

# OPAP

Q119 results

## Strong EBITDA driven by VLTs and cost controls

Q119 gross gaming revenues (GGR) increased 5% to €396.0m, OPAP's strongest Q1 performance since 2010. This was driven by a 58.9% increase in video lottery terminals (VLT) GGR (17% of GGR). The core lottery business was steady at €191.7m, although sports betting declined by 5.3%. Sustainable cost containment contributed to an adjusted EBITDA margin of 25%. Our headline forecasts are broadly unchanged, and we assume that the VLT roll-out will continue as previously planned. Cash generation remains strong, net debt/LTM EBITDA is only 1.1x and the company recently announced a scrip dividend option for shareholders. OPAP trades at 8.3x EV/EBITDA and 15.6x P/E with a 7.9% dividend yield for FY19.

Year end	GGR (€m)	EBITDA (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/17	1,455.5	306.5	0.42	1.10	22.3	11.6
12/18	1,547.0	353.6	0.52	0.70	18.2	7.4
12/19e	1,701.8	413.6	0.61	0.75	15.6	7.9
12/20e	1,865.1	461.2	0.68	0.88	14.0	9.3

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

### 5% GGR growth, 25% adjusted EBITDA margin

Q119 GGR grew 5.0% to €396m, driven by a 58.9% increase in VLT GGR. Lottery was up 1.6%, as new Kino features offset VLT substitution and the recent introduction of online Joker should help momentum. Betting GGR declined by 5.3% but, importantly, the core Pame Stoiximan product reverted to 1.9% growth due to product enhancements and a 27% rise in live betting. For the group, sustainable cost containment contributed to a c 250bp EBITDA margin expansion and we expect relatively stable fixed costs going forward. We assume that the VLT roll-out will resume as planned (following a temporary suspension) and our headline forecasts are broadly unchanged. Our forecasts also assume full consolidation of Stoiximan from H219, although approval from the regulator is still pending.

### Strong cash flow, scrip dividend option

OPAP reported Q119 net debt of €410.5m vs €459.0 at FY18. This equates to 1.1x net debt/LTM EBITDA and 17.4x interest cover. We forecast net debt of €512.7m at end FY19, which includes a further €100m debt to pay for the Stoiximan acquisition. In terms of dividends, OPAP has historically distributed the bulk (or more) of FCF as dividends and recently introduced a five-year optional scrip dividend programme. For the FY18 final dividend, the scrip election period ends on 11 July, when we will amend forecasts.

### Valuation: 7.9% FY19 dividend yield

OPAP's shares trade at 15.6x P/E and 8.3x EV/EBITDA for FY19e. This is appropriately towards the top end of the gaming sector, as OPAP benefits from exclusive licences, high barriers to entry and additional growth from VLTs. With low net debt and strong cash generation, the dividend payout ratio has historically been very generous, leading to an attractive 7.9% FY19e dividend yield. Key variables are Greek GDP and sentiment surrounding the upcoming elections.

## Travel & leisure

7 June 2019

Price **€9.46**

Market cap **€3,018m**

Net debt (€m) at end March 2019	410.5
Shares in issue	319m
Free float	67%
Code	OPAP
Primary exchange	ASE
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	(2.7)	4.9	(1.4)
Rel (local)	(5.2)	(9.2)	(5.7)
52-week high/low		€9.85	€7.60

### 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 privatized in 2013. Sazka Group has a 23.7% stake and significant board representation.

### Next events

Q219 results	11 September 2019
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## Strongest Q1 GGR performance since 2010

### Results summary

- **Gross gaming revenues – increased by 5.0%, driven by 58.9% growth in VLTs**

Q119 GGR increased 5.0% to €396.0m, helped by a 58.9% increase in VLTs (17.4% of revenues). An improved Kino performance contributed to stable lottery revenues of €191.7m (48.4% of revenues). Betting declined by 5.3% to €101.7m, although it is encouraging that the main Pame Stoixima product has reverted to 1.9% growth, after many quarters of decline. Instants and passives were also weaker, posting a 10.8% decline.

