

Hold

Results Analysis

Leisure

Norway

06 November 2018

Recommendation Downgrade

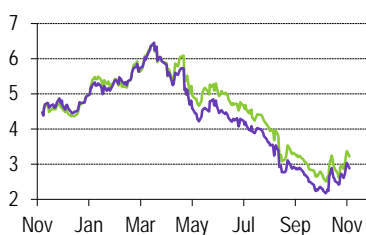
Date and time of decision to change recommendation: 6 Nov 18, 14:27 CET

Key Data (2018E)

Price (NOK)	3.22
Target price (NOK)	3.00
- changed from (NOK)	4.00
Recommendation	Hold
- changed from	Buy
Risk	High
Reuters	GAMIG.OL
Bloomberg	GIG.NO
Market cap (NOKm)	2,884
Market cap (USDm)	344
Market cap (EURm)	303
Net debt (EURm)	51
Shares fully dil. (m)	895.7
Avg daily turnover (NOKm)	7.1
Free float	54%

Estimate Revisions (%)

	2018E	2019E	2020E
Revenues	(5)	(8)	(7)
Adj. EBIT	(115)	(52)	(35)
Adj. EPS	(81)	(66)	(38)

Share Price (12M)

Absolute (green) / Relative to Norway (purple).

Analyst

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Plenty of uncertainty

Gaming Innovation Group (GiG) reported revenues of EUR 37.3m and EBITDA of EUR 5.0m, 5% below and 7% above our estimates, respectively. The H2 guidance was lowered 5% and 6% at the mid-point for revenue and EBITDA, respectively, to EUR 149-152m and EUR 16-18m. With lower guidance, concern of slowing growth, and doubt on operational leverage, we downgrade our rating to Hold and lower our target price to NOK 3.

Improvement in EBITDA not enough to offset miss on revenue

GiG reported group revenue of EUR 37.3m and EBITDA of EUR 5.0m, 5% below and 7% above our estimates, respectively. GiG Gaming reported revenue of EUR 24.4m and EBITDA of EUR 1.4m, a clear profitability improvement from the weak Q2, but based on lacklustre growth (11% y/y). GiG Media reported revenues of EUR 8.4m and EBITDA of EUR 4.3m, a 33% increase and 4% decline y/y, respectively. GiG Core returned to sequential growth in both revenues and EBITDA, where four new brands started their operations on the platform in the quarter.

Significant estimate cuts and recommendation downgraded to Hold

We had expected more from the seasonally strong Q3, and with lower guidance ahead of the seasonally stronger Q4, we have lowered our revenue estimates by 5% for 2018, 8% for 2019, 7% for 2020, and lowered our EBITDA estimates by 26-31%. We believe competition in the upcoming re-regulated Swedish market will be tough, that the current B2C portfolio is not optimal, and lower revenue growth will hit EBITDA hard. In addition, we believe the improvement of the B2C unit might take longer than we previously estimated. There are still a lot of moving parts in the GiG ecosystem, and until we have more clarity on the long-term prospects of the different units, and when the different initiatives show up in the P&L, we do not believe the risk/reward is attractive in the short to medium-term.

Financials (EUR)

Year end: Dec	2016	2017	2018E	2019E	2020E
Revenues (m)	54	120	150	167	186
Adj. EBIT	3	2	(2)	10	23
Pre-tax profit (m)	3	1	(8)	6	20
EPS	0.00	(0.00)	(0.01)	0.01	0.02
Adj. EPS	0.00	(0.00)	(0.01)	0.01	0.02
DPS	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	n.m.	124.6	24.5	11.5	11.3
Adj. EBIT growth (%)	n.m.	(41.9)	n.m.	n.m.	117.1
Adj. EPS growth (%)	n.m.	n.m.	n.m.	n.m.	248.1
Adj. EBIT margin (%)	5.2	1.3	(1.3)	6.3	12.2
ROE (%)	4.6	(0.4)	(8.0)	5.0	15.8
ROCE (%)	5.3	1.1	(1.2)	6.2	15.2
PER (x)	204.3	n.m.	n.m.	58.4	16.8
Free cash flow yield (%)	n.a.	n.a.	1.4	3.6	7.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
P/BV (x)	2.04	4.13	3.02	2.87	2.45
EV/Sales (x)	3.90	4.18	2.36	2.05	1.72
EV/Adj. EBITDA (x)	35.9	40.3	20.8	12.4	8.2
EV/Adj. EBIT (x)	75.4	313.3	(177.7)	32.7	14.1
Operating cash flow/EV (%)	4.6	1.6	4.4	6.6	10.8
Net debt/Adj. EBITDA (x)	(1.04)	4.34	2.99	1.45	0.44

