

Vivid Games SA

2022-05-26 08:00

Key data

Target price [PLN]	1,29
DCF Valuation [PLN]	1,48
Comparative Valuation [PLN]	0,92
Market price [PLN]	1,26
Growth/decrease potential [%]	2,4%
Market cap [mln PLN]	40,7
Free float [%]	50,3%
Industry	mobile games
WSE code	VVD
Bloomberg code	VVD PW

Analysts

Łukasz Bryl

Tel.: 785 500 874

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%

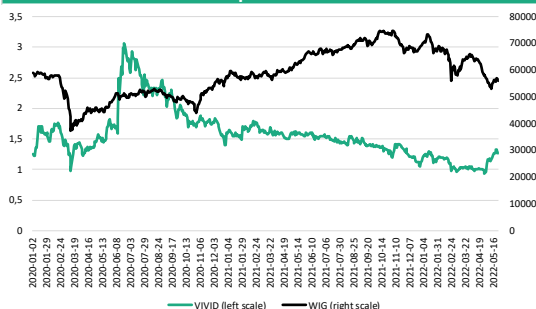
Growth factors

strong global gaming market
dollar appreciation
data analytics investment

Risk factors

high amortization
high costs of UA
low profitability

Stock performance



Source: DM Banku BPS SA calculations

Analysis of the results after 1Q 2022

- In the first quarter of 2022 **Vivid Games SA generated revenues of PLN 7.863 million**, which means a **decrease by 0.6 percent qoq** and an **increase of 37.6 percent yoy**. The drop in revenues compared to the previous quarter was due to the inability to monetize Knights Fight 2 for legal reasons. The game in 2021 was responsible for 16 percent of total revenues. The dominant share in revenues constantly has the flagship title Real Boxing 2, although we notice a significant increase in the second of the key titles - Eroblast.
- We notice also a significant improvement at the EBITDA level.** EBITDA was positive and amounted to PLN 1.038 million against minus PLN 14.524 million in the fourth quarter of 2021 (EBITDA in the fourth quarter of 2021 was burdened with an impairment loss of R&D works in the amount of PLN 12.572 million).
- We positively assess amortization, which was 35.4 percent lower** than the average for the previous four quarters of 2021.
- For the first time since 2020, the Company generated a positive operating result** (PLN 68 thd. against minus PLN 14.569 million in 2021), although it was possible due to the high value of other operating revenues. Gross profit on sales, although significantly better than in 2021, still remains negative (minus PLN 270 thd).
- The Company achieved positive net profitability (0.6%).** Net profit, as well as EBIT, for the first time since 2020, was positive and amounted to PLN 50 thd.
- Finally, **we increase our valuation to PLN 1.29 per share (from 1.25)**, which results from slightly better than expected results of the Company and improvement in the multipliers of comparable companies.

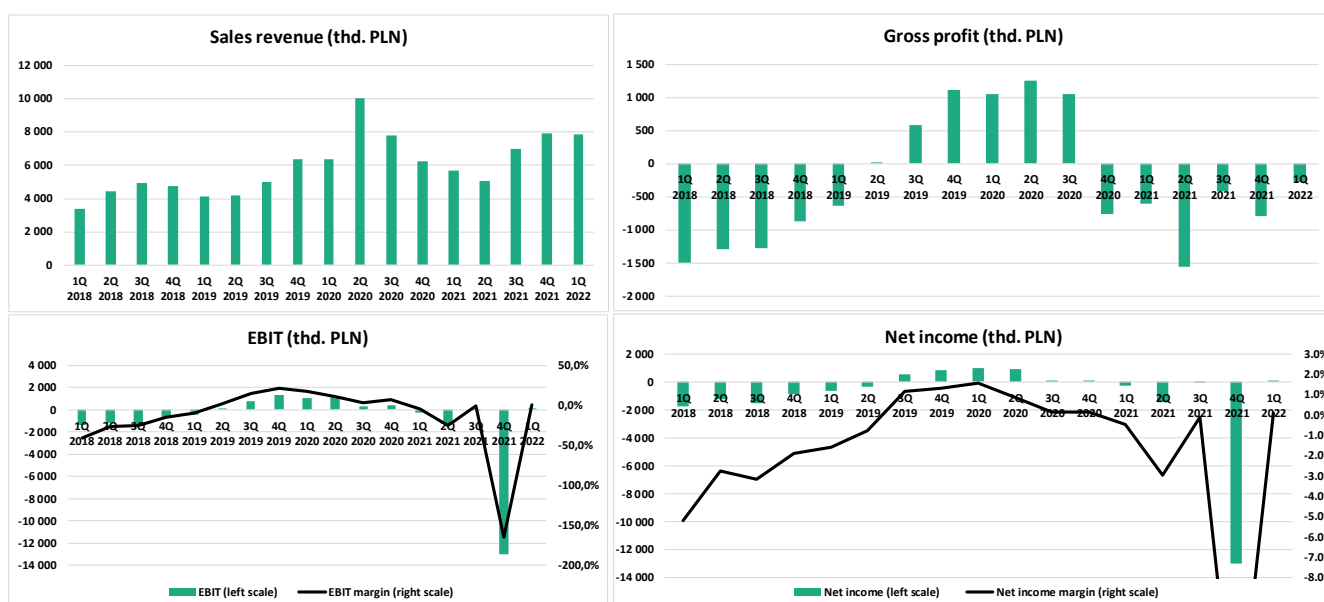
PLN thd	2021	2022P	2023P	2024P	2025P	2026P
Sales	25 689	35 506	41 273	48 839	57 914	62 474
EBITDA	-8 557	3 917	5 417	7 116	9 141	9 822
EBITDA margin	-33,3%	11,0%	13,1%	14,6%	15,8%	15,7%
EBIT	-14 570	1 038	1 504	3 204	5 228	5 909
Net income	-14 857	583	1 224	2 714	4 354	4 906
Equity	6 623	7 206	8 430	11 144	15 498	20 404
Debt	6 449	5 540	2 819	1 564	648	835
P/E	-2,74	69,79	33,26	15,00	9,35	8,30
P/BV	6,14	5,65	4,83	3,65	2,63	1,99
EV/EBITDA	-4,00	8,98	6,99	5,50	4,38	4,06
EPS	-0,46	0,02	0,04	0,08	0,13	0,15

