



# ASX Top 200 Stocks Down Under

📖 *Money won is twice as sweet as money earned.* 📖

- Eddie Felson, Character from The Color of Money (1986)

ASX

EXCHANGE CENTRE

**TABCORP**

Still not worth the gamble

# TABCORP

Still not worth the gamble

Stocks Down Under rating: ★★

ASX: TAH

Market cap: A\$2.4BN

52-week range: A\$0.88 / A\$1.10

Share price: A\$1.055

For a 'consumer discretionary' stock, Tabcorp has held up quite well in recent months, sitting on a 15% gain since early June. Investors are likely to be pleased, especially given that The Lottery Corporation (ASX:TLC) was spun out recently and had the reputation of being the better performing entity. However, we have a few concerns with Tabcorp. Yes, there's the negative ESG angle to which you could just say 'if you don't like it, don't buy it'. But beyond that, we think there's a major problem in the industry (namely, competition) that the company itself is concerned about as well.

## Share price chart



Source: Tradingview

## Admirable mission, but not easy to execute

Tabcorp offers betting and retail wagering networks, a global racing media business and machine monitoring services. In-house brands include TAB and Sky Racing. It is no stranger to M&A activity having demerged its Gold Coast casino operation in 2011, merging with Tatts Group in 2017 and then demerging its lotteries business in 2022. This edition is the third time we've covered Tabcorp, with the previous two times being in [March 2020](#) and [September 2021](#). As we observed in the first edition, the company struggled to sustain healthy growth, realise synergies and manage costs since the Tatts deal.

Back in March 2020, COVID-19 was emerging as an additional headwind. During the Corona Crash, investors feared a doomsday scenario where all sectors would be impacted for several years. Ultimately, Tabcorp was not as affected as substantially as casino operators catering to foreign tourists. Still, it couldn't completely escape an impact. Revenue and earnings were hit in FY20 as retail closures, cancelled sports events and capacity constraints at hotels and clubs hit hard.

Things improved in FY21 as speculation of M&A activity and US expansion arose. In FY22, the company made the decision to spin off the lotteries business (after rejecting two takeover bids over \$3bn) and completed the deal in mid-May. Naturally, shares fell because it was losing its most valuable asset, but also because substantial shareholders cut their positions and senior management jumped ship to The Lotteries Corporation.

## Still has valuable assets

To be clear, Tabcorp's assets are still valuable – its wagering and media brands service 783,000 people and over 4,000 venues. Its MAX Gaming Services business services 3,500 venues and 85% of Australian gaming machines. But investors saw more value in its lotteries assets being able to understand the model better and seeing these assets with greater usage amongst the general population and higher profitability.

For FY22, Tabcorp recorded \$2.3bn in revenue and \$360.2m in EBITDA, down 4% and 22% respectively from the year before. The company's NPAT from continuing operations was \$18.1m in the red after being \$37.7m in the black during FY21. Nevertheless, Tabcorp's statutory NPAT amounted to nearly \$6.8bn taking into account the gains made from the demerger. Its cash flow statement recorded a ~\$37m cash inflow. It paid a dividend of 13c per share for the full year, representing an impressive 12.3% yield, albeit one that was inflated by the demerger – reflecting five months of earnings from Lotteries before it was demerged.

## There's plenty of coverage, but little optimism

For FY23, the company did not provide revenue or earnings guidance, but forecast 3-4% cost growth, \$150m in capex and \$250-\$260m in depreciation. At its AGM, it gave a trading update for 1Q23 noting that revenues were up 18.7% at a group level. The Wagering and Media business only recorded a 14.2% gain, but it anticipated this would grow further with the company's new app. Gaming Services revenue grew 92% although this reflected the closure of venues during the prior corresponding period.

Turning to consensus estimates, these call for \$2.5bn in revenue and \$400.9m in EBITDA in FY23, both representing 5% growth. These estimates imply valuation multiples of 6.1x EV/EBITDA and 27.8x P/E for FY23. There are 14 analysts covering this company and they are not optimistic with the median share price target being \$1.03 and the highest being \$1.20 (which would only be a 14% upside at yesterday's closing price of \$1.05).

The lowest is 80c by Goldman Sachs, which is only as high as it is because it has used a blended multiple based partly on an M&A target price. The fundamental Sum of the Parts valuation is just 75c. It is concerned about several things such as the potential loss of its Victorian monopoly in 2024, higher gambling taxes and market competition more generally. The broker is also skeptical that this new app is the game changer that it has been hyped up to be by Tabcorp's management. Goldman said it could change its mind if digital execution turned out better than expected and/or if Tabcorp ended up getting a renewed license in Victoria, especially if it was on better terms.

## Investors should leave it alone

In our view, Tabcorp is not attractive right now. ESG investors typically don't bother with gambling companies to begin with and for everyone else, there is money to be made in the gambling space, but we think there's better exposure in the lotteries space. The wagering space has too much competition and we see the risk that online rivals could eat into Tabcorp's market share.

One hope for the company is if there were gambling reforms in Victoria and WA (its two largest markets) similar to that seen in Queensland. In the Sunshine State, the consumption tax was raised from 15% to 20% and the company was left paying a lower portion of revenue to the government (from 44.5% to 35% according to the company). This levelled the playing field compared to online rivals, such as Sportsbet and Ladbrokes. However, such discussions are unlikely until Tabcorp's licenses come up for renewal in each state. Victoria will be the one to watch, with the license up for renewal in 2024.

For now, Tabcorp gets two stars from us.

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