

Tabcorp, Tatts Group

COMPANY UPDATE

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WA Licence worth much less than press speculation

- We believe the WA wagering licence may transact for under A\$250mn – very different from press speculation of A\$1.0bn and previous comments from us that it may warrant A\$700mn in value (<http://www.smh.com.au/business/wa-racing-body-to-lay-out-demands-for-1b-tab-sale-20160214-gmto6c.html>). We have taken another look as the transaction nears. To investors, this means that TTS or TAH may carry much less leverage than previously anticipated.
- Tabcorp paid about 2.6x gross profit and 3.5x EBITDA for the 12-year VIC wagering licence starting 2012. Tatts Group is paying A\$150mn over 9 years for a 30-year QLD exclusive wagering licence which amounts to 1.0x gross profit. In relation to sales, Tabcorp paid about 0.8x sales and TTS is paying about 0.4x sales. The principal reasons for the low multiples emanate from the market share risk in-state operators bear. In-state operators bear severe cost burdens in the form of tax and higher racing fees for "exclusive" retail licences when such retail activities are not at all exclusive.
- By our calculation, which assumes WA racing funding and the WA state budget are not compromised, the gross profit emanating from the WA wagering operation could be about A\$110mn. While we assume significant cost synergy between TAH or TTS and WA Wagering, we also assume a material and *necessary* uplift in marketing. (This is a new assumption. It is drawn from wagering market share erosion in recent years of the QLD and VIC TABs and the subsequent step-change increases in marketing and technology to defend that share). We estimate that investment could be on the order of A\$10-20mn each.
- Using the mid-point gross profit multiple paid for the last two "exclusive" retail wagering licences – which weren't really exclusive – the value of the WA operation is put at A\$200mn. But we recognise there is additional value in WA's digital customer base from which about A\$100mn of revenue originates. Although WA wagering has few hard assets of significant value to TAH and TTS, its first-mover retail network also has *some* lasting value. But we refrain from ascribing long-term exclusive licence value because it is just not exclusive.
- The duration of the licence should not expand the acquisition multiple. Duration is of no value because the reality is licence cannot "protect" the operator from competition: It is, in reality, not exclusive. Rather, a long duration licence merely binds the new wagering operator to massive racing industry support for decades.

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Figure 1: Reconstructing WA Racing and Wagering P&L into a Wagering P&L as viewed by TAH or TTS

A\$mn

WA Inflows / Outflows Per Annual Report	FY15		WA Inflows/Outflows Reconstructed	Est.
Wagering Revenue net of GST	336		Wagering Revenue	336
Unclaimed Dividends	8		Unclaimed Dividends	8
Interest Revenue	3		Interest Revenue	3
Other Revenue incl. Recovery of SKY Subscription	4	Adj. 1	Other Revenue incl. Recovery of SKY Subscription	0
Total Revenue	351		Total Revenue	344
GST	(31)		GST	(31)
Race Field Fees on Out of State Races and Sport	(29)		Race Field Fees on Out of State Races and Sport	(29)
Other cost of sales: Punter Rebates, Pooling Fees, Fixed Odds	(19)	Adj. 2	Other cost of sales: Punter Rebates, Pooling Fees, Fixed Odds	(7)
State Wagering Tax	(42)	Adj. 3	State Wagering Tax	(21)
Gross Profit	230		Gross Profit	256
Wagering Operation Costs	(85)	Adj. 4	Wagering Operation Costs	(55)
Support services (Wagering)	(16)	Adj. 5	Support services (Wagering)	(2)
Wagering EBIT Before Race Funding	129		Wagering EBIT Before Race Funding	199
Racing Incomings			Racing Incomings	
Grants and Subsidies from the State incl GST re-imbursement	21	Adj. 6	Grants and Subsidies from the State incl GST re-imbursement	0
Racing Services Other Revenue	6		Racing Services Other Revenue	6
Race Field Fee Income	33		Race Field Fee Income	33
Other Racing Incomings Total	60		Other Racing Incomings Total	39
Racing Outgoings			Racing Outgoings	
Prizes and Distributions	(131)		Prizes and Distributions	(131)
Racing Operation Costs	(18)		Racing Operation Costs	(18)
Grants and Subsidies	(19)		Grants and Subsidies	(19)
Support Services Racing	(15)		Support Services Racing	(15)
Capital expenditure	0	Adj. 7.	Capital expenditure	(5)
Racing Outgoings Total	(183)		Racing Outgoings Total	(188)
Profit After Racing Funding Per RWWA Annual Report FY15	6		Wagering EBIT After Racing Funding	50
			Wagering Gross Profit After Racing Funding	107
Racing Capital Expenditure (estimated.)	(5)	Adj. 8	Racing Capital Expenditure (estimated.)	0
Wagering Capital Expenditure (estimated)	(6)		Wagering Capital Expenditure (estimated)	(6)

