



## HOLDING: ACTIVISION BLIZZARD, INC (ATVI)

### What the bulls say:

- Empirically 19 out of 20 biggest game makers have all seen their revenue increasing remarkably year to date. The video games industry has been growing fast with no end of momentum in sight. This will enable participants in this industry to expand their customer base and margins without any major price wars. Activision Blizzard is one of the dominant competitors and has established strong foothold with various well-known brands such as Call of Duty or World of Craft, etc. These strong brand names will provide crucial support for the firm's new products in future, allowing it to gain more market shares in an intensely competitive industry.
- The management's business strategy to transform it from a pure video game developer to a media company is promising with a highly positive outlook and exponential growth forecast of the lucrative E-sport sector. Revenue from E-sport activities has been increasing 41.3% Y-o-Y in 2017 and is forecast to grow at 35.6% CAGR until at least 2020, according to latest report by Newzoo, a video game market research firm. The company's plan to create professional leagues for its famous games, if successful, will become a cash cow in mid and long-term.
- The company management has been capable of maintaining a healthy return margins and strong cash flow despite its needs of constant product innovations and active involvements in M&A deals to diversify its product lines and expand its customer base. This will allow them to focus more on mid-term and long-term plans.

### What the bears say:

- As of 11/15/2017, ATVI stock price has been rallying nearly 67% Y-o-Y, which may put it in the Overvalued territory. While its forward Price/Forward Earnings and Price/Book are still below the industry average, the Price/Cash Flow and Price/Sales are significantly higher.
- The company's current reliance on a handful products to generate over 70% of its total annual revenue is a potential risk that should not be ignored. If new updates of these products fail to impress existing customers, they can decide to switch substitutes provided by the company's competitors.

### Risks:

- Customer loyalty is not a significant intangible asset in the video game industry. Customers always expect constantly improving products every year. This excessive demand for puts game makers under heavy pressure to add new graphic features and playing experience enhancements to stay profitable in this intensely competitive industry.



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- ATVI impressive stock rally thanks to its capability to maintain healthy revenue stream and also investors' high hopes for its E-sport strategy may take a serious downturn if actual outcomes disappoint these investors.

### 4 reasons to buy/sell:

1. For relative valuation, ATVI's margin safety, currently 11.55%, is much higher than that of its competitors. Given its strong foothold in the video game industry, the forecast for long-term growth is 20%, also higher than most of its competitors. This glowing prospect will provide solid ground for investors' confidence & sentiment that in turn increase the shareholders' value of Activision.
2. Activision Blizzard had another better than expected quarter in 3Q17, beating the estimate consensus by 8 cents per share. Its historically consistent above-anticipation performance reflects the management's ability to deliver positive operating results and also the prospect of the game video industry. The management also raised the guidance for full 2017, indicating their confidence in boosting sales in the fourth quarter.
3. The E-sport potential in which ATVI has been a market leader are growing exponentially with various sources of immense income including corporate sponsorships, media coverage and still considered in early stages. The market for E-sport is widely forecast to grow at 20.1% CAGR until 2020 with enormous demand from all geographic regions, especially developing countries in East Asia. ATVI's strong and expanding customer base, around 380 million monthly average users, will provide critical support for its ambition of building its own media empire.
4. In short-term, the release of the new Call of Duty, one of the biggest game hit in history, in 4Q17 was expected to drive up sales of Activision Blizzard and already recorded a sales of \$500 million in the first 3 days. With the US shopping holiday ahead in December, the sales is likely to pick up as several discounts will be offered on those days. This strong revenue driver will help ease concerns that the stock price is within the Overvalue range.

### Recommendation:

**We recommend a BUY rating on ATVI.**

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