

Digital Value



MEDIOBANCA
SECURITIES

06 April 2022

Technology Services

HYB

Change in Estimates

Price: € 93.60

Target price: € 124.20 (from € 133.50)

Outperform

EPS growth sitting on solid foundations

FY21 results were above expectations

On March 30, Digital Value unveiled its FY21 results, which were stronger than expected, highlighting a stronger organic growth with better than expected margins and cash generation. Looking at 2H21 figures, the company reported sales at €301m, up 30% YoY and 3% ahead of our estimates. Organic growth was +25% YoY, stronger than our estimates, while TT Tecnosistemi contributed for €11m over period (vs €7m expected). EBITDA was €31.9m, up 27% YoY and 9% better than expected. The margin was 10.6%, 30bps lower than 2020 level of 10.9%, reflecting higher SG&A and slight dilution from the acquired company. Net profit reached €17m, up 26% YoY and 4% better than our forecasts, reflecting EBITDA dynamics. Net cash stood at €21m, better our estimates and slightly declining vs €33m reported last year, reflecting temporary build up in NWC and the cash out for TT Tecnosistemi acquisition.

Growth prospects intact; NRRP seen adding c.€14bn of addressable market

The company unveiled a qualitative '22 outlook, anticipating that it does not expect material impacts from the ongoing geopolitical tensions, with the management reiterating the willingness to keep investing to ensure growth above market rates through both organic levers and M&A. On top of this, the implementation of recovery plan projects is seen supporting medium term growth expectations, as it should add c.€14bn of potential addressable market for DGV over '21-'26. In this context, we continue to see the company as well positioned to consolidate its leading positioning in the reference market, leveraging its "HyperVAR" business model to deliver superior growth through expansion into new verticals and business districts, as well as continuing the M&A campaign.

Estimates fine-tuned, >15% organic 3Y CAGR not assuming NRRP acceleration

Following the release, we fine-tuned our estimates to factor in the stronger than expected 2H21. For FY22-23E, we confirm the 17% organic growth, anticipating sales to reach €702m/€812m in FY22/FY23E from €598m FY21 pro-forma, which may be conservative as still don't factor in any material acceleration from NRRP projects. On margins, we project a 20 bps EBITDA margin dilution in FY22E (seen at 10.1%) reflecting TTT full consolidation and strengthening of group's organisation, before reabsorbing in FY23E. With this report we also unveil our FY24E forecasts, which point to 12% organic growth and EBITDA margin at 10.5%. On cash generation, we factor in the better 2H21 trend, while anticipating higher NWC absorption in FY22E, as we project DGV to reach a net cash position of €33m.

Recent pullback offers an attractive entry point: Outperform, new €124.2 TP

We confirm the Outperform rating on Digital Value with a new TP of €124.2/share (from previous €133.5/share), which reflects i) €3.1/share increase from EPS upgrade, offset by ii) (€12.4/share) reduction to reflect sector's multiple de-rating (-20% since December '21). After the YTD pullback, the stock is trading at 12x EV/EBIT (based on '23E), at 25% discount vs peers, a level that in our view looks excessive and may offer an attractive entry point for a >15% organic growth story with sizeable potential upside from NRRP and M&A optionality. Therefore, we reiterate the Outperform rating.

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	2021E	2022E	2023E	2024E
EPS Adj (€)	3.02	3.90	4.76	5.58
DPS (€)	0	0	0	0
BVPS (€)	12.40	16.31	21.06	26.64
EV/Ebitda(x)	15.9	12.7	10.1	8.2
P/E adj (x)	31.0	24.0	19.7	16.8
Div.Yield(%)	0.0%	0.0%	0.0%	0.0%
OpFCF Yield(%)	-1.9%	1.3%	6.6%	8.0%

Market Data

Market Cap (€m)	933
Shares Out (m)	10
DGV Holding (%)	65%
Free Float (%)	33%
52 week range (€)	118.00-46.35
Rel Perf vs DJGL Italy DJ Total Market Italy (%)	
-1m	3.0%
-3m	-7.8%
-12m	96.8%
21dd Avg. Vol.	13,023
Reuters/Bloomberg	DGV.IM / DGV IM

