



Dom Maklerski BDM S.A.

# ARTIFEX MUNDI

## ANALYTICAL REPORT - SUMMARY

We maintain a positive attitude to the values of Artifex Mundi and we reissue a Buy recommendation with a target price of PLN 13.9/share. The results of Q2'20 were in line with the company's earlier estimates, but we were positively surprised by lower levels of selling and management costs among others, which, implying to our model raises our forecasts of business margin. In line with our earlier recommendation, we forecasted a decline in sales dynamics at the turn of July-August 2020 and a return to the upward path in September. We expect that this trend will continue in the coming months and the company will show better and better revenues in upcoming periods.

Artifex Mundi in Q3'19 generated PLN 5.54 million in revenue, which was close to our estimates (deviation -6%). In relation to lower selling and management costs reported in Q2'20, we are increasing our forecasted EBIT to PLN 1.9 million and net profit to PLN 1.5 million.

In line with the new operating strategy based on maximizing the profitability of HOPA games through, extending the range of released productions - porting them to consoles, this segment generated PLN 15.7 million in revenues over the course of Q1-3'20, i.e. 51% more y/y. The new channel for commercialization of the above-mentioned productions is the "Unsolved" application, which, according to our estimates, generated PLN 0.9 million over the last three quarters (in Q3'20 more than in the entire H1'20). In relation with this launch in early September on iOS devices, we expect better performance in the upcoming periods. We estimate that in the coming years it will be an important monetization channel for HOPA games and that will not affect on the cannibalization of the PC and console versions.

We expect that in 2020 HOPA games will generate PLN 20.5 million and in 2021-2024 they will generate revenues at the level of PLN 17-18 million, which will provide the company with financial security and allow them on the dynamic development of the F2P games segment.

We estimate that the game "Bladebound" will generate PLN 1.9 million in revenues throughout 2020 (approx. 63% more y/y). At the end of the year, the company announced its intention to reverse directional decisions regarding the game's development. In our opinion, the best thing for the company would be to keep a reduced team on this project, in order to maintain the current monetization (related to a small write-off) and transfer some of the crew to accelerate work on the new game (RPG2) and its potential release.

	2017	2018	2019	2020P	2021P	2022P	2023P	2024P
Revenues [mln PLN]	20,5	20,1	16,7	25,6	29,1	32,4	38,6	41,1
EBITDA [mln PLN]	-4,3	-12,4	-8,2	18,6	18,7	20,7	23,5	25,8
EBIT [mln PLN]	-4,8	-12,9	-14,4	10,8	12,5	13,8	15,5	17,0
Gross income [mln PLN]	-4,3	-13,2	-14,4	10,8	12,5	13,8	15,5	17,0
Net income [mln PLN]	-3,6	-10,5	-13,7	8,8	11,3	12,5	14,0	15,3
P/BV	3,0	3,1	5,1	3,6	2,6	2,0	1,6	1,3
P/E	-	-	-	12,1	9,5	8,6	7,7	7,0
EV/EBITDA	-	-	-	5,8	5,7	5,2	4,5	4,2
EV/EBIT	-	-	-	9,9	8,6	7,8	6,9	6,3
DPS	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
DY	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%

The report was prepared by Dom Maklerski BDM at the request of the WSE as part of the Exchange's Analytical Coverage Support Programme

# BUY

(PREVIOUS: BUY)

## TARGET PRICE 13,9 PLN

19 OCTOBER 2020, 07:00 CEST

Target price [PLN]	13,9
Price upside/downside	55%
Cost of capital	10%
Price [PLN]	9,0
Market cap [mln PLN]	107,1
Shares mln. szt.]	11,9
Max. price 6M [PLN]	11,5
Min. price 6m [PLN]	3,0
Rate of return 3M	12,5%
Rate of return 6M	165,5%
Rate of return 9M	182,1%
Shareholders (% of votes):	
Shareholders' agreement	19,6%
Greenlight FIZ AN	13,1%
Nationale-Nederlanden OFE	11,8%
Aviva Investors Poland TFI	10,0%
Robert Mikuszewski	5,5%
Adrian Dębowski	5,5%
Tomasz Jeziorski	4,5%
Remainder	30,2%

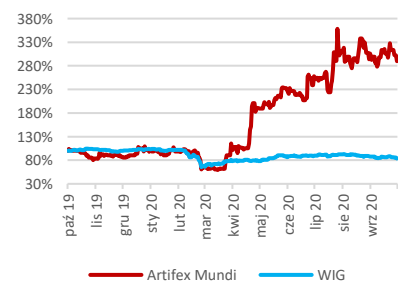
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**Valuation summary**

	Share	Valuation
DCF valuation	100%	13,9
Peer valuation	0%	26,4
<b>Target price [PLN]</b>		<b>13,9</b>

Source: BDM S.A.

