Media and Games Invest SE*5a;7;11

Rating: Buy
Target price: € 8.00
(previously: € 6.92)

Current price: 5.56
06/07/21 / Xetra /
(11:23 am)
Currency: EUR

Master data:

ISIN: MT0000580101
WKN: A1JGT0
Ticker symbol: M8G
Number of shares ³: 149.68
Market cap ³: 911.98
Enterprise Value³: 832.22
³ in m / in m EUR
Free float: 57.7%

Transparency level:
Nasdaq First North Premier

Market segment:
Open market
(Open Market)

Accounting:
IFRS

Financial year: 31/12/

Designated Sponsors:
Hauck & Aufhäuser
Privatbankiers AG
Pareto Securities AB

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* Catalogue of possible conflicts of interesst on page 7

Date (time) completion:
07/07/2021 (9:28 am)

Date (time) first transmission:
07/07/2021 (10:30 am)

Validity of the price target: until max. 31/12/2022

Company profile

Industry: Entertainment, Media

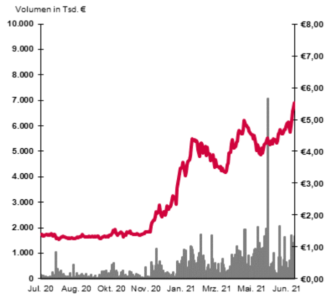
Focus: Video games (so-called MMOs) and ad tech

Employees: >800

Founded: 2011 (gamigo in 2000)

Registered office: Malta (probably Luxembourg from 2022)

Management Board: Remco Westermann (CEO), Paul Echt (CFO)



Media and Games Invest SE is a profitable and growing company in the games and digital media sectors. In addition to their increasing focus on organic growth, strategic acquisitions of companies and their consistent integration into the group form an important cornerstone in MGI's growth strategy. So far, this strategy has produced various synergies such as cost reductions, leverage and economies of scale. According to management, this strategy is followed by only a few competitors, especially in the games sector, leaving room for acquisitions at a favourable price. In 2021, the following has already been achieved: 1) Acquisition of renowned US game developer KingsIsle Entertainment Inc, the largest acquisition to date with an incremental pro forma EBITDA of approximately 60.0% 2) The acquisition of North American connected TV platform LKQD, which has a reach of more than 200 million end-users, and data targeting SaaS platform Beemray. In the current COVID-19 pandemic, video games have once again proven to be crisis-proof and non-cyclical, whereas the media market has suffered, especially in the second quarter of 2020, but will return to double-digit growth in 2021, according to analyst estimates. As consumers have had more free time, demand for entertainment and, therefore, video games, has soared. Since July 2020, MGI shares have been listed in the Scale segment (previously: Basic Board) of Deutsche Börse and have had a dual listing on Nasdaq First North Premier since 6 October 2020.

P&L in EUR milion \ FY-end	31/12/2020	31/12/2021e	31/12/2022e	31/12/2023e
Revenue	140.22	223.15	276.29	345.64
Adj. EBITDA	29.10	62.71	80.80	105.22
EBITDA	26.55	58.71	76.60	101.02
EBIT	11.04	30.89	49.57	74.40
Net result (after minorities)	3.06	15.98	26.05	43.49

Key figures in EUR				
Earnings per share	0.03	0.11	0.17	0.29
Dividend per share	0.00	0.00	0.00	0.00

Key figures				
EV/turnover	6.50	4.09	3.30	2.64
EV/ Adj. EBITDA	31.34	14.54	11.29	8.67
EV/EBITDA	34.35	15.53	11.91	9.03
EV/EBIT	82.61	29.52	18.40	12.26
P/E ratio (after minorities)	271.97	52.08	31.95	19.14
P/B ratio	4.71			

Financial calendar
08/07/2021: Annual General Meeting
31/08/2021: Half Year Report 2021
30/11/2021: Interim Report Q3 2021

**last research from GBC:
Date: Publication / Target price in EUR / Rating
15/06/2021: RS / 6.92 / BUY
11/05/2021: RS / 6.92 / BUY
04/05/2021: RS / 7.35 / BUY
11/03/2021: RS / 5.15 / BUY

** The research studies listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg, Germany.

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MGI raises revenue and earnings forecast for the current financial year due to very strong organic growth in H1; Planned Smaato acquisition opens up additional revenue and earnings potential for H2; Increase of our previous estimates and price target

Guidance increase for the 2021 business year

On 30 June 2021, Media and Games Invest SE (MGI) announced an increase in its previous corporate guidance for the current financial year due to strong organic growth of more than 30.0% in the first half of the year.