Source: Racing and Wagering Western Australia Annual Report FY15, Credit Suisse estimates

Adjustments

1. As TAH owns SKY channel, it already captures this subscription revenue in its TAH's media division. Therefore, we eliminate it here and also eliminate it as a cost (Adj. 4)
2. TAH and TTS would no longer need to pay external services for book making. TAH would no longer collect pooling fees from WA. This pooling savings would be offset by a corresponding TAH revenue reduction.
3. State wagering tax can be reduced to the extent that the state no longer subsidizes racing. (See Adj. 6.)
4. Operating cost synergy for TAH and TTS can be extensive – perhaps A\$60mn. But we believe marketing costs must rise substantially to fend off market share erosion.
5. Further cost synergy pertaining to support services such as IT, shared services and head office functions.
6. We assume the State of WA no longer subsidizes WA Racing and all funding comes from wagering operations.
7. Capital expenditure is not a P&L item but WA Racing would expect the wagering operations to fund capex.
8. See Adj. 7

The structure of the licence will influence value but we still think TAH and TTS must be careful not to believe that this is an exclusive licence they are potentially acquiring.

- TAH/TTS may seek that the risk of race field fee price risk is borne by the racing industry rather than the wagering operator. This is the situation in QLD but not in NSW.
- TAH/TTS may seek to ensure that the marketing strategies (sponsorships, alliances, promotions) are aligned with all racing bodies to the licence holder. In VIC, individual clubs strike their own sponsorship arrangements which undermines TAH's market share.
- TAH/TTS may ensure that State wagering taxes are frozen for the licence duration.
- TAH/TTS may seek that there be no annual minimum payment obligations to the WA Racing Industry.
- TAH/TTS may seek to avoid "best interest" clauses that require non-resident customers to be channeled through the WA wagering licence but can instead be channeled through low-tax, low-fee jurisdictions.

For its part, the WA Racing industry has assurance from the State of WA that its funding will be no less favourable than it is today. Moreover, WA Racing will be looking to mitigate risk to its funding.

Options for TAH and TTS if the WA Licence is not acquired

We wonder whether TAH or TTS can "raid" WA for market share and new accounts using their low-tax jurisdictions and a large up-front marketing investment. Both companies, to date have been unsuccessful in scoring cross-border market share.

TTS for its part has lacked brand awareness, product advantage and digital marketing prowess. It is probably fair to say that TTS may be still be a couple of years off meeting the competition.

TAH has ownership of the TAB brand but is constrained on its use in WA and possibly in QLD. (TTS has virtually abandoned the TAB brand in favour of U-BET potentially giving Tabcorp greater latitude to deploy the TAB brand.) More importantly, TAH is constrained by "best interest" terms in its commercial agreements with entities of the VIC and NSW racing industries. TAH cannot solicit residents in states where it is not licenced using low-cost jurisdictions but rather channel new customers through high-cost NSW or VIC.

TAH may consider buying its way out of these restrictive terms and that, may be, after all, in the best interest of both TAH and its affiliated racing industries. In this way, TAH can grow in non-licenced markets such as WA or QLD as well as stimulate overall wagering demand. But as it stands now, neither TAH nor its affiliated racing industries benefit from the "best interest" clauses in its commercial arrangements.

