EDISON

OPAP

Q320 results

New licence boosts post-FY20 forecasts

Travel & leisure

OPAP's Q320 results showed a strong sequential improvement in revenue from Q220 as trading returned towards normality, which led to an improvement in profitability and free cash flow generation. Further regional lockdowns and a second full national lockdown from November lead us to downgrade revenue forecasts for FY20 by c 15%. Most significantly, the new licence for Lotteries and Sports Betting from FY20–30 with reduced taxes on revenue, agreed in FY11, became effective in October 2020 with no reaction from the Greek government, leading to significant upgrades to our forecasts for EBITDA, free cash flow and distributions to shareholders in FY21. The resulting prospective dividend yield of 10.1% looks very attractive.

Year end	GGR* (€m)	EBITDA** (€m)	EPS** (€)	DPS (€)	P/E (x)	Yield (%)
12/18	1,547.0	356.6	0.53	0.70	20.1	6.6
12/19	1,619.9	411.2	0.68	1.30	15.6	12.3
12/20e	1,155.0	269.6	0.27	0.49	38.9	4.6
12/21e	1,656.0	658.5	1.04	1.07	10.1	10.1

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

Q320: Back towards normality, briefly

Q320's gross gaming revenue (GGR) decline of 0.7% y-o-y to €391m was a significant improvement from the 53% y-o-y decline in COVID-19 affected Q220, as the estate resumed trading with social distancing rules. The ongoing control on operating costs and improved associate income from Kaizen (Stoiximan) due to its underlying strong performance and an increase in the stake owned by OPAP led to an improved company-defined EBITDA margin of 26.9% versus 26.3% in Q319. The improved profitability, good working capital control and lower investment in long-term assets led to a c 30% y-o-y improvement in free cash flow to €85m.

Forecasts: Lower taxes offset underlying downgrades

National lockdowns in November, which have been extended into December, lead us to downgrade our revenue and EBITDA forecasts for FY20 by 14.5% and 24.7% respectively before any benefit from the new licence. For FY21, the first full year of lower cash tax payments on GGR of 5%, effective from October 2020, and modestly lower underlying forecasts, given caution on the macroeconomic outlook, have resulted in EBITDA upgrades of 54.4%. The enhanced free cash from the lower cash tax payments should feed through to higher distributions to shareholders, therefore we increase our FY21 dividend forecast by 31% to €1.07/share.

Valuation: FY21 prospective yield of 10.1%

The share price has responded very positively to greater clarity on future reduced cash tax payments on GGR. On our significantly upgraded forecasts for FY21, OPAP's EV/EBITDA multiple falls to 6.0x from 15.4x for FY20. The enhanced dividend distribution in FY21 leads to a prospective dividend yield of 10.1%.

7 December 2020

Price	**€10.55**
Market cap	**€3,602m**
	€0.91/£
Net debt (€m) at 30 September 2020 post IFRS 16 (net debt pre-IFRS 16 €556m)	616
Shares in issue	341.4m
Free float	57.2%
Code	OPAP
Primary exchange	ASE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	40.8	31.5	(4.0)
Rel (local)	5.5	7.1	8.7
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 licenced 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 42.8% stake and significant board representation.

Next events

FY20 results	March 2021

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Q320 results summary: Towards normality, temporarily

OPAP's Q320 results showed a marked improvement sequentially versus the prior quarter as trading returned towards normality, albeit too briefly as further COVID-19 induced travel restrictions were introduced in parts of Greece during the summer. Good cost control and good momentum in associate performance led to an improved EBITDA margin and a further improvement in free cash flow generation. The second national lockdown, in November, leads to a downgrade in expectations for the year.

The revenue (gross gaming revenue or GGR) performance of -0.7% y-o-y was mixed by category, but ongoing strong cost control led to a higher EBITDA of €105.0m versus €103.5m in Q319, and an improved margin, 26.9% versus 26.3%. Management believes this is a very credible performance relative to other consumer-facing businesses in Greece. The EBITDA earned in Q320 of €105m was marginally greater than the €102.5m that OPAP generated in the first six months. The company's definition of EBITDA includes associate income (+€7.1m in Q320) and one-off items (-€0.4m in Q320), which we typically include below EBITDA.

