



Dom Maklerski BDM S.A.

SIMFABRIC

ANALYTICAL REPORT - SUMMARY

Last year, despite the lack of major game premiers, the company generated a net profit of PLN 3.4m (P/E of 20.7x) and managed to increase its cash to PLN 10.1m (after Q1'22 this figure decreased to PLN, 7.7 million). During this period, SimFabric also shared the generated profit with the company's shareholders, paying out PLN 1.5 million (PLN 0.24 / share, 2.1% DY), and its second largest shareholder was gradually increasing his involvement (from 16.7% to 16.9%). On the other hand, however, we hoped that due to the progressive production, we were close to the gradual declassification / marketing of the company's three most important projects, and the debut of "Farm & Fix" at the end of 2021. Unfortunately, since then neither the developer nor the publishers (Koch Media, Nacon) have shown any new materials and have not provided updated information on these titles. However in recent days, the company broke its silence and announced its participation in the upcoming Steam Next Festival (June 13-20), where it will present, among others, game demo: "ElectriX" and "My Demon Wife". Moreover, this year, SIM will commence the construction of a CBR (Space Engine Lab) with a total value of PLN 25.1 million (the value of the co-financing is approximately PLN 11.8 million). The rest of this cost (PLN 13.3m) will be covered by the company from its own resources (which poses a high risk) or will be supported by an additional share issue. Additionally, i.a. due to the aging communities of individual titles, we are lowering our expectations as to their sales (the recent premieres of, among others, companies from the PLW group have brutally verified how important the "fresh" wishlist is). With the above in mind, we are lowering our recommendation from BUY to HOLD, setting the target price at PLN 11.5/share, which is 2% above the current market price.

Solid earnings for 2021, dividends and good cash

Despite the lack of major premieres in 2021, the company generated a net profit of PLN 3.4 million, and at the end of July it paid the first-ever dividend of PLN 1.5 million (PLN 0.24 /share, 2.1% DY). At the end of December '21, SimFabric had PLN 10.1 million in cash (+ 22.8% y/y), but this level decreased over the course of Q1'22 (currently SIM has PLN 7.7 million).

No information on ongoing projects, aging wishlist

In our last recommendation, we counted that due to the production progress, we are close to declassifying the company's three most important projects and the debut of one of them ("Farm & Fix"). We have not received any new information / material from either the developer or the publisher (Koch Media, Nacon) regarding these games since then. In recent days, SimFabric has broken its silence and announced its participation at the upcoming Steam Next Fest (June 13-20 June), where it will present a demo version of, among others such titles as: "ElectriX" and "My Demon Wife". In addition, taking into account the aging community of the company's individual projects, we lower our expectations as to their sale.

The risk of an additional issue of shares in connection with the construction of the Space Engine Lab

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 Q1'22 it had PLN 7.7 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	2,7	10,6	9,0	10,1	13,2	14,6	14,5
EBITDA [mln PLN]	0,1	0,5	5,2	4,7	6,3	8,9	10,8	10,7
EBIT [mln PLN]	0,0	0,5	4,6	3,7	5,0	5,8	5,9	7,0
Gross income [mln PLN]	0,0	0,5	4,7	3,7	8,2	10,0	10,2	7,0
Net income [mln PLN]	0,0	0,4	4,5	3,4	7,5	9,0	9,2	6,3
P/BV	58,3	31,3	5,5	3,8	2,3	1,8	1,4	1,3
P/E	5429,9	157,3	15,8	20,7	9,4	7,8	7,7	11,2
EV/EBITDA	1357,0	133,9	12,0	12,9	10,8	7,4	6,5	6,4
EV/EBIT	1712,2	134,4	13,6	16,4	13,7	11,4	11,8	9,9
DPS	0,0	0	0	0,2	0,0	0,0	0,0	0,0
DY	0,0%	0,0%	0,0%	2,1%	0,0%	0,0%	0,0%	0,0%

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

HOLD

(PREVIOUS: BUY)

TARGET PRICE 11,5 PLN

20 MAY 2022, 07:00 CEST

Target price [PLN]	11,5
Price upside/downside	2%
Cost of capital	13,5%
Price [PLN]	11,3
Market cap [mln PLN]	70,6
Shares [mln. szt.]	6,3
Max. price 6M [PLN]	19,2
Min. price 6m [PLN]	9,8
Rate of return 3M	-27,6%
Rate of return 6M	-41,0%
Rate of return 9M	-45,4%
Shareholders (% of votes):	
PlayWay	45,0%
Emil Leszczyński	16,9%
Julia Leszczyńska	12,8%
Others	25,4%

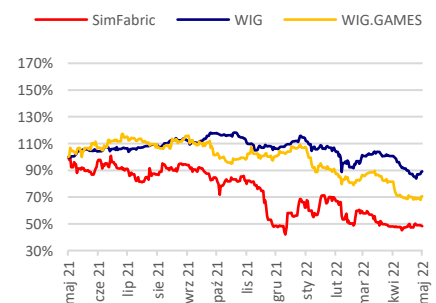
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Valuation summary

	Share	Valuation
DCF valuation	100%	11,5
Peer valuation	0%	12,3
Target price [PLN]		11,5

Source: BDM S.A.