Source for all data on this page: SEB (estimates) and SIX/Thomson Reuters (prices)

Q3 review

GiG reported group revenue of EUR 37.3m and EBITDA of EUR 5.0m, representing 21% and 66% y/y growth, respectively. The figures were 5% below our estimate on revenue, but 7% above our estimates on EBITDA. GiG Gaming reported revenue of EUR 24.4m and EBITDA of EUR 1.4m, a clear profitability improvement from the weak Q2, but based on lacklustre growth (11% y/y). GiG Media reported revenues of EUR 8.4m and EBITDA of EUR 4.3m, a 33% increase and 4% decline y/y, respectively. GiG Core returned to sequential growth in both revenues and EBITDA, where four new brands started their operations on the platform in the quarter.

Q3 2018 results vs SEB estimates

P&L Group	Actual Q3/18	SEB Q3/18E	Deviation Absolute	%	Q3/17	y/y
Revenue	37.3	39.1	-1.8	-5%	30.8	21%
COGS	6.4	6.9	-0.5	-7%	5.0	29%
Gross profit	30.9	32.2	-1.3	-4%	35.8	-14%
Marketing cost	10.6	11.3	-0.7	-6%	11.9	-11%
Other OPEX	15.3	16.3	-1.0	-6%	10.9	41%
EBITDA	5.0	4.7	0.3	7%	3.0	64%
EBITDA (%)	13.4%	11.9%	1.5%p	12%	10%	3.5%p
EBIT	0.1	0.1	0.0	50%	-0.4	-118%
NI	-4.5	-0.9	-3.6	383%	-0.5	800%

Source: SEB

Key figures by units and group

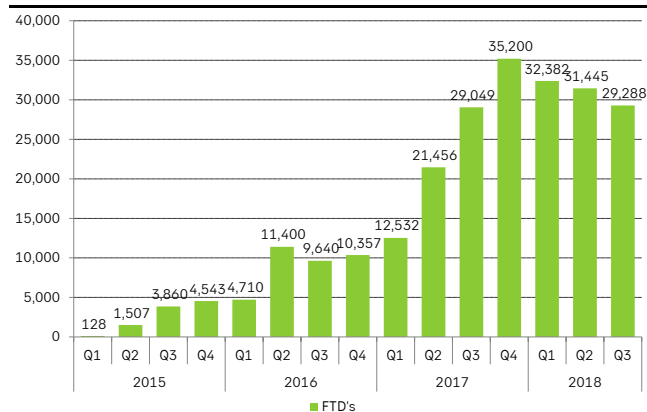
(EURm)	Q3/17	Q2/18	Q3/18	y/y	q/q
GiG Media					
Revenue	6.3	8.7	8.4	33%	-3%
EBITDA	4.5	4.7	4.3	-4%	-9%
EBITDA (%)	71%	54%	51%		
GiG Core					
Revenue	5.1	6.3	6.8	33%	8%
EBITDA	2.0	1.1	1.7	-15%	55%
EBITDA (%)	39%	17%	25%		
GiG Sports & Games					
Revenue	0.2	0.6	0.2	0%	-67%
EBITDA	-1.2	-1.4	-2.1	N/A	N/A
EBITDA (%)	N/A	N/A	N/A		
GiG Gaming					
Revenue	21.9	24.2	24.4	11%	1%
EBITDA	-2.3	-2.8	1.4	N/A	N/A
EBITDA (%)	N/A	N/A	6%		
Group					
Revenue	30.8	36.9	37.3	21%	1%
COGS	-5.0	-6.4	-6.3	28%	0%
Gross profit	25.9	30.5	30.9	20%	1%
Marketing cost	-11.9	-13.2	-10.6	-11%	-19%
Marketing cost/revenue	39%	36%	29%		
Other OPEX	-10.9	-15.7	-15.3	40%	-3%
Other OPEX/revenue	35%	43%	41%		
EBITDA	3.0	1.7	5.0	66%	204%
EBITDA (%)	10%	5%	14%		

