Gaming

Malaysia

Berjaya Sports Toto (BST MK)

To realise its full value?

BUY

Share Price	MYR 1.97
12m Price Target	MYR 2.37 (+26%)
Previous Price Target	*MYR 2.37*

Maintain BUY call and MYR2.37 DCF-based TP

We hosted Mr. Jalil Rasheed, Group CEO of Berjaya Corporation (BC). BC owns 88% of Berjaya Land and 7% of BST directly. He stated that he plans for BST to sell Sports Toto Malaysia (STM) for c.MYR4b and most of Berjaya Philippine's businesses. Under a 'blue sky' scenario, we estimate that BST shares would be worth MYR4.25 each. We maintain our earnings estimates, BUY call and MYR2.37 TP. We are unsure if all of Mr. Rasheed's plans will materialize but it goes to show that BST has deep value.

Plans to sell Sports Toto Malaysia for c.MYR4b

Mr. Rasheed shared that he plans for BST to sell STM for c.MYR4b over the next three years. This is already higher than the current BST market capitalization. Should BST sell STM, it will still own 100% of International Lottery & Totalizator Systems, Inc. and 88% of **Berjaya Philippines Inc. (BCOR PM, Not Rated)**. That said, we are unsure if BST can find buyers for STM at such a price as they imply 14-16x pre-COVID-19 annual earnings. We value STM at MYR3.2b (Fig. 1).

Plans to realise value from Berjaya Philippines

For Berjaya Philippines, Mr. Rasheed shared that he plans to delist it (though he did not state if BST will privatise it first), dispose of all its businesses save for the environmental cleaning one (i.e. Floridablanca Enviro). Mr. Rasheed added that he plans for H.R. Owen to be sold to **Berjaya Corporation (BC MK, Not Rated)**. Note that we have not ascribed any value to Berjaya Philippines. Mr. Rasheed did not state what his plans are for International Lottery & Totalizator Systems though.

BST worth MYR4.25/share under 'blue sky' scenario?

At Berjaya Philippine's current share price of PHP5.44, we estimate that BST's 88%-ownership of Berjaya Philippines is worth PHP20.8b (MYR1.7b or MYR1.29/BST share). Should BST also sell STM for MYR4b or MYR2.96/BST share, we estimate that BST shares may be worth MYR4.25 each. This would imply a whopping 116% upside potential to BST's current share price. Though we caution that not all of Mr. Rasheed's plans may materialise, it goes to show how deep in value BST is.

FYE Jun (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	6,580	4,636	4,644	5,638	5,700
EBITDA	501	306	395	442	453
Core net profit	307	125	196	233	247
Core EPS (sen)	22.8	9.3	14.5	17.3	18.2
Core EPS growth (%)	17.4	(59.1)	56.1	19.0	5.6
Net DPS (sen)	16.0	10.4	12.0	14.0	15.3
Core P/E (x)	12.0	23.4	13.6	11.4	10.8
P/BV (x)	5.1	3.9	3.4	3.3	3.1
Net dividend yield (%)	5.9	4.8	6.1	7.1	7.7
ROAE (%)	30.9	18.2	26.0	29.4	29.5
ROAA (%)	11.6	4.5	6.8	8.4	9.2
EV/EBITDA (x)	8.6	14.3	9.9	8.8	8.4
Net gearing (%) (incl perps)	90.1	148.6	118.0	108.6	95.2
Consensus net profit	-	-	209	243	245
MKE vs. Consensus (%)	-	-	(6.2)	(3.9)	0.6

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Company Description

One of three national number forecast operators in Malaysia with 676 outlets.

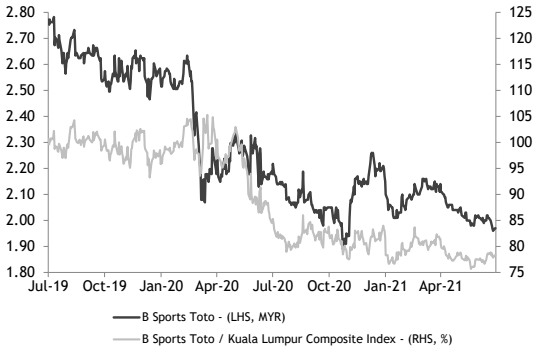
Statistics

52w high/low (MYR)	2.26/1.89
3m avg turnover (USDm)	0.4
Free float (%)	50.0
Issued shares (m)	1,351
Market capitalisation	MYR2.7B
	USD640M

