

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

			2021	2022	
Price [PLN]	13,2	P/E	-	-	Analyst: Krzysztof Tkocz krzysztof.tkocz@bdm.pl tel.: (+48) 516 086 705
MC [mln PLN]	35,2	EV/EBITDA	-	-	
		EV/EBIT	-	-	
		P/BV	3,8	6,5	

Last recommendation BDM: HOLD with target price 11,8 PLN/share (2023/04/13) [LINK](#)

BDM Comment: The company's results for 1Q'23 are below our expectations, therefore **we perceive them negatively**. CFG generated only PLN 0.4 million in revenues (-31.3% y/y) in the reported period. Sales revenue accounted for PLN 0.3 million (-34.1% y/y), which is significantly below our expectations. The change in the product state amounted to PLN 0.1 million (-20.0% y/y) and was in line with our forecasts. The decrease in sales revenue is related to the not very successful premiere of the game "Handyman Corporation", as well as lower sales of the company's games that were released in earlier periods. In 1Q'23, the company's operating costs decreased by 22.2% y/y to PLN 0.6 million (vs. our estimate of PLN 0.9 million). The largest cost, as usual, was related to game production - external services costs decreased by 26.7% y/y to PLN 0.5 million, and salaries decreased by about 2.4% y/y to PLN 0.1 million. The aforementioned decrease in costs is related to the recent optimization of production processes and team management. In addition, the implemented procedures accelerate the identification and repair of errors, which positively affects CFG's development activities. At the EBITDA level, the company generated a loss of PLN 0.2 million (similar to last year), while EBIT amounted to -PLN 0.2 million (vs. -PLN 0.2 million in 1Q'22). In the previous period, the company incurred a gross loss of PLN 0.2 million (vs. a loss of PLN 0.1 million in 1Q'22). In 1Q'23, the net loss reached PLN 0.2 million (vs. a loss of PLN 0.1 million in 1Q'22). In 1Q'23, net cash flows from operating activities amounted to PLN -0.3 million, while the investment cash flow amounted to PLN -5.5 thousand. As of the end of March'22, the company had only PLN 0.2 million in cash, which is PLN 0.3 million less q/q. We would like to draw attention to the fact that if the company does not successfully release any new games in the near future, it may want to improve its cash position by selling its shares in one of its entities (such as Blum Entertainment, G-DEVS, NPC Games, or Slitherine Poland) or rights/assets to the games being developed. During the past quarter, "products and unfinished products in progress" decreased q/q by PLN 0.1 million to PLN 3.4 million, while "finished products" increased by PLN 0.2 million to PLN 1.8 million. On March 13, 2023, a free prologue of the game "Beer Factory" was released, which was warmly received by players. CFG plans to release the full version of this title by the end of 2023. In the discussed quarter, the company worked on fixes and improvements to its already released game "Aircraft Carrier Survival" and on the prologue to the game "Monsters Domain," which will be released soon, with the full version of this work planned for release in early 3Q'23. Other CFG projects such as Blacksmith Simulator, Colonize, Black Gold, House Flipper City, and Builders of Greece are developing according to plan. All of these games are in an advanced stage of production.

Q1'23 results [mln PLN]

	Q1'22	Q1'23	change y/y	Q1'23F BDM	dev.
Sales	0,6	0,4	-31,3%	1,0	-58,7%
Net revenues from sales	0,5	0,3	-34,1%	0,8	-62,3%
Gross profit	-0,2	-0,2	-	0,1	-
Other op.income/expenses	0,0	0,0	-	0,0	-
EBITDA	-0,2	-0,2	-	0,1	-
EBIT	-0,2	-0,2	-	0,1	-
Financial income/expense, net	0,1	0,0	-	0,0	-
Profit before tax	-0,1	-0,2	-	0,1	-
Net profit	-0,1	-0,2	-	0,1	-
Gross margin	-34,4%	-52,3%		5,3%	
EBITDA margin	-34,1%	-51,8%		5,6%	
EBIT margin	-34,4%	-52,3%		5,3%	
Net margin	-23,3%	-57,8%		5,3%	

