

June 2021. Investment ideas. Stocks.

Activision Blizzard Inc. (ATVI US) is one of the most successful players in gaming and entertainment industry. Its core business is development and distribution of content and services for video game consoles, personal computers and mobile devices. The Company is the largest producer of video games, including best-selling video game franchises: World of Warcraft, Overwatch, Candy Crush, and Call of Duty. Purchase to the "Optimum" portfolio at \$93.15. Portfolio share 3%.

Company	ACTIVISION BLIZZARD
Ticker	ATVI US
Sector	Gaming
Capitalization, \$ million	74,127
EV, \$ million	68,452
Dividend yield	0.5%
Entry level, \$	93.15
Current price, \$	95.40
Result	2.4%

Source: Bloomberg

Source: Bloomberg

Key investment attractiveness factors.

- 1) **Financial indicators are still growing after the most severe phase of COVID-19 pandemic.** ATVI's Q1 2021 results showed year-on-year revenue growth at 27.2% YoY to \$2.28 billion. Quarterly EBITDA grew by 24.55% to \$964 million, while EBITDA margin decreased from 43.3% to 42.4% due to growing operating expenses. Net profit gained about 22.5% YoY, reaching \$643 million. The Company's free cash flow growth was impressive though: +537% to \$822 million.

- 2) **High probability of higher dividend payouts and buybacks.** As at the end of Q1 2021, cash carried on ATVI's balance sheet amounted to about \$9.3 billion, with gross financial debt being at \$3.6 billion. Therefore, the Company's net financial position was about \$5.7 billion. In addition, Activision plans to generate over \$3 billion of free cash flow within the nearest several years. We assume this can trigger dividend increase, and, possibly, the launch of buyback programs.
- 3) **Forecast: continuing growth of operating business.** The Company expects to reach over 1 billion monthly active users (MAU) in the future. As at the end of Q1 2021, it had 435 million MAU. Note growth of MAU in Call of Duty franchise (+40% YoY). Furthermore, total orders for console and PC versions grew by 60%. Call of Duty Mobile also saw a great flock of users.

Risks. A year earlier, Activision Blizzard showed record-setting results in distribution of its franchises. However, there is a probability of organic growth slowing down, which is quite natural after achievement of peak values. COVID-19 pandemic is receding, and economic activity is rising, which may cause users' gaming activity to decline.

Also note that Activision Blizzard, according to our estimates, doesn't look undervalued according to forward market multipliers. Based on core ratios, ATVI is traded close to industry average indicators.

Financial highlights, \$ million	2019	2020	2021P*	Change, %
Revenue	6,489	8,086	8,707	8%
Gross profit	4,400	5,826	6,385	10%
EBITDA	2,372	3,349	3,954	18%
Net profit	1,614	2,286	2,976	30%
EPS	2.10	2.96	3.76	27%
<i>Gross margin</i>	<i>68%</i>	<i>72%</i>	<i>73%</i>	<i>1%</i>
<i>EBITDA margin</i>	<i>37%</i>	<i>41%</i>	<i>45%</i>	<i>4%</i>
<i>Net margin</i>	<i>25%</i>	<i>28%</i>	<i>34%</i>	<i>6%</i>

*P = Projection

Source: Bloomberg

Debt burden, \$ million	2019	2020	2021P*	Change, %
Gross debt	2,948	3,895	3,606	-7%
Cash	5,794	8,647	9,281	7%
Net debt	-2,846	-4,752	-5,675	19%
Net debt/EBITDA	-1.2	-1.4	-1.4	1%

*P = Projection

Source: Bloomberg

Benchmarking against similar companies, 2021P*	Country	P/S	EV/EBITDA	P/E	P/FCF
NETEASE	China	5.4	21.3	26.2	23.7
ELECTRONIC ARTS	USA	6.7	16.9	24.9	23.8
TAKE-TWO	USA	6.1	20.3	28.7	27.1
ZYNGA	USA	4.0	17.5	25.9	38.9
PLAYTIKA	Israel	3.8	11.5	25.5	18.5
NINTENDO	Japan	5.0	11.6	19.5	19.3
NEXON	Japan	7.1	12.8	21.0	18.8
Weighted average		5.4	16.0	24.5	24.3
ACTIVISION BLIZZARD	Canada	8.5	17.3	24.9	28.8
<i>Discount/(premium)</i>		<i>-36%</i>	<i>-8%</i>	<i>-2%</i>	<i>-16%</i>

*P = Projection

Source: Bloomberg

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