

# Tatts Group

(TTS.AX / TTS AU)

Rating	NEUTRAL*
Price (20 Feb 14, A\$)	2.96
Target price (A\$)	(from 3.16) 3.15 <sup>1</sup>
Market cap. (A\$mn)	4,194.67
Yr avg. mthly trading (A\$mn)	242
Last month's trading (A\$mn)	199
<b>Projected return:</b>	
Capital gain (%)	6.4
Dividend yield (net %)	5.7
Total return (%)	12.2
52-week price range	3.4 - 2.9

\* Stock ratings are relative to the relevant country benchmark.  
<sup>1</sup>Target price is for 12 months.

## Research Analysts

Larry Gandler

61 3 9280 1855

larry.gandler@credit-suisse.com

Benjamin Levin

61 3 9280 1766

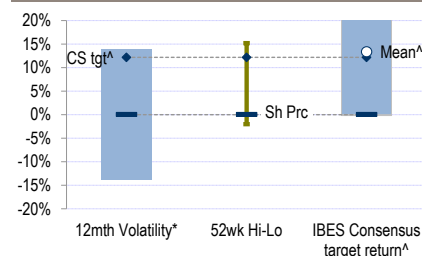
benjamin.levin@credit-suisse.com

DECREASE TARGET PRICE

## 1H14: Wagering was the drag

- **1H14 beat expectations, but we downgrade EPS slightly.** Lotteries over delivered but the softness in wagering had a greater impact on our forecasts. Revenue was soft and management is indicating that margins are unlikely to improve for a couple of years.
- **QLD wagering exclusivity expires 30 June 2014**, may result in TTS incurring higher costs. This is the reason we model for no growth in FY15.
- **Tatts acknowledges it must lift its wagering game quickly.** Corporate bookmakers are actively targeting QLD retail punters, partially the cause of the 5.6% decline in retail turnover in that state. Online/mobile sales growth has not been enough to offset retail decline. Tatts' indicated its rebranding, website re-launch and digital marketing emphasis are works in progress. There was improvement in January vs. the pcp – in part sourced from 60,000 new Tatts app users in 1H14.
- **Lotteries growth should continue into 2H.** The jackpot sequence in 2H13 is not a hurdle for 2H14 growth. There were about 18 jackpots over A\$15mn in 2H13 and the average size was about A\$27mn. Those metrics are lower than recent periods. Synergy benefits from SA Lottery should accrue. Tatts will be rolling out its proprietary lottery terminals in SA in 2H and that will save a few million dollars. Online sales, which attract no agent commission, grew to 9.2% of total lottery sales, up 130pps. We model for a 1.5pps increase each year.
- **There is an immaterial change to our DCF-based target price at A\$3.15** but rating remains NEUTRAL. Minor earnings downgrades were offset by a lower net debt assumption.

## Total return forecast in perspective



Performance over	1M	3M	12M
Absolute (%)	-2.3	-5.1	-8.9
Relative (%)	-4.1	-6.6	-17.6

Relative performance versus S&P ASX 200. See Reference Appendix for a description of the chart. Source: Credit Suisse estimates, \* Consensus, mean range from Thomson Reuters.

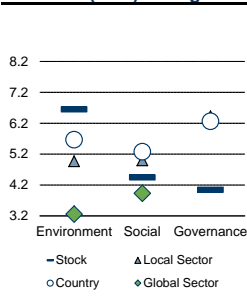
## Financial and valuation metrics

Year	06/13A	06/14E	06/15E	06/16E
Revenue (A\$mn)	2,950.4	2,955.6	3,040.7	3,105.5
EBITDA (A\$mn)	490.2	526.1	531.0	550.3
EBIT (A\$mn)	406.1	442.0	446.5	465.3
Net income (A\$mn)	227.4	241.6	244.7	262.0
EPS (CS adj.) (Ac)	16.43	17.09	17.07	18.20
Change from previous EPS (%)	n.a.	-0.5	-2.1	-1.3
Consensus EPS (Ac)	n.a.	16.90	18.00	18.90
EPS growth (%)	-31.0	4.0	-0.1	6.6
P/E (x)	18.0	17.3	17.3	16.3
Dividend (Ac)	15.50	17.00	17.00	17.00
Dividend yield (%)	5.2	5.7	5.7	5.7
P/B (x)	1.5	1.5	1.5	1.5
Net debt/equity (%)	53.1	46.9	46.4	43.1

