OPAP

Initiation of coverage

Exclusivity pays dividends

Travel & leisure

OPAP is Europe's only listed gaming operator with 100% pre-paid exclusive retail licences, providing significant barriers to entry. Despite softness in Greek retail spending, management has successfully defended profits through product enhancements and cost controls. OPAP is halfway through its 2020 Vision plan to create a leading gaming entertainment company and further momentum is underway with full deployment of video lottery terminals (VLTs), as well as a move into online. The stock tracked the Greek market down 27% in 2018, but has recovered by c 17% ytd. The business is highly cash generative, with the bulk of FCF paid out as dividends. We estimate a FY19 dividend yield of 8.3%, excluding specials.

Year end	GGR** (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/17	1455.5	197.5	0.42	1.10***	21.1	12.4
12/18e	1557.6	236.8	0.52	0.49	17.0	5.5
12/19e	1748.5	287.9	0.63	0.74	14.2	8.3
12/20e	1944.5	339.1	0.73	0.83	12.2	9.3

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Gross gaming revenue. ***FY17 includes special dividend of €0.70.

High barriers to entry with exclusive concessions

OPAP's exclusive retail licences include lottery, scratch tickets, horse racing and video lottery terminals (VLTs), with the earliest expiration in 2026. This provides meaningful barriers to entry and a secure recurring cash flow. Gross gaming revenues (GGR) are subject to an onerous 35% gaming tax, but the franchised business model is very capital efficient and management is implementing ongoing cost controls. OPAP has additionally realigned the agents' commission structure and is modernising the shop network. Consolidating Stoiximan from H219, we forecast revenue growth of 12.3% in FY19 and 2018–2020 EPS CAGR of 17.9%.

Online and new products to drive growth

Offsetting the ongoing softness in retail spending, OPAP is achieving top-line growth through product enhancements. This specifically includes the VLTs, which we expect to comprise c 18% of revenues by FY20. Other incremental revenues should come from the re-launch of the online sportsbook, combined with imminent online offerings of Kino and Joker (lottery). The recent €145m investment for a controlling stake in Stoiximan (49% online market share) also boosts OPAP's online presence ahead of the anticipated regulation of the Greek online market.

Valuation: €10/share fair value with further €2 upside

OPAP's shares tracked the Greek market down 27% in 2018, but still outperformed the broader European gaming sector (with higher regulatory risks). OPAP trades in line with peers on EV/EBITDA and its 8.3% FY19 dividend yield is very attractive. Our DCF indicates a value of €10.0/share (15.9x FY19 P/E) and the €1.8bn pre-paid tax asset could be worth an additional €2/share. Top-line growth has historically been linked to Greek GDP and further upside could come from faster than expected GDP growth (the IMF projects 2.4% in 2019).

28 February 2019

Price	**€8.9**
Market cap	**€2,839m**

Net debt (€m) at September 2018	462.3
Shares in issue	319m
Free float	67%
Code	OPAP
Primary exchange	ASE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	4.0	8.4	(14.1)
Rel (local)	(5.3)	(5.8)	3.5
52-week high/low		€10.1	€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 privatized in 2013. Sazka Group has a 23.7% stake and significant board representation.

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FY18 results	27 March 2019

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Investment summary

Exclusive licenced operator of Greek national lottery

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), horse racing and VLTs. Through its 67% holding in Hellenic Lotteries, OPAP also has an exclusive licence to operate passive lotteries and instant (scratch) games. The company operates a network of franchised shops (c 4,000 in Greece, and c 200 in Cyprus) and is expanding its online offering in sports betting and lottery games.

OPAP listed on the Athens Exchange in 2001 and, after a series of further secondary offerings and international tenders, it was fully privatised in 2013. Sazka Group, the largest pan-European lottery operator, holds a 23.7% shareholding and is well represented at the board and executive level. Since 2013, OPAP has undergone a number of significant changes, to both modernise and streamline the business. A new CEO, Damian Cope, was appointed in 2016 and the company is halfway through its 2020 Vision transformation programme.

Investment considerations

- **Very high barriers to entry:** OPAP is Europe's only listed pure gaming operator with 100% exclusive licences. The core games (lottery) exclusive licence expires in 2030, the Scratch tickets and Passives licence in 2026 and the Horse Racing licence in 2036. The exclusive licence to operate 25,000 VLTs in Greece expires in 2035.
- **New products to drive growth:** the VLT roll-out, the recent re-launch of the online sportsbook, combined with the FY19 online offerings of Kino and Joker are expected to provide incremental revenue growth. These new products are expected to fully offset the ongoing softness in retail spending (and hence lower core revenues) as well as compensate for the cannibalisation of the traditional retail business (from online, VLTs etc). Including the consolidation of Stoiximan (online casino and sports) from H219, we forecast revenue growth of 12.3% and EPS growth of 19.7% for FY19.
- **Core business is 'non-problem' gambling and taxes are already very high**: we note that OPAP's lottery business and €2 slot limits on VLTs are not associated with problem gambling and the company is therefore unlikely to face meaningful fines or regulatory scrutiny (as recently seen in the UK). Additionally, we do not anticipate any further tax rises, as the 35% GGR tax is already at the top end compared to other European markets (typically around 20%).
- **Proven track record since privatisation, despite economic backdrop**: despite well-flagged economic and political woes, OPAP has managed to defend retail revenues while also reduce costs. Under private management, OPAP has delivered 5.0% CAGR revenue growth and 9.6% EBITDA growth from 2013–18e. The 2020 vision instigated by CEO Damian Cope in 2016 further extends the momentum towards creating a world-class entertainment company.
- **Franchised, modernised network:** OPAP operates through a network of franchised shops, which leads to limited capital expenditure. The agents' commissions have been recently realigned to match the company's business objectives, with projected savings in FY19 of €20-25m. In addition, the estate is in the process of modernisation and OPAP opened c 500 new shops during FY18 (after c 600 shop closures in FY16/17: a consequence of the new agents' commission structure). Approximately half of the new stores are replacing the closures and the remainder relate to the modernisation or relocation of the existing estate.

- **High cash generation and dividend payout ratio:** OPAP has committed to returning the bulk of free cash flow and the average dividend payout ratio has been c 150% since 2013. We forecast a FY19 dividend yield of 8.3% (excluding special dividends).
- **Possible €2/share upside from €1.8bn of pre-paid taxes**: as part of the negotiations to extend the lottery licence from 2020 to 2030, OPAP is only liable to pay for a small portion of future gaming taxes (5% tax on GGR rather than 35% for 10 years- see below for a detailed discussion). This represents a possible €1.8bn additional value, or c €2/share (PV of 2030 payment). In our view, OPAP is likely to use this tax asset as a negotiating tool towards achieving further extensions to its concessions.
- **Embracing regulatory change:** Although the GGR tax increase from 30% to 35% was clearly a negative, OPAP has otherwise been able to take advantage of the changing regulatory landscape. With VLTs, for example, the company has been able to introduce more machines per store. The company has also been able to introduce additional advertising tools, loyalty programmes and CRM activities. Furthermore, the removal of sandblasting from stores' windows has led to a renewed image and improved customer perception.
- **Online momentum:** Ahead of the expected regulation of the online market, OPAP has announced a €145m investment in Stoiximan (online casino and sports betting), which includes a 69% controlling stake in the Greek and Cypriot operations where Stoiximan has a 49% market share.
- **Successful cost containment:** Throughout the transformation programme, OPAP has also successfully implemented cost containment initiatives, such as the optimisation of marketing expenses, an IT transformation project that concluded in mid-2017, leading to annual savings of €10–15m (from H218). Also, importantly, the new agents' commission scheme is now better aligned with the business, with commission linked to NGR rather than wagers.
- **Revenue linked to Greek GDP:** top-line growth has historically been linked to Greek GDP and further upside could come from macro growth (the IMF projects CAGR 2.4% in 2019).

Valuation: €10.0 per share DCF equates to 15.9x FY19 P/E

OPAP's share price is currently c 20% higher compared to full privatisation levels in 2013, with the stock having returned c 50% to shareholders via dividends during this period. During 2018, the shares declined by c 27% in 2018, in line with the Greek market, but this was still better than the general European gaming sector, which fell sharply in 2018 (largely due to regulatory burdens and tax increases in other countries, especially the UK). Year to date, the shares have since recovered by c 17%.

Beyond the macro drivers (Greek GDP), we believe key catalysts for the stock are evidence that the VLT roll-out is picking up pace (ie an increase in GGR/VLT/day) as well as a demonstrable increase in online revenues.

DCF: €10.0 per share with possible €2/share upside

We have performed a DCF with a terminal growth rate of 1.5% and a terminal EBITDA margin of 22%, vs 22.5% in FY18e. Using a WACC of 8.5% produces a value per share of €10.0; flexing the WACC between 8.0% and 9.0% gives a range of €9.20–10.90. Our core DCF valuation equates to 9.0x EV/EBITDA and 15.9x P/E for FY19e.

For our valuation, we have assumed that OPAP will not receive a cash payment for its €1.8bn tax asset in 2030. Instead, we believe there will be further negotiations with the Greek government, such that the exclusive concessions could be renewed free of charge (or at least, inexpensively) in exchange for the repayment. However, should the contract be honoured at face value, we estimate that the present value of the €1.8bn payment in 2030 is equivalent to c €650m or c €2/share.

