

## Ubisoft

Price EUR33.95

Fundamentals are almost valued but speculation remains fully intact

Fair Value EUR35 (+3%)

BUY

Bloomberg	UBI.FP
Reuters	UBIP.PA
12-month High / Low (EUR)	38.3 / 18.1
Market Cap (EUR)	3,816
Ev (BG Estimates) (EUR)	3,729
Avg. 6m daily volume (000)	251.3
3y EPS CAGR	37.0%

At yesterday's AGM, Ubisoft's CEO Yves Guillemot was renewed as an administrator on the Board of Directors. Vivendi adopted a low-profile attitude and submitted no resolution. However, it sent a press release after the event demonstrating its motivation for the video games sector and Ubisoft. As a result, we consider that UBI's fundamentals are almost valued but that speculation remains fully intact. We advise investors to play this momentum.

## ANALYSIS

- Yesterday at the AGM (quorum of 76.54%), **Ubisoft's CEO Yves Guillemot was renewed as an administrator on the Board of Directors** (65.17% agree, 8.92% disagree and 25.91% abstention). UBI's Board gathered after the event and **unanimously reappointed Yves Guillemot as Chairman and CEO**. The Board now comprises 10 members, incl. five independent directors and four women. **No resolution was submitted by Vivendi** (it did not even propose a recomposition of UBI's Board, despite previous notifications to the AMF). The latter adopted a **low-profile attitude at the AGM**. We consider this is a good strategy for a potential future collaboration with Ubisoft.
- Note that Vivendi sent a press release just after the AGM saying that:** **1)** it is the leading UBI shareholder, it has a long-term share ownership and will benefit from double voting rights as of 2017; **2)** although it did not ask for a seat yesterday, it considers that it would be good to obtain a coherent representation of its shareholding; **3)** it abstained from the vote on the resolutions. As a result, resolutions 22, 23, 24 and 25 presented by the Board failed to pass whereas they are important notably for its talents (related to the allocation of free shares, share subscription and share purchase plans to employees, executive officers, executive directors, and related to the delegation of power granted to the Board for purposes of increasing the share capital to remunerate contributions in kind); **4)** having taken full control of Gameloft, it will pursue its strategy in video games. **In our view, this demonstrates Vivendi's strong appetite for the video games sector and obviously for Ubisoft. As a result, speculation surrounding UBI stock remains intact** (we consider Vivendi as the most motivated player since the acquisition of Gameloft).
- As Vivendi has currently no entry into UBI's board** (i.e. no risk of a creeping control), **it will have to make a formal and correct takeover bid if it really wants to take the control of the company** (BG est.: between EUR45 and EUR51 per share, in the event of a takeover bid). We still don't see it before April 2017 at the earliest as a lot of AAA games will be launched between October 2016 and March 2017. **The best speculative scenario would be that Vivendi offers a huge premium to shareholders and names Yves Guillemot as head of Vivendi's gaming division** (i.e. UBI + GFT). **Otherwise, it will be very risky** (we see the risk of buying an empty shell). We believe that Vivendi is well aware of what's at stake, especially in a sector where the corporate culture is very strong.
- As a reminder, the Guillemot family holds 13.22% of UBI's share capital** (it has the support of Fidelity ~10%, Blackrock ~5%, and Bpifrance 3.2% of the capital) **and 19.16% of the voting rights**. **This compares to Vivendi 22.8% and 20.2% respectively**.

## VALUATION

- We maintain our Buy rating and FV of EUR35 (based on its fundamentals)**. The share price almost fully values the group's earnings results over the current fiscal year (at end-March 2017). We would not be surprised if the share price starts to reflect its speculative premium, i.e. trading above our FV. **We estimate a valuation between EUR41** (the very minimum, and EUR45 if Vivendi wants to avoid counterbids as far as possible: in 2017?) **and EUR51** (maximum) **in the event of a takeover bid**. **We still consider UBI to be a "safe haven stock"**.

## NEXT CATALYSTS

- H1 earnings results:** on 3rd November (after trading).

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	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.4%	3.5%	24.7%	27.3%
Softw. & Comp.	3.2%	17.3%	11.3%	8.1%
DJ Stoxx 600	-0.1%	5.0%	1.8%	-6.3%

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	33.4x	27.3x	17.8x	13.0x
FCF yield (%)	NM	4.7%	6.0%	8.0%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	2.8x	2.2x	1.8x	1.4x
EV/EBITDA	6.4x	5.1x	3.8x	2.9x
EV/EBIT	24.7x	17.3x	10.9x	7.4x



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## Distribution of stock ratings

BUY ratings 55.8%

NEUTRAL ratings 32.5%

SELL ratings 11.7%

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