

GVC Holdings

Increased special dividend

GVC has released a positive pre-close update, indicating that results will be at the upper end of market expectations, and has upped the planned 2016 special dividend by 49%, from 10c to 14.9c/share. This confirms excellent momentum in the business, with revenue synergies beginning to augment the bwin cost synergies. We have increased our FY16 EBITDA estimate by £2.4m to £204.5m. Management is delivering on its ambitious targets, yet the 2017e EV/EBITDA is now only 9.2x.

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	11.9	7.6
12/15	247.7	54.1	50.0	76.4	56.0	9.6	7.7
12/16p**	885.0	204.5	105.3	32.1	14.9	22.8	2.0
12/17e	925.0	250.0	188.0	54.3	26.0	13.5	3.6
12/18e	976.0	285.0	234.0	66.9	33.5	10.9	4.6

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

Increased special dividend

GVC is increasing its proposed special dividend to 14.9c or 12.5p/share (fixed), to be paid on 14 February 2017. This demonstrates management's confidence in the progress of the bwin integration, with a cumulative €95m of cost synergies expected to be realised by end 2017 (of the total forecast €125m). We expect the main platform migrations to be completed by the end of Q2'17, and marketing to rise from 21% in H1'16 to 23-24% in 2017 to capitalise on cross-sell and revenue synergies. Traditionally a generous dividend payer, GVC plans to return to a 50% payout policy, but strong cash generation means that we still expect net debt to fall from €145m at end 2016 to €95m at end 2017 and to be eliminated by end 2018.

Positive momentum confirmed: Q4 revenue up 12%

Q4 (to 12 December) net gaming revenue is up 12% (pro forma, including bwin), or 14% at constant currency, with sports up 19% and gaming up 8%, against a strong comparative. Current consensus is for 2016 revenue of €852-885m and clean EBITDA of €202-205.5m; we have increased our EBITDA to €204.5m (from €202.1m) but left 2017/18e unchanged at €250m and €285m respectively to allow for increasing gaming taxes as markets regulate.

Valuation: Good time to take another look

Today's news re-confirms ongoing excellent progress. Sector sentiment has been adversely affected by UK government's triennial review of stakes and prizes, but much of the focus appears to be on FOBT betting terminals and we do not expect it to have a material effect on GVC. With recent profit-taking having sent the shares down from a peak of 769p in September, the 2017e EV/EBITDA of only 9.2x versus a peer group average of 9.4x suggests that now is a very good time for investors to take another look at GVC, given its strong growth and dividend prospects.

Trading update

Travel & leisure

15 December 2016

Price **615.00p**

Market cap **£1,796m**

€1.19/\$1.27/£

Net debt (€m) at 24 July 2016 154

Shares in issue 292.0m

Free float 94%

Code GVC

Primary exchange LSE (Premium segment)

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(4.1)	(15.2)	49.1
Rel (local)	(6.6)	(18.1)	28.7
52-week high/low	769.00p	415.00p	

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). Around 55% of revenues come from regulated and/or taxed markets. GVC acquired bwin.party digital entertainment (bwin) on 1 February 2016 for €1.51bn.

Next events

Final results March 2017

Analysts

Jane Anscombe +44 (0)20 3077 5740

Katherine Thompson +44 (0)20 3077 5730

gaming@edisongroup.com

[Edison profile page](#)

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	925.0	976.0
Cost of Sales		(101.5)	(112.4)	(436.9)	(474.9)	(503.6)
Gross Profit (contribution)		123.3	135.4	448.1	450.0	472.4
EBITDA		49.2	54.1	204.5	250.0	285.0
Depreciation and amortisation		(5.5)	(1.4)	(37.0)	(40.0)	(40.0)
Operating Profit (norm)		43.7	52.7	167.5	210.0	245.0
Amortisation of acquired intangibles		0.0	0.0	(120.0)	(120.0)	(120.0)
Exceptional/ one-off items		0.0	(24.5)	(115.0)	(5.0)	0.0
Share based payments		(0.7)	(0.4)	(15.0)	0.0	0.0
Operating Profit		42.9	27.7	(82.5)	85.0	125.0
Net finance charges (interest plus fees)		(0.1)	(2.2)	(62.3)	(22.3)	(11.4)
Other financial expense/ associates		(1.6)	0.0	0.2	0.3	0.4
Profit Before Tax (norm)		41.3	50.0	105.3	188.0	234.0
Profit Before Tax (FRS 3)		41.3	25.5	(144.7)	63.0	114.0
Tax		(0.7)	(0.8)	4.0	(13.2)	(18.7)
Profit After Tax (norm)		40.6	49.2	100.1	174.8	215.3
Profit After Tax (FRS 3)		40.6	24.7	(140.7)	49.8	95.3
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	32.1	54.3	66.9
EPS - (IFRS) (c)		66.4	40.2	(48.2)	17.1	31.4
Dividend per share declared (c)		55.5	56.0	14.9	26.0	33.5
Dividend per share paid (c)		55.0	56.0	0.0	25.3	29.0
Gross Margin (%)		54.8	54.6	50.6	48.7	48.4
EBITDA Margin (%)		21.9	21.8	23.1	27.0	29.2
Operating Margin (before GW and except.) (%)		19.4	21.3	18.9	22.7	25.1
BALANCE SHEET						
Fixed Assets		159.2	159.2	1,686.5	1,591.5	1,496.5
Intangible Assets		154.3	155.2	1,660.0	1,560.0	1,460.0
Tangible Assets		1.1	1.4	25.0	30.0	35.0
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)	(470.0)	(170.0)	(120.0)
Long term borrowings		(3.1)	(19.8)	(400.0)	(100.0)	(50.0)
Other long term liabilities		(5.7)	(2.8)	(70.0)	(70.0)	(70.0)
Net Assets		149.5	128.1	1,431.5	1,396.5	1,407.5
CASH FLOW						
Operating Cash Flow		48.5	62.5	29.2	207.5	268.9
Tax		(0.5)	(0.7)	(9.6)	(15.0)	(18.0)
Net Interest		(0.1)	0.0	(46.7)	(23.7)	(11.4)
Capex		(5.3)	(6.2)	(40.0)	(40.0)	(40.0)
Acquisitions/disposals		(8.0)	(2.4)	(1,490.8)	0.0	0.0
Financing		0.9	(24.5)	1,423.1	0.0	(5.1)
Dividends		(33.6)	(34.3)	0.0	(78.8)	(98.5)
Net Cash Flow		1.9	(5.6)	(134.8)	50.0	95.9
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)	0.0	0.0	0.0
Closing net debt/(cash)		2.4	10.2	145.0	95.0	(1.0)

Source: GVC Holdings, 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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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
245 Park Avenue, 39th Floor
10167, New York
US

Sydney +61 (0)2 9258 1161
Level 25, Aurora Place
88 Phillip St, Sydney
NSW 2000, Australia

Wellington +64 (0)48 948 555
Level 15, 171 Featherston St
Wellington 6011
New Zealand