

JPJ Group plc

RGD increase marginally higher than expected

Budget announcement

Travel & leisure

30 October 2018

Price **634p**

Market cap **£471m**

Net debt (£m) at end June 2018	354.3
Shares in issue	74.3m
Free float	95%
Code	JPJ
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(16.5)	(36.0)	(22.4)
Rel (local)	(10.4)	(29.6)	(16.9)
52-week high/low		1036p	633p

Business description

JPJ Group plc is a leading online gaming operator mainly focused on bingo-led gaming targeted towards female audiences. At June 2018, 73% of revenues were generated in regulated markets.

Next events

Q3 results 14 November

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The UK government has raised remote gaming duty (RGD) from 15% to 21%. This is 1% higher than expected by the market and we now include a c £12m annual impact on group EBITDA into our forecasts for JPJ. While regulatory pressures are likely to remain a feature of the UK gaming sector, JPJ should benefit from its market leading position and we anticipate annual operating cash flow of over £90m. The stock has fallen c 40% since June and now trades at 7.9x EV/EBITDA, 5.6x P/E and 15.5% free cash flow yield for FY19e.

Year end	Revenue (£m)	EBITDA* (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Dividend yield (%)
12/16	269.0	102.2	83.5	112.6	0.0	5.6	0.0
12/17	304.7	108.6	78.2	103.9	0.0	6.1	0.0
12/18e	311.4	106.2	86.2	110.5	0.0	5.7	0.0
12/19e	328.4	105.0	90.5	113.0	40.0	5.6	6.3
12/20e	345.8	102.0	88.5	109.6	45.0	5.8	7.1

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

RGD increase to begin October 2019

The UK government's budget has provided long-awaited clarity on remote gaming duty, which will rise from 15% to 21%. This compares to the 20% that was widely expected, but is a better result than recent rumours of 25%. The increased duties will affect all online gaming operators (not sports) in the UK from October 2019 (rather than April), but at least the sector now has a degree of certainty. Other ongoing regulatory pressures include social responsibility, anti-money laundering, source of funds etc. All this is likely to lead to a continued market shake out, with dominant players likely to benefit. We note that as the largest online bingo-led operator in the UK, JPJ is particularly well positioned.

21% RGD impacts EBITDA by £12m

The UK comprises c 63% of JPJ's total revenues and the increase in RGD (from 15% to 21%) will have a c £12m annual impact on group EBITDA. At this stage we have not factored any mitigation into our forecasts and we also assume limited market growth due to the variety of regulatory burdens. Including the tax increase, our EBITDA estimates decline by 7% in FY19 and by 14% in FY20. Our FY19 and FY20 EPS forecasts decline by 9% and 16% respectively.

Valuation: 5.6x P/E for FY19e

As a reflection of the uncertain UK regulatory environment, JPJ shares have fallen by c 40% since June and now trade at only 5.6x P/E, 7.9x EV/EBITDA and 15.5% free cash flow yield for FY19e. Despite the regulatory challenges, the online bingo-led business model remains highly cash generative and we anticipate annual operating cash flow of over £90m. Continual debt reduction should lead to a 2.5x net debt to EBITDA ratio at YE19 (vs 3.4x at H118) and we forecast dividends from next year.

