

OPAP

Q120 results

Forecasts held as it emerges from lockdown

OPAP's Q120 results showed the initial impacts of the COVID-19 outbreak, with revenue declining by 17.1% as the company's physical locations began to close from 14 March. Since gradually re-opening in May, OPAP has seen a steady recovery, albeit not back to pre-lockdown levels, and encouragingly, management expects to be EBITDA positive in Q220, likely to be the financial period most affected by lockdowns in Greece and Cyprus. As a result, we retain our underlying forecasts, which incorporate a decline in revenue of c 20% for the remainder of FY20. The share price has recovered from the lows in March, such that the EV/EBITDA for FY21e is now 8.4x.

Year end	GGR* (€m)	EBITDA** (€m)	EPS** (€)	DPS (€)	P/E (x)	Yield (%)
12/18	1,547.0	353.6	0.52	0.7	17.1	7.9
12/19	1,619.9	411.2	0.65	0.3	13.6	3.4
12/20e	1,367.1	302.2	0.31	1.5	28.5	17.0
12/21e	1,748.1	439.1	0.56	0.8	15.7	9.0

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

Initial impacts of COVID-19 in Q120

Q120 GGR fell by 17.1% y-o-y to €328.3m, as all revenue sources declined following growth in FY19, but there was a good start to FY20 before the lockdowns from 14 March. On a l-f-l basis, the EBITDA margin increased by 50bp y-o-y to 26.3%, due to operational cost savings which also helped OPAP to fund investment in marketing to drive online revenue in place of offline revenue. Post the end of lockdown, the company has seen a 'steady' weekly increase in l-f-l revenue and management expects further recovery as, for example, sports betting resumes around Europe. The announcement of a dividend of €0.30 for FY19 was not forecast by us, and was a welcome surprise, following the special dividend of €1 paid in February.

FY20 forecasts: No change to underlying numbers

We retain our previously published forecasts on an underlying basis, which included the assumption of three months' total disruption, ie physical store closures due to COVID-19. Physical locations were closed for around two months and the forecasts therefore include some ongoing disruption as revenues rebuild. On the positive side, management expects the group to be EBITDA positive in Q20, despite the fact that this is likely to be the financial period most affected by the economic lockdowns. We now include payment of the FY19 dividend.

Valuation: Supported by DCF of at least €9.5/share

The share price has recovered well to €8.94, having traded as low as c €5.9 in March. As a result, the EV/EBITDA multiple for FY21e (the first full year that Stoiximan will be consolidated) has recovered to 8.4x and the P/E is 15.7x. Our DCF is unchanged with a value of €9.5/share and the €1.8bn pre-paid tax asset could be worth an additional €2.2/share.

Travel & leisure

18 June 2020

Price €8.85

Market cap €2,962m

Net debt (€m) at 31 March 2020 609
post IFRS 16 and excluding investments
(Net debt pre-IFRS 16 €556m)

Shares in issue 334.7m

Free float 58.3%

Code OPAP

Primary exchange ASE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	12.9	47.8	(9.2)
Rel (local)	(0.4)	8.1	14.5
52-week high/low	€12.82	€5.86	

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 privatised in 2013. Sazka Group has a 41.7% stake and significant board representation.

Next events

Q220 results	9 September 2020
Q320 results	25 November 2020

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Q120 results summary: First impacts of COVID-19

Q120 saw the first impacts of the COVID-19 outbreak on OPAP as its Greek retail estate was closed down on 14 March 2020. After the period end, its OPAP stores and Hellenic Lotteries street vendors restarted trading on 11 May (closed for 58 days), followed by the video lottery terminals (VLTs) PLAY network on 8 June. Operations in Cyprus were closed for slightly longer, from 16 March to 23 May (68 days). The outbreak should therefore have a more significant impact on Q220 results, to be reported in September.

Q120 GGR declined by 17.1%, but growth prior to lockdown

Q120 GGR fell by 17.1% y-o-y to €328.3m, with all revenue sources declining following continuous growth through FY19. The greatest declines were: Instant & Passives (6% of GGR), which fell by 43%, and Lotteries (47% of GGR), which fell by 19.4% y-o-y. The relative outperformers in the group were Sports Betting (27% of GGR) with a decline of 13.5% y-o-y and VLTs (20% of GGR), which fell by 3.4% y-o-y. Prior to the lockdown, group GGR increased by 1.7% y-o-y versus growth of 5.0% in Q119, driven by the maturing of the VLT portfolio. In the other businesses, prior to lockdown, Sports Betting increased by 3.2% and Lottery declined by 0.8%, albeit the outlook is more favourable as Online Joker has increased users and revenue post lockdown.