Major shareholders:

Berjaya Land Bhd.	40.0%
Berjaya Corp. Bhd.	7.2%
AIA Bhd.	3.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	(7)	(10)
Relative to index (%)	1	(4)	(7)

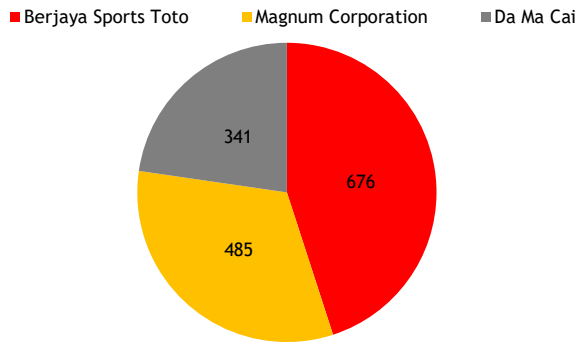
Source: FactSet

ESG@MKE
Tear Sheet Insert

Value Proposition

- Largest legal number forecast operator (NFO) in Malaysia with 676 outlets and seven games.
- Legal NFO industry has matured, but has also been slowly ceding share to the illegals due to lower prize payouts.
- Challenges are in introducing new and popular games and the authorities clamping down on illegal NFOs.
- High ROEs of >20% as BST has an established track record of paying special dividends and capital reductions.
- Current recurring dividend policy already generous at >75% DPR. Does distribute treasury shares as dividends.

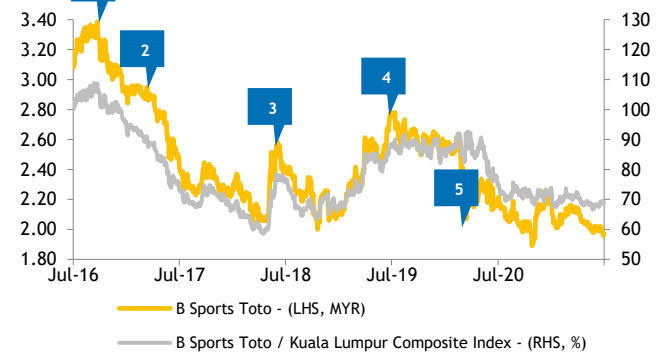
Number of outlets by NFO



Source: Company, Magnum, Pan Malaysian Pools

Price Drivers

Histor share price trend



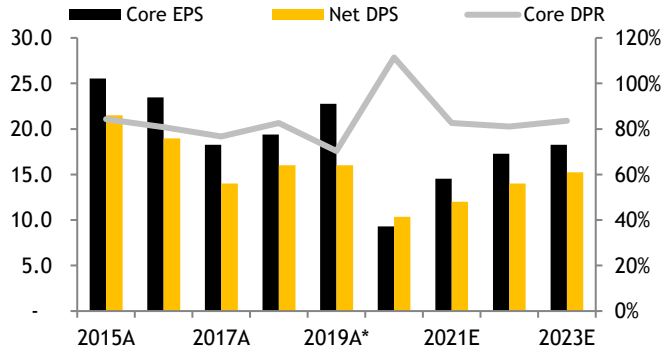
Source: Company, Maybank Kim Eng

1. Earnings were negatively impacted by higher-than-expected prize payouts and GST adjustments.
2. Subsequent share price downtrend due to poor consumer sentiment and market share loss to the illegal NFOs.
3. New Pakatan Harapan government abolished the Goods & Services Tax.
4. Introduced *4D Zodiac*, a game that combines the popular *Classic 4D* and Chinese zodiacs.
5. COVID-19 pandemic struck Malaysia. BST NFO outlets closed from 18 Mar 2020 to 16 Jun 2020.

Financial Metrics

- Key financial metric is EPS as it is the basis on which DPS will be declared.
- Forecast FY6/21E EPS to recover 56% YoY due to non-recurrence of the first MCO.
- First MCO in FY6/20E shut all NFO outlets. Second MCO in FY6/21E shut NFO outlets in certain states or territories.
- Forecast FY6/22E EPS to recover 19% YoY due to non-recurrence of MCOs.
- Balance sheet was in net debt position of MYR1.0b or MYR0.74/share as at end-3QFY6/21.

