

Bittnet Systems

2Q23 Results Review

Opinion: The results reported after the close on Friday Aug 25 missed our expectations with a negative net profit of RON 2.7mn in earnings for 2Q23 (vs our expectation of a RON 0.5mn loss). Total revenue in 2Q23 increased to RON 94.9mn (+155% y/y and +76% q/q), above our expectation of RON 54.5mn. Management reiterated its revenue target of RON 500mn (EUR 100mn) by the end of 2024, with the latest mentions that this revenue target could now be achieved only from organic growth instead of M&A and management would start focusing more on operational profitability. After its semi-annual review on August 18, FTSE Russell maintained Bittnet shares as part of the FTSE Global Micro Cap index.

Results in 2Q23: per **Figure 1** the group recorded total consolidated revenues of RON 94.9mn, (+155% y/y, +76% q/q) and 74% above our expectations mostly due to a revenue increase of the technology division of RON 89.5mn (+198% y/y, +76% q/q). The education division derived RON 3.0mn in revenues in 2Q23 (-56% y/y, +9% q/q) as clients temporarily blocked training budgets until they understood the full macroeconomic context and the impact on their organisations. The group incurred higher costs: Sales cost (+202% y/y, 72% q/q) and especially administrative expenses, (+130% y/y, +45% q/q) due mostly to a higher rent at its new headquarters. As a result of the much higher costs, the group registered a loss of income of RON 2.67mn in 2Q23, lower than our estimate of a RON 0.5mn loss.

Results in 1H23: per **Figure 2** the group recorded total revenues of RON 149.2mn (+113% y/y). Due to higher costs on sales (+137% y/y), selling expenses (+41.9% y/y) and G&A (+96% y/y), the company incurred a much higher loss in 1H23 of RON 5.4mn (1H22: a loss of RON 1.15mn).

Outlook: In April 2023 at its annual "Investor Day", management announced it would start focusing on operational profitability, ahead of reaching its revenue target of RON 500mn. This process is a medium-term one and its effects should be seen in time, given the long sales cycles of six to nine months, specific to this industry combined with the long lead times (of three to six months).

The income and expenditure budget approved at the end of April 2023 by the shareholders reflect this transition towards increased profitability, with a slowdown in the pace of turnover growth but a doubling of EBITDA from RON 8.5mn in 2022 to RON 18mn targeted for 2023.

Romania's information and communications technology (ICT) sector may double or even quadruple in size by 2025. The consultants from McKinsey provide a base case scenario with growth of EUR 16bn by the year 2025 (representing a CAGR of 16.5%) and an upside case with growth of EUR 40bn by 2025 (or a CAGR of 31%). Representatives of the Romanian software industry association (ANIS) stated in December 2020 that the local IT industry's objectives for Digital Romania in 2025 are for the ICT sector to reach 10% of GDP, from approximately 6% currently. In its 2019 DESI report, the European Commission placed Romania among the lowest-ranked countries in terms of business digitization. This highlights the gap that Romania has to close with the more developed, and even emerging, but digitized markets.

Telecoms, Media & IT, Romania

Bittnet Systems

BUY

FV RON 0.42

54% upside

Price as of 25 Aug 2023 RON 0.259

Important disclosure

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Figure 1. Bittnet - 2Q23 results summary

