

Ubisoft

Price EUR33.60

Acquisition of Ketchapp in mobile gaming

Fair Value EUR35 vs. EUR34 (+4%)

BUY

Bloomberg	UBI.FP
Reuters	UBIP.PA
12-month High / Low (EUR)	38.3 / 18.0
Market Cap (EUR)	3,776
Ev (BG Estimates) (EUR)	3,690
Avg. 6m daily volume (000)	250.5
3y EPS CAGR	37.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.5%	8.8%	23.5%	26.0%
Softw. & Comp.	2.9%	22.8%	11.7%	8.0%
DJ Stoxx 600	-1.0%	10.2%	1.5%	-7.0%

YEnd Mar. (EURm)	03/16	03/17e	03/18e	03/19e
Sales	1,394	1,719	1,970	2,228
% change		23.3%	14.6%	13.1%
EBITDA	600	731	911	1,100
EBIT	156.1	215.0	320.0	431.3
% change		37.7%	48.8%	34.8%
Net income	116.0	143.5	219.8	300.7
% change		23.7%	53.2%	36.8%

	03/16	03/17e	03/18e	03/19e
Operating margin	11.2	12.5	16.2	19.4
Net margin	6.7	8.3	11.2	13.5
ROE	9.2	12.3	15.9	17.9
ROCE	11.0	13.6	20.8	28.6
Gearing	4.3	-7.5	-23.1	-37.6

(EUR)	03/16	03/17e	03/18e	03/19e
EPS	1.02	1.25	1.91	2.61
% change	-	22.6%	53.2%	36.8%
P/E	33.1x	27.0x	17.6x	12.9x
FCF yield (%)	NM	4.7%	6.0%	8.1%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	2.7x	2.1x	1.8x	1.4x
EV/EBITDA	6.4x	5.0x	3.8x	2.9x
EV/EBIT	24.5x	17.2x	10.8x	7.3x

Ubisoft yesterday announced the acquisition of the very profitable mobile game publisher and developer Ketchapp. This acquisition is accretive by +3% on average over the next two years. We estimate the price at less than 7x Ketchapp's EBIT. This acquisition gives Ubisoft the fourth leading mobile game publisher in terms of downloads, and reinforces its advertising capabilities in mobile gaming. We maintain our Buy recommendation and raise our FV from EUR34 to EUR35 (only based on fundamentals). We advise investors to play positive momentum on the stock.

ANALYSIS

- Yesterday after trading, Ubisoft announced the acquisition of Paris-based mobile game publisher and developer Ketchapp. According to AppAnnie, this latter is the fourth-largest mobile game publisher in terms of downloads (c.700m downloads for iOS and Android, with an average of more than 23m per month), after Activision Blizzard (via King Digital), EA (via EA Mobile) and Vivendi (via Gameloft). The company was created in January 2014 by Antoine and Michel Morcos, but it has released many successful titles such as *2048*, *ZigZag*, *Stack*, *Stick Hero*, *Twist*, and *Jelly Jump*. Ketchapp focuses on snack gaming (2-3 minutes play time) with a free-to-play model (the vast majority of revenue stems from advertising, and to a lesser extent from micro-transactions).
- On a 12-month basis, we see Ketchapp generating revenue of EUR25m with an operating margin of over 40%. The multiple paid by Ubisoft should be less than what Activision Blizzard paid for King Digital, namely less than 7-8x EBIT (<EUR70m). As Ubisoft has never made big acquisitions, this is the largest in its history. Note that the transaction is subject to customary closing conditions and is expected to be consolidated in fiscal Q3 2016-17 (an impact of about 6-months on the current FY).
- After integrating this deal, we now see EUR1,718.8m in sales (vs. our EUR1,706.3m before; guidance of EUR1,700m) and EUR240m in non-IFRS EBIT (vs. our EUR235m before; guidance of c.EUR230m) and strong FCF generation (BG est. EUR183m). This acquisition is accretive to our EPS sequence, by +3% on average over the next two years (+2.6% in FY2016-17 and +3.4% in FY2017-18).
- Note that in our paper on the issue of convertible bonds (maturity 2021 for c. EUR400m), we pointed out that the issue could be used for possible M&A moves (mentioning that the group was probably looking for unlisted mobile game companies), stock repurchases and refinancing of existing debts. However, we maintain that Ubisoft did not need this financing in the short term (it was an opportunistic operation).

VALUATION

- The acquisition of Ketchapp is accretive to our EPS sequence, by +3% on average over the next two years (+2.6% in FY2016-17 and +3.4% in FY2017-18). We maintain our Buy recommendation and raise our FV from EUR34 to EUR35 (only based on fundamentals). In the event of a takeover bid, we estimate a valuation between EUR41 (the very minimum, and EUR46 if Vivendi wants to avoid counterbids as far as possible) and EUR51 (maximum).

NEXT CATALYSTS

- Ubisoft's AGM: tomorrow.

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