

## Investment Research - Executive Summary: Gigas Hosting (MAB:GIGA)

Gigas Hosting, S.A. is the parent company of a consolidated group of companies formed in 2011 and which specialises in the field of Infrastructure as a Service (IaaS). Gigas performs its business in a market where major players such as Amazon, Microsoft, Alibaba or Google open up opportunities for a long list of small and medium companies also of a technological nature or linked to the telecommunications industry.

First of all, Gigas bought SVT, whose operations were concentrated in the Spanish market, and then issued convertible bonds in favour of the investment group Inveready. This led to an update of the company's financial analysis in March this year. The entry of Inveready was the lever for the second corporate operation of Gigas: the acquisition of the Colombian company Ability.

This strategy has had a direct impact on the group's growth, which up to now had only occurred through the organic acquisition of users. The ability to integrate past and any future acquisitions may accelerate the development of the company's business plan. The portfolio of the new companies, plus Gigas' own accounts, totals 3,963 users divided into two main lines of business:

- Cloud VPS service (low-end). At the end of the first half of 2018, there were a total of 3,264 users and with an average ARPU of 26.6 euros, according to the latest data presented by the company.
- Cloud Datacenter service (high-end). With 699 active clients at the end of the first half of 2018 and an average monthly ARPU of 1,138 euros, according to the latest data reported to the market by the company.

Gigas' business model of cloud services is capital intensive and requires a significant expenditure in salesforce resources. The payback is less than 6 months. In consideration, the main asset is the portfolio of clients - national and international - that guarantees recurring income in the upcoming years. The know-how and the technological platform providing these services are other company assets to be taken into account.

Gigas has managed to secure more than 8.5 million euros of financial resources since 2011. This capital has been allocated mainly to server infrastructure, the development of its technological platform and its entry into the Spanish-speaking market. The financing operation with Inveready has provided a total of 2.5 million euros that the company has allocated to consolidating its presence in Spain and in Colombia through the completed acquisitions.

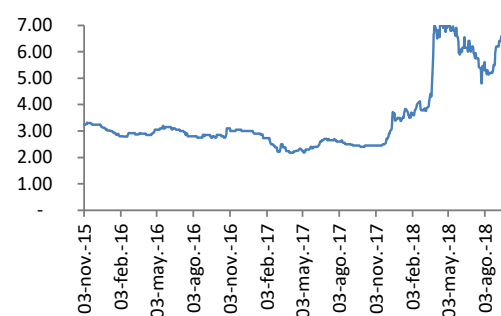
### Market Data

<b>Ticker</b>	GIGA
<b>ISIN</b>	ES0105093001
<b>Sector</b>	Cloud
<b>Market</b>	MAB
<b>Price (28/09/2018 - 18:00)</b>	6,10 €
<b>Shares Issued</b>	4.322.318
<b>Market Cap.</b>	26.366.139,80 €
<b>Annual Yield (2018)</b>	81,03%
<b>Target Price</b>	6,33 €
<b>Potential</b>	<b>3,69%</b>

### Forecasts

(Miles of €)	'18E	'19E	'20E	'21E	'22E
<b>Revenues</b>	9.473	11.861	13.703	15.910	18.499
<b>% Growth</b>	56%	26%	16%	16%	17%
<b>EBITDA</b>	1.573	2.374	3.012	3.657	5.085
<b>Margin</b>	17%	20%	22%	23%	28%
<b>EBIT</b>	269	871	1.297	1.716	2.904
<b>Margin</b>	3%	7%	10%	11%	16%
<b>Net Income</b>	25	407	712	1.016	1.935
<b>Margin</b>	0%	4%	5%	6%	11%
<b>EPS</b>	0,01	0,09	0,16	0,24	0,45

