

Gamesys Group

Q420 trading update

A strong end to the debut year of the larger group

Gamesys has reported a positive pre-close trading update. Strong momentum continued into Q420 and management now expects FY20 pro forma revenue and adjusted EBITDA will be at or above the upper end of current market expectations. We increase our FY21 and FY22 adjusted EBITDA forecasts by 4–6% due to higher revenue growth from a larger active customer base, and a higher and stable EBITDA margin that reflects ongoing investment in growing a sustainable business with a focus on responsible gambling. On our new forecasts, the free cash flow (FCF) yield for FY21e is 10.1% and the dividend yield is 3.0%.

Year end	Revenue (£m)	EBITDA* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/18	319.6	112.7	118.5	0.0	10.6	N/A
12/19**	565.3	158.9	100.4	0.0	12.5	N/A
12/20e**	724.0	200.8	132.2	36.0	9.5	2.9
12/21e**	796.4	220.8	151.9	37.8	8.3	3.0

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Pro forma.

Q420: Ahead of expectations

Gamesys's pre-close trading update highlighted better than expected growth for Q420 with revenue and adjusted EBITDA for FY20 guided at or above the upper end of current market expectations. The company compiled consensus ranges for FY20 prior to the update were: revenue (£713–722.2m) and EBITDA (£193.3–198.4m), therefore the update implies pro forma revenue growth for Q420/FY20 of at least 25.6%/27.8% respectively. As expected, due to a tougher comparative in Q420, the y-o-y revenue growth rate 'slowed' from 35% and 31% in the prior two quarters. The FY20 EBITDA margin of at least 27.5% is higher than our prior forecast of 26.9%, even though internal investment increased. The higher than expected profit outturn is likely to have led to a further improvement in the group's financial position at the year-end.

FY21: Adjusted EBITDA upgrade of c 4%

We increase our revenue forecast for FY20 by c 1% and we assume 10% y-o-y growth in both FY21 and FY22 due to higher customer numbers, leading to EBITDA upgrades of 4–6%. In FY21 and FY22 we assume the EBITDA margin will be stable at 27.7% as management continues to take advantage of the strong growth in revenue to further invest in growing a sustainable and repeatable business. In addition, we trim our interest cost assumption for FY21 and FY22 given the group's expected improved financial position. We retain our existing DPS forecasts, growing at 5% in FY21 and FY22 after the maiden dividend in FY20.

Valuation: FCF yield of 10.1% for FY21e

After reaching an all-time high in October 2020 the share price has recently recovered most of its subsequent pull-back. On our new forecasts, the P/E for FY21e is 8.3x and the EV/EBITDA is 8.0x. The FCF yield of 10.1% and improving financial position makes the dividend yield of 3.0% attractive.

Travel & leisure

12 January 2021

Price 1,256p
Market cap £1,367m

Net debt (£m) at 30 June	391.7
Shares in issue	108.7m
Free float	74%
Code	GYS
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	14.6	1.3	75.2
Rel (local)	9.9	(10.8)	92.0
52-week high/low		1,312p	531p

Business description

Gamesys is a leading international online gaming operator with key exposure in the UK and Asia. The group was formed after JPJ Group acquired Gamesys for £490m in September 2019.

Next events

FY20 results	March 2021
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Exhibit 1: Financial summary

