

2022-05-13 08:15

# Vivid Games SA

## Key data

|                               |              |
|-------------------------------|--------------|
| Target price [PLN]            | 1,25         |
| DCF Valuation [PLN]           | 1,45         |
| Comparative Valuation [PLN]   | 0,88         |
| Market price [PLN]            | 1,17         |
| Growth/decrease potential [%] | 6,8%         |
| Market cap [mln PLN]          | 37,6         |
| Free float [%]                | 50,3%        |
| Industry                      | mobile games |
| WSE code                      | VVD          |
| Bloomberg code                | VVD PW       |

## Analysts

### Łukasz Bryl

Tel.: 785 500 874

### Tomasz Czarnecki

Tel.: +48 (22) 53 95 542

## Company profile

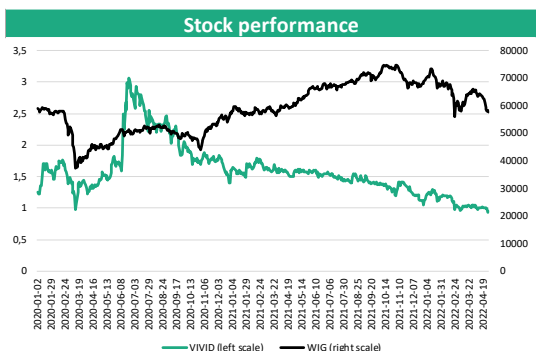
A modern gaming studio that designs, produces and publishes games for portable and stationary consoles, PC and Mac computers, and smartphones - which are the most dynamically developing sector of the market.

Source: www.gpw.pl

## Shareholders:

|                             | [%]   |
|-----------------------------|-------|
| Kościelny, Remigiusz Rudolf | 22,2% |
| Wojczakowski Jarosław       | 22,2% |
| Sominka Paweł               | 5,3%  |
| Vivid Games SA              | 0,3%  |

| Growth factors              | Risk factors      |
|-----------------------------|-------------------|
| strong global gaming market | high amortization |
| dollar appreciation         | high costs of UA  |
| data analytics investment   | low profitability |



Source: DM Banku BPS SA calculations

Analytical report

## Revenues grow – time for income increase

**The results for 2021 turned out to be disappointing.** The Company's revenues decreased by 38.1% yoy, and the net loss amounted to minus PLN 14.9 million. Such a high net loss resulted from record write-offs for impairment of research and development works and, consequently on the operational level lead to the abandonment of non-prospective projects.

The unsatisfactory results prompted the Company to update its strategy for 2022-2025, which assumes a significant increase in sales revenues.

**After the first 4 months of 2022, Vivid Games is slowly following its strategic goals.** Revenues increased and the net result, albeit modest, turned out to be positive.

Our valuation is based on the updated strategy of the Company, which assumes high increases in sales revenues. We consider the strategy to be very ambitious in terms of the dynamics of revenues and maintaining Company profitability.

**We positively assess** the activities of the Company in terms of increasing the effectiveness of generating revenues by existing games, development in the area of business analytics and premature repayment of liabilities due to issued bonds.

**We negatively perceive** the Company in the context of high depreciation costs of ongoing and completed development works, user acquisition costs (UA) and overall low profitability.

Finally, **we increase our valuation to PLN 1.25** (from 1.23 PLN) per share at the end of 2022.

| PLN thd       | 2021    | 2022P  | 2023P  | 2024P  | 2025P  | 2026P  |
|---------------|---------|--------|--------|--------|--------|--------|
| Sales         | 25 689  | 35 479 | 41 234 | 48 791 | 57 857 | 62 405 |
| EBITDA        | -8 557  | 4 085  | 5 418  | 7 024  | 9 076  | 9 553  |
| EBITDA margin | -33,3%  | 11,5%  | 13,1%  | 14,4%  | 15,7%  | 15,3%  |
| EBIT          | -14 570 | 1 199  | 1 505  | 3 111  | 5 164  | 5 641  |
| Net income    | -14 857 | 580    | 1 171  | 2 586  | 4 249  | 4 635  |
| Equity        | 6 623   | 7 204  | 8 374  | 10 960 | 15 209 | 19 844 |
| Net debt      | -3 396  | 4 842  | 5 579  | 9 023  | 13 693 | 19 170 |
| P/E           | -2,53   | 64,79  | 32,12  | 14,54  | 8,85   | 8,11   |
| P/BV          | 5,68    | 5,22   | 4,49   | 3,43   | 2,47   | 1,89   |
| EV/EBITDA     | -4,79   | 8,02   | 5,91   | 4,07   | 2,63   | 1,93   |
| EPS           | -0,46   | 0,02   | 0,04   | 0,08   | 0,13   | 0,14   |