Source: Mediobanca Securities

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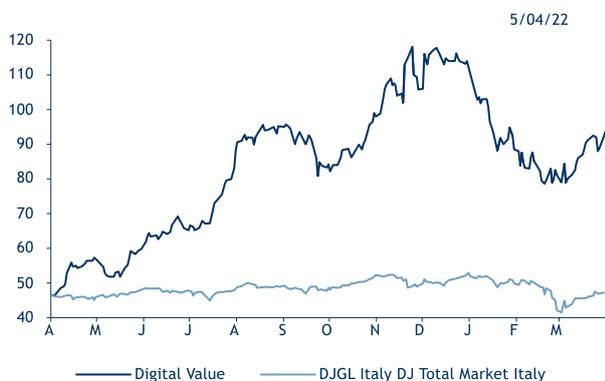
Valuation Matrix

Profit & Loss account (€ m)	2021E	2022E	2023E	2024E	Multiples	2021E	2022E	2023E	2024E
Turnover	558	702	812	909	P/E Adj.	31.0	24.0	19.7	16.8
Turnover growth %	26.1%	25.8%	15.7%	11.9%	P/CEPS	21.2	17.3	14.8	13.0
EBITDA	57	71	84	95	P/BV	7.5	5.7	4.4	3.5
EBITDA margin (%)	10.3%	10.1%	10.3%	10.5%	EV/ Sales	1.6	1.3	1.0	0.9
EBITDA growth (%)	26.7%	23.5%	17.9%	14.0%	EV/EBITDA	15.9	12.7	10.1	8.2
Depreciation & Amortization	-13	-14	-15	-15	EV/EBIT	20.5	15.9	12.3	9.8
EBIT	45	57	69	80	EV/Cap. Employed	7.2	5.8	5.7	5.4
EBIT margin (%)	8.0%	8.1%	8.5%	8.8%	Yield (%)	0.0%	0.0%	0.0%	0.0%
EBIT growth (%)	30.9%	27.2%	21.3%	16.9%	OpFCF Yield(%)	-1.9%	1.3%	6.6%	8.0%
Net Fin.Income (charges)	-1	-1	-1	-1	FCF Yield (%)	-1.9%	1.3%	6.1%	6.8%
Non-Operating Items	0	0	0	0					
Extraordinary Items	0	0	0	0					
Pre-tax Profit	43	56	68	80					
Tax	-13	-16	-19	-22	Per Share Data (€)	2021E	2022E	2023E	2024E
Tax rate (%)	29.5%	28.0%	28.0%	28.0%	EPS	3.02	3.90	4.76	5.58
Minorities	-0	-1	-2	-2	EPS growth (%)	25.0%	29.2%	21.8%	17.3%
Net Profit	30	39	47	56	EPS Adj.	3.02	3.90	4.76	5.58
Net Profit growth (%)	25.0%	29.2%	21.8%	17.3%	EPS Adj. growth (%)	25.0%	29.2%	21.8%	17.3%
Adjusted Net Profit	30	39	47	56	CEPS	4.42	5.40	6.34	7.19
Adj. Net Profit growth (%)	25.0%	29.2%	21.8%	17.3%	BVPS	12.40	16.31	21.06	26.64
					DPS Ord	0	0	0	0

Balance Sheet (€ m)	2021E	2022E	2023E	2024E	Key Figures & Ratios	2021E	2022E	2023E	2024E
Working Capital	57	85	79	75	Avg. N° of Shares (m)	10	10	10	10
Net Fixed Assets	70	72	71	70	EoP N° of Shares (m)	10	10	10	10
Total Capital Employed	127	156	150	144	Avg. Market Cap. (m)	933	933	933	933
Shareholders' Funds	124	163	210	266	Enterprise Value (m)	914	903	847	784
Minorities	5	7	8	10	Adjustments (m)	2	2	2	2
Provisions	19	20	20	20	Labour Costs/Turnover	3%	3%	3%	3%
Net Debt (-) Cash (+)	21	33	89	152	Depr.&Amort./Turnover	2%	2%	2%	2%
					Turnover / Op.Costs	1.1	1.1	1.1	1.1

Cash Flow (€ m)	2021E	2022E	2023E	2024E	Gearing (Debt / Equity)	-16%	-19%	-41%	-55%
Cash Earnings	44	54	63	72	EBITDA / Fin. Charges	-52.4	-98.5	-116.1	-132.4
Working Capital Needs	-30	-27	6	4	Net Debt / EBITDA	-0.4	-0.5	-1.1	-1.6
Capex (-)	-32	-15	-13	-13	Cap. Employed/Turnover	23%	22%	18%	16%
Financial Investments (-)	0	0	0	0	Capex / Turnover	6%	2%	2%	1%
Dividends (-)	0	0	0	0	Pay out	0%	0%	0%	0%
Other Sources / Uses	5	0	0	0	ROE	24%	24%	23%	21%
Ch. in Net Debt (-) Cash (+)	-12	11	56	63	ROCE (pre tax)	35%	36%	46%	56%
					ROCE (after tax)	25%	26%	33%	40%

