Berjaya Sports Toto (BST MK)

Quick out the reopening gate

Maintain BUY call and MYR2.41 DCF-based TP

As we suspected earlier (<u>link</u>), Sports Toto Malaysia (STM) NFO sales are recovering quickly. Barring any unforeseen circumstances, BST should resume paying dividends in 2QFY6/22. Its British luxury car dealer, H.R. Owen is also doing well post-reopening. Our earnings estimates, BUY call and MYR2.41 DCF-based TP are unchanged. We continue to like BST for its high dividend yields (>7% p.a. if STM NFO sales recover to 100% of pre-COVID-19 levels) and as a laggard recovery play.

STM NFO sales recovering quickly

Recall that NFO outlets were allowed to reopen on 14 Sep 2021. We understand that STM NFO sales currently stand at c.70% of pre-COVID-19 levels. Given the current trajectory, BST expects STM NFO sales to hit 80-85% of pre-COVID-19 levels in Nov and hopefully ramp further towards Chinese New Year (1 Feb 2022). To be sure, BST believes STM NFO sales can only hit 100% of pre-COVID-19 levels when foreign workers, a significant clientele for STM, return to Malaysia.

Dividends likely to return in 2QFY6/22

BST does not expect to declare a DPS for 1QFY6/22. This is because it held only 8 draws then while continuing to incur overheads. This will mean that BST will forego DPS for 2 consecutive quarters. That said, should STM NFO sales momentum continue, BST gathers that it will resume declaring DPS from 2QFY6/22 onwards. Recall that BST declared DPS of 4.0sen and 2.5sen in 1QFY6/21 and 2QY6/21 when STM NFO outlets reopened on 16 Jun 2020 after the first Movement Control Order.

H.R. Owen also doing well and growing

88%-owned British luxury car dealer, H.R. Owen resumed operations in Jul 2021. H.R. Owen has grown to contribute a meaningful MYR89.2m or 27% to group EBIT in FY6/21A (STM: 80%). BST stated that luxury car sales have been strong since reopening driven by new models like Lamborghini Sian, Ferrari Monza and Aston Martin DBX. H.R. Owen is also in the midst of constructing a new headquarters and multiple showrooms in Hatfield, c.30km north of London to save on expensive London showroom rental.

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	24.7	11.3	10.9
P/BV (x)	3.9	3.3	3.3	3.2	3.0
Net dividend yield (%)	4.8	4.0	3.4	7.4	7.7
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	15.4	8.8	8.4
Net gearing (%) (incl perps)	148.6	120.0	106.8	95.1	82.4
Consensus net profit	-	-	179	238	244
MKE vs. Consensus (%)	-	-	(37.3)	2.8	4.2

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BUY

Share Price	MYR 2.07
12m Price Target	MYR 2.41 (+20%)
Previous Price Target	MYR 2.41

Company Description

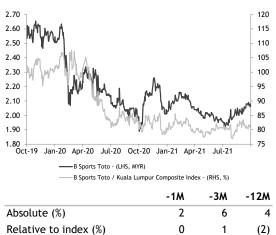
One of three national number forecast operators in Malaysia with 676 outlets.

Statistics

52w high/low (MYR)	2.26/1.89
3m avg turnover (USDm)	0.2
Free float (%)	50.2
Issued shares (m)	1,351
Market capitalisation	MYR2.8B
	USD674M
Major shareholders:	
Berjaya Land Bhd.	40.0%
Berjaya Corp. Bhd.	7.6%
AIA Bhd.	1.7%

Price Performance

Source: FactSet

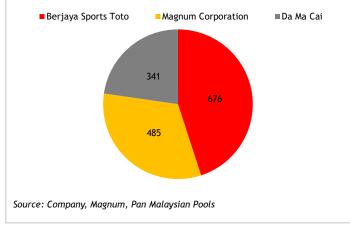




Value Proposition

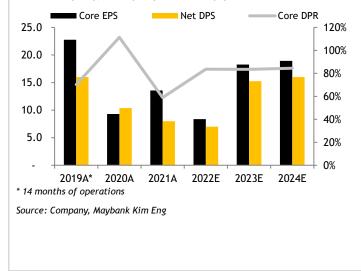
- Largest legal number forecast operator (NFO) in Malaysia with 676 outlets and seven games.
- Legal NFO industry has matured, but has also been slowly ceding share to the illegals due to lower prize payouts.
- Challenges are in introducing new and popular games and the authorities clamping down on illegal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