Source: DM Banku BPS SA, E - estimates

## Basic definitions

**CAPEX** (capital expenditures) - investment expenditures on product development, system implementation (including intangible assets) or tangibles assets in the part in which the capital is intended to maintain the company's current ability to generate income.

**DCF** (discounted cash flows) - discounted cash flows; all future cash flows are estimated and discounted in order to determine their present value. The value of the discount rate used corresponds to the cost of capital and includes an assessment of the risk related to future cash flows.

**DFCF** - Discounted FCF (Free Cash Flows to Firm).

**EBIT** (earnings before interest and taxes) - operating income i.e. the income before deduction of taxes and interest.

**EBITDA** (earnings before interest, taxes, depreciation and amortization) - the company's operating profit before deducting interest on interest-bearing liabilities (loans, bonds), taxes, amortization and depreciation of tangible and intangible assets; here EBITDA = operating income + amortization of tangible fixed assets + depreciation of intangible assets.

**EV** (Enterprise Value) - total enterprise value; here EV = current stock market capitalization + net debt.

**EV / EBITDA** - the ratio is calculated by dividing the present value of the enterprise (EV) by the value of EBITDA.

**FCFF** (Free Cash Flow to Firm) - free cash flows for owners of equity capital and creditors, which can be defined as flows resulting from the company's operating and investment activities, after all financial expectations of capital donors, i.e. all parties financing the company, have been settled.

**WSE** - Warsaw Stock Exchange.

**NOPLAT** - net operating result less adjusted taxes; here NOPLAT = EBIT \* (1 - tax rate).

**P / BV** (price / book value) - the ratio is calculated by dividing the current capitalization of a listed company by the book value of its equity, which is provided in the company's balance sheet.

**P / E** (price earnings ratio) - stock exchange ratio. It is calculated by dividing the market price of one share by the net profit per share.

**PV TV** - Present Value, ie the residual value (TV) discounted at the present moment.

**CR** - current report.

**SB** - Supervisory Board.

**TV** (Terminal Value) - residual value; enterprise value after the forecast period; here estimated with the help of the Gordon model.

**WACC** - weighted average cost of capital; financial indicator informing about the average relative cost of capital engaged in financing the enterprise. zaangażowanego w finansowanie przedsiębiorstwa.

## Information and legal disclaimer

This analytical report was prepared by Dom Maklerski Banku BPS S.A. at the request of the Warsaw Stock Exchange on the basis of an agreement concluded between Dom Maklerski Banku BPS S.A. and WSE under the "Analytical Coverage Support Program 3.0.". Dom Maklerski Banku BPS S.A. will receive remuneration for the report.

The work on this study has been completed on: 13th May 2022, 8:15

Distribution of this study: 13th May 2022, 8:30

This report is published on the day of its completion on the publicly available website <https://dmbps.pl/wsparcie-analityczne/program-wsparcia-pokrycia-analitycznego-gpw/vivid-games-s-a>

This study reflects the knowledge and views of the authors as of the date of its preparation. The authors do not take into account in the study any individual investment objectives, financial standing, or the needs or demands of potential addressees of the study or its principals.

This study does not constitute: a personal recommendation; or investment, legal or other advice; or an offer, incentive to act, invest or dispose of an investment in a particular way; or an assessment or assurance of the profitability of investments in financial instruments covered by it.

This study has been prepared in accordance with legal requirements ensuring independence, in particular in accordance with Commission Delegated Regulation (EU) No 2016/958 of 9 March 2016 supplementing Regulation (EU) No. 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards on technical measures for the objective presentation of investment recommendations or other information recommending or suggesting investment strategy and the disclosure of special interests or indications of conflicts of interest.

