

## Gameloft

Price EUR5.16

A much more "compact" company

Fair Value EUR6.7 (+30%)

BUY

Bloomberg	GFT FP
Reuters	GLFT.PA
12-month High / Low (EUR)	6.4 / 2.9
Market Cap (EUR)	439
Ev (BG Estimates) (EUR)	410
Avg. 6m daily volume (000)	311.0
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	-18.1%	-1.7%	17.3%	-14.9%
Softw. & Comp.	-3.9%	-0.3%	2.2%	-4.9%
DJ Stoxx 600	-8.1%	-10.9%	-14.1%	-8.5%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	227.3	256.2	269.0	287.8
% change		12.7%	5.0%	7.0%
EBITDA	13.7	7.8	46.4	56.8
EBIT	-4.2	-3.0	28.0	34.9
% change		29.1%	NS	24.7%
Net income	-5.9	-16.8	19.2	24.8
% change		NS	NS	29.4%

	2014	2015e	2016e	2017e
Operating margin	-1.8	-1.2	10.4	12.1
Net margin	-2.8	-8.9	6.6	8.6
ROE	-4.6	-19.7	13.4	15.7
ROCE	-3.5	-2.5	21.6	24.6
Gearing	-38.6	-25.1	-30.3	-36.0

(EUR)	2014	2015e	2016e	2017e
EPS	-0.07	-0.19	0.22	0.28
% change	-	NS	NS	29.4%
P/E	NS	NS	23.8x	18.4x
FCF yield (%)	NM	NM	4.1%	5.3%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	1.7x	1.6x	1.5x	1.3x
EV/EBITDA	28.1x	52.6x	8.6x	6.7x
EV/EBIT	NS	NS	14.2x	10.9x

Q4 sales were ~6% below consensus and our expectations. However, net savings are now estimated at EUR25-27m/year (vs. EUR20m communicated before) due to the closures of two additional development studios. This figure is massive at Gameloft's level, so we still believe a ~12% current EBIT margin could be achieved in 2016e. (vs. cons. at 8.2%). Given the margin recovery story and the current speculation surrounding Gameloft (since Vivendi's entry into GFT's capital and the recent acquisition of King Digital by Activision Blizzard), our downward revision to adjusted EPS over 2016-17e should not really affect the share price at the end of the trading session. Buy rating – FV EUR6.7.

## ANALYSIS

- Q4 performance:** Gameloft's sales reached only EUR65.4m (+9%, +5% y/y at cc), i.e. 5.6% below our estimate and the consensus figure of EUR69.3m. However the back-catalogue (80% of its FY sales) was resilient and additional revenue from the internal advertising agency improved Q/Q (EUR2.3m in Q4, i.e. EUR5m over the FY). **As such, annual revenues came out at EUR256.2m (+13%, +6% at cc)** with 16 new games released (own franchises and brands accounted for two-thirds of sales), **and breaking down to 30% from Asia-Pacific, 30% from EMEA, 25% from North America and 15% from Latin America. The group does not expect any Y/Y growth in Q1 2016** due to an unfavourable comparison base and only one new game expected for this current quarter (*Disney Magic Kingdoms*).
- Cost reductions accelerated:** the group finally **closed down 10 development studios** between Dec. 2014 and the end of Jan. 2016 (vs. 8 before), generating annualised gross savings of ~EUR35.0m (vs. ~EUR25m before) i.e. **net savings of ~EUR25-27m (vs. ~EUR20m before)**. As such, Gameloft's workforce has decreased by 10.7% (6,000 people at end-January). Despite a disappointing top line in H2 2015, **GFT's current EBIT before stock options should be nevertheless break even in FY15**. The full impact of savings should be felt in **2016** and should allow the "**margin to bounce back significantly**", according to management. We still believe the massive reduction in its cost base should enable the group **return to past profitability levels (10-13%) even with ~10 new games released** (BG est.: 11.5%e, close to 2013's level when the share price was in the EUR5.3-8.2 range).
- Our FY forecasts:** with 2015 sales at EUR256.2m, we still believe current EBIT before stock options can break even. We now expect an EBIT loss of EUR11.7m (vs. -EUR10.5m before) after -EUR3m of SO (no change) and -EUR8.7m of restructuring costs (vs. -EUR7.5m). As a result, we expect a net loss of EUR22.7m (vs. -EUR21.5m), a rest. net loss of EUR16.8m (vs. -EUR16.5m) and net cash of EUR29m. In 2016, with top-line growth of 5%, GFT should reach a ~12% current EBIT margin before SO (BG est.: 11.5% vs. cons. at 8.2%), positive FCF (FCF/current EBIT of 67%) and net cash of EUR40m. **We have cut our 2016-17e EPS sequence by 5.8% on average.**
- Speculation:** Vivendi owns 28% of the capital and 25% of the voting rights vs. **the Guillemot family** with 17% and 25% respectively (double voting rights), i.e. **both just under the mandatory bid threshold fixed by the regulator (30%)**. We believe Vivendi will make a **public tender offer on Gameloft in 2016e** (hostile or friendly, it will succeed: in mobile gaming a hostile takeover is possible as the success is not linked to a few key developers) to force Ubisoft to enter into discussions and convince the Guillemot family that there are synergies and they can be partners.

## VALUATION

- Beyond the current speculation**, as the stock market usually pays very close attention to GFT's profitability, **now is clearly a very good time to play the margin recovery**.
- We are maintaining our Buy rating on GAMELOFT (FV of EUR6.7)**. Our FV reflects a minimum price in the case of a takeover bid.

## NEXT CATALYSTS

- FY15 earnings results:** 21st March, 2016 (after trading).

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