

ZEAL Network SE

Others - Germany

Buy (old: Buy)

25.10.2024

EUR 57.00 (old: EUR 54.00)

Guidance hike confirms strong momentum; chg. est & PT

Yesterday after the bell, ZEAL released an ad-hoc with a guidance hike and better than expected Q3 prelims, fully confirming our positive view on the stock and its elevated momentum in top- and bottom-line.

FY'24e guidance raised: Sales are now expected between € 158-168m (old: € 140-150m), implying an increase by 12% at mid-point, whereas EBITDA is seen between € 42-46m (old: € 38-42m), implying a 10% increase at mid-point.

Q3 prelims much better than expected: Next to the increased guidance, Q3 prelims were released and came in much better than expected. Sales arrived at € 44.2m (+42% yoy) driven by the strong user intake from H1 coupled with a billings margin expansion at the start of Q3. While detailed figures are released with final Q3 results on November 6th, the better than expected sales figure could stem from a successful launch of the new product "Traumhausverlosung" (eng.: Dream House Raffle), in our view. Consequently, EBITDA also came in better than expected at € 15.2m (+61% yoy; eNuW: € 11m) on the back of a better fixed cost coverage.

Stellar growth continues: Following a superb first half of the year, (sales: + 40% yoy; EBITDA: +46% yoy) carried by a strong jackpot environment and user intake, ZEAL has continued its current growth story in the third quarter despite a muted jackpot environment thanks to the increased billings margin of above 15% in the lottery brokerage business (c. 90% of sales). Consequently, next year should also remain a year of at least 15% sales growth as the increased billings margin in the lottery brokerage business comes in with a full-year effect.

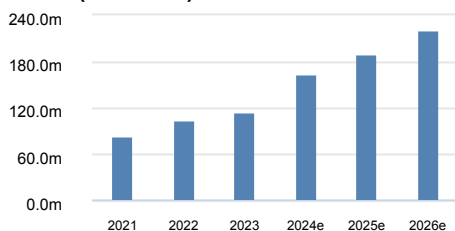
FY'24e guidance raised: Sales are now expected between € 158-168m (old: € 140-150m), implying an increase by 12% at mid-point, whereas EBITDA is seen between € 42-46m (old: € 38-42m), implying a 10% increase at mid-point. After incorporating the Q3 prelims into our model, but leaving our Q4'24e estimates unchanged, our new estimates (see below) are now at mid-point of the new guidance.

All in all, a strong release fully confirming our positive view on the stock. The strong sales momentum should inevitably lead to an acceleration of profitability thanks to ZEAL's operating leverage. Therefore, we reiterate our **BUY recommendation**, increase our **PT to € 57.00** (old € 54.00) and confirm the stock as one of **NuWays' Alpha Picks** for 2024.

Y/E 31.12 (EUR m)	2021	2022	2023	2024e	2025e	2026e
Sales	83.3	105.2	116.0	163.2	190.1	222.6
Sales growth	-4.2%	26.2%	10.3%	40.6%	16.5%	17.1%
EBITDA	27.7	31.7	32.8	44.1	58.2	76.6
Net debt (if net cash=0)	-38.5	-28.5	-29.7	-45.4	-59.5	-83.2
FCF	26.0	27.1	24.9	39.5	40.1	51.9
Net Debt/EBITDA	-1.4	-0.9	-0.9	-1.0	-1.0	-1.1
EPS pro forma	0.48	0.74	0.59	2.29	1.49	2.07
EBITDA margin	33.3%	30.1%	28.3%	27.0%	30.6%	34.4%
ROCE	5.0%	6.0%	7.2%	11.8%	16.5%	23.3%
EV/sales	10.5	6.5	6.8	4.8	4.0	3.3
EV/EBITDA	31.6	21.7	24.2	17.7	13.1	9.7
PER	78.8	51.6	64.3	16.6	25.4	18.3
Adjusted FCF yield	1.8%	3.8%	4.0%	8.1%	5.9%	8.0%

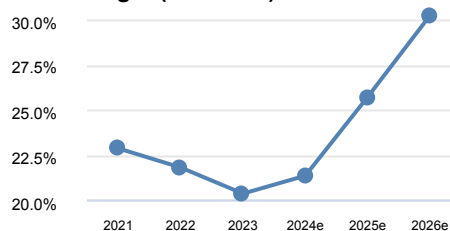
Source: Company data, NuWays, Close price as of 23.10.2024

Sales (2021-26e)