The report constitutes an investment survey within the meaning of Article 36, section 1 of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

This study constitutes an investment survey not carried out as part of investment advisory services or portfolio management within the meaning of the Act of 29 July 2005 on trading in financial instruments.

The study is intended for distribution only in the Republic of Poland and it may not be distributed or transmitted, directly or indirectly, to the United States of America, Canada, Japan or Australia, or to any other jurisdiction where such distribution would constitute a violation of the relevant laws of that jurisdiction or require registration in that jurisdiction.

The study has been prepared with due diligence and on the basis of information available to the public on the date of publication of the study such as: financial statements, current and periodic reports, industry and press publications or those obtained from sources reliable for Dom Maklerski Banku BPS S.A.

Dom Maklerski Banku BPS S.A. does not guarantee the completeness, truthfulness or accuracy of the source data. Dom Maklerski Banku BPS S.A. shall not be liable for any investment decisions taken on the basis of this report or for any damage incurred as a result of such investment decisions. The study may not be regarded as an assurance or guarantee that losses will be avoided or that potential or expected results will be achieved, in particular profits or other benefits from, or in connection with, the failure to carry out such transactions.

The data presented here relate to the past, and past performance does not guarantee future results.

Dom Maklerski Banku BPS S.A. and its shareholder or employees may hold shares of the Issuer which are the subject of this study.

During the 12 months preceding the issue of the study, Dom Maklerski Banku BPS S.A. did not offer the Issuer's financial instruments in primary trading or in an initial public offering.

During the 12 months preceding the issue of the study, Dom Maklerski Banku BPS S.A. did not act as an animator for the financial instruments to which the study relates and received remuneration.

During the 12 months preceding the issue of the study, Dom Maklerski Banku BPS S.A. was not a guarantor or co-guarantor of any publicly disclosed offering of the Issuer's financial instruments.

Dom Maklerski Banku BPS S.A. does not hold any long or short position exceeding in total 0.5% of the Issuer's share capital in relation to the company / companies covered by this report.

Dom Maklerski Banku BPS S.A. is not a party to an agreement with the Issuer regarding the preparation of a recommendation.

It is probable that in the course of its statutory activity, Dom Maklerski Banku BPS S.A. will make an offer to the Issuer to provide services within the framework of its permit, and that as a result of making such an offer, agreements may be concluded with the Issuer.

Detailed information on the valuation or methodology and the assumptions, models and meaning of recommendations is available at the address: [https://dmbps.pl/informacje/221/Materialy\\_Analityczne](https://dmbps.pl/informacje/221/Materialy_Analityczne).

A description of the actual internal organisational and administrative solutions and any information barriers established in order to prevent and avoid conflicts of interest concerning recommendations can be found in the Conflict of Interest Management Regulations of Dom Maklerski Banku BPS S.A. available at the address:

[https://dmbps.pl/informacje/228/Regulamin\\_zarzadzania\\_konfliktami\\_interesow\\_w\\_Domu\\_Maklerskim\\_Banku\\_BPS\\_SA](https://dmbps.pl/informacje/228/Regulamin_zarzadzania_konfliktami_interesow_w_Domu_Maklerskim_Banku_BPS_SA)

A general description of the financial instrument and the risks associated with investing in particular financial instruments is presented at the Website. This information has been prepared with due diligence, in particular in a reliable manner and to the best of Dom Maklerski Banku BPS S.A. knowledge, but it may not be exhaustive and in the specific situation in which the recipient is or will be, other risk factors than those indicated in the above information by Dom Maklerski Banku BPS S.A. may exist or appear. The recipient should bear in mind that investments in individual financial instruments may result in the loss of some or all of the funds invested and may even involve additional costs.

Copying or publishing this study, or any part hereof, in any form whatsoever, and using the material for one's own publications, without the written consent of Dom Maklerski Banku BPS S.A., is prohibited. This study is legally protected under the Act of 4 February 1994 on Copyright and Related Rights. Copyright to the study is vested with the Warsaw Stock Exchange.

The authority supervising the operations of Dom Maklerski Banku BPS S.A. is the Polish Financial Supervision Authority with its registered office in Warsaw, at ul. Piękna 20.

