

Media and Games Invest plc

Malta / Entertainment
 Xetra
 Bloomberg: M8G GR
 ISIN: MT0000580101

Update

RATING
BUY

PRICE TARGET
€ 2.80

Return Potential 99.3%
 Risk Rating High

2019 RESULTS BEAT; Q1 EXTENDS GOOD BUSINESS MOMENTUM

Unaudited 2019 and Q1/20 results showed stronger momentum than expected. Both the full year topline and EBITDA beat our targets. FY19 revenue reached €83.9m vs FBe of €71.8m, while EBITDA hit €15.5m compared to FBe of €13.3m. The good performance owes to organic and external growth. Meanwhile, Q1 benefited from lockdown effects in March, and revenue doubled on an annualised basis to €26.5m. The better than expected performance suggests upside to our current forecasts. We remain Buy-rated on MGI with an unchanged €2.8 price target.

Performance a testament to “Buy, Integrate, Build, & Improve” approach

MGI completed five deals in 2019. The company uses corporate activity as a lever to drive growth rather than sell off acquired and revitalised assets to generate ROI. Optimisation of the new holdings yielded efficiency gains that helped drive 2019 sales and earnings (table 1 overleaf). Growth was also propelled by the first full year gamigo contribution (2018: 8 months) and a host of game launches. MGI also realised synergy effects from the integration of gaming segment additions *Trion* and *WildTangent*.

Q1 hints at another year of strong growth ahead

First quarter revenues nearly doubled Y/Y (+99%) to €26.5m, thanks to the aforementioned drivers and in part to coronaviral tailwinds starting in March. Video-gaming quickly became a conduit for millions of quarantined people to stay connected with others and pass time without spreading the coronavirus. In April MGI reported a 43% jump new players vs the January and February average, while MMO (Massively Multiplayer Online) gaming revenue climbed 50% on the same basis. Even as lockdowns ease, we expect positive residual effects, due to the teetering economy and the still high levels of uncertainty. Gaming is cheap and substitutes well for more lavish social activities pursued during periods of economic prosperity. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019E*	2020E	2021E	2022E
Revenue (€m)	0.00	32.62	71.77	100.47	135.64	176.33
Y/Y growth	n.a.	n.a.	120.0%	40.0%	35.0%	30.0%
EBITDA (€m)	0.00	8.65	13.30	17.54	23.37	34.81
EBITDA margin	0.0	26.5%	18.5%	17.5%	17.2%	19.7%
Net income (€m)	0.00	5.26	-0.76	2.21	3.93	10.12
EPS (diluted) (€)	0.00	0.09	-0.01	0.03	0.04	0.11
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	0.00	-7.17	-17.15	-36.18	6.04	9.07
Net gearing	0.0	24.0%	27.9%	45.6%	44.2%	38.7%
Liquid assets (€m)	0.00	4.45	24.03	17.65	17.95	9.01

* see table 1 overleaf for unaudited 2019 results

RISKS

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

COMPANY PROFILE

MGI is a strategic investment holding company that pursues a ‘buy-integrate-build-and-improve’ strategy to foster fast-growing companies within the media and games segments through acquisitions and growth in operations. gamigo and AppLift are the flagship holdings within the group.

MARKET DATA

As of 22 Jun 2020

Closing Price € 1.41
 Shares outstanding 88.22m
 Market Capitalisation € 123.95m
 52-week Range € 0.95 / 1.47
 Avg. Volume (12 Months) 95,502

Multiples	2018	2019E	2020E
P/E	15.8	n.a.	55.7
EV/Sales	8.2	3.7	2.7
EV/EBITDA	31.1	20.2	15.3
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2019*

Liquid Assets € 26.25m
 Current Assets € 49.76m
 Intangible Assets € 226.70m
 Total Assets € 245.48m
 Current Liabilities € 56.42m
 Shareholders' Equity € 123.73m

*see table 3 overleaf for select unaudited FY19 balance sheet line items

SHAREHOLDERS

Bodhivas GmbH 62.4%
 Free Float 37.6%

**Table 1: 2019 results vs prior year and FBe; Q1/20 vs prior year**

EUR '000	2019	2019E	Variance	2018	Variance	Q1/20	Q1/19	Variance
Revenue	83,893	71,766	17%	32,621	157%	26,500	13,300	99%
EBITDA	15,542	13,299	17%	8,646	80%	5,300	3,800	39%
Margin	18.5%	18.5%	-	26.5%	-	20.0%	28.6%	-
Adj. EBITDA*	18,100	14,954	21%	10,100	79%	5,900	4,500	31%
Margin	21.6%	20.8%	-	31.0%	-	22.3%	33.8%	-
EBIT	4,999	2,390	109%	2,328	115%	2,800	2,200	27%
Margin	6.0%	3.3%	-	7.1%	-	10.6%	16.5%	-
Net income	1,253	-760	-	1,582	-21%	100	500	-80%

