

## Sports Toto (SPTOTO MK)

# Post-COVID recovery may have peaked

### Maintain HOLD with lower DCF-TP of MYR1.40 (-12%)

Earnings outperformed our expectations. On closer inspection, this was due to lower-than-expected prize payout ratio. More tellingly, dividends underperformed our expectations. Gross NFO sales/draw's recovery to pre-COVID levels remains elusive despite more than a year having passed since NFO outlets reopened. We cut EPS estimates by 8-10% and DPS by 8% p.a. Net impact is a lower DCF-TP of MYR1.40 from MYR1.59.

### Earnings beat but dividends missed our expectations

2QFY23 net profit of MYR64.9m (+22% YoY, -9% QoQ) brought 6MFY23 net profit to MYR136.4m (+283% YoY) which came in at 61% of our FY estimate. On closer inspection, we gather that the outperformance was due to a slightly lower-than-expected 6MFY23 prize payout ratio of 58-59% (MIBG forecast: 60%). Curiously, the second interim DPS of 2.5sen brought YTD DPS to 4.5sen which accounted for only 36% of our FY estimate. YTD DPR of 44% was below our expectation of 76%.

### Gross NFO sales/draw seems to have plateaued

More than a year after NFO outlets reopened on 14 Sep 2021, we estimate that 2QFY23 gross NFO sales/draw came in at only 77% of 2QFY20/pre-pandemic levels (1QFY23: 80% of 1QFY20 levels). Thus, we cut our gross NFO sales/assumption to 80% from 90% of pre-COVID levels going forward. Coupled with fewer special draws from 1 Jan 2023 (8 p.a. vs. 22 p.a. previously), we trim FY23E/FY24E/FY25E EPS by 8%/10%/10% and DPS by 8% p.a.

### Flattish earnings prospects going forward

Going into 3QFY23, we expect revenue/draw to tick down by up to 3% QoQ. Recall that SPTOTO's 20 NFO outlets in Kedah were shuttered effective 1 Jan 2023 as decreed by the state government there. Assuming theoretical prize payout ratio of 60%, we expect future quarterly earnings to come in at c.MYR50m. In summary, we do not expect SPTOTO's earnings growth prospects to be exciting. Our concern remains SPTOTO's inability to return gross NFO sales/draw to pre-COVID levels.

FYE Jun (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	4,829	5,233	5,490	5,343	5,312
EBITDA	384	368	413	403	397
Core net profit	185	163	205	200	199
Core EPS (sen)	13.8	12.2	15.2	14.8	14.7
Core EPS growth (%)	50.4	(11.6)	24.5	(2.1)	(0.8)
Net DPS (sen)	8.0	8.7	11.5	11.5	11.5
Core P/E (x)	14.3	14.9	9.9	10.1	10.2
P/BV (x)	3.2	2.7	2.1	2.0	2.0
Net dividend yield (%)	4.1	4.8	7.7	7.7	7.7
ROAE (%)	23.4	18.9	22.2	20.7	19.6
ROAA (%)	6.4	5.3	6.2	6.1	6.1
EV/EBITDA (x)	10.1	9.9	7.7	7.6	7.5
Net gearing (%) (incl perps)	109.4	96.4	84.1	70.4	59.2
Consensus net profit	-	-	222	241	232
MIBG vs. Consensus (%)	-	-	(7.8)	(16.9)	(14.3)

Yin Shao Yang  
samuel.y@maybank-ib.com  
(603) 2297 8916

# HOLD

Share Price	MYR 1.50
12m Price Target	MYR 1.40 (+1%)
Previous Price Target	MYR 1.59

### Company Description

One of three national number forecast operators in Malaysia with 656 outlets.