Clearly, any clarity regarding this tax asset is unlikely to materialise in the near term, but at the very least, we believe it demonstrates OPAP's strong positioning, which can only be a positive.

Not directly comparable to gaming sector

The gaming sector fell sharply in 2018, largely as a result of regulatory concerns and higher taxes (particularly in the UK). None of these issues affected OPAP, which now trades in line with the broader group (on EV/EBITDA basis) but with a very attractive FY19 dividend yield of 8.3%. Overall, we believe the peer group valuation is of limited value, given that the business models of the other listed European gaming companies differ quite considerably from OPAP (eg they are not monopolies, mostly do not participate in lotteries and mostly are far more reliant on online revenues).

Financials: Revenue growth, cost control and strong FCF

OPAP's business model is highly cash generative, with steady revenues from the core lottery business and upside from new products. Cost cutting and realigned commission structures also contribute to a forecast 2018–20 EPS CAGR of 17.9%.

- **Exclusive licences defend core revenues, new products drive growth.** In FY17, GGR grew 4.1% and we forecast 7.0% and 12.3% growth in FY18 and FY19 (FY19 includes six months of Stoiximan). We believe that ongoing weakness in traditional over the counter (OTC) games (lottery, scratch) will be fully offset by the growth in new products (VLTs, virtuals). For example, as a percentage of revenues, we believe VLTs will grow from 4% in FY17 to 18% by FY20.
- **GGR tax and agents' costs are variable:** the major variable costs are the GGR tax (raised from 30% to 35% in 2016) and agents' commission (now based on NGR rather than wagers). OPAP is also concentrating on reducing other costs across the business and, excluding Stoiximan, we forecast stable operating costs. We note that Stoiximan's lower EBITDA margin (12% in FY17) will slightly depress group margins.
- **Cash generative, with high dividend yield:** the business model is very cash generative given the franchise model, the limited working capital risk and the fact that all licence payments already have been made. With leverage already at a sensible 1.4x, OPAP has committed to returning the bulk of free cash flow to shareholders. This equates to an 8.3% and 9.3% dividend yield for FY19 and FY20.

Exhibit 1: Divisional summary

	2014	2015	2016	2017	2018e	2019e	2020e
Lotteries	817.3	829.9	841.3	818.0	785.3	793.1	801.1
Sports Betting	456.3	411.9	397.2	421.1	429.5	410.2	430.7
Instant and Passives	104.1	157.9	159.1	158.9	141.4	140.7	140.0
VLTS	0.0	0.0	0.0	57.6	201.4	302.1	347.5
Stoiximan	0.0	0.0	0.0	0.0	0.0	102.4	225.3
Gross Gaming Revenues	**1,377.7**	**1,399.7**	**1,397.6**	**1,455.5**	**1,557.6**	**1,748.5**	**1,944.5**
GGR Contribution and other levies	(404.5)	(412.0)	(466.7)	(482.6)	(508.0)	(569.9)	(635.9)
% GGR	-29%	-29%	-33%	-33%	-33%	-33%	-33%
NGR	**973.1**	**987.7**	**930.8**	**972.9**	**1,049.6**	**1,178.7**	**1,308.6**
Agents Commission	(359.7)	(362.4)	(358.4)	(369.9)	(382.7)	(392.9)	(409.6)
% of NGR	-37%	-37%	-39%	-38%	-36%	-33%	-31%
Other NGR related commission	0.0	0.0	(26.3)	(38.3)	(55.8)	(62.9)	(68.3)
% of NGR	0%	0%	-3%	-4%	-5%	-5%	-5%
Lottery	375.3	380.7	345.7	337.7	333.5	339.5	343.5
Sports Betting	193.3	176.5	147.1	155.2	164.4	159.7	167.7
Instant and Passives	46.7	69.5	54.7	54.8	49.0	49.3	49.0
VLTs	0.0	0.0	0.0	18.4	64.2	107.9	124.0
Stoiximan	0.0	0.0	0.0	0.0	0.0	66.6	146.4
Gross profit from gaming operations	**613.5**	**625.3**	**546.2**	**564.7**	**611.1**	**722.9**	**830.7**
Total gross profit	613.5	625.3	570.1	592.6	643.9	757.4	866.8
Payroll	(58.6)	(46.1)	(56.2)	(63.8)	(75.4)	(83.0)	(91.3)
% NGR	-6%	-5%	-6%	-7%	-7%	-7%	-7%
Marketing	(78.9)	(69.5)	(65.9)	(67.4)	(68.2)	(102.3)	(143.3)
% of NGR	-8%	-7%	-7%	-7%	-7%	-9%	-11%
Other operating expenses	(129.5)	(132.7)	(140.4)	(155.0)	(149.3)	(164.3)	(172.5)
% NGR	-13%	-13%	-15%	-16%	-14%	-14%	-13%
EBITDA	**346.5**	**377.1**	**307.5**	**306.5**	**350.9**	**407.8**	**459.8**
EBITDA margin	25%	27%	22%	21%	23%	23%	24%

Source: OPAP, Edison Investment Research

Sensitivities: Pace of VLT roll-out and Greek GDP

OPAP's business model is predicated on continuing cash flow from the monopoly businesses, supplemented by product enhancements and moving online. The key sensitivities are the risk that concessions will not be renewed or that taxes will be increased (both highly unlikely in our view). Revenues from the VLT roll-out have been slightly disappointing to date and there remains a certain amount of execution risk regarding both the VLTs and the introduction of online products, both of which could cannibalise the existing core business.

Importantly, OPAP's top line is intrinsically linked to Greek GDP so there will continue to be a high degree of economic and country risk. Also, Sazka Group's significant executive representation could impact future board decisions, although the positive is that OPAP should be able to derive synergies from being part of the wider group.

Creating a world-class gaming entertainment company

OPAP's strategy is to grow the existing business through product enhancement, as well as streamline operations with continuing cost controls. The key elements of the strategy are:

- **2020 Vision:** in 2016, the incoming CEO Damian Cope instigated 2020 Vision to create a world-class gaming entertainment company and OPAP is halfway through this plan.
- **Continuous product enhancement and incremental income:** OPAP's monopoly is well placed to protect the top line (in the context of softness in retail spending), and the company is seeking growth from online and new products. In general, many of the new products (Virtuals, self-service betting terminals (SSBTs), VLTs and online) are targeted at a younger as well as a female demographic, such that the impact of cannibalisation of existing products should be minimalised.
- **Cost controls:** the business model is very cash generative, operating on a capital-light franchise model and the agents' commissions have been realigned to better suit the business objectives. Management is also concentrating on reducing operating costs, with personnel and marketing costs (excluding Stoiximan) expected to remain stable from this point.
- **Exclusive concessions include pre-paid tax asset:** OPAP holds many pre-paid exclusive licences, which represent key barriers to entry, and we believe there is an additional c €2/share upside from a pre-paid tax asset.

2020 Vision: A game of two halves

CEO Damian Cope joined OPAP in 2016 and has embarked on an ambitious 2020 Vison plan to modernise the company. OPAP is halfway through this plan and it has now largely completed its transformation and investment phase (2016–2018). As detailed in Exhibit 3 below, many of the major initiatives over the past two years were necessary to either reduce third-party costs or to provide much-needed investment. OPAP is concentrating on growing top-line through new products (eg online and VLTs) as well as becoming increasingly efficient (eg improving performance and databases).

The company has outlined eight strategic priorities (below) to be used as a general framework for establishing OPAP as a world-class entertainment group.

Exhibit 2: Eight strategic priorities to establish OPAP as a world-class gaming entertainment group

1 Embedding **Customer** Obsession	2 Investing in our **Network**	3 Developing our **People**	4 Building a World class portfolio of **Products & Services**
5 Leveraging the latest **Digital & Technology** Capabilities	6 Committing to our **Communities**	7 Expanding the power of our **Brand**	8 Rebuilding healthy relationships with the **State, Regulator and other bodies**

Source: OPAP's 2020 Vision

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Exhibit 3: 2020 Vision – moving from investment to growth

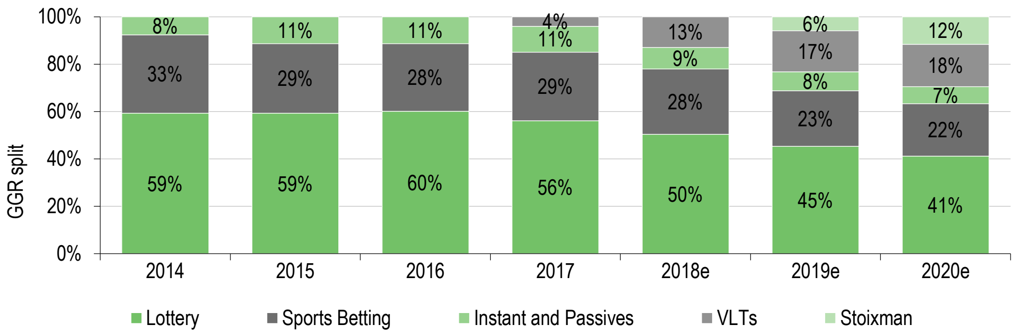
2016–2018 transformation and investment period	2018–2020 growth period
■ **Broaden** product portfolio (VLTs, SSBTs, Virtuals) ■ **Develop** people and build a new OPAP culture ■ **Modernise** the network, including agent relationships, retail estate, technology ■ **Improve** key areas, including brands, RG, regulatory relationships	■ **Entertainment:** offering real customer entertainment and establish OPAP as a true entertainment brand ■ **Online** (currently only a fraction of revenues). The aim is to accelerate online customer engagement and additional revenue generation ■ **New ventures**: develop and introduce new services complementing gaming and attracting new customers (eg Tora). ■ **Information**: build registered customer bases and maximise value by data analysis and insights generation ■ **High performance:** seek further improvements both internally and across the various operating channels

Source: OPAP

Continuous product enhancement

OPAP's portfolio of games is split between fixed-odds betting games and mutual betting games (where the total amount is distributed to winners). Numerical lotteries comprise c 50% of total revenues, with the contribution from other divisions (specifically VLTs) expected to steadily become more significant. Following the €145m investment into Stoiximan (online casino and sports betting), we have assumed this business will be fully consolidated from H219 (see below for more details). We show the separate line item in our forecasts, although this is likely to be included in sports betting in the future.

