

11 bit Studios - Hold

Target Price: PLN 391.20 | Close as of 12/05/2020: PLN 422.50

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Strong 1Q'20 figures above our expectations (POSITIVE)

11 bit posted its 1Q'20 figures with following highlights:

- Revenues of PLN 30.5mn vs. PLN 25.5mn expected by us.
- Publishing sales of PLN 7.3mn vs. PLN 4.0mn expected by us
- Own games sales of PLN 23.2mn vs. PLN 21.5mn in our forecast
- EBITDA of PLN 19.5mn vs. PLN 16.5mn expected
- Net income of PLN 14.4mn vs. PLN 11.2mn expected by us
- Solid OCF of PLN 24.3mn vs. PLN 15.6mn year ago.

Standalone, IFRS (PLN, mn)	Reported			Expected		Reported	
	1Q20	1Q19	y/y	Erste Group	Consensus	Erste Group	vs. Consensus
Revenues	30.5	14.2	115%	25.5	23.9	19.9%	27.8%
EBITDA	19.5	7.2	171%	16.5	13.5	18.4%	45.3%
EBIT	17.2	5.7	204%	14.5	11.3	18.4%	52.3%
Net income	14.4	4.3	232%	11.2	9.0	29.2%	59.8%
EBITDA margin	64.0%	50.9%		64.9%	56.3%		
EBIT margin	56.3%	39.9%		57.0%	47.2%		
Net income margin	47.3%	30.7%		43.9%	37.9%		

Source: Company Data, PAP, Erste Group Research

OPINION: POSITIVE

11 bit studios posted decent 1Q'20 figures, with 20% / 29% outperformance of our top line and net income forecast. Such a solid earnings are linked primarily to better than expected sales in the publishing segment (publishing revenues came in at c. PLN 7.3mn vs. PLN 4.0mn expected by us). Own game sales came in at PLN 23.2mn vs. PLN 21.5mn expected by us. According to our calculations, revenues from own games sales included Frostpunk sales of c. PLN 5.5mn, The Last Autumn DLC sales of c. 12mn, TWoM sales of PLN 1.4mn and approx. PLN 5.3mn from the agreement signed with online distributors worth USD 3mn (that should be a last quarter when the company recognized revenues from this agreement).

When it comes to cost side, services cost came in at PLN 7mn vs. PLN 5.1mn expected by us, primarily due to better than expected sales of games from the publishing segment, and higher royalties as a result. Royalties came in at PLN 5.2mn vs. PLN 3.1mn expected by us. Company recognized unusually high other operating revenues and costs, linked primarily to the revaluation of foreign currency denominated receivables and liabilities due to PLN depreciation.

In line with our expectations, company did not recognize IP Box in the quarterly statement as the full year correction will be made in the annual report. Effective tax rate came in at 19% vs. 24% expected by us. Finally, company's net income came in at PLN 14.4mn, i.e. 29/60% above our/consensus estimates

OCF came in at PLN 24.3mn vs. PLN 15.6mn year ago. Capitalized cost of development work increased to PLN 14.3mn vs. PLN 12.7mn in the previous quarter. Off-balance sheet commitments for expenditures within publishing segment increased to EUR 3.7mn and PLN 6.8mn vs. EUR 2.8mn and PLN 7.2mn quarter ago (by c. PLN 3.6mn)

In the report, the company informed that it should signed new publishing deals in 2020e.

Summarizing, we are looking for a clearly positive market reaction.

P & L (PLN m)	1Q19	2Q19	3Q19	4Q19	1Q20	YoY	QoQ	3M'19	3M'20	YoY
Revenues	14.2	16.6	18.9	22.0	30.5	115%	39%	14.2	30.5	115%
Am&Dep	1.6	1.5	1.5	1.8	2.4	52%	29%	1.6	2.4	52%
Raw materials	0.1	0.1	0.1	0.1	0.1	8%	-19%	0.1	0.1	8%
Services	3.4	8.6	9.2	5.2	7.0	108%	34%	3.4	7.0	108%
Employee benefits	3.3	2.9	3.2	2.9	3.5	5%	18%	3.3	3.5	5%
Taxes & charges	0.1	0.1	0.1	0.1	0.1	32%	9%	0.1	0.1	32%
Other expenses	0.1	0.6	0.2	1.1	0.4	140%	-68%	0.1	0.4	140%
Operating profit (loss)	5.7	2.9	4.6	10.7	17.2	204%	61%	5.7	17.2	204%
Financial revenues	0.3	0.1	0.4	0.4	1.4	304%	235%	0.3	1.4	304%
Financial expenses	0.1	0.1	0.1	-0.1	0.8	532%	-1024%	0.1	0.8	n/a
Extraordinary gains/loss	0.0	0.0	0.0	0.0	0.0			0.0	0.0	
Profit (loss) before tax	5.9	3.0	4.9	11.2	17.8	203%	59%	5.9	17.8	203%
Income tax	1.5	1.0	1.3	-0.6	3.3	119%	-683%	1.5	3.3	
Net profit (loss)	4.3	2.0	3.6	11.8	14.4	232%	23%	4.3	14.4	232%
Am&Dep	1.6	1.5	1.5	1.8	2.4	52%	29%	1.6	2.4	52%
EBITDA	7.2	4.4	6.1	12.5	19.5	171%	56%	7.2	19.5	171%
Tax rate	26.0%	34.2%	27.0%	-5.1%	18.8%			26%	19%	
EBITDA margin	50.9%	26.5%	32.4%	57.0%	64.0%			51%	64%	
EBIT margin	39.9%	17.7%	24.3%	48.7%	56.3%			40%	56%	
Net profit margin	30.7%	11.9%	19.1%	53.6%	47.3%			31%	47%	
Main BS & CF items	1Q19	2Q19	3Q19	4Q19	1Q20	YoY	QoQ	3M'19	3M'20	YoY
OCF	15.6	4.3	16.7	5.0	24.3	56%	385%	15.6	24.3	56%
FCF	12.9	1.7	13.1	-0.6	12.6	-2%	-2380%	12.9	12.6	-2%
Total Assets	115.5	126.6	138.8	155.7	171.2					
Net debt (cash)	-56.4	-58.0	-70.9	-70.5	-83.0					
Equity	96.4	0.0	0.0	119.7	0.0					

Source: Company Data, Erste Group Research

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