

Tabcorp/Tatts Group

COMPANY UPDATE

Research Analysts

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ACCC released Statement of Issues

- **Post the ACCC announcement, we continue to believe the ACCC will approve the TAH/TTS business combination.** ACCC targets 4 May for a final decision. The ACCC has raised five 'amber light' concerns; but none seem insurmountable. The one 'red light' concern was addressed by Tabcorp's proposed divestiture of Odyssey, and is very minor in the context of group EPS.
- The potential or 'amber light' concerns are as follows:
 1. **Removal of Tatts as a supplier for pari-mutuel pool services.** Remedy: Tabcorp has proposed commitments to supply pooling services to WA TAB for 27 years at commercial terms. The ACCC is considering this remedy.
 2. **Removal of Tatts as bidder for state pari-mutuel pool and "exclusive" retail wagering licences.** Though the ACCC appears undecided in its view, it acknowledged credible arguments for why this may not be an issue: (1) other bidders such as corporate bookmakers and media companies may exist and (2) governments may dictate minimum terms of any licence tender and have strong bargaining power. Oddly, the ACCC raised the notion that new digital and retail partnerships such as Crownbet may reduce incentives for bookmakers to bid for exclusive state licences. This seems to be an absurdity: competitor retail partnerships, if legal, mean retail exclusivity has no value and therefore, would attract no bidders.
 3. **Increased TAH market power** in TTS geographies. By combining TAH SKY racing vision and Tatts retail wagering, TAH may be able to bundle SKY and wagering services. This amber light is unlikely to become a red light: Tabcorp's SKY contract with venues is already clear in that there is no bundling of SKY and wagering services. Venues that have SKY and wagering pay more for SKY than venues that solely have SKY demonstrating that pricing is not bundled. Indeed, as Crownbet's retail strategy in NSW unfolded, Tabcorp has not indicated an intention to withhold SKY from venues signing with Crown wagering. Also, there are only about 100 venues across Australia with SKY but no wagering service.
 4. **Reduced competition for supply of gaming machine repair services in Victoria.** TTS operates Bytecraft and TAH operates Tabcorp Gaming Solutions. Bytecraft generated total EBITDA for TTS of under A\$5mn so this issue can potentially be remedied with a minor divestiture.
 5. **Increased vertical integration in NSW and QLD of gaming services and gaming machine monitoring.** The concern centres around use of data collected from gaming monitoring. Here, Tabcorp's proposed divestiture of Odyssey gaming monitoring should address the issue in QLD. In NSW, Tatts Group has been vertically integrated conducting both gaming monitoring and providing gaming services for over ten years without accusation of abuse of market power.

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Tabcorp Holdings (TAH.AX / TAH AU)

| | |
|------------------------------|-------------------|
| Rating | OUTPERFORM |
| Price (09-Mar,A\$) | 4.45 |
| Target Price (A\$) | 5.00 |
| Target price ESG risk (%) | NA |
| Market cap (A\$m) | 3,712.8 |
| Yr avg. mthly trading (A\$m) | 309.2 |
| Projected return: | |
| Capital gain (%) | 12.5 |
| Dividend yield (net %) | 5.1 |
| Total return (%) | 17.6 |

Target price is for 12 months.

Research Analysts

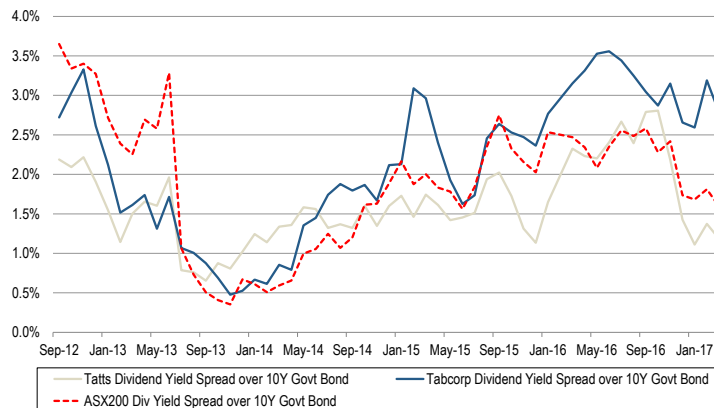
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We still expect TAH/TTS Merger Approval