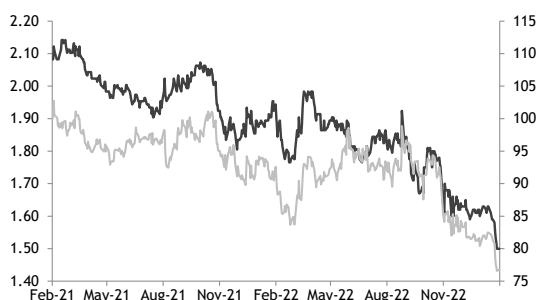
### Statistics

52w high/low (MYR)	1.98/1.50
3m avg turnover (USDm)	0.4
Free float (%)	49.8
Issued shares (m)	1,362
Market capitalisation	MYR2.0B USD461M

### Major shareholders:

Berjaya Land Bhd.	40.0%
Berjaya Corp. Bhd.	7.9%
AIA Bhd.	3.2%

### Price Performance



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

	-1M	-3M	-12M
Absolute (%)	(6)	(9)	(23)
Relative to index (%)	(5)	(10)	(17)

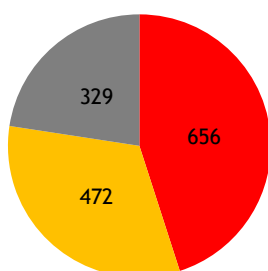
Source: FactSet

## Value Proposition

- Largest legal number forecast operator (NFO) in Malaysia with 656 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

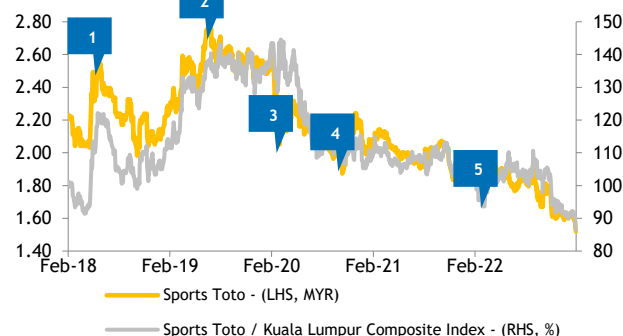
■ Sports Toto Malaysia ■ Magnum ■ Da Ma Cai



Source: Company, Magnum, Pan Malaysian Pools

## Price Drivers

### Historical share price trend



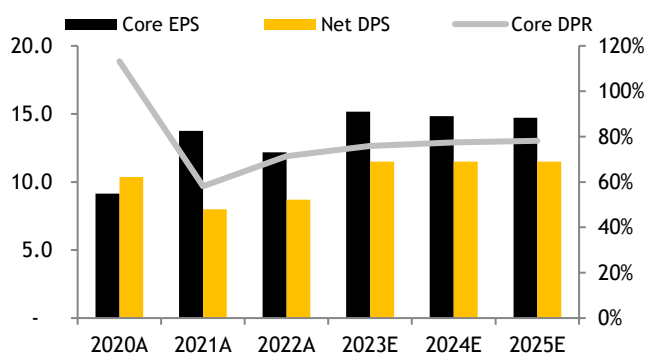
Source: Company, Maybank IBG Research

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 24% YoY due to non-recurrence of the FMCO and *Cukai Makmur*.
- Forecast FY24E EPS to ease 2% YoY due to the closure of outlets in Kedah.
- Forecast FY25E EPS to ease 1% YoY only due to 2 fewer draws YoY.
- Balance sheet was in net debt position of MYR979.6m or MYR0.73/share as at end-2QFY23.

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



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

## 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.

[samuel.y@maybank-ib.com](mailto:samuel.y@maybank-ib.com)

