

Sports Toto (SPTOTO MK)

H.R. Owen engine needs a bit of revving

Maintain BUY and MYR1.55 DCF-TP

As much as H.R. Owen was SPTOTO's saving grace during the COVID-19 pandemic, its role has reversed post-COVID-19. We cut our EPS estimates by 15-17% to reflect lower earnings contributions from H.R. Owen. Yet, our DPS estimates and MYR1.55 DCF-TP are unchanged as SPTOTO never sourced any dividends from H.R. Owen and we have never ascribed any value to H.R. Owen because of it. We still like SPTOTO for its high dividend yield of 8% p.a. which is sourced from its more stable NFO operations.

Results missed on high prize payout and H.R. Owen

2QFY24 net profit of MYR24.2m (-63% YoY, -60% QoQ) brought 6MFY24 net profit to MYR84.4m (-38% YoY) which was below our expectation at 36% of our FY estimate. On closer inspection, the shortfall was due to a combination of 6MFY24 estimated prize payout ratio of 61% or 1ppt higher than we expected; and lower-than-expected earnings contribution from H.R. Owen. The second DPS of 2sen brought 6MFY24 DPS to 5sen which was in-line at 43% of our FY estimate.

H.R. Owen carrying more expenses for now

Prize payout ratio ought to average at the theoretical level of 60% in the long term. Yet, we note H.R. Owen generated a surprise 2QFY24 LBIT of MYR6.9m. SPTOTO explained that it moved 9 of its 18 showrooms in London to its own master showroom in Hatfield in Jul 2023 which resulted in higher operating expenses but could not grow sales there to compensate for the higher operating expenses due to high interest rates, supply chain issues and uncertainty over electric vehicle regulations.

Cut EPS estimates by 15-17% but DCF-TP unchanged

Reflecting lower H.R. Owen EBITDA margins, higher depreciation on the new Hatfield showroom and high interest expense on higher interest rates on H.R. Owen's stocking loans, we cut FY24E/FY25E/FY26E EPS estimates for SPTOTO by 17%/17%/15% (Fig. 2). Our DPS estimates are unchanged as they are not sourced from H.R. Owen. Our MYR1.55 DCF-TP is also unchanged as we never ascribed any value to H.R. Owen. As a sanity check, forward PERs remain inexpensive at 9-10x despite our lower estimates.

FYE Jun (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	5,229	6,100	5,650	5,605	5,605
EBITDA	369	433	437	419	419
Core net profit	163	221	192	188	196
Core EPS (sen)	12.1	16.5	14.3	14.0	14.6
Core EPS growth (%)	(11.9)	35.8	(13.1)	(2.0)	4.5
Net DPS (sen)	8.7	9.0	12.0	12.0	12.0
Core P/E (x)	14.7	7.9	10.6	10.8	10.4
P/BV (x)	2.7	1.6	1.9	1.8	1.8
Net dividend yield (%)	4.9	6.9	7.9	7.9	7.9
ROAE (%)	18.9	22.6	17.7	16.9	17.2
ROAA (%)	5.3	6.2	5.0	5.1	5.7
EV/EBITDA (x)	9.7	7.1	7.4	7.6	7.4
Net gearing (%) (incl perps)	97.0	97.9	83.9	75.0	65.7
Consensus net profit	-	-	216	225	232
MIBG vs. Consensus (%)	-	-	(11.2)	(16.6)	(15.3)

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BUY

Share Price	MYR 1.52
12m Price Target	MYR 1.55 (+10%)
Previous Price Target	MYR 1.55

Company Description

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

Statistics

52w high/low (MYR)	1.55/1.25
3m avg turnover (USDm)	0.1
Free float (%)	48.0
Issued shares (m)	1,378
Market capitalisation	MYR2.1B
	USD438M

Major shareholders:

Berjaya Land Bhd.	40.0%
Berjaya Corp. Bhd.	4.5%
The Vanguard Group, Inc.	1.9%

Price Performance



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

	-1M	-3M	-12M
Absolute (%)	2	3	1
Relative to index (%)	(1)	(3)	(5)

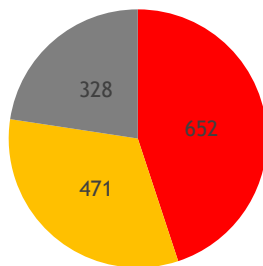
Source: FactSet

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.
- Has an established track record of paying special dividends and capital reductions.
- Has a dividend policy of $\geq 75\%$ DPR but has not abided by it in the last 3 financial years due to the COVID-19 pandemic.

