

ZEAL Network SE

Others - Germany

Buy (old: Buy)

09.07.2024

EUR 54.00 (old: EUR 53.00)

Stellar Q2 lottery environment to drive top-line; chg. est. & PT

Topic: Q2 data of Germany's most popular lottery products are in the books, here's our analysis:

After a very strong Q1 (4x peak jackpots), **the EuroJackpot** (eNuW: 45% of ZEAL's lottery billings) **again showed a stellar performance**. Two peak jackpots were spread apart in 12 draws (i.e. 6 weeks), meaning that during the build up to the high jackpot, the lottery stakes grew gradually over time. This resulted in an elevated average jackpot size of € 61m (vs. c. € 42m on average). Accordingly, **lottery stakes remitted nationwide rose by 23% yoy to € 1.27bn**. Even more remarkable, this accounts for another **10% qoq growth over the blow-out Q1'24** and is **52% above the historical average** (see p. 2).

On the other hand, **Lotto 6aus49** (eNuW: 45% of ZEAL's lottery billings) **did not peak even once** and with the largest jackpot of **only € 24m** (vs. € 50m peak jackpot) **showed a rather uninspiring environment in Q2**. As a result, the remitted stakes came in at € 844m, down 8% yoy and 8% qoq (see p. 2).

Combined, the strong EuroJackpot and the muted Lotto 6aus49 led to an increase of lottery stakes of 8% yoy and 2% qoq to € 2.12bn, which is **a stellar 17% above the historical average** (see p. 2).

In sum, we expect Zeal to **strongly capitalize on the Q2 jackpot tailwinds** in terms of **a) user intake of c. 200k new registrations** (eNuW) and **b) an elevated user activity** leading to a better product mix and thus a **higher billings margin** (eNuW: 13% in Q2), both **servicing the current top-line momentum**.

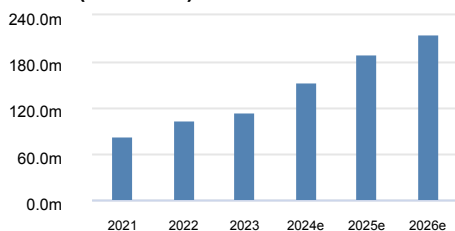
As a result, a **guidance hike** as early as Q2 results seems ever more likely, as we now expect overall sales of € 155m (vs. guidance of € 140-150m). On top of **1) H1's superb lottery environment**, pushing **H1 sales** and more importantly the **user base** above prior expectations, **H2's top-line momentum should continue**, even in muted lottery environments, due to **2) ZEAL's lottery billings margin expansion to >15% in H2** and thanks to **3) the expansion of the Games business**. Consequently, **EBITDA should now arrive at the top end of the guidance** (eNuW: € 42m; guidance: € 38-42m) despite increasing indirect costs (eNuW: € 25m, +78% yoy) due to investments into a new social lottery and assuming marketing expenses of € 46m (guidance: € 40-45m).

Against this backdrop, we reiterate our **BUY recommendation** and **increase our PT to € 54.00** (old: € 53.00), based on DCF.

Y/E 31.12 (EUR m)	2021	2022	2023	2024e	2025e	2026e
Sales	83.3	105.2	116.0	155.0	189.9	217.5
Sales growth	-4.2%	26.2%	10.3%	33.6%	22.5%	14.5%
EBITDA	27.7	31.7	32.8	41.6	60.6	74.9
Net debt (if net cash=0)	-38.5	-28.5	-29.7	-35.5	-51.5	-74.6
FCF	26.0	27.1	24.9	30.3	42.8	52.1
Net Debt/EBITDA	-1.4	-0.9	-0.9	-0.9	-0.9	-1.0
EPS pro forma	0.48	0.72	0.57	1.57	1.47	1.89
EBITDA margin	33.3%	30.1%	28.3%	26.8%	31.9%	34.4%
ROCE	5.0%	6.0%	7.2%	11.0%	17.5%	22.9%
EV/sales	10.5	6.7	6.5	4.8	3.8	3.2
EV/EBITDA	31.6	22.4	22.9	17.9	12.1	9.4
PER	72.5	48.9	61.0	22.3	23.8	18.5
Adjusted FCF yield	1.8%	3.7%	3.9%	6.5%	6.3%	8.0%