Core EPS (sen), DPS (sen) and DPR (%)



** 14 months of operations*

Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Prize payout ratio - Every 1ppt decrease in prize payout ratio will accrete c.MYR20m to core net profit.
- 4D: jackpot mix - tilt towards jackpot will expand margins due to its lower prize payout ratio of 55%.
- Special draws - Government may award more special draws to raise tax revenues.

Downside

- Prize payout ratio - Every 1ppt increase in prize payout ratio will deduct c.MYR20m from core net profit.
- Gaming tax rate hikes - Government raised gaming tax rates in the past and they may do so again going forward.
- Competition from illegal NFOs - Illegal NFOs offer prize payout ratios which are 10-20ppts higher for 4D.

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Risk Rating & Score[1]	30.8 (High)
Score Momentum[2]	+0.5
Last Updated	25 Feb 2021
Controversy Score[3] (Updated: 26 Dec 2011)	0 - No reports

Business Model & Industry Issues

- As a safeguard, the NFO industry is already heavily regulated with fixed number of NFO outlets, standardised number of draws and standardised operating hours. BST's corporate social responsibility (CSR) initiatives are also well known.
- In our view, BST's corporate governance in the late-1990s until the mid-2000s left much to be desired as it advanced huge sums of money to related companies.
- To be fair, BST greatly increased dividend payouts and returned capital to shareholders throughout the mid-2000s and all of the advances have been repaid to boot. Related party transactions (RPT) in recent years have been a lot smaller.
- Yet, the acquisition of British luxury car distributor, H.R. Owen in FY4/14 and high directors' remuneration relative to net profit continues to raise eyebrows.
- All in all, we opine that BST's ESG credentials have improved a lot over the years but there is still room for improvement.

Material E issues

- No major environmental issues. Reduced paper consumption by using recycled paper for bet slips.
- Reduced plastic consumption by replacing plastic cores in its thermal ticket rolls with biodegradable paper cores.
- BST did not elaborate on how much it reduced paper and plastic consumption by in its FY6/20 annual report.

Material S issues

- Regulated by the Ministry Of Finance (MOF) under Section 5 of the Pool Betting Act, 1967.
- MOF has frozen the number of NFO outlets since 1991 and limits the number of normal draws to three weekly.
- MOF may awards special draws that are held on Tuesdays. 22 special draws were awarded for CY21.
- NFO outlets must open no earlier than 8:00 a.m. and shut by 7:00 p.m.
- Betting at NFO outlets is denied to persons below the age of 21 and Malaysian Muslims.
- NFO outlets are precluded from extending credit to gamblers.
- STM's website (link) carries a "Play Responsibly" message, advising players to gamble responsibly.
- STM is certified at Level 2 of 4 (4 being the best) by the World Lottery Association Responsible Gaming Framework.
- CSR initiatives impacted circa 19,000 senior citizens, 1,200 individuals, 1,000 students and 100 families in FY20.
- 10% of STM's pre-tax profit goes towards funding the National Sports Council.

Key G metrics and issues

- BOD comprises 1 Chairman, 1 Chief Executive Officer (CEO), 2 Executive Directors and 5 Independent Non-Executive Directors (INED).
- Chairman, Dato' Sri Robin Tan Yeong Ching and CEO, Nerine Tan Sheik Ping are children of Tan Sri Dato' Seri Vincent Tan Chee Yioun (TSVT).
- TSVT controls BST's largest shareholders, Berjaya Land and Berjaya Corporation.
- TSVT is also Managing Director/Chief Executive Officer of BST's principal subsidiary, STM.
- Only 1 of the 9 BOD members is a woman, CEO, Nerine Tan Sheik Ping.
- FY6/20 directors' remuneration accounted for a high 34% of net profit.
- 14 month FPE 30 Jun 2019 directors' remuneration still accounted for a 'high-ish' 19% of net profit.
- Ernst & Young PLT is the independent auditor. They have been appointed for >10 years.
- There are 5 BOD level committees (Audit, Nomination, Remuneration, Risk Management and Sustainability).
- All 5 BOD level committees are chaired by INEDs (Datuk Robert Yong Kuen Loke, Dato' Oon Weng Boon and Poh Ying Loo).
- Advanced moneys to related companies from late-1990s until mid-2000s. Peaked at MYR1.1b as at end-FY4/02.
- To be fair, BST paid a huge special DPS of MYR1.70 in FY4/03 and raised its DPR policy to >75% since then.
- Moreover, it returned capital totalling MYR0.90/shr to shareholders between FY4/06 and FY4/07.
- Furthermore, all of the aforementioned advances have been repaid since FY4/08.
- Recent RPTs with various companies within the Berjaya Group are immaterial, in our view.
- Raised eyebrows in FY4/14 when BST acquired British luxury car distributor, H.R. Owen.
- To date, it has invested >MYR200m to raise its effective stake in H.R. Owen to 88%.
- That said, H.R. Owen was generating profits pre-COVID-19.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update – a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