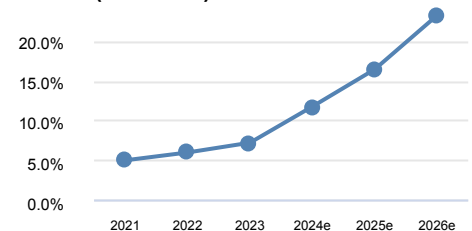
Source: NuWays Research

EBIT margin (2021-26e)



Source: NuWays Research

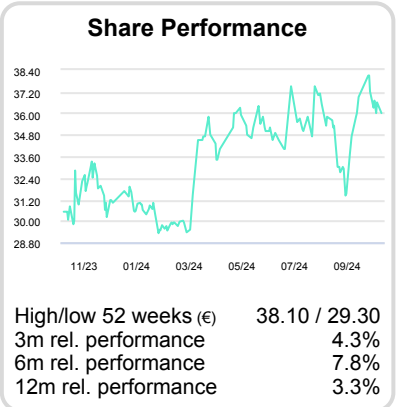
ROCE (2021-26e)



Source: NuWays Research

Company description

ZEAL brokers lottery products via the internet under two well-known web-domains: Lotto24.de and Tipp24.de and receives brokerage commissions from the lottery operators. In addition, the company also operates instant win games & charity based lotteries.



Market data

Share price (in €)	36.00
Market cap (in € m)	823.0
Number of shares (in m pcs)	21.7
Enterprise value (in € m)	778.3
Ø trading volume (6 months)	3,796

Identifier

Bloomberg	TIMA GR
Reuters	TIMAn
WKN	ZEAL24
ISIN	DE000ZEAL241

Key shareholders

Günther Group	35.2%
Working Capital	20.2%
Marc Peters	4.5%
Jens Schumann	3.6%
Free Float	36.6%

Estimates changes

	2024e	2025e	2026e
Sales	3%	5%	5%
EBIT	6%	1%	6%
EPS	13%	11%	17%

- ### Comment on changes
- Estimate changes now reflect the Q3 prelims and revised ARPU and MAU estimates.
 - Minority interest and tax rate assumption changed to reflect SO of Lotto24 as of Q4'24.

Guidance

- FY'24 Sales : € 158-168m
- FY'24 EBITDA: € 42-46m

Financials

Profit and loss (EUR m)	2021	2022	2023	2024e	2025e	2026e
Net sales	83.3	105.2	116.0	163.2	190.1	222.6
<i>Sales growth</i>	-4.2%	26.2%	10.3%	40.6%	16.5%	17.1%
Increase/decrease in finished goods and work-in-process	0.0	0.0	0.0	0.0	0.0	0.0
Total sales	83.3	105.2	116.1	163.2	190.1	222.6
Other operating income	4.6	2.3	1.3	1.6	1.9	1.6
Material expenses	0.0	0.0	-0.0	0.0	0.0	0.0
Personnel expenses	19.0	18.9	22.6	29.0	32.3	35.6
Other operating expenses	41.2	57.0	62.0	91.8	101.5	112.0
Total operating expenses	55.6	73.5	83.2	119.1	131.9	146.0
EBITDA	27.7	31.7	32.8	44.1	58.2	76.6
Depreciation	0.7	0.7	0.0	0.0	0.0	0.0
EBITA	27.0	31.0	32.8	44.1	58.2	76.6
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	7.9	8.1	9.3	9.3	9.3	9.3
Impairment charges	0.0	0.0	0.0	0.0	0.0	0.0
EBIT (inc revaluation net)	19.0	22.9	23.6	34.8	48.9	67.4
Interest income	0.2	1.4	0.5	0.5	0.4	0.3
Interest expenses	2.0	0.7	1.8	1.8	1.7	1.6
Investment income	-0.3	-0.2	-0.0	0.0	0.0	0.0
Financial result	-2.4	-0.1	-1.3	-1.3	-1.3	-1.3
Recurring pretax income from continuing operations	16.7	22.8	22.2	33.5	47.6	66.0
Extraordinary income/loss	0.0	0.0	-0.0	0.0	0.0	0.0
Earnings before taxes	16.7	22.8	22.3	33.5	47.6	66.0
Income tax expense	5.3	6.2	8.6	-16.1	15.2	21.1
Net income from continuing operations	11.4	16.6	13.7	49.6	32.3	44.9
Income from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0
Net income	11.4	16.6	13.7	49.6	32.3	44.9
Minority interest	0.6	0.6	0.9	0.0	0.0	0.0
Net profit (reported)	10.8	16.0	12.8	49.6	32.3	44.9
Average number of shares	22.4	21.7	21.7	21.7	21.7	21.7
EPS reported	0.48	0.74	0.59	2.29	1.49	2.07

