

Media and Games Invest plc

Malta / Entertainment
 Xetra
 Bloomberg: M8G GR
 ISIN: MT0000580101

9M / 20
 results

RATING
BUY

PRICE TARGET
€ 2.80

Return Potential 87.9%
 Risk Rating High

RAISING PRICE TARGET ON UPPED 2020 GUIDANCE

Nine month reporting confirmed recent Q3 prelims and showed continued good business momentum. Sales of €35m climbed some 29% on an annualised basis and topped FBe (€31m; +15%), while earnings grew at a stronger clip led by EBITDA (+61% Y/Y). The Media Segment took the growth reins in Q3 (+52%), after Gaming cooled during the expected, seasonal summer lull. Management lifted full year guidance for the second time this year on the good Q3, and we have revised up our 2020 forecasts resulting in a new price target of €2.8 (old: €2.5) Our rating remains Buy.

Media Segment outperforms on swift integration Q3 results were spurred by a mix of organic and external growth. The latter was driven by the eight M&A events since YE18 (YTD: 3), while eight successful game launches with downloadable content (DLC) boosted internal upside. The Media Segment led Q3 organic growth having corralled embedded upside from the Platform 161 integration. Thanks to a full M&A pipeline that entails five late stage candidates (including four in gaming) equal to ~€100m in sales, we expect further corporate activity in the coming quarters with another deal in the works for early Q1/20.

What else has changed? Mobile activities are primed for an uptick with the acquisition of freenet Digital GmbH and its full suite of mobile games. Management hinted at a 10% Q4/20 mobile contribution to the Gaming mix. MGI also issued a new corporate bond in November for €80m with a 5.75% coupon and four year maturity (overleaf). This is 200 bps lower than the old gamigo bonds and should help mute the market narrative of expensive debt financing. The company plans to repay the €50m gamigo bond and top up the financial coffers for future M&A activity. Management upped guidance for the second time this year and now call for sales of €125m to €135m (old: revenue €115m to €125m) with EBITDA of €23m to €26m. Good business momentum gives us confidence in this outlook and we have adjusted FBe upward to the midpoint of guidance. Our price target moves to €2.8 (old: €2.5) on a fully diluted basis (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020E	2021E	2022E	2023E
Revenue (€m)	32.62	83.89	130.03	162.54	191.80	220.57
Y-o-y growth	n.a.	157.2%	55.0%	25.0%	18.0%	15.0%
EBITDA (€m)	8.65	15.54	24.92	34.42	40.69	51.15
EBITDA margin	26.5%	18.5%	19.2%	21.2%	21.2%	23.2%
Net income (€m)	5.26	1.25	2.43	8.70	11.43	16.89
EPS (diluted) (€)	0.10	-0.01	0.03	0.07	0.10	0.14
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-7.17	3.13	-8.65	2.50	15.45	20.07
Net gearing	24.0%	27.4%	27.5%	28.5%	23.4%	16.4%
Liquid assets (€m)	4.45	32.98	62.16	57.58	65.96	74.09

RISKS

Risks include but are not limited to: revenue diversity, financing, technology, and regulatory risks.

COMPANY PROFILE

Media and Games Invest plc (MGI) is a fast-growing and profitable company operating in the digital games sector with a strongly supportive media unit. MGI combines organic growth with value-accretive acquisition strategy to deliver sustainable earnings growth.

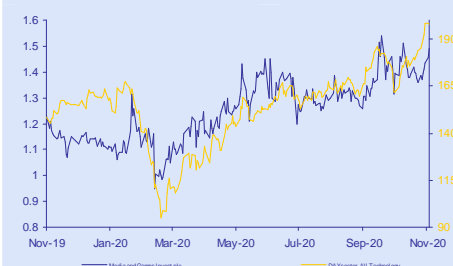
MARKET DATA

As of 01 Dec 2020

Closing Price	€ 1.49
Shares outstanding	117.07m
Market Capitalisation	€ 174.43m
52-week Range	€ 0.95 / 1.54
Avg. Volume (12 Months)	105,879

Multiples	2019	2020E	2021E
P/E	n.a.	59.4	20.5
EV/Sales	3.0	1.9	1.5
EV/EBITDA	16.0	10.0	7.2
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2020

Liquid Assets	€ 10.93m
Current Assets	€ 35.93m
Intangible Assets	€ 261.51m
Total Assets	€ 321.09m
Current Liabilities	€ 53.61m
Shareholders' Equity	€ 155.79m