- **New, larger shops are driving growth**

During the quarter, the number of OPAP stores in Greece declined from 3,910 to 3,884, which includes 147 new stores. Since the beginning of 2018, OPAP has opened over 650 new stores and average store sizes have increased by 22% since 2015, to 128m<sup>2</sup>. OPAP has stated that the newer stores perform over 20% better than the previous formats and the average agent's commission has increased by 4.4% in Q119 vs the prior year.

- **Adjusted EBITDA margin of 25% – helped by cost containment and IFRS 16**

Q119 adjusted EBITDA increased by 15.7% to €100.9m, representing a 25.5% margin (vs 23.1% in the prior year). This excludes €10.7m of one-off items, primarily relating to the reversal of a legal provision. The adjusted margin increase was largely attributable to IT cost containment, although there was also a €2m positive contribution from lower rental costs (due to IFRS 16).

- **Dividends – now with a scrip option**

OPAP's dividend policy is to pay out the 'bulk' of FCF as dividends and it has recently announced a five-year scrip dividend programme (2019–23), such that shareholders will have the option to receive the total dividend in cash or to reinvest their selected amount into new shares. The election period for FY18's final dividend is between 28 June and 11 July. We would expect about half of shareholders to elect a scrip and we will adjust our figures once the final results are announced.

- **Forecasts – broadly unchanged**

Management has stated that it is well placed to deliver another positive year in FY19 and, apart from IFRS 16 adjustments, we are leaving our headline forecasts broadly unchanged. Within the revenue mix, a slightly lower Instant & Passives is offset by growth in VLTs and stability in the core Lottery business. As detailed below, our forecasts assume that the VLT roll-out programme will be resumed in the near future (hence no change to numbers) and that the Stoiximan acquisition (which is still pending regulatory approval) is fully consolidated from H219 onwards (€60m GGR for H219).

#### Exhibit 1: Estimate changes

	Revenue (GGR) (€m)			EBITDA (€m)			Adjusted EPS (€)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2019e	1,704.2	1,701.8	(0.1)	407.8	413.6	1.4	0.62	0.61	(1.6)
2020e	1,867.2	1,865.1	(0.1)	451.6	461.2	2.1	0.70	0.68	(2.8)

Source: OPAP, Edison Investment Research

### Lottery (48.4% of GGR): 1.6% increase

Lottery GGR increased by 1.6% to €191.7 in Q119, helped by Kino side bets and increased Joker revenues. Looking ahead, the introduction of online products should help to mitigate the substitution from VLTs. Joker online was launched in March 2019 and has c 75,000 registrations to date, with online penetration already at 2%. Kino online and Lotto online should follow later in FY19, pending regulation. We continue to forecast a 2% increase in lottery GGR for FY19.

### **Betting (25.7% of GGR): 5.3% decline**

Betting GGR declined by 5.3% to €101.7m vs Q118. This was slightly disappointing, although better than the 11.4% decline in Q418. The decline was driven by a maturing Virtuals business and management has stated that the core Pame Stoixima product has reverted to positive growth of 1.9%, due to an increased number of self-service betting terminals (SSBTs) and more live betting. These have successfully modernised the offer and should enhance growth going forward. In terms of wagers, SSBTs comprised 15.3% of total wagers (vs 6.7% in the prior year) and 28% of total live betting wagers. Live betting grew 27% y-o-y and comprised 36% of total wagers. Online comprised 9% of wagers and 2% of GGR, as win margins are typically lower for online.

There are no major competitions (eg World Cup) in 2019 and, despite the improvement in Pame Stoixima, we continue to forecast a 3% revenue decline in FY19, returning to 5% growth in FY20, as the new online offering begins to gain traction.

### **Instant & Passives (8.5% of GGR), 10.8% decline**

GGR in this division declined by 10.8% to €33.7m, due to weakness in both instants and scratch. Management has stated that this performance is expected to normalise, but we now forecast a 3% decline for this division for FY19.

### **VLTs (17.4% of GGR): Roll-out temporarily suspended**

At end Q119, OPAP operated 19,965 VLTs in 364 Play Gaming Halls and 1,955 agencies. There were c 20,000 VLTs operational at 5 June 2019 but, following a procedural situation, the roll-out of the last c 5,000 VLTs is currently on hold. The procedural delay relating to the final roll-out does not affect the legislative framework or the exclusive contract, and while the matter is being discussed, OPAP is continuing to plan for the final expansion and management is hopeful that the roll-out will be resumed in the near term. This is in line with our forecasts, although there is clearly a risk that there may be a delay or finite end to the roll-out plan.