Source: Company data, ASX, Credit Suisse estimates, \* Adj. for goodwill, notional interest and unusual items. Relative P/E against ASX/S&P200 based on pre GW in AUD. Company PE calculation is based on displayed EPS Currency

**DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS.** US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Figure 1: Financial Summary

Tatts Group (TTS)			Year ending 30 Jun			In AUDmn, unless otherwise stated					
Share Price: A\$2.96			21-Feb-2014								
Rating			NEUTRAL								
Target Price			A\$ 3.15								
vs Share price			%			6.42					
									CREDIT SUISSE		
Tatts Group is an Australia-based company. It is engaged in the operation of licensed gaming machines, conducting wagering and sports betting, conducting gaming machine monitoring and supply of jackpot and other services.											
Profit & Loss			06/12A	06/13A	06/14E	06/15E	06/16E				
Sales revenue			3,902.0	2,950.4	2,955.6	3,040.7	3,105.5				
EBITDA			651.3	490.2	526.1	531.0	550.3				
Depr. & Amort.			101.6	84.1	84.1	84.6	85.0				
EBIT			549.8	406.1	442.0	446.5	465.3				
Net interest			99.2	103.0	94.3	94.3	88.2				
Reported PBT			450.5	303.1	347.7	352.1	377.0				
Income tax			131.4	75.7	106.0	107.4	115.0				
Profit after tax			319.1	227.4	241.6	244.7	262.0				
Associates			0.0	0.0	0.0	0.0	0.0				
Minorities			0.0	0.0	0.0	0.0	0.0				
Normalised NPAT			319.1	227.4	241.6	244.7	262.0				
Analyst adjustments			0.0	0.0	0.0	0.0	0.0				
Unusual item after tax			0.0	19.9	0.0	0.0	0.0				
Reported NPAT			319.1	247.3	241.6	244.7	262.0				
Balance Sheet			06/12A	06/13A	06/14E	06/15E	06/16E				
Cash & equivalents			133.3	169.1	188.8	107.8	100.8				
Inventories			16.1	14.1	14.1	14.5	14.8				
Receivables			182.6	158.2	158.4	161.8	164.4				
Other current assets			196.3	271.9	220.4	224.5	227.5				
Current assets			528.2	613.4	581.7	508.6	507.6				
Property, plant & equip.			224.3	186.2	237.1	320.6	350.6				
Intangibles			4,098.1	4,553.3	4,493.9	4,434.5	4,375.1				
Other non-current assets			93.4	92.2	92.2	92.5	92.7				
Non-current assets			4,415.8	4,831.7	4,823.2	4,847.6	4,818.4				
Total assets			4,944.0	5,445.1	5,404.9	5,356.2	5,326.0				
Payables			578.2	633.1	584.3	601.2	614.0				
Interest bearing debt			1,331.9	1,635.7	1,535.0	1,450.0	1,365.0				
Other liabilities			370.3	415.8	414.2	414.2	414.2				
Total liabilities			2,280.4	2,684.6	2,533.5	2,465.4	2,393.2				
Net assets			2,663.6	2,760.4	2,871.4	2,890.8	2,932.8				
Ordinary equity			2,663.6	2,760.4	2,871.4	2,890.8	2,932.8				
Minority interests			0.0	0.0	0.0	0.0	0.0				
Preferred capital			0.0	0.0	0.0	0.0	0.0				
Total shareholder funds			2,663.6	2,760.4	2,871.4	2,890.8	2,932.8				
Net debt			1,198.6	1,466.6	1,346.2	1,342.2	1,264.2				
Cashflow			06/12A	06/13A	06/14E	06/15E	06/16E				
EBIT			549.8	406.1	442.0	446.5	465.3				
Net interest			-94.9	-98.6	-94.3	-94.3	-88.2				
Depr & Amort			101.6	84.1	84.1	84.6	85.0				
Tax paid			-146.4	-127.7	-106.0	-107.4	-115.0				
Working capital			-42.4	73.0	2.3	6.2	4.8				
Other			22.6	10.0	-1.5	2.5	1.9				
Operating cashflow			390.3	346.9	326.6	338.0	353.8				
Capex			-65.8	-68.9	-75.6	-78.6	-55.6				
Acquisitions & Invest			-100.4	-428.6	0.0	-30.0	0.0				
Asset sale proceeds			0.9	104.7	0.0	0.0	0.0				
Other			0.0	0.0	0.0	0.0	0.0				
