

Ubisoft

Price EUR35.54

Good fundamentals; the stock is starting to reflect its speculative premium

Fair Value EUR34 (-4%)

BUY

Bloomberg	UBI.FP
Reuters	UBIP.PA
12-month High / Low (EUR)	35.5 / 15.8
Market Cap (EUR)	3,953
Ev (BG Estimates) (EUR)	3,746
Avg. 6m daily volume (000)	305.2
3y EPS CAGR	37.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	14.1%	30.3%	45.0%	33.3%
Softw. & Comp.	4.3%	-0.9%	1.8%	-3.0%
DJ Stoxx 600	3.5%	-3.4%	1.3%	-7.8%

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	35.0x	27.5x	18.5x	13.6x
FCF yield (%)	NM	6.1%	5.5%	7.5%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	2.9x	2.2x	1.8x	1.5x
EV/EBITDA	6.7x	5.1x	3.9x	3.0x
EV/EBIT	25.6x	17.1x	11.0x	7.5x



Ubisoft's fiscal Q1 sales came out 6% above our estimate and 11% above the guidance. With no major releases scheduled (same pattern as last year), H1 revenue is set to be weak in absolute terms but will be up Y/Y thanks to strong back-catalogue and digital revenue. Unsurprisingly, the FY16-17 guidance is unchanged (back-end-loaded year: fiscal H1 should represent ~15% of FY sales, like last year). The visibility remains high (the 5 AAA games are known and we expect no delays in games since Ubisoft needs to prove that it can remain independent). We maintain our Buy rating and FV of EUR34. Even if we consider that UBI share price is valuing the fundamentals over the current FV, we are not surprised it now starts to reflect its speculative premium. As a reminder, we estimate a valuation in the event of a takeover bid between EUR40 (the very minimum) and EUR51 (maximum).

ANALYSIS

- **Ubisoft's fiscal Q1 sales came in at EUR139m (+44.0% Y/Y, +46.6% at cc)**, i.e. above our estimate of EUR131m (+35.6% Y/Y) and the company guidance of ~EUR125m (+29%). There were no major releases in Q1 (only digital titles as last year) but the back-catalogue (91% of its quarterly revenue, +36.3% Y/Y) and digital revenue (75% of its revenue vs. 56% last year; 46% are coming from recurring player investment, +114% Y/Y) were particularly strong, notably thanks to *Far Cry Primal* and *The Division* (both released in fiscal Q4). **Ubisoft was by far the number one game publisher for calendar H1 16 in the retail console market** (both in North America and EMEA).
- **As expected, fiscal Q2 guidance is cautious i.e. ~EUR100m** (only *Champions of Anteria* on PC and digital titles). With no big games scheduled (same pattern as last year), H1 revenue should however be up +15% Y/Y thanks to the back-catalogue and the ramp up of digital revenue. **Unsurprisingly, the FY 16/17 guidance is unchanged (Q1 is not a significant quarter)**, namely EUR1,700m in sales, ~EUR230m in non-IFRS EBIT and strong FCF generation (back-end-loaded year: H1 should represent only ~15% of FY sales, as in FY15/16). *See our estimates on page 2.*
- **What we have seen recently from Ubisoft at E3 completely validates the group's full-year.** This scenario is backed by: **1/** the launch of five AAA games (vs four last year), **2/** further high growth in digital revenues (35% of sales) and **3/** robust growth in the back-catalogue (around 30% of sales, especially thanks to *The Division* and *Far Cry Primal*, and to a lesser extent *Assassin's Creed Syndicate* and *Rainbow Six Siege*). Moreover, the group is to launch its *Assassin's Creed* franchise in cinemas (on 21st December 2016), thereby further promoting the brand on a global level. **Finally, Ubisoft is set to reach its FY targets without launching an *Assassin's Creed* game which has to be seen as a genuine performance** (it has totally made up for its historical dependence to this franchise). As a reminder, we expect no delays in games since Ubisoft needs to prove that it can remain independent (in this respect, Vivendi is exerting a positive pressure).
- **Management is therefore well on its way to delivering its strategic plan (FY18-19):** sales of EUR2.2bn (CAGR of 16.4%), underlying EBIT margin before stock options of 20% (around 800bp vs. 2014/15) and FCF generation of EUR300m. **Ubisoft has two major assets to reach its medium-term guidance:** **1/** there is no reason why one of the group's games could not reach 15m units in its first year on the market in a relatively near future (*The Division* and/or *Watch Dogs 2* could be the first); **2/** the group is now capable of managing large online games, namely attracting a wide community of players with a high level of quality. This also enables it to conquer new territories such as Russia, Brazil and a few Asian countries (for example China, Taiwan and Hong Kong).