EBITDA margin of 26.3%, helped by further cost containment

The Q120 reported EBITDA margin of 26.3% fell by 2.2pp from the reported margin in Q119 of 28.5%, leading to a decline in reported EBITDA of 23.6% to €86.4m. On a I-F-I basis, which excludes one-off items of €10.7m in Q119, the EBITDA margin increased from 25.8% to 26.3%. The key drivers of the decline in reported margin were: a relative increase in agents' and other commission rates, which reduced the gross profit on gaming operations by 170bp to 37.3%; lower absolute other operating income than reported in Q119 (ie the one-off items of €10.7m), but still representing an improvement in the reported margin given the relative scale of the GGR decline; and other operating cost savings in Marketing (-15% y-o-y) and Other operating expenses (-29%). As expected, Marketing spend was reallocated away from the physical businesses towards the company's online businesses, which led to an acceleration in online growth post lockdown. Note that OPAP's definition of EBITDA includes associate income and one-off items such as impairment losses on financial assets, but we exclude these from our definition of EBITDA, which totals €81.9m (margin of 25.0%) in Q120 versus €111.6m (margin of 28.2%) in Q119.

EPS declined by 38.3% due to higher finance costs and tax

Further down the P&L, depreciation and amortisation was marginally down in absolute terms at €27.1m. Associate income from Stoiximan more than trebled y-o-y to €4.6m, but this was more than offset by an increase in finance costs (from €6.4m in Q119 to €10.5m in Q120) reflecting the higher average net debt position (see below) and an increase in the effective tax rate to 30.7% versus 28.5% in Q119. Stoiximan's GGR improved by 63% y-o-y, helped by growth in the average monthly active customer base of c 31% and by lower payouts.

Cash flow: Generation weaker

OPAP's operating cash flow declined from €54.3m in Q119 to €33.4m in Q120, and relative to revenue (GGR) it deteriorated due to lower profitability (see above) and increased working capital consumption, which can be volatile on a quarterly basis. The company's cash position declined from €633.8m at the end of FY19 to €422.0m, primarily due to the repayment of €200m of

borrowings (offset by new borrowings of €123.6m) and payment of the special dividend of €169.5m in February. Net financing cash outflow was €248.9m.

Gross debt of €981m includes €5m and €200m, which are due to be repaid in FY20 and FY21, respectively.

At the end of Q120, the net debt position adjusted for IFRS 16 and investments was €609.2m versus €473.4m at the end of FY19, representing 1.6x net debt/EBITDA. Before these adjustments, the net debt position at the end of Q120 was €555.6m.

Outlook and dividend: No change to forecasts

Management continues to believe that the full impact of COVID-19 on FY20 results (and beyond) is uncertain given the potential impact from social distancing measures, a lack of clarity on sporting events, and the wider ongoing economic downturn.

Trading post the end of lockdown was described as 'satisfying', but management is rightly cautious on the economic outlook. Since lockdown, OPAP is seeing 'steady' weekly growth in GGR, reaching on average 78% of pre-lockdown levels on a I-f-I basis (excluding VLTs). During the last week of lockdown (ie week commencing 4 May), GGR had fallen by 96% versus pre-lockdown levels, with c 79% of GGR generated from online operations versus 1.2% before. Post lockdown, 4.2% of GGR was derived from online properties.

Land-based sports betting venues are gradually re-opening: 12 European countries have re-opened their sports betting networks and a further 14 countries are expected to open during the next few months.

Prior guidance from management was that the monthly financial impact of COVID-related restrictions would be c €130–140m on GGR and c €50–53m on EBITDA, before cost mitigations (c €4–6m). The reported numbers confirmed that these parameters remain valid: the company generated €1m GGR between 14 and 31 March rather than the simple monthly average from Q119 of €125.8m. With respect to monthly operating costs, OPAP realised €7.5m of operating cost savings during lockdown.

Our prior forecasts assumed three months of full disruption equivalent to €400m GGR and €145m EBITDA, representing c 25% of FY19 revenue and c 35% of FY19 EBITDA, ie the latter representing more than one quarter of EBITDA, and greater than the 58 days and 68 days that the Greek and Cypriot activities were closed. The Q120 presentation highlighted that OPAP was EBITDA positive for the three-month period from March to May (albeit not quantified), with April being the only month that was EBITDA negative, and management is confident that June will be EBITDA positive. Our forecasts imply a 20% decline in GGR for the remaining three quarters of FY20 on a like-for-like basis excluding the full consolidation of Stoiximan from Q420. We make no changes to our estimates given they include more than one quarter of 'lost' EBITDA and OPAP was EBITDA positive in aggregate through the lockdown.

