

Sports Toto (SPTOTO MK)

Decent end to FY22 but outlook less clear

Cut TP to MYR1.86 (-17%) and downgrade to HOLD

Earnings/dividends were within/above our expectations. On closer inspection, the recovery in gross NFO sales/draw has been weaker than we expected despite life returning to near normal. We understand that illegal NFOs have become an even bigger bane in the post-COVID world. We cut EPS estimates by 6-7% and DPS estimates by 10%. Coupled with reducing terminal growth rate to 0% from 2%, we cut our DCF-based TP to MYR1.86 from MYR2.24. Downgrade SPTOTO to HOLD from BUY.

Earnings in-line but dividends outperformed

4QFY22 core net profit of MYR48.3m (+42% YoY, -39% QoQ) brought FY22 to MYR163.3m (-12% YoY) which was within our expectations at 103% of our FY estimate. As a secondary check, FY22 EBITDA of MYR368.2m (-4% YoY) was also in-line at 102% of our FY estimate. That said, the fourth cash DPS of 3.0sen and fourth share DPS of 1.7sen which brought FY DPS to 8.7sen was above our expectation of 6.4sen.

Gross NFO sales/draw eased QoQ

Recall that we estimated that 3QFY22 gross NFO sales/draw hit c.90% of pre-COVID-19 levels. This was largely due to the huge Supreme Toto 6/58 jackpot of MYR97.8m which was struck on 30 Mar 2022. Seasonally adjusted, we estimate that 4QFY22 gross NFO sales/draw eased to c.80% of pre-COVID-19 levels. We were hoping for a stronger recovery as Malaysia reached the endemic stage of the COVID-19 pandemic and relaxed most COVID-19 related restrictions in 4QFY22.

Trim EPS estimates by 6-7% & DPS estimates by 10%

We understand that lockdowns during the COVID-19 pandemic enabled illegal NFOs to wrest punters from legal NFOs like SPTOTO via mobile apps. We still assume that gross NFO sales/draw will hit 90% of pre-COVID-19 levels in FY23E but cut annual growth thereafter to 0% from 2%. Coupled with higher debt levels of MYR1.1b-MYR1.2b as at end-Jun 2022 (MYR800m-MYR900m previously), we trim FY23E/FY24E EPS by 6%/ 7% and FY23E/FY24E DPS by 10%. We introduce FY25E EPS (-1% YoY).

FYE Jun (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	4,829	5,233	5,891	5,926	5,891
EBITDA	384	368	450	456	450
Core net profit	185	163	229	235	233
Core EPS (sen)	13.8	12.2	16.9	17.4	17.2
Core EPS growth (%)	50.4	(11.6)	39.1	2.8	(0.9)
Net DPS (sen)	8.0	8.7	13.0	13.5	13.5
Core P/E (x)	14.4	15.0	10.7	10.5	10.6
P/BV (x)	3.3	2.7	2.6	2.5	2.3
Net dividend yield (%)	4.0	4.7	7.1	7.4	7.4
ROAE (%)	23.4	18.9	24.8	24.1	22.7
ROAA (%)	6.4	5.3	6.9	7.1	7.0
EV/EBITDA (x)	10.2	9.9	8.1	7.8	7.7
Net gearing (%) (incl perps)	109.4	96.4	86.7	73.0	60.6
Consensus net profit	-	-	243	253	na
MKE vs. Consensus (%)	-	-	(5.8)	(7.0)	na

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HOLD

[Prior:BUY]

Share Price MYR 1.82
12m Price Target MYR 1.86 (+9%)
Previous Price Target MYR 2.24

Company Description

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

Statistics

52w high/low (MYR) 2.09/1.78
3m avg turnover (USDm) 0.1
Free float (%) 50.3
Issued shares (m) 1,351
Market capitalisation MYR2.5B
USD548M

Major shareholders:

