

Stride Gaming

RGD marginally higher than expected

Budget announcement

Travel & leisure

The UK government has raised remote gaming duty (RGD) from 15% to 21%. This was better than recent rumours of 25%, but 1% higher than market expectations of 20%. With implementation from October 2019 (rather than April), we raise our FY19e EBITDA by 5%. However, assuming no mitigation, we lower our FY20e EBITDA by £3m to £14.5m. While regulatory pressures are likely to remain a feature of the UK gaming sector, Stride is the number three online bingo-led operator and should benefit from its strong market position. The balance sheet is robust (£20m net cash) and, despite the increased taxes, we expect strong cash flow through synergies and strategic growth. The stock has fallen 58% this year and trades at depressed levels of 3.6x EV/EBITDA and 5.8x P/E for CY19e.

Year end	Revenue* (£m)	EBITDA (£m)	PBT** (£m)	EPS** (p)	DPS (p)	P/E (x)	Yield (%)
08/16	47.8	12.3	11.3	20.3	2.5	5.1	2.4
08/17	89.9	20.2	18.9	25.8	2.7	4.0	2.6
08/18e	89.0	16.1	14.2	17.1	2.9	6.0	2.8
08/19e	85.0	17.0	15.7	18.5	3.0	5.6	2.9
08/20e	93.5	14.5	13.8	16.2	3.1	6.4	3.0

Note: *Adjusted revenue excludes social from FY18, and includes Stride's share of Stride Together (including Aspers JV). **PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

21% RGD to commence in October 2019

The government's budget has provided long-awaited clarity on remote gaming duty, which will rise from 15% to 21%. This is marginally higher than the widely expected 20%, but 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, 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 set to benefit. We note that as the third largest online bingo-led operator in the UK, Stride is very well positioned.

Tax increase to affect FY20 figures

With almost 100% of revenues derived from the UK, Stride Gaming has been particularly affected by UK regulatory burdens. Factoring in the October 2019 implementation date, we adjust our FY19 tax estimate back to the blended 19% rate (which includes bonus tax) and EBITDA rises from £16.2m to £17.0m. For FY20e, we now assume no mitigation and using a 26% blended tax rate (including bonuses), our EBITDA declines from £17.5m to £14.5m.

Valuation: 3.6x EV/EBITDA and 5.8x P/E for CY19e

The stock has fallen 58% ytd and trades at depressed multiples of 3.6x EV/EBITDA and 5.8x P/E for CY19e. Given the company's superior technology, high net cash and continued strong cash generation (despite the regulatory environment), this seems unjustified, in our view. For a meaningful re-rating, we expect investors to focus on synergies, cost controls and, ultimately, an uptick in EBITDA.

30 October 2018

Price 103.5p
Market cap £78m

Net cash (£m) at April 2018	19.8
Shares in issue	75.8m
Free float	35%
Code	STR
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	9.5	(18.5)	(57.3)
Rel (local)	17.5	(10.3)	(54.3)
52-week high/low		259.0p	83.5p

Business description

Stride Gaming is a leading online gaming operator in the UK. It uses its proprietary and purchased software to provide online bingo and slot gaming. It was formed in 2012 and only operates in regulated real money gaming markets.

Next events

FY18 results	21 November 2018
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Stride Gaming is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