VLT GGR increased by 58.9% to €68.9m, although GGR/VLT/day has declined to €41 vs €46 in the previous period (note that Q119 includes almost double the number of machines compared to the previous year). Momentum is expected to pick up with a new VLT jackpot offering (from April 2019) and we forecast broadly stable GGR per machine going forward.

**Exhibit 2: Divisional summary**

	2014	2015	2016	2017	2018	2019e	2020e	2021e
Lotteries	817.3	829.9	841.3	818.0	779.9	795.5	803.5	811.5
Sports Betting	456.3	411.9	397.2	421.1	406.2	394.1	413.8	426.2
Instant and Passives	104.1	157.9	159.1	158.9	152.2	147.6	147.5	147.5
VLTS	0.0	0.0	0.0	57.6	208.7	304.6	350.3	367.9
Stoiximan	0.0	0.0	0.0	0.0	0.0	60.0	150.0	165.0
<b>Gross Gaming Revenues</b>	<b>1,377.7</b>	<b>1,399.7</b>	<b>1,397.6</b>	<b>1,455.5</b>	<b>1,547.0</b>	<b>1,701.8</b>	<b>1,865.1</b>	<b>1,918.0</b>
GGR Contribution and other levies	(404.5)	(412.0)	(466.7)	(482.6)	(507.1)	(553.2)	(609.2)	(626.7)
% GGR	-29%	-29%	-33%	-33%	-33%	-33%	-33%	-33%
NGR	973.1	987.7	930.8	972.9	1,039.9	1,148.7	1,255.9	1,291.3
Agents Commission	(359.7)	(362.4)	(358.4)	(369.9)	(381.1)	(403.1)	(419.7)	(428.8)
% of NGR	-37%	-37%	-39%	-38%	-37%	-35%	-33%	-33%
Other NGR related commission	0.0	0.0	(26.3)	(38.3)	(53.0)	(65.2)	(71.7)	(74.4)
% of NGR	0%	0%	-3%	-4%	-5%	-6%	-6%	-6%
Lottery	375.3	380.7	345.7	337.7	330.3	337.6	341.8	345.3
Sports Betting	193.3	176.5	147.1	155.2	159.2	157.1	165.2	170.2
Instant and Passives	46.7	69.5	54.7	54.8	51.5	49.9	50.1	50.1
VLTs	0.0	0.0	0.0	18.4	66.2	98.1	112.8	118.4
Other	(1.8)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
Stoiximan	0.0	0.0	0.0	0.0	0.0	39.0	96.0	105.6
<b>Gross profit from gaming operations</b>	<b>613.5</b>	<b>625.3</b>	<b>546.2</b>	<b>564.7</b>	<b>605.9</b>	<b>680.3</b>	<b>764.6</b>	<b>788.2</b>
<b>Total gross profit</b>	<b>613.5</b>	<b>625.3</b>	<b>570.1</b>	<b>592.6</b>	<b>642.7</b>	<b>718.9</b>	<b>805.1</b>	<b>832.6</b>
Payroll	(58.6)	(46.1)	(56.2)	(63.8)	(76.1)	(79.9)	(91.8)	(93.7)
% NGR	-6%	-5%	-6%	-7%	-7%	-7%	-7%	-7%
Marketing	(78.9)	(69.5)	(65.9)	(67.4)	(65.8)	(79.0)	(90.9)	(92.7)
% of NGR	-8%	-7%	-7%	-7%	-6%	-7%	-7%	-7%
Other operating expenses	(129.5)	(132.7)	(140.4)	(155.0)	(147.2)	(146.5)	(161.2)	(162.8)
% NGR	-13%	-13%	-15%	-16%	-14%	-13%	-13%	-13%
<b>Adjusted EBITDA</b>	<b>346.5</b>	<b>377.1</b>	<b>307.5</b>	<b>306.5</b>	<b>353.6</b>	<b>413.6</b>	<b>461.2</b>	<b>483.5</b>
EBITDA margin	25%	27%	22%	21%	23%	24%	25%	25%

Source: OPAP, Edison Investment Research

## Cash flow and balance sheet

The business model is very cash generative, given the franchise model, the limited working capital risk and the fact that all licence payments have been made.