**DCF valuation**

	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P
Revenues [mln PLN]	25,6	29,1	32,4	38,6	41,1	42,9	43,2	49,1	50,0	52,7
EBIT [mln PLN]	10,8	12,5	13,8	15,5	17,0	17,4	18,3	20,3	20,8	21,6
Tax rate	19,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%
Tax on EBIT [mln PLN]	2,0	1,2	1,4	1,5	1,7	1,7	1,8	2,0	2,1	2,2
NOPLAT [mln PLN]	8,7	11,2	12,4	13,9	15,3	15,7	16,5	18,3	18,7	19,5
Amortization [mln PLN]	1,3	1,9	2,6	3,1	3,0	2,7	2,5	2,2	1,9	1,7
CAPEX [mln PLN]	-1,6	-4,1	-4,8	-4,2	-2,1	-1,9	-1,6	-1,4	-1,1	-0,8
Purchase of investment [mln PLN]	-4,1	-4,0	-3,7	-3,7	-2,8	-1,9	-2,2	-2,8	-1,9	-2,0
Working capital movement [mln PLN]	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
FCF [mln PLN]	4,3	5,0	6,5	9,2	13,4	14,7	15,1	16,4	17,6	18,3
DFCF [mln PLN]	4,3	4,4	5,2	6,7	8,9	8,8	8,3	8,1	7,9	7,5
Total DFCF [mln PLN]	70,2									
Terminal value [mln PLN]	224,5									
Discounted terminal value [mln PLN]	91,8									
Enterprise value [mln PLN]	161,9									
Net debt 2019 [mln PLN]	-4,0									
Dividend 2020 [mln PLN]	0,0									
Own shares [mln PLN]	0,0									
<b>Equity value [mln PLN]</b>	<b>165,9</b>									
Number of shares [mln]	11,9									
<b>Value per share [PLN]</b>	<b>13,9</b>									

Terminal growth rate: 3,0%

**WACC calculation**

	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P
Risk-free rate	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%
Risk premium	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%
Beta	1,20	1,20	1,20	1,20	1,20	1,20	1,20	1,20	1,20	1,20
Credit premium	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%	1,5%
Cost of equity	10,2%	10,2%	10,2%	10,2%	10,2%	10,2%	10,2%	10,2%	10,2%	10,2%
Contribution of equity	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Cost of debt after tax	3,6%	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%
Contribution of debt	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
<b>WACC</b>	<b>10,2%</b>	<b>10,2%</b>	<b>10,2%</b>	<b>10,2%</b>	<b>10,2%</b>	<b>10,2%</b>	<b>10,2%</b>	<b>10,2%</b>	<b>10,2%</b>	<b>10,2%</b>

Source: BDM S.A.

**Sensitivity analysis**

beta	Terminal growth rate			Risk	Terminal growth rate			Risk	Beta		
	2,5%	3,0%	3,5%		2,5%	3,0%	3,5%		1,1	1,2	1,3
1,1	14,6	15,3	16,0	5,0%	16,0	16,8	17,8	5,0%	17,8	16,8	16,0
1,2	13,4	13,9	14,6	6,0%	13,4	13,9	14,6	6,0%	14,6	13,9	13,4
1,3	12,4	12,8	13,3	7,0%	11,5	11,9	12,3	7,0%	12,4	11,9	11,4

Source: BDM S.A.

**Peer valuation**

	P/E			EV/EBITDA		
	2020	2021	2022	2020	2021	2022
11 bit studios	43,4	67,9	9,4	25,8	43,3	9,7
PlayWay	35,3	25,0	22,1	28,2	16,9	14,8
Ten Square Games	25,6	19,4	16,7	21,9	16,2	13,7
CD Projekt	17,4	22,0	27,4	13,5	17,2	20,3
<b>Median</b>	<b>30,5</b>	<b>23,5</b>	<b>19,4</b>	<b>23,9</b>	<b>17,0</b>	<b>14,2</b>
Artifex Mundi	12,1	9,5	8,6	5,8	5,7	5,2
Premium/discount	39,8%	40,4%	-55,7%	24,2%	33,7%	-63,7%
<b>Valuation [PLN/share]</b>	<b>22,6</b>	<b>22,3</b>	<b>20,3</b>	<b>38,0</b>	<b>28,2</b>	<b>27,0</b>
Year's contribution	33%	33%	33%	33%	33%	33%
<b>Average valuation [PLN/share]</b>		<b>21,7</b>			<b>31,0</b>	
Multiple's contribution		50%			50%	
<b>Value per share [PLN]</b>		<b>26,4</b>				

