

# Berjaya Sports Toto (BST MK)

# More paper cut than deep gash

### Maintain BUY call with lower TP of MYR2.29 (-5%)

The Kedah state ban on NFO outlets will have a minimal negative impact on earnings (-4%). While Cukai Makmur will also have a negative impact on earnings (-4%), it will only be for 1 year. We trim our FY22E EPS by 8% and FY23E/FY24E EPS by 4%. Consequently, we trim our DCF-based TP to MYR2.29 from MYR2.41 but maintain our BUY call. We advise investors to BUY BST shares should there be a 'knee jerk reaction' to its share price today.

### Only 3% of NFO outlets affected by Kedah state ban

Yesterday, the Kedah state government announced that it will not renew the licenses of NFO outlets for CY22E. Our analysis reveals that only 20 or 3% of BST's NFO outlets are located in Kedah. We beg to differ with the Kedah Chief Minister, Muhammad Sanusi Md Nor, who implied that BST's NFO outlets in Penang may benefit from this development. We gather that punters in Kedah will likely bet with illegal NFOs instead due to their proximity, depriving the federal government of tax revenues.

### Cukai Makmur will weigh as well

Under Budget 2022, the Government of Malaysia proposed *Cukai Makmur* (Prosperity Tax) whereby chargeable income for the first MYR100m will be subject to the existing corporate tax rate of 24% and anything in excess of that will be taxed at 33% for YA2022. While corporate income tax is chargeable at the company level (not at group level) for income derived and remitted into Malaysia, we gather that almost all of BST's profits are derived from one company, Sports Toto Malaysia Sdn. Bhd.

### Long term prospects still stable, in our view

Reflecting the above, we trim our FY22E EPS by 8% and FY23E/FY24E EPS estimate by 4%. Our FY22E EPS trim is wider than that of FY23E/FY23E due to Cukai Makmur, which will only be imposed for 1 year. Our FY23E/FY24E EPS trim reflects only the closure of BST's NFO outlets in Kedah. Consequently, our DCF-based TP is trimmed by 5% to MYR2.29. Maintain our BUY call on BST due to its relatively stable long term prospects.

FYE Jun (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	4,636	4,829	4,563	5,607	5,668
EBITDA	306	415	257	437	447
Core net profit	125	182	103	235	244
Core EPS (sen)	9.3	13.6	7.7	17.5	18.2
Core EPS growth (%)	(59.1)	45.9	(43.5)	128.3	3.8
Net DPS (sen)	10.4	8.0	6.4	14.5	15.0
Core P/E (x)	23.4	14.6	26.4	11.6	11.1
P/BV (x)	3.9	3.3	3.3	3.1	3.0
Net dividend yield (%)	4.8	4.0	3.2	7.2	7.4
ROAE (%)	18.2	23.5	12.5	27.6	27.3
ROAA (%)	4.5	6.3	3.8	8.9	9.1
EV/EBITDA (x)	14.3	9.6	15.4	8.9	8.6
Net gearing (%) (incl perps)	148.6	120.0	106.7	94.6	81.5
Consensus net profit	-	-	173	238	249
MKE vs. Consensus (%)	-	-	(40.4)	(1.6)	(2.2)

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# BUY

Share Price MYR 2.02

12m Price Target MYR 2.29 (+18%)

Previous Price Target MYR 2.41

### **Company Description**

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

#### **Statistics**

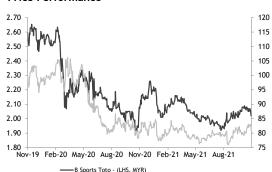
52w high/low (MYR)	2.26/1.92
3m avg turnover (USDm)	0.2
Free float (%)	50.2
Issued shares (m)	1,351
Market capitalisation	MYR2.7B
	USD655M

Major shareholders:
Berjaya Land Bhd.
Berjaya Corp. Bhd

Berjaya Corp. Bhd. 7.6% AIA Bhd. 1.7%

40.0%

#### Price Performance



 -1M
 -3M
 -12M

 Absolute (%)
 (1)
 4
 (3)

 Relative to index (%)
 2
 2
 1

B Sports Toto / Kuala Lumpur Composite Index - (RHS, %)

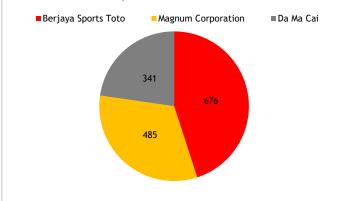
Source: FactSet



# **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

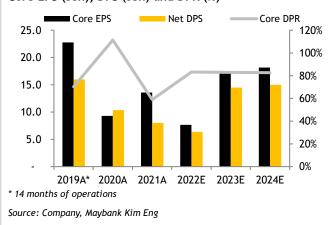


Source: Company, Magnum, Pan Malaysian Pools

### **Financial Metrics**

- Key financial metric is EPS as it is the basis on which DPS will be declared.
- Forecast FY6/22E EPS to fall 44% YoY due to the Full Movement Control Order (FMCO) and Cukai Makmur.
- Forecast FY6/23E EPS to recover 128% YoY due to nonrecurrence of the FMCO and Cukai Makmur.
- 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.
- 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.
- 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 <sup>1</sup>	30.8 (High)
Score Momentum <sup>2</sup>	+0.5
Last Updated	25 Feb 2021
Controversy Score <sup>3</sup> (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-10

<u>¹Risk 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>²Score Momentum</u> - indicates changes to the company's score since the last update - a <u>negative</u> integer indicates a company's improving risk score; a <u>positive</u> integer indicates a deterioration. <u>³Controversy 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	3,767.3	2.81	WACC: 8.6%, g: 2.0%
(Net debt at Sports Toto Malaysia)	(700.0)	(0.52)	End-FY6/22E
Equity value	3,067.3	2.29	

