

GVC Holdings

H118 results

Q3 trading update shows continued progress

In a continuation of previous trends, GVC's Q318 trading update has demonstrated strong growth and market share gains across all territories. Total net gaming revenues (NGR) were up 14%, driven by a 28% growth in online NGR. UK retail was only down 2%, helped by a strong FIFA World Cup. The integration of Ladbrokes is progressing well, although GVC has announced that Paul Bowtell (former Ladbrokes CFO) will resign in March 2019. Our estimates remain unchanged, but there is a £20-25m risk to our EBITDA forecasts, following an anticipated increase in remote gaming duty (RGD) at the government's budget on 29 October. The stock has fallen 19% from recent highs and trades at 10.0x EV/EBITDA and 13.0x P/E for 2018e.

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16p	2,998.8	523.4	257.7	N/M	N/M	N/A	N/A
12/17p**	3,291.5	666.5	462.8	N/M	N/M	N/A	N/A
12/18e	3,472.7	734.9	511.0	73.0	32.0	13.0	3.4
12/19e	3,558.5	794.5	560.6	79.8	34.0	11.9	3.6
12/20e	3,318.3	730.0	491.6	69.4	36.0	13.7	3.8

Note: Pro forma results include LCL as if it has been included from 2016. *Normalised and diluted (EPS) excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Continuing operations, excluding Turkey in 2017.

Strong Q3 trading, in line with expectations

In line with our expectations, GVC produced a strong Q318 trading update, with total NGR up 14%. Online NGR growth of 28% was driven by a 31% increase in Sports Brands NGR (including a 43% growth from legacy GVC). Adjusting for the World Cup and the acquisition of CrystalBet, Online NGR was up 21%. European retail NGR grew 24%, boosted by Italy, and UK retail like-for-like NGR declined by only 2%, helped by a good second half of the World Cup. Year to date, group NGR has increased 10%, driven by a 21% growth in online NGR and a 28% growth in European retail NGR. Our estimates remain unchanged.

Anticipated RGD tax from the budget to impact FY19

The government is expected to provide an update on its plans to increase RGD in the budget on 29 October 2018. We will reassess our estimates for the RGD tax once the budget has been announced. Our estimated impact for GVC is c £20-25m on EBITDA, starting in April 2019. We also expect clarity on the implementation date for the cut in B2 stakes to £2, with the enactment of the Triennial Review legislation anticipated this year. Currently our estimates include the impact from the Fixed Odds Betting Terminals cut in 2020.

Valuation: 10.0x EV/EBITDA and 13.0x P/E for FY18e

The LCL acquisition has cemented GVC's leading global position and the £130m+ cost savings are expected to contribute to significant EPS accretion. With net debt/EBITDA peaking at 2.6x in 2018, strong FCF should rapidly reduce leverage. The stock has fallen c 19% from its recent highs and trades at 10.0x EV/EBITDA and 13.0x P/E for FY18e, appropriately towards the top end of the peer group.

Travel & leisure

18 October 2018

Price **950p**
Market cap **£5,494m**

£1:€1.139

Net debt (£m) at June 2018 1,887

Shares in issue 578.4m

Free float 99%

Code GVC

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (6.6) (16.0) 3.0

Rel (local) (2.8) (9.1) 9.5

52-week high/low 1,170.0p 860.0p

Business description

GVC Holdings is a leading e-gaming operator in both the B2C and B2B markets. Following the acquisition of Ladbrokes Coral in 2018, it now has a market-leading position in UK retail betting. About 90% of revenues are derived from regulated and/or taxed markets.

Next events

UK government budget 29 October 2018

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Exhibit 1: Financial summary

