

Enlabs

Sector: Betting/Entertainment

Growing into new markets

Q3 was Enlabs' fifth consecutive quarter of growth, reinforcing our expectation of a strong H2. The company's sales and earnings reached new all-time highs, with sales Y/Y growth of 32% (7% Q/Q). We look to product improvements, better channelization and the Lithuanian market to drive further expansion over the next 12 months, while expansion into Belarus and – potentially – Ukraine can become very significant long-term growth drivers. Note that the population of these markets outnumbers the Baltics' by close to nine times.

Beyond the Baltics

Enlabs is growing rapidly, mainly due to licensed operators' strong underlying performance in the Baltics. We expect this to continue as both online penetration and channelization improve. However, its main long-term driver is new markets. Lithuania, which the group entered in October 2018, will be an important driver next year, we believe. Enlabs has also signed a letter of intent for the acquisition of an operator in Belarus, which population is almost twice the size of the Baltics. Furthermore, Ukrainian authorities have indicated that their very large market – which Enlabs regards as attractive – will become regulated next year.

High barriers to entry

The Baltic markets are characterised by high barriers to entry with forceful marketing restrictions, capital structure requirements and land-based operations. Because of this, we see large international online operators as unlikely to enter these relatively small markets. Furthermore, the Belarussian market also requires land-based operations, and Ukraine will probably only allow a limited number of licenses.

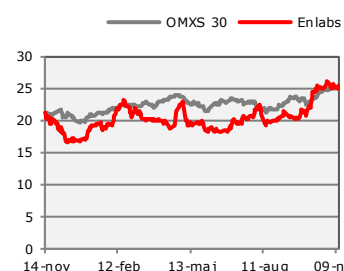
Premium player

Enlabs's strong market position and rapid profitable growth merit a premium valuation compared to peers. Despite this year's strong performance, we view the stock as attractive at current levels with potential upside of around 30% to our base case valuation of SEK 32.

KEY FINANCIALS (EUR)	2017	2018	2019E	2020E	2021E	2022E
Net sales	24	31	40	52	66	81
EBITDA	7	9	12	17	24	27
EBIT	5	7	10	14	21	24
EPS (adj.)	0.1	0.1	0.2	0.2	0.3	0.3
EV/Sales	6.1	4.2	3.3	2.3	1.5	1.0
EV/EBITDA	21.4	14.2	10.9	7.0	4.1	3.1
EV/EBIT	27.4	18.5	13.2	8.1	4.7	3.3
P/E	33.2	20.6	15.0	10.5	7.2	6.7

FAIR VALUE RANGE

BEAR	BASE	BULL
16	32	51



REDEYE RATING



KEY STATS

Ticker	NLAB
Market	First North
Share Price (SEK)	25.1
Market Cap (MSEK)	1 580
Net Cash 19E (MSEK)	200
Free Float	60 %
Avg. daily volume ('000)	100

ANALYSTS

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Strong underlying momentum and more to come

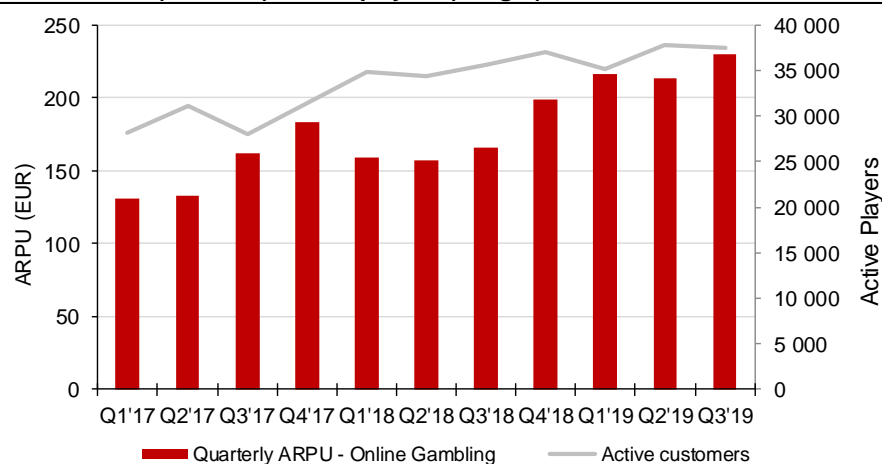
Enlabs: Expected vs. Actual

(EURm)	Q3'18	Q3'19	Q3'19E	Diff
Net sales	7.6	10.0	10.3	-3%
Gross profit	5.6	7.4	7.5	-2%
EBITDA	2.4	3.1	3.4	-7%
EBIT	1.9	2.6	2.8	-9%
EPS (EUR)	0.029	0.041	0.044	-8%
<i>Sales growth Y/Y</i>	17%	32%	36%	
<i>Sales growth Q/Q</i>	9%	7%	9%	
<i>Gross margin</i>	74%	73%	73%	
<i>EBITDA margin</i>	32%	31%	33%	
<i>EBIT margin</i>	24%	26%	28%	

Source: Enlabs, Redeye Research

Enlabs third quarter in 2019, was another ATH quarter in both sales and earnings. The growth reached 32% Y/Y and 7% Q/Q. Nevertheless, we had higher expectations as the sales came in -3% below our estimates, and the marketing expenses came in above our estimates. As a result, the EPS was -8% below our estimates and amounted to EUR 0.041 (estimated 0.044). We view the sales deviations as a normal quarterly variation. The marketing expense, on the other hand, might signal a long-term trend slightly above our estimates. However, we believe that higher marketing spend should improve the growth rate going forward.