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

- 1. Share price downtrend due to poor consumer sentiment and market share loss to illegal NFOs.
- 2. New Pakatan Harapan government abolished the Goods & Services Tax.
- 3. Introduced *4D Zodiac*, a game that combines the popular *Classic 4D* and Chinese zodiacs.
- 4. COVID-19 pandemic struck Malaysia. BST NFO outlets closed from 18 Mar 2020 to 15 Jun 2020.
- 5. New COVID-19 cases in Malaysia began to rise after the Sabah state election.

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.
- Fewer CSR initiatives were held in FY21 but this was due to the COVID-19 pandemic.
- 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, 1 Non-Independent Non-Executive Director and 4 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.
- FY6/21 directors' remuneration accounted for 3% of net profit.
- Yet, directors of STM have historically been paid remuneration averaging a higher 15% of net profit.
- BST used to disclose how much directors of its subsidiaries were remunerated but this ceased in FY6/21.
- Ernst & Young PLT is the independent auditor. They have been appointed for >10 years.
- All 5 BOD level committees are chaired by INEDs (Datuk Robert Yong Kuen Loke 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.

<u>Risk Rating & Score</u> - 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. <u>*Score Momentum</u> - 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. <u>*Controversy Score</u> - 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	3,931.1	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	24.7	11.3	10.9
Core P/E (x)	23.4	14.6	24.7	11.3	10.9
P/BV (x)	3.9	3.3	3.3	3.2	3.0
P/NTA (x)	62.6	24.4	21.8	16.6	13.4
Net dividend yield (%)	4.8	4.0	3.4	7.4	7.7
FCF yield (%)	2.8	16.1	7.2	9.7	10.7
	14.3	9.6	15.4	8.8	8.4
EV/EBITDA (x)					
EV/EBIT (x)	18.2	11.5	20.6	10.3	9.8
INCOME STATEMENT (MYR m)					
Revenue	4,635.7	4,829.1	4,593.3	5,700.0	5,763.3
EBITDA	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	(10.7)	(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
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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	134.0
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.
Intangible assets	691.3	705.3	705.3	705.3	705.
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.
Other liabilities	26.0	80.0	79.0	80.0	80.0
Total Liabilities			1,704.6		
	2,119.7	1,947.5 814.2		1,745.8	1,649. 912.0
Shareholders Equity	737.8	63.8	832.6	873.0	
Minority Interest	51.5		67.5	75.4	83.7
Total shareholder equity	789.3	878.0 2 825 5	900.1	948.4 2,694.3	996.2
Total liabilities and equity	2,909.0	2,825.5	2,604.7	2,074.5	2,645.8
CASH FLOW (MYR m)					
Pretax profit	226.8	281.5	173.7	378.9	393.
Depreciation & amortisation	66.2	67.3	66.2	66.2	66.2
Adj net interest (income)/exp	18.7	48.7	12.6	6.0	2.0
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	
Cash flow from operations	154.7	501.7	229.2	300.3	327.
Capex	(72.9)	(73.4)	(30.0)	(30.0)	(30.0
Free cash flow	81.8	428.2	199.2	270.3	297.
Dividends paid	(168.4)	(87.3)	(93.9)	(204.6)	(214.7
Equity raised / (purchased)	(108.4)	(18.2)	0.0	0.0	(214.7
Change in Debt	55.5 (81 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

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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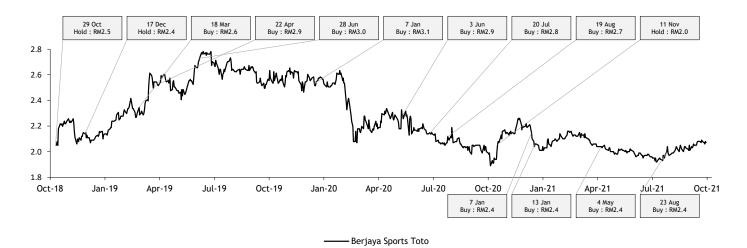
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