

Ultimate Games

Not only promises

The video game developer boom on the WSE reached highs in 2020 with 12 new companies entering the stock exchange. Many of them hold the promise of numerous releases somewhere in the future, but only selected companies truly deliver financial results while lack of visibility of pipelines becomes a material issue for investors. In such a landscape, Ultimate Games seems to be a very interesting pick, with already delivered business proof of its concepts with firm financial results, close to 100 releases delivered each year as well as excellent growth dynamics in recent years (77% y/y increase in sales revenues and 20% in EBIT in 1H21, according to preliminary figures). Strongly bound to PlayWay Group jointly with increasing its independence (own publisher account on Nintendo platform) provide Ultimate with plentiful growth opportunities within and outside of the PLW Group. In coming years we expect the company to stabilize its number of releases, and also focus on larger productions, achieving the release of one game annually with 150k-copy 12M sales potential as of 2022E. We forecast Ultimate Games to deliver PLN 28.0m (+60% y/y) and PLN 34.3m (+23% y/y) in revenues in 2021/22E and PLN 9.5m (+66% y/y) and PLN 10.8m (+13% y/y) in norm. net income. On our forecasts, the company trades at a P/E of 15.6x/13.8x in 2021/22E, respectively, or over 30% discount to foreign peers. We initiate our coverage with a BUY recommendation and set our FV at PLN 35.0 (23% upside).

Porting business – cheap and highly profitable choice.

Some investors could perceive porting activity as less attractive than innovative game production; nevertheless, it is certainly not unprofitable. We note that multiple console port releases of Polish games including PlayWay's House Flipper and Car Mechanic Simulator, as well as Ultimate's Nintendo Switch ports of Thief Simulator and House Flipper clearly show that the console market is not closed for independent productions. Moreover, console versions could match the performance of PCs. Ultimate Games' group console port pipeline includes titles such as Car Mechanic Simulator 2018 for N. Switch (scheduled for release this year) as well as Mr. Prepper, Builders of Egypt, Uboat and Drug Dealer Simulator.

Entering larger productions.

Besides its external title porting business, Ultimate Games develops games in-house. To date the most successful IP is Ultimate Fishing Simulator, with over 200k copies sold (over 500k including DLC) and ca. 60k in 2020. In 4Q21 the company scheduled the release of Ultimate Fishing Simulator 2, which we forecast to be a game with 100k-copy sales per year potential. For the following years, Ultimate Games plans the releases of Ultimate Hunting (the largest product in the portfolio, developmental budget of PLN 3-5m) as well as Thief Simulator 2 (Thief Simulator 1 sold 360k copies in the first 12M from release). Due to its expanded portfolio, we see noticeable potential for the company to outperform UFS results in the future, forecasting one release with 150k copies in 12M sales potential annually from 2022E, supported by multiple smaller titles.

Figure 1. Summary of financial data (PLN m)

	2018	2019	2020	2021E	2022E	2023E
Revenues	4.5	8.6	17.5	28.0	34.3	39.8
EBITDA	1.9	4.6	7.2	10.7	12.2	13.9
Norm. net income	2.0	3.7	5.7	9.5	10.8	12.3
EV/EBITDA (x)	27.1	25.3	27.0	15.6	13.8	12.1
P/E (x)	28.4	19.6	15.1	9.8	8.8	7.8
DY	4.5	8.6	17.5	28.0	34.3	39.8

Source: Company, IPOPEMA Research

TMT | Video Games

Ultimate Games

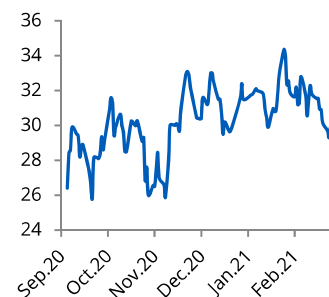
BUY

FV PLN 35.0

23% upside

Price as of 6 September 2021 PLN 28.5

Coverage Initiation



Share data

Number of shares (m)	5.23
Market cap (EUR m)	32.9
12M avg daily volume (k)	11.3
12M avg daily turnover (EUR k)	74.4
12M high/low (PLN)	36.0/24.3
WIG weight (%)	0.02
Reuters	ULG.WA
Bloomberg	ULG.PW

