

DHH

Sector: Cloud Computing & Internet Access Services



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2023: a good start

DHH is a tech group that provides integrated cloud & internet access services solutions across Italy, Switzerland and southeast Europe (the so-called “Adriatic Sea area”), where expected growth is higher thanks to current lower digital penetration.

1Q23: Top Line +42% y/y (+13% organic)

DHH SpA has announced 1Q23 results that highlight a brilliant double-digit growth (even on organic basis) of top line and operating profitability, while Net Debt remains stable due to capex and M&A. In details:

- Revenues stood at €8.4mn, +42% y/y (+13% y/y organic), mostly driven by IaaS (+23% y/y organic). We note that: 1) Balkan countries were best performing in terms of organic growth (+15% Slovenia, +13% Croatia, +16% Serbia, +18% Bulgaria); 2) Recurring revenues are ca. 95% of total.
- Adj. EBITDA up +39% y/y (+14% y/y organic, €2.7mn in absolute value), despite the unfavourable y/y comparison on energy costs;
- Adj. EBIT was equal to €1.3mn, up +25% y/y;
- Operating Cash Flow (before capex) at €3.2mn, +67% y/y.
- Net Debt was substantially stable (€6.3mn vs €6.0mn 2022 year-end), as Oper. Cash Flow was absorbed by development capex (we estimate ca. €2.5mn) and M&A (acquisition of Misterdomain worth €700k).

In a nutshell, we note that: 1) the company is accelerating its growth rate, with acquired companies granting satisfactory contribution; 2) operating profitability is under control; 3) the business model is getting more capital intensive due to proprietary infrastructure needs.

2023E-25E estimates unchanged

We believe 1Q23 figures are in line with our full year estimate but it's difficult to give a conclusive judgement as it is the 1st time that the company unveils quarterly results. Moreover, capex needs (especially IRUs) are not necessarily evenly distributed in the 12 months.

That said, we are maintaining our estimates unchanged and in 2024E we expect: 1) Value of Production at €40.7mn (27.1% CAGR_{21-24E}); 2) EBITDA at € 12.6mn, (EBITDA margin at ca. 31.0%); 3) €1mn Net Cash Position.

Fair value per share at €22.3 (unchanged)

We maintain unchanged our €22.3 p.s. fair valuation. Based on current market price and estimates, DHH is trading at ca. 7.7x-15.4x-21.6 EV/EBITDA, EV/EBIT and P/E 2023E respectively, definitively below peers' multiples. At fair value, the stock would trade at 10.9x EV/EBITDA 2023E.

Fair Value (€)	22.3
Market Price (€)(*)	15.3
Market Cap. (€m)	74.9

KEY FINANCIALS (€mn)	2022	2023E	2024E
REVENUES	29.6	36.8	40.7
ADJ. EBITDA	9.0	11.3	12.6
ADJ. EBIT	4.8	6.2	7.5
ADJ. NET PROFIT	2.6	3.5	4.4
EQUITY	24.1	26.8	31.4
NET FIN. POS.	-6.0	-3.8	1.0
ADJ. EPS (€)	0.53	0.71	0.90
DPS (€)	0.0	0.0	0.0

Source: DHH Group (2022), Value Track (2023E-24E)

RATIOS & MULTIPLES	2022	2023E	2024E
Adj. EBITDA MARGIN (%)	30.4	30.6	31.0
Adj. EBIT MARGIN (%)	16.3	16.7	18.3
NET DEBT / EBITDA (x)	0.8	0.4	nm
NET DEBT / EQUITY (x)	0.2	0.1	nm
EV/SALES (x)	2.7	2.1	1.8
EV/EBITDA (x)	11.0	7.7	5.9
EV/EBIT (x)	29.4	15.4	9.9
P/E Adj.	30.4	30.6	31.0

Source: DHH (2022), Value Track (2023E-24E)

STOCK DATA (*)

FAIR VALUE (€)	22.3
MARKET PRICE (€)	15.3
SHS. OUT. (m)	4.9
MARKET CAP. (€m)	74.9
FREE FLOAT (%)	23.7
AVG. -20D VOL. (#)	1,650
RIC / BBG	DHH.MI / DHH IM
52 WK RANGE	12.30-17.00

Source: Stock Market Data

(*) Prices as of 26/5 market open



Business Description

DHH is a tech group that provides integrated cloud & internet access services solutions to 120.000+ clients across Italy, Switzerland and southeast Europe (the so-called “Adriatic Sea area”), where expected growth is higher thanks to current lower digital penetration. Nowadays, there are nine autonomous and independent business units under management across six countries (i.e., 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	2022	2023E	2024E	2025E
Total Revenues	29.6	36.8	40.7	45.1
Chg. % YoY	49.6%	24.3%	10.4%	10.9%
EBITDA Reported	7.4	10.2	12.6	15.3
<i>EBITDA Margin (%)</i>	24.9%	27.8%	31.0%	33.9%
EBIT Reported	2.8	5.1	7.5	10.0
<i>EBIT Margin (%)</i>	9.3%	13.9%	18.3%	22.2%
Net Profit Reported	0.7	2.4	4.4	6.1
Chg. % YoY	-76.7%	nm	82.8%	39.5%
Adjusted Net Profit	2.6	3.5	4.4	6.1
Chg. % YoY	-1.4%	33.0%	27.0%	39.5%
Net Fin. Position	-6.0	-3.8	1.0	6.1
Net Fin. Pos. / EBITDA (x)	0.8	0.4	nm	nm
Capex	-2.5	-5.7	-5.3	-6.3
OpFCF b.t.	6.9	5.4	7.5	8.8
OpFCF b.t. as % of EBITDA	92.8%	53.2%	59.6%	57.3%

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

Investment case

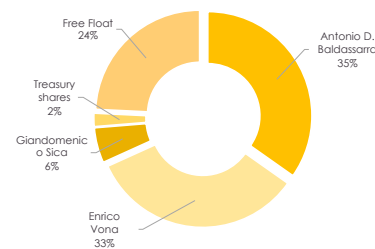
Strengths / Opportunities

- ◆ 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

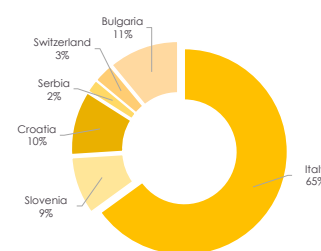
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with several players

Shareholders structure (2022)



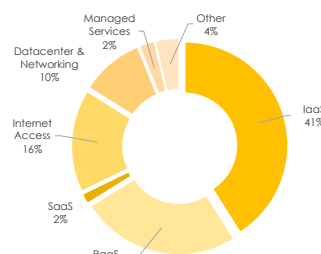
Source: DHH Group

Sales b.down by country (2022)



Source: DHH Group

Sales b.down by segment (2022)



Source: DHH Group

Stock multiples @ €22.3 Fair Value

	2023E	2024E
EV / SALES (x)	3.0	2.6
EV / EBITDA (x)	10.9	8.5
EV / EBIT (x)	21.8	14.3
EV / Cap. Empl. (x)	3.7	3.5
OpFCF Yield (%)	4.9	7.0
P / E (x)	31.5	24.8
P / BV (x)	4.5	3.8
Cash Div. Yield. (%)	0.0	0.0

Source: Value Track

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