

GVC Holdings

Disposal

Success rewarded

GVC has announced the sale of its payments business Kalixa for €29m, as expected. In addition, and hard on the heels of the increased special dividend for shareholders (announced 15 December), GVC has reported that directors are to receive cash alternative payments in respect of options that have vested. The combined impact is a small (2%) upgrade to our 2017e normalised EPS. GVC goes into 2017 with very strong positive momentum that is still not reflected its EV/EBITDA of 9.6x.

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	204.5	105.3	32.1	14.9	24.0	1.9
12/17e	909.0	250.0	188.0	55.4	26.0	13.9	3.4
12/18e	960.0	285.0	234.0	68.2	33.5	11.3	4.3

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

Sale of Kalixa Group

The Kalixa payment processing business was non-core within bwin and its sale to Senjō Group Pte of Singapore for €29m (total up to €35.5m) is good news. Kalixa joins a large payments specialist and will continue to service GVC under an existing contract. Kalixa lost €7.0m in 2015 and we forecast break-even in 2017 so there is no effect on our profit forecasts. We have adjusted 2017e revenue by €16m. The deal will complete in 2017 with the final net cash proceeds depending on completion account adjustments.

Share options: Cash alternative

GVC has always placed considerable emphasis on the importance of incentive programmes for both management and staff. The CEO/CFO remuneration packages put in place at the time of the bwin acquisition did not provide for any bonus or any salary increase; instead they participated in a new 2015 LTIP. Now, with the chairman, they are entitled to receive 3.7m options between them at prices of £4.22 and £4.67, worth a total of £8.97m (€10.67m). To cover the cost of the options and tax they would have needed to sell c 80%. There is no effect on 2016 forecast normalised PBT or EPS since we do not include share based payments in our normalised calculations and the interest impact is minimal. There is a small (2%) positive impact on our 2017 normalised EPS (now 55.4c, up from 54.3c), due to the lower diluted share capital. The directors' shareholdings are unchanged and continued to represent a sizeable part of their personal wealth (1.9m shares or £12m in the case of the CEO Kenny Alexander).

Valuation: 2017 EV/EBITDA still only 9.6x

GVC's shares bounced a little on last week's trading update and dividend news ([Edison update, 15 December](#)) but the 2017e EV/EBITDA is still only 9.6x, which we believe is excellent value given GVC's strong growth and dividend prospects.

Travel & leisure

19 December 2016

Price **648.5p**
Market cap **£1,897m**

€1.19/\$1.25/£

Net debt (€m) at 24 July 2016 154

Shares in issue 292.5m

Free float 94%

Code GVC

Primary exchange LSE (Premium segment)

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 1.7 (9.8) 47.1

Rel (local) (1.7) (13) 29.5

52-week high/low 769.0p 415.0p

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

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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						
Revenue		224.8	247.7	885.0	909.0	960.0
Cost of Sales		(101.5)	(112.4)	(436.9)	(459.0)	(487.6)
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)	(9.0)	0.0
Share based payments		(0.7)	(0.4)	(15.0)	0.0	0.0
Operating Profit		42.9	27.7	(82.5)	81.0	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)	59.0	114.0
Tax		(0.7)	(0.8)	4.0	(15.0)	(21.1)
Profit After Tax (norm)		40.6	49.2	100.1	172.9	213.0
Profit After Tax (FRS 3)		40.6	24.7	(140.7)	43.9	93.0
Average Number of Shares Outstanding (m)		61.1	61.3	292.0	292.5	303.0
EPS - normalised fully diluted (c)		61.4	76.4	32.1	55.4	68.2
EPS - (IFRS) (c)		66.4	40.2	(48.2)	15.0	30.7
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	25.3
Gross Margin (%)		54.8	54.6	50.6	49.5	49.2
EBITDA Margin (%)		21.9	21.8	23.1	27.5	29.7
Operating Margin (before GW and except.) (%)		19.4	21.3	18.9	23.1	25.5
BALANCE SHEET						
Fixed Assets		159.2	159.2	1,686.5	1,572.5	1,477.5
Intangible Assets		154.3	155.2	1,660.0	1,541.0	1,441.0
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	530.0	425.0	426.0
Stocks		0.0	3.8	0.0	0.0	0.0
Debtors		31.7	40.6	140.0	140.0	160.0
Cash		4.8	13.4	280.0	165.0	136.0
Customer balances		13.0	14.8	110.0	120.0	130.0
Current Liabilities		(50.4)	(81.0)	(320.0)	(440.0)	(385.0)
Creditors		(46.4)	(77.3)	(290.0)	(290.0)	(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	1,426.5	1,387.5	1,398.5
CASH FLOW						
Operating Cash Flow		48.5	62.5	24.2	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)	15.0	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)	(139.8)	65.0	96.0
Opening net debt/(cash)		4.3	2.4	10.2	150.0	85.0
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	150.0	85.0	(11.0)

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). ** 2017 disposals is assumed net proceeds from the Kalixa sale: €29.0m agreed cash consideration is subject to completion account adjustments and as a payment processor these may be material; consideration is capped at €35.5m. There will also be a dividend for GVC before completion (free cash flow over and above €2.1m). We have conservatively assumed that the final cash impact of the disposal (net of expenses) is c €15m.

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