- **Capex:** the 2017–19 investment programme (technology, slot machines, SSBTs) is coming to an end. Q119 capex of €3m was lower than we expected, but management continues to guide to capex of c €30m in FY19 and €15–25m in FY20.
- **Net debt:** Q119 net debt of €410.5m compares to €459.0m at FY18 and equates to 1.1x net debt/LTM EBITDA and 17.4x interest cover. For FY19, our forecasts include an additional €100m debt for the Stoiximan acquisition (after a €48m net payment in December 2018) and, assuming no special dividends, the net debt level goes to €512.7m in FY19. Once the results of the scrip programme have been announced, the net debt level will very likely decrease further (50% would be about €100m) and we will amend our forecasts at that stage.

**Exhibit 3: Financial summary**

	€m	2014	2015	2016	2017	2018	2019e	2020e	2021e
31-December		ISA	ISA	ISA	ISA	ISA	ISA	ISA	ISA
<b>INCOME STATEMENT</b>									
GGR		1,377.7	1,399.7	1,397.6	1,455.5	1,547.0	1,701.8	1,865.1	1,918.0
NGR		973.1	987.7	930.8	972.9	1,039.9	1,148.7	1,255.9	1,291.3
Cost of Sales		(764.2)	(774.3)	(827.5)	(862.9)	(904.3)	(982.9)	(1,060.1)	(1,085.4)
Gross Profit		613.5	625.3	570.1	592.6	642.7	718.9	805.1	832.6
EBITDA		346.5	377.1	307.5	306.5	353.6	413.6	461.2	483.5
Normalised operating profit		289.6	318.1	252.4	218.8	258.4	301.8	341.1	361.6
Impairments		7.5	(14.1)	0.0	(2.7)	(17.5)	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0	10.7	0.0	0.0
Share-based payments		(0.9)	(1.2)	(3.1)	(1.5)	(1.6)	(1.6)	(1.6)	(1.6)
Reported operating profit		296.2	302.8	249.3	214.6	239.3	310.9	339.5	360.0
Net Interest		1.6	(4.7)	(13.3)	(21.1)	(23.5)	(25.2)	(26.5)	(25.5)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0	3.0	0.0	0.0
Other		7.8	1.5	1.0	(0.3)	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		299.0	314.9	240.0	197.5	234.9	279.5	314.6	336.1
Profit Before Tax (reported)		305.6	299.6	236.9	193.2	215.9	288.7	313.1	334.5
Reported tax		(106.4)	(89.7)	(64.1)	(61.6)	(70.6)	(83.7)	(90.8)	(97.0)
Profit After Tax (norm)		212.3	223.6	170.4	140.2	166.8	198.5	223.4	238.6
Profit After Tax (reported)		199.2	209.9	172.9	131.6	145.3	204.9	222.3	237.5
Minority interests		(4.2)	0.8	(2.6)	(5.4)	(2.0)	(4.8)	(7.3)	(7.9)
Discontinued operations		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	134.8	164.8	193.7	216.1	230.7
Net income (reported)		195.0	210.7	170.2	126.2	143.3	200.2	215.0	229.6
Basic average number of shares outstanding (m)		319	319	319	318	318	319	319	319
EPS - basic normalised (€)		0.65	0.70	0.53	0.42	0.52	0.61	0.68	0.72
EPS - diluted normalised (€)		0.65	0.70	0.53	0.42	0.52	0.61	0.68	0.72
EPS - basic reported (€)		0.61	0.66	0.53	0.40	0.45	0.63	0.67	0.72
Dividend (€)		0.70	0.40	1.29	1.10	0.70	0.75	0.88	0.93
Revenue growth (%)			1.6	(-0.2)	4.1	6.3	10.0	9.6	2.8
