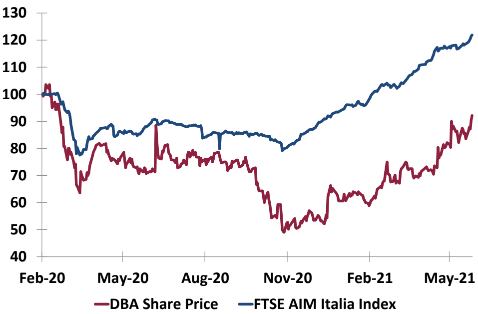
Out of the storm in a safe harbor: back to pre-Covid rating

DBA GROUP

OUTPERFORM

Current Share Price (€): 1.29
Target Price (€): 1.75

DBA Group – 16M Performance



Source: S&P Capital IQ - Note: 03/02/2020=100

Company data

ISIN number	IT0005285942
Bloomberg code	DBA IM
Reuters code	DBA.MI
Sector	Engineering & IT Consulting
Stock market	AIM Italia
Share Price (€)	1.29
Date of Price	31/05/2021
Shares Outstanding (m)	11.5
Market Cap (€m)	14.9
Market Float (%)	49.6%
Daily Volume	54,300
Avg Daily Volume YTD	59,068
Target Price (€)	1.75
Upside (%)	36%
Recommendation	OUTPERFORM

Share price performance

	1M	3M	1Y
DBA - Absolute (%)	12%	33%	30%
FTSE AIM Italia (%)	5%	18%	39%
1Y Range H/L (€)		1.29	0.69
YTD Change (€)/%		0.44	52%

Source: S&P Capital IQ

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FY20: all financial targets met overcoming pandemic impact

In 2020 DBA was able to meet revenue and profitability targets despite Covid-19 related slowdown in infrastructure investments, also thanks to the business combination of the 2019 acquired company Unistar and Actual which led to an excellent performance in ICT services. Consolidated revenues were €70.9m vs. €59.7m in 2019, +18.9% YoY, including full consolidation of Unistar (acquired in September 2019). Adjusted EBITDA at €4.4m, with reported EBITDA €3.9m (6% margin in line with 2019) after €0.5m order write-down. EBIT at €(0.7)m vs. €(2.3)m in 2019, after €2.7m D&A and €1.5m goodwill amortization. Consolidated net loss of €(1.3)m, vs. €(2.8)m in 2019. EBIT and net loss adjusted for goodwill and IPO cost amortization would be at breakeven.

On the balance sheet, trade working capital was in line with 2019 at €21m (30% of revenues vs. 33% in 2019), thanks to lower trade receivables. Net Debt at year-end of €16.4m vs. €14.8m in 2019, increase related to investments and a reclassification.

Outlook and estimates update: room for growth

2020 actual figures have been overall in line with November 2020 management guidelines, updated to keep into account Covid-19 slowdown. The successful management approach together with the acceleration in communication and other technological infrastructures envisage a continuing growth path in the following years. For these reasons, we overall confirm our prior revenue targets with a €2m upward adjustment for 2021, consistently with most recent management guidelines, and adding 2022 to the forecast period.

Target Price €1.75 per share (from €1.56), OUTPERFORM rating confirmed

Since February 2020, DBA share price followed closely behind AIM Italia index until October, then fears for prolonged infrastructure investments slowdown widened the gap. Shortly after, a reverse price trend erased much of the previous losses: the Company's 2021 YTD performance stands at about +50% vs. the AIM Italia +30%, approaching pre-Covid levels.

Our DCF valuation model suggests a Target Price of €1.75 per share (from €1.56), with a potential upside of 36% on the current share price at €1.29, confirming the OUTPERFORM recommendation on DBA stock.

Key financials and estimates

€m	2017	2018	2019	2020	2021E	2022E
Revenues	**42.6**	**47.2**	**59.7**	**70.9**	**72.0**	**73.8**
EBITDA	**4.9**	**4.8**	**3.3**	**3.9**	**5.0**	**5.8**
Margin	*11%*	*10%*	*6%*	*6%*	*7%*	*8%*
Net Income (Loss)	**1.0**	**0.4**	**(2.8)**	**(1.3)**	**(0.6)**	**0.0**
Net (Debt) Cash	**1.7**	**(9.7)**	**(14.8)**	**(16.4)**	**(13.9)**	**(12.3)**
Equity	**24.6**	**23.6**	**21.2**	**19.3**	**18.8**	**18.8**

