanged total revenues, expected to increase at 10% CAGR up to 2023E;
- ◆ Operating profitability progressively increasing over the next three years with EBITDA and EBIT margin expected respectively at 38.5% and 25.1% by 2023E;
- ◆ Favourable Working Capital dynamics, implying a sound operating cash conversion with EBITDA / OpFCF ratio after on average at 50% over the next three years;
- ◆ As a result, Net Cash Position, to peak at ~€13mn by 2023E year-end, likely to be exploited for further M&A deals.

DHH Group: 2020PF – 2023E P&L

(€mn)	2020PF	2021E	2022E	2023E
Total Revenues	18.1	19.6	22.3	24.2
COGS	-7.7	-8.5	-9.5	-10.3
Labour costs	-3.1	-3.2	-3.7	-4.0
Other costs	-0.5	-0.5	-0.6	-0.6
EBITDA	6.8	7.4	8.5	9.3
<i>EBITDA Margin (%)</i>	<i>37.8%</i>	<i>37.5%</i>	<i>38.0%</i>	<i>38.5%</i>
Depreciation & Amortization	-3.0	-3.2	-3.1	-3.3
EBIT	3.8	4.2	5.4	6.1
<i>EBIT Margin (%)</i>	<i>20.9%</i>	<i>21.3%</i>	<i>24.2%</i>	<i>25.1%</i>
Net Fin. Charges	-0.2	-0.2	-0.1	-0.1
Non-Operating Items	0.0	0.0	0.0	0.0
Pre-tax Profit	3.6	4.0	5.3	6.0
Tax	-1.0	-0.4	-1.6	-1.8
Reported Net Profit	2.6	3.7	3.7	4.2
Adj. Net Profit	2.6	2.8	3.7	4.2

Source: DHH, Value Track Analysis

DHH Group: 20120PF – 2023E Balance Sheet

(€mn)	2020PF	2021E	2022E	2023E
Net Fixed Assets	18.7	19.6	20.2	19.9
Net Working Capital	-2.3	-2.2	-2.6	-2.7
Severance Pay and Other Funds	1.5	1.6	1.7	1.8
Total Capital Employed	14.9	15.8	15.9	15.4
Group Net Equity	16.4	20.0	23.7	27.9
Net Fin. Position [Net debt (-)]	1.5	4.2	7.9	12.6

Source: DHH, Value Track Analysis

DHH Group: 2020PF – 2023E Cash Flow Statement

(€mn)	2020PF	2021E	2022E	2023E
EBITDA	6.8	7.4	8.5	9.3
Operating WC requirements	-0.3	-0.2	0.4	0.1
Capex (inc. RoU)	-1.2	-2.6	-3.7	-3.0
Change in provisions	0.9	0.1	0.1	0.1
OpFCF b.t.	6.2	4.7	5.4	6.6
Cash Taxes	-1.0	-0.4	-1.6	-1.8
OpFCF a.t.	5.2	4.3	3.8	4.8
Financial Investments	-1.4	-1.5	0.0	0.0
Net Financial charges	-0.2	-0.2	-0.1	-0.1
Dividends paid	0.0	0.0	0.0	0.0
Change in Net Fin. Position	3.7	2.7	3.7	4.7

Source: DHH, Value Track Analysis

Investment case & Valuation update

DHH share price has remained substantially flat in the latest months and at current €15.2 market price, the company is trading at very cheap 7.4x EV/EBITDA and 11.7x EV/EBIT 2022E multiples.

DHH share price evolution



Source: Value Track Analysis

We update our fair value at €22.5 (up from €20.4), coming from the simple average among i) DCF model (€23.7), ii) peers' analysis (€21.0). At fair value, the stock would trade at 2022E multiples of 11.6x EV/EBITDA, 18.3x EV/EBIT and 23.7x P/E, substantially in line with peers' average, and supported by the following key points:

- ◆ **Strong revenue visibility** – Subscription business model featured by ~90% recurring revenues;
- ◆ **Best in class profitability** – EBITDA margin in excess of 36%;
- ◆ **Sound EBITDA cash conversion**, benefitting from being paid spot and then delivering its solutions in a subsequent stage;
- ◆ **M&A Value-creation capabilities** – since inception the company has been able to finalize ca.15 M&A transactions by investing €37mn and generating a €7.4mn EBITDA group.

As far as the latest point is concerned, we calculate that further €2.6–€4.7 additional value per share can arise if DHH successfully employs the current cash availabilities in potential M&A deals finalized at multiples in line with historical ones (ca. 5x EV/EBITDA on average).

Peers' analysis

Our peers' analysis, which basically include a cluster of companies operating in the tech space, and somehow exposed to same capital markets, turns out a fair equity valuation of €21.0 p/s.

Assuming 2021E-22E financial projections, the average EV/EBITDA, EV/EBIT and P/E as reference multiples, DHH is currently trading at ca. 30% discount vs. peers, totally underserved given DHH business scalability, the high incidence of recurring revenues and top-class financial profile.

