

Modern Times Group (MTG)

Sweden | Mobile Gaming | MCAP SEK 12,080m

23 December 2024

Buy

Target price: SEK 142.1
Current price: SEK 94.3
Upside: 50.7%

Stay Ahead of the Game with MTG

Modern Times Group (“MTG” or “the Company”) is a market leader in the mobile gaming sector. The group consists of six gaming studios with games in four different segments. The Company recently acquired Plarium, the number one mobile gaming studio in Role Playing Games (“RPGs”). Plarium’s IP’s include titles like *Raid: Shadow Legends* and *Vikings*. The acquisition came at a low valuation of 4.5x EV/EBITDA and will benefit MTG’s existing studios through synergies in monetization and user acquisition. This presents a once in a decade phase for MTG with a 50.7% upside based on an equally weighted DCF and peer valuation with a target multiple of 7.5x EV/EBIT 2025E.

Key takeaways

- **Rebalanced Portfolio Supports Earnings Quality:** The acquisition of Plarium shifts focus from high customer turnover ad-intensive games, to low turnover in-app purchase-driven games. Moreover, the revenue split from In-app purchase (“IAP”) games increases from 62% to 74% by 2026E. Due to lower turnover on these games, customer acquisition costs are expected to decrease from 37% to 30% of sales, while simultaneously decreasing the cyclical nature of ads, improving earnings quality going forward. Furthermore, Plarium’s D2C channel, which already stands for 30% of their revenue, will enable MTG to distribute their own titles through the platform, supporting a margin expansion of 2.3 percentage points by 2026E.
- **Monetization Synergies Drive Margin Expansion and Top-line Growth:** MTG has a 3x larger Daily Active User (DAU) base than Plarium. However, Plarium achieves a 4.5x higher Average Revenue per Daily Active User (ARPDau) for their flagship titles, driven by superior monetization strategies including optimized in-app purchase, proven live-ops execution and a well executed player retention model. By leveraging Plarium’s expertise and utilizing the Company’s D2C platform to bypass app store fees, MTG is expected to generate significant improvements in MTG’s old fleet, driving ARPDau by a 2.2% CAGR through 2029E.
- **Strong IP’s Lead to Recurring Revenue and Strong Cash Flows:** Mobile games have high churn and short lifespans, which forces companies to continually spend on UA and R&D to maintain growth. This often results in lower valuations compared to PC gaming, where users are more consistent over time. However, MTG stands out, with 40% of *Raid: Shadow Legends* revenue still coming from users acquired four years ago, compared to the market average of 5%. This highlights the long lifespan of the Company’s key IPs, allowing MTG to sustain top-line without heavily relying on ongoing UA or R&D spending. When solely looking at the existing customer base, the Company is estimated to generate a 13.7% FCFF yield by 2026E, providing downside protection and an asymmetric risk-reward profile with an upside of 19.8% with zero growth.

Analysts

Henri de Vietri Equity Analyst
Albin Pehrson Equity Analyst

Market Data, SEK

Exchange	Stockholm Large Cap
Shares (m)	127
MCAP (m)	12,080
EV (m)	15,637

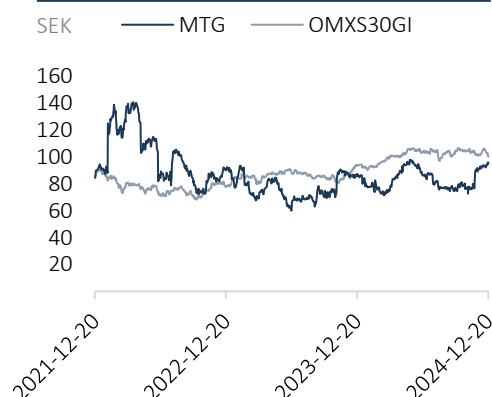
Metrics & Drivers	23A	24E	25E
EV/EBIT	9.3x	12.2x	6.5x
EV/EBITDA	5.7x	7.8x	4.2x
EV/S	1.4x	2.1x	1.1x
P/E	64.7x	34.4x	13.3x
ND/EBITDA	0.0x	0.0x	1.0x

Forecast, SEKm	23A	24E	25E
Total revenue	5,829	5,791	13,786
Rev. growth y/y	5.3%	(0.7%)	238%
Gross Profit	4,252	4,270	9,781
Gross Margin	72.9%	73.7%	70.9%
EBITDA	1,439	1,496	3,545
EBITDA Margin	24.7%	26.5%	25.7%
EBIT	885	982	2,412
EBIT Margin	15.2%	17%	17.5%