* excludes one-time M&A and financing costs

Source: First Berlin Equity Research; MGI

Revenue also spurred by good organic growth in 2019 MGI reported a 500 basis point uptick in organic sales growth to 10%, thanks to improving player acquisition, successful game launches including *ArcheAge Unchained* and the relaunch of *Desert Operations*, plus a host of content updates to enhance stickiness.

Table 2: 2019 performance by segment

EUR '000	MGI Gaming			MGI Media		
	2019	2018	Variance	2019	2018	Variance
Revenue	43,100	20,900	106%	40,800	11,800	246%
EBITDA	12,600	7,800	62%	2,900	800	263%
Margin	29.2%	37.3%	-	7.1%	6.8%	-

Source: First Berlin Equity Research; MGI

Results yield positive FCF The company exited the year with cash and equivalents of €33m owing to strong operating cash flow of €16m (2018: €4.9m) and issuances that yielded ~€29m in cash flow from financing. Free cash flow totalled €3.1m for the year (2018: €-9.2m). We will update our balance sheet and capital structure with publication of audited figures scheduled for 30 June.

Table 3: Balance sheet highlights

EUR '000	2019	2018	Variance
Cash	32,984	4,158	693%
Liabilities (short- and long-term)	89,347	53,395	67%
Intangible assets	233,207	204,142	14%
Total assets	312,449	236,293	32%
Total equity	168,558	158,540	6%
Equity ratio	54%	67%	-

Source: First Berlin Equity Research; MGI

We remain Buy-rated on MGI with a €2.8 price target We will also review our forecasts at the end of the month. The better than expected 2019 and Q1 performance suggest upside to our running estimates (FBe 2020 sales of €100m). Management currently call for 30% revenue growth in 2020 driven by further corporate activity and organic levers. This implies a topline of around €109m.

MGI kicked off a full slate of gaming updates and launches planned for this summer with the launch of *Trove Delves* in May, and management will scan the gaming and media markets for opportunities to pull the M&A levers.



VALUATION MODEL

All figures in EUR '000	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenue	71,766	100,473	135,638	176,330	211,595	243,335	267,668	281,052
NOPLAT	1,613	5,736	7,810	13,142	17,483	21,742	25,234	29,215
(+) depreciation & amortisation	10,908	9,043	11,801	15,341	18,409	21,170	20,610	21,641
Net operating cash flow	12,522	14,778	19,611	28,483	35,892	42,912	45,844	50,856
(-) Investments	-28,864	-9,264	-12,506	-16,258	-19,509	-22,435	-22,002	-23,102
(-) Working capital	-2,300	-2,546	-3,289	-4,972	-4,193	-3,891	-2,383	-2,350
Free cash flows (FCF)	-18,643	2,968	3,815	7,253	12,189	16,585	21,459	25,403
PV of FCF's	-18,643	2,829	3,318	5,754	8,822	10,951	12,927	13,961

All figures in thousands	
PV of FCFs in explicit period	106,762
PV of FCFs in terminal period	215,694
Enterprise value (EV)	322,455
(+) Net cash / (-) net debt (pro-forma)	-68,583
(-) Non-controlling interests	-6,127
Shareholder value	247,746
Fair value per share (€)	2.80

		Terminal EBIT margin						
		17.2%	19.2%	21.2%	23.2%	25.2%	27.2%	29.2%
WACC	6.6%	3.68	4.39	5.10	5.81	6.52	7.23	7.94
	7.6%	2.85	3.39	3.93	4.47	5.00	5.54	6.08
	8.6%	2.26	2.68	3.10	3.51	3.93	4.35	4.77
	9.6%	1.81	2.14	2.47	2.81	3.14	3.48	3.81
	10.6%	1.46	1.73	2.00	2.27	2.54	2.81	3.08
	11.6%	1.17	1.39	1.62	1.84	2.06	2.28	2.50
	12.6%	0.94	1.13	1.31	1.49	1.68	1.86	2.04

