

Ultimate Games

The year of back catalogue

In 2022 the company released 66 games, down from 83 titles released in 2021; however, likely thanks to a still strong back catalogue, Ultimate Games will be able to increase revenue to PLN 31.8m this year (up 26% y/y), according to our forecast. We also expect a slight decline in profitability (EBIT margin at 20%, down 4pp) driven by expanding costs of brought-in services (likely driven by the developers' revenue share and in general higher costs of work). In the forecast for the next year, we tentatively assume no breakout hit (we believe both Ultimate Hunting and Thief Simulator 2 could arrive in 2024E); nevertheless, with expected multiple smaller releases and a solid back catalogue, we expect Ultimate Games to improve revenues by 5% y/y, up to PLN 33.4m and adj. net profit to PLN 6.4m, up 9% y/y. On our forecasts, the company trades at a P/E of 14.6x/13.3x in 2022E/23E, at a high, double digit discount to foreign peers. We maintain our HOLD recommendation and decrease our FV to PLN 15.5 (5% downside), due to weaker than expected performance of games, anticipated longer production cycles as well as lower profitability.

Ultimate Fishing Simulator 2.

On 22 August Ultimate Games released Ultimate Fishing Simulator 2 Early Access. The game reached 19th place on Steam's Top sellers list and achieved the peak of concurrent players at 924, which represents an 140% increase over performance of its predecessor released in November 2017. What's important, following its launch, the game has been systematically improving its reception – as of now the average user rating is at 79% positive on Steam with the most recent ratio at 94% positive (vs. 90% for UFS1). We believe this suggests its potential for a long lifecycle. In our forecast for 2023E, we assume UFS2 to sell 60k copies.

Ultimate Hunting and Thief Simulator 2.

We move our expectations for one top selling title from the group to be released in 2024E and subsequent years and achieve 150k copies sold in the initial 12M (vs. previously expected as of 2023E). We believe that among the potential top performing titles are Ultimate Hunting as well as Thief Simulator 2 (however, in the case of this title, Ultimate Games will be more beneficial on a console port than on the PC version). Potential Switch port deals for top performing PlayWay titles remains an upside story for the company.

Dividend.

We expect Ultimate Games to keep high dividend payments with DPS of PLN 0.85/0.92 in 2022E/23E (DY of 5.2%/5.6% respectively).

Figure 1. Summary of financial data (PLN m)

	2020	2021	2022E	2023E	2024E	2025E
Revenues	17.5	25.3	31.8	33.4	40.0	44.1
EBITDA	7.2	6.2	6.5	6.4	8.9	10.1
Norm. net income	5.7	5.1	5.9	6.4	8.8	9.9
EV/EBITDA (x)	27.0	24.5	14.6	13.3	9.8	8.7
P/E (x)	15.1	13.4	7.7	8.2	6.0	5.2

Source: Company, IPOPEMA Research

TMT | Video Games

Ultimate Games

HOLD

FV PLN 15.5 from PLN 18.0

5% downside

Price as of 8 December 2022 PLN 16.42

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.WA
Bloomberg	ULG.PW

Total performance

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

Shareholders

PlayWay	45.9%
Mateusz Zawadzki	7.4%
Others	46.7%

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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 (July 1 – September 30, 2022)

	Number	%
Buy	25	44%
Hold	20	30%
Sell	15	26%
Total	60	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
14/12/2022	HOLD	15.5	15.98	Michał Wojciechowski, Marcin Nowak