

Gameloft

Price EUR7.41

Reassuring Q1 revenue at +5% Y/Y in organic terms

Fair Value EUR7.2 (-3%)

BUY

Bloomberg	GFT FP
Reuters	GLFT.PA
12-month High / Low (EUR)	7.6 / 3.2
Market Cap (EUR)	645
Ev (BG Estimates) (EUR)	590
Avg. 6m daily volume (000)	332.4
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.5%	43.6%	41.1%	22.3%
Softw. & Comp.	0.3%	2.0%	1.7%	-3.0%
DJ Stoxx 600	4.1%	4.2%	-7.2%	-4.6%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	256.2	269.0	290.5	322.5
% change		5.0%	8.0%	11.0%
EBITDA	8.0	47.4	59.6	79.3
EBIT	-1.2	28.0	37.6	54.8
% change		NS	34.2%	45.8%
Net income	-19.6	19.2	26.6	38.1
% change		NS	38.7%	43.3%

	2015	2016e	2017e	2018e
Operating margin	-0.5	10.4	12.9	17.0
Net margin	-9.4	6.9	9.2	11.8
ROE	-21.2	14.0	16.7	19.3
ROCE	-1.1	25.7	30.9	39.4
Gearing	-32.4	-41.2	-45.4	-49.7

(EUR)	2015	2016e	2017e	2018e
EPS	-0.22	0.22	0.30	0.43
% change	-	NS	38.7%	43.3%
P/E	NS	34.2x	24.6x	17.2x
FCF yield (%)	NM	3.8%	3.9%	5.3%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	2.4x	2.2x	2.0x	1.7x
EV/EBITDA	76.1x	12.4x	9.6x	6.9x
EV/EBIT	NS	21.1x	15.2x	10.0x

Q1 sales were 1.6% above our estimate and in line with the consensus. We consider that the group now has two engines (in-app purchases and advertising) enabling it to return to its past op. margin as of FY16e (BG est.: 11.5%e), and that its FY18e targets are achievable (revenue of over EUR350m, current op. before SO of over EUR65m, cumulative FCF 2016/18 of more than EUR85m). Gameloft's strategy is well on track. Our FY16/18 EPS sequence remains unchanged. We are maintaining our Buy rating and FV of EUR7.2. The stock is currently trading 3% above Vivendi's last offer. Investors have nothing to gain by tendering their GFT shares now. We estimate a fair offer in the range EUR7.6-8.6.

ANALYSIS

- Q1 sales were reassuring.** Revenue came out at EUR65.1m i.e. -0.7% Y/Y and +4.6% at cc (62% coming from its own IPs, a satisfactory resilience of the back catalogue at +6%), slightly above our est. of EUR64.1m (-2.3% Y/Y) and in line with the consensus of EUR65m (-0.8% Y/Y, ranging from EUR64m to EUR66m; no precise guidance but the management was not expecting any Y/Y growth during its last conf. call). Revenue breakdown by business line: 79% smartphones (+2% Y/Y, +6%e at cc), 17% feature phones (~-20% Y/Y, ~-15%e at cc) and 4% advertising (+800% Y/Y). Revenue breakdown by geography: 32% EMEA, 22% North America, 14% Latam and 32% Asia-Pacific. This quarterly performance is reassuring as: 1/ the comparison base was the highest of last year (+8% at cc) with 2 games released in Q1 15 (early in the quarter) while only *Disney Magic Kingdom* was launched in Q1 16 (in late March); and 2/ its internal advertising agency delivered a strong performance (EUR2.7m vs. EUR0.3m a year ago; annual run-rate of EUR20m), notably driven by a take-off in programmatic advertising (~10% of GFT's advertising revenue in Q1 and ~20-25% in March whereas it only started in the course of February).
- We haven't changed our FY16e forecasts.** As we expected, management provided no figures for the full year (perhaps in July for Q2 sales release?). The group should launch two new games in Q2 (*Blacklist* and *Asphalt Extreme*: both in June) and we expect nine titles over the full year (probably two-thirds IPs and one-third licenses). We still see FY revenue of EUR269m (+5% Y/Y) incl. EUR18m from advertising, current EBIT before stock options at EUR31m (margin of 11.5%), EBIT of EUR27m (margin of 9.7%) after -EUR3m of SO and -EUR1m of restructuring costs, net profit of EUR18.5m (margin of 6.9%), FCF of EUR25m and net cash of EUR54.6m.
- The group's strategy is well on track for 2018 targets.** The group has now two engines: 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 (Gameloft is an alternative to the duopoly of Facebook and Google, with more reactivity and flexibility; it is targeting a 1% MS).

VALUATION

- We believe investors have nothing to gain by tendering their GFT shares now to Vivendi.**
- We maintain our Buy rating and FV of EUR7.2** and estimate a **fair offer in the range EUR7.6-8.6** (mid-range price of EUR8.2 on average, i.e. 11% above yesterday's closing price).

NEXT CATALYSTS

- 4th May:** the Paris Court of Appeal's decision on the request filed by Gameloft. If it does not have a suspensive effect, we should have the results of the offer on 10th May. If it has a suspensive effect, the offer won't be suspended but the results should be postponed to late July/early September.
- 29th June:** AGM.
- 28th July (after trading):** Q2 sales.



Main financial factors for 2013-2018e

EURm	2013	2014	2015	BG 2016e	Cons. 2016e	BG 2017e	Cons. 2017e	BG 2018e
Sales	233.3	227.3	256.2	269.0	272	290.5	293	322.5
<i>Y/Y growth</i>	12.0%	-2.6%	12.7%	5.0%	6.2%	8.0%	7.7%	11.0%
<i>Y/Y organic growth</i>	16.3%	1.1%	5.7%	5.0%	-	8.0%	-	11.0%
Current EBIT before SO	28.4	-1.1	2.1	31.0	23.4	40.6	30.2	57.8
<i>Margin</i>	12.2%	-0.5%	0.8%	11.5%	8.6%	14.0%	10.3%	17.9%
Current EBIT after SO	24.9	-4.2	-1.2	28.0	-	37.6	-	54.8
<i>margin</i>	10.7%	-1.8%	-0.5%	10.4%	-	12.9%	-	17.0%
EBIT	23.6	-4.9	-11.5	26.0	-	37.6	-	54.8
<i>Margin</i>	10.1%	-2.1%	-4.5%	9.7%	-	12.9%	-	17.0%
Net income	7.5	-6.4	-24.2	18.5	12.8	26.6	17.7	38.1
<i>Margin</i>	3.2%	-2.8%	-9.4%	6.9%	4.7%	9.2%	6.0%	11.8%
Restated net income	8.4	-5.9	-19.6	19.2	-	26.6	-	38.1
<i>Margin</i>	3.6%	-2.6%	7.7%	7.1%	-	9.2%	-	11.8%
Net cash	60.3	52.7	36.9	54.6	45	72.2	61	98.0

Sources: Consensus from the company (27/04/16: 6 analysts); Bryan Garnier & Co. ests.

Annual game releases from 2013 to 2016e

Number of games	Q1	Q2	Q3	Q4	Full year
2013	2	7	4	3	16
2014	1	3	4	4	12
2015	5	4	2	5	16
2016e	1	2	3	3	9

Source: Bryan, Garnier & Co ests.

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