

Ten Entertainment Group

Consumer
2 August 2017

Ten out of ten

Listed in April 2017 with a reorganized corporate structure, and led by a high-calibre operating team, Ten Entertainment Group (TEG) has developed a highly cash-generative business model that signals further growth prospects. By combining its operating formula with an integrated technology platform, TEG has set itself apart from competitors. With effective inward capital investment and its 'Tenpinisation' model, growth looks set to continue, and forecasts indicate a substantial increase in profit in FY17 and FY18.

Operating formula and enhanced technology

Ten Entertainment Group, currently the second largest ten-pin bowling operator in the UK, has embraced an operating formula that extends the bowling experience by offering a broader entertainment, family-focused customer proposition. We believe that this is a key contributor to the recent market outperformance and increased market share. The operational model is complemented by the fully integrated technology platform, which facilitates site integration and contributes consistency of service, yield management and monitoring of KPIs. This platform acts as a further differentiator, driving asset utilisation, participation and spend per head.

'Tenpinisation' success

Revenue increased at an 18% CAGR from FY14 to FY16, with the growth strategy driven by site acquisitions combined with integration. A key aspect of this integration is the 'Tenpinisation' model, which provides tools for rapid redevelopment of acquired sites, bringing the look and feel of the new operations, including incentivised customer service and the technology, up to the standards of the existing estate. This formula underpins post acquisition performance of 27% average ROI on site acquisitions, with plans to continue at 2-4 pa. Inward capital investment through site refurbishment delivers a ROI of 49%, running at 3-4 pa.

Valuation: Entertaining profitability

Consensus forecasts suggest that the highly cash-generative operating model, combined with a clearly defined growth strategy, will enable TEG to deliver growing returns for shareholders. PBT is set to increase by 144% from FY16 to FY17, and dividend per share, supported by high cash conversion, is projected to be 7.5p and 11.5p in FY17 and FY18 respectively. Net debt of £2.7m at end FY16 (excluding finance leases of £5.1m) is forecast to move to net cash by FY18. TEG shares trade at a current year P/E discount of 36% to Hollywood Bowl, the company's only direct quoted peer.

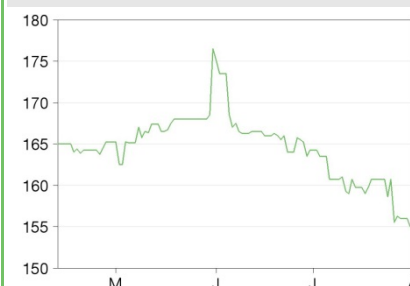
Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/15	53.0	0.1	(0.5)	N/A	N/A	N/A
12/16*	67.3	5.4	3.0	N/A	51.7	N/A
12/17e	72.6	13.3	16.8	7.5	9.2	4.8
12/18e	79.2	15.2	19.1	11.5	8.1	7.4

Source: Bloomberg consensus, TEG accounts. Note: *53 weeks to 1 January 2017.

Price **155p**
Market cap **£101m**

Share price graph



Share details

Code	TEG
Listing	LSE
Shares in issue	65m

Business description

Ten Entertainment Group is a UK-based ten-pin bowling operating company, with a total of 40 sites all trading under the 'Tenpin' brand. Its core bowling proposition is supplemented by a range of additional family-focused entertainment activities.

Bull

- Strong financial track record delivering profit growth and sustainable cash flow.
- Effective site acquisition and integration strategy.
- Strong brand name and broad customer base.

Bear

- Exposure to adverse changes in the property rental market; all sites are leasehold.
- Indoor leisure industry is subject to seasonal demand variation.
- Reliance on key suppliers and members of senior management.

Analysts

Paul Hickman	+44 (0)20 3681 2501
Neil Shah	+44 (0)20 3077 5715

consumer@edisongroup.com

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