Major Shareholders

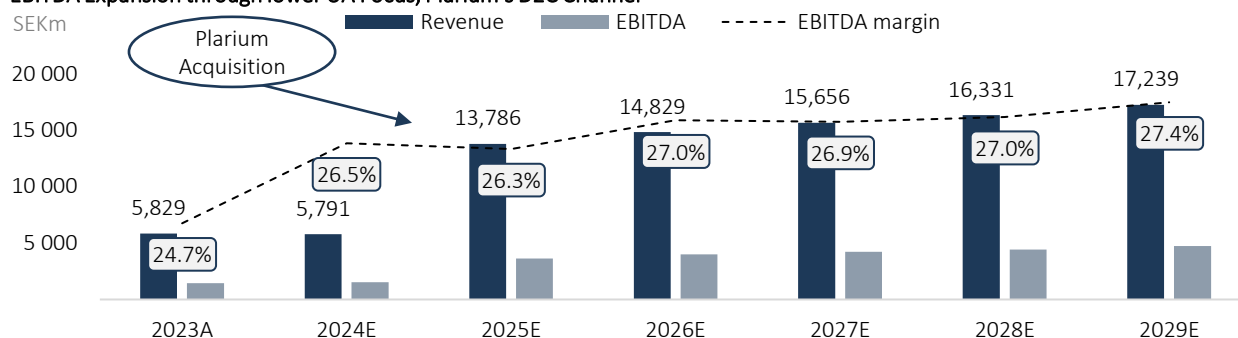
EHM Holding GmbH	14.3%
Active Ownership Corporation S.a.r.l	9.2%
Handelsbanken Fonder	8.3%