Berjaya Land Bhd. 40.0%
Berjaya Corp. Bhd. 7.3%
AIA Bhd. 3.2%

Price Performance



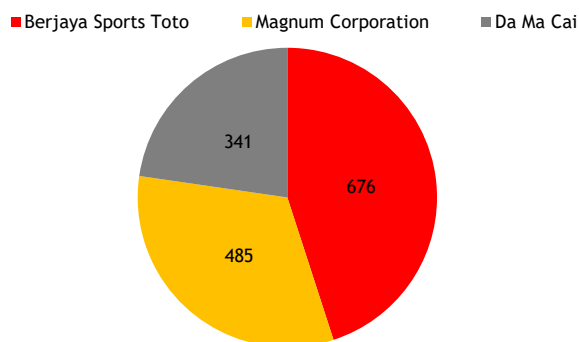
	-1M	-3M	-12M
Absolute (%)	1	(5)	(9)
Relative to index (%)	(0)	(1)	(7)

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 SPTOTO has an established track record of paying special dividends and capital reductions.
- Current recurring dividend policy already generous at $\geq 75\%$ DPR. Does distribute treasury shares as dividends.

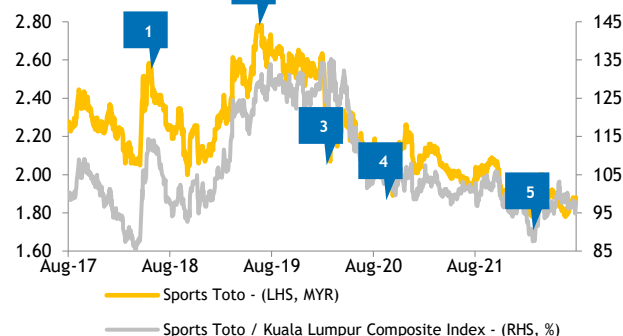
Number of outlets by NFO



Source: Company, Magnum, Pan Malaysian Pools

Price Drivers

Historical share price trend



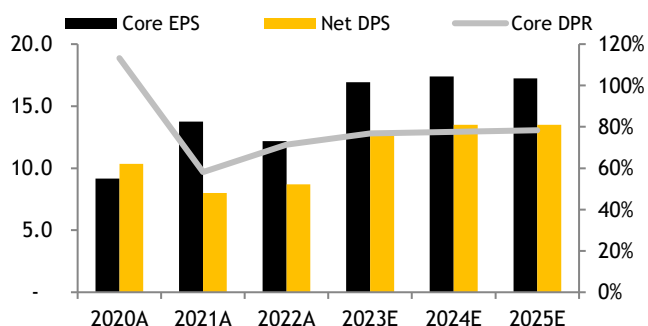
Source: Company, Maybank IBG Research

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

Financial Metrics

- Key financial metric is EPS as it is the basis on which DPS will be declared.
- Forecast FY23E EPS to recover 39% YoY due to non-recurrence of the FMCO and Cukai Makmur.
- Forecast FY24E EPS to grow a more moderate 3% YoY as operations normalise.
- Forecast FY25E EPS to ease 1% YoY only due to 2 fewer draws YoY.
- Balance sheet was in net debt position of MYR922.7m or MYR0.69/share as at end-4QFY22.

