Berjaya Sports Toto (BST MK)

Saving for a rainy day

Maintain BUY call with higher TP of MYR2.41 (+2%)

Earnings marginally missed our expectations but dividends were way below our expectations. Considering the COVID-19 pandemic is raging in Malaysia, it is probably not surprising. We cut FY6/22E earnings by 52% as we assume that NFO outlets will only reopen in Nov 2021 but our long term earnings estimates are relatively unchanged thanks to the proven resilience of the NFO industry. Rolling forward our valuation base year to end-FY6/22E, we raise our DCF-based TP a tad by 2% to MYR2.41.

Earnings and dividends below our expectations

4QFY6/21 core net profit of MYR30.5m brought FY6/21 core net profit to MYR182.1m which was a tad below our expectations at 93% of our FY estimate. The shortfall was largely due to the Full Movement Control Order (FMCO) which took effect on 1 Jun 2021 and caused Sports Toto Malaysia (STM) to forego 15 draws in 4QFY6/21. That said, the more negative surprise was that BST did not declare any 4th interim DPS. YTD DPS of 8.0sen translated into 59% DPR or below its \geq 75% DPR policy.

STM NFO outlets to reopen in Nov 2021, in our view

With the FMCO still in effect and STM's NFO outlets still shuttered, it is perhaps not surprising why BST decided to forego the 4th interim DPS. Our previous FY6/22E estimates assumed that STM's NFO outlets will not be shut. After some deliberation, we now assume that STM's NFO outlets will be shut until Oct 2021 and only reopen in Nov 2021 after Malaysia reaches herd immunity in Oct 2021. Thus, we cut our FY6/22E core net profit by 52%.

Long term earnings estimates little changed though

Yet, we leave our FY6/23E core net profit little changed (-1%) as we expect NFO sales to recover quickly. Case in point, STM NFO sales recovered to 82% and 80% of pre-COVID-19 levels in 1QFY6/21 and 2QFY6/21 respectively as its NFO outlets were allowed to reopen then. This was during a time when COVID-19 vaccines were not even available in Malaysia yet. Thus, we opine that our assumption is not without basis. Our newly introduced FY6/24E core net profit implies 4% YoY growth.

FYE Jun (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	4,636	4,829	4,593	5,700	5,763
EBITDA	306	415	262	453	464
Core net profit	125	182	112	245	254
Core EPS (sen)	9.3	13.6	8.4	18.3	18.9
Core EPS growth (%)	(59.1)	45.9	(38.3)	118.2	3.7
Net DPS (sen)	10.4	8.0	7.0	15.3	16.0
Core P/E (x)	23.4	14.6	23.5	10.8	10.4
P/BV (x)	3.9	3.3	3.2	3.0	2.9
Net dividend yield (%)	4.8	4.0	3.6	7.7	8.1
ROAE (%)	18.2	23.5	13.6	28.7	28.5
ROAA (%)	4.5	6.3	4.1	9.2	9.5
EV/EBITDA (x)	14.3	9.6	14.9	8.5	8.1
Net gearing (%) (incl perps)	148.6	120.0	106.8	95.1	82.4
Consensus net profit	-	-	233	247	na
MKE vs. Consensus (%)	-	-	(51.9)	(0.7)	na

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Maybank IB Research

BUY

Share Price	MYR 1.97
12m Price Target	MYR 2.41 (+26%)
Previous Price Target	MYR 2.37

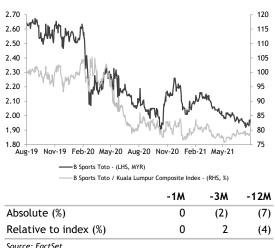
Company Description

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)	0.3
Free float (%)	50.2
Issued shares (m)	1,351
Market capitalisation	MYR2.7B
	USD628M
Major shareholders:	
Berjaya Land Bhd.	40.0%
Berjaya Corp. Bhd.	7.6%
AIA Bhd.	1.7%

Price Performance

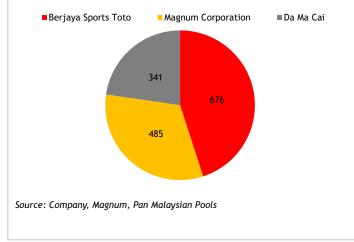


Note: FYE changed to Jun from Apr, from FY19 onwards (14 months in FY19).

