

## Sports Toto (SPTOTO MK)

# Dodged 3 big bullets

### Upgrade to HOLD with a higher TP of MYR1.52 (+46%)

Status quo prevailed in the weekend's 6 state elections. We raise our long term EPS and DPS estimates by 9% and DCF-TP to MYR1.52 from MYR1.04. With 7% upside potential, we upgrade SPTOTO to HOLD from SELL. Unlike **Magnum (MAG MK, BUY, CP: MYR1.17, TP: MYR1.25)**, SPTOTO is a HOLD as we note that its share price has been more resilient of late than MAG's due to share buy-backs.

### Status quo in Penang, Selangor and Negeri Sembilan

Last weekend's state elections of Kedah, Kelantan, Terengganu, Penang, Selangor and Negeri Sembilan saw the Unity Government returned to power in Penang, Selangor and Negeri Sembilan albeit with reduced majorities. Recall that we had feared that NFO outlets in that 3 states may have to shutter if their governments change. NFO outlets in these 3 states account for 22%/8%/5% of SPTOTO's total NFO outlets.

### Raise long term EPS and DPS estimates by 9%

Recall that 3QFY6/23 gross NFO sales/draw/outlet came in at 88% of 3QFY20 (pre-pandemic) levels or 8ppts more than we had expected despite the shuttering of 20 NFO outlets in Kedah from 1 Jan 2023. We raise our gross NFO sales/ draw/outlet forecast to 85% from 80% from 3QFY23. The net impact is higher FY23E/FY24E/FY25E EPS by 5%/9%/9% and FY24E/FY25E DPS by 9%/9%. Note that we cut FY23E DPS by 17% as SPTOTO will not 'make up' for the low DPS in the first 3 quarters of FY23.

### Lift DCF-TP to MYR1.52 from MYR1.04

Considering what is arguably the greatest existential threat to NFOs in decades having passed, we think it fit to reassign our previous Beta of 0.8x (from 1.1x) to derive a WACC of 9.2% (Rf: 4.2%, Rm-Rf: 6.3%) (11.1% previously). Coupled with rolling forward our valuation base year to end-FY24E from FY23E, net impact is a higher DCF-TP of MYR1.52.

FYE Jun (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	4,829	5,229	5,560	5,440	5,408
EBITDA	384	369	424	419	413
Core net profit	185	163	211	210	212
Core EPS (sen)	13.8	12.1	15.6	15.5	15.7
Core EPS growth (%)	50.4	(11.9)	28.6	(0.3)	1.0
Net DPS (sen)	8.0	8.7	9.5	12.0	12.0
Core P/E (x)	14.3	15.0	9.8	9.8	9.8
P/BV (x)	3.2	2.7	2.1	2.0	1.9
Net dividend yield (%)	4.1	4.8	6.2	7.8	7.8
ROAE (%)	23.4	18.9	22.5	21.0	20.2
ROAA (%)	6.4	5.3	6.4	6.4	6.7
EV/EBITDA (x)	10.1	9.9	7.5	7.4	7.3
Net gearing (%) (incl perps)	109.6	97.0	79.9	66.8	55.4
Consensus net profit	-	-	199	212	232
MIBG vs. Consensus (%)	-	-	5.6	(1.0)	(8.8)

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# HOLD

[Prior:SELL]

Share Price MYR 1.53  
12m Price Target MYR 1.52 (+7%)  
Previous Price Target MYR 1.04

### Company Description

One of three national number forecast operators in Malaysia with 652 outlets.

### Statistics

52w high/low (MYR) 1.92/1.27  
3m avg turnover (USDm) 0.4  
Free float (%) 49.8  
Issued shares (m) 1,351  
Market capitalisation MYR2.1B  
USD451M

### Major shareholders:

Berjaya Land Bhd. 41.8%  
Berjaya Corp. Bhd. 7.9%  
AIA Bhd. 2.4%

### Price Performance



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

	-1M	-3M	-12M
Absolute (%)	11	12	(17)
Relative to index (%)	6	9	(15)

Source: FactSet

**ESG@MAYBANK IBG**  
Tear Sheet Insert

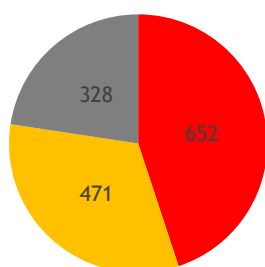


## Value Proposition

- Largest legal number forecast operator (NFO) in Malaysia with 652 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