Investing cashflow			-165.3	-392.8	-75.6	-108.6	-55.6				
Dividends paid			-194.6	-173.5	-218.6	-250.4	-244.5				
Equity raised			0.0	6.7	88.0	25.0	24.5				
Net borrowings			-2.3	276.1	-100.7	-85.0	-85.0				
Other			0.0	0.0	0.0	0.0	0.0				
Financing cashflow			-196.9	109.4	-231.3	-310.4	-305.1				
Total cashflow			28.1	63.5	19.6	-81.0	-6.9				
Adjustments			-0.2	2.1	0.0	0.0	0.0				
Net Change in Cash			28.0	65.5	19.6	-81.0	-6.9				
Earnings			06/12A	06/13A	06/14E	06/15E	06/16E				
Equiv. FPO (period avg.)			mn	1,340.2	1,384.0	1,414.1	1,433.5	1,439.5			
EPS (Normalised)			c	23.8	16.4	17.1	17.1	18.2			
EPS Growth			%		-31.0	4.0	-0.1	6.6			
Consensus EPS			c	24.8	18.7	16.9	18.0	18.9			
Consensus EBITDA			mn	669.1	589.5	534.7	557.1	575.1			
DPS			c	23.0	15.5	17.0	17.0	17.0			
Dividend Payout			%	96.6	94.3	99.5	99.6	93.4			
Free CFPS			c	24.2	20.1	17.7	18.1	20.7			
Valuation											
P/E			x	12.4	18.0	17.3	17.3	16.3			
EV/EBIT			x	9.8	13.9	12.5	12.4	11.7			
EV/EBITDA			x	8.3	11.5	10.5	10.4	9.9			
Dividend Yield			%	7.8	5.2	5.7	5.7	5.7			
FCF Yield			%	8.2	6.8	6.0	6.1	7.0			
Price to Book			x	1.5	1.5	1.5	1.5	1.5			
Returns											
Return on Equity			%	12.0	8.2	8.4	8.5	8.9			
Profit Margin			%	8.2	7.7	8.2	8.0	8.4			
Asset Turnover			x	0.8	0.5	0.5	0.6	0.6			
Equity Multiplier			x	1.9	2.0	1.9	1.9	1.8			
Return on Assets			%	6.5	4.2	4.5	4.6	4.9			
Return on Invested Cap.			%	10.1	7.2	7.3	7.3	7.7			
Gearing											
Net Debt to Equity			%	45.0	53.1	46.9	46.4	43.1			
Net Debt to EBITDA			%	1.8	3.0	2.6	2.5	2.3			
Int Cover (EBITDA/Net Int.)			x	6.6	4.8	5.6	5.6	6.2			
Int Cover (EBIT/Net Int.)			x	5.5	3.9	4.7	4.7	5.3			
Capex to Sales			%	1.7	2.3	2.6	2.6	1.8			
Capex to Depreciation			%	133.8	160.1	305.8	312.6	217.1			
MSCI IVA (ESG) Rating			Credit Suisse View								
			TP ESG Risk (%): 0								
			TP Risk Comment: No material ESG risks. TTS valuation already captures social concerns related to problem gambling. TTS has established responsible gambling codes of conduct for some of its lottery games. We see some, limited downside risk for the wagering division, which is currently investigating the deductibility of race information fees on interstate content with Queensland Racing.								
			MSCI IVA Risk: Neutral								
			MSCI IVA Risk Comment: CS ESG risk assessment in line with MSCI rating								
Source: MSCI IVA Rating											
Segments											
EBITDA											
Victoria Slot Machines			234.6	0.0							
% chg			3.3%	-100.0%	Discontinued Operation						
% sales			18.7%								
Lotteries			223.8	294.6	316.6	327.1	344.4				
% chg			14.0%	31.6%	7.5%	3.3%	5.3%				
% sales			12.7%	14.7%	15.9%	15.9%	16.4%				
Wagering			144.1	173.9	166.0	156.9	155.9				
% chg			0.6%	20.7%	-4.5%	-5.5%	-0.6%				
% sales			23.1%	26.5%	25.3%	23.3%	22.7%				
Maxgaming			65.8	63.1	63.3	64.8	66.2				
% chg			0.2%	-4.2%	0.4%	2.3%	2.1%				
% sales			57.3%	55.7%	54.8%	54.7%	54.7%				
UK Gaming			7.0	7.7	14.7	15.7	15.2				
% chg			-24.3%	10.8%	90.2%	7.4%	-3.5%				
% sales			10.1%	9.9%	14.4%	15.0%	14.3%				
Bytecraft			8.4	-1.0	0.2	2.4	5.6				
% chg			5.9%	-112.2%	-115.3%	1409.5%	137.6%				
% sales			8.0%	-0.9%	0.1%	2.1%	4.9%				
Corporate			-33.4	-48.1	-34.7	-35.8	-37.0				
Total			650.2	490.2	526.1	531.0	550.3				
21/02/2014 0:52											

