

Digital Value



MEDIOBANCA
SECURITIES

16 March 2023

Technology Services

HYB

Change in Estimates

Price: € 70.00

Target price: € 102.20 (from € 108.40)

Outperform

Sustained Organic Growth Delivery

2H22 results were stronger than expected

On March 14, Digital Value unveiled its full set of FY22 results, which highlighted stronger than expected margins. In 2H22 the company reported sales at €337m, up +23% YoY and in line with the preliminary release. EBITDA was €38.9m, up +22% YoY and 7% ahead of our forecasts. The margin was 10.5% flat YoY. Net profit was €17.1m, up 3% YoY and slightly below our estimates due to higher D&A and one-off charges. Net cash stood €16.4m, improving YoY and not comparable to our estimates due to the reclassification into the NFP of c.€15m item previously accounted as commercial payables. Excluding this item, cash generation was broadly in line with our estimates. Furthermore, the company proposed to distribute at €0.85 DPS envisaging a 25% pay-out policy (we were not assuming any dividend distribution).

Supportive 2023 outlook. Listing to MTA set to be the next strategic milestone

The management said to remain confident about a continuation of DGV outperformance vs the reference market. Expectations on 2023E performance are in line with consensus numbers currently pointing to c.15% YoY top-line growth and 10.5% EBITDA margin. Strategic focus remains on organic growth, considering the ample room for increasing organically the market share that reached c.6% in 2022. That said, M&A will be evaluated on an opportunistic basis. The growing services component of DGV offering is seen as a key driver of margin expansion and remains a key pillar of the growth strategy. FCF generation remains healthy, supported by solid EBITDA cash conversion and discipline on NWC management despite the sustained organic growth profile. In this context, the listing to Euronext Milan is expected to be the next strategic pillars and is expected to take place in the coming weeks.

Estimates fine-tuned. 15% organic top-line growth in FY23E confirmed

We fine-tuned our estimates to reflect slightly better margins that were offset by an increase in D&As. For FY23E, we broadly confirm our assumptions pointing to 15% top-line organic growth with 10.5% EBITDA margin, seen expanding by 10bps YoY, while factoring in a slight increase in D&A on the back of higher capex. Going forward, we project sales to increase at a 11% CAGR over FY24-25E, which implies a continuation of DGV outperformance vs its reference market driven by the rich project pipeline and the acquisition of new customers across its different verticals. We assume a c.15bps/year of EBITDA margin expansion, mainly driven by a higher penetration of services' offering that should more than offset the increase in SG&A following the listing on Euronext Milan. On cash generation, we factor in the c.€15m payable reclassification within the NFP, together with slightly higher capex and the new dividend policy, anticipating a FCF of €40m in FY23E with net cash position seen reaching €48m.

Outperform rating confirmed. New TP of 102.2 (from €108.4)

We confirm the Outperform rating on Digital Value with a new TP of €102.2/share (from previous €108.4/share), which mostly reflects recent sector's multiple de-rating in part offset by the roll-over of our model to 2023E. 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. On our new estimates, the stock trades at 7.6x 23E EV/EBITDA, at c.25% discount vs its peers that in our view remains unjustified.

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	2022	2023E	2024E	2025E
EPS Adj (€)	3.41	4.26	5.03	5.80
DPS (€)	0.85	1.06	0	0
BVPS (€)	15.73	19.15	23.12	27.66
EV/Ebitda(x)	9.8	7.6	6.3	5.3
P/E adj (x)	21.7	16.4	13.9	12.1
Div.Yield(%)	1.1%	1.5%	0.0%	0.0%
OpFCF Yield(%)	1.8%	6.1%	8.2%	9.2%

Market Data

Market Cap (€m)	698
Shares Out (m)	10
DGV Holding (%)	65%
Free Float (%)	35%
52 week range (€)	93.60-56.40
Rel Perf vs DJGL Italy DJ Total Market Italy (%)	
-1m	4.8%
-3m	-9.0%
-12m	-22.8%
21dd Avg. Vol.	5,252
Reuters/Bloomberg	DGV.IM / DGV IM