Type of expense/revenue RON '000	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	Y/Y	Q/Q	IPOP 2Q23E	Act vs. IPOP
Education	2,069	3,696	2,341	6,271	4,569	6,808	4,059	5,049	2,750	3,009	-56%	9%		
Technology	18,135	24,269	31,439	27,274	28,560	29,996	36,995	76,696	50,810	89,483	198%	76%		
Other revenues	104	174	3,187	-2,296	165	397	686	2,234	687	2,483	525%	262%		
Total revenue (+ "other")	20,308	28,139	36,967	31,249	33,013	37,202	41,739	83,979	54,246	94,976	155%	75%	54,500	74.3%
Sales cost	-16,191	-21,411	-26,479	-24,101	-26,353	-25,703	-32,630	-65,592	-44,976	-77,531	202%	72%		
Selling expenses	-2,058	-2,207	-2,274	-3,009	-2,779	-3,171	-3,158	-4,685	-3,892	-4,553	44%	17%		
G&A expenses	-3,036	-2,891	-3,414	-4,859	-4,319	-5,122	-6,106	-11,175	-8,123	-11,769	130%	45%		
Total operating expenses	-21,285	-26,509	-32,167	-31,969	-33,451	-33,995	-41,894	-81,452	-56,991	-93,854	176%	65%		
Operating profit	-977	1,631	4,800	-720	-438	3,207	-155	2,527	-2,745	1,122	-65%	nmf	500	124.4%
Profit/(loss) eq securities	185	262	207	118	-28	121	25	156	-13	-5	-104%	-58%		
Interest/financial income	1,246	1,362	4,533	4,951	-2,292	115	-1,266	123	1,052	-1,454	nmf	nmf		
Financial expenses	-990	-679	-809	-518	-816	-829	-1,188	-1,470	-1,614	-1,783	115%	10%		
PBT	-536	2,575	8,731	3,831	-3,573	2,613	-2,584	1,336	-3,319	-2,120	nmf	-36%		
Income tax	32	-489	-563	-562	235	-112	-214	188	578	-546	386%	nmf		
NET PROFIT (LOSS)	-504	2,086	8,168	3,270	-3,338	2,501	-2,798	1,523	-2,741	-2,667	nmf	nmf	-500	
Net profit margin	-2.5%	7.4%	22.1%	10.5%	-10.1%	6.7%	-6.7%	1.8%	-5.1%	-2.8%			-0.9%	

Source: Company, IPOPEMA Research

Figure 2. Bittnet – 1H23 results vs 1H22

Type of expense/revenue RON '000	1H22	1H23	YoY (%)
Education	11,377	5,759	-49.4%
Technology	58,105	140,293	141.4%
Other revenues	561	3,170	465.0%
Total revenue (+ other)	70,044	149,222	113.0%
Sales cost	-51,605	-122,507	137.4%
Selling expenses	-5,950	-8,445	41.9%
G&A and other expenses	-10,148	-19,892	96.0%
Total operating expenses	-67,703	-150,844	122.8%
Operating profit	2,341	-1,623	-169.3%
Profit/(loss) eq securities	93	-18	-119.2%
Interest/financial income	-2,177	-402	nmf
Financial expenses	-1,645	-3,397	106.5%
PBT	-1,388	-5,439	nmf
Income tax	236	32	nmf
NET PROFIT (LOSS)	-1,153	-5,408	nmf

Source: Company, IPOPEMA Research

Bittnet group components. Following its acquisitions in recent years, Bittnet group has undergone a major development – from a single company operating in two key areas (education and technology) to a group of companies that includes several organizations operating in four areas of interest.

Figure 3. Four pillars: education, cloud & infrastructure, cybersecurity, business app & software.

Education

- Bittnet Training
- Computer Learning Center
- Equatorial Gaming & Equatorial Training
- The eLearning Company

Cybersecurity

- Fort (formerly GRX, Global Resolution Experts)
- GRX Advisory - owned by Fort
- ISEC Associates (to be owned by Fort)

Cloud & Infrastructure

- Dendrio Solutions
- Optimizer (formerly ITPrepared)
- TopTech
- zNet Computers
- Dataware Solutions

Business application & Software

- Elian Solutions
- Nenos Software & Nonlinear

Source: Company, IPOPEMA Research

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Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.

LLP – loan loss provisions – an expense set aside as an allowance for bad loans.

NPL – non-performing loan – loans that are in default or close to be in default.

Cost/Income – operating expenses divided by total banking revenue.

ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.

ROA – return on assets – net income (or adjusted net income) divided by the average assets.

EBIT – earnings before interests and tax.

EBITDA – earnings before interests, tax, depreciation and amortization.

EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding.

P/E – price to earnings ratio – price divided by earnings per share.

PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.

CAGR – compound annual growth rate.

BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.

P/BV – price to book value - price divided by the BVPS.

DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.

DY – dividend yield – dividend of a given year divided by the current price.

DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.

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Hold	21	21%
Sell	7	7%
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Rating History – Bittnet Systems

Date	Recommendation	Fair Value	Price at recommendation	Author
03/24/2021	BUY	RON0.88	RON0.698	Florin Ciocoi
07/22/2021	BUY	RON0.47	RON0.36	Florin Ciocoi
11/15/2021	BUY	RON0.42	RON0.32	Florin Ciocoi
06/24/2022	BUY	RON0.38	RON0.305	Florin Ciocoi
06/30/2023	BUY	RON0.42	RON0.291	Florin Ciocoi