DHH: Peers' stock trading multiples

Company	EV / EBITDA (x)		EV / EBIT (x)		P/E (x)	
	2021E	2021E	2021E	2021E	2021E	2021E
Growens	11.7	8.9	nm	21.6	nm	35.0
Cyberoo	nm	9.1	nm	11.6	nm	18.5
Neosperience	10.5	7.6	nm	19.9	nm	33.5
Relatech	11.0	8.1	15.2	10.7	22.6	16.1
Unidata	8.8	7.4	15.8	13.2	24.5	20.0
Digital 360	14.6	10.1	27.6	15.3	28.6	18.1
Piteco	15.7	13.6	24.6	20.2	24.2	20.7
Reevo	18.0	12.1	26.1	16.9	42.3	27.6
WIIT	27.3	23.0	nm	nm	nm	48.2
Gigas	10.6	9.1	nm	23.7	49.7	32.6
Average Peers	14.3	10.9	21.9	17.0	32.0	27.0
DHH @ market price	9.1	7.4	15.9	11.7	26.5	20.0
<i>DHH discount vs Average</i>	<i>-36%</i>	<i>-32%</i>	<i>-27%</i>	<i>-31%</i>	<i>-17%</i>	<i>-26%</i>

Source: Market Consensus, Value Track Analysis (*) OpFCF calculated as EBITDA-Capex

DCF Valuation

Updating our DCF model returns a **€23.7 fair equity value per share**. This is based on:

- ◆ 9.0% WACC;
- ◆ 2% perpetuity growth rate;
- ◆ Target capital structure (i.e., net Debt at 30% of the Invested Capital).

DHH Group: Fair Equity Value (p.s.) - Sensitivity Analysis

		Perpetuity Growth Rate				
		1.50%	1.75%	2.00%	2.25%	2.50%
WACC	8.0%	26.4	27.2	27.9	28.8	29.7
	8.5%	24.4	25.0	25.7	26.4	27.1
	9.0%	22.7	23.2	23.7	24.3	24.9
	9.5%	21.2	21.6	22.1	22.5	23.1
	10.0%	19.9	20.2	20.6	21.0	21.4

Source: Value Track Analysis

Calculating the additional value that can be generated through M&A

As already seen in our previous equity notes, in the latest five years (i.e. since foundation) DHH has finalized ca. 15 M&A deals and invested roughly €37mn (€34.5mn net of €2.5mn Net Cash Position) creating a group expected to generate €7.4mn EBITDA by 2021E.

If we assume that DHH keep devoting to M&A driven growth the excess cash available in its Balance Sheet, and we assume acquisition multiples in line with historical ones (ca. 5.0x EV/EBITDA pre synergies, or 4.0x “fully synergized”), we calculate that €2.0mn-€2.5mn additional EBITDA can be added. This would lead to €2.6-€4.7 incremental value per share.

DHH: Possible Value Creation from further M&A deals (€/s)

Simulation based on current market price		Simulation based on VT fair value	
DHH Market Price	€15.2	DHH Fair Value	€22.5
EV/EBITDA 21E @ market price	9.1x	EV/EBITDA 21E @ fair value	13.8x
EBITDA post Acquisition	€9.8m	EBITDA post Acquisition	€9.8m
EV at market multiple	€89.1m	EV at fair multiple	€135.5m
Net Debt (+) Cash (-) post M&A	€5.7m	Net Debt (+) Cash (-) post M&A	€5.7m
Adjustments to EV (€mn)	-€3.5m	Adjustments to EV (€mn)	-€3.5m
Market Cap.	€86.9m	Market Cap.	€133.3m
Nosh	4.9	Nosh	4.9
€ p/s	€17.8	€ p/s	€27.2
M&A Value Creation (p/s)	€2.6	M&A Value Creation (p/s)	€4.7

Source: Market Consensus, Value Track Analysis

DHH: Investment highlights

Well-established player in the cloud-computing space	<ul style="list-style-type: none"> • Leading position in South-East Europe • Proprietary solutions delivered to 100,000+ customers, with #13 brands under management • Extensive physical and network infrastructures
Highly scalable and profitable business model	<ul style="list-style-type: none"> • Easily scalable business, derived by a subscription business model • High incidence of recurring revenues • High client retention with long revenue periods, fueled by an extremely low churn rate
Favourable market stance	<ul style="list-style-type: none"> • Exposure to a growing & resilient market, driven by digital transformation • Cloud computing services facing a stronger and stronger market demand • Being local in SE Europe as a risk mitigation against competition from big players (particularly in terms of data protection and regulation)
High-quality financials	<ul style="list-style-type: none"> • EBITDA margin above the 37% level with no capitalization at all • Low Capex requirements, lead to a sound EBITDA to cash conversion

Source: Value Track Analysis

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