Source: GiG, SEB

Downgrade on uncertainty

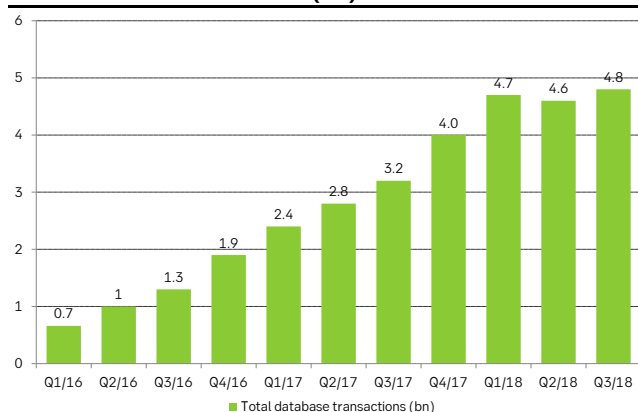
We have lowered our revenue estimates by 5% for 2018, 8% for 2019, 7% for 2020, and lowered our EBITDA estimates by 26-31%. We believe competition in the upcoming re-regulated Swedish market will be tough, that the current B2C portfolio is not optimal, and lower revenue growth will hit EBITDA hard. In the past two to three quarters, the company has reported flat or declining trend on first time depositors (FTDs) referred through GiG Media, flat or declining total database transactions on GiG Core, and flat to declining deposits per active user on its B2C products. Consequently, we have lowered our estimates for 2019 and 2020.

FTD – GiG Media



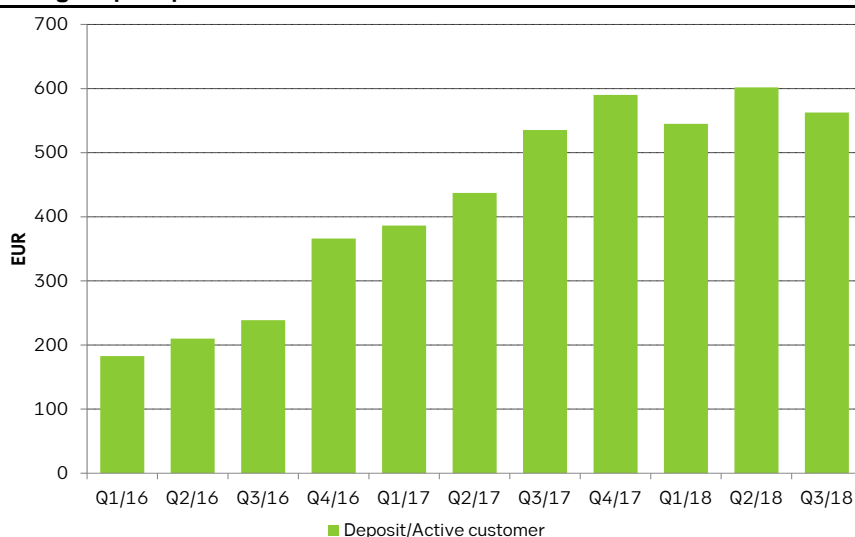
Source: GiG, SEB

Total database transactions (bn) on GiG Core



Source: GiG, SEB

Average deposit per active user



Source: GiG, SEB

Furthermore, we have cut our margin assumptions for both GiG Media and GiG Core to better align with the previous quarters' performance. We believe the improvement in the B2C unit might take longer than we previously estimated. The current B2C portfolio of brands does not seem to be growing at the pace we had previously assumed, and we await confirmation to see how the rebranding and potential closure of some brands effect the overall B2C unit.

There are still a lot of moving parts in the GiG ecosystem, and until we have more clarity on the long-term prospects of the different units, we do not believe the risk/reward is attractive in the short to medium-term.

SOTP valuation

(EURm)	2018E	2019E	2020E	EV/EBITDA SEB 2019E	EV/Sales 2019E	EV Contribution 2019E
GiG Media						
Revenues	33.7	36.4	40.2			
EBITDA	17.7	19.5	21.4	9.0x		175.1
GiG Core						
Revenues	27.2	32.0	38.4			
EBITDA	6.7	10.6	12.7	9.5x		100.4
GiG Sports & Games						
Revenues	1.4	3.1	4.0			
EBITDA	-5.5	-0.4	1.2		3.0x	9.4
GiG Gaming						
Revenues	99.4	108.1	117.5			
EBITDA	-1.6	-1.1	4.7		0.5x	54.0
Group Eliminations						
EBITDA	-0.2	-0.9	-1.0	10.0x		-9.0
Enterprise Value						330
NIBD YE 2019E						51
Equity value						279
NOS						896
Equity value / share (EUR)						0.31
EURNOK						9.5
Equity value / share (NOK)						3.0