Source: Mediobanca Securities

Valuation Matrix

Profit & Loss account (€ m)	2022	2023E	2024E	2025E
Turnover	709	816	913	1,004
Turnover growth %	27.0%	15.1%	11.9%	10.0%
EBITDA	74	86	98	109
EBITDA margin (%)	10.4%	10.5%	10.7%	10.8%
EBITDA growth (%)	28.0%	16.8%	13.5%	11.5%
Depreciation & Amortization	-23	-24	-25	-25
EBIT	51	62	73	83
EBIT margin (%)	7.2%	7.6%	8.0%	8.3%
EBIT growth (%)	14.7%	20.9%	17.6%	14.8%
Net Fin. Income (charges)	-3	-2	-2	-2
Non-Operating Items	0	0	0	0
Extraordinary Items	0	0	0	0
Pre-tax Profit	48	60	71	82
Tax	-14	-17	-21	-24
Tax rate (%)	29.1%	29.1%	29.1%	29.1%
Minorities	-0	-0	-0	-0
Net Profit	34	42	50	58
Net Profit growth (%)	12.7%	25.1%	18.1%	15.2%
Adjusted Net Profit	34	42	50	58
Adj. Net Profit growth (%)	12.7%	25.1%	18.1%	15.2%

Multiples	2022	2023E	2024E	2025E
P/E Adj.	21.7	16.4	13.9	12.1
P/CEPS	13.5	10.6	9.4	8.5
P/BV	4.7	3.7	3.0	2.5
EV/ Sales	1.0	0.8	0.7	0.6
EV/EBITDA	9.8	7.6	6.3	5.3
EV/EBIT	14.2	10.6	8.5	6.9
EV/Cap. Employed	5.0	4.4	4.2	3.8
Yield (%)	1.1%	1.5%	0.0%	0.0%
OpFCF Yield(%)	1.8%	6.1%	8.2%	9.2%
FCF Yield (%)	2.0%	5.9%	7.3%	7.8%

Per Share Data (€)	2022	2023E	2024E	2025E
EPS	3.41	4.26	5.03	5.80
EPS growth (%)	12.7%	25.1%	18.1%	15.2%
EPS Adj.	3.41	4.26	5.03	5.80
EPS Adj. growth (%)	12.7%	25.1%	18.1%	15.2%
CEPS	5.50	6.59	7.43	8.24
BVPS	15.73	19.15	23.12	27.66
DPS Ord	0.85	1.06	0	0

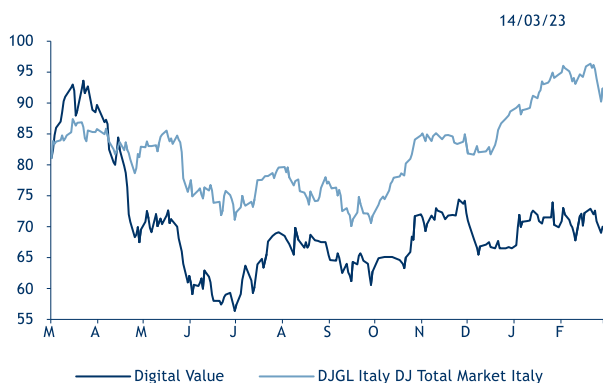
Balance Sheet (€ m)	2022	2023E	2024E	2025E
Working Capital	64	70	72	76
Net Fixed Assets	80	77	75	76
Total Capital Employed	144	147	148	153
Shareholders' Funds	157	191	230	276
Minorities	1	1	1	1
Provisions	3	3	3	3
Net Debt (-) Cash (+)	16	48	87	128

Key Figures & Ratios	2022	2023E	2024E	2025E
Avg. N° of Shares (m)	10	10	10	10
EoP N° of Shares (m)	10	10	10	10
Avg. Market Cap. (m)	737	698	698	698
Enterprise Value (m)	724	653	614	573
Adjustments (m)	3	3	3	3
Labour Costs/Turnover	3%	3%	3%	3%
Depr. & Amort./Turnover	3%	3%	3%	3%
Turnover / Op.Costs	1.1	1.1	1.1	1.1

Cash Flow (€ m)	2022	2023E	2024E	2025E
Cash Earnings	55	66	74	82
Working Capital Needs	-6	-6	-2	-4
Capex (-)	-36	-20	-22	-25
Financial Investments (-)	0	0	0	0
Dividends (-)	0	-8	-11	-13
Other Sources / Uses	-1	0	0	0
Ch. in Net Debt (-) Cash (+)	11	31	39	40

Gearing (Debt / Equity)	-10%	-25%	-38%	-46%
EBITDA / Fin. Charges	-23.8	-50.2	-57.0	-63.6
Net Debt / EBITDA	-0.2	-0.6	-0.9	-1.2
Cap. Employed/Turnover	20%	18%	16%	15%
Capex / Turnover	5%	2%	2%	2%
Pay out	25%	25%	0%	0%
ROE	22%	22%	22%	21%
ROCE (pre tax)	35%	42%	49%	55%
ROCE (after tax)	25%	30%	35%	39%