Therefore, it is probable that, in the short-term TAH and TTS lack few real options to win WA customers from an out-of-state position.

Figure 2: Tabcorp Holdings—Financial summary

Tabcorp Holdings (TAH)

Year ending 30 Jun

In AUDmn, unless otherwise stated

Share Price: A\$4.02		16-Mar-2016
Rating		OUTPERFORM
Target Price	A\$	5.00
vs Share price	%	24.38



TABCORP is engaged in the provision of leisure and entertainment services (particularly in relation to gambling and hospitality). The company operates in three segments: Wagering and Racing Media, Gaming Services, and Keno.

Profit & Loss	06/14A	06/15A	06/16E	06/17E	06/18E
Sales revenue	2,039.8	2,155.5	2,197.4	2,246.8	2,298.5
EBITDA	486.1	508.1	519.6	542.1	559.2
Depr. & Amort.	164.4	173.5	180.8	185.3	190.1
EBIT	321.7	334.6	338.7	356.7	369.1
Net interest	97.2	78.5	69.5	67.5	65.3
Reported PBT	196.6	258.9	234.2	289.2	303.8
Income tax	66.7	-75.6	83.1	96.2	100.6
Profit after tax	149.4	171.3	182.3	193.0	203.2
Associates	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Preferred dividends	0.0	0.0	0.0	0.0	0.0
Normalised NPAT	149.4	171.3	182.3	193.0	203.2
Analyst adjustments	-19.5	163.2	-31.2	0.0	0.0
Unusual item after tax	0.0	0.0	0.0	0.0	0.0
Reported NPAT	129.9	334.5	151.1	193.0	203.2
Balance Sheet	06/14A	06/15A	06/16E	06/17E	06/18E
Cash & equivalents	126.8	160.0	153.3	152.8	151.4
Inventories	4.7	4.9	5.0	5.1	5.2
Receivables	39.9	35.1	35.8	36.6	37.4
Other current assets	9.6	96.2	23.7	24.2	24.8
Current assets	181.0	296.2	217.8	218.7	218.8
Property, plant & equip.	312.6	325.1	375.3	392.1	405.1
Intangibles	2,560.5	2,625.6	2,580.1	2,534.6	2,489.1
Other non-current assets	51.0	137.1	59.2	60.5	61.9
Non-current assets	2,924.1	3,087.8	3,014.6	2,987.1	2,956.0
Total assets	3,105.1	3,384.0	3,232.4	3,205.8	3,174.8
Payables	340.9	334.1	331.6	329.1	326.8
Interest bearing debt	1,094.3	1,147.7	1,100.0	1,070.0	1,030.0
Other liabilities	188.5	212.1	136.5	138.0	139.6
Total liabilities	1,623.7	1,693.9	1,568.1	1,537.1	1,496.4
Net assets	1,481.4	1,690.1	1,664.3	1,668.7	1,678.4
Ordinary equity	1,481.4	1,690.1	1,664.3	1,668.7	1,678.4
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	1,481.4	1,690.1	1,664.3	1,668.7	1,678.4
Net debt	967.5	987.7	946.7	917.2	878.6
Cashflow	06/14A	06/15A	06/16E	06/17E	06/18E
EBIT	321.7	334.6	338.7	356.7	369.1
Net interest	-100.1	-77.8	-69.5	-67.5	-65.3
Depr & Amort	164.4	173.5	180.8	185.3	190.1
Tax paid	-75.2	2.8	-8.4	-96.2	-100.6
Working capital	88.8	-4.8	-5.3	-3.6	-3.5
Other	-12.2	-28.6	-35.1	-0.1	-0.1
Operating cashflow	387.4	399.7	401.2	374.6	389.8
Capex - expansionary	-79.6	-79.0	-96.3	-93.9	-94.6
Capex - maintenance	-53.1	-52.6	-64.2	-62.6	-63.1
Acquisitions & Invest	-65.7	-103.3	-25.0	0.0	0.0
Asset sale proceeds	2.1	0.0	0.0	0.0	0.0
Other	40.8	3.2	0.0	0.0	0.0
Investing cashflow	-155.5	-231.7	-185.5	-156.6	-157.7
Dividends paid	-67.0	-357.6	-182.7	-200.5	-205.9
Equity raised	6.7	235.8	5.8	11.8	12.5
Net borrowings	-154.5	0.0	-45.5	-30.0	-40.0
Other	0.0	-13.0	0.0	0.0	0.0
Financing cashflow	-214.8	-134.8	-222.4	-218.6	-233.5
Total cashflow	17.1	33.2	-6.7	-0.6	-1.4
Adjustments	0.0	0.0	0.0	0.0	0.0
Net Change in Cash	17.1	33.2	-6.7	-0.6	-1.4