		Terminal growth rate						
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
WACC	6.6%	4.59	4.93	5.33	5.81	6.39	7.11	8.03
	7.6%	3.66	3.89	4.16	4.47	4.83	5.27	5.80
	8.6%	2.95	3.12	3.30	3.51	3.76	4.04	4.38
	9.6%	2.40	2.52	2.66	2.81	2.98	3.17	3.40
	10.6%	1.97	2.06	2.16	2.27	2.39	2.53	2.68
	11.6%	1.61	1.68	1.75	1.84	1.93	2.03	2.14
	12.6%	1.32	1.37	1.43	1.49	1.56	1.64	1.72

*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	2017	2018	2019E	2020E	2021E	2022E
Revenues	n.a.	32,621	71,766	100,473	135,638	176,330
Capitalised work	n.a.	2,791	3,658	3,841	4,033	4,235
Total output	n.a.	35,412	75,424	104,314	139,671	180,564
Cost of goods sold	n.a.	-12,699	-22,965	-32,151	-43,404	-54,662
Gross profit	n.a.	22,713	52,459	72,162	96,267	125,902
Personnel expenses	n.a.	-10,438	-21,530	-29,137	-37,979	-47,609
Other OpEx	n.a.	-10,135	-23,180	-31,147	-40,691	-49,372
Other operating income	n.a.	6,506	5,550	5,661	5,774	5,890
EBITDA	n.a.	8,646	13,299	17,540	23,371	34,810
Depreciation & amortisation	n.a.	-6,318	-10,908	-9,043	-11,801	-15,341
Operating income (EBIT)	n.a.	2,328	2,390	8,497	11,570	19,470
Net financial result	n.a.	-1,641	-3,516	-5,220	-5,745	-4,477
Pre-tax income (EBT)	n.a.	687	-1,126	3,277	5,825	14,993
Income taxes	n.a.	895	366	-1,065	-1,893	-4,873
Net income	n.a.	1,582	-760	2,212	3,932	10,120
Discontinued operations	n.a.	3,673	0	0	0	0
Consolidated profit	n.a.	5,255	-760	2,212	3,932	10,120
Minority interests	n.a.	-932	360	-44	-79	-202
Net income to owners	n.a.	4,323	-400	2,168	3,853	9,918
Diluted EPS (in €)	n.a.	0.09	-0.01	0.03	0.04	0.11
Ratios						
Gross margin on revenues	n.a.	61.1%	68.0%	68.0%	68.0%	69.0%
EBITDA margin on revenues	n.a.	26.5%	18.5%	17.5%	17.2%	19.7%
EBIT margin on revenues	n.a.	7.1%	3.3%	8.5%	8.5%	11.0%
Net margin on revenues	n.a.	13.3%	-0.6%	2.2%	2.8%	5.6%
Tax rate	n.a.	-130.3%	32.5%	32.5%	32.5%	32.5%
Expenses as % of revenues						
Personnel expenses	n.a.	32.0%	30.0%	29.0%	28.0%	27.0%
Other OpEx	n.a.	31.1%	32.3%	31.0%	30.0%	28.0%
Depreciation & amortisation	n.a.	19.4%	15.2%	9.0%	8.7%	8.7%
Y-Y Growth						
Revenues	n.a.	n.a.	120.0%	40.0%	35.0%	30.0%
Operating income	n.a.	n.a.	2.7%	255.5%	36.2%	68.3%
Net income/ loss	n.a.	n.a.	n.m.	n.m.	77.8%	157.4%