Source: Mediobanca Securities



Source: Mediobanca Securities

2H22 EBITDA above estimates

On March 14, Digital Value unveiled its full set of FY22 results, which highlighted stronger than expected margins. Looking at 2H22 figures, the company reported:

- Sales at €337m, up +23% YoY and in line with the preliminary release
- EBITDA at €38.9m, up +22% YoY and 7% ahead of our forecasts. The margin was 10.5% flat YoY
- Net profit at €17.1m, up 3% YoY and slightly below our estimates due to higher D&A and one-off charges
- Net cash at €16.4m, improving YoY and not comparable to our estimates due to the reclassification into the NFP of c.€15m item previously accounted as commercial payables. Excluding this item, cash generation was broadly in line with our estimates
- The company proposed to distribute at €0.85 DPS envisaging a 25% pay-out policy (we were not assuming any dividend distribution)

2H22 results										
€m	2H22A	2H21A	YoY chg.	2H22E	A vs E	FY22A	FY21A	YoY chg.	FY21E	A vs E
Total sales	371.4	301.4	23.2%	364.6	1.8%	708.5	557.8	27.0%	701.8	1%
EBITDA	38.9	31.8	22.1%	36.3	7.1%	73.6	57.5	28.0%	71.0	4%
EBITDA margin	10.5%	10.6%		9.9%		10.4%	10.3%		10.1%	
EBIT	26.4	24.0	9.8%	26.3	0.3%	51.1	44.5	14.7%	51.0	0%
EBIT margin	7.1%	8.0%		7.2%		7.2%	8.0%		7.3%	
Net profit	17.1	16.6	3.0%	18.0	-5.1%	33.9	30.1	12.7%	34.9	-3%
Net Debt/(Cash)	(16.4)	(4.9)		(34.3)		(16.4)	(4.9)		(34.3)	

Source: Mediobanca Securities, Digital Value

Supportive feedback from the call

On March 15, the management hosted a conference call to comment the earnings' release. Key messages are about:

- **Supportive 2023 outlook** - the management said to remain confident about a continuation of DGV outperformance vs the reference market. Expectations on 2023 performance are aligned with current consensus numbers pointing to c.15% YoY top-line growth and 10.5% EBITDA margin. Management's focus remains on organic growth, considering the ample room for increasing organically its market share that reached c.6% in 2022. That said, M&A will be evaluated on an opportunistic basis.
- **Growing services component supports profitability expansion** - The 10bps YoY increase in EBITDA margin has been supported by favourable mix, with the growing services' component of DGV offer being a key driver of margin expansion that more than offset an increase in SG&A driven by the listing to Euronext Milan.
- **Strong FCF generation despite rising capex** - FCF reached €15m in FY22 despite rising capex, underpinned by a valuable EBITDA cash conversion and discipline on NWC management. On the latter, the spike reached in 2022 (€26m) was driven by new IaaS on premise projects signed with two important customers as investments are expected to normalise in 2023E. The solid cash generation trend has also allowed for the introduction of a new dividend policy envisaging a 25% pay-out starting from this year.
- **Listing to Euronext Milan the next strategic milestone** - the management informed that the filing for listing on Euronext Milan is expected for the next week.

FY23-24E estimates fine-tuned

Main changes in FY23-25E estimates

€m	New FY23	Old FY23	% chg.	New FY24	Old FY4	% chg.	New FY25	Old FY25	% chg.
Total sales	815.7	812.0	0.5%	912.7	908.6	0.5%	1,004.0	-	-
EBITDA	85.9	83.7	2.7%	97.5	95.5	2.1%	108.7	-	-
EBITDA margin	10.5%	10.3%		10.7%	10.5%		10.8%		
EBIT	61.7	62.8	-1.7%	72.6	74.3	-2.3%	83.4	-	-
EBIT margin	7.6%	7.7%		8.0%	8.2%		8.3%		
Net profit	42.5	43.2	-1.6%	50.2	51.3	-2.2%	57.8	-	-
Net Debt/(Cash)	(47.7)	(92.0)		(87.2)	(156.6)		(127.6)	-	

Source: Mediobanca Securities

Outperform confirmed. New TP of €102.2 from €108.4

We confirm the Outperform rating on Digital Value with a new TP of €102.2/share (from previous €108.4/share), which mostly reflects recent sector's multiple de-rating in part offset by the roll-over to FY23E. 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	130.4
Multiples	74.0
TP	102.2