Source: Company data, Credit Suisse estimates

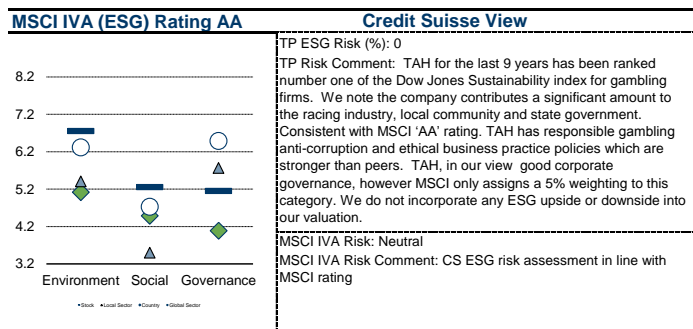
Earnings		06/14A	06/15A	06/16E	06/17E	06/18E
Equiv. FPO (period avg.)	mn	759.1	793.5	835.5	840.5	845.9
EPS (Normalised)	c	19.7	21.6	21.8	23.0	24.0
EPS Growth	%	4.4	9.7	1.1	5.2	4.6
Consensus EPS	c	19.5	21.6	22.3	23.9	26.1
Consensus EBITDA	mn	486.1	508.1	528.8	551.6	575.3
DPS	c	16.0	50.0	23.0	24.0	26.0
Dividend Payout	%	81.3	231.6	105.4	105.0	108.2
Free CFPS	c	33.6	33.8	28.8	25.9	27.4

Valuation		06/14A	06/15A	06/16E	06/17E	06/18E
P/E	x	20.4	18.6	18.4	17.5	16.7
EV/EBIT	x	13.4	12.9	12.7	11.9	11.4
EV/EBITDA	x	8.9	8.5	8.3	7.9	7.5
Dividend Yield	%	4.0	12.4	5.7	6.0	6.5
FCF Yield	%	8.3	8.4	7.2	6.5	6.8
Price to Book	x	2.1	2.0	2.0	2.0	2.0

Returns		06/14A	06/15A	06/16E	06/17E	06/18E
Return on Equity	%	10.1	10.1	11.0	11.6	12.1
Profit Margin	%	7.3	7.9	8.3	8.6	8.8
Asset Turnover	x	0.7	0.6	0.7	0.7	0.7
Equity Multiplier	x	2.1	2.0	1.9	1.9	1.9
Return on Assets	%	4.8	5.1	5.6	6.0	6.4
Return on Invested Cap.	%	8.7	8.4	8.8	9.2	9.7

Gearing

Net Debt to Equity	%	65.3	58.4	56.9	55.0	52.3
Net Debt to EBITDA	%	2.0	1.9	1.8	1.7	1.6
Int Cover (EBITDA/Net Int.)	x	5.0	6.5	7.5	8.0	8.6
Int Cover (EBIT/Net Int.)	x	3.3	4.3	4.9	5.3	5.7
Capex to Sales	%	6.5	6.1	7.3	7.0	6.9
Capex to Depreciation	%	159.7	159.9	118.6	112.0	109.0