Source: BDM S.A., company

- The company generated PLN 0.4 million in revenue in 1Q'23 (-31.3% y/y), of which PLN 0.3 million came from sales revenue (-34.1% y/y), while the remaining PLN 0.1 million was due to change in the product state (-20.0% y/y). The decrease in sales revenue was related to the unsuccessful premiere of the game "Handyman Corporation" and lower sales of the company's games that were released in previous periods.
- In the discussed period, operating costs decreased y/y by 22.2% to the level of 0.6 million PLN. The largest cost, as usual, is related to the production of games - the cost of external services decreased y/y by 26.7% to 0.5 million PLN, and salaries decreased y/y by approximately 2.4% to 0.1 million PLN.
- The company generated an EBITDA loss of PLN 0.2 million (the same as last year) and EBIT was PLN -0.2 million (vs. PLN -0.2 million in 1Q'22).
- In the past period, the company recorded a gross loss of 0.2 million PLN (compared to a loss of 0.1 million PLN in 1Q'22).
- In 1Q'23, the net loss amounted to PLN 0.2 million (compared to PLN -0.1 million in 1Q'22).
- During the past quarter, "products and unfinished products in progress" decreased q/q by PLN 0.1 million to PLN 3.4 million, while "finished products" increased by PLN 0.2 million to PLN 1.8 million.
- In 1Q'23, the net cash flows from operating activities amounted to -0.3 million PLN, while the investment cash flow amounted to -5.5 thousand PLN. As of the end of March'22, the company had 0.2 million PLN in cash, which is 0.3 million PLN less compared to the previous quarter.
- At the end of 1Q'23, CreativeForge Games did not have any full-time employees on employment contracts, but the company employed 11 people on civil law contracts and one person from the Management Board employed on appointment basis.
- On January 23, 2023, the game "Handyman Corporation" was released. The said premiere did not meet expectations, however, it provided CFG with further publishing experience and contributed to the company's development.
- On March 13, 2023, a free prologue of the game "Beer Factory" was released, which was warmly received by gamers. CFG plans to release the full version of this title by the end of 2023. The company is a co-publisher (along with PlayWay) for this game.
- During the period from January to March 2023, the company worked on patches and improvements to its already released game "Aircraft Carrier Survival". CFG is focused on the development of this title in order to provide the best possible gaming experience. Additionally, the company worked intensively on the prologue for the game titled "Monsters Domain", which will be released soon, and the full version of this title is planned for release in early 3Q'23.
- After the end of 1Q'23, on April 14, 2023, a prologue to the game "Music Store Simulator" was released, which allows players to manage their own music store. CFG serves as a co-publisher (also with PlayWay) for this title.
- During the discussed quarter, the company worked on acquiring new exciting titles which they hope to present in the near future. The company's strategy for this year focuses on leveraging the positive momentum gained through the success of "Beer Factory" and on expanding its game portfolio.
- Other CFG projects, such as Blacksmith Simulator, Colonize, Black Gold, House Flipper City, and Builders of Greece, are progressing according to plan. All of these games are in an advanced stage of production.
- The company's efforts to optimize production processes and team management are paying off. The introduced procedures speed up the identification and correction of errors, which has a positive impact on the development operations.

Planowane premiery gier

Gra	Planowany termin premiery gry
Colonize	2023
House Flipper City	IVQ 2023
Stargate: Timekeepers (nazywana wcześniej Projekt X)	2023
Projekt Y (współpraca z Slitherine Software UK LTD)	2023
My Hotel	2023
Black Gold	2023
Orc Warchieff	2023
Builders of Greece	IVQ 2023
Gimle	2024
Monsters Domain	2023
Music Store Simulator	2023
Citizens: on Mars	2023
Warlords Under the Siege	2023
Beer Factory	2023

Źródło: company

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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.

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Ratings and price targets history:

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
Hold	11,8	Hold	9,1	13.04.2023*	08:00 CEST	12,5	60 263
Hold	9,1	Buy	33,7	28.10.2022*	11:30 CEST	9,18	48 970
Buy	33,7	buy	39,0	13.04.2022*	07:00 CEST	29,0	63 863
Buy	39,0	---	---	17.08.2021*	08:00 CEST	33,5	68 812

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

Distribution of BDM's recommendations in Q2'23*:

, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months

	number	%	number	%
Buy	4	57%	0	0%
Accumulate	1	14%	0	0%
Hold	2	29%	0	0%
Reduce	0	0%	0	0%
Sell	0	0%	0	0%

* detailed list of all analytical reports (recommendations) published by BDM during the last 12 months is included at <https://www.bdm.pl/analizy-i-informacje/analizy/historia-rekomendacji>

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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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