Value Proposition

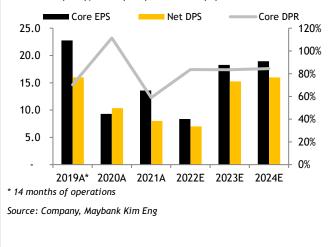
- Largest legal number forecast operator (NFO) in Malaysia with 676 outlets and seven games.
- Legal NFO industry has matured, but has also been slowly ceding share to the illegals due to lower prize payouts.
- Challenges are in introducing new and popular games and the authorities clamping down on illegal 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

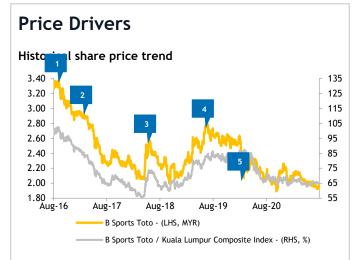


Financial Metrics

- Key financial metric is EPS as it is the basis on which DPS will be declared.
- Forecast FY6/22E EPS to fall 38% YoY due to the FMCO. We assume that it will be lifted in Nov 2021.
- Forecast FY6/23E EPS to recover 118% YoY due to nonrecurrence of the FMCO.
- Balance sheet was in net debt position of MYR1.1b or MYR0.79/share as at end-4QFY6/21.



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



Source: Company, Maybank Kim Eng

- 1. Earnings were negatively impacted by higher-thanexpected prize payouts and GST adjustments.
- Subsequent share price downtrend due to poor consumer sentiment and market share loss to 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.

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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Figure 1: Summary Results Table

FY Jun (MYR m)	4Q21	4Q20	<u>% YoY</u>	3Q21	% QoQ	FY21	FY20	% Yo Y
Turnover	1,127.0	475.1	137.2	1,122.3	0.4	4,829.1	4,635.7	4.2
Operating expenses	(1,035.2)	(486.3)	112.9	(1,060.5)	(2.4)	(4,414.6)	(4,329.7)	2.0
EBITDA	91.8	(11.2)	N/M	61.9	48.4	414.5	305.9	35.5
Depreciation & amortisation	(17.6)	(16.5)	6.8	(16.2)	8.9	(67.3)	(66.2)	1.6
EBIT	74.2	(27.7)	(367.5)	45.7	62.4	347.2	239.7	44.9
Interest expense	(18.7)	(13.2)	41.5	(8.8)	113.1	(48.7)	(18.7)	160.7
Associates	(6.2)	(4.5)	38.1	(1.5)	327.2	(17.1)	(1.9)	N/M
Exceptional items	-	-	N/M	-	N/M	-	7.7	(100.0)
Pre-tax profit	49.2	(45.5)	(208.2)	35.4	38.9	281.5	226.8	24.1
Tax	(17.2)	0.3	N/M	(14.6)	18.3	(93.5)	(93.1)	0.4
Minority interest	(1.5)	1.9	(178.7)	(2.2)	(31.4)	(5.9)	(1.0)	486.8
Net profit	30.5	(43.3)	(170.4)	18.7	63.1	182.1	132.7	37.2
Net profit Ex El	30.5	(43.3)	(170.4)	18.7	63.1	182.1	125.0	45.7
	4Q21	4Q20	+/- ppt	3Q21	+/- ppt	FY21	FY20	+/- ppt
EBIT margin (%)	6.6	(5.8)	12.4	4.1	2.5	7.2	5.2	2.0
Tax rate (%)	35.1	0.7	34.3	41.1	(6.1)	33.2	41.1	(7.8)
Segmental Results Table								
FY Jun (MYR m)	4Q21	4Q20	% YoY	3Q21	% QoQ	FY21	FY20	% YoY
Revenue	1,127.0	475.1	137.2	1,122.3	0.4	4,829.1	4,635.7	4.2
- Toto betting	449.7	67.8	N/M	478.3	(6.0)	2,263.5	2,466.6	(8.2)
- Motor dealership	661.6	384.1	72.3	632.1	4.7	2,502.2	2,065.9	21.1
- Others	15.6	23.2	(32.5)	12.0	30.7	63.4	103.2	(38.6)
EBIT	74.2	(27.7)	(367.5)	45.7	62.4	347.2	239.7	44.9
- Toto betting	47.8	(20.2)	(337.4)	28.6	67.2	278.5	256.8	8.5
- Motor dealership	28.4	(8.3)	(444.6)	24.7	15.1	89.2	(2.1)	N/M
- Others	1.1	4.4	(74.9)	(3.8)	(128.9)	(5.4)	4.1	(232.2)
- Unallocated corporate expenses	(3.2)	(3.7)	(13.7)	(3.8)	(15.6)	(15.1)	(19.1)	(20.5)

