

DHH

Sector: Cloud Computing



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9M23 profitability strongly up

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.

9M23: Top Line +24% y/y, EBITDA Adj. +34% y/y

DHH has announced some 9M23 financial figures which underline a very satisfactory double-digit increase of operating profitability and a higher Net Debt position due to M&A cash out. In details, 9M23 figures are:

- ◆ €25.6mn Consolidated Net Revenue from Sales, +24% y/y, (10% y/y on a like-for-like basis), with Recurring revenues at 95% of total. It is noteworthy the brilliant performance of Slovenian cloud hosting provider Webtasy (+16% y/y) and Italian cloud computing provider Seeweb (+12% y/y). By country, we flag Slovenia as top performer (+16% y/y l-f-l), followed by Italy (+12%), Serbia (+11%) and Croatia (+9%);
- ◆ €8.4mn Adj. EBITDA up a more than proportional +34% y/y, (+22% y/y l-f-l), with Adj. EBITDA Margin at ~34%, up some 300bps y/y, despite Connesi consolidation (which has an EBITDA Margin of ca. 26%);
- ◆ Adj. EBIT and Adj. Net Profit at €4.3mn (+36% y/y) and €2.5mn (+32% y/y), respectively;
- ◆ €7.1mn Operating Cash Flow generation (+36% y/y, +21% l-f-l);
- ◆ Net Debt end of September at €7.8mn, compared to €5.6mn end of June 2023, as 3Q23 Op. Cash Flow (some €1.5mn) has been more than offset by M&A cash out (€2.8mn for the purchase of Connesi minorities), and other 3Q23 minor investment in fiber/network and R&D projects.

Estimates confirmed, but for M&A cash out

We have substantially maintained unchanged our 2023E-2025E P&L estimates, while taking into account recent M&A cash out in the Balance Sheet. We now expect: 1) VoP reaching ~€44.1mn in 2025E (14.0% CAGR_{22A-25E}); 2) EBITDA and EBIT margins at ca. 33.7% and 21.6%, respectively in 2025E; 3) Net Cash Position peaking at €4.3mn by the end of 2025E, potentially earmarked for additional M&A deals.

Fair Value per share at €22.4 (unchanged)

We maintain the Fair Value unchanged, as well, at €22.4 as simple average of DCF (now at €23.8 vs. €25.3 in Sept. 2023), and Peers' Analysis (now at €21.1 vs. €19.5 in Sept. 2023 as we roll-over on 2024E financials).

Fair Value (€) **22.4**Market Price (€) **13.8**Market Cap. (€mn) **67.5**

KEY FINANCIALS (€mn)	2022	2023E	2024E
REVENUES	29.6	35.8	39.7
EBITDA ADJUSTED	9.0	11.3	12.6
EBIT ADJUSTED	4.8	6.0	7.3
NET PROFIT ADJUSTED	2.6	3.4	4.3
EQUITY	24.1	25.9	30.4
NET FIN. POS.	-6.0	-7.0	-2.1
ADJ. EPS (€)	0.53	0.69	0.88
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	31.5	31.8
Adj. EBIT MARGIN (%)	16.3	16.7	18.4
NET DEBT / EBITDA (x)	0.8	0.7	0.2
NET DEBT / EQUITY (x)	0.2	0.3	0.1
EV/SALES (x) (*)	2.5	2.1	1.8
EV/EBITDA (x) (*) (**)	8.2	6.6	5.5
EV/EBIT (x) (*) (**)	15.3	12.5	9.6

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

(*) EV adjusted for peripherals and treasury shares

(**) 22-23E EBITDA and EBIT adjusted for stock option charges

STOCK DATA

FAIR VALUE (€)	22.4
MARKET PRICE (€)	13.8
SHS. OUT. (m)	4.9
MARKET CAP. (€m)	67.5
FREE FLOAT (%)	23.7
AVG. -20D VOL. (#)	906
RIC / BBG	DHH.MI / DHH IM
52 WK RANGE	13.10-17.30