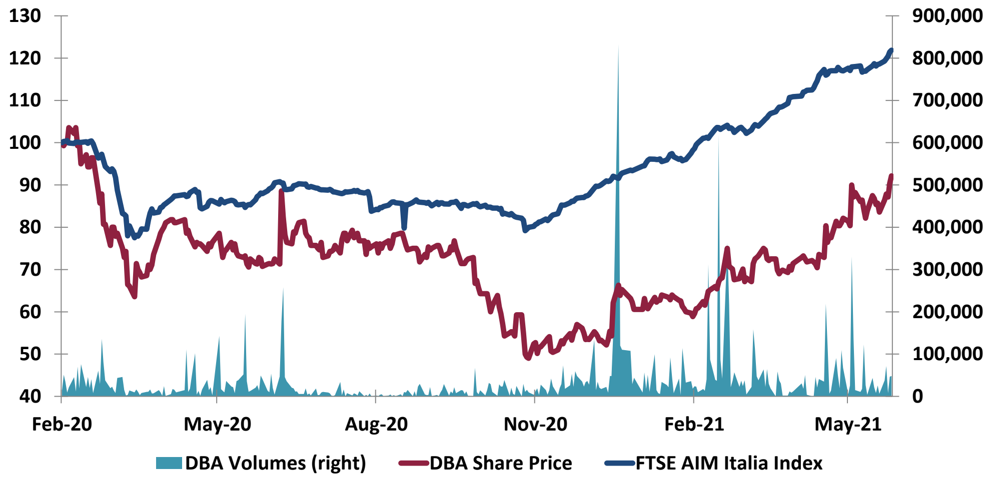
Source: Company data 2017-20A, EnVent Research 2021-22E

Market update

DBA – 16M Share price performance and trading volumes

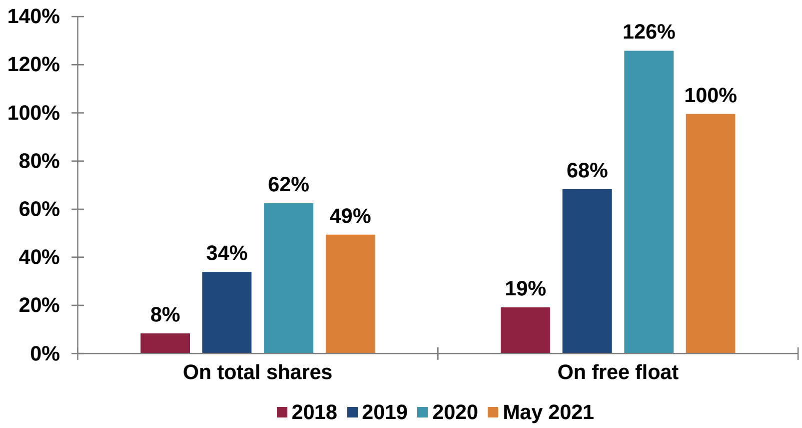
DBA shares in the last 16 months traded in the range €0.69-1.45, with beginning price at €1.40 and ending at €1.29, 8% drop

In the same period, the AIM Italia Index increased by 23%



Source: EnVent Research on S&P Capital IQ - Note: 03/02/2020=100

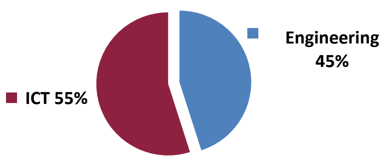
DBA - Liquidity analysis and velocity turnover



Source: EnVent Research - Note: Velocity turnover on total shares: ratio of total traded shares to total ordinary shares in a given period; Velocity turnover on free float: ratio of total volumes to free float

FY20: meeting planned revenue and profitability, growth on 2019 regardless pandemic challenge

Revenues by service, 2020



Source: Company data

In 2020 DBA's consolidated revenues, including change in work in progress, were €70.9m vs. €59.7m in 2019, +18.9% YoY, including full consolidation of Unistar (acquisition in September 2019). Unistar enabled a change in revenue mix with Engineering accounting for 45% (from 63%, -14% YoY) and ICT for 55% (from 37%, +79% YoY) and helped to overcome slowdown in infrastructure investments.
The increase in personnel cost (+5.6%) reflects the addition of Unistar's staff. Per-capita revenue was consistently in the region of €80-90k over the last years.
Adjusted EBITDA at €4.4m, with reported EBITDA €3.9m (6% margin in line with

2019) after €0.5m order write-down.
EBITA was €0.8m, after €2.7m D&A, while EBIT €(0.7)m vs. €(2.3)m in 2019, after €1.5m goodwill amortization. Consolidated net loss of €(1.3)m, vs. €(2.8)m in 2019.

Bottom line affected by goodwill and IPO cost amortization

EBIT and net loss adjusted for goodwill and IPO cost amortization would be at breakeven.

Lighter trade working capital

Trade working capital of €21m at year-end 2020 was overall unchanged compared to 2019 (30% of revenues vs. 33% in 2019), mainly thanks to lower trade receivables.
Capital expenditure was respectively €1.1m for intangibles and €1.4m for fixed assets, including investments in software platforms development for the Infrastructure Lifecycle Management service line. Net financial debt increased by €1.6m, from €14.8m in 2019 to €16.4m at year-end 2020, of which €0.5m coming from the reclassification of a minority interest.

Period facts

New projects

December 2020: implementation, hosting and maintenance of the SAP information system for Plastika Skasa d.o.o. worth over €1m.

Superbonus 110%: partnership agreement with startup

January 2021: partnership agreement with Eko Platform, providing energy and seismic upgrading services in the framework of Superbonus 110%, with expected revenues €4.4m until 2023.

February 2021: executive planning services for the Data Center hosting the EURO HPC supercomputer at the Bologna Technopolo area.

April 2021: contract with Snam Group up to 2023 for the provision of architectural and engineering services worth €2m.

May 2021: New framework agreement with the Slovenian Ministry of Public Administration worth over €3m over the next 3 years for the supply and maintenance of energy efficient ICT personal devices.

