

Friday, 27 September 2024 | update

# 11 bit studios: buy (reiterated)

11B.PW; 11B.WA | Gaming, Poland

## No Need to Get Overly Bearish

We have updated our earnings models for 11 bit studios to reflect major cuts in forecasts as to volumes and the release pipeline. Despite the downgraded outlook, we believe the market is discounting an overly pessimistic scenario right now. In our view, some players have only postponed Frostpunk 2 purchases, not canceled them altogether. Our new price target points to upside, hence a reiterated buy rating.

11 bit studios' share price halved in the week following an unsatisfying Frostpunk 2 release. The game started with a very high count of positive reviews (with an over-90% Steam rating 30 minutes after the release), but, over the first weekend, its rankings dropped to the low 70s% as players found themselves unhappy with how the game evolved. Most of all, gamers were disappointed by the differences between Frostpunk 2 and Frostpunk 1, saying that the sequel is too complex, too ambitious, too difficult to get started, too political, etc. The nominal number of negative reviews was not high (ca. 500 daily), but it impacted the overall rating, which definitely convinced some to postpone purchases.

11 bit studios has disclosed it has sold over 350k copies of the game, and that it has fully recouped the development and marketing costs of Frostpunk 2 with the sales revenue, along with the Microsoft Game Pass deal. Since the speed with which the costs were recouped had been priced in, this it did not change sentiment around the stock. Despite the sales volume being well below inflated expectations, the Frostpunk 2 release can be considered mediocre – after all, the wishlist conversion (including preorders) amounted to ca. 15% in three days, while the median for PC games dataset points to ~16-27% of wishlist conversion to sales ratio during the first week.

We expect that, with time, hotfixes and DLCs will help improve the overall rating of Frostpunk 2, and help to bring back interest in the game, although this will take time. Frostpunk 1 started with an ~85% user score, which over the years improved to ~92%. We expect 11B to fully commit to FP2 in delivering the content that pleases the players, which will support future sales.

Keep in mind 11 bit studios is about to release The Alters in 4Q'24, and the new title might improve sentiment for the stock. The game is #45 on Steam Top Wishlists, which we believe means ca. 430-450k interested players – quite the fanbase. Considering how much interest the title generated during the Steam Next Fest in June 2024, the game could exceed everyone's expectations (a TPP title set in a sci-fi surrounding will hit the sweet spot for many players).

Given lower-than-expected sales of Frostpunk 2, and the mixed results of recent publishing deals, we expect 11 bit studios to thoroughly rethink the future of third-party publishing. We expect 11B to continue to act as a publisher for other companies while drastically reducing the amount of projects it finances. We expect the "meaningful entertainment" credo to prevail, but with a more conservative approach in choosing partners.

(PLN m)	2022	2023	2024E	2025E	2026E
revenue	74.3	52.4	172.2	256.8	217.3
EBITDA	25.9	11.8	104.8	188.6	166.5
EBITDA margin	34.8%	22.5%	60.9%	73.4%	76.6%
EBIT	20.0	7.6	83.7	151.1	104.0
net profit	22.9	0.5	79.7	134.7	95.2
P/E	32.2	1,425.6	9.4	5.6	8.3
P/S	9.9	14.3	4.4	2.9	3.6
EV/EBITDA	25.1	59.5	6.3	3.1	3.6
FCFF/EV	-2.0%	-5.3%	6.8%	17.9%	17.3%
DPS (PLN)	0.00	0.00	0.00	16.49	26.49
DYield	0.0%	0.0%	0.0%	5.3%	8.5%

current price*	PLN 310.50
target price	PLN 401.00
mCap	PLN 751m
free float	PLN 627m
ADTV (3M)	PLN 7.6m

\*Price as of September 26, 2024, 5:00 PM

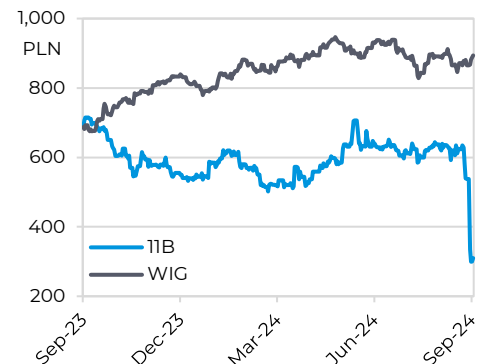
### Ownership

TFI Allianz Polska	7.4%
Grzegorz Miechowski	7.0%
TFI Esaliens	6.5%
OFE Nationale-Nederlanden	5.7%
Przemysław Marszał	5.0%
Michał Drozdowski	4.1%
Others	64.3%

### About 11 bit studios

11 bit studios is one of Poland's leading game development companies. The Company develops games primarily for PC and consoles. Two of its most famous IPs are This War of Mine and Frostpunk, which have sold over 9 million and 5 million copies respectively worldwide.

### 11B vs. WIG



	Target Price		Recommendation	
	new	old	new	old
11 bit studios	401.00	824.00	buy	buy
	Current Price	Target Price	Upside	
11 bit studios	310.50	401.00	+29.1%	
Forecast Update	2024E	2025E	2026E	
revenue	-35.8%	-31.1%	-42.2%	
EBITDA	-46.0%	-33.1%	-43.9%	
net profit	-50.1%	-39.3%	-54.9%	

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**List of abbreviations and ratios used by mBank:**

**EV** (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)  
**EBITDA margin** – EBITDA/Sales

**OVERWEIGHT (OW)** – a rating which indicates that we expect a stock to outperform the broad market  
**NEUTRAL (N)** – a rating which indicates that we expect the stock to perform in line with the broad market  
**UNDERWEIGHT (UW)** – a rating which indicates that we expect the stock to underperform the broad market

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**HOLD** – we expect that the rate of return from an investment will range from 0% to +10%  
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**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**NAV** - valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

**mBank issued the following recommendations for II bit studios in the 12 months prior to this publication:**

**II bit studios (Piotr Poniatowski)**

Rating	buy	buy	buy	buy
Rating date	2024-09-02	2024-05-06	2023-12-01	2023-10-02
Target price (PLN)	824.00	736.00	738.00	849.00
Price on rating day	636.00	559.00	576.00	715.00



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