Profit and loss (common size)	2021	2022	2023	2024e	2025e	2026e
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<i>Sales growth</i>	-4.2%	26.2%	10.3%	40.6%	16.5%	17.1%
Increase/decrease in finished goods and work-in-process	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Other operating income	5.5%	2.2%	1.1%	1.0%	1.0%	0.7%
Material expenses	0.0%	0.0%	-0.0%	0.0%	0.0%	0.0%
Personnel expenses	22.9%	18.0%	19.4%	17.8%	17.0%	16.0%
Other operating expenses	49.4%	54.1%	53.4%	56.2%	53.4%	50.3%
Total operating expenses	66.7%	69.9%	71.7%	73.0%	69.4%	65.6%
EBITDA	33.3%	30.1%	28.3%	27.0%	30.6%	34.4%
Depreciation	0.9%	0.6%	0.0%	0.0%	0.0%	0.0%
EBITA	32.4%	29.5%	28.3%	27.0%	30.6%	34.4%
Amortisation of goodwill	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Amortisation of intangible assets	9.5%	7.7%	8.0%	5.7%	4.9%	4.2%
Impairment charges	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT (inc revaluation net)	22.9%	21.8%	20.3%	21.3%	25.7%	30.3%
Interest income	0.2%	1.4%	0.4%	0.3%	0.2%	0.1%
Interest expenses	2.4%	0.7%	1.5%	1.1%	0.9%	0.7%
Investment income	-0.4%	-0.2%	-0.0%	0.0%	0.0%	0.0%
Financial result	neg.	neg.	neg.	neg.	neg.	neg.
Recurring pretax income from continuing operations	20.0%	21.7%	19.2%	20.5%	25.0%	29.7%
Extraordinary income/loss	0.0%	0.0%	-0.0%	0.0%	0.0%	0.0%
Earnings before taxes	20.0%	21.7%	19.2%	20.5%	25.0%	29.7%
Tax rate	31.5%	27.4%	38.6%	-48.1%	32.0%	32.0%
Net income from continuing operations	13.7%	15.7%	11.8%	30.4%	17.0%	20.2%
Income from discontinued operations (net of tax)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income	13.7%	15.7%	11.8%	30.4%	17.0%	20.2%
Minority interest	0.7%	0.6%	0.8%	0.0%	0.0%	0.0%
Net profit (reported)	12.9%	15.2%	11.0%	30.4%	17.0%	20.2%

Source: Company data, NuWays

Balance sheet (EUR m)	2021	2022	2023	2024e	2025e	2026e
Intangible assets	298.0	289.6	281.7	273.8	265.8	257.9
Property, plant and equipment	0.6	1.2	1.2	1.2	1.2	1.2
Financial assets	16.6	22.5	18.2	18.2	18.2	18.2
FIXED ASSETS	315.2	313.2	301.0	293.1	285.2	277.3
Inventories	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable	1.8	1.4	2.6	3.7	4.3	5.1
Other assets and short-term financial assets	82.9	75.4	30.5	30.5	30.5	30.5
Liquid assets	90.1	61.2	57.4	121.2	121.3	131.0
Deferred taxes	11.9	6.9	1.0	1.0	1.0	1.0
Deferred charges and prepaid expenses	1.5	1.5	1.7	1.7	1.7	1.7
CURRENT ASSETS	188.6	146.5	93.6	158.2	158.9	169.4
TOTAL ASSETS	503.8	459.7	394.6	451.3	444.1	446.7

SHAREHOLDERS EQUITY	378.2	328.0	259.2	284.6	290.7	307.3
MINORITY INTEREST	6.7	6.1	5.6	5.6	5.6	5.6
Long-term liabilities to banks	7.6	22.9	15.8	25.8	21.8	17.8
Bonds (long-term)	0.0	0.0	0.0	0.0	0.0	0.0
other interest-bearing liabilities	42.9	5.1	4.8	4.8	4.8	4.8
Provisions for pensions and similar obligations	0.4	0.1	0.7	0.7	0.7	0.7
Other provisions and accrued liabilities	4.0	4.0	4.2	4.2	4.2	4.2
NON-CURRENT LIABILITIES	54.8	32.1	25.5	35.5	31.5	27.5
Short-term liabilities to banks	1.1	4.7	7.2	45.3	35.3	25.3
Accounts payable	3.7	3.8	3.6	4.0	4.7	4.7
Advance payments received on orders	0.0	0.0	0.0	0.0	0.0	0.0
Accrued taxes	3.9	5.8	1.4	1.4	1.4	1.4
Other liabilities (incl. from lease and rental contracts)	6.5	33.0	48.0	48.0	48.0	48.0
Deferred taxes	48.8	46.3	44.2	27.0	27.0	27.0
Deferred income	0.0	0.0	0.0	0.0	0.0	0.0
CURRENT LIABILITIES	64.0	93.5	104.4	125.7	116.4	106.4
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	503.8	459.7	394.6	451.3	444.1	446.7

