

Vivid Games SA

Analytical report

2022-09-29 08:45

Key data

Target price [PLN]	1,07
DCF Valuation [PLN]	1,13
Comparative Valuation [PLN]	0,94
Market price [PLN]	1,03
Growth/decrease potential [%]	3,6%
Market cap [mln PLN]	33,1
Free float [%]	50,3%
Industry	mobile games
WSE code	VVD
Bloomberg code	VVD PW

Analysts

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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.

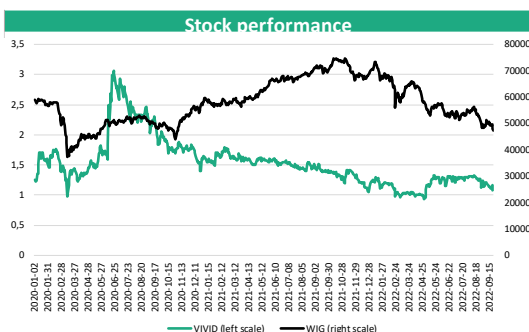
Source: www.gpw.pl

Shareholders:

[%]

Kościelny Remigiusz	22,5%
Wojczakowski Jarosław	22,5%
Sominka Paweł	7,8%

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

Strategy to maximize revenue effectively in progress, profitability is still very low

An ambitious strategy for the revenue growth set by the Management Board by focusing on three games from the current portfolio turned out to be implemented slightly faster than our forecasts, which should be perceived positively. The reasons include, *inter alia* growing users' interest in the two flagship titles (Real Boxing 2 and Eroblast) and USD appreciation, the most important currency for the Company revenue. Unfortunately, the increases in revenues are not accompanied by higher profits. Instead of generating a greater net profit margin after Q2, Vivid Games performed a result lower than in the previous quarter and a lower than our expectations (PLN 22 thousand against the expected PLN 201 thousand and PLN 50 thousand generated in Q1 2022). The reason lies in the higher than expected costs of external services (plus 7.5%) and amortization (plus 4.2%).

Among the relevant information there should be mentioned the sale of BidLogic technology (advertising mediation service), which will positively affect the Company liquidity position and net result in the third quarter. Because of this transaction, the Company expects a cash inflow of approx. PLN 4.2 million, of which over PLN 3 million has already been received.

In our update report we perform a revision of the cost of capital and the assumed profit levels. Finally, **we lower our valuation to PLN 1.07 (from PLN 1.29)** per share at the end of 2022, still seeing potential for growth with relation to the current quotation.

PLN thd	2021	2022P	2023P	2024P	2025P	2026P
Sales	25 689	36 540	41 484	49 010	58 037	62 538
EBITDA	-8 557	7 803	5 426	6 654	8 118	8 135
EBITDA margin	-33,3%	21,4%	13,1%	13,6%	14,0%	13,0%
EBIT	-14 570	4 886	1 513	2 742	4 205	4 222
Net income	-14 857	3 607	1 146	2 255	3 441	3 454
Equity	6 623	10 230	11 376	13 632	17 072	20 527
Debt	6 449	2 338	344	348	389	356
P/E	-2,16	8,90	28,00	14,23	9,33	9,29
P/BV	4,85	3,14	2,82	2,35	1,88	1,56
EV/EBITDA	-3,00	3,81	5,85	4,77	3,91	3,90
EPS	-0,46	0,11	0,04	0,07	0,11	0,11

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.

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The work on this study has been completed on: 29th September 2022, 8:45

Distribution of this study: 29th September 2022, 8:55

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	25	Analytical report	2021-10-06	Artur Wizner
NTT SYSTEM	nd	8,3	5,8	Analysis of results	2021-10-01	Łukasz Bryl, Tomasz Czarniecki
MONNARI TRADE	nd	5,3	2,9	Analysis of results	2021-10-01	Łukasz Bryl, Tomasz Czarniecki
PROTEKTOR	nd	4,6	3,4	Analysis of results	2021-10-08	Artur Wizner, Tomasz Czarniecki
VIVID GAMES	nd	1,23	1,39	Analytical report	2021-10-18	Łukasz Bryl, Tomasz Czarniecki
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 Czarniecki
NTT SYSTEM	nd	8,3	5,04	Financial forecast	2021-11-24	Łukasz Bryl, Tomasz Czarniecki
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 Czarniecki
NTT SYSTEM	nd	8,3	5,16	Analysis of results	2021-12-03	Łukasz Bryl, Tomasz Czarniecki
MONNARI TRADE	nd	5,3	2,57	Analysis of results	2021-12-10	Łukasz Bryl, Tomasz Czarniecki
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 Czarniecki, 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 Czarniecki
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
MONNARI TRADE	nd	6,21	3,87	Analysis of results	2022-05-31	Łukasz Bryl
NTT SYSTEM	nd	7,92	4,28	Analysis of results	2022-05-31	Łukasz Bryl
UNIBEP	nd	11	8,1	Analysis of results	2022-05-31	Artur Wizner
PROTEKTOR	nd	3,6	2,83	Analysis of results	2022-06-01	Artur Wizner
JSW	BUY	74	38,7	Analytical report	2022-09-12	Artur Wizner
UNIBEP	nd	10	7,2	Analytical report	2022-09-20	Artur Wizner
VIVID GAMES	nd	1,07	1,03	Analytical report	2022-09-29	Łukasz Bryl