

Berjaya Sports Toto (BST MK)

Look past the Kedah fiasco for high dividend yields

Maintain BUY call and MYR2.29 DCF-based TP

BST generated a 1QFY6/22 net loss following the FMCO but we had expected this. Positively, BST declared a first interim DPS of 1.0sen when we had expected none due to the aforementioned net loss. We expect STM NFO sales to recover going forward even with the Kedah ban. Maintain our earnings estimates, dividends estimates and MYR2.29 DCF-based TP. We continue to like BST as a laggard recovery play which offers high dividend yields (>7% p.a. from FY23E onwards).

Losses expected but first interim DPS a +ve surprise

Although BST generated a 1QFY6/22 net loss of MYR17.7m, it was within our expectations. Recall that BST's Sports Toto Malaysia (STM) outlets were shut from 1 Jun 2021 to 13 Sep 2021 due to the Full Movement Control Order (FMCO). We expect future quarters to be profitable as STM outlets have reopened since 14 Sep 2021. To our positive surprise, BST declared a first interim DPS of 1.0sen when we were expecting none. In our opinion, this speaks to BST's confidence in its outlook.

Recovery in STM gross NFO sales/draw in-line

Even though STM held only 8 draws in 1QFY6/22, our analysis reveals that its gross NFO sales/draw recovered to 40-50% of pre-COVID-19 levels. After STM outlets reopened on 16 Jun 2020 following the First Movement Control Order (MCO 1.0), our analysis of the 6 draws it held in 4QFY6/20 reveals that its gross NFO sales/draw recovered to 50-60% of pre-COVID-19 levels. Though the recovery in STM's gross NFO sales/draw is a tad slower this time, it is still within our expectations.

Future to be better even with Kedah ban

We understand that STM gross NFO sales/draw recovered further to c.70% of pre-COVID-19 levels in Oct 2021 and c.80% of pre-COVID-19 levels in Nov 2021. Hopefully, it will ramp further towards Chinese New Year (1 Feb 2022). While the Kedah state government will not renew the licenses of NFO outlets for CY22E, our analysis reveals that only 20 or 3% of STM's NFO outlets are located in Kedah. We have already accounted for the Kedah state ban in our current estimates.

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	25.6	11.2	10.8
P/BV (x)	3.9	3.3	3.2	3.0	2.9
Net dividend yield (%)	4.8	4.0	3.3	7.4	7.7
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	15.1	8.8	8.4
Net gearing (%) (incl perps)	148.6	120.0	106.7	94.6	81.5
Consensus net profit	-	-	173	237	244
MKE vs. Consensus (%)	-	-	(40.4)	(1.2)	(0.1)

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BUY

Share Price MYR 1.96

12m Price Target MYR 2.29 (+22%)

Previous Price Target MYR 2.29

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)	0.3
Free float (%)	50.2
Issued shares (m)	1,351
Market capitalisation	MYR2.6B
	USD633M

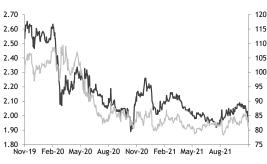
Major shareholders: Berjaya Land Bhd.

 Berjaya Land Bhd.
 40.0%

 Berjaya Corp. Bhd.
 7.6%

 AIA Bhd.
 1.7%

Price Performance



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

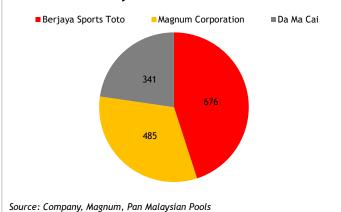
	-1M	-3M	-12M
Absolute (%)	(6)	(1)	(7)
Relative to index (%)	(1)	(1)	(2)

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.

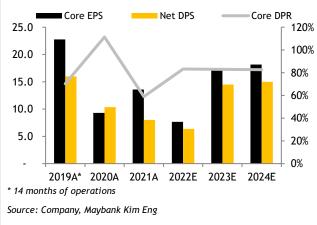
Number of outlets by NFO



Financial Metrics

- Key financial metric is EPS as it is the basis on which DPS will be declared.
- Forecast FY6/22E EPS to fall 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



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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Figure 1: Summary Results Table

