

Stride Gaming

AGM update

Trading broadly in line

Travel & leisure

6 February 2019

Price **102.5p**
Market cap **£78m**

Net cash (£m) at August 2018	22.1
Shares in issue	75.8m
Free float	35%
Code	STR
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



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

H119 results	May 2019
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Stride's AGM confirmed that trading for the current financial year has been broadly in line, despite well documented regulatory headwinds. To counterbalance rising gaming taxes and other sector pressures, the group is implementing numerous cost-cutting initiatives, which will be key to hitting our FY19 EBITDA estimate. Looking ahead, we expect growth to resume in FY20 (once many regulatory burdens have been lapped) and we believe Stride will take market share within a disrupted industry. Cash conversion is c 90% and the new payout policy leads to a 15.0% yield in FY19 (including the special dividend). The stock continues to trade at a meaningful discount to peers, at 3.7x EV/EBITDA and 6.5x P/E for CY19e.

Year end	Revenue* (£m)	EBITDA (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
08/17	89.9	20.2	25.8	2.7	4.0	2.6
08/18	89.0	16.1	19.2	3.0	5.3	2.9
08/19e	85.0	14.5	14.9	15.4***	6.9	15.0***
08/20e	97.5	16.0	17.3	8.7	5.9	8.4

Note: *Adjusted revenue excludes social from FY18, and includes Stride's share of Stride Together (including Aspers JV). **EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. ***Includes 8p special dividend.

Cost-cutting counterbalances regulatory burdens

Stride has confirmed that trading since the start of FY19 has been broadly in line with its expectations, despite continued regulatory challenges. As we detailed in our [November update](#), the government is raising the point of consumption tax from 15% to 21% from April 2019 and the entire sector has been pressured by an array of regulatory burdens (social responsibility, AML, source of funds etc). To mitigate the impact, Stride is implementing numerous cost cuts (including office closures, headcount reduction), while still leveraging its proprietary technology to drive synergies. Looking ahead, we expect growth to resume in FY20 and we believe Stride will take market share within a disrupted industry. Our forecasts remain unchanged, although we note that the pace of cost-cutting will be key to hitting our FY19 EBITDA forecast. We expect more information at the H119 results in May.

High net cash and strong cash conversion

Despite the sector challenges, the online gaming business remains highly cash generative and Stride's cash conversion rate is c 90%. Net cash at end FY18 was £22.1m and Stride has stated that it will now distribute at least 50% of adjusted net earnings in dividends. In addition, a further c 8.0p per share will be distributed as a special dividend in 2019, following the sale of QSB (YoBingo) to Rank Group.

Valuation: 15.0% dividend yield for FY19e

The stock continues to trade towards the bottom of the peer group at 3.7x EV/EBITDA and 6.5x P/E for CY19e. Given the company's superior technology, high cash conversion and new dividend policy (leading to a 15.0% FY19e dividend yield), this seems unjustified, in our view. However, for a meaningful re-rating, we expect investors to focus on synergies, cost controls and ultimately an uptick in EBITDA, which we only anticipate in FY20.