Total performance

1M	+4%
3M	-6%
12M	+8%

Shareholders

PlayWay S.A.	45.9%
Mateusz Zawadzki (CEO)	7.3%
Others	46.8%

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Ultimate Games

BUY

FV PLN 35

Mkt Cap EUR 32.9m

upside +23%

Valuation multiples	2019	2020	2021E	2022E	2023E
P/E norm. (x)	25.3	27.0	15.6	13.8	12.1
EV/EBITDA (x)	19.6	15.1	9.8	8.8	7.8
EV/Sales (x)	10.4	6.2	3.8	3.1	2.7
P/BV (x)	11.4	3.2	2.9	2.7	2.5
FCF yield (%)	2.2%	6.6%	3.6%	4.6%	5.2%
DY (%)	1.9%	1.4%	7.0%	5.4%	6.1%

Per share	2019	2020	2021E	2022E	2023E
No. of shares (m units)	5.2	5.2	5.2	5.2	5.2
norm. EPS* (PLN)	0.7	1.1	1.8	2.1	2.4
BVPS (PLN)	1.6	9.3	9.8	10.5	11.3
FCFPS (PLN)	0.4	1.9	1.0	1.3	1.5
DPS (PLN)	0.4	0.4	2.0	1.5	1.8

Change y/y (%)	2019	2020	2021E	2022E	2023E
Revenues	90%	103%	60%	23%	16%
EBITDA	148%	56%	49%	14%	14%
EBIT	147%	56%	49%	14%	14%
Net profit	111%	671%	-60%	-11%	15%
Net profit adj.	86%	53%	66%	13%	15%

Leverage and return	2019	2020	2021E	2022E	2023E
EBITDA margin (%)	53.3%	41.1%	38.2%	35.5%	34.9%
EBIT margin (%)	53.1%	40.8%	37.9%	35.2%	34.7%
Net margin adj. (%)	43.4%	32.8%	34.1%	31.4%	31.1%
Net debt / EBITDA (x)	-0.9	-2.9	-1.7	-1.3	-1.0
Net debt / Equity (x)	-0.5	-0.4	-0.4	-0.3	-0.2
Net debt / Assets (x)	-0.5	-0.4	-0.3	-0.3	-0.2
ROE (%)	62.6%	20.1%	19.1%	20.3%	21.7%
ROA (%)	56.4%	17.6%	16.8%	18.2%	19.7%
ROIC (%)	62.1%	20.3%	17.2%	18.4%	19.6%

Sales revenues	2019	2020	2021E	2022E	2023E
Total	7.3	14.9	25.3	31.1	35.9
PC games	4.9	6.4	8.6	11.6	13.6
mobile games	0.7	1.1	1.6	2.2	2.8
console games	1.7	7.4	15.1	17.4	19.5

Sales structure	2019	2020	2021E	2022E	2023E
PC games	67%	43%	34%	37%	38%
mobile games	10%	7%	6%	7%	8%
console games	23%	50%	60%	56%	54%

P&L (PLN m)	2018	2019	2020	2021E	2022E	2023E
Revenues	4.5	8.6	17.5	28.0	34.3	39.8
Net revenues from sales	3.8	7.3	14.9	25.3	31.1	35.9
Change in the balance of prod.	0.7	1.2	2.6	2.7	3.2	3.8
Other revenues	0.0	0.1	0.0	0.0	0.0	0.0
Operating costs	-2.7	-4.0	-10.4	-17.4	-22.3	-26.0
D&A	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Services	-1.7	-2.9	-9.0	-15.8	-20.5	-24.1
Salaries and other benefits	-0.7	-1.0	-1.1	-1.2	-1.3	-1.4
Others	-0.3	-0.2	-0.1	-0.3	-0.3	-0.4
EBITDA	1.9	4.6	7.2	10.7	12.2	13.9
EBIT	1.9	4.6	7.1	10.6	12.1	13.8
Financial income net	0.5	0.6	1.9	4.4	-0.1	-0.1
Share in associates profits	0.0	0.1	0.4	0.5	1.2	1.4
Change in control over sub.	0.0	0.0	31.6	0.0	0.0	0.0
Pre-tax profit	2.4	5.3	41.1	15.5	13.2	15.2
Income tax	-0.4	-1.0	-8.4	-2.3	-1.6	-1.8
Minorities	0.0	0.0	0.0	0.0	0.9	1.0
Net profit	2.0	4.2	32.7	13.2	10.8	12.3
Norm. net profit*	2.0	3.7	5.7	9.5	10.8	12.3

