

# Rank Group

Trading update

## Weakness in Grosvenor affects EBIT

Travel & leisure

Rank's trading update (13 weeks to 1 April) showed 17% growth in Digital, but the core Venues disappointed, with Mecca down 2% and Grosvenor down 9% on a like-for-like basis. The shortfall was largely due to fewer customer visits, as well as a lower gross win margin from VIPs. The company expects the weaker consumer environment to continue and has now guided to FY18 clean EBIT of £76-78m vs previous consensus of £83m. We have adjusted our forecasts to the lower end of guidance. The stock has dropped sharply on the news and trades at 5.7x EV/EBITDA and 11.8x P/E for CY18e, which is a meaningful discount to peers.

Year end	Revenue* (£m)	EBITDA** (£m)	PBT** (£m)	Dil. EPS** (p)	DPS (p)	P/E (x)	Yield (%)
06/16	753.0	128.2	77.4	15.4	6.5	11.7	3.6
06/17	755.1	128.8	79.3	16.2	7.3	11.1	4.1
06/18e	754.0	120.0	73.9	14.7	7.8	12.2	4.3
06/19e	774.8	125.0	78.0	15.7	8.4	11.5	4.7
06/20e	793.9	127.5	81.5	16.4	8.7	11.0	4.9

Note: \*Revenue is before customer incentives. \*\*Normalised, excluding amortisation of acquired intangibles, one-off and exceptional items.

## Q3 hit by bad weather and weaker consumer sentiment

Rank's trading update highlighted that a variety of factors had caused a weaker trading environment in Q318: both Mecca and Grosvenor saw lower than expected visits, made worse by bad weather. In addition, Grosvenor experienced losses from VIP customers and did not see the expected recovery in visits at the two recently refurbished London casinos. On a like-for-like basis, Mecca saw a 2% y-o-y decline for the 40 weeks to 1 April and for the 13 weeks to 1 April; Grosvenor saw 3% and 9% declines respectively, and group revenues were flat and down 2% respectively. Trading for Digital remained strong with 17% growth over both periods.

## Changes to forecasts

Management is cautious about consumer demand and expects this to have a negative impact on UK venues for the remainder of FY18 and into FY19. The company now expects clean operating profit of £76-78m for FY18, compared to consensus of c £83m. We have reduced our forecasts to reflect the lower end of this range, with the majority of the cut coming from Grosvenor. We have also reduced our revenue and operating profit forecasts for FY19 and FY20. We have assumed that the company is able to partially offset the lower revenues through cost cutting, which is already underway. Overall, we have reduced our normalised EPS forecasts by 9.2% for FY18, 10.6% for FY19 and 10.2% for FY20.

## Valuation: 5.7x CY18e EV/EBITDA

Rank's CY18 EV/EBITDA multiple of 5.7x is below the peer average of 10.2x. As evidenced by the decline in visitor numbers, Rank faces more retail challenges than its pure online peers, but it does have more digital upside. Despite economic and minimum wage pressures, the core business remains highly cash generative and Rank now has a net cash position of £4.0m. This underpins a solid dividend policy and provides the firepower for potential M&A.

6 April 2018

**Price** 180.0p  
**Market cap** £703m

Net cash (£m) at end December 2017	4.0
Shares in issue	390.7m
Free float	29%
Code	RNK
Primary exchange	LSE
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	(18.9)	(26.5)	(14.4)
Rel (local)	(19.6)	(21.2)	(13.7)
52-week high/low	248.50p	180.0p	

## Business description

Rank Group is a gaming-based leisure and entertainment company. Its Grosvenor and Mecca brands are market leaders in UK multi-channel gaming and it also has operations in Spain and Belgium. In FY17 85% of revenues came from its venues and 15% from its digital operations.

## Next events

FY18 results	16 August 2018
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## Analysts

Victoria Pease	+44 (0)20 3077 5700
Katherine Thompson	+44 (0)20 3077 5730

[gaming@edisongroup.com](mailto:gaming@edisongroup.com)

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**Exhibit 1: Financial summary**

