

## Ubisoft

Price EUR20.90

FY guidance "Assassinated" = yummy food for Vivendi?

Fair Value EUR34 vs. EUR37 (+63%)

BUY

Bloomberg	UBI.FP
Reuters	UBIP.PA
12-month High / Low (EUR)	28.0 / 14.9
Market Cap (EUR)	2,324
Ev (BG Estimates) (EUR)	2,379
Avg. 6m daily volume (000)	353.9
3y EPS CAGR	22.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-13.9%	-19.6%	16.9%	-21.7%
Softw. & Comp.	-9.6%	-12.2%	-6.5%	-13.5%
DJ Stoxx 600	-10.8%	-19.8%	-22.9%	-17.0%

YEnd Mar. (EURm)	03/15	03/16e	03/17e	03/18e
Sales	1,464	1,365	1,706	1,877
% change		-6.7%	25.0%	10.0%
EBITDA	650	585	730	853
EBIT	161.1	138.0	218.0	289.9
% change		-14.4%	58.0%	32.9%
Net income	103.1	83.1	141.0	190.5
% change		-19.4%	69.7%	35.1%

	03/15	03/16e	03/17e	03/18e
Operating margin	11.0	10.1	12.8	15.4
Net margin	5.9	5.9	8.3	10.2
ROE	8.9	7.6	11.7	13.7
ROCE	12.7	8.0	13.8	18.5
Gearing	-20.2	5.2	-13.5	-25.6

(EUR)	03/15	03/16e	03/17e	03/18e
EPS	0.91	0.73	1.25	1.68
% change		-19.4%	69.7%	35.1%
P/E	23.0x	28.5x	16.8x	12.4x
FCF yield (%)	8.4%	NM	9.2%	8.2%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	1.5x	1.7x	1.3x	1.0x
EV/EBITDA	3.3x	4.1x	3.0x	2.3x
EV/EBIT	13.2x	17.2x	9.9x	6.8x

Fiscal Q3 sales came out 6% below the guidance, mainly because of the underperformance of *Assassin's Creed*. The group downgraded its FY15/16 guidance (from stable sales to -7% Y/Y and from non-IFRS EBIT of at least EUR200m to ~EUR150m) and its first FY16/17 target in non-IFRS EBIT is 7% below the consensus (~EUR230m vs. cons. of EUR247m, there will be no new *Assassin's Creed* game). We maintain our BUY rating because we believe in the speculation surrounding the stock (Vivendi now owns close to 15% of the share capital vs. 11.52% before) but we have adjusted downwards our FV from EUR37 to EUR34 (explained by the cut of 9.5% in our FY16/17 EPS). The share will certainly be under pressure at the opening and, as a result, could offer a "yummy food" for Vivendi.

## ANALYSIS

- Ubisoft's Q3 sales came out at EUR561.8m (-31% Y/Y, -36% at cc), i.e. 6% below the guidance of EUR600m (consensus was probably close to this guidance) and slightly below our EUR565m (we highlighted many times the slow start of *Assassin's Creed: Syndicate* in the US). They reflect **laboured sales for *Assassin's Creed*** (because of the numerous bugs in the previous opus) and the underperformance of minor games (*Anno, Heroes...*), despite a record player engagement levels for *Rainbow Six Siege* (probably in line with our est. but with deferred revenues), decent sales for *Just Dance 2016* (probably in line with our est.), the increasing part of digital revenues (27% of its 9-m sales vs. 21.2% in FY14-15) and a strong growth in the back-catalog (9m sales at +42.6% Y/Y).
- The group slashed its FY15/16 guidance: from stable sales to -7% Y/Y (i.e. ~EUR1,360m vs. cons. of EUR1,486.6m and our EUR1,486m) and non-IFRS EBIT from at least EUR200m to ~EUR150m (vs cons. EUR211.9m and our EUR214.9m), and still a negative FCF (but slightly negative or breakeven before WCR vs. positive initially). Fiscal Q4 should represent 43% of its FY revenue after 41% in Q3. **The main surprise for us comes from the downgrade in the non-IFRS EBIT guidance despite 1/ the positive currency effect (EUR/USD), and 2/ the launches of *Far Cry Primal* (23rd Feb.) and *The Division* (8th March) in fiscal Q4.** Indeed, we expected a high level of sell-in sales (i.e. sales to retailers) for this latter title (it has extremely good preorders) to meet the FY guidance.
- First FY16/17 guidance:** Ubisoft expects ~EUR1,700m in sales i.e. +25% Y/Y (vs. cons. of 1,613.5m and our EUR1,634.6m), non-IFRS EBIT of ~EUR230m (vs. cons. of EUR246.7m and our EUR251.9m) and strong FCF generation (vs. our EUR160.7m). This should be achieved thanks to 5 AAA: *Watchdogs 2, Ghost Recon Wildlands, For Honor, South Park the Fractured but Whole*, and a new "high-potential AAA brand with strong digital live services" (vs. we expected the following 5 names: *Watchdogs 2, a new Assassin's Creed, Far Cry 5, Ghost Recon Wildlands* and *For Honor*). Growth will also be driven by further increases in revenues for the digital segment (30% of FY sales) and of course the back catalog (*The Division* and *Far Cry Primal*). **We are not really surprised by the fact that *Assassin's Creed* will take a breather** (this rumour was launched early January by Kotaku, which is a reliable source: it had already revealed true details on the last 3 *Assassin's Creed* games). **However, we are disappointed that the *Assassin's Creed* movie** (in theatre on 21st Dec.) **is not accompanied by the release of a game** (even if good for the franchise in the long run).

