

GVC Holdings

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UK bookmakers need US boost sooner rather than later

This time last year, bookmakers were standing on the edge of the next frontier as US lawmakers prepared to reverse a longstanding nationwide ban on sports betting.

The landmark decision, which arrived in May, was supposed to propel London's bookmakers to the next level, opening up a new market which had the potential to be the biggest and most lucrative in the world.

READ: GVC off to "excellent start" in 2019, uncertain of FOBT changes impact Gambling firms rushed to expand across the pond, parting with tens of millions - hundreds in some cases - to take part in the landgrab.

Paddy Power Betfair plc (LON:PPB) immediately snapped up fantasy sports giant FanDuel, William Hill PLC (LON:WMH) partnered up with casino chain Eldorado Resorts, and GVC Holdings PLC (LON:GVC) teamed up with MGM.

888 Holdings PLC (LON:888) agreed to sponsor the New York Jets NFL team after it launched in New Jersey last year.

US boost much needed

The US opportunity came at a good time for these companies, all of whom were starting to feel the drag from increased regulation elsewhere and the shift towards online gambling.

The plan was that American punters would step up and fill the profit hole left by declines in the more established UK and Australian betting markets.

Things haven't moved quite so quickly in the US though, with only seven states legalising sports betting so far.

Analysts still think the US will come good, but betting groups are likely to endure a few years of initial start-up losses before the American divisions start to contribute to their bottom lines.

The issue facing Paddy Power, GVC et al is that they need an earnings boost now as profits come under pressure amid tighter regulations elsewhere.

FOBT machines targeted by new rules

Earlier this week, the UK government brought in a new law that cut the maximum amount that can be staked on in-store betting machines - fixed-odds betting terminals - down to £2.

Previously, gamblers could bet £100 on each spin of the virtual roulette wheel or deal of new cards.

"March's trial runs in Birmingham have prompted all sorts of dark rumours, with one suggesting a 55% drop in gross winnings for bookmakers in shops where the new £2 limit was applied," said AJ Bell investment director Russ Mould.

Price: 910.2

Market Cap: £5.26 billion

1 Year Share Price Graph



Share Information

Code: GVC

Listing: AIM

52 week High Low
956.8 504

Sector: Leisure, gaming and gambling

Website: www.gvc-plc.com

Company Synopsis:

GVC Holdings PLC (LON:GVC) is one of the world's largest sports betting and gaming groups, offering sports betting, casino, poker and bingo and operate some of the industry's largest online brands including bwin, Sportingbet, partypoker, partycasino and Foxy Bingo.

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"Analysts have slashed earnings forecasts to reflect an expected drop in income from the electronic gaming machines, which provided £1.8bn in gross gambling yield (the amount bookmakers keep in profit after paying out any winnings to punters) compared to £1.3bn from actual bets placed over the counter, according to data from the Racing Post."

12-month share

2019E

2019E

2020E

2019E

2019E

price change (%)

PE (x)

EPS Growth

EPS Growth

Dividend yield

Dividend cover

Paddy Power

(18.9%)

19.0 x

(16.3%)

12.9%

3.1%

1.67 x

GVC

(40.8%)

9.3 x

(21.5%)

17.0%

6.3%

1.73 x

888

(42.3%)

13.2 x

(21.0%)

15.7%

6.0%

1.26 x

William Hill

(52.4%)

15.1 x

(48.0%)

30.4%

5.5%

1.20 x

Sector

13.5 x

(24.7%)

17.2%

4.7%

1.59 x

Source: Company accounts, Sharecast, consensus analysts' forecasts

The dire forecasts have hit bookmakers' shares hard. Paddy Power is the 'best' performer over the past 12 months despite its stock falling by almost a fifth.

Ladbrokes owner GVC and 888 have both seen more than 40% wiped from their respective values, while William Hill has halved over the past year.

Those falls mirror the companies' profit forecasts this year: Paddy Power is expected to show the smallest drop in earnings

The FOBT changes are no doubt largely responsible for part of the downbeat outlook: last month, William Hill shocked the markets by claiming the new rules would wipe up to £100m from its annual profits.

GVC said it was too early to tell what the impact on its business would be, but similar statements to William Hill's are likely from others over the coming weeks and months.

Double whammy for bookies

"But the anticipated profit plunge is not the result of just the cut to FOBT stakes," explains Mould.

"The UK government has increased remote gaming duty from 15% to 21% to compensate for tax revenues that will be lost thanks to the drop bookmakers' takings on gaming machines, as well as regulatory developments elsewhere.

"Key changes here include Australia's point of consumption tax on online gambling - an issue for Paddy Power Betfair and GVC-owned Ladbrokes."

Betting firms are also seeing profits in their traditional shops decline as fewer people venture out onto the high street.

Growing online demand is making up for some of those losses, though, but companies will be desperate for the US to start chipping with its fair share soon rather than later.

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