

Artifex Mundi

Pressure in HOPA games maintained; new RPGs only in 2024

- Q3 2022 results.** The company reported preliminary Q2 revenue of approximately PLN 8.9m (-3% YoY ; -8% QoQ). Revenues from the HOPA games segment amounted to PLN 2.8m (-33% YoY ; -26% QoQ) and from the F2P segment PLN 6.0m (+23% YoY ; +4% QoQ). Initial outlays for UA amounted to PLN 2.7m. The UA/ F2P revenue multiplier was 45% (-11pp q/q). We assume COGS of PLN 2m and G&A of PLN 1.8m for the quarter. We expect a neutral market reaction to the results.
- Outlook.** Revenue erosion in HOPA games is greater than we originally anticipated. In addition, market pressures in the mobile games segment do not allow Unsolved's dynamics to dynamise. We have concerns about the conference message stating that the new F2P RPG is unlikely to complete testing in 2023. Such long development and testing of the title is likely to push the game's budget hard, which, given the track-record with Bladebound, increases the risk of write-downs if the project fails. We do not see strong catalysts for earnings growth in the short term - Q4 is unlikely to deliver a breakthrough. The only upside arguments are that the company is generating positive FCF and is extremely undervalued.
- Changes to forecasts / Recommendation.** We are lowering our forecasts due to the very weak dynamics of the HOPA segment and the expected postponement of the new RPG project from the F2P segment to 2024. Despite the significant reduction in forecasts, we are reiterating our BUY recommendation with a reduced target price to PLN 8.3/share.

Buy

(Previous: Buy; PLN 14,7)

TP: 8,3 PLN

Cur. price: 5,74 PLN

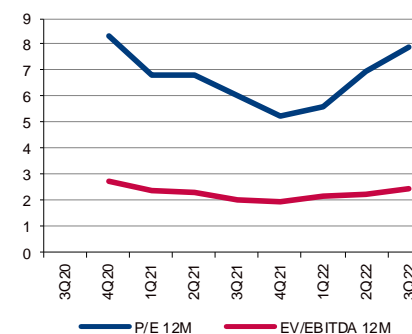
Upside: 45%

Financial results

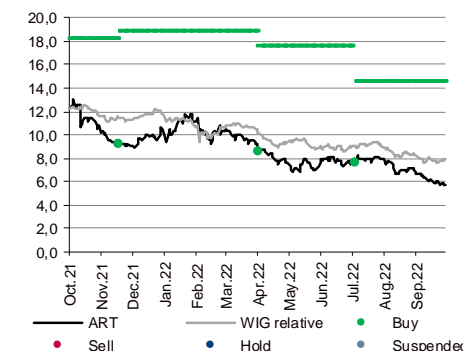
16.11.2022

Company data	Recommendation history	Date	Price	
Ticker	ART	Buy	25.07.2022	14,7
Sector	Games	Buy	22.04.2022	17,6
Price (PLN)	5,7	Buy	09.12.2021	19,0
52w min/max (PLN)	5,02 / 12,4	Buy	21.10.2021	18,3
Shares (m)	11,9	Buy	10.09.2021	21,0
MC (PLNm)	68			
Free-float	1			
Avg. 3M turnover (PLNm)	0,06			
Price chng.	1M 28,0%	3M 16,8%	1Y -30,5%	

P/E 12M vs EV/EBITDA 12M



WIG vs. ART chart



mPLN	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	y/y	q/q
Sales	6	7	11	11	9	8	11	10	9	-3%	-8%
EBITDA	4	3	6	6	5	4	5	4	4	-23%	2%
EBIT	2	2	4	4	4	3	3	2	2	-42%	-3%
Net profit	2	1	3	3	3	3	2	1	2	-36%	97%
P/E 12M trailing	-	8,3	6,8	6,8	6,0	5,3	5,6	6,9	7,9		
EV/EBITDA 12M trailing	-	2,7	2,4	2,3	2,0	1,9	2,2	2,3	2,4		
sales growth y/y	1000%	1000%	1000%	1000%	1000%	1000%	1050%	1050%	1050%		
EBITDA margin	73,7%	47,4%	56,1%	50,0%	56,7%	49,1%	41,5%	40,2%	44,8%		
EBIT margin	43,7%	25,5%	40,1%	36,2%	45,3%	35,5%	28,3%	25,4%	26,8%		
Net margin	35,8%	21,2%	30,1%	30,4%	36,5%	37,5%	20,7%	11,2%	24,1%		

mPLN	2019	2020	2021	2022E	2023E	2024E
Sales	17	26	39	39	45	52
EBITDA	-7	17	21	17	20	22
EBIT	-14	10	15	11	14	12
Net profit	-14	8	13	8	12	11
EPS (PLN)	-1,15	0,7	1,1	0,7	1,0	0,8
DPS (PLN)	0,0	0,0	0,0	0,0	0,0	0,0
P/E (x)	-	8,3	5,3	8,8	5,7	6,9
EV/EBITDA (x)	-	3,4	2,5	3,1	2,4	1,9
P/BV (x)	3,2	2,3	1,6	1,3	1,1	0,9
DY (%)	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%

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Definitions

capitalisation – market price multiplied by the number of a company's shares

free float (%) – a percentage of a company's shares held by shareholders with less than 5% shareholding reduced by treasury shares held by the company

min/max 52 wks – minimum/maximum share price within the last 52 weeks

average turnover – average volume of share trading within the last month

EBIT – operating profit

EBITDA – operating profit increased by depreciation and amortisation

adjusted profit – net profit adjusted for one-off items

CF – cash flow

capex – sum of investment expenditures on fixed assets

OCF – cash generated through the operational activities of the company

FCF – cash generated by the company after taking into account outflows to support operations and retained capital

ROA – rate of return on assets

ROE – rate of return on equity

NWC – net working capital

Cash conversion cycle – period from the moment of expenditure of cash for the purchase of production factors until the moment of receipt of cash revenues from the sale of manufactured goods or services.

Gross profit margin – a ratio of gross profit to net revenue

EBITDA margin – a ratio of sum of operating profit and depreciation/amortisation to net revenue

EBIT margin – a ratio of operating profit to net revenue

net margin – a ratio of net profit to net revenue

EPS – earnings per share

DPS – dividends per share

P/E – a ratio of market price to earnings per share

P/BV – a ratio of market price to book value per share

EV/EBITDA – a company's EV to EBITDA ratio

EV – sum of a company's current capitalisation and net debt

DY – dividend yield, dividend paid to share price ratio

RFR - risk-free rate

WACC - weighted average cost of capital

Recommendations of the Brokerage House

BUY – we expect that the rate of return on an investment will be at least 10%

NEUTRAL – we expect the price of an investment to be relatively stable, optionally it will increase no greater than 10%

SELL – we expect that an investment will make a loss greater than 0%

Recommendation prepared by: Grzegorz Kujawski, Maciej Marcinowski, David Sharma, Dominik Niszcz, Michał Kozak, Kacper Koproń, Katarzyna Kosiorek, Łukasz Rudnik, Piotr Rychlicki, Piotr Chodyra

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