Figure 1: Summary Results Table

FY Jun (MYR m)	2Q23	2Q22	% YoY	1Q23	% QoQ	6MFY23	6MFY22	% YoY
Turnover	1,408.2	1,245.4	13.1	1,419.1	(0.8)	2,827.3	2,042.9	38.4
Operating expenses	(1,296.3)	(1,141.9)	13.5	(1,295.0)	0.1	(2,588.4)	(1,925.0)	34.5
EBITDA	111.9	103.5	8.1	124.1	(9.9)	238.9	117.9	102.6
Depreciation & amortisation	(16.8)	(16.2)	3.5	(14.8)	13.8	(34.5)	(32.8)	5.2
EBIT	95.0	87.3	8.9	109.3	(13.1)	204.4	85.1	140.1
Interest expense	(3.7)	(10.8)	(66.0)	(7.3)	(50.0)	(11.0)	(21.5)	(48.8)
Associates	4.6	3.3	38.6	4.2	9.1	8.8	3.8	133.6
Pre-tax profit	96.0	79.8	20.3	106.2	(9.6)	202.2	67.4	200.0
Tax	(30.6)	(24.6)	24.3	(33.2)	(7.8)	(63.8)	(27.1)	135.6
Minority interest	(0.5)	(1.9)	(74.6)	(1.5)	(67.6)	(2.0)	(4.7)	(58.2)
Net profit	64.9	53.3	21.8	71.5	(9.3)	136.4	35.6	283.1
Net profit Ex EI	64.9	53.3	21.8	71.5	(9.3)	136.4	35.6	283.1
	2Q23	2Q22	+/- ppt	1Q23	+/- ppt	6MFY23	6MFY22	+/- ppt
EBIT margin (%)	6.7	7.0	(0.3)	7.7	(1.0)	7.2	4.2	3.1
Tax rate (%)	31.9	30.9	1.0	31.3	0.6	31.6	40.2	(8.6)

**Segmental Results Table**

FY Jun (MYR m)	2Q23	2Q22	% YoY	1Q23	% QoQ	6MFY23	6MFY22	% YoY
Revenue	1,408.2	1,245.4	13.1	1,419.1	(0.8)	2,827.3	2,042.9	38.4
- Toto betting and leasing of lottery equipment	756.9	589.5	28.4	701.2	7.9	1,458.2	663.7	119.7
- Motor dealership	622.5	639.4	(2.7)	692.2	(10.1)	1,314.6	1,346.5	(2.4)
- Others	28.8	16.5	74.6	25.7	12.0	54.5	32.8	66.2
EBIT	95.0	87.3	8.9	109.3	(13.1)	204.4	85.1	140.1
- Toto betting and leasing of lottery equipment	96.5	76.5	26.0	101.3	(4.7)	197.8	50.0	295.8
- Motor dealership	2.7	18.3	(85.4)	15.0	(82.2)	17.6	45.6	(61.3)
- Others	(0.0)	(4.7)	(99.4)	(3.5)	(99.2)	(3.6)	(4.4)	(19.0)
- Unallocated corporate expenses	(4.1)	(2.8)	44.3	(3.4)	19.7	(7.5)	(6.0)	24.6

Source: Company

**Results analysis**

- 2QFY23 net profit was up 22% YoY largely due to:- (i) 3 more draws being held (2QFY23: 48, 2QFY22: 45); and (ii) low 2QFY22 NFO sales base due to sales only beginning to ramp up after NFO outlets reopened on 14 Sep 2021. The above was moderated by lower used car sales margin.
- 2QFY23 net profit was down 9% QoQ as we estimate that 2QFY23 prize payout ratio came in at 59% or 1ppt higher QoQ. The above was exacerbated by lower new and used car sales coupled with lower used car sales margin.
- 6MFY23 net profit was up 283% YoY because SPTOTO held 94 draws as its NFO outlets were open throughout 6MFY23. Recall that 6MFY22 net profit was suppressed because SPTOTO held only 53 draws then as its NFO outlets were closed from 1 Jun to 13 Sep 2021 due to the Full Movement Control Order.

Figure 2: SPTOTO DCF-based valuation

	MYRm	MYR/sh	Comments
STM Lottery DCF	2,523.8	1.88	WACC: 9.2%, g: 0%
(Net debt at STM Lottery)	(650.0)	(0.48)	End-FY6/23E
<b>Equity value</b>	<b>1,873.8</b>	<b>1.40</b>	

