

## Ubisoft

Price EUR22.31

Yesterday's increase in the share price was justified, now play the increased speculation

Fair Value EUR34 (+52%)

BUY

Bloomberg	UBI.FP
Reuters	UBIP.PA
12-month High / Low (EUR)	28.0 / 14.9
Market Cap (EURm)	2,481
Ev (BG Estimates) (EURm)	2,536
Avg. 6m daily volume (000)	376.5
3y EPS CAGR	22.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.2%	-15.8%	24.6%	-16.3%
Softw. & Comp.	-0.4%	-6.2%	1.9%	-7.0%
DJ Stoxx 600	0.1%	-13.3%	-15.3%	-10.1%

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	24.5x	30.4x	17.9x	13.3x
FCF yield (%)	7.9%	NM	8.6%	7.7%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	1.6x	1.9x	1.4x	1.1x
EV/EBITDA	3.5x	4.3x	3.2x	2.5x
EV/EBIT	14.2x	18.4x	10.6x	7.3x

Yesterday, Ubisoft provided its mid-term guidance (a 3-year horizon plan): FY18-19 at EUR2.2bn, non-IFRS EBIT margin of 20% and FCF generation of EUR300m. As a result, FY18-19 non-IFRS EBIT is 22% higher than our estimate. By putting Ubisoft's financial targets into our model, we have increased by +11.2% on average our EPS sequence over 2016/19e (the share price reaction yesterday was therefore fully justified). We believe the speculation surrounding the stock (Vivendi now owns 14.9% of UBI's share capital and has launched a public offer on Gameloft). Buy rating and FV of EUR34 maintained.

## ANALYSIS

- Yesterday, during its investor day in London, management has presented its 3-year strategic and financial targets. For FY18-19, the management expects to:
  - **1/ grow revenues to EUR2.2 bn**, i.e. a CAGR 16/19 of +17.4% (vs. BG est.: 2.065bn, i.e. CAGR of +14.9%) and CAGR of +14.5% before the recent sales warning. This target is based on ~5 AAA games (coming from established franchises, therefore less risky) generating a total of 40m units (more big brands and more units per brand). The group forecast around EUR100m from mobile games (4.5% of its sales vs. 3% in FY15-16)
  - **2/ reach a 20% profitability** i.e. ~EUR440m in non-IFRS EBIT (vs. BG est.: EUR360m i.e. margin of 17%). It means almost tripling non-IFRS EBIT versus FY2015-16, i.e. a CAGR 16/19 of +43% and CAGR of +30% before the recent profit warning. This target is based on a gross margin over 80% (vs. BG est.: 80%) and 45% of its sales from the digital segment (28% in digital distribution and 17% in player recurring investment) vs. 50% before.
  - **3/ generate very strong FCF of ~EUR300m** (vs. BG. est.: EUR234m) to provide the "best return to shareholders" (no more details but, given the current speculative situation, the introduction of a dividend distribution would be more logical than a share buy-back program).

**Management intends to reach these objectives through: bigger hits and digital revenues** (more strong multiplayer games, extra content and live services to close the gap with competitors), **strong execution on building stable of franchise** (developed internally, meaning operating leverage on its cost structure), and **more awareness of its IPs** (entertainment vision beyond video games: movies, TV series, theme parks, consumer goods...).

- As a result, FY18-19 non-IFRS EBIT was 22% higher than our estimate. **By putting Ubisoft's targets into our model, we have revised upward our EPS sequence by +11.2% on average over 2016/19e.** This totally validates the increase of 11.1% in the share price yesterday without taking any speculation aspect (Vivendi's interest in Ubisoft).
- However, we consider that **in this industry to give such long-term period guidance is always risky.** Everybody knows that possible delays in game developments mean that we finally never know if the targets are really achievable on time (as a reminder, we expect the current console cycle to end in 2019e, a 6-year cycle). **Whatever, we believe in the speculation surrounding the stock.**
- **Vivendi's entry in the Guillemot's galaxy will certainly continue.** It now owns 14.9% of Ubisoft's share capital (our FV of EUR34 on Ubisoft value the entire 2013-19e cycle), and yesterday crossed the 30% threshold in Gameloft's capital (vs. 28.2% before) resulting in a hostile tender offer on 100% of GFT's capital at EUR6.0 per share (we see our FV of EUR6.7 as a minimum). **Remember that our scenario was that Vivendi would make public tender offers on both names: first on Gameloft in the short term** (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 then on Ubisoft** (for this latter a public offer needs to be friendly, so Vivendi has to be generous in terms of price).

## VALUATION

- **We maintain our Buy rating and Fair Value of EUR34** (this latter values the entire 2013-19e cycle)..
- **Don't forget that our FV is derived from UBI's 12m fwd average multiples over the past 2 console cycles applied to our FY16/17 estimates** (given the unreliability of a longer horizon guidance in this industry), **to which we added a 15% premium** (digital sales and other entertainment



revenues).

#### NEXT CATALYSTS

- **FY15/16 earnings results:** in May, with more details on the FY16/17 guidance.

#### Main financial items for 2014/15 to 2018/19e

EURm	14/15 reported	BG 15/16e	BG 16/17e	BG 17/18e (old)	BG 17/18e (new)	BG 18/19e (old)	BG 18/19e (new)
<b>Sales</b>	<b>1,463.8</b>	<b>1,365.0</b>	<b>1,706.3</b>	<b>1,876.9</b>	<b>1,945.1</b>	<b>2,064.6</b>	<b>2,199.9</b>
<i>Y/Y change (%)</i>	45.3%	-6.7%	25.0%	10.0%	14.0%	10.0%	13.1%
<b>Non-IFRS EBIT</b>	<b>170.7</b>	<b>150.0</b>	<b>230.0</b>	<b>301.9</b>	<b>330.0</b>	<b>360.1</b>	<b>440.1</b>
<i>As % of sales</i>	11.7%	11.0%	13.5%	16.1%	17.0%	17.4%	20.0%
<b>IFRS EBIT after SO</b>	<b>139.4</b>	<b>138.0</b>	<b>218.0</b>	<b>289.9</b>	<b>318.0</b>	<b>348.1</b>	<b>428.1</b>
<i>As % of sales</i>	9.5%	10.1%	12.8%	15.4%	16.4%	16.9%	19.5%
<b>Attributable net profit after SO</b>	<b>87.0</b>	<b>80.8</b>	<b>141.0</b>	<b>190.5</b>	<b>209.7</b>	<b>230.8</b>	<b>285.2</b>
<i>As % of sales</i>	5.9%		8.3%	10.2%	10.8%	11.2%	13.0%
<b>Adjusted net profit after SO</b>	<b>103.1</b>	<b>83.1</b>	<b>141.0</b>	<b>190.5</b>	<b>209.7</b>	<b>230.8</b>	<b>285.2</b>
<i>As % of sales</i>	7.0%	6.1%	8.3%	10.2%	10.8%	11.2%	13.0%
<b>FCF</b>	<b>-205.7</b>	<b>198.9</b>	<b>-232.4</b>	<b>217.2</b>	<b>210.2</b>	<b>194.4</b>	<b>285.0</b>
<b>Net cash</b>	<b>197.7</b>	<b>-54.7</b>	<b>162.6</b>	<b>356.9</b>	<b>372.8</b>	<b>590.7</b>	<b>657.7</b>

Sources: Bryan, Garnier & Co ests.

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