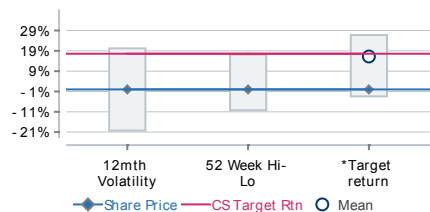
- **We continue to model Tabcorp on a combined merged basis**, with the release of a statement of issues by the ACCC presenting no insurmountable hurdle to a business combination with TTS.
- **We made minor EPS changes**, post TTS 1H17 result and also to reflect a one off A\$45mn settlement to AUSTRAC. These had little bearing on our DCF, and therefore our target price remains unchanged.
- **We think Tabcorp is cheap**. Although the combined entity is trading at 10.5x pro-forma FY19 EBITDA and this seems to be a full multiple, Tabcorp is offering a 5.4% yield. That yield is above Tabcorp's normal yield premium to the Aussie 10-year bond. Also, our DCF factors A\$100mn of merger synergy vs Tabcorp guidance of A\$135mn as we anticipate competition will pressure Tabcorp to re-invest some savings beyond its current expectation.

Figure 1: TAH providing 3% premium to 10Y govt bond (historical avg 2%)



Source: IBES

Total return forecast in perspective



Source: Company data, Thomson Reuters, IBES, Credit Suisse estimates

| Performance | 1M | 3M | 12M |
|--------------|------|-------|-------|
| Absolute (%) | 4.59 | -4.41 | 8.41 |
| Relative (%) | 2.14 | -7.99 | -3.27 |

Financial and valuation metrics

| Year | 6/16A | 6/17E | 6/18E | 6/19E |
|------------------------------|-------|--------|-------|-------|
| Revenue (A\$ mn) | 2,189 | 2,270 | 5,323 | 5,513 |
| EBITDA (A\$ mn) | 516 | 500 | 1,073 | 1,169 |
| EBIT (A\$ mn) | 337 | 316 | 804 | 892 |
| Net Income (Adj.) (A\$ mn) | 186 | 165 | 429 | 474 |
| EPS (Adj.) (Ac) | 22.27 | 19.67 | 22.42 | 24.56 |
| Change from previous EPS (%) | n.a. | (0.3) | (2.1) | (2.2) |
| EPS growth (%) | 3.2 | (11.7) | 14.0 | 9.6 |
| Consensus EPS (Ac) | 22.40 | 22.90 | 25.00 | 27.60 |
| P/E (x) | 20.0 | 22.6 | 19.8 | 18.1 |
| Dividends (Ac) | 24.00 | 24.50 | 22.00 | 24.00 |
| Dividend yield (%) | 5.4 | 5.5 | 4.9 | 5.4 |
| Price/Book (x) | 2.2 | 2.4 | 1.3 | 1.3 |
| Net debt/EBITDA (x) | 1.9 | 3.0 | 3.5 | 3.2 |

Source: Company data, Thomson Reuters, Credit Suisse estimates

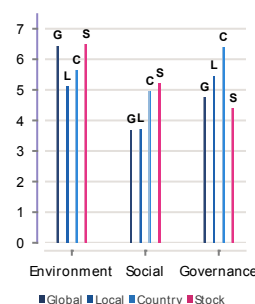
Tabcorp Holdings (TAH.AX / TAH AU)