	£'m	2014	2015	2016	2017	2018e	2019e	2020e
June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>								
Revenue*		707.7	738.3	753.0	755.1	754.0	774.8	793.9
Cost of Sales		(409.2)	(414.2)	(418.8)	(439.3)	(434.3)	(440.9)	(451.7)
Gross Profit		298.5	324.1	334.2	315.8	319.7	333.8	342.2
EBITDA		116.0	126.3	128.2	128.8	120.0	125.0	127.5
Operating Profit (before amort. and except.)		72.4	84.0	82.4	83.5	76.4	80.0	82.5
Intangible Amortisation		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		(46.5)	2.1	9.3	1.0	(7.5)	0.0	0.0
Operating Profit		25.9	86.1	91.7	84.5	68.9	80.0	82.5
Net Interest		(9.9)	(9.9)	(5.0)	(4.2)	(2.5)	(2.0)	(1.0)
Other finance adjustments		(1.6)	(1.7)	(1.1)	(0.6)	0.1	0.0	0.0
Profit Before Tax (norm)		62.5	74.1	77.4	79.3	73.9	78.0	81.5
Profit Before Tax (FRS 3)		14.4	74.5	85.6	79.7	66.5	78.0	81.5
Tax on norm PBT		(13.9)	(17.0)	(17.4)	(15.6)	(16.1)	(16.4)	(17.1)
Profit After Tax (norm)		48.6	57.1	60.0	63.7	57.8	61.6	64.4
Profit After Tax (FRS 3)		0.5	57.5	68.2	64.1	50.4	61.6	64.4
Average Number of Shares Outstanding (m)		390.7	390.7	390.7	390.7	390.7	390.7	390.7
EPS - normalised (p)		12.4	14.6	15.4	16.3	14.8	15.8	16.5
EPS - normalised diluted (p)		12.4	14.6	15.4	16.2	14.7	15.7	16.4
EPS - (IFRS) (p)		5.2	19.1	18.2	16.1	13.2	15.8	16.5
Dividend per share (p)		4.5	5.6	6.5	7.3	7.8	8.4	8.7
Gross Margin (%)		42.2	43.9	44.4	41.8	42.4	43.1	43.1
EBITDA Margin (%)		16.4	17.1	17.0	17.1	15.9	16.1	16.1
Operating Margin (before GW and except.) (%)		10.2	11.4	10.9	11.1	10.1	10.3	10.4
<b>BALANCE SHEET</b>								
Fixed Assets		613.3	607.2	614.1	606.0	600.5	600.5	601.5
Intangible Assets		390.2	395.7	404.3	411.5	412.5	413.5	414.5
Tangible Assets		217.5	204.0	202.0	187.9	180.0	179.0	178.0
Deferred tax/other		5.6	7.5	7.8	6.6	8.0	8.0	9.0
Current Assets		87.9	123.4	100.5	107.4	109.0	102.7	125.0
Stocks		3.1	2.8	2.9	2.8	3.2	3.4	3.4
Debtors		37.7	31.0	36.6	25.6	33.0	35.0	35.0
Cash		47.1	89.6	61.0	79.0	72.8	64.3	86.6
Other		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Liabilities		(168.4)	(309.4)	(173.9)	(186.2)	(184.5)	(189.0)	(189.0)
Creditors (incl provisions)		(164.0)	(184.5)	(159.5)	(151.6)	(170.0)	(174.0)	(174.0)
Short term borrowings		(4.4)	(124.9)	(14.4)	(34.6)	(14.5)	(15.0)	(15.0)
Long Term Liabilities		(290.5)	(126.8)	(188.1)	(136.6)	(130.0)	(90.0)	(90.0)
Long term borrowings		(179.7)	(17.6)	(87.8)	(57.0)	(50.0)	(20.0)	(20.0)
Other long term liabilities		(110.8)	(109.2)	(100.3)	(79.6)	(80.0)	(70.0)	(70.0)
Net Assets		242.3	294.4	352.6	390.6	395.0	424.2	447.5
<b>CASH FLOW</b>								
Operating Cash Flow		55.0	146.6	110.2	116.3	109.0	116.0	118.5
Net Interest		(8.1)	(7.5)	(5.0)	(3.0)	(2.0)	(1.5)	(0.5)
Tax		(19.1)	(2.2)	(31.1)	(14.7)	(14.8)	(15.6)	(16.3)
Capex		(44.3)	(31.9)	(52.7)	(42.7)	(41.0)	(45.0)	(45.0)
Acquisitions/disposals		0.3	(1.0)	16.2	0.0	0.0	0.0	0.0
Financing		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends		(16.4)	(18.6)	(22.7)	(26.0)	(28.6)	(30.9)	(32.4)
Net Cash Flow		(32.6)	85.4	14.9	29.9	22.6	23.0	24.3
Opening net debt/(cash)		104.1	137.0	52.9	41.2	12.4	(8.3)	(29.3)
HP finance leases initiated		(2.3)	(3.1)	(2.8)	(1.3)	(2.0)	(2.0)	(2.0)
Other		2.0	1.8	(0.4)	0.2	0.0	0.0	0.0
Closing net debt/(cash)		137.0	52.9	41.2	12.4	(8.3)	(29.3)	(51.6)

Source: Rank Group, Edison Investment Research \*Note: Revenue is before customer incentives

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