

Bittnet Systems

2Q24 Results Review

Bittnet reported a net profit of RON 3.5, against a net loss of RON 9.1m in 1Q24 and a RON 3.7m loss in 2Q23, significantly above our expectations of RON 1.2m profit, due to substantially higher sales compared to our expectations, primarily attributed to unblocking an unexpected RON 60m from a RON 260m pipeline of projects. These results were mainly driven by:

- **Revenues:** Total revenues reached RON 132.1m (+199% q/q, +43% y/y), 48.3% above our expectations of RON 89.1m, mainly due to RON 60m from a RON 260m pipeline of projects in the digital infrastructure and business apps pillars.
- **Cost of sales:** Total cost of sales reached RON 105.3m (+188% q/q, +36% y/y), 51.7% above our expectations of RON 69.4m, following revenue growth. The increase in cost of sales is also mostly attributed to the digital infrastructure and business apps pillars.
- **Gross profit:** The company reported a gross profit of RON 26.8m (+253% q/q, +79% y/y), 36.1% above our expectations of RON 19.7m, bringing the gross margin to 20.3%, vs 17.2% q/q and 16.2% y/y.
- **OPEX:** Operating expenses reached RON 17.7m (+9% q/q, +8% y/y), 3.3% above our expectations of RON 17.1m, being driven by higher selling expenses as well as higher general and administrative expenses.
 - **Selling** expenses amounted to RON 5.3m (+3% q/q, +16% y/y), 5.7% below our expectations of RON 5.6m.
 - **General and administrative expenses** reached RON 12.3m (+11% q/q, +6% y/y), 7.1% above our expectations of RON 11.5m.
 - **Other OPEX** were of RON 0.0m.
- **Other operating income** reached RON 11.0m (+431% q/q, -27% y/y), significantly above our expectation of RON 0.4m.
- **Operating income:** Reached RON 11.0m in 2Q24, compared to RON 8.3m loss in 1Q24 and RON 1.1m profit in 2Q23, above our expectations of a RON 3.0m profit. The company's operating margin was of 8.3% against -18.7% in the previous quarter and 1.2% in 2Q23, and against our expectations of 3.3%.
- **EBITDA:** Reached negative RON 14.8m in 2Q24, compared to negative RON 7.0m last quarter and positive RON 2.2m in 2Q23, above the expectations of RON 5.0m, bringing the margin to 11.2%, vs -15.8% in 1Q24 and 2.4% in 2Q23.
- **Net financial loss:** Came in at RON 3.2m (+10% q/q, flat y/y), above our expectations of RON 1.4m.
- **Tax expense:** The company reported a tax expense of RON 2.2m, against our expectations of RON 0.2m.
- **Net profit:** The company reported a net profit of RON 3.5m, compared to a RON 9.1m loss q/q and RON 3.7m loss y/y, and against RON 1.2m profit our expectations. The company's net margin stood at 2.6% in 2Q24.

Opinion: Positive. We were expecting the second quarter to come with improved results in the top and bottom lines, however, the substantial RON 60m sales contribution from the digital infrastructure (and RON 11.0m operating profit in this division in 2Q24) and business apps pillars greatly exceeded our expectations for the quarter, while the operating expenses were mainly close to what we anticipated. However, we remain somewhat cautious, given the mixed track record of results over the last two years.

Telecom, Media & IT

Bittnet Systems

BUY

FV RON 0.28

45.5% upside

Price as of 2 September 2024 RON 0.1925

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Analyst

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Figure 1. Bittnet Systems - 2Q24 results

P &L (RON m)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	Y/Y	Q/Q	IPOPvs IPOP
Revenue	33.1	36.8	41.1	81.2	53.6	92.5	132.0	97.4	44.1	132.1	43%	199%	89.1 48%
Cost of sales	-26.6	-25.4	-32.6	-64.7	-45.0	-77.5	-111.5	-75.4	-36.5	-105.3	36%	188%	-69.4 52%
Gross profit	6.5	11.4	8.4	16.4	8.6	15.0	20.5	22.1	7.6	26.8	79%	253%	19.7 36%
Other operating income	0.2	0.4	0.7	2.2	0.7	2.5	1.6	0.4	0.3	1.8	-27%	431%	0.4 406%
Selling expenses	-2.8	-3.2	-3.2	-4.7	-3.9	-4.6	-4.8	-5.2	-5.1	-5.3	16%	3%	-5.6 -6%
General and administrative expenses	-4.2	-5.2	-6.1	-9.5	-8.0	-11.6	-10.8	-11.2	-11.1	-12.3	6%	11%	-11.5 7%
Other operating expenses	0.0	0.0	0.0	-2.1	-0.1	-0.2	-0.1	-0.4	0.0	0.0	N/A	N/A	0.0 N/A
Income from equity holdings	0.0	0.1	0.0	0.2	0.0	0.0	-0.1	0.1	0.0	0.0	N/A	N/A	0.0 N/A
Operating profit	-0.4	3.5	-0.1	2.5	-2.8	1.1	6.3	5.8	-8.3	11.0	881%	N/A	3.0 269%
Financial income	-2.3	0.1	-1.3	0.1	1.1	-1.5	-1.1	0.0	-1.6	-1.4	-3%	-10%	0.0 N/A
Financial expenses	-0.8	-0.8	-1.2	-1.5	-1.6	-1.8	-1.9	-1.8	-1.4	-1.8	2%	32%	-1.4 29%
Net financial income	-3.1	-0.7	-2.5	-1.4	-0.6	-3.2	-3.0	-1.8	-2.9	-3.2	0%	10%	-1.4 129%
Profit before taxes	-3.5	2.8	-2.6	1.2	-3.3	-2.1	3.4	3.9	-11.2	7.7	N/A	N/A	1.6 396%
Tax expense	0.2	-0.1	-0.2	0.0	0.6	-0.5	-0.2	-0.7	1.5	-2.2	310%	N/A	-0.2 N/A%
Net profit before minorities	-3.3	2.7	-2.8	1.2	-2.7	-2.7	3.1	3.2	-9.7	5.5	N/A	N/A	1.0 433%
Minorities	0.6	1.5	0.3	0.8	0.1	1.1	2.1	2.2	-0.6	2.0	91%	N/A	0.2 N/A
Net profit for the period	-3.8	1.2	-3.1	0.4	-2.8	-3.7	1.0	1.0	-9.1	3.5	N/A	N/A	1.2 190%

Source: Company, IPOPEMA Research

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The definitions of terms used in the document include:

NII - Net interest income - interest income minus interest expense.

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.

FV - Fair Value, calculated based on valuation methods outlined in the document.

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	Number	%
Buy	25	76%
Hold	6	18%
Sell	2	6%
Total	33	100%

Rating History - Bittnet Systems

Date	Recommendation	Fair Value	Price at recommendation	Author
03/24/2021	BUY	RON 0.88	RON 0.698	Florin Ciocoi
07/22/2021	BUY	RON 0.47	RON 0.36	Florin Ciocoi
11/15/2021	BUY	RON 0.42	RON 0.32	Florin Ciocoi
06/24/2022	BUY	RON 0.48	RON 0.305	Florin Ciocoi
06/30/2023	BUY	RON 0.42	RON 0.291	Florin Ciocoi
11/13/2023	BUY	RON 0.28	RON 0.250	Ionut Gavris