

Magnum Berhad (MAG MK)

HOLD

Share Price MYR 1.38
 12m Price Target MYR 1.42 (+11%)
 Previous Price Target MYR 1.58

Another quarter of poor luck

Maintain HOLD with lower TP of MYR1.42 (-10%)

Earnings and dividends continue to disappoint on higher-than-expected prize payout ratio. While prize payout ratio ought to normalise in the long term, we flag the risk that some outlets may be shut soon. We lower earnings estimates by 4-16%. Employing a higher WACC of 9.2% (8.6% previously) and rolling forward our valuation base year to end-FY23E from end-FY22E, we cut our DCF-based TP to MYR1.42 from MYR1.58.

Earnings and dividends underperformed

3Q22 core net profit of MYR20m brought 9M22 core net profit to MYR63m, at only 49% of our FY estimate. Yet, 9M22 revenue of MYR1.49b was in-line at 72% of our FY estimate. We gather that the earnings shortfall was due to higher-than-expected 3Q22 prize payout ratio of 66-67% (MIBG estimate: 62-63%). Needless to say, the third interim DPS of 1sen brought YTD DPS to only 3.5sen which disappointed at only 41% of our FY estimate.

More than a few outlets may be shut

We estimate that gross NFO sales/draw was flattish QoQ at c.70% of pre-COVID levels (i.e. 3Q19). While prize payout ratio ought to normalise in the long term, we flag the following risks:- (i) 13 outlets in Kedah could be shut on 1 Jan 2023 (3% of total outlets); (ii) 1 outlet in Perlis could be shut (<1% of total outlets); and (iii) 17 outlets in Pahang may be shut (3% of total outlets) with the changes in state governments.

Lower earnings estimates by 4-16%

We:- (i) raise FY22E prize payout ratio to 65% (64% previously) but maintain FY23E/FY24E at 62%; and (ii) exclude the 14 outlets in Kedah and Perlis from our earnings model effective 1 Jan 2023. Net impact is to lower FY23E/FY24E/FY25E earnings by 16%/4%/4%. Our revised DCF-TP reflects the risk of more outlets being shut as we raise our WACC est. to 9.2% from 8.6% on a higher Beta assumption of 0.8x (vs. 0.7x).

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,673	1,260	2,087	2,233	2,221
EBITDA	210	74	211	303	301
Core net profit	102	0	108	179	178
Core EPS (sen)	7.1	0.0	7.5	12.5	12.4
Core EPS growth (%)	(57.5)	(100.0)	278,400.0	65.6	(0.5)
Net DPS (sen)	8.5	1.5	6.5	11.0	11.0
Core P/E (x)	31.9	nm	18.4	11.1	11.1
P/BV (x)	1.4	1.2	0.8	0.8	0.8
Net dividend yield (%)	3.7	0.8	4.7	8.0	8.0
ROAE (%)	0.9	0.0	4.6	7.5	7.4
ROAA (%)	2.8	0.0	3.1	5.1	5.1
EV/EBITDA (x)	16.9	41.9	11.2	7.7	7.7
Net gearing (%) (incl perps)	28.3	32.0	31.5	30.2	29.1
Consensus net profit	-	-	121	191	199
MKE vs. Consensus (%)	-	-	(10.3)	(6.4)	(10.6)

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Company Description

One of three national number forecast operators in Malaysia with 485 outlets.

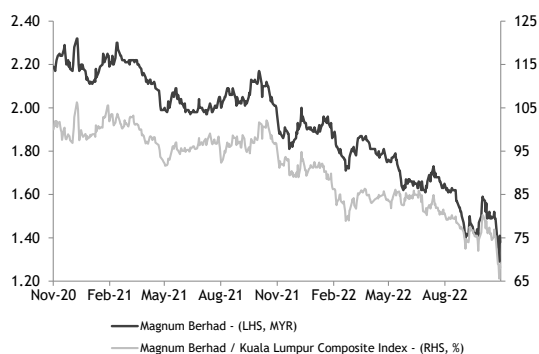
Statistics

52w high/low (MYR)	2.00/1.29
3m avg turnover (USDm)	0.6
Free float (%)	50.5
Issued shares (m)	1,438
Market capitalisation	MYR2.0B USD443M

Major shareholders:

Casi Management Sdn. Bhd.	30.4%
MWE Holdings Bhd.	4.6%
AIA Bhd.	3.8%

Price Performance



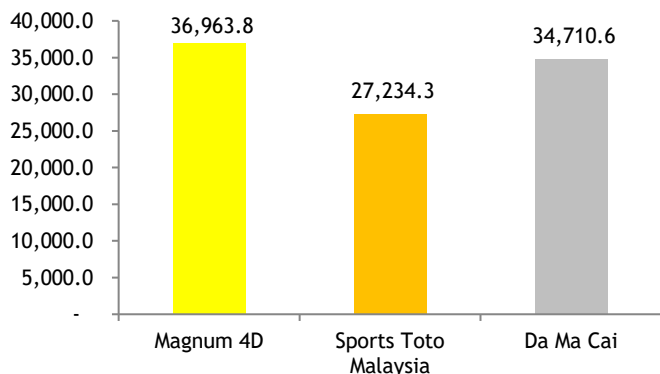
	-1M	-3M	-12M
Absolute (%)	(8)	(16)	(31)
Relative to index (%)	(11)	(15)	(30)

Source: FactSet

Value Proposition

- Second largest legal number forecast operator (NFO) in Malaysia with 485 outlets under the brand ‘Magnum 4D’.
- Notwithstanding this, ‘Magnum 4D’ commands the highest NFO sales/draw/outlet due to its wealthier clientele.
- Legal NFO industry has matured, but has also been slowly ceding share to the illegals due to lower prize payouts.
- Challenge is in introducing new and popular games and coaxing authorities to clamp down on illegal NFOs.
- Current recurring dividend policy already generous at >80% DPR.

2019 gross NFO sales/draw/outlet by NFO (MYR)

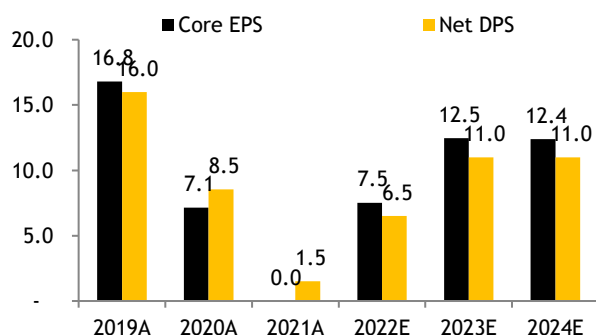


Source: Company, Berjaya Sports Toto, Pan Malaysian Pools, Maybank IBG Research

Financial Metrics

- Key financial metric is EPS as it is the basis on which DPS will be declared.
- Forecast FY22E EPS to recover YoY as operations resume to normalcy as more Malaysians are vaccinated.
- Forecast FY23E EPS to expand 66% YoY due to normal prize payout ratio and non-recurrence of Cukai Makmur.
- Balance sheet is in net debt position of MYR712.1m or MYR0.50/share as at end-3Q22.
- Light capex forecast of MYR10m p.a. as most of its outlets and sales terminals have just been refreshed.

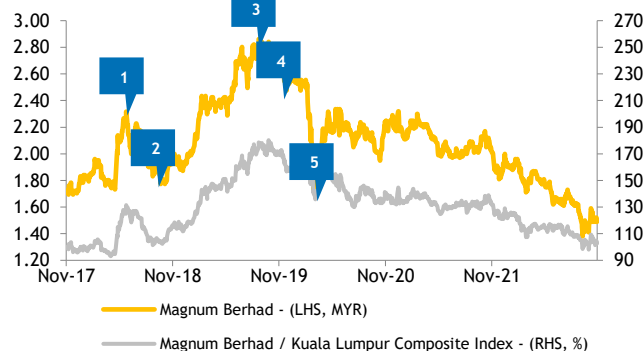
Core EPS (sen) and DPS (sen)



Source: Company (historical), Maybank IBG Research (forecasts)

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. Introduced Magnum Life while government announced that the GST will be zero-rated effective 1 Jun 2018.
2. Settled tax penalty at MYR148.1m with the Director General of Inland Revenue.
3. Reported stellar 2Q19 results as 2Q19 core earnings surged 60% YoY.
4. Served with extra tax penalties of MYR182.8m by the Director General of Inland Revenue.
5. COVID-19 pandemic struck Malaysia. MAG outlets were closed from 18 Mar 2020 to 16 Jun 2020.

