

Ultimate Games

Awaiting better times

In 2021 Ultimate Games released 83 games, but no major title was launched last year. Despite this, the company was able to increase revenues thanks to solid sales of Ultimate Fishing Simulator, House Flipper and other back catalogue games. On the other hand, its results were affected by a high revenue share and increasing costs of team maintenance. We expect 2022E to deliver substantial earnings improvement y/y driven by releases such as CMS Pocket Edition 2 (port of CMS18 on N. Switch), Mr. Prepper on consoles, Ultimate Fishing Simulator 2 on PC, Electrician Simulator and Ultimate Fishing Simulator on Oculus Quest 2. Nevertheless, we anticipate a major hit from the studio to be delivered in 2023E, as we expect Ultimate Hunting to be released this year, with our forecast of 150k copies sold in the initial 12M. We forecast Ultimate Games to deliver PLN 29.6m (+17% y/y) and PLN 35.7m (+21% y/y) in revenues in 2022E/23E and PLN 6.9m (+35% y/y) and PLN 10.1m (+46% y/y) in norm. net income. On our forecasts, the company trades at a P/E of 14.3x/9.8x in 2022E/23E, at a high, double digit discount to foreign peers. We maintain our HOLD recommendation and decrease our FV to PLN 18.0 (5% downside), due to a higher risk premium related to the war in Ukraine and the higher risk-free rate assumed in our model.

Ultimate Fishing Simulator 2.

The company recently completed playtests for the game, with an average player rating of 82.6%, which we perceive as a solid result. With the second part of playtests scheduled for July, we believe that early access release in autumn 2022E is a base case scenario (the company set release date for 25 August). Considering satisfactory sales on UFS1 with nearly 300k copies sold in the lifetime, we believe the sequel of the game should be able to reach 100k copies sold in 12M from release, becoming one of the major drivers for 2022E results.

Ultimate Hunting and next games.

Ultimate Hunting, with its heavy budget (up to PLN 5m), remains the major title in Ultimate Games' pipeline. We currently expect the game to be released in 2023E and reach 150k copies sold in the initial 12M. Moreover, the company already announced that it is working on the next large-scale project, and therefore we expect another major new game in 2024E, translating to further growth in company earnings. We also believe that in the mid-term, the company could sign contracts for Switch ports of CSM21 and House Flipper 2.

Operating margin.

We forecast Ultimate Games to improve its operating margin to 27%/31% in 2022E/23E due to a higher share of new productions vs. console ports in the sales mix vs. 2021. In 2024E+ we expect margins to stabilize at 29-30% level.

Dividend.

In our view, Ultimate Games is likely to maintain its generous dividend policy (DPS of PLN 1.5 in 2022E, DY 7.9%) also in coming years with 2023E/24E DPS of PLN 1.1 and PLN 1.6 (DY of 5.9%/8.7% respectively).

Figure 1. Summary of financial data (PLN m)

	2019	2020	2021	2022E	2023E	2024E
Revenues	8.6	17.5	25.3	29.6	35.7	40.3
EBITDA	4.6	7.2	6.2	8.1	11.2	12.2
Norm. net income	3.7	5.7	5.1	6.9	10.1	11.1
EV/EBITDA (x)	25.3	27.0	24.5	14.3	9.8	9.0
P/E (x)	19.6	15.1	13.4	7.7	5.6	5.3

Source: Company, IPOPEMA Research

TMT | Video Games

Ultimate Games

HOLD

FV PLN 18.0 from PLN 26.0

5% downside

Price as of 30 June 2022 PLN 19.00

Maintained



Share data

Number of shares (m)	5.2
Market cap (EUR m)	21.2
12M avg daily volume (k)	3.7
12M avg daily turnover (EUR m)	0.0
12M high/low (PLN)	29.85 / 17.2
WIG weight	0.0
Reuters	ULG.WF
Bloomberg	ULG.PM

Total performance

1M	-4%
3M	-7%
12M	-30%

Shareholders

PlayWay	45.9%
Mateusz Zawadzki	7.4%
Others	46.7%

Analysts

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

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NII – Net interest income – interest income minus interest expense.

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.

FV – Fair Value, calculated based on valuation methods outlined in the document.

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Rating	Difference between FV and price at recommendation
Buy	Above 10%
Hold	In between (and including) -10% and 10%
Sell	Below -10%

IPOPEMA Research - Distribution by rating category (April 1 – June 30, 2022)

	Number	%
Buy	17	71%
Hold	5	21%
Sell	2	8%
Total	24	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
04/07/2022	HOLD	18.0	19.00	Michał Wojciechowski, Marcin Nowak