Ports update:
May 2021: €5m consultancy for Abu Qir Marine Port – Container Terminal in Alexandria, Egypt
December 2020: project and safety management for a Gioia Tauro Port new terminal

Updated Management guidelines 2020-23E

2020 actual figures have been overall in line with November 2020 management guidelines, updated to keep into account Covid-19 slowdown, since 2020 actual revenues are €71.9m vs. €72.3m planned ones. According to most recent guidelines (January 2021), 2021 revenues are estimated at €73m from €70.1m. Operating margins and net debt for 2021 are confirmed. For 2022-23 no updates have been provided.

Financial guidelines 2020-23

Updated Management guidance 2020-23E (January 2021)	**Updated**		**Not Updated**	
€m	**2020A**	**2021E**	**2022E**	**2023E**
Total Revenues (incl. capitalization of intangibles)	71.9	73.0	72.8	76.1
EBITDA	3.9	5.5	6.3	7.3
Margin	*5.4%*	*7.5%*	*8.6%*	*9.6%*
EBIT	(0.7)	0.9	2.0	3.2
Net Income (Loss)	(1.3)	0.0	0.9	1.9
Net (Debt) Cash	(16.4)	(14.1)	(12.3)	(9.4)

Prior Management guidance 2019-23E (November 2020)				
€m	**2020E**	**2021E**	**2022E**	**2023E**
Total Revenues (incl. capitalization of intangibles)	72.3	70.1	72.8	76.1
EBITDA	4.6	5.5	6.3	7.3
Margin	*6.4%*	*7.9%*	*8.6%*	*9.6%*
EBIT	0.1	0.9	2.0	3.2
Net Income (Loss)	(0.5)	0.0	0.9	1.9
Net (Debt) Cash	(16.3)	(14.1)	(12.3)	(9.4)

Source: Company data

Outlook: room for growth after the pandemic

As already stated in the previous paragraph, despite Covid-19 slowdown in infrastructure investments and works in progress, in 2020 DBA was able to meet management guidelines. This furtherly assures about the reliability of the management conservative approach during these turbulent times. Moreover, 2020 experienced an acceleration on communication and technological infrastructures backlogs also thanks to Unistar performance. Thus, we envisage a continuing growth path in the following years and overall confirm our prior revenue targets, with just some fine tuning to factor in 2020 actual figures. We also add 2022 to the forecasting period.

We recall that DBA's long-term action plan is based on:

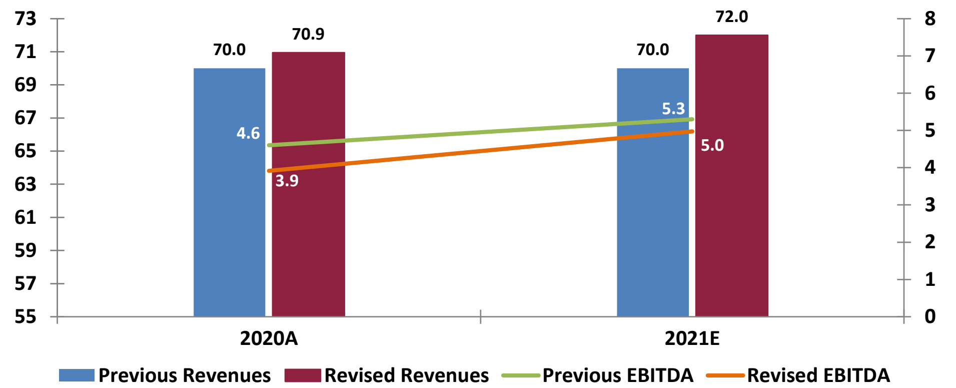
- digitization of port and inter-port infrastructures along the New Silk Road
- growth in engineering services for mission critical infrastructures – Data Centers

- continuing acquisition of know-how and orders in the Digital Twin and predictive maintenance by leveraging on the predictive platform ISMAEL
- continuing bids for engineering services, also in support of the global economic recovery after Covid19 emergency, through: services connected with Building Information Modeling and Digital Twin paradigms; investments in the public sector like schools, transport, mobility infrastructures; investments in the Real Estate sector connected with smart districts and hotels; ports and airports.

Change in estimates

In our estimates revenues are net of capitalization of intangibles

Revenues (€m) - Previous vs. Revised estimates



Source: EnVent Research

	Revised			Previous		Change %	
€m	2020A	2021E	2022E	2020E	2021E	2020A	2021E
Total Revenues	70.9	72.0	73.8	70.0	70.0	1%	3%
EBITDA	3.9	5.0	5.8	4.6	5.3	-15%	-6%
Margin	*6%*	*7%*	*8%*	*7%*	*8%*		
EBIT	(0.7)	0.3	1.1	0.3	0.8	na	-63%
Margin	*-1%*	*0%*	*1%*	*0%*	*1%*		
Net Income (Loss)	(1.3)	(0.6)	0.0	(0.5)	(0.1)	na	na
Net (Debt) Cash	(16.4)	(13.9)	(12.3)	(17.3)	(15.0)		

Source: Company data 20A, EnVent Research 2021-22E

Financial projections

In 2020:
€0.5m write-down of trade receivables

€2.7m D&A and €1.5m goodwill amortization

EBIT and net loss adjusted for goodwill and IPO cost amortization would be at breakeven