Source: Mediobanca Securities



Source: Mediobanca Securities

2H21 results were better than expected

On March 30, Digital value reported its FY21 results, which were stronger than expected. No conference call has been scheduled. Looking at 2H21 figures, the company reported:

- Sales at €301m, up 30% YoY and 3% ahead of our estimates. Organic growth was +25% YoY, stronger than our estimates, while TT Tecnosistemi contributed for €11m over period (we were assuming a €7m contribution).
- EBITDA at €31.9m, up 27% YoY and 9% better than our forecast. The margin was 10.6%, 30bps lower than previous year's level of 10.9%, reflecting higher SG&A and slight dilution from TT Tecnosistemi.
- Net profit at €17m, up 26% YoY and 4% better than our forecasts, reflecting EBITDA dynamics
- Net cash at €21m, better our estimates and declining vs €33m reported last year, reflecting temporary build up in NWC and the cash out for TT Tecnosistemi acquisition.
- Pro-forma FY21 figures including the consolidation of TT Tecnosistemi from January '21 would point to €597.5m revenues and €61.2m EBITDA (10.3% margin).

2H21 results

€m	2H21A	2H20A	YoY chg.	2H21E	A vs E	FY21A	FY20A	YoY chg.	FY21E	A vs E
Total sales	301.3	231.7	30.1%	283.2	6%	557.7	442.3	26.1%	539.6	3%
EBITDA	31.9	25.1	26.7%	29.2	9%	57.5	45.4	26.7%	54.9	5%
EBITDA margin	10.6%	10.9%		10.3%		10.3%	10.3%		10.2%	
EBIT	24.0	18.8	27.5%	21.7	11%	44.5	34.0	30.8%	42.2	6%
EBIT margin	8.0%	8.1%		7.7%		8.0%	7.7%		7.8%	
Net profit	17.0	13.6	25.5%	16.4	4%	30.6	24.1	27.0%	30.0	2%
Net Debt/(Cash)	(21.3)	(32.9)		(8.6)		(21.3)	(32.9)		(8.6)	

Source: Mediobanca Securities

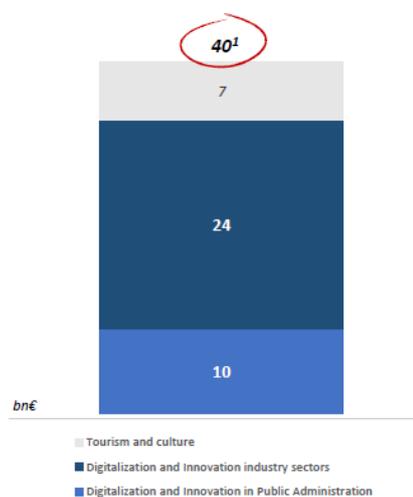
Recovery plan projects seen adding c.€14bn of addressable market for DGV

The company unveiled a qualitative '22 outlook, anticipating that it does not expect material impacts from the ongoing geopolitical tensions, with the management reiterating the willingness to keep investing to ensure growth above market rates through both organic levers and M&A.

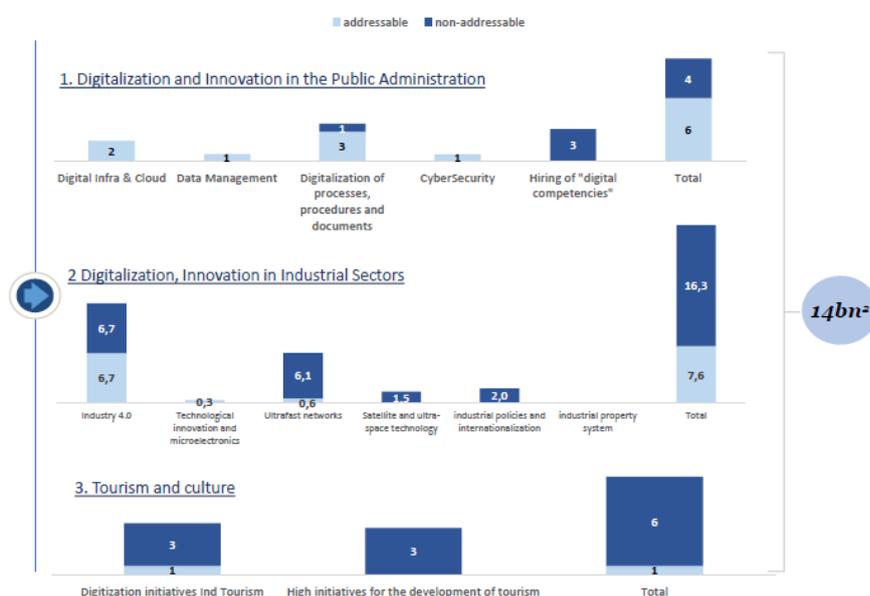
On top of this, the implementation of recovery plan projects is key to fill Italy's digitalization gap compared to the other EU countries. Out of the total c.€40bn resources devoted in the plan to Digital Transformation, the company sees c.€14bn of addressable potential market over the '21-'26 period, including: i) c.€6bn for PA digitalization, ii) c.€7.6bn for digitalization and innovation in industrial sectors, and iii) c.€1bn for digitalization of tourism sector.

