EDISON

GVC Holdings

Interim results

World Cup special

Travel & leisure

GVC has consistently exceeded expectations since its acquisition of Sportingbet 18 months ago, initially with the speed of the turnaround and now with an excellent set of interims, special dividend and strong Q3 trading update. We have increased our 2014e normalised PBT by €1.5m to €44.5m. Despite a strong share price performance, the rating remains well below the peer group and the 2014e yield of 8.7% is a key attraction.

Year end	Revenue (€m)	EBITDA* (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/12	60.3	15.5	12.9	38.8	22.0	15.6	3.6
12/13	170.0	38.3	34.5	60.4	48.5	10.0	8.0
12/14e	214.0	48.5	44.5	64.9	52.5	9.3	8.7
12/15e	220.0	49.0	45.0	64.9	50.0	9.3	8.2
12/16e	230.0	52.0	48.5	69.3	52.5	8.7	8.7

Note: *PBT and fully diluted EPS are normalised, excluding exceptional items, unwinding of discount on deferred consideration and share-based payments.

Strong H114 results and current trading

H114 clean EBITDA increased by 26% to €22.4m, on revenue up 44% to €105m. This was flagged in the July trading update, but the interim results announcement was also accompanied by a strong set of Q3 KPIs (daily revenue 20% up on Q313) and a 2.5c special dividend (taking the quarterly dividend to 15c). The FIFA World Cup delivered around €2m of EBITDA and a significant increase in customer numbers; importantly it appears that GVC is successfully retaining a good proportion of those new customers. We have increased our 2014e full year EBITDA by €1.5m to €48.5m and 2014e dividend payable by 2.5c to 52.5c.

Expanding and diversifying

GVC is continuing to invest in its products (notably mobile and in-play, but also in improving its gaming offering) and plans new market launches for 2015 in Latin America and Asia. These investments, plus the new UK gaming tax and absence of the World Cup, mean that we expect only modest EBITDA growth in 2015 and our estimates are unchanged. However, we introduce new estimates for 2016, where our forecast 6% EBITDA growth (to €52.0m) could prove cautious given the strong sporting calendar and expected contribution from new markets.

Valuation: Should reflect growing track record

GVC's rating reflects in part its regulatory profile, but peers such as Betsson and bwin.party also have sizeable exposure to unregulated markets. GVC's track record, particularly of cash generation and dividend payments, suggests further material scope for the rating to improve. The shares currently yield 8.7% versus a peer group average of 3.5%, and the 2014e P/E of 9.3x is 35% below the average of 14.3x.

23 September 2014

Price	**477.5p**
Market cap	**£293m**
	€1.27/$1.635/TRY2.88/BRL3.06/£
Net debt at 30 June 2014 (€m)	3.2
Shares in issue	61.3m
Free float	73%
Code	GVC
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	9.8	6.0	49.2
Rel (local)	10.0	6.7	44.9
52-week high/low		477.50p	312.50p

Business description

GVC Holdings is a multinational online sportsbetting and gaming group. Its core brands are Sportingbet, Betboo and CasinoClub. It acquired Sportingbet plc (excluding Australia and Spain) for £72m (€83m) on 19 March 2013.

Next events

Trading update	w/c 8 December 2014
Pre-close update	w/c 12 January 2015

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Edison profile page

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Strong H114 growth continues into Q3

H114 clean EBITDA increased by 26% to €22.4m on revenue up 44% to €105.1m. The revenue growth was flattered by a full six months of Sportingbet and the B2B business (versus 4.5 months in H113), but we have been impressed by the sequential improvement in revenues since Q313 (Exhibit 1). Sports net gaming revenue (NGR) increased by 19% to €52.0m, boosted by the FIFA World Cup, and gaming NGR (including CasinoClub) increased by 28% to €53.0m, helped by a better product range and more focused marketing. Despite increased investment in marketing (including a €4.5m increase in Latin America) the EBITDA margin increased slightly to 21.3% (H113: 20.9%). Normalised PBT increased by 28% to €20.56m, while reported PBT was €19.61m (H113: €1.86m).