Number of outlets by NFO

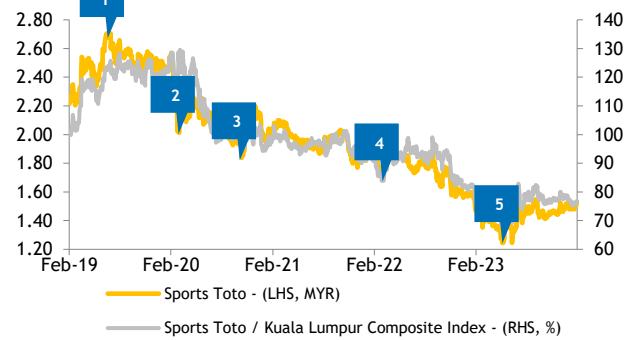
■ Sports Toto Malaysia ■ Magnum ■ Da Ma Cai



Source: Company, Magnum, Pan Malaysian Pools

Price Drivers

Historical share price trend



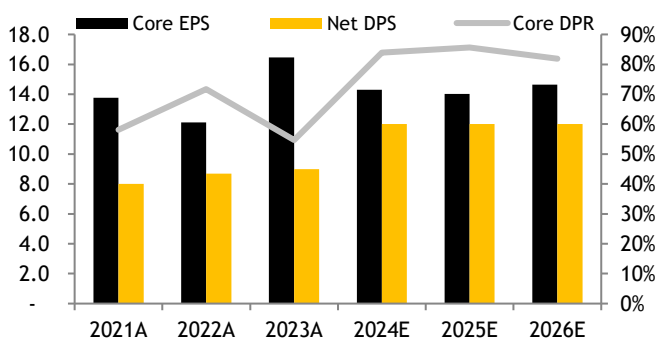
Source: Company, Maybank IBG Research

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 FY24E EPS to fall 13% YoY in FY24E due to lower earnings contribution from H.R. Owen.
- Forecast FY25E EPS to ease 2% YoY due to full year effect of 2ppt hike in service tax (FY24E: 4 months).
- Balance sheet was in net debt position of MYR1.18b or MYR0.89/share as at end-2QFY24.

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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Figure 1: Summary Results Table

