

Bittnet Systems

IT continues to grow; Keep BUY

We maintain BUY with a fair value of RON0.47, 30% upside. Bittnet, a Romanian technology company, is focused on providing IT training to companies through its education division and IT integration services through its technology division. The company stands to benefit from the expected exponential increase of the information and communications technology (ICT) sector by 2025. This would result in an increase in demand for its IT integration services. Also, the number of IT professionals in Romania is expected to double, which would result in increased demand for its training services. On March 22, Bittnet was included in the FTSE Global Micro Cap and FTSE Total-Cap.

Q1 2021 results. The education division recorded a declining result due to postponements in approval of several budgets. In contrast, its technology division registered a solid result. To continue its growth, Bittnet increased its share capital, by RON 16,956,596.

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. We expect the net income to grow by 9.3x from 2021 to 2025, to a sustainable level of 9.7% in 2025E.

Figure 1. Bittnet key financial summary

	2018	2019	2020	2021E	2022E	2023E
Revenues (RON '000)	47,891	99,750	108,617	157,200	216,140	288,243
EBITDA (RON '000)	6,532	2,119	4,751	11,698	14,376	18,148
EBIT (RON '000m)	6,353	-164	2,757	9,671	12,282	15,987
Net profit (RON '000)	4,408	-2,631	53	4,914	7,112	10,133
Dividends (RONm)	0.00	0.00	0.00	0.00	0.00	0.00
EPS (RON)	0.01	-0.01	0.00	0.01	0.02	0.03
DPS (RON)	0.00	0.00	0.00	0.00	0.00	0.00
EV/EBITDA (x)	21.2	65.5	29.2	11.9	9.6	7.6
P/E (x)	32.3	nmf	nmf	29.0	20.0	14.1
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, IPOPEMA Research

IT, Romania

Bittnet Systems

BUY

Recommendation maintained

FV RON 0.47

30% upside

Price as of 22 July 2021 RON0.36



Share data

Number of shares (m)	395.6
Market cap (EUR m)	30.0
12M avg daily volume (k)	575
12M avg daily turnover (EUR)	34,0C
12M high/low (RON)	0.45/0.33
Bloomberg	BNET RO

Total performance

1M	-5.7%
3M	-15.2%
12M	-14.0%

Shareholders

Mihai Logofatu	13%
Cristian Logofatu	12%
Razvan Capatana	10%

Important disclosure

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Bittnet Systems

FV 0.47 RON

Mkt Cap EUR 30.0 m

Upside/(downside) +30%

Valuation multiples	2019	2020	2021E	2022E	2023E
P/E (x)	nmf	nmf	29.0	20.0	14.1
EV/EBITDA adj (x)	66.1	29.2	11.9	9.6	7.6
EV/Sales (x)	1.4	1.3	0.9	0.6	0.5
P/BV (x)	11.5	5.0	3.6	3.2	2.6
FCF yield (%)	-0.7%	-3.2%	3.5%	7.8%	4.6%
DY (%)	0%	0%	0%	0%	0%
Payout ratio	0%	0%	0%	0%	0%

Per share	2019	2020	2021E	2022E	2023E
No. of shares (m units)	395.6	395.6	395.6	395.6	395.6
EPS (RON)	-0.007	0.000	0.012	0.018	0.026
BVPS (RON)	0.03	0.07	0.10	0.11	0.14
FCFPS (RON)	0.0	0.0	0.0	0.0	0.0
DPS (RON)	0.00	0.00	0.00	0.00	0.00

Change yoy (%)	2019	2020	2021E	2022E	2023E
Revenues	108%	9%	45%	37%	33%
EBITDA	nmf	126%	146%	23%	26%
EBIT	nmf	nmf	nmf	27%	30%
Net profit	nmf	nmf	nmf	45%	42%
Tax rate	nmf	84%	16%	16%	16%