Balance sheet (common size)	2021	2022	2023	2024e	2025e	2026e
Intangible assets	59.2%	63.0%	71.4%	60.7%	59.9%	57.7%
Property, plant and equipment	0.1%	0.3%	0.3%	0.3%	0.3%	0.3%
Financial assets	3.3%	4.9%	4.6%	4.0%	4.1%	4.1%
FIXED ASSETS	62.6%	68.1%	76.3%	64.9%	64.2%	62.1%
Inventories	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Accounts receivable	0.4%	0.3%	0.7%	0.8%	1.0%	1.1%
Other assets and short-term financial assets	16.5%	16.4%	7.7%	6.8%	6.9%	6.8%
Liquid assets	17.9%	13.3%	14.6%	26.9%	27.3%	29.3%
Deferred taxes	2.4%	1.5%	0.3%	0.2%	0.2%	0.2%
Deferred charges and prepaid expenses	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%
CURRENT ASSETS	37.4%	31.9%	23.7%	35.1%	35.8%	37.9%
TOTAL ASSETS	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

SHAREHOLDERS EQUITY	75.1%	71.3%	65.7%	63.1%	65.5%	68.8%
MINORITY INTEREST	1.3%	1.3%	1.4%	1.2%	1.2%	1.2%
Long-term liabilities to banks	1.5%	5.0%	4.0%	5.7%	4.9%	4.0%
Bonds (long-term)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
other interest-bearing liabilities	8.5%	1.1%	1.2%	1.1%	1.1%	1.1%
Provisions for pensions and similar obligations	0.1%	0.0%	0.2%	0.2%	0.2%	0.2%
Other provisions and accrued liabilities	0.8%	0.9%	1.1%	0.9%	1.0%	0.9%
NON-CURRENT LIABILITIES	10.9%	7.0%	6.5%	7.9%	7.1%	6.1%
Short-term liabilities to banks	0.2%	1.0%	1.8%	10.0%	7.9%	5.7%
Accounts payable	0.7%	0.8%	0.9%	0.9%	1.1%	1.0%
Advance payments received on orders	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Accrued taxes	0.8%	1.3%	0.3%	0.3%	0.3%	0.3%
Other liabilities (incl. from lease and rental contracts)	1.3%	7.2%	12.2%	10.6%	10.8%	10.8%
Deferred taxes	9.7%	10.1%	11.2%	6.0%	6.1%	6.0%
Deferred income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CURRENT LIABILITIES	12.7%	20.3%	26.5%	27.9%	26.2%	23.8%
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company data, NuWays

ZEAL Network SE

Update - 25.10.2024



Cash flow statement (EUR m)	2021	2022	2023	2024e	2025e	2026e
Net profit/loss	11.4	16.6	13.7	49.6	32.3	44.9
Depreciation of fixed assets (incl. leases)	0.7	0.7	0.0	0.0	0.0	0.0
Amortisation of goodwill & intangible assets	7.9	8.1	9.3	9.3	9.3	9.3
Other costs affecting income / expenses	0.2	-0.3	0.0	-17.2	0.0	0.0
Cash flow from operating activities	19.4	27.3	25.3	40.8	41.5	53.2
Increase/decrease in inventory	0.0	4.3	0.0	0.0	0.0	0.0
Increase/decrease in accounts receivable	-0.5	0.4	-1.2	-1.1	-0.6	-0.7
Increase/decrease in accounts payable	0.1	0.1	-0.2	0.4	0.7	0.0
Increase/decrease in other working capital positions	-0.1	-1.2	3.8	0.0	0.0	0.0
Increase/decrease in working capital	-0.5	3.5	2.4	-0.7	0.1	-0.7
Cash flow from operating activities	26.4	28.5	25.3	41.0	41.7	53.4
CAPEX	0.4	1.4	0.4	1.5	1.5	1.5
Payments for acquisitions	1.2	0.6	0.0	0.0	0.0	0.0
Financial investments	0.0	5.4	0.4	0.0	0.0	0.0
Income from asset disposals	1.0	1.2	57.2	0.0	0.0	0.0
Cash flow from investing activities	-0.6	-6.2	56.4	-1.5	-1.5	-1.5
Cash flow before financing	5.7	-24.7	2.3	15.6	14.1	23.7
Increase/decrease in debt position	7.0	16.9	-5.0	48.1	-14.0	-14.0
Purchase of own shares	0.0	20.0	0.0	0.0	0.0	0.0
Capital measures	0.0	0.1	0.0	0.0	0.0	0.0
Dividends paid	20.1	47.0	79.4	23.8	26.0	28.2
Others	-8.7	-1.2	-1.0	0.0	0.0	0.0
Effects of exchange rate changes on cash	0.0	-0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	-21.8	-51.1	-85.4	24.3	-40.0	-42.2
Increase/decrease in liquid assets	4.0	-28.9	-3.8	63.8	0.1	9.7
Liquid assets at end of period	90.1	61.2	57.4	121.2	121.3	131.0