Source: Company, Maybank Kim Eng

Results analysis

- 4QFY6/21 core net profit of MYR30.5m was a positive turnaround from 4QFY6/20 core net loss of MYR43.3m largely because:-
 - 1. At STM, there were only 6 draws in 4QFY6/20 whereas there were 28 draws in 4QFY6/21; and
 - 2. At H.R. Owen, operations were shut for >2 months in 4QFY6/20 (23 Mar to 31 May 2020) whereas it was open throughout 4QFY6/21.
- 4QFY6/21 core net profit of MYR30.5m was up 63% QoQ largely because:-
 - 1. At STM, we estimate that the prize payout ratio fell 4ppts QoQ to c.60%; and
 - 2. At H.R. Owen, there were higher used car sales and a more favourable GBP/MYR exchange rate.

Figure 2: BST DCF-based valuation

	MYRm	MYR/sh	Comments
Sports Toto Malaysia DCF	3,931.1	2.93	WACC: 8.6%, g: 2.0%
(Net debt at Sports Toto Malaysia)	(700.0)	(0.52)	End-FY6/22E
Equity value	3,231.1	2.41	

Source: Maybank Kim Eng

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	25.1	15.3	23.5	10.8	10.4
Core P/E (x)	23.4	14.6	23.5	10.8	10.4
P/BV (x)	3.9	3.3	3.2	3.0	2.9
P/NTA (x)	62.6	24.4	20.8	15.8	12.8
Net dividend yield (%)	4.8	4.0	3.6	7.7	8.1
FCF yield (%)	2.8	16.1	7.5	10.2	11.3
EV/EBITDA (x)	14.3	9.6	14.9	8.5	8.1
EV/EBIT (x)	18.2	11.5	19.9	9.9	9.5
INCOME STATEMENT (MYR m)	4,635.7	4 920 1	4,593.3	5,700.0	5 742 2
Revenue EBITDA	,	4,829.1	,	,	5,763.3
	305.9	414.5	262.0	453.0	463.8
Depreciation	(66.2)	(67.3)	(66.2)	(66.2)	(66.2)
EBIT	239.7	347.2	195.8	386.8	397.6
Net interest income / (exp)	(18.7)	(48.7)	(12.6)	(6.0)	(2.6)
Associates & JV	(1.9)	(17.1)	(9.5)	(1.9)	(1.9)
Exceptionals	7.7	0.0	0.0	0.0	0.0
Pretax profit	226.8	281.5	173.7	378.9	393.1
Income tax	(93.1)	(93.5)	(57.7)	(125.8)	(130.6)
Minorities	(1.0)	(5.9)	(3.6)	(8.0)	(8.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	132.7	182.1	112.3	245.1	254.2
Core net profit	125.0	182.1	112.3	245.1	254.2
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	307.8	274.0	131.1	154.9	134.6
Accounts receivable	566.0	543.1	516.9	554.3	560.4
Inventory	438.7	320.7	314.7	381.2	385.0
Property, Plant & Equip (net)	183.1	293.8	257.5	221.3	185.1
Intangible assets	691.3	705.3	705.3	705.3	705.3
Investment in Associates & JVs	119.3	104.0	94.5	92.6	90.6
Other assets	602.8	584.7	584.7	584.7	584.7
Total assets	2,909.0	2,825.5	2,604.7	2,694.3	2,645.8
ST interest bearing debt	465.4	557.0	257.3	322.1	257.3
Accounts payable	612.8	539.9	533.0	609.4	613.8
LT interest bearing debt	1,015.5	771.0	835.1	734.4	698.5
Other liabilities	26.0	80.0	79.0	80.0	80.0
Total Liabilities	2,119.7	1,947.5	1,704.6	1,745.8	1,649.5
Shareholders Equity	737.8	814.2	832.6	873.0	912.6
Minority Interest	51.5	63.8	67.5	75.4	83.7
Total shareholder equity	789.3	878.0	900.1	948.4	996.2
Total liabilities and equity	2,909.0	2,825.5	2,604.7	2,694.3	2,645.8
CASH FLOW (MYR m)					
, ,	226.8	201 E	173.7	378.9	393.1
Pretax profit	66.2	281.5 67.3	66.2	378.9 66.2	393.1 66.2
Depreciation & amortisation					
Adj net interest (income)/exp	18.7	48.7	12.6	6.0	2.6
Change in working capital	(34.7)	167.0	25.2	(27.5)	(5.5)
Cash taxes paid	(116.5)	(79.8)	(58.0)	(125.2)	(130.5)
Other operating cash flow	(5.8)	17.1	9.5	1.9	1.9
Cash flow from operations	154.7	501.7	229.2	300.3	327.8
Capex	(72.9)	(73.4)	(30.0)	(30.0)	(30.0)
Free cash flow	81.8	428.2	199.2	270.3	297.8
Dividends paid	(168.4)	(87.3)	(93.9)	(204.6)	(214.7)
Equity raised / (purchased)	(19.8)	(18.2)	0.0	0.0	0.0
Change in Debt	55.5	(220.9)	(235.6)	(35.9)	(100.7)
Other invest/financing cash flow	(81.5)	(144.2)	(12.6)	(6.0)	(2.6)
Effect of exch rate changes	17.8	8.7	0.0	0.0	0.0
Net cash flow	(114.6)	(33.8)	(142.9)	23.8	(20.2)

