

GVC Holdings

Dividends resume ahead of schedule

GVC is returning to the dividend payers list sooner than expected, with a 10c/share special dividend for 2016. This further demonstrates management's excellent progress integrating bwin and growing the enlarged business. Thereafter, a 50% payout policy implies a yield of over 3% for 2017e. With considerable momentum building in terms of cost-cutting, product enhancements and more focused marketing, we are confident in our growth forecasts (2017e EPS up 80%), on which basis the 2017e EV/EBITDA of 9.5x represents excellent value.

Year end	Revenue (€m)	EBITDA* (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/14	224.8	49.2	41.3	61.4	55.5	12.6	7.2
12/15	247.7	54.1	50.0	76.4	56.0	10.1	7.2
12/16p**	885.0	202.1	102.9	31.3	10.0	24.7	1.3
12/17e	912.0	250.0	188.4	56.2	26.0	13.8	3.4
12/18e	960.0	285.0	234.0	69.0	33.5	11.2	4.3

Note: *Normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Pro forma includes 12 months of bwin.

Special dividend and ongoing dividend policy

GVC had said it would take a 2016 dividend holiday under the terms of its Cerberus loan facility, put in place for the bwin acquisition. That loan will now be repaid shortly before 2 February 2017 (avoiding anniversary fees) and replaced with much cheaper Nomura debt (an initial c 2% versus 12.5%, see our [Update note](#) of 4 August). This, and positive trading, has prompted GVC to declare a 10c/share special dividend for 2016, which will be paid in February 2017. GVC has now also announced a policy of distributing 50% of annualised free cash flow (operating cash flow less tax, interest and capex) split c 40%/60% H1/H2. This was broadly in line with our previous expectation; we have marginally increased our dividend forecasts for 2017 and 2018 from 25.0c and 32.5c to 26.0c and 33.5c respectively.

Positive trading update

GVC has announced a 12% increase in net gaming revenue (NGR) for Q316, or 15% at constant currency. On this basis, we have slightly increased our full year revenue forecasts (2016e now €885m, up from €860m) but left our profit forecasts unchanged (some of the excess revenue going towards staff bonus). Adjusting our cash flow for the higher dividend payments still leaves the group cash neutral by end 2018. Other recent newsflow includes a raft of gaming content deals to further improve the product offering (eg Scientific Games, Realistic, Microgaming).

Valuation: 2017e EV/EBITDA 9.5x

After a very strong run, GVC shares ran into a little profit taking in mid-October, yet today's news confirms ongoing excellent progress and management confidence. The group should turn strongly cash generative in 2017. GVC's 2017e EV/EBITDA of 9.5x is only in line with the peer group average despite its above-average growth prospects, and the prospective yield further underpins the share's attractions.

Special dividend/update

Gaming

3 November 2016

Price **690p**

Market cap **£2,017m**

€1.12/\$1.24/£

Net debt (€m) at 24 July 2016 154

Shares in issue 292.3m

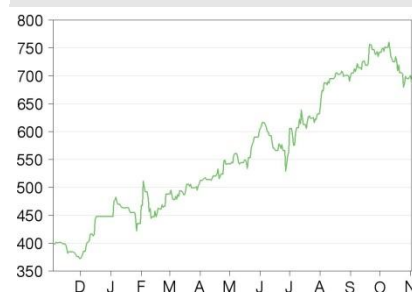
Free float 94%

Code GVC

Primary exchange LSE (Premium segment)

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (8.3) 3.4 72.2

Rel (local) (6.1) 0.4 61.5

52-week high/low 769.00p 372.00p

Business description

GVC Holdings is a leading e-gaming operator in both B2C and B2B markets with four main product verticals (sports, casino, poker, bingo). Just under 70% of revenues come from regulated/taxed markets (H116). GVC acquired bwin.party digital entertainment (bwin) on 1 February 2016 for €1.51bn.