Earnings		06/12A	06/13A	06/14E	06/15E	06/16E
Equiv. FPO (period avg.)	mn	1,340.2	1,384.0	1,414.1	1,433.5	1,439.5
EPS (Normalised)	c	23.8	16.4	17.1	17.1	18.2
EPS Growth	%		-31.0	4.0	-0.1	6.6
Consensus EPS	c	24.8	18.7	16.9	18.0	18.9
Consensus EBITDA	mn	669.1	589.5	534.7	557.1	575.1
DPS	c	23.0	15.5	17.0	17.0	17.0
Dividend Payout	%	96.6	94.3	99.5	99.6	93.4
Free CFPS	c	24.2	20.1	17.7	18.1	20.7

Valuation		06/12A	06/13A	06/14E	06/15E	06/16E
P/E	x	12.4	18.0	17.3	17.3	16.3
EV/EBIT	x	9.8	13.9	12.5	12.4	11.7
EV/EBITDA	x	8.3	11.5	10.5	10.4	9.9
Dividend Yield	%	7.8	5.2	5.7	5.7	5.7
FCF Yield	%	8.2	6.8	6.0	6.1	7.0
Price to Book	x	1.5	1.5	1.5	1.5	1.5

## Lotteries – pretty solid, more cost savings to come

We remain positive about improving margins in the lotteries division, and anticipate that by FY16, EBITDA margins within the business will grow to 16.4% from 15.7% reported in 1H14. We expect the proportion of online lottery sales to grow 150bps annually to reach 15% of total sales by FY18. We caution investors from expecting absolute declines in agency commissions. Tatts will need to continue to maintain or grow its absolute dollar commissions because the agency network remains a critical centrepiece of Tatts' overall distribution strategy. It requires a certain level of commission rate to survive. Commission rates increased from 9.0% in 2012 to 9.3% in 2013 (although we do not believe all jurisdictional rates have reached 9.3%) and we factor in a maintenance of commission levels into our valuation.

Tatts will continue to innovate its lotteries offering into FY15 with the rollout of new, multi-jurisdictional scratchies as under the current scheme Tatts must tailor different scratchies tickets to each state in which it operates.