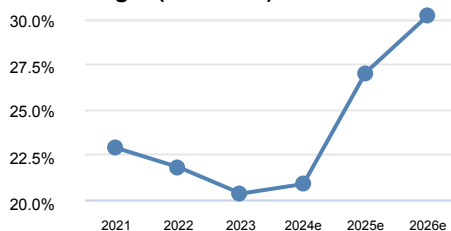
Source: Company data, NuWays, Close price as of 04.07.2024

Sales (2021-26e)



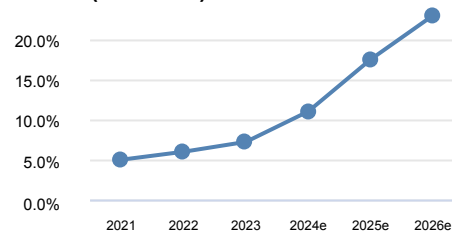
Source: NuWays Research

EBIT margin (2021-26e)



Source: NuWays Research

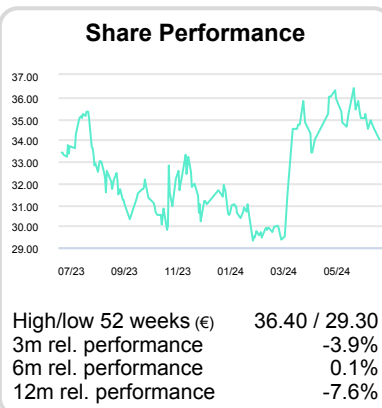
ROCE (2021-26e)



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 €)	34.00
Market cap (in € m)	780.7
Number of shares (in m pcs)	22.3
Enterprise value (in € m)	745.9
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	4%	2%	3%
EBIT	3%	2%	3%
EPS	93%	4%	2%

Comment on changes

- FY'24e estimate increases reflect strong Q2 lottery environment; EPS skewed by tax one-off
- FY'25 & '26e estimate increases reflect increased user base assumption.

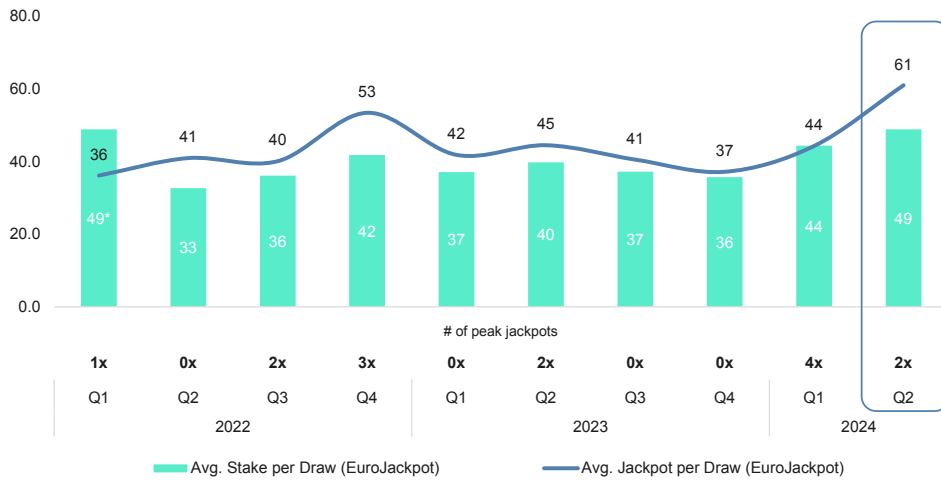
Guidance

- FY'24 Sales : € 140-150m
- FY'24 EBITDA: € 38-42m
- FY'24 marketing exp.: € 40-45m