VALUATION

- **We maintain our Buy rating and Fair value of EUR34 (based on fundamentals).** We therefore consider that yesterday's share price is valuing the group's earnings results over the current FY.
- **As noted throughout our recent research report "[Same player shoot again?](#)"**, we are not surprised that the share price now starts to reflect its speculative premium, i.e. trading above our FV. As a reminder, we estimated in the same report a valuation between EUR40 (the very minimum, and EUR45 to avoid counterbids as far as possible) and EUR51 (maximum) in the event of a takeover bid. From an investment standpoint, we still consider UBI as a "safe haven stock".

NEXT CATALYSTS

- **AGM:** 29th September, 2016.

Our impressions on the 5 AAA games (to be released this FY16/17) shown recently by Ubisoft at E3

Games	Launch date	Target audience	Our impression at E3	Our comments
<i>Watch Dogs 2</i>	15/11/16	Core gamers	✓✓✓	Massive fan base (16m unique players LTD), 85% of players will buy the sequel. 2.5x bigger world and 50 co-op missions to drive retention. The game (for PS4, Xbox One and PC) has the potential to sell 15m units on its 1st FY. PS4 players will receive all DLC 30 days before everyone else.
<i>South Park : The Fractured But Hole</i>	06/12/16	Core/casual gamers	✓✓	A follow-up to <i>The Stick of Truth</i> , we don't see it as an AAA. Powerhouse brand with a lot of Facebook fans. It will be available for PC, PS4, and Xbox One.
<i>Steep</i>	Dec. 2016	Mostly core gamers	✓	New AAA IP revealed (for PS4, Xbox One and PC). This is an open-world action sports game. Few competition on that segment. First class live services (great potential for digital content sales), as <i>The Crew</i> last year. It originally started as a demo for <i>Wildlands</i> .
<i>For Honor</i>	14/02/17	Mostly core gamers	✓✓	New IP and fresh concept, low competition. The solo campaign is convincing and completes last year's multiplayer mode. It will be available for PS4, Xbox One and PC.
<i>Ghost Recon: Wildlands</i>	07/03/17	Core gamers	✓✓✓	First open-world military shooter. Fully coop enabled. UBI's largest action adventure open world game, for PS4, Xbox One and PC.

Source: Bryan, Garnier & Co (✓ Weak; ✓✓ Good; ✓✓✓ Excellent).

Main financial items from FY 2014/15 to 2018/19

EURm	14/15 reported	15/16 reported	Cons. 16/17e	BG 16/17e	Cons. 17/18e	BG 17/18e	BG 18/19e
Sales	1,463.8	1,394.0	1,706.4	1,706.3	1,833	1,945.1	2,200.0
<i>Y/Y change (%)</i>	45.3%	-4.8%	22.4%	22.4%	7.4%	14.0%	13.1%
Non-IFRS EBIT	170.7	169.0	234.8	235.0	296.9	335.0	445.0
<i>As % of sales</i>	11.7%	12.1%	13.8%	13.8%	16.2%	17.2%	20.2%
IFRS EBIT after SO	139.4	136.8		219.0		319.0	429.0
<i>As % of sales</i>	9.5%	9.8%		12.8%		16.4%	19.5%
Net profit after SO	87.0	93.4	145.8	148.9	195.3	221.6	301.5
<i>As % of sales</i>	5.9%	6.7%	8.5%	8.7%	10.7%	11.4%	13.7%
Adj. net profit after SO	103.1	116.0		148.9		221.6	301.5
<i>As % of sales</i>	7.0%	8.3%		8.7%		11.4%	13.7%
FCF	176.3	-191.5		250.4		226.1	305.3
Net debt	-197.7	44.2		-206.2		-432.3	-737.6
<i>Gearing</i>	-20.2%	4.3%		-17.7%		-31.1%	-43.6%

Sources: company consensus (03/06/16); Bryan, Garnier & Co ests.

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