New terminals in South Australia from 1H14 will assist in technology cost savings. Other synergy benefits from the SA lotteries acquisition should also continue to accrue over the next half.

### 2H14 trading year to date

We project 2H14 lotteries revenue growth of about 4%. The jackpot sequence in 2H13 is not a hurdle for 2H14 growth. There were about 18 jackpots over A\$15mn in 2H13 and the average size was about A\$27mn. Those metrics are lower than recent periods.

There have been two Powerball and Oz Lotto jackpots greater than \$15mn in the second half year to date as well as two planned Oz Lotto Superdraws. Management indicated that January revenues were up 7% as the pcg had no planned January Superdraw.

**Figure 2: Tatts jackpots at or above \$15mn excluding Powerball**

	1H09	2H09	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13	1H14	2H14 ytd
Powerball	4	1	6	4	3	8	1	7	14	8	10	1
Oz Lotto	7	10	9	13	9	7	8	6	7	10	12	1

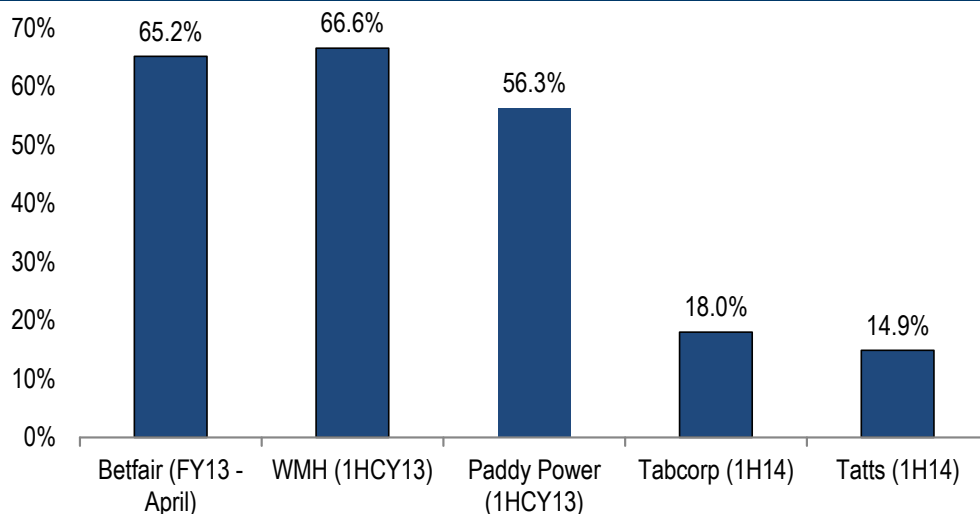
Source: Company data, Credit Suisse estimates

## Wagering – margins will be suppressed by investment

As Tatts continues to play investment catch-up against its competitor we expect EBITDA margins within the wagering division to continue to be suppressed for the next two years. Tatts is looking to rebrand all wagering operations under the one banner, expand fixed odds product, additional marketing and a new wagering website in the next calendar year.

Management expects EBITDA margins to remain at 25.5% for the remainder of FY14; about 1pp lower than FY13. That would equate to a \$7mn full-year opex increase assuming that other costs were largely in line with pcg. Figure 3 shows that Tatts has the lowest opex as a proportion of sales among its domestic wagering peers. We calculate that Tatts would need an additional \$20mn per annum in order to meet a similar level of investment to Tabcorp. We factor in an additional \$10mn of opex in FY14, \$5mn in FY15 and FY16, our wagering EBITDA margins fall to 25.2% by FY14 and 23.2% by FY15, even assuming that fixed odds turnover (which is higher margin) grows about 15% per year.

Figure 3 also shows the challenge that faces both Tabcorp and Tatts, in that the level spent by corporate bookmakers is almost 3x the amount by TAH/TTS on a percentage basis. Betfair in FY13 (year ending April) spent an astonishing \$10mn in marketing – equating to about 20% of sales. The average gross margin of a bookmaker is close to 75%, relative to Tabcorp/Tatts at about 35-40%.