	£m	2015	2016	2017	2018e	2019e	2020e
August		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
NGR		27.8	47.8	89.9	85.5	80.0	86.0
Adjusted Revenue (inc Stride Together)		27.8	47.8	89.9	89.0	85.0	93.5
Cost of Sales		(2.8)	(5.4)	(11.6)	(15.4)	(15.2)	(22.1)
Gross Profit		25.1	42.4	78.3	70.1	64.8	63.9
EBITDA		7.3	12.3	20.2	16.1	17.0	14.5
Operating Profit (norm)		7.3	12.0	19.4	15.0	15.7	13.3
Amortisation of acquired intangibles		(2.5)	(4.2)	(7.8)	(7.0)	(7.0)	(7.0)
Exceptionals		(3.3)	(5.1)	(36.1)	(3.7)	0.0	0.0
Share based payments		(1.0)	(1.9)	(1.8)	(1.4)	(1.4)	(1.4)
Operating Profit		0.4	0.8	(26.2)	3.0	7.3	4.9
Net Interest		(0.1)	(0.7)	(0.5)	(0.9)	(0.5)	(0.5)
Contribution from jvs/assocs.		0.0	0.0	0.0	0.1	0.5	1.0
Profit Before Tax (norm)		7.2	11.3	18.9	14.2	15.7	13.8
Profit Before Tax (FRS 3)		0.4	0.1	(26.7)	2.1	6.8	4.4
Tax (reported)		0.1	(0.5)	1.1	(0.6)	(0.6)	(0.6)
Profit After Tax (norm)		6.2	10.9	18.2	13.8	15.1	13.2
Profit After Tax (FRS 3)		0.4	(0.4)	(25.6)	1.6	6.2	3.9
Average Number of Shares Outstanding (m)		43.8	51.5	67.3	74.5	76.0	76.0
EPS - normalised (p)		14.2	21.2	27.1	18.5	19.8	17.4
EPS - normalised fully diluted (p)		14.0	20.3	25.8	17.1	18.5	16.2
EPS - (IFRS) (p)		0.9	(0.8)	(38.1)	2.1	8.2	5.1
Dividend per share (p)		0.00	2.50	2.70	2.90	3.00	3.10
Gross Margin (%)		90.1	88.7	87.1	82.0	81.0	74.3
EBITDA Margin (%)		26.3	25.8	22.5	18.8	21.2	16.9
Operating Margin (before GW and except.) (%)		26.1	25.0	21.6	17.6	19.6	15.4
BALANCE SHEET							
Fixed Assets		37.1	78.7	61.1	62.1	55.8	49.6
Intangible Assets		36.4	73.6	57.8	51.5	45.0	38.5
Tangible Assets		0.2	0.7	0.7	0.9	1.1	1.3
Investments		0.5	4.4	2.7	2.7	2.7	2.7
Assets Available for sale/other		0.0	0.0	0.0	7.0	7.0	7.0
Current Assets		11.7	27.1	36.5	34.1	46.6	55.3
Stocks		0.0	0.0	0.0	0.0	0.0	0.0
Debtors		4.2	5.8	9.9	7.0	8.0	8.0
Cash		7.4	21.1	26.2	26.6	38.1	46.8
Assets Available for sale/other		0.0	0.2	0.5	0.5	0.5	0.5
Current Liabilities		(7.7)	(26.1)	(35.7)	(19.8)	(17.6)	(17.6)
Creditors		(5.2)	(16.3)	(31.3)	(17.3)	(15.0)	(15.0)
Player balances		(1.4)	(1.8)	(2.4)	(2.5)	(2.6)	(2.6)
Short term borrowings		(1.1)	(8.0)	(2.0)	0.0	0.0	0.0
Long Term Liabilities		(10.2)	(10.5)	(7.1)	(6.5)	(6.5)	(6.5)
Long term borrowings		(8.0)	0.0	(4.4)	(4.0)	(4.0)	(4.0)
Other long term liabilities		(2.2)	(10.5)	(2.6)	(2.5)	(2.5)	(2.5)
Net Assets		30.8	69.2	54.9	69.9	78.3	80.7
CASH FLOW							
Operating Cash Flow		4.6	14.4	14.3	14.5	15.3	13.1
Net Interest		0.0	(0.6)	(0.6)	(0.9)	(0.5)	(0.5)
Tax		(0.1)	(0.7)	(1.4)	(0.6)	(0.6)	(0.6)
Capex		(0.6)	(1.9)	(2.0)	(2.0)	(2.0)	(2.0)
Acquisitions/disposals		(18.1)	(22.2)	(1.9)	(22.5)	5.0	0.0
Financing/other		10.4	25.9	(0.5)	16.2	(3.5)	1.0
Dividends		(3.0)	(0.6)	(1.8)	(2.1)	(2.2)	(2.3)
Net Cash Flow		(6.6)	14.4	6.1	2.7	11.4	8.7
Opening net debt/(cash)		0.0	3.1	(11.3)	(17.4)	(20.1)	(31.5)
Moving in player balances		1.0	0.0	0.0	0.0	0.0	0.0
Other adjustments		2.5	0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		3.1	(11.3)	(17.4)	(20.1)	(31.5)	(40.2)

Source: Company accounts, Edison Investment Research

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