Exhibit 1: OPAP's summary financials

€m	Q119	Q219	H119	Q319	9M19	Q120	Q220	H120	Q320	9M20
Lotteries	191.7	187.7	379.3	197.4	576.7	154.5	103.0	257.5	179.1	436.6
Growth y-o-y	1.6%	2.7%	2.1%	4.1%	2.8%	(19.4%)	(45.1%)	(32.1%)	(9.3%)	(24.3%)
Sports Betting	101.7	90.1	191.9	91.9	283.7	88.0	40.4	128.4	104.6	233.1
Growth y-o-y	(5.3%)	(5.1%)	(5.2%)	(5.7%)	(5.4%)	(13.5%)	(55.1%)	(33.1%)	13.9%	(17.9%)
Instants & Passives	33.7	34.8	68.5	31.6	100.1	19.2	14.4	33.6	27.1	60.7
Growth y-o-y	(10.8%)	(4.3%)	(7.6%)	1.8%	(4.8%)	(43.0%)	(58.7%)	(51.0%)	(14.1%)	(39.3%)
VLTs	68.9	70.9	139.9	72.8	212.7	66.6	21.8	88.4	80.1	168.5
Growth y-o-y	58.9%	54.2%	56.5%	43.2%	51.7%	(3.4%)	(69.3%)	(36.8%)	10.0%	(20.8%)
Gross gaming revenue (GGR)	396.0	383.6	779.6	393.6	1,173.2	328.3	179.6	507.9	391.0	898.9
Growth y-o-y	5.0%	6.5%	5.7%	6.7%	6.0%	(17.1%)	(53.2%)	(34.8%)	(0.7%)	(23.4%)
Net gaming revenue (NGR)	266.8	258.8	525.6	265.1	790.7	217.4	117.9	335.2	259.6	594.8
Growth y-o-y	5.4%	6.8%	6.1%	7.1%	0.0%	(18.5%)	(54.4%)	(36.2%)	(2.1%)	(24.8%)
Gross profit	153.9	150.1	304.0	152.5	456.5	122.4	68.8	191.1	147.1	338.2
Gross margin	38.9%	39.1%	39.0%	38.8%	38.9%	37.3%	38.3%	37.6%	37.6%	37.6%
Payroll	(19.7)	(22.7)	(42.4)	(19.7)	(62.1)	(19.8)	(20.1)	(39.9)	(19.8)	(59.7)
As % of GGR	5.0%	5.9%	5.4%	5.0%	5.3%	6.0%	11.2%	7.9%	5.1%	6.6%
Marketing	(14.8)	(16.5)	(31.4)	(12.9)	(44.2)	(12.6)	(10.8)	(23.4)	(11.6)	(35.0)
As % of GGR	3.7%	4.3%	4.0%	3.3%	3.8%	3.8%	6.0%	4.6%	3.0%	3.9%
Other operating expenses	(24.8)	(32.5)	(57.2)	(26.0)	(83.2)	(25.2)	(28.8)	(53.9)	(25.9)	(79.8)
As % of GGR	6.3%	8.5%	7.3%	6.6%	7.1%	7.7%	16.0%	10.6%	6.6%	8.9%
Total operating expenses	(59.3)	(71.7)	(131.0)	(58.5)	(189.6)	(57.6)	(59.7)	(117.3)	(57.3)	(174.6)
As % of GGR	15.0%	18.7%	16.8%	14.9%	16.2%	17.5%	33.2%	23.1%	14.7%	19.4%
EBITDA	113.0	88.4	201.4	103.5	304.9	86.4	16.2	102.5	105.0	207.6
Margin	28.5%	23.0%	25.8%	26.3%	26.0%	26.3%	9.0%	20.2%	26.9%	23.1%

Source: OPAP accounts

Cost control and associate income boost profitability

Q320 GGR declined by 0.7% y-o-y as two sources of revenue, Sports Betting and Video Lottery Terminals (VLTs), grew year-on-year while two others, Lotteries and Instants & Passives, declined, which is a notable reversal in fortunes from Q220 when all four sources declined due to COVID-19. Sports Betting revenue increased by 13.9% due to the resumption of sports fixtures, albeit the start of some football seasons was delayed so is likely to have affected the seasonality of the financial quarters. VLTs' continued strong performance flows through from the ongoing rollout and maturing of new machines as the number of active customers increased with a higher spend. Lotteries and Instants & Passives continued to be negatively affected by social distancing and restrictions on movement of consumers, respectively.

The lower revenue was more than offset by management's strong focus on costs. Marketing spend fell by 9.7% y-o-y, given the partial restrictions on trading during the period and focusing of resource on developing online growth. Other operating expenses declined marginally by 0.3% given the persistent focus on costs in a more difficult environment. On a like-for-like basis, ie excluding one-off items (impairment of financial assets), total operating costs fell by 14% y-o-y.

