

OPAP

Q319 results

Surprising extraordinary dividend for Q120

OPAP's Q319 results saw similar trends to H119 and were in line with our estimates. Gross gaming revenues (GGR) increased 6.7% to €393.6m, driven by a 43.2% increase in video lottery terminals (VLT) GGR and a stronger lottery performance. Alongside revenue growth, OPAP is successfully containing costs, which led to a 25.8% EBITDA margin and a 24.5% increase in net profit. OPAP has announced that it will pay an extraordinary dividend in Q120 (rather than an interim dividend) – on our estimates this equates to an 11.9% dividend yield for FY19. For FY20, OPAP trades at 8.6x EV/EBITDA and 15.2x P/E with an 8.9% dividend yield.

Year end	GGR (€m)	EBITDA (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/17	1,455.5	306.5	0.42	1.10	24.5	10.6
12/18	1,547.0	353.6	0.52	0.70	20.0	6.7
12/19e	1,635.0	408.9	0.62	1.24	16.9	11.9
12/20e	1,833.0	456.7	0.69	0.92	15.2	8.9

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

Continuing trends from H119

Q319 GGR grew 6.7% to €393.6m, driven by a 43.2% increase in VLT GGR to €72.8m and good progress in lottery (up 4.1% to €197.4m), as well as a recovery in Instants and Passives. Sports betting declined by 5.7% to €91.9m, with difficult comparatives from the previous year (World Cup in FY18). Alongside the revenue growth, cost containment remains a key focus and the Q319 EBITDA margin was a solid 25.8% (up 220bps). Our FY20 and FY21 EPS are raised by c 4.5% and 2.8% largely due to lower future corporation tax (the effective rate goes from 29% to 24% from FY20).

Online regulation and Stoiximan poised for FY20

OPAP's acquisition of Stoiximan (online sports) has recently been approved by the Hellenic Competition Commission and the final closing of the transaction is expected in the near term. As detailed in our [September update](#), our forecasts assume full consolidation from January 2020. Online regulation in Greece is still pending, with legislation expected in FY20 and we expect OPAP will seek to apply for one of the new licences once proper regulation is in place.

Valuation: 11.9% dividend yield for FY19e

OPAP reported Q319 net debt of €485m (€550m post IFRS 16) and the net debt/LTM EBITDA was 1.2x. OPAP has announced that it will pay an extraordinary dividend in Q120 of no less than the FY19 net profit. Together with the final dividend, we estimate a total FY19 dividend of €1.24/share, which equates to an 11.9% dividend yield for FY19. For FY20, the stock trades at 8.6x EV/EBITDA and 15.2x P/E with a very attractive dividend (excluding exceptionals) of 8.9%.

Travel & leisure

28 November 2019

Price €10.4
Market cap €3344m

Net debt (€m) at September 2019, post IFRS 16	549.8
Shares in issue	321.6m
Free float	60%
Code	OPAP
Primary exchange	ASE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	6.7	13.0	26.8
Rel (local)	4.0	5.0	(14.4)
52-week high/low		€10.4	€7.6

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 significant board representation and a 40% holding.

Next events

FY19 results	March 2020
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Q319 results summary: Similar trends to H119

Q319 GGR increased by 6.7%, driven by lottery and VLTs

Q319 GGR increased 6.7% to €393.6m, boosted by the contribution of new products. This included a 43.2% increase in VLTs (18.5% of revenues), as well as lasting positive momentum from Kino side bets and improved Joker products, which led to an uptick in lottery (a 4.1% increase to €197.4m). Betting declined by 5.7% (to €91.9m), although the core Pame Stoixima product was stable, despite difficult comps (FIFA World Cup in 2018). Instants and passives posted a 1.8% recovery in the quarter, reaching €31.6m.

Adjusted EBITDA margin of 25.8%: Successful cost containment

Q319 adjusted EBITDA increased by 16.5% to €101.6m, representing a 25.8% margin (vs 23.6% in the prior year). Key cost containment measures included a significant drop in IT costs, which declined by 36.7% to €7.3m in Q319.

Extraordinary dividend to be paid in Q120

OPAP has announced that it intends to pay an extraordinary dividend in Q120, which will be no less than the net profit for FY19. There will be no interim dividend and the extraordinary dividend will be financed through existing cash balances as well as additional external debt. Altogether, we estimate an extraordinary dividend of €0.62/share (equating to our FY19 normalised EPS forecast), as well as a final dividend of €0.62/share.

Sazka Group now a 40% shareholder

As previously announced, Sazka Group has completed its tender offer for OPAP shares. During the acceptance period, approximately 7.25% of shares were offered and Sazka Group now holds 40% of OPAP's total paid-up capital.

Stoiximan: Approval granted by the Hellenic Competition Authority

In September 2018, OPAP announced the acquisition of a 36.75% stake in TCB Holdings (the holding company of Stoiximan) for €50m, followed by a further €94.9m investment in January 2019. As a result, OPAP will have a 69% controlling stake in TCB's Greek and Cypriot operations and a 36.75% stake in the other markets.