Source: Maybank IBG Research

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	15.3	15.9	9.9	10.1	10.2
Core P/E (x)	14.3	14.9	9.9	10.1	10.2
P/BV (x)	3.2	2.7	2.1	2.0	2.0
P/NTA (x)	25.2	12.2	8.2	6.9	6.0
Net dividend yield (%)	4.1	4.8	7.7	7.7	7.7
FCF yield (%)	16.6	6.3	12.5	13.9	13.2
EV/EBITDA (x)	10.1	9.9	7.7	7.6	7.5
EV/EBIT (x)	12.3	12.3	9.2	9.1	9.1
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	4,829.1	5,232.5	5,490.3	5,342.8	5,311.7
EBITDA	383.8	368.2	412.7	402.8	397.1
Depreciation	(67.3)	(72.7)	(67.3)	(67.3)	(67.3)
EBIT	316.6	295.5	345.5	335.6	329.8
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	317.3	310.7	308.2
Income tax	(95.5)	(101.5)	(105.8)	(103.6)	(102.8)
Minorities	(6.2)	(9.3)	(6.8)	(6.7)	(6.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	181.2	161.6	204.7	200.4	198.8
Core net profit	184.7	163.3	204.7	200.4	198.8
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	363.8	558.8	598.5	580.6	640.3
Accounts receivable	478.4	527.9	553.7	539.0	535.9
Inventory	325.9	415.7	433.9	422.2	420.0
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
<b>Total assets</b>	<b>2,871.3</b>	<b>3,262.1</b>	<b>3,308.4</b>	<b>3,226.7</b>	<b>3,243.9</b>
ST interest bearing debt	583.2	310.4	400.3	310.4	449.8
Accounts payable	590.0	731.5	751.0	738.4	736.1
LT interest bearing debt	738.1	1,171.1	1,050.8	1,020.3	850.5
Other liabilities	85.0	92.0	93.0	92.0	92.0
<b>Total Liabilities</b>	<b>1,996.2</b>	<b>2,304.7</b>	<b>2,294.8</b>	<b>2,161.4</b>	<b>2,128.5</b>
Shareholders Equity	811.3	895.6	945.0	990.0	1,033.5
Minority Interest	63.8	61.8	68.6	75.3	81.9
<b>Total shareholder equity</b>	<b>875.1</b>	<b>957.4</b>	<b>1,013.6</b>	<b>1,065.3</b>	<b>1,115.4</b>
<b>Total liabilities and equity</b>	<b>2,871.3</b>	<b>3,262.1</b>	<b>3,308.4</b>	<b>3,226.7</b>	<b>3,243.9</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	282.9	272.4	317.3	310.7	308.2
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	(24.4)	13.9	2.9
Cash taxes paid	(83.0)	(84.9)	(104.8)	(104.1)	(103.0)
Other operating cash flow	19.9	(7.3)	0.1	0.1	0.1
Cash flow from operations	508.3	291.0	283.5	312.6	297.0
Capex	(70.7)	(137.7)	(30.0)	(30.0)	(30.0)
Free cash flow	437.6	153.3	253.5	282.6	267.0
Dividends paid	(87.3)	(47.0)	(155.3)	(155.3)	(155.3)
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	39.6	(17.9)	59.7

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	4.2	8.4	4.9	(2.7)	(0.6)
EBITDA growth	25.5	(4.1)	12.1	(2.4)	(1.4)
EBIT growth	32.1	(6.7)	16.9	(2.9)	(1.7)
Pretax growth	24.7	(3.7)	16.5	(2.1)	(0.8)
Reported net profit growth	36.6	(10.9)	26.7	(2.1)	(0.8)
Core net profit growth	50.1	(11.6)	25.3	(2.1)	(0.8)
<b>Profitability ratios (%)</b>					
EBITDA margin	7.9	7.0	7.5	7.5	7.5
EBIT margin	6.6	5.6	6.3	6.3	6.2
Pretax profit margin	5.9	5.2	5.8	5.8	5.8
Payout ratio	59.2	72.1	75.9	77.5	78.1
<b>DuPont analysis</b>					
Net profit margin (%)	3.8	3.1	3.7	3.8	3.7
Revenue/Assets (x)	1.7	1.6	1.7	1.7	1.6
Assets/Equity (x)	3.5	3.6	3.5	3.3	3.1
ROAE (%)	23.4	18.9	22.2	20.7	19.6
ROAA (%)	6.4	5.3	6.2	6.1	6.1
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	21.2	13.2	13.0	13.7	13.3
Days receivable outstanding	38.9	34.6	35.5	36.8	36.4
Days inventory outstanding	31.0	27.4	30.1	31.2	30.8
Days payables outstanding	48.7	48.9	52.6	54.3	54.0
Dividend cover (x)	1.7	1.4	1.3	1.3	1.3
Current ratio (x)	1.0	1.4	1.4	1.5	1.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.4	1.4	1.4	1.5	1.5
Net gearing (%) (incl perps)	109.4	96.4	84.1	70.4	59.2
Net gearing (%) (excl. perps)	109.4	96.4	84.1	70.4	59.2
Net interest cover (x)	22.9	9.7	12.3	13.5	15.3
Debt/EBITDA (x)	3.4	4.0	3.5	3.3	3.3
Capex/revenue (%)	1.5	2.6	0.5	0.6	0.6
Net debt/ (net cash)	957.6	922.7	852.6	750.2	660.0

