

Bittnet Systems

3Q24 Results Review

Bittnet reported a net loss of RON 1.3, against a net profit of RON 3.5m in 2Q24 and a RON 1.0m profit in 3Q24, below our expectations of RON 0.3m loss, due to broadly in-line sales, lower operating expenses, a higher net financial loss, and a tax relief. These results were mainly driven by:

- **Revenues:** Total revenues reached RON 131.9m (flat q/q, flat y/y), 2% below our expectations of RON 134.3m. The backlog of projects now stands at RON 180m.
- **Cost of sales:** Total cost of sales reached RON 113.3m (+8% q/q, +2% y/y), 2% below our expectations of RON 115.0m. 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 18.6m (-31% q/q, -9% y/y), 3% below our expectations of RON 19.3m, bringing the gross margin to 14.1%, vs 20.3% q/q and 15.5% y/y.
- **OPEX:** Operating expenses reached RON 12.2m (-8% q/q, +3% y/y), 12.7% below our expectations of RON 18.5m, being driven by higher selling expenses as well as higher general and administrative expenses.
 - **Selling** expenses amounted to RON 5.1m (-4% q/q, +5% y/y), 16% below our expectations of RON 6.0m.
 - **General and administrative expenses** reached RON 11.1m (-9% q/q, +3% y/y), 11% below our expectations of RON 12.5m.
 - **Other OPEX** were of RON 0.0m.
- **Other operating income** reached RON -0.2m, compared to RON 0.5m our expectation.
- **Operating income:** Reached RON 2.2m in 3Q24, compared to RON 11.0m loss in 2Q24 and RON 6.3m in 3Q23, above our expectations of a RON 1.2m profit. The company's operating margin was of 1.7% against 8.3% in the previous quarter and 4.8% in 3Q23, and against our expectations of 0.9%.
- **EBITDA:** Reached RON 8.7m in 3Q24, compared to RON 11.6m last quarter and RON 7.5m in 3Q23, above our expectations, bringing the margin to 6.6%, vs 8.8% in 2Q24 and 5.6% in 3Q23.
- **Net financial loss:** Came in at RON 3.2m (-2% q/q, +7% y/y), above our expectations of RON 1.9m. The difference is explained by a mark to market adjustment of the Softbinator holding.
- **Tax relief:** The company reported a tax relief of RON 0.2m, against our expectations of a RON 0.2m tax expense.
- **Net loss:** The company reported a net loss of RON 1.3m, compared to a RON 3.5m profit q/q and RON 1.0m profit y/y, and against RON 0.3m loss our expectations. The company's net margin stood at -1.0% in 3Q24 vs 2.6% q/q and 0.8% y/y.

Opinion: Neutral. The top line results were broadly in line with our expectations. The company reported lower q/q operating expenses, and a higher-than-expected operating income. At the same time, there was an additional RON 1.3m financial loss contribution, mainly from mark to market adjustments, as well as a tax relief against our expectation for an expense. All in all, the company's 3Q24 bottom line results were below our expectations, which we find rather uninspiring.

Results conference call: The company did not announce whether it would hold a results conference call or not.

Telecom, Media & IT

Bittnet Systems

BUY

FV RON 0.28

47.36% upside

Price as of 15 November 2024 RON 0.19

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Figure 1. Bittnet Systems – 3Q24 results

P&L (RON m)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	Y/Y	Q/Q	IPOP	vs IPOP
Revenue	33.1	36.8	41.1	81.2	53.6	92.5	132.0	97.4	44.1	132.1	131.9	0%	0%	134.3	-2%
Cost of sales	-26.6	-25.4	-32.6	-64.7	-45.0	-77.5	-111.5	-75.4	-36.5	-105.3	-113.3	2%	8%	-115.0	-2%
Gross profit	6.5	11.4	8.4	16.4	8.6	15.0	20.5	22.1	7.6	26.8	18.6	-9%	-31%	19.3	-3%
Other operating income	0.2	0.4	0.7	2.2	0.7	2.5	1.6	0.4	0.3	1.8	-0.2	N/A	N/A	0.5	N/A
Selling expenses	-2.8	-3.2	-3.2	-4.7	-3.9	-4.6	-4.8	-5.2	-5.1	-5.3	-5.1	5%	-4%	-6.0	-16%
General and administrative expenses	-4.2	-5.2	-6.1	-9.5	-8.0	-11.6	-10.8	-11.2	-11.1	-12.3	-11.1	3%	-9%	-12.5	-11%
Other operating expenses	0.0	0.0	0.0	-2.1	-0.1	-0.2	-0.1	-0.4	0.0	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	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	2.2	-65%	-80%	1.2	79%
Financial income	-2.3	0.1	-1.3	0.1	1.1	-1.5	-1.1	0.0	-1.6	-1.4	-1.3	17%	-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	-1.9	1%	4%	-1.9	1%
Net financial income	-3.1	-0.7	-2.5	-1.4	-0.6	-3.2	-3.0	-1.8	-2.9	-3.2	-3.2	7%	-2%	-1.9	68%
Profit before taxes	-3.5	2.8	-2.6	1.2	-3.3	-2.1	3.4	3.9	-11.2	7.7	-0.9	N/A	N/A	-0.6	46%
Tax expense	0.2	-0.1	-0.2	0.0	0.6	-0.5	-0.2	-0.7	1.5	-2.2	0.2	N/A	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	-0.7	N/A	N/A	-0.8	-10%
Minorities	0.6	1.5	0.3	0.8	0.1	1.1	2.1	2.2	-0.6	2.0	0.6	-72%	-70%	0.6	5%
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	-1.3	N/A	N/A	-0.3	399%

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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Buy	Above 10%
Hold	In between (and including) -10% and 10%
Sell	Below -10%

IPOPEMA Research - Distribution by rating category (1 April – 28 June 2024)

	Number	%
Buy	18	56%
Hold	8	25%
Sell	16	19%
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