Consolidated Profit and Loss

€m	2017	2018	2019	2020	2021E	2022E
Total Revenues	**42.6**	**47.2**	**59.7**	**70.9**	**72.0**	**73.8**
YoY %	*2.7%*	*10.8%*	*26.5%*	*18.9%*	*1.5%*	*2.5%*
Personnel	(16.0)	(19.0)	(22.3)	(24.0)	(24.0)	(24.5)
Services	(17.7)	(17.7)	(24.9)	(23.0)	(23.0)	(23.2)
Other operating costs	(4.0)	(5.6)	(9.1)	(20.0)	(20.0)	(20.3)
Operating costs	**(37.7)**	**(42.4)**	**(56.4)**	**(67.0)**	**(67.0)**	**(68.0)**
EBITDA	**4.9**	**4.8**	**3.3**	**3.9**	**5.0**	**5.8**
Margin	*11.5%*	*10.2%*	*5.6%*	*5.5%*	*6.9%*	*7.9%*
Non-recurring costs	(0.3)	(0.4)	(1.2)	(0.5)	0.0	0.0
EBITDA after non-recurring costs	**4.6**	**4.4**	**2.1**	**3.5**	**5.0**	**5.8**
Margin	*10.7%*	*9.4%*	*3.5%*	*4.9%*	*6.9%*	*7.9%*
D&A	(1.9)	(1.6)	(3.2)	(2.7)	(3.2)	(3.2)
EBITA	**2.6**	**2.8**	**(1.1)**	**0.8**	**1.8**	**2.6**
Margin	*6.2%*	*6.0%*	*-1.9%*	*1.1%*	*2.5%*	*3.5%*
Goodwill amortization	(0.5)	(1.2)	(1.2)	(1.5)	(1.5)	(1.5)
EBIT	**2.1**	**1.6**	**(2.3)**	**(0.7)**	**0.3**	**1.1**
Margin	*4.9%*	*3.5%*	*-3.9%*	*-0.9%*	*0.4%*	*1.5%*
Interest	(0.2)	(0.3)	(0.3)	(0.6)	(0.5)	(0.5)
EBT	**1.9**	**1.4**	**(2.7)**	**(1.2)**	**(0.2)**	**0.6**
Margin	*4.5%*	*2.9%*	*-4.5%*	*-1.7%*	*-0.3%*	*0.8%*
Income taxes	(0.9)	(1.0)	(0.2)	(0.1)	(0.4)	(0.6)
Net Income (Loss)	**1.0**	**0.4**	**(2.8)**	**(1.3)**	**(0.6)**	**0.0**
Margin	*2.4%*	*0.8%*	*-4.8%*	*-1.9%*	*-0.8%*	*0.0%*

Source: Company data 2017-20A, EnVent Research 2021-22E

Consolidated Balance Sheet

€m	2017	2018	2019	2020	2021E	2022E
Work in progress	0.9	1.3	2.8	4.5	3.0	3.0
Inventory	0.0	0.1	0.9	0.6	0.6	0.6
Trade receivables	19.1	24.0	26.9	28.2	29.1	29.8
Trade payables	(6.9)	(5.4)	(10.7)	(12.4)	(12.2)	(12.4)
Trade Working Capital	13.2	20.1	19.9	20.9	20.4	21.1
Other assets (liabilities)	(1.8)	(3.3)	(2.7)	(2.5)	(2.9)	(3.0)
Net Working Capital	**11.4**	**16.7**	**17.2**	**18.5**	**17.5**	**18.1**
Intangible assets	5.6	6.2	6.7	6.6	6.1	5.8
Goodwill	3.5	8.0	9.9	8.7	7.2	5.7
Property, plant and equipment	3.3	3.5	3.4	3.5	3.2	2.9
Equity investments and financial assets	0.7	0.7	0.7	0.6	0.6	0.6
Non-current assets	**13.1**	**18.4**	**20.8**	**19.3**	**17.2**	**15.0**
Provisions	**(1.5)**	**(1.8)**	**(2.0)**	**(2.1)**	**(2.1)**	**(2.1)**
Net Invested Capital	**23.0**	**33.3**	**36.0**	**35.8**	**32.7**	**31.1**
Net Debt (Cash)	**(1.7)**	**9.7**	**14.8**	**16.4**	**13.9**	**12.3**
Equity	**24.6**	**23.6**	**21.2**	**19.3**	**18.8**	**18.8**
Sources	**23.0**	**33.3**	**36.0**	**35.8**	**32.7**	**31.1**

