

G5 Entertainment

Quarter Update – Q1'16



Share Price	30.7 SEK
Market Capitalisation	270.2 mSEK
Target Price	44.0 SEK

Last updated on the 12/05/2016

G5 Entertainment develops and sells casual games for different platforms. The company acts as both developer and publisher of their own games as well as actively working with third-party licenses. The company now focuses on Free-To-Play (FTP) games, where players buy virtual goods within the game rather than the old revenue model of unlockables where games are pre-paid.

Continued revenue growth

- G5 Entertainment reported their Q1 2016 results on 9th March and numbers were generally in line with expectations.
- The company reported revenue of SEK 101 M (98), 4% increase YoY and EBIT of SEK 8.9 M (4.5), 98% increase YoY.
- G5 Entertainment has rapidly grown its F2P portfolio during the last 12 months and we expect more game releases in 2016.
- The growth rate has declined, but that does not significantly affect our estimates. The company remains very attractively valued and shows great growth potential.
- We maintain our STRONG BUY recommendation at an updated price of SEK 44 per share.

Company	G5 Entertainment
Ticker	G5EN.STO
Currency	SEK
Industry	Mobile gaming
# of shares	8,800,000
Share price	30.7
Target price	44.0
Risk	Medium
Recommendation	Strong Buy

SHARE PRICE PERFORMANCE



NEXT EVENT

May 19, 2016: AGM

CONTACT

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SEK (Thousand)	2013	2014	2015	2016e	2017e	2018e
Sales	100,007	182,117	384,369	439,932	492,724	532,142
EBITDA	(11,826)	9,014	19,788	38,884	46,847	56,323
EPS	-1.34	0.77	1.74	3.41	4.11	4.93
EBITDA margin	-12%	5%	5%	9%	10%	11%
NIBD/EBITDA	N/A	N/A	N/A	N/A	N/A	N/A
EV/Sales	3.15	1.73	0.82	0.72	0.64	0.59
EV/EBITDA	(26.60)	34.90	15.90	8.09	6.72	5.59
ROIC	-13%	7%	13%	20%	19%	19%
ROA	-10%	5%	9%	15%	15%	15%
ROE	-13%	7%	12%	20%	19%	19%

See disclosures at the end of this report.

INVESTMENT SUMMARY

Withheld tax from Japan boosts revenue by SEK 1.6 M

Revenue for the first quarter of the year was SEK 101.2 M (97.6), which is higher than the preliminary result of SEK 99 M. The difference comes from the recovery of withheld tax in Japan, attributed to revenue withheld in previous periods. Compared to the first quarter of the previous year, the company has grown its turnover by 4% with 7% growth in the F2P segment.

The company almost doubled its EBIT in the period from SEK 4.5 M in Q1'15 to SEK 8.9 M in Q1'16. Furthermore, EBIT was affected by write-downs of SEK 2.2 M due to a few older unlockable games and an experimental F2P game that did not live up to expectations.

The net result for the period was SEK 6.7 M (2.1), but we do not consider that to be a reliable measure for the company's potential. As stated in previous report, G5 Entertainment has a strong focus to fuel future growth and thus, it re-invest a large proportion of its potential profit into user acquisition. Thus, the company's profit-making potential is much larger.

MSEK	Q1'16	Q1'15
Revenue	101,245	97,551
Gross profit	50,885	46,714
Gross margin	50%	48%
Operating costs excluding costs for user acquisition	-22,156	-21,423
EBIT excluding costs for user acquisition	28,940	25,291
EBIT margin before costs for user acquisition	29%	26%
Costs for User acquisition ³	-19,785	-20,765
EBIT	8,944	4,526
EBIT-margin (%)	9%	5%
Earnings per share	0.76	0.24

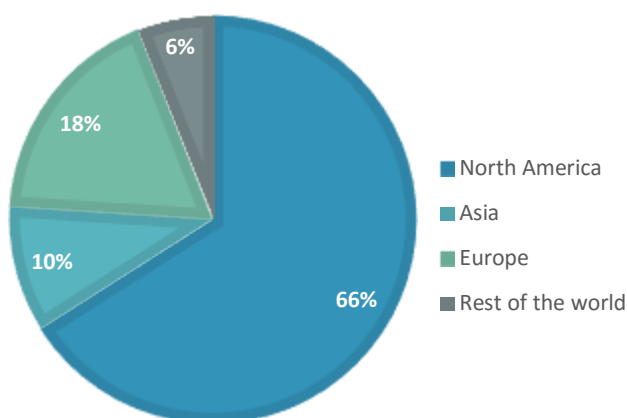
Measures to accelerate growth

The company's growth rate was lower than our forecast. The decline in revenue from legacy games was anticipated and in line with the general stagnation in the segment. However, the company also experienced a decline on Amazon Appstore, which is currently trying to turnaround. Nevertheless, growth on Apple App Store and Google Play remained healthy during the quarter.

However, the company is succeeding in its strategy to fuel both short-term and long-term growth. For F2P games the number of Monthly Active Users (MAU) has increased by 11% while the average revenue per player (MAGRPPU) grew by 3%, suggesting that the company continues to succeed in growing its player base.

The divisional breakdown of revenue shows that nearly 2/3 is derived from North America, followed by distant Europe with 19%. Together North America and Europe define almost 85% of total revenues. At the moment, the US gaming market is in a strong position, so it is likely that the importance of this market will increase even further.