List of recommendations issued within the last 12 months:

| Company       | Recommendation | Target price | Market price | Type of recommendation | Date of Issue | Analyst(s)                    |
|---------------|----------------|--------------|--------------|------------------------|---------------|-------------------------------|
| PROCHEM       | nd             | 31           | 24,8         | Analytical report      | 2021-05-17    | Tomasz Czamecki, Artur Wizner |
| VIVID GAMES   | nd             | 1,59         | 1,61         | Analytical report      | 2021-05-19    | Tomasz Czamecki, Artur Wizner |
| ML SYSTEM     | HOLD           | 126          | 118          | Initial report         | 2021-06-30    | Tomasz Czamecki, Artur Wizner |
| NTT SYSTEM    | nd             | 8,3          | 5,98         | Initial report         | 2021-09-01    | Łukasz Bryl, Tomasz Czamecki  |
| UNIBEP        | nd             | 17           | 12,9         | Initial report         | 2021-09-07    | Artur Wizner                  |
| MONNARI TRADE | nd             | 5,3          | 2,8          | Initial report         | 2021-09-07    | Łukasz Bryl, Tomasz Czamecki  |
| PROTEKTOR     | nd             | 4,6          | 3,6          | Initial report         | 2021-09-07    | Artur Wizner, Tomasz Czamecki |
| PROCHEM       | nd             | 31           | 25           | Initial report         | 2021-10-06    | Artur Wizner                  |
| NTT SYSTEM    | nd             | 8,3          | 5,8          | Analysis of results    | 2021-10-01    | Łukasz Bryl, Tomasz Czamecki  |
| MONNARI TRADE | nd             | 5,3          | 2,9          | Analysis of results    | 2021-10-01    | Łukasz Bryl, Tomasz Czamecki  |
| PROTEKTOR     | nd             | 4,6          | 3,4          | Analysis of results    | 2021-10-08    | Artur Wizner, Tomasz Czamecki |
| VIVID GAMES   | nd             | 1,23         | 1,39         | Analytical report      | 2021-10-18    | Łukasz Bryl, Tomasz Czamecki  |
| PROCHEM       | nd             | 31           | 25,4         | Analysis of results    | 2021-11-17    | Artur Wizner                  |
| VIVID GAMES   | nd             | 1,23         | 1,37         | Financial forecast     | 2021-11-24    | Łukasz Bryl, Tomasz Czamecki  |
| NTT SYSTEM    | nd             | 8,3          | 5,04         | Financial forecast     | 2021-11-24    | Łukasz Bryl, Tomasz Czamecki  |
| UNIBEP        | nd             | 14           | 10,35        | Analytical report      | 2021-11-24    | Artur Wizner                  |
| VIVID GAMES   | nd             | 1,23         | 1,34         | Analysis of results    | 2021-12-02    | Łukasz Bryl, Tomasz Czamecki  |
| NTT SYSTEM    | nd             | 8,3          | 5,16         | Analysis of results    | 2021-12-03    | Łukasz Bryl, Tomasz Czamecki  |
| MONNARI TRADE | nd             | 5,3          | 2,57         | Analysis of results    | 2021-12-10    | Łukasz Bryl, Tomasz Czamecki  |
| PROTEKTOR     | nd             | 4,6          | 3,17         | Analytical report      | 2021-12-10    | Artur Wizner                  |
| INTERFERIE    | SELL           | 6,73         | 7,5          | Initial report         | 2021-12-30    | Łukasz Bryl                   |
| JSW           | BUY            | 45           | 34,87        | Analytical report      | 2021-12-30    | Artur Wizner                  |
| JSW           | BUY            | 46,4         | 35,4         | Analytical report      | 2022-01-04    | Artur Wizner                  |
| SNIEZKA       | HOLD           | 84           | 79,8         | Analytical report      | 2022-03-24    | Artur Wizner                  |
| UNIBEP        | nd             | 11           | 9            | Analytical report      | 2022-04-21    | Artur Wizner                  |
| NTT SYSTEM    | nd             | 7,94         | 5            | Analytical report      | 2022-05-04    | Tomasz Czamecki, Łukasz Bryl  |
| PROCHEM       | nd             | 37           | 32,8         | Analytical report      | 2022-05-10    | Artur Wizner                  |
| VIVID GAMES   | nd             | 1,25         | 1,17         | Analysis of results    | 2022-05-13    | Łukasz Bryl, Tomasz Czamecki  |