Exhibit 4: Gross gaming revenue split



Source: OPAP, Edison Investment Research

Numerical lottery games (50% of GGR): Moving online in FY19

Numerical lottery games comprise the largest portion of GGR and consist of six games. The fixed odds games are Kino, Super 3 and Extra 5 and the mutual games are Joker, Lotto and Proto. The two key games are Kino and Joker, which OPAP is planning to bring online during FY19.

- **Kino** was launched in 2003 and is still OPAP's most successful game. Product enhancements are coming from both the new online platform as well as new Kino features (side bets) launched in late 2018. The Kino application will be rolled out across the whole SSBT estate in H119.
- **Joker** was launched in 1997 and is the best-known brand in the portfolio. In 20 years of operation, Joker has distributed over €1bn to first tier winners. Although the brand has slowly been waning over the years, OPAP is concentrating on rebuilding engagement. Similar to Kino, the aim is to attract new online players from FY19 onwards.

Sports betting (28% of GGR): New products and online to drive growth

Sports betting games include fixed odds games Pame Stoixima and Monitor Games and the mutual betting games Propo, Propogoal, Horse Racing Stoixima and Pame Stoixima Virtual Sports. The main game in this category is Pame Stoixima.

- **Virtual** sports were launched in April 2017 to target a younger demographic and have clearly contributed a boost to the betting segment, contributing 15% to sports betting revenues in FY17.
- **SSBTs** were launched in August 2017, with Virtual games introduced to the terminals in November 2017. In Greece, OPAP has 4,900 SSBTs across 2,170 shops and in Cyprus it has 765 SSBTs in 168 shops. Within the relevant agencies, SSBTs have already contributed over 20% to total betting turnover, demonstrating both the appeal of the product and the potential for future revenue growth.
- **Online** is currently a minimal contributor to OPAP's GGR. As we discuss below, OPAP has recently relaunched its online sportsbook, offering competitive odds, live streaming, cash-out and a wide variety of betting events and markets. Additionally, through the €145m investment for a controlling stake in Stoiximan (Greece and Cyprus), OPAP is well positioned ahead of the expected regulation of the online market (possibly by Q419). See below for more details.

Instants and Passives (9% of GGR): Low growth, but steady business

OPAP holds a 67% stake in Hellenic Lotteries which has operated Passive and Instant lotteries since 2014. The three Passive brands are Laiko (weekly jackpot), Ethniko (using unique numbers) and State Lottery (the traditional draw game on New Year's Eve). Instant lotteries include Scratch. Passive and Instant Lotteries are available at OPAP agencies and street vendors and Scratch games can be found at kiosks, post offices etc.

VLTs (13% of GGR): Pace of roll-out is key to growth

As part of its growth strategy, OPAP is rolling out 25,000 VLTs (certified retail slot machines), into 'Play' gaming halls and selected agencies. This ongoing investment in VLTs and 300+ new concept shops is one of the largest and fastest gaming store roll-outs in Europe, over one and a half years. The majority of the new Play stores will contain 30–50 machines, although OPAP is also opening some larger flagship stores alongside smaller ones (with lower capex requirements), which are more suitable for less dense locations.

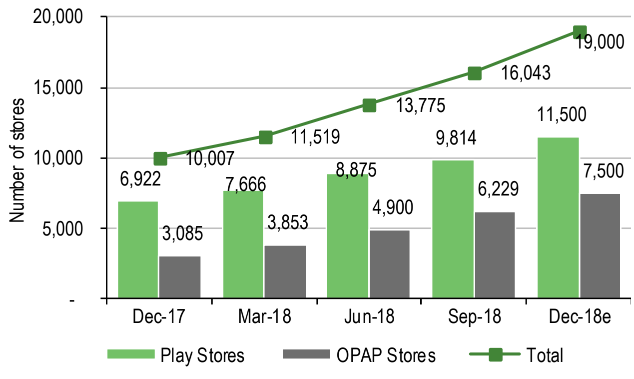
VLTs have a €2 limit, which is in line with the recently reduced FOBT stake limits in the UK. Importantly, unlike the traditional OTC games, players are required to register and there were 270,000 registered players at September 2018 (which helps populate OPAP's database). In terms of demographics, 40% of VLT players are younger than 35 and 30% are women. Importantly for incremental revenues, 20% of all VLT players are new to OPAP. Apart from the general reliance on the macro environment, a key driver for the VLT business will be to shift revenues away from the illegal machines towards OPAP venues. OPAP is hopeful that its VLT jackpots in H119 will provide a suitable incentive for players to shift allegiance. See below for more details on illegal gaming.

19,000 VLTs by YE19, but GGR per VLT per day is slowing

The VLT product was officially launched in January 2017. Over the year, OPAP rolled out 10,000 machines with an anticipated 19,000 finalised by YE18 and 25,000 by YE19. At Q318, 16,043 VLTs were operational in 320 Play gaming halls and 1,762 agencies. At this stage, there are indications that VLTs in the Play gaming halls are performing better than within the agencies, although we believe it is too early to discern a long-term trend.

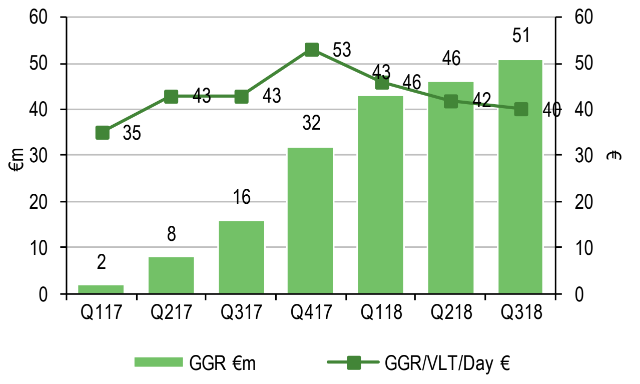
At Q318, VLTs generated €51m GGR, up from €16m in the prior year and from €46m in Q218. We note that GGR per VLT per day has declined from a high of €51 in Q417 to €40, suggesting the second batch of machines has experienced a more limited ramp up. However, we believe this metric should rise to c €45–50 in FY19 onwards.

Exhibit 5: Roll-out of VLTs



Source: OPAP

Exhibit 6: VLT GGR performance



Source: OPAP. Note: Q218 GGR/VLT/day excludes first three weeks of August (and would otherwise be 38)

Online strategy: Beginning in earnest in 2019

Unlike its other listed peers, OPAP's online presence has been negligible to date and the company does not yet break-out online GGR. One of the reasons for the delay into online has been agents' concerns about cannibalisation of retail revenues (and hence lower commission). However, following the migration of all games to the new IT platforms, OPAP is now focusing on providing an online option across many of its products, starting with online sports betting from late 2018 and also importantly an online offering for Joker and Kino in 2019.

Ahead of the upcoming regulation of the online market, OPAP has relaunched its online sports book (Pamestoixima.gr) in November 2018, which has more betting opportunities and competitive odds. OPAP has also announced a €145m investment for a controlling stake in the largest online sports player in Greece (as detailed below), which will be run independently from pamestoixima.gr and will clearly extend OPAP's online presence.

€145m investment into Stoiximan: Leading online sportsbook operator

In September 2018, OPAP announced the acquisition of a 36.75% stake in TCB Holdings 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.

TCB Holdings comprises two online gaming brands: Stoiximan in Greece and Cyprus and the Betano brand in Romania and Germany (and possibly Portugal). TCB's online market share is 49% in Greece, 44% in Cyprus and 10% in Romania.

In FY17, Stoiximan reported GGR of €136m and EBITDA of €16m. The implied valuation for the deal is therefore 8.5x EV/EBITDA, which is in line with the international peer group.

The deal will enable OPAP to leverage the latest in digital technology, ahead of the anticipated regulatory changes in FY19, when operator licences for online sports betting, live casino and poker could be granted. We note that the deal is still subject to regulatory approval.

The deal will enhance OPAP's presence in the Greek and Cypriot online sports betting markets but will be run independently from the existing business.

Given the 69% controlling stake in the key Greek and Cypriot markets, we have fully consolidated Stoiximan into our figures from H219, contributing €11m and €25m to EBITDA in FY19 and FY20. We note that the transaction has not yet concluded and thus there is no auditor's approval on the consolidation method.

