

Ubisoft

Price EUR32.46

The most convincing Ubisoft press conference we have ever seen at E3

Fair Value EUR34 (+5%)

BUY

Bloomberg	UBI.FP
Reuters	UBIP.PA
12-month High / Low (EUR)	33.6 / 14.9
Market Cap (EURm)	3,610
Ev (BG Estimates) (EURm)	3,404
Avg. 6m daily volume (000)	311.9
3y EPS CAGR	37.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	8.1%	21.8%	21.7%	21.7%
Softw. & Comp.	-0.6%	-1.0%	-3.3%	-5.7%
DJ Stoxx 600	-2.4%	-4.5%	-8.1%	-10.7%

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	32.0x	25.1x	16.9x	12.4x
FCF yield (%)	NM	6.7%	6.0%	8.2%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	2.6x	2.0x	1.6x	1.3x
EV/EBITDA	6.1x	4.7x	3.5x	2.6x
EV/EBIT	23.4x	15.5x	10.0x	6.7x

The group strengthened our confidence on its two majors games (*Watch_Dogs 2* and *Ghost Recon Wildlands*), managed to convince us about its new IP (*For Honor*), finally unveiled its secret new AAA IP (an open-world action sports game, named *Steep*), and revealed more details about the *South Park* game (we have still difficulties to call it a "AAA"). So, there will be 3 AAA games in FQ3 (*Watch_Dogs 2* on 15th Nov., *South Park* on 6th Dec. and *Steep* in Dec.) and 2 in FQ4 (*For Honor* on 14th Feb. and *Ghost Recon* on 7th March 2017). This line-up justifies the annual guidance (EUR1.7bn in sales and non-IFRS EBIT of ~EUR230m) and, since Vivendi's entry into the share capital, we see no risk of game delays (UBI needs to prove it can remain independent). We maintain our Buy rating and FV of EUR34 (only based on fundamentals) and still believe in the speculation surrounding the stock.

ANALYSIS

- Convincing lineup:** Ubisoft began its conference with *Just Dance 2017* (available this Oct. on all major platforms and next year on the NX), followed by presentations of *Tom Clancy's Ghost Recon Wildlands* (UBI's largest action adventure open world game, on 7th March for PS4, Xbox One and PC), *South Park The Fractured But Whole* (a follow-up to *The Stick of Truth*, we don't see it as a AAA, on 6th Dec. for PC, PS4, and Xbox One), *The Division expansion packs* (three paid expansions incl. *Underground* out first on 28th June for Xbox One and PC and on 2nd Aug. for PS4; and the free *Incursions* and *Conflict* updates), *two virtual reality games* (*Eagle Flight* and *Star Trek: Bridge Crew*; we do not expect virtual reality and augmented to take-off before next year), *For Honor* (the solo campaign is convincing and completes last year's multiplayer mode; on 14th Feb. for PS4, Xbox One and PC), *Grow Up* (a sequel to last year's small platform game *Grow Home*, expected in August), *Trials of the Blood Dragon* (*Trials* and *Far Cry: Blood Dragon* combining in this new title, available now), *Watch_Dogs 2* (the game has the potential to sell 15m units on its first FY; on 15th Nov. for PS4, Xbox One and PC; the PS4 players will receive all DLC 30 days before everyone else), and *Steep* (new AAA IP revealed, this is an open-world action sports game developed by Ubisoft's Ancecy; available this December; it originally starting as a demo for *Wildlands*).
- FY16/17 guidance validated:** In our view, **the line-up presented by Ubisoft totally validates its guidance** for revenue of ~EUR1,700m i.e. +22% Y/Y (BG est. EUR1706.3m), non-IFRS EBIT of ~EUR230m i.e. margin up 140bp to 13.5% (BG est. EUR235m) and a strong FCF generation (BG est.: EUR250.4m). **This could be specifically achieved thanks to 1/ 5 AAAs vs. 4 last year, 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, in our view this is a good decision for the franchise in the long run).
- All scenarios favour an increase in the share price:** 1/ Vivendi maintains or increases its stake, giving substance to the speculation; 2/ Vivendi launches a takeover bid (in 2017?); 3/ the Guillemot family increases its stake in a defensive move (notably by investing the EUR151m that it will obtain from its current stake in Gameloft) or finds a white knight (a financial partner); 4/ the best way currently for UBI to protect itself from a raider is to communicate more and deliver strong fundamentals (no game delays...) in order to show that it can remain independent. Whichever is the case, this justifies an increase in the share price in the coming months (good momentum and speculation). Lastly, we totally exclude creeping control from Vivendi without paying a premium to shareholders. In our view, **if Vivendi intends to acquire Ubisoft it will be through a proper public offer. And if it wants to really succeed in the video game business beyond a possible operation (that cannot happen before the end of October), it could only be through a friendly deal (to avoid losing key star developers/creators).**



VALUATION

- We maintain our Buy rating.** We expect positive newsflow in the coming weeks and months. Our FV of EUR34 is derived from UBI's 12m fwd average multiples over the past two console cycles applied to our FY16/17e estimates (unreliability of a longer horizon guidance in this industry), to which we have added a 15% premium (digital sales and other entertainment revenues). **Our valuation does not include any speculative premium.**

NEXT CATALYSTS

- **UBI's investor meeting:** today at 8:00am in LA (local time).

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