Exhibit 1: Half-yearly results and estimates

€m	H113*	H213	2013	H114	H214e	2014e	2015e	2016e
Sports wagers	501	669	1,170	694	756	1,450	1,500	1,620
Sports net margin	10.3%	9.0%	9.6%	9.9%	9.5%	9.7%	9.5%	9.5%
Sports gross win	51.7	60.5	112.1	68.7	72.0	140.7	142.5	153.9
Sports NGR	43.9	47.0	90.8	52.0	56.0	108.0	112.0	121.0
Gaming NGR	26.2	35.3	61.5	37.8	38.2	76.0	78.0	80.0
CasinoClub NGR	15.3	14.5	29.8	15.2	14.8	30.0	30.0	29.0
Total net gaming revenue (NGR)	**85.3**	**96.8**	**182.1**	**105.1**	**108.9**	**214.0**	**220.0**	**230.0**
Less B2B partner share	(12.2)	0.0	(12.2)	0.0	0.0	0.0	0.0	0.0
Reported revenue (NGR)	**73.2**	**96.8**	**170.0**	**105.1**	**108.9**	**214.0**	**220.0**	**230.0**
EBITDA	**17.8**	**20.5**	**38.3**	**22.4**	**26.1**	**48.5**	**49.0**	**52.0**
EBITDA margin	20.9%	21.2%	21.0%	21.3%	24.0%	22.7%	22.3%	22.6%

Source: GVC Holdings, Edison Investment Research. Note: *Results include Sportingbet from 19 March 2013; B2B share is up to that date.

The FIFA World Cup ran from 12 June to 13 July and thus continued to provide a boost into Q314, particularly since GVC (in common with other operators) enjoyed better sports margins in the second half of the tournament. Q314 KPIs (covering 80 days) show a 10.4% sports margin (Q313: 9.8%) and a 20% increase in daily NGR (to €628,000/day). The number of unique players in Q314 was 22% up on the comparative period (at 236,425) with the number of new funded players up 30% and the value of daily deposits up 22%. We view this as very encouraging, suggesting that GVC is continuing to attract new players, while also retaining a material proportion of the new customers acquired through the World Cup.

Exhibit 2: Quarterly trading KPIs

Average/day in 000s	Q113	Q213	Q313	Q413	Q114	Q214	Q314TD*
Sports wagers	1894	3637	3335	3926	3765	3907	3894
Sports margin	12.50%	9.15%	9.82%	8.39%	10.01%	9.84%	10.40%
Sports gross win	237	333	327	329	377	384	405
Sports NGR/day	209	275	267	244	278	296	325
Gaming NGR/day	185	273	256	285	281	306	303
B2B NGR/day	232	183	155	141	155	163	173
LatAm NGR/day	41	67	65	49	44	68	73
Other sportsbook NGR/day	36	213	226	259	272	291	302
CasinoClub NGR/day	85	85	77	80	88	80	80
Total NGR/day	**394**	**548**	**523**	**529**	**559**	**602**	**628**
Number of days	90	91	92	92	90	91	92
Total NGR (€m)	**35.5**	**49.9**	**48.1**	**48.7**	**50.3**	**54.8**	**57.8**

Source: GVC Holdings, Edison Investment Research. Note: *Q314TD is 80 days (out of 92).

The B2B business (EPC's Turkey-facing business) contributed 27% of H114 NGR, Latin America (LatAm) 10%, other sportsbook markets (mainly the UK, Eastern Europe, Greece, South Africa) 48% and CasinoClub 15%. B2B H114 daily revenues were 23% below H113 due to a tough comparative (high roller losses) and adverse FX (we estimate that the constant currency fall was only about 5%). So far in Q314 B2B NGR is up 12%, with gaming growing particularly strongly; with new management recruited and a more favourable TRY/€ rate we expect a better second half. LatAm daily revenues increased by 4% in H114, with a 39% increase in sports offset by a 35% fall in gaming (a proportion of the bingo business was lost on platform migration). So far in Q3 NGR is up 12% and the 177% increase in new funded players in H114 (and 56% increase in Q314) points to strong growth going forward. NGR in other sports markets more than doubled in H114 and has continued to grow, by 34%, in Q314. CasinoClub (the Germany-facing casino brand) is a mature business but has a loyal customer base. We believe its EBITDA margin is about 50%, ie its standalone EBITDA is over €15m a year (it effectively pays half the group's dividend).