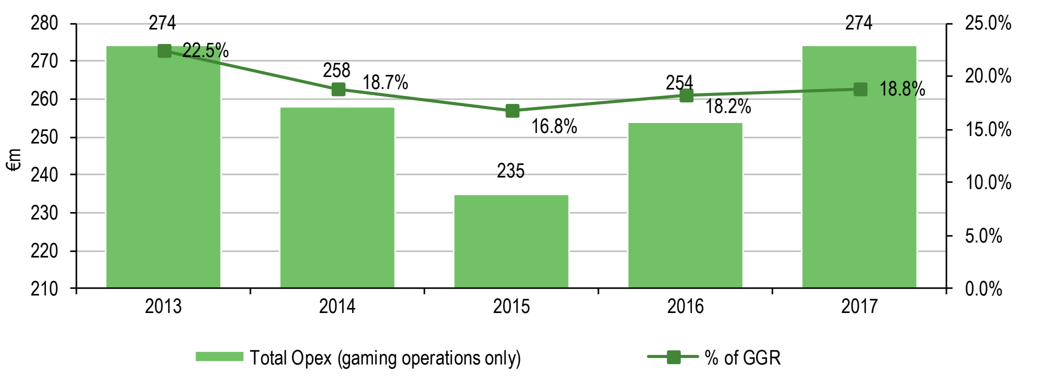
Cost structure: High GGR tax, but stable fixed costs

Within OPAP's cost structure, the two major variable components are the GGR tax and agents' commission. As discussed in more detail below, the GGR tax was raised from 30% to 35% in 2016. In terms of agents' commission, OPAP has realigned the commission to reflect NGR rather than wagers. The company has also succeeded in maintaining stable operating costs, in the context of rising revenues, which has helped contribute to a steady increase in underlying EBITDA margins.

Continuing operating cost controls: Leading to higher EBITDA margins

As a direct result of OPAP's ongoing cost controls, other operating costs have remained relatively stable since 2013 despite the commencement of several material projects (Hellenic Lotteries, Horse Racing, VLTs and Virtual Games). This has been the key reason for underlying EBITDA margin growth (ie excluding the additional 5% GGR tax) and we forecast relatively stable operating costs going forward (see pages 18-19 for further details).

Exhibit 7: Total operating costs (gaming operations only)



Source: OPAP

35% GGR tax: At the top end of European taxes

Coinciding with the full privatisation of the company in 2013, a 30% GGR tax was introduced by the Greek regulator. In essence, this tax replaced the dividend payments to the government. Three years later, the GGR tax was further increased to 35% (January 2016) and this is now at the very top end of gaming taxes across Europe. As a reference, other European gaming markets are levelling out at c 20% tax (eg 21% in UK from April 2019, 18% in Sweden, 20% in Spain, 20% in Denmark, 25% in Italy).

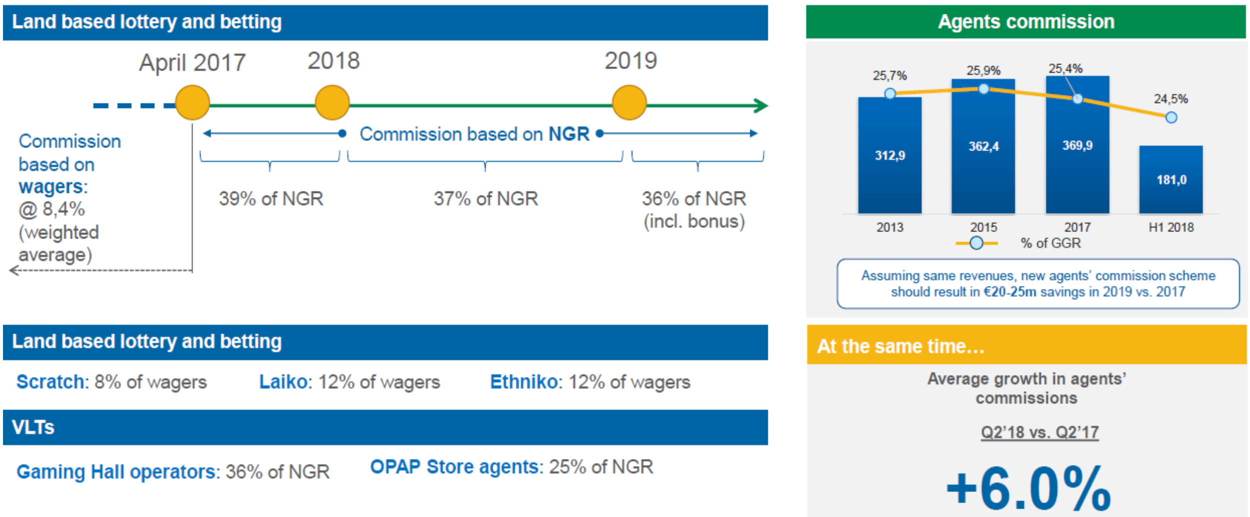
Franchise network, variable agents commission

OPAP operates via a franchise network of shops throughout Greece and Cyprus, paying commissions to agents and committing only limited resources to the kit-out of the shops. The company has recently renegotiated its agents' commission structure and the dynamics of the estate have also altered.

- **Rejuvenating the estate:** in terms of the shops, OPAP has been gradually churning and rejuvenating its estate since renegotiating the agents' commissions. As a result of the negotiations, c 15% of the network (500–600 shops) was closed, but OPAP has since opened 500 shops during 2018. About half of these were white-label stores to replace the closures, with the remainder being relocations/restorations of existing shops. At November 2018, OPAP had 3,902 stores, which compares to 4,367 in 2017. As discussed above, OPAP is also developing a new network of gaming Play stores for its VLTs and, at November 2018, there were already 331 Play shops across Greece.

- **Agents' commissions are now fully aligned with the business.** For traditional games, agents previously received a variable fee based on wagers. However, the new commission structure has moved to a percentage of net gaming revenues, going from 39% in 2017 to 37% in 2018 and 36% from 2019 onwards. Assuming the same level of NGR, this equates to a €20–25m cost saving in 2019 versus 2017, although management notes the average growth in individual agents' commission is 6%. For VLTs, the agents' commissions are 36% in gaming galls and 25% of NGR within agencies.

Exhibit 8: Agents' commission aligned with OPAP business objectives



Source: OPAP

Concessions: Barrier to entry with possible tax upside

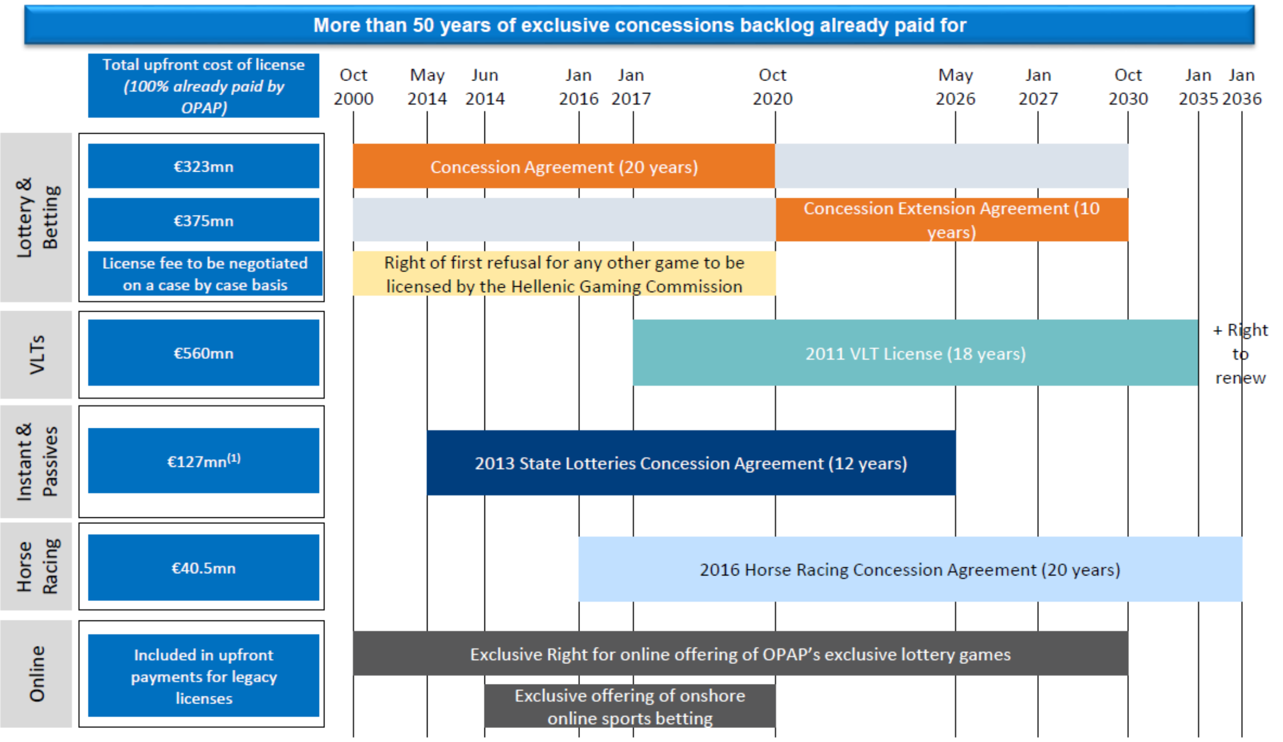
Key to OPAP's strategy is that it holds exclusive concessions in all land-based gaming in Greece, apart from casinos. The core games exclusive licence has been extended until 2030, the Scratch tickets and Passives licence expires in 2026 and the Horse Racing licence expires in 2036. Additionally, the exclusive licence to operate 25,000 video lottery terminals (VLTs) in Greece expires in 2035. To date, OPAP has paid €1.43bn for these concessions.

