

## Gameloft

Price EUR7.43

Nothing to gain by tendering your GFT shares now!

Fair Value EUR7.2 vs. EUR6.7 (-3%)

BUY

Bloomberg	GFT FP
Reuters	GLFT.PA
12-month High / Low (EUR)	7.5 / 3.2
Market Cap (EUR)	638
Ev (BG Estimates) (EUR)	601
Avg. 6m daily volume (000)	376.2
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.0%	22.6%	131.5%	22.6%
Softw. & Comp.	0.6%	-3.1%	15.6%	-3.1%
DJ Stoxx 600	-1.6%	-8.9%	-3.8%	-8.9%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	227.3	256.2	269.0	290.5
% change		12.7%	5.0%	8.0%
EBITDA	13.7	8.0	47.4	59.6
EBIT	-4.2	-1.2	28.0	37.6
% change		71.4%	NS	34.2%
Net income	-5.9	-19.6	19.2	26.6
% change		NS	NS	38.7%

	2014	2015e	2016e	2017e
Operating margin	-1.8	-0.5	10.4	12.9
Net margin	-2.8	-9.4	6.9	9.2
ROE	-4.6	-21.2	14.0	16.7
ROCE	-3.5	-1.1	25.7	30.9
Gearing	-38.6	-32.4	-41.2	-45.4

(EUR)	2014	2015e	2016e	2017e
EPS	-0.07	-0.22	0.22	0.30
% change	-	NS	NS	38.7%
P/E	NS	NS	34.3x	24.7x
FCF yield (%)	NM	NM	3.8%	3.9%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	2.6x	2.3x	2.2x	1.9x
EV/EBITDA	42.6x	75.2x	12.3x	9.5x
EV/EBIT	NS	NS	20.8x	15.1x

During meetings with GFT's CEO and CFO, 90% of the time was spent discussing the group's business trends (mainly advertising but also in-app purchases) and only 10% on Vivendi's hostile takeover bid. This is a good indication of investor interest in GFT's standalone future. The CEO has never been this convincing, both on the short term and for FY18 targets. Now that we have enough visibility on the two businesses, we have based our FV on the next two years (vs. only FY16e before). As a result, we have upgraded our FV from EUR6.7 to EUR7.2. We now estimate a fair offer in the range of EUR7.6-8.6 (vs. EUR7.2-8.4). Full FOCUS report out today.

## ANALYSIS

- Last Thursday, we had the pleasure of organising a **road show in Paris with GFT's CEO** (Michel Guillemot has made no appearance in Paris for the past 10 years) **and Senior VP & CFO** (Alexandre de Rochefort). **We found that management has never been this convincing, not only on the short term but also for its FY18 targets: 1/ Gameloft now has two engines** (in-app purchases and advertising) that should enable it to return to its past op. margin as of FY16e (BG est.: 11.5%e); **2/ FY18e targets are achievable** (revenues of over EUR350m, operating margin of 18-20% and cumulative 2016/18 FCF of more than EUR85m), notably thanks to the in-house mobile advertising business (low fixed-cost structure).
- Its two engines are: 1/ In-app purchases**, GFT is reaping the rewards of its restructuring plan (net savings of EUR25-27m) meaning that breakeven point for the success of a game is now much lower. Moreover, the group is set to release fewer games (8-12 per year) but with a focus on established franchises and mid-core FTP games, which are easier to monetise. **2/ Mobile advertising**, GFT is benefiting from its in-house strategy (it has full control of inventory and data, and can therefore obtain a good margin) and is experiencing a secular switch from premium to programmatic (run rate close to EUR20m per year; an alternative to the duopoly of Facebook and Google, with more reactivity and flexibility).
- Regarding Vivendi**, GFT's CEO only sees a convergence in advertising with Havas. However, he has cautioned Mr. Bolloré by saying that gamers are the trunk of its two businesses (IAP & advertising). If the hostile takeover bid proves successful (50% + 1 share), its developers will easily find a job at its mobile games competitors. **The Guillemot family is continuing to buy shares (>EUR7.2) to play GFT's mid-term plan.**

## VALUATION

- Now that we have enough visibility on Gameloft's two businesses, we can base our valuation over the next two years** (vs. only FY16e before). **We have therefore upgraded our FV from EUR6.7 to EUR7.2.**
- We estimate a **fair offer in the range of EUR7.6-8.6 to really convince shareholders to tender their shares** (vs. our previous range of EUR7.2-8.4).

## NEXT CATALYSTS

- First hearing of the Paris Court of Appeal** (following Gameloft's complaint regarding the hostile takeover bid): 14th April.
- Q1 sales**: 28th April (after trading).

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BUY ratings 64%

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