### Gigas Stock Price Performance



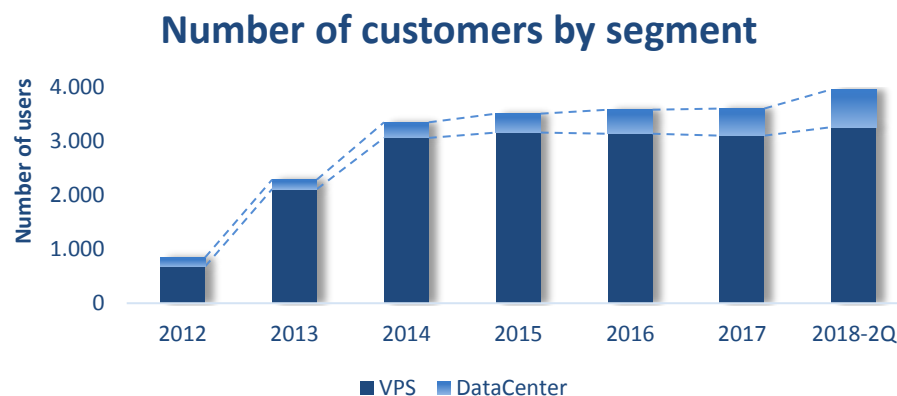
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## Business model key highlights

- Gigas is a pure player, i.e. a company that has invested in the cloud sector from scratch. As in the case of Iomart, GoDaddy or Rackspace, it is a company dedicated solely to providing cloud-based services.
- In 2017, the industry leader Amazon Web Services had a turnover of 17.459 million dollars, followed by Microsoft and Alibaba. According to Gartner, the list of small companies (which includes Gigas) has a market share of 25%, compared to Amazon's 51.8%.
- Gigas provides Infrastructure as a Service (IaaS) mainly to Spanish-speaking customers through two different services: Cloud VPS and Cloud Datacenter. The Cloud VPS brand corresponds to the low-end range of services. The Cloud Datacenter brand corresponds to the high-end range of IaaS services. As well as being a model geared directly towards companies, Datacenter delivers better profits in exchange for a higher price.



Source: Gigas Annual Financial Report

- To undertake its activities, Gigas uses a mix of investment into hardware, such as servers, routers and data storage equipment, and payment for services to third parties.

## Recent milestones achieved

- In 2017, Gigas announced the entry of the Spanish investment group Inveready as the company's future lender. Inveready contributed a total of 2.5 million euros by issuing convertible bonds.
- The injection of 2.5 million euros will for Gigas be a resource to make corporate acquisitions nationally and internationally and to accelerate the company's non-organic growth.
- On 11 January 2018, Gigas announced the acquisition of 100% of the Spanish provider SVT Hosting, which was the first corporate acquisition in its history and will help bolster its presence in the SME cloud market.
- Gigas integrated SVT's technology and user base, but excluded the security services business unit that it had provided up to then. SVT closed the year 2017 with sales of 830,000 euros and positive EBITDA and Gigas will pay 665,000 euros in full.

- On 22 May 2018, Gigas bought 100% of the capital of Ability, a Colombian company that also provides cloud hosting services. For this, Gigas will pay a fixed amount of 1.66 million euros between the years 2018 and 2019, drawing on its own resources along with a financing operation from the Inveready group.
- Ability recorded a turnover of 1.59 million euros in 2017, with a user model similar to the Gigas Datacenter segment. These amounts were equivalent to an EBITDA of 400,000 euros.

## Financial key points

- Gigas had a gross turnover of 7 million euros in 2017, as a result of the cloud hosting services provided to companies and individuals. The net turnover derived from these sales reached 5.95 million euros, a 23% increase with respect to the results for 2016.
- In the first half of 2018, the company recorded a turnover of 4.61 million euros and a sales volume of 3.94 million euros.
- The Cloud VPS and Cloud Datacenter services remain the two main sources of revenue. This second segment, with a total of 699 accounts as of 30 June, accounts for more than 85% of the company's revenue. The Cloud VPS segment, with 3,264 registered users, along with other services such as backup, generate the remaining turnover.
- In terms of average revenue per user (ARPU), Cloud Datacenter sales reached 1,138 euros per user at the end of the first half of 2018. This translates as 6.2% more than at year-end 2017. In contrast, the ARPU of Cloud VPS reached 26.6 euros, 90 cents more per account.
- Taking into account the impact of these corporate transactions, along with the organic evolution of the business, we estimate for 2018E an 18.81% increase in gross sales and a 23% increase in net turnover. And with the majority of revenue coming from the Cloud Datacenter service, accounting for 92% of the total.
- The forecast for the upcoming years is an improvement in ARPU for both segments. Greater in absolute terms in the case of the Cloud Datacenter, at 344.99 euros, but similar in relative terms. The average annual growth of the Cloud Datacenter is set to reach 5.8%, while the average ARPU growth of the Cloud VPS would be 5.2%.
- For 2018E, an EBITDA profit of 1.6 million euros is forecast. This substantial increase, with respect to the previous year, will be due to the recent acquisition of the two companies and the growth of its sales.
- For 2022E, an EBITDA of 5.09 million euros is forecast, equivalent to an annual growth rate of 54.8%, with a margin on net turnover of 27.89%.
- According to our estimates, the company will invest around 11.7 million euros into capital investment. This is equivalent to an expenditure of 1.95 million euros per year. Of these outgoings, more than 2 million euros corresponds to the cash payment for the purchases of SVT and Ability. This is once the initial payments have been added, plus those dependent on the evolution of the results (earn outs), which will take place over the next five years.
- Up to 2022E, Gigas should accumulate 7.64 million euros in loan applications, combined with the liabilities acquired with its bondholders. Throughout this period, it should return around 5.6 million euros. At year-end 2021E, the accumulated financial debt of the group should amount to 5.57 million euros.
- The analysis estimates that the company will record net profits in the 2018E period, for the first time in its history.