Source: DM Banku BPS SA, E - estimates

Financial forecasts for 1Q 2022

	thd. PLN	1Q 2022	DM BPS forecasts	Comparison to DM BPS forecasts	2Q 2021	4Q 2021	Change qoq
Revenue		7 863	7 861	0,0%	7 015	7 913	12,8%
Profit on sales		-270	-235	-15,1%	-410	-795	93,9%
Sales margin		-3,4%	-3,0%	-0,4 pp.	-5,8%	-10,0%	-4,2 pp.
EBITDA		1 038	1 078	-3,7%	1 394	-11 514	725,9%
EBITDA margin		13,2%	13,7%	-0,5 pp.	19,9%	-145,5%	-165,4 pp.
EBIT		68	100	-32,2%	-63	-13 019	-20532,0%
EBIT margin		0,9%	1,3%	-0,3 pp.	-0,9%	-164,5%	-163,6 pp.
Gross profit		-16	-20	-18,8%	-87	-13 137	-14965,3%
Gross profit margin		-0,2%	-0,3%	+0,1 pp.	-1,2%	-166,0%	-164,8 pp.
Net income		50	-16	-	-87	-13 004	-14813,2%
Net income margin		0,6%	-0,2%	+0,8 pp.	-1,2%	-164,3%	-163,1 pp.

Source: DM Banku BPS SA, Company



Source: DM Banku BPS SA calculations, Company

Expected impact: The Company's revenues turned out to be in line with our expectations, however the Company positively surprised us in terms of the net financial result, which turned out to be slightly positive (plus PLN 50 thd), while our estimates indicated a slight net loss (minus PLN 16 thd).

In line with our expectations, Vivid Games SA slowly implements the Strategy that assumes, *inter alia*, achieving USD 1 mln in revenue per month from Real Boxing 2 by 2023 and USD 1 mln in revenue per month from one of the portfolio games (Eroblast) by 2025. The decrease in revenues that took place in the first quarter compared to the fourth quarter of 2021 was mainly due to legal problems with the monetization of Knights Fight 2 (Company is in a legal dispute with a partner from Belarus), which was responsible for 16 percent of revenues in 2021. Real Boxing 2 and Eroblast generated higher revenues than in the previous quarters of 2021.

We can see that Vivid Games focuses its efforts on the ambitious strategy of November 2021. Our future valuations of the Company will depend on its actual implementation. Nevertheless, it should be borne in mind that the Company's value will be shaped not so much by growing revenues, but by increasing profitability. Hence, on the one hand, the key will be cost discipline, manifested in the control of costs of external services and remuneration (the two most important cost items of the Company responsible for 88% of costs), and on the other hand, the development of amortization. Its value in the first quarter was significantly lower than in the previous quarters, which we assess positively. The lower amortization rates are partly due to significant write-offs in 2021 and thus the abandonment of non-prospective projects.

We increase our valuation to PLN 1.29 per share (from PLN 1.25), which results both from the increase in the value in the DCF model and the higher multipliers of companies in the comparative method.

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.

DFCFF - 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.

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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>

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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
PROTEKTOR	nd	3,6	2,8	Analytical report	2022-05-13	Artur Wizner
PROCHEM	nd	37	33,6	Analysis of results	2022-05-17	Artur Wizner
MONNARI TRADE	nd	5,5	3,5	Analytical report	2022-05-18	Łukasz Bryl
VIVID GAMES	nd	1,29	1,26	Analysis of results	2022-05-26	Łukasz Bryl