12th February 2016

TMT

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

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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