



Dom Maklerski BDM S.A.

SIMFABRIC

ANALYTICAL REPORT - SUMMARY

SimFabric's results for Q2'22 turned out to be worse than our expectations and estimates previously presented by the company (beginning of September). The costs of external services increased significantly above our expectations, which is related to the projects implemented by the company, which also translates into a reduction in our forecasts for the next periods. Moreover, in recent days the company's main shareholder (PlayWay) has started the process of withdrawing from involvement in SimFabric (it plans to sell all shares = 2.81 million shares). Despite PLW's lack of involvement in supporting the SIM business, we think that this is a big blow to the company, because having such a shareholder is undoubtedly a great asset (including credibility) for this type of entities. In addition, we point out the risk of potential additional emissions in connection with the construction of the Space Engine Lab. Additionally, disappointing is the continued lack of information / communication with the market and players regarding the most important implemented projects. With the above in mind, we are downgrading our recommendation from HOLD to SELL, setting our target price at PLN 7.5 / share, which is 22% below the current market price.

PlayWay's exit plan from the company's shareholding structure

PlayWay wants to sell up to 2,810,000 SimFabric shares, representing 44.96% of the company's share capital (the market value of the stake is PLN 29.8m). Despite the fact that PlayWay was not an active shareholder and did not support the company in business, having such a shareholder is undoubtedly a great advantage for this type of entities. PLW reports that it made its decision by examining the synergy of activities of the group companies listed on the main market of the Warsaw Stock Exchange, as well as the convergence of their development strategies. The transaction is expected to close on October 14, 2022. At the current price of PLN 9.7, our forecasts for 2022. imply the company's ratios at the following level: P / E adj. = 21,1x, EV / EBITDA = 10,7x. The average daily turnover of SimFabric shares over the last month was only 614 shares per session (approx. PLN 6.6 thousand).

Q2'22 results worse than our expectations and the estimates presented by SIM

The company's results for Q2'22 turned out to be below our earlier estimates presented at the beginning of September and below our expectations, therefore we perceived them negatively. In the discussed period, SIM generated PLN 2.4 million in revenues (-1.0% y/y). In Q2'22, operating expenses amounted to 1.9 million (+ 7.7% y/y). As usual, the highest cost was related to the production of games, and the costs of external services amounted to PLN 1.3 million (+ 11.8% y/y) and were much higher than our expectations, therefore we perceived them negatively. This item also contributes to lowering our forecasts for the following periods. In the last quarter, the company generated PLN 1.1 million EBITDA (+ 11.8% y/y), and at the level of net profit, n.a. it managed to generate PLN 0.3 million (+ 55.6% y/y).

There is still a lack of information on the most important implemented projects

In our recent recommendations, we believed that due to the production progress (the company posted PLN 14.9m / EUR 3.3m in revenues from three games created under publishing agreements vs EUR 3.6m contracted), we are close to declassifying the three most important company projects and their debuts. In June 22, the company took part in the Steam Next Festival, where demo of one of its most important games, ie "ElectriX" (peak = 52) was presented. We hope that this title will make its debut this year, but following the demo we are lowering our expectations for this project. The company is slowly starting to come out of the shadows with its smaller products (among others, demos of games such as: "My Demon Wife" - peak = 18; "Mushrooms: Forest Walker" - peak = 11), however, we have still not obtained any new information / materials neither from the developer nor the publisher (Koch Media, Nacon) on other more important games in terms of sale potential.

The risk of an additional issue of shares in connection with the construction of the SEL

This year, SimFabric will start the construction of a CBR (Space Engine Lab) with a total value of PLN 25.1 million (the value of eligible costs is PLN 19.6 million, of which the amount of co-financing is approximately PLN 11.8 million). The rest of this cost (PLN 13.3 million) will be covered by the company from its own resources (at the end of Q2'22 it had PLN 7.1 million) or it will be supported by an additional share issue. Bearing in mind, inter alia, the fact that the financial cushion is very important in gamedev, we think that there is a high risk of the second option (share issue) coming true.