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	2022	2023E	2024E	2025E
Total Revenues	29.6	35.8	39.7	44.1
Chg. % YoY	nm	20.9%	10.7%	11.3%
EBITDA Reported	7.4	10.2	12.6	14.9
EBITDA Margin (%)	24.9%	28.4%	31.8%	33.7%
EBITDA Adjusted	9.0	11.3	12.6	14.9
EBITDA Adjusted Margin (%)	30.4%	31.5%	31.8%	33.7%
Net Profit Reported	0.7	2.3	4.3	5.8
Chg. % YoY	nm	nm	87.1%	35.4%
Net Profit Adjusted	2.6	3.4	4.3	5.8
Chg. % YoY	nm	30.4%	26.4%	35.4%
Net Fin. Position	-6.0	-7.0	-2.1	4.3
Net Fin. Pos. / EBITDA (x)	0.8x	0.7x	0.2x	nm
Capex	-2.5	-5.5	-4.6	-4.8
OpFCF b.t.	6.9	5.7	7.8	9.9
OpFCF b.t. as % of EBITDA	92.8%	55.8%	61.5%	66.6%

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

Investment case

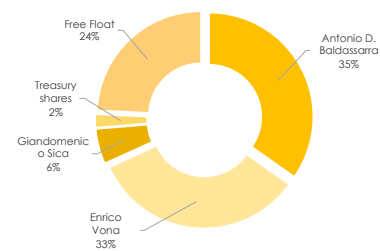
Strengths / Opportunities

- ◆ 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

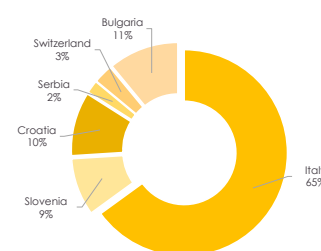
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with several players

Shareholders Structure



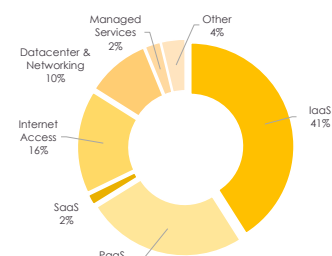
Source: DHH Group

Sales b.down by country (2022)



Source: DHH Group

Sales b.down by segment (2022)



Source: DHH Group

Stock multiples @ €22.4 Fair Value

	2023E	2024E
EV / SALES (x)	3.2	2.8
EV / EBITDA Adj. (x)	10.2	8.8
EV / EBIT Adj. (x)	19.3	15.1
EV / Cap. Empl. (x)	3.5	3.4
OpFCF Yield (%)	7.1	7.9
P / E Adj. (x)	32.3	25.6
P / BV (x)	4.5	3.8
Cash Div. Yield. (%)	0.0	0.0

Source: Value Track

Estimates Review & Valuation

Change in Estimates

DHH Group: New vs. Old estimates

(€mn)	2023E			2024E			2025E		
	Old	New	Change	Old	New	Change	Old	New	Change
Value of Production	36.8	35.8	-2.8%	40.7	39.7	-2.5%	45.1	44.1	-2.1%
EBITDA Adj.	11.3	11.3	0.0%	12.6	12.6	0.0%	14.9	14.9	0.0%
<i>Adj. EBITDA Margin</i>	<i>30.6%</i>	<i>31.5%</i>	<i>87bps</i>	<i>31.0%</i>	<i>31.8%</i>	<i>78bps</i>	<i>33.0%</i>	<i>33.7%</i>	<i>69bps</i>
EBITDA	10.2	10.2	0.0%	12.6	12.6	0.0%	14.9	14.9	0.0%
<i>EBITDA Margin</i>	<i>27.6%</i>	<i>28.4%</i>	<i>79bps</i>	<i>31.0%</i>	<i>31.8%</i>	<i>78bps</i>	<i>33.0%</i>	<i>33.7%</i>	<i>69bps</i>
D&A	5.3	5.3	0.0%	5.3	5.3	0.0%	5.3	5.3	0.0%
EBIT Adj.	6.0	6.0	0.0%	7.3	7.3	0.0%	9.5	9.5	0.0%
<i>Adj. EBIT Margin</i>	<i>16.2%</i>	<i>16.7%</i>	<i>46bps</i>	<i>17.9%</i>	<i>18.4%</i>	<i>46bps</i>	<i>21.2%</i>	<i>21.6%</i>	<i>44bps</i>
EBIT	4.9	4.9	0.0%	7.3	7.3	0.0%	9.5	9.5	0.0%
<i>EBIT Margin</i>	<i>13.2%</i>	<i>13.6%</i>	<i>38bps</i>	<i>17.9%</i>	<i>18.4%</i>	<i>46bps</i>	<i>21.2%</i>	<i>21.6%</i>	<i>44bps</i>
Adj. Net Profit	3.4	3.4	0.0%	4.3	4.3	0.0%	5.8	5.8	0.0%
Net Profit	2.3	2.3	0.0%	4.3	4.3	0.0%	5.8	5.8	0.0%
Net Financial Position	-3.9	-7.0	-3.1	1.0	-2.1	-3.1	7.4	4.3	-3.1
OpFCF a.t.	4.1	3.9	-4.9%	5.6	5.6	0.2%	6.9	7.0	0.2%