Pre-paid taxes provide further upside

The lottery and betting products concession was originally granted for the 2000–20 period. When extended in 2011 (for an additional 10 years up until 2030), a consideration of €375m was agreed. 80% of the €375m consideration paid (namely €300m or a future value of €1.8bn) corresponded to the prepayment of GGR contribution over 2021–30 based on projections for GGR performance for this period. OPAP will be also liable for the payment of a 5% duty post 2020. In 2030, at the end of the 10-year period, there will be a settlement between OPAP and the Greek State, depending on the nominal tax that will actually apply over 2021–30 (35% based on the current regime). In 2030, OPAP will either pay an additional consideration, which will be calculated and adjusted annually in the years 2020–30, or in the event that the settlement amount is negative, this will be paid by the Greek State back to OPAP.

This estimated €1.8bn is therefore the sum that the government is contractually bound to return to OPAP in 2030 (assuming that the GGR projections are correct). As we discuss in the valuation section, we estimate that the present value equates to c €650m or €2/share (if taken at face value). In our view, however, it is highly likely that the Greek government will seek to renegotiate, given the implications for the country's coffers. We believe a more realistic outcome would be that OPAP is granted a further extension of the monopoly in lieu of reduced tax payments. This is clearly also a big positive, but falls outside our discounted cash flow calculation.

Exhibit 9: Concessions – secure backlog with long maturities



Source: OPAP. Note: [1]Total consideration of €190m paid by consortium (OPAP, Scientific Games, Intralot) of which €127m was paid by OPAP for its 67% stake.

Management

OPAP's board comprises of 10 non-executive directors (including three independent directors) and three executive directors (chairman, CEO and CFO). Damian Cope was appointed CEO in July 2016, having formerly been group strategy director at Ladbrokes and has been responsible for launching the 2020 Vision for the company.

Many of the board members are associated with some of OPAP's major shareholders: Sazka Group (Europe's largest lottery business), KKCG and EMMA Capital. KKCG and EMMA Capital are both key shareholders of Sazka Group with 75% and 25% stakes respectively.

Exhibit 10: Board and management team

Name	Role	Background
Kamil Ziegler	Executive chairman	Former CEO and current BoD member of Sazka, the Czech lottery operator. Previous experience includes chairman and CEO of Czech state-owned Consolidation Bank, Board Member of PPF Group and deputy CEO and board member of Czech Savings Bank.
Damian Cope	CEO (since July 2016)	20 years' experience in the gaming industry, and most recently MD and International and Group Strategy Director of Ladbrokes. Other roles include board director of Sportium Apuestas Deportivas (Spain), CIO of Gala Coral Group, as well as senior roles at Rank Group and Blue Square.
Michal Houst	CFO, Deputy CEO and executive member of BOD	Joined EMMA Group in 2013, where key responsibilities included the privatisation of OPAP. Prior roles include chief banking analyst at PPF Russia and financial manager at JM Engineering.
Spiridon Fokas	Vice-chairman, non-executive member	Member of the Hellenic Law Association, member of the board of directors of Aegean Marine Petroleum Network Inc. Member of the Piraeus Bar Association since 1980.
Pavel Horak	Vice chairman and non-executive member	Currently partner and CIO of EMMA Capital and board member of Sazka Group. Prior roles include CFO of Home Credit Group, CFO of PPF Group and CFO of TV Nova.
Pavel Saroch	Non-executive member	Currently board member of Sazka Group and CIO and board member of investment group KKGC. Prior positions include board member of IFB (consultancy and private investments).
Christos Kopelouzos	Non-executive member	Currently Co-CEO of Copelouzos Group with business activities in the area of Natural Gas, Renewable Energy, Electricity Production and Trading, Real Estate, Concessions, Airports and Gaming.
Stylianos Kostopoulos	Non-executive member	Head of the Family Office of the Founders of Aegean Oil, as well as BOD member, CFO, Financial Advisor and Treasurer in various companies. Also a Member of the BoD of EMMA DELTA VCIC and its affiliates. Prior roles include managerial positions in the Financial and Banking sector.
Marco Sala	Non-executive member	CEO and Board Member of International Game Technology ("IGT") and previously CEO of GTECH S.p.A. (Lottomatica Group). Other prior roles include CEO of Buffetti, Head of the Italian Business Directories Division for SEAT Pagine Gialle, Head of the Spare Parts Divisions and Head of Lubricants at Magneti Marelli (a Fiat Group company) and various marketing positions at Kraft Foods.
Robert Chvátal	Non-executive member	CEO of Sazka Group and vice-President of European Lotteries (the industry association). Prior roles include CEO and board member of Slovak Telecom in T-Mobile Slovakia and CEO for T-Mobile Austria, Chief Marketing Officer and member of the BoD of T-Mobile Czech Republic.
Rudolf Jurcik	Independent non-executive member	Owner and Executive Director of the Prestige Oblige, Private Management & Consultants FZ LLC in Dubai. Prior roles include CEO of MAF Hospitality (Property) in Dubai, President of the Oberoi International Group in New Delhi, Special Advisor to the CEO of Air France Group in Paris and Managing Director of Forte/Meridien Hotels in Paris.
Igor Rusek	Independent non-executive member	CEO of ATAG PCS, a leading Swiss based European Advisory Company, chair of ATAGs Compliance Audit Team and Board Member for various international groups of companies.
Dimitrakis Potamitis	Independent non-executive member	Currently chairman of the Audit Committee in Resolute Asset Management S.A and deputy member of the Quality Review Council of Hellenic Accounting and Auditing Standards Oversight Board (HAASOB/ELTE) and member of the Hellenic Institute of Public Accountants – Auditors. He is also an Independent, Non-Executive Board Member of Aegean Baltic Bank S.A. and Chairman of the Audit Committee, as well as Member of the Remuneration Committee (from 2012) of the bank.

Source: OPAP

Greek gaming sector

The Greek gaming market is regulated by the Hellenic Gaming Commission (HGC) and a Three-Member Supervisory Committee is responsible for the supervision and exercise of preventive control over OPAP to protect the public interest. In 2014, the Greek State Council ruled that OPAP's monopoly in Greek gaming was irrevocable and no appeal can be raised before a national or EU Court.

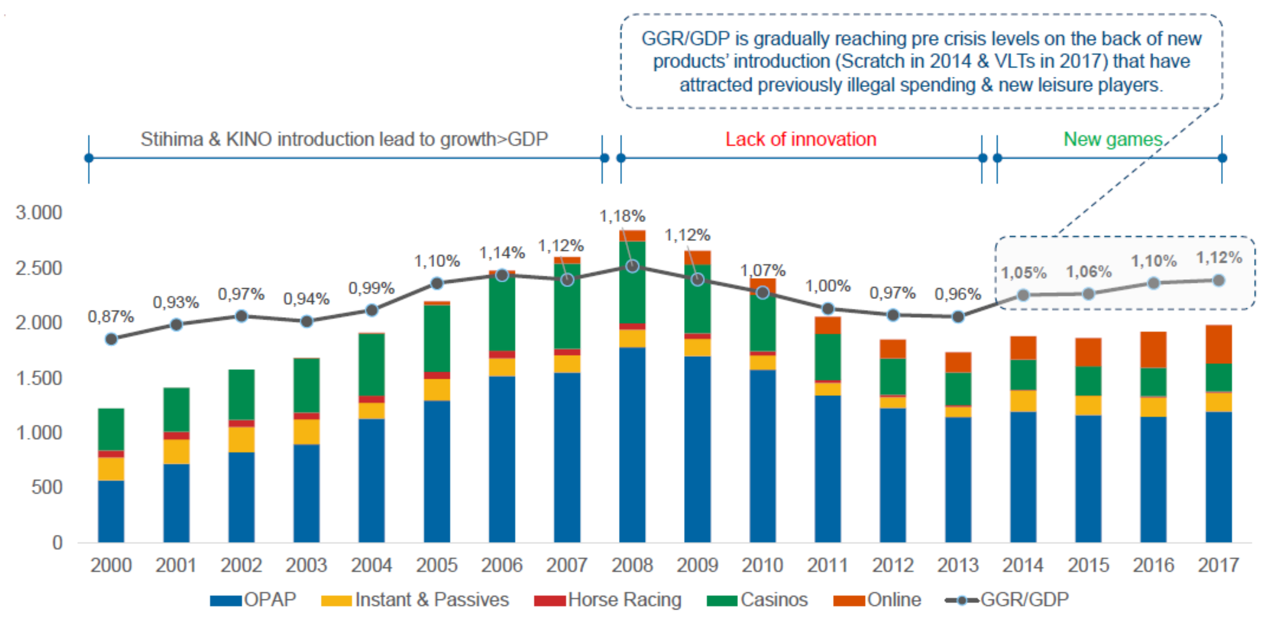
The HGC estimates that total legal Greek gaming market amounted to €1.9bn in 2017, of which OPAP comprised €1.37bn GGR (including Horse Racing and Hellenic Lotteries). Land-based casinos comprised an estimated €254m from Casinos, with online amounting to c €280m.