Despite ongoing uncertainty, at the AGM to be held on 25 June, OPAP will propose payment of a dividend in respect of FY19 of €0.30/share, payable in cash or via scrip. We had assumed that no dividend would be paid for FY19 due to the uncertainty from COVID-19. This follows the special dividend of €1.0 paid in February 2000.

Exhibit 1: Financial summary

	€m	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
31-December		ISA	ISA	ISA	ISA	ISA	ISA	ISA	ISA	ISA
INCOME STATEMENT										
Revenue (GGR)		1,377.7	1,399.7	1,397.6	1,455.5	1,547.0	1,619.9	1,367.1	1,748.1	1,793.1
NGR		973.1	987.7	930.8	972.9	1,039.9	1,086.2	923.0	1,177.7	1,208.0
Cost of Sales		(740.4)	(645.7)	(827.5)	(862.9)	(904.3)	(946.9)	(789.6)	(975.4)	(999.4)
Gross Profit		637.3	754.0	570.1	592.6	642.7	673.0	577.5	772.7	793.7
EBITDA		346.6	377.1	307.5	306.5	353.6	411.2	302.2	439.1	456.8
Operating Profit (before amort. and except.)		289.7	318.1	252.4	218.7	258.4	296.6	170.7	305.8	321.6
Impairments		7.5	(14.1)	0.0	(2.7)	(17.5)	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0	(7.1)	0.0	0.0	0.0
Share-based payments		(0.9)	(1.2)	(3.1)	(1.5)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)
Reported operating profit		296.3	302.8	249.3	214.4	239.3	287.8	169.0	304.1	319.9
Net Interest		1.6	(4.7)	(13.3)	(21.1)	(23.5)	(27.1)	(39.7)	(40.6)	(36.1)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0	8.5	10.0	4.0	4.4
Other		7.8	1.5	1.0	(0.3)	0.1	0.0	0.0	0.0	1.0
Profit Before Tax (nom)		299.0	314.9	240.0	197.4	235.0	278.0	141.0	269.2	290.9
Profit Before Tax (reported)		305.6	299.6	236.9	193.1	215.9	269.2	139.3	267.5	289.3
Reported tax		(106.4)	(89.7)	(64.1)	(61.6)	(70.6)	(67.1)	(36.7)	(70.0)	(75.6)
Profit After Tax (nom)		212.3	223.6	170.4	140.1	166.9	208.7	104.3	199.2	215.3
Profit After Tax (reported)		199.3	209.9	172.9	131.5	145.3	202.1	102.7	197.5	213.6
Minority interests		(4.2)	0.8	(2.6)	(5.4)	(2.0)	0.3	(1.4)	(6.3)	(6.6)
Discontinued operations		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		208.1	224.4	167.8	134.7	164.9	209.0	103.0	192.9	208.7
Net income (reported)		195.0	210.7	170.2	126.2	143.3	202.4	101.3	191.2	207.0
Basic average number of shares outstanding (m)		319	319	319	318	318	322	332	342	352
EPS - normalised (c)		65.23	70.38	52.68	42.39	51.90	64.92	31.01	56.47	59.34
EPS - diluted normalised (€)		0.65	0.70	0.53	0.42	0.52	0.65	0.31	0.56	0.59
EPS - basic reported (€)		0.61	0.66	0.53	0.40	0.45	0.63	0.31	0.56	0.59
Dividend (€)		0.70	0.40	1.29	1.10	0.70	0.30	1.50	0.80	0.82
Revenue growth (%)			1.6	(-0.2)	4.1	6.3	4.7	(15.6)	27.9	2.6
Gross Margin (%)		46.3	53.9	40.8	40.7	41.5	41.5	42.2	44.2	44.3
EBITDA Margin (%)		25.2	26.9	22.0	21.1	22.9	25.4	22.1	25.1	25.5
Normalised Operating Margin		21.0	22.7	18.1	15.0	16.7	18.3	12.5	17.5	17.9
BALANCE SHEET										
Fixed Assets		1,343.4	1,318.9	1,330.3	1,356.5	1,384.2	1,370.1	1,415.3	1,330.3	1,243.5
