

Magnum Berhad (MAG MK)

Not a great start to the year but worst likely over

Maintain BUY call and MYR2.43 DCF-based TP

Omicron, competition and high prize payout ratio dented 1Q22 results. Yet, we note that most of the aforesaid have passed. Thus, future earnings and dividends ought to be better. On that note, we maintain our earnings estimates, dividends estimates and MYR2.43 DCF-based TP. Our estimates assume that gross NFO sales/draw will only recover to c.90% of pre-COVID-19 levels. Thus, there could be upside potential should gross NFO sales/draw recover to 100% of pre-COVID-19 levels. Maintain BUY.

Earnings and dividends below our expectations...

1Q22 core net profit of MYR16.6m (+122% YoY, -19% QoQ) and first interim DPS of 1sen (1Q21: nil, 4Q21: 1.5sen) accounted for only 9%/8% of our FY estimate. We gather that the shortfall was due to:- (i) lower-than-expected sales due to the Omicron wave that began in Jan 2022; (ii) punters migrating to Sports Toto Malaysia due to the lure of its Supreme Toto 6/58 jackpot which peaked at MYR97.8m; and (ii) higher-than-expected 1Q22 prize payout ratio of 66% (MIBG forecast: 62%).

... but worst likely over, in our view

Notwithstanding the above, we note that:- (i) the Omicron wave has subsided, this ought to embolden punters to bet again; (ii) the huge Supreme Toto 6/58 jackpot was struck on 30 Mar 2022, causing some punters to migrate back to Magnum; and (iii) prize payout ratio ought to normalise at the theoretical average of 62% in the long run. Thus, we believe that future quarterly earnings and dividends ought to be a lot better than that of 1Q22.

Maintaining earnings and dividends estimates

In our view, our earnings and dividend estimates are sufficiently conservative in that they imply that MAG's gross NFO sales/draw will recover to only c.90% of pre-COVID-19 levels in the long term. Thus, there could be further upside potential to earnings, dividends and TP should the COVID-19 pandemic truly be brought under control and a global recession is avoided.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,673	1,260	2,445	2,494	2,544
EBITDA	210	74	350	358	366
Core net profit	102	0	193	217	223
Core EPS (sen)	7.1	0.0	13.4	15.1	15.5
Core EPS growth (%)	(57.5)	(100.0)	nm	12.3	2.6
Net DPS (sen)	8.5	1.5	13.0	14.0	15.0
Core P/E (x)	31.9	nm	13.4	11.9	11.6
P/BV (x)	1.4	1.2	1.1	1.1	1.1
Net dividend yield (%)	3.7	0.8	7.2	7.8	8.3
ROAE (%)	0.9	0.0	8.2	9.1	9.3
ROAA (%)	2.8	0.0	5.5	6.1	6.3
EV/EBITDA (x)	16.9	41.9	8.4	8.2	8.0
Net gearing (%) (incl perps)	28.3	32.0	31.4	30.4	29.9
Consensus net profit	-	-	193	233	239
MKE vs. Consensus (%)	-	-	(0.0)	(6.8)	(6.9)

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BUY

Share Price	MYR 1.81
12m Price Target	MYR 2.43 (+41%)
Previous Price Target	MYR 2.43

Company Description

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

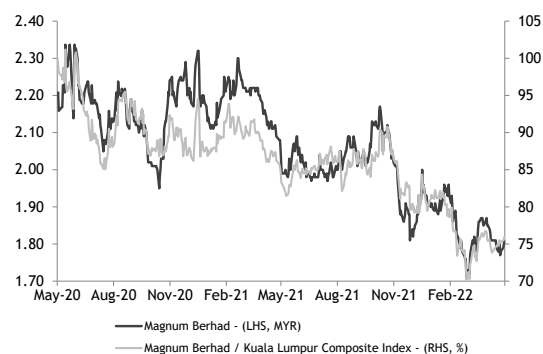
Statistics

52w high/low (MYR)	2.17/1.71
3m avg turnover (USDm)	0.5
Free float (%)	51.3
Issued shares (m)	1,438
Market capitalisation	MYR2.6B USD592M

Major shareholders:

Casi Management Sdn. Bhd.	30.1%
MWE Holdings Bhd.	4.6%
AIA Bhd.	3.7%

Price Performance



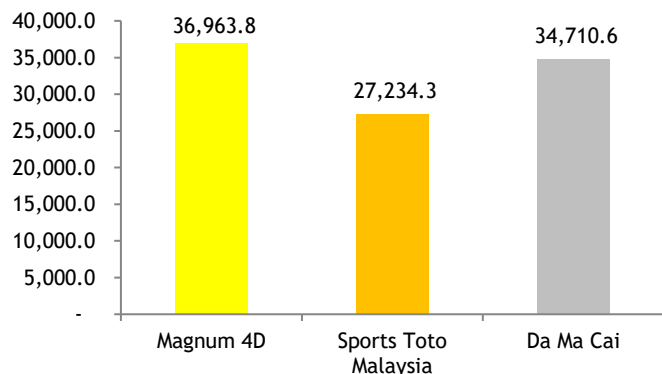
	-1M	-3M	-12M
Absolute (%)	(3)	(6)	(12)
Relative to index (%)	(1)	(3)	(10)

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.

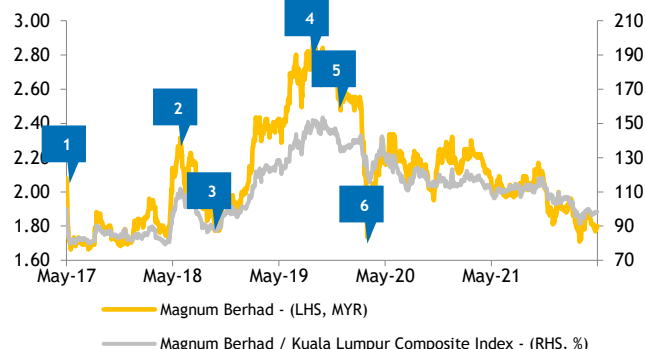
2019 gross NFO sales/draw/outlet by NFO (MYR)



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

Price Drivers

Historical share price trend



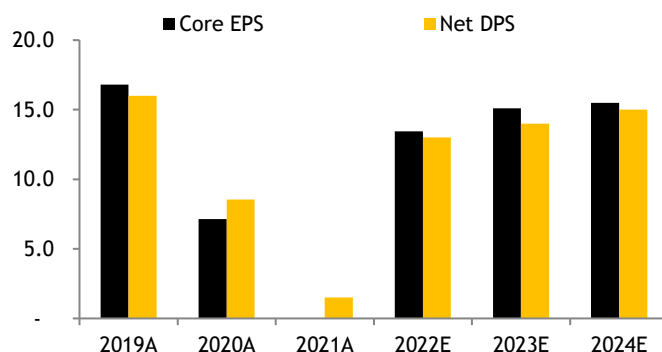
Source: Company, Maybank IBG Research

1. Served with tax penalty of MYR476.5m by the Director General of Inland Revenue.
2. Introduced Magnum Life while government announced that the GST will be zero-rated effective 1 Jun 2018.
3. Settled tax penalty at MYR148.1m with the Director General of Inland Revenue.
4. Reported stellar 2Q19 results as 2Q19 core earnings surged 60% YoY.
5. Served with extra tax penalties of MYR182.8m by the Director General of Inland Revenue.
6. COVID-19 pandemic struck Malaysia. MAG outlets were closed from 18 Mar 2020 to 16 Jun 2020.

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 recover another 12% YoY due to nonrecurrence of Cukai Makmur.
- Balance sheet is in net debt position of MYR734.5m or MYR0.51/share as at end-1Q22.
- Light capex forecast of MYR10m p.a. as most of its outlets and sales terminals have just been refreshed.

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 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)	1Q22	1Q21	% YoY	4Q21	% QoQ
Turnover	501.0	383.9	30.5	483.0	3.7
Operating expenses	(455.6)	(358.5)	27.1	(446.1)	2.1
EBITDA	45.5	25.4	79.1	36.9	23.3
Depreciation & amortisation	(2.6)	(2.9)	(10.2)	(2.6)	-
EBIT	42.9	22.5	90.8	34.3	25.1
Interest expense	(10.4)	(9.8)	6.1	(5.1)	105.1
Exceptional items	0.0	0.0	68.2	0.1	(35.1)
Pre-tax profit	32.4	12.6	156.6	29.2	11.0
Tax	(15.6)	(5.3)	193.7	(9.4)	65.5
Minority interest	(0.2)	0.2	(216.9)	0.7	(129.1)
Net profit	16.7	7.5	121.6	20.5	(18.8)
Net profit ex EI	16.6	7.5	121.7	20.5	(18.8)
	1Q22	1Q21	+/- ppt	4Q21	+/- ppt
EBITDA margin (%)	9.1	6.6	2.5	7.6	1.4
Tax rate (%)	48.0	42.0	6.1	32.2	15.8