According to H2 Gambling Capital, GGR per adult in Greece was €210 in 2017, broadly in line with the European average. Given the longstanding cultural tendency to gamble in Greece, we note that GGR as a percentage of GDP was 1.12% in Greece, compared to the European average of 0.68%. During 2018, Greek GDP expanded by 2% and the IMF projects 2.4% growth in 2019.

Large illegal market: Represents opportunity once tackled

Although OPAP has been granted a monopoly on its gaming activities, there is still a significant illegal market, both in the machine market (VLTs) and with illegal online sites. Over 500 illegal slot machine venues have been identified (suggesting an illegal slots market larger than OPAP's legal VLT business). In addition, over 2,700 online websites were blacklisted at September 2018.

Exhibit 11: Retail and online gaming growth in Greece



Source: OPAP, H2 Gambling Capital, Hellenic Gaming Commission. Note: *Since 2014 Instant and Passives and since 2016 Horse Racing have been operated by OPAP.

Online lottery: Launching in FY19

The Greek online lottery business is non-existent although, as discussed above, OPAP is transitioning some of its key games online, largely to attract a younger demographic (Kino and Joker in particular). Over time, this online revenue should supplement the established land-based business.

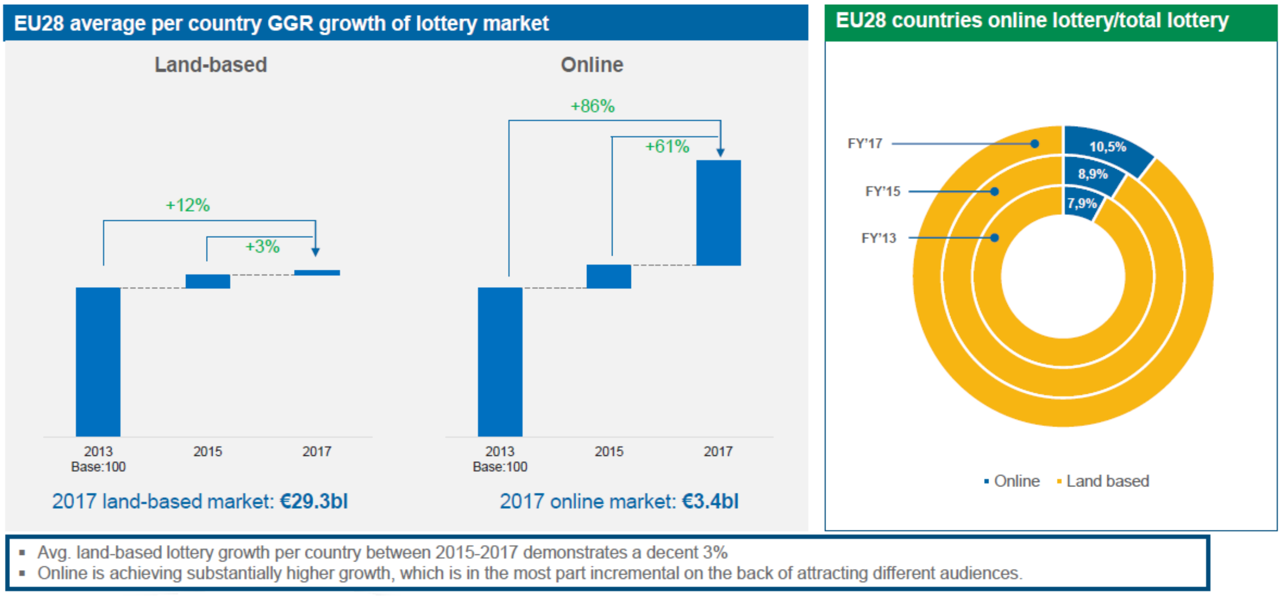
European peer group suggests online could be very meaningful

As detailed in Exhibit 12 below, there is precedence in many other European markets that suggests significant upside potential from online lottery growth. Across Europe, online lottery comprises 10.5% of total lottery revenues and importantly, retail lottery has remained either stable or continued to grow at low single-digit rates.

While recognising that growth in Greece may not be comparable to other countries (given lower GDP growth etc), we believe the dynamics between online and retail should be reasonably similar and therefore approximately 10% of the lottery business should be derived from online in the medium term. In essence, even if softness in retail spending impacts the core business, this should be offset by the introduction of online (which also should appeal to a younger demographic).

We also note that in this area, OPAP should be able to benefit from expertise from its main shareholder, Sazka Group.

Exhibit 12: Land-based lottery growth accompanied by incremental online contribution



Source: OPAP, H2 Gambling Capital

Online gaming market: Regulation expected in 2019

HGC estimates that the Greek online gaming market amounted to €280m in 2017 vs €215m in 2016 and €116m in 2015. This compares to other more mature markets such as the UK at c €6bn, Sweden at c €1bn, Italy at c €1.5bn and Spain at c €750m (Edison estimates). Greek GGR taxes are 35%, which is far higher than many other European countries and is one reason for the relatively high level of illegal online gambling. Within the legal sports betting market, the main competitors are Stoiximan, bet365 and GVC.

The full regulation of the online market could begin as early as Q419, following the publication of draft e-gaming legislation in 2018. Under the draft proposals, five-year licences will cost €4m for sports betting and €1m for live casino and poker and there is no limit to the number of potential licences. We note that online slots have been eliminated from the proposal. This is an important issue, as online slots are a very significant generator of revenues in other markets. We believe that the omission of online slots, combined with the extremely high tax rate, could prevent many operators from applying for a licence.

The blacklisting of unlicensed operators will continue and licensees will be required to have a registered office in Greece or another EU country. In all cases, there will have to be a physical server in Greece.

Sensitivities

OPAP's business model is predicated on continuing cash flow from the monopoly businesses, supplemented by product enhancements and revenue growth from online. The main sensitivities to the business model are:

- **Concession risk**: In 2011, OPAP extended its exclusive concession for retail games to 2030. While there is always some degree of risk that the concessions won't be renewed (or will be exorbitantly expensive), the 2014 State Council's final decision on OPAP's monopoly provides some comfort. In addition, OPAP has a tax asset of c €1.8bn, which the government is contractually bound to pay in 2030 (see page 11 for details). We believe that this €1.8bn tax prepayment could be exchanged with an extension of the concession agreement post 2030.

- **Regulatory risk**: across all jurisdictions, the gaming industry is subject to changes in regulations (as recently seen in the UK) and the Greek government has already raised the GGR tax from 30% to 35% since full privatisation. Although it is possible there will be further tax rises, the 35% GGR tax is already well above other regulated European countries so we see this as reasonably unlikely. Other regulatory issues such as source of funds, anti-money laundering, know your customer etc could also become more onerous (as again seen in the UK), although we note that OPAP's businesses are not generally associated with problem gambling and will be unlikely to face the same regulatory scrutiny.
- **Illegal market:** this remains a very significant issue for OPAP, with the illegal VLT market probably larger than OPAP's own VLT business. Although the government has stated it will pursue illegal activity, until there is more concrete action we believe illegal premises (for VLTs) and sites (for online) will continue to be OPAP's number one competitor, which will certainly hamper the company's growth prospects.
- **Economic and political risk:** the Greek economy has suffered well-documented challenges since 2008 and softness in retail spending is an ongoing risk. We note that gaming spend per adult (as a percentage of GDP) in Greece is already well above the European average. This clearly presents a risk, particularly if GDP growth slows down. There are also upcoming elections in 2019, the outcome of which could delay the implementation of pending online regulation.
- **Execution risk**: the roll-out of VLTs may not proceed according to plan and the GGR per VLT per day has been in decline over the past few quarters. However, we note that our VLT growth forecasts (50% in FY19 and 15% in FY20) are already below previous consensus' expectations. As an indication of the sensitivity, if we reduce our VLT growth forecasts by 10%, our DCF valuation declines by c 1%.
- **Stoiximan acquisition is still under review:** we believe the acquisition of a controlling stake in Stoiximan is a well-conceived strategy to boost online growth, giving OPAP an immediate market-leading position. However, this acquisition is still under review by the regulator and there is consequently a risk that it may not ever be finalised. In this case, OPAP would need to grow its online presence from a much lower base and it faces significant competition.
- **Cannibalisation risk:** as players begin to play online and on VLTs, there is the strong possibility this will cannibalise the existing OTC business more than our forecasts**.**
- **Major shareholder:** while we believe that Sazka Group's strategic stake is an overwhelming positive (providing expertise in the European lottery business), there is always a possibility that the business is controlled by a major shareholder whose interests may not always be aligned with other investors. However, interests have been aligned so far (cost containment, business growth, dividend).

Valuation: €10 per share DCF, with €2 upside potential

OPAP's shares fell c 27% in 2018, broadly in line with the Greek market, but still better than the broader gaming sector, which fell sharply in 2018 (largely due to regulatory burdens and tax increases). The stock has since bounced c 17% ytd. Beyond the macro drivers (Greek GDP), we believe key catalysts for the stock are:

- **Successful VLT roll-out and performance**: the pace of the VLT roll-out has been slower than initially expected, with GGR per VLT per day dropping through 2018. In our view, success will be easier to gauge once all the VLTs have been installed (YE19).
- **Online:** unlike its peers, OPAP's online revenues are negligible and not reported separately. We expect that concrete evidence of online momentum could be an important catalyst and this could potentially happen with the launch of online lottery, as well as the regulation of the Greek

online market (possibly by YE19). The consolidation of Stoiximan could also provide a platform to report online revenues.