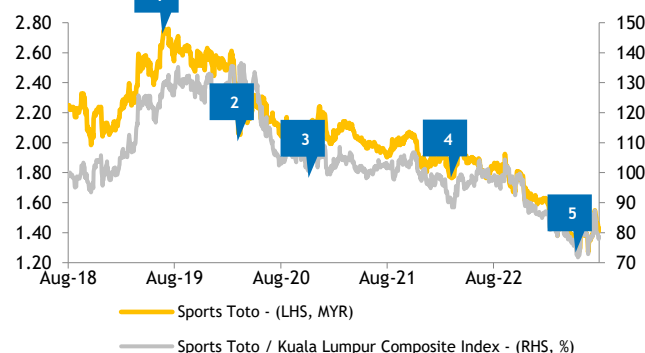
■ Sports Toto Malaysia ■ Magnum ■ Da Ma Cai



Source: Company, Magnum, Pan Malaysian Pools

## Price Drivers

### Historical share price trend



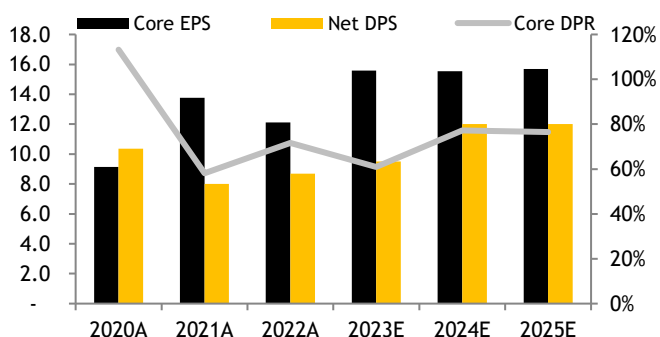
Source: Company, Maybank IBG Research

1. Introduced 4D Zodiac, a game that combines the popular Classic 4D and Chinese zodiacs.
2. COVID-19 pandemic struck Malaysia. SPTOTO NFO outlets closed from 18 Mar 2020 to 15 Jun 2020.
3. New COVID-19 cases in Malaysia began to rise after the Sabah state election.
4. Share price downtrend due to poor consumer sentiment and market share loss to illegal NFOs.
5. Fears arise that more NFO outlets could be shut if Perikatan Nasional comes to power.

## Financial Metrics

- Key financial metric is EPS as it is the basis on which DPS will be declared.
- Forecast FY23E EPS to recover 29% YoY due to non-recurrence of the FMCO and Cukai Makmur, which offset the closure of 20 NFO outlets in Kedah from 1 Jan 2023.
- Forecast FY24E EPS to be flattish YoY despite the closure of 20 NFO outlets in Kedah from 1 Jan 2023 (full-year impact) thanks to higher gross NFO sales/draw/outlet.
- Balance sheet was in net debt position of MYR1.11b or MYR0.82/share as at end-3QFY23.

### 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.

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Risk Rating & Score <sup>1</sup>	29.1 (Medium)
Score Momentum <sup>2</sup>	-1.7
Last Updated	7 Sep 2022
Controversy Score <sup>3</sup> (Updated: 27 Jan 2022)	1 - Customer Incidents - Quality & Safety

## 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. SPTOTO's corporate social responsibility (CSR) initiatives are also well known.
- In our view, SPTOTO'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, SPTOTO greatly increased dividend payouts and returned capital to shareholders throughout the mid-2000s and all related company advances have been repaid. 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 SPTOTO'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.
- Generated less CO2 emissions in FY6/22 (Scope 1: -8% YoY, Scope 2: -14% YoY). Has yet to report Scope 3 emissions.
- Energy consumed (-14% YoY), water consumed (-10% YoY) and waste generated (-3% YoY) all fell in FY6/22.
- The above was likely due to SPTOTO operating only 138 draws in FY6/22 (FY6/21: 157 draws) due to the FMCO.
- Thus, we expect CO2 emissions, energy and water consumption and waste generated to rise going forward.
- Notwithstanding the above, SPTOTO does not have a large environmental footprint.

## 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 limit the number of normal draws to three weekly.
- MoF may award special draws that are held on Tuesdays. 8 special draws were awarded for CY23.
- 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 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.
- 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), 1 Executive Director, 1 Non-Independent NonExecutive 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 Yoon (TSVT).
- TSVT controls SPTOTO's largest shareholders, Berjaya Land and Berjaya Corporation.
- TSVT is also Managing Director/Chief Executive Officer of SPTOTO's principal subsidiary, STM.
- Only 1 of the 8 BOD members is a woman, CEO, Nerine Tan Sheik Ping.
- FY6/22 directors' remuneration accounted for 5% of net profit (FY6/21: 3% of net profit).
- Yet, directors of STM have historically been paid remuneration averaging a higher 15% of net profit.
- SPTOTO 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, SPTOTO 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 SPTOTO 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-COVID19 and is still profitable.

