

Daily Opinions

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Leisure & Gaming Plc

2006 preliminary results

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Leisure & Gaming Plc. (LNG.L)* / Travel and Leisure

Recommendation: *CORPORATE

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Ticker	Price (p)	52 week high / low (p)	Shares in issue (m)	Market Cap. (£'m)
LNG.L	10.15p	168p/3.5p	71.45	7.25

Forecast Table – Leisure & Gaming (actual) , Corporate Synergy Plc (estimates)

Y/e Dec	T/o (€m)	Adj. Pre-Tax (€m)*	Net Income (€m)	Adjusted EPS (p) (Diluted)*	PER (x)*	Div (p)	Net Cash/(Debt) (€m)
2006A	454.4	7.5	-78.6	7.6	1.3	-	2.1
2007E	173.2	3.8	2.6	2.5	4.1	-	2.7
2008E	226.7	6.1	4.5	3.9	2.6	-	4.7

FX rates; US\$/GBP: 1.95; €/GBP: 1.46; US\$/€: 1.33

*adjusted for exceptional items

Next Event : Interims

- Leisure & Gaming** today published results for FY 2006, in line with our forecasts, and drawing a line under a difficult year which saw the sale of its US facing businesses for US\$1 in October. Net losses were US\$104.5m including US\$113.8m of exceptional items largely pertaining to the disposal of the US businesses. Total losses per share for the year were 166.8USc. Stripping out the exceptional items and share option charges the company recorded pre-tax profits of US\$10m equating to adjusted EPS of 14.8USc. At the year end the company had net cash of US\$2.7m. However a considerable portion of this will have comprised franchisee deposits, now paid out in respect of new licenses awarded by the Italian authorities in January 2007. Going forward the company will be reporting in Euros appropriately reflecting the change in business mix and we have restated our forecasts accordingly.
- The results included 6 months and 8 days trading from **Leisure & Gaming's** latest acquisition Betshop. Betshop's primary revenue generator is its network of over 1,000 franchised sports and horse betting outlets in Italy, which we estimate will contribute some 86% to 2007 turnover forecasts of €173m. During the period Betshop recorded turnover of US\$74.2m and net win of US\$18.1m on margins of 24.4%. On a 12 month pro-forma basis Betshop experienced very strong growth largely fuelled by the accelerated roll out of the franchise network. Turnover was up 247% to US\$116.8m, net win up 187% to US\$27.4m and active customers up 200% to 44,750.
- Current trading amongst the company's continuing operations to 12th March 2007 has exceeded management expectations. Net win margins of 32% generated a net win of US\$10.2m and a gross profit of US\$3.1m off turnover of US\$31.6m. On a pro-forma basis these figures represent increases of 101%, 98% and 108% respectively. Turnover for the 10 weeks accounts for just 13.7% of our FY estimates, but at a gross profit level, with margins of 9.8% (4.2 percentage points higher than our estimates) US\$3.1m already accounts for 24% of our 2007 forecasts. This is most encouraging, given that we had expected results to be H2 weighted whilst the newer betting outlets continue to mature. For the sake of prudence we are not upgrading our profit forecasts at present, but will review them again at the interims.
- Leisure & Gaming** have made some positive comments about ongoing and proposed product and geographic diversification. In Italy scratch cards have been launched across the network, and on the company's online platform, Betshop.com, a poker platform has been introduced. Betshop.com is not accessible in Italy but its biggest markets are currently Greece and Romania. **Leisure & Gaming** highlights the scalability of the franchisee model, which can expand rapidly with relatively small capital outlay and marketing budget, a big advantage when compared to the traditional owner operator model. In Romania the company has opened an office in Bucharest and is beginning to roll out a network of franchised betting shops. The Board expects a revenue contribution from Romania as of Q3 2007. Betshop is in discussions with a number of local partners across various European territories and may expand its network even further. Within the EU there appears to be a concerted effort now to coerce member states to liberalise their gambling markets. This could result in a number of new market opportunities for **Leisure & Gaming**.
- Following **Leisure & Gamings** exit from the US market, we believe that investors still do not fully appreciate the growth profile of the remaining Betshop business. However the latest trading update begins to establish a track record for the Italian network and certainly gives comfort to our 2007 forecasts. On this

basis the shares are trading on an extremely undemanding rating of just 4.1x which is a 80% discount to our loose peer group average. For 2008 we forecast EPS growth of 58% to 3.9p lowering the rating to a 2.6x multiple. This equates to a PEG ratio of just 0.04x. On this basis we argue that L&G is one of the cheapest stocks on AIM. The biggest risks to forecasts are adverse gaming results and increasing competition in the Italian market. However if trading continues as it has in Q1 earnings upgrades are likely. Furthermore geographical expansion beyond Italy is not currently factored in to our estimates.

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