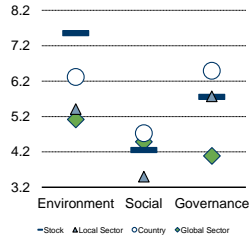


Source: MSCI IVA Rating

EBITDA segmentals		06/14A	06/15A	06/16E	06/17E	06/18E
Wagering & Media		350.7	375.8	382.9	398.7	412.7
	% chg		7.2%	1.9%	4.1%	3.5%
	% sales	20.2%	20.2%	20.4%	20.8%	21.0%
Gaming		67.0	67.6	68.6	70.7	73.4
	% chg		0.9%	1.5%	3.0%	3.8%
	% sales	68.3%	67.9%	64.4%	64.4%	65.2%
Keno		72.2	66.4	70.4	75.0	75.6
	% chg		-8.0%	6.0%	6.6%	0.7%
	% sales	35.4%	33.4%	33.6%	34.7%	33.9%
Corporate/Other		-3.8	-1.7	-2.4	-2.4	-2.4
Total EBITDA		486.1	508.1	519.6	542.1	559.2
	% chg		4.5%	2.3%	4.3%	3.2%
	% sales	23.8%	23.6%	23.6%	24.1%	24.3%

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Figure 3: Tatts Group—Financial summary

