

Ultimate Games

Time for larger productions

In 9M21 Ultimate Games delivered PLN 18.5m in revenues (up 49% y/y) and PLN 4.3m in norm. net income (down 18% y/y). The company was able to increase its revenues thanks to maintenance of the high number of releases (over 80 games launched in 2021), but with no break-through hit this year. On the other hand, the significant decrease in profitability was driven by several factors, including high royalty payments on top performing titles such as House Flipper and Cooking simulator as well as wage pressure from developers and increasing marketing costs. We still perceive Ultimate Games' business as healthy, but with the most promising title, Ultimate Hunting, likely arriving at the end of 2022E or in 2023E, earnings momentum is not likely to improve in the short-term. We forecast Ultimate Games to deliver PLN 25.1m (+44% y/y) and PLN 31.5m (+25% y/y) in revenues in 2021E/22E and PLN 6.2m (+8% y/y) and PLN 7.8m (+26% y/y) in norm. net income. On our forecasts, the company trades at a P/E of 20.3x/16.0x in 2021E/22E, at a 4% premium and 14% discount to foreign peers. We downgrade our recommendation to HOLD and decrease our FV to PLN 26.0.

Group

Currently Ultimate Games Group includes 17 companies and several dozen development teams of different sizes and experience. We believe that a PlayWay-like business model with over 100 games in production could bring substantial benefits for Ultimate Games, but to date the largest title from Ultimate Games, Ultimate Fishing Simulator, delivers roughly 60k copies sales per year. Some additional upside for the company could be delivered by planned expansion on the Chinese market (the company has entered the certification process).

2022E and beyond

Partially due to underperformance of PlayWay's November releases (related to high competition from large AAA game debuts), Ultimate Games decided to postpone several games planned for 2H21. As of now we expect that with the beginning of next year, the group should publish among others Ultimate Fishing Simulator 2 early access (scheduled for 1Q22E), CMS18 for Nintendo Switch, Bakery Simulator (co-published with Gaming Factory) and the next ports of Mr. Prepper. Nevertheless, the most promising releases in our view are Ultimate Hunting (development budget of PLN 3-5m) and Thief Simulator 2, which are not likely to arrive earlier than at the end of the next year. We maintain our forecast for one game annually reaching 150k copies sales in 12M from release and currently expect that UFS2 has the higher chance to reach this milestone in 2022E. We also forecast the services/revenue ratio to reach 65% in 2022E (up 4pp), which is likely to reflect wage pressure and higher development budgets of new games.

Dividend

We forecast the company to maintain a generous dividend policy with 85% payment ratio in the next years, which implies DPS of PLN 1.0 in 2022E (DY 4.2%).

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

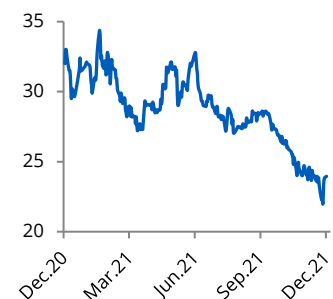
HOLD

FV PLN 26.0 from PLN 35.0

9% upside

Price as of 6 December 2021 PLN 23.95

Downgraded from BUY



Share data

Number of shares (m)	5.2
Market cap (EUR m)	27.2
12M avg daily volume (k)	8.9
12M avg daily turnover (EUR m)	0.1
12M high/low (PLN)	36 / 21.6
WIG weight	0.0
Reuters	ULG.WA
Bloomberg	ULG.PW

Total performance

1M	-3%
3M	-16%
12M	-19%

Shareholders

PlayWay	45.9%
Mateusz Zawadzki	7.3%
Others	46.8%

Analysts

Michał Wojciechowski
Michal.Wojciechowski@ipopema.pl
+ 48 22 236 92 69
Marcin Nowak
Marcin.Nowak@ipopema.pl
+ 48 22 236 92 44