Leverage and return	2019	2020	2021E	2022E	2023E
Gross margin (%)	17%	19%	22%	21%	21%
EBITDA margin	2%	4%	7%	7%	6%
EBIT margin	0%	3%	6%	6%	6%
Net debt/EBITDA (x)	7.5	3.3	0.5	(0.3)	(0.9)
Net debt/Equity	1.3	0.5	0.1	(0.1)	(0.3)
Net debt/Assets	0.2	0.2	0.0	(0.0)	(0.1)
ROE	-20%	0%	15%	17%	20%
ROA	-4%	0%	4%	5%	6%
ROIC	-9%	0%	11%	15%	22%

Assumptions	2019	2020	2021E	2022E	2023E
Revenues					
Education division	13	14	20	24	28
Technology division	87	95	138	193	260
Total revenues	100	109	157	216	288
Margins (% of revenues)					
COGS (w/o depreciation)	82.7%	78.8%	76.3%	77.6%	78.6%
Selling expenses	6.4%	7.3%	7.0%	6.7%	6.4%
G&A expenses	11.7%	9.5%	9.3%	9.0%	8.7%
WC assumptions					
A/R (days sales)		101.3	100.0	95.0	95.0
Inventory (days at COGS)		2.0	2.0	2.0	2.0
A/P (days at COGS)		116.4	115.0	115.0	115.0
Wages and other tax		1.3%	1.3%	1.3%	1.3%

P&L (RON m)	2018	2019	2020	2021E	2022E	2023E
Revenues	47.9	99.7	108.6	157.2	216.1	288.2
Revenues from education division	7.4	12.8	14.0	19.7	23.6	28.4
Revenues from the technology div	40.5	86.9	94.6	137.5	192.5	259.9
G&A	6.0	11.7	10.3	14.6	19.5	25.1
EBITDA	6.5	2.1	4.8	11.7	14.4	18.1
Depreciation	0.2	2.3	2.0	2.0	2.1	2.2
EBIT	6.3	-0.2	2.8	9.7	12.3	16.0
Interest expense	-0.9	-1.3	4.0	3.9	3.9	4.1
Pre-tax profit	5.3	-3.0	0.3	5.9	8.5	12.1
Income tax	0.9	0.3	0.3	0.9	1.4	1.9
Minorities	0.0	0.0	0.5	0.6	0.6	0.7
Net profit	4.4	-2.6	0.1	4.9	7.1	10.1
Dividend	0	0	0	0	0	0

BALANCE SHEET (RON m)	2018	2019	2020	2021E	2022E	2023E
Non-current assets	22.6	33.3	49.6	47.5	45.4	43.0
PPE	2.0	6.7	5.4	4.4	3.3	2.2
Deferred tax	0.0	0.6	0.6	0.6	0.6	0.6
Intangibles and goodwill	18.3	23.7	29.5	38.1	38.1	38.1
Others	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	36.4	55.1	57.0	79.6	103.0	137.0
Cash and equivalents	13.0	20.8	24.9	34.5	44.4	59.2
Accounts receivables	22.8	32.3	30.2	43.1	56.3	75.0
Inventories	0.6	2.0	0.5	0.7	0.9	1.2
Others	3.0	3.7	5.3	5.3	5.3	5.3
Total assets	59.1	88.5	101.1	122.8	145.1	177.8
Equity	14.0	12.4	28.6	39.1	45.1	55.7
Minorities	0.2	0.3	0.3	0.3	0.3	0.3
Non-current liabilities	39.3	73.7	36.1	34.0	33.0	32.0
Bank debt	19.5	33.0	32.9	30.8	29.8	28.9
Leasing	0.1	3.8	3.0	3.0	3.0	3.0
Others	0.0	0.0	0.0	0.0	0.0	0.0
Current liabilities	25.4	39.2	36.4	49.4	66.7	89.8
Bank debt	12.2	3.6	7.6	9.4	10.8	14.4
Accounts payable	12.6	34.1	27.3	37.8	52.9	71.4
Leasing	0.1	3.8	3.0	3.0	3.0	3.0
Others	0.0	0.0	0.0	0.0	0.0	0.0
Equity and liabilities	59.1	88.5	101.1	122.8	145.1	177.8
WK as % of sales			19%	19%	17%	16%
Gross debt	32	37	41	40	41	43
Net debt	19	16	16	6	-4	-16

