

OPAP

H120 results

Caution following 'encouraging' recovery

OPAP's Q220 results were heavily affected by the COVID-19 closures, with a revenue (GGR) decline of 53.2%. As expected, costs were well managed so that EBITDA profitability was restored by the end of the period and free cash flow generation improved on a relative basis. Post lockdown, the overall recovery was described as 'encouraging', but management reiterates a cautious outlook for the rest of the year given the macroeconomic uncertainties and re-emergence of COVID-19 in parts of the country. We make small changes to our assumptions, which result in similar EBITDA for FY20 to before and a modest downgrade of 3% in FY21. Our DCF continues to suggest a value of at least €9.5/share.

Year end	GGR* (€m)	EBITDA** (€m)	EPS** (€)	DPS (€)	P/E (x)	Yield (%)
12/18	1,547.0	353.6	0.52	0.7	16.5	8.2
12/19	1,619.9	411.2	0.65	0.3	13.2	3.5
12/20e	1,351.1	302.2	0.31	1.5	27.7	17.6
12/21e	1,729.2	426.5	0.54	0.8	15.9	9.1

Note: *Gross gaming revenue; **EBITDA and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Q220: Strong control of costs and cash

OPAP's Q220 GGR fell by 53.2% y-o-y to €179.6m, with declines in all four of the disclosed revenue sources as most of the estate was closed for around two months in the lockdowns from 14 March. Despite the extent and speed of the revenue decline, management's focus on operating cost savings and the continuing strong performance of Stoiximan ensured it was EBITDA positive as expected. Cash flow generation relative to revenue improved as management also exercised good control over working and fixed capital investment. Revenue recovery post lockdown was described as 'encouraging' overall, but the re-emergence of COVID-19 in Greece leads management to retain its cautious outlook for the remainder of the year but with confidence in managing the cost base accordingly.

Forecasts: FY21 EBITDA trimmed by 3%

Our EBITDA forecast for FY20 is maintained with an H220 decline for Instant & Passives (c 8% of group) now assumed, offset by a benefit from the company paying tax liabilities on time and therefore paying a reduced amount. Our forecasts assume revenue declines by c 5% in H220. Our EBITDA forecast for FY21 falls by 3%, reflecting the flow through of lower Instant & Passives revenue from FY20 and the absence of a benefit to other operating income in FY20 from the on-time payment of tax liabilities.

Valuation: DCF-based valuation of at least €9.5/share

The share price has recovered well through from the lows in March but have retraced modestly in the last few weeks. The EV/EBITDA multiple for FY21, which is the first year of full consolidation of Stoiximan, is 8.3x. Our DCF-based valuation continues to indicate a valuation of €9.5/share, with potential for an incremental €2.2/share for the prepaid tax asset of €1.8bn, which may be resolved in October.

Travel & leisure

16 September 2020

Price €8.55

Market cap €2,862m

€0.92/GBP

Net debt (€m) at 30 June 2020 post IFRS 16 and excluding investments (net debt pre-IFRS 16 €517m) 569

Shares in issue 334.7m

Free float 58.3%

Code OPAP

Primary exchange ASE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	8.0	(1.5)	(13.1)
Rel (local)	3.3	(3.8)	12.2
52-week high/low	€12.32	€5.86	

Business description

OPAP was founded in 1958 as the Greek national lottery and it is the exclusive licensed operator of all numerical lotteries (seven games), sports betting (four games) and horse racing. OPAP listed in 2001 and was fully privatised in 2013. Sazka Group has a 41.7% stake and significant board representation.

Next events

Q320 results 25 November 2020

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Q220 results summary: Heavily affected by COVID-19

OPAP's Q220 results were heavily affected by COVID-19 as Greek real estate was closed for a good proportion of the period. OPAP stores and Hellenic Lotteries street vendors were closed for 58 days from 14 March to 11 May 2020 and the video lottery terminal (VLTs) PLAY network was closed until 8 June. The Cypriot retail network was allowed to re-open on 23 May. Despite the shape and extent of the downturn, management controlled costs to achieved EBITDA profitability, which, coupled with control of working and fixed capital investment, led to improved free cash flow generation relative to revenue.

Q220 GGR declined by 53.2%, but good recovery post lockdown

Q220 GGR fell by 53.2% y-o-y to €179.6m as all revenue sources declined due to the retail estate closures. The most severely affected parts of the group were OPAP's smallest revenue sources: VLTs (12% of GGR), which fell by 69.3% y-o-y, and Instant and Passives (8% of revenue), which reduced by 59%. The company's most important revenue source, Lotteries (57% of the group revenue) fell by 45% and the second most important revenue source, Sports Betting (23% of revenue), declined by 55%, broadly similar to the group average. Following the revenue decline of c 17% in Q120, the total decline for the first six months of the year was almost 35%.