Swing Factors

Upside

- Prize payout ratio - Every 1ppt decrease in prize payout ratio will accrete 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 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.

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Figure 1: Summary Results Table

FY Dec (MYR m)	3Q22	3Q21	% YoY	2Q22	% QoQ	9M22	9M21	% YoY
Turnover	509.0	66.2	N/M	482.1	5.6	1,492.2	776.5	92.2
Operating expenses	(462.1)	(81.5)	467.0	(430.9)	7.2	(1,348.5)	(739.3)	82.4
EBITDA	47.0	(15.3)	(406.5)	51.2	(8.4)	143.7	37.2	285.7
Depreciation & amortisation	(2.5)	(3.1)	(19.3)	(2.6)	(3.6)	(7.8)	(9.1)	(14.8)
EBIT	44.4	(18.4)	(341.0)	48.6	(8.6)	135.9	28.1	383.0
Interest expense	(11.6)	(12.7)	(8.4)	(10.6)	9.8	(32.6)	(32.2)	1.2
Exceptional items	0.0	-	N/M	0.1	(62.7)	0.2	0.1	75.6
Pre-tax profit	32.9	(31.1)	(205.7)	38.1	(13.8)	103.5	(4.0)	N/M
Tax	(12.4)	0.7	N/M	(11.5)	7.8	(39.6)	(17.2)	130.4
Minority interest	(0.4)	0.5	(166.9)	(0.2)	82.2	(0.8)	0.8	(193.3)
Net profit	20.1	(29.9)	(167.1)	26.4	(24.0)	63.1	(20.3)	(410.4)
Net profit ex EI	20.0	(29.9)	(167.0)	26.3	(23.9)	63.0	(20.4)	(408.3)
	3Q22	3Q21	+/- ppt	2Q22	+/- ppt	9M22	9M21	+/- ppt
EBITDA margin (%)	9.2	(23.1)	32.4	10.6	(1.4)	9.6	4.8	4.8
Tax rate (%)	37.8	2.1	35.7	30.3	7.6	38.2	(430.3)	468.5

Segmental Results Table

FY Dec (MYR m)	3Q22	3Q21	% YoY	2Q22	% QoQ	9M22	9M21	% YoY
Revenue	509.0	66.2	N/M	482.1	5.6	1,492.2	776.5	92.2
Gaming	509.0	66.0	N/M	482.0	5.6	1,492.0	776.3	92.2
Investment holding & others	0.0	0.2	(87.2)	0.2	(87.1)	0.2	0.2	(0.5)
Pre-tax profit	32.9	(31.1)	(205.7)	38.1	(13.8)	103.5	(4.0)	N/M
Gaming	34.3	(29.7)	(215.6)	39.8	(13.8)	114.7	1.0	N/M
Corporate & others	(1.4)	(1.4)	(2.2)	(1.6)	(12.6)	(11.3)	(5.0)	124.4

Source: Company

Results analysis

- MAG swung from a 3Q21 core net loss of MYR29.9m to 3Q22 core net profit of MYR20.0m largely because only 8 draws were held in 3Q21 as a result of the Full Movement Control Order (1 Jun to 13 Sep 2021). MAG held a much higher 46 draws in 3Q22 as operations resumed.
- 3Q22 core net profit was 24% lower QoQ despite 4 more draws being held (3Q22: 46, 2Q22: 42) due to higher prize payout ratio QoQ. We estimate that 3Q22 prize payout ratio stood at 66-67% or 2ppts higher QoQ.
- MAG swung from a 9M21 core net loss of MYR20.4m to 9M22 core net profit of MYR63.0m largely because only 81 draws were held in 9M21 as a result of the Full Movement Control Order. MAG held a much higher 131 draws in 9M22 as operations resumed.