Source: Value Track Analysis

Discounted Cash Flow Model

DHH: DCF model

€mn	
PV of future cash flows 2024E-2031E	44.5
PV of Terminal value	76.4
Fair Enterprise value	121.0
Implied EV/ Adj. EBITDA 23E (x)	11.9x
Net Fin. Position 2023E	-7.0
Minorities / Peripherals (net of related debt)	0.0
Fair Equity value	114.0
Shs. (mn) – net of Treasury shares	4.8
Fair Equity value per share (€)	23.8

Source: Value Track Analysis

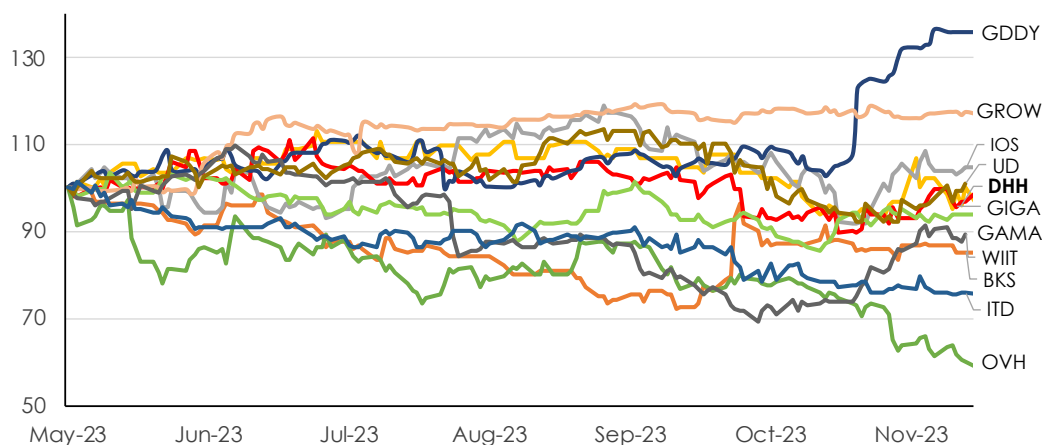
Peers' Analysis

DHH: Peers' stock trading multiples

Company	EV / EBITDA (x)		EV / EBIT (x)		P/E (x)	
	2023E	2024E	2023E	2024E	2023E	2024E
Growens	12.0	9.6	nm	nm	nm	nm
WIIT	14.1	11.7	31.3	21.9	31.5	25.1
Unidata	7.5	6.5	10.9	9.4	11.6	9.7
Intred	8.0	7.7	17.1	17.7	24.8	26.6
Peer's Italian - Average	10.4	8.9	19.8	16.4	22.7	20.4
Beeks Financial Cloud	7.7	5.8	21.1	14.8	26.3	21.0
IONOS	8.0	6.9	11.9	9.8	14.0	13.4
Gigas Hosting	8.8	7.8	nm	nm	nm	nm
OVH	6.9	6.4	nm	nm	nm	nm
Go Daddy	15.3	12.6	30.7	20.3	32.8	21.2
Gamma Communications PLC	8.3	7.4	10.5	9.5	17.4	15.5
Peer's International - Average	9.2	7.8	18.5	13.6	22.6	17.8
Total Average Peers	9.6	8.2	19.1	14.8	22.6	18.9
Total Median Peers	8.2	7.5	17.1	14.8	24.8	21.0
DHH @ market price	7.4	5.5	15.4	9.6	19.9	15.7
<i>DHH discount vs Average</i>	-23.8%	-32.6%	-19.4%	-35.0%	-12.1%	-16.8%
<i>DHH discount vs Median</i>	-9.9%	-26.2%	-10.4%	-35.0%	-19.9%	-25.2%

Source: Market Consensus, Value Track Analysis

DHH: Last 6-months Peers' stocks performance



Source: Value Track Analysis, S&P Capital IQ

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