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



Source: Company, Maybank IBG Research

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)	4Q22	4Q21	% YoY	3Q22	% QoQ	FY22	FY21	% YoY
Turnover	1,461.1	1,127.0	29.6	1,728.4	(15.5)	5,232.5	4,829.1	8.4
Operating expenses	(1,345.7)	(1,046.8)	28.5	(1,584.2)	(15.1)	(4,864.3)	(4,445.3)	9.4
EBITDA	115.4	80.2	44.0	144.2	(19.9)	368.2	383.8	(4.1)
Depreciation & amortisation	(23.7)	(17.6)	34.4	(16.2)	46.3	(72.7)	(67.3)	8.1
EBIT	91.7	62.5	46.7	128.0	(28.3)	295.5	316.6	(6.7)
Interest expense	(10.6)	(3.6)	189.9	(7.6)	39.7	(30.4)	(13.8)	120.3
Associates	3.3	(6.2)	(152.8)	2.0	66.5	9.0	(16.4)	(155.1)
Exceptional items	(1.9)	(3.4)	(45.4)	-	NM!	(1.7)	(3.4)	(50.1)
Pre-tax profit	82.6	49.2	67.9	122.4	(32.5)	272.4	282.9	(3.7)
Tax	(35.0)	(17.2)	102.8	(39.4)	(11.3)	(101.5)	(95.5)	6.2
Minority interest	(1.2)	(1.5)	(19.1)	(3.4)	(65.0)	(9.3)	(6.2)	51.3
Net profit	46.4	30.5	52.3	79.6	(41.7)	161.6	181.2	(10.9)
Net profit Ex EI	48.3	33.9	42.4	79.6	(39.3)	163.3	184.7	(11.6)
	4Q22	4Q21	+/- ppt	3Q22	+/- ppt	FY22	FY21	+/- ppt
EBIT margin (%)	6.3	5.5	0.7	7.4	(1.1)	5.6	6.6	(0.9)
Tax rate (%)	42.3	35.1	7.3	32.2	10.1	37.3	33.8	3.5

Segmental Results Table

FY Jun (MYR m)	4Q22	4Q21	% YoY	3Q22	% QoQ	FY22	FY21	% YoY
Revenue	1,461.1	1,127.0	29.6	1,728.4	(15.5)	5,232.5	4,829.1	8.4
- Toto betting and leasing of lottery equipment	664.9	449.7	47.8	814.5	(18.4)	2,143.1	2,263.5	(5.3)
- Motor dealership	774.2	661.6	17.0	895.0	(13.5)	3,015.7	2,502.2	20.5
- Others	22.0	15.6	40.7	18.9	16.4	73.7	63.4	16.2
EBIT	91.7	62.5	46.7	128.0	(28.3)	295.5	316.6	(6.7)
- Toto betting and leasing of lottery equipment	85.8	47.8	79.3	100.2	(14.4)	235.9	278.5	(15.3)
- Motor dealership	15.8	28.4	(44.3)	39.0	(59.4)	100.4	89.2	12.5
- Others	(3.0)	1.1	(374.4)	(3.6)	(16.4)	(11.1)	(5.4)	105.9
- Unallocated corporate expenses	(6.8)	(14.9)	(54.2)	(7.6)	(10.3)	(29.8)	(45.8)	(35.0)

Source: Company

Results analysis

- 4QFY22 core net profit of MYR48.3m was up 42% YoY largely due to toto betting holding more draws. (4QFY22: 42 draws, 4QFY21: 28 draws). The fewer draws in 4QFY21 for SPTOTO was due to the Full Movement Control Order (FMCO) which ended on 13 Sep 2021.
- 4QFY22 core net profit of MYR48.3m was down 39% QoQ largely due to:- (i) toto betting post-Chinese New Year sales lull and lower jackpot sales after the huge Supreme Toto 6/58 jackpot of MYR97.8m was struck on 30 Mar 2022; and (ii) lower H.R. Owen sales and margins.
- FY22 core net profit of MYR163.3m was down 12% YoY largely due to toto betting holding fewer draws (FY22: 138 draws, FY21: 157 draws). Again, the fewer draws in FY22 was due to the Full Movement Control Order (FMCO) which began on 1 Jun 2021 and ended on 13 Sep 2021.

Valuation

Figure 2: SPTOTO DCF-based valuation

	MYRm	MYR/sh	Comments
STM Lottery DCF	3,150.1	2.35	WACC: 8.6%, g: 0%
(Net debt at STM Lottery)	(650.0)	(0.48)	End-FY6/23E
Equity value	2,500.1	1.86	

