

## Ubisoft

Price EUR37.10

Sony has unveiled a PS4 Pro (10th November) and a PS4 Slim (15th September)

Fair Value EUR34 (-8%)

BUY

Bloomberg	UBI.FP
Reuters	UBIP.PA
12-month High / Low (EUR)	38.3 / 16.1
Market Cap (EURm)	4,170
Ev (BG Estimates) (EURm)	3,963
Avg. 6m daily volume (000)	245.2
3y EPS CAGR	35.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.7%	11.4%	40.9%	39.1%
Softw. & Comp.	4.1%	8.6%	14.0%	7.8%
DJ Stoxx 600	2.7%	1.2%	2.8%	-4.2%

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	36.5x	30.6x	20.1x	14.6x
FCF yield (%)	NM	5.9%	5.3%	7.1%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	3.0x	2.3x	1.9x	1.6x
EV/EBITDA	7.0x	5.5x	4.2x	3.2x
EV/EBIT	27.0x	18.9x	12.1x	8.2x

During Sony's PlayStation Meeting 2016, the group unveiled the price point and release date for its forthcoming PS4 Pro (formerly called "Neo") and PS4 Slim consoles. We make the same observation as during E3 in June, namely Sony again won the battle this year as the PS4 Pro will be launched far ahead of Microsoft's Project Scorpio (expected in fall 2017). Ubisoft will have four games for the PS4 Pro (but none of them on day one). We maintain our Buy rating and FV of EUR34 on UBI (based on its fundamentals). We advise investors to play 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

- **Sony has officially unveiled the next version of its PS4** (upgrade of the three-year-old PS4). The console codenamed Neo, which Sony discussed in brief just ahead of E3 in June, is now officially named **"PS4 Pro"**. It launches on **10th November, and will cost USD399**, i.e. launched far ahead of Microsoft's Project Scorpio (expected in fall 2017) and at a very affordable price. Since E3, rumours suggested a possible presentation and launch at the end of the year. The box is intended to be sold alongside the base PS4 instead of replacing it, and new games will still be playable on the older hardware. The hardware can output 4K and HDR video, which is powered by an upgraded GPU. Sony also boosted the clock rate for the new PS4 Pro. It will come with a 1TB hard drive. According to the chief architect for the PS4, the vision is "to take the PS4 experience to extraordinary new levels". Titles like *Call of Duty: Infinite Warfare* and *Modern Warfare: Remastered* will be able to support PS4 Pro's extra capabilities on day one. *Battlefield 1* and *FIFA 16* will be supported later this year, and *Mass Effect: Andromeda* gaining support next year. Ubisoft will release *Watch Dogs 2*, *For Honor*, *Ghost Recon Wildlands* and *Steep* for this hardware (but no games on day one, the first one to be playable will be *Watch Dogs 2* on 15th November).
- **Sony also announced that a PS4 Slim** (a more compact version of the PS4) **will arrive on 15th September in most regions and will cost USD299**. The new model of PS4 leaked weeks ago. Note that the new PS4 Slim will still get HDR compatibility, thanks to an upcoming update.
- **As a reminder, we forecast a 2013/20e console cycle**, namely 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. As such, **we view a cycle peak for hardware in 2018 (and thus in 2019 for the software)**. This is the last year before an annual slowdown in hardware sales, even if the rising share of digital sales at players and virtual reality should help them cushion a large share of the down-phase before new platforms are launched.

## VALUATION

- **We maintain our Buy rating and FV of EUR34 for UBI (based on its fundamentals)**. The share price fully values 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 if Vivendi wants to avoid counterbids as far as possible) and EUR51 (maximum) in the event of a takeover bid**. We still consider UBI as a "safe haven stock".

## NEXT CATALYSTS

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

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BUY ratings 72%

NEUTRAL ratings 0%

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