Source: Company data 2017-20A, EnVent Research 2021-22E

Consolidated Cash Flow

€m	2017	2018	2019	2020	2021E	2022E
EBIT	**2.1**	**1.6**	**(2.3)**	**(0.7)**	**0.3**	**1.1**
Current taxes	(0.9)	(1.0)	(0.2)	(0.1)	(0.4)	(0.6)
D&A	2.4	2.6	4.4	4.1	4.7	4.7
Provisions	(0.3)	0.3	0.2	0.1	0.0	0.0
Cash flow from P&L operations	**3.3**	**3.5**	**2.1**	**3.4**	**4.6**	**5.2**
Trade Working Capital	(4.3)	(6.9)	0.1	(1.0)	0.5	(0.7)
Capex - intangibles	(3.8)	(1.0)	(1.5)	(1.1)	(1.1)	(1.1)
Capex - acquisitions	(0.5)	(5.7)	(3.1)	(0.2)	0.0	0.0
Capex - PPE	(1.7)	(1.3)	(1.1)	(1.4)	(1.4)	(1.4)
Other assets and liabilities	(1.4)	1.5	(1.6)	(0.3)	0.4	0.1
Operating cash flow after working capital and capex	**(8.4)**	**(9.7)**	**(5.1)**	**(0.6)**	**3.0**	**2.1**
Interest	(0.2)	(0.3)	(0.3)	(0.6)	(0.5)	(0.5)
Equity investments and financial assets	0.6	0.1	(0.0)	0.1	0.0	0.0
Paid-in Capital - IPO proceeds (2017)	12.0	0.0	0.0	0.0	0.0	0.0
Capex - IPO costs	(1.6)	0.0	(0.0)	(0.0)	(0.0)	(0.0)
Consolidation adjustments	0.0	(1.4)	0.4	(0.5)	0.0	0.0
Net cash flow	**2.4**	**(11.4)**	**(5.1)**	**(1.6)**	**2.5**	**1.6**
Net (Debt) Cash - Beginning	(0.7)	1.7	(9.7)	(14.8)	(16.4)	(13.9)
Net (Debt) Cash - End	1.7	(9.7)	(14.8)	(16.4)	(13.9)	(12.3)
Change in Net (Debt) Cash	**2.4**	**(11.4)**	**(5.1)**	**(1.6)**	**2.5**	**1.6**

Source: Company data 2017-20A, EnVent Research 2021-22E

Ratio analysis

KPIs	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
ROE	4%	2%	-13%	-7%	-3%	0%
ROS (EBIT/Revenues)	5%	3%	-4%	-1%	0%	1%
ROIC (NOPAT/Invested Capital)	8%	6%	-2%	2%	4%	12%
DSO	136	153	137	121	121	121
DPO	95	69	94	86	85	85
TWC/Revenues	31%	43%	33%	30%	28%	29%
NWC/Revenues	27%	35%	29%	26%	24%	25%
Net Debt / EBITDA	n.m.	2.0x	4.5x	4.2x	2.8x	2.1x
Net Debt / Equity	n.m.	0.4x	0.7x	0.8x	0.7x	0.7x
Net Debt / (Net Debt+Equity)	n.m.	0.3x	0.4x	0.5x	0.4x	0.4x
Cash flow from P&L operations / EBITDA	68%	74%	63%	87%	92%	90%
FCF / EBITDA	neg.	neg.	neg.	neg.	61%	37%
Earnings per Share (€)	0.09	0.03	neg.	neg.	neg.	0.00

Source: Company data 2017-20A, EnVent Research 2021-22E

Valuation

Discounted Cash Flows

Updated assumptions:

- Risk free rate: 1.5% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, May 2021)
- Market return: 12.6% (3Y average. Source: Bloomberg, May 2021)
- Market risk premium: 11.2%
- Beta: Unlevered 0.9; Re-levered 1.3 (Median of selected industry peers. Source: Bloomberg)
- Cost of equity: 15.9%
- Cost of debt: 3% (Source: average historical rate)
- Tax rate: 24% (IRES)
- 40% debt/(debt + equity) as target capital structure

- WACC at 10.5%
- Perpetual growth rate after explicit projections 2.5%
- Terminal Value assumes an EBITDA margin of 9%

DCF Valuation

€m		2017	2018	2019	2020	2021E	2022E	Perpetuity
Revenues		**42.6**	**47.2**	**59.7**	**70.9**	**72.0**	**73.8**	**75.6**
EBITDA		**4.9**	**4.8**	**3.3**	**3.9**	**5.0**	**5.8**	**6.8**
Margin		*11.5%*	*10.2%*	*5.6%*	*5.5%*	*6.9%*	*7.9%*	*9.0%*
EBITA		**2.6**	**2.8**	**(1.1)**	**0.8**	**1.8**	**2.6**	**5.0**
Margin		*6.2%*	*6.0%*	*-1.9%*	*1.1%*	*2.5%*	*3.5%*	*6.6%*
Taxes		(0.7)	(0.8)	0.3	(0.2)	(0.5)	(0.7)	(1.4)
NOPAT		**1.9**	**2.0**	**(0.8)**	**0.6**	**1.3**	**1.9**	**3.6**
D&A					2.7	3.2	3.2	1.8
Provisions					0.1	0.0	0.0	0.0
Cash flow from operations					**3.3**	**4.5**	**5.1**	**5.4**
Trade Working Capital					(1.0)	0.5	(0.7)	(0.4)
Capex					(2.7)	(2.5)	(2.5)	(1.8)
Other assets and liabilities					(0.3)	0.4	0.1	0.0
Unlevered free cash flow					**(0.7)**	**2.9**	**2.0**	**3.2**
WACC	10.5%							
Long-term growth (G)	2.5%							
Discounted Cash Flows						**2.6**	**1.6**	
Sum of Discounted Cash Flows	2.6							
Terminal Value								**41.5**
Discounted TV	34.0							
Enterprise Value	**36.6**							
Net Debt as of 31/12/20	(16.4)							
Minorities as of 31/12/20	(0.0)							
Equity Value	**20.2**							