Tatts Group (TTS)						Year ending 30 Jun						In AUDmn, unless otherwise stated						
Share Price: A\$3.64						16-Mar-2016												
Rating						UNDERPERFORM												
Target Price						A\$ 3.30												
vs Share price						%						-9.34						
<div>CREDIT SUISSE</div>																		
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						06/14A	06/15A	06/16E	06/17E	06/18E								
Sales revenue						2,868.9	2,919.9	3,087.0	3,184.3	3,280.1								
EBITDA						498.4	507.4	523.4	550.2	572.3								
Depr. & Amort.						83.9	87.1	86.9	88.3	91.1								
EBIT						414.5	420.3	436.5	461.9	481.3								
Net interest						87.9	54.2	47.7	65.4	72.6								
Reported PBT						326.6	366.1	388.8	396.5	408.7								
Income tax						100.0	110.3	118.6	120.9	124.6								
Profit after tax						226.6	255.8	270.2	275.6	284.0								
Associates						0.0	0.0	0.0	0.0	0.0								
Minorities						0.0	0.0	0.0	0.0	0.0								
Normalised NPAT						226.6	255.8	270.2	275.6	284.0								
Analyst adjustments						0.0	0.0	0.0	0.0	0.0								
Unusual item after tax						-26.2	-3.8	-40.8	0.0	0.0								
Reported NPAT						200.4	252.0	229.5	275.6	284.0								
Balance Sheet						06/14A	06/15A	06/16E	06/17E	06/18E								
Cash & equivalents						583.3	259.1	263.2	220.1	226.3								
Inventories						8.2	3.7	3.9	4.0	4.1								
Receivables						132.5	80.6	82.8	84.1	85.3								
Other current assets						187.0	212.6	220.5	226.2	231.4								
Current assets						910.9	556.1	570.4	534.4	547.1								
Property, plant & equip.						205.6	210.2	251.6	435.4	591.1								
Intangibles						4,540.0	4,652.5	4,609.5	4,566.6	4,523.6								
Other non-current assets						43.6	106.5	106.5	106.5	106.5								
Non-current assets						4,789.2	4,969.3	4,967.6	5,108.4	5,221.1								
Total assets						5,700.2	5,525.3	5,538.0	5,642.8	5,768.3								
Payables						591.0	598.5	632.8	652.7	672.2								
Interest bearing debt						1,359.3	925.2	1,450.0	1,500.0	1,560.0								
Other liabilities						913.8	1,030.5	489.5	489.5	489.5								
Total liabilities						2,864.1	2,554.3	2,572.3	2,642.2	2,721.7								
Net assets						2,836.0	2,971.1	2,965.8	3,000.7	3,046.6								
Ordinary equity						2,836.0	2,971.1	2,965.8	3,000.7	3,046.6								
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						2,836.0	2,971.1	2,965.8	3,000.7	3,046.6								
Net debt						776.0	666.2	1,186.8	1,279.9	1,333.7								
Cashflow						06/14A	06/15A	06/16E	06/17E	06/18E								
EBIT						414.5	420.3	436.5	461.9	481.3								
Net interest						-84.7	-48.9	-47.7	-65.4	-72.6								
Depr & Amort						83.9	87.1	86.9	88.3	91.1								
Tax paid						-114.9	-84.0	-101.5	-120.9	-124.6								
Working capital						87.2	69.1	18.9	9.8	-50.0								
Other						-107.7	-3.8	-593.7	3.0	3.0								
Operating cashflow						278.4	439.8	-200.6	376.6	328.1								
Capex						-75.4	-64.4	-85.3	-86.6	-98.7								
Acquisitions & Invest						0.0	-37.5	0.0	-142.5	-105.0								
Asset sale proceeds						0.3	34.3	0.0	0.0	0.0								
Other						-0.6	0.0	0.0	0.0	0.0								
Investing cashflow						-75.7	-67.6	-85.3	-229.1	-203.7								
Dividends paid						-126.6	-121.0	-248.7	-256.3	-264.5								
Equity raised						0.0	2.4	13.9	15.7	26.5								
Net borrowings						-300.0	-520.0	524.8	50.0	120.0								
Other						540.5	0.0	0.0	0.0	0.0								
Financing cashflow						113.9	-638.6	290.0	-190.7	-118.1								
Total cashflow						316.6	-266.4	4.1	-43.1	6.3								
Adjustments						14.8	0.9	0.0	0.0	0.0								
Net Change in Cash						331.5	-265.5	4.1	-43.1	6.3								
Earnings						06/14A	06/15A	06/16E	06/17E	06/18E								
Equiv. FPO (period avg.)						mn	1,417.3	1,447.1	1,464.2	1,464.9	1,470.7							
EPS (Normalised)						c	16.0	17.7	18.5	18.8	19.3							
EPS Growth						%		10.5	4.4	1.9	2.7							
Consensus EPS						c	16.1	17.8	18.7	19.2	20.2							
Consensus EBITDA						mn	499.9	509.1	527.9	552.6	578.3							
DPS						c	13.5	16.5	18.0	18.0	18.0							
Dividend Payout						%	84.4	93.3	97.5	95.7	93.2							
Free CFPS						c	14.3	25.9	-19.5	19.8	15.6							
Valuation																		
P/E						x	22.8	20.6	19.7	19.4	18.8							
EV/EBIT						x	14.7	14.3	14.9	14.3	13.8							
EV/EBITDA						x	12.3	11.8	12.5	12.0	11.6							
Dividend Yield						%	3.7	4.5	4.9	4.9	4.9							
FCF Yield						%	3.9	7.1	-5.4	5.4	4.3							
Price to Book						x	1.8	1.8	1.8	1.8	1.8							
Returns																		
Return on Equity						%	8.0	8.6	9.1	9.2	9.3							
Profit Margin						%	7.9	8.8	8.8	8.7	8.7							
Asset Turnover						x	0.5	0.5	0.6	0.6	0.6							
Equity Multiplier						x	2.0	1.9	1.9	1.9	1.9							
Return on Assets						%	4.0	4.6	4.9	4.9	4.9							
Return on Invested Cap.						%	8.0	8.1	7.3	7.5	7.6							
Gearing																		
Net Debt to Equity						%	27.4	22.4	40.0	42.7	43.8							
Net Debt to EBITDA						%	1.6	1.3	2.3	2.3	2.3							
Int Cover (EBITDA/Net Int.)						x	5.7	9.4	11.0	8.4	7.9							
Int Cover (EBIT/Net Int.)						x	4.7	7.8	9.1	7.1	6.6							
Capex to Sales						%	2.6	2.2	2.8	2.7	3.0							
Capex to Depreciation						%	176.7	146.0	194.2	191.2	205.5							
MSCI IVA (ESG) Rating AA						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																		
Segmentals																		
EBITDA																		
Lotteries							296.6	313.6	340.4	356.0	369.2							
						% chg	0.7%	5.8%	8.5%	4.6%	3.7%							
						% sales	15.4%	15.9%	16.0%	16.2%	16.3%							
Wagering							160.8	153.5	143.9	152.4	161.3							
						% chg	-7.6%	-4.5%	-6.2%	5.9%	5.8%							
						% sales	25.0%	24.3%	23.3%	23.8%	24.4%							
Maxgaming							63.1	64.6	64.6	65.0	65.8							
						% chg	0.1%	2.4%	0.0%	0.6%	1.1%							
						% sales	55.2%	55.3%	54.6%	54.0%	54.0%							
UK Gaming							13.6	16.4	20.6	20.9	21.6							
						% chg	76.7%	20.3%	25.6%	1.4%	3.7%							
						% sales	13.1%	14.1%	14.3%	14.3%	14.3%							
Bytecraft							-0.4	2.8	5.8	5.8	6.0							
						% chg	-63.9%	-854.5%	110.1%	0.0%	2.0%							
						% sales	-0.3%	2.7%	5.6%	5.6%	5.6%							
Corporate							-35.3	-43.5	-52.0	-50.0	-51.5							
Total							498.4	507.4	523.4	550.2	572.3							
16/03/2016 17:14																		