**Figure 3: Wagering operator operating expenditure as a % of sales**

Source: Company data, Credit Suisse estimates

### Tatts has the right intentions but timely investment is needed

Bet365, Tom Waterhouse and newcomer Ladbrokes are running active campaigns targeting Tatts' QLD retail customers and Tatts' wagering investment is needed in a timely fashion in order to preserve market share. Marketing and promotion costs decreased by more than \$2mn vs. pcp; we believe the incremental spend has been largely IT related given that line in the P&L was up about \$2mn.

Tatts has the right intentions in expanding its fixed odds book, yet the rollout appears incomplete as we still find Greyhound and Harness races without a fixed odds offering (Figure 4).

**Figure 4: Fixed odds lacking on Albion Park Greyhound Race 1 Thurs 20 Feb 14**

			Tote		Fixed Price	
No.	Name	17:13	Win	Place	Win	Place
1	GALWAY TYPHOON	7.4	<u>7.7</u>	⬇️ <u>2.4</u>	N/A	N/A
2	TRULY UNIQUE	7.1	<u>7.7</u>	<u>2.0</u>	N/A	N/A
3	SOLO MISS	13.2	<u>14.0</u>	<u>3.3</u>	N/A	N/A
4	DOC GRAHAM	4.7	<u>5.3</u>	<u>1.0</u>	N/A	N/A
5	FOUR EXCEPTIONAL	4.9	<u>5.2</u>	⬇️ <u>5.3</u>	N/A	N/A
6	RUMBLE STREET	3.5	⬆️ <u>3.3</u>	<u>2.6</u>	N/A	N/A
7	BON ZEPHYR	17.1	⬇️ <u>9.8</u>	⬇️ <u>8.6</u>	N/A	N/A
8	BLUE SIZE					
9	MACGALLEN	14.9	<u>15.7</u>	⬇️ <u>4.3</u>	N/A	N/A
10	HARLEY ARE					

Source: Tatts.com

In 1H14 Tatts added only about 100 self-service terminals during the half due to regulatory restrictions on the cash acceptance of machines but we can envisage that full roll-out to Tatts' 1,260 venues would drive some retail turnover growth. Tabcorp now operate 4,700 terminals across NSW and Victoria which equates to at least one terminal per venue. About 50% of TAH's 50% of retail turnover is now placed through the terminals.

### Online may not be enough to offset retail

It is pleasing that Tatts' wagering online sales grew 14% in 1H14 vs. pcg; however, it was not enough to offset the structural decline in retail, particularly QLD where turnover fell 5.6%. Our UK gaming team expects Paddy Power to grow its Australian revenue by 28% or an incremental \$57mn in FY14 (June year-end). By contrast we expect Tatts' wagering revenue to remain flat and therefore its market share to diminish significantly.