SHAREHOLDERS

Bodhivas GmbH	37.1%
Early Investors	15.0%
UBS	4.0%
Free Float	43.9%

**Table 1: Third quarter results vs FBe and prior year**

EURm	Q3/20	Q3/20E	Variance	Q3/19	Variance	9M/20	9M/19	Variance
Revenue	35.0	30.5	14.8%	27.1	29.0%	91.5	55.7	64.3%
EBITDA	6.3	5.6	12.5%	3.9	60.7%	17.5	11.5	53.1%
Margin (%)	18.0%	18.4%	-	14.4%	-	19.2%	20.6%	-
EBIT	2.5	2.1	18%	0.9	181%	7.5	4.1	81%
Margin	7.1%	6.9%	-	3.2%	-	8.2%	7.4%	-
Net income	0.3	0.2	18%	0.1	333%	0.7	0.9	-22%

Source: First Berlin Equity Research; Media and Games Invest

Media drives nine month performance Q3 revenue beat our estimate on the Media Segment outperformance. Gaming revenues remained at a high level, thanks to new player inflows during the lockdowns. After stay-at-home policies drove a surge in Gaming performance in H1, segment sales were 4% lower Q/Q, due to normal summer seasonal effects combined with the fact that gamers took advantage of eased lock-downs to spend more time socialising.

Gaming contributed 51% to group revenue vs 63% in Q2, while the Media Segment accounted for the balance. The downtick in Gaming is occasioned by the strong Media performance (Platform 161 integration), but MGI looks for the Gaming ratio to increase again in Q4 with the rollout of new mobile games (overleaf).

Earnings rose sharply on an annualised basis with EBITDA climbing some 61% to €6.3m matching the pace of Q2. EBITDA and operating income were higher than FBe owing chiefly to the higher revenue result. Operating and personnel costs were largely in line with our targets.

On a nine month basis, MGI reported sales of €92m vs €56m in 9M/19 (+65%). Trailing twelve month (TTM) sales now top €120m giving us a high degree of confidence in our €130m revenue target and recently updated guidance. Nine month EBITDA rose 53% Y/Y, while MGI tallied up EBITDA of €25m on a TTM basis.

Table 2: Segment reporting

EURm	Q3/20	Q2/20	Variance	9M/20	FY19
Gaming segment					
Revenue	18.0	18.8	-4.3%	50.7	43.1
EBITDA	4.8	5.3	-9.4%	14.6	12.6
Margin (%)	26.7%	28.2%	-	28.8%	29.2%
Media segment					
Revenue	17.0	11.2	51.8%	40.8	40.8
EBITDA	1.1	1.0	8.9%	3.0	2.9
Margin	6.5%	9.0%	-	7.4%	7.1%

Source: First Berlin Equity Research; Media and Games Invest

On a segment basis, gaming saw a 4% Q/Q decrease in revenue on fewer game launches and the aforementioned season effects. Sales remained stable Q/Q post-lockdown compared to €13.9m in Q1. The dip in margin is traced to higher marketing spend for player retention after the Q2 surge and a rise in licensed game revenues.



Media sales were up 52% sequentially, thanks to an increase in mobile gaming ad spending partnerships with Zynga and other gaming companies. We expect strong Q4 ad spend with lockdowns back in fashion across the world. The EBITDA margin took a hit in Q3 on temporary Platform 161 dilution post-takeover, but we expect good uplift going forward with full integration effects that have yet to be realised.

Mobile gaming gets a boost Management also noted on the conference call that the Q3 acquisition of freenet Digital GmbH with some 1,500 mobile games would begin to positively impact mobile gaming contributions in Q4/20. On an annualised basis the freenet addition should contribute some €12m to €13m to the 2021 topine with €2m to €3m in EBITDA. We consider this a positive development given the low portion of mobile in the device mix (~1%). Plus, the company can leverage its existing game portfolio to enable select games for mobile devices, and launch newly licensed mobile games, while harnessing synergies from its media unit for player acquisition.

While mobile offers excellent growth opportunities, it is worth noting that gatekeepers, such as Apple, charge a 30% commission for in-app purchases vs 8% to 9% fees for other online channels.