Price (09 Mar 2017): **A\$4.445**; Rating: **OUTPERFORM**; Target Price: **A\$5**; Analyst: **Larry Gandler**

| Income Statement | 6/16A | 6/17E | 6/18E | 6/19E |
|-------------------------------------|--------------|--------------|----------------|---------------|
| Revenue | 2,189 | 2,270 | 5,323 | 5,513 |
| EBITDA | 516 | 500 | 1,073 | 1,169 |
| Depr. & Amort. | (179) | (184) | (269) | (276) |
| EBIT | 337 | 316 | 804 | 892 |
| Associates | - | - | - | - |
| Net interest exp. | (70) | (71) | (181) | (207) |
| Other | 0 | 0 | 0 | 0 |
| Profit before tax | 267 | 245 | 623 | 685 |
| Income tax | (81) | (80) | (193) | (212) |
| Profit after tax | 186 | 165 | 429 | 474 |
| Minorities | -0 | -0 | -0 | -0 |
| Preferred dividends | -0 | -0 | -0 | -0 |
| Associates & Other | (0) | 0 | 0 | 0 |
| Normalised NPAT | 186 | 165 | 429 | 474 |
| Unusal item after tax | (16) | (85) | (21) | (14) |
| Net profit (Reported) | 170 | 80 | 408 | 460 |
| Balance Sheet | 6/16A | 6/17E | 6/18E | 6/19E |
| Cash & equivalents | 129 | 91 | 90 | 93 |
| Inventories | 0 | 0 | 0 | 0 |
| Receivables | 59 | 62 | 144 | 150 |
| Other current assets | 15 | 351 | 201 | 211 |
| Current assets | 200 | 504 | 435 | 454 |
| Property, plant & equip. | 312 | 481 | 945 | 1,065 |
| Intangibles | 2,628 | 2,582 | 10,340 | 10,287 |
| Other non-current assets | 166 | 70 | 292 | 300 |
| Non-current assets | 3,106 | 3,133 | 11,577 | 11,653 |
| Total assets | 3,306 | 3,637 | 12,012 | 12,108 |
| Payables | 317 | 324 | 927 | 963 |
| Interest bearing debt | 1,080 | 1,600 | 3,820 | 3,780 |
| Other liabilities | 217 | 134 | 723 | 731 |
| Total liabilities | 1,615 | 2,058 | 5,470 | 5,474 |
| Net assets | 1,688 | 1,579 | 6,543 | 6,634 |
| Ordinary equity | 1,688 | 1,579 | 6,543 | 6,634 |
| Minority interests | 0 | 0 | 0 | 0 |
| Preferred capital | - | - | - | - |
| Total shareholder funds | 1,688 | 1,579 | 6,543 | 6,634 |
| Net Debt | 954 | 1,509 | 3,730 | 3,687 |
| Cash Flow | 6/16A | 6/17E | 6/18E | 6/19E |
| EBIT | 337 | 316 | 804 | 892 |
| Net Interest | (68) | (71) | (181) | (207) |
| Depr & Amort | 179 | 184 | 269 | 276 |
| Tax Paid | 11 | (80) | (134) | (206) |
| Change in Working capital | (2) | 5 | 4 | 20 |
| Other cash and non-cash items | (56) | (87) | (31) | (20) |
| Operating cashflow | 401 | 267 | 731 | 756 |
| Capex | (158) | (193) | (315) | (275) |
| Capex - expansionary | (95) | (116) | (189) | (165) |
| Capex - Maintenance | (63) | (77) | (126) | (110) |
| Acquisitions & Invest | (25) | (115) | (7,553) | (69) |
| Asset sale proceeds | 7 | 0 | 20 | 0 |
| Other | - | - | - | - |
| Investing cashflow | (173) | (634) | (7,848) | (344) |
| Dividends paid | (173) | (205) | (358) | (412) |
| Equity raised | (9) | 15 | 4,913 | 44 |
| Net borrowings | (80) | 522 | 2,561 | (40) |
| Other financing cash in/(outflows) | 0 | 0 | 0 | 0 |
| Financing cashflow | (262) | 332 | 7,116 | (409) |
| Total cashflow | (34) | (35) | (1) | 3 |
| Adjustments | 0 | 0 | 0 | 0 |
| Movement in cash/equivalents | (34) | (35) | (1) | 3 |

