

Gigas Hosting

Sponsored Research

Spain | Software & Computer Services

Investment Research



Company Flash Note

Buy	
Recommendation unchanged	
Share price: EUR	6.30
closing price as of 16/09/2020	
Target price: EUR	9.86
Target Price unchanged	
Upside/Downside Potential	56.5%
Reuters/Bloomberg	GIGA.MC/GIGA SM
Market capitalisation (EURm)	27
Current N° of shares (m)	4
Free float	50%
Daily avg. no. trad. sh. 12 mth (k)	6
Daily avg. trad. vol. 12 mth (k)	52.59
Price high/low 12 months	7.18 / 4.00
Abs Perfs 1/3/12 mths (%)	23.53/10.53/-8.70

Key financials (EUR)	12/19	12/20e	12/21e
Sales (m)	10	12	13
EBITDA (m)	3	3	4
EBITDA margin	24.5%	26.5%	27.1%
EBIT (m)	1	1	1
EBIT margin	6.6%	9.5%	10.1%
Net Profit (adj.)(m)	0	1	1
ROCE	5.0%	8.2%	9.9%
Net debt/(cash) (m)	4	3	3
Net Debt Equity	0.7	0.6	0.4
Net Debt/EBITDA	1.5	1.0	0.7
Int. cover(EBITDA/Fin.int)	6.1	10.8	14.0
EV/Sales	3.2	2.6	2.2
EV/EBITDA	13.2	9.8	8.2
EV/EBITDA (adj.)	13.2	9.8	8.2
EV/EBIT	48.8	27.4	22.1
P/E (adj.)	nm	44.2	38.4
P/BV	5.7	4.8	5.0
OpFCF yield	-2.2%	5.6%	6.9%
Dividend yield	0.0%	0.0%	0.0%
EPS (adj.)	0.05	0.14	0.16
BVPS	1.19	1.31	1.27
DPS	0.00	0.00	0.00

Shareholders

Founders and management 24%; Bonsai Venture Capital 7%; Caixa Capital 8%;



Source: FactSet

— GIGAS HOSTING — MAB (Rebased)

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Reason: Company results (post view)

17 September 2020

1H results: Dragged by LatAm, but opening new markets

The Company presented 1H20 results, with sales growing +5.0%; EBITDA dropping -14.1% and client loss in both the Cloud Datacenter (-50 vs. 1Q20 and -25 vs. 2Q19) and Cloud VPS (-121 vs. 1Q20 and -352 vs. 2Q19). Meanwhile, ARPU's grow: +1.8% Cloud Datacenter and +8.4% Y/Y Cloud VPS.

- ✓ 1H20 results strongly affected by the Covid-19 on **three fronts**: firstly, the **strong depreciation of LatAm currencies** (mainly the Colombian peso) affecting countries billed in local currencies as well as in dollars (being more expensive for clients). Secondly, the **economic situation of many companies**, provokes the loss in clients due to the closure of the companies. Lastly, to avoid the losses, many clients are **strong discounts** to assure their continuity, which also impacts against Gigas' revenues.
- ✓ The fall in revenues is not reflected in a drop in costs because following the integration of AHP these rise, which results in the **EBITDA dropping in 1H -11.4%** in accounting terms and **-7.0%** not including the costs of stock options. For 2020 a small growth in revenues is expected (around 5-6%) and flat EBITDA as the Company confides in a better situation during the last quarter of the year.
- ✓ The Company also announced the **acquisition of the Irish company, Ignitar**, for EUR3.2m for EUR3.2m. The amount would be divided in a EUR1.7m cash payment, Gigas shares for a value of EUR0.5m (via a capital increase) and earn-out valued at EUR1m according to the company's results during the next two years.
- ✓ The Company is **specialised in hosting SAP**, which opens a very interesting niche for Gigas, apart from new markets, considering that Ignitar operates in Ireland, Scandinavia, Germany, UK and the Netherlands. Ignitar contributes 136 Cloud Datacenter clients (17% of Gigas' total) with a similar ARPU as Gigas and an estimated EBITDA for 2020 of EUR750k. The **transaction has been closed at an EV/EBITDA 19 of 5.5x and EBITDA 20e 4.3x**.
- ✓ Results in 2Q show further **erosion of the situation seen in 1Q** and exacerbates the difficult situation of the part of the business coming from Latin America (around 50% of Ignitar's total pre-operational turnover, just over 40% post-M&A). As announced in previous quarters, the Company's intention is to open up new markets in Europe and reduce the weight of operations in Latin America.
- ✓ **The estimated results for 2020 are below those announced to the market**, which has a negative impact on valuation, but is offset by the positive impact of the acquisition that has been closed at very attractive multiples and in our opinion is very interesting to open new markets in Europe. On the negative side the doubts on LatAm are increasing.
- ✓ Consequent of the double impact (negative due to LatAm and positive thanks to the M&A) our valuation hardly varies and thus **we maintain our Buy recommendation**.