Price Development



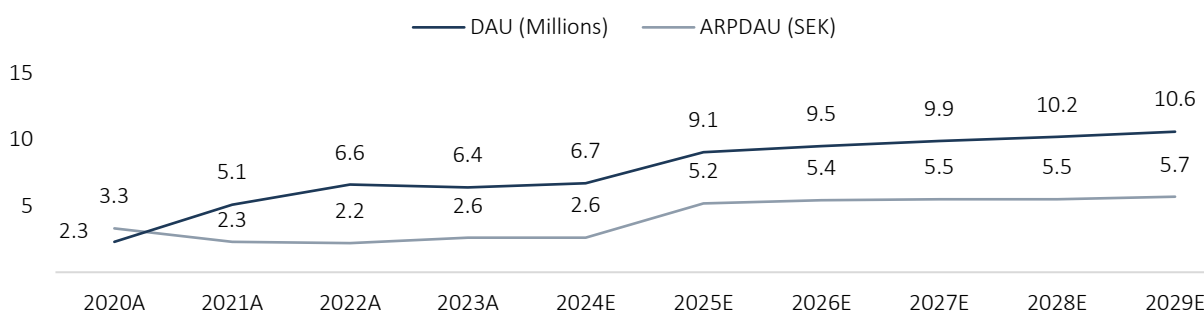
Investment Thesis in Charts

EBITDA Expansion through lower UA Focus, Plarium's D2C Channel



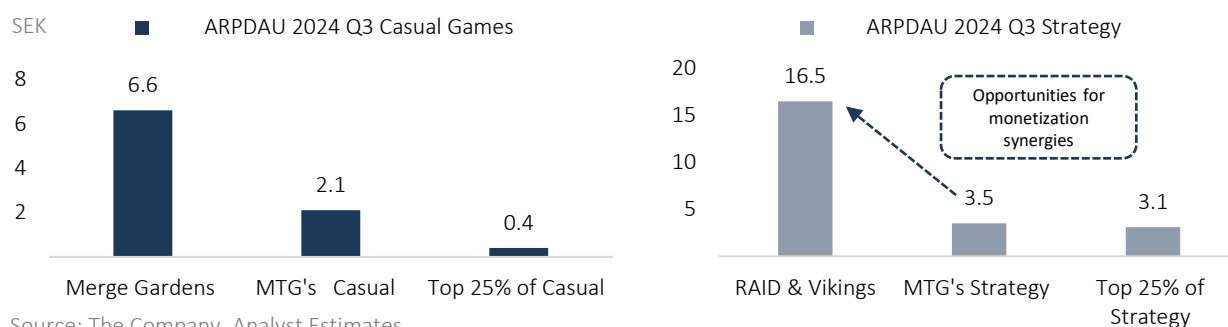
Source: The Company, Analyst Estimates

Pipeline of 19 Games and Plarium Synergies to Boost DAU and ARPPDAU Growth



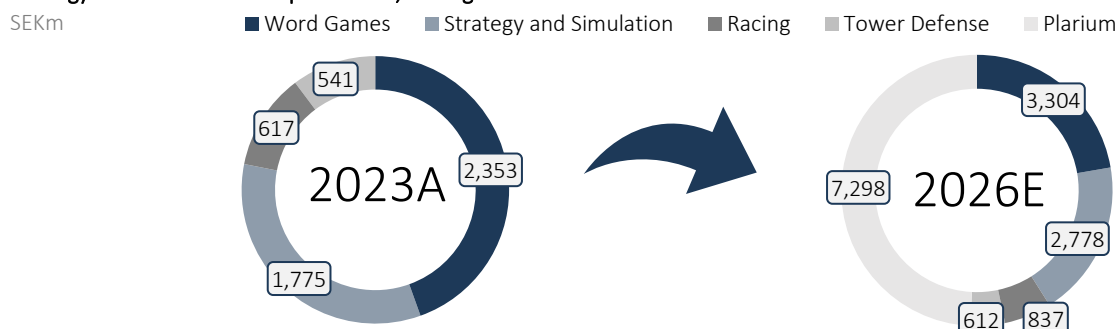
Source: The Company, Analyst Estimates

MTG excels in Casual Games ARPPDAU; Strategy Games Show Strategic Gains



Source: The Company, Analyst Estimates

Strategy Games Poised for Rapid Growth, Driving Revenue Shift with Plarium

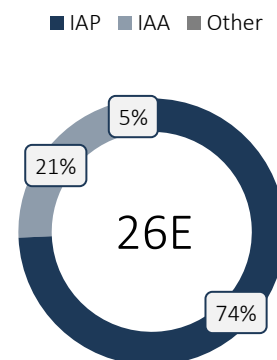


Source: The Company, Analyst Estimates

Investment Thesis

Acquisition of Plarium Rebalances MTGs Portfolio

The acquisition of Plarium drives a shift from ad-reliant, high-turnover casual games to in-app purchase driven strategy games with lower customer churn and more stable revenue streams. Before the acquisition, 38% of MTGs revenue came from casual games, primarily monetized through in-app advertising, which are subject to fluctuating ad prices and require continuous, high UA spending to offset lower customer retention. In contrast, strategy games which accounted for 36% of pre-acquisition revenue, are less reliant on ads and achieve higher user loyalty. Plarium's RPGs, a category closely associated with strategy games, generate 30% of revenue through their D2C channel, bypassing app store fees. By integrating MTGs old fleet with Plarium's D2C channel, the Company can reduce reliance on third-party platforms, driving margin expansion. Combined with the shift to IAP driven revenue, which is inherently less cyclical than ad-driven models, customer acquisition costs are expected to decline from 37% to 30% of sales by 2026. This structural change in the revenue mix and distribution model is expected to drive an EBIT margin expansion of 2.3 percentage points by 2026E and improve earnings quality.



Monetization Synergies Between MTG and Plarium will Drive Growth

Plarium's superior monetization strategies are evident in its ARPDAU of 10 SEK, which is over 3x higher than MTG's 3 SEK. Plarium's flagship titles, such as *RAID: Shadow Legends and Vikings*, achieve an ARPDAU of 16.5 SEK, which is 4.5x higher than MTGs strategy games. This significant gap is driven by Plarium's optimized in-app purchase models, strong live-ops execution and effective player retention strategies. MTGs larger DAU base of 6 million, 3x bigger than Plarium's 1.9 million, provides an opportunity to learn from Plarium's monetization expertise. Furthermore, MTG can apply that to games with a similar customer profile, which account for half of DAUs. With even modest ARPDAU improvements across the Company's larger relevant audience, significant top-line growth would occur. MTG is estimated to achieve a ARPDAU growth of a 2.2% CAGR, which in combination with the 19 games in the pipeline supports an estimated 5.7% topline CAGR through 2029E.