Source: Company; Maybank IBG Research

Research Offices

ECONOMICS

**Suhaimi ILIAS**  
Chief Economist  
Malaysia | Philippines | Global  
(603) 2297 8682  
suhaimi\_ili@maybank-ib.com

**CHUA Hak Bin**  
Regional Thematic Macroeconomist  
(65) 6231 5830  
chuahb@maybank.com

**LEE Ju Ye**  
Singapore | Thailand | Indonesia  
(65) 6231 5844  
leejuye@maybank.com

**Dr Zamros DZULKAFLI**  
(603) 2082 6818  
zamros.d@maybank-ib.com

**Fatin Nabila MOHD ZAINI**  
(603) 2297 8685  
fatinnabila.mohdzaini@maybank-ib.com

**Brian LEE Shun Rong**  
(65) 6231 8466  
brian.lee1@maybank.com

**Luong Thu Huong**  
(65) 6231 8467  
hana.thu@maybank.com

FX

**Saktiandi SUPAAT**  
Head of FX Research  
(65) 6320 1379  
saktiandi@maybank.com

**Fiona LIM**  
(65) 6320 1374  
fionalim@maybank.com

**Alan Lau**  
(65) 6320 1378  
alanlau@maybank.com

**Shaun Lim**  
(65) 6320 1371  
shaunlim@maybank.com

STRATEGY

**Anand PATHMAKANTHAN**  
ASEAN  
(603) 2297 8783  
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

**Winston PHOON, CFA**  
Head of Fixed Income  
(65) 6340 1079  
winsonphoon@maybank.com

**SE THO Mun Yi, CFA**  
(603) 2074 7606  
munyi.st@maybank-ib.com

PORTFOLIO STRATEGY

**CHAN Han Chin**  
(603) 2297 8888  
hanchin.chan@maybank-ib.com

**ONG Seng Yeow**  
(65) 6231 5839  
ongsengyeow@maybank.com

MIBG SUSTAINABILITY RESEARCH

**Jigar SHAH**  
Head of Sustainability Research  
(91) 22 4223 2632  
jigars@maybank.com

**Neerav DALAL**  
(91) 22 4223 2606  
neerav@maybank.com

REGIONAL EQUITIES

**Anand PATHMAKANTHAN**  
Head of Regional Equity Research  
(603) 2297 8783  
anand.pathmakanthan@maybank-ib.com

**WONG Chew Hann, CA**  
Head of ASEAN Equity Research  
(603) 2297 8686  
wchewh@maybank-ib.com

MALAYSIA

**Anand PATHMAKANTHAN** *Head of Research*  
(603) 2297 8783  
anand.pathmakanthan@maybank-ib.com  
• Strategy

**WONG Chew Hann, CA**  
(603) 2297 8686  
wchewh@maybank-ib.com  
• Non-Bank Financials (stock exchange)  
• Construction & Infrastructure

