

JPJ Group plc

Remote gaming duty increases in April 2019

RGD tax changes

Travel & leisure

15 November 2018

Price **597p**
Market cap **£444m**

Net debt (£m) at September 2018	298.8
Shares in issue	74.3m
Free float	95%
Code	JPJ
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(11.6)	(37.2)	(29.8)
Rel (local)	(11.8)	(32.0)	(26.0)
52-week high/low	1,036p	590p	

Business description

JPJ Group plc is a leading online gaming operator mainly focused on bingo-led gaming targeted towards female audiences. At September 2018, 56% of revenues were generated in the UK.

Next events

FY18 results	March 2019
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Analysts

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Following the resignation of Sports Minister Tracey Crouch, the UK government has bowed to pressure to bring forward the reduction in FOBT stake limits, from October 2019 to April 2019. To coincide with the FOBT changes, the planned increase in remote gaming duty (from 15% to 21%) will also commence in April. We reduce our FY19e EBITDA by a further £6m but our FY20 estimates are unchanged. JPJ shares have fallen by c 30% ytd and, despite the reduced EBITDA, trade at only 5.7x P/E, 7.5x EV/EBITDA and 15.1% free cash flow yield for FY19e.

Year end	Revenue (£m)	EBITDA* (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	269.0	102.2	83.5	112.6	0.0	5.3	0.0
12/17	304.7	108.6	78.2	103.9	0.0	5.7	0.0
12/18e	311.4	106.2	86.3	110.6	0.0	5.4	0.0
12/19e	328.4	99.0	84.5	105.1	40.0	5.7	6.7
12/20e	345.8	102.0	88.5	109.6	45.0	5.5	7.5

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

Parliamentary U-turn

Following the Budget announcement on 29 October and the resignation of Tracey Crouch, the government has brought forward the timing for the FOBT stake reduction. The move from £100 stake to £2 stake will now commence in April 2019 rather than October 2019. To coincide with the FOBT changes, the increase in remote gaming duty (from 15% to 21%) will also happen at the same time.

A further £6m reduction in EBITDA

At Q318, the UK comprised c 56% of JPJ's total revenues and the increase in RGD (from 15% to 21%) will have a c £12m annual impact on group EBITDA. As a result of an additional six months, we reduce our FY19e EBITDA by a further £6m. This one-off hit in FY19 represents 8p per share. At this stage we have not factored any mitigation into our forecasts and we continue to assume limited market growth due to the variety of regulatory burdens. Please see our [14 November Update](#) for the recent Q318 trading commentary.

Valuation: 5.7x P/E for FY19e

As a reflection of the uncertain UK regulatory environment, JPJ shares have fallen by c 30% ytd and, despite the EBITDA hit, trade at only 5.7x P/E, 7.5x EV/EBITDA and 15.1% free cash flow yield for FY19e. Despite the regulatory challenges, the online bingo-led business model remains highly cash generative and from next year we anticipate annual operating cash flow of c £90m. Continual debt reduction should lead to a 2.5x net debt to EBITDA ratio during 2019 (vs 3.0x at Q318) and we anticipate dividends 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)	(159.6)	(178.1)	(185.3)
Gross Profit		93.3	138.3	157.2	151.9	150.3	160.5
EBITDA		70.4	102.2	108.6	106.2	99.0	102.0
Operating Profit (before amort. and except.)		70.1	101.6	108.2	105.7	98.5	101.5
Intangible Amortisation		(50.6)	(55.5)	(62.6)	(61.3)	(61.3)	(61.3)
Exceptional and other items		(109.7)	(80.3)	(104.9)	(20.1)	0.6	0.6
Share based payments		(2.9)	(2.3)	(1.4)	(0.6)	(0.6)	(0.6)
Operating Profit		(93.1)	(36.5)	(60.8)	23.8	37.3	40.3
Net Interest		(24.0)	(18.1)	(30.0)	(19.4)	(14.0)	(13.0)
Profit Before Tax (norm)		46.1	83.5	78.2	86.3	84.5	88.5
Profit Before Tax (FRS 3)		(114.2)	(36.7)	(65.8)	7.0	23.3	27.3
Tax		(0.5)	0.1	(0.7)	(3.0)	(5.0)	(5.0)
Profit After Tax (norm)		45.5	83.6	77.5	83.3	79.5	83.5
Profit After Tax (FRS 3)		(114.8)	(36.7)	(66.5)	4.0	18.3	22.3
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	111.7	106.1	110.7
EPS - normalised and fully diluted (p)		73.1	112.6	103.9	110.6	105.1	109.6
EPS - (IFRS) (p)		(187.6)	(51.5)	(90.0)	5.3	24.4	29.5
Dividend per share (p)		0.0	0.0	0.0	0.0	40.0	45.0
Gross Margin (%)		47.9	51.4	51.6	48.8	45.8	46.4
EBITDA Margin (%)		36.2	38.0	35.6	34.1	30.2	29.5
Operating Margin (before GW and except.) (%)		36.0	37.8	35.5	33.9	30.0	29.4
BALANCE SHEET							
Fixed Assets		674.3	652.3	595.9	538.2	480.4	422.7
Intangible Assets		668.8	648.8	589.0	527.7	466.5	405.2
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	122.5	130.1	118.5
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	84.5	89.1	74.5
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)	(373.5)	(321.5)	(271.5)
Long term borrowings		(189.3)	(347.4)	(369.5)	(369.5)	(319.5)	(269.5)
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	242.9	248.8	231.4
CASH FLOW							
Operating Cash Flow		23.3	84.2	102.0	104.2	90.0	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	(7.4)	(30.6)
Net Cash Flow		(155.6)	(122.9)	(5.2)	25.5	54.6	35.4
Opening net debt/(cash)		27.1	182.7	305.6	310.7	285.2	230.6
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	285.2	230.6	195.2
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	295.3	235.7	195.3

Source: Company accounts, Edison Investment Research

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