



ERIK PENSER BANK

Penser Access | Financial Conglomerates | Sweden | 17 August 2021

Quickbit

Weaker quarter than expected

Reduced sales

Quickbit had sales of SEK 842.4 million (871.2) in April–June and its operating profit was SEK -3.0 million (15). Both sales and operating profit were weaker than our estimates. The company showed negative growth from January to March, when sales were SEK 933 million and operating profit was SEK 10 million. Comparing Q/Q is in our opinion most relevant as the company has changed its business model in the past year.

App launch

Quickbit writes that the lower sales are partly due to slightly lower transaction volumes at the end of May, driven by technical adjustments. Also, the company sees that activity increased in June, and during the current quarter the development has remained positive. Furthermore, Quickbit launched its consumer app last week and the reviews bode well for the future. After 136 reviews, the average rating is a high 4.9 out of 5.

New fair value

The share fell steeply on the report (-15 %). Given Quickbit's upbeat tone about performance since May, we believe this reaction was excessive. The newly appointed CEO seems to share our opinion and bought shares for SEK 0.7 million on the reporting date. However, we are slightly trimming our estimates given the weaker quarter. The new estimates lead to a fair value of SEK 11-12 (12-13) per share. The current share price is SEK 8.

Estimate Changes (SEK)			Estimates (SEK)			Risk and Potential			
	Now	Before		20/21e	21/22e	22/23e	Motivated value	11.00 - 12.00	
EPS, adj 21/22e	0.34	0.34	0.0%	Sales,m	2,568	4,191	5,690	Current price	SEK8.00
EPS, adj 22/23e	0.53	0.53	0.0%	Sales Growth	0.0%	63.2%	35.8%	Risk level	High
				EBITDA, m	24.6	51	74		
				EBIT, m	16.2	38.7	60.1		
				EPS, adj	0.09	0.34	0.53		
				EPS Growth	0.0%	291.6%	56.6%		
				Equity/Share	2.9	4.3	4.4		
				Dividend	0.00	0.00	0.00		
				EBIT Marginal	0.6%	0.9%	1.1%		
				ROE (%)	3.0%	12.4%	18.5%		
				ROCE	5.6%	19.6%	30.6%		
				EV/Sales	0.23x	0.14x	0.10x		
				EV/EBITDA	23.6x	11.5x	7.8x		
				EV/EBIT	35.9x	15.0x	9.7x		
				P/E, adj	93.1x	23.8x	15.2x		
				P/Equity	2.8x	1.9x	1.8x		
				Dividend yield	0.0%	0.0%	0.0%		
				FCF yield	0.1%	0.1%	0.1%		
				Net Debt/EBITDA	(5.1)g	(3.9)g	(3.2)g		

Calendar Events		Key Figures (mkr)			One Year Performance Chart	
10 Nov kvartalsrapport		Number of Shares	88.5m	Market cap	708	
		Net Debt	(127)	EV	582	
		Free Float	62.00%			

Analysts	
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Overview

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Investment Case

Revamp of the business

In our view, Quickbit is a completely different company than it was just a year or two ago. The business model has changed, in that the business is now mainly based in Europe, while we assume that a large proportion was previously based outside the EU. The previous business model was riskier and more capital-intensive. We believe the shift towards Europe is clearly positive. Quickbit has also replaced most of the board of directors and brought in highly qualified names like Jan Frykhammar, the former CFO of Ericsson. Finally, the company is launching its consumer app in 2021, which is based on a radically different business model compared to the one that came before it. We believe Quickbit is a more stable, less risky and better company than it was one year ago.

Cryptocurrencies have network effects

The more people who use cryptocurrencies, the more valuable they become, because the number of applications rises. Accordingly, cryptocurrencies clearly have a network effect. In our assessment, the network effect for cryptocurrencies has contributed to significant milestones in the last year. For example, El Salvador has made Bitcoin legal tender and Micro Strategy has begun keeping its cash reserves in bitcoin. The uncertainty stemming from Covid-19 and the flood of new money created by central banks in 2020 has corroded views on fiat currencies in the eyes of many and, by comparison, improved their views on cryptocurrencies. Without making any forecast on the future price trend, we believe cryptocurrencies are here to stay and that the last year has accelerated the development.

Potential exposure in DeFi

We believe DeFi (Decentralised Finance) is a highly interesting area within cryptocurrencies and that numerous features will be developed for DeFi going forward. An ecosystem is created within the Quickbit app in which additional features can be integrated, meaning the company is positioned to exploit the growth in DeFi that we expect. At present, DeFi is a new and underdeveloped area with few concrete investment opportunities, especially among Swedish companies. At the least, Quickbit entails future potential to be exposed to a more fully developed DeFi system. However, we recognise that DeFi is in its infancy and that it is going to be a long time before it is fully developed and widely used.

Company Profile

Quickbit is a fintech operating in the cryptocurrency segment. At present, revenues are generated exclusively from i-gaming companies based mainly in Europe. Quickbit is, however, poised to also launch solutions in the B2C segment, such as the option to use cryptocurrencies for ordinary card payments. The company has also developed an app, for which 10,000 people have signed up for early access. We believe the app will eventually be able to create an ecosystem for cryptocurrency transactions in which it should be possible to integrate emerging solutions. The company is based in Stockholm and had 47 employees as of the last quarterly report.



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Valuation approach

We applied a DCF model to arrive at a fair value of SEK 12-13 per share. Our WACC is 12%, reflecting our estimation of high risk in the company.