Source: Company data, Credit Suisse estimates

Earnings		06/14A	06/15A	06/16E	06/17E	06/18E
Equiv. FPO (period avg.)	mn	1,417.3	1,447.1	1,464.2	1,464.9	1,470.7
EPS (Normalised)	c	16.0	17.7	18.5	18.8	19.3
EPS Growth	%		10.5	4.4	1.9	2.7
Consensus EPS	c	16.1	17.8	18.7	19.2	20.2
Consensus EBITDA	mn	499.9	509.1	527.9	552.6	578.3
DPS	c	13.5	16.5	18.0	18.0	18.0
Dividend Payout	%	84.4	93.3	97.5	95.7	93.2
Free CFPS	c	14.3	25.9	-19.5	19.8	15.6

Valuation		06/14A	06/15A	06/16E	06/17E	06/18E
P/E	x	22.8	20.6	19.7	19.4	18.8
EV/EBIT	x	14.7	14.3	14.9	14.3	13.8
EV/EBITDA	x	12.3	11.8	12.5	12.0	11.6
Dividend Yield	%	3.7	4.5	4.9	4.9	4.9
FCF Yield	%	3.9	7.1	-5.4	5.4	4.3
Price to Book	x	1.8	1.8	1.8	1.8	1.8

Returns						
Return on Equity	%	8.0	8.6	9.1	9.2	9.3
Profit Margin	%	7.9	8.8	8.8	8.7	8.7
Asset Turnover	x	0.5	0.5	0.6	0.6	0.6
Equity Multiplier	x	2.0	1.9	1.9	1.9	1.9
Return on Assets	%	4.0	4.6	4.9	4.9	4.9
Return on Invested Cap.	%	8.0	8.1	7.3	7.5	7.6

Companies Mentioned (Price as of 16-Mar-2016)

Tabcorp Holdings (TAH.AX, A\$4.02, OUTPERFORM, TP A\$5.0)
Tatts Group (TTS.AX, A\$3.64, UNDERPERFORM, TP A\$3.3)

Disclosure Appendix

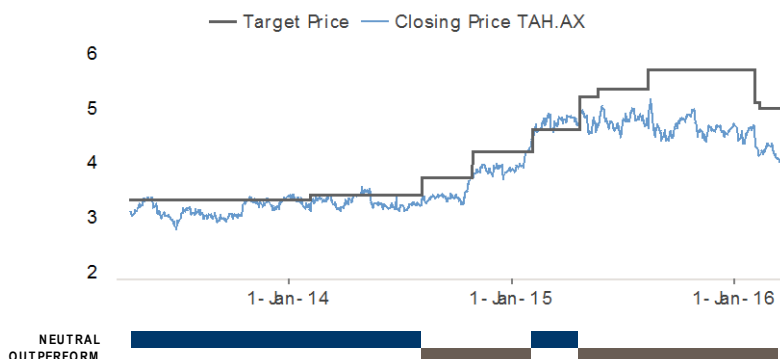
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3-Year Price and Rating History for Tabcorp Holdings (TAH.AX)