1H 20 Results

GIGAS HOSTING. POST-Q2'20 RESULTS.

EURm	Q2'19	Q2'20	Δ% y/y	H1'19	H1'20	Δ% y/y
Total clients				3,763	3,386	-10.0%
Cloud Datacenter				766	741	-3.3%
Cloud VPS				2,997	2,645	-11.7%
Customer billing	2.72	2.84	4.6%	5.76	6.04	5.0%
Sales accruals	0.13	0.13	-4.6%	-0.02	0.00	-110.4%
Discounts & Promotions	-0.37	-0.46	24.0%	-0.79	-0.91	15.3%
Net income	2.48	2.51	1.2%	4.95	5.14	3.7%
Work carried out on its assets	0.07	0.12	71.1%	0.14	0.24	73.8%
Extraordinary income, subsidies, others	0.05	0.02	-70.6%	0.06	0.04	-32.4%
Supplies	-0.56	-0.71	26.5%	-1.13	-1.40	24.2%
Online and third parties SAC	-0.02	-0.01	-27.2%	-0.03	-0.02	-41.6%
Datacenters & Connectivity	-0.25	-0.31	22.3%	-0.51	-0.61	19.8%
Other supplies	-0.30	-0.39	33.3%	-0.58	-0.77	31.8%
Personnel Expenses	-0.93	-1.01	8.6%	-1.80	-2.04	13.5%
Other Expenses	-0.45	-0.42	-7.3%	-0.92	-0.87	-6.2%
Other results	-0.02	-0.01	-58.5%	-0.02	-0.01	-63.8%
EBITDA	0.64	0.50	-22.3%	1.28	1.10	-14.1%
EBITDA M.	26.0%	20.0%	-6.0pp	25.9%	21.5%	-4.4pp