Key ratios (EUR m)	2021	2022	2023	2024e	2025e	2026e
P&L growth analysis						
Sales growth	-4.2%	26.2%	10.3%	40.6%	16.5%	17.1%
EBITDA growth	60.0%	14.1%	3.8%	34.1%	32.0%	31.8%
EBIT growth	254.3%	20.4%	2.9%	47.5%	40.5%	37.8%
EPS growth	32.1%	52.8%	-19.8%	287.7%	-34.8%	38.8%
Efficiency						
Sales per employee	530.8	649.4	694.9	948.8	1,086.3	1,250.6
EBITDA per employee	176.6	195.4	196.7	256.2	332.3	430.5
No. employees (average)	157	162	167	172	175	178
Balance sheet analysis						
Avg. working capital / sales	5.8%	-2.0%	-1.0%	-0.8%	-0.3%	0.0%
Inventory turnover (sales/inventory)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Accounts receivable turnover	7.8	5.0	8.3	8.3	8.3	8.3
Accounts payable turnover	16.2	13.2	11.4	9.0	9.0	7.7
Cash flow analysis						
Free cash flow	26.0	27.1	24.9	39.5	40.1	51.9
Free cash flow/sales	31.2%	25.7%	21.4%	24.2%	21.1%	23.3%
FCF / net profit	227.9%	163.4%	182.1%	79.5%	124.0%	115.5%
Capex / sales	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Solvency						
Net debt	-38.5	-28.5	-29.7	-45.4	-59.5	-83.2
Net Debt/EBITDA	-1.4	-0.9	-0.9	-1.0	-1.0	-1.1
Dividend payout ratio	435.4%	488.6%	186.2%	52.4%	87.0%	67.5%
Interest paid / avg. debt	3.8%	2.3%	4.5%	3.3%	3.8%	2.6%
Returns						
ROCE	5.0%	6.0%	7.2%	11.8%	16.5%	23.3%
ROE	2.9%	4.9%	4.9%	17.4%	11.1%	14.6%
Adjusted FCF yield	1.8%	3.8%	4.0%	8.1%	5.9%	8.0%
Dividend yield	5.5%	9.5%	2.9%	3.2%	3.4%	3.7%
DPS	2.1	3.6	1.1	1.2	1.3	1.4
EPS reported	0.48	0.74	0.59	2.29	1.49	2.07
Average number of shares	22.4	21.7	21.7	21.7	21.7	21.7
Valuation ratios						
P/BV	2.2	2.5	3.2	2.9	2.8	2.7
EV/sales	10.5	6.5	6.8	4.8	4.0	3.3
EV/EBITDA	31.6	21.7	24.2	17.7	13.1	9.7
EV/EBIT	46.0	30.0	33.7	22.4	15.6	11.0

Source: Company data, NuWays

Disclosures

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Company	Disclosures
ZEAL Network SE	2

Historical target price and rating changes for ZEAL Network SE

Company	Date	Analyst	Rating	Target Price	Close
ZEAL Network SE	09.07.2024	Wendisch, Henry	Buy	EUR 54.00	EUR 34.00
	10.05.2024	Wendisch, Henry	Buy	EUR 53.00	EUR 36.00
	09.11.2023	Wendisch, Henry	Buy	EUR 51.00	EUR 30.00

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The adj. FCF method is based on the assumption that investors purchase assets only at a price (enterprise value) at which the operating cash flow return after taxes on this investment exceeds their opportunity costs in the form of a hurdle rate of 7.5%. The operating cash flow is calculated as EBITDA less maintenance capex and taxes.

Within the framework of the DCF approach, the future free cash flows are calculated initially on the basis of a fictitious capital structure of 100% equity, i.e. interest and repayments on debt capital are not factored in initially. The adjust-

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