	2018	2019	2020	2021	2022F	2023F	2024F	2025F
Revenues [mln PLN]	0,8	1,6	10,6	9,0	10,0	12,5	14,9	14,1
EBITDA [mln PLN]	0,1	0,6	5,2	4,5	5,1	7,0	9,5	8,7
EBIT [mln PLN]	0,0	0,6	4,6	3,5	3,3	4,3	4,9	4,1
Gross income [mln PLN]	0,0	0,6	4,7	3,5	4,8	9,5	10,2	4,1
Net income [mln PLN]	0,0	0,5	4,5	3,2	4,3	8,6	9,1	3,7
Net income adj. [mln PLN]	0,0	0,5	4,5	3,2	3,0	3,3	3,9	3,7
P/BV	50,1	25,8	4,2	3,3	1,9	1,5	1,2	1,1
P/E	-	122,7	13,6	18,8	14,0	7,1	6,6	16,5
P/E adj.	-	122,7	13,6	18,8	21,1	18,1	15,5	16,5
EV/EBITDA	-	101,4	10,1	11,2	10,7	7,4	5,8	6,2
EV/EBIT	-	106,2	11,4	14,5	16,6	12,1	11,2	13,2
DPS	0,0	0	0	0,2	0,0	0,0	0,0	0,0
DY	0,0%	0,0%	0,0%	2,5%	0,0%	0,0%	0,0%	0,0%

*--adj. of SEL subsidy

This report has been prepared in compliance with Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 (on market abuse), Commission Delegated Regulation (EU) 2016/958 and Commission Delegated Regulation (EU) 2017/565. Detailed contents of legal notes is located on the last page of this report. The report has been prepared and made available for distribution by BDM. GPW shall be a copyright holder to this report from the date of its publication. The report can be published and made available without limitation by GPW through any mass communication media as decided by GPW.

This document is a summary of a full version of the report prepared in Polish. In case of any disputes the Polish version shall prevail.

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

SELL

(PREVIOUS: HOLD)

TARGET PRICE 7,5 PLN

7 OCTOBER 2022, 12:50 CEST

Target price [PLN]	7,5
Price upside/downside	-22%
Cost of capital	14,0%
Price [PLN]	9,7
Market cap [mln PLN]	60,6
Shares [mln. szt.]	6,3
Max. price 6M [PLN]	15,1
Min. price 6m [PLN]	9,5
Rate of return 3M	-7,1%
Rate of return 6M	-18,1%
Rate of return 9M	-34,3%
Shareholders (% of votes):	
PlayWay	45,0%
Emil Leszczyński	16,9%
Julia Leszczyńska	12,8%
Others	25,4%

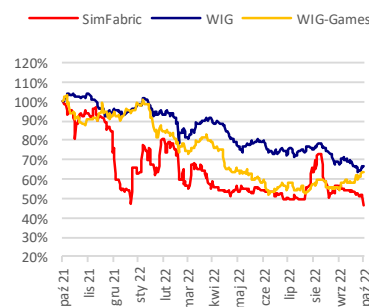
Krzysztof Tkocz

krzysztof.tkocz@bdm.com.pl

tel. (+48) 516 086 705

Dom Maklerski BDM S.A.

ul. 3-go Maja 23, 40-096 Katowice





Valuation summary

	Share	Valuation
DCF valuation	70%	7,9
Peer valuation	30%	6,6
Target price [PLN]		7,5

Source: BDM S.A.