**Desmond CH'NG, BFP, CFA**  
(603) 2297 8680  
desmond.chng@maybank-ib.com  
• Banking & Finance

**LIAW Thong Jung**  
(603) 2297 8688 tjliaw@maybank-ib.com  
• Oil & Gas Services- Regional  
• Automotive

**ONG Chee Ting, CA**  
(603) 2297 8678 ct.ong@maybank-ib.com  
• Plantations - Regional

**YIN Shao Yang, CPA**  
(603) 2297 8916 samuel.y@maybank-ib.com  
• Gaming - Regional  
• Media • Aviation • Non-Bank Financials

**TAN Chi Wei, CFA**  
(603) 2297 8690 chiwei.t@maybank-ib.com  
• Power • Telcos

**WONG Wei Sum, CFA**  
(603) 2297 8679 weisum@maybank-ib.com  
• Property • Glove

**Jade TAM**  
(603) 2297 8687 jade.tam@maybank-ib.com  
• Consumer Staples & Discretionary

**Nur Farah SYIFAA**  
(603) 2297 8675  
nurfarahsyifaa.mohamadfuad@maybank-ib.com  
• Renewable Energy • REITs

**Arvind JAYARATNAM**  
(603) 2297 8692  
arvind.jayaratnam@maybank.com  
• Petrochemicals • Technology

**Shafiq KADIR, CFA**  
(603) 2297 8691  
msshafiqk.abkadir@maybank-ib.com  
• Healthcare • Software

**LOH Yan Jin**  
(603) 2297 8687  
lohyanjin.loh@maybank-ib.com  
• Ports • Shipping

**Eugene HOO Yee Hui**  
(603) 2082 6819  
eugene.hoo@maybank.com  
• Media

**TEE Sze Chiah** *Head of Retail Research*  
(603) 2082 6858 szechiah.t@maybank-ib.com  
• Retail Research

**Nik Ihsan RAJA ABDULLAH, MSTA, CFTE**  
(603) 2297 8694  
nikmohdihsan.ra@maybank-ib.com  
• Chartist

**Amirah AZMI**  
(603) 2082 8769 amirah.azmi@maybank-ib.com  
• Retail Research

SINGAPORE

**Thilan WICKRAMASINGHE** *Head of Research*  
(65) 6231 5840 thilanw@maybank.com  
• Banking & Finance - Regional  
• Consumer

**Eric ONG**  
(65) 6231 5849 ericong@maybank.com  
• Healthcare • Transport • SMIDs

**Kelvin TAN**  
(65) 6231 5837 kelvin.tan1@maybank.com  
• Telcos • Industrials

**LI Jialin**  
(65) 6231 5845 jialin.li@maybank.com  
• REITs

**Jarick SEET**  
(65) 6231 5848 jarick.seet@maybank.com  
• Technology

**Krishna GUHA**  
(65) 6231 5842 krishna.guha@maybank.com  
• REITs

PHILIPPINES

**Jacqui de JESUS** *Head of Research*  
(63) 2 8849 8840  
jacqui.dejesus@maybank.com  
• Strategy • Conglomerates

**Rachelleen RODRIGUEZ, CFA**  
(63) 2 8849 8843  
rachelleen.rodriguez@maybank.com  
• Banking & Finance • Transport • Telcos