<sup>1</sup>**Risk Rating & Score** - 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. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - 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: SPTOTO DCF-based valuation

	MYRm	MYR/sh	Comments
STM Lottery	2,605.4	1.93	WACC: 9.2%, g: 0%
Net cash/(debt) at STM Lottery	(550.0)	(0.41)	End-FY6/24E
<b>Equity value</b>	<b>2,055.4</b>	<b>1.52</b>	

Source: Maybank IBG Research



FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	15.3	16.0	9.8	9.8	9.8
Core P/E (x)	14.3	15.0	9.8	9.8	9.8
P/BV (x)	3.2	2.7	2.1	2.0	1.9
P/NTA (x)	25.2	12.3	7.4	6.3	5.5
Net dividend yield (%)	4.1	4.8	6.2	7.8	7.8
FCF yield (%)	16.6	6.1	12.3	14.1	13.4
EV/EBITDA (x)	10.1	9.9	7.5	7.4	7.3
EV/EBIT (x)	12.3	12.3	9.1	8.9	8.8
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	4,829.1	5,229.3	5,559.9	5,440.0	5,408.0
EBITDA	383.8	369.2	423.6	418.7	412.7
Depreciation	(67.3)	(72.7)	(72.7)	(72.7)	(72.7)
EBIT	316.6	296.5	350.9	346.0	340.0
Net interest income /(exp)	(13.8)	(30.2)	(33.2)	(29.4)	(20.3)
Associates & JV	(16.4)	8.7	8.7	8.7	8.7
Exceptionals	(3.4)	(1.7)	0.0	0.0	0.0
Pretax profit	282.9	273.3	326.4	325.4	328.5
Income tax	(95.5)	(103.0)	(108.9)	(108.5)	(109.6)
Minorities	(6.2)	(9.3)	(7.0)	(7.0)	(7.1)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	181.2	160.9	210.5	209.8	211.8
Core net profit	184.7	162.6	210.5	209.8	211.8
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	363.8	558.8	614.1	588.3	416.1
Accounts receivable	478.4	540.7	574.6	562.3	559.0
Inventory	325.9	401.8	424.7	415.2	413.0
Property, Plant & Equip (net)	304.3	398.3	355.6	312.9	270.2
Intangible assets	706.7	696.6	696.6	696.6	696.6
Investment in Associates & JVs	104.7	103.6	112.3	121.1	129.8
Other assets	587.6	561.0	561.0	561.0	561.0
<b>Total assets</b>	<b>2,871.4</b>	<b>3,260.8</b>	<b>3,338.8</b>	<b>3,257.2</b>	<b>3,045.7</b>
ST interest bearing debt	583.7	310.6	400.5	540.6	450.1
Accounts payable	589.5	712.2	736.0	726.1	723.8
LT interest bearing debt	738.8	1,176.3	1,049.9	783.5	607.6
Other liabilities	84.0	105.0	106.0	106.0	106.0
<b>Total Liabilities</b>	<b>1,996.3</b>	<b>2,303.9</b>	<b>2,292.7</b>	<b>2,156.3</b>	<b>1,887.9</b>
Shareholders Equity	811.3	895.0	977.2	1,024.9	1,074.7
Minority Interest	63.8	61.9	69.0	76.0	83.0
<b>Total shareholder equity</b>	<b>875.1</b>	<b>956.9</b>	<b>1,046.1</b>	<b>1,100.9</b>	<b>1,157.7</b>
<b>Total liabilities and equity</b>	<b>2,871.4</b>	<b>3,260.8</b>	<b>3,338.8</b>	<b>3,257.2</b>	<b>3,045.7</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	282.9	273.3	326.4	325.4	328.5
Depreciation & amortisation	67.3	72.7	72.7	72.7	72.7
Adj net interest (income)/exp	13.8	30.2	33.2	29.4	20.3
Change in working capital	207.5	0.9	(32.8)	11.9	3.2
Cash taxes paid	(83.0)	(89.9)	(107.6)	(108.6)	(109.3)
Other operating cash flow	19.9	(7.0)	(8.7)	(8.7)	(8.7)
Cash flow from operations	508.3	280.1	283.2	322.0	306.6
Capex	(70.7)	(131.2)	(30.0)	(30.0)	(30.0)
Free cash flow	437.6	148.9	253.2	292.0	276.6
Dividends paid	(87.3)	(47.0)	(128.3)	(162.1)	(162.1)
Equity raised / (purchased)	(18.2)	(5.0)	0.0	0.0	0.0
Change in Debt	(224.0)	160.1	(36.4)	(126.3)	(266.4)
Other invest/financing cash flow	(57.1)	(50.0)	(33.2)	(29.4)	(20.3)
Effect of exch rate changes	5.0	(11.9)	0.0	0.0	0.0
<b>Net cash flow</b>	<b>56.0</b>	<b>195.1</b>	<b>55.3</b>	<b>(25.8)</b>	<b>(172.2)</b>



FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	4.2	8.3	6.3	(2.2)	(0.6)
EBITDA growth	25.5	(3.8)	14.7	(1.1)	(1.4)
EBIT growth	32.1	(6.4)	18.3	(1.4)	(1.7)
Pretax growth	24.7	(3.4)	19.5	(0.3)	1.0
Reported net profit growth	36.6	(11.2)	30.8	(0.3)	1.0
Core net profit growth	50.1	(12.0)	29.5	(0.3)	1.0
<b>Profitability ratios (%)</b>					
EBITDA margin	7.9	7.1	7.6	7.7	7.6
EBIT margin	6.6	5.7	6.3	6.4	6.3
Pretax profit margin	5.9	5.2	5.9	6.0	6.1
Payout ratio	59.2	72.4	60.9	77.2	76.5
<b>DuPont analysis</b>					
Net profit margin (%)	3.8	3.1	3.8	3.9	3.9
Revenue/Assets (x)	1.7	1.6	1.7	1.7	1.8
Assets/Equity (x)	3.5	3.6	3.4	3.2	2.8
ROAE (%)	23.4	18.9	22.5	21.0	20.2
ROAA (%)	6.4	5.3	6.4	6.4	6.7
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	21.2	13.8	14.3	15.3	14.9
Days receivable outstanding	38.9	35.1	36.1	37.6	37.3
Days inventory outstanding	31.0	27.0	29.0	30.1	29.8
Days payables outstanding	48.7	48.2	50.8	52.4	52.2
Dividend cover (x)	1.7	1.4	1.6	1.3	1.3
Current ratio (x)	1.0	1.4	1.4	1.2	1.2
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.4	1.4	1.5	1.5	1.6
Net gearing (%) (incl perps)	109.6	97.0	79.9	66.8	55.4
Net gearing (%) (excl. perps)	109.6	97.0	79.9	66.8	55.4
Net interest cover (x)	22.9	9.8	10.6	11.8	16.7
Debt/EBITDA (x)	3.4	4.0	3.4	3.2	2.6
Capex/revenue (%)	1.5	2.5	0.5	0.6	0.6
Net debt/ (net cash)	958.7	928.0	836.4	735.9	641.7

Source: Company; Maybank IBG Research



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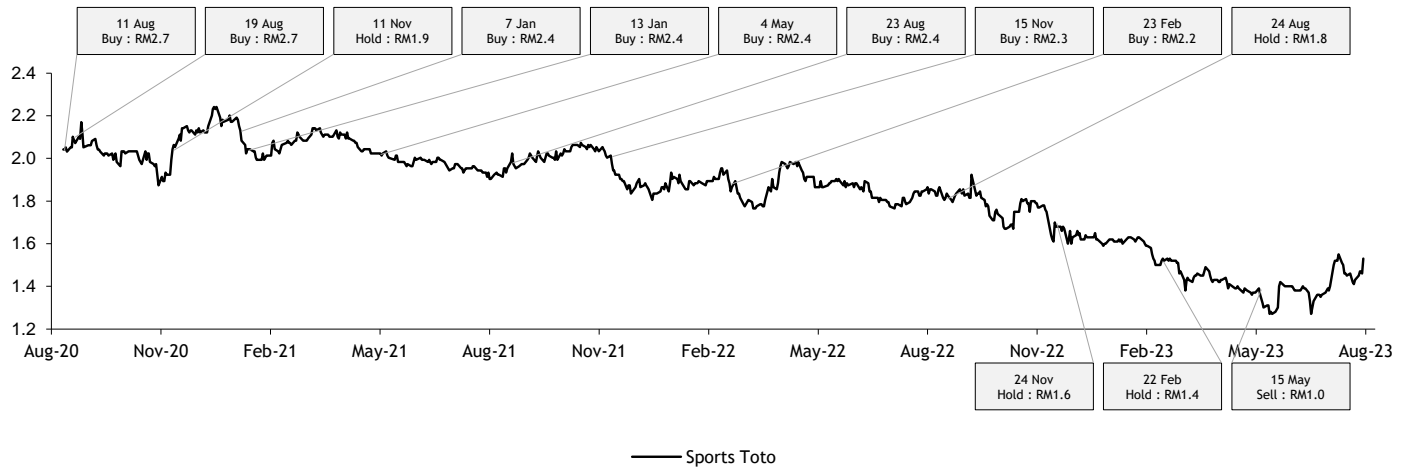
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## Historical recommendations and target price: Sports Toto (SPTOTO MK)



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