Source: Maybank IBG Research

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	15.4	16.1	10.7	10.5	10.6
Core P/E (x)	14.4	15.0	10.7	10.5	10.6
P/BV (x)	3.3	2.7	2.6	2.5	2.3
P/NTA (x)	25.4	12.3	9.7	8.1	6.9
Net dividend yield (%)	4.0	4.7	7.1	7.4	7.4
FCF yield (%)	16.5	6.2	9.9	12.3	12.3
EV/EBITDA (x)	10.2	9.9	8.1	7.8	7.7
EV/EBIT (x)	12.3	12.4	9.5	9.1	9.0
INCOME STATEMENT (MYR m)					
Revenue	4,829.1	5,232.5	5,891.1	5,926.2	5,891.1
EBITDA	383.8	368.2	449.9	456.4	449.9
Depreciation	(67.3)	(72.7)	(67.3)	(67.3)	(67.3)
EBIT	316.6	295.5	382.7	389.2	382.7
Net interest income / (exp)	(13.8)	(30.4)	(28.1)	(24.8)	(21.5)
Associates & JV	(16.4)	9.0	(0.1)	(0.1)	(0.1)
Exceptionals	(3.4)	(1.7)	0.0	0.0	0.0
Pretax profit	282.9	272.4	354.6	364.3	361.1
Income tax	(95.5)	(101.5)	(118.3)	(121.5)	(120.4)
Minorities	(6.2)	(9.3)	(7.6)	(7.8)	(7.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	181.2	161.6	228.7	235.0	232.9
Core net profit	184.7	163.3	228.7	235.0	232.9
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	363.8	558.8	568.1	543.0	611.2
Accounts receivable	478.4	527.9	593.8	597.3	593.8
Inventory	325.9	415.7	465.0	467.5	465.0
Property, Plant & Equip (net)	304.3	398.3	361.0	323.7	286.5
Intangible assets	706.7	696.6	696.6	696.6	696.6
Investment in Associates & JVs	104.7	103.7	103.7	103.6	103.5
Other assets	587.5	561.0	561.0	561.0	561.0
Total assets	2,871.3	3,262.1	3,349.2	3,292.7	3,317.7
ST interest bearing debt	583.2	310.4	400.3	310.4	449.8
Accounts payable	590.0	731.5	784.4	787.0	784.4
LT interest bearing debt	738.1	1,171.1	1,050.8	1,020.3	850.5
Other liabilities	85.0	92.0	96.0	96.0	96.0
Total Liabilities	1,996.2	2,304.7	2,331.1	2,214.1	2,180.8
Shareholders Equity	811.3	895.6	948.7	1,001.4	1,051.9
Minority Interest	63.8	61.8	69.4	77.3	85.0
Total shareholder equity	875.1	957.4	1,018.1	1,078.6	1,136.9
Total liabilities and equity	2,871.3	3,262.1	3,349.2	3,292.7	3,317.7
CASH FLOW (MYR m)					
Pretax profit	282.9	272.4	354.6	364.3	361.1
Depreciation & amortisation	67.3	72.7	67.3	67.3	67.3
Adj net interest (income)/exp	13.8	30.4	28.1	24.8	21.5
Change in working capital	207.5	7.7	(62.3)	(3.3)	3.3
Cash taxes paid	(83.0)	(84.9)	(114.4)	(120.8)	(120.7)
Other operating cash flow	19.9	(7.3)	0.1	0.1	0.1
Cash flow from operations	508.3	291.0	273.3	332.4	332.6
Capex	(70.7)	(137.7)	(30.0)	(30.0)	(30.0)
Free cash flow	437.6	153.3	243.3	302.4	302.6
Dividends paid	(87.3)	(47.0)	(175.6)	(182.3)	(182.3)
Equity raised / (purchased)	(18.2)	(5.0)	0.0	0.0	0.0
Change in Debt	(224.0)	149.5	(30.4)	(120.3)	(30.4)
Other invest/financing cash flow	(57.1)	(43.7)	(28.1)	(24.8)	(21.5)
Effect of exch rate changes	5.0	(12.0)	0.0	0.0	0.0
Net cash flow	56.0	195.1	9.2	(25.1)	68.3