DCF: €10 fair value with €2 potential upside

We have performed a DCF with a terminal growth rate of 1.5% and a terminal EBITDA margin of 22%, vs 22.5% in FY18e. Using a WACC of 8.5% produces a value per share of €10.0; flexing the WACC between 8.0% and 9.0% gives a range of €9.20–10.90. Our core DCF valuation equates to 9.0x EV/EBITDA and 15.9x P/E for FY19e.

For our valuation, we have assumed that OPAP will not receive a cash payment for its €1.8bn tax asset in 2030. Instead, we believe there will be further negotiations with the Greek government, such that the exclusive concessions could be renewed free of charge (or at least, inexpensively) in exchange for the repayment. However, should the contract be honoured at face value, we estimate that the present value of the €1.8bn payment in 2030 is equivalent to c €650m or c €2/share. Clearly any clarity regarding this tax asset is unlikely to materialise in the near term, but at the very least, we believe it demonstrates OPAP's strong positioning, which can only be a positive.

Peer group analysis

Although OPAP is a listed gaming business, we note that its business model is very different from the other listed European gaming companies (eg they are not monopolies, mostly do not participate in lotteries and mostly are far more reliant on online revenues).

We generally consider that the peer group valuation is of limited value (given the differences in models and geographies), but we nonetheless provide a peer group valuation table below, as some of them do operate in the retail space (GVC, William Hill, Rank). Additionally, as OPAP begins to grow its online presence, the comparison could become more relevant.

The broader gaming sector fell sharply in 2018, largely as a result of regulatory concerns and higher taxes (particularly in the UK). None of these issues affected OPAP, which now trades in line on an EV/EBITDA basis. However, the FY19 dividend yield of 8.3% is much higher than the average of 5.0% and we note that our forecasts do not include special dividends.

Exhibit 13: Peer group valuations

Name	Quoted Currency	Market cap (m)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	P/E 1FY (x)	P/E 2FY (x)	Div Yield 1FY %	Div Yield 2FY %
888 Holdings	GBp	645	6.8	7.1	12	12.7	6.3	6.3
Betsson	SEK	10,715	7.3	7.0	11.4	10.9	4.4	4.6
GVC Holdings	GBp	3,846	7.4	8.6	8.9	11.6	4.8	4.9
Kindred Group	SEK	22,570	9.9	9.3	14.3	13.1	5.5	5.6
OPAP	**EUR**	**2,839**	**9.4**	**8.1**	**17.0**	**14.2**	**5.5**	**8.3**
Paddy Power Betfair	GBp	4,729	10.3	11.3	16.3	18.2	3.2	3.1
Playtech	GBp	1,336	4.5	4.1	8.0	7.1	7.0	7.4
Rank Group	GBp	646	5.3	5.1	11.5	10.9	4.8	5.0
Stars Group	CAD	4,542	12.2	9.4	8.0	8	0.0	0.0
William Hill	GBp	1,609	5.8	7.8	9.2	15.8	6.6	4.8
Average			**7.9**	**7.8**	**11.7**	**12.2**	**4.8**	**5.0**

Source: Thomson Reuters. Priced at 28 February 2019

Financials

Revenues

We believe GGR will continue to demonstrate ongoing weakness in traditional games (betting, scratch), which should be more than offset by the growth in new products (VLTs, Virtuals). In total, FY17 GGR grew 4.1% and we forecast FY18 GGR growth of 7.0%. We have consolidated Stoiximan from H219 and, including an additional €102m revenue, our FY19 GGR shows growth of 12.3%.

- **Lottery** GGR decreased from €841m in FY16 to €818m in FY17 and by 7.5% for the first nine months of FY18. The decline of the lottery business is due to VLT substitution and the negative impact of 500 shop closures, although we note that the new KINO features are minimising the decline. We therefore forecast a 4% decline in lottery revenues in FY18. Looking ahead, the introduction of online products (Kino, Joker) should help to mitigate the retail decline and we forecast broadly stable revenues in this division in FY19 and FY20.
- **Sports-betting** revenues increased 6% in FY17 to €421m, helped by the launch of Virtuals. However, as result of a particularly weak Q318, betting revenues in the first nine months of the year declined 0.4%. We forecast a FY18 GGR of €430m, which equates to 2% growth, as the gross win margin begins to normalise in Q418. Pressure for the land-based sports betting comes from competition from online competitors (with better odds) and the cannibalisation from Virtuals. With no major competitions, we forecast a 5% revenue decline in FY19, returning to 5% growth in FY20, as the online offering begins to gain traction.
- **Instant and Passives**: FY17 GGR in this division was flat at €159m; however, the first nine months of FY18 showed a 6.4% decline, due to weakness in Scratch. The company has announced some product innovations for the fourth quarter, but we believe revenues will continue to decline and forecast an FY18 GGR drop of 11% to €141.4m.
- **VLTs**: this product was launched in FY17 and generated GGR of €57.6m in the first year. Although GGR per VLT per day has been declining along with the addition of new machines (see page 8), the overall GGR is expected to continue growing strongly (although at a slower pace than originally envisaged). We forecast GGR growth of 250% in FY18 to €201m and a 50% growth in FY19 to €302m.
- **Stoiximan**: following the €145m investment into TCB (Stoiximan), we have assumed this business will be fully consolidated from H219. We have assumed a 15% revenue growth in FY19 (€102m for half the year) and 10% growth in FY20 (€225m), which compares to 30% growth in FY18. We note that although the transaction has not yet concluded and there is no auditor's approval on the consolidation method, we are proceeding with full consolidation since on transaction completion OPAP will own directly and indirectly 69% of Stoiximan Greek and Cypriot operations.
- **Other operating income**: through the Tora subsidiary, OPAP is leveraging its network to offer basic services such as pre-paid cards and the payment of utility bills. These services will all be offered inside existing OPAP shops. We understand that this initiative is primarily aimed at driving traffic through stores and we have only added modest growth to this income line.

Costs

- **Gaming taxes:** total gaming taxes of €483m represented 33.2% of GGR in 2017. The GGR tax varies across the product portfolio: 35% on all legacy games (notably lottery); 30% for VLTs; 30% for Instant and Passives and Horse Racing. As VLTs begin to increase as a percentage of revenue, clearly the overall tax rate will be slightly reduced. We forecast GGR tax of 32.6% in FY18 and FY19.

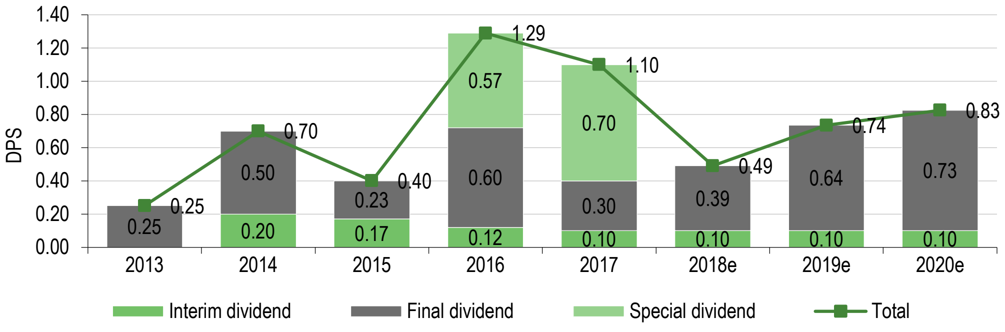
- **Agents' commissions** were 38% of NGR at FY17 and with the introduction of the new commission scheme (detailed above), we forecast 36.5% in FY18 and 33.3% in FY19. Agents' commissions for VLTs is 36% in gaming halls and 25% in agencies. We note that Stoiximan is a pure online business and therefore we assume there is no agents' commission associated with this business.
- **Other NGR-related commission**: this was 3.9% of NGR in FY17 and is expected to grow to 5.3% in FY18, due to the larger VLT revenue and increased contribution from Virtuals and SSBTs.
- **Other operating expenses:** the reduction of operating costs (personnel, marketing and IT) has been a major initiative for the 2020 plan and we expect continuing cost controls. We note that for the first nine months of FY18, payroll costs increased by 15.5% as OPAP has increased headcount to drive the modernisation plan, but management has said it expects these personnel costs to remain stable from this point. The company has also guided to broadly flat marketing costs in FY18. Excluding Stoiximan, we forecast total operating costs of €293m in FY18 and a similar level in both FY19 and FY20. Assuming that Stoiximan is fully consolidated from H219, however, our marketing costs rise to 9% of total NGR in 2019 (from 7%), as online businesses typically are heavily reliant on marketing to attract new customers. We expect Stoiximan's marketing spend to be c 30% of revenues.
- **Depreciation and amortisation**. OPAP has changed the amortisation charges for the VLT licence (moving to straight line) and we forecast total depreciation and amortisation of €92.5m in FY18.
- **Net interest:** we forecast net interest charges of €23.2m in FY18 and with fixed interest costs of 3.4% we forecast total net interest of €21.5m in FY19 and €22.4m in FY20.
- **Tax:** we forecast a reported tax of €70.6m in FY18 and we use an effective rate of 29% in our forecasts.

Cash flow and balance sheet

The business model is very cash generative, given the franchise model, the limited working capital risk and the fact that all licence payments have been made.