| Earnings | 6/16A | 6/17E | 6/18E | 6/19E |
|-------------------------|--------------|--------------|---------------|---------------|
| Equiv. FPO (period avq) | 835 | 839 | 1,916 | 1,928 |
| EPS (CS adj.) (c) | 22.3 | 19.7 | 22.4 | 24.6 |
| EPS growth (%) | 3.2 | (11.7) | 14.0 | 9.6 |
| DPS (c) | 24.0 | 24.5 | 22.0 | 24.0 |
| Dividend Payout (%) | 107.7 | 124.5 | 98.1 | 97.7 |
| Free CFPS (c) | 40.5 | 22.6 | 31.6 | 33.5 |
| Valuation | 6/16A | 6/17E | 6/18E | 6/19E |
| P/E (CS) (x) | 20.0 | 22.6 | 19.8 | 18.1 |
| PEG (x) | 6.3 | (1.9) | 1.4 | 1.9 |
| EV/EBIT (x) | 13.8 | 16.5 | 9.3 | 8.3 |
| EV/EBITDA (x) | 9.0 | 10.4 | 6.9 | 6.3 |
| Dividend Yield (%) | 5.4 | 5.5 | 4.9 | 5.4 |
| FCF Yield (%) | 9.1 | 5.1 | 7.1 | 7.5 |
| Price to book (x) | 2.2 | 2.4 | 1.3 | 1.3 |
| Returns | 6/16A | 6/17E | 6/18E | 6/19E |
| Return on Equity (%) | 11.0 | 10.4 | 6.6 | 7.1 |
| Profit Margin (%) | 8.5 | 7.3 | 8.1 | 8.6 |
| Asset Turnover (x) | 0.7 | 0.6 | 0.4 | 0.5 |
| Equity Multiplier (x) | 2.0 | 2.3 | 1.8 | 1.8 |
| Return on Assets (%) | 5.6 | 4.5 | 3.6 | 3.9 |
| Return on Invested Cap. | 8.9 | 6.9 | 5.4 | 6.0 |
| Gearing | 6/16A | 6/17E | 6/18E | 6/19E |
| ND/ND+E (%) | 36.1 | 48.9 | 36.3 | 35.7 |
| Net Debt to EBITDA (x) | 1.9 | 3.0 | 3.5 | 3.2 |
| Int Cover (EBITDA) (x) | 7.4 | 7.0 | 5.9 | 5.7 |
| Int Cover (EBIT) (x) | 4.8 | 4.4 | 4.4 | 4.3 |
| Capex to Sales (%) | 7.2 | 8.5 | 5.9 | 5.0 |
| Capex to Depr (%) | 195.4 | 139.2 | 145.5 | 123.2 |
| EBITDA Segmentals | 06/16A | 06/17E | 06/18E | 06/19E |
| Wagering and Media | 382.1 | 344.3 | 503.6 | 563.2 |
| % chg | 1.7 | (9.9) | 46.3 | 11.8 |
| Gaming | 70.1 | 83.0 | 164.9 | 172.7 |
| % chg | 3.7 | 18.4 | 98.6 | 4.7 |
| Keno | 70.3 | 75.6 | 76.2 | 77.8 |
| % chg | 5.9 | 7.6 | 0.8 | 2.0 |
| Corporate | (6.7) | (3.0) | (1.5) | (1.5) |
| % chg | 294.1 | (55.2) | (50.0) | 0.0 |
| Lotteries | - | - | 329.8 | 356.4 |
| % chg | - | - | - | 8.1 |
| Total EBITDA | 515.8 | 499.9 | 1073.0 | 1168.6 |

MSCI IVA Rating AA



TP ESG Risk (%): 0.00
 TP Risk Comment: TAH for the last 9 years has been ranked number one of the Dow Jones Sustainability index for gambling firms. We note the company contributes a significant amount to the racing industry, local community and state government. Consistent with MSCI 'AA' rating. TAH has responsible gambling anti-corruption and ethical business practice policies which are stronger than peers. TAH, in our view, good corporate governance, however MSCI only assigns a 5% weighting to this category. We do not incorporate any ESG upside or downside into our valuation.
 MSCI IVA Risk: Neutral
 MSCI IVA Risk Comment: CS ESG risk assessment in line with MSCI rating

Source: Company data, Credit Suisse Estimates, MSCI ESG Research

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 09-Mar-2017)

Crown (CWN.AX, A\$11.49)