## Balance sheet

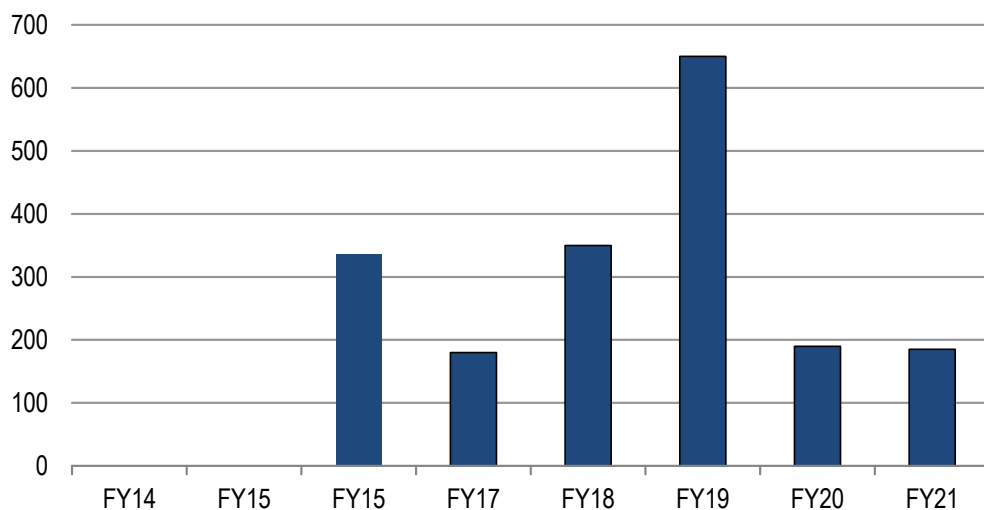
### Liquidity

Net debt (excluding prize reserves) was \$1,334.9 and approximately \$100mn lower than at 30 June in part due to a very strong operating cash flow of \$280.9mn, up over 30% vs. pcg. About \$50mn of this was due to a timing benefit of receivables.

Net debt-to-EBITDA continues to be high at 2.6x as Tatts continues to pay down debt following the \$427mn acquisition of the SA lotteries in December 2012. TTS continues to maintain its 1.5% DRP in order to drive down debt levels. We expect net debt/EBITDA to be elevated in FY15 as Tatts may pay \$30mn to the QLD government for wagering exclusivity renewal.

In 1H14 Tatts refinanced its \$350mn facility due in March 2014 out to FY18 with more favourable interest rates. The next refinancing is not due until FY16.

**Figure 5: TTS' debt maturity is long dated, average 4.3 years**



Source: Company data, Credit Suisse estimates

### Dividend

TTS declared a fully franked interim dividend of 8.0¢, implying a 93% payout ratio.

### Capex

FY14 capex guidance is set at c. A\$75mn as TTS continues to invest in the roll-out of lottery systems in SA, Self-service terminals in QLD, and additional investment within the wagering division.

## Reference Appendix

---

Our new “Total return forecast in perspective” chart helps visualize Credit Suisse and consensus views of a company’s 12-month return within the context of forecasting risks and its historical trading pattern:

12mth Volatility is calculated as the annualised standard deviation of weekly total return series over the past 12 months. It illustrates variability of stock returns; in other words, risk. The way to think about it is that one would rather take 10% forecast return from a stock that has 20% volatility, than from the stock that has 40% volatility. The shaded area shows the one standard deviation range based on past 12 months volatility. In statistical terms, once you make a number of brave assumptions, there is a 68% probability that the share price will end up inside that range in 12 months time.

52wk Hi-Lo is maximum and minimum daily closing price over the past 52 weeks. It is often handy to know the price momentum especially when the stock is trading close to its highs and lows: Is the stock trading close to its peak? Is the momentum against the stock?

\*Consensus is IBES consensus supplied by Thomson Reuters. IBES is a survey of sell side research analysts, collecting a few dozen data points such as EPS, DPS, Sales, Target Price, ROE and so on. \*Mean is the average of target returns, while the shaded area around the mean represents the range of estimates from the lowest to the highest estimate. This aids visualisation of a number of important factors such as: the range of analyst estimates; where Credit Suisse’s estimates on this stock sit relative to consensus; and where the share price is relative to consensus mean and consensus range target.

Target return is calculated as capital gain plus forecast dividend yield (net) over the next 12 months. For “CS tgt” we have used Credit Suisse’s target price and Credit Suisse forecast for 12-month forward dividend, grossed up for franking. For the consensus mean and range, we have used consensus target price and consensus dividend forecasts for 12 month forward.