Longevity of MTGs IPs Fuels Cash Flow and Asymmetric Opportunity

Mobile games typically suffer from high churn rates and short lifespans, which forces companies to continuously spend on UA/CAC and R&D to sustain growth. This ongoing need for investment often leads to lower valuations compared to PC gaming companies, where player retention and monetization tend to be more stable over time. However, MTG stands apart due to their portfolio of strong and widely recognized IPs such as *Bloons TD Battles*, *F1 Clash* and Plarium's *Raid: Shadow Legends*. These titles provide a solid and resilient foundation for recurring revenue, driven by consistent player engagement and superior monetization strategies. A standout example is *Raid: Shadow Legends*, in which 40% of revenue still comes from users acquired four years ago, outperforming the market average of 5%. This demonstrates not only the longevity of MTGs IPs but also the strength of their live-ops capabilities, which keep players actively engaged over extended periods. The long lifespan is a clear competitive advantage, as it decreases MTGs dependence on costly UA campaigns and constant R&D spending to replenish their player base. The market is currently pessimistic and pricing in stagnation. However, when solely accounting for the existing customer base, MTG still presents an asymmetric risk-reward profile with an 19.8% upside. The Company is estimated to generate a FCFF yield of 16.6% by 2026E and 13.7% when solely looking at the present-day customer base.

Company Overview

An International Mobile Gaming Group with Strong IPs

MTG, founded in 1987 and headquartered in Stockholm, Sweden, is a global leader in digital entertainment, focusing on mobile gaming. MTG has evolved from their roots in traditional media, including founding Viaplay and owning Metro newspapers, to pioneering esports through their former ownership of ESL. Today, MTG builds and scales gaming IPs through studios like InnoGames, Ninja Kiwi, and Plarium, known for developing games like Bloons TD and Raid: Shadow Legends. The recent transformative acquisition of Plarium made MTG the largest listed mobile gaming company in the EU. With a diversified portfolio of games in the casual and mid-core/strategy segments, the Company sustains and steadily grows a loyal customer base, which is expected to grow at a 4.2% CAGR through 2029. The group's structure allows individual studios to harness shared expertise while maintaining their unique organizational cultures through a decentralized operational model.

Business Model

MTG acquires and operates mobile gaming companies with a focus on long-term growth and profitability. The Company owns six international gaming studios: PlaySimple, Hutch, Ninja Kiwi, Snowprint, Innogames and Plarium. The studios create mobile and browser-based games in different genres, mainly focusing on strategy games and casual games.

The Company generates revenue primarily through in-app purchases, accounting for 62% of revenue pre-acquisition. Furthermore, in-app advertisements account for 32% of revenue, while one-time app purchases account for 6%. The Company scales their games through regular updates and live-ops events, using their strong IPs to their advantage to engage players and ultimately increase DAU and ARPPDAU.

MTG's decentralized approach preserves each studio's unique creativity and agility profile, vital for responding to market trends. While studios operate independently, they benefit from shared resources in marketing, user acquisition and monetization, fostering efficiency. This model balances innovation with collaboration, ensuring sustainable growth and competitive strength.

Market Overview

Growing Market That has Rebounded

The global mobile gaming market is fragmented due to low barriers to entry and lack of competitive advantages, allowing a wide range of companies from small independent developers to industry giants like Tencent and Activision Blizzard to coexist. The mobile gaming market surged 30% from 2019-2021 as the COVID-19 pandemic drove users toward mobile games for entertainment. Although it experienced a downturn post-COVID, the market has since rebounded to peak COVID levels. Moving forward, the mobile gaming market is expected to grow at a CAGR of 6% through 2029, with revenue reaching USD 159 billion, driven by factors such as increased smartphone penetration and expanding access to mobile gaming in emerging markets.

Strong RPG Segment Benefits MTG

RPGs dominate the mobile gaming landscape, particularly in consumer spending. RPGs accounted for 30% of in-app purchases globally in 2023. For MTG post-acquisition, RPGs and strategy games account for 46.8% of DAU and contribute a significant majority of their revenue. This segment's ability to drive high engagement and monetization positions it as a key growth driver within the industry.

Valuation

Undervalued to Peers Despite Stronger IPs and Growth

Despite the Company possessing greater IPs with larger lifetime values, MTG still trades at a lower multiple then their peers. Based on the peer valuation the analysts have set a target multiple of 7.5x EBIT 2025E, implying an upside of 26.7%. For this valuation, four Swedish and one American companies have been selected as peers for the analysis. Three of the chosen peers are purely mobile gaming companies with one doing both and the last being a PC gaming company. With the strongest topline CAGR and highest cash conversion rate, showcasing effective working capital management, MTG should be trading at a premium to their mobile gaming peers. However, due to the risks associated with such a large acquisition, a premium has not been factored in to the peer valuation.