Kaizen Gaming's (Stoiximan) contribution, reported as associate income, increased to €7.1m during Q320, greater than the €6.4m reported in H120. This reflected a sequential improvement in trading as lockdowns eased as well as an increase in OPAP's stake. Kaizen's GGR increased sequentially by 44% to €89m as the average monthly customer base increased by 40%. During Q3, OPAP completed the acquisition of a 51% direct stake in the Greek & Cypriot business, taking the stake to 69%, as expected, and post the period end the stake was increased further to 84.49%. We continue to consolidate Kaizen for Q420, but recognise the uncertainty as to when it may be fully consolidated, which depends on regulatory approval.

Strong cash flow generation continues

OPAP's free cash flow generation relative to net gaming revenue (NGR) improved for the second consecutive quarter, which is impressive given the year-on-year revenue declines experienced in both periods. Its free cash flow increased by 30% y-o-y to €85.0m in Q320, against the year-on-year decline in NGR of 2%. The strong growth in free cash flow in the period brings the cumulative 9M20 free cash flow (€153.2m) decline to 15% versus the NGR decline of 25%.

The most important driver to the improved free cash flow generation was an improvement in operating cash flow, which grew by 25% y-o-y to €88.6m due to the higher group profitability including dividends received and a net inflow of working capital. Modest declines in capex and investment in intangibles further improved OPAP's free cash flow generation.

The period end cash position of €543m compares with €628m at the interim stage as the strong free cash flow generation funded the additional investment in Kaizen of €92m, dividend payments of €44m and the net repayment of borrowings of €48m, leading to an increase in the net debt position post IFRS 16 of €615m (note our definition of net debt differs to the company's definition of net debt of €605m, which includes long- and short-term investments of €10m).

Following the period end, OPAP repaid €250m of borrowings that had maturities in FY21, while raising €200m (gross) of new borrowings at an interest rate of 2.1% with maturities of seven years.

Licence extension 2020–30

Following the period end, ie on 13 October 2020, the 10-year extension of OPAP's exclusive right to run specific numeric and sports betting games became effective, as discussed in our initiation note. There had been some uncertainty about whether the Greek government would seek to amend the terms of the licence, but to date there has been no reaction from the government.

As part of its negotiations to extend the lottery and sports betting concession from 2020 to 2030 in 2011, OPAP negotiated a contract in which part of the consideration paid back in 2011 corresponded to prepayment of GGR contribution over the decade. Specifically, based on the agreement, in the income statement OPAP will record the nominal 30% gaming tax as a deduction from GGR (versus 35% previously). However, it is only liable to pay a lower 5% tax on GGR in return for the consideration of €375m paid in 2011, of which €300m corresponded to a GGR tax prepayment, while any difference that arises will be settled at the end of the period. The €300m paid in 2011 has a future value (in 2030 terms when the settlement will take place) of €1.83bn. OPAP implemented the contract in October 2020 and will now pay GGR of 5% on 'legacy' revenues, ie Lotteries and Sports Betting, which is very beneficial to reported EBITDA and cash flow. On an annual basis, the company will accrue on the balance sheet for settlement in 2030, via a non-cash adjustment to operating cash flow, for any potential tax liability that arises in any

financial year. The potential tax liability is, broadly, the difference between what is paid (5%) in the year and what should have been paid (30%) after allowing for the prepayment.

For illustrative purposes, on a theoretical €1bn of GGR for Lotteries and Sports Betting in FY21, the accounting entries are as shown in Exhibit 2. Note our new FY21 forecast for GGR for Sports Betting and Lotteries is €1.044bn, and is therefore relatively close to the example below.

Exhibit 2: Accounting for new licence

	€m	
GGR (A)	1,000	Unchanged
Gaming tax that should be paid (30% of A) (B)	(300)	Previous gaming tax rate was 35%
Net gaming revenue (NGR) (A-B)	700	€50m benefit due to lower gaming tax
'Other income' (C)	183	A new accounting entry that recognises one-tenth of the value of the prepayment (€1.83bn) in EBITDA
'Other income' (D)	50	A new accounting entry to counter the higher income tax on the above income, which should be tax free
Benefit to EBITDA (C+D)	233	
Total benefit to EBITDA	265	After NGR-related expenses
Amortisation	(21)	Incremental amortisation for new licence (€375m/10 = €37.5m) versus prior licence (€16m)
Benefit to PBT	244	
Corporation tax (24%)	(59)	
Benefit to PAT	185	
Gaming tax that should be paid (30%)	300	
Gaming tax paid in year (5% of A)	(50)	
Prepayment (C)	(183)	
'Other income' (D)	(50)	
Accrued liability	17	