Source: Gigas Hosting & GVC Gaesco Valores

ACTIVO			PASIVO		
	Rev. Limitado	Auditado		Rev. Limitado	Auditado
Cifras en euros	30.06.2020	31.12.2019	Cifras en euros	30.06.2020	31.12.2019
ACTIVO NO CORRIENTE	11.151.407	11.429.338	PATRIMONIO NETO	5.046.870	5.132.862
Inmovilizado Intangible	5.720.557	5.912.771	Fondos Propios	5.195.146	5.205.520
Desarrollo	210.272	311.636	Capital	86.446	86.446
Licencias, Patentes	35.688	38.568	Primas de Emisión	8.726.612	8.726.612
Programas Informáticos	1.127.443	957.904	Reservas	(233.271)	(250.561)
Fondo de Comercio	-	-	Acciones Propias	(218.421)	(288.247)
Relaciones con Clientes	4.347.157	4.604.663	Resultados de Ejercicios Anteriores	(4.154.704)	(4.353.258)
Inmovilizado Material	2.736.182	3.056.929	Resultado del Ejercicio	(168.409)	215.844
Inversiones financieras a largo plazo	36.268	36.461	Otros Instrumentos de Patrimonio Neto	1.156.893	1.068.684
Activos por impuesto diferido	2.658.401	2.423.176	Diferencias de Conversión	(162.600)	(94.318)
			Subvenciones, Donaciones y Legados	14.324	21.660
ACTIVO CORRIENTE	7.095.185	4.429.452	PASIVOS NO CORRIENTES	9.416.616	6.431.382
Deudores Comerciales y otras ctas. a cobrar	2.393.094	2.445.067	Deudas a Largo Plazo	8.291.106	5.225.922
Clientes por ventas y prestac de Serv.	2.046.188	2.072.620	Obligaciones y Bonos Convertibles	2.019.608	1.940.362
Deudores varios	34.704	36.159	Entidades de Crédito	4.610.402	2.157.928
Personal	76.058	76.107	Acreedores por arrendam. financ. y otros	1.661.096	1.127.632
Activos por impuesto corriente	175.129	204.795	Pasivos por Impuestos Diferidos	1.125.511	1.205.460
Otros Créditos	61.015	55.386	PASIVO CORRIENTE	3.783.105	4.294.546
Inversiones Financieras	143.250	144.443	Provisiones a Corto Plazo	217.893	283.622
Periodificaciones a corto plazo	246.733	275.499	Deudas a Corto Plazo	1.793.071	2.200.969
Efectivo y otros activos líquidos equiv.	4.312.109	1.564.444	Acreedores comerciales y otras ctas. a	1.201.104	1.237.246
			Periodificaciones a Corto Plazo	571.037	572.709
TOTAL ACTIVO	18.246.592	15.858.791	TOTAL PASIVO	18.246.592	15.858.791

NOTA 1. Las cifras aquí presentadas son un extracto de las Cuentas Anuales de la Compañía publicadas en presente Hecho Relevante, y en caso de cualquier discrepancia prevalecerán dichas cuentas.

Operating cash generation fell in 1H20 (EUR0.66m in 1H20 vs. EUR0.95m 1H19), mainly due to a significant customer default not provisioned as it refers to a public entity which is expected to be received before the end of the year.

Net debt remains below EUR1m thanks to the Company's strong liquidity position.

Gigas maintains its positive outlook for the future due to the increasing demand for cloud services and the recent acquisition realised will open new markets and reduce exposure to LatAm, which is currently the Comany's main handicap.