**Companies Mentioned** (Price as of 20-Feb-2014)

**Betfair Group PLC** (BETF.L, 1076.0p)  
**Ladbrokes PLC** (LAD.L, 149.6p)  
**Paddy Power** (PAP.I, €58.63)  
**Tabcorp Holdings** (TAH.AX, A\$3.6)  
**Tatts Group** (TTS.AX, A\$2.96, NEUTRAL, TP A\$3.15)  
**William Hill** (WMH.L, 345.8p)

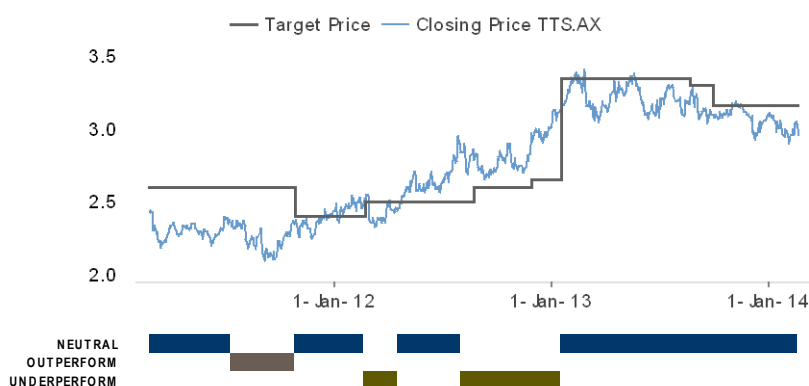
## Disclosure Appendix

**Important Global Disclosures**

I, Larry Gandler, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**3-Year Price and Rating History for Tatts Group (TTS.AX)**

TTS.AX	Closing Price	Target Price	
Date	(A\$)	(A\$)	Rating
24-Feb-11	2.43	2.60	N
11-Jul-11	2.36	2.60	O
27-Oct-11	2.36	2.40	N
21-Feb-12	2.52	2.40	U
23-Feb-12	2.52	2.50	
18-Apr-12	2.46	2.50	N
02-Aug-12	2.84	2.50	U
23-Aug-12	2.79	2.60	
29-Nov-12	2.92	2.65	
17-Jan-13	3.19	3.35	N
22-Aug-13	3.21	3.30	
30-Sep-13	3.10	3.16	



\* Asterisk signifies initiation or assumption of coverage.

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O)** : The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N)** : The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U)** : The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

**Restricted (R)** : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]** : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight** : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.



**Market Weight :** The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight :** The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

*\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

#### Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	43%	(54% banking clients)
Neutral/Hold*	40%	(49% banking clients)
Underperform/Sell*	15%	(43% banking clients)
Restricted	2%	

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research\\_and\\_analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research_and_analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

#### Price Target: (12 months) for Tatts Group (TTS.AX)

**Method:** Our Tatts Group (TTS.AX) target price of A\$3.15 is close to our discounted cashflow (DCF) of \$3.33 less next 12 months dividend of 17c. We assume a competitive advantage period of 20 years. Over this time frame, the company's growth rate is assumed to steadily diminish from 2% to zero and it's return on new capital from 10% to weighted average cost of capital of 8.1%.

**Risk:** The key risks to our A\$3.15 target price for Tatts Group include increased government regulation (including factors such as wagering limits, gaming machines per venue, etc.)

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

*See the Companies Mentioned section for full company names*

The subject company (TTS.AX) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services to the subject company (TTS.AX) within the past 12 months

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (TTS.AX) within the past 12 months

#### Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (TTS.AX) within the past 12 months

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit [http://www.csfb.com/legal\\_terms/canada\\_research\\_policy.shtml](http://www.csfb.com/legal_terms/canada_research_policy.shtml).

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.



To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Credit Suisse Equities (Australia) Limited** ..... Larry Gandler ; Benjamin Levin

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

---

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are/en>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. CS may, to the extent permitted by law, participate or invest in financing transactions with the issuer(s) of the securities referred to in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. CS may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment. Additional information is, subject to duties of confidentiality, available on request. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A. or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (*Kinsho*) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, having registered address at 990 Abdulrahim Place, 27 Floor, Unit 2701, Rama IV Road, Silom, Bangkok, Bangkok 10500, Thailand, Tel. +66 2614 6000, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse AG, Singapore Branch, Credit Suisse Securities (India) Private Limited regulated by the Securities and Exchange Board of India (registration Nos. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T. +91-22 6777 3777, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority or in respect of which the protections of the Prudential Regulation Authority and Financial Conduct Authority for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2014 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.