

# Vivid Games SA

2022-11-29 08:40

## Key data

Target price [PLN]	1,09
DCF Valuation [PLN]	1,34
Comparative Valuation [PLN]	0,81
Market price [PLN]	1,05
Growth/decrease potential [%]	3,4%
Market cap [mln PLN]	33,9
Free float [%]	50,2%
Industry	mobile games
WSE code	VVD
Bloomberg code	VVD PW

## Analyst

Łukasz Bryl

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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%

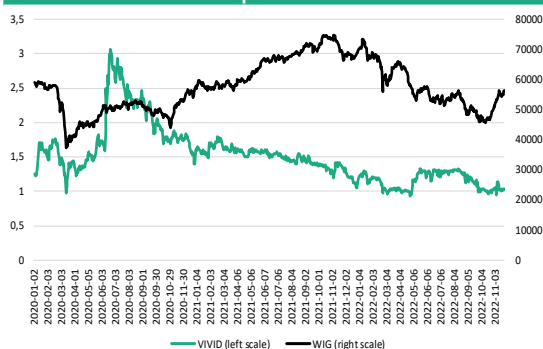
## Growth factors

KF 2 revenue revival  
data analytics investment  
decrease of debt

## Risk factors

low profitability  
high costs of UA  
economic downturn

## Stock performance



Source: DM Banku BPS SA calculations

## Analysis of the results after 3Q 2022

- **The results for the 3Q are very good** both in terms of revenues and profits, which originate from a one-off event, i.e. the sale of Bidlogic technology for PLN 4.2 million.
- The value of transaction less the payment due was recognized in revenues, which resulted in their **record value in the history of the Company at PLN 13.872 million** (increase by 41.2% y/y and 97.7% q/q). As a result, for the first time in seven quarters, Vivid Games generated: **positive sales result** (PLN 2.709 million vs. PLN 148k loss in Q2 2022 and minus PLN 410k loss in Q3 2021), one of the **highest EBIT profit in history** (PLN 3.04 million versus PLN 193k in Q2 2022 and minus PLN 63k of operating loss in Q3 2021) and **record-breaking net profit** (PLN 2.836 million versus PLN 22k in Q2 2022 and minus PLN 87k net loss in Q3 2021).
- Nevertheless, **excluding the impact of a one-off event, Vivid Games SA loses a small positive profitability** generated after two quarters of 2022, showing the results for the third quarter below our expectations.
- **Among the positive factors** shaping the value of the Company, we highlight the agreement on the monetization of Knights Fight 2 (November 2022). This game, before the dispute, generated about 15% out of total revenue of the Company. We assume a return to these values from January 2023.
- **Among the threats** we see weakening of the advertising market, a reduction in user spendings and a weaker than a few months ago USD/PLN exchange rate.
- **Finally, we increase our valuation** from PLN 1.07 to PLN 1.09 per share, due to the change in the valuations of comparative companies, decrease in discount rates and the increase in the residual value.

PLN thd	2021	2022E	2023E	2024E	2025E	2026E
Sales	25 689	41 076	41 428	48 942	57 954	62 438
EBITDA	-8 557	5 501	5 331	6 506	7 958	7 963
EBITDA margin	-33,3%	13,4%	12,9%	13,3%	13,7%	12,8%
EBIT	-14 570	2 623	1 498	2 672	4 125	4 129
Net income	-14 857	2 229	1 037	2 102	3 279	3 282
Equity	6 623	8 855	9 892	11 994	15 272	18 554
Debt	6 449	2 656	268	268	268	268
P/E	-2,16	14,40	30,97	15,27	9,79	9,78
P/BV	4,85	3,62	3,25	2,68	2,10	1,73
EV/EBITDA	-3,00	5,35	5,97	4,89	4,00	4,00
EPS	-0,46	0,07	0,03	0,07	0,10	0,10