Gigas Hosting: Summary tables

PROFIT & LOSS (EURm)	12/2017	12/2018	12/2019	12/2020e	12/2021e	12/2022e
Sales	5.9	8.7	10.2	11.7	13.4	15.0
Cost of Sales & Operating Costs	-5.4	-7.1	-7.7	-8.6	-9.8	-10.9
Non Recurrent Expenses/Income	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	0.6	1.6	2.5	3.1	3.6	4.1
EBITDA (adj.)*	0.6	1.6	2.5	3.1	3.6	4.1
Depreciation	-1.0	-1.5	-1.8	-2.0	-2.3	-2.6
EBITA	-0.4	0.1	0.7	1.1	1.4	1.6
EBITA (adj)*	-0.4	0.1	0.7	1.1	1.4	1.6
Amortisations and Write Downs	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	-0.4	0.1	0.7	1.1	1.4	1.6
EBIT (adj.)*	-0.4	0.1	0.7	1.1	1.4	1.6
Net Financial Interest	-0.2	-0.4	-0.4	-0.3	-0.3	-0.2
Other Financials	0.0	0.0	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.0	0.0
Other Non Recurrent Items	0.0	0.0	0.0	0.0	0.0	0.0
Earnings Before Tax (EBT)	-0.6	-0.3	0.3	0.8	1.1	1.3
Tax	0.1	0.1	-0.1	-0.2	-0.3	-0.3
<i>Tax rate</i>	<i>22.9%</i>	<i>43.0%</i>	<i>20.4%</i>	<i>25.0%</i>	<i>25.0%</i>	<i>25.0%</i>
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit (reported)	-0.5	-0.1	0.2	0.6	0.8	1.0
Net Profit (adj.)	-0.5	-0.1	0.2	0.6	0.8	1.0
CASH FLOW (EURm)	12/2017	12/2018	12/2019	12/2020e	12/2021e	12/2022e
Cash Flow from Operations before change in NWC	0.5	1.4	2.0	2.6	3.1	3.6
Change in Net Working Capital	-0.1	-0.4	-0.4	0.1	0.1	0.1
Cash Flow from Operations	0.4	1.0	1.7	2.7	3.2	3.7
Capex	-1.2	-2.6	-2.3	-1.2	-1.3	-1.5
Net Financial Investments	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	-0.8	-1.6	-0.7	1.5	1.9	2.2
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Other (incl. Capital Increase & share buy backs)	-0.1	-1.2	-0.6	-0.2	-0.6	-1.1
Change in Net Debt	-1	-3	-1	1	1	1
NOPLAT	-0.3	0.1	0.5	0.8	1.0	1.2
BALANCE SHEET & OTHER ITEMS (EURm)	12/2017	12/2018	12/2019	12/2020e	12/2021e	12/2022e
Net Tangible Assets	2.3	3.0	3.1	2.5	1.8	1.1
Net Intangible Assets (incl. Goodwill)	1.3	4.0	5.9	6.5	7.5	8.8
Net Financial Assets & Other	2.3	2.4	2.5	2.5	2.5	2.5
Total Fixed Assets	6.0	9.5	11.4	11.5	11.8	12.4
Inventories	0.0	0.0	0.0	0.0	0.0	0.0
Trade receivables	0.9	1.6	2.4	2.4	2.4	2.4
Other current assets	0.2	0.3	0.4	0.4	0.4	0.3
Cash (-)	-1.6	-2.2	-1.6	-1.6	-1.6	-1.6
Total Current Assets	2.8	4.0	4.4	4.4	4.4	4.3
Total Assets	8.7	13.5	15.9	15.9	16.1	16.7
Shareholders Equity	4.1	5.1	5.1	5.6	6.4	7.3
Minority	0.0	0.0	0.0	0.0	0.0	0.0
Total Equity	4.1	5.1	5.1	5.6	6.4	7.3
Long term interest bearing debt	1.9	2.0	4.1	3.7	3.4	3.1
Provisions	0.0	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.1	2.5	2.3	2.2	2.1	2.0
Total Long Term Liabilities	2.0	4.5	6.4	5.9	5.5	5.1
Short term interest bearing debt	1.6	2.4	1.1	1.0	0.9	0.8
Trade payables	0.4	0.7	1.2	1.3	1.4	1.5
Other current liabilities	0.6	0.8	1.9	1.9	1.9	1.9
Total Current Liabilities	2.6	3.9	4.3	4.3	4.3	4.3
Total Liabilities and Shareholders' Equity	8.7	13.5	15.9	15.9	16.1	16.7
Net Capital Employed	6.4	10.3	12.6	12.6	12.8	13.3
Net Working Capital	0.5	0.8	1.2	1.1	1.0	0.9
GROWTH & MARGINS	12/2017	12/2018	12/2019	12/2020e	12/2021e	12/2022e
<i>Sales growth</i>	<i>23.0%</i>	<i>46.0%</i>	<i>17.8%</i>	<i>14.5%</i>	<i>14.8%</i>	<i>11.8%</i>
EBITDA (adj.)* growth	n.m.	184.5%	55.1%	23.7%	17.5%	13.7%
EBITA (adj.)* growth	n.m.	n.m.	648.5%	63.2%	22.4%	16.8%
EBIT (adj.)* growth	n.m.	n.m.	648.5%	63.2%	22.4%	16.8%