Estimate changes

Sales in April to June were about 10% lower than our estimates, and the gross margin was 3.6%, compared with our estimate of 4%. Also, the other external expenses item was higher, due to factors such as legal expenses associated with an abandoned acquisition.

Although the gross margin deviated by only 0.4%, the impact on earnings is significant because the original value of the gross margin was only 4%. We continue to expect a gross margin of 4% in the future, but estimate higher other external expenses. This, in combination with weak earnings in the past quarter, have led to the below changes in our estimates.

Estimate changes			
Old estimates	2021e	2022e	2023e
Revenue	3817	4986	6154
EBITDA	64	54	75
New estimates			
	2021e	2022e	2023e
Revenue	3651	4986	6154
EBITDA	34	60	81
Difference	2021e	2022e	2023e
Revenue	-4%	0%	0%
EBITDA	-46%	11%	8%

* Refers to calendar years and not Quickbit's financial years.
Quickbit's financial year begins in July and ends in June.

As Quickbit seems to have regained momentum for its business operations in June and returned to growth, the quarter does not affect our long-term assessment of Quickbit as a company. However, we are lowering our fair value to SEK 11–12 (12–13).

The company launched its consumer app last week, and customer reviews have been overwhelmingly positive. After 139 reviews in the app stores, the average rating is 4.9 out of 5. The written reviews are also clearly positive, and good user-friendliness is mentioned multiple times. We believe that user-friendliness and simple design are very important for the success of B2C crypto products since the subject itself is complicated. We are therefore upbeat about the initial reception of the app, which is a new revenue stream for Quickbit.

Income statement

Income statement	2020/21*	2021/22*	2022/23*
Revenue	2568	4191	5690
Other income	4,5	2	2
Cost goods sold	2460	4047	5529
Gross profit	112,1	146	163
Personel costs	22,2	40	46,5
Other external costs	60,9	34	28,28
Other operating costs	4,4	21,0	14,3
EBITDA	24,6	50,7	74,1
Depreciation	8,4	12	14
Goodwill amortization	0	0	0
EBIT	16,2	38,7	60,1
Extraordinary items	0	0	1
Adjusted Ebit	16,2	39	61
Finacial items	-0,2	-1	-1
Net income before taxes	16	38	60
Taxes	8,6	8	13
Net profit	7,6	30	47
Net profit adjusted	7,6	30	47

*Financial years equal to how Quickbit is reporting

Cash flow

Cash flow analysis			
Net profit	7,6	30	47
Adjustments for items not included in the cash flow	8,4	12	14
Change working capital	50	0	0
Cash flow from operating activities	66	42	61
Investments	20	20	20
Divestments	0	0	0
Free cashflow	46	22	41
Dividends	0	0	0
New share issue	0	0	0
Aquisition	0	0	0
Loans and other adjustments	0	0	0
Cash flow	46	22	41
Net debt	-127	-105	-64

*Financial years equal to how Quickbit is reporting

Balance sheet

Balade Sheet	2020/21*	2021/22*	2022/23*
Assets			
Goodwill	0	0	0
Other contributed capital	44	50	54
Other intangible assets	39	39	39
Tangible assets	1	1	1
Interest bearing assets	0	0	0
Other tangible assets	2	2	2
Total tangible assets	87	93	97
Inventories	0,6	0,6	0,6
Receivables	55	65	75
Other receivables	30	30	30
Cash and bank balances	241	277	287
Total current assets	327	373	393
Total assets	413	465	490
Equity	338	377	390
Minority interests	0	0	0
Total Equity	338	377	390
Interest bearing financial debt	0	0	0
Pension liabilities	0	0	0
Deferred tax liabilities	0	0	0
Other interest bearing liabilities	0	0	0
Total interest bearing liabilities	0	0	0
Current financial liabilities	5	5	5
Trade payables	6	10	12
Tax liabilities	7	5	5
Other current liabilities	58	68	78
Total short term liabilities	76	88	100
Total equity and liabilities	414	465	490

*Financial years equal to how Quickbit is reporting

Key figures

Valuation	2020/21*	2021/22*	2022/23*
P/E	85,5	21,8	13,9
P/equity	1,9	1,7	1,7
P/FCF	14,1	29,9	16,0
Dividend yield	0,0	0,0	0,0
EV/Sales	0,2	0,1	0,1
EV/EBITDA	21,3	10,3	7,1
EV/EBIT	32,3	13,5	8,6
Share price year end	8,8	0,0	0,0
EV year end	650,0	0,0	0,0
Growth and margins			
Revenue growth	neg	0,6	0,4
EBIT growth	neg	1,4	0,6
EPS growth	neg	2,9	0,6
EBITDA margin	0,0	0,0	0,0
EBIT margin	0,0	0,0	0,0
Tax rate	neg	0,2	0,2
Profitability	0,0	0,0	0,0
ROE	0,0	0,1	0,1
ROCE	0,0	0,1	0,2
Investments			
Investments	20,0	20,0	20,0
Investments/revenue	1%	0%	0%
Sales and development expenses/revenue/revenue	1%	1%	1%
Inventory/revenue	0%	0%	0%
Receivables/revenue	2%	2%	1%
Payables/revenue	0%	0%	0%
Working capital /revenue	10%	7%	5%
Capital turnover rate	6,2	9,0	11,6
Financials			
Net debt	-126,5	-104,7	-64,1
Equity ratio	0,8	0,8	0,8
Debt level	0,2	0,2	0,2
Net debt/EBITDA	-5,1	-2,1	-0,9

*Financial years equal to how Quickbit is reporting

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