

CI Games

Q321 trading update

Strong Q321 update, third title in development

Video games

27 October 2021

Price **PLN1.69**

Market cap **PLN309m**

PLN3.97/US\$

Net cash (PLNm) at 30 June 2021 15.2

Shares in issue 182.9m

Free float 62.4%

Code CIG

Primary exchange Warsaw Stock Exchange

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 15.4 19.6 35.2

Rel (local) 9.4 10.5 (9.1)

52-week high/low 179p 108p

Business description

Founded in 2002, CI Games is a Warsaw-based developer and publisher of AA+/AAA multi-platform video games for a global audience. It has specialised in first-person shooter and action-driven titles, and owns IP including the SGW and LotF franchises.

Next events

Q321 report 22 November 2021

FY21 results April 2022

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In its Q321 trading update, CI Games confirmed strong Q321 revenues of c PLN30.2m and PAT of c PLN9.8m, a 32.5% net margin. Q4 is CI Games' seasonally strongest quarter, so we anticipate Q421 trading to be similar to Q321. We have therefore raised our FY21 estimates, with FY21 revenues rising 12% to PLN105.0m, and a 32.5% margin giving reported PAT of PLN34.1m. CI Games also announced a new survival game for the PC and latest console generations on Unreal Engine 5 by Czech games developer, BatFields. The IP is to be owned by CI Games. We see this as a positive and necessary step as CI Games invests in broadening its games portfolio, forming the group's third franchise if the title is successful. As outlined in our recent initiation, [An emerging European game publisher](#), timely delivery of high-quality titles is critical to the investment case.

Year end	Revenue* (PLNm)	EBITDA* (PLNm)	PBT** (PLNm)	EPS** (PLN)	DPS (PLN)	P/E (x)
12/19	47.5	21.6	2.0	(0.01)	0.00	N/A
12/20	46.0	28.9	9.2	0.05	0.00	33.8
12/21e	105.0	62.1	37.9	0.17	0.00	9.9
12/22e	55.6	33.5	13.8	0.06	0.00	28.2
12/23e	256.1	131.9	111.4	0.49	0.00	3.4

Note: *Estimates are based on sales forecasts largely denominated in €/US\$, and therefore vary with exchange rate movements to the PLN. **PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

FY21 revenue estimate raised, PAT flat

Based on strong sales of SGWC2, launched in June 2021, CI Games confirmed Q321 revenues ahead of expectations at c PLN30.2m and PAT of c PLN9.8m, a 32.5% net margin. We anticipate Q421 trading to be similar to Q321 and therefore we have raised our FY21 revenue estimate by 12% to PLN105.0m. However, with Q321 margins slightly lower than we had estimated, we have reflected a blended annual margin consistent with Q321 at 32.5%, leading to FY21 reported PAT of PLN34.1m,

Third title confirmed alongside SGW and LotF

The release date of the new title has not been confirmed by CI Games, but with an expected two- to three-year development timeline, we would assume a release date in 2024, to follow Lords of the Fallen 2 (LotF2) and the next iteration of Sniper Ghost Warrior (SGW), both of which we expect to be released in 2023. We also assume a development budget between that for Sniper: Ghost Warrior Contracts 2 (US\$5–6m) and LotF2 (US\$15m in our initiation). The BatFields team will work under the close supervision of CI Games, with senior input from the group's creative, artistic and technical directors, as well as project management.

Valuation: Material discount to European peers

As a domestically held stock with a mixed history of execution, CI Games trades on 2.2x EV/EBITDA and 3.4x P/E in FY23e, compared to its peer group on 12.3x EV/EBITDA and 22.5x P/E in FY23e. If CI Games can successfully launch the next SGW game and LotF2 in FY23 to establish a broad-based portfolio, both our DCF analysis and peer multiples indicate the potential for almost 5x upside as a reward for early investors in this growth story.

FY21 estimates upgraded

Following a strong Q321 trading update and ahead of CI Games' seasonally strongest quarter, we have raised our FY21 estimates, assuming that Q421 revenues will be similar to Q321, with annual revenues rising by 12% to PLN105.0m. However, as margins were slightly lower than we had estimated (Q321: 32.5%), we have reflected a 32.5% blended annual margin leading to FY21 reported PAT of PLN34.1m, materially unchanged from our previous estimate.

