

Evolution: Strong Growth in North America

Evolution Gaming Group Research Update 2022-07-27 07:53 Updated 2022-07-27 15:39

Redeye updates on Evolution post Q2-results which came in slightly lower than expected. While we trim our estimates (2022-24E EBITDA down c. 2-3%) due to slower than expected growth in Asia, we are positive to the solid growth in US and the increased share of regulated revenue.



Q2-results

Evolution's Q2-results came in close to our expectations with revenue c. 1% below and EBITDA c. 2% below our estimates. The lower-than-expected revenue was largely due to Asia which grew slower than expected, however, North America on the other hand grew stronger than expected which helped to increase the share of regulated revenue to 43% in the quarter from 40% in Q1 22. With North America becoming a larger share of the mix there is potential to increase the share of regulated revenue additionally which we believe this should be positive towards the risk perception of Evolution. We were also encouraged to see that RNG revenue came in stronger than expected and with the announced acquisition of Nolimit City there should be potential for improved growth in the segment forward.

Outlook

Coming to the outlook, the company reiterates its guidance of an EBITDA-margin of 69-71% for the full year. Regarding the strong performance in North America, Evolution comments that most of the increased capacity in the region was added in the end of the quarter suggesting continued growth potential in H2 22. Growth in H2 is also supported by the game release roadmap where more than half of the years planned games are coming in H2.

Estimates and valuation

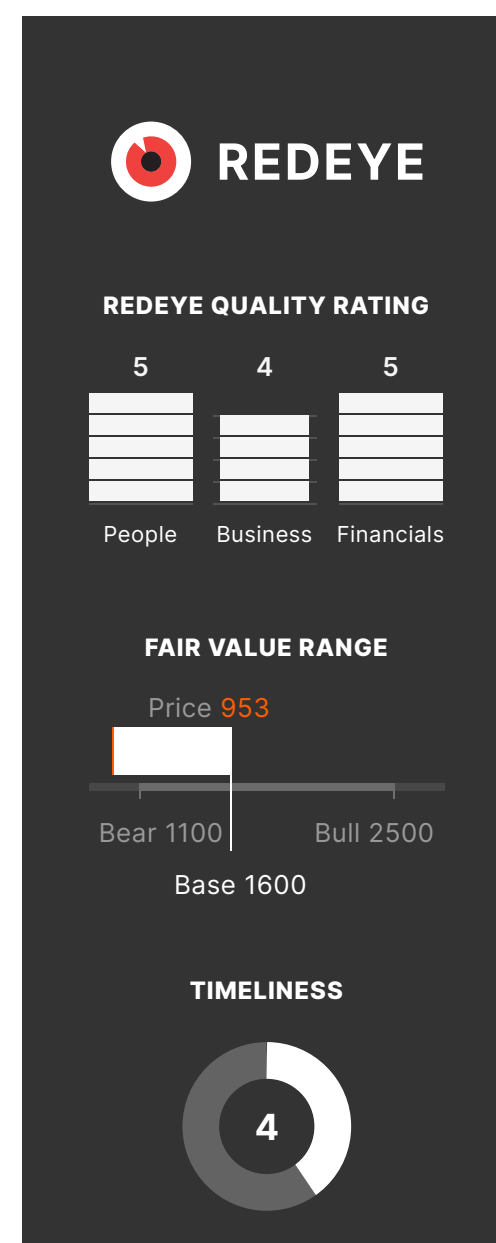
Overall, we make limited estimate changes on the back of the report. We have shifted our growth mix more towards North America while we have lowered our growth expectations for Asia which continues to see a growth deceleration. We have also increased growth estimates for RNG on the back of stronger than expected growth in Q2 coupled with the acquisition of Nolimit City which we assume will be closed in Q2.

In summary, we lower our revenue estimates with 1-2% over 2022-24E while EBITDA-estimates are down 2-3% for the same period. We leave our valuation range unchanged with a base case of SEK1,600 while the bull case remains at SEK2,600 and the bear case at SEK1,100. We have updated our Redeye Rating on Evolution on the back of an update to our rating model and the new ratings are: People 5 (5), Business 4 (5) and Financials 5 (4).

Evolution currently trades at c. 15x EV/EBITDA 2023E which is in the low end of its historical valuation range. The has performed weak in 2022 despite a continued positive EPS estimate trend suggesting an attractive entry point in our view.

Evolution: Financial forecasts (EURm)														
	2019	2020	Q1 21	Q2 21	Q3 21	Q4 21	2021	Q1 22	Q2 22	Q3 22E	Q4 22E	2022E	2023E	2024E
Revenue	366	561	236	257	276	300	1,069	327	344	362	383	1,415	1,755	2,101
Growth Y/Y (%)	49%	54%	105%	100%	97%	69%	90%	39%	34%	31%	27%	32%	24%	20%
Personnel expenses	-126	-134	-49	-52	-52	-55	-207	-63	-68	-73	-76	-281	-356	-435
Other costs	-56	-76	-27	-30	-32	-38	-127	-34	-37	-38	-40	-149	-184	-221
EBITDA adjusted	183	352	160	175	193	207	735	230	238	251	266	985	1,215	1,446
EBITDA-margin	50%	63%	68%	68%	70%	69%	69%	70%	69%	69%	70%	70%	69%	69%
Depreciation and amortisation	-25	-33	-18	-19	-21	-22	-81	-23	-24	-25	-27	-98	-132	-158
EBIT adjusted	157	319	142	156	172	185	654	207	215	226	239	887	1,083	1,288
EBIT-margin	43%	57%	60%	61%	62%	61%	61%	63%	62%	62%	63%	63%	62%	61%
Net income adjusted	150	304	132	144	157	172	605	198	201	210	223	831	1,008	1,198
Net income	150	285	132	144	157	172	605	198	201	210	223	831	1,008	1,198
EPS, EUR	0.8	1.7	0.6	0.7	0.7	0.8	2.8	0.9	0.9	1.0	1.0	3.9	4.7	5.6