Gigas Hosting: Summary tables

GROWTH & MARGINS	12/2017	12/2018	12/2019	12/2020e	12/2021e	12/2022e
Net Profit growth	n.m.	n.m.	n.m.	185.5%	33.6%	22.8%
EPS adj. growth	n.m.	n.m.	n.m.	185.5%	15.0%	22.8%
DPS adj. growth						
EBITDA (adj)* margin	9.5%	18.6%	24.5%	26.5%	27.1%	27.5%
EBITA (adj)* margin	-7.5%	1.0%	6.6%	9.5%	10.1%	10.5%
EBIT (adj)* margin	n.m.	1.0%	6.6%	9.5%	10.1%	10.5%
RATIOS	12/2017	12/2018	12/2019	12/2020e	12/2021e	12/2022e
Net Debt/Equity	0.5	0.4	0.7	0.6	0.4	0.3
Net Debt/EBITDA	3.2	1.3	1.5	1.0	0.7	0.6
Interest cover (EBITDA/Fin.interest)	2.9	4.6	6.1	10.8	14.0	17.4
Capex/D&A	118.7%	170.5%	126.8%	58.8%	58.8%	58.8%
Capex/Sales	20.2%	29.9%	22.6%	10.0%	10.0%	10.0%
NWC/Sales	7.8%	9.5%	11.8%	9.5%	7.4%	5.9%
ROE (average)	-11.5%	-3.3%	4.2%	11.4%	13.7%	14.8%
ROCE (adj.)	-8.1%	0.9%	5.0%	8.2%	9.9%	11.0%
WACC	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%
ROCE (adj.)/WACC	-0.9	0.1	0.5	0.9	1.1	1.2
PER SHARE DATA (EUR)***	12/2017	12/2018	12/2019	12/2020e	12/2021e	12/2022e
Average diluted number of shares	4.3	4.3	4.3	4.3	5.0	5.0
EPS (reported)	-0.11	-0.03	0.05	0.14	0.16	0.20
EPS (adj.)	-0.11	-0.03	0.05	0.14	0.16	0.20
BVPS	0.95	1.17	1.19	1.31	1.27	1.45
DPS	0.00	0.00	0.00	0.00	0.00	0.00
VALUATION	12/2017	12/2018	12/2019	12/2020e	12/2021e	12/2022e
EV/Sales	2.8	3.5	3.2	2.6	2.2	2.0
EV/EBITDA	29.5	18.7	13.2	9.8	8.2	7.1
EV/EBITDA (adj.)*	29.8	18.7	13.2	9.8	8.2	7.1
EV/EBITA	-38.2	333.3	48.8	27.4	22.1	18.7
EV/EBITA (adj.)*	-37.8	333.3	48.8	27.4	22.1	18.7
EV/EBIT	n.m.	n.m.	48.8	27.4	22.1	18.7
EV/EBIT (adj.)*	n.m.	n.m.	48.8	27.4	22.1	18.7
P/E (adj.)	n.m.	n.m.	n.m.	44.2	38.4	31.3
P/BV	3.7	5.6	5.7	4.8	5.0	4.3
Total Yield Ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV/CE	4.1	3.9	3.3	3.0	2.9	2.7
OpFCF yield	-5.3%	-5.7%	-2.2%	5.6%	6.9%	8.0%
OpFCF/EV	-4.7%	-5.3%	-2.0%	5.0%	6.3%	7.3%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend yield (gross)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV AND MKT CAP (EURm)	12/2017	12/2018	12/2019	12/2020e	12/2021e	12/2022e
Price** (EUR)	3.48	6.50	6.82	6.30	6.30	6.30
Outstanding number of shares for main stock	4.3	4.3	4.3	4.3	4.3	4.3
Total Market Cap	15.0	28.1	29.5	27.2	27.2	27.2
Gross Financial Debt (+)	3.5	4.3	5.2	4.7	4.3	3.9
Cash & Marketable Securities (-)	-1.6	-2.2	-1.6	-1.6	-1.6	-1.6
Net Financial Debt	1.8	2.1	3.6	3.2	2.7	2.3
Lease Liabilities (+)						
Net Debt	1.8	2.1	3.6	3.2	2.7	2.3
Other EV components	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise Value (EV adj.)	16.9	30.2	33.1	30.4	29.9	29.6

Source: Company, GVC Gaesco Valores estimates.