Gross Margin (%)		44.5	44.7	40.8	40.7	41.5	42.2	43.2	43.4
EBITDA Margin (%)		25.2	26.9	22.0	21.1	22.9	24.3	24.7	25.2
Normalised Operating Margin		21.0	22.7	18.1	15.0	16.7	17.7	18.3	18.9
<b>BALANCE SHEET</b>									
Fixed Assets		1,343.4	1,318.9	1,330.3	1,356.5	1,368.7	1,519.3	1,417.6	1,314.1
Intangible Assets		1,284.2	1,237.2	1,231.0	1,218.5	1,157.2	1,209.1	1,127.6	1,044.4
Tangible Assets		44.2	56.2	67.6	109.3	111.5	126.2	106.0	85.7
Investments & other		15.0	25.5	31.7	28.7	100.0	184.0	184.0	184.0
Current Assets		409.4	389.9	437.4	440.4	381.2	447.5	525.5	610.2
Stocks		3.0	4.2	12.5	7.9	10.7	20.7	20.7	20.7
Debtors		92.3	55.2	80.6	127.8	137.4	142.4	147.4	152.4
Cash & cash equivalents		297.4	301.7	273.5	246.1	191.5	237.7	310.7	390.4
Other		16.7	28.8	70.8	58.5	41.7	46.7	46.7	46.7
Current Liabilities		(457.9)	(325.0)	(390.2)	(482.0)	(295.0)	(290.0)	(280.0)	(270.0)
Creditors		(170.4)	(127.1)	(149.3)	(173.9)	(176.7)	(166.7)	(156.7)	(146.7)
Tax and social security		(178.2)	(129.9)	(55.5)	(89.8)	(73.1)	(78.1)	(78.1)	(78.1)
Short term borrowings		(0.0)	(32.1)	(118.7)	(169.2)	(0.2)	(0.2)	(0.2)	(0.2)
Other		(109.3)	(35.9)	(66.7)	(49.2)	(45.0)	(45.0)	(45.0)	(45.0)
Long Term Liabilities		(59.8)	(181.0)	(305.3)	(556.7)	(695.4)	(879.4)	(879.4)	(879.4)
Long term borrowings		0.0	(115.0)	(263.0)	(513.1)	(650.3)	(750.3)	(750.3)	(750.3)
Other long-term liabilities		(59.8)	(66.0)	(42.3)	(43.6)	(45.1)	(129.1)	(129.1)	(129.1)
Net Assets		1,235.1	1,202.8	1,072.2	758.2	759.5	797.4	783.7	774.9
Minority interests		(67.4)	(41.0)	(37.0)	(43.4)	(36.8)	(38.0)	(42.0)	(44.0)
Shareholders' equity		1,167.7	1,161.8	1,035.3	714.8	722.8	759.4	741.7	730.9
<b>CASH FLOW</b>									
Op Cash Flow before WC and tax		347.4	378.3	310.7	308.0	355.2	415.1	462.8	485.1
Working capital		7.0	(41.0)	(71.9)	(9.2)	(25.0)	(15.0)	(15.0)	(15.0)
Exceptional & other		1.0	9.1	(12.4)	(0.4)	1.1	0.0	0.0	0.0
Tax		(68.8)	(142.5)	(116.9)	(31.4)	(51.7)	(73.7)	(80.8)	(87.0)
Net operating cash flow		286.6	203.9	109.4	266.9	279.6	326.4	367.0	383.1
Capex		(18.6)	(39.6)	(42.9)	(96.3)	(51.9)	(30.0)	(20.0)	(20.0)
Acquisitions/disposals		(18.6)	(0.8)	(0.0)	(31.5)	(47.9)	(96.9)	0.0	0.0
Net interest		1.6	(4.2)	(11.9)	(19.6)	(24.6)	(25.2)	(26.5)	(25.5)
Equity financing		(8.3)	(24.2)	(11.9)	(1.8)	(5.5)	0.0	0.0	0.0
Dividends		(79.8)	(277.3)	(292.8)	(446.1)	(154.0)	(223.3)	(239.8)	(250.0)
Other		48.1	(0.7)	(12.7)	0.3	(18.6)	(4.8)	(7.3)	(7.9)
Net Cash Flow		211.0	(142.9)	(262.8)	(328.0)	(22.8)	(53.8)	73.5	79.7
Opening net debt/(cash)		(86.4)	(297.4)	(154.5)	108.3	436.2	459.0	512.7	439.3
FX		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	0.0	0.0	0.0	0.0
Closing net debt/(cash)		(297.4)	(154.5)	108.3	436.2	459.0	512.7	439.3	359.6

Source: Company data, Edison Investment Research

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