Addressable potential market from NRRP projects

Pillar PNNR: Digitalization, Innovation and Culture
(2021-2026, bn€)



Addressable potential² from Digital Value(2021-2026, bn€)



Source: Digital Value on several sources, (1) Cumulative investments over 2021-2026. Not including the complementary fund; (2) Initiatives falling within the scope of Digital Value's expertise and portfolio of offerings

Estimates fine-tuned. >15% organic 3Y CAGR not assuming NRRP acceleration

Following the release, we fine-tuned our estimates to factor in the stronger than expected 2H21. For FY22-23E, we are assuming:

- A 17% organic growth, anticipating sales to reach €702m/€812m in FY22/FY23E from €598m FY21 pro-forma, which still may be conservative as we don't factor in any material acceleration from NRRP projects.
- On margins, we project a 20 bps EBITDA margin dilution in FY22E (seen at 10.1%) reflecting TTT full consolidation and strengthening of group's organisation, before reabsorbing in FY23E.
- On cash generation, we factor in the better 2H21 trend, while anticipating higher NWC absorption in FY22E, as we project DGV to reach a net cash position of €33m.

With this report we also unveil our FY24E forecasts, which point to 12% organic growth and EBITDA margin at 10.5%.

Main changes in FY22-23E forecasts

€m	New FY22	Old FY22	% chg.	New FY23	Old FY23	% chg.	New FY24	Old FY4	% chg.
Total sales	701.8	682.0	2.9%	812.0	791.4	2.6%	908.6	na	nm
EBITDA	71.0	68.6	3.5%	83.7	81.2	3.1%	95.5	na	nm
EBITDA margin	10.1%	10.1%		10.3%	10.3%		10.5%		
EBIT	56.6	55.0	2.9%	68.7	66.9	2.6%	80.3	na	nm
EBIT margin	8.1%	8.1%		8.5%	8.5%		8.8%	8.5%	
Net profit	38.9	38.5	1.0%	47.4	47.0	0.9%	55.6	na	nm
Net Debt/(Cash)	(32.7)	(43.5)		(88.8)	(101.6)		(151.7)	na	

Source: Mediobanca Securities

Digital Value



MEDIOBANCA
SECURITIES

Price: € 93.60

Target price: € 124.20 (from € 133.50)

Outperform

Below we provide an overview of our P&L assumptions compared to pro-forma FY21 figures:

Main FY22-24E P&L assumptions compared to FY21 pro-forma					
	2021A (reported)	2021 (pro-forma)	2022E	2023E	2024E
Sales	557.8	597.5	701.8	812.0	908.6
EBITDA	57.5	61.2	71.0	83.7	95.5
% margin	10.3%	10.2%	10.1%	10.3%	10.5%
Depreciation & Provisions	(13.0)		(14.4)	(15.0)	(15.2)
EBIT	44.5	45.8	56.6	68.7	80.3
% margin	8.0%	7.7%	8.1%	8.5%	8.8%
Net Financial Interest	(0.7)		(0.7)	(0.7)	(0.7)
Other Financials	-0.4		0.0	0.0	0.0
Earning Before Tax (EBT)	43.4		55.9	68.0	79.6
Extraordinary Items	0.0		0.0	0.0	0.0
Tax	(12.8)		(15.7)	(19.0)	(22.3)
Tax rate	29%		28%	28%	28%
Minorities	(0.5)		(1.3)	(1.5)	(1.7)
Net Profit (reported)	30.1	31.6	38.9	47.4	55.6

Source: Mediobanca Securities

Outperform confirmed. New TP of €124.2 from €133.5

We confirm the Outperform rating on Digital Value with a new TP of €124.2/share (from previous €133.5/share), which reflects i) €3.1/share increase from EPS upgrade, offset by ii) (€12.4/share) reduction to reflect sector's multiple de-rating (-20% since December '21). As a reminder, we base our valuation on an equally weighting of a DCF model (7.7% WACC; 2.5% g) and '23E EV/EBIT peers' multiples.