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(29.5)	4.2	(4.9)	24.1	1.1
EBITDA growth	(38.9)	35.5	(36.8)	72.9	2.4
EBIT growth	(48.6)	44.9	(43.6)	97.6	2.8
Pretax growth	(45.9)	24.1	(38.3)	118.2	3.7
Reported net profit growth	(41.5)	37.2	(38.3)	118.2	3.7
Core net profit growth	(59.2)	45.7	(38.3)	118.2	3.7
Profitability ratios (%)					
EBITDA margin	6.6	8.6	5.7	7.9	8.0
EBIT margin	5.2	7.2	4.3	6.8	6.9
Pretax profit margin	4.9	5.8	3.8	6.6	6.8
Payout ratio	104.9	59.0	83.6	83.5	84.4
DuPont analysis					
Net profit margin (%)	2.9	3.8	2.4	4.3	4.4
Revenue/Assets (x)	1.6	1.7	1.8	2.1	2.2
Assets/Equity (x)	3.9	3.5	3.1	3.1	2.9
ROAE (%)	18.2	23.5	13.6	28.7	28.5
ROAA (%)	4.5	6.3	4.1	9.2	9.5
Liquidity & Efficiency					
Cash conversion cycle	23.2	25.3	23.4	18.5	19.3
Days receivable outstanding	40.1	41.3	41.5	33.8	34.8
Days inventory outstanding	38.5	31.0	26.4	23.9	26.0
Days payables outstanding	55.4	47.0	44.6	39.2	41.5
Dividend cover (x)	1.0	1.7	1.2	1.2	1.2
Current ratio (x)	1.2	1.0	1.2	1.2	1.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.5	1.5	1.5	1.6
Net gearing (%) (incl perps)	148.6	120.0	106.8	95.1	82.4
Net gearing (%) (excl. perps)	148.6	120.0	106.8	95.1	82.4
Net interest cover (x)	12.8	7.1	15.6	64.7	nm
Debt/EBITDA (x)	4.8	3.2	4.2	2.3	2.1
Capex/revenue (%)	1.6	1.5	0.7	0.5	0.5
Net debt/ (net cash)	1,173.2	1,054.0	961.3	901.6	821.2

Source: Company; Maybank

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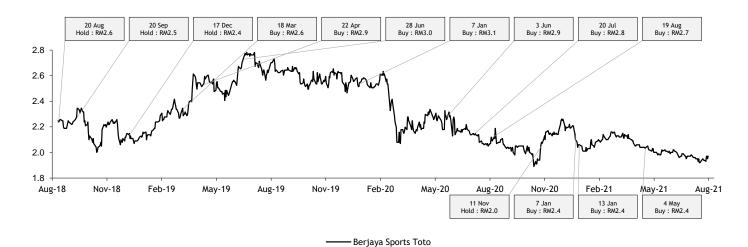
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