Ultimate Games

BUY

FV PLN 26

Mkt Cap EUR 27.2m

upside +9%

Valuation multiples	2020	2021E	2022E	2023E	2024E
P/E norm. (x)	27.0	20.3	16.0	12.8	11.3
EV/EBITDA (x)	15.1	10.4	9.3	8.1	7.4
EV/Sales (x)	6.2	3.3	2.7	2.2	2.0
P/BV (x)	3.2	2.5	2.4	2.2	2.1
FCF yield (%)	6.3%	2.6%	3.5%	4.3%	5.0%
DY (%)	1.4%	8.4%	4.2%	5.3%	6.7%

Per share	2020	2021E	2022E	2023E	2024E
No. of shares (m units)	5.2	5.2	5.2	5.2	5.2
norm. EPS* (PLN)	1.1	1.2	1.5	1.9	2.1
BVPS (PLN)	9.3	9.4	10.0	10.8	11.5
FCFPS (PLN)	1.9	0.6	0.8	1.0	1.2
DPS (PLN)	0.4	2.0	1.0	1.3	1.6

Change y/y (%)	2020	2021E	2022E	2023E	2024E
Revenues	103%	44%	25%	21%	15%
EBITDA	56%	10%	14%	17%	13%
EBIT	56%	9%	14%	17%	13%
Net profit	671%	-78%	18%	25%	13%
Net profit adj.	53%	8%	26%	25%	13%

Leverage and return	2020	2021E	2022E	2023E	2024E
EBITDA margin (%)	41.1%	31.4%	28.6%	27.5%	27.0%
EBIT margin (%)	40.8%	30.9%	28.2%	27.1%	26.6%
Net margin adj. (%)	32.8%	24.6%	24.8%	25.6%	25.3%
Net debt / EBITDA (x)	-2.9	-2.3	-1.8	-1.3	-0.9
Net debt / Equity (x)	-0.4	-0.4	-0.3	-0.2	-0.2
Net debt / Assets (x)	-0.4	-0.3	-0.3	-0.2	-0.2
ROE (%)	20.1%	12.6%	15.4%	18.0%	19.1%
ROA (%)	17.6%	11.1%	13.8%	16.6%	17.8%
ROIC (%)	20.3%	12.9%	14.2%	15.5%	16.3%

Sales revenues	2020	2021E	2022E	2023E	2024E
Total	14.9	22.3	28.4	34.8	40.1
PC games	6.4	6.5	10.7	13.4	15.8
mobile games	1.1	1.3	1.6	2.1	2.6
console games	7.4	14.5	16.1	19.3	21.8
Sales structure	2020	2021E	2022E	2023E	2024E
PC games	43%	29%	38%	38%	39%
mobile games	7%	6%	6%	6%	6%
console games	50%	65%	57%	55%	54%

P&L (PLN m)	2019	2020	2021E	2022E	2023E	2024E
Revenues	8.6	17.5	25.1	31.5	38.2	43.8
Net revenues from sales	7.3	14.9	22.3	28.4	34.8	40.1
Change in the balance of prod.	1.2	2.6	2.8	3.0	3.4	3.7
Other revenues	0.1	0.0	0.1	0.1	0.1	0.1
Operating costs	-4.0	-10.4	-17.3	-22.6	-27.9	-32.2
D&A	0.0	-0.1	-0.1	-0.1	-0.2	-0.2
Services	-2.9	-9.0	-15.4	-20.5	-25.6	-29.7
Salaries and other benefits	-1.0	-1.1	-1.3	-1.4	-1.5	-1.6
Others	-0.2	-0.1	-0.5	-0.6	-0.6	-0.7
EBITDA	4.6	7.2	7.9	9.0	10.5	11.8
EBIT	4.6	7.1	7.8	8.9	10.4	11.7
Financial income net	0.6	1.9	1.2	0.0	0.0	0.0
Share in associates profits	0.1	0.4	0.1	0.6	1.5	1.8
Change in control over sub.	0.0	31.6	0.0	0.0	0.0	0.0
Pre-tax profit	5.3	41.1	9.0	9.5	11.9	13.5
Income tax	-1.0	-8.4	-1.9	-1.0	-1.3	-1.5
Minorities	0.0	0.0	-0.3	0.6	0.8	0.9
Net profit	4.2	32.7	7.4	7.8	9.8	11.1
Norm. net profit*	3.7	5.7	6.2	7.8	9.8	11.1