The acquisition of Stoiximan was approved in November by the Hellenic Competition Commission (HCC) and the transaction is expected to complete in the near term. We continue to forecast full consolidation from January 2020.

Online regulation in Greece

In October, the Greek government presented an amended online gambling bill for legislative scrutiny. We understand that there may be a change to the tax code, whereby corporation tax will be applied to net income prior to gambling duties (rather than after). We expect further details in due course, with possible regulation in FY20.

In September, it was also reported that Greece's highest administrative court, the Council of State, has ruled that OPAP's online betting licence is invalid, leading to its potential revocation. The ruling is of little practical relevance, given that current contribution of online betting is not material (below 1% of OPAP's total revenue) and going forward, OPAP will principally offer online sports through Stoiximan. Nonetheless, OPAP is challenging the decision, since it would likely still prefer to offer a dual brand online option. We believe OPAP is likely to acquire one of the new licences following the proper regulation of the market ahead.

Forecasts: FY20 and FY21 EPS upgrades due to tax changes

Our revenue forecasts remain broadly unchanged, although we have slightly lowered our FY20 and FY21 EBITDA forecasts to be more conservative on costs. Our FY20 and FY21 EPS go up by c 4.5% and 2.8%, largely due to lower corporate tax in Greece (the effective rate goes from 29% to 24%).

OPAP reported Q219 net debt of €485m (€550m post-IFRS 16) and the net debt/LTM EBITDA was 1.2x. Post IFRS 16, we forecast net debt of €474m in FY19 which is lower than our previous estimate of €494m, largely due to the lack of interim dividend in the period. We forecast net debt of €606m at FY20, which includes the €94m investment in Stoiximan, as well as the extraordinary dividend.

Exhibit 1: Estimate changes									
	GGR (€m)			EBITDA (€m)			Normalised EPS (€)		
	Old	New	% chg.	Old	New	%chg.	Old	New	%chg.
2019e	1,635.0	1,635.0	0.0	408.7	408.9	0.0	0.60	0.62	3.3
2020e	1,845.0	1,833.0	(0.6)	465.0	456.7	(1.8)	0.66	0.69	4.5
2021e	1,897.1	1,884.6	(0.6)	489.3	480.6	(1.8)	0.70	0.72	2.8