- **Capex 2017–2019** investment programme is coming to an end. From a peak of €75m (excluding licence payments) in 2017, which was spent on IT systems, VLTs and SSBTs, management expects capex to decline to €45–50m in FY18 and normalising at c €15–25m from FY19 onwards. We include €50m for FY18 and €25m per year thereafter.
- **Net debt:** at Q318, total debt of €655m included €200m retail bonds, with no significant repayments due until 2022. In our FY19 figure, we have added a further €100m debt for the Stoiximan acquisition (after a €50m payment in December 2018) and, assuming no special dividends, the net debt level goes from €473.0m in FY18 to €463.9m in FY19. For FY18, this equates to 1.35x net debt/EBITDA, in line with the company's long-term targets.
- **Dividend:** management has committed to return the majority of free cash flow to shareholders (we assume a 90% payout ratio). As a result, we forecast FY18 dividends of €0.49/share and FY19 dividends of €0.74/share. This equates to a cash payment of €154m in FY18, which includes the €0.1 interim dividend. Although OPAP has historically distributed special dividends, we have not assumed any further specials in our forecasts.

Exhibit 14: Dividend distribution



Source: OPAP, Edison Investment Research

Exhibit 15: Financial summary

€m	2014	2015	2016	2017	2018e	2019e	2020e
31-December	ISA	ISA	ISA	ISA	ISA	ISA	ISA
INCOME STATEMENT							
GGR	1,377.7	1,399.7	1,397.6	1,455.5	1,557.6	1,748.5	1,944.5
NGR	973.1	987.7	930.8	972.9	1,049.6	1,178.7	1,308.6
Cost of Sales	(764.2)	(774.3)	(827.5)	(862.9)	(913.7)	(991.2)	(1,077.7)
Gross Profit	613.5	625.3	570.1	592.6	643.9	757.4	866.8
EBITDA	346.5	377.1	307.5	306.5	350.9	407.8	459.8
Normalised operating profit	289.6	318.1	252.4	218.8	260.1	309.4	361.5
Impairments	7.5	(14.1)	0.0	(2.7)	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share-based payments	(0.9)	(1.2)	(3.1)	(1.5)	(1.6)	(1.6)	(1.6)
Reported operating profit	296.2	302.8	249.3	214.6	258.5	307.8	359.9
Net Interest	1.6	(4.7)	(13.3)	(21.1)	(23.2)	(21.5)	(22.4)
Joint ventures & associates (post tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	7.8	1.5	1.0	(0.3)	0.0	0.0	0.0
Profit Before Tax (norm)	299.0	314.9	240.0	197.5	236.8	287.9	339.1
Profit Before Tax (reported)	305.6	299.6	236.9	193.2	235.2	286.3	337.4
Reported tax	(106.4)	(89.7)	(64.1)	(61.6)	(70.6)	(83.0)	(97.9)
Profit After Tax (norm)	212.3	223.6	170.4	140.2	168.2	204.4	240.7
Profit After Tax (reported)	199.2	209.9	172.9	131.6	164.7	203.2	239.6
Minority interests	(4.2)	0.8	(2.6)	(5.4)	(1.0)	(4.3)	(8.4)
Net income (normalised)	208.1	224.4	167.8	134.8	167.2	200.1	232.3
Net income (reported)	195.0	210.7	170.2	126.2	163.7	199.0	231.2
Basic average number of shares outstanding (m)	319	319	319	319	319	319	319
EPS - basic normalised (€)	0.65	0.70	0.53	0.42	0.52	0.63	0.73
EPS - diluted normalised (€)	0.65	0.70	0.53	0.42	0.52	0.63	0.73
EPS - basic reported (€)	0.61	0.66	0.53	0.40	0.51	0.62	0.72
Dividend (€)	0.70	0.40	1.29	1.10	0.49	0.74	0.83
Revenue growth (%)		1.6	(-0.2)	4.1	7.0	12.3	11.2
Gross Margin (%)	44.5	44.7	40.8	40.7	41.3	43.3	44.6
EBITDA Margin (%)	25.2	26.9	22.0	21.1	22.5	23.3	23.6
Normalised Operating Margin	21.0	22.7	18.1	15.0	16.7	17.7	18.6
BALANCE SHEET							
Fixed Assets	1,343.4	1,318.9	1,330.3	1,356.5	1,346.3	1,421.4	1,346.4
Intangible Assets	1,284.2	1,237.2	1,231.0	1,218.5	1,168.7	1,219.0	1,149.2
Tangible Assets	44.2	56.2	67.6	109.3	116.6	141.4	136.2
Investments & other	15.0	25.5	31.7	28.7	61.0	61.0	61.0
Current Assets	409.4	389.9	437.4	440.4	345.3	459.4	522.6
Stocks	3.0	4.2	12.5	7.9	11.0	11.0	11.0
Debtors	92.3	55.2	80.6	127.8	117.8	122.8	127.8
Cash & cash equivalents	297.4	301.7	273.5	246.1	179.5	288.6	346.8
Other	16.7	28.8	70.8	58.5	37.0	37.0	37.0
Current Liabilities	(457.9)	(325.0)	(390.2)	(482.0)	(240.5)	(230.5)	(220.5)
Creditors	(170.4)	(127.1)	(149.3)	(173.9)	(130.0)	(120.0)	(110.0)
Tax and social security	(178.2)	(129.9)	(55.5)	(89.8)	(65.0)	(65.0)	(65.0)
Short term borrowings	(0.0)	(32.1)	(118.7)	(169.2)	(0.5)	(0.5)	(0.5)
Other	(109.3)	(35.9)	(66.7)	(49.2)	(45.0)	(45.0)	(45.0)
Long Term Liabilities	(59.8)	(181.0)	(305.3)	(556.7)	(712.4)	(812.4)	(812.4)
Long term borrowings	0.0	(115.0)	(263.0)	(513.1)	(652.0)	(752.0)	(752.0)
Other long term liabilities	(59.8)	(66.0)	(42.3)	(43.6)	(60.4)	(60.4)	(60.4)
Net Assets	1,235.1	1,202.8	1,072.2	758.2	738.7	837.9	836.1
Minority interests	(67.4)	(41.0)	(37.0)	(43.4)	(35.0)	(38.0)	(42.0)
Shareholders' equity	1,167.7	1,161.8	1,035.3	714.8	703.7	799.9	794.1
CASH FLOW							
Op Cash Flow before WC and tax	347.4	378.3	310.7	308.0	352.6	409.4	461.4
Working capital	7.0	(41.0)	(71.9)	(9.2)	(33.9)	(15.0)	(15.0)
Exceptional & other	1.0	9.1	(12.4)	(0.4)	0.0	0.0	0.0
Tax	(68.8)	(142.5)	(116.9)	(31.4)	(70.6)	(83.0)	(97.9)
Net operating cash flow	286.6	203.9	109.4	266.9	248.1	311.4	348.6
Capex	(18.6)	(39.6)	(42.9)	(96.3)	(50.0)	(25.0)	(25.0)
Acquisitions/disposals	(18.6)	(0.8)	(0.0)	(31.5)	(50.0)	(94.9)	0.0
Net interest	1.6	(4.2)	(11.9)	(19.6)	(23.2)	(21.5)	(22.4)
Equity financing	(8.3)	(24.2)	(11.9)	(1.8)	(6.5)	0.0	0.0
Dividends	(79.8)	(277.3)	(292.8)	(446.1)	(154.2)	(156.5)	(234.5)
Other	48.1	(0.7)	(12.7)	0.3	(1.0)	(4.3)	(8.4)
Net Cash Flow	211.0	(142.9)	(262.8)	(328.0)	(36.8)	9.1	58.2
Opening net debt/(cash)	(86.4)	(297.4)	(154.5)	108.3	436.2	473.0	463.9
FX	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	0.0	0.0	0.0
Closing net debt/(cash)	(297.4)	(154.5)	108.3	436.2	473.0	463.9	405.7

Source: OPAP, Edison Investment Research

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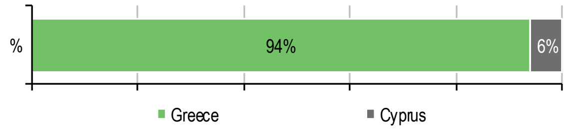
OPAP SA Athinon Av 112 Athens PC 104 42 Greece +30 210 5798930 www.opap.gr	

Management team	
CEO: Damian Cope	**Executive chairman: Kamil Ziegler**
Damian has 20 years' experience in the gaming industry, and was most recently MD and International and Group Strategy Director of Ladbrokes. Other roles include board director of Sportium Apuestas Deportivas (Spain), CIO of Gala Coral Group, as well as senior roles at Rank Group and Blue Square.	Kamil is the former CEO and a current board member of Sazka, the Czech lottery operator. Previous experience includes chairman and CEO of Czech state-owned Consolidation Bank, Board Member of PPF Group and deputy CEO and board member of Czech Savings Bank.
CFO: Michal Houst	
Michal joined EMMA Group in 2013, where his key responsibilities include the privatisation of OPAP. Prior roles include chief banking analyst at PPF Russia and financial manager at JM Engineering.	

Principal shareholders (source Bloomberg)	(%)
EMMA Delta Hellenic Holdings (inc 23.7% from Sazka Group)	33.0
Vanguard Group	2.4
Blackrock	2.2
Norges Bank	1.5
Capital Group	1.0
Alliance Bernstein	1.0

Companies named in this report

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