CASH FLOW (RONm)	2018	2019	2020	2021E	2022E	2023E
Cash flow from operations	2.5	-0.2	-2.6	0.9	7.1	4.5
Net profit	4.4	-2.6	0.1	4.9	7.1	10.1
Depreciation and amortisation	0.2	2.3	2.0	2.0	2.1	2.2
Changes in WC	0.0	-4.8	-4.7	-9.7	-6.1	-10.8
Other, net	-2.1	5.0	0.0	3.7	4.0	3.0
Cash flow from investment	-12.8	-0.7	-2.0	4.0	4.0	2.0
Additions to PPE	-1.5	-4.7	1.3	-1.0	-1.0	-1.0
Additions to intangibles	0.0	0.0	0.0	0.0	0.0	0.0
Change in long-term investments	-1.2	0.0	-7.3	0.0	0.0	0.0
Other, net	-10.0	4.0	4.0	5.0	5.0	3.0
Cash flow from financing	12.3	8.7	8.6	5.7	6.7	6.8
Change in long-term borrowing	11.1	13.5	-0.1	-2.1	-1.0	-1.0
Change in short-term borrowing	6.2	-8.6	4.0	1.8	1.4	3.6
Leasing payments	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Other, net	-5.0	3.9	4.7	6.0	6.3	4.1
Net change in cash and equivalent	2.0	7.8	4.0	10.6	17.8	13.3
Beginning cash and equivalent:	11.1	13.0	20.8	24.9	35.5	53.3
Ending cash and equivalents	13.0	20.8	24.9	35.5	53.3	66.6

Source: Company data, IPOPEMA Research

Latest developments

Latest changes in share capital

Bittnet increased its share capital, by RON 16,956,596 by offering 6 free shares to each 10 existing. The current share capital of Bittnet is divided into 395.6 m ordinary shares

Q1 2021 results

The education division recorded a declining result in Q1 due to postponements in approval of several budgets and as a result only RON 2.09m were registered, decreasing by 39% YoY.

The technology division registered a solid result in the context of all delivery gaps from producers, recording revenues of RON 18.13 m, a 3% increase YoY.

Figure 2. Q1 2021 results

Type of expense/revenue RON '000	31-Dec FY 2020	% op income	31-Mar Q1 2020	% op income	31-Mar Q1 2021	% op income	YoY (%)	Comments
Education	14,000		3,388		2,069		-38.9%	The education division recorded a declining result in Q1 amid the postponement of the approval of several budgets. Q1 revenues of RON2.1 m, 39% lower YoY.
Technology	94,617		17,602		18,135		3.0%	The technology division registered a solid result in the context of all delivery gaps from producers, recording revenues of RON18.1 m, a 3% increase YoY.
Revenues	108,617	100.0%	20,990	100.0%	20,203	100.0%	-3.7%	
Depreciation	1,994	1.8%	501	2.4%	710	3.5%		
COGS (ex. deprec)	85,627	78.8%	15,338	73.1%	15,481	76.6%	0.9%	
Gross profit	20,995	19.3%	5,151	24.5%	4,012	19.9%	-22.1%	
Other operating expenses	18,238	16.8%	4,463	21.3%	5,094	25.2%	14.1%	
of which:								
Selling expenses	7,966	7.3%	1,779	8.5%	2,058	10.2%	15.7%	
G&A expenses	10,272	9.5%	2,684	12.8%	3,036	15.0%	13.1%	
Total operating expenses	105,860	97.5%	20,301	96.7%	21,285	105.4%	4.8%	
Operating profit	2,757	2.5%	689	3.3%	-1,082	-5.4%		
Interest income	1,550	1.4%	264		1,246			
Investment gains/(losses)	405	0.4%	152		186			
Other revenues	449	0.4%	99		104			
Profit before interest & tax	4,350	4.0%	900		454		-49.6%	
Interest expense	4,020	3.7%	1,069		989			
Profit before tax (PBT)	331	0.3%	-169		-536			
Taxable income	331	0.3%	-169		-536			
Income tax	278	0.3%	2		32			
NET PROFIT (LOSS)	52.6	0.0%	-171.1	-0.8%	-503.6	-2.5%		