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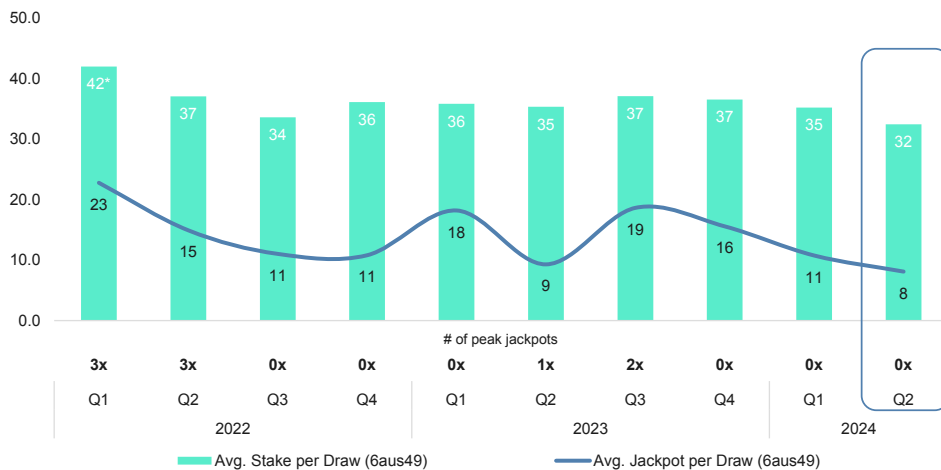
Update - 09.07.2024

Q2 2024 as one of the most active EuroJackpot quarters



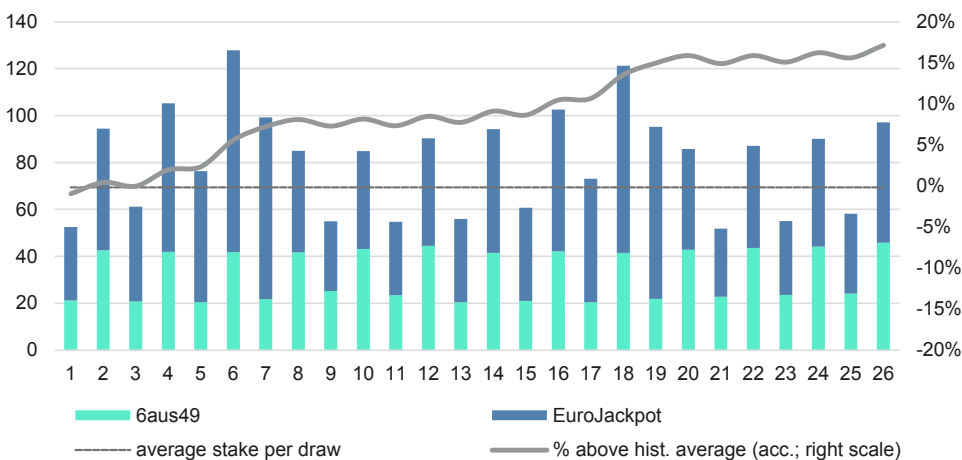
*in Q1 2022, the EuroJackpot had only one draw per week // Source: DLTB, NuWays;

Lotto 6aus49 continues to be steady but uninspiring in Q2 2024



Source: DLTB, NuWays

Q2'24: Combined nationwide lottery stakes of main products 17% above average



Source: DLTB, NuWays

Financials

Profit and loss (EUR m)	2021	2022	2023	2024e	2025e	2026e
Net sales	83.3	105.2	116.0	155.0	189.9	217.5
<i>Sales growth</i>	-4.2%	26.2%	10.3%	33.6%	22.5%	14.5%
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	155.0	189.9	217.5
Other operating income	4.6	2.3	1.3	1.6	1.5	1.6
Material expenses	0.0	0.0	-0.0	0.0	0.0	0.0
Personnel expenses	19.0	18.9	22.6	26.4	31.3	34.8
Other operating expenses	41.2	57.0	62.0	88.6	99.5	109.4
Total operating expenses	55.6	73.5	83.2	113.4	129.3	142.6
EBITDA	27.7	31.7	32.8	41.6	60.6	74.9
Depreciation	0.7	0.7	0.0	0.0	0.0	0.0
EBITA	27.0	31.0	32.8	41.6	60.6	74.9
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	32.3	51.3	65.7
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	31.0	50.0	64.3
Extraordinary income/loss	0.0	0.0	-0.0	0.0	0.0	0.0
Earnings before taxes	16.7	22.8	22.3	31.0	50.0	64.3
Income tax expense	5.3	6.2	8.6	-6.4	15.0	19.3
Net income from continuing operations	11.4	16.6	13.7	37.5	35.0	45.0
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	37.5	35.0	45.0
Minority interest	0.6	0.6	0.9	2.4	2.2	2.9
Net profit (reported)	10.8	16.0	12.8	35.1	32.8	42.1
Average number of shares	22.4	22.3	22.3	22.3	22.3	22.3
EPS reported	0.48	0.72	0.57	1.57	1.47	1.89