Investment in new products and markets

Since taking over Sportingbet, GVC has invested to improve the platform (which successfully handled the high World Cup volumes) and in new mobile and 'in-play' products, which are expected to drive future growth. About 60% of sports wagers now come from 'in-play' and 22% from mobile (up from a very low base of only 8% in H113), with a raft of new mobile products due in 2015. The development team has increased from 17 to 50 in H114 (an extra €2m in cost).

GVC is also expanding into new markets. In May it took a 15% stake in a start-up Scandinavian gaming operator, Betit, with a very experienced management team (see our Flash note dated 15 May). The stake cost €3.6m and GVC has a call option to acquire the business for a minimum of €70m in 2017 (structured so that any deal would be earnings accretive). We believe that Betit is performing very strongly, although there is no impact on our numbers as it is equity accounted. GVC has now also announced plans to expand in Spanish-speaking Latin America and Asia. It has indicated that it will launch a localised brand in Mexico and Argentina, working with local marketing partners, and is in the process of recruiting a team of people to launch an Asia-facing brand.

2014 estimates increased, some headwinds in 2015 but a strong 2016

We have increased our 2014e NGR from €205m to €214m and EBITDA by €1.5m to €48.5m (a 22.7% margin, similar to 2013's 22.5%). We expect further growth in NGR in 2015 (to €220m) on the back of the increase in new customers. However, 2015 also sees a number of headwinds: the absence of about €2m of World Cup EBITDA, about €1.5m of extra cost from the new UK POC gaming tax, ongoing development spend on mobile and start-up costs in new markets. Thus we have left our 2015 estimates unchanged with EBITDA of €49.0m (€0.5m higher than 2014e) and EPS of 64.9c (flat on 2014e).

2016 will be another strong year for sport, including the UEFA Euro 2016 football championship and the Olympic Games in Brazil (where GVC is the online market leader for sports betting). Additionally, GVC's product and market investments should be paying off. Therefore, we introduce new 2016 estimates with 6% growth in EBITDA over 2015e. This could prove conservative, but we note that regulation continues to produce uncertainties, notably in Germany where a shift to a sportsbook-only licensed regime would affect profitable casino revenues. However, the process of awarding sportsbook licences in Germany has recently been halted by a number of operators' appeals (including GVC's). The status quo (with operators, including GVC, licensed in Schleswig-Holstein and paying taxes) seems set to continue for some considerable time.

Increased dividends including a World Cup special

GVC is highly cash oriented and has a policy of paying out 75% of free cash flows, plus special dividends when circumstances permit. Its Q114 quarterly dividend was 12.5c and as well as declaring 12.5c for Q214 it has declared a special dividend of 2.5c (effectively a 75% payout of the World Cup €2m EBITDA). We expect dividends to continue at a quarterly run rate of 12.5c through until 2016. This implies dividends declared of 52.5c for 2014e (up from our previous estimate of 50.0c) with dividends paid in 2014 totalling 55.0c (relating to Q3/Q413 and Q1/Q214, being 11.5c+12.5c+3.5c (special) +12.5c+12.5c+2.5c (special)).

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Exhibit 3: Financial summary