DCF valuation

	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Revenues [mln PLN]	10,0	12,5	14,9	14,1	16,1	14,0	16,1	16,9	17,3	17,5
EBIT [mln PLN]	3,3	4,3	4,9	4,1	4,5	2,5	2,6	3,2	3,0	2,9
Tax rate	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%
Tax on EBIT [mln PLN]	0,3	0,4	0,5	0,4	0,5	0,3	0,3	0,3	0,3	0,3
NOPLAT [mln PLN]	3,0	3,9	4,4	3,7	4,1	2,3	2,4	2,9	2,7	2,6
Amortization [mln PLN]	1,8	2,7	4,6	4,6	5,4	4,9	6,3	6,3	6,4	6,4
CAPEX [mln PLN]	-8,5	-11,7	-13,6	-5,6	-5,6	-5,7	-6,0	-6,3	-6,5	-6,5
Purchase of investment [mln PLN]	-0,3	7,7	1,6	-1,2	0,2	-0,2	0,2	-0,2	0,2	0,2
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]	-4,0	2,6	-3,0	1,5	4,1	1,2	2,9	2,6	2,8	2,8
DFCF [mln PLN]	-3,8	2,2	-2,3	1,0	2,3	0,6	1,3	1,0	0,9	0,8
Total DFCF [mln PLN]	4,1									
Terminal value [mln PLN]	118,4									
Discounted terminal value [mln PLN]	35,3									
Enterprise value [mln PLN]	39,4									
Net debt 2021 [mln PLN]	-10,1									
Dividend 2022 [mln PLN]	0,0									
Equity value [mln PLN]	49,5									
Number of shares [mln]	6,3									
Value per share [PLN]	7,9									

Terminal growth rate: 1,0%

WACC calculation

	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Risk-free rate	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%
Risk premium	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%
Beta	1,4	1,4	1,4	1,4	1,4	1,4	1,4	1,4	1,4	1,4
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	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%
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	7,7%	7,7%	7,7%	7,7%	7,7%	7,7%	7,7%	7,7%	7,7%	7,7%
Contribution of debt	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
WACC	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%

Source: BDM S.A.

Sensitivity analysis

beta	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta		
	0,5%	1,0%	1,5%		0,5%	1,0%	1,5%		1,3	1,4	1,5
1,3	8,2	8,4	8,7	4,0%	9,1	9,5	9,8	4,0%	9,7	9,5	9,2
1,4	7,7	7,9	8,2	5,0%	7,7	7,9	8,2	5,0%	8,1	7,9	7,7
1,5	7,3	7,5	7,7	6,0%	6,6	6,7	6,9	6,0%	6,9	6,7	6,6

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2022F	2023F	2024F	2022F	2023F	2024F
11 bit studios	78,6	9,1	8,8	41,0	7,0	5,7
Artufex Mundi	6,6	4,0	4,1	2,6	1,6	0,9
Big Cheese Studio	10,1	6,3	6,1	8,0	4,4	4,0
BoomBit	7,5	5,2	4,4	2,7	2,2	2,1
CD Projekt	42,2	33,4	47,8	26,8	21,4	27,0
Creepy Jar	11,8	14,5	7,0	8,8	9,2	3,2
Huuuge Games	10,5	9,8	9,9	3,2	2,4	1,7
PCF Group	19,2	16,9	13,8	15,8	13,1	9,7
PlayWay	14,2	12,5	12,4	10,1	8,5	8,5
Ten Square Games	8,9	9,6	8,5	5,7	5,7	5,1
Mediana grupy	11,1	9,7	8,7	8,4	6,4	4,6
SimFabric*	14,0	7,1	6,6	10,7	7,4	5,8
Premium/discount	125,3%	73,2%	76,5%	127,2%	116,9%	127,3%
Valuation [PLN/share]	5,1	5,2	5,4	7,8	8,5	7,8
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]		5,2			8,0	
Multiple's contribution		50%			50%	
Value per share [PLN]		6,6				

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 9) Risk of additional issue of shares

Source: BDM S.A., Bloomberg ; * -adj. of SEL subsidy

RESEARCH DEPARTMENT:

Maciej Bobrowski

Director

tel. (032) 208 14 12

e-mail: maciej.bobrowski@bdm.pl

[strategy, industry, media/entertainment, TMT](#)

Krzysztof Pado

Deputy Director

Investment Adviser

tel. (032) 208 14 35

e-mail: krzysztof.pado@bdm.pl

[oil&gas, construction, building materials, real estate](#)