Enlabs: ARPU (EUR, left), Active players (k, right)



Source: Enlabs, Redeye Research

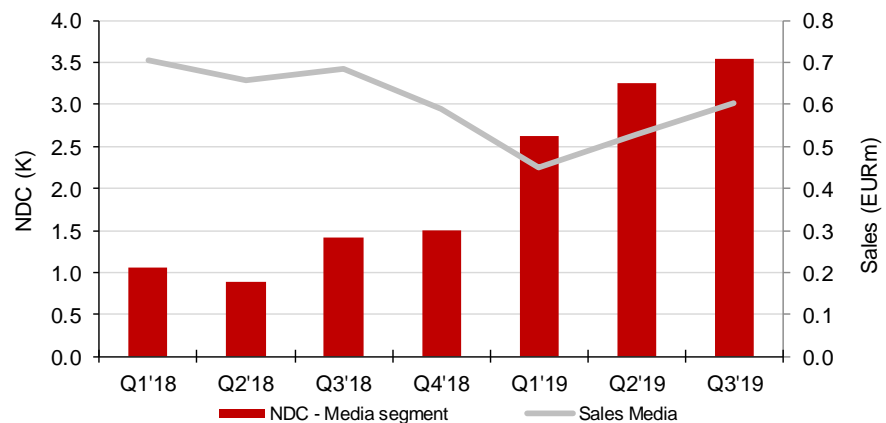
The ARPU continued to increase for the online gambling segment and reached a new ATH of EUR 230. This is in level with several of Enlabs's west European peers and can be considered high in relation to GDP per capita for the Baltic market. However, as there are few licensed operators in the Baltic markets, we believe the players play on fewer online gambling sites, which results in higher ARPU. The number of Active players has not grown as fast as the ARPU. These player KPIs has, however, been affected by the closing of Enlabs's UK operations, which included many low-value players. Implying that the number of active players has actually grown faster, Y/Y, than illustrated in the graph.

Enlabs: Expected vs. Actual - Gambling

(EURm)	Q3'18	Q3'19	Q3'19E	Diff
Sales gambling	6.6	9.2	9.4	-2%
EBITDA gambling	1.9	3.0	3.2	-7%
EBITDA margin gambling	29%	32%	34%	

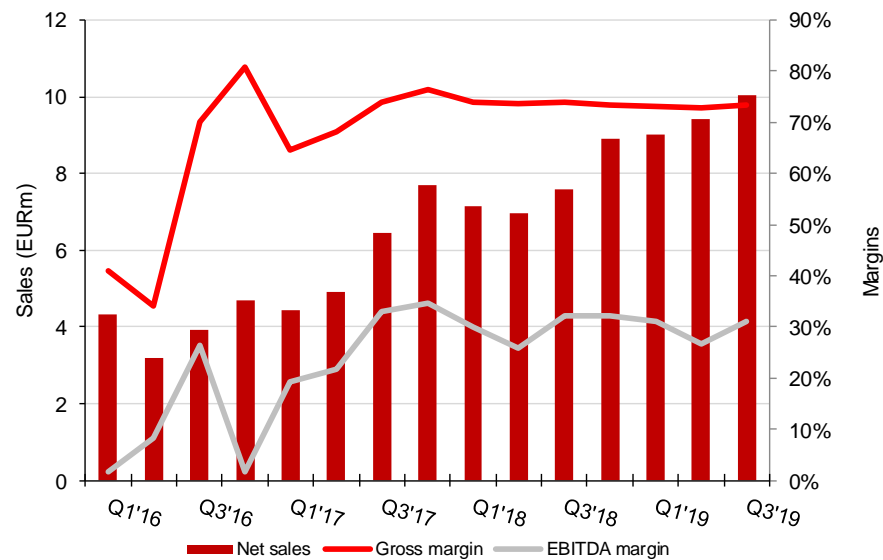
Source: Enlabs, Redeye Research

The financial numbers for the online gambling segment continue to be strong, with a Y/Y growth of 46%. The EBITDA margin was maintained above 30%. The performance was, however, still below our expectations due to lower sports betting activities and increased marketing spend. This does, however, not impact our view of Enlabs's long-term potential.

Enlabs: NDC Media segment (k, left), Sales (EURm, right)

Source: Enlabs, Redeye Research

The Media segment continues its comeback, and the NDC numbers grow for the fifth consecutive quarter. The earnings turned positive but had a limited effect on the group as a whole. The company stated that it continues to add languages to the BestCasino brand, which should fuel growth going forward.

Enlabs: Quarterly Sales and Margins

Source: Enlabs, Redeye Research

On group level, Enlabs long-term trend is positive. With increasing sales together with improved or maintained underlying margins. The company's strong financial position is further improved by the strong underlying cash flows. The Cash and cash equivalents amounted to EUR 16.6m (of which EUR 0.9m was player funds) at the end of the third quarter.

Events during and after the quarter

- Signed letter of intent regarding acquisition of Belarus operator. This can be the path into the Belarusian market and a population of 9.5 million, which is almost twice the size of the Baltics. A potential major growth driver for many years.
- Granted second license in Latvia. The group wants to launch a second brand on the Latvian market. The existing Optibet brand focus on sport and male players. We expect that the new brand will focus on casino and females. We believe this is another proof of Enlabs agile operations and decision making. But it also raises the question of whether the company is seeing a more mature and slow-growing Latvian market.
- New technical platform certified by Malta Gaming Authority. This opens up more markets and B2B platform possibilities.
- Signed main sponsorship agreement with Lithuania Football Federation. Another important strategic partnership that should increase traffic for Optibet on the Litanian market.

Q3 in summary

Another ATH quarter for Enlabs, although slightly below our estimates and with flat sequential growth of active players. The outlook is, however, very strong, with underlying rapid growth in existing markets and a rapid expansion in Lithuanian as well as a potential deal in Belarus. Looking beyond the Baltics and Belarus, the Ukraine mark might be regulated already during 2020, which is a potentially interesting market for Enlabs.

Forecast

Enlabs's sales performance, for the next 12 months, depends heavily on the underlying growth of the online gambling sector in the Baltics, as well as a successful launch in Lithuania. These markets have relative strong entry barriers as well as strong growth potential. We expect the growth to be driven by increased online penetration and improved channelization from currently low levels, as visualized in the table below.

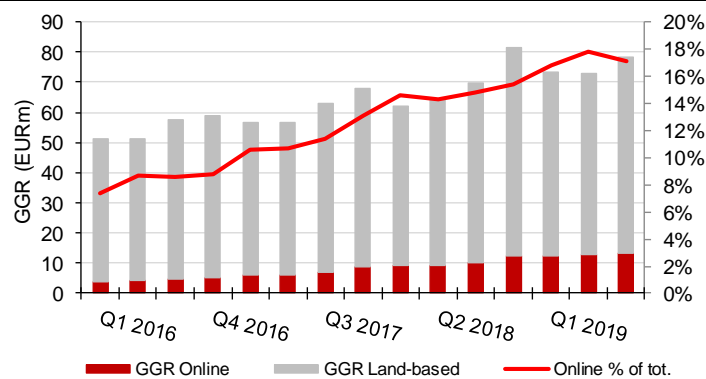
Market characteristics	Estonia	Latvia	Lithuania
Market regulated since	2009	2006	2015
Licensed operator count	15	9	6
Share capital requirement (EURm)	1.0	1.4	1.2
License fee (EUR)	80 000	200 000	479
Required offline presence	No	No	20 betting shops
Advertisement	Restricted	Prohibited	Restricted
Gaming tax (GGR)	5%	10%	10%
Channelization	75%	62%	68%
Online penetration	25%	18%	28%

Source: Enlabs, H2GC, Redeye Research

On the first of these growth factors, the underlying growth in the Baltics, we conclude that the market is growing rapidly and that Enlabs has a strong and well-established position.

