

Sports Toto (SPTOTO MK)

Potential to unlock value from outperforming H.R. Owen

BUY

Share Price MYR 1.91
 12m Price Target MYR 2.24 (+23%)
 Previous Price Target MYR 2.24

Maintain BUY call and DCF-based TP of MYR2.24

Earnings were above our expectations due to H.R. Owen. Thus, we raise our FY22E/FY23E/FY24E earnings by 52%/5%/5%. That said, H.R. Owen does not pay dividends to SPTOTO. Thus, our DPS estimates and DCF-based TP are unchanged. Yet, SPTOTO offers >20% upside potential ex-H.R. Owen. There could be more upside if H.R. Owen pays dividends to SPTOTO or it is sold and proceeds are returned to SPTOTO shareholders.

Earnings outperformed but dividends within

3QFY6/22 net profit of MYR79.6m (+326% YoY, +49% QoQ) was the highest quarterly net profit since the quarter ending 31 Jul 2018. It brought 9MFY6/22 net profit to MYR115.2m (-24% YoY) which was above our expectations at 111% of our FY estimate. The outperformance was due to higher than expected earnings from motor dealership, H.R. Owen. That said, the third interim DPS of 2sen brought YTD DPS to 4sen which was within our expectations at 63% of our FY estimate.

Huge jackpot helped but has been struck

Although the earnings outperformance was due to H.R. Owen, we note that 3QFY6/22 gross NFO sales/draw recovered strongly to 90% of pre-COVID-19 levels (2QFY6/22: 65%). The strong recovery was helped by strong Supreme Toto 6/58 sales which were driven by its huge jackpot which peaked at MYR97.8m on 30 Mar 2022. Given that the huge jackpot was struck on the same date and sales usually level off after Chinese New Year, our toto betting estimates are unchanged.

Raise FY22E/FY23E/FY24E earnings by 52%/5%/5%

Instead, we raise our earnings estimate to reflect higher earnings from H.R. Owen. Its strong results in the last 2 years, especially used car sales, have been due to supply chain disruptions to new car sales due to COVID-19. Given that the global COVID-19 situation has eased, we expect H.R. Owen earnings to moderate (Fig. 2). That said, H.R. Owen is part of 88%-owned Berjaya Philippines (BCOR PM, CP: PHP5.46) which does not pay dividends to SPTOTO. Thus, we maintain our DPS estimates, nil BCOR valuation and SPTOTO DCF-based TP of MYR2.24 (Fig. 3).

FYE Jun (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	4,636	4,829	5,095	5,737	5,796
EBITDA	306	415	360	453	463
Core net profit	125	182	158	242	251
Core EPS (sen)	9.3	13.6	11.8	18.1	18.7
Core EPS growth (%)	(59.1)	45.9	(13.3)	53.5	3.7
Net DPS (sen)	10.4	8.0	6.4	14.5	15.0
Core P/E (x)	23.4	14.6	16.2	10.6	10.2
P/BV (x)	3.9	3.3	2.9	2.7	2.6
Net dividend yield (%)	4.8	4.0	3.3	7.6	7.9
ROAE (%)	18.2	23.5	18.6	26.6	26.2
ROAA (%)	4.5	6.3	5.7	8.9	9.2
EV/EBITDA (x)	14.3	9.6	10.6	8.2	7.8
Net gearing (%) (incl perps)	148.6	120.0	99.6	82.4	69.0
Consensus net profit	-	-	162	240	249
MKE vs. Consensus (%)	-	-	(2.4)	1.0	1.0

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Company Description

One of three national number forecast operators in Malaysia with 676 outlets.

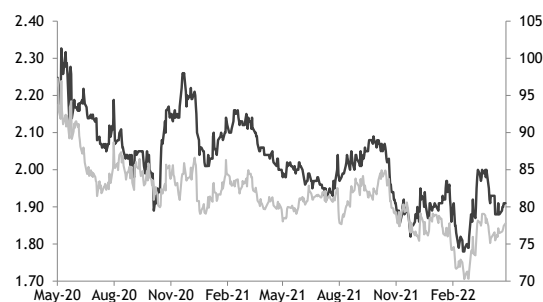
Statistics

52w high/low (MYR)	2.09/1.78
3m avg turnover (USDm)	0.3
Free float (%)	50.6
Issued shares (m)	1,351
Market capitalisation	MYR2.6B USD588M

Major shareholders:

Berjaya Land Bhd.	40.0%
Berjaya Corp. Bhd.	7.6%
AIA Bhd.	3.2%

Price Performance



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

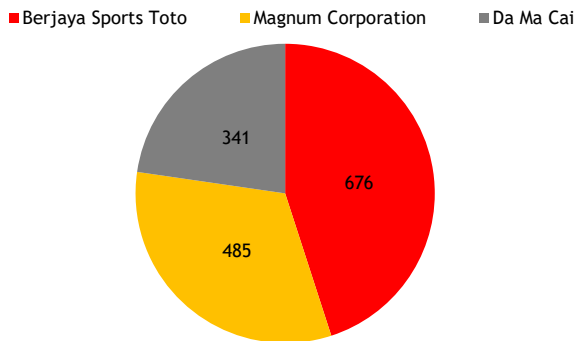
	-1M	-3M	-12M
Absolute (%)	(5)	1	(5)
Relative to index (%)	(1)	3	(4)

Source: FactSet

Value Proposition

- Largest legal number forecast operator (NFO) in Malaysia with 676 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 ≥75% DPR. Does distribute treasury shares as dividends.