Next events

Trading update January 2017

Final results March 2017

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GVC Holdings is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

	€m	2014	2015	2016p*	2017e	2018e
Year end 31 December		(IFRS)	(IFRS)	(IFRS)	(IFRS)	(IFRS)
PROFIT & LOSS						
Net gaming revenue		224.8	247.7	885.0	912.0	960.0
Cost of Sales		(101.5)	(112.4)	(426.3)	(442.3)	(470.4)
Gross Profit (contribution)		123.3	135.4	458.7	469.7	489.6
EBITDA		49.2	54.1	202.1	250.0	285.0
Depreciation and amortisation		(5.5)	(1.4)	(35.0)	(38.0)	(41.0)
Operating Profit (norm)		43.7	52.7	167.1	212.0	244.0
Amortisation of acquired intangibles		0.0	0.0	(52.2)	(45.0)	(40.0)
Exceptional/ one-off items		0.0	(24.5)	(145.0)	(5.0)	0.0
Share based payments		(0.7)	(0.4)	(15.0)	0.0	0.0
Operating Profit		42.9	27.7	(45.1)	162.0	204.0
Net finance charges (interest plus fees)		(0.1)	(2.2)	(64.2)	(23.6)	(10.0)
Other financial expense		(1.6)	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		41.3	50.0	102.9	188.4	234.0
Profit Before Tax (FRS 3)		41.3	25.5	(109.4)	138.4	194.0
Tax		(0.7)	(0.8)	4.0	(7.5)	(11.7)
Profit After Tax (norm)		40.6	49.2	97.8	180.9	222.3
Profit After Tax (FRS 3)		40.6	24.7	(105.4)	130.9	182.3
Average Number of Shares Outstanding (m)		61.1	61.3	292.0	292.0	303.0
EPS - normalised fully diluted (c)		61.4	76.4	31.3	56.2	69.0
EPS - (IFRS) (c)		66.4	40.2	(36.1)	44.8	60.2
Dividend per share declared (c)		55.5	56.0	10.0	26.0	33.5
Dividend per share paid (c)		55.0	56.0	0.0	27.0	31.5
Gross Margin (%)		54.8	54.6	51.8	51.5	51.0
EBITDA Margin (%)		21.9	21.8	22.8	27.4	29.7
Operating Margin (before GW and except.) (%)		19.4	21.3	18.9	23.2	25.4
BALANCE SHEET						
Fixed Assets		159.2	159.2	1,681.5	1,685.5	1,689.5
Intangible Assets		154.3	155.2	1,660.0	1,660.0	1,660.0
Tangible Assets		1.1	1.4	20.0	24.0	28.0
Deferred tax asset		3.8	2.6	1.5	1.5	1.5
Current Assets		49.5	72.6	535.0	425.0	416.0
Stocks		0.0	3.8	0.0	0.0	0.0
Debtors		31.7	40.6	140.0	150.0	160.0
Cash		4.8	13.4	285.0	155.0	126.0
Customer balances		13.0	14.8	110.0	120.0	130.0
Current Liabilities		(50.4)	(81.0)	(320.0)	(450.0)	(385.0)
Creditors		(46.4)	(77.3)	(290.0)	(300.0)	(310.0)
Short term borrowings		(4.1)	(3.7)	(30.0)	(150.0)	(75.0)
Long Term Liabilities		(8.8)	(22.6)	(480.0)	(180.0)	(130.0)
Long term borrowings		(3.1)	(19.8)	(400.0)	(100.0)	(50.0)
Other long term liabilities		(5.7)	(2.8)	(80.0)	(80.0)	(80.0)
Net Assets		149.5	128.1	1,416.5	1,480.5	1,590.5
CASH FLOW						
Operating Cash Flow		48.5	62.5	26.5	207.5	260.0
Tax		(0.5)	(0.7)	(4.6)	(15.0)	(18.0)
Net Interest		(0.1)	0.0	(46.7)	(23.6)	(10.0)
Capex		(5.3)	(6.2)	(40.0)	(40.0)	(40.0)
Acquisitions/disposals		(8.0)	(2.4)	(1,510.0)	0.0	0.0
Financing		0.9	(24.5)	1,439.7	0.0	0.0
Dividends		(33.6)	(34.3)	0.0	(79.1)	(95.4)
Net Cash Flow		1.9	(5.6)	(135.0)	49.8	96.6
Opening net debt/(cash)		4.3	2.4	10.2	145.0	95.0
HP finance leases initiated		(0.6)	(1.5)	0.0	0.0	0.0
FX/ Other		0.7	(0.7)	0.2	0.2	(0.5)
Closing net debt/(cash)		2.4	10.2	145.0	95.0	(1.0)

Source: GVC accounts, Edison Investment Research. Note: *2016p is pro forma, including bwin.party for 12 months (reported will include it from the date of acquisition, 1 February 2016).

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