UPDATE ON BALANCE SHEET

Table 3: 9M financial highlights

EUR '000	9M/20	2019	Variance
Cash	10,927	32,984	-67%
Liabilities (short- and long-term)	165,299	143,891	15%
Intangible assets	261,515	233,207	12%
Total assets	321,091	312,449	3%
Total equity	155,792	168,558	-8%
Equity ratio	49%	54%	-

Source: First Berlin Equity Research; Media and Games Invest

New bond to lower financing costs In November, MGI issued a new four year bond (ISIN: SE00151194527) for €80m with a 5.75% p.a. coupon. The new note was well subscribed by existing and new investors. The company will use the proceeds to: (1) redeem the old bond, which will be recalled on 10 December 2020 at 103.875% of the nominal amount plus accrued interest; and (2) finance further corporate activity. We thus believe management command good financial flexibility (table 5) to execute its M&A strategy, while keeping ample headroom to debt covenants.

Table 4: Use of proceeds

	€m		€m
Senior secured bond	80.0	Redemption of existing gamigo notes	50.0
Opening cash Q3	37.9	Call premium closing cash	1.9
		Closing cash	66.0
Total	117.9	Total	117.9

Source: First Berlin Equity Research; Media and Games Invest

**Table 5: Pro-forma debt profile and KPIs after bond issuance**

	Unit	
Senior secured debt	€m	80.0
Senior unsecured Bond (MGI)	€m	24.6
Bank facilities	€m	8.7
Interest bearing debt	€m	113.3
Cash	€m	66.0
Net debt	€m	47.3
Net debt / EBITDA ¹	x	4.6
Gross debt / EBITDA ¹	x	1.9
LTV	%	22

¹ LTM (last twelve months) Q3/20

Source: First Berlin Equity Research; Media and Games Invest

Table 6: Changes to FBe and price target

	old	new	revision	upside	dividend yield	total return
Price target (€)	2.5	2.8	13.7%	87.9%	0.0%	87.9%
	2020E			2021E		
All figures in € '000	old	new	revision	old	new	revision
Revenue	114,933	130,034	13.1%	149,413	162,543	8.8%
EBITDA	20,367	24,918	22.3%	30,249	34,422	13.8%
Margin (%)	17.7%	19.2%	-	20.2%	21.2%	-
EBIT	7,150	9,964	39.4%	16,951	19,955	17.7%
Margin (%)	6.2%	7.7%	-	11.3%	12.3%	-
Net income	645	2,434	277.5%	6,912	8,699	25.8%
EPS diluted (€)	0.01	0.03	277.5%	0.06	0.07	25.8%

Source: First Berlin Equity Research; Media and Games Invest

Increasing price target to €2.8 Recalibrated FBe include: (1) upped revenue target for 2020; (2) adjustments to cost structure to reflect improving synergies; and (3) updated debt financing. Our new forecasts now reflect the mid-points of new guidance and result in a €2.8 price target (old: €2.5). We expect another uptick in sales for the fourth quarter (FBe: €38m; +8.6% Q/Q), spurred by seasonal and lock down effects, and remain Buy-rated on MGI.



VALUATION MODEL

All figures in EUR '000	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Revenue	130,034	162,543	191,800	220,570	253,656	279,022	292,973	304,692
NOPLAT	6,725	13,470	16,201	21,572	26,271	31,196	32,650	36,038
(+) depreciation & amortisation	14,954	14,466	16,687	19,190	22,068	21,485	22,559	20,414
Net operating cash flow	21,679	27,936	32,887	40,761	48,339	52,681	55,209	56,452
(-) Investments	-31,791	-24,739	-17,684	-19,895	-22,880	-22,378	-23,496	-21,999
(-) Working capital	-5,086	-3,524	-2,585	-3,592	-3,609	-2,512	-1,175	-987
Free cash flows (FCF)	-15,198	-327	12,618	17,274	21,851	27,791	30,537	33,466
PV of FCF's	-15,090	-297	10,466	13,095	15,140	17,600	17,676	17,705

All figures in thousands		Terminal EBIT margin							
		16.5%	18.5%	20.5%	22.5%	24.5%	26.5%	28.5%	
PV of FCFs in explicit period	134,075	6.4%	3.64	4.26	4.87	5.48	6.10	6.71	7.32
PV of FCFs in terminal period	252,078	7.4%	2.90	3.37	3.83	4.30	4.76	5.22	5.69
Enterprise value (EV)	386,153	8.4%	2.38	2.74	3.10	3.46	3.82	4.18	4.54
(+) Net cash / (-) net debt	-46,145	9.4%	1.98	2.27	2.55	2.84	3.13	3.42	3.70
(-) Non-controlling interests	-7,337	10.4%	1.67	1.90	2.14	2.37	2.60	2.83	3.07
Shareholder value	332,671	11.4%	1.42	1.61	1.80	2.00	2.19	2.38	2.57
Fair value per share (€)	2.80	12.4%	1.22	1.38	1.54	1.70	1.85	2.01	2.17

