

Ubisoft

Price EUR36.11

US video game sales in June

Fair Value EUR34 (-6%)

BUY

Bloomberg	UBI.FP
Reuters	UBIP.PA
12-month High / Low (EUR)	38.3 / 15.8
Market Cap (EUR)	4,016
Ev (BG Estimates) (EUR)	3,810
Avg. 6m daily volume (000)	306.3
3y EPS CAGR	35.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.1%	33.1%	53.9%	35.4%
Softw. & Comp.	4.2%	4.1%	7.2%	1.1%
DJ Stoxx 600	0.2%	-2.6%	3.7%	-6.9%

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	722	894	1,080
EBIT	156.1	210.0	310.0	420.0
% change		34.5%	47.6%	35.5%
Net income	116.0	139.9	212.6	292.5
% change		20.6%	52.0%	37.6%

	03/16	03/17e	03/18e	03/19e
Operating margin	11.2	12.3	15.9	19.1
Net margin	6.7	8.2	10.9	13.3
ROE	9.2	12.1	15.5	17.6
ROCE	11.0	14.9	22.7	31.5
Gearing	4.3	-17.8	-31.5	-44.3

(EUR)	03/16	03/17e	03/18e	03/19e
EPS	1.02	1.21	1.85	2.54
% change	-	19.5%	52.0%	37.6%
P/E	35.5x	29.7x	19.6x	14.2x
FCF yield (%)	NM	6.0%	5.4%	7.3%
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	6.8x	5.3x	4.0x	3.0x
EV/EBIT	26.0x	18.1x	11.6x	7.8x



The NPD Group has released data for June video games sales in the US. This is the first month both physical and digital sales are factored into the sales list. Hardware sales were down 42% Y/Y (the PS4 was again the top-selling console), due to declines in handheld and last generation consoles. Software sales were down 20% (vs. BG est.: -27%) mainly impacted by a difficult comparison base. *Overwatch* was the #1 game over the month. Ubisoft had no major releases in calendar Q2, so it did not place any game in the Top 10 of June (2016 will be another very back-end loaded year). We maintain our Buy rating and FV of EUR34 on UBI (based on its fundamentals). We advise investors to play the speculation as we value the stock between EUR40 (the very minimum, and EUR45 to avoid counterbids as far as possible) and EUR51 (maximum) in the event of a takeover bid.

ANALYSIS

- On Thursday night, the NPD Group released its monthly sales report for June video games in the US** (five-week period ending 2nd July). For a long time, NPD has only included software sales from games bought at physical stores but it has changed. **Digital sales are now finally included** (several years of beta testing) but not every publisher volunteered digital sales data, and the figures still likely lack a huge amount of sales from sources like DLC, mobile and subscription and used game trade. This new tracking service gives a more accurate view of the video game sales. The NPD Group said it is reaching out to more digital content providers to continue to build out the service. **Revenue in the sector was down 26% over one year at USD652.2m: 1) Hardware** -42% Y/Y at USD181.5m (declines in average prices by 15%, coupled with a 32% decline in units). **The PS4 was again the best-selling platform** for the eighth month in a row, despite the Xbox One price cuts (from USD349 to USD299 as of 31st May, and to USD279 from 14th June to 1st October). This should change in two months as Microsoft launches the Xbox One S. **2) Console software** -20% Y/Y at USD322m (-6% YTD), i.e. better than our estimate of -27% (no consensus) and **physical and Steam PC software** -20% Y/Y at USD27.8m. **Overwatch** (Activision Blizzard) was the best-selling game. **And 3) Accessories** -6% Y/Y at USD120.
- Worth noting on the software side: 1)** an unfavourable base effect (+21% in June 2015) with the release of Warner Bros' *Batman: Arkham Knight* last year; **2)** a lack of big new releases in June, in comparison to the same period last year; **3)** sharp declines in software sales for 7th-gen consoles and handheld software sales; **4)** the growing transition towards digital (games downloads, DLC, mobile and subscription).
- We are forecasting a 2013/20e console cycle, i.e. two years more than the traditional duration** (one year prompted by the entertainment functions included in the consoles and another year owing to the bumped-up console versions from Microsoft and Sony and the launch of the Nintendo NX in 2017). The previous cycle lasted eight years with no real updating in hardware, which is unlikely to be repeated this time. **We expect a cycle peak forecast for hardware in 2018 (and thus in 2019 for the software)**. So, this would be the last year before an annual slowdown in hardware sales, even if the rising share of digital sales and virtual reality should help publishers cushion a large share of the down-phase before new platforms are launched.
- We take the opportunity of this paper to make an adjustment on our forecasts for Ubisoft.** We raise our stock-based compensation estimates from EUR16m to EUR25m as of FY16/17e to reflect the impact of the coming stock compensation plans and the recent increase in the share price. **As a result, we cut our EPS sequence for the next three years by 4.4% on average** (-6% in FY16/17e, -4.1% in FY17/18e, -3% in FY18/19e), i.e. less than the share price variation yesterday (-5.7%).