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	4.2	8.4	12.6	0.6	(0.6)
EBITDA growth	25.5	(4.1)	22.2	1.4	(1.4)
EBIT growth	32.1	(6.7)	29.5	1.7	(1.7)
Pretax growth	24.7	(3.7)	30.2	2.8	(0.9)
Reported net profit growth	36.6	(10.9)	41.5	2.8	(0.9)
Core net profit growth	50.1	(11.6)	40.0	2.8	(0.9)
Profitability ratios (%)					
EBITDA margin	7.9	7.0	7.6	7.7	7.6
EBIT margin	6.6	5.6	6.5	6.6	6.5
Pretax profit margin	5.9	5.2	6.0	6.1	6.1
Payout ratio	59.2	72.1	76.8	77.6	78.3
DuPont analysis					
Net profit margin (%)	3.8	3.1	3.9	4.0	4.0
Revenue/Assets (x)	1.7	1.6	1.8	1.8	1.8
Assets/Equity (x)	3.5	3.6	3.5	3.3	3.2
ROAE (%)	23.4	18.9	24.8	24.1	22.7
ROAA (%)	6.4	5.3	6.9	7.1	7.0
Liquidity & Efficiency					
Cash conversion cycle	21.2	13.2	13.3	15.2	15.3
Days receivable outstanding	38.9	34.6	34.3	36.2	36.4
Days inventory outstanding	31.0	27.4	29.1	30.7	30.8
Days payables outstanding	48.7	48.9	50.1	51.7	52.0
Dividend cover (x)	1.7	1.4	1.3	1.3	1.3
Current ratio (x)	1.0	1.4	1.4	1.4	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.4	1.4	1.5	1.5
Net gearing (%) (incl perps)	109.4	96.4	86.7	73.0	60.6
Net gearing (%) (excl. perps)	109.4	96.4	86.7	73.0	60.6
Net interest cover (x)	22.9	9.7	13.6	15.7	17.8
Debt/EBITDA (x)	3.4	4.0	3.2	2.9	2.9
Capex/revenue (%)	1.5	2.6	0.5	0.5	0.5
Net debt/ (net cash)	957.6	922.7	883.0	787.8	689.1

Source: Company; Maybank IBG Research

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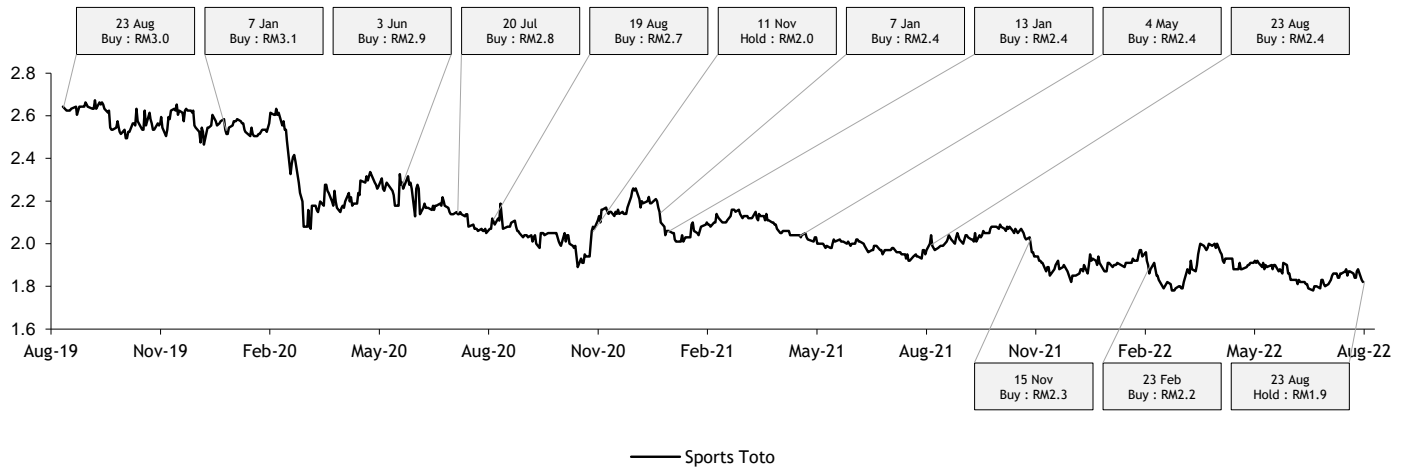
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