Management identified three key phases during Q2: lockdown (1 April to 10 May); partial re-opening (11 May to 7 June); and full re-opening (8 June onwards). It highlighted the revenue trends in each of the phases. During lockdown like-for-like revenue fell by 97% as the only revenue source was from the company's online activities. In the second phase, partial re-opening, like-for-like revenue declined by 32%, which reflected seating restrictions in the OPAP stores, limited betting as sporting events were cancelled or postponed and the VLTs remaining closed. When all activities were fully re-opened and postponed sports events were resumed, like-for-like revenue was positive, which demonstrated an overall encouraging recovery in management's view. Post lockdown: the recovery in Lotteries was described as 'encouraging'; Sports Betting was 'strong' as delayed sports events helped the end of the period; VLTs grew by double-digits as the revenue per VLT per day resumed growth; but Instant & Passives was still 'deeply negative'.

Extending past the period end, once the VLTs were fully re-opened total revenue grew by 3.1% from 8 June to the end of August, although August declined by 2.1% with trends negative across all revenue sources due to the summer holiday season and recent travel restrictions.

With respect to customer behaviour post lockdown, management observed that there has been a slight reduction in spend per customer and dwell times at locations, but the number of occasions on which customers visit locations has been stable. It is important to recognise that customers have provided positive feedback on the safety measures introduced by OPAP at its sites.

During the tough operating environment, management has continued to invest in stores and the supporting infrastructure. In Q220, 150 stores were upgraded on top of the 59 that were done in Q120, therefore more than 1,400 stores (over 40% of the estate) have been upgraded since 2018, when the Retail Excellence (REX) program started. Management targets a similar number of upgrades during the remainder of the year, so that more than 300 stores would have been built or upgraded by year end. The new satellite infrastructure, which enables more high-definition content, is active across the entire estate and more than 1,000 stores have smart digital infrastructure, which allows for centralised control of what is on individual screens, facilitating the creation of different gaming zones within stores.

EBITDA profit in Q220 due to good cost control

Despite the speed and the extent of the downturn in revenue during the period, OPAP generated EBITDA (before associates and one-off items) of €21.8m in Q220 to give a total for the first six months of €103.7m. The Q2 performance represented a decline of almost 75% on the prior year and a margin of 12.2% versus 22.7% in the comparative period. At the time of the Q120 results in June, management's update on current trading indicated April 2020 had been EBITDA negative and June was expected to be EBITDA positive, therefore the outturn looks in line with prior commentary.

During Q220, the lost revenue was compensated for by the natural reduction in levies, commission and revenue sharing costs but there was a modest deterioration in gross profit to 38.3% from 39.7% in the prior period due to the changes in revenue mix as a result of the different re-opening times of the estate. More favourable net other operating income of €12.7m versus €9.1m in Q219 led to an improvement in the total gross margin from 42.1% in Q219 to 45.4% in Q220.

Savings in all operating costs helped sustain EBITDA profitability towards the end of the quarter. Marketing increased, relative to revenue, in order to drive OPAP's online revenue growth during lockdown and other revenues ahead of the store re-openings towards the end of the quarter.

Kaizen Gaming's (Stoiximan) strong operating performance is reflected in the year-on-year growth of associate income of 31% in Q220 and 129% in H120. During Q220, Kaizen's active customer base increased by c 8% y-o-y and its revenue increased by 16%, with the performance of its casino business more than offsetting the declines from sports betting.

Further down the P&L, depreciation and amortisation (€38.6m) and one-off items (€7.5m) pushed the company into an operating loss for Q220.

Cash flow generation improved on a relative basis

OPAP's operating cash flow declined from €77.5m in Q219 to €36.8m in Q220, although relative to revenue there was a modest improvement as working capital was controlled well. Lower investment in tangible and intangible assets led to free cash flow generation of €39.9m, a decline of c 42% y-o-y, which represents a strong performance given the extent and the speed of the revenue decline in the period.

The company's cash position of €628m improved from €422m at the end of Q120 due to the free cash flow generation and new borrowings of €178m raised during the quarter. Versus the end of FY19, the cash position was broadly stable.

At the end of H120, the net debt position adjusted for IFRS 16 and investments was €568.9m versus €473.4m at the end of FY19.

Outlook and forecasts

Management remains cautious about the outlook given the forecasts for GDP declines in Greece in FY20 and FY21, especially given the re-emergence of COVID-19 on several Greek islands in recent weeks, which led to new travel restrictions and shortened the summer tourist season that is crucial for their local economies. The Greek islands in aggregate represent a mid-teens percentage of OPAP's revenue; however, the impact of the travel restrictions could affect a greater proportion of the group's revenue. The most obvious primary effect is lower current and expected incomes of the islands' own residents. The secondary effect is the lower incomes of the many mainland residents that travel to work on the islands during the holiday season. During August 2020, the company's revenue in the islands fell by 19% y-o-y.