Source: SEB

P&L estimates – group

(EURm)	Q1/18	Q2/18	Q3/18	Q4/18E	2017	2018E	2019E	2020E
Group Revenue	37.3	36.9	37.3	38.4	120.4	149.9	167.1	186.0
COGS	-6.9	-6.4	-6.3	-7.0	-20.5	-26.5	-32.8	-35.6
%					17.0%	17.7%	19.6%	19.1%
Gross profit	30.5	30.5	30.9	31.4	99.9	123.4	134.3	150.4
Marketing cost	-11.9	-13.2	-10.6	-11.0	-47.1	-46.7	-45.2	-49.5
Marketing cost/revenue	32%	36%	29%	29%	39%	31%	27%	27%
Other OPEX	-14.3	-15.7	-15.3	-14.4	-40.3	-59.7	-61.5	-62.0
Other OPEX/revenue	38%	43%	41%	38%	33%	40%	37%	33%
EBITDA	4.3	1.7	5.0	6.0	12.5	17.0	27.6	38.9
EBITDA (%)	12%	5%	14%	16%	10%	11%	17%	21%
D&A	-4.7	-4.9	-5.0	-4.5	-10.9	-19.0	-17.1	-16.2
EBIT	-0.4	-3.2	0.0	1.5	1.6	-2.1	10.5	22.8
EBIT (%)	-1%	-9%	0%	4%	1%	-1%	6%	12%
NI	0.9	-4.5	-2.6	0.4	-0.4	-5.8	5.4	19.3
NOS	896	896	896	896	896	896	896	896
EPS	0.00	N/A	N/A	0.00	N/A	N/A	0.01	0.02

Source: GiG, SEB

Overview

Investment case

GiG has invested heavily over the past years in creating a fully integrated iGaming conglomerate. We find the business model interesting and rational, but for the time being we believe there are too many moving parts and too much uncertainty.

Company profile

Gaming Innovation Group is an internet gambling (iGaming) conglomerate, aiming to consolidate the online gambling industry. The company offers services throughout the value chain, from fully owned operators (GiG Gaming) to affiliate marketing (GiG Media), software platform solutions (GiG Core) and proprietary games and odds production (GiG Sports & Games).

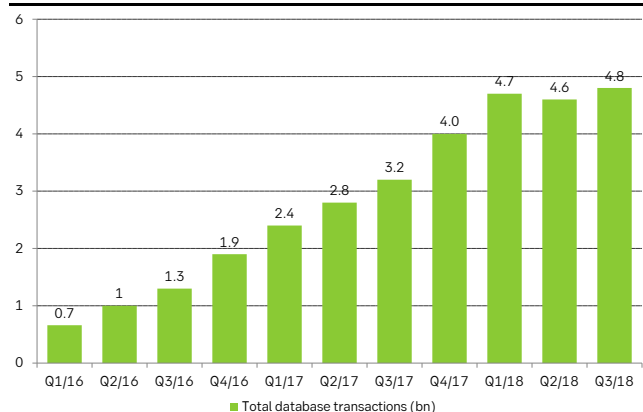
Valuation approach

To address the structural differences in margins and risk between the different business areas, we use a sum-of-the-parts valuation based on peers that are pure breed operators, game suppliers or affiliates. This is supported by a Group DCF valuation.

Target price risks

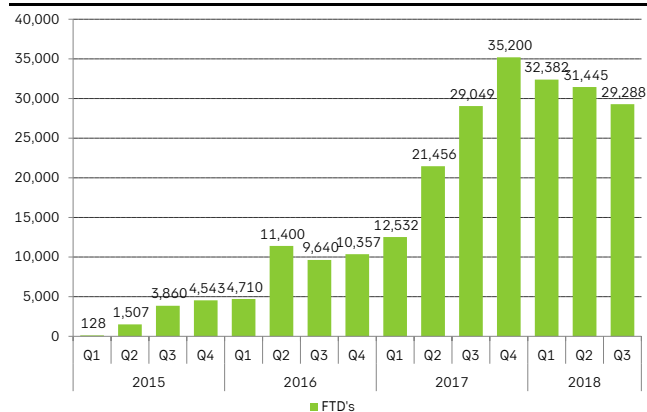
The main risks are unfavourable regulatory changes and a shift in focus to in-house production of platforms, games, sportsbooks and affiliate services