FY Jun (MYR m)	2Q24	2Q23	% YoY	1Q24	% QoQ	6MFY24	6MFY23	% YoY
Turnover	1,368.1	1,408.2	(2.8)	1,594.9	(14.2)	2,962.9	2,827.3	4.8
Operating expenses	(1,282.9)	(1,296.3)	(1.0)	(1,471.0)	(12.8)	(2,753.9)	(2,588.4)	6.4
EBITDA	85.2	111.9	(23.9)	123.9	(31.3)	209.0	238.9	(12.5)
Depreciation & amortisation	(21.0)	(16.8)	24.9	(20.9)	0.4	(41.9)	(34.5)	21.5
EBIT	64.2	95.0	(32.5)	102.9	(37.7)	167.1	204.4	(18.2)
Interest expense	(17.0)	(3.7)	362.7	(17.9)	(5.0)	(34.9)	(11.0)	216.6
Associates	1.0	4.6	(79.3)	4.8	(80.0)	5.7	8.8	(35.2)
Pre-tax profit	48.1	96.0	(49.9)	89.8	(46.4)	137.9	202.2	(31.8)
Tax	(25.4)	(30.6)	(17.1)	(28.8)	(11.8)	(54.2)	(63.8)	(15.1)
Minority interest	1.5	(0.5)	(414.4)	(0.8)	(284.5)	0.7	(2.0)	(135.2)
Net profit	24.2	64.9	(62.7)	60.2	(59.7)	84.4	136.4	(38.1)
Net profit Ex EI	24.2	64.9	(62.7)	60.2	(59.7)	84.4	136.4	(38.1)
	2Q24	2Q23	+/- ppt	1Q24	+/- ppt	6MFY24	6MFY23	+/- ppt
EBIT margin (%)	4.7	6.7	(2.1)	6.5	(1.8)	5.6	7.2	(1.6)
Tax rate (%)	52.8	31.9	20.9	32.1	20.7	39.3	31.6	7.7
Segmental Results Table								
FY Jun (MYR m)	2Q24	2Q23	% YoY	1Q24	% QoQ	6MFY24	6MFY23	% YoY
Revenue	1,368.1	1,408.2	(2.8)	1,594.9	(14.2)	2,962.9	2,827.3	4.8
- Toto betting and leasing of lottery equipment	709.2	756.9	(6.3)	752.0	(5.7)	1,461.2	1,458.2	0.2
- Motor dealership	637.3	622.5	2.4	810.6	(21.4)	1,447.9	1,314.6	10.1
- Others	21.6	28.8	(24.9)	32.3	(33.0)	53.9	54.5	(1.1)
EBIT	64.2	95.0	(32.5)	102.9	(37.7)	167.1	204.4	(18.2)
- Toto betting and leasing of lottery equipment	80.6	96.5	(16.5)	96.5	(16.4)	177.1	197.8	(10.5)
- Motor dealership	(6.9)	2.7	(361.0)	9.9	(170.0)	3.0	17.6	(83.1)
- Others	(5.9)	(0.0)	N/M	(0.4)	N/M	(6.3)	(3.6)	75.4
- Unallocated corporate expenses	(3.6)	(4.1)	(11.0)	(3.1)	18.6	(6.7)	(7.5)	(10.6)

Source: Company

Results analysis

- 2QFY24 net profit was down 63% YoY largely due to: (i) 6 or 13% fewer draws YoY; (ii) 2QFY24 estimated prize payout ratio coming in higher at 61-62% (2QFY23: 60%); and (iii) H.R. Owen incurring higher operating expenses and depreciation following the completion and full operation of the Hatfield Centre.
- 2QFY24 net profit was down 60% QoQ largely due to: (i) sequentially lower NFO sales after large jackpots drove sales in 1QFY24; (ii) 2QFY24 estimated prize payout ratio coming in higher at 61-62% (1QFY24: 60%); and (iii) H.R. Owen experiencing seasonally lower volume of cars sold.
- 6MFY24 net profit was down 38% YoY largely due to: (i) 6MFY24 estimated prize payout ratio coming in higher at 61% (6MFY23: 59%); and (iii) H.R. Owen incurring higher operating expenses and depreciation following the completion and full operation of the Hatfield Centre.

Figure 2: Major assumptions and estimates

	FY24E	FY25E	FY26E
Revised			
H.R. Owen EBITDA margin	2.8%	2.8%	2.8%
Group depreciation (MYRm)	80.7	80.7	80.7
Group interest expense (MYRm)	102.7	91.0	77.9
Group core net profit (MYRm)	191.6	187.8	196.3
Previous			
H.R. Owen EBITDA margin	3.8%	3.8%	3.8%
Group depreciation (MYRm)	72.7	72.7	72.7
Group interest expense (MYRm)	77.5	68.7	58.8
Group core net profit (MYRm)	230.9	225.3	231.7

Source: Maybank IBG Research

Figure 3: SPTOTO DCF-based valuation

	MYRm	MYR/sh	Comments
STM Lottery	2,632.6	1.96	WACC: 9.2%, g: 0%
Net cash/(debt) at STM Lottery	(550.0)	(0.41)	End-FY6/24E
Equity value	2,082.6	1.55	

