

Bittnet Systems

4Q 2021 Results Review

Overall the results in 4Q and 2021 exceeded our expectations. Net profit in 2021 was RON 14.4m (a 12.4% net profit margin) vs our expectation for RON1 0.8mn, an increase of 1,305% YoY (2020: RON 1.0mn and 0.9% net margin).

- Revenue including other income grew 6.4% YoY to RON 116mn, meeting our expectations, due to:
 - The total number of students trained in 2021 by the education division was 4,221, 3% higher than in 2020;
 - The technology division experienced a significant increase in projects generated in 2021 with delayed delivery for 2022 (backlog RON 40mn at the end of 2021 vs RON 5mn at the end of 2020);
- In 2021 the investments made in the previous years paid off - generating significant financial profits

On March 22 2021, Bittnet was included in FTSE indices yet a year later, the company was eliminated most probably as it failed to meet certain monthly liquidity requirements of its shares. The presentation of the annual results, as well as the plans for next years will take place within the "BNET Investor Day" event, scheduled for April 15, 2022.

Romania's 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 information and communications technology (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.

...and the IT professionals in Romania are expected to double, therefore... Of the active civilian population, a figure of 1.9% represents approximately 170,000 ICT specialists. With a talent pool in the business service sector of over 64,000 university graduates and a long-term potential of over 300,000 IT-employees, Romania stands as one of the leading destinations in CEE for Business process outsourcing (BPO), Information Technology Outsourcing (ITO), or Research and development (R&D). Bittnet stands to benefit from this growth through its educational programs targeted at IT professionals.

...we incorporate an overall CAGR of 21.8% for Bittnet over the next five years based on input from Bittnet management (ex. the indicative budget for 2021), our assessment, and other industry experts.

Opinion: Positive. Bittnet continues to be well positioned in a growing sector. We will continue to monitor the way the company readjusts to the ever shifting IT dynamics.

IT, Romania

Bittnet Systems

BUY

FV RON 0.42

31% upside

Price as of 2 March 2022 RON0.32

Important disclosure

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4Q 2021 results

Bittnet Group has three key divisions: Education, technology, and – the newest one – cybertechnology.

Within the education division (which consists of the IT training segment where Bittnet Training is the market leader), The total number of students trained in 2021 was 4,221, 3% higher than in 2020.

Within the technology division (focused on IT integration services; activities through a shared portfolio of products, services and solutions and a larger team) Bittnet recorded a significant increase in projects generated in 2021 with delayed delivery for 2022, generated by the long delivery times of hardware equipment (“backlog”). If backlog at the end of 2020 was RON 5mn, at the end of 2021 it is over RON 40mn.

Figure 1. 4Q 2021 results

Type of expense/revenue RON '000	4Q 2020	3Q 2021	4Q 2021	QoQ (%)	YoY (%)	2020	2021	YoY (%)	Comments
Total revenue (including other income)	31,702	36,967	31,249	-15.5%	-1.4%	109,642	116,661	6.4%	Revenue including other income grew 6.4% YoY, and met our expectations for the year.
Sales cost	-25,089	-26,479	-24,031	-9.2%	-4.2%	-87,725	-88,112	0.4%	
Selling expenses	-2,323	-2,274	-2,996	31.8%	29.0%	-7,508	-9,534	27.0%	
G&A expenses	-2,132	-3,414	-3,396	-0.5%	59.3%	-10,053	-12,737	26.7%	
Total operating expenses	-29,544	-32,167	-30,423	-5.4%	3.0%	-105,286	-110,383	4.8%	
Operating profit	2,158	4,800	826	-82.8%	-100.1%	4,356	6,278	44.1%	The total number of students trained in 2021 by the education division was 4,221, 3% higher than in 2020. The technology division experienced a significant increase in projects generated in 2021 with delayed delivery for 2022 (backlog RON 40mn at the end of 2021 vs RON 5mn at the end of 2020)
Profit/(loss) equivalent securities	131	207	120	-42.0%	-8.4%	-171	775	nmf	
Interest/financial income	1,182	4,533	5,229	15.4%	342.4%	1,319	12,370	837.8%	In 2021, the investments made in previous years paid off - generating significant financial profits
Financial expenses	-1,077	-809	-777	-4.0%	-27.9%	-4,019	-3,255	-19.0%	
PBT	2,394	8,731	5,398	-38.2%	125.5%	1,485	16,168	988.8%	
Income tax	-411	-563	-724			-459	-1,744		
NET PROFIT (LOSS)	960	8,168	4,674	-42.8%	386.8%	1,026	14,424	1305.8%	Net profit increased by 1,396% to RON 14mn, and exceeded our expectations of RON 10.8mn.

Source: Company, IPOPEMA Research

Investments

In Q3/Q4 2021, the company completed five investments:

- **IT Prepared** completed in Q3, which is the first investment in the field of managed infrastructure services;
- **Nenos&Nonlinear**, completed during Q3, which strengthens the company's position in the software development division, while also tackling the artificial intelligence sector.
- **CLC** – consolidating the Education division and expanding the certification portfolio, especially in the cyber security sector.
- **ISEC and GRX** - two transactions that mark a new major stage in the development of Bittnet Group, as with them a new division is established within the Bittnet Group, that of cybersecurity.
- **Cybersecurity division**;

The company is currently in advanced stages of negotiation with three more projects communicated and approved by shareholders – Servodata, Datascript and TopTech. These projects continue the investments made in 2020 in Equatorial, Softbinator and The eLearningCompany.

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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.

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Buy	44	64%
Hold	10	14%
Sell	15	22%
Total	69	100%

Rating History – Bittnet Systems

Date	Recommendation	Fair Value	Price at recommendation	Author
03/24/2021	BUY	RON0.88	RON0.698	Florin-Adrian Ciocoi
07/22/2021	BUY	RON0.47	RON0.36	Florin-Adrian Ciocoi
11/15/2021	BUY	RON0.42	RON0.32	Florin-Adrian Ciocoi