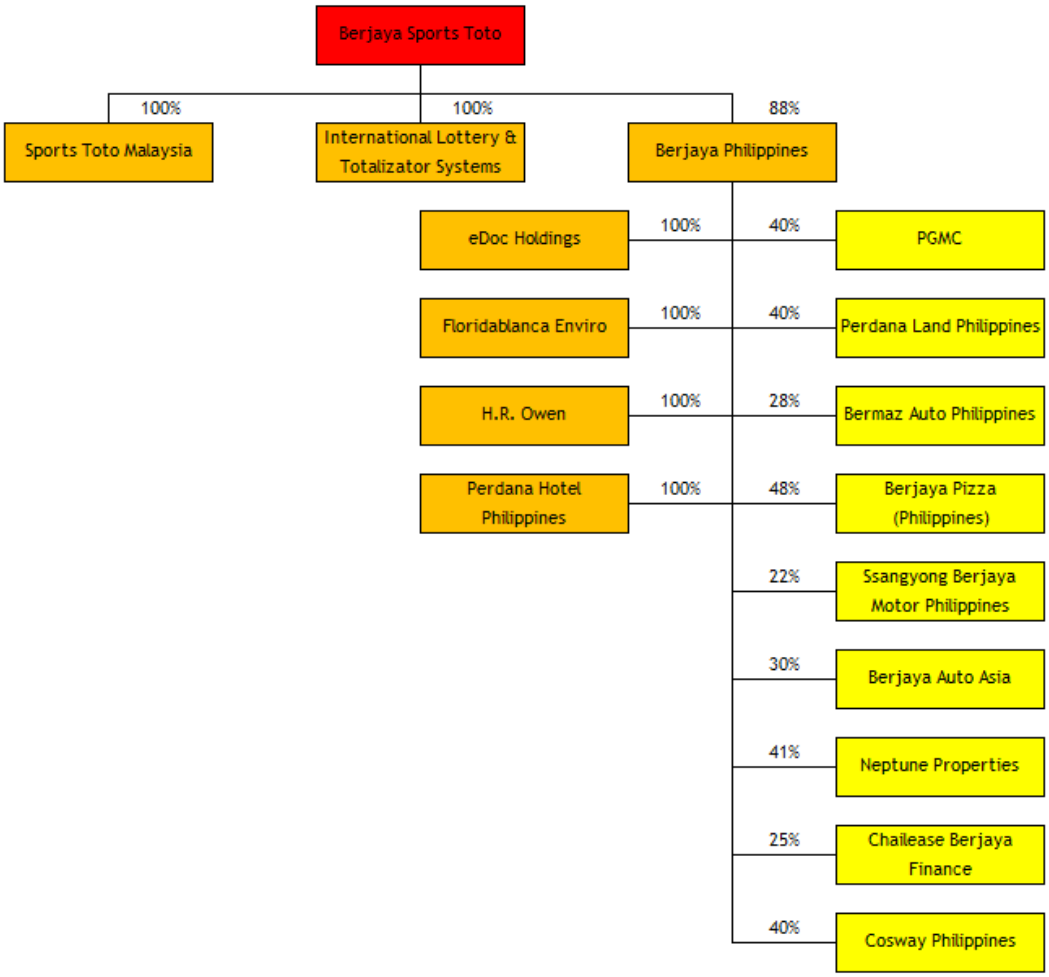
Figure 1: BST DCF-based valuation

	MYRm	MYR/sh	Comments
Sports Toto Malaysia DCF	3,795.0	2.81	WACC: 8.6%, g: 2.0%
(Net debt at Sports Toto Malaysia)	(600.0)	(0.44)	End-FY6/21E
Equity value	**3,195.0**	**2.37**	

Source: Maybank Kim Eng

Note that we ascribe nil value to Berjaya Philippines as it rarely pay dividends to BST which can be paid on to BST shareholders.