		Terminal growth rate							
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	
Cost of equity	10.8%	6.4%	4.38	4.69	5.05	5.48	6.02	6.69	7.56
Pre-tax cost of debt	6.0%	7.4%	3.57	3.77	4.01	4.30	4.63	5.03	5.52
Tax rate	32.5%	8.4%	2.95	3.10	3.27	3.46	3.68	3.94	4.24
After-tax cost of debt	4.1%	9.4%	2.48	2.59	2.71	2.84	3.00	3.17	3.37
Share of equity capital	80.0%	10.4%	2.10	2.18	2.27	2.37	2.48	2.60	2.75
Share of debt capital	20.0%	11.4%	1.79	1.85	1.92	2.00	2.08	2.17	2.27
WACC	9.4%	12.4%	1.54	1.59	1.64	1.70	1.76	1.83	1.90

*Please note our model runs through 2030 and we have only shown the abbreviated version for formatting purposes



INCOME STATEMENT

All figures in EUR '000	2018	2019	2020E	2021E	2022E
Revenues	32,621	83,893	130,034	162,543	191,800
Capitalised work	2,791	10,187	10,696	11,231	11,793
Total output	35,412	94,080	140,731	173,774	203,593
Cost of goods sold	-12,699	-45,803	-65,017	-79,646	-93,982
Gross profit	22,713	48,277	75,713	94,128	109,611
Personnel expenses	-10,438	-27,359	-39,010	-44,699	-51,019
Other OpEx	-10,135	-10,012	-16,514	-19,830	-22,824
Other operating income	6,506	4,636	4,729	4,823	4,920
EBITDA	8,646	15,542	24,918	34,422	40,688
Depreciation & amortisation	-6,318	-10,543	-14,954	-14,466	-16,687
Operating income (EBIT)	2,328	4,999	9,964	19,955	24,001
Net financial result	-1,641	-5,758	-6,358	-7,068	-7,068
Pre-tax income (EBT)	687	-759	3,606	12,888	16,933
Income taxes	895	2,012	-1,172	-4,188	-5,503
Net income	1,582	1,253	2,434	8,699	11,430
Discontinued operations	3,673	0	0	0	0
Consolidated profit	5,255	1,253	2,434	8,699	11,430
Minority interests	-932	-1,577	-49	-174	-229
Net income to owners	4,323	-324	2,385	8,525	11,201
Diluted EPS (in €)	0.10	-0.01	0.03	0.07	0.10
Ratios					
Gross margin on output	64.1%	51.3%	53.8%	54.2%	53.8%
EBITDA margin on revenues	26.5%	18.5%	19.2%	21.2%	21.2%
EBIT margin on revenues	7.1%	6.0%	7.7%	12.3%	12.5%
Net margin on revenues	13.3%	-0.4%	1.8%	5.2%	5.8%
Tax rate	n.a.	n.a.	32.5%	32.5%	32.5%
Expenses as % of revenues					
Personnel expenses	32.0%	32.6%	30.0%	27.5%	26.6%
Other OpEx	31.1%	11.9%	12.7%	12.2%	11.9%
Depreciation & amortisation	19.4%	12.6%	11.5%	8.9%	8.7%
Y-Y Growth					
Revenues	n.a.	157.2%	55.0%	25.0%	18.0%
EBTIDA	n.a.	79.8%	60.3%	38.1%	18.2%
Operating income	n.a.	114.7%	99.3%	100.3%	20.3%
Net income/ loss	n.a.	n.m.	n.m.	257.4%	31.4%