Exhibit 1: Revised estimates

PLN'000s	2020	2021e			2022e			2023e		
		Old	New	Change	Old	New	Change	Old	New	Change
Revenue	46,010	93,734	105,003	12.0%	55,651	55,589	-0.1%	256,661	256,087	-0.2%
COGS	(26,683)	(40,736)	(50,134)	23.1%	(29,492)	(29,459)	-0.1%	(111,543)	(111,294)	-0.2%
Gross Profit	19,327	52,998	54,869	3.5%	26,159	26,130	-0.1%	145,118	144,793	-0.2%
EBITDA	28,919	62,379	62,052	-0.5%	33,480	33,450	-0.1%	132,074	131,893	-0.1%
Profit Before Tax (reported)	8,532	38,203	37,879	-0.8%	13,797	13,763	-0.2%	111,534	111,358	-0.2%
Profit After Tax (reported)	7,097	34,383	34,091	-0.8%	12,418	12,387	-0.2%	89,227	89,086	-0.2%
EPS - normalised (PLN)	0.05	0.17	0.17	-0.8%	0.06	0.06	-0.2%	0.49	0.49	-0.2%
Dividend (PLN)	0.00	0.00	0.00		0.00	0.00		0.00	0.00	
Revenue growth (%)	(3.1)	103.7	128.2		(40.6)	(47.1)		361.2	360.7	
Gross Margin (%)	42.0	56.5	52.3		47.0	47.0		56.5	56.5	
EBITDA Margin (%)	62.9	66.5	59.1		60.2	60.2		51.5	51.5	
Net margin (%)	15.4	36.7	32.5		22.3	22.3		34.8	34.8	
Closing net debt/(cash)	(21,983)	(33,691)	(35,166)	4.4%	(57,126)	(55,568)	-2.7%	(70,480)	(68,383)	-3.0%

Source: CI Games accounts, Edison Investment Research

Although we have not made any material changes to our FY22 estimates (it is too early to be clear about how or whether sales of SGWC2 will change in FY22) or FY23 (which will be determined by the success of the next iteration of the SGW franchise and LotF2), we would note that our estimates are based on sales forecasts largely denominated in €/US\$. These therefore vary with exchange rate movements when translated to PLN.