Segmental Results Table

FY Dec (MYR m)	1Q22	1Q21	% YoY	4Q21	% QoQ
Revenue	501.0	383.9	30.5	483.0	3.7
Gaming	501.0	383.9	30.5	483.0	3.7
Investment holding & others	0.0	0.0	(4.3)	0.0	4.8
Pre-tax profit					
Gaming	32.4	12.6	156.6	29.2	11.0
Corporate & others	40.7	13.7	196.6	34.7	17.4

Source: Company

Results analysis

- 1Q22 pre-tax profit was up 157% YoY even though there were 2 fewer draws YoY as all 485 NFO outlets were operating in 1Q22.
- Recall that in 1Q21, NFO outlets not located in Sarawak were shut for 18 draws from 13 Jan 2021 to 14 Feb 2021 due to Movement Control Order 2.0.
- 1Q22 pre-tax profit was up 11% QoQ even though there were 2 fewer draws QoQ due to seasonally higher Chinese New Year Sales.

Figure 2: MAG DCF-based valuation

	MYRm	MYR/sh	Comments
DCF	3,813.1	2.65	WACC: 8.6%, g: 2.0%
Investment securities	423.8	0.29	End-FY22E
Net debt	(751.1)	(0.52)	End-FY22E
Equity value	3,485.8	2.43	

Source: Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	148.2	nm	13.5	12.0	11.7
Core P/E (x)	31.9	nm	13.5	12.0	11.7
P/BV (x)	1.4	1.2	1.1	1.1	1.1
P/NTA (x)	(9.5)	(7.3)	(7.0)	(7.4)	(7.5)
Net dividend yield (%)	3.7	0.8	7.2	7.7	8.3
FCF yield (%)	2.0	0.3	9.1	9.9	10.2
EV/EBITDA (x)	16.9	41.9	8.5	8.2	8.0
EV/EBIT (x)	18.1	49.8	8.8	8.5	8.3
INCOME STATEMENT (MYR m)					
Revenue	1,673.2	1,259.6	2,445.2	2,494.1	2,544.0
EBITDA	210.0	74.1	349.8	357.8	365.9
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	62.4	338.1	346.0	354.2
Net interest income / (exp)	(36.1)	(37.3)	(37.3)	(37.3)	(37.3)
Exceptionals	(16.7)	0.1	0.0	0.0	0.0
Pretax profit	144.0	25.2	300.7	308.7	316.9
Income tax	(122.5)	(26.6)	(107.5)	(91.9)	(94.3)
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	193.2	216.9	222.6
Core net profit	101.8	0.0	193.2	216.9	222.6
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	272.5	192.7	204.4	223.5	234.8
Accounts receivable	44.3	48.2	50.2	51.2	52.3
Inventory	2.1	1.3	2.3	2.3	2.4
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	3,511.4	3,524.4	3,542.9	3,553.5
ST interest bearing debt	191.3	176.3	176.1	176.3	176.3
Accounts payable	198.2	169.6	172.2	175.6	179.0
LT interest bearing debt	764.5	779.2	779.4	779.4	779.4
Other liabilities	7.0	2.0	6.0	5.0	5.0
Total Liabilities	1,161.3	1,127.2	1,133.9	1,136.6	1,140.2
Shareholders Equity	2,391.7	2,362.9	2,369.2	2,384.9	2,391.9
Minority Interest	22.9	21.3	21.3	21.3	21.3
Total shareholder equity	2,414.6	2,384.2	2,390.6	2,406.2	2,413.3
Total liabilities and equity	3,575.9	3,511.4	3,524.4	3,542.9	3,553.5
CASH FLOW (MYR m)					
Pretax profit	144.0	25.2	300.7	308.7	316.9
Depreciation & amortisation	13.1	11.7	11.7	11.7	11.7
Adj net interest (income)/exp	36.1	37.3	37.3	37.3	37.3
Change in working capital	1.7	(25.9)	(0.4)	2.3	2.4
Cash taxes paid	(117.7)	(48.8)	(103.5)	(92.6)	(94.2)
Other operating cash flow	3.6	12.3	0.0	0.0	0.0
Cash flow from operations	80.9	11.8	245.8	267.5	274.1
Capex	(14.6)	(4.6)	(10.0)	(10.0)	(10.0)
Free cash flow	66.3	7.3	235.8	257.5	264.1
Dividends paid	(107.0)	(28.7)	(186.8)	(201.2)	(215.6)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	47.3	(1.8)	0.0	0.2	0.0
Other invest/financing cash flow	(41.3)	(47.1)	(37.3)	(37.3)	(37.3)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(34.7)	(70.4)	11.7	19.1	11.2

