

Italy – IT Services

A value stock unjustifiably inexpensive

17th May 2019

GERMAN SPRING CONFERENCE

RIC: DGV.MI
BBG: DGV IM

In Frankfurt for a full-day investor event with the Executive Vice President and a Member of the Board/IR, meeting nine key investors from Europe and the US in one-to-ones and additional professionals in a one-to-few. Main points to take away from the meetings:

Rating:

Buy

Price Target:

€ 21.20

Upside/(Downside): 51.4%

Last Price: € 14.00

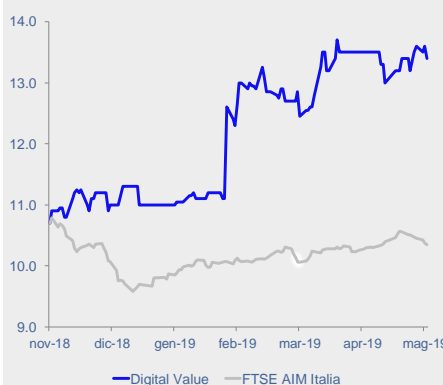
Market Cap.: € 129.3

1Y High/Low: € 14.30/€ 10.50

Free Float: 25.3%

Major shareholders:

DV Holding 74.0%



Stock price performance

	1M	3M	12M
Absolute	7.7%	8.1%	n.a.
Rel.to AIM Italia	9.3%	6.6%	n.a.
Rel.to EU Sector	10.5%	2.1%	n.a.

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Q1-19 revenues up 10.0% YoY to € 72m, paving the way for FY-19 growth

Although it is not mandatory for firms listed on the AIM segment of Borsa Italiana, DGV announced unaudited Q1-19 highlights: consolidated top line increased by more than 10% to € 72m in the first three months of 2019. The growth was almost homogeneously split amongst the 5 business segments of P.A., Telco, Finance, Industry and Utilities. Once again, in an industry where size matters, DGV has demonstrated the capability and skills to outperform the reference market, which was predicted to rise only marginally over the same period. On the back of the typical contract structure, DGV has some six-month visibility on sales and the top line figure just released paves the way for 2019 growth: CFO forecasts 4.5% and 10.8% YoY increase in sales and EBITDA.

Several contract acquisitions increase visibility

DGV announced a few recent contract awards: 1) 3Y contract for € 7.5m for maintenance and evolution of the EMEA sales systems of an Italian world leader in the retail healthcare sector; 2) awarded a € 20m 4Y services and supplies contract related to workplace management of the largest Italian oil & gas player; 3) € 18m virtualisation information systems of Sogei (the information systems management company of the Ministry of the Economy); 4) € 5m contract for the supply of cloud based technology to a primary national telco operator; 5) € 15m contract for the supply of data centre IT solutions for the Italian Ministry of the Interior.

A leading player in a consolidating sector

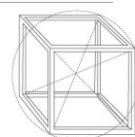
DGV has developed a solid ecosystem consisting of the main technology suppliers that allows the group to propose effective and customised solutions via its network of highly skilled professionals; that is why DGV is able to manage every phase of the lifecycle of an ICT project. Enlarged size embodies higher critical mass, even more effective solidity and business credentials to further penetrate existing and new potential customers and segments. Strong balance sheet solidity allows significant firepower to play a primary role in the definite further consolidation process of the sector.

Shares trade at 3.7x EBITDA₁₉: a value stock unjustifiably inexpensive

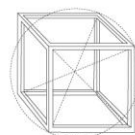
According to our figures, Digital Value is projected to produce an average € 22.0m Free Cash Flow to Equity per annum in 2019-21. CFO SIM has confirmed its estimates and stock valuation via a peer multiple based methodology: PT is € 21.20/share, with an upside of 51.4% at current prices. Shares continue to trade at unjustified, undemanding multiples vs. peers: 3.7x and 2.5x EBITDA₁₉₋₂₀ vs. 8.3x and 7.5x of comparables. We reiterate our Buy rating on Digital Value shares.

