



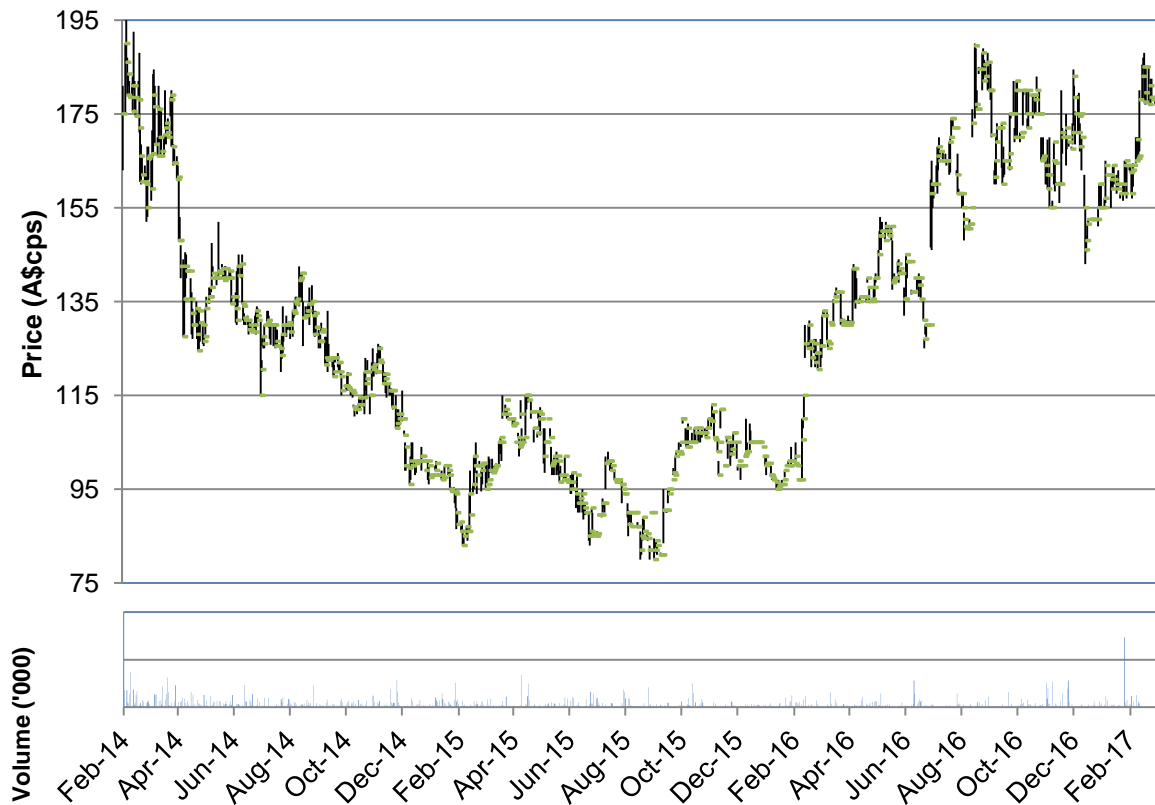
7 March 2017

Jumbo Interactive (JIN): The Next Generation in Lottery

We see the move towards digital lottery continuing to grow as a younger generation of tech-savvy customers enter the market. We believe Jumbo Interactive is well placed to take advantage of this changing competitive landscape.

IRESS consensus estimates indicate a target price of \$2.16, which is a 21% premium to the current share price of \$1.78. Coupled with IRESS consensus dividend yield forecasts of around 5%, we believe that JIN offers a total upside potential of 26%.

JIN share price history (7 Feb 2014 - Present) (A\$cps)



Source: IRESS, State One Stockbroking

Investment Data		EPS Data	FY16	FY17F	FY18F	FY19F
Share Price (\$)	1.78	EPS (c)	10.60	14.82	19.57	24.10
Ord Shares (m)	44	PER (X)	16.79	12.01	9.10	7.39
Market Cap (\$'m)	78.7	DPS (c)	7.00	8.50	9.00	9.50
EV (\$'m)	78.7	DPS Yield (%)	-	4.78	5.06	5.34
Net Debt (\$'m)	-	Substantial Shareholders (%)				
Average Daily Vol (6 mths)	37,174	Veston Pty Ltd	20.65			
52 Week High/Low (\$)	1.90 – 1.205	Forager Funds Management Pty Ltd	13.57			

Source: IRESS, State One Stockbroking



Decline in Jackpot Numbers Impacts 1H17 Results, Recovery Expected:

- Jumbo Interactive somewhat disappointed the market with its 1H17 result with overall financial performance declining. On a pcp basis, Total Transaction Value was down 12%, Revenue declined 9%, however NPAT up 30%.
- Much of this decline was attributed to the significant fall in Jackpots of \$15 million or more to 15 – a 37% decline.
 - o As Jackpots are crucial for JIN to attract players, and thus revenue, the lower number of Jackpots and total first division payout value over the period was a key detractor to JIN's earnings in the first half.
 - o Although 1H16 saw a record number of Jackpots, **the recent decline is low relative to previous years and we are expecting a recovery in the second half.**

Strong Outlook for Jumbo:

- **Fundamentally, we believe that the business has built a strong platform which will enable it to capitalise the future growth in the digital age of the industry.**
- Jumbo Interactive holds a market leading position, with its agreement with Tatts to resell its lotteries online.
 - o Over the past 5 years, total transaction values have risen each year on a like-for-like basis. Ultimately this signals the continuous uptake and growing popularity of the technology.
 - o Currently, online lotteries comprise around 13% of the market in Australia. Combined with player statistics which are heavily skewed towards younger demographics (~80% of 18-25 year old lottery players play online, this decreases to ~68% for 25-35 year olds and ~54% for 35-50 year olds) online lotteries are poised for growth.
 - o **We believe that JIN will continue to gain market share from traditional resellers (i.e. Newsagencies) and we are expecting to see Jumbo take a stronghold on the market in the future as the next generation of players come through.**
- We derive value from Jumbo Interactive in its well managed business model.
 - o During the half, unprofitable German operations were scaled back as a result of its disappointing performance in this region.
 - o In addition, the recent introduction of Charity Lottery saw sales triple since its launch in July 2015.
 - In the short term, we believe that strong sales for Charity Lottery in 1H17 will increase in Jackpot levels which will in turn drive will revenue.

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