Peer Valuation, SEKm	Market Data		Valuation	Financial Data		
Company name	MCAP	EV	EV/EBIT 25E	Cash conversion rate 25E	EBIT margin 25E	24E-26E CAGR
G5 Entertainment	904	661	5.8x	45.2%	10.0%	1.4%
Stillfront	4,288	8,482	6.1x	42.9%	19.2%	0.3%
Playtika	2,607	3,905	7.5x	51.8%	19.9%	2.5%
Embracer	42,088	57,594	10.8x	137.4%	14.6%	(1.3%)
Paradox	21,968	20,852	24.9x	61.0%	30.3%	16.1%
Median	3,448	8,482	7.5x	51.8%	19.2%	1.4%
Average	12,472	18,299	11.0x	67.6%	18.8%	3.8%
MTG B	12,080	15,637	6.5x	67.0%	17.5%	14.1%

DCF and Peer Valuation Implies a Target Price of SEK 138

The target price of SEK 142.1 is derived from an equally weighted DCF and a peer valuation. The DCF model is based on 10-year free cash flow projections, with a TGR of 2% and a WACC of 11.4%. The WACC is derived from a cost of equity of 13.9%, a cost of debt of 7% and a capital structure consisting of 70% equity financing. This method suggest an upside of 74.7%. Focusing solely on the existing customer base, with no DAU and ARPDAU growth presents an asymmetric risk-reward profile with a 19.8% upside. An equally weighted combination of the DCF and peer valuation results in a TP of SEK 142.1, implying an upside of 50.7%.

DCF Valuation Breakdown, SEKm		WACC		TGR			
Sum of PV of FCF:s	11,592	165	1.0%	1.5%	2.0%	2.5%	3.0%
Present Value of Terminal Value	12,014	9.4%	196	209	219	231	245
Enterprise Value	23,606	10.4%	174	181	188	196	206
Equity Value	20,049	11.4%	154	159	165	171	179
Shares (m)	121	12.4%	139	143	147	151	156
Implied Share Price	165 SEK	13.4%	127	130	133	136	140

ARPDAU	DAU Growth				
165	0.0%	2.1%	4.2%	6.3%	8.4%
0.0%	113	128	149	162	181
1.1%	121	136	154	172	192
2.2%	129	146	165	183	204
3.3%	138	155	174	194	216
4.4%	146	165	185	206	229

Appendix: Income Statement

Income Statement, SEKm	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E
Revenue	3,997	5,306	5,537	5,829	5,791	13,786	14,829	15,656	16,331	17,239
COGS	(1,777)	(2,723)	(1,523)	(1,577)	(1,520)	(4,006)	(4,257)	(4,467)	(4,631)	(4,871)
Gross profit	2,220	2,583	4,014	4,252	4,270	9,781	10,572	11,189	11,699	12,368
Gross margin	55.5%	48.7%	72.5%	72.9%	73.7%	70.9%	71.3%	71.5%	71.6%	71.7%
SG&A	(1,909)	(1,887)	(2,793)	(2,850)	(2,756)	(6,194)	(6,619)	(7,021)	(7,334)	(7,704)
Other operating expenses/incomes	8	12	8	37	18	43	47	49	51	54
EBITDA	319	708	1,229	1,439	1,532	3,630	3,999	4,217	4,416	4,718
EBITDA margin	8.0%	13.3%	22.2%	24.7%	26.5%	26.3%	27.0%	26.9%	27.0%	27.4%
Depreciation	(88)	(91)	(34)	(36)	(36)	(85)	(80)	(75)	(70)	(70)
EBITA	231	617	1,195	1,403	1,496	3,545	3,919	4,142	4,346	4,648
EBITA margin	5.8%	11.6%	21.6%	24.1%	25.8%	25.7%	26.4%	26.5%	26.6%	27.0%
Amortization	(195)	(433)	(637)	(518)	(515)	(1,133)	(1,045)	(958)	(871)	(784)
EBIT	36	184	558	885	982	2,412	2,873	3,183	3,475	3,864
EBIT margin	0.9%	3.5%	10.1%	15.2%	17.0%	17.5%	19.4%	20.3%	21.3%	22.4%
Net financials	(291)	6	(60)	(324)	(322)	(766)	(824)	(870)	(908)	(958)
EBT	(255)	190	498	561	660	1,646	2,049	2,313	2,568	2,905
EBT margin	(6.4%)	3.6%	9.0%	9.6%	11.4%	11.9%	13.8%	14.8%	15.7%	16.9%
Tax expenses	(199)	(286)	(246)	(397)	(313)	(745)	(802)	(846)	(883)	(932)
Net income	(454)	(96)	252	164	347	901	1,248	1,467	1,685	1,974
Net margin	(11.4%)	(1.8%)	4.6%	2.8%	6.0%	6.5%	8.4%	9.4%	10.3%	11.4%

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Other

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