

Ubisoft

Price EUR27.80

The call of duty to face the hungry shark

Fair Value EUR34 (+22%)

BUY

Bloomberg	UBI.FP
Reuters	UBIP.PA
12-month High / Low (EUR)	28.2 / 14.9
Market Cap (EUR)	3,092
Ev (BG Estimates) (EUR)	2,886
Avg. 6m daily volume (000)	317.2
3y EPS CAGR	37.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.7%	46.4%	4.8%	4.2%
Softw. & Comp.	-0.2%	8.4%	-3.7%	-5.4%
DJ Stoxx 600	-0.5%	6.6%	-10.6%	-8.9%

YEnd Mar. (EURm)	03/16	03/17e	03/18e	03/19e
Sales	1,394	1,706	1,945	2,200
% change		22.4%	14.0%	13.1%
EBITDA	600	731	903	1,089
EBIT	156.1	219.0	319.0	429.0
% change		40.3%	45.7%	34.5%
Net income	116.0	148.9	221.6	301.5
% change		28.3%	48.8%	36.1%

	03/16	03/17e	03/18e	03/19e
Operating margin	11.2	12.8	16.4	19.5
Net margin	6.7	8.7	11.4	13.7
ROE	9.2	12.8	16.0	17.8
ROCE	11.0	15.7	23.3	31.6
Gearing	4.3	-17.7	-31.1	-43.6

(EUR)	03/16	03/17e	03/18e	03/19e
EPS	1.02	1.29	1.92	2.62
% change	-	27.2%	48.8%	36.1%
P/E	27.4x	21.5x	14.5x	10.6x
FCF yield (%)	NM	7.8%	7.1%	9.5%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	2.2x	1.7x	1.4x	1.1x
EV/EBITDA	5.2x	3.9x	2.9x	2.2x
EV/EBIT	20.1x	13.2x	8.3x	5.5x



Ubisoft has posted an outstanding FY15/16 (mainly thanks to the outperformance of its fiscal Q4 titles, *The Division* and *Far Cry Primal*, and its digital revenues), i.e. halfway between the consensus and our estimates, and well above guidance (for revenue, non-IFRS operating income and net income). The group reiterated its FY16/17 targets and is on the right path to deliver its three-year strategic plan. We expect good news flow in the coming months/years (the E3 trade fair in Los Angeles, an improvement in UBI's fundamentals and speculation surrounding the stock) and, since Vivendi's entry into the share capital, we see very little risk of game delays since the publisher needs to prove it can remain independent. We maintain our Buy rating and Fair Value of EUR34.

ANALYSIS

- Outstanding FY15/16 earnings: sales came in at EUR1,394.0m** i.e. -4.8% Y/Y and -10.7% at cc (incl. +268% and +250% respectively in fiscal Q4), halfway between the consensus of 1,386.2m and our EUR1,414.7m est., and well above guidance for ~EUR1,360m. Sell-in + digital sales were driven mainly by *The Division*, *Far Cry Primal*, *Assassin's Creed: Syndicate*, *Rainbow Six: Siege* and *Just Dance 2016*. Note that digital sales grew by 16.7%, to a record of 32% of revenue (vs. our 30%e, and 26% last year) and that the back-catalogue was strong (EUR355m, i.e. 25% of its revenue). **Current operating profit before SO came to EUR169.0m (margin of 12.1%, +50bp)**, halfway between the cons. of EUR157.6m and our est. of EUR179.9m and well above guidance for ~EUR150m. After stock options (-EUR12.9m) and non-current charges (-EUR19.3m in goodwill depreciations), it stood at EUR136.8m (margin of 9.8%, +30pb) vs. our EUR163.4m est. **As such, net profit came to EUR93.4m (margin of 6.7%, +80bp)**, again halfway between the consensus of EUR88m and our est. of EUR100.2m, and finally adj. net profit was EUR116.0m (margin of 8.3%) vs. our EUR102.5m est. **The financial situation was slightly better than expected, with a negative FCF of -EUR191.5m** compared to our est. of -EUR219.9m and guidance of "negative FCF" because of the back-end releases of *Far Cry Primal* and *The Division* (FCF before WCR was positive at EUR61.8m), **and a net debt of EUR44.2m i.e. gearing of 4.3%** (vs. our EUR42.1m est.). The group gave a cautious **Q1 16/17 sales guidance of ~EUR125.0m (+29% Y/Y)**, i.e. 7.4% of its FY target.
- FY16/17 guidance reiterated:** Ubisoft still expects ~EUR1,700m in sales i.e. +22% Y/Y, non-IFRS EBIT of ~EUR230m (margin of 13.5%, i.e. +140bp) and strong FCF generation. **This should be achieved thanks to 1/ Five AAAs vs. four last year** (*Watchdogs 2*, *Ghost Recon Wildlands*, *For Honor*, *South Park the Fractured but Whole*, and a new AAA IP that should be announced at E3), **2/ another sharp increase in highly profitable recurring revenues from the digital segment** (over 35% of FY sales), and **3/ further strong growth for the back catalogue** (~30% of total sales via *The Division*, *Far Cry Primal* and to a lesser extent *Rainbow Six Siege*). **And as a reminder, the *Assassin's Creed* movie is due to hit theatres on 21st Dec.**(the video game will take a breather, this is a good decision for the franchise in the long run). **We have revised upward our EPS sequence by 4.4% on average over the next 3 years** (FY6/17e +4.6%, FY17/18e +4.4% and FY18/19e +4.3%), by taking into account a decrease in the group's normative tax rate (from 32% to 28%) and an increase in the number of fully diluted shares (from 113.3m to 115.3m). *More details on p2.*
- Positive newsflow expected:** **1/** we expect good news from Ubisoft's press conference at the E3 2016 trade fair (13th June); **2/** since Vivendi has entered the share capital, we see very little risk of game delays (UBI's management is under pressure to deliver titles on time) to convince shareholders it can remain independent; **3/** the sector is doing very well, re. Activision Blizzard's and Electronic Arts' latest earnings reports (strong sales of new-gen consoles, high tie ratios, and margin expansion via the market shift to digital), and we expect the current console cycle to last until 2019e.
- No hostile takeover bid likely:** In its last statement to the French regulator AMF, Vivendi said it "plans to continue its purchases depending on market conditions" (**Vivendi owns 17.73% of the capital and 15.66% of voting rights vs. the Guillemot family's 8.71% and 15.71% respectively**), and that "it does not intend to file a public offer for Ubisoft or to take control of the company". So, **it seems that Vivendi understands that if it really wants to acquire Ubisoft it has to be soft and the only way is to make the move friendly** (we do not see another choice for this kind of console game publisher, which relies only on talented developers/creators). **With this statement, if Vivendi finally wanted to make an offer in the near future, it will have to wait six months.** In our view, the statement means that Vivendi is now totally excluding a hostile bid regarding Ubisoft.