	£m	2017	2018	2019	2020e	2021e	2022e
Year end 31 December							
PROFIT & LOSS							
Revenue		304.7	319.6	565.3	724.0	796.4	876.0
Cost of Sales		(147.5)	(158.9)	(287.9)	(383.9)	(421.5)	(462.9)
Gross Profit		157.2	160.7	277.4	340.1	374.9	413.1
EBITDA		108.6	112.7	158.9	200.8	220.8	243.0
Operating Profit (before amort. and except.)		108.2	112.2	140.9	182.8	202.8	225.0
Intangible Amortisation		(62.6)	(60.3)	(52.7)	(77.0)	(77.0)	(77.0)
Exceptional and other items		(104.9)	(16.3)	(23.4)	0.0	0.0	0.0
Share based payments		(1.4)	(0.6)	(0.5)	(2.4)	(2.4)	(2.4)
Operating Profit		(60.8)	35.0	64.3	103.4	123.4	145.6
Net Interest		(30.0)	(19.5)	(21.4)	(23.0)	(19.0)	(17.0)
Profit Before Tax (norm)		78.2	92.7	119.5	159.8	183.8	208.0
Profit Before Tax (FRS 3)		(65.8)	18.5	44.2	80.4	104.4	128.6
Tax		(0.7)	(0.5)	(2.9)	(16.0)	(18.4)	(20.8)
Profit After Tax (norm)		77.5	92.3	116.5	143.8	165.4	187.2
Profit After Tax (FRS 3)		(66.5)	18.1	41.3	64.4	86.0	107.8
Average Number of Shares Outstanding (m)		73.9	74.2	108.7	108.7	108.8	108.9
EPS (p)		104.9	119.5	100.4	132.3	152.1	171.9
EPS - normalised (p)		103.9	118.5	100.4	132.2	151.9	171.7
EPS - (IFRS) (p)		(90.0)	19.5	31.2	59.2	79.1	98.9
Dividend per share (p)		0.0	0.0	0.0	36.0	37.8	39.7
Gross Margin (%)		51.6	50.3	49.1	47.0	47.1	47.2
EBITDA Margin (%)		35.6	35.3	28.1	27.7	27.7	27.7
Operating Margin (before GW and except.) (%)		35.5	35.1	24.9	25.2	25.5	25.7
BALANCE SHEET							
Fixed Assets		595.9	521.9	1,045.6	968.6	893.6	818.6
Intangible Assets		589.0	514.7	1,008.7	940.7	873.7	806.7
Tangible Assets		1.3	2.2	31.7	22.6	14.6	6.6
Other long term assets		5.6	5.0	5.2	5.2	5.2	5.2
Current Assets		93.2	124.0	165.9	227.6	282.3	356.6
Stocks		0.0	0.0	0.0	0.0	0.0	0.0
Debtors (incl swaps)		26.0	30.5	53.2	58.2	63.2	68.2
Cash		59.0	84.4	100.3	156.0	204.6	273.0
Player balances		8.2	9.0	12.4	13.4	14.4	15.4
Current Liabilities		(98.5)	(52.3)	(122.6)	(117.6)	(112.6)	(107.6)
Creditors		(46.3)	(47.8)	(117.9)	(112.9)	(107.9)	(102.9)
Short term borrowings		(0.3)	0.0	(4.7)	(4.7)	(4.7)	(4.7)
Contingent consideration		(51.9)	(4.5)	0.0	0.0	0.0	0.0
Long Term Liabilities		(386.7)	(374.5)	(624.2)	(574.2)	(524.2)	(474.2)
Long term borrowings		(369.5)	(371.5)	(545.8)	(495.8)	(445.8)	(395.8)
Contingent consideration		(7.7)	0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(9.4)	(3.0)	(78.3)	(78.3)	(78.3)	(78.3)
Net Assets		204.1	219.1	464.7	504.4	539.0	593.4
CASH FLOW							
Operating Cash Flow		102.0	106.8	100.8	175.8	195.8	218.0
Net Interest		(30.9)	(19.5)	(22.7)	(23.0)	(19.0)	(17.0)
Tax		(1.0)	(0.8)	(3.0)	(16.0)	(18.4)	(20.8)
Capex		(3.2)	(5.3)	(16.7)	(18.0)	(20.0)	(20.0)
Acquisitions (inc earn-outs)		(94.2)	(55.3)	(462.0)	0.0	0.0	0.0
Financing		22.2	(2.3)	240.5	0.0	0.0	0.0
Dividends		0.0	0.0	0.0	(13.0)	(39.8)	(41.8)
Net Cash Flow		(5.2)	23.6	(163.2)	105.8	98.7	118.3
Opening net debt/(cash)		305.6	310.7	287.1	450.3	344.5	245.9
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)		310.7	287.1	450.3	344.5	245.9	127.5
NPV of outstanding earnouts/ other		76.6	15.0	0.0	0.0	0.0	0.0
Currency swaps		0.0	0.0	0.0	0.0	0.0	0.0
Adjusted net debt		387.3	302.1	450.3	344.5	245.8	127.4

Source: Gamesys Group accounts, Edison Investment Research

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