

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

Rating: Buy

Target price: € 6.92
(previously: € 7.35)

Current price: 4.28
10/05/21 / Xetra /
(3:11 pm)
Currency: EUR

Master data:

ISIN: MT0000580101
WKN: A1JGT0
Ticker symbol: M8G
Number of shares³: 149.68
Market cap³: 551.05
EnterpriseValue³: 630.81
³ in m / in € m
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
Private Bankers AG
Pareto Securities AB

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* Catalogue of possible conflicts of interest on page 7

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11/05/2021 (15:25 pm)

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Validity of the target price: until
max. 31/12/2021

Company profile

Industry: Entertainment, Media

Focus: Video games (so-called MMOs)

Employees: 800

Founded: 2011 (gamigo in 2000)

Head office: Malta (probably Luxembourg from 2022)

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



Media and Games Invest plc has a profitable and growing portfolio of companies in the games and digital media sectors. The group primarily aims to grow through acquisitions of companies, restructuring and integrating them into one large platform. 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 gaming sector, leaving room for acquisitions at a favourable price. In 2021, the following has already been achieved: 1) Acquisition of the well-known US game developer KingsIsle Entertainment Inc, the largest acquisition to date with an additional pro-forma EBITDA of around 60.0% 2) The acquisition of the North American connected TV platform LKQD, which has a reach of more than 200 million end customers. In the current COVID-19 pandemic, video games have once again proven to be crisis-proof and non-cyclical. As consumers have had more free time, demand for entertainment, and therefore video games, has soared. Since July 2020, MGI shares have been listed on the Scale segment (previously: Basic Board) of Deutsche Börse and since 6 October 2020, they have had a dual listing on Nasdaq First North Premier, where many other midcap gaming companies are listed.

P&L in € m \ FY-end	31/12/2020	31/12/2021e	31/12/2022e	31/12/2023e
Revenues	140.22	202.30	255.10	319.39
Adjusted EBITDA	29.10	56.81	74.10	97.14
EBITDA	26.55	52.81	69.90	92.94
EBIT	11.04	24.99	45.37	68.73
Net result (after minorities)	3.06	12.27	23.65	39.99

Key figures in EUR

Earnings per share	0.03	0.10	0.18	0.31
Dividend per share	0.00	0.00	0.00	0.00

Key figures

EV/turnover	4.50	3.12	2.47	1.98
EV/ Adjusted EBITDA	21.68	11.10	8.51	6.49
EV/EBITDA	23.76	11.94	9.02	6.79
EV/EBIT	57.14	25.24	13.90	9.18
P/E ratio (after minorities)	180.08	44.91	23.30	13.78
KBV	3.12			

Financial calendar

July 2021: Annual General Meeting
31/08/2021: Semi-annual report 2021
30/11/2021: Annual Report Q3 2021

**last research from GBC:

Date: Publication / Target price in EUR / Rating

04/05/2021: RS / 7.35 / BUY

11/03/2021: RS / 5.15 / BUY

01/02/2021: RS / 5.15 / BUY

07/12/2020: RS / 3.20 / BUY

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Capital increase for growth financing successfully carried out; continuation of dynamic growth course expected; oversubscribed capital measure opens up significant inorganic growth potential; price target lowered to € 6.92 (previously: € 7.35) due to the dilution effect that has occurred.

Successful capital increase for consistent implementation of the M&A pipeline

On 6 May 2021, Media and Games Invest plc (MGI) announced the closing of a cash capital increase. Thus, in accordance with the previous company announcement, the company has successfully completed the bookbuilding process of the direct share placement, and resolved to issue 20,930,232 new shares based on the authorisation granted at MGI's Annual General Meeting on 15 April 2021. The issue price of the new shares in the direct share placement was SEK 43 per share (equivalent to approximately € 4.30) and was determined in an accelerated bookbuilding process.

The direct share placement was heavily oversubscribed and generated high interest from both Swedish and international investors as well as existing shareholders. The company has therefore decided to increase the direct share placement to SEK 900.0 million (approx. € 89.0 million).