## VALUATION

- We maintain our Buy rating and lower our FV from EUR37 to EUR34 (we value the entire 2013-19e cycle). **We have cut our FY16/17 EPS by 9.5%**. Note that our FV is derived from 12m fwd average multiples for Ubisoft's past two console cycles applied to our FY16/17 estimates to which we have added a 15% premium (justified by digital revenues + other entertainment revenues).
- We believe in the speculation surrounding the stock. Vivendi's entry in the Guillemot's galaxy will certainly continue. It now owns close to 15% of Ubisoft's share capital (vs. 11.52% before) and 28.2% of Gameloft. **Without any speculation aspect, it would be hard for Ubisoft to really reassure at its investor day next week** (except in the case of very ambitious digital sales targets and perhaps the introduction of a future dividend distribution).

## NEXT CATALYSTS

- Investor day on 18th February (in London): mid-term guidance (probably a 3-year horizon).
- FY15/16 earnings results in May: more details on the FY16/17 guidance.



### Main financial items for 2014/15 to 2016/17e

EURm	14/15 reported	Cons. 2015/16	BG 15/16e (old)	BG 15/16e (new)	Cons. 2016/17	BG 16/17e (old)	BG 16/17e (new)
<b>Sales</b>	<b>1,463.8</b>	<b>1,486.6</b>	<b>1,486.0</b>	<b>1,365.0</b>	<b>1,613.5</b>	<b>1,634.6</b>	<b>1,706.3</b>
<i>Y/Y change (%)</i>	45.3%	1.5%	1.5%	-6.7%	8.4%	10.0%	25.0%
<b>Non-IFRS EBIT</b>	<b>170.7</b>	<b>211.9</b>	<b>214.9</b>	<b>150.0</b>	<b>246.7</b>	<b>251.9</b>	<b>230.0</b>
<i>As % of sales</i>	11.7%	14.2%	14.5%	11.0%	15.3%	15.4%	13.5%
<b>IFRS EBIT after SO</b>	<b>139.4</b>		<b>204.9</b>	<b>138.0</b>		<b>241.9</b>	<b>218.0</b>
<i>As % of sales</i>	9.5%		13.8%	10.1%		14.8%	12.8%
<b>Attributable net profit</b>	<b>87.0</b>	<b>129.7</b>	<b>125.0</b>	<b>80.8</b>	<b>154.8</b>	<b>155.9</b>	<b>141.0</b>
<i>As % of sales</i>	5.9%	8.7%	8.4%		9.6%	9.5%	8.3%
<b>Adjusted net profit after SO</b>	<b>103.1</b>		<b>127.3</b>	<b>83.1</b>		<b>155.9</b>	<b>141.0</b>
<i>As % of sales</i>	7.0%		8.6%	6.1%		9.5%	8.3%
<b>Net cash</b>	<b>197.7</b>		<b>127.7</b>	<b>-54.7</b>		<b>238.5</b>	<b>162.6</b>

Sources: Bryan, Garnier & Co ests.; last consensus from the company (02/12/15).

- **2015/16 guidance slashed:** from ~EUR1,465m (stable sales) to ~EUR1,360m (-7% Y/Y) and non-IFRS EBIT from at least EUR200m to ~EUR150m (margin of 11%), and still a negative FCF (but slightly negative or breakeven before WCR vs. positive initially).
- **First 2016/17 guidance:** ~EUR1,700m in sales (+25% Y/Y), non-IFRS operating income of ~EUR230m (margin of 13.5%) and strong FCF generation.

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NEUTRAL ratings 28.4%

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