REVENUE BY GEOGRAPHICAL REGION



Valuation: great future potential

Much of what has been invested in 2015 will continue to fuel growth in 2016 and 2017. The strategy has worked out very well and we expect that the company will continue to maintain its strong momentum. Given the company's strong ability to grow, while balancing its expenditure, we believe that it is one of the most overlooked companies in Sweden.

Our DCF analysis shows a fair share price of SEK 44.01 per share, even with conservative estimates, which reveals a significant upside potential for its shares.

Scenario	Fair value	Probability
Base	46.89	50%
Worst	26.60	25%
Best	55.64	25%
Weighted Fair Value per share	44.01	

WACC Calculation	
Debt to Equity Ratio	0.00%
Cost of Equity	10.50%
Cost of Debt	4.27%
WACC	10.50%

ESTIMATES

Profit and loss

SEK (Thousand)	2013	2014	2015	2016	2017	2018
PROFIT & LOSS STATEMENT						
Revenue	100,007	182,117	384,369	439,932	492,724	532,142
Production Cost	(78,925) -79%	(102,091) -56%	(201,094) -52%	(224,365)	(251,289)	(271,392)
Gross Profit	21,082	80,026	183,275	215,567	241,435	260,749
Administrative, Development & Marketing Expenses	(34,342)	(69,584)	(160,690)	(175,152)	(192,667)	(202,301)
Other Operating Income	2,046	1,803	2,549	2,569	2,588	2,608
Other Operating Expense	(612)	(3,231)	(5,346)	(4,099)	(4,509)	(4,734)
Operating Result Before Financial Results	(11,826)	9,014	19,788	38,884	46,847	56,323
Financial Income	85	249	38	120	126	133
Financial Expense	(301)	(646)	(48)	(50)	(53)	(56)
Operating Result After Financial Results	(12,042)	8,617	19,778	38,954	46,920	56,400
Taxes	378 3%	(1,804) 21%	(4,448)	(8,959)	(10,792)	(12,972)
Net Result	(11,664)	6,813	15,330	29,995	36,129	43,428

Balance Sheet

SEK (Thousand)	2013	2014	2015	2016	2017	2018
FIXED ASSETS						
Intangible fixed assets						
Capitalized development costs	48,299	71,680	94,269	99,925	105,921	112,276
Goodwill	2,318	2,302	2,293	2,293	2,293	2,293
	50,617	73,982	96,562	102,218	108,214	114,569
Tangible Fixed Asstes						
Equipment	1,929	2,892	4,634	4,912	5,207	5,519
Deferred Tax	2,105	1,025	2,310	2,310	2,310	2,310
	4,034	3,917	6,944	7,222	7,517	7,829
Total fixed assets	54,651	77,899	103,506	109,440	115,730	122,398
Current assets						
Account receivable	7,156	7,569	9,881	9,642	10,799	11,663
Tax receivable	4,437	0	175	177	180	182
Other receivables	6,915	7,327	3,952	4,268	4,610	4,978
Developer Royalty Advance	0	0	0	0	0	0
Prepaid expenses and accrued income	10,916	21,536	25,197	23,937	22,740	21,603
Cash at bank	27,433	32,864	33,870	58,507	88,952	126,165
Total Current assets	56,857	69,296	73,075	96,532	127,281	164,592
TOTAL ASSETS	111,508	147,195	176,581	205,972	243,012	286,990
Equity						
Share capital	880	880	880	880	880	880
Other capital contribution	54,032	54,032	54,032	54,032	54,032	54,032
Other reserves	22	8,575	8,575	8,575	8,575	8,575
Retained Earnings	34,058	40,871	59,858	89,853	125,981	169,409
Total shareholders' equity	88,992	104,358	123,345	153,340	189,468	232,896
Non-current liabilities						
Deferred tax	0	0	0	0	0	0
Current liabilities						
Account payable	7,478	12,893	12,320	12,294	13,769	14,871
Other liabilities	464	1,593	1,225	1,237	1,250	1,262
Tax liabilities	6,505	2,326	6,438	6,180	5,933	5,696
Accrued expenses	8,069	26,025	33,253	32,920	32,591	32,265
Total current liabilities	22,516	42,837	53,236	52,632	53,543	54,094
TOTAL EQUITY AND LIABILITIES	111,508	147,195	176,581	205,972	243,012	286,990

Top Shareholders

Figure 3.0: Top 15 shareholders as of 31/03/2016

	Name	# shares	% ownership
1	Försäkringsaktiebolaget Avanza Pension	853,167	9,70%
2	Rite Internet Ventures Holding AB	677,447	7,70%
3	Wide Development Limited	616,000	7,00%
4	Proxima LTD	570,000	6,48%
5	Swedbank Robur Ny Teknik	550,000	6,25%
6	Purple Wolf Limited	530,000	6,02%
7	Nordnet Pensionsförsäkring AB	486,878	5,53%
8	Tommy Svensk	403,000	4,58%
9	ABG Sundal Collier ASA	276,298	3,14%
10	Peter Lindell	143,673	1,63%
11	Mattias Ståhlgren	132,000	1,50%
12	Robur Försäkring AB	105,319	1,20%
13	Old Mutual International IOM LTD	100,750	1,14%
14	Altraplan Bermuda Limited	99,833	1,13%
15	Daniel Eriksson	90,500	1,03%
	Top 15	5,634,865	64.03%
	Other	3,165,135	35.97%
	Total	8,800,000	100.00%

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