On the Estonian market, Optibet.ee was the second largest brand and had a market share of about 20%. In Latvia, Optibet.lv is maintaining its strong position. We estimate that about 70% of Enlabs's sales are generated from this market, where we also estimate that its Optibet.lv brand has an approximately 50% share of the country's licensed online gambling market. The underlying Latvian online gambling market continues to grow, and the online penetration was around 17% in Q3'19. The Y/Y growth was 12% for the total licensed Latvian gambling market in Q3'19, and the online Y/Y growth was 29%. We also expect that the increased efforts from the Latvian Gambling Authority to increase canalization will fuel further growth.

Enlabs: Licensed online gambling market size in Latvia



Source: Latvian Gambling Authority, Redeye Research

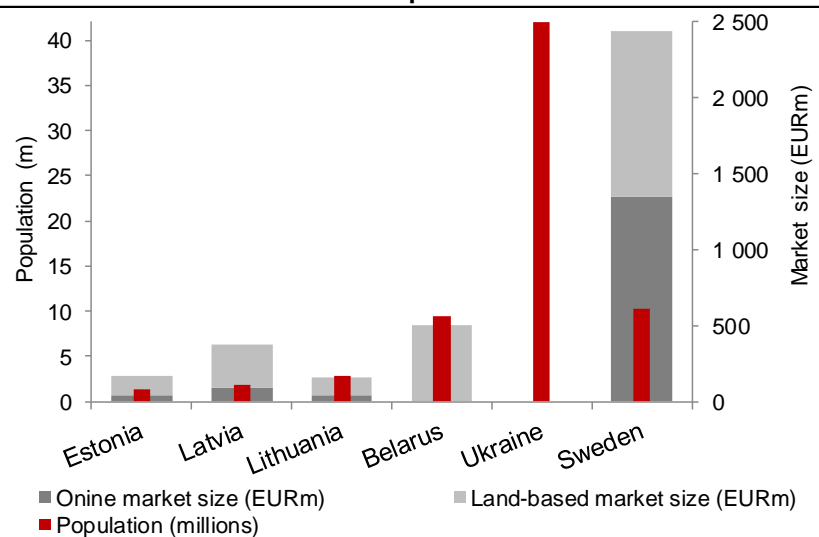
Enlabs also announced that it will launch a second brand on the Latvian market that will complement the Optibet brand. This can boost growth in the Latvian market. However, it might also indicate that Optibet has become a mature brand with limited growth potential in the Latvian market. Nevertheless, given the low online penetration (The Nordic online penetration is 3x higher), we expect the overall Latvian market to continue to grow rapidly for many years to come.

On the second growth factor, we have already seen a rapid increase in Optibet traffic (Optibet.lt) in Lithuania. It does, however, take some time before traffic is converted into new players that generate significant NGR. In the longer term, Lithuania will be an important growth driver for Enlabs as it will increase Enlabs' targetable market by about 35-50%, according to H2GC. Lithuania is also a fast-growing market, driven by both the shift of the grey market to licensed and the shift of land-based to online.

Enlabs with Optibet is currently the fifth-largest online operator on the Lithuanian market and is aiming for the first place. The company is heading in the right direction with a very strong sequential growth of 50% in the third quarter. The company has made several product improvements, such as adding betting and exclusive content, during the last quarter to improve Optibet's position. We believe these improvements, together with increasing brand awareness, will make Lithuania a major growth driver for Enlabs in the coming years.

Enlabs also announced, in August, that it had signed a letter of intent regarding the acquisition of a gambling operator in Belarus. The Belarusian gambling market is regulated, and Enlabs believe that it will be able to obtain an online license if finalizing the Belarusian deal. Enlabs estimates that the size of the gambling market is around EUR 500m, which is roughly the same size as the combined gambling markets of Estonia and Latvia. The population, on the other hand, is 9.5 million, which is almost twice as large as the whole Baltic region's population, as illustrated in the graph below.

Market size of relevant markets: Population & GGR



Source: H2GC, Redeye Research

Beyond the Baltics and the Belarus market, the Ukraine market is opening up, possibly as early as 2020. Enlabs has indicated that the Ukraine market is very interesting for the group. The latest information about the license setup points towards a limited number of licenses, which makes it more difficult to obtain a license. However, it also limits the competition, which increases the market share potential for the license holders. The size of the Ukraine gambling market is quite unclear. However, we know that Ukraine has a population of 42 million, which is seven times as large as the whole Baltic population, as illustrated in the graph above.

It is yet much too early to determine the likelihood that Enlabs would obtain a license even if they would apply for it. Therefore, we will not add any sales from the Ukraine market to our estimates. We will, however, add an obtain Ukrainian license as a catalyst for the case.

Sweden and Finland are two additional markets of interest for Enlabs. These markets are characterized by fierce competitors and high online penetrations. The growth possibilities for these markets are, however, still decent. The annual growth rates are estimated to around 5% for the next few years. Despite this, we do not expect Enlabs to make a large push in any of these two markets unless the company is able to acquire an already strong brand.