DCF - Implied multiples	**2018**	**2019**	**2020**	**2021E**	**2022E**
EV/Revenues	0.8x	0.6x	0.5x	0.5x	0.5x
EV/EBITDA	7.6x	11.1x	9.4x	7.4x	6.3x
EV/EBITA	12.9x	neg	45.1x	20.6x	14.2x
P/E	51.8x	neg	neg	neg	nm

Current market price - Implied multiples	**2018**	**2019**	**2020**	**2021E**	**2022E**
EV/Revenues	0.7x	0.5x	0.4x	0.4x	0.4x
EV/EBITDA	6.5x	9.4x	8.0x	6.3x	5.4x
EV/EBITA	11.0x	neg	38.5x	17.6x	12.1x
P/E	38.0x	neg	neg	neg	nm

Source: EnVent Research

Target Price

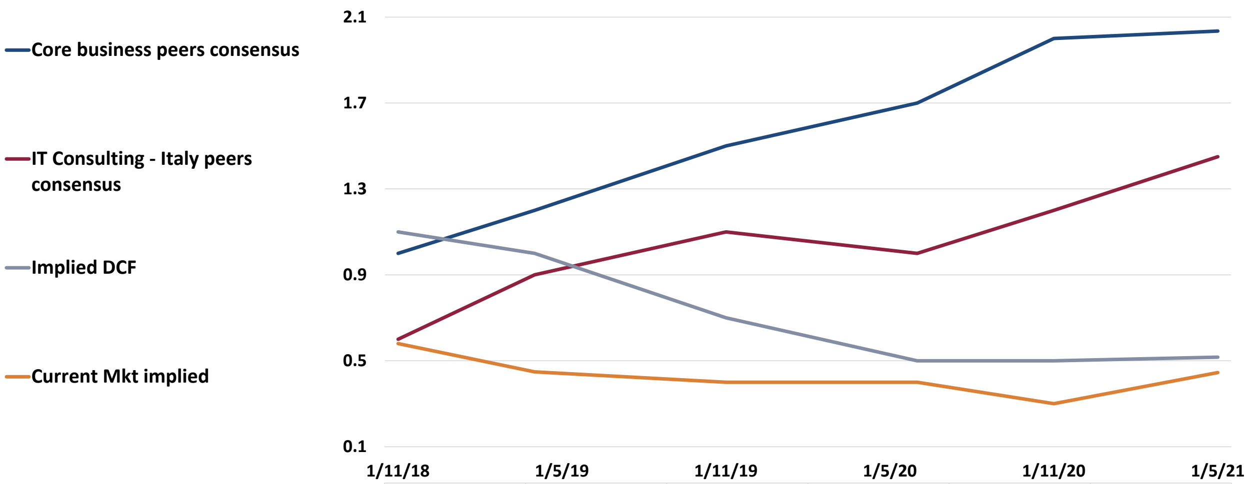
The DCF model based on our estimates suggests a Target Price of €1.75 per share (from €1.56), with a potential upside of 36% on the current share price at €1.29, confirming the OUTPERFORM recommendation on DBA stock.

DBA Price per Share	**€**
Target Price	**1.75**
Current Share Price (31/05/2021)	1.29
Premium (Discount)	**36%**

Source: EnVent Research

Multiples dynamics

EV/Revenues



	07/11/2018	18/04/2019	27/11/2019	04/06/2020	16/11/2020	31/05/2021
Core business peers consensus	1.0x	1.2x	1.5x	1.7x	2.0x	2.0x
IT Consulting - Italy peers consensus	0.6x	0.9x	1.1x	1.0x	1.2x	1.4x
Implied DCF	1.1x	1.0x	0.7x	0.5x	0.5x	0.5x
Current Mkt implied	0.6x	0.4x	0.4x	0.4x	0.3x	0.4x

