

# Gamesys Group

H120 results

Strong performance delivers unexpected return

**Gamesys Group's interim results reporting pro forma adjusted EBITDA growth of 17% exceeded consensus expectations, demonstrating the strength of its strategy of growing the player base responsibly, while aiming for a high player retention rate. The improving financial position has resulted in the introduction of a new dividend (company commentary implies 36p/share for FY20) earlier than anticipated by us and consensus. We have increased our FY20 EBITDA forecast by 7.8%.**

Year end	Revenue (£m)	EBITDA* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/18	319.6	112.7	118.5	0.0	8.7	N/A
12/19**	565.3	158.9	100.4	0.0	10.2	N/A
12/20e**	680.7	189.5	122.0	36.0	8.4	3.5
12/21e**	725.0	208.7	140.2	37.8	7.3	3.7

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. \*\*Pro forma figures.

## H120: Ahead of expectations and cash return

H120 pro forma revenue increased by 27% to £340m with growth trends accelerating in Q220 to 35% vs 19% in Q120, driven by an improvement in the UK (up 16%) and Asia (92%), which are 87% of group revenue; there was some weakness in Sweden and the Nordics. The strategy of increasing the number of players delivered 14% growth y-o-y. Pro forma adjusted EBITDA increased by 17% as relatively higher investment (vs revenue) in marketing and staff for future growth was offset by lower content licensing. The profit growth and high cash conversion (106%) gave an improved net debt position of £391.7m (2.27x net debt/EBITDA vs 2.83x at end-FY19) enables the introduction of a dividend (ahead of consensus expectations) of 12p/share, with an indicated interim/final split of 1/3:2/3 and a 'progressive' dividend policy.

## FY20 estimates: EBITDA increased by 7.8%

We have increased our FY20 revenue estimate by 13.1% to £680.7m and EBITDA by 7.8% to £189.5m, which represents y-o-y growth of 20.4% and 19.3% respectively. We assume some moderation in y-o-y revenue growth rates for the UK (7%) and Asia (42%) for the remainder of the year given strong comparatives, and the macroeconomic uncertainty due to COVID-19. Our FY20 dividend forecast of 36p is as implied by the company's commentary and we assume the dividend will grow by 5% in FY21. Our net debt forecast of £355.6m at end-FY20 implies a net debt/EBITDA position of 1.9x. For FY21, we forecast EBITDA growth of 10.1%.

## Valuation: FCF yield of 11.3% for FY21e

The share price has recovered strongly from a low of 531p in the market sell-off due to COVID-19. On our new estimates, the P/E for FY21e is 7.3x and the EV/EBITDA is 7.2x. The free cash flow yield of 11.3% in FY21e provides strong valuation support and cash cover for the forecast dividend yield of 3.7%. The group's business exposure should ensure that its growth rates are more stable versus peers that are exposed to sports betting and have physical locations.

Travel &amp; leisure

11 August 2020

**Price** 1,026p

**Market cap** £1,116m

Net debt (£m) at 30 June 2020 391.7

Shares in issue 108.7m

Free float 74%

Code GYS

Primary exchange LSE

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs 18.6 19.3 53.4

Rel (local) 18.7 15.5 80.0

52-week high/low 1,026p 531p

### Business description

Gamesys is a leading online gaming operator, with two-thirds of revenues from the UK. The group was formed after JPJ Group acquired Gamesys for £490m in September 2019.

### Next events

Q320 results October 2020

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**Gamesys Group is a research client of Edison Investment Research Limited**

