

Tuesday, August 25, 2020 | research report

PlayWay: accumulate (new)

PLW PW; PLWP.WA | Gaming, Poland

Scaling a proven business model

The PlayWay Group (PLW) specialises in the development of mid-range and low-budget games for all platforms. PLW's net profit increased from PLN 5.7m in 2016 to PLN 87m in 2019 as a result of a strategy focusing on the production of multiple games at a relatively low budget with an attractive concept, supporting strong diversification and minimising operational risk. Growing earnings have been coupled with an increase in the number of developer teams as well as subsidiaries and associates, growing to 11/38/50/63 respectively in 2016/2018/2019/July 2020. Some of the Group's members have been floated on GPW/NewConnect while others are planning to go public in the coming quarters. Importantly, the Group's growing reach with players and its business experience help to grow the commercial potential of new games. With new games already announced, we expect that the number of projects with a strong commercial potential will rise from 4 in 2019 to 13 in 2020 and 20 in 2021 (estimates based on the Steam Wishlist), which should bolster the Group's earnings. According to available data, the Group has announced the release of 110 games in the coming years, equal to approx. 12% of all games on the Steam Wishlist. On that basis, we expect its sales to grow by 33%/106% and the net profit by 21%/74% YoY in 2020 and 2021 respectively. According to our projections, the company's current valuation is 17.5x/17.5x P/E'21/22. We recommend to accumulate PLW stock with a target price of PLN 549.

Experience pays off

The PlayWay Group provides all support in the production and publication of games to Group members. The experience gained helps to reliably verify concepts, test games in production, build the wishlist, and offer cross-promotions within the Group. Since 2019, the Group has been increasingly focusing on the porting of games to other platforms in order to boost their commercial potential.

Maintaining a strict cost discipline

The production cost of PlayWay Group members' games are low, ranging from several hundred thousand to a million PLN. It is common practice to share profits with developers, which ensures low production costs and improves developers' motivation. The production cost of most games released in 2017-19 was recouped within less than 3 days after release. Marketing, accounting and legal support provided by the Group helps to minimise costs.

Many new releases in 4Q2020 and 2021

According to our estimates, the total Wishlist of yet unreleased games was approx. PLN 3.5m and the Wishlist Outstanding (gamers who have subscribed for released and unreleased games) was PLN 8.2m in July 2020 (vs. PLN 5m in June 2019). The growth in scale results in bigger numbers of planned productions. According to our estimates and public announcements, the PlayWay Group has announced more than 110 new games.

(PLN m)	2018	2019	2020P	2021P	2022P
Revenue	78.7	130.9	174.4	359.4	369.4
EBITDA	50.1	83.1	120.9	297.5	305.7
EBITDA margin	63.6%	63.5%	69.3%	82.8%	82.8%
EBIT	49.9	82.5	120.0	296.4	304.6
Net profit	47.0	86.9	104.8	182.0	182.6
P/E	67.9	36.8	30.5	17.5	17.5
P/CE	67.7	36.5	30.2	17.4	17.4
P/BV	32.8	18.3	14.5	9.7	8.3
EV/EBITDA	62.7	37.5	25.5	10.2	9.7
DPS	2.38	3.22	9.41	11.12	19.31
DYield	0.5%	0.7%	1.9%	2.3%	4.0%

Current Price	PLN 484.00
Target Price	PLN 549.00
Market Cap	PLN 3.2 bn
Free Float	PLN 0.6 bn
ADTV (3M)	PLN 11.0 m

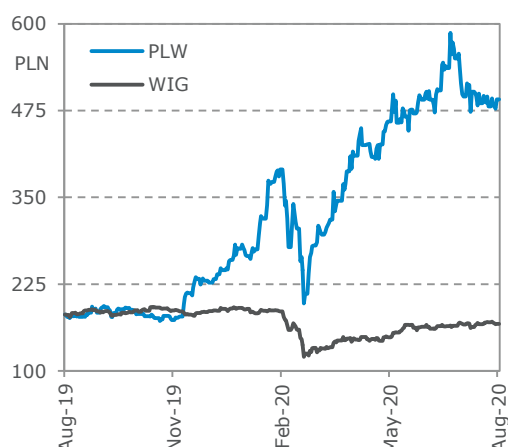
Ownership

Krzysztof Kostowski	40.91%
ACRX Investment Limited	40.91%
Others	18.18%

Business Profile

The company is a producer and publisher of mid-range and low-budget games for PCs, XOne, PS4, Nintendo Switch, and mobile devices. The Group's business model is to develop several dozen small productions in parallel, which helps to diversify projects and minimise business risks. The Group has more than 60 subsidiaries and associates. According to our information, the Group's developer teams have announced more than 110 games to be released in the coming years.

PLW vs. WIG



Company	Target Price		Rating	
	new	old	new	old
PlayWay	549.00	-	accumulate	-

Company	Current Price	Target Price	Upside/Downside
	484.00	549.00	+13.4%

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List of abbreviations and ratios contained in the report:

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
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mBank did not issue any recommendations for PlayWay in the 12 months prior to this publication



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