Enlabs: Financial forecasts												
(EURm)	2018	Q1'19	Q2'19	Q3'19	Q4'19E	2019E	Q1'20E	Q2'20E	Q3'20E	Q4'20E	2020E	2021E
Net sales	30.6	9.0	9.4	10.0	11.3	39.7	11.5	12.2	13.2	14.8	51.6	66.0
EBITDA	9.3	2.8	2.5	3.1	3.5	11.9	3.6	3.8	4.3	5.2	16.9	23.9
EBIT	7.1	2.3	2.0	2.6	3.0	9.9	3.0	3.2	3.7	4.6	14.5	21.1
EPS (EUR)	0.11	0.04	0.03	0.04	0.05	0.16	0.05	0.05	0.06	0.07	0.23	0.33
Growth Y/Y (%)	30%	26%	35%	32%	27%	30%	27%	29%	31%	31%	30%	28%
Growth Q/Q (%)		1%	4%	7%	13%		1%	6%	8%	12%		
Gross margin (%)	74%	73%	73%	73%	73%	73%	73%	73%	74%	74%	74%	74%
EBITDA (%)	30%	31%	27%	31%	31%	30%	31%	31%	33%	35%	33%	36%
EBIT (%)	23%	26%	21%	26%	26%	25%	26%	26%	28%	31%	28%	32%

Source: Redeye Research

Growth drivers

- Underlying market:** The underlying Baltic online gambling market will most likely generate an annual growth of at least 10% over the next few years. The Latvian licensed online gambling market grew 29% Y/Y in the third quarter. Increased efforts from the Latvian gambling authority to improve the canalization should fuel the growth further. Given that around 70% of Enlabs sales are generated from the Latvian market, these efforts should have a large positive impact on Enlabs in the coming years. The land-based market is, on the other hand, growing slower. However, land-based betting only generated 6% of Enlabs total sales in Q3'19.
- Lithuania:** Entering the Lithuanian market should over time (2-4 years) add an additional 35-50% to sales, assuming that Enlabs achieves a similar market penetration as in the rest of the Baltics.
- Product improvements:** Adding on new types of games and products will be important - mainly for retention and ARPU, but also for acquiring new customers. The group has launched several important product improvements during 2019, and we believe these will have a positive impact on the growth in H2'19, as well as into 2020.
- New markets and acquisitions:** The impact of new markets and acquisitions is uncertain, but with the proprietary platform, this will be in focus. Enlabs also has a strong financial position and permission to issue up to 20m new shares. This will enable it to act when acquisition opportunities emerge. The possible deal in Belarus is proof of this, and we believe it is likely that the company will make additional acquisitions during 2020. Other potential markets are, as already mentioned, Finland, Sweden, and Ukraine. There are also several other emerging markets in East Europe and Africa that could be of interest in the long-run. Nevertheless, we acknowledge that neither entering new markets nor acquisitions are risk-free.
- Media & Solution business areas:** These segments have long-term potential, and we find the turnaround, with strong NDC intake, in the Media segment extra exciting. The conversion of the operator brands, BestCasino and BestBet, will increase the long-term growth potential further. Moreover, the Solution segments focus on emerging markets also adds additional long-term potential. We do, however, not expect any major impact on the groups' growth from these segments in the short-term.

As a result of these different growth potentials, we believe the online gambling segment will be the main growth driver. Although, both the Media and Solutions segments will improve but is expected to remain a small part of the total operations, as illustrated in the table below.

Enlabs: Financial forecasts - Gambling vs. Media vs. Solutions												
(EURm)	2018	Q1'19	Q2'19	Q3'19	Q4'19E	2019E	Q1'20E	Q2'20E	Q3'20E	Q4'20E	2020E	2021E
Sales Gambling	26.7	8.3	8.6	9.2	10.4	36.4	10.5	11.1	12.0	13.5	47.1	60.0
EBITDA Gambling	7.3	2.7	2.4	3.0	3.3	11.4	3.3	3.4	4.0	4.7	15.4	21.3
EBITDA margin Gambling	27%	33%	28%	32%	32%	31%	32%	31%	33%	35%	33%	36%
Sales Media	2.6	0.5	0.5	0.6	0.7	2.3	0.7	0.8	0.9	1.0	3.4	4.7
EBITDA Media	1.5	-0.1	0.0	0.0	0.1	0.1	0.1	0.2	0.3	0.3	0.9	2.0
EBITDA margin Media	56%	-17%	1%	6%	18%	4%	20%	24%	30%	35%	28%	42%
Sales Solutions	1.3	0.3	0.3	0.3	0.3	1.1	0.3	0.3	0.3	0.3	1.2	1.4
EBITDA Solutions	0.5	0.1	0.1	0.1	0.1	0.5	0.1	0.1	0.1	0.1	0.5	0.6
EBITDA margin Solutions	40%	47%	39%	41%	41%	42%	42%	42%	42%	43%	42%	43%

Source: Redeye Research

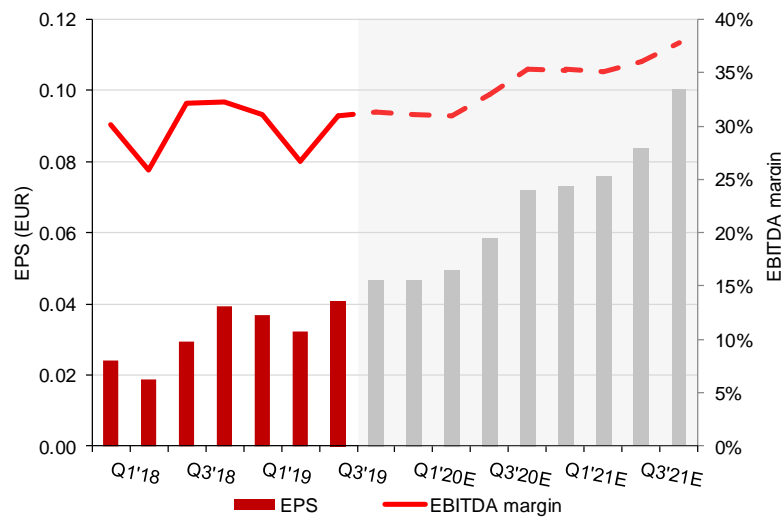
Cost allocation

- **Direct operating expenses:** We expect fees for game and payment suppliers to fall versus sales as the business grows. However, gaming taxes will probably increase on a relative basis as Enlabs enters new regulated markets. This is mainly because the gaming tax in Enlabs's existing market is low compared to regulated markets in general.
- **Staff costs:** Enlabs has indicated that the company does not need to increase the staff at this point. However, Enlabs is always looking for talented and skilled personnel. So, we expect that the staff cost will increase slightly, going forward, especially as the company enters new markets. Nevertheless, due to the scalability, we expect this to decline relative to sales as the business grows.
- **Capitalized development costs:** We expect this to fall relatively as sales grow. Furthermore, the maturity of the platform will lead to more maintenance work relative to development work.
- **Marketing costs:** We expect these to increase relative to sales as Enlabs's enters new markets and competition increase in existing markets. Peers in Western Europe often spend over 30% of sales on marketing.
- **Other income and expenses:** Over time, these should fall versus sales on existing markets, though they may increase in new markets.
- **Depreciation and amortization:** This year, Enlabs started to report according to IFRS standards. Going forward, we believe the level will stabilize around the current level. However, impairment tests of goodwill could have a large effect. Although, in general, this will require no or negligible depreciation unless the test shows underperformance.