€m	2012	2013	2014e	2015e	2016e
Year end 31 December	(IFRS)	(IFRS)	(IFRS)	(IFRS)	(IFRS)
PROFIT & LOSS					
Revenue	60.3	170.0	214.0	220.0	230.0
Cost of Sales	(23.8)	(67.3)	(96.5)	(99.0)	(103.5)
Gross Profit (contribution)	36.5	102.6	117.5	121.0	126.5
EBITDA	15.5	38.3	48.5	49.0	52.0
Operating Profit (before amort. and except.)	12.9	34.6	44.5	45.0	48.5
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	0.0
Exceptional items	0.2	(19.7)	0.0	0.0	0.0
Share option charges	(2.3)	(1.8)	(1.9)	(0.8)	(0.2)
Operating Profit	10.8	13.0	42.7	44.2	48.3
Net interest	0.0	(0.0)	0.0	0.0	0.0
Unwinding of discount on deferred consideration	(2.2)	(1.1)	(1.6)	(0.8)	(0.2)
Profit Before Tax (norm)	12.9	34.5	44.5	45.0	48.5
Profit Before Tax (FRS 3)	10.8	13.0	42.7	44.2	48.3
Tax	(0.5)	(0.7)	(1.0)	(1.1)	(1.4)
Profit After Tax (norm)	12.4	33.8	43.5	43.9	47.1
Profit After Tax (FRS 3)	10.3	12.3	41.7	43.1	46.9
Average Number of Shares (basic) (m)	31.6	54.6	61.3	61.3	61.3
EPS - normalised (c)	39.4	62.0	71.0	71.6	76.8
EPS - normalised fully diluted (c)	38.8	60.4	64.9	64.9	69.3
EPS - (IFRS) (c)	29.3	22.5	67.9	70.3	76.5
Dividend per share - declared (c)	22.0	48.5	52.5	50.0	52.5
Dividend per share - paid (c)	26.0	28.0	55.0	50.0	51.0
Gross Margin (%)	60.5	60.4	54.9	55.0	55.0
EBITDA Margin (%)	25.6	22.5	22.7	22.3	22.6
Operating Margin (before GW and except.) (%)	21.4	20.3	20.8	20.5	21.1
BALANCE SHEET					
Fixed Assets	66.18	154.77	156.55	155.20	154.00
Intangible Assets	65.44	153.85	152.00	150.50	149.30
Tangible Assets	0.65	0.92	0.90	1.00	1.00
Deferred tax asset	0.08	0.00	3.65	3.70	3.70
Current Assets	24.93	44.57	45.50	48.50	56.00
Stocks	0.00	0.00	0.00	0.00	0.00
Debtors	18.30	25.76	27.00	28.00	29.00
Cash	6.63	5.51	4.50	6.00	12.00
Customer balances	0.00	13.30	14.00	14.50	15.00
Current Liabilities	(20.35)	(44.29)	(43.00)	(46.50)	(50.00)
Creditors	(20.35)	(40.83)	(42.50)	(45.50)	(49.00)
Short term borrowings	0.00	(3.46)	(0.50)	(1.00)	(1.00)
Long Term Liabilities	(12.28)	(13.95)	(11.00)	(4.70)	0.00
Long term borrowings	0.00	(6.37)	(6.50)	(1.00)	0.00
Other long term liabilities	(12.28)	(7.58)	(4.50)	(3.70)	0.00
Net Assets	58.47	141.10	148.05	152.50	160.00
CASH FLOW					
Operating Cash Flow	10.72	26.60	47.00	46.00	48.00
Tax	(1.95)	(0.44)	(1.00)	(1.10)	(1.40)
Net Interest/ loan repayments	0.00	0.00	(2.80)	(2.80)	(2.80)
Capex	(1.12)	(0.04)	(0.50)	(1.50)	(1.50)
Acquisitions/disposals	(2.86)	(96.45)	(7.40)	(2.40)	(2.20)
Financing	0.20	77.81	0.00	0.00	0.00
Dividends	(8.21)	(14.98)	(33.70)	(30.65)	(31.26)
Net Cash Flow	(3.22)	(7.49)	1.61	7.55	8.84
Opening net debt/(cash)	(9.85)	(6.63)	4.32	2.50	(4.00)
HP finance leases initiated	0.00	(2.20)	0.00	0.00	0.00
FX/ Other	0.00	(1.26)	0.21	(1.05)	(1.83)
Closing net debt/(cash)	(6.63)	4.32	2.50	(4.00)	(11.00)

Source: GVC Holdings accounts, Edison Investment Research. Note *Minor restatements to 2013 results due to clarification of accounting treatments associated with the acquisition of Sportingbet in March 2013.

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