MGI expects to exceed its medium-term growth target of 25.0% to 30.0% annual revenue growth per annum for the 2021 financial year and is now targeting a growth rate more than twice as high as previously expected. This also results in an expected significant increase in adjusted EBITDA for 2021, with a significantly disproportionate increase in relation to the planned revenue.

Specifically, the company now expects consolidated revenues in a range of € 220.0 million to € 240.0 million and adjusted EBITDA of € 60.0 million to € 65.0 million for the current financial year 2021. In the medium term, revenue growth of 25.0% to 30.0% p.a. and an EBITDA increase of 66.0% to 72.0% p.a. are to be achieved.

The high organic growth achieved and the expected dynamic business development are favoured in particular by the strongest organic growth pipeline in the company's history already announced by MGI. In the games segment, various new games were launched, platforms were expanded and additional content was added for download. gamigo has, for example, released Trove in South Korea and Trove on Nintendo Switch as well as the closed beta of Skydome. The MGI Group has also successfully realised other projects in its media business unit (Verve Group). For example, Verve launched operations in Japan and Brazil with teams on the ground. In addition, numerous partnerships have been concluded with publishers and advertisers from the games sector, while Verve has introduced a promising product for efficient user acquisition with the only on-device anonymisation solution ATOM, which replaces the classic "identifiers for advertisers".

It should be emphasised that the new corporate guidance does not include any further M&A transactions and, thus, also not the recently announced acquisition of the digital advertising platform Smaato.

However, the Smaato acquisition announced on 21 June 2021 opens up significant additional revenue and earnings potential (additional annual revenue of between € 30.0m to € 40.0m with an EBIDA margin of around 30.0%) for the second half of 2021. In our view, the proposed Smaato acquisition is transformative for MGI's captive advertising division (Verve Group), as it would significantly increase the media unit's revenue volume, profitability and reach (an additional 1.3bn Smaato end-users to then over 2.0bn end-users across the entire advertising division). In addition to significant synergy potentials (e.g. through cross-selling effects between the platforms of the media unit) within the media unit, the acquisition would also, in our estimation, open up significant synergy potentials for the games unit, especially in the area of new customer acquisition.

Furthermore, MGI announced on 01/07/2021 that it had signed an unsecured overdraft facility of € 30.00 million with UniCredit Bank at an interest rate of 3.875% per annum. The signed credit line increases the company's flexibility in the area of working capital as well as for further M&A-related financing needs. The guaranteed interest rate underlines the company's continuously decreasing interest costs, which was already demonstrated by the last follow-up bond (volume: € 150.0 million) at a price of 102.0% above par on 18 June 2020, and at the same time demonstrates the company's high creditworthiness. In our opinion, MGI has thus been able to secure further financial leeway at favourable conditions for general corporate financing as well as for opportunistic M&A transactions.

Forecasts and evaluation

	FY 2020	FY 2021e (new)	FY 2021e (old)	FY 2022e (new)	FY 2022e (old)	FY 2023e (new)	FY 2023e (old)
Revenues	140.22	223.15	202.30	276.29	255.10	345.64	319.39
Adjusted EBITDA	29.10	62.71	56.81	80.80	74.10	105.22	97.14
EBITDA	26.55	58.71	52.81	76.60	69.90	101.02	92.94
EBIT	11.04	30.89	24.99	49.57	45.37	74.40	68.73
Net result	3.06	15.98	12.27	26.05	23.65	43.49	39.99

Source: GBC AG estimates

In view of the very convincing company performance so far in the current financial year and the increase in company guidance, we have also adjusted our previous estimates for the current financial year and subsequent years significantly upwards.