Profit margins

Business scalability will be the key driver behind improved underlying profit margins, we judge. However, we also expect that increased competition and expansions to new markets will require marketing efforts as well as increased gaming tax. In the long run, we expect EBITDA margins to fall close to the industry standard, as the marketing expenses and gaming tax increases. Although, for 2019-21, we expect to see a strong increase in EPS and EBITDA margin towards the end of the years, as the business scale up under strong growth.

Enlabs: Quarterly EPS and EBITDA margin



Source: Enlabs, Redeye Research

Estimate revision

The effects of our estimate adjustments are illustrated in the table below. As the sales and the numbers of actives were slightly lower than our projections, we have lowered the short-term sales. We have also increased the marketing spend in the short-term due to the increased marketing spend and the increased focus on expansion. However, we have projected with faster growth for Lithuania and other new markets in 2021 and beyond.

Enlabs									
Estimate revisions (EURm)	2019E			2020E			2021E		
	New	Old	% chg	New	Old	% chg	New	Old	% chg
Net sales	40	41	-2%	52	54	-4%	66	67	-1%
EBITDA	11.9	12.8	-6%	16.9	18.3	-7%	23.9	24.0	0%
EBITDA margin	30%	31%		33%	34%		36%	36%	
EPS (EUR)	0.16	0.17	-7%	0.23	0.25	-9%	0.33	0.34	-1%

Source: Redeye Research

Investment thesis

- A big Baltic growth bet
- Strong market position
- Regulated markets
- Own platform and strong financial position

A big Baltic growth bet

With Enlabs's focus on the Baltics, it is essential that the underlying online gambling market continues to grow at a high rate. H2GC forecasts a CAGR of about 10% for the period 2018-23. This is much lower than the actual growth rate in Estonia and Latvia in 2018, which is not sustainable over the long term but shows the growth potential of the Baltic market. As noted, Enlabs is also expanding its market in the Baltics by entering Lithuania.

Strong market position

We believe Enlabs has a very strong position with the current setup in both Latvia and Lithuania. In the Latvian market, there are clear marketing limitations that make it difficult to spend much and at the same time, achieve healthy ROI. License holders also need to hold at least EUR 1.4m in share capital and pay a license fee of EUR 0.4m. In the Lithuanian market, companies are required to operate at least 20 licensed betting shops to obtain an online gambling license. This makes it difficult for new competitors to enter the market. We believe Enlabs has deep knowledge about the market from its long presence and has well-established brands with strong brand awareness.

Regulated markets

Over 90% of Enlabs's sales come from regulated markets. As it will not be affected by the regulation in Sweden and increased tax expenses, it should be valued at a higher EV/EBIT multiple than its peers. For sure, a regulated online gambling market always has the risk of re-regulation. But we believe that the downside of any re-regulation will most likely not be on the same "magnitude" as an initial online regulation.

Own platform and strong financial position

Having its own platform and a strong financial position is clearly the perfect basis for future growth. The proprietary platform gives Enlabs a very strong incentive to grow, while the strong financial position gives it the means. With its own platform, the growth can be realized both organically and through acquisitions. Without this, brand acquisitions would not be a good option.

Its own platform also gives Enlabs control over its destiny and the scope to obtain licenses in any market that fits the company's strategy. This could be done either by acquiring a company with a license or by applying for a license. Enlabs can also invest in improving its platform by adding new games, verticals and features.

Counter-Thesis – Bear Points

All-in on the Baltics

The Baltics is a rapidly growing market, but this could change fast. Changes in regulation, such as a more permissive stance in Latvia on marketing of gambling or a removal of the requirement for land-based operations in Lithuania, might also weaken the strong market barriers. This could lead to more competition for customers and lower profitability. Other local/regional events may also occur that affects the Baltic online gambling market negatively.

Neglected market

Enlabs have a strong current position in the Baltics and competition is undemanding. However, if more operators enter the market by acquiring existing operators to launch a main brand, as MRG has done, competition will increase and the profit levels will decline.

New markets and M&A

We expect Enlabs to invest significantly in new markets and M&A over the next few years as it continues to drive growth at a high rate. However, it will be important that it chooses markets and acquisitions wisely. What works in one market may not work in another due to cultural or/and regulatory differences. Market entries and acquisitions could also require significantly more resources than initially estimated.

Enlabs's main strength is the strong market position and knowledge in the Baltic, with high entry barriers and profit margins. The operations Enlabs sets up in new markets will not produce the same profitability, whether the entry barriers are low or high. Low entry barriers mean high competition, while high entry barriers require major initial investments.

Other than this, it is important to acknowledge that full synergies from an acquisition of an online gambling brand, require it to be migrated to the existing platform. But migrations are very risky as they quite often lead to loss of customers for the migrated brand.

Valuation

We derive our fair value from a fundamental DCF analysis with three scenarios - base case (most likely), bear case (pessimistic) and bull case (optimistic). A central part of the analysis is the weighted average cost of capital (WACC). Redeye uses its own rating model, Redeye Rating, to estimate a WACC that reflects the company's qualities and risks. Based on Redeye Rating, we estimate a WACC of 10.0%, which is used in all three scenarios. Our DCF analysis indicates a value range of SEK 16-51 with a base case of SEK 32 per share.

DCF-valuation – Base Case

Summary:

- Sales CAGR of about 17% between 2018-2028
- An average EBIT margin of approximately 23% during the same period
- Terminal growth of 2% and terminal EBIT margin of 14%
- Rapid growth in existing markets for several more years. Fuelled by improved canalization and product improvements. Furthermore, Lithuania together with other new markets and the Media segment will increase the group's growth further. The scalability of Enlabs business will improve the profit margins as the business grows. With its strong financial position, Enlabs is well-positioned for acquisition and take advantage of the consolidation within the gambling industry.

Q3 was yet another ATH quarter with several positive signs. Enlabs has launched several product improvements during 2019, which we believe will help drive growth in the coming quarters. Moreover, the Latvian Gambling Authority has increased its efforts to improve the canalization from today's level of around 65%. These efforts can fuel the underlying growth for the next few years. The product offering in Lithuania has reached a competitive level, and together with the current market presence, we expect this market to become a major growth driver. Furthermore, we expect new markets to be the long-term growth contributor, and we see interesting growth potential in the smaller segments, Media and Solutions.