Figure 2: Berjaya Sports Toto organisational structure



Source: Company

FYE 30 Jun	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	13.7	25.1	13.6	11.4	10.8
Core P/E (x)	12.0	23.4	13.6	11.4	10.8
P/BV (x)	5.1	3.9	3.4	3.3	3.1
P/NTA (x)	112.1	62.6	33.0	21.3	16.1
Net dividend yield (%)	5.9	4.8	6.1	7.1	7.7
FCF yield (%)	8.2	2.8	14.5	8.6	10.8
EV/EBITDA (x)	8.6	14.3	9.9	8.8	8.4
EV/EBIT (x)	9.2	18.2	11.9	10.3	9.8
INCOME STATEMENT (MYR m)					
Revenue	6,579.7	4,635.7	4,644.1	5,638.1	5,700.0
EBITDA	501.1	305.9	395.0	442.3	453.0
Depreciation	(34.8)	(66.2)	(66.2)	(66.2)	(66.2)
EBIT	466.2	239.7	328.7	376.1	386.8
Net interest income /(exp)	(24.0)	(18.7)	(24.4)	(14.3)	(4.8)
Associates & JV	(10.2)	(1.9)	(1.9)	(1.9)	(1.9)
Exceptionals	(12.7)	7.7	0.0	0.0	0.0
Pretax profit	419.4	226.8	302.4	359.9	380.1
Income tax	(148.7)	(93.1)	(104.1)	(123.9)	(130.8)
Minorities	(3.1)	(1.0)	(2.2)	(2.6)	(2.7)
Discontinued operations	(40.7)	0.0	0.0	0.0	0.0
Reported net profit	226.8	132.7	196.1	233.4	246.5
Core net profit	306.6	125.0	196.1	233.4	246.5
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	422.4	307.8	450.9	117.3	162.8
Accounts receivable	467.2	566.0	452.0	547.3	553.2
Inventory	486.3	438.7	407.4	498.2	503.1
Property, Plant & Equip (net)	191.5	183.1	146.9	110.7	74.4
Intangible assets	688.6	691.3	691.3	691.3	691.3
Investment in Associates & JVs	70.6	119.3	117.4	115.4	113.5
Other assets	340.1	602.8	602.8	602.8	602.8
Total assets	**2,666.7**	**2,909.0**	**2,868.7**	**2,683.0**	**2,701.2**
ST interest bearing debt	366.2	465.4	770.0	440.5	505.3
Accounts payable	719.4	612.8	585.8	712.2	717.5
LT interest bearing debt	754.7	1,015.5	655.3	624.6	529.0
Other liabilities	51.0	26.0	32.0	33.0	34.0
Total Liabilities	**1,891.7**	**2,119.7**	**2,043.2**	**1,810.6**	**1,785.6**
Shareholders Equity	721.4	737.8	771.9	816.2	856.7
Minority Interest	53.5	51.5	53.6	56.2	59.0
Total shareholder equity	**775.0**	**789.3**	**825.5**	**872.4**	**915.6**
Total liabilities and equity	**2,666.7**	**2,909.0**	**2,868.7**	**2,683.0**	**2,701.2**
CASH FLOW (MYR m)					
Pretax profit	419.4	226.8	302.4	359.9	380.1
Depreciation & amortisation	34.8	66.2	66.2	66.2	66.2
Adj net interest (income)/exp	24.0	18.7	24.4	14.3	4.8
Change in working capital	2.0	(34.7)	118.3	(59.7)	(5.6)
Cash taxes paid	(145.9)	(116.5)	(97.8)	(122.6)	(130.4)
Other operating cash flow	22.8	(5.8)	1.9	1.9	1.9
Cash flow from operations	357.2	154.7	415.4	260.0	317.0
Capex	(55.8)	(72.9)	(30.0)	(30.0)	(30.0)
Free cash flow	301.4	81.8	385.4	230.0	287.0
Dividends paid	(262.7)	(168.4)	(162.1)	(189.1)	(206.0)
Equity raised / (purchased)	0.0	(19.8)	0.0	0.0	0.0
Change in Debt	(29.0)	55.5	(55.7)	(360.2)	(30.7)
Other invest/financing cash flow	(4.1)	(81.5)	(24.4)	(14.3)	(4.8)
Effect of exch rate changes	(1.5)	17.8	0.0	0.0	0.0
Net cash flow	4.2	(114.6)	143.2	(333.7)	45.5