Upon completion of the transaction, the number of outstanding shares and voting rights will increase by 20,930,232 shares, from 128,749,748 to 149,679,980, as a result of the direct share placement, which represents a dilution of approximately 14.0% of the number of shares and voting rights to the company for the existing shareholders. In parallel, the share capital will increase by EUR 20,930,232 from EUR 128,749,748 to EUR 149,679,980.

In addition, as part of the capital measure, the company announced that both existing and new prominent investors participated in the capital measure. According to the company's website, for example, the following well-known "long-only" investors have joined the shareholder group:

Top 3 new investors	shareholding in %	also invested in, among others:
Janus Henderson Global Investors (UK)	5.50%	Embracer, Tencent, Activision Blizzard
Didner & Gerge Fonder (Sweden)	0.50%	Embracer
BMO Global Asset Manager (UK)	0.30%	Tencent

Sources: Media and Games Invest plc; GBC AG

In addition, the following investors, among others, further increased their shareholding:

Top 3 existing investors	shareholding in %*	also invested in, among others:
Oaktree Capital (US)	9.10%	n/a.
Skandia Fonder (Sweden)	1.10%	Embracer, Evolution Gaming Group, Stillfront, EG7, MTG
Finlandia Group (Nordics)	0.70%	n/a.

Sources: Media and Games Invest plc; GBC AG

* shareholding after the capital increase

Following the announcement of the successful completion of the KingsIsle acquisition in early February 2021, MGI intends to continue its growth through the acquisition of further complementary games and media companies or assets, as well as investing in further organic growth.

According to the company's own statements, it has an extensive pipeline of potential acquisition targets within the games and media segments, many of which could potentially be realisable candidates in the short term. With the inflow of capital from the capital increase, the MGI Group intends to strengthen its financial position in order to take advantage of these acquisition opportunities in the short term, if necessary.

Forecasts and evaluation

As a result of the completed capital measure in conjunction with a reported cash balance of € 51.70m at the end of the first quarter of 2021, MGI has financial resources of around € 141.0m in our view. With this high financial strength, we believe the company should now be in a position to acquire two to three target companies from the M&A list (top 5) communicated by MGI.

This would result in considerable growth and earnings potential as well as extensive synergy effects within the group. It should be mentioned here that the MGI management has already announced two to three acquisitions for the current financial year. Since the completed capital measure has no influence on our previous forecasts, which we had adjusted upwards with the recently announced Q1 business figures, we are leaving our previous estimates unaffected.

Should the MGI Group carry out further M&A transactions in the current financial year following the acquisition of KingsIsle and LKQD, we will adjust our existing forecasts and valuation accordingly. Due to the dilution effect associated with the capital measure, we have determined a new price target of € 6.92 per share and, thus, moderately lowered our previous price target (€ 7.35 per share). In view of the current price level, we continue to assign a Buy rating and see significant price potential.

Overall, we are convinced that the company will be able to continue its successful growth strategy in the future and significantly increase turnover and earnings. The acquisitions planned by the management for the current financial year 2021 should increase the growth momentum to a much higher level. This should also have a positive impact on the Group's earnings. The acquisition of further prominent investors from the gaming environment also supports our positive assessment that the company is on the "right track" to continue its successful course.

Evaluation

Model assumptions

We have valued Media and Games Invest plc 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 29.1% (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 plc 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 2021 financial year corresponds to a target price of € 6.92 per share (previously: € 7.35 per share). The moderate reduction in the target price results from the dilution effect of the capital measure and the associated significantly higher total number of shares. As a result of the cash capital increase, the number of shares rose by 20.93 million to 149.68 million shares (previously: 128.75 million shares).