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%	33.6%	22.5%	14.5%
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%	0.8%	0.7%
Material expenses	0.0%	0.0%	-0.0%	0.0%	0.0%	0.0%
Personnel expenses	22.9%	18.0%	19.4%	17.0%	16.5%	16.0%
Other operating expenses	49.4%	54.1%	53.4%	57.2%	52.4%	50.3%
Total operating expenses	66.7%	69.9%	71.7%	73.2%	68.1%	65.6%
EBITDA	33.3%	30.1%	28.3%	26.8%	31.9%	34.4%
Depreciation	0.9%	0.6%	0.0%	0.0%	0.0%	0.0%
EBITA	32.4%	29.5%	28.3%	26.8%	31.9%	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%	6.0%	4.9%	4.3%
Impairment charges	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT (inc revaluation net)	22.9%	21.8%	20.3%	20.9%	27.0%	30.2%
Interest income	0.2%	1.4%	0.4%	0.3%	0.2%	0.1%
Interest expenses	2.4%	0.7%	1.5%	1.2%	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%	20.0%	26.3%	29.6%
Extraordinary income/loss	0.0%	0.0%	-0.0%	0.0%	0.0%	0.0%
Earnings before taxes	20.0%	21.7%	19.2%	20.0%	26.3%	29.6%
Tax rate	31.5%	27.4%	38.6%	-20.8%	30.0%	30.0%
Net income from continuing operations	13.7%	15.7%	11.8%	24.2%	18.4%	20.7%
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%	24.2%	18.4%	20.7%
Minority interest	0.7%	0.6%	0.8%	1.5%	1.2%	1.3%
Net profit (reported)	12.9%	15.2%	11.0%	22.6%	17.2%	19.4%

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	3.5	4.3	5.0
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	75.0	86.0	104.1
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	111.8	123.6	142.4
TOTAL ASSETS	503.8	459.7	394.6	404.9	408.8	419.6

SHAREHOLDERS EQUITY	378.2	328.0	259.2	269.3	275.1	288.0
MINORITY INTEREST	6.7	6.1	5.6	7.9	10.2	13.0
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
Short-term liabilities to banks	1.1	4.7	7.2	9.0	8.0	7.0
Accounts payable	3.7	3.8	3.6	3.8	4.7	4.7
Advance payments received on orders	0.0	0.0	0.0	0.0	0.0	0.0
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	30.1	30.1	30.1
Deferred income	0.0	0.0	0.0	0.0	0.0	0.0
CURRENT LIABILITIES	10.2	36.8	51.6	51.8	52.7	52.7
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	503.8	459.7	394.6	404.9	408.8	419.6

Balance sheet (common size)	2021	2022	2023	2024e	2025e	2026e
Intangible assets	59.2%	63.0%	71.4%	67.6%	65.0%	61.5%
Property, plant and equipment	0.1%	0.3%	0.3%	0.3%	0.3%	0.3%
Financial assets	3.3%	4.9%	4.6%	4.5%	4.4%	4.3%
FIXED ASSETS	62.6%	68.1%	76.3%	72.4%	69.8%	66.1%
Inventories	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Accounts receivable	0.4%	0.3%	0.7%	0.9%	1.1%	1.2%
Other assets and short-term financial assets	16.5%	16.4%	7.7%	7.5%	7.5%	7.3%
Liquid assets	17.9%	13.3%	14.5%	18.5%	21.0%	24.8%
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%	27.6%	30.2%	33.9%
TOTAL ASSETS	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