Tabcorp Holdings (TAH.AX, A\$4.45, OUTPERFORM, TP A\$5.0)

Tatts Group (TTS.AX, A\$4.17, NEUTRAL, TP A\$4.2)

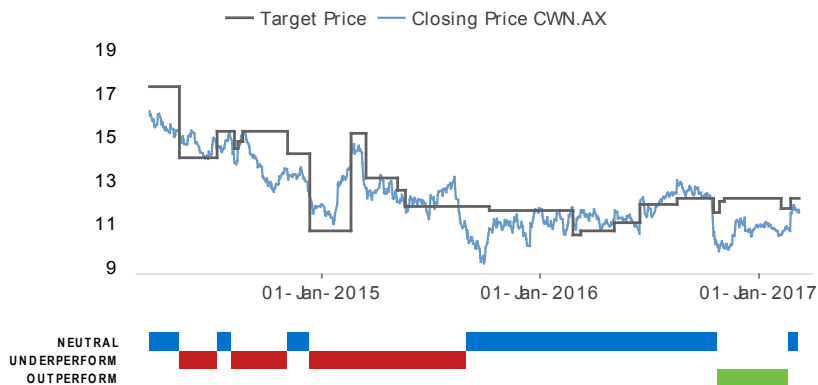
Disclosure Appendix

Analyst Certification

Larry Gandler and Ben Levin each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her 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 Crown (CWN.AX)

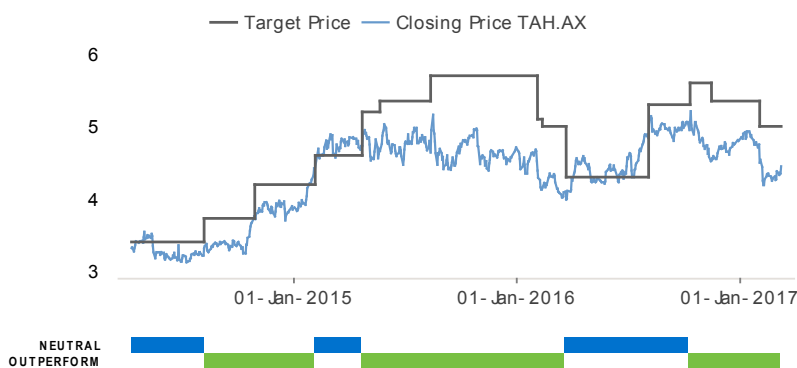
| CWN.AX | Closing Price | Target Price | | |
|-----------|---------------|--------------|--------|--|
| Date | (A\$) | (A\$) | Rating | |
| 19-Mar-14 | 16.16 | 17.29 | N | |
| 08-May-14 | 14.90 | 14.02 | U | |
| 10-Jul-14 | 14.42 | 15.23 | N | |
| 04-Aug-14 | 14.78 | 15.23 | U | |
| 08-Aug-14 | 13.78 | 14.44 | | |
| 14-Aug-14 | 14.63 | 14.76 | | |
| 22-Aug-14 | 15.12 | 15.23 | | |
| 05-Nov-14 | 13.27 | 14.20 | N | |
| 12-Dec-14 | 12.24 | 10.65 | U | |
| 19-Feb-15 | 14.84 | 15.14 | | |
| 16-Mar-15 | 12.59 | 13.08 | | |
| 08-May-15 | 11.99 | 12.52 | | |
| 21-May-15 | 11.71 | 11.77 | | |
| 02-Sep-15 | 10.62 | 11.77 | N | |
| 08-Oct-15 | 10.75 | 11.59 | | |
| 25-Feb-16 | 11.18 | 10.47 | | |
| 09-Mar-16 | 11.59 | 10.65 | | |
| 04-May-16 | 11.04 | 11.03 | | |
| 16-Jun-16 | 11.91 | 11.87 | | |
| 17-Aug-16 | 12.98 | 12.15 | | |
| 17-Oct-16 | 10.42 | 11.49 | | |
| 27-Oct-16 | 9.85 | 12.01 | O | |
| 04-Nov-16 | 9.84 | 12.15 | | |
| 07-Feb-17 | 10.48 | 11.68 | | |
| 23-Feb-17 | 11.48 | 12.15 | N | |



* Asterisk signifies initiation or assumption of coverage.