Figure 2: Distribution of NFO outlets in Kedah, Perlis and Pahang

	Magnum		Da Ma Cai		Sports Toto Malaysia	
	# of outlets	% of total	# of outlets	% of total	# of outlets	% of total
Kedah	13	3%	12	3%	20	3%
Perlis	1	0%	1	0%	4	1%
Pahang	17	3%	9	3%	40	6%

Source: MAG, SPTOTO, Da Ma Cai

Figure 3: MAG DCF-based valuation

	MYRm	MYR/sh	Comments
DCF	2,350.6	1.64	WACC: 9.2%, g: 0.0%
Investment securities	423.8	0.29	End-FY23E
Net debt	(730.8)	(0.51)	End-FY23E
Equity value	2,043.5	1.42	

Source: Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	148.2	nm	18.4	11.1	11.1
Core P/E (x)	31.9	nm	18.4	11.1	11.1
P/BV (x)	1.4	1.2	0.8	0.8	0.8
P/NTA (x)	(9.5)	(7.3)	(5.5)	(5.8)	(6.2)
Net dividend yield (%)	3.7	0.8	4.7	8.0	8.0
FCF yield (%)	2.0	0.3	6.9	11.1	10.9
EV/EBITDA (x)	16.9	41.9	11.2	7.7	7.7
EV/EBIT (x)	18.1	49.7	11.8	8.0	8.0
INCOME STATEMENT (MYR m)					
Revenue	1,673.2	1,259.6	2,087.1	2,233.4	2,220.9
EBITDA	210.0	74.2	210.9	303.5	301.4
Depreciation	(13.1)	(11.7)	(11.7)	(11.7)	(11.7)
Amortisation	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
EBIT	196.8	62.5	199.1	291.7	289.6
Net interest income / (exp)	(36.1)	(37.4)	(37.4)	(36.9)	(36.2)
Exceptionals	(16.7)	0.1	0.0	0.0	0.0
Pretax profit	144.0	25.2	161.8	254.8	253.5
Income tax	(122.5)	(26.6)	(53.7)	(75.8)	(75.4)
Minorities	(0.2)	1.5	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	21.2	0.2	108.1	179.0	178.1
Core net profit	101.8	0.0	108.1	179.0	178.1
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	272.5	192.7	198.2	207.1	211.9
Accounts receivable	44.3	47.1	42.9	45.9	45.6
Inventory	2.1	1.3	2.0	2.1	2.1
Property, Plant & Equip (net)	65.7	60.3	58.6	56.9	55.1
Intangible assets	2,738.3	2,738.3	2,738.3	2,738.3	2,738.3
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	453.0	470.6	470.6	470.6	470.6
Total assets	3,575.9	3,510.3	3,510.7	3,520.9	3,523.7
ST interest bearing debt	191.3	176.3	191.2	191.3	175.7
Accounts payable	198.2	168.5	154.2	158.6	157.8
LT interest bearing debt	764.5	779.2	763.0	746.6	745.9
Other liabilities	7.0	2.0	3.0	5.0	5.0
Total Liabilities	1,161.3	1,126.1	1,111.8	1,101.1	1,083.9
Shareholders Equity	2,391.7	2,362.9	2,377.5	2,398.4	2,418.4
Minority Interest	22.9	21.3	21.3	21.3	21.3
Total shareholder equity	2,414.6	2,384.2	2,398.8	2,419.7	2,439.7
Total liabilities and equity	3,575.9	3,510.3	3,510.7	3,520.9	3,523.7
CASH FLOW (MYR m)					
Pretax profit	144.0	25.2	161.8	254.8	253.5
Depreciation & amortisation	13.1	11.7	11.7	11.7	11.7
Adj net interest (income)/exp	36.1	37.4	37.4	36.9	36.2
Change in working capital	1.7	(26.2)	(10.8)	1.3	(0.6)
Cash taxes paid	(117.7)	(48.8)	(52.3)	(74.7)	(75.4)
Other operating cash flow	3.6	12.1	0.0	0.0	0.0
Cash flow from operations	80.9	11.5	147.7	230.1	225.3
Capex	(14.6)	(4.6)	(10.0)	(10.0)	(10.0)
Free cash flow	66.3	6.9	137.7	220.1	215.3
Dividends paid	(107.0)	(28.7)	(93.4)	(158.1)	(158.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	47.3	(1.7)	(1.3)	(16.2)	(16.3)
Other invest/financing cash flow	(41.3)	(45.0)	(37.4)	(36.9)	(36.2)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(34.7)	(68.5)	5.6	8.9	4.8