Digital Value, key financials and ratios

€ m	2017PF	2018	2019e	2020e	2021e
Sales	258.0	296.2	310.5	343.3	381.8
EBITDA	19.7	24.0	26.6	30.4	34.6
EBIT	16.7	21.5	24.7	28.5	32.7
Net profit	10.8	14.8	15.4	17.9	20.6
NFP (cash)/debt	1.8	(31.8)	(41.3)	(64.8)	(97.8)
EBITDA margin	7.6%	8.1%	8.6%	8.9%	9.1%
EBIT margin	6.5%	7.2%	7.9%	8.3%	8.6%
EPS FD	1.08	1.48	1.54	1.79	2.06
EPS FD growth	-	37.3%	4.0%	16.1%	15.2%
DPS ord. €/s	0.00	0.00	0.51	0.60	0.69
Dividend Yield	0.00	0.00	3.6%	4.3%	4.9%
ROCE	18.2%	34.9%	32.1%	31.5%	30.9%
NWC/Sales	-6.9%	-25.5%	-19.6%	-18.2%	-18.9%
Free Cash Flow Yield FD	-	26.8%	7.3%	21.7%	29.7%
PER FD x	-	9.4	9.1	7.8	6.8
EV/Sales FD x	-	0.36	0.32	0.22	0.11
EV/EBITDA FD x	-	4.5	3.7	2.5	1.2
EV/EBIT FD x	-	5.0	4.0	2.6	1.3



Income statement (€ m)	2017PF	2018	2019e	2020e	2021e
Sales	258.0	296.2	310.5	343.3	381.8
Value of Production	259.0	298.1	311.4	344.0	382.6
Raw material and processing	(203.9)	(226.1)	(237.0)	(261.4)	(290.8)
Services	(22.5)	(33.9)	(31.8)	(34.7)	(38.3)
Personnel expenses	(12.7)	(13.2)	(15.1)	(16.7)	(18.2)
Other opex	(0.3)	(0.9)	(0.9)	(0.7)	(0.8)
EBITDA	19.7	24.0	26.6	30.4	34.6
D&A	(2.9)	(2.6)	(2.0)	(2.0)	(2.0)
EBIT	16.7	21.5	24.7	28.5	32.7
Financials	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Re/(Devaluation) of financial assets	0.0	(0.0)	0.0	0.0	0.0
Extraordinary	(0.0)	0.0	0.0	0.0	0.0
Pre-Tax profit	15.7	20.5	23.7	27.5	31.7
Income taxes	(4.9)	(5.7)	(8.3)	(9.6)	(11.1)
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit	10.8	14.8	15.4	17.9	20.6
Net Profit Adjusted	10.8	14.8	15.4	17.9	20.6
Balance sheet (€ m)	2017PF	2018	2019e	2020e	2021e
Net Working Capital	(17.9)	(75.9)	(61.0)	(62.5)	(72.2)
Net Fixed Assets	28.7	17.8	17.8	17.8	17.9
Equity Investments	1.8	0.0	0.0	0.0	0.0
Other M/L Term A/L	35.9	76.9	67.8	59.1	51.0
Net Invested Capital	48.6	18.8	24.7	14.5	(3.3)
Net Financial Debt	1.8	(31.8)	(41.3)	(64.8)	(97.8)
Minorities	0.0	0.0	0.0	0.0	0.0
Group's Shareholders Equity	46.8	50.6	66.0	79.2	94.4
Financial Liabilities & Equity	48.6	18.8	24.7	14.5	(3.3)
Cash Flow statement (€ m)	2017PF	2018	2019e	2020e	2021e
Total net income	-	14.8	15.4	17.9	20.6
Depreciation	-	2.6	2.0	2.0	2.0
Other non-cash charges	-	(42.2)	9.1	8.7	8.1
Cash Flow from Oper. (CFO)	-	(24.8)	26.4	28.5	30.7
Change in NWC	-	58.0	(14.9)	1.5	9.7
FCF from Operations (FCFO)	-	33.2	11.5	30.0	40.4
Net Investments (CFI)	-	1.4	(2.0)	(2.0)	(2.0)
Free CF to the Firm (FCFF)	-	34.6	9.5	28.0	38.4
CF from financials (CFF)	-	(34.7)	(0.0)	(4.6)	(5.4)
Free Cash Flow to Equity (FCFE)	-	(0.1)	9.4	23.5	33.0
Financial ratios	2017PF	2018	2019e	2020e	2021e
EBITDA margin	7.6%	8.1%	8.6%	8.9%	9.1%
EBIT margin	6.5%	7.2%	7.9%	8.3%	8.6%
Net profit margin	4.2%	5.0%	5.0%	5.2%	5.4%
Tax rate	31.4%	27.8%	35.0%	35.0%	35.0%
Op NWC/Sales	-6.9%	-25.5%	-19.6%	-18.2%	-18.9%
Interest coverage x	0.06	0.05	0.04	0.04	0.03
Net Debt/EBITDA x	0.09	(1.32)	(1.55)	(2.13)	(2.82)
Debt-to-Equity x	0.04	(0.63)	(0.63)	(0.82)	(1.04)
ROIC	22.2%	78.7%	62.3%	123.2%	n.m.
ROCE	18.2%	34.9%	32.1%	31.5%	30.9%
ROACE	-	28.0%	35.6%	34.0%	33.3%
ROE	23.0%	29.2%	23.3%	22.5%	21.8%
Payout ratio	0.0%	0.0%	30.0%	30.0%	30.0%
Per share figures	2017PF	2018	2019e	2020e	2021e
Number of shares # m	8.96	8.96	8.96	8.96	8.96
Number of shares Fully Diluted # m	9.97	9.97	9.97	9.97	9.97
Average Number of shares Fully Diluted # m	9.97	9.97	9.97	9.97	9.97
EPS stated FD €	1.08	1.48	1.54	1.79	2.06
EPS adjusted FD €	1.08	1.48	1.54	1.79	2.06
EBITDA €	1.97	2.41	2.67	3.05	3.47
EBIT €	1.68	2.15	2.47	2.86	3.28
BV €	4.69	5.08	6.62	7.95	9.47
FCFO €	-	3.33	1.15	3.01	4.05
FCFF €	-	3.47	0.95	2.81	3.85
FCFE €	-	(0.01)	0.95	2.35	3.31
Dividend €	0.00	0.00	0.51	0.60	0.69