Intangible Assets		1,284.2	1,237.2	1,231.0	1,218.5	1,157.2	1,096.0	1,094.2	1,026.4	956.7
Tangible Assets		44.2	56.2	67.6	109.3	111.5	162.3	209.4	192.3	175.1
Investments & other		15.0	25.5	31.7	28.7	115.5	111.7	111.7	111.7	111.7
Current Assets		409.4	389.9	437.4	440.4	385.5	869.6	768.8	822.9	849.3
Stocks		3.0	4.2	12.5	7.9	10.7	6.7	11.7	16.7	21.7
Debtors		92.3	55.2	80.6	127.8	138.3	161.2	171.2	166.2	161.2
Cash & cash equivalents		297.4	301.7	273.5	246.1	182.6	633.8	518.0	572.1	598.5
Other		16.7	28.8	70.8	58.5	54.0	67.9	67.9	67.9	67.9
Current Liabilities		(457.9)	(325.0)	(390.2)	(482.0)	(299.3)	(326.4)	(311.4)	(296.4)	(281.4)
Creditors		(170.4)	(127.1)	(149.3)	(173.9)	(176.7)	(184.1)	(169.1)	(154.1)	(139.1)
Tax and social security		(178.2)	(129.9)	(55.5)	(89.8)	(8.6)	(5.3)	(5.3)	(5.3)	(5.3)
Short term borrowings		(0.0)	(32.1)	(118.7)	(169.2)	(0.2)	(13.9)	(13.9)	(13.9)	(13.9)
Other		(109.3)	(35.9)	(66.7)	(49.2)	(113.8)	(123.1)	(123.1)	(123.1)	(123.1)
Long Term Liabilities		(59.8)	(181.0)	(305.3)	(556.7)	(710.8)	(1,141.5)	(1,266.5)	(1,166.5)	(1,066.5)
Long term borrowings		0.0	(115.0)	(263.0)	(513.1)	(650.3)	(1,103.2)	(1,228.2)	(1,128.2)	(1,028.2)
Other long-term liabilities		(59.8)	(66.0)	(42.3)	(43.6)	(60.6)	(38.3)	(38.3)	(38.3)	(38.3)
Net Assets		1,235.1	1,202.8	1,072.2	758.2	759.5	771.7	606.2	690.3	744.9
Minority interests		(67.4)	(41.0)	(37.0)	(43.4)	(36.8)	(18.1)	(20.0)	(20.0)	(20.0)
Shareholders' equity		1,167.7	1,161.8	1,035.3	714.8	722.8	753.6	586.2	670.3	724.9
CASH FLOW										
Op Cash Flow before WC and tax		347.4	378.3	310.7	308.0	355.2	412.9	303.8	440.8	458.4
Working capital		7.0	(41.0)	(71.9)	(9.2)	(25.0)	(16.5)	(25.0)	(10.0)	(10.0)
Exceptional & other		1.0	9.1	(12.4)	(0.4)	1.1	(13.9)	0.0	0.0	0.0
Tax		(68.8)	(142.5)	(116.9)	(31.4)	(51.7)	(78.9)	(36.7)	(60.0)	(65.6)
Net operating cash flow		286.6	203.9	109.4	266.9	279.6	303.6	242.2	370.8	382.8
Capex		(18.6)	(39.6)	(42.9)	(96.3)	(51.9)	(34.8)	(15.0)	(20.0)	(20.0)
Acquisitions/disposals		(18.6)	(0.8)	(0.0)	(31.5)	(47.9)	(21.9)	(163.4)	(30.0)	(30.0)
Net interest		1.6	(4.2)	(11.9)	(19.6)	(24.6)	(22.3)	(39.7)	(40.6)	(36.1)
Equity financing		(8.3)	(24.2)	(11.9)	(1.8)	(5.5)	(0.1)	0.0	0.0	0.0
Dividends		(79.8)	(277.3)	(292.8)	(446.1)	(154.0)	(164.0)	(264.0)	(120.4)	(164.1)
Other		48.1	(0.7)	(12.7)	0.3	(18.6)	(11.1)	(1.4)	(6.3)	(6.6)
Net Cash Flow		211.0	(142.9)	(262.8)	(328.0)	(22.8)	49.3	(241.3)	153.4	126.0
Opening net debt/(cash) (ex-investments)		(86.4)	(297.4)	(154.6)	108.2	436.2	467.8	483.3	724.5	571.1
FX		0.0	0.0	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	(8.9)	(64.8)	0.0	0.0	0.0
Closing net debt/(cash) (ex-investments)		(297.4)	(154.6)	108.2	436.2	467.8	483.3	724.5	571.1	445.1

Source: Company accounts, Edison Investment Research

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