SHAREHOLDERS EQUITY	75.1%	71.3%	65.7%	66.5%	67.3%	68.6%
MINORITY INTEREST	1.3%	1.3%	1.4%	2.0%	2.5%	3.1%
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%	1.0%	1.0%	1.0%
Short-term liabilities to banks	0.2%	1.0%	1.8%	2.2%	2.0%	1.7%
Accounts payable	0.7%	0.8%	0.9%	0.9%	1.1%	1.1%
Advance payments received on orders	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other liabilities (incl. from lease and rental contracts)	1.3%	7.2%	12.2%	11.9%	11.7%	11.4%
Deferred taxes	9.7%	10.1%	11.2%	7.4%	7.4%	7.2%
Deferred income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CURRENT LIABILITIES	2.0%	8.0%	13.1%	12.8%	12.9%	12.6%
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company data, NuWays

Cash flow statement (EUR m)	2021	2022	2023	2024e	2025e	2026e
Net profit/loss	11.4	16.6	13.7	37.5	35.0	45.0
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	-14.2	0.0	0.0
Cash flow from operating activities	19.4	27.3	25.3	31.7	44.1	53.4
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	-0.9	-0.8	-0.6
Increase/decrease in accounts payable	0.1	0.1	-0.2	0.2	0.9	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	-0.6
Cash flow from operating activities	26.4	28.5	25.3	31.9	44.3	53.6
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	5.8	16.0	23.1
Increase/decrease in debt position	7.0	16.9	-5.0	11.8	-5.0	-5.0
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	24.5	26.8	29.0
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	-51.2	-85.4	-12.7	-31.8	-34.0
Increase/decrease in liquid assets	4.0	-28.9	-3.8	17.6	11.0	18.1
Liquid assets at end of period	90.1	61.2	57.4	75.0	86.0	104.1

Key ratios (EUR m)	2021	2022	2023	2024e	2025e	2026e
P&L growth analysis						
Sales growth	-4.2%	26.2%	10.3%	33.6%	22.5%	14.5%
EBITDA growth	60.0%	14.1%	3.8%	26.6%	45.6%	23.7%
EBIT growth	254.3%	20.4%	2.9%	37.0%	58.7%	27.9%
EPS growth	32.0%	48.4%	-19.8%	174.1%	-6.6%	28.7%
Efficiency						
Sales per employee	530.8	649.4	694.9	901.3	1,085.1	1,221.9
EBITDA per employee	176.6	195.4	196.7	241.8	346.1	420.8
No. employees (average)	157	162	167	172	175	178
Balance sheet analysis						
Avg. working capital / sales	5.8%	-2.0%	-1.0%	-0.9%	-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	7.9
Cash flow analysis						
Free cash flow	26.0	27.1	24.9	30.3	42.8	52.1
Free cash flow/sales	31.2%	25.7%	21.4%	19.6%	22.5%	24.0%
FCF / net profit	227.9%	163.4%	182.1%	81.0%	122.2%	115.7%
Capex / sales	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Solvency						
Net debt	-38.5	-28.5	-29.7	-35.5	-51.5	-74.6
Net Debt/EBITDA	-1.4	-0.9	-0.9	-0.9	-0.9	-1.0
Dividend payout ratio	435.7%	503.3%	191.8%	76.3%	88.5%	74.1%
Interest paid / avg. debt	3.8%	2.3%	4.5%	4.9%	5.4%	4.7%
Returns						
ROCE	5.0%	6.0%	7.2%	11.0%	17.5%	22.9%
ROE	2.9%	4.9%	4.9%	13.0%	11.9%	14.6%
Adjusted FCF yield	1.8%	3.7%	3.9%	6.5%	6.3%	8.0%
Dividend yield	6.0%	10.3%	3.1%	3.4%	3.7%	4.0%
DPS	2.1	3.6	1.1	1.2	1.3	1.4
EPS reported	0.48	0.72	0.57	1.57	1.47	1.89
Average number of shares	22.4	22.3	22.3	22.3	22.3	22.3
Valuation ratios						
P/BV	2.1	2.4	3.0	2.9	2.8	2.7
EV/sales	10.5	6.7	6.5	4.8	3.8	3.2
EV/EBITDA	31.6	22.4	22.9	17.9	12.1	9.4
EV/EBIT	46.0	30.9	31.9	23.1	14.2	10.8

Source: Company data, NuWays

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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	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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8. Miscellaneous

According to Article 4(1) No. i of the delegated regulation 2016/958 supplementing regulation 596/2014 of the European Parliament, further information regarding investment recommendations of the last 12 months are published under: www.nuways-ag.com

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