

Ubisoft

Price EUR33.01

"Same player shoot again"? (full report out today)

Fair Value EUR34 (+3%)

BUY

Bloomberg	UBI.FP
Reuters	UBIP.PA
12-month High / Low (EUR)	33.7 / 14.9
Market Cap (EURm)	3,671
Ev (BG Estimates) (EURm)	3,465
Avg. 6m daily volume (000)	322.3
3y EPS CAGR	37.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.4%	19.6%	23.8%	23.8%
Softw. & Comp.	-7.5%	-5.5%	-7.6%	-7.6%
DJ Stoxx 600	-5.1%	-2.3%	-9.8%	-9.8%

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	32.5x	25.5x	17.2x	12.6x
FCF yield (%)	NM	6.6%	5.9%	8.0%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	2.7x	2.0x	1.7x	1.3x
EV/EBITDA	6.2x	4.7x	3.6x	2.7x
EV/EBIT	23.8x	15.8x	10.2x	6.8x



The Ubisoft share price is not far from our EUR34 Fair Value, which simply values the group's fundamentals over the current fiscal year. In contrast, we advise investors to play positive momentum (no game delays on the cards) and speculation which both offer strong support for the share price (Vivendi at 20.1% of the capital). We are therefore maintaining our Buy Recommendation. All scenarios play in favour of a hike in the share price in coming months. We consider that Vivendi, which is the most motivated player since the acquisition of Gameloft, could ultimately make a bid on UBI in the EUR40-51 range (upside of 21-55%). *Research report out today.*

ANALYSIS

- **We are optimistic on fundamentals and momentum for the Ubisoft share price.** We expect a **healthy operating performance** (no game delays given positive pressure from Vivendi), especially since the console cycle is in an up-phase (2013/20 cycle with a peak in 2018 for the hardware and 2019 for the software), digital offers a driver for growth and margin improvement, and the group is continuing to diversify beyond games. **Finally, we believe in speculation and estimate Vivendi is the most determined to acquire UBI**, especially since its successful bid for its sister company Gameloft. **In the event of an offer (2017?), we consider a price in the EUR40-51 range is credible.**
- In sector terms, **the 2016 E3 seemed very calm to us** suggesting that the trade fair is losing some of its status in the sector. On the publishing side, **only Ubisoft stood out positively, delivering its best conference of the past 10 years** among all the players (line-up adding weight to its guidance), and boasting the largest and most attractive booth among the games publishers present.
- **In terms of console makers, Sony again won the battle this year.** The Microsoft conference was rich on the hardware side (announcement of the Xbox One S this year and its Project Scorpio at end-2017) but communication was clumsy (three consoles available within the same cycle...), while there was very little surprise at the games level and virtual reality was hardly mentioned. In contrast, Sony was efficient in providing concrete news for its current PS4, with both its virtual reality headset (as of 13th October) and games available (eagerly expected titles and varied portfolio). Its Neo console will not be presented until it is finished, which is a wiser move than the communication chosen by Microsoft.

VALUATION

- **We maintain our Buy rating and Fair value of EUR34 (based on fundamentals).** Our FV is based on the group's historical 12m-forward multiples from the past two console cycles, to which we have added a 15% premium (justified by two new factors: very profitable digital revenues and sales generated in entertainment beyond video games), that we have applied to 2016/17e (the reliability of fundamentals for a console video games publisher looks risky beyond one year).
- **We advise investors to play the momentum and the speculation surrounding the stock.** We estimate a **credible speculative valuation range at between EUR40 (minimum) and EUR51 (maximum) per share.** In our view, Vivendi (net cash position of EUR4.8bn at end-Q1) is the most motivated player since the acquisition of Gameloft (it would make no sense to own this latter alone). **In our view, a win/win scenario would be Vivendi making a formal takeover bid** (in 2017?) **with a premium to the current share price** (likely in the middle of our estimated range in order to avoid the interests from other players) **and the nomination of Ubisoft's CEO at the head of the new Vivendi Video Games division** (i.e. GFT + UBI). This would be a way of guaranteeing that star developers and creators stay in the group (no risk of acquiring an empty shell).

NEXT CATALYSTS

- **Q1 sales 2016/17:** in July.
- **Ubisoft's AGM:** 29th September.

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