FYE 30 Jun	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	18.9	(29.5)	0.2	21.4	1.1
EBITDA growth	25.8	(38.9)	29.1	12.0	2.4
EBIT growth	27.6	(48.6)	37.1	14.4	2.8
Pretax growth	27.1	(45.9)	33.3	19.0	5.6
Reported net profit growth	(2.7)	(41.5)	47.8	19.0	5.6
Core net profit growth	17.4	(59.2)	56.9	19.0	5.6
Profitability ratios (%)					
EBITDA margin	7.6	6.6	8.5	7.8	7.9
EBIT margin	7.1	5.2	7.1	6.7	6.8
Pretax profit margin	6.4	4.9	6.5	6.4	6.7
Payout ratio	95.0	104.9	82.6	81.0	83.6
DuPont analysis					
Net profit margin (%)	3.4	2.9	4.2	4.1	4.3
Revenue/Assets (x)	2.5	1.6	1.6	2.1	2.1
Assets/Equity (x)	3.7	3.9	3.7	3.3	3.2
ROAE (%)	30.9	18.2	26.0	29.4	29.5
ROAA (%)	11.6	4.5	6.8	8.4	9.2
Liquidity & Efficiency					
Cash conversion cycle	12.6	23.2	24.5	18.3	20.1
Days receivable outstanding	26.2	40.1	39.5	31.9	34.8
Days inventory outstanding	26.4	38.5	35.8	31.4	34.4
Days payables outstanding	40.1	55.4	50.8	45.0	49.0
Dividend cover (x)	1.1	1.0	1.2	1.2	1.2
Current ratio (x)	1.3	1.2	1.0	1.0	1.0
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.4	1.4	1.5	1.5
Net gearing (%) (incl perps)	90.1	148.6	118.0	108.6	95.2
Net gearing (%) (excl. perps)	90.1	148.6	118.0	108.6	95.2
Net interest cover (x)	19.4	12.8	13.5	26.3	81.1
Debt/EBITDA (x)	2.2	4.8	3.6	2.4	2.3
Capex/revenue (%)	0.8	1.6	0.6	0.5	0.5
Net debt/ (net cash)	698.5	1,173.2	974.3	947.7	871.5

Source: Company; Maybank

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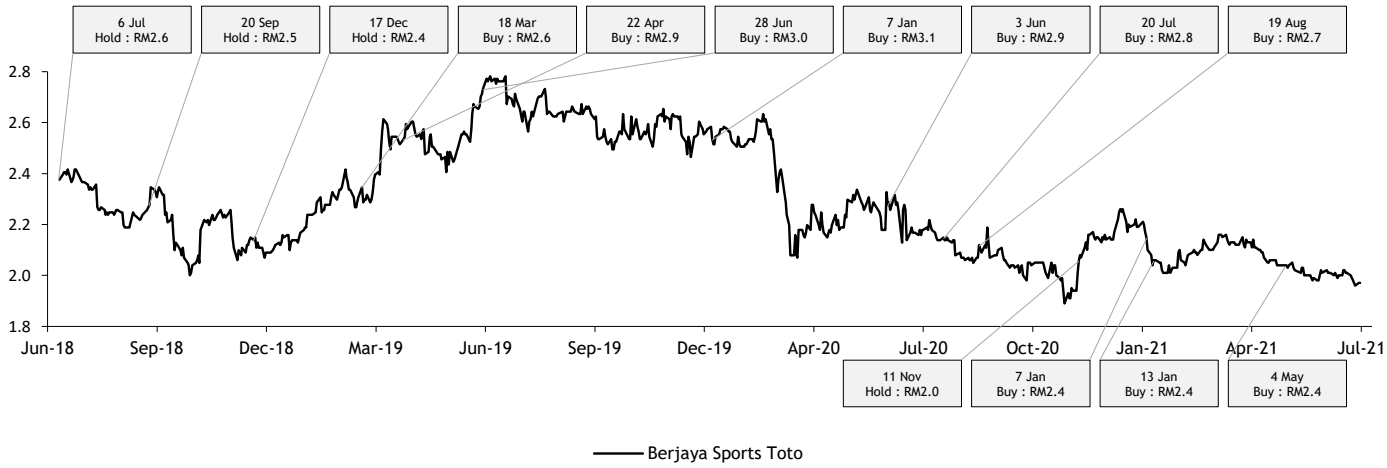

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