The expansion into new markets will lead to increased expenses relative to sales, mainly for marketing and gaming tax. This is because we expect a more intense competition and higher gaming taxes in the new markets that Enlabs will enter than in the Baltics. Nevertheless, we expect it to maintain a strong position in the Baltics for several years due to the high barriers and a scalable platform. As a result, Enlabs will maintain strong margins on its core market. Moreover, we have not included any significant acquisitions in the base case.

Our Base case yields a fair value of SEK 32 (31) per share.

Enlabs					
Assumptions:	2018-28	2018-21	2021-28	DCF-value	
CAGR Sales	17.0%	29.2%	12.1%	WACC	10.0%
EBIT-margin (avg.)	23.2%	28.3%	21.0%	PV of FCF	102
ROE (avg.)	20%	30%	15%	PV of Terminal Value	75
Terminal				EV	177
Growth of FCF	2%			Net cash	11
EBIT-margin	14.0%				
EV/S Exit multiple	1.2x				
EV/EBIT Exit multipl	8.7x				
				DCF-value (EUR)	188
				Fair value per share (SEK)	32
				Today's price	25.1
				Potential/Risk	29%

Source: Redeye Research

Relative Valuation

Peer valuation											
Company	EV (MSEK)	EV/Sales			EV/Net Profit			SALES CAGR	EBIT margin		
		2018	2019E	2020E	2018	2019E	2020E	18-20E	2018	2019E	2020E
Operators											
Star Group	107 120	6.1x	4.4x	4.0x	-120.2x	22.4x	19.9x	23%	-5%	20%	20%
Flutter Entertainment	86 809	4.0x	3.3x	3.0x	37.2x	28.8x	26.3x	16%	11%	11%	11%
GVC	85 640	2.5x	1.9x	1.9x	-118.2x	18.7x	15.5x	16%	-2%	10%	12%
William Hill	26 482	1.4x	1.3x	1.3x	-3.2x	25.7x	19.7x	4%	-44%	5%	7%
Kindred	16 466	1.6x	1.4x	1.3x	10.8x	17.8x	12.2x	11%	14%	8%	10%
Rank	10 716	1.4x	1.1x	1.1x	26.7x	11.1x	9.6x	14%	5%	10%	11%
Betsson	7 475	1.4x	1.4x	1.3x	6.9x	9.3x	8.9x	1%	20%	15%	15%
888	6 316	1.3x	1.2x	1.1x	7.7x	13.4x	11.8x	11%	18%	9%	9%
Leovegas	3 741	1.2x	1.0x	0.9x	8.5x	12.5x	9.7x	17%	14%	8%	9%
Global Gaming	75	0.1x	0.2x	0.2x	0.6x	-0.9x	-14.9x	-35%	14%	-19%	-1%
Median	13 591	1.4x	1.4x	1.3x	7.3x	15.6x	12.0x	12%	12%	9%	11%
Enlabs	1 406	4.3x	3.3x	2.5x	18.7x	13.3x	9.2x	30%	23%	25%	28%
At Base case	1 841	5.6x	4.3x	3.3x	24.5x	17.5x	12.1x				

Source: Bloomberg & Redeye Research

Enlabs is currently valued at a discount, both on the Net Profit for the estimates of 2019 as well as 2020, despite rapid growth far above peers. Furthermore, over 90% of Enlabs's sales are generated from regulated markets, which we argue justifies a higher multiple, as Enlabs are paying gambling tax and working under stable regulations. Enlabs core markets also have higher barriers of entry compared to most the core markets for the peers.

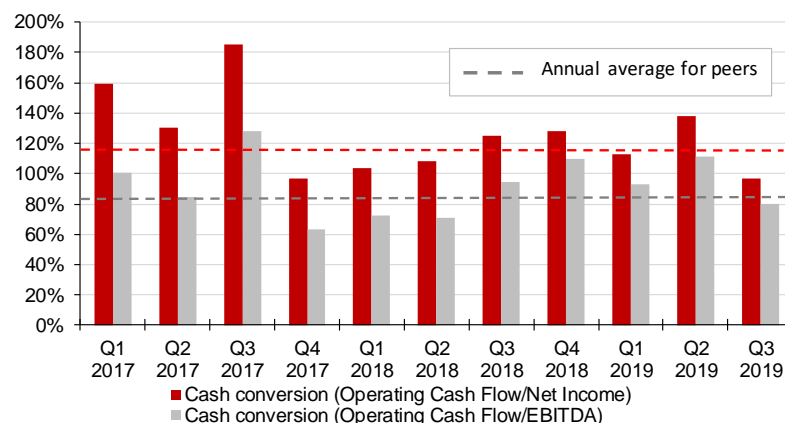
Cash conversion ratio

Enlabs has a strong cash conversion ratio due to several reasons.

- Few large acquisitions that have expanded the balance sheet and required substantial depreciations
- Low amount of capitalized development costs that require depreciations
- Low investment rate compared to existing depreciation and amortizations
- Strong financials and no interest rate payments
- Beneficial income tax structure in Latvia and Estonia

As a result, Enlabs has been able to maintain a high cash conversion rate both in relation to EBITDA as well as Net profit, compared to peers, as illustrated in the graph below. The conversion for the third quarter was slightly lower due to an unusually large negative change in the working capital. Adjusted for this, the conversion was still well above peers.

Enlabs: Quarterly Cash conversion ratios



Source: Enlabs, Bloomberg, Redeye Research

William Hill's bid on MRG

In October 2018, the British gambling operator William Hill made a bid for MRG at a 48% premium, which confirmed our view of the gambling industry's undervaluation. We expect several more bids like this over the next 12 months as long as valuation multiples do not exceed the levels of early 2018. The reasons for this are the following:

- **Synergies:** Operators like William Hill can realize significant synergies from lowering game and payment supplier fees. William Hill can also create synergies in personnel. In the long run, the two companies can share the same technology platform, lowering development costs significantly. There could also be some synergies connected to sales as well. William Hill forecasts synergies of GBP 6m from the MRG acquisition, with full delivery by the third year after completion.
- **Diversity:** Due to the negative gaming tax changes in the UK during 2018 British operators are looking at ways of lowering their exposure to the local market. This is most quickly achieved by acquisitions. William Hills' international sales will increase from 14% to 21% from MRG.
- **Low valuation:** During 2018 the valuation multiples on Nordic gambling companies have fallen significantly, largely due to uncertainties over the new Swedish regulation. This has created a perfect opportunity for larger operators to acquire quality companies at a low price.