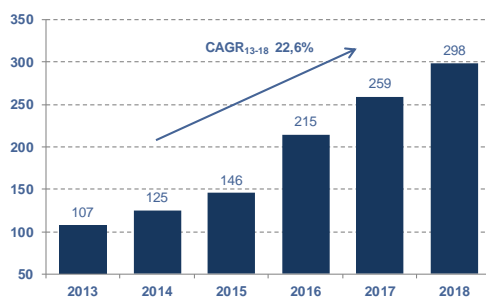
The company at a glance

Digital Value originates from the combination of two domestic IT systems integrators, Italware and ITD Solutions, with more than 30 years of experience in the field. The group supports the digital transformation of its customers through an offer of customised solutions and services. Headquartered in Milan, DGV (Digital Value) focuses on large accounts, firms with more than 500 employees, accounting for more than 50% of total IT spending in Italy in 2017 and the most promising segment in the IT service arena in terms of growth.

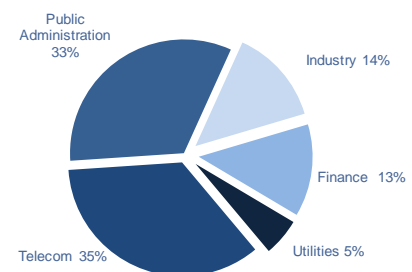
The group boasts key expertise in network infrastructure and data centres, security, network testing and monitoring, workstation management, Help Desk, data management and analysis, ERP systems management, retail applications, information systems on premise support and governance, outsourcing and cloud. According to Simi elaborations and based on 2019 CFO estimates, DGV is the 10th player in the IT provider industry in Italy.

With 205 employees DGV reported pro-forma 2018 Total Revenues of € 298.1m, EBITDA of € 24.0m (8.1% margin), € 14.8m Net Profit and a Net Financial Position of € 31.8m (cash positive). With Working Capital structurally negative, ROE of 29.2% and ROCE of 34.9%, DGV has a well-balanced and lucratively allocated capital structure. Currently 100% of the business is generated in Italy. .