Exhibit 1: Financial summary

	£m	2015	2016	2017	2018	2019e	2020e
August		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
NGR		27.8	47.8	89.9	85.5	80.0	90.0
Adjusted Revenue (inc Stride Together)		27.8	47.8	89.9	89.0	85.0	97.5
Cost of Sales		(2.8)	(5.4)	(11.6)	(16.0)	(17.5)	(23.1)
Gross Profit		25.1	42.4	78.3	69.5	62.5	66.9
EBITDA		7.3	12.3	20.2	16.1	14.5	16.0
Operating Profit (norm)		7.3	12.0	19.4	14.8	12.2	13.7
Amortisation of acquired intangibles		(2.5)	(4.2)	(7.8)	(7.3)	(7.3)	(7.3)
Exceptionals		(3.3)	(5.1)	(36.1)	(6.6)	0.0	0.0
Share based payments		(1.0)	(1.9)	(1.8)	(0.9)	(0.9)	(0.9)
Operating Profit		0.4	0.8	(26.2)	(0.0)	4.0	5.5
Net Interest		(0.1)	(0.7)	(0.5)	(0.2)	(0.2)	(0.2)
Contribution from JVs/assoc.		0.0	0.0	0.0	0.1	0.5	1.0
Profit Before Tax (norm)		6.5	11.3	18.9	14.8	12.5	14.5
Profit Before Tax (FRS 3)		0.4	0.1	(26.7)	(0.1)	4.3	6.3
Tax (reported)		0.1	(0.5)	1.1	(0.5)	(0.5)	(0.6)
Profit After Tax (norm)		6.2	10.9	18.2	14.5	12.0	13.9
Profit After Tax (FRS 3)		0.4	(0.4)	(25.6)	(0.6)	3.8	5.7
Average Number of Shares Outstanding (m)		43.8	51.5	67.3	73.3	76.0	76.0
EPS - normalised (p)		14.2	21.2	27.1	19.8	15.8	18.3
EPS - normalised fully diluted (p)		14.0	20.3	25.8	19.2	14.9	17.3
EPS - (IFRS) (p)		0.9	(0.8)	(38.1)	(6.9)	5.0	7.5
Dividend per share (p)		0.00	2.50	2.70	3.00	15.44	8.65
Gross Margin (%)		90.1	88.7	87.1	81.3	78.1	74.3
EBITDA Margin (%)		26.3	25.8	22.5	18.8	18.1	17.8
Operating Margin (before GW and except.) (%)		26.1	25.0	21.6	17.3	15.2	15.2
BALANCE SHEET							
Fixed Assets		37.1	78.7	61.1	40.4	30.7	24.1
Intangible Assets		36.4	73.6	57.8	36.0	29.0	22.0
Tangible Assets		0.2	0.7	0.7	0.8	1.2	1.7
Investments		0.5	4.4	2.7	0.5	0.5	0.5
Assets Available for sale/other		0.0	0.0	0.0	3.1	0.0	0.0
Current Assets		11.7	27.1	36.5	39.5	35.6	42.1
Stocks		0.0	0.0	0.0	0.0	0.0	0.0
Debtors		4.2	5.8	9.9	10.3	7.0	8.0
Cash		7.4	21.1	26.2	28.7	28.1	33.6
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)	(22.4)	(14.1)	(15.1)
Creditors		(5.2)	(16.3)	(31.3)	(8.2)	(9.0)	(10.0)
Player balances		(1.4)	(1.8)	(2.4)	(2.7)	(2.7)	(2.7)
Provisions		0.0	0.0	0.0	(7.1)	0.0	0.0
Short term borrowings		(1.1)	(8.0)	(2.0)	(4.4)	(2.4)	(2.4)
Long Term Liabilities		(10.2)	(10.5)	(7.1)	(1.8)	(1.0)	(1.0)
Long term borrowings		(8.0)	0.0	(4.4)	0.0	0.0	0.0
Other long term liabilities		(2.2)	(10.5)	(2.6)	(1.8)	(1.0)	(1.0)
Net Assets		30.8	69.2	54.9	55.8	51.2	50.1
CASH FLOW							
Operating Cash Flow		4.6	14.4	14.3	14.5	13.0	14.4
Net Interest		0.0	(0.6)	(0.6)	(0.1)	(0.2)	(0.2)
Tax		(0.1)	(0.7)	(1.4)	(0.5)	(0.5)	(0.6)
Capex		(0.6)	(1.9)	(2.0)	(3.1)	(3.0)	(3.0)
Acquisitions/disposals		(18.1)	(22.2)	(1.9)	(22.5)	8.3	0.0
Financing/other		10.4	25.9	(0.5)	17.9	(6.6)	1.0
Dividends		(3.0)	(0.6)	(1.8)	(2.1)	(10.1)	(6.1)
Net Cash Flow		(6.6)	14.4	6.1	4.2	0.9	5.5
Opening net debt/(cash)		0.0	3.1	(11.3)	(17.4)	(22.1)	(23.0)
Moving in player balances		1.0	0.0	0.0	0.0	0.0	0.0
Other adjustments		2.5	0.0	0.0	0.5	0.0	(0.0)
Closing net debt/(cash)		3.1	(11.3)	(17.4)	(22.1)	(23.0)	(28.5)

Source: Company accounts, Edison Investment Research

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