**Exhibit 1: Financial summary**

	£m	2017	2018	2019	2020e	2021e	2022e
Year end 31 December							
<b>PROFIT &amp; LOSS</b>							
Revenue		304.7	319.6	565.3	680.7	725.0	769.0
Cost of Sales		(147.5)	(158.9)	(287.9)	(359.8)	(381.1)	(402.2)
Gross Profit		157.2	160.7	277.4	320.9	343.9	366.8
EBITDA		108.6	112.7	158.9	189.5	208.7	221.4
Operating Profit (before amort. and except.)		108.2	112.2	140.9	171.5	190.7	203.3
Intangible Amortisation		(62.6)	(60.3)	(52.7)	(77.0)	(77.0)	(77.0)
Exceptional and other items		(104.9)	(16.3)	(23.4)	0.0	0.0	0.0
Share based payments		(1.4)	(0.6)	(0.5)	(2.4)	(2.4)	(2.4)
Operating Profit		(60.8)	35.0	64.3	92.1	111.3	123.9
Net Interest		(30.0)	(19.5)	(21.4)	(24.0)	(21.0)	(19.0)
Profit Before Tax (norm)		78.2	92.7	119.5	147.5	169.7	184.3
Profit Before Tax (FRS 3)		(65.8)	18.5	44.2	68.1	90.3	104.9
Tax		(0.7)	(0.5)	(2.9)	(14.7)	(17.0)	(18.4)
Profit After Tax (norm)		77.5	92.3	116.5	132.7	152.7	165.9
Profit After Tax (FRS 3)		(66.5)	18.1	41.3	53.3	73.3	86.5
Average Number of Shares Outstanding (m)		73.9	74.2	108.7	108.7	108.8	108.9
EPS		104.9	119.5	100.4	122.1	140.4	152.3
EPS - normalised (p)		103.9	118.5	100.4	122.0	140.2	152.2
EPS - (IFRS) (p)		(90.0)	19.5	31.2	49.1	67.4	79.4
Dividend per share (p)		0.0	0.0	0.0	36.0	37.8	39.7
Gross Margin (%)		51.6	50.3	49.1	47.1	47.4	47.7
EBITDA Margin (%)		35.6	35.3	28.1	27.8	28.8	28.8
Operating Margin (before GW and except.) (%)		35.5	35.1	24.9	25.2	26.3	26.4
<b>BALANCE SHEET</b>							
Fixed Assets		595.9	521.9	1,045.6	968.6	893.6	818.6
Intangible Assets		589.0	514.7	1,008.7	940.7	873.7	806.7
Tangible Assets		1.3	2.2	31.7	22.6	14.6	6.6
Other long term assets		5.6	5.0	5.2	5.2	5.2	5.2
Current Assets		93.2	124.0	165.9	216.6	258.5	311.6
Stocks		0.0	0.0	0.0	0.0	0.0	0.0
Debtors (incl swaps)		26.0	30.5	53.2	58.2	63.2	68.2
Cash		59.0	84.4	100.3	144.9	180.9	228.0
Player balances		8.2	9.0	12.4	13.4	14.4	15.4
Current Liabilities		(98.5)	(52.3)	(122.6)	(117.6)	(112.6)	(107.6)
Creditors		(46.3)	(47.8)	(117.9)	(112.9)	(107.9)	(102.9)
Short term borrowings		(0.3)	0.0	(4.7)	(4.7)	(4.7)	(4.7)
Contingent consideration		(51.9)	(4.5)	0.0	0.0	0.0	0.0
Long Term Liabilities		(386.7)	(374.5)	(624.2)	(574.2)	(524.2)	(474.2)
Long term borrowings		(369.5)	(371.5)	(545.8)	(495.8)	(445.8)	(395.8)
Contingent consideration		(7.7)	0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(9.4)	(3.0)	(78.3)	(78.3)	(78.3)	(78.3)
Net Assets		204.1	219.1	464.7	493.3	515.3	548.4
<b>CASH FLOW</b>							
Operating Cash Flow		102.0	106.8	100.8	164.5	183.7	196.4
Net Interest		(30.9)	(19.5)	(22.7)	(24.0)	(21.0)	(19.0)
Tax		(1.0)	(0.8)	(3.0)	(14.7)	(17.0)	(18.4)
Capex		(3.2)	(5.3)	(16.7)	(18.0)	(20.0)	(20.0)
Acquisitions (inc earn-outs)		(94.2)	(55.3)	(462.0)	0.0	0.0	0.0
Financing		22.2	(2.3)	240.5	0.0	0.0	0.0
Dividends		0.0	0.0	0.0	(13.0)	(39.8)	(41.8)
Net Cash Flow		(5.2)	23.6	(163.2)	94.7	85.9	97.1
Opening net debt/(cash)		305.6	310.7	287.1	450.3	355.6	269.6
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		310.7	287.1	450.3	355.6	269.6	172.5
NPV of outstanding earnouts/ other		76.6	15.0	0.0	0.0	0.0	0.0
Currency swaps		0.0	0.0	0.0	0.0	0.0	0.0
Adjusted net debt		387.3	302.1	450.3	355.6	269.6	172.5

Source: Company accounts, Edison Investment Research

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