**Daphne SZE**  
(63) 2 8849 8847  
daphne.sze@maybank.com  
• Consumer

**Miguel SEVIDAL**  
(63) 2 8849 8844  
miguel.sevidal@maybank.com  
• REITs • Property • Gaming

**Fiorenzo de JESUS**  
(63) 2 8849 8846  
fiorenzo.dejesus@maybank.com  
• Utilities

**Alexa Mae CARVAJAL**  
(63) 2 8849 8838  
alexamae.carvaja@maybank.com  
• Consumer

THAILAND

**Jesada TECHAHUSDIN, CFA**  
(66) 2658 6300 ext 1395  
jesada.t@maybank.com  
• Banking & Finance

**Yuwanee PROMMAPORN**  
(66) 2658 6300 ext 1393  
Yuwanee.P@maybank.com  
• Services • Healthcare

**Wasu MATTANAPOTCHANART**  
(66) 2658 6300 ext 1392  
wasu.m@maybank.com  
• Telcos

**Surachai PRAMUALCHAROENKIT**  
(66) 2658 5000 ext 1470  
Surachai.p@maybank.com  
• Auto • Conmat • Contractor • Steel

**Suttatip PEERASUB**  
(66) 2658 5000 ext 1430  
suttatip.p@maybank.com  
• Food & Beverage • Commerce

**Jaroonpan WATTANAWONG**  
(66) 2658 5000 ext 1404  
jaroonpan.w@maybank.com  
• Transportation • Small cap

INDONESIA

**Jeffrosenberg CHENLIM** *Head of Research*  
(62) 21 8066 8680  
Jeffrosenberg.lim@maybank.com  
• Strategy • Banking & Finance • Property

**Willy GOUTAMA**  
(62) 21 8066 8500  
willy.goutama@maybank.com  
• Consumer

**Richard SUHERMAN**  
(62) 21 8066 8691  
richard.suherman@maybank.com  
• Metals & Mining

**Etta Rusdiana PUTRA**  
(62) 21 8066 8683  
etta.putra@maybank.com  
• Telcos

**William Jefferson W**  
(62) 21 8066 8563  
william.jefferson@maybank.com  
• Property

**Satriawan Haryono, CEWA, CTA**  
(62) 21 8066 8682  
satriawan@maybank.com  
• Chartist

VIETNAM

**Quan Trong Thanh** *Head of Research*  
(84 28) 44 555 888 ext 8184  
thanh.quan@maybank.com  
• Strategy • Banks

**Hoang Huy, CFA**  
(84 28) 44 555 888 ext 8181  
hoanghuy@maybank.com  
• Strategy • Technology

**Le Nguyen Nhat Chuyen**  
(84 28) 44 555 888 ext 8082  
chuyen.le@maybank.com  
• Oil & Gas • Logistics

**Nguyen Thi Sony Tra Mi**  
(84 28) 44 555 888 ext 8084  
trami.nguyen@maybank.com  
• Consumer Discretionary

**Tran Thi Thanh Nhan**  
(84 28) 44 555 888 ext 8088  
nhan.tran@maybank.com  
• Consumer Staples

**Nguyen Le Tuan Loi**  
(84 28) 44 555 888 ext 8088  
loi.nguyen@maybank.com  
• Industrials

**Nguyen Thi Ngan Tuyen**  
*Head of Retail Research*  
(84 28) 44 555 888 ext 8081  
tuyen.nguyen@maybank.com  
• Retail Research

**Nguyen Thanh Lam**  
(84 28) 44 555 888 ext 8086  
thanhlam.nguyen@maybank.com  
• Chartist



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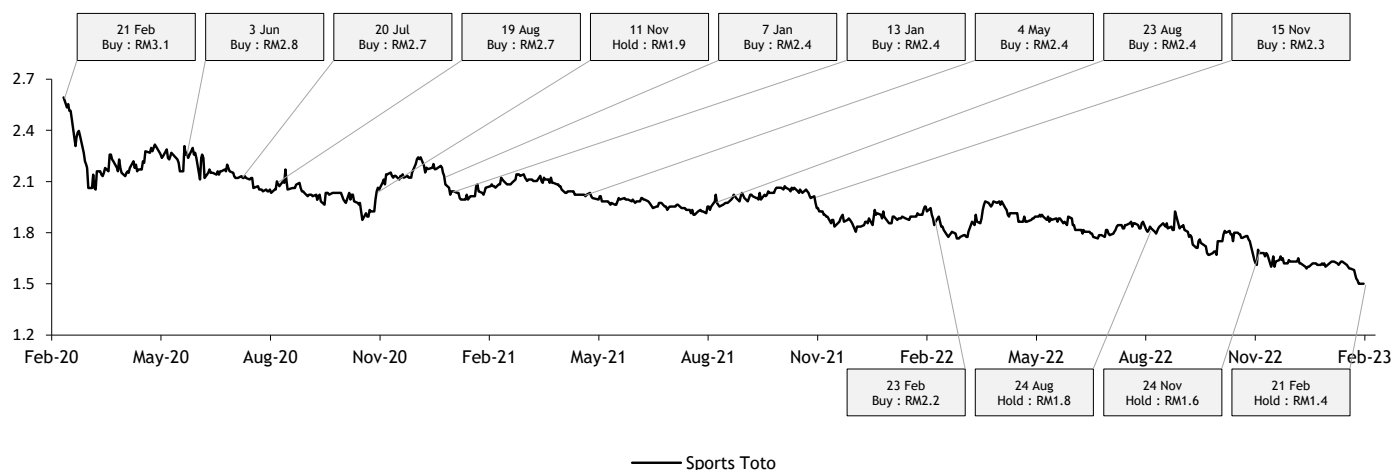
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## Historical recommendations and target price: Sports Toto (SPTOTO MK)



