

DHH

Sector: Industrials

BUY

Price: Eu25.20 - Target: Eu32.00

M&A and AI to Enrich a Recurring and Scalable Business Model

Giorgio Tavolini +39-02-77115.279

giorgio.tavolini@intermonte.it

Andrea Randone: +39-02-77115.364

andrea.randone@intermonte.it

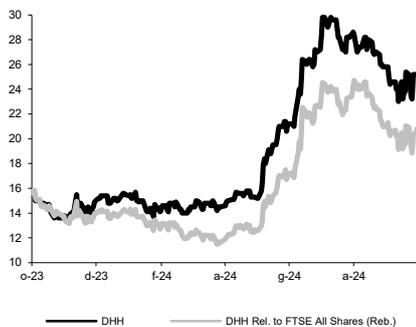
Stock Rating

Rating: BUY (New Coverage)
Target Price (Eu): 32.00 (New Coverage)

Next Event

3Q Results Out 22 November

DHH - 12M Performance



Stock Data

 Reuters code: DHH.MI
 Bloomberg code: DHH IM

| Performance | 1M | 3M | 12M |
|-------------------------|-------------|-------|-------|
| Absolute | -2.3% | -7.4% | 61.5% |
| Relative | -0.5% | -7.4% | 42.2% |
| 12M (H/L) | 29.80/13.50 | | |
| 3M Average Volume (th): | 1.03 | | |

Shareholder Data

| | |
|---------------------------|-------|
| No. of Ord shares (mn): | 5 |
| Total no. of shares (mn): | 5 |
| Mkt Cap Ord (Eu mn): | 123 |
| Total Mkt Cap (Eu mn): | 123 |
| Mkt Float - Ord (Eu mn): | 28 |
| Mkt Float (in %): | 23.0% |
| Main Shareholder: | |
| Antonio D. Baldassarra | 33.6% |

Balance Sheet Data

| | |
|---------------------------------|------|
| Book Value (Eu mn): | 28 |
| BVPS (Eu): | 5.94 |
| P/BV: | 4.2 |
| Net Financial Position (Eu mn): | -1 |
| Enterprise Value (Eu mn): | 124 |

- DHH in a nutshell:** DHH is a European internet infrastructure company leveraging next-generation technology and AI, with a focus on open-source solutions and data privacy standards. It operates as a holding company overseeing nine independent entities across seven countries, promoting decentralised entrepreneurship. Serving over 125,000 customers in cloud computing, hosting, and business connectivity, DHH maintains over 90% customer retention and strong recurring revenues. In FY23, it generated €34.6mn in revenue and €11.5mn in adj. EBITDA, driven by top line growth in Cloud Computing (+11%), Cloud hosting (+10%), Business Connectivity (+58%) and Datacenter & Networking (+6%). In 1H24, DHH showed strong scalability, with growth in adj. EBITDA outpacing revenue. 2H momentum is expected to be solid, despite some softness from clients in the automotive sector.
- Dual growth strategy: organic expansion and M&A.** DHH's growth strategy combines steady organic development with strategic M&A. Organic growth is driven by continuous R&D investment and product innovation, resulting in around 10% annual growth. Its M&A strategy focuses on expanding into new geographical areas, consolidating existing markets, and investing in start-ups, leading to 20 deals to date. Notable milestones include the reverse merger with Seeweb, a former key shareholder and Italian cloud leader, which strengthened DHH's infrastructure, and the 2022 acquisition of Connesi, an Italian B2B connectivity provider, enhancing its high-speed connectivity offerings. DHH is now targeting M&A expansion in Spain and France to reinforce and complement its regional leadership in Southern Europe (Italy, Switzerland, Croatia, Slovenia, Bulgaria, Serbia).
- Competitive edge through decentralised leadership and focus on AI:** DHH's decentralised structure and local expertise enable rapid adaptation to market needs, setting it apart from global players like AWS and regional competitors like Aruba. This allows DHH to serve underpenetrated Mediterranean B2B markets more effectively while ensuring compliance with EU regulations. The company is also expanding its AI offerings with serverless GPU solutions and private AI applications tailored to specific industries. Although AI demand in Italy is currently low, DHH expects adoption to grow, supporting new revenue streams.
- FY24-26 estimates:** Our FY24-26 estimates are based on c.10% revenue CAGR, entirely organic and consistent with historical trends, before potential upside from M&A. The EBITDA margin is expected in excess of 30%, supported by business scalability and efficient absorption of fixed costs. With limited CapEx, this should lead to high FCF conversion (up to 5% yield in 2026), turning net debt into positive cash from next year onwards, thereby creating additional capacity for future M&A.
- Initiating coverage with a BUY recommendation and TP of Eu32.** We appreciate DHH's clear business model focused on technology and a scalable and recurring revenue stream, along with strong customer diversification and a proven M&A track record that could support future deals. The company shows a constant focus on innovation, particularly in AI, and agility in adopting new technologies, while standing out for its solid, highly cash-generating business model. At our DCF-based target price of Eu32/share, the stock would trade at 13.5x EV/EBITDA'24E, a discount to larger listed peers and to recent private deals (c.15-19x EV/EBITDA).

| Key Figures & Ratios | 2022A | 2023A | 2024E | 2025E | 2026E |
|------------------------|-------|-------|-------|-------|-------|
| Sales (Eu mn) | 29 | 34 | 36 | 40 | 43 |
| EBITDA Adj (Eu mn) | 9 | 12 | 12 | 13 | 15 |
| Net Profit Adj (Eu mn) | 2 | 3 | 4 | 5 | 6 |
| EPS New Adj (Eu) | 0.499 | 0.678 | 0.784 | 0.906 | 1.075 |
| DPS (Eu) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| EV/EBITDA Adj | 8.8 | 7.1 | 10.2 | 9.3 | 7.9 |
| EV/EBIT Adj | 17.3 | 13.6 | 18.5 | 16.1 | 12.9 |
| P/E Adj | 50.5 | 37.2 | 32.1 | 27.8 | 23.4 |
| Div. Yield | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Net Debt/EBITDA Adj | 0.7 | 0.6 | 0.1 | -0.3 | -0.7 |