BALANCE SHEET

All figures in EUR '000	2018	2019	2020E	2021E	2022E
Assets					
Current assets, total	16,250	55,856	99,563	104,343	121,140
Cash and equivalents	4,447	32,984	62,156	57,584	65,965
Trade receivables	11,803	22,872	37,407	46,759	55,175
Non-current assets, total	220,043	256,593	303,666	314,179	315,421
Property, plant & equipment	4,189	3,521	3,547	3,580	3,618
Intangible assets	210,495	244,423	291,459	301,928	303,120
Long-term loans to investees	5,359	6,410	6,410	6,410	6,410
Other non-current assets	0	2,239	2,250	2,261	2,273
Total assets	236,293	312,449	403,229	418,521	436,561
Shareholders' equity & debt					
Liabilities, total	24,358	54,544	64,042	70,288	76,545
Trade payables	9,366	20,274	29,723	35,550	41,382
Financial debt	3,595	6,772	6,409	6,409	6,409
Provisions	7,031	12,585	12,774	12,965	13,160
Other current liabilities	4,366	14,913	15,137	15,364	15,594
Provisions, total	53,395	89,347	130,399	130,745	131,099
Long-term debt	14,100	8,369	8,369	8,369	8,369
Bonds	24,877	63,988	104,700	104,700	104,700
Deferred tax liabilities	14,418	16,990	17,330	17,676	18,030
Shareholders' equity	158,540	168,558	208,788	217,488	228,917
Total consolidated equity and debt	236,293	312,449	403,229	418,521	436,561
Ratios					
Current ratio (x)	0.7	1.0	1.6	1.5	1.6
Net debt	38,125	46,145	57,322	61,894	53,513
ICR (x)	5.0	2.7	3.9	4.9	5.8
Net gearing	24%	27%	27%	28%	23%
Net debt / EBITDA (x)	4.4	3.0	2.3	1.8	1.3
Equity ratio	67%	54%	52%	52%	52%
Return on equity (ROE)	1.0%	0.7%	1.2%	4.0%	5.0%
Capital employed (CE)	211,935	257,905	339,187	348,233	360,016
Return on capital employed (ROCE)	1%	2%	3%	6%	7%



CASH FLOW STATEMENT

All figures in EUR '000	2018	2019	2020E	2021E	2022E
Net income	5,255	1,253	2,434	8,699	11,430
Depreciation and amortisation	6,318	10,543	14,954	14,466	16,687
Change in trade rec & other assets	-8,083	1,437	-14,759	-9,581	-8,650
Change in payable & other liabilities	14,501	3,928	10,201	6,593	6,610
Results from sale of subsidiaries	-5,645	0	0	0	0
Other non-cash adjustments	-6,150	-5,752	0	0	0
Net interest expense	1,641	5,529	6,358	7,068	7,068
Tax result	-895	-822	1,172	4,188	5,503
Operating cash flow	6,942	16,116	20,359	31,434	38,648
Tax expense	0	0	-1,172	-4,188	-5,503
Interest income	1	83	0	0	0
Net operating cash flow	6,943	16,199	19,187	27,246	33,144
Payments for intangible assets	-11,042	-12,606	0	0	0
Acquisition of subsidiaries	-3,919	-6,214	-27,537	-24,381	-17,262
CapEx	0	0	-286	-358	-422
Deposits / payments for other assets	848	5,750	0	0	0
Cash flow from investing	-14,113	-13,070	-27,823	-24,739	-17,684
Free cash flow (FCF)	-7,170	3,129	-8,636	2,507	15,460
Equity inflow, net	3,792	8,845	28,771	0	0
Debt inflow, net	-15,992	-12,011	-363	0	0
Corporate debt, net	25,800	38,699	40,712	0	0
Interest paid	-2,014	-5,345	-6,358	-7,068	-7,068
Payments for non-controlling interests	0	-5,000	-24,943	0	0
Other adjustments	-489	220	0	0	0
Cash flow from financing	11,097	25,408	37,820	-7,068	-7,068
Net cash flows	3,927	28,537	29,184	-4,561	8,392
Fx adjustments	114	0	0	0	0
Cash, start of the year	406	4,447	32,984	62,156	57,584
Cash, end of the year	4,447	32,984	62,168	57,595	65,976
EBITDA/share (in €)	0.20	0.26	0.26	0.29	0.35
Y-Y Growth					
Operating cash flow	n.m.	133.3%	18.4%	42.0%	21.7%
Free cash flow	n.m.	n.m.	n.m.	n.m.	516.8%
EBITDA/share	n.m.	26.2%	1.8%	12.2%	18.2%

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ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

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RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	7 November 2019	€1.23	Buy	€2.10
2	18 December 2019	€1.13	Buy	€2.10
3	21 February 2020	€1.23	Buy	€2.80
4	4 March 2020	€1.16	Buy	€2.80
5	16 April 2020	€1.15	Buy	€2.80
6	23 June 2020	€1.41	Buy	€2.80
7	6 August 2020	€1.33	Buy	€2.90
8	14 August 2020	€1.28	Buy	€2.90
9	1 October 2020	€1.30	Buy	€2.50
10	Today	€1.49	Buy	€2.80

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- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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