Source: Redeye Research



KEY STATS

Market Cap	204.9 BSEK
Entprs. Value (EV)	200.5 BSEK
Net Debt	-4.4 BSEK
30 Day Avg Vol	1101 K
Shares Outstanding	214.7 M
EV / Sales	17.9
EV / EBIT	29.3
Price / Earnings	32.3
PEG	N/A
Dividend Yield	1.5%

IMPORTANT INFORMATION

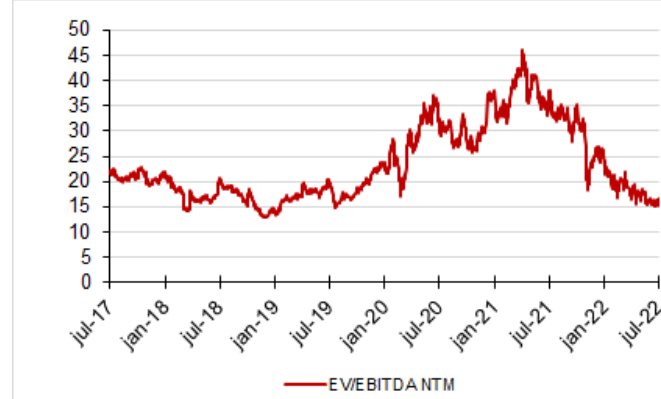
All information regarding limitation of liability and potential conflicts of interest can be found at the end of the report.

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Evolution: Revenue per segment and region														
(EURm)	2019	2020	Q1 21	Q2 21	Q3 21	Q4 21	2021	Q1 22	Q2 22	Q3 22E	Q4 22E	2022E	2023E	2024E
Segment revenue, EURm														
Live Casino	366	544	184	204	215	237	839	265	278	293	306	1,142	1,435	1,752
RNG	0	18	52	53	62	63	230	62	65	69	77	273	320	349
Total	366	561	236	257	276	300	1,069	327	344	362	383	1,415	1,755	2,101
Segment growth, %														
Live Casino	49%	49%	59%	59%	53%	48%	54%	44%	37%	37%	29%	36%	26%	22%
RNG	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	19%	24%	12%	22%	19%	17%	9%
Total growth, %	49%	54%	105%	100%	97%	69%	90%	39%	34%	31%	27%	32%	24%	20%
Geographic revenue, EURm														
Nordics	24	30	16	16	20	21	73	22	22	21	22	86	91	95
UK	50	44	21	20	19	21	81	22	20	20	22	84	88	93
Rest of Europe	184	269	104	104	103	106	417	109	110	112	115	446	478	511
Asia	50	126	53	66	77	91	286	103	111	119	127	460	621	808
North America	22	37	22	27	32	34	115	37	46	51	54	188	282	360
Other	36	56	19	24	26	28	96	34	35	38	42	150	195	234
Total revenue	366	561	236	257	276	300	1,069	327	344	362	383	1,415	1,755	2,101
Geographic growth, %														
Nordics	n.a.	23%	165%	145%	236%	88%	146%	33%	31%	6%	6%	18%	6%	5%
UK	n.a.	-12%	116%	87%	101%	51%	85%	2%	3%	5%	5%	4%	5%	5%
Rest of Europe	n.a.	46%	74%	67%	57%	30%	55%	5%	6%	9%	9%	7%	7%	7%
Asia	n.a.	153%	156%	133%	120%	117%	128%	94%	69%	55%	40%	61%	35%	30%
North America	n.a.	70%	204%	220%	247%	168%	206%	70%	69%	60%	60%	64%	50%	28%
Other	n.a.	57%	68%	94%	70%	64%	73%	80%	49%	50%	50%	56%	30%	20%
Total growth, %	49%	54%	105%	100%	97%	69%	90%	39%	34%	31%	27%	32%	24%	20%

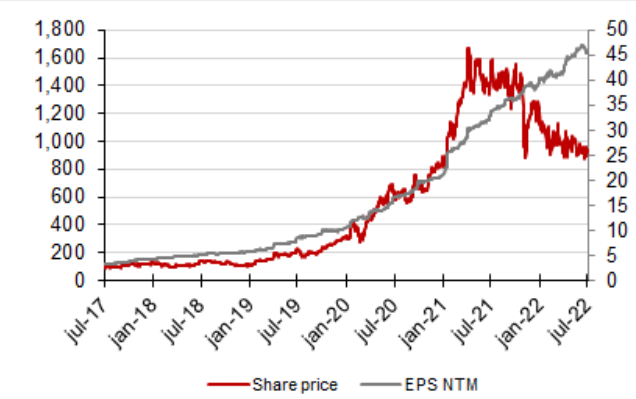
Source: Redeye Research

Evolution: EV/EBITDA NTM



Source: Factset

Evolution: EPS NTM and share price, SEK



Source: Factset