* 2017 reporting reflects discontinued operations



BALANCE SHEET

All figures in EUR '000	2017	2018	2019E	2020E	2021E	2022E
Assets						
Current assets, total	n.a.	16,250	45,663	47,931	58,825	62,145
Cash and equivalents	n.a.	4,447	24,035	17,651	17,947	9,005
Trade receivables	n.a.	11,803	21,628	30,279	40,877	53,140
Properties held for sale	n.a.	0	0	0	0	0
Other ST assets	n.a.	0	0	0	0	0
Non-current assets, total	n.a.	220,043	238,126	238,477	239,314	240,366
Property, plant & equipment	n.a.	4,189	4,203	4,223	4,251	4,286
Intangible assets	n.a.	0	0	0	0	0
Shares in affiliates	n.a.	210,495	228,564	228,894	229,705	230,721
Long-term loans to investees	n.a.	5,359	5,359	5,359	5,359	5,359
Other non-current assets	n.a.	0	0	0	0	0
Total assets	n.a.	236,293	283,789	286,407	298,139	302,511
Shareholders' equity & debt						
Liabilities, total	n.a.	24,358	32,067	38,360	45,859	53,345
Trade payables	n.a.	9,162	16,687	22,792	30,101	37,392
Short-term liabilities	n.a.	333	348	363	379	396
Financial debt	n.a.	3,556	3,556	3,556	3,556	3,556
Provisions	n.a.	6,671	6,771	6,873	6,976	7,080
Other current liabilities	n.a.	4,636	4,706	4,776	4,848	4,920
Provisions, total	n.a.	53,395	82,345	97,639	97,939	84,707
Long-term debt	n.a.	14,100	14,100	14,100	14,100	49,100
Bonds	n.a.	24,877	53,539	68,539	68,539	20,000
Deferred tax liabilities	n.a.	14,418	14,706	15,000	15,300	15,607
Shareholders' equity	n.a.	158,540	169,376	150,408	154,340	164,460
Total consolidated equity and debt	n.a.	236,293	283,789	286,407	298,139	302,511
Ratios						
Current ratio (x)	n.a.	0.7	1.4	1.2	1.3	1.2
Net debt	n.a.	38,125	47,199	68,583	68,287	63,690
Net gearing	n.a.	24%	28%	46%	44%	39%
Equity ratio	n.a.	67%	60%	53%	52%	54%
Return on equity (ROE)	n.a.	1.0%	-0.4%	1.5%	2.5%	6.2%
Capital employed (CE)	n.a.	211,935	251,721	248,047	252,279	249,167
Return on capital employed (ROCE)	n.a.	1%	1%	3%	5%	8%

* 2017 reporting reflects discontinued operations



CASH FLOW STATEMENT

All figures in EUR '000	2017	2018	2019E	2020E	2021E	2022E
Pre-tax income	n.a.	5,255	-760	2,212	3,932	10,120
Depreciation and amortisation	n.a.	6,318	10,908	9,043	11,801	15,341
Change in trade rec & other assets	n.a.	-8,083	-9,952	-8,781	-10,730	-12,398
Change in payable & other liabilities	n.a.	14,501	7,998	6,587	7,799	7,791
Results from sale of subsidiaries	n.a.	-5,645	0	0	0	0
Other non-cash adjustments	n.a.	-6,150	0	0	0	0
Net interest expense	n.a.	1,641	3,516	5,220	5,745	4,477
Tax result	n.a.	-895	-366	1,065	1,893	4,873
Operating cash flow	n.a.	6,942	11,344	15,346	20,440	30,204
Tax expense	n.a.	0	366	-1,065	-1,893	-4,873
Interest income	n.a.	1	0	0	0	0
Net operating cash flow	n.a.	6,943	11,710	14,281	18,547	25,331
CapEx	n.a.	-8,251	-158	-41,421	-298	-388
Investment in intangible assets	n.a.	-3,919	-28,706	-9,043	-12,207	-15,870
Change in financial assets	n.a.	0	0	0	0	0
Other adjustments	n.a.	-1,943	0	0	0	0
Cash flow from investing	n.a.	-14,113	-28,864	-50,464	-12,506	-16,258
Free cash flow (FCF)	n.a.	-7,170	-17,154	-36,183	6,041	9,074
Equity inflow, net	n.a.	3,792	11,596	20,020	0	0
Debt inflow, net	n.a.	-15,992	0	0	0	35,000
Corporate debt	n.a.	25,800	28,662	15,000	0	-48,539
Interest paid	n.a.	-2,014	-3,516	-5,220	-5,745	-4,477
Other adjustments	n.a.	-489	0	0	0	0
Cash flow from financing	n.a.	11,097	36,742	29,800	-5,745	-18,016
Net cash flows	n.a.	3,927	19,588	-6,383	296	-8,942
Fx adjustments	n.a.	114	0	0	0	0
Cash, start of the year	n.a.	406	4,447	24,035	17,651	17,947
Cash, end of the year	n.a.	4,447	24,035	17,651	17,947	9,005
EBITDA/share (in €)	n.a.	0.18	0.20	0.20	0.26	0.39
Y-Y Growth						
Operating cash flow	n.a.	n.m.	68.7%	22.0%	29.9%	36.6%
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	50.2%
EBITDA/share	n.a.	n.m.	14.0%	0.9%	29.8%	48.9%

* 2017 reporting reflects discontinued operations

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

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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

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

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...1	↓	↓	↓	↓
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	Today	€1.41	Buy	€2.80

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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The opinions contained in the financial analysis reflect the assessment of the author on the day of publication of the financial analysis. The author of the financial analysis reserves the right to change such opinion without prior notification.

Legally required information regarding

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

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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