In our view, Enlabs should be seen as a potential acquisition target. A merger with Enlabs will offer synergies, diversity, and a strong position in the Baltics. Moreover, the Latvian Gambling Authority's efforts to improve the channelization will prevent some larger international operators from operating on the Latvian market. We believe this makes Enlabs an even more attractive acquisition target.

Catalysts

We see several potential catalysts in the near future (within six months) that may close the valuation gap between current valuation and the base case.

- Peak-season together with product improvements can fuel growth and profit margins beyond the market expectation during H2 2019
- Acquisition of an operator. It is important that the acquisition is value-adding by either creating clear synergies or opening up for strong growth in new markets
- Entering or obtaining a license in a new market with good marketing size and growth potential
- A successful development of the Optibet brand in Lithuania
- Acquisition of an affiliate company with sales and profit above the existing media business area, at a low earnings multiple
- In the light of the MRG bid from William Hill, Enlabs could be a potential target for larger operators that want to obtain a strong position in the Baltics

Scenarios analysis

Bull case

Summary:

- Sales CAGR of about 22% in the 2018-28 period
- An average EBIT margin of approximately 27% during the period
- Terminal growth of 2% and terminal EBIT margin of 19%
- Exceptional growth in the Baltics online gambling market, successful geographical expansion and value-creating acquisitions. Moreover, both the Media and Solution segments develop well with strong growth and profit margins.

Our Bull case yields a fair value of SEK 51 (49) per share.

Bear case

Summary:

- Sales CAGR of about 14% in the 2018-28 period
- An average EBIT margin of approximately 16% during the period
- Terminal growth of 2% and terminal EBIT margin of 6%
- Increased competition is driven by lowered entry barriers in the Baltic market as well as increased interest from large foreign competitors. Also, slow growth for Optibet in Lithuania and underperforming acquisitions. Moreover, the gaming tax level increases in the core markets.

Our Bear case yields a fair value of SEK 16 (15) per share.

Valuations summary

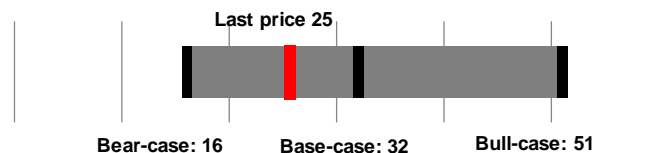
We derive our fair value from a fundamental DCF framework with three scenarios - Base case (most likely), Bear case (pessimistic), and Bull case (optimistic). A central part of the valuation is the weighted average cost of capital (WACC). Redeye uses its own rating model, Redeye Rating, to estimate a WACC that reflects the company's qualities and risks. Based on Redeye Rating, we estimate a WACC of 10.0%, which is used in all three scenarios.

As mentioned, we made some adjustments to our estimates, although the overall case remains the same. Several factors make us optimistic about Enlabs's long-term potential. The company has plenty in the pipeline and positioned to take advantage of several growth possibilities. In addition, the core Baltic market is set for strong underlying growth in the coming years.

In times with many negative effects from regulations on several of Enlabs peers, we like to highlight that 94% of Enlabs sales came from regulated markets. A motivated investor slogan would be something like "Are you an iGaming investor and tired of negative effects connected to regulations? Then you should try Enlabs... fast-growing, highly profitable and regulated".

All in all, we believe Enlabs current stock price is far below fair value and has a potential upside of around 30%. Our DCF valuation indicates a value range of SEK 16-51 with a Base case of SEK 32 per share.

Enlabs: Fair value range



Source: Redeye Research

Bear Case 16 SEK

Sales CAGR of about 14% between 2018-2028.

An average EBIT margin of approximately 16% during the same period.

Terminal growth of 2% and terminal EBIT margin of 6%.

Increased competition is driven by lowered entry barriers in the Baltic market as well as increased interest from large foreign competitors. Also, slow growth for Optibet in Lithuania and underperforming acquisitions. Moreover, the gaming tax level increases in the core markets.

Base Case 32 SEK

Sales CAGR of about 17% between 2018-2028.

An average EBIT margin of approximately 23% during the same period.

Terminal growth of 2% and terminal EBIT margin of 14%

Rapid growth in existing markets for several more years. Fuelled by improved canalization and product improvements. Furthermore, Lithuania together with other new markets and the Media segment will increase the group's growth further. The scalability of Enlabs business will improve the profit margins as the business grows. With its strong financial position, Enlabs is well-positioned for acquisition.

Bull Case 51 SEK

Sales CAGR of about 22% between 2018-2028.

An average EBIT margin of approximately 27% during the same period.

Terminal growth of 2% and a terminal EBIT margin of 19%.

Exceptional growth in the Baltics online gambling market, successful geographical expansion and value-creating acquisitions. Moreover, both the Media and Solution segments develop well with strong growth and profit margins.

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

Rating changes in the report

People: 4

We argue that the management and the board are very competent. We recognise their solid experience in the industry where several of the individuals has extensive experience, over 20 years. Furthermore, Enlabs has made key recruitments, the last year, of several skilled and experienced individuals. The group has had a strong technical focus in recent years but is now more market-oriented. We judge that the CEO, Robert Andersson, with his commercial background as well as his experience of running growth companies, will be an asset to the company and its further growth. On the negative side, the company's management team and board members have, on average, a relatively short history in the company. The company has an active major shareholder (Niklas Braathen owns over 20% of the shares via Erlinghundra AB), and the CEO owns a significant stake, which we see as positive.

Business: 4

Over 90% of sales are generated from regulated markets, which mitigates regulatory risk. Another key factor is that there are strong barriers to entry in both Latvia and Lithuanian, with marketing restrictions and required land-based operations, respectively. Moreover, Enlabs has a long presence in the Baltics. As a result, the company has built up brand awareness and become the market leader in the Baltics. We believe this will be a competitive edge if regulations change or if competitors expand to the Baltics. On the negative side, the overall online gambling industry is highly competitive, and regulations can always change to the worse. Despite extensive investments in the platform during 2017 and somewhat lower growth in 2018, the company managed to deliver impressive profitability. Looking ahead, the company is well positioned for strong organic growth as it enters new markets, and the existing markets are growing rapidly.

Financials: 4

Enlabs has no interest-bearing debt, and its cash amounted to approximately EUR 17m at the end of Q3 19, which opens for M&A opportunities. We expect that the company will continue to have strong margins and cash flows as well as maintain a high return on invested capital. Moreover, sales and EPS growth has been strong in the last couple of years, and we expect it to continue in the coming years.