- Cash flow forecasts suggest that in 2018 and 2019 Gigas will obtain a positive gross cash flow of 1.6 million euros and 2.4 million euros respectively. From the year 2020 onwards, the company should reach the break even in terms of free cash flow at 921,688 euros.

5 years Cash flow in Euros	2018E	2019E	2020E	2021E	2022E
<b>Gross Cash Flow</b>	1.572.839	2.373.648	3.011.841	3.657.297	5.085.164
<b>Free Cash Flow</b>	-1.514.765	247.614	920.688	1.341.161	3.075.162

Source: Mabilia Estimates

## Gigas Value

- The target value of Gigas is the result of the average of two different methods: the valuation by Discounted Cash Flow (DCF) and the calculation of the Potential User Value (PUV).
- The DCF method determines the current value of the cash flows that the company will generate by discounting them at a rate that reflects the cost of paid-in capital. The result of this calculation gives an equity value of 24.82 million euros. This is equivalent to a target price of 5.74 euros per share, giving a discount of 5.87%, with respect to the price of the company at the date of drafting the report.
- For the previous calculation, the following variables were taken into account:

Valuation Method Variables	DCF - 2018
<b>Beta Coefficient</b>	1
<b>(Ke)</b>	9,27%
<b>WACC</b>	8,13%
<b>(g%)</b>	1,5%
<b>Net Financial Debt</b>	3.603.115 €

- The PUV method takes into account the potential revenue margin of current Gigas users in the Cloud VPS and Cloud Datacenter segments, depending on their life cycle. This method provides a valuation of the client portfolio. The result of this calculation gives an equity value of 29.86 million euros. This is equivalent to a target price of 6.91 euros per share, giving a revaluation potential of 13.24%, with respect to the price of the company at the date of drafting the report.

Potential Users Value	Users	Years	PUV
<b>Cloud VPS</b>	3.264	2,82	484 €
<b>Cloud Datacenter</b>	699	6,61	33.333 €

- The average of the two methods yields an equity value of 27.34 million euros, a target price of 6.33 euros per share, and a revaluation potential of 3.69%, with respect to the value of the company at the date of drafting the report.

### **Business model risk factors**

- Capability to uphold the growth rate
- Execution and integration of corporate acquisitions
- Increase in the number of shares and dilution effect
- Capital needs and costs
- Market and currency risk
- Management team and key personnel
- Third-party dependence
- Competition in the cloud sector

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## History of Gigas analysis reports

Mabia publishes annual analytical reports about the company Gigas, with a time frame of 12 months, if there is no significant update to the company's business model. Reports will be published in relation to strategic decisions that involve a significant change in the company's forecasts.

The following table corresponds to the analytical history published to date:

Date	Target Price	Market Price	Document
2016/10/06	4,26 €	3,10 €	<a href="#">Annual Analysis</a>
2017/09/01	3,78 €	2,50 €	<a href="#">Annual Analysis</a>
2018/03/16	4,67 €	4,14 €	<a href="#">Annual Analysis update</a>
2018/10/01	6,33 €	6,10 €	Annual Analysis