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(38.2)	(24.7)	94.1	2.0	2.0
EBITDA growth	(45.6)	(64.7)	371.8	2.3	2.3
EBIT growth	(47.4)	(68.3)	441.7	2.4	2.4
Pretax growth	(58.0)	(82.5)	1,091.7	2.7	2.6
Reported net profit growth	(91.1)	(99.1)	104,899.9	12.3	2.6
Core net profit growth	(57.4)	(100.0)	471,119.2	12.3	2.6
Profitability ratios (%)					
EBITDA margin	12.5	5.9	14.3	14.3	14.4
EBIT margin	11.8	5.0	13.8	13.9	13.9
Pretax profit margin	8.6	2.0	12.3	12.4	12.5
Payout ratio	nm	nm	96.7	92.8	96.8
DuPont analysis					
Net profit margin (%)	1.3	0.0	7.9	8.7	8.8
Revenue/Assets (x)	0.5	0.4	0.7	0.7	0.7
Assets/Equity (x)	1.5	1.5	1.5	1.5	1.5
ROAE (%)	0.9	0.0	8.2	9.1	9.3
ROAA (%)	2.8	0.0	5.5	6.1	6.3
Liquidity & Efficiency					
Cash conversion cycle	(39.2)	(42.1)	(21.8)	(21.6)	(21.6)
Days receivable outstanding	8.7	13.2	7.2	7.3	7.3
Days inventory outstanding	0.4	0.5	0.3	0.4	0.4
Days payables outstanding	48.3	55.9	29.4	29.3	29.3
Dividend cover (x)	0.2	0.0	1.0	1.1	1.0
Current ratio (x)	0.9	0.9	0.9	0.9	1.0
Leverage & Expense Analysis					
Asset/Liability (x)	3.1	3.1	3.1	3.1	3.1
Net gearing (%) (incl perps)	28.3	32.0	31.4	30.4	29.9
Net gearing (%) (excl. perps)	28.3	32.0	31.4	30.4	29.9
Net interest cover (x)	5.4	1.7	9.1	9.3	9.5
Debt/EBITDA (x)	4.6	12.9	2.7	2.7	2.6
Capex/revenue (%)	0.9	0.4	0.4	0.4	0.4
Net debt/ (net cash)	683.4	762.8	751.1	732.2	720.9

Source: Company; Maybank IBG Research

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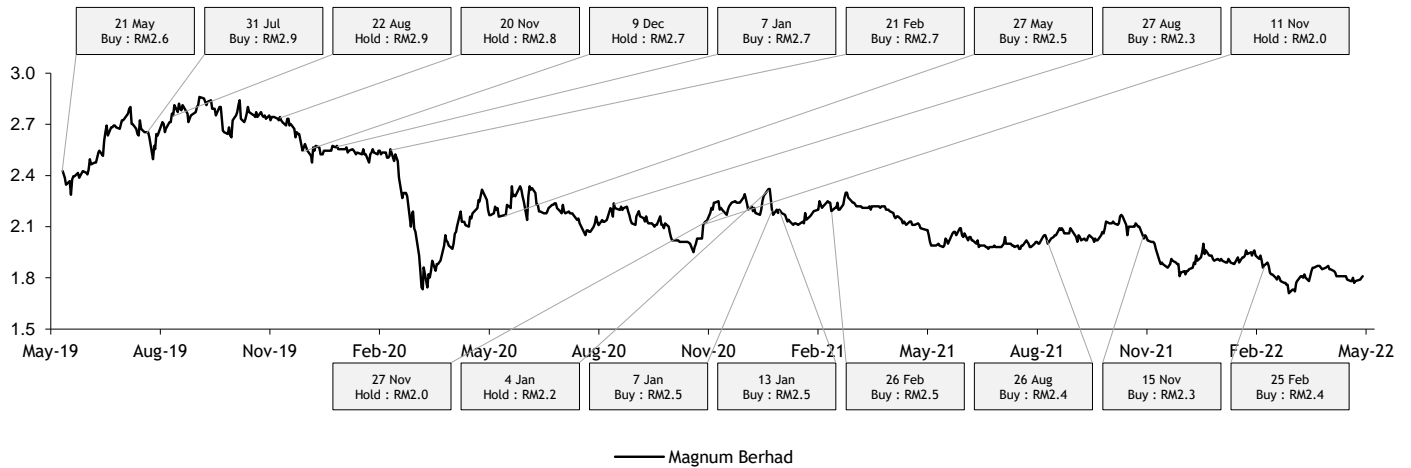
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