Source: Maybank Kim Eng

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	25.1	15.3	26.4	11.6	11.1
Core P/E (x)	23.4	14.6	26.4	11.6	11.1
P/BV (x)	3.9	3.3	3.3	3.1	3.0
P/NTA (x)	62.6	24.4	21.5	16.3	13.0
Net dividend yield (%)	4.8	4.0	3.2	7.2	7.4
FCF yield (%)	2.8	16.1	7.1	9.8	10.6
EV/EBITDA (x)	14.3	9.6	15.4	8.9	8.6
EV/EBIT (x)	18.2	11.5	20.8	10.5	10.0
INCOME STATEMENT (MYR m)					
Revenue	4,635.7	4,829.1	4,563.0	5,606.5	5,667.9
EBITDA	305.9	414.5	256.8	436.9	447.4
Depreciation	(66.2)	(67.3)	(66.2)	(66.2)	(66.2)
EBIT	239.7	347.2	190.5	370.7	381.2
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	168.5	362.8	376.7
Income tax	(93.1)	(93.5)	(62.1)	(120.5)	(125.1)
Minorities	(1.0)	(5.9)	(3.5)	(7.6)	(7.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	132.7	182.1	102.8	234.7	243.6
Core net profit	125.0	182.1	102.8	234.7	243.6
core net pront	123.0	102.1	102.0	234.7	243.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	307.8	274.0	132.9	161.0	143.4
Accounts receivable	566.0	543.1	513.6	545.4	551.2
Inventory	438.7	320.7	312.8	375.6	379.3
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	2,601.4	2,685.8	2,639.6
ST interest bearing debt	465.4	557.0	257.3	322.1	257.3
Accounts payable	612.8	539.9	530.9	602.9	607.2
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	1,702.6	1,739.3	1,642.9
Shareholders Equity	737.8	814.2	831.4	871.5	913.9
Minority Interest	51.5	63.8	67.3	75.0	82.9
Total shareholder equity	789.3	878.0	898.8	946.5	996.8
Total liabilities and equity	2,909.0	2,825.5	2,601.4	2,685.8	2,639.6
CASH FLOW (MYR m)					
Pretax profit	226.8	281.5	168.5	362.8	376.7
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	2.6
Change in working capital	(34.7)	167.0	28.3	(22.5)	(5.3)
Cash taxes paid		(79.8)	(62.4)		
Other operating cash flow	(116.5) (5.8)	17.1	9.5	(119.9) 1.9	(125.1) 1.9
Cash flow from operations	154.7	501.7	222.7	294.5	317.0
Capex			(30.0)		
Free cash flow	(72.9) 81.8	(73.4) 428.2		(30.0)	(30.0)
	81.8	428.2	192.7	264.5	287.0
Dividends paid  Fauity raised / (purchased)	(168.4)	(87.3)	(85.5)	(194.6)	(201.3)
Equity raised / (purchased)	(19.8)	(18.2)	(225.4)	(25.0)	(100.7)
Change in Debt Other invest/financing cash flow	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	(33.8)	0.0	0.0	(17.6)
Net cash flow	(114.6)	(33.8)	(141.1)	28.1	(17.6)

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(29.5)	4.2	(5.5)	22.9	1.1
EBITDA growth	(38.9)	35.5	(38.1)	70.2	2.4
EBIT growth	(48.6)	44.9	(45.1)	94.5	2.8
Pretax growth	(45.9)	24.1	(40.2)	115.4	3.8
Reported net profit growth	(41.5)	37.2	(43.5)	128.3	3.8
Core net profit growth	(59.2)	45.7	(43.5)	128.3	3.8
Profitability ratios (%)					
EBITDA margin	6.6	8.6	5.6	7.8	7.9
EBIT margin	5.2	7.2	4.2	6.6	6.7
Pretax profit margin	4.9	5.8	3.7	6.5	6.6
Payout ratio	104.9	59.0	83.2	82.9	82.6
DuPont analysis					
Net profit margin (%)	2.9	3.8	2.3	4.2	4.3
Revenue/Assets (x)	1.6	1.7	1.8	2.1	2.1
Assets/Equity (x)	3.9	3.5	3.1	3.1	2.9
ROAE (%)	18.2	23.5	12.5	27.6	27.3
ROAA (%)	4.5	6.3	3.8	8.9	9.1
Liquidity & Efficiency					
Cash conversion cycle	23.2	25.3	23.4	18.5	19.1
Days receivable outstanding	40.1	41.3	41.7	34.0	34.8
Days inventory outstanding	38.5	31.0	26.5	24.0	26.0
Days payables outstanding	55.4	47.0	44.8	39.5	41.7
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	106.7	94.6	81.5
Net gearing (%) (excl. perps)	148.6	120.0	106.7	94.6	81.5
Net interest cover (x)	12.8	7.1	15.1	62.1	143.9
Debt/EBITDA (x)	4.8	3.2	4.3	2.4	2.1
Capex/revenue (%)	1.6	1.5	0.7	0.5	0.5
Net debt/ (net cash)	1,173.2	1,054.0	959.4	895.5	812.4

Source: Company; Maybank

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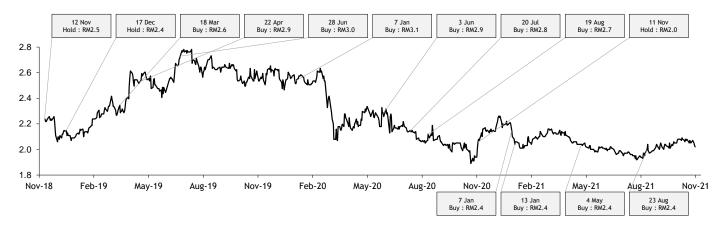
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