Total database transactions GiG Core



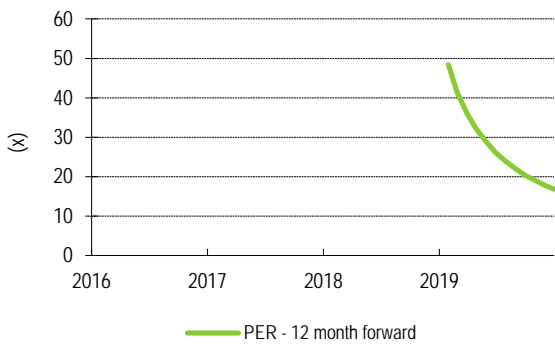
Source: SEB

FTDs referred GiG Media



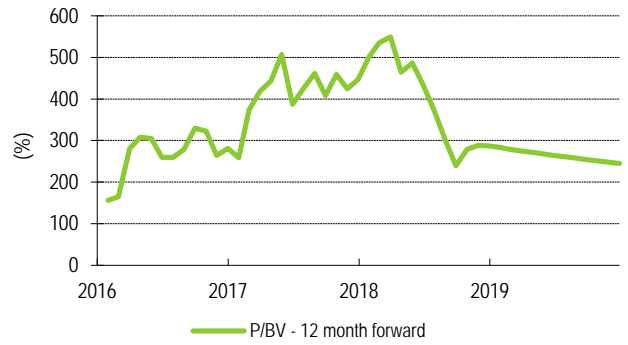
Source: SEB

PER - 12 month forward



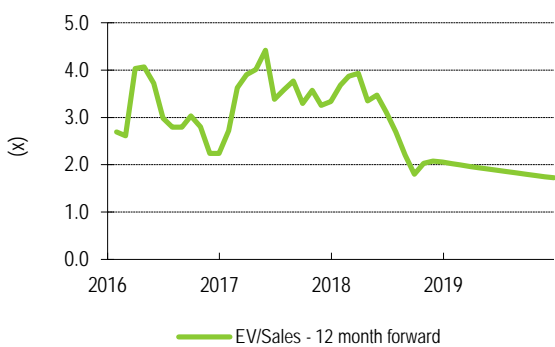
Source: SEB

P/BV - 12 month forward



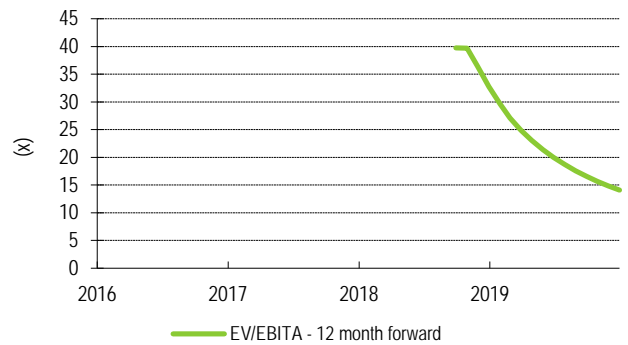
Source: SEB

EV/Sales - 12 month forward



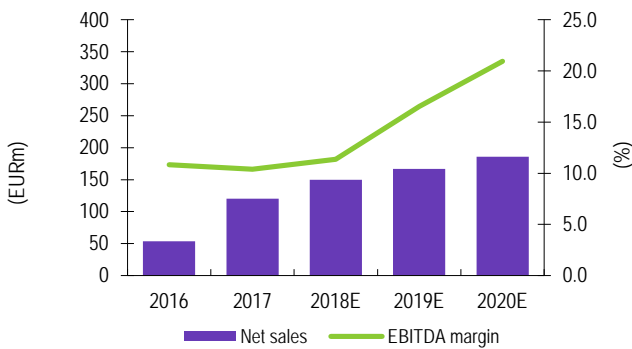
Source: SEB

EV/EBITA - 12 month forward



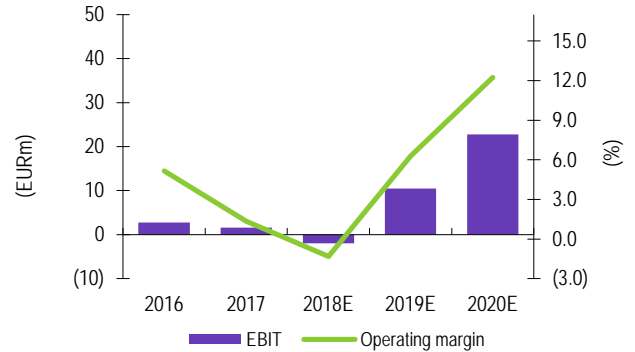
Source: SEB

Net sales & EBITDA margin



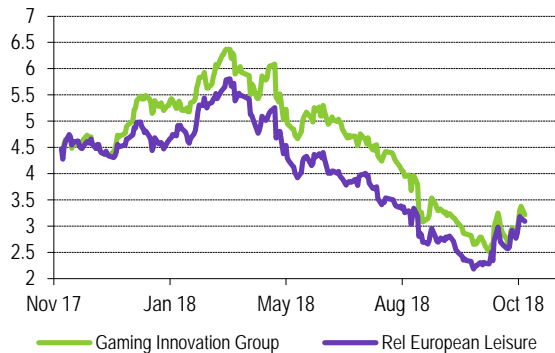
Source: SEB

EBIT & Operating margin



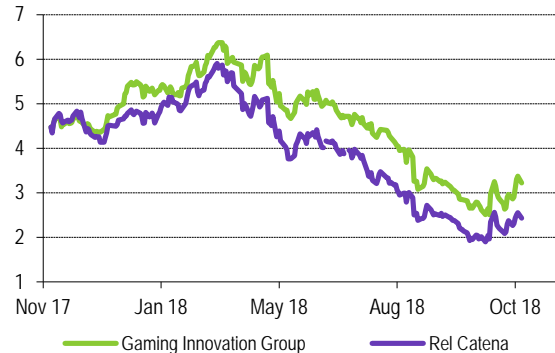
Source: SEB

Comparison with sector index - 1 year



Source: SIX

Comparison with Catena - 1 year



Source: SIX

Profit & loss statement - Gaming Innovation Group					
(EURm)	2016	2017	2018E	2019E	2020E
Net Sales	54	120	150	167	186
Other revenues	0	0	0	0	0
Total revenues	54	120	150	167	186
Total expenses	(48)	(108)	(133)	(139)	(147)
Profit before depreciation	6	13	17	28	39
Depreciation - Fixed assets	(3)	(11)	(19)	(17)	(16)
Depreciation - Other assets	0	0	0	0	0
Amortisation - Goodwill	0	0	0	0	0
Amortisation - Other intangibles	0	0	0	0	0
Operating profit	3	2	(2)	10	23
Net interest expenses	0	(1)	(5)	(5)	(2)
Foreign exchange items	0	0	0	0	0
Other financial items	(1)	0	1	0	0
Value changes - Fixed assets	0	0	0	0	0
Value changes - Financial assets	1	0	(3)	0	0
Value changes - Other assets	0	0	0	0	0
Reported pre-tax profit	3	1	(8)	6	20
Minority interests	0	0	0	0	0
Total taxes	(0)	(1)	(0)	(1)	(2)
Reported profit after tax	2	(0)	(8)	5	18
Discontinued operations	0	0	0	0	0
Extraordinary items	(0)	0	0	0	0
