

## Ubisoft

Price EUR31.10

Good strategy, strong fundamentals, and speculation as the “cherry on this delicious cake”

Fair Value EUR34 (+9%)

BUY

Bloomberg	UBI.FP
Reuters	UBIP.PA
12-month High / Low (EUR)	33.6 / 14.9
Market Cap (EUR)	3,458
Ev (BG Estimates) (EUR)	3,252
Avg. 6m daily volume (000)	311.8
3y EPS CAGR	37.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.6%	15.8%	17.7%	16.6%
Softw. & Comp.	-2.0%	-3.6%	-3.3%	-7.0%
DJ Stoxx 600	-4.2%	-7.0%	-8.3%	-12.4%

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	30.6x	24.1x	16.2x	11.9x
FCF yield (%)	NM	7.0%	6.3%	8.5%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	2.5x	1.9x	1.6x	1.2x
EV/EBITDA	5.8x	4.4x	3.4x	2.5x
EV/EBIT	22.4x	14.9x	9.5x	6.3x

Ubisoft's management held an investor meeting yesterday in Los Angeles. It was all on fundamentals and the group's capacity to deliver strong topline growth, profit margin improvement, and thus value creation for shareholders. We believe UBI's lineup shown at E3 fully validates its FY guidance, and the group is well on track to benefit from the current cycle and to reach its 3-year financial targets. The clear leverage is in digital and stems especially from extra contents. The share price is currently not far from our FV (based on FY16/17 fundamentals), but we find the speculation surrounding the stock convincing. As a result, we advise investors to play the good momentum.

## ANALYSIS

- **Management said that it did not need Vivendi to continue to grow.** Indeed, Ubisoft boasts three of the Top 4 biggest-ever new IP launches in the video game industry (*The Division* #1, *Watch Dogs* #3 and *Assassin's Creed* #4), two of the Top 3 over the current cycle (*Watch Dogs* and *The Division*), and has been the only publisher able to regularly deliver open worlds (one in FY13/14, four in FY14/15 and three in FY15/16) thanks to its multi-studios organization.
- **Ubisoft's plan out to 2018/19** (EUR2.2bn in sales, 20% in non-IFRS EBIT margin and ~EUR300m in FCF) is based on a gross margin of more than 80% via 1/ the release of around five big AAA franchises generating a cumulative 40m units (stemming only from existing franchises, taking into account quantities that they have all already reached, and based on 130m PS4/Xbox One combined at the end of 2018), and 2/ the digital segment (45% of its FY18/19 sales vs. 32% in FY15/16: 28% in digital distribution vs. 23% and 17% in player recurring investment vs. 9%). The vast majority of the EBIT margin improvement from 12% in FY15/16 to 20% in FY18/19 will come from gross margin (~5% thanks to bigger digital) and the remainder from other P&L cost reductions (~3% thanks to bigger line up and better mix). In our view, the clear leverage in digital stems from extra contents as they are even more profitable than their most successful games (80-100% in EBIT margin, on our estimates). That's why Ubisoft intends to launch more strong multi-player titles (these include more digital live services).
- **The group is now able to operate big online games**, i.e. to attract a large community of players with high-quality games (re. the good ratings given to *The Division*), accompanied by one of the best live operations currently on the market (in terms of servers and the technology behind these services). In our view, this is a major point in making the group's FY18/19 targets credible. Moreover, note that the group is conquering new territories such as Russia, Brazil, and some Asian countries. For instance, if China, Taiwan and Hong Kong were combined, this would be Ubisoft's #8 geographical area in terms of players for the latest episodes of *Assassin's Creed* and *Rainbow Six*.
- **We particularly appreciate Ubisoft's strategy:** 1/ its in-house development, which generates significant operating leverage on its main IPs (its major AAA games are the most profitable: margin of 55%+ above the breakeven point); 2/ its digital development (organically and via small targeted acquisitions); and 3/ its entertainment vision, well above the video game segment: merchandising, films (*Assassin's Creed* in December 2016 and *Ghost Recon*, *Raving Rabbids*, *Watch Dogs* and *Splinter Cell* in the coming years), TV-series, books, the theme park... to broaden its gamer base.

## Consensus vs. BG ests. for the next two fiscal years

EURm	Sales	Y/Y growth	Non-IFRS op. income	Non-IFRS op. margin	Non-IFRS net income	IFRS net income	Non-IFRS EPS	IFRS EPS	Fully diluted shares
Cons. 2016/17e	1,706.4	22.4%	234.8	13.8%	166.5	145.8	1.45	1.27	114.9
BG ests. 2016/17e	1,706.3	22.4%	235.0	13.8%	164.9	148.9	1.43	1.29	115.2
Cons. 2017/18e	1,833.0	7.5%	296.9	16.2%	212.4	195.3	1.84	1.69	115.4
BG ests. 2017/18e	1,945.1	14.0%	335.0	17.2%	237.6	221.6	2.06	1.92	115.2

Sources: last consensus from the company (3rd June 2016); Bryan, Garnier & Co ests.

## VALUATION

- **We maintain our Buy rating and FV of EUR34.** We expect good newsflow in the coming months. Our valuation 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**

- **Q1 sales 2016/17:** in July 2016.

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