Source: Maybank IBG Research

FYE 30 Jun	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	15.7	9.6	10.6	10.8	10.4
Core P/E (x)	14.7	7.9	10.6	10.8	10.4
P/BV (x)	2.7	1.6	1.9	1.8	1.8
P/NTA (x)	12.0	5.1	5.5	5.1	4.7
Net dividend yield (%)	4.9	6.9	7.9	7.9	7.9
FCF yield (%)	6.2	1.6	17.5	14.6	14.2
EV/EBITDA (x)	9.7	7.1	7.4	7.6	7.4
EV/EBIT (x)	12.1	8.6	9.1	9.4	9.1
INCOME STATEMENT (MYR m)					
Revenue	5,229.3	6,099.7	5,649.8	5,604.8	5,604.8
EBITDA	369.2	432.8	436.9	419.4	419.4
Depreciation	(72.7)	(72.6)	(80.7)	(80.7)	(80.7)
EBIT	296.5	360.3	356.2	338.7	338.7
Net interest income / (exp)	(30.2)	(44.6)	(67.9)	(56.3)	(43.1)
Associates & JV	8.7	21.0	8.7	8.7	8.7
Exceptionals	(1.7)	0.5	0.0	0.0	0.0
Pretax profit	273.3	337.1	297.0	291.2	304.4
Income tax	(103.0)	(109.5)	(99.1)	(97.1)	(101.5)
Minorities	(9.3)	(5.7)	(6.4)	(6.3)	(6.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	160.9	221.9	191.6	187.8	196.3
Core net profit	162.6	221.4	191.6	187.8	196.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	558.8	621.0	629.2	448.6	363.4
Accounts receivable	540.7	604.1	560.7	556.4	556.4
Inventory	401.8	644.2	592.6	589.5	589.5
Property, Plant & Equip (net)	398.3	577.8	527.1	476.5	425.8
Intangible assets	696.6	727.6	727.6	727.6	727.6
Investment in Associates & JVs	103.6	124.9	133.7	142.4	151.1
Other assets	561.0	591.3	591.3	591.3	591.3
Total assets	3,260.8	3,890.9	3,762.3	3,532.2	3,405.1
ST interest bearing debt	310.6	592.5	732.6	642.1	502.6
Accounts payable	712.2	903.1	859.4	856.7	856.7
LT interest bearing debt	1,176.3	1,144.0	883.7	713.9	683.6
Other liabilities	105.0	112.0	110.0	110.0	111.0
Total Liabilities	2,303.9	2,751.9	2,586.1	2,322.7	2,153.7
Shareholders Equity	895.0	1,068.5	1,099.2	1,126.2	1,161.6
Minority Interest	61.9	70.6	77.0	83.3	89.8
Total shareholder equity	956.9	1,139.1	1,176.2	1,209.4	1,251.5
Total liabilities and equity	3,260.8	3,890.9	3,762.3	3,532.2	3,405.1
CASH FLOW (MYR m)					
Pretax profit	273.3	337.1	297.0	291.2	304.4
Depreciation & amortisation	72.7	72.6	80.7	80.7	80.7
Adj net interest (income)/exp	30.2	44.6	67.9	56.3	43.1
Change in working capital	0.9	(111.0)	51.3	4.8	0.0
Cash taxes paid	(89.9)	(115.6)	(100.9)	(97.5)	(100.8)
Other operating cash flow	(7.0)	(21.5)	(8.7)	(8.7)	(8.7)
Cash flow from operations	280.1	206.2	387.3	326.7	318.6
Capex	(131.2)	(178.1)	(30.0)	(30.0)	(30.0)
Free cash flow	148.9	28.2	357.3	296.7	288.6
Dividends paid	(47.0)	(127.7)	(160.8)	(160.8)	(160.8)
Equity raised / (purchased)	(5.0)	(14.8)	0.0	0.0	0.0
Change in Debt	160.1	199.5	(120.3)	(260.3)	(169.8)
Other invest/financing cash flow	(50.0)	(53.5)	(67.9)	(56.3)	(43.1)
Effect of exch rate changes	(11.9)	30.5	0.0	0.0	0.0
Net cash flow	195.1	62.2	8.2	(180.7)	(85.1)