For the current financial year 2021, we now expect revenues of € 223.15 million (previously: € 202.30 million) and an EBITDA of € 58.71 million (previously: € 52.81 million). For the following financial year 2022, we calculate revenues of € 276.29 million (previously: € 255.10 million) and EBITDA of € 76.60 million (previously: € 69.90 million). In the following financial year 2023, turnover and EBITDA should increase again to € 345.64 million (previously: € 319.39 million) and € 101.02 million (previously: € 92.94 million), respectively.

Overall, we remain convinced that the MGI Group will be able to successfully continue on its profitable growth path. The planned Smaato takeover would significantly strengthen the media division and further increase the critical size in both business segments (games, media) and also enable additional organic growth. In addition, the company's high liquidity position of currently around € 290.0 million (= GBCe pro forma liquidity, i.e. cash position including bond inflows) means that it is also well equipped to initiate further acquisitions as part of the M&A strategy being pursued and thus to again significantly increase the pace of growth and further expand its market positions.

Within the framework of our DCF valuation model, we have significantly raised our previous price target from € 6.92 per share to € 8.00 per share due to our increased estimates for the financial years 2021, 2022 and 2023 and the associated higher valuation starting level for the following years. The "roll-over effect" that occurred has also had the effect of increasing the price target (price target related to the following financial year 2022 instead of 2021). In view of the current share price level, we continue to issue a "buy" rating and see significant upside potential.

Evaluation

Model assumptions

We have valued Media and Games Invest SE using a three-stage DCF model. Starting with the concrete estimates for the years 2021 to 2023 in phase 1, the forecast is made from 2024 to 2028 in the second phase by applying value drivers. We expect revenue to increase by 5.0% (previously: 5.0%). We have assumed an EBITDA target margin of 29.2% (previously: 29.1%). We have included the tax rate at 30.0% in phase 2. In the third phase, a residual value is also determined after the end of the forecast horizon using the perpetual annuity. In the terminal value we assume a growth rate of 2.0%.

Determination of the cost of capital

The weighted average cost of capital (WACC) of Media and Games Invest SE is calculated from the cost of equity and the cost of debt. In order to determine the cost of equity, the fair market premium, the company-specific beta and the risk-free interest rate must be determined.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW. The basis for this is the zero bond interest rates published by the Deutsche Bundesbank according to the Svensson method. To smooth short-term market fluctuations, the average yields of the previous three months are used and the result rounded to 0.25 basis points. The currently used value for the risk-free interest rate is 0.25% (previously: 0.25%).

We set the historical market premium of 5.5% as a reasonable expectation of a market premium. This is supported by historical analyses of equity market returns. The market premium reflects the percentage by which the equity market is expected to yield better than low-risk government bonds.

According to the GBC estimation method, a beta of 1.36 is currently determined.

Using the assumptions made, we calculate a cost of equity of 7.7% (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustainable weighting of the cost of equity of 80.0% (previously: 80.0%), this results in a weighted average cost of capital (WACC) of 7.1%.

Valuation result

Our fair value per share at the end of the 2022 financial year corresponds to a target price of € 8.00 per share (previously: € 6.92 per share). Our significant price target increase results from our raised estimates for the financial years 2021, 2022 and 2023 and the associated higher starting level for the subsequent years. The "roll-over effect" (technical price target increase, i.e. price target related to the following financial year 2022 instead of 2021) also had the effect of increasing the price target.