Net Profit	2	(0)	(8)	5	18
Adjustments:					
Discontinued operations	0	0	0	0	0
Interest on convertible debt	0	0	0	0	0
Minority interests (IFRS)	0	0	0	0	0
Value changes	(1)	0	3	0	0
Goodwill/intangibles amortisations	0	0	0	0	0
Restructuring charges	0	0	0	0	0
Other adjustments	0	0	0	0	0
Tax effect of adjustments	0	0	0	0	0
Adjusted profit after tax	1	(0)	(6)	5	18
Margins, tax & returns					
Operating margin	5.2	1.3	(1.3)	6.3	12.2
Pre-tax margin	5.1	0.5	(5.4)	3.5	10.9
Tax rate	13.2	175.2	(4.2)	11.0	11.0
ROE	4.6	(0.4)	(8.0)	5.0	15.8
ROCE	5.3	1.1	(1.2)	6.2	15.2
Growth rates y-o-y (%)					
Total revenues	n.a.	124.6	24.5	11.5	11.3
Operating profit	n.m.	(41.9)	n.m.	n.m.	117.1
Pre-tax profit	n.m.	(79.9)	n.m.	n.m.	248.1
EPS (adjusted)	0.0	0.0	0.0	0.0	248.1
Cash flow					
(EURm)	2016	2017	2018E	2019E	2020E
Net profit	2	(0)	(8)	5	18
Non-cash adjustments	2	11	22	17	16
Cash flow before work cap	4	10	13	22	34
Ch. in working capital / Other	6	(2)	2	0	0
Operating cash flow	10	8	16	23	35
Capital expenditures	(5)	(67)	(11)	(12)	(12)
Asset disposals	0	0	0	0	0
L/T financial investments	0	0	(1)	0	0
Acquisitions / adjustments	0	0	0	0	0
Free cash flow	5	(58)	4	11	23
Net loan proceeds	2	62	0	0	(63)
Dividend paid	0	0	0	0	0
Share issue	5	0	0	0	0
Other	0	(0)	0	0	0
Net change in cash	12	4	4	11	(40)
Adjustments					
C/flow bef chng in work cap	4	10	13	22	34
Adjustments	0	0	0	0	0
Int on conv debt net of tax	0	0	0	0	0
Cash earnings	4	10	13	22	34
Per share information					
Cash earnings	0.01	0.01	0.01	0.02	0.04
Operating cash flow	0.02	0.01	0.02	0.03	0.04
Free cash flow	0.01	(0.06)	0.0	0.01	0.03
Investment cover					
Capex/sales (%)	9.4	55.3	7.5	7.2	6.5
Capex/depreciation (%)	166	610	60	70	74