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### Malaysia

Maybank Investment Bank Berhad  
(A Participating Organisation of  
Bursa Malaysia Securities Berhad)  
33rd Floor, Menara Maybank,  
100 Jalan Tun Perak,  
50050 Kuala Lumpur  
Tel: (603) 2059 1888;  
Fax: (603) 2078 4194

Stockbroking Business:  
Level 8, Tower C, Dataran Maybank,  
No.1, Jalan Maarof  
59000 Kuala Lumpur  
Tel: (603) 2297 8888  
Fax: (603) 2282 5136

### Singapore

Maybank Securities Pte Ltd  
Maybank Research Pte Ltd  
50 North Canal Road  
Singapore 059304

Tel: (65) 6336 9090

### Indonesia

PT Maybank Sekuritas Indonesia  
Sentral Senayan III, 22<sup>nd</sup> Floor  
Jl. Asia Afrika No. 8  
Gelora Bung Karno, Senayan  
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188

Fax: (62) 21 2557 1189

### Thailand

Maybank Securities (Thailand) PCL  
999/9 The Offices at Central World,  
20<sup>th</sup> - 21<sup>st</sup> Floor,  
Rama 1 Road Pathumwan,  
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)

Tel: (66) 2 658 6801 (research)

### London

Maybank Securities (London) Ltd  
PNB House  
77 Queen Victoria Street  
London EC4V 4AY, UK

Tel: (44) 20 7332 0221

Fax: (44) 20 7332 0302

### India

MIB Securities India Pte Ltd  
1101, 11<sup>th</sup> floor, A Wing, Kanakia  
Wall Street, Chakala, Andheri -  
Kurla Road, Andheri East,  
Mumbai City - 400 093, India

Tel: (91) 22 6623 2600

Fax: (91) 22 6623 2604

### Vietnam

Maybank Securities Limited  
Floor 10, Pearl 5 Tower,  
5 Le Quy Don Street,  
Vo Thi Sau Ward, District 3  
Ho Chi Minh City, Vietnam

Tel : (84) 28 44 555 888

Fax : (84) 28 38 271 030

### Hong Kong

MIB Securities (Hong Kong)  
Limited  
28/F, Lee Garden Three,  
1 Sunning Road, Causeway Bay,  
Hong Kong

Tel: (852) 2268 0800

Fax: (852) 2877 0104

### Philippines

Maybank Securities Inc  
17/F, Tower One & Exchange  
Plaza  
Ayala Triangle, Ayala Avenue  
Makati City, Philippines 1200

Tel: (63) 2 8849 8888

Fax: (63) 2 8848 5738

### Sales Trading

Kevin Foy  
Regional Head Sales Trading  
kevinfoy@maybank.com  
Tel: (65) 6636-3620  
US Toll Free: 1-866-406-7447

#### Indonesia

Helen Widjaja  
helen.widjaja@maybank.com  
(62) 21 2557 1188

#### Philippines

Keith Roy  
keith\_roy@maybank.com  
Tel: (63) 2 848-5288

#### London

Greg Smith  
gsmith@maybank.com  
Tel: (44) 207-332-0221

#### India

Sanjay Makhija  
sanjaymakhija@maybank.com  
Tel: (91)-22-6623-2629

[www.maybank.com/investment-banking](http://www.maybank.com/investment-banking)  
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