Source: Edison Investment Research estimates

Exhibit 2: Financial summary

	€m	2014	2015	2016	2017	2018	2019e	2020e	2021e
31-December		ISA	ISA	ISA	ISA	ISA	ISA	ISA	ISA
INCOME STATEMENT									
GGR		1,377.7	1,399.7	1,397.6	1,455.5	1,547.0	1,635.0	1,833.0	1,884.6
NGR		973.1	987.7	930.8	972.9	1,039.9	1,101.9	1,233.4	1,268.7
Cost of Sales		(764.2)	(774.3)	(827.5)	(862.9)	(904.3)	(947.0)	(1,029.9)	(1,053.3)
Gross Profit		613.5	625.3	570.1	592.6	642.7	688.0	803.1	831.4
EBITDA		346.5	377.1	307.5	306.5	353.6	408.9	456.7	480.6
Normalised operating profit		289.6	318.1	252.4	218.8	258.4	296.6	329.0	351.1
Impairments		7.5	(14.1)	0.0	(2.7)	(17.5)	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0	7.9	0.0	0.0
Share-based payments		(0.9)	(1.2)	(3.1)	(1.5)	(1.6)	(1.7)	(1.7)	(1.7)
Reported operating profit		296.2	302.8	249.3	214.6	239.3	302.8	327.3	349.5
Net Interest		1.6	(4.7)	(13.3)	(21.1)	(23.5)	(25.3)	(29.1)	(30.7)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0	6.6	0.0	0.0
Other		7.8	1.5	1.0	(0.3)	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		299.0	314.9	240.0	197.5	234.9	277.9	299.9	320.4
Profit Before Tax (reported)		305.6	299.6	236.9	193.2	215.9	284.1	298.2	318.8
Reported tax		(106.4)	(89.7)	(64.1)	(61.6)	(70.6)	(84.4)	(72.0)	(76.9)
Profit After Tax (norm)		212.3	223.6	170.4	140.2	166.8	198.2	227.9	243.5
Profit After Tax (reported)		199.2	209.9	172.9	131.6	145.3	199.7	226.3	241.8
Minority interests		(4.2)	0.8	(2.6)	(5.4)	(2.0)	0.3	(6.3)	(6.9)
Discontinued operations		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		208.1	224.4	167.8	134.8	164.8	198.4	221.6	236.6
Net income (reported)		195.0	210.7	170.2	126.2	143.3	199.9	220.0	234.9
Basic average number of shares outstanding (m)		319	319	319	318	318	322	323	327
EPS - basic normalised (€)		0.65	0.70	0.53	0.42	0.52	0.62	0.69	0.72
EPS - diluted normalised (€)		0.65	0.70	0.53	0.42	0.52	0.62	0.69	0.72
EPS - basic reported (€)		0.61	0.66	0.53	0.40	0.45	0.62	0.68	0.72
Dividend (€)		0.70	0.40	1.29	1.10	0.70	1.24	0.92	0.96
Revenue growth (%)			1.6	(-0.2)	4.1	6.3	5.7	12.1	2.8
Gross Margin (%)		44.5	44.7	40.8	40.7	41.5	42.1	43.8	44.1
EBITDA Margin (%)		25.2	26.9	22.0	21.1	22.9	25.0	24.9	25.5
Normalised Operating Margin		21.0	22.7	18.1	15.0	16.7	18.1	17.9	18.6
BALANCE SHEET									
Fixed Assets		1,343.4	1,318.9	1,330.3	1,356.5	1,384.2	1,393.7	1,379.3	1,268.1
Intangible Assets		1,284.2	1,237.2	1,231.0	1,218.5	1,157.2	1,104.1	1,070.5	987.7
Tangible Assets		44.2	56.2	67.6	109.3	111.5	168.6	187.7	159.4
Investments & other		15.0	25.5	31.7	28.7	115.5	121.0	121.0	121.0
Current Assets		409.4	389.9	437.4	440.4	385.5	439.8	507.1	500.5
Stocks		3.0	4.2	12.5	7.9	10.7	12.7	17.7	22.7
Debtors		92.3	55.2	80.6	127.8	138.3	133.3	128.3	123.3
Cash & cash equivalents		297.4	301.7	273.5	246.1	182.6	243.8	311.1	304.5
Other		16.7	28.8	70.8	58.5	54.0	50.0	50.0	50.0
Current Liabilities		(457.9)	(325.0)	(390.2)	(482.0)	(299.3)	(303.5)	(288.5)	(273.5)
Creditors		(170.4)	(127.1)	(149.3)	(173.9)	(176.7)	(146.7)	(131.7)	(116.7)
Tax and social security		(178.2)	(129.9)	(55.5)	(89.8)	(8.6)	(13.6)	(13.6)	(13.6)
Short term borrowings		(0.0)	(32.1)	(118.7)	(169.2)	(0.2)	(7.2)	(7.2)	(7.2)
Other		(109.3)	(35.9)	(66.7)	(49.2)	(113.8)	(136.0)	(136.0)	(136.0)
Long Term Liabilities		(59.8)	(181.0)	(305.3)	(556.7)	(710.8)	(792.1)	(992.1)	(892.1)
Long term borrowings		0.0	(115.0)	(263.0)	(513.1)	(650.3)	(710.3)	(910.3)	(810.3)
Other long term liabilities		(59.8)	(66.0)	(42.3)	(43.6)	(60.6)	(81.8)	(81.8)	(81.8)
Net Assets		1,235.1	1,202.8	1,072.2	758.2	759.5	737.8	605.7	603.0
Minority interests		(67.4)	(41.0)	(37.0)	(43.4)	(36.8)	(38.0)	(42.0)	(44.0)
Shareholders' equity		1,167.7	1,161.8	1,035.3	714.8	722.8	699.8	563.7	559.0
CASH FLOW									
Op Cash Flow before WC and tax		347.4	378.3	310.7	308.0	355.2	410.6	458.3	482.3
Working capital		7.0	(41.0)	(71.9)	(9.2)	(25.0)	(25.0)	(10.0)	(10.0)
Exceptional & other		1.0	9.1	(12.4)	(0.4)	1.1	(4.3)	0.0	0.0
Tax		(68.8)	(142.5)	(116.9)	(31.4)	(51.7)	(74.4)	(62.0)	(66.9)
Net operating cash flow		286.6	203.9	109.4	266.9	279.6	306.8	386.4	405.4
Capex		(18.6)	(39.6)	(42.9)	(96.3)	(51.9)	(30.0)	(20.0)	(20.0)
Acquisitions/disposals		(18.6)	(0.8)	(0.0)	(31.5)	(47.9)	(22.0)	(94.9)	0.0
Net interest		1.6	(4.2)	(11.9)	(19.6)	(24.6)	(25.3)	(29.1)	(30.7)
Equity financing		(8.3)	(24.2)	(11.9)	(1.8)	(5.5)	0.0	0.0	0.0
Dividends		(79.8)	(277.3)	(292.8)	(446.1)	(154.0)	(168.4)	(368.8)	(254.4)
Other		48.1	(0.7)	(12.7)	0.3	(18.6)	0.0	(6.3)	(6.9)
Net Cash Flow		211.0	(142.9)	(262.8)	(328.0)	(22.8)	61.1	(132.7)	93.4
Opening net debt/(cash)		(86.4)	(297.4)	(154.5)	108.3	436.2	467.9	473.7	606.4
FX		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	0.0	(8.9)	(67.0)	0.0	0.0
Closing net debt/(cash)		(297.4)	(154.5)	108.3	436.2	467.9	473.7	606.4	513.0

Source: OPAP accounts, Edison Investment Research estimates

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