DCF model

Media and Games Invest SE - Discounted Cashflow (DCF) model

Value driver used in the DCF-model´s estimate phase:

consistency - Phase	
Revenue growth	5.0%
EBITDA-margin	29.2%
Depreciation on fixed assets	32.6%
Working capital to sales	10.0%

final - Phase	
Perpetual growth rate	2.0%
Perpetual EBITA margin	22.5%
Effective tax rate in terminal value	30.0%

Three-phase DCF - model:

Phase	**estimate**			**consistency**					**final**
in mEUR	FY 21e	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	**value**
Revenue (RE)	223.15	276.29	345.64	362.92	381.07	400.12	420.13	441.13	
Revenue change	59.1%	23.8%	25.1%	5.0%	5.0%	5.0%	5.0%	5.0%	2.0%
Revenue to fixed assets	2.17	2.99	4.26	5.20	6.14	7.04	7.88	8.65	
EBITDA	58.71	76.60	101.02	105.97	111.27	116.84	122.68	128.81	
EBITDA-margin	26.3%	27.7%	29.2%	29.2%	29.2%	29.2%	29.2%	29.2%	
EBITA	30.89	49.57	74.40	79.56	88.57	96.64	104.17	111.45	
EBITA-margin	13.8%	17.9%	21.5%	21.9%	23.2%	24.2%	24.8%	25.3%	22.5%
Taxes on EBITA	-7.72	-12.39	-18.60	-23.87	-26.57	-28.99	-31.25	-33.43	
Tax rate	25.0%	25.0%	25.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	23.17	37.18	55.80	55.69	62.00	67.65	72.92	78.01	
Return on capital	18.0%	32.3%	51.5%	50.4%	58.5%	67.6%	75.3%	81.8%	74.4%
Working Capital (WC)	12.15	15.99	29.38	36.29	38.11	40.01	42.01	44.11	
WC to sales	5.4%	5.8%	8.5%	10.0%	10.0%	10.0%	10.0%	10.0%	
Investment in WC	3.94	-3.84	-13.39	-6.91	-1.81	-1.91	-2.00	-2.10	
Operating fixed assets (OFA)	102.80	92.27	81.15	69.74	62.04	56.84	53.34	50.98	
Depreciation on OFA	-27.82	-27.03	-26.62	-26.41	-22.70	-20.19	-18.50	-17.36	
Depreciation to OFA	27.1%	29.3%	32.8%	32.6%	32.6%	32.6%	32.6%	32.6%	
CAPEX	-18.00	-16.50	-15.50	-15.00	-15.00	-15.00	-15.00	-15.00	
Capital employed	114.95	108.26	110.53	106.03	100.14	96.86	95.35	95.09	
EBITDA	58.71	76.60	101.02	105.97	111.27	116.84	122.68	128.81	
Taxes on EBITA	-7.72	-12.39	-18.60	-23.87	-26.57	-28.99	-31.25	-33.43	
Total investment	-122.07	-20.34	-28.89	-21.91	-16.81	-16.91	-17.00	-17.10	
Investment in OFA	-18.00	-16.50	-15.50	-15.00	-15.00	-15.00	-15.00	-15.00	
Investment in WC	3.94	-3.84	-13.39	-6.91	-1.81	-1.91	-2.00	-2.10	
Investment in goodwill	-108.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	-71.08	43.87	53.53	60.19	67.89	70.94	74.42	78.28	1356.75

Value operating business (due date)	1177.65	1217.06
Net present value explicit free cashflows	336.67	316.61
Net present value of terminal value	840.97	900.44
Net debt	44.93	15.50
Value of equity	1132.71	1201.56
Minority interests	-3.50	-3.71
Value of share capital	1129.21	1197.84
Outstanding shares in m	149.68	149.68
Fair value per share in €	7.54	**8.00**

Cost of Capital:

Risk-free rate	0.3%
Market risk premium	5.5%
Beta	1.36
Cost of equity	7.7%
Target weight	80.0%
Cost of debt	6.0%
Target weight	20.0%
Taxshield	25.0%
WACC	**7.1%**

Return on capital	**WACC**				
	6.5%	**6.8%**	**7.1%**	**7.4%**	**7.7%**
73.9%	9.00	8.44	7.96	7.53	7.15
74.1%	9.02	8.47	7.98	7.55	7.17
74.4%	9.04	8.49	**8.00**	7.57	7.19
74.6%	9.07	8.51	8.02	7.59	7.21
74.9%	9.09	8.53	8.04	7.61	7.22

ANNEX

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2. the research report shall be made available simultaneously to all investment service providers interested in it.

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