Exhibit 2: Financial summary

	PLN'000	2018	2019	2020	2021e	2022e	2023e
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
31-December							
INCOME STATEMENT							
Revenue	21,985	47,478	46,010	105,003	55,589	256,087	
COGS	(17,131)	(29,013)	(26,683)	(50,134)	(29,459)	(111,294)	
Gross Profit	4,854	18,465	19,327	54,869	26,130	144,793	
EBITDA	6,916	21,598	28,919	62,052	33,450	131,893	
Normalised operating profit	(4,658)	2,837	9,380	37,845	13,678	111,391	
Amortisation of acquired intangibles	0	0	0	0	0	0	
Exceptionals	(17,720)	(1,790)	(651)	0	0	0	
Share-based payments	0	0	0	0	0	0	
Reported operating profit	(22,378)	1,047	8,729	37,845	13,678	111,391	
Net Interest	431	(828)	(197)	34	85	(33)	
Joint ventures & associates (post tax)	0	0	0	0	0	0	
Exceptionals	0	0	0	0	0	0	
Profit Before Tax (norm)	(4,227)	2,009	9,183	37,879	13,763	111,358	
Profit Before Tax (reported)	(21,947)	219	8,532	37,879	13,763	111,358	
Reported tax	(746)	(3,096)	(1,435)	(3,788)	(1,376)	(22,272)	
Profit After Tax (norm)	(2,959)	(1,553)	7,607	30,303	11,011	89,086	
Profit After Tax (reported)	(22,693)	(2,877)	7,097	34,091	12,387	89,086	
Minority interests	0	0	0	0	0	0	
Discontinued operations	0	0	0	0	0	0	
Net income (normalised)	(2,959)	(1,553)	7,607	30,303	11,011	89,086	
Net income (reported)	(22,693)	(2,877)	7,097	34,091	12,387	89,086	
Average number of shares outstanding (m)	151.1	155.4	167.8	182.9	182.9	182.9	
EPS - normalised (PLN)	(0.02)	(0.01)	0.05	0.17	0.06	0.49	
EPS - diluted normalised (PLN)	(0.02)	(0.01)	0.05	0.17	0.06	0.49	
EPS - basic reported (PLN)	(0.15)	(0.02)	0.04	0.19	0.07	0.49	
Dividend (PLN)	0.00	0.00	0.00	0.00	0.00	0.00	
Revenue growth (%)	(78.7)	116.0	(3.1)	128.2	(47.1)	360.7	
Gross Margin (%)	22.1	38.9	42.0	52.3	47.0	56.5	
EBITDA Margin (%)	31.5	45.5	62.9	59.1	60.2	51.5	
Normalised Operating Margin	(21.2)	6.0	20.4	36.0	24.6	43.5	
BALANCE SHEET							
Fixed Assets	60,261	62,297	69,137	63,440	65,414	66,657	
Intangible Assets	52,282	54,828	58,987	53,866	56,342	58,021	
Tangible Assets	1,083	376	437	396	375	372	
Right-of-use assets	0	1,133	6,484	5,949	5,468	5,035	
Investments & other	6,896	5,960	3,229	3,229	3,229	3,229	
Current Assets	19,433	34,803	41,150	73,708	79,281	160,514	
Stocks	2,687	3,118	1,576	3,098	1,740	6,878	
Debtors	3,110	19,921	6,833	17,261	10,414	46,587	
Cash & cash equivalents	12,612	6,659	28,207	49,314	63,092	103,014	
Other	1,024	5,105	4,534	4,035	4,035	4,035	
Current Liabilities	(8,615)	(30,308)	(5,570)	(9,662)	(6,045)	(20,216)	
Creditors	(3,375)	(4,675)	(3,169)	(5,288)	(3,323)	(10,788)	
Tax and social security	(450)	0	0	0	0	0	
Short term borrowings	(3,468)	(24,051)	(33)	(75)	(40)	(184)	
Lease liabilities	(224)	(634)	(324)	(739)	(391)	(1,803)	
Other	(1,098)	(948)	(2,044)	(3,560)	(2,290)	(7,441)	
Long Term Liabilities	(17,209)	(6,474)	(8,173)	(18,652)	(9,875)	(45,490)	
Long term borrowings	(12,744)	0	0	0	0	0	
Lease liabilities	(303)	(269)	(5,867)	(13,390)	(7,088)	(32,655)	
Other long term liabilities	(4,162)	(6,205)	(2,306)	(5,263)	(2,786)	(12,835)	
Net Assets	53,870	60,318	96,544	108,833	128,775	161,465	
Minority interests	0	0	(169)	(169)	(169)	(169)	
Shareholders equity	53,870	60,318	96,375	108,664	128,606	161,296	
CASH FLOW							
Op Cash Flow before WC and tax	7,347	20,770	28,722	62,085	33,535	131,861	
Working capital	5,040	(20,665)	13,485	(9,831)	6,240	(33,846)	
Exceptional & other	(3,592)	(1,463)	(51)	(15)	(106)	(91)	
Tax	0	(136)	(1,547)	(3,788)	(1,376)	(22,272)	
Operating cash flow	8,795	(1,494)	40,609	48,451	38,293	75,652	
Capex	(1,107)	(2,059)	(2,597)	(5,927)	(3,138)	(14,455)	
Capitalised development costs	(24,386)	(18,255)	(19,864)	(20,577)	(20,577)	(20,577)	
Acquisitions/disposals	0	0	0	0	0	0	
Net interest	(151)	(574)	(391)	(391)	(391)	(391)	
Equity financing	20	9,279	29,124	0	0	0	
Dividends	0	0	0	0	0	0	
Other	126	538	190	(434)	(435)	(435)	
Net Cash Flow	(16,703)	(12,565)	47,071	21,123	13,752	39,794	
Opening net debt/(cash)	(13,335)	4,127	18,295	(21,983)	(35,166)	(55,568)	
FX	0	0	(16)	0	0	0	
Other non-cash movements	(759)	(1,603)	(6,777)	(7,940)	6,649	(26,979)	
Closing net debt/(cash)	4,127	18,295	(21,983)	(35,166)	(55,568)	(68,383)	

Source: Company accounts, Edison Investment Research

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