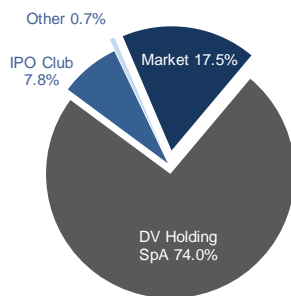
2013-18 top line progression



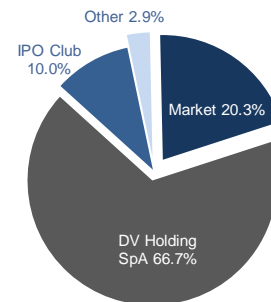
FY-18 top line breakdown by sector



Current shareholders structure



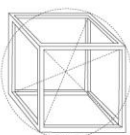
Fully diluted shareholders structure



Peers group multiples table

EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Accenture PLC	2.64	2.47	2.28	15.9	14.6	13.6	18.1	16.5	15.3
Alten SA	1.18	1.06	0.96	11.3	10.0	9.1	12.1	10.7	9.6
Altran Technologies SA	1.28	1.17	1.03	8.8	7.7	6.3	11.1	9.6	7.9
Atos SE	0.87	0.80	0.71	6.3	5.7	4.9	8.6	7.7	6.6
Aubay SA	0.92	0.83	0.74	8.5	7.6	6.7	9.1	8.2	7.2
Capgemini SE	1.30	1.17	1.06	9.0	8.0	7.2	10.6	9.4	8.5
Computacenter PLC	0.27	0.25	0.24	8.1	7.5	7.0	10.4	9.6	8.8
Devoteam SA	0.99	0.86	0.75	8.3	7.0	6.2	9.0	7.7	6.8
Econocom Group SE	0.35	0.33	0.28	7.0	6.3	4.5	8.3	7.3	5.9
Indra Sistemas SA	0.67	0.61	0.54	6.3	5.6	4.8	9.1	7.9	6.8
Reply SpA	1.73	1.56	1.37	12.4	11.0	9.5	13.7	12.1	10.5
SeSa SpA	0.22	0.20	0.18	4.6	4.1	3.7	6.6	5.9	5.2
Sopra Steria Group SA	0.64	0.58	0.52	6.7	5.6	4.8	8.6	6.9	5.8
Tieto Oyj	1.29	1.25	1.22	8.3	8.0	8.0	12.7	11.8	11.3
Median	0.96	0.84	0.75	8.3	7.5	6.5	9.8	8.8	7.6
Digital Value SpA*	0.32	0.22	0.11	3.7	2.5	1.2	4.0	2.6	1.3

Source: CFO Sim, Thomson Reuters Eikon. * FD multiples

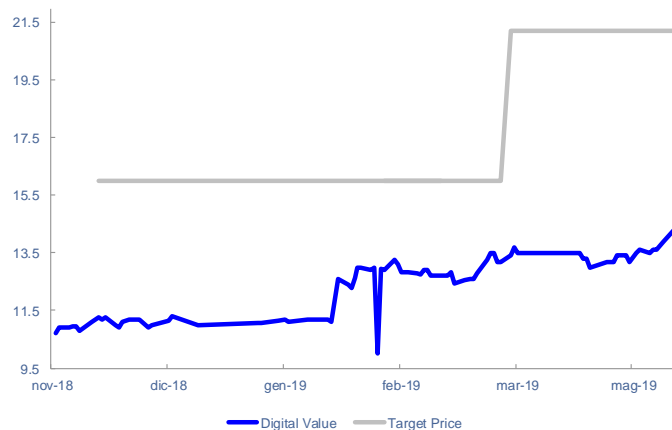


ANALYST CERTIFICATION

This publication was prepared by **LUCA ARENA**, Head of the Equity Research Department of "Corporate Family Office SIM S.p.A." ("CFO SIM") and **GIANLUCA MOZZALI**, Equity Analyst of CFO SIM. This is to certify that the views expressed on the companies mentioned in this document reflect the analysts' personal opinions and that no direct or indirect recompense has been, or will be, received by the analyst further to the views expressed herein.

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DATE	TARGET PRICE	RATING
17/05/2019	€21.20	BUY
25/03/2019	€21.20	BUY
21/11/2018	€16.00	BUY

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- a **BUY** rating is assigned if the target price is at least 15% higher than the market price;
- a **SELL** rating is assigned if the target price is at least 15% lower than the market price;
- a **NEUTRAL** rating is assigned if the difference between the current price and target price lies within the +/- 15% bands identified using the preceding criteria.

The rating is determined on the basis of the **expected absolute return 12 months forward** and not on the basis of the estimated out/underperformance relative to a market index. Thus, the rating can be directly linked with the estimated percentage difference between current price and target price. The prices of the financial securities mentioned in the report (also used for the calculation of market capitalisation and market multiples) are the reference prices of the stock market trading day preceding the publication date of the report, otherwise stated.