Source: Mediobanca Securities

DCF analysis points to €130.4/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%

Digital Value - summary DCF

(€m)	
Perpetual growth rate (%)	2.5%
WACC (%)	7.7%
Terminal value end of projection period	1,490.2
Discounting rate of terminal value	0.64
Discounted terminal value	955.2
Cumulated DFOCF	330.1
Enterprise Value	1,285.3
NFP (ex-IFRS 16)	18.5
Minorities	(0.9)
Pensions Liabilities	(3.0)
Equity Value	1,299.8
Value per share (€)	130.4

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%	129.0	139.6	152.6	169.3	191.1	221.1	264.6
	6.7%	120.7	129.4	140.1	153.2	169.9	191.9	222.0
	7.2%	113.7	121.1	129.9	140.6	153.8	170.6	192.6
	7.7%	107.8	114.1	121.5	130.4	141.1	154.4	171.2
	8.2%	102.7	108.2	114.5	122.0	130.8	141.6	155.0
	8.7%	98.3	103.1	108.6	114.9	122.4	131.3	142.1
	9.2%	94.4	98.6	103.4	108.9	115.3	122.8	131.8

Source: Mediobanca Securities

Peers multiples analysis points to €74.0/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

Digital Value



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Price: € 70.00

Target price: € 102.20 (from € 108.40)

Outperform

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	0.4	0.4	0.3	7.4	6.9	6.4	9.0	8.5	7.8	13.9	13.8	13.1
Bechtle	0.8	0.7	0.7	10.3	9.6	8.6	13.4	12.5	11.1	19.6	18.4	16.8
Softcat	1.7	1.6	1.5	14.2	12.9	11.9	14.9	13.5	12.5	19.9	18.9	17.3
REPLY (MBe)	2.2	1.8	1.6	13.3	11.4	9.9	15.8	13.4	11.5	24.0	19.7	17.6
SeSa (MBe)	0.6	0.5	0.4	8.5	6.8	5.7	12.2	9.3	7.6	17.0	14.2	12.8
Median	0.8	0.7	0.7	10.3	9.6	8.6	13.4	12.5	11.1	19.6	18.4	16.8

Source: Mediobanca Securities, Refinitiv, prices as of 14 March 2023

Summary of our peer's multiple valuation

	2023E
DGV EBIT (€m)	61.7
Peers' multiple	12.5
% discount	10%
Fair Multiple	11.3
EV	694
NFP	47.7
Minorities	(0.9)
Provisions	(3.0)
Equity Value	738
Value per share (€)	74.0

Source: Mediobanca Securities

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Restricted (R). Any kind of recommendation on the stock is restricted pursuant to Mediobanca Research and Trading restriction directive in circumstances where the bank is performing an Investment Banking role in Capital Markets or M&A transactions.
Coverage suspended (CS). The coverage is temporarily suspended due to endogenous events related to the Equity Research department (reallocation of coverage within the team, analyst resignation, etc.)

Our recommendation relies upon the expected relative performance of the stock considered versus its benchmark. Such an expected relative performance relies upon a valuation process that is based on the analysis of the company's business model / competitive positioning / financial forecasts. The company's valuation could change in the future as a consequence of a modification of the mentioned items.

Please consider that the above rating system also drives the portfolio selections of the Mediobanca's analysts as follows: long positions can only apply to stocks rated Outperform and Neutral; short positions can only apply to stocks rated Underperform and Neutral; portfolios selection cannot refer to Not Rated stocks; Mediobanca portfolios might follow different time horizons.

Proportion of all recommendations relating to the last quarter					
Outperform	Neutral	Underperform	Not Rated	Restricted	Coverage suspended
45.38%	47.79%	4.42%	1.20%	1.20%	0.00%

Proportion of issuers to which Mediobanca S.p.A. has supplied material investment banking services relating to the last quarter:					
Outperform	Neutral	Underperform	Not Rated	Restricted	Coverage suspended
3.85%	4.88%	0.00%	66.67%	0.00%	0.00%

The current stock ratings system has been used since 25 September 2017. Before then, Mediobanca S.p.A. used a different system, based on the following ratings: outperform, neutral, underperform, under review, not rated. For additional details about the old ratings system, please access research reports dated before 25 September 2017 from the restricted part of the "MB Securities" section of the Mediobanca S.p.A. website at www.mediobanca.com.

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Digital Value initial coverage as of 02/08/2019.

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