

Wednesday, 18 December 2024 | update

11 bit studios: buy (reiterated)

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

Bearish scenario already priced in

A week ago 11 bit studios surprised the market with the ambiguous news that it had started “a detailed analysis of the situation regarding one of its game projects, which may result in the need to write off unfinished development work.” Yesterday, this risk materialized and the Company announced that it has terminated production of Project 8, as Management lost confidence in completing the game “within a reasonable timeframe and at a satisfactory quality level.”

After the termination of Project 8, the remaining pipeline seems to be very thin: The Alters is scheduled for Q1'25 (but we expect Q2'25 release), three DLCs for Frostpunk 2 in H1'25/H2'25/H1'26 respectively, the console version of Frostpunk 2 in H1'25, and Moonlighter 2 from the publishing segment that we expect in H1'25. However, the press release regarding the cancellation of Project 8 ends with the CEO stating: “We have a clear and well-defined roadmap for the future and have already taken concrete steps to move forward. Some of these initiatives, which are highly promising from a business perspective, will help fill the gap left by Project 8. We look forward to sharing more details soon.” Thus we expect the gap in the pipeline to be filled quite soon, at least with promises of what is next. This War of Mine universe seems like a natural choice to explore right now. After the release of The Alters, 11B will hold an investor conference where we expect to hear the strategy update – focus on known IPs but still trying to work on 3 IPs simultaneously, and downsizing the publishing segment.

The termination of Project 8 will result in a non-cash write-off of around PLN 50m, which should be booked in the Q4'24 financials. Therefore, the Q4'24 P&L will look dire, but the cash flow statement will paint a very different picture of the Company. We expect 11B to end 2024 with a net cash position of over PLN 70m. After all, it had PLN 36m of cash eop-Q3'24 and almost PLN 50m of trade receivables. It should also be noted that next year's financials (probably in Q2'25) will be supported by Microsoft payments, both for the console version of Frostpunk 2 and for The Alters. We are assuming an inflow of \$7m but this could be an underestimate.

Even in a worst-case scenario (i.e. no copies of any game are to be sold in 2025, but of course releasing The Alters and FP2 on consoles), we forecast that the Company would still have enough cash to operate for at least a year without any cutting back on operations. In a bearish scenario, i.e. only 300k copies sold of FP2 in FY2025 and 260k of The Alters, the Company is still self-sufficient until eop-2027. Therefore, the liquidity risk, which seems to be the main issue at the moment, is far, far away, at least in our view.

We have updated our earnings models for 11B to reflect major cuts in forecasts coming from the termination of Project 8 and its consequences. Our new price target points to upside, hence a reiterated buy rating. Despite the downgraded outlook, we still believe the market is discounting an overly pessimistic scenario right now. The cash flow situation is not that dire as one might assume (the deal with Microsoft will heavily support bank accounts in Q2'25). We still expect The Alters to be a rebound story for the Company and that this game will overdeliver in terms of volumes.

(PLN m)	2022	2023	2024E	2025E	2026E
revenue	74.3	52.4	136.2	216.9	137.1
EBITDA	25.9	11.8	31.6	162.3	85.8
EBITDA margin	34.8%	22.5%	23.2%	74.8%	62.5%
EBIT	20.0	7.6	20.9	129.8	37.5
net profit	22.9	0.5	11.1	111.9	33.8
P/E	15.6	689.8	32.8	3.2	10.7
P/S	4.8	6.9	2.7	1.7	2.6
EV/EBITDA	10.4	26.6	9.2	1.2	1.9
FCFF/EV	-4.7%	-11.8%	7.3%	45.4%	23.3%
DPS (PLN)	0.00	0.00	0.00	0.00	0.00
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

current price*	PLN 150.00
target price	PLN 182.00
mCap	PLN 363m
free float	PLN 303m
ADTV (3M)	PLN 13.9m

*Price as of December 17, 2024, 5:00 PM

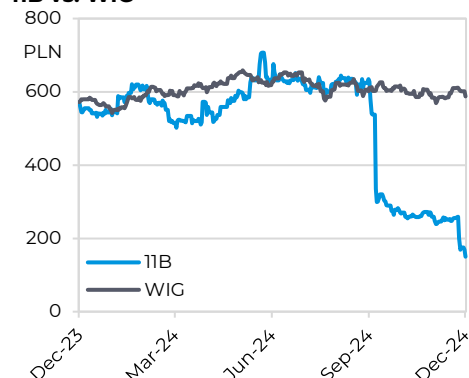
Ownership

Grzegorz Miechowski	7.0%
TFI Esaliens	6.2%
OFE Nationale-Nederlanden	5.7%
Przemysław Marszał	5.0%
TFI Allianz Polska	4.6%
Michał Drozdowski	4.1%
Others	67.5%

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



Company	Target Price		Recommendation	
	new	old	new	old
11 bit studios	182.00	344.00	buy	buy

Company	Current Price	Target Price	Upside
11 bit studios	150.00	182.00	+21.3%

Forecast Update	2024E	2025E	2026E
	revenue	-2.2%	-1.1%
EBITDA	-59.2%	-4.7%	-49.2%
net profit	-81.1%	-6.1%	-66.0%

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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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BUY – we expect that the rate of return from an investment will be at least 10%
HOLD – we expect that the rate of return from an investment will range from 0% to +10%
SELL – we expect that an investment will bear a loss

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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 11 bit studios in the 12 months prior to this publication:

11 bit studios (Piotr Poniatowski)

Rating	buy	buy	buy	buy	buy
Rating date	2024-12-02	2024-09-27	2024-09-02	2024-05-06	2023-12-01
Target price (PLN)	344.00	401.00	824.00	736.00	738.00
Price on rating day	251.00	310.50	636.00	559.00	576.00

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