Source: OPAP

Outlook and forecasts: Large upgrades for FY21

Similar to many other countries, the Greek government announced a further nationwide lockdown in response to the resurgence of COVID-19 infections, leading to a temporary suspension of most of OPAP's businesses (except online and certain street vendors) from 7 November until 30 November 2020. Further, the Cypriot government announced restrictions that led to suspension of c 40% of OPAP's operations in the country (in Limassol and Pafos) from 12 November until 30 November 2020. Management has estimated the financial impact during Q420 of this second lockdown, including the partial closures in the north of Greece in October, at lost revenue (GGR) of €113–120m and lost EBITDA of €45–50m. This is consistent with the guidance in April during the first lockdown (€130–140m per month or c €35m per week). The lost revenue and EBITDA are equivalent to c 9% and c 16% of our prior forecasts at the middle of the indicated ranges.

Subsequent to the announcement of OPAP's Q320 results, the Greek government announced the national lockdown would be extended by one week to 7 December, and then again by a further week to 14 December. We therefore assume two further weeks of national lockdown in our FY20 forecasts. December is typically a more important month in the fourth quarter from a financial perspective, therefore we assume a slightly higher €40m per week of lost revenue in December.

Management believes that the company is better placed to deal with the second national lockdown than the first lockdown in Q220, given sports events are more likely to continue; there are more Tzoker (lotteries) draws per week; the online business has 19% more customers; the equity stake in the faster-growing Kaizen Gaming has increased further to 84.5% (from 36.75% at the end of Q220); and the company's liquidity has improved.

The changes to our forecasts, which reflect the lost revenue from the second national lockdown above and the accounting changes for the new licence, classified as 'Other income' by us until we see how this will be categorised by the company, are below.

Exhibit 3: Summary of forecast changes

€m	FY20e new	FY21e new	FY20e old	FY21e old	FY20 change	FY21 change
Revenue (GGR)	1,155.0	1,656.0	1,351.1	1,729.2	(14.5%)	(4.2%)
Growth y-o-y	(28.7%)	43.4%	(16.6%)	28.0%		
EBITDA (pre-other income)	227.7	423.3	302.2	426.5	(24.7%)	(0.7%)
Margin	19.7%	25.6%	22.4%	24.7%		
'Other income'	42.0	235.2				
EBITDA (post other income)	269.6	658.5	302.2	426.5	(10.8%)	54.4%
Margin	23.3%	39.8%	22.4%	24.7%		
DPS (€)	0.49	1.07	1.48	0.78	(67.0%)	37.0%

Source: OPAP accounts, Edison Investment Research

Our revenue forecast for FY20 reduces by c €196m to €1,155m, in line with the middle of management's guidance for the effect of the lockdown in November (€115m) plus our estimate of two further weeks in December (€80m). Our FY20 forecast for EBITDA before 'other income' from the new licence falls by c €75m or c 25%, again in line with management's guidance plus our estimate for the extended lockdown into December.

FY21 is the first full financial year for the new licence. We estimate that 'other income' adds €235m to EBITDA and, along with c 1% lower underlying EBITDA forecasts from more cautious revenue growth assumptions and lower tax on Lotteries and Sports Betting revenue (30% versus 35% previously), leads us to increase our EBITDA (post other income) estimate by c 54% to c €659m.

Our new dividend forecast for FY21 increases by 37% to €1.07/share, as we continue to assume the majority (ie 90%) of 'underlying' free cash flow, ie before the lower (5%) tax payments on GGR, is distributed, and in addition, assume 50% of the enhanced free cash flow from the lower tax payments is distributed.

Valuation: Attractive FY21 dividend yield of 10.1%

The share price has responded well to greater clarity with respect to the reduced taxes on Lotteries and Sports Betting revenues. On our significantly increased forecasts for FY21, OPAP's EV/EBITDA multiple is 6.0x and the enhanced forecast yield of 10.1% looks very attractive.

