Perpetual

Why online sports betting is worth a flutter

By Anthony Aboud

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A crazy FY21 saw the market up almost 30% and many different macro phases for investors to navigate. As we head into the new financial year, we feel really excited by the stocks that we own in the fund.

It became clear to us over FY21 that what was a logical and compelling macro view one moment could fundamentally change a few months' later. While you can't completely divorce your macro view from bottom-up stock picking, we resisted the temptation to make investment decisions based purely on our macro view. Picking the macro trends for FY22 is incredibly difficult and if FY21 has taught us anything it is to keep an open mind. We consistently stress test the portfolio against various macro scenarios to understand where our exposures may be and discuss if we are happy with these exposures. While we will continue to do this, the core of our investment decisions will remain our fundamental bottom-up stock picking.

We continue to hold strong conviction in Flutter Entertainment (LON: FLTR). During FY21 the stock marginally outperformed the market, however, this was after a very strong performance in FY20. In terms of our thesis, FY21 was a strong year of operational performance and delivery against strategic targets. FLTR's US business, Fanduel, continues to dominate the US market, which is proving to be larger than even the most bullish analysts had expected. Despite increasing competition as further states regulate, Fanduel has continued to hold a greater than 35% market share in sports betting with this increasing over recent months to over 40%. The core business in the UK and Australia continues to take market share and has been very successful in continuing to grow the active customer base with profitable retail customers.

The company is also making significant investments in the Pokerstars division. While this is impacting short-term earnings, it is believed to be setting the platform up for sustained long-term growth. FLTR is a proven market leader in the largest sports betting markets globally in the UK, US and Australia. The Pokerstars division will be the platform for FLTR to take this sports betting expertise to other large global markets that are regulated or will likely be regulated in the future. FLTR is investing up-front in increasing brand marketing and improving the technology platform such that when it integrates its market leading sports betting technology, the business is in a strong position to aggressively compete in these new markets.

We continue to believe FLTR has a very long runway of growth, and we expect it to compound EPS growth at over 10% for the next 10 years. At current levels we believe the stock is materially undervalued. If we assume that Fanduel is worth the same as the current market capitalization of key competitor Draftkings (NASDAQ: DKNG), it is worth about $US19.7b or £85/share for FLTR (FLTR owns 95% of Fanduel). We believe this is conservative given Fanduel is a materially larger business – Visible Alpha has consensus revenue forecasts for Fanduel in 2021 40% higher than Draftkings. This implies that the rest of FLTR's business ex the US is being valued by the market at the current share price at £44 / share, which translates to a 9x PE multiple on our FY22 earnings forecast (ex the US) falling to ~7.5x in FY23. For the global leader in online sports betting with a long runway of earnings growth we consider this to be a very attractive opportunity.

[Read the full newsletter](#).

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