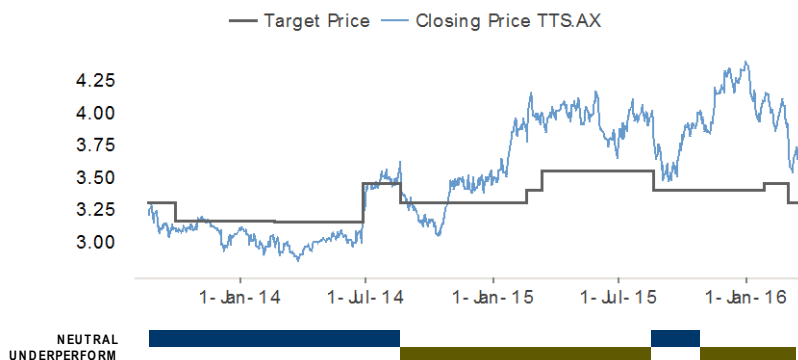
TAH.AX	Closing Price	Target Price	
Date	(A\$)	(A\$)	Rating
17-Apr-13	3.10	3.31	N
06-Feb-14	3.12	3.40	
07-Aug-14	3.32	3.73	O
29-Oct-14	3.73	4.20	
05-Feb-15	4.39	4.60	N
23-Apr-15	4.73	5.20	O
22-May-15	4.66	5.35	
13-Aug-15	4.64	5.70	
04-Feb-16	4.39	5.10	
12-Feb-16	4.15	5.00	

* Asterisk signifies initiation or assumption of coverage.

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

TTS.AX	Closing Price	Target Price	
Date	(A\$)	(A\$)	Rating
22-Aug-13	3.21	3.30	N
30-Sep-13	3.10	3.16	
20-Feb-14	2.96	3.15	
27-Jun-14	3.21	3.45	
21-Aug-14	3.41	3.30	U
18-Feb-15	3.87	3.40	
13-Mar-15	3.99	3.55	
20-Aug-15	3.81	3.40	N
30-Oct-15	3.96	3.40	U
27-Jan-16	4.09	3.45	
02-Mar-16	3.74	3.30	

* Asterisk signifies initiation or assumption of coverage.



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Target Price and Rating

Valuation Methodology and Risks: (12 months) for Tabcorp Holdings (TAH.AX)

Method: Our A\$5.00 target price for TAH.AX is consistent with our DCF (\$5.23 less next 12 months dividends of 24cps). Our DCF incorporates a beta of 0.95 and a weighted average cost of capital of 7.9%. Our OUTPERFORM rating is reflective of our positive view on Tabcorp's wagering division amidst improving product and channel mix, strong balance sheet and attractive 5.7% dividend yield. Our target price implies significant upside to TABCORP's current share price.

Risk: Risks to our A\$5.00 target price and OUTPERFORM rating for Tabcorp Holdings include increased competition from new wagering operators, uncertainty regarding renewal of TGS customer contracts and the inability to realise A\$14mn in EBITDA from the integration of ACTTAB.

Target Price and Rating

Valuation Methodology and Risks: (12 months) for Tatts Group (TTS.AX)

Method: Our Tatts Group (TTS.AX) target price of A\$3.30 approximates our discounted cashflow (DCF) of \$3.45 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 its return on new capital from 9.5% to weighted average cost of capital of 7.2%. Our UNDERPERFORM rating is based primarily on valuation with the current share price implying over 15x EBITDA for the lottery division. While the business is well managed and has reasonable growth prospects, we are not prepared to give Tatts a "utility-like" earnings multiple.

Risk: The key risks to our A\$3.30 target price and UNDERPERFORM rating for Tatts Group include increased government regulation (including factors such as wagering limits, gaming machines per venue, etc.) and market share losses in wagering.

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