INCOME STATEMENT	2017	2018	2019E	2020E	2021E
Net sales	24	31	40	52	66
Total operating costs	-17	-21	-28	-35	-42
EBITDA	7	9	12	17	24
Depreciation	-1	-2	-2	0	0
Amortization	0	0	0	-2	-3
Impairment charges	0	0	0	0	0
EBIT	5	7	10	14	21
Share in profits	0	0	0	0	0
Net financial items	0	0	0	0	0
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	5	7	10	14	21
Tax	-1	0	0	0	0
Net earnings	4	7	10	14	21

BALANCE SHEET	2017	2018	2019E	2020E	2021E
Assets					
<i>Current assets</i>					
Cash in banks	7	11	18	31	50
Receivables	0	1	2	2	3
Inventories	0	0	0	0	0
Other current assets	2	2	2	2	2
Current assets	9	14	22	35	56
<i>Fixed assets</i>					
Tangible assets	2	2	2	2	2
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	0	0	0	0	0
Cap. exp. for dev.	0	0	0	0	0
Intangible rights	18	20	24	26	28
Other non-current assets	0	0	0	0	0
Total fixed assets	20	22	26	28	30
Deferred tax assets	0	0	0	0	0
Total (assets)	29	36	48	63	85
Liabilities					
<i>Current liabilities</i>					
Short-term debt	0	0	0	0	0
Accounts payable	2	2	3	4	4
Other current liabilities	1	3	3	4	5
Current liabilities	3	5	6	7	9
Long-term debt	2	0	0	0	0
Other long-term liabilities	0	0	0	0	0
Convertible	0	0	0	0	0
Total Liabilities	5	5	6	7	9
Deferred tax liab	1	1	1	1	1
Provisions	0	0	0	0	0
Shareholders' equity	23	30	40	54	75
Minority interest (BS)	0	0	0	0	0
Minority & equity	23	30	40	54	75
Total liab & SE	29	36	48	63	85

FREE CASH FLOW	2017	2018	2019E	2020E	2021E
Net sales	24	31	40	52	66
Total operating costs	-17	-21	-28	-35	-42
Depreciations total	-1	-2	-2	-2	-3
EBIT	5	7	10	14	21
Taxes on EBIT	-1	0	0	0	0
NOPLAT	4	7	10	14	21
Depreciation	1	2	2	2	3
Gross cash flow	6	9	12	17	24
Change in WC	0	2	1	0	0
Gross CAPEX	-15	-4	-6	-4	-5
Free cash flow	-8	7	7	13	19

CAPITAL STRUCTURE	2017	2018	2019E	2020E	2021E
Equity ratio	80%	83%	84%	86%	88%
Debt/equity ratio	7%	0%	0%	0%	0%
Net debt	-5	-11	-18	-31	-50
Capital employed	18	19	22	23	25
Capital turnover rate	0.8	0.8	0.8	0.8	0.8

GROWTH	2017	2018	2019E	2020E	2021E
Sales growth	46%	30%	30%	30%	28%
EPS growth (adj)	-	38%	44%	43%	46%

DCF VALUATION	CASH FLOW, MEUR		
WACC (%)	10.0 %	NPV FCF (2018-2020)	34
		NPV FCF (2021-2027)	68
		NPV FCF (2028-)	75
		Non-operating assets	11
		Interest-bearing debt	0
		Fair value estimate MEUR	188
Assumptions 2017-2023 (%)			
Average sales growth	20.8 %	Fair value e. per share, SEK	31
EBIT margin	25.8 %	Share price, SEK	25.1

PROFITABILITY	2017	2018	2019E	2020E	2021E
ROE	23%	26%	28%	30%	32%
ROCE	25%	25%	28%	31%	33%
ROIC	63%	38%	52%	66%	90%
EBITDA margin	29%	30%	30%	33%	36%
EBIT margin	22%	23%	25%	28%	32%
Net margin	19%	22%	25%	28%	32%

DATA PER SHARE	2017	2018	2019E	2020E	2021E
EPS	0.08	0.11	0.16	0.23	0.33
EPS adj	0.08	0.11	0.16	0.23	0.33
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	-0.09	-0.18	-0.29	-0.49	-0.79
Total shares	56.61	62.61	62.74	62.90	63.20

VALUATION	2017	2018	2019E	2020E	2021E
EV	144.0	129.8	130.3	117.5	98.6
P/E	33.2	20.6	15.0	10.5	7.2
P/E diluted	33.2	20.6	15.0	10.5	7.2
P/Sales	6.3	4.6	3.7	2.9	2.3
EV/Sales	6.1	4.2	3.3	2.3	1.5
EV/EBITDA	21.4	14.2	10.9	7.0	4.1
EV/EBIT	27.4	18.5	13.2	8.1	4.7
P/BV	6.4	4.7	3.7	2.7	2.0

SHARE PERFORMANCE	GROWTH/YEAR		16/18E
1 month	3.3 %	Net sales	30.1 %
3 month	31.0 %	Operating profit adj	37.1 %
12 month	18.2 %	EPS, just	41.3 %
Since start of the year	49.0 %	Equity	30.8 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Erlinghundra AB (Niklas Braathen)	22.1 %	22.1 %
EFG BANK / GENEVA	18.0 %	18.0 %
Försäkringsbolaget Avanza Pension	9.9 %	9.9 %
Anders Tangen med bolag	4.0 %	4.0 %
Eric Leijonhufvud	3.2 %	3.2 %
Hans Isoz	2.5 %	2.5 %
Kjell och Michael Pettersson Fastigh	2.4 %	2.4 %
Skandinaviska Enskilda Banken S.A.	2.2 %	2.2 %

SHARE INFORMATION	
Reuters code	NLAB
List	First North
Share price	25.1
Total shares, million	62.8
Market Cap, MSEK	1580

MANAGEMENT & BOARD	
CEO	Robert Andersson
CFO	George Ustinov
IR	Adam Jonsson
Chairman	Niklas Braathen

FINANCIAL INFORMATION	

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Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number.

The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories: Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories: Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories: Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Disclaimer

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Redeye Rating (2019-11-14)

Rating	People	Business	Financials
5p	11	10	2
3p - 4p	80	62	28
0p - 2p	10	29	71
Company N	101	101	101

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Jonas Amnesten owns shares in the company : Yes

Kristoffer Lindström owns shares in the company : No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.