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(38.2)	(24.7)	65.7	7.0	(0.6)
EBITDA growth	(45.6)	(64.6)	184.0	43.9	(0.7)
EBIT growth	(47.4)	(68.2)	218.6	46.5	(0.7)
Pretax growth	(58.0)	(82.5)	540.9	57.5	(0.5)
Reported net profit growth	(91.1)	(99.1)	58,633.3	65.6	(0.5)
Core net profit growth	(57.4)	(100.0)	277,000.9	65.6	(0.5)
Profitability ratios (%)					
EBITDA margin	12.5	5.9	10.1	13.6	13.6
EBIT margin	11.8	5.0	9.5	13.1	13.0
Pretax profit margin	8.6	2.0	7.8	11.4	11.4
Payout ratio	nm	nm	86.4	88.3	88.8
DuPont analysis					
Net profit margin (%)	1.3	0.0	5.2	8.0	8.0
Revenue/Assets (x)	0.5	0.4	0.6	0.6	0.6
Assets/Equity (x)	1.5	1.5	1.5	1.5	1.5
ROAE (%)	0.9	0.0	4.6	7.5	7.4
ROAA (%)	2.8	0.0	3.1	5.1	5.1
Liquidity & Efficiency					
Cash conversion cycle	(39.2)	(42.1)	(22.9)	(21.6)	(21.9)
Days receivable outstanding	8.7	13.1	7.8	7.2	7.4
Days inventory outstanding	0.4	0.5	0.3	0.4	0.4
Days payables outstanding	48.3	55.7	31.0	29.2	29.7
Dividend cover (x)	0.2	0.0	1.2	1.1	1.1
Current ratio (x)	0.9	0.9	0.9	0.9	0.9
Leverage & Expense Analysis					
Asset/Liability (x)	3.1	3.1	3.2	3.2	3.3
Net gearing (%) (incl perps)	28.3	32.0	31.5	30.2	29.1
Net gearing (%) (excl. perps)	28.3	32.0	31.5	30.2	29.1
Net interest cover (x)	5.4	1.7	5.3	7.9	8.0
Debt/EBITDA (x)	4.6	12.9	4.5	3.1	3.1
Capex/revenue (%)	0.9	0.4	0.5	0.4	0.5
Net debt/ (net cash)	683.4	762.8	755.9	730.8	709.7

Source: Company; Maybank IBG Research

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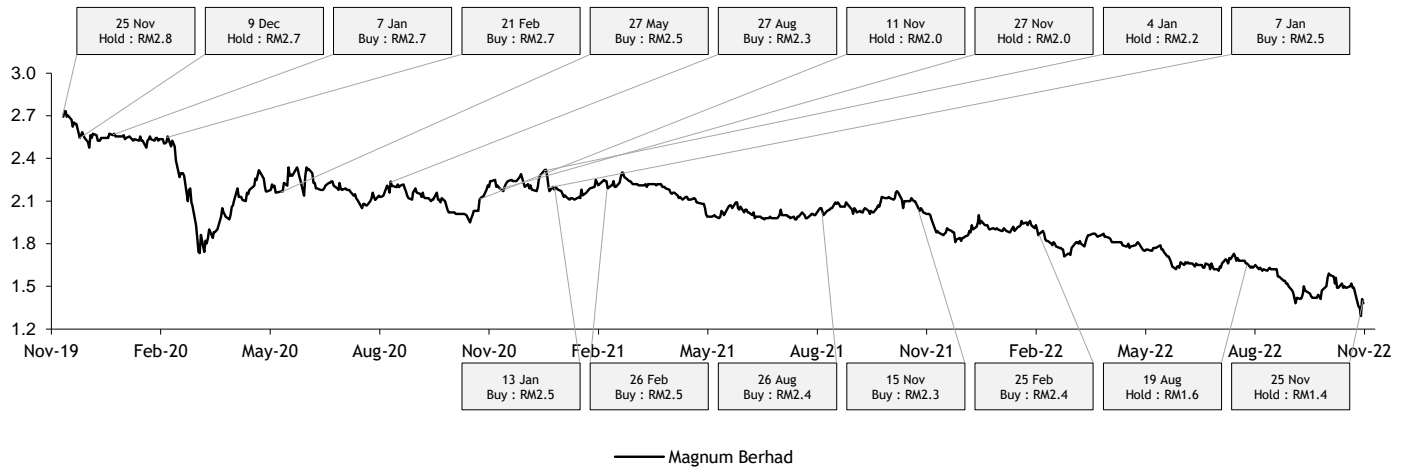
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