EDISON

Rank Group

IMS - 46 weeks to 14 May

Digital revenues are back on track

Travel & leisure

In line with expectations, l-f-l revenues (46 weeks to 14 May) increased 1%, with a 13% growth in digital offsetting a slight revenue decline in Grosvenor Casinos' and Mecca's venues. Earlier platform issues have been resolved and we expect digital revenue growth to accelerate, with the H118 introduction of a single wallet fuelling market share gains. The core business is highly cash generative, enabling progressive dividends, as well as potential M&A. Despite this, the stock trades at a calendar 2017e 6.5x EV/EBITDA, a 30% discount to peers. Our estimates are unchanged.

Year end	Revenue* (£m)	EBITDA** (£m)	PBT** (£m)	EPS** (p)	DPS (p)	P/E (x)	Yield (%)
06/15	738.3	126.3	74.1	14.6	5.6	14.1	2.7
06/16	753.0	128.2	77.4	15.4	6.5	13.4	3.2
06/17e	764.0	127.0	76.0	15.3	7.1	13.5	3.4
06/18e	785.0	133.0	81.5	16.4	8.2	12.6	4.0
06/19e	813.0	140.0	88.0	17.7	8.8	11.6	4.3

Note: *Revenue is before customer incentives. **Normalised, excluding amortisation of acquired intangibles, one-off and exceptional items.

Growth in digital: Mecca has turned the corner

Digital revenues increased 13% vs the prior year, with Grosvenor Casinos' digital channel growing 35%. Importantly, previous platform migration issues at Mecca's digital channel now appear to be resolved and Mecca's digital revenues increased 2% over the period, implying an uplift since December. As detailed in our Outlook note in February, Rank has only 2% of the UK online casino market despite being the leading UK casino operator and number two in bingo. We anticipate market share gains, with the introduction of a single wallet in H118 providing cross-selling opportunities. Rank's Capital Markets Day on 24 May should provide further details.

Venues slightly down

L-f-l revenues at Grosvenor Casinos' venues declined by 1%, affected by a lower gaming margin. Mecca's venues l-f-l revenues were down 2%, with lower customer visits partially offset by an increased spend per visit. This is in line with our FY17 figures. For FY18 onwards, we note that Grosvenor could benefit from the current triennial review, if it is allowed to add more gaming machines. Additionally, a potential clampdown on betting shop FOBT machines would be competitively helpful.

Valuation: Attractive 6.5x 2017e EV/EBITDA

Rank's calendar 2017e P/E and EV/EBITDA are 7% and 30% below the peer average, respectively. It has more consumer exposure than pure online peers, but substantially more digital upside and none of the FOBT risks faced by the bookmakers. An expected move into net cash by FY18 underpins a progressive dividend policy and provides the firepower for potential M&A. Our forecasts remain unchanged.

18 May 2017

Price	**205.9p**
Market cap	**£804m**
	€1.16: £1
Net debt (£m) at 31 December 2016	33.0
Shares in issue	390.7m
Free float	29%
Code	RNK
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(2.9)	1.1	(16.1)
Rel (local)	(5.0)	(2.1)	(30.6)
52-week high/low	255.1p		186.8p

Business description

Rank is a gaming-based leisure and entertainment company. Its Grosvenor and Mecca brands are market leaders in UK multi-channel gaming and it also has operations in Spain and Belgium. In FY16 86% of revenues came from its venues and 14% from its digital operations.

Next events

Capital Markets Day	24 May 2017
Final results	17 August 2017

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Edison profile page

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Exhibit 1: Financial summary