Source: EnVent Research

Annex

Peer Group - Market Multiples

Company	EV/REVENUES 2019	EV/REVENUES 2020	EV/REVENUES 2021E	EV/EBITDA 2019	EV/EBITDA 2020	EV/EBITDA 2021E	EV/EBIT 2019	EV/EBIT 2020	EV/EBIT 2021E	P/E 2019	P/E 2020	P/E 2021E
DBA	**0.6x**	**0.4x**	**0.4x**	**10.9x**	**6.2x**	**5.5x**	**neg**	**43.6x**	**22.7x**	**neg**	**34.4x**	**13.8x**
Core business peers												
Alten	1.4x	1.4x	1.3x	14.0x	22.2x	12.5x	14.8x	24.8x	16.9x	23.1x	34.3x	24.4x
Sweco	2.3x	2.6x	2.5x	21.2x	24.8x	20.6x	25.6x	29.7x	27.0x	30.5x	39.7x	30.8x
Assystem	1.1x	1.0x	1.0x	15.4x	18.0x	10.7x	17.2x	21.9x	15.9x	18.0x	neg	16.5x
Reply	2.1x	3.4x	3.0x	13.0x	24.1x	17.8x	16.2x	25.8x	22.1x	22.8x	35.8x	32.0x
Mean	**1.7x**	**2.1x**	**1.9x**	**15.9x**	**22.3x**	**15.4x**	**18.4x**	**25.6x**	**20.5x**	**23.6x**	**36.6x**	**25.9x**
Median	**1.8x**	**2.0x**	**1.9x**	**14.7x**	**23.1x**	**15.1x**	**16.7x**	**25.3x**	**19.5x**	**22.9x**	**35.8x**	**27.6x**
IT Consulting - Italy												
Exprivia	1.9x	1.9x	1.9x	16.7x	16.2x	15.0x	neg	22.7x	21.6x	neg	8.4x	7.7x
BE	1.2x	1.3x	1.1x	9.9x	10.8x	6.8x	14.6x	15.8x	11.8x	27.2x	25.0x	18.2x
TXT e-solutions	1.2x	1.1x	0.9x	14.1x	11.0x	7.1x	20.2x	15.0x	11.1x	nm	19.7x	15.7x
Circle	2.2x	1.6x	1.2x	9.2x	15.0x	7.6x	17.8x	24.6x	14.1x	27.8x	34.9x	na
Mean	**1.6x**	**1.5x**	**1.3x**	**12.5x**	**13.2x**	**9.1x**	**17.6x**	**19.6x**	**14.7x**	**27.5x**	**22.0x**	**13.9x**
Median	**1.5x**	**1.4x**	**1.1x**	**12.0x**	**13.0x**	**7.3x**	**17.8x**	**19.3x**	**13.0x**	**27.5x**	**22.4x**	**15.7x**

Source: EnVent Research on S&P Capital IQ, update May 2021

Investment Case

Company

DBA Group SpA (DBA) is an Italian Technology Consulting company, specialized in infrastructure connectivity and lifecycle management. Its several offices cover Italy, the Balkans, the Caucasus and Russia, targeting the whole Eurasia region. The Group has a track record of 25 years of growth, both organic and through acquisitions.

Drivers

Industry drivers

Infrastructure investment. According to Oxford Economics, global infrastructure investment is expected to keep growing through the next decade, to reach an annual average of $3.2trn through 2040, compared to $2.0trn between 2007 and 2015, a 60% increase. At the same time, the need for infrastructure exceeds the expected investments, a permanent gap linked to GDP growth. Moreover, investments will be uneven geographically between mature and emerging countries, according to GDP geographical region-by-region forecast.

Connectivity. In Huawei's Global Connectivity Index 2017 study, most of the countries in the rankings saw their overall scoring improved on the prior year, based on certain indicators that cover five technology enablers: broadband, data centers, cloud, big data, Internet of Things (IoT). Key areas where inequality is present include mobile broadband, IT workforce per capita, ICT investment per GDP, apps downloaded per capita and IoT installed base per capita.

Broadband evolution calls for new expansion cycles in Europe. Basic broadband is available to everyone in the EU, while fixed-line technologies cover 98% of homes. Next Generation Access (NGA) technologies call for continuous investment even in well-covered areas, that is becoming the rule and a recurring driver for infrastructure investment in the industry.

Broadband in Italy. Italy has in course a program to be equipped with nationwide outlaid uniform broadband technology, closing off the competition gap with major industrial economies. The Open Fiber wholesale-only venture of Italian utility Enel and state-owned lender CDP is investing €6.5bn to build out a fiber-to-the-home network in 250 major cities rolling out broadband cable, in areas witnessing digital divide, all over the country. DBA is engaged through a framework contract and is currently a key partner of the project.

Internet of Things riding the wave. Internet of Things connects devices such as everyday consumer objects and industrial equipment into the internet, enabling information gathering and management of devices via software increasing efficiency, allowing for new services, and achieving health, safety, or environmental benefits. IoT is emerging as the third wave of internet development, impacting individuals' lives, workplace productivity and overall consumption.

Urbanization and mobility. Global population growth (1-2% YoY over the last 65 years, according to United Nations) and migration into urban areas together result in a growing number of large and highly populated cities, especially in emerging countries, requiring more and more investment in infrastructure and connectivity programs, mainly in residential areas, industrial sites, commercial property and social infrastructure. National and local governments are faced with promoting investment to harmonize and rationalize private and public transportation. Custom-made digitization and Internet of Things will be inevitable solutions.

Company drivers

A focused portfolio. DBA provides consulting services to private clients and retains a valuable flexibility in shifting focus between market sectors depending on demand. The client base is diversified across industries: Telco, Transportation and Logistics, Oil & Gas, Real Estate. Most of DBA's clients are large corporations. This kind of client portfolio minimizes receivable risk and working capital investment. The diversity of services and end-markets reflects the accumulated experience and expertise aside from a healthy balanced portfolio approach.

Multidisciplinary skills and integrated business model built around Infrastructure Lifecycle. DBA's service is designed to become the O*ne Stop Business Partner* for its clients, a provider of the key competencies needed during the lifecycle of infrastructure that are critical to their business. This is made possible by a *One of a Kind* business model: a combination and synergy of multidisciplinary teams providing conception, planning, digitization, connectivity, operation and maintenance of critical infrastructure. The dedicated business units Process & Automation - ICT, Project Management, and Engineering provide their services on a stand-alone or combined basis and in one or more phases of the infrastructure lifecycle.