FY Jun (MYR m)	1Q22	1Q21	% YoY	4Q21	% QoQ
Turnover	797.6	1,345.9	(40.7)	1,127.0	(29.2)
Operating expenses	(783.2)	(1,209.4)	(35.2)	(1,035.2)	(24.3)
EBITDA	14.4	136.5	(89.4)	91.8	(84.3)
Depreciation & amortisation	(16.6)	(17.0)	(2.5)	(17.6)	(6.1)
EBIT	(2.2)	119.5	(101.8)	74.2	(102.9)
Interest expense	(10.7)	(12.4)	(13.9)	(18.7)	(42.8)
Associates	0.5	(5.6)	(108.1)	(6.2)	(107.3)
Pre-tax profit	(12.4)	101.4	(112.2)	49.2	(125.2)
Tax	(2.5)	(32.3)	(92.4)	(17.2)	(85.8)
Minority interest	(2.8)	(1.3)	115.3	(1.5)	89.0
Net profit	(17.7)	67.9	(126.0)	30.5	(158.0)
Net profit Ex El	(17.7)	67.9	(126.0)	30.5	(158.0)
	1Q22	1Q21	+/- ppt	4Q21	+/- ppt
EBIT margin (%)	(0.3)	8.9	(9.1)	6.6	(6.9)
Tax rate (%)	(19.8)	31.8	(51.6)	35.1	(54.9)
Segmental Results Table					
FY Jun (MYR m)	1Q22	1Q21	% YoY	4Q21	% QoQ
Revenue	797.6	1,345.9	(40.7)	1,127.0	(29.2)
- Toto betting	74.2	655.2	(88. <i>7</i>)	449.7	(83.5)
- Motor dealership	707.1	667.2	6.0	661.6	6.9
- Others	16.3	23.5	(30.7)	15.6	4.2
EBIT	(2.2)	119.5	(101.8)	74.2	(102.9)
- Toto betting	(26.6)	98.0	(127.1)	47.8	(155.6)
- Motor dealership	27.3	22.1	23.5	28.4	(4.0)
- Others	0.3	3.2	(90.2)	1.1	(71.8)
- Unallocated corporate expenses	(3.2)	(3.8)	(16.3)	(3.2)	(1.5)

Source: Company

Results analysis

- 1QFY6/22 net loss of MYR17.7m was a negative turnaround from 1QFY6/21 net profit of MYR67.9m largely because at STM, there were only 8 draws in 1QFY6/22 whereas there were 42 draws in 1QFY6/21; but moderated by H.R. Owen, which recorded higher sales and used car margins YoY.
- 1QFY6/22 net loss of MYR17.7m was a negative turnaround from 4QFY6/21 net profit of MYR30.5m largely because at STM, there were only 8 draws in 1QFY6/22 whereas there were 28 draws in 4QFY6/21.

Figure 2: 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

November 19, 2021

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics	25.4	45.0	25.4	44.0	40.0
P/E (reported) (x)	25.1	15.3	25.6	11.2	10.8
Core P/E (x)	23.4	14.6	25.6	11.2	10.8
P/BV (x)	3.9	3.3	3.2	3.0	2.9
P/NTA (x)	62.6	24.4	20.8	15.8	12.6
Net dividend yield (%)	4.8	4.0	3.3	7.4	7.7
FCF yield (%)	2.8	16.1	7.3	10.1	10.9
EV/EBITDA (x)	14.3	9.6	15.1	8.8	8.4
EV/EBIT (x)	18.2	11.5	20.4	10.3	9.8
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
•	132.7	182.1	102.8	234.7	243.6
Reported net profit			102.8	234.7	243.6
Core net profit	125.0	182.1	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
6.6U = 1.6U (UV)					
CASH FLOW (MYR m)	224.0	204 E	140 E	242.0	274.7
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	(116.5)	(79.8)	(62.4)	(119.9)	(125.1)
Other operating cash flow	(5.8)	17.1	9.5	1.9	1.9
Cash flow from operations	154.7	501.7	222.7	294.5	317.0
Capex	(72.9)	(73.4)	(30.0)	(30.0)	(30.0)
Free cash flow	81.8	428.2	192.7	264.5	287.0
Dividends paid	(168.4)	(87.3)	(85.5)	(194.6)	(201.3)
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)	(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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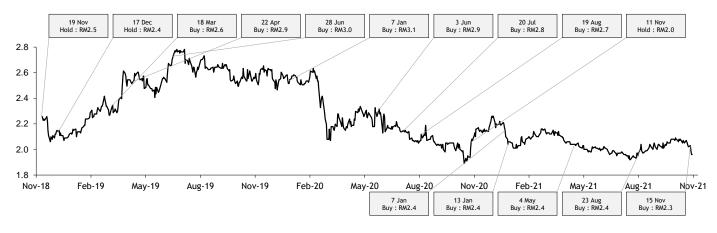
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