VALUATION

- We maintain our Buy rating and FV of EUR34 for UBI (based on its fundamentals).** The share price fully value the group's earnings results over the current fiscal year (at end-March 2017).
- 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

- Ubisoft's AGM: 29th September.**

Top 10 selling games in June 2016 by platform in the US

Rank	Games	Publisher
1	<i>Overwatch*</i>	Activision Blizzard
2	<i>GTA V</i>	Take-Two Interactive
3	<i>LEGO Star Wars: The Force Awakens</i>	Electronic Arts
4	<i>DOOM**</i>	Bethesda Softworks
5	<i>Mirror's Edge: Catalyst</i>	Electronic Arts
6	<i>Uncharted 4: A Thief's End**</i>	Sony
7	<i>NBA 2K16</i>	Take-Two Interactive
8	<i>Call of Duty: Black Ops 3</i>	Activision Blizzard
9	<i>Destiny: The Taken King</i>	Activision Blizzard
10	<i>Minecraft**</i>	Microsoft

* No Battle.net PC sales included ** No digital sales included in ranking

Sources: NPD Group; Bryan, Garnier & Co.

- *Overwatch* was the top-selling game in June, even without incorporating its sales from Battle.net.
- Activision Blizzard was the publisher of the month, with 3 games in the TOP10.
- *Doom*, *Uncharted 4* and *Minecraft* didn't include digital sales, but still charted anyway.

Y/Y % change in retail software sales in the US from 2000 to 2016 (in value)

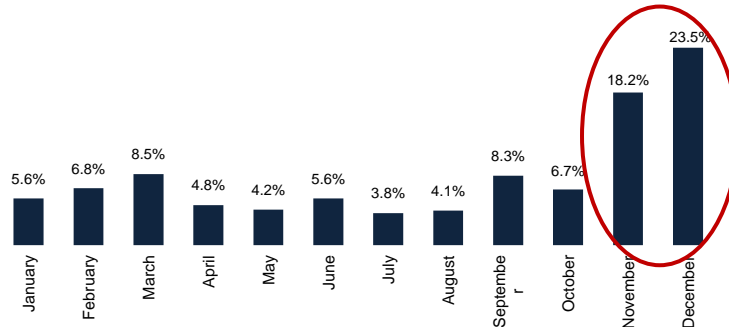
%	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
January	2	16	4	0	18	0	-5	53	12	10	-12	-5	-38	1	-25	6	-10
February	5	-11	45	-5	5	13	-12	32	48	9	-15	-5	-23	-36	-9	7	-10
March	20	-15	33	8	-6	31	-8	16	64	-17	10	-16	-25	-1	-27	-3	8
April	27	-13	11	39	-3	9	16	-1	69	-22	-22	26	-42	-17	-10	13	-21
May	4	10	31	20	-17	30	-10	33	42	-17	4	-19	-32	-31	57	-25	18
June	4	23	27	-9	12	2	15	22	61	-29	-15	-12	-29	-10	-3	21	-20*
July	-1	26	11	4	27	-10	19	11	41	-26	-8	-17	-23	-19	-15	0	
August	-12	18	43	4	1	0	18	23	13	-15	-14	-34	-9	23	-21	-10	
September	-26	-8	50	-10	44	-24	29	47	-6	5	-6	3	-18	52	-36	-3	
October	13	-20	74	-15	35	-24	1	40	36	-18	6	3	-25	12	-27	-3	
November	1	28	7	7	11	-17	14	63	11	-3	3	11	-11	-24	-1	-7	
December	-9	24	7	13	-1	-3	6	37	15	-7	-8	-14	-26	-17	-2	-3	
Total	-1	10	21	5	8	-3	7	34	27	-10	-6	-6	-23	-9	-12	-2	

* including some digital sales

Sources: NPD Group; Bryan, Garnier & Co.

- Software sales were down 20% in June (vs. BG est.: -27%).
- Physical sales account for 50%e of the US consumer spend on the industry (35-40%e in Europe).
- The Xbox One and PS4 are trending 40% higher than cumulative sales of the Xbox 360 and PS3, after the same 32-month period.

Average US retail software contribution in FY sales per month, over 2009/15



Sources: NPD Group; Bryan, Garnier & Co. [Click here to download](#)



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