If there is a further revenue downturn, the company is confident that it can manage the cost base to mitigate the impact on profitability, as achieved during the very challenging second quarter.

The changes to the sporting calendar, such as with football games postponed from Q2 to Q320 and the delayed starts to new football seasons in the third quarter, are likely to have some unquantified phasing effect on Q320's results.

We make modest changes to our forecasts to FY20, which have a slight flow through to our forecasts for FY21. We reduce our forecasts for Instant & Passives in FY20 to reflect a decline in revenue in H220 of c 15%, to give a total decline of c 32% for the full year versus a full year decline of c 21% previously. We retain our gross revenue assumptions for the remaining three main revenue streams, which include declines during the remainder of the year for Lotteries of 10% and for Sports Betting of 17% and growth in VLTs of c 19% reflecting the ongoing maturing of the installed base. In total, our revenue forecast for FY20 of €1,351.1m, represents a y-o-y decline of 16.6%, with a decline in H220 of 6.8%. Our forecast for FY20 EBITDA is broadly maintained at €302.2m, a decline of 26.5% from FY19, through an increase in other operating income for the incentive for paying tax liabilities on time.

Our revenue forecast for FY21 falls by 1% to €1,729.2m and the EBITDA falls by 3% to €426.5m to reflect the flow through from FY20 of the decline in Instant & Passives revenues and the absence of the other operating income benefit reported in FY20.

Future gaming taxes: Coming into focus

As we detailed in [our initiation note](#) in February 2019, as part of its negotiations to extend the lottery licence from 2020 to 2030 in 2011, OPAP negotiated a contract in which it is only liable to pay for a small portion of future gaming taxes (5% tax on GGR rather than 35% for 10 years) in return for a consideration of €375m, of which €300m corresponded to the GGR tax prepayment. The €300m paid in 2011 has a future value (in 2030 terms when the settlement will take place) of €1.8bn. OPAP will implement the contract from October 2020 in the absence of an alternative being proposed by the Greek government. In our view, it is highly likely the government will seek to renegotiate, given the implications for the country's finances.