DCF model

Media and Games Invest plc - Discounted Cash Flow (DCF) Consideration

Value drivers of the DCF model after the estimate phase:

consistency - phase		final - phase	
Turnover growth	5.0%	perpetual growth in sales	2.0%
EBITDA margin	29.1%	perpetual EBITA - margin	22.5%
AFA to operating fixed assets	32.6%	Effective tax rate in the terminal value	30.0%
Working capital to turnover	10.0%		

three-stage DCF model:

Phase in EUR m	estimate			consistency					final Final value
	FY 21e	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	
Turnover (US)	202.30	255.10	319.39	335.36	352.13	369.73	388.22	407.63	
US Change	44.3%	26.1%	25.2%	5.0%	5.0%	5.0%	5.0%	5.0%	2.0%
US to operating fixed assets	1.96	2.88	4.40	5.24	6.05	6.82	7.53	8.19	
EBITDA	52.81	69.90	92.94	97.59	102.47	107.59	112.97	118.62	
EBITDA margin	26.1%	27.4%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	
EBITA	25.29	40.35	62.02	73.95	81.64	88.66	95.32	101.83	
EBITA margin	12.5%	15.8%	19.4%	22.1%	23.2%	24.0%	24.6%	25.0%	22.5%
Taxes on EBITA	-6.32	-10.09	-15.50	-22.18	-24.49	-26.60	-28.60	-30.55	
to EBITA	25.0%	25.0%	25.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	18.97	30.26	46.51	51.76	57.15	62.06	66.72	71.28	
Return on investment	14.7%	26.3%	44.5%	51.9%	58.6%	66.5%	73.2%	78.9%	72.4%
Working capital (WC)	12.15	15.99	27.15	33.54	35.21	36.97	38.82	40.76	
WC to turnover	6.0%	6.3%	8.5%	10.0%	10.0%	10.0%	10.0%	10.0%	
Investments in WC	3.94	-3.84	-11.16	-6.39	-1.68	-1.76	-1.85	-1.94	
Operating fixed assets (OAV)	103.10	88.55	72.63	63.99	58.16	54.23	51.58	49.79	
AFA on OAV	-27.52	-29.55	-30.92	-23.64	-20.83	-18.93	-17.65	-16.79	
AFA to OAV	26.7%	33.4%	42.6%	32.6%	32.6%	32.6%	32.6%	32.6%	
Investment in OAV	-18.00	-15.00	-15.00	-15.00	-15.00	-15.00	-15.00	-15.00	
Invested capital	115.25	104.54	99.78	97.53	93.37	91.20	90.40	90.55	
EBITDA	52.81	69.90	92.94	97.59	102.47	107.59	112.97	118.62	
Taxes on EBITA	-6.32	-10.09	-15.50	-22.18	-24.49	-26.60	-28.60	-30.55	
Total investments	-122.07	-18.84	-26.16	-21.39	-16.68	-16.76	-16.85	-16.94	
Investment in OAV	-18.00	-15.00	-15.00	-15.00	-15.00	-15.00	-15.00	-15.00	
Investments in WC	3.94	-3.84	-11.16	-6.39	-1.68	-1.76	-1.85	-1.94	
Investments in goodwill	-108.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free cashflows	-75.58	40.97	51.28	54.02	61.30	64.23	67.53	71.13	1257.82

Value of operating business (reporting date)	1087.84	1123.79
Present value of explicit FCFs	308.19	289.01
Present value of the continuing value	779.65	834.78
Net debt	48.77	16.22
Value of equity	1039.07	1107.58
Minority interests in profits	-3.50	-3.73
Value of the share capital	1035.57	1103.84
Shares outstanding in m	149.68	149.68
Fair value of the share in EUR	6.92	7.37

Cost of capital calculation:

risk-free return	0.3%
Market risk premium	5.5%
Beta	1.36
Cost of equity	7.7%
Target weighting	80.0%
Cost of debt	6.0%
Target weighting	20.0%
Taxshield	25.0%
WACC	7.1%

Return on investment	WACC				
	6.5%	6.8%	7.1%	7.4%	7.7%
71.9%	7.81	7.32	6.88	6.50	6.16
72.2%	7.83	7.34	6.90	6.52	6.17
72.4%	7.85	7.36	6.92	6.53	6.19
72.7%	7.88	7.38	6.94	6.55	6.20
72.9%	7.90	7.40	6.96	6.57	6.22

APPENDIX

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