Recap of TP calculation	
	€/share
DCF	139.0
Multiples	109.4
TP	124.2

Source: Mediobanca Securities

DCF analysis points to €139.0/sh target price

Our DCF analysis is based on the following assumptions:

- A WACC of 7.7%, which is the result of: 1) a risk free rate of 4.0%; 2) an equity risk premium of 4.0%; 3) a beta of 1.0 and a target leverage ratio of 5% and a net cost of debt of 1.9%;
- A terminal growth rate of 2.5%;
- We considered T+7 as the reference year for computing the terminal value of our model. We assumed a medium/long term sales CAGR of 7% with an exit level of EBITDA margin close to 11%: while we acknowledge that the group might overstep this target, we await more evidence of the execution of the group's growth strategy before assuming an exit margin above current levels.

Digital Value - summary DCF

(€m)	
Perpetual growth rate (%)	2.5%
WACC (%)	7.7%
Terminal value end of projection period	1,625.2
Discounting rate of terminal value	0.64
Discounted terminal value	1,041.7
Cumulated DFOCF	328.4
Enterprise Value	1,370.1
NFP (ex-IFRS 16)	23.3
Minorities	(5.5)
Pensions Liabilities	(2.1)
Equity Value	1,385.8
Value per share (€)	139.0

Source: Mediobanca Securities

The sensitivity of our DCF analysis to different long term growth rates and different WACC levels is provided below.

DCF sensitivity to WACC and g

WACC		Terminal growth rate						
		1.00%	1.50%	2.00%	2.50%	3.00%	3.50%	4.00%
6.2%		137.5	149.0	163.3	181.4	205.2	237.9	285.4
6.7%		128.4	138.0	149.6	163.9	182.1	206.1	238.9
7.2%		120.9	128.9	138.5	150.1	164.5	182.9	206.9
7.7%		114.4	121.3	129.4	139.0	150.7	165.2	183.6
8.2%		108.9	114.8	121.7	129.8	139.5	151.3	165.8
8.7%		104.0	109.2	115.2	122.1	130.3	140.0	151.8
9.2%		99.8	104.4	109.6	115.6	122.6	130.8	140.5

Source: Mediobanca Securities

Peers multiples analysis points to €109.4/sh target price

We have updated our peers' multiples valuation to reflect recent sector's de-rating. As a reminder, we base our relative valuation on '23E EV/EBIT of a set of players active in the IT system integration sector, which share the same underlying market trends and similar business models, on which we apply a 10% discount to factor in DGV's lower size compared to the cluster

Peers' main trading multiples

Company	EV/Sales			EV/EBITDA			EV/EBIT			P/E		
	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3
Computacenter	0.5	0.4	0.4	9.3	8.8	8.4	12.5	11.8	11.0	19.6	19.0	17.9
Bechtle	1.1	1.0	0.9	14.1	12.6	11.2	18.2	16.3	14.3	26.4	24.1	21.7
Softcat	2.5	2.3	2.2	24.8	23.3	21.4	26.0	24.4	22.4	33.3	32.2	30.6
REPLY (MBe)	3.1	2.7	2.3	18.1	15.8	13.9	21.9	18.9	16.4	32.1	28.1	25.2
SeSa (MBe)	0.9	0.8	0.7	12.2	10.1	8.6	17.2	13.6	11.3	27.4	23.1	20.4
Median	1.1	1.0	0.9	14.1	12.6	11.2	18.2	16.3	14.3	27.4	24.1	21.7

Source: Mediobanca Securities, Refinitiv, prices as of 04 April 2022

Summary of our peer's multiple valuation

	2023E
DGV EBIT (€m)	68.7
Peers' multiple	16.3x
% discount	10%
Fair Multiple	14.7x
EV	1,010
NFP	88.8
Minorities	(5.5)
Provisions	(2.1)
Equity Value	1,091
Value per share (€)	109.4

Source: Mediobanca Securities

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Outperform	Neutral	Underperform	Not Rated	Restricted	Coverage suspended
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