FYE 30 Jun	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	8.3	16.6	(7.4)	(0.8)	0.0
EBITDA growth	(3.8)	17.2	0.9	(4.0)	0.0
EBIT growth	(6.4)	21.5	(1.1)	(4.9)	0.0
Pretax growth	(3.4)	23.4	(11.9)	(2.0)	4.5
Reported net profit growth	(11.2)	37.9	(13.7)	(2.0)	4.5
Core net profit growth	(12.0)	36.2	(13.5)	(2.0)	4.5
Profitability ratios (%)					
EBITDA margin	7.1	7.1	7.7	7.5	7.5
EBIT margin	5.7	5.9	6.3	6.0	6.0
Pretax profit margin	5.2	5.5	5.3	5.2	5.4
Payout ratio	72.4	54.6	84.0	85.6	81.9
DuPont analysis					
Net profit margin (%)	3.1	3.6	3.4	3.4	3.5
Revenue/Assets (x)	1.6	1.6	1.5	1.6	1.6
Assets/Equity (x)	3.6	3.6	3.4	3.1	2.9
ROAE (%)	18.9	22.6	17.7	16.9	17.2
ROAA (%)	5.3	6.2	5.0	5.1	5.7
Liquidity & Efficiency					
Cash conversion cycle	13.8	15.7	19.0	17.3	17.2
Days receivable outstanding	35.1	33.8	37.1	35.9	35.7
Days inventory outstanding	27.0	33.2	42.7	41.0	40.9
Days payables outstanding	48.2	51.3	60.9	59.6	59.5
Dividend cover (x)	1.4	1.8	1.2	1.2	1.2
Current ratio (x)	1.4	1.2	1.1	1.1	1.1
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.4	1.5	1.5	1.6
Net gearing (%) (incl perps)	97.0	97.9	83.9	75.0	65.7
Net gearing (%) (excl. perps)	97.0	97.9	83.9	75.0	65.7
Net interest cover (x)	9.8	8.1	5.2	6.0	7.9
Debt/EBITDA (x)	4.0	4.0	3.7	3.2	2.8
Capex/revenue (%)	2.5	2.9	0.5	0.5	0.5
Net debt/ (net cash)	928.0	1,115.6	987.1	907.4	822.7

Source: Company; Maybank IBG Research

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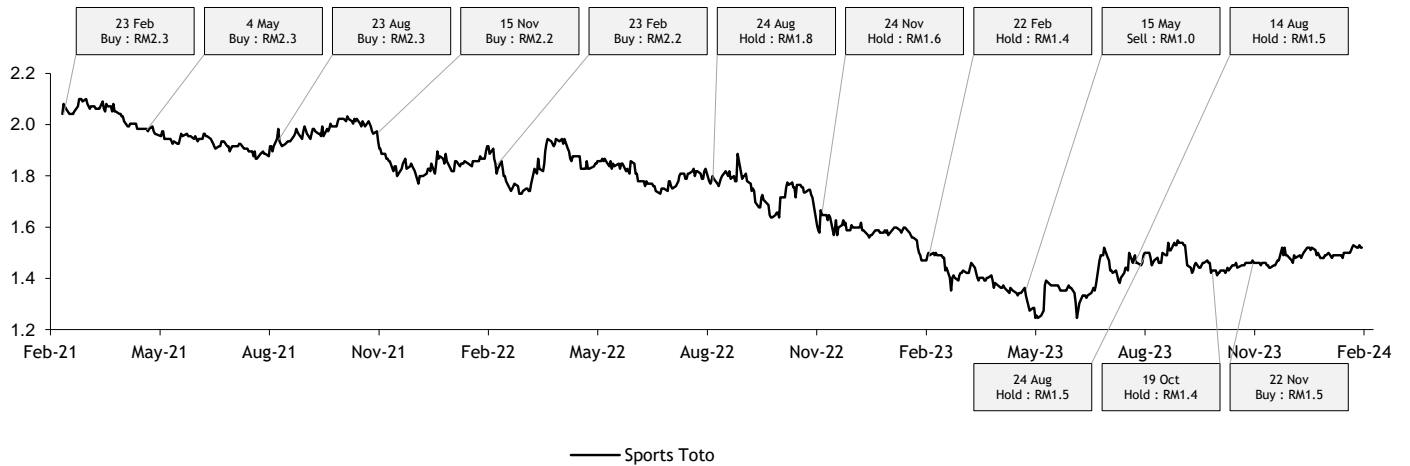
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