Exhibit 4: Financial summary

€m	2018	2019	2020e	2021e
31-December	ISA	ISA	ISA	ISA
INCOME STATEMENT				
Revenue	1,547.0	1,619.9	1,155.0	1,656.0
NGR	1,039.9	1,086.2	777.9	1,148.7
Cost of Sales	(912.0)	(946.9)	(652.0)	(892.9)
Gross Profit	635.0	673.0	503.0	763.1
Other Income			42.0	235.2
EBITDA	356.6	411.2	269.6	658.5
Operating Profit (before amort. and except.)	261.4	305.2	143.4	514.3
Impairments	(17.5)	(8.7)	(11.5)	0.0
Exceptionals	(3.0)	(7.1)	(7.5)	0.0
Share-based payments	(1.6)	(1.6)	(1.2)	(1.2)
Reported operating profit	239.3	287.8	123.2	513.1
Net Interest	(23.5)	(27.1)	(33.0)	(29.0)
Joint ventures & associates (post tax)	0.1	8.5	13.4	4.0
Profit Before Tax (norm)	238.0	286.6	123.8	489.3
Profit Before Tax (reported)	215.9	269.2	103.7	488.1
Reported tax	(70.6)	(67.1)	(32.2)	(127.2)
Profit After Tax (norm)	169.0	215.2	91.6	362.1
Profit After Tax (reported)	145.3	202.1	71.5	360.9
Minority interests	(2.0)	0.3	(1.4)	(6.3)
Net income (normalised)	167.0	215.5	90.3	355.8
Net income (reported)	143.3	202.4	70.1	354.6
Average Number of Shares Outstanding (m)	318	318	333	341
EPS - normalised (€)	0.53	0.68	0.27	1.04
EPS - normalised fully diluted (€)	0.53	0.68	0.27	1.04
EPS - basic reported (€)	0.45	0.64	0.21	1.04
Dividend (€)	0.70	1.30	0.49	1.07
Revenue growth (%)	6.3	4.7	(28.7)	43.4
Gross Margin (%)	41.0	41.5	43.6	46.1
EBITDA Margin (%)	23.1	25.4	23.3	39.8
Normalised Operating Margin	16.9	18.8	12.4	31.1
BALANCE SHEET				
Fixed Assets	1,384.8	1,370.1	1,381.5	1,331.1
Intangible Assets	1,157.2	1,096.0	1,130.1	1,102.3
Tangible Assets	111.5	162.3	139.7	117.1
Investments & other	116.1	111.7	111.7	111.7
Current Assets	388.6	869.9	663.4	1,000.2
Stocks	10.7	7.0	5.0	7.1
Debtors	140.2	161.2	114.9	164.7
Cash & cash equivalents	182.0	633.8	475.6	760.4
Other	55.7	67.9	67.9	67.9
Current Liabilities	(314.0)	(326.4)	(273.6)	(330.5)
Creditors	(177.5)	(184.1)	(131.2)	(188.2)
Tax and social security	(12.8)	(1.8)	(1.8)	(1.8)
Short term borrowings	(0.2)	(13.9)	(13.9)	(13.9)
Other	(123.6)	(126.7)	(126.7)	(126.7)
Long Term Liabilities	(699.8)	(1,141.6)	(1,142.5)	(1,168.3)
Long term borrowings	(650.3)	(1,103.2)	(1,104.1)	(1,104.1)
Other long-term liabilities	(49.5)	(38.4)	(38.4)	(64.2)
Net Assets	759.5	771.9	628.9	832.5
Minority interests	(36.8)	(18.1)	(19.5)	(25.8)
Shareholders' equity	722.8	753.8	609.4	806.8
CASH FLOW				
Op Cash Flow before WC and tax	358.2	412.9	270.8	659.7
Working capital	(25.0)	(16.5)	(4.6)	4.9
Exceptional & other	(1.9)	(13.8)	(8.7)	24.6
Tax	(51.7)	(78.9)	(32.2)	(127.2)
Net operating cash flow	279.7	303.6	225.4	562.0
Net interest	(24.6)	(22.3)	(33.0)	(29.0)
Capex	(52.1)	(34.7)	(15.0)	(25.0)
Acquisitions/disposals	(48.0)	(22.0)	(135.4)	(70.0)
Equity financing	(12.1)	(0.1)	0.0	0.0
Dividends	(130.7)	(168.4)	(214.5)	(157.2)
Net new borrowings	(32.3)	399.7	0.8	0.0
Other	(34.6)	(4.0)	13.4	4.0
Net Cash Flow	(54.8)	451.8	(158.3)	284.8
Opening cash	236.8	182.0	633.8	475.6
Closing cash	182.0	633.8	475.6	760.4
Closing net debt/(cash)	468.5	483.3	642.4	357.6

Source: Company accounts, Edison Investment Research

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