Value creation for clients. DBA's business history reveals that its teams assisted some of the major industry players and delivered value by providing know-how, reducing their project cost and lead time, and optimizing their development, realization and marketing processes. These achievements, that in the long-run generate repeat work, sustain prices and reduce marketing costs, build reputation and competitive advantage that qualify DBA as *Strategic Supplier*, not just a *reliable supplier*.

Experience and execution. Experience and a successful track record of project execution are critical factors when proposing for technology and engineering consulting engagements. On-time delivery, and within budget, is a key determinant of clients' decision-making process. Proven expertise and successful delivery of previous assignments are a door-opener for the tenders and, ultimately, drive award of projects, as testified by the regular flow of new work from top clients in recent years.

Sustainability as value added. DBA supports its clients to comply with the environmental and safety regulations applying to their business. As an example, DBA's port management system product ensures implementation of environmental and sustainability management tools.

Quality of personnel. DBA's success strongly depends on the ability to attract and retain qualified staff, allocate skilled labor resources to profitable high growth markets, allowing to secure new contracts and renewing existing ones. An ability that is conditioned by staff motivation and satisfaction. One of DBA's key values is commitment to job protection, quality of life at work and welfare in the workplace.

Sound revenues and cost per headcount. Significant headcount utilization levels are a key to DBA's profitability. Per-capita revenue is consistently over the years in the region of €80-90k. Personnel cost consistently under 50% of revenues. Per-capita cost in the region of €40k.

A defensive engineering consulting operator. DBA's services are primarily consulting engagements, including engineering design studies, project management and outsourcing support. This makes its business model inherently more defensive compared to engineering service companies, given that many competitors also undertake direct investment in the projects, exposing them to payback risk.

Meticulous M&A activity. The Management of DBA has a proven track record of identifying, executing and integrating acquisitions, with a hyper-focused strategy leading to meticulous deal scouting and completion. In the last five years they have successfully executed seven acquisitions, of which four cross-border.

Management-Shareholder alignment of interests. Key managers are also shareholders of the Company and are directly involved in the execution of the Group's growth strategy, leveraging on their engineering and architecture background, entrepreneurial experience and industry expertise.

Absence of litigation and disputes. In the wider engineering and construction industry, global operations produce frequent litigation linked to a number of foreign jurisdictions and legal systems governing intellectual property, large-scale infrastructure projects, construction and engineering projects, joint ventures, etc. So far DBA has not been involved in other than immaterial litigations or disputes with clients, contractors, developers, suppliers, engineers and other related parties.

Challenges

Infrastructure investment cycles. Macroeconomic cycles are a determinant of changes to private sector infrastructure spending or to government public infrastructure capex budgets. Demand for DBA's services is growing, but at the same time it is vulnerable to economic downturn and changes in the private sector's and governments' infrastructure spending, which may result in clients delaying, curtailing or canceling proposed and existing projects. Operation and maintenance contracts on completed projects represent a mitigation factor.

Revenue concentration. Large projects for large clients imply several advantages but also recurring risks from concentration of revenues, such as idle cost at projects end and fluctuations of income during backlog rebuilding. Acquisitions and geographical expansion leading to a substantial dilution of risk.

Delays in projects and challenging payment terms. Part of DBA's internationalization strategy is participation in tenders whose financing may come from governments and/or international institutions. While governments and other institutions' spending is a driver for industry growth, at the same time, limited or insufficient public funding might cause delays in projects, thereby exposing contractors to slow capital turnover or claims in payments.

Execution delivery risk. Delivering services which are not in line with client expectations due to cost/time overruns, and quality issues, may impact margins and reputation.

International markets exposure. Revenues coming from foreign operations have been boosted by acquisitions in Eastern Europe. Currently, the Company plans to intensify its promotional efforts in the Balkans, the Caucasus and in Central Asia, focusing on a mix of geographies that offer growth opportunities. However, these countries imply political and financial risks, that may bring currency exposure and cash flow impact.

Staff utilization, charge-out rates and retention rates. Changes in staff utilization rates impact billable hours, sales and margins. Ability to pass-through higher labor costs through higher charge-out rates also impacts margins. Strong economic growth in certain countries may influence local wage costs and retention rates.

Acquisition and integration risk. Acquisitions could be value accretive or dilutive based on valuations paid and market trends. Higher than expected integration costs when consolidating acquisitions into the Group may also impact margins. Larger acquisitions will be targeted in order to be material to the growth of the business, but these can carry greater integration risk.

Increasing competition. The fragmented competitive arena, populated by a small number of large players with multinational reach, together with a large number of small specialists exercising pressure on prices, is a permanent feeder of fierce competition.

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Date	Recommendation	Target Price (€)	Share Price (€)
01/06/2018	OUTPERFORM	5.05	3.40
07/11/2018	OUTPERFORM	4.41	2.90
18/04/2019	OUTPERFORM	4.14	2.22
27/11/2019	OUTPERFORM	2.83	1.62
16/06/2020	OUTPERFORM	1.91	1.11
16/11/2020	OUTPERFORM	1.56	0.71
31/05/2021	OUTPERFORM	1.75	1.29

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