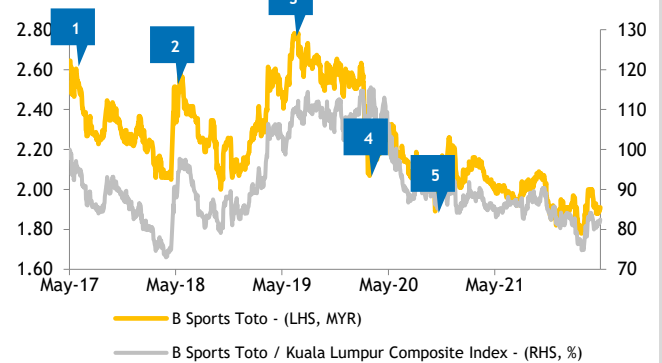
Number of outlets by NFO



Source: Company, Magnum, Pan Malaysian Pools

Price Drivers

Historical share price trend



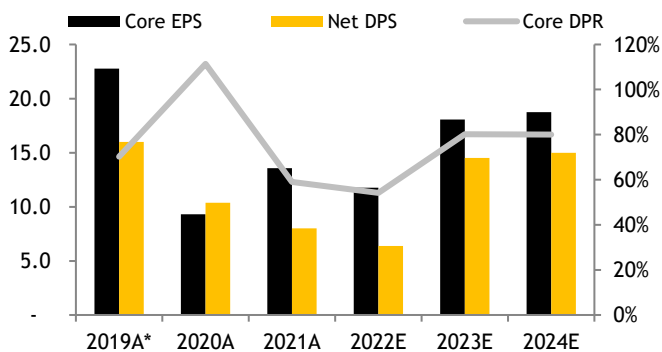
Source: Company, Maybank IBG Research

1. Share price downtrend due to poor consumer sentiment and market share loss to illegal NFOs.
2. New Pakatan Harapan government abolished the Goods & Services Tax.
3. Introduced *4D Zodiac*, a game that combines the popular *Classic 4D* and Chinese zodiacs.
4. COVID-19 pandemic struck Malaysia. SPTOTO NFO outlets closed from 18 Mar 2020 to 15 Jun 2020.
5. New COVID-19 cases in Malaysia began to rise after the Sabah state election.

Financial Metrics

- Key financial metric is EPS as it is the basis on which DPS will be declared.
- Forecast FY6/22E EPS to fall 13% YoY due to the Full Movement Control Order (FMCO) and Cukai Makmur.
- Forecast FY6/23E EPS to recover 54% YoY due to non-recurrence of the FMCO and Cukai Makmur.
- Forecast FY6/24E EPS to grow a more moderate 4% YoY as operations normalise.
- Balance sheet was in net debt position of MYR1.1b or MYR0.79/share as at end-4QFY6/21.

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



* 14 months of operations

Source: Company, Maybank IBG Research

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)	3Q22	3Q21	% YoY	2Q22	% QoQ	9M22	9M21	% YoY
Turnover	1,728.4	1,122.3	54.0	1,245.4	38.8	3,771.4	3,702.2	1.9
Operating expenses	(1,580.1)	(1,060.5)	49.0	(1,141.9)	38.4	(3,505.1)	(3,379.4)	3.7
EBITDA	148.3	61.9	139.8	103.5	43.3	266.3	322.8	(17.5)
Depreciation & amortisation	(16.2)	(16.2)	0.0	(16.2)	(0.3)	(49.0)	(49.7)	(1.4)
EBIT	132.2	45.7	189.4	87.3	51.4	217.3	273.1	(20.4)
Interest expense	(11.7)	(8.8)	33.6	(10.8)	8.7	(33.2)	(30.0)	11.0
Associates	2.0	(1.5)	(235.4)	3.3	(40.4)	5.7	(10.9)	(153.0)
Pre-tax profit	122.4	35.4	245.6	79.8	53.4	189.8	232.3	(18.3)
Tax	(39.4)	(14.6)	170.4	(24.6)	59.9	(66.5)	(76.3)	(12.8)
Minority interest	(3.4)	(2.2)	58.5	(1.9)	81.7	(8.1)	(4.4)	83.4
Net profit	79.6	18.7	326.0	53.3	49.4	115.2	151.6	(24.0)
EBIT margin (%)	3Q22	3Q21	+/- ppt	2Q22	+/- ppt	9M22	9M21	+/- ppt
Tax rate (%)	7.6	4.1	3.6	7.0	0.6	5.8	7.4	(1.6)
Segmental Results Table								
FY Jun (MYR m)	3Q22	3Q21	% YoY	2Q22	% QoQ	9M22	9M21	% YoY
Revenue	1,728.4	1,122