Exhibit 1: Financial summary

	£m	2015	2016	2017	2018e	2019e	2020e
December							
PROFIT & LOSS							
Revenue		194.6	269.0	304.7	311.4	328.4	345.8
Cost of Sales		(101.4)	(130.7)	(147.5)	(157.9)	(173.4)	(186.5)
Gross Profit		93.3	138.3	157.2	153.5	155.0	159.3
EBITDA		70.4	102.2	108.6	106.2	105.0	102.0
Operating Profit (before amort. and except.)		70.1	101.6	108.2	105.7	104.5	101.5
Intangible Amortisation		(50.6)	(55.5)	(62.6)	(62.0)	(62.0)	(62.0)
Exceptional and other items **		(109.7)	(80.3)	(104.9)	(20.4)	1.0	1.0
Share based payments		(2.9)	(2.3)	(1.4)	(0.7)	(1.0)	(1.0)
Operating Profit		(93.1)	(36.5)	(60.8)	22.6	42.5	39.5
Net Interest		(24.0)	(18.1)	(30.0)	(19.4)	(14.0)	(13.0)
Profit Before Tax (norm)		46.1	83.5	78.2	86.2	90.5	88.5
Profit Before Tax (FRS 3)		(114.2)	(36.7)	(65.8)	5.2	28.5	26.5
Tax		(0.5)	0.1	(0.7)	(3.0)	(5.0)	(5.0)
Profit After Tax (norm)		45.5	83.6	77.5	83.2	85.5	83.5
Profit After Tax (FRS 3)		(114.8)	(36.7)	(66.5)	2.2	23.5	21.5
Average Number of Shares Outstanding (m)		61.2	71.2	73.9	74.6	75.0	75.5
EPS - normalised (p)		74.4	117.3	104.9	111.6	114.0	110.6
EPS - normalised and fully diluted (p)		73.1	112.6	103.9	110.5	113.0	109.6
EPS - (IFRS) (p)		(187.6)	(51.5)	(90.0)	2.9	31.3	28.5
Dividend per share (p)		0.0	0.0	0.0	0.0	40.0	45.0
Gross Margin (%)		47.9	51.4	51.6	49.3	47.2	46.1
EBITDA Margin (%)		36.2	38.0	35.6	34.1	32.0	29.5
Operating Margin (before GW and except.) (%)		36.0	37.8	35.5	33.9	31.8	29.4
BALANCE SHEET							
Fixed Assets		674.3	652.3	595.9	537.4	478.9	420.4
Intangible Assets		668.8	648.8	589.0	527.0	465.0	402.9
Tangible Assets		0.2	0.9	1.3	4.8	8.3	11.9
Other long term assets		5.3	2.6	5.6	5.6	5.6	5.6
Current Assets		63.9	139.0	93.2	82.4	73.7	59.3
Stocks		0.0	0.0	0.0	0.0	0.0	0.0
Debtors (incl swaps)		25.6	62.0	26.0	28.0	30.0	32.0
Cash		31.8	68.5	59.0	44.4	32.7	15.3
Player balances		6.5	8.6	8.2	10.0	11.0	12.0
Current Liabilities		(54.3)	(154.9)	(98.5)	(44.3)	(40.3)	(38.3)
Creditors		(23.1)	(41.3)	(46.3)	(40.0)	(38.0)	(36.0)
Short term borrowings		(25.2)	(26.7)	(0.3)	(0.3)	(0.3)	(0.3)
Contingent consideration		(6.0)	(86.9)	(51.9)	(4.0)	(2.0)	(2.0)
Long Term Liabilities		(394.8)	(397.1)	(386.7)	(343.5)	(291.5)	(241.5)
Long term borrowings		(189.3)	(347.4)	(369.5)	(339.5)	(289.5)	(239.5)
Contingent consideration		(203.6)	(33.3)	(7.7)	(2.0)	0.0	0.0
Other long term liabilities		(2.0)	(16.4)	(9.4)	(2.0)	(2.0)	(2.0)
Net Assets		289.0	239.4	204.1	232.1	220.8	199.9
CASH FLOW							
Operating Cash Flow		23.3	84.2	102.0	94.2	96.0	93.0
Net Interest		(24.0)	(17.5)	(30.9)	(19.4)	(14.0)	(13.0)
Tax		(0.5)	(1.2)	(1.0)	(3.0)	(5.0)	(5.0)
Capex		(2.5)	(2.5)	(3.2)	(4.0)	(4.0)	(4.0)
Acquisitions (inc earn-outs)		(355.6)	(156.3)	(94.2)	(52.4)	(5.0)	(5.0)
Financing		203.7	(29.6)	22.2	0.0	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	(29.7)	(33.4)
Net Cash Flow		(155.6)	(122.9)	(5.2)	15.4	38.3	32.6
Opening net debt/(cash)		27.1	182.7	305.6	310.7	295.3	257.0
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	(0.0)	0.0	0.0
Closing net debt/(cash)		182.7	305.6	310.7	295.3	257.0	224.4
NPV of outstanding earnouts/ other		209.5	140.8	76.6	10.0	5.0	0.0
Currency swaps		(4.7)	(38.2)	0.0	0.0	0.0	0.0
Adjusted net debt		387.5	408.1	387.3	305.4	262.1	224.5

Source: Company accounts and Edison Investment Research

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