DCF valuation

	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Revenues [mln PLN]	10,1	13,2	14,6	14,5	16,2	14,3	16,7	17,3	17,5	17,5
EBIT [mln PLN]	5,0	5,8	5,9	7,0	7,6	6,1	6,2	8,1	5,1	6,6
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]	0,5	0,6	0,6	0,7	0,8	0,6	0,6	0,8	0,5	0,7
NOPLAT [mln PLN]	4,5	5,2	5,3	6,3	6,9	5,5	5,6	7,3	4,6	5,9
Amortization [mln PLN]	1,3	3,2	4,9	3,7	4,3	3,7	5,6	4,0	6,9	5,1
CAPEX [mln PLN]	-9,7	-9,7	-10,8	-5,2	-4,6	-4,4	-4,7	-5,0	-5,4	-5,7
Purchase of investment [mln PLN]	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Working capital movement [mln PLN]	-3,2	6,8	1,1	-1,1	0,2	-0,2	0,2	-0,2	0,2	0,0
FCF [mln PLN]	-7,0	5,5	0,6	3,7	6,7	4,5	6,7	6,1	6,4	5,3
DFCF [mln PLN]	-6,5	4,4	0,4	2,3	3,8	2,2	2,9	2,3	2,2	1,6
Total DFCF [mln PLN]	15,6									
Terminal value [mln PLN]	156,8									
Discounted terminal value [mln PLN]	46,4									
Enterprise value [mln PLN]	61,9									
Net debt 2021 [mln PLN]	-10,1									
Dividend 2022 [mln PLN]	0,0									
Equity value [mln PLN]	72,0									
Number of shares [mln]	6,3									
Value per share [PLN]	11,5									

Terminal growth rate: 3,0%

WACC calculation

	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Risk-free rate	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%
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	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%
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	7,2%	7,2%	7,2%	7,2%	7,2%	7,2%	7,2%	7,2%	7,2%	7,2%
Contribution of debt	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
WACC	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%

Source: BDM S.A.

Sensitivity analysis

beta	Terminal growth rate			Risk premium	Terminal growth rate			Risk premium	Beta		
	2,5%	3,0%	3,5%		2,5%	3,0%	3,5%		1,3	1,4	1,5
1,3	11,9	12,3	12,8	4,0%	13,4	14,0	14,6	4,0%	14,4	14,0	13,6
1,4	11,2	11,5	11,9	5,0%	11,2	11,5	11,9	5,0%	11,9	11,5	11,2
1,5	10,5	10,8	11,2	6,0%	9,5	9,7	10,0	6,0%	10,0	9,7	9,4

Source: BDM S.A.

Peer valuation

	P/E			EV/EBITDA		
	2022F	2023F	2024F	2022F	2023F	2024F
11 bit studios	116,7	8,7	14,7	60,3	5,7	8,7
Artufex Mundi*	7,4	6,3	5,2	4,5	3,9	3,2
BoomBit*	36,8	29,5	39,7	19,6	18,9	24,5
CD Projekt	20,5	4,7	0,0	7,2	2,2	0,0
CI Games	20,8	21,2	14,1	15,0	14,5	10,1
Huuuge Games	13,4	11,0	10,9	9,1	7,5	7,9
PCF Group	6,9	6,2	8,1	6,6	5,8	5,2
PlayWay	8,3	7,5	6,9	2,0	1,1	0,2
Ten Square Games	14,4	11,7	10,5	4,1	2,9	2,2
Median	14,4	8,7	10,7	7,2	5,7	6,5
SimFabric	9,4	7,8	7,7	10,8	7,4	6,5
Premium/discount	65,4%	89,7%	28,1%	150,4%	129,5%	1,2%
Valuation [PLN/share]	17,3	12,6	15,7	7,6	8,9	11,4
Year's contribution	33%	33%	33%	33%	33%	33%
Average valuation [PLN/share]	15,2			9,3		
Multiple's contribution		50%			50%	
Value per share [PLN]	12,3					

Source: BDM S.A., Bloomberg ; *BDM forecasts

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

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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	11,5	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 2Q'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%	2 100%	
Accumulate	0 0%	0 0%	
Hold	2 50%	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 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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- The issuer does not hold shares exceeding 5 % of the BDM issued share capital,
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