	£m	2016	2017	2018e	2019e	2020e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue (NGR)		2,998.8	3,291.5	3,472.7	3,558.5	3,318.3
Cost of Sales		(1,233.8)	(1,418.7)	(1,581.7)	(1,631.8)	(1,620.4)
Gross Profit		1,765.0	1,872.8	1,890.9	1,926.8	1,698.0
EBITDA		523.4	666.5	734.9	794.5	730.0
Normalised operating profit		376.4	529.5	594.9	639.5	565.0
Amortisation of acquired intangibles		(200.0)	(380.0)	(250.0)	(200.0)	(150.0)
Exceptionals		(534.3)	(59.5)	(142.0)	(39.0)	(103.0)
Share-based payments		(31.8)	(20.7)	(12.5)	(12.5)	(12.5)
Reported operating profit		(389.7)	69.3	190.4	388.0	299.5
Net Interest		(124.6)	(72.0)	(85.0)	(80.2)	(75.0)
Joint ventures & associates (post tax)		5.9	5.3	1.1	1.3	1.6
Profit Before Tax (norm)		257.7	462.8	511.0	560.6	491.6
Profit Before Tax (reported)		(508.5)	2.5	106.5	309.1	226.1
Reported tax		23.6	(9.9)	(66.4)	(72.9)	(63.9)
Profit After Tax (norm)		257.7	462.8	511.0	560.6	491.6
Profit After Tax (reported)		(508.5)	2.5	106.5	309.1	226.1
Minority interests		0.0	0.0	(8.0)	(10.4)	(12.5)
Discontinued operations		28.4	(13.2)	0.0	0.0	0.0
Net income (normalised)		222.1	402.6	436.6	477.3	415.2
Net income (reported)		(456.5)	(20.6)	32.1	225.8	149.7
Basic average number of shares outstanding (m)		NM	NM	578	578	578
EPS - basic normalised (p)		NM	NM	75.48	82.52	71.78
EPS - diluted normalised (p)		NM	NM	72.95	79.76	69.38
EPS - basic reported (p)		NM	NM	5.54	39.04	25.88
Dividend (p)		NM	NM	32.00	34.00	36.00
Revenue growth (%)		NM	10%	6%	2%	-7%
Gross Margin (%)		58.9	56.9	54.5	54.1	51.2
EBITDA Margin (%)		17.5	20.2	21.2	22.3	22.0
Normalised Operating Margin		12.6	16.1	17.1	18.0	17.0
BALANCE SHEET						
Fixed Assets		6,040.7	6,082.0	6,779.8	6,574.8	6,399.8
Intangible Assets		5,605.3	5,607.0	6,224.0	6,054.0	5,926.0
Tangible Assets		245.0	264.4	210.0	175.0	128.0
Investments & other		190.4	210.7	345.8	345.8	345.8
Current Assets		792.0	773.8	785.2	817.2	835.2
Stocks		1.6	2.0	2.0	2.0	2.0
Debtors		342.6	258.7	393.2	413.2	433.2
Cash & cash equivalents		272.2	328.8	175.0	172.0	160.0
Other		175.6	184.3	215.0	230.0	240.0
Current Liabilities		(1,583.1)	(1,121.0)	(1,031.0)	(1,021.0)	(1,011.0)
Creditors		(699.9)	(594.1)	(815.0)	(805.0)	(795.0)
Tax and social security		(67.7)	(253.8)	(40.0)	(40.0)	(40.0)
Short term borrowings		(742.4)	(200.0)	(50.0)	(50.0)	(50.0)
Other		(73.1)	(73.1)	(126.0)	(126.0)	(126.0)
Long Term Liabilities		(1,052.8)	(1,513.9)	(2,622.1)	(2,510.0)	(2,360.0)
Long term borrowings		(749.6)	(1,212.1)	(2,012.1)	(1,900.0)	(1,750.0)
Other long term liabilities		(303.2)	(301.8)	(610.0)	(610.0)	(610.0)
Net Assets		4,196.9	4,220.9	3,911.9	3,861.0	3,864.0
Minority interests		0.0	0.0	0.0	0.0	0.0
Shareholders' equity		4,196.9	4,220.9	3,911.9	3,861.0	3,864.0
CASH FLOW						
Op Cash Flow before WC and tax		558.6	701.2	596.9	794.5	730.0
Working capital		3.8	(29.1)	(50.0)	(25.0)	(25.0)
Exceptional & other		(534.3)	(59.5)	(142.0)	(39.0)	(73.0)
Tax		(6.5)	(14.9)	(60.0)	(72.9)	(63.9)
Net operating cash flow		21.7	597.7	344.9	657.6	568.1
Capex		(58.2)	(205.8)	(177.0)	(150.0)	(140.0)
Acquisitions/disposals		(1,032.4)	(6.0)	(3,157.0)	0.0	0.0
Net interest		(71.1)	(101.3)	(50.0)	(80.2)	(75.0)
Equity financing		158.8	47.0	2,497.0	0.0	0.0
Dividends		(30.4)	(200.1)	(138.5)	(190.7)	(202.3)
Other		109.3	0.0	(123.0)	(127.3)	(12.5)
Net Cash Flow		(902.4)	131.5	(803.6)	109.3	138.3
Opening net debt/(cash)		312.7	1,215.1	1,083.5	1,887.2	1,777.9
FX		0.0	0.0	0.0	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		1,215.1	1,083.5	1,887.2	1,777.9	1,639.6

Source: Company accounts, Edison Investment Research

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