VALUATION

- **We maintain our Buy rating and FV of EUR34.** Bear in mind that our FV is derived from UBI's 12m fwd average multiples over the past 2 console cycles applied to our FY16/17e estimates (given the unreliability of a longer horizon guidance in this industry), to which we have added a 15% premium (digital sales and other entertainment revenues).
- **We expect good news flow** in the coming weeks and months.

NEXT CATALYSTS

- **UBI's E3 press conference:** on 13th June at 1:00pm in Los Angeles (local time)
- **UBI's investor meeting:** on 14th June at 8:00am in LA (local time).

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

EURm	14/15 report.	15/16 report.	BG 15/16e	Cons. 15/16e	BG 16/17e (old)	BG 16/17e (new)	Cons. 16/17e	BG 17/18e (old)	BG 17/18e (new)	BG 18/19e (old)	BG 18/19e (new)
Sales	1,463.8	1,394.0	1,414.7	1,386.2	1,706.3	1,706.3	1,696.4	1,945.1	1,945.1	2,200.0	2,200.0
Y/Y change (%)	45.3%	-4.8%	-3.4%	-5.3%	20.6%	22.4%	22.2%	14.0%	14.0%	13.1%	13.1%
Non-IFRS EBIT	170.7	169.0	179.9	157.6	230.0	235.0	234.8	330.0	335.0	440.0	445.0
As % of sales	11.7%	12.1%	12.7%	11.4%	13.5%	13.8%	13.8%	17.0%	17.2%	20.0%	20.2%
IFRS EBIT after SO	139.4	136.8	163.4	-	217.0	219.0	-	317.0	319.0	427.0	429.0
As % of sales	9.5%	9.8%	11.6%	-	12.7%	12.8%	-	16.3%	16.4%	19.4%	19.5%
Net profit after SO	87.0	93.4	100.2	88.0	140.0	148.9	141.9	208.7	221.6	284.2	301.5
As % of sales	5.9%	6.7%	7.1%	6.3%	8.2%	8.7%	8.4%	10.7%	11.4%	12.9%	13.7%
Adj. net profit after SO	103.1	116.0	102.5	-	140.0	148.9	-	208.7	221.6	284.2	301.5
As % of sales	7.0%	8.3%	7.2%	-	8.2%	8.7%	-	10.7%	11.4%	12.9%	13.7%
FCF	176.3	-191.5	-219.9	-	225.0	250.4	-	210.2	226.1	284.9	305.3
Net debt	-197.7	44.2	42.1	-	-182.9	-206.2	-	-393.1	-432.3	-678.0	-737.6
Gearing	-20.2%	4.3%	3.9%	-	-15.0%	-17.7%	-	-27.5%	-31.1%	-39.6%	-43.6%

Sources: Bryan, Garnier & Co ests; company consensus (15/04/16).

- **UBI's FY15/16 guidance was:** ~EUR1,360m (-7% Y/Y), non-IFRS EBIT of ~EUR150m (margin of 11%), and a negative FCF (but slightly negative or breakeven before WCR vs. positive initially).
- **The group reiterated its FY16/17 guidance:** ~EUR1,700m in sales (+22% Y/Y), non-IFRS operating income of ~EUR230m (margin of 13.5%) and a strong FCF generation.
- **The group is well on track to deliver its three-year plan:** As a reminder, UBI's FY18/19 plan is to generate EUR2.2bn in sales, 20% in non-IFRS EBIT margin and ~EUR300m in FCF. These targets are based on a gross margin of more than 80% via 1/ the release of around five AAA games generating a total of 40m units (stemming only from existing franchises, and taking into account quantities that they have all already reached), and 2/ the digital segment (45% of its FY18/19 sales: 28% in digital distribution and 17% in player recurring investment). **We expect the vast majority of the non-IFRS operating margin improvement to 20% in FY18/19 to stem from gross margin and ~2% from other P&L cost reductions** (R&D, marketing and SG&A).

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BUY ratings 57.1%

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