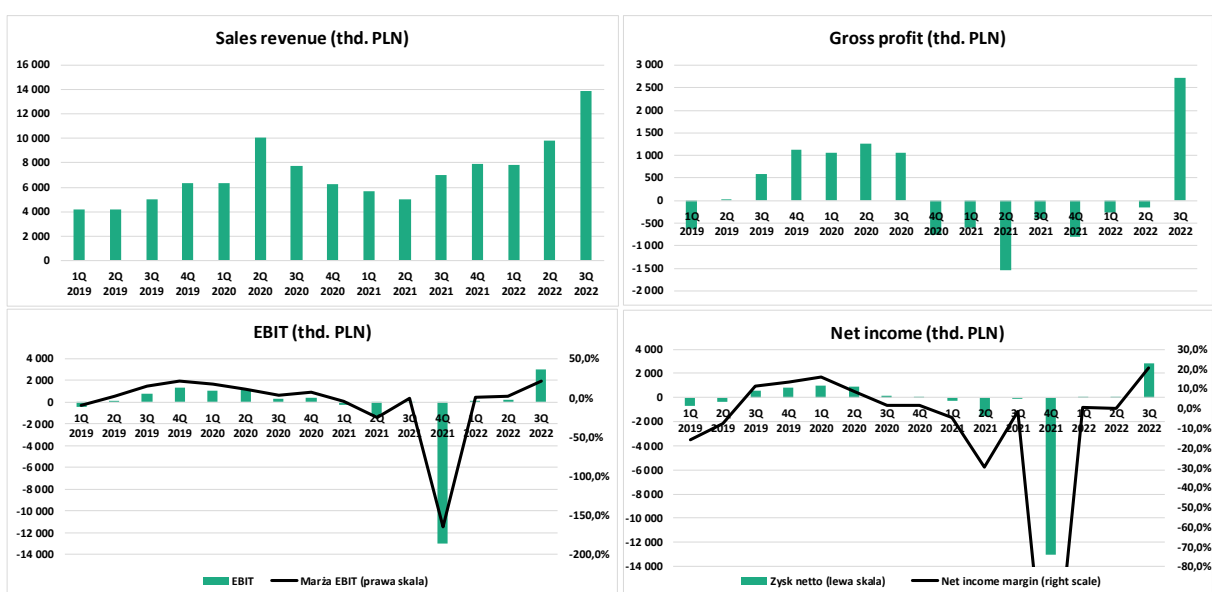
Source: DM Banku BPS SA, E - estimates

## Results for 3Q 2022 against DM BPS forecasts

thd. PLN	3Q 2022*	DM BPS forecasts*	Comparison to DM			
			BPS forecasts	1Q2022	2Q2022	Change qoq
<b>Revenue</b>	10 672	9 324	14,5%	7 863	9 825	25,0%
Profit on sales	-491	146	-	-270	-148	-
Sales margin	-4,6%	1,6%	-	-3,4%	-1,5%	-
<b>EBITDA</b>	798	1 096	-27,2%	1 038	1 154	11,1%
EBITDA margin	7,5%	11,8%	-4,3 p.p.	13,2%	11,7%	-1,5 p.p.
<b>EBIT</b>	-160	137	-	68	193	-184,4%
EBIT margin	-1,5%	1,5%	-	0,9%	2,0%	+1,1 p.p.
<b>Gross profit</b>	-364	7	-	-16	69	-327,1%
Gross profit margin	-3,4%	0,1%	-	-0,2%	0,7%	-
<b>Net income</b>	-364	208	-	50	22	56,9%
Net income margin	-3,4%	2,2%	-	0,6%	0,2%	-0,4 p.p.

\*excluding one-off event

Source: DM Banku BPS SA, Company



Source: DM Banku BPS SA calculations, Company

**Expected impact:** The Company's results in the third quarter were very good, although they were under a strong, positive impact of a one-off event (sale of Bidlogic technology). This transaction had a significant impact on the Company's margins and its financial position. As a result liquidity increased, debt was reduced (the Company paid 9 out of 12 arrangement installments for bonds) and strengthened equity. However, the exclusion of a one-off transaction presents the Company in a different, less favorable light. While at the level of revenues there were still q/q and y/y increases (above our expectations), at the level of profits Vivid Games generated negative results again. Still the most important cost category of the Company (UA - paid user acquisition) clearly weighs on the final result. At the fundamental level, on the one hand, we see factors positively affecting the Company's revenues (return to monetization of Knights Fight 2), and on the other hand, the lower USD exchange rate against PLN and worse prospects for the development of the mobile games market, including advertising expenditures and users' purchasing behavior, mean that we are slightly lowering our revenue and profit forecasts for the Company. In our forecast, we do not assume significant write-offs at the end of the year.

We increase our valuation to PLN 1.09 per share (from PLN 1.07), which results from the increase in the DCF model mainly due to the residual value increase and from the change of companies' multipliers in the comparative method.

## 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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List of recommendations issued within the last 12 months

Company	Recommendation	Target price	Market price	Type of recommendation	Date of Issue	Analyst(s)
VIVID GAMES	nd	1,23	1,34	Analysis of results	2021-12-02	Łukasz Bryl, Tomasz Czamecki
NTT SYSTEM	nd	8,3	5,16	Analysis of results	2021-12-03	Łukasz Bryl, Tomasz Czamecki
MONNARI TRADE	nd	5,3	2,57	Analysis of results	2021-12-10	Łukasz Bryl, Tomasz Czamecki
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 Czamecki, 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 Czamecki
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
SNIEZKA	HOLD	67	64,2	Analytical report	2022-09-29	Artur Wizner
NTT SYSTEM	nd	7,03	3,95	Analytical report	2022-10-04	Łukasz Bryl
PROCHEM	nd	30	34,8	Analytical report	2022-10-05	Artur Wizner
PROTEKTOR	nd	2,9	2,6	Analytical report	2022-10-12	Artur Wizner
MONNARI TRADE	nd	6,74	3,87	Analytical report	2022-10-21	Łukasz Bryl
PROCHEM	nd	30	35	Analysis of results	2022-11-15	Artur Wizner
UNIBEP	nd	10	8,84	Analysis of results	2022-11-18	Artur Wizner
VIVID GAMES	nd	1,09	1,05	Analysis of results	2022-11-29	Łukasz Bryl