£m	2014	2015	2016	2017e	2018e	2019e
June	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	707.7	738.3	753.0	764.0	785.0	813.0
Cost of Sales	(409.2)	(414.2)	(418.8)	(437.8)	(449.6)	(461.6)
Gross Profit	298.5	324.1	334.2	326.2	335.3	351.5
EBITDA	116.0	126.3	128.2	127.0	133.0	140.0
Operating Profit (before amort. and except.)	72.4	84.0	82.4	80.0	85.0	91.0
Intangible Amortisation	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals	(46.5)	2.1	9.3	(2.4)	0.0	0.0
Operating Profit	25.9	86.1	91.7	77.6	85.0	91.0
Net Interest	(9.9)	(9.9)	(5.0)	(4.0)	(3.5)	(3.0)
Other finance adjustments*	(1.6)	(1.7)	(1.1)	(0.9)	0.0	0.0
Profit Before Tax (norm)	62.5	74.1	77.4	76.0	81.5	88.0
Profit Before Tax (FRS 3)	14.4	74.5	85.6	72.7	81.5	88.0
Tax on norm PBT	(13.9)	(17.0)	(17.4)	(16.3)	(17.5)	(18.9)
Profit After Tax (norm)	48.6	57.1	60.0	59.7	64.0	69.1
Profit After Tax (FRS 3)	0.5	57.5	68.2	56.4	64.0	69.1
Average Number of Shares Outstanding (m)	390.7	390.7	390.7	390.7	390.7	390.7
EPS - normalised (p)	12.4	14.6	15.4	15.3	16.4	17.7
EPS - (IFRS) (p)	5.2	19.1	18.2	14.2	16.4	17.7
Dividend per share (p)	4.5	5.6	6.5	7.1	8.2	8.8
Gross Margin (%)	42.2	43.9	44.4	42.7	42.7	43.2
EBITDA Margin (%)	16.4	17.1	17.0	16.6	16.9	17.2
Operating Margin (before GW and except.) (%)	10.2	11.4	10.9	10.5	10.8	11.2
BALANCE SHEET						
Fixed Assets	613.3	607.2	614.1	621.0	626.0	625.0
Intangible Assets	390.2	395.7	404.3	405.0	406.0	407.0
Tangible Assets	217.5	204.0	202.0	208.0	212.0	210.0
Deferred tax/other	5.6	7.5	7.8	8.0	8.0	8.0
Current Assets	87.9	123.4	100.5	107.0	116.2	118.4
Stocks	3.1	2.8	2.9	3.0	3.2	3.4
Debtors	37.7	31.0	36.6	37.0	38.0	40.0
Cash	47.1	89.6	61.0	67.0	75.0	75.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Current Liabilities	(168.4)	(309.4)	(173.9)	(182.0)	(184.5)	(189.0)
Creditors (incl provisions)	(164.0)	(184.5)	(159.5)	(167.0)	(170.0)	(174.0)
Short term borrowings	(4.4)	(124.9)	(14.4)	(15.0)	(14.5)	(15.0)
Long Term Liabilities	(290.5)	(126.8)	(188.1)	(165.0)	(135.0)	(90.0)
Long term borrowings	(179.7)	(17.6)	(87.8)	(75.0)	(55.0)	(20.0)
Other long term liabilities	(110.8)	(109.2)	(100.3)	(90.0)	(80.0)	(70.0)
Net Assets	242.3	294.4	352.6	381.0	422.7	464.4
CASH FLOW						
Operating Cash Flow	55.0	146.6	110.2	115.2	130.0	136.0
Net Interest	(8.1)	(7.5)	(5.0)	(3.0)	(3.0)	(2.5)
Tax	(19.1)	(2.2)	(31.1)	(13.7)	(16.3)	(15.8)
Capex	(44.3)	(31.9)	(52.7)	(50.0)	(48.0)	(46.0)
Acquisitions/disposals	0.3	(1.0)	16.2	0.0	0.0	0.0
Financing	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	(16.4)	(18.6)	(22.7)	(26.6)	(30.9)	(33.6)
Net Cash Flow	(32.6)	85.4	14.9	22.0	31.8	38.1
Opening net debt/(cash)	104.1	137.0	52.9	41.2	23.0	(5.5)
HP finance leases initiated	(2.3)	(3.1)	(2.8)	(3.0)	(3.0)	(3.0)
Other	2.0	1.8	(0.4)	(0.8)	(0.3)	(0.6)
Closing net debt/(cash)	137.0	52.9	41.2	23.0	(5.5)	(40.0)

Source: Rank Group accounts, Edison Investment Research. Note: *Revenue is before customer incentives.

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