Exhibit 1: Financial summary

	€m	2016	2017	2018	2019	2020e	2021e	2022e
31-December		ISA	ISA	ISA	ISA	ISA	ISA	ISA
INCOME STATEMENT								
Revenue		1,397.6	1,455.5	1,547.0	1,619.9	1,351.1	1,729.2	1,774.2
NGR		930.8	972.9	1,039.9	1,086.2	911.8	1,164.4	1,194.8
Cost of Sales		(827.5)	(862.9)	(904.3)	(946.9)	(773.6)	(963.0)	(987.0)
Gross Profit		570.1	592.6	642.7	673.0	577.5	766.2	787.2
EBITDA		307.5	306.5	353.6	411.2	302.2	426.5	444.1
Operating Profit (before amort. and except.)		252.4	218.7	258.4	296.6	170.7	293.1	308.9
Impairments		0.0	(2.7)	(17.5)	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	(7.1)	(7.5)	0.0	0.0
Share-based payments		(3.1)	(1.5)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)
Reported operating profit		249.3	214.4	239.3	287.8	161.6	291.5	307.2
Net Interest		(13.3)	(21.1)	(23.5)	(27.1)	(39.7)	(40.6)	(36.1)
Joint ventures & associates (post tax)		0.0	0.0	0.0	8.5	10.0	4.0	4.4
Other		1.0	(0.3)	0.1	0.0	0.0	0.0	1.0
Profit Before Tax (norm)		240.0	197.4	235.0	278.0	141.0	256.5	278.2
Profit Before Tax (reported)		236.9	193.1	215.9	269.2	131.9	254.9	276.6
Reported tax		(64.1)	(61.6)	(70.6)	(67.1)	(36.7)	(66.7)	(72.3)
Profit After Tax (norm)		170.4	140.1	166.9	208.7	104.3	189.8	205.9
Profit After Tax (reported)		172.9	131.5	145.3	202.1	95.2	188.2	204.2
Minority interests		(2.6)	(5.4)	(2.0)	0.3	(1.4)	(6.3)	(6.6)
Discontinued operations		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		167.8	134.7	164.9	209.0	103.0	183.5	199.3
Net income (reported)		170.2	126.2	143.3	202.4	93.9	181.9	197.6
Basic average number of shares outstanding (m)		319	318	318	322	334	342	352
EPS - normalised (c)		52.68	42.39	51.90	64.92	30.84	53.73	56.67
EPS - diluted normalised (€)		0.53	0.42	0.52	0.65	0.31	0.54	0.57
EPS - basic reported (€)		0.53	0.40	0.45	0.63	0.28	0.53	0.56
Dividend (€)		1.29	1.10	0.70	0.30	1.48	0.78	0.80
Revenue growth (%)		(-0.2)	4.1	6.3	4.7	(-16.6)	28.0	2.6
Gross Margin (%)		40.8	40.7	41.5	41.5	42.7	44.3	44.4
EBITDA Margin (%)		22.0	21.1	22.9	25.4	22.4	24.7	25.0
Normalised Operating Margin		18.1	15.0	16.7	18.3	12.6	17.0	17.4
BALANCE SHEET								
Fixed Assets		1,330.3	1,356.5	1,384.2	1,370.1	1,415.3	1,330.3	1,243.5
Intangible Assets		1,231.0	1,218.5	1,157.2	1,096.0	1,094.2	1,026.4	956.7
Tangible Assets		67.6	109.3	111.5	162.3	209.4	192.3	175.1
Investments & other		31.7	28.7	115.5	111.7	111.7	111.7	111.7
Current Assets		437.4	440.4	385.5	869.6	768.8	822.9	849.3
Stocks		12.5	7.9	10.7	6.7	11.7	16.7	21.7
Debtors		80.6	127.8	138.3	161.2	171.2	166.2	161.2
Cash & cash equivalents		273.5	246.1	182.6	633.8	518.0	572.1	598.5
Other		70.8	58.5	54.0	67.9	67.9	67.9	67.9
Current Liabilities		(390.2)	(482.0)	(299.3)	(326.4)	(311.4)	(296.4)	(281.4)
Creditors		(149.3)	(173.9)	(176.7)	(184.1)	(169.1)	(154.1)	(139.1)
Tax and social security		(55.5)	(89.8)	(8.6)	(5.3)	(5.3)	(5.3)	(5.3)
Short term borrowings		(118.7)	(169.2)	(0.2)	(13.9)	(13.9)	(13.9)	(13.9)
Other		(66.7)	(49.2)	(113.8)	(123.1)	(123.1)	(123.1)	(123.1)
Long Term Liabilities		(305.3)	(556.7)	(710.8)	(1,141.5)	(1,266.5)	(1,166.5)	(1,066.5)
Long term borrowings		(263.0)	(513.1)	(650.3)	(1,103.2)	(1,228.2)	(1,128.2)	(1,028.2)
Other long term liabilities		(42.3)	(43.6)	(60.6)	(38.3)	(38.3)	(38.3)	(38.3)
Net Assets		1,072.2	758.2	759.5	771.7	606.2	690.3	744.9
Minority interests		(37.0)	(43.4)	(36.8)	(18.1)	(20.0)	(20.0)	(20.0)
Shareholders' equity		1,035.3	714.8	722.8	753.6	586.2	670.3	724.9
CASH FLOW								
Op Cash Flow before WC and tax		310.7	308.0	355.2	412.9	303.8	428.1	445.7
Working capital		(71.9)	(9.2)	(25.0)	(16.5)	(25.0)	(10.0)	(10.0)
Exceptional & other		(12.4)	(0.4)	1.1	(13.9)	(7.5)	0.0	0.0
Tax		(116.9)	(31.4)	(51.7)	(78.9)	(36.7)	(56.7)	(62.3)
Net operating cash flow		109.4	266.9	279.6	303.6	234.7	361.4	373.4
Capex		(42.9)	(96.3)	(51.9)	(34.8)	(15.0)	(20.0)	(20.0)
Acquisitions/disposals		(0.0)	(31.5)	(47.9)	(21.9)	(163.4)	(30.0)	(30.0)
Net interest		(11.9)	(19.6)	(24.6)	(22.3)	(39.7)	(40.6)	(36.1)
Equity financing		(11.9)	(1.8)	(5.5)	(0.1)	0.0	0.0	0.0
Dividends		(292.8)	(446.1)	(154.0)	(164.0)	(264.0)	(116.5)	(159.0)
Other		(12.7)	0.3	(18.6)	(11.1)	(1.4)	(6.3)	(6.6)
Net Cash Flow		(262.8)	(328.0)	(22.8)	49.3	(248.7)	148.0	121.7
Opening net debt/(cash)		(154.6)	108.2	436.2	467.8	483.3	732.0	584.0
FX		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other non-cash movements		0.0	0.0	(8.9)	(64.8)	0.0	0.0	0.0
Closing net debt/(cash)		108.2	436.2	467.8	483.3	732.0	584.0	462.3

Source: Company data, Edison Investment Research

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