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

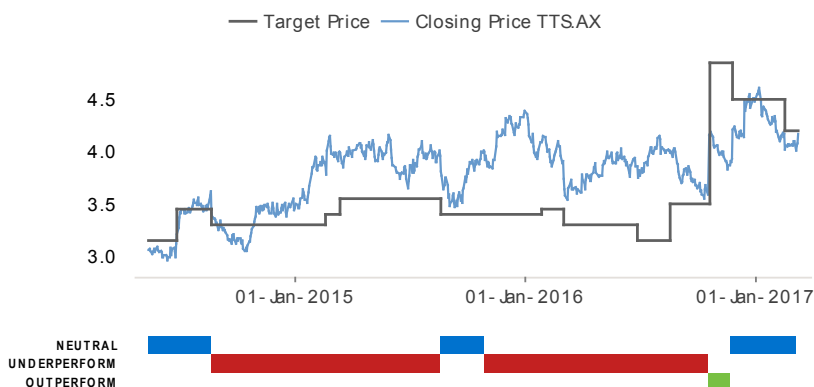
| TAH.AX | Closing Price | Target Price | |
|-----------|---------------|--------------|--------|
| Date | (A\$) | (A\$) | Rating |
| 10-Apr-14 | 3.32 | 3.40 | N |
| 07-Aug-14 | 3.32 | 3.73 | O |
| 29-Oct-14 | 3.73 | 4.20 | |
| 05-Feb-15 | 4.39 | 4.60 | N |
| 23-Apr-15 | 4.73 | 5.20 | O |
| 22-May-15 | 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 | |
| 22-Mar-16 | 3.99 | 4.30 | N |
| 04-Aug-16 | 4.84 | 5.30 | |
| 11-Oct-16 | 5.07 | 5.60 | O |
| 15-Nov-16 | 4.53 | 5.35 | |
| 02-Feb-17 | 4.50 | 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 |
| 13-May-14 | 3.06 | 3.15 | N |
| 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 | |
| 27-Jun-16 | 3.86 | 3.15 | |
| 18-Aug-16 | 3.99 | 3.50 | |
| 20-Oct-16 | 4.17 | 4.85 | O |
| 25-Nov-16 | 4.21 | 4.50 | N |
| 16-Feb-17 | 4.02 | 4.20 | |



* 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

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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; 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, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.

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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* | 44% | (64% banking clients) |
| Neutral/Hold* | 39% | (60% banking clients) |
| Underperform/Sell* | 14% | (52% banking clients) |
| Restricted | 2% | |

**For purposes of the NYSE and FINRA 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.*

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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 Tabcorp Holdings is set in line with our discounted cashflow (DCF) valuation. Our DCF incorporates a beta of 0.90 and a weighted average cost of capital of 7.1%. Our OUTPERFORM rating is reflective of the stock appearing cheap, with an attractive dividend yield. Market share losses do not seem to be accelerating in wagering and TAH is seeing growth in other segments (Keno and TGS)

Risk: Risks to our A\$5.00 target price and OUTPERFORM rating for Tabcorp Holdings include Tatts deal falling through, acceleration or deterioration in wagering revenue growth, adverse or favourable outcome from AFP investigation and increased competition from new wagering operators and uncertainty regarding renewal of TGS customer contracts post 2022 when the majority of contracts expire.

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\$4.20 is set using an implied bid price based on an estimate that Tabcorp could trade higher toward our A\$5.00 target price. Tabcorp has offered each TTS shareholder 0.8 TAH shares + cash. We hold a NEUTRAL as we see limited prospect of another competing bid, while there is better value to play the merger through Tabcorp.

Risk: The key risks to our A\$4.20 target price and NEUTRAL rating for Tatts Group relates to lack of deal completion which may occur should Australian competition regulators raise any concern. Longer term, there may be market share losses in wagering and potential future licence wins or losses (note Vic Lotteries licence due in FY18).

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See the Companies Mentioned section for full company names

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