BALANCE SHEET (PLN m)	2018	2019	2020	2021E	2022E	2023E
Non-current assets	0.2	0.8	28.1	28.6	29.9	31.5
Goodwill and intangible assets	0.1	0.2	0.1	0.2	0.2	0.3
Tangible assets	0.0	0.0	0.1	0.1	0.2	0.2
Investments in associates	0.1	0.6	27.5	28.0	29.2	30.7
Other non-current assets	0.0	0.0	0.3	0.3	0.3	0.3
Current assets	3.8	8.4	27.5	29.2	30.9	33.2
Inventories	1.4	2.6	3.5	6.2	9.4	13.2
Trade receivables	0.4	1.4	2.0	3.4	4.1	4.8
Cash and equivalents	1.7	4.2	21.0	18.5	16.1	13.8
Other current assets	0.3	0.2	1.1	1.2	1.3	1.4
Total assets	4.0	9.3	55.6	57.8	60.9	64.7
Equity	3.6	8.3	48.6	51.3	54.8	59.0
Minorities	0.0	0.0	2.6	2.6	3.5	4.5
Non-current liabilities	0.0	0.0	5.5	4.4	3.5	2.8
Current liabilities	0.3	1.0	1.5	2.1	2.5	2.8
Trade payables	0.2	0.6	1.0	1.5	1.9	2.2
Other current liabilities	0.2	0.3	0.6	0.6	0.6	0.7
Equity & liabilities	4.0	9.3	55.6	57.8	60.9	64.7
Gross debt (PLN m)	0.0	0.0	0.0	0.0	0.0	0.0
Net debt (PLN m)	-1.7	-4.2	-21.0	-18.5	-16.1	-13.8

CASH FLOW (PLN m)	2018	2019	2020	2021E	2022E	2023E
Operating cash flow	0.4	2.0	-0.3	8.1	5.9	7.0
Pretax income	2.4	5.3	41.1	15.5	13.2	15.2
D&A	0.0	0.0	0.1	0.1	0.1	0.1
Change in WC	-0.9	-1.9	-4.0	-3.5	-3.7	-4.2
Tax paid	-0.3	-0.9	-3.4	-3.4	-2.5	-2.5
Other	-0.7	-0.6	-34.1	-0.5	-1.2	-1.4
Investment cash flow	0.4	0.1	9.3	-0.2	-0.2	-0.2
Net change in assets	-0.1	0.3	8.1	-0.2	-0.2	-0.2
Net investment in subsidiaries	0.4	-0.2	1.1	0.0	0.0	0.0
Other	0.1	0.0	0.0	0.0	0.0	0.0
Financial cash flow	-0.1	0.4	7.9	-10.5	-8.1	-9.2
Change in equity	0.0	3.0	9.9	0.0	0.0	0.0
Dividend	0.0	-1.8	-2.1	-10.5	-8.1	-9.2
Other	-0.1	-0.8	0.0	0.0	0.0	0.0
Change in cash	0.7	2.5	16.8	-2.5	-2.4	-2.3
Cash as of EoP	1.7	4.2	21.0	18.5	16.1	13.8

Source: Company data, IPOPEMA Research, *normalized by net financial result on sale of subsidiaries shares and non-cash result on loss of control over subsidiaries

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Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.

LLP – loan loss provisions – an expense set aside as an allowance for bad loans.

NPL – non-performing loan – loans that are in default or close to be in default.

Cost/Income – operating expenses divided by total banking revenue.

ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.

ROA – return on assets – net income (or adjusted net income) divided by the average assets.

EBIT – earnings before interests and tax.

EBITDA – earnings before interests, tax, depreciation and amortization.

EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding.

P/E – price to earnings ratio – price divided by earnings per share.

PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.

CAGR – compound annual growth rate.

BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.

P/BV – price to book value - price divided by the BVPS.

DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.

DY – dividend yield – dividend of a given year divided by the current price.

DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.

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	Number	%
Buy	19	76%
Hold	6	24%
Sell	0	0%
Total	25	100%

Rating History – Ultimate Games

Date	Recommendation	Fair Value	Price at recommendation	Author
07.09.2021	BUY	35,0	28,5	Michał Wojciechowski, Marcin Nowak