Source: Company, IPOPEMA Research

Valuation

We continue to use the discounted cash flow to equity (DCF) model as our primary valuation method. The company is currently operating in an industry that is expected to either double or quadruple by year 2025. To best capture this expansion, we used the DCF method for the valuation of Bittnet. As the company is not a traditional dividend payer, and we have not identified any close relevant peers, we believe the DCF is the most relevant method. We estimated 10 years into the future, i.e. the time period in which we assume the company will enter into "normality". By discounting Bittnet's free cash flow to equity, with a cost of equity "CAPM" of 17% and applying 1% terminal growth, we derive an intrinsic value per share of RON 0.47 for the company, which is 30% higher than the current share price. We base our BUY rating mainly upon this analysis.

Corroborative evidence. We also analysed Bittnet through a peer comparison with other IT companies that are education- and integration-focused. We could not find a company to match the growth and margins of Bittnet.

Figure 3. DCF valuation

RON '000	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	
Net profit	4,914	7,112	10,133	23,206	36,465	43,804	54,665	60,934	63,004	64,056	64,056
+ Capital increase	16,957	0	0	0	0	0	0	0	0	0	
+ depreciation	2,027	2,094	2,161	2,227	2,461	2,861	3,294	3,761	4,227	4,727	
+ increase/-decrease of long term debt	-2,146	-975	-950	-3,950	-4,800	-4,750	-4,750	-4,750	-5,750	300	
-increase/+decrease in working capital	-9,704	-6,099	-10,782	-19,200	-15,136	-11,789	-15,982	71	-5,342	-1,863	-1,164
-Capex	-1,000	-1,000	-1,000	-1,000	-6,000	-6,000	-7,000	-7,000	-7,000	-8,000	
Equity - Free cash flow	11,048	1,131	-438	1,284	12,990	24,126	30,226	53,016	49,140	59,220	62,893
Discount rate (CAPM)	17.0%										
Power	0	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	
Discount factor	1.00	0.92	0.79	0.68	0.58	0.49	0.42	0.36	0.31	0.26	0.24
Present value of cash flows	5,524	1,046	-347	868	7,510	11,926	12,776	19,161	15,186	15,648	
Sum of present values of cash flows	89,297										
Residual growth	1.0%										
Present value of residual value	96,347										394,312
Less: Non controlling interests	-257										
Equity value (RON '000)	185,387										
Shares ('000)	395,565										
Equity value per share (RON)	0.47										
Current Share Price (RON)	0.360										
Upside (%)	30.2%										

Source: Company, IPOPEMA Research

Sensitivity Analysis. In our analysis, we have relied on what we considered to be reasonable assumptions and conservative estimations. Below we show a sensitivity analysis by varying a few parameters such as discount rate and residual growth.

Figure 4. Sensitivity analysis

RON/share		Residual Growth Rate				
		0.0%	0.5%	1.0%	1.5%	2.0%
Discount Rate	15.0%	0.56	0.57	0.57	0.58	0.59
	16.0%	0.50	0.51	0.52	0.52	0.53
	17.0%	0.46	0.46	0.47	0.48	0.48
	18.0%	0.42	0.42	0.42	0.43	0.43
	19.0%	0.38	0.38	0.39	0.39	0.40

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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Rating	Difference between FV and price at recommendation
Buy	Above 10%
Hold	In between (and including) -10% and 10%
Sell	Below -10%

IPOPEMA Research - Distribution by rating category (January 1 - June 30, 2021)

	Number	%
Buy	19	76%
Hold	6	4%
Sell	0	0%
Total	25	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