

COMPANY UPDATE

OPAP

Heads up – Q2'23: healthy trends, cash returns continuing

Q2'23 on 4th Sep; 2-digit top line growth, +7% EBITDA, >€0.30 interim DPS – OPAP's Q2 is likely to affirm that momentum remains healthy, with revenues up in the 2-digits yoy (EEe +10% at €488m) propelled by online growth and the retracement of retail to above pre-COVID levels. Although costs ought to dilute somewhat the top line growth (e.g. personnel and marketing), we still forecast EBITDA up +7% yoy at €179m, quite a respectable performance. Coupled with lower financing costs, this will lead to a >30% yoy increase in EPS (net profit €110m on our estimate). Given the substantial increase in profitability, we believe it is reasonable to expect an interim DPS higher than the one paid last year (€0.30), with our numbers penciling in €0.35 (and €1.55 in total for FY23). We also expect strong FCF generation (c€125m) partly absorbing the cash returns to shareholders (final DPS of 2022 and capital return) thus leading to a net debt position of €109m (from €77m net cash in Q1'23).

Housekeeping ahead of Q2; higher top line and costs, unchanged profit outlook – Ahead of Q2, we have recalibrated our model making trivial changes to our operating assumptions, factoring in better top line trends offset by higher costs. Overall, we end up with little-changed EBITDA, still landing at €770m, just a bit above guidance for 2023 (max €760m), while making minor net profit upgrades on account of lower financial expenses. We input 8%/5% growth in 2023-24e GGR based on 2-digit growth in online and 6%/3% growth in retail. This will filter through to 5%/3% growth in EBITDA over 2023-24e, which will support shareholder returns near €1.6/share during both years, namely quite a compelling c10-11% yield. We remind that returns will be further underpinned by potential earnouts related to the Betano stake sale (c€130m assumed in our numbers through to 2025e).

Unique business model – OPAP runs a franchise-based model, as a result of which it is an “asset-light” business with minimal capex needs (after licences have been secured), limited working capital risk and relatively immune from severe cost pressures. This is in stark contrast with other retail (e.g. Tabcorp) or online-skewed peers (e.g. Entain) with lower EBITDA margins (<23%) due to the higher cost base. Although OPAP has lower exposure to online than other foreign peers, we argue that its high FCF conversion (>80% of EBITDA) supports an elevated EV/EBITDA multiple, in the high single-digits, especially as the bulk of FCF flows through to shareholders in the form of cash returns.

Valuation: renewal optionality, cash returns; top pick – Our PT is based on a SOTP of OPAP's concessions at 7.6% WACC. We have lifted our PT slightly to €18.0 rolling forward our valuation to Aug'24. Our PT implies a 2023e EV/EBITDA of c8.8x, modest premium vs OPAP's historic average but still discount vs best-in-class peers such as Flutter and Entain. Despite the 23% total return ytd, we still find the investment case compelling arguing that the stock resembles a high yield bond with investment-grade fundamentals offering coupon-like yield of >10% plus price appreciation potential from re-rating and crystallization of licence renewal optionality.

Estimates					
EUR mn	2021	2022	2023e	2024e	2025e
Gross Gaming Revenues	1,538.8	1,939.0	2,098.4	2,200.7	2,264.6
Reported EBITDA	550.3	736.0	770.0	793.9	816.2
Net Profit reported	259.4	592.3	474.9	497.5	518.0
EPS - adj.	0.71	1.20	1.28	1.34	1.40
DPS	1.50	1.45	1.55	1.60	1.77
Valuation					
Year to end December	2021	2022	2023e	2024e	2025e
P/E	17.3	11.1	11.8	11.3	10.8
EV/EBITDA	8.6	7.0	7.4	7.0	6.7
EBIT/Interest expense	4.0	9.1	23.7	33.3	42.9
Dividend Yield	12.2%	10.9%	10.2%	10.5%	11.7%
ROE	29.4%	43.1%	43.3%	45.8%	50.7%

Recommendation	BUY
Target Price	€ 18.00
Prior Target Price	€ 17.90
Closing Price (25/08)	€15.15
Market Cap (mn)	€5,606.5
Expected Return	18.8%
Expected Dividend	10.2%
Expected Total Return	29.0%

OPAP Share Price



Stock Data

Reuters RIC	OPAr.AT
Bloomberg Code	OPAP GA
52 Week High (adj.)	€16.50
52 Week Low (adj.)	€11.68
Abs. performance (1m)	-6.4%
Abs. performance (YTD)	17.7%
Number of shares	370.1mn
Avg Trading Volume (qrt)	€6,279k
Est. 3yr EPS CAGR	5.3%
Free Float	50%

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See Appendix for Analyst Certification and important disclosures.

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12-month Rating History of OPAP:

Date	Rating	Stock price	Target price
28/08/2023	Buy	€ 15.15	€ 18.00
19/04/2023	Buy	€ 15.48	€ 17.90
15/03/2023	Buy	€ 14.80	€ 16.60
06/03/2023	Buy	€ 14.88	€ 16.60
01/02/2023	Buy	€ 13.78	€ 16.30
19/12/2022	Buy	€ 13.25	€ 15.90
22/11/2022	Buy	€ 13.00	€ 15.90
01/11/2022	Buy	€ 12.40	€ 15.90
29/08/2022	Buy	€ 13.84	€ 15.90

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	Count	Total	Count	Total
Buy	16	59%	2	13%
Hold	4	15%	0	0%
Sell	0	0%	0	0%
Restricted	1	4%	0	0%
Under Review	2	7%	1	50%
Not Rated	4	15%	0	0%
Total	27	100%		

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Buy:	Based on a current 12-month view of total shareholder return (percentage change in share price to projected target price plus projected dividend yield), we recommend that investors buy the stock.
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