Source: BDM S.A., Bloomberg

**Main risks:** 1) The risk of diversified and unforeseen demand for different products 2) The risk related to possible delays in game production 3) Risk related to the loss of key employees 4) Risk related to difficulties in acquiring experienced employees 5) The risk related to the possible failure of IT systems, telecommunications infrastructure and servers 6) The risk related to the competitive environment 7) Risk related to the development of new technologies and industry 8) Risk of volatility of foreign exchange rates

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**Ratings and price targets history:**

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
<b>Buy</b>	<b>13,9</b>	<b>Buy</b>	<b>13,6</b>	<b>19.10.2020*</b>	<b>07:00 CEST</b>	<b>9,00</b>	<b>48 210</b>
<b>Buy</b>	<b>13,6</b>	-	-	<b>10.08.2020*</b>	<b>07:00 CEST</b>	<b>9,12</b>	<b>51 732</b>

\* The report was prepared by Dom Maklerski BDM at the request of the WSE as part of the Exchange's Analytical Coverage Support Programme

**Explanations of terminology:**

EBIT - earnings before interest and tax  
 EBITDA — earnings before interest, taxes, depreciation, and amortization  
 Net debt – interest bearing debt minus cash and equivalents  
 WACC - weighted average cost of capital  
 CAGR - cumulative average annual growth  
 EPS - earnings per share  
 DPS - dividend per share  
 CEPS - net profit plus depreciation per share  
 EV – market capitalization plus interest bearing debt minus cash and equivalents  
 EV/S – market capitalization / sales  
 EV/EBITDA – EV / sales  
 P/EBIT – market capitalization / EBIT  
 MC/S – market capitalization / sales  
 P/E – market capitalization / net profit  
 P/BV – market capitalization / book value  
 P/CE - market capitalization / net profit plus depreciation  
 ROE – net profit / equity  
 ROA - net income / assets  
 Gross margin - gross profit on sales / sales  
 EBITDA margin – EBITDA / sales  
 EBIT margin – EBIT / sales  
 Net margin – net profit / sales

**Explanation of ratings:**

Buy – we believe that the security will reach the target price in the recommended period, which significantly exceeds the current market price (at least + 15%);  
 Accumulate – we believe that the security will reach the target price in the recommended period, which exceeds the current market price (in the range of +5 to + 14.99%);  
 Hold – we believe that a security in the recommended period will fluctuate around the target price, which is close to the current market price (in the range from -4.99% to + 4.99%);  
 Reduce – we believe that the security will reach the target price in the recommended period, which is lower than the market price (range of decline from 5% to 14.99%);  
 Sell – we believe that a security in the recommended period will reach the target price, which is significantly lower than the market price (suggested erosion of the value exceeds 15%).  
 Target price – the theoretical price which, in our opinion, should reach a security in the recommended period; This price is the result of the company's value (eg based on DCF, comparative and other valuations), market conditions and the industry as well as other factors subjectively considered by the analyst.  
 Recommendations made by BDM are binding for 12 months from the issue date or until the target level is reached, unless they are updated during this period of time.

**The strengths and weaknesses of the valuation methods used in the report:**

DCF – the most popular and the most effective of the valuation methods - it is based on the discounting of future cash flows generated by the company. The disadvantage is the high sensitivity to changes in the basic financial parameters forecast in the model (interest rates, exchange rates, profits, residual value).  
 DDM – the method is based on discounting future cash flows from dividends. The advantage of the valuation is the inclusion of future financial results and cash flows from dividends. The main disadvantages are the high sensitivity to changes in the basic financial parameters forecasted in the model (capital cost, profits, residual value) and the risk of changing the dividend payment policy.  
 Comparative – the method is based on current and forecasted market multipliers of companies from the industry or related industries, which better than DCF shows the current market situation. The main disadvantages are the difficulty in choosing the right companies for comparison, the risk of ineffective valuation of companies compared at a given moment, as well as high volatility (along with price fluctuations).

Distribution of BDM's recommendations in 4Q'20*:		, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months	
numbers	%	numbers	%
Buy	2 50%	0	0%
Accumulate	1 25%	0	0%
Hold	0 0%	0	0%
Reduce	1 25%	0	0%
Sell	0 0%	0	0%

\* detailed list of all analytical reports (recommendations) published by BDM during the last 12 months and information on the numbers of issuers to which BDM has supplied services of investment firms set out in Sections A and B of Annex I to Directive 2014/65/EU is included in a cyclical "Monthly Report" or at [www.bdm.pl](http://www.bdm.pl)

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The report constitutes an investment research within the meaning of art. 36 §1 of Commission Delegated Regulation (EU) 2017/565.

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- The issuer does not hold shares exceeding 5 % of the BDM issued share capital,
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