BALANCE SHEET (PLN m)	2019	2020	2021E	2022E	2023E	2024E
Non-current assets	0.8	28.1	28.9	29.3	31.0	32.8
Goodwill and intangible assets	0.2	0.1	0.2	0.2	0.2	0.3
Tangible assets	0.0	0.1	0.1	0.2	0.2	0.3
Investments in associates	0.6	27.5	28.4	29.0	30.5	32.3
Other non-current assets	0.0	0.3	0.3	0.0	0.0	0.0
Current assets	8.4	27.5	26.4	28.2	29.8	30.9
Inventories	2.6	3.5	6.1	9.2	12.5	16.2
Trade receivables	1.4	2.0	1.6	2.1	2.5	2.9
Cash and equivalents	4.2	21.0	17.9	16.1	13.8	10.8
Other current assets	0.2	1.1	0.8	0.9	0.9	1.0
Total assets	9.3	55.6	55.4	57.6	60.7	63.8
Equity	8.3	48.6	49.1	52.3	56.3	59.9
Minorities	0.0	2.6	3.1	3.8	4.6	5.5
Non-current liabilities	0.0	5.5	5.5	4.4	3.5	2.8
Current liabilities	1.0	1.5	0.7	0.8	0.9	1.0
Trade payables	0.6	1.0	0.4	0.4	0.5	0.6
Other current liabilities	0.3	0.6	0.4	0.4	0.4	0.4
Equity & liabilities	9.3	55.6	55.4	57.6	60.7	63.8
Gross debt (PLN m)	0.0	0.0	0.0	0.0	0.0	1.0
Net debt (PLN m)	-4.2	-21.0	-17.9	-16.1	-13.8	-10.8

CASH FLOW (PLN m)	2019	2020	2021E	2022E	2023E	2024E
Operating cash flow	2.0	-0.3	2.3	3.7	4.5	5.6
Pretax income	5.3	41.1	9.0	9.5	11.9	13.5
D&A	0.0	0.1	0.1	0.1	0.2	0.2
Change in WC	-1.9	-4.0	-3.0	-3.5	-3.8	-4.1
Tax paid	-0.9	-3.4	-2.5	-1.9	-2.2	-2.2
Other	-0.6	-34.1	-1.5	-0.6	-1.5	-1.8
Investment cash flow	0.1	9.3	3.8	-0.2	-0.2	-0.3
Net change in assets	0.3	8.1	-0.1	-0.2	-0.2	-0.3
Net investment in subsidiaries	-0.2	1.1	3.6	0.0	0.0	0.0
Other	0.0	0.0	0.2	0.0	0.0	0.0
Financial cash flow	0.4	7.9	-9.1	-5.3	-6.6	-8.3
Change in equity	3.0	9.9	1.3	0.0	0.0	0.0
Dividend	-1.8	-2.1	-10.5	-5.3	-6.6	-8.3
Other	-0.8	0.0	0.0	0.0	0.0	0.0
Change in cash	2.5	16.8	-3.0	-1.8	-2.3	-3.0
Cash as of EoP	4.2	21.0	17.9	16.1	13.8	10.8

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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Sell	Below -10%

IPOPEMA Research - Distribution by rating category (July 1 – September 30, 2021)

	Number	%
Buy	52	74%
Hold	14	20%
Sell	4	6%
Total	70	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
08/12/2021	HOLD	26.0	24.70	Michał Wojciechowski, Marcin Nowak