Notes

* Where EBITDA (adj.) or EBITA (adj.) = EBITDA (or EBITA) -/+ Non Recurrent Expenses/Income and where EBIT (adj.) = EBIT -/+ Non Recurrent Expenses/Income - PPA amortisation

**Price (in local currency): Fiscal year end price for Historical Years and Current Price for current and forecasted years

***EPS (adj.) diluted = Net Profit (adj.)/Avg DIL. Ord. (+ Ord. equivalent) Shs. EPS (reported) = Net Profit reported/Avg DIL. Ord. (+ Ord. equivalent) Shs.

Sector: Software & Computer Services/Computer Services

Company Description: Gigas Hosting was founded in 2011 and provides technology services and hosting, internet domains, application hosting, and consulting and connectivity. Its products and solutions include cloud datacenter, cloud virtual private server, contingency solution, system applications products certified platform, and cloud server for oracle. It also engages in marketing of computer hardware, development and creation of applications, and technology consulting services; and providing services and advices in technology, marketing, advertising, and graphic design.



Information regarding Market Abuse and Conflicts of Interests and recommendation history available in our web page: www.valores.gvcgaesco.es and our offices

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Recommendation history for GIGAS HOSTING

Date	Recommendation	Target price	Price at change date
31-Mar-20	Buy	9.86	4.50
03-Dec-19	Buy	10.47	6.24
28-May-19	Buy	10.00	6.74
15-Apr-19	Buy	9.10	6.80
05-Feb-19	Buy	8.30	6.60
22-Jan-19	Accumulate	8.30	7.10

Source: Factset & ESN, price data adjusted for stock splits.

This chart shows GVC Gaesco Valores continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. Current analyst: Juan Peña (since 24/10/2019)



ESN Recommendation System

The ESN Recommendation System is **Absolute**. It means that each stock is rated based on **total return**, measured by the upside/downside potential (including dividends and capital reimbursement) over a **12-month time horizon**. The final responsible of the recommendation of a listed company is the analyst who covers that company. The recommendation and the target price set by an analyst on one stock are correlated but not totally, because an analyst may include in its recommendation also qualitative elements as market volatility, earning momentum, short term news flow, possible M&A scenarios and other subjective elements.



The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: **Buy (B)**, **Accumulate (A)**, **Neutral (N)**, **Reduce (R)** and **Sell (S)**.

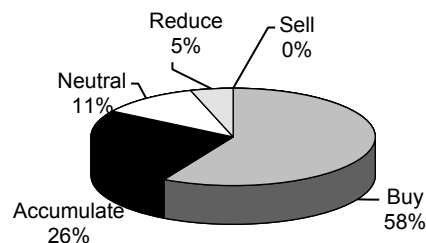
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- **Buy:** the stock is expected to generate total return of **over 15%** during the next 12-month
- **Accumulate:** the stock is expected to generate total return of **5% to 15%** during the next 12-month
- **Neutral:** the stock is expected to generate total return of **-5% to +5%** during the next 12-month
- **Reduce:** the stock is expected to generate total return of **-5% to -15%** during the next 12-month
- **Sell:** the stock is expected to generate total return **under -15%** during the next 12-month
- **Rating Suspended:** the rating is suspended due to: a) a capital operation (take-over bid, SPO, etc.) where a Member of ESN is or could be involved with the issuer or a related party of the issuer; b) a change of analyst covering the stock; c) the rating of a stock is under review by the Analyst.
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Note: a certain flexibility on the limits of total return bands is permitted especially during higher phases of volatility on the markets

GVC Gaesco Valores, S.V., S.A. Ratings Breakdown



For full ESN Recommendation and Target price history (in the last 12 months) please see ESN Website [Link](#)

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