Krzysztof Tkocz

Analyst

tel. (032) 208 14 38

e-mail: krzysztof.tkocz@bdm.pl

[gaming](#)

Anna Madziar

Junior analyst

tel. (032) 208 14 35

e-mail: anna.madziar@bdm.pl

Kajetan Sroczynski

Junior analyst

tel. (032) 208 14 38

e-mail: kajetan.sroczynski@bdm.pl

INSTITUTIONAL SALES DEPARTMENT:

Leszek Mackiewicz

Director

tel. (022) 62-20-848

e-mail: leszek.mackiewicz@bdm.pl

Tomasz Ilczyszyn

tel. (022) 62-20-854

e-mail: tomasz.ilczyszyn@bdm.pl

Maciej Fink-Finowicki

tel. (022) 62-20-855

e-mail: maciej.fink-finowicki@bdm.pl

Piotr Komorowski

tel. (022) 62-20-851

e-mail: piotr.komorowski@bdm.pl

Ratings and price targets history:

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
Sell	7,5	Hold	11,5	07.10.2022*	12:50 CEST	9,70	47 191
Hold	11,5	Buy	24,1	20.05.2022*	07:00 CEST	11,3	55 555
Buy	24,1	-	-	20.08.2021*	07:00 CEST	20,2	68 036

* 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'22*:		, 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%	1	50%
Hold	0	0%	0	0%
Reduce	0	0%	0	0%
Sell	1	25%	1	50%

* 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

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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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- BDM is not a holder of net long or short positions exceeding the threshold of 0,5 % of the total issued share capital of the issuer,
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- The issuer does not hold shares exceeding 5 % of the BDM issued share capital,
- BDM is a market maker or liquidity provider in the financial instruments of the issuer,
- BDM has not been lead manager or co-lead manager over the previous 12 months of any publicly disclosed offer of financial instruments of the issuer;
- BDM is not a party to an agreement with the issuer relating to the provision of investment banking services pursuant to art. 69 §2 and 4 of the Act on Trading in Financial Instruments dated 25th July 2005,
- BDM is not a party to an agreement with the issuer relating to the provision of investment banking services pursuant to section A and B od Annex I to the Directive 2014/65/EU of the European Parliament and of the Council (hereinafter the Directive 2014/65/EU),
- BDM is not a party to an agreement with the issuer relating to the production of the recommendation,
- There is other significant financial interest that BDM or its related affiliates have in relation to the issuer of financial instruments*
- There are no significant connections between BDM or its related affiliates and the issuer of financial instruments,
- The person affiliated with BDM who was involved in the preparation of recommendations did not receive or purchase the shares of the issuer, to whom the recommendation relates directly or indirectly, prior to public offering of such shares,
- The person affiliated with BDM who was involved in the preparation of recommendations declares that they respect internal regulations and are subject to organizational and technical solutions and information barriers established by BDM to eliminate any conflicts of interest concerning recommendations and to avoid them,
- The person affiliated with BDM who was involved in the preparation of recommendations was not rewarded in any form by the issuer, to whom the recommendation relates directly or indirectly, or was not directly connected with any possible transactions concerning services defined in art. 69 §2 and 4 of the Act on Trading in Financial Instruments dated 25th July 2005.

*BDM is a party to the “ANALYTICAL REPORT PREPARATION SERVICES AGREEMENT” concluded with the WSE.

According to the best knowledge of the party recommending upon the publication of the report there are no other connections between BDM and the company described in this report that the party preparing this report would know of. However, the investor should be aware that the list disclosing conflicts of interest is long and that in the future there may occur situations leading to conflicts of interest which have not been identified or disclosed at the moment of publication of the report concerned. Especially, the investor should assume that BDM may submit an offer for services to a company or other companies mentioned in this report.

BDM is subject to supervision by the Polish Financial Supervision Commission.

This document is a summary of a full version of the report prepared in Polish. In case of any disputes the Polish version shall prevail.