Source for all data on this page: SEB

Balance sheet - Gaming Innovation Group					
(EURm)	2016	2017	2018E	2019E	2020E
Cash and liquid assets	6	12	16	26	(14)
Debtors	13	25	24	27	30
Inventories	0	0	0	0	0
Other	0	0	0	0	0
Current assets	19	37	39	53	17
Interest bearing fixed assets	0	0	0	0	0
Other financial assets	0	0	(2)	(2)	(2)
Capitalized development cost	0	0	0	0	0
Goodwill	64	69	69	69	69
Other intangibles	41	92	92	92	92
Fixed tangible assets	0	0	(8)	(13)	(17)
Other fixed assets	2	7	7	7	7
Fixed assets	108	169	159	154	150
Total assets	126	206	199	207	166
Creditors	15	29	27	31	35
Other trade financing	0	0	0	0	0
S/T interest bearing debt	0	0	0	0	0
Other	3	0	0	0	0
Current liabilities	18	29	27	31	35
L/T interest bearing debt	0	66	66	66	4
Other long-term liabilities	3	1	3	3	3
Convertible debt	0	0	0	0	0
Pension provisions	0	0	0	0	0
Other provisions	0	0	(0)	(0)	0
Deferred tax	0	1	1	1	1
Long term liabilities	3	68	71	71	8
Minority interests	0	0	0	0	0
Shareholders' equity	105	109	100	106	124
Total liabilities and equity	126	206	198	207	166
Net debt (m)	(6)	54	51	40	17
Working capital (m)	(6)	(4)	(4)	(4)	(5)
Capital employed (m)	105	175	167	172	127
Net debt/equity (%)	(6)	50	51	38	14
Net debt/EBITDA (x)	(1.0)	4.3	3.0	1.4	0.4
Equity/total assets (%)	83	53	51	51	74
Interest cover	0.0	1.5	(0.4)	2.3	9.3

Valuation					
(EUR)	2016	2017	2018E	2019E	2020E
No of shares, fully dil. (y/e)	629.6	895.7	895.7	895.7	895.7
No of shares, fully dil. avg.	632.1	900.0	895.7	895.7	895.7
Share price, y/e	3.1	4.9	3.2	3.2	3.2
Share price, high	5.1	6.2	6.4		
Share price, low	1.8	2.7	2.5		
Share price, avg	3.3	4.6	4.6		
EPS (reported)	0.00	(0.00)	(0.01)	0.01	0.02
EPS (adjusted)	0.00	(0.00)	(0.01)	0.01	0.02
Cash earnings/share	0.01	0.01	0.01	0.02	0.04
Dividend/share	0.00	0.00	0.00	0.00	0.00
Enterprise value/share	0.3	0.6	0.4	0.4	0.4
Book value/share	0.2	0.1	0.1	0.1	0.1
Adjusted equity/share	0.2	0.1	0.1	0.1	0.1
PER (adjusted)	n.m.	n.m.	n.m.	58.4	16.8
CEM	56.3	43.0	22.8	13.6	8.8
Dividend yield	0.0	0.0	0.0	0.0	0.0
EV/EBITDA	35.9	40.3	20.8	12.4	8.2
EV/EBITA	75.4	313.3	(177.7)	32.7	14.1
EV/EBIT	75.4	313.3	(177.7)	32.7	14.1
EV/Sales (x)	3.90	4.18	2.36	2.05	1.72
Price/Book value	2.04	4.13	3.02	2.87	2.45
Price/adjusted equity	2.04	4.13	3.02	2.87	2.45
Free cash flow/Market cap (%)	n.a.	n.a.	1.4	3.6	7.5
Operating cash flow/EV (%)	4.6	1.6	4.4	6.6	10.8
EV/Capital employed (x)	2.0	2.9	2.1	2.0	2.5

Main shareholders				Management		Company information	
Name	(%)	Votes	Capital	Title	Name	Contact	
Bryggen Holding AS	13.2	13.2		COB	Helge Nielsen	Internet	www.gig.com
Optimizer Invest Ltd.	11.5	11.5		CEO	Robin Reed	Phone number	0
Robin Reed	7.2	7.2		CFO	Tore Formo		
				IR	Anna-Lena Ahnström		

Source for all data on this page: SEB

Target prices and risks

Target price definition and associated risks

Our target price is the analyst's assessment of what total return an investor should expect over the coming six to 12 months. The target is based on fundamental equity research and other factors at the analyst's discretion.

Our current target price of NOK 3 was set today (6 Nov 2018). The main risk to our target price on Gaming Innovation Group is as follows. The main risks are unfavourable regulatory changes and a shift in focus to in-house production of platforms, games, sportsbooks and affiliate services

Risk levels

The risk level is the analyst's view of the uncertainty in the earnings forecasts based on an assessment of the company's business model, operating risk as well as financial risk. We use two risk levels with the following explanations:

- **Normal risk:** All forecasts involve uncertainty and we view companies in this risk level to have normal forecast risks
- **High risk:** The earnings forecasts are more uncertain than for an average instrument due to business model, operating risk, financial risk or any other reason at the analyst's discretion. All instruments with shorter track record than 12 months as a listed company are by definition classified as high risk according to SEB.

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Methodology

Our target price is based on valuation approaches described in the Overview section of this report, unless our estimates are in the process of being updated. Final consideration as to any valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties, and their inclusion in this report should not be regarded as a representation or warranty by or on behalf of the Group or any person or entity within the Group that they or their underlying assumptions and estimates will be met or realized. Different assumptions could result in materially different results. Past performance is not a reliable indicator of future performance. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities, such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

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A member of, or an entity associated with, SEB or its affiliates, officers, directors, employees or shareholders of such members (a) is not, and has never been, represented on the board of directors or similar supervisory entity of Gaming Innovation Group, (b) has from time to time bought or sold the securities issued by the company or options relating to the company, and (c) SEB does not hold any short / long position exceeding 0.5% of the total issued share capital of Gaming Innovation Group as of 31 Oct 2018.

The analyst(s) responsible for this research report (jointly with their closely related persons) hold(s) 0 shares in Gaming Innovation Group and do(es) not have holdings in other instruments related to the company.

Current recommendation for Gaming Innovation Group - Hold - was set on 6 Nov 2018, changed from Buy. The dates of previous recommendation changes in relation to Gaming Innovation Group can be found on our Research Online website.

SEB's standardised recommendation structure

	Consolidated distribution as per 30 Sep 2018 (%)	Clients to whom SEB has provided material investment services, last 12M (%)	Clients from whom SEB has received investment banking income, last 12M (%)
Buy	49.6	19.2	10.2
Hold	40.4	9.2	6.7
Sell	10	1.2	2.3

Buy Attractive risk/reward - at least 10% upside to target price.

Hold Fairly valued – the security / instrument is trading close to target price.

Sell Unattractive risk/reward - security / instrument is trading above target price.

Unrated Company not covered, or we are not allowed to have a recommendation for compliance reasons

Source: SEB

Please note, in the chart to the right:

1=Buy

2=Hold

3=Sell

The grey spots mark the point where target prices have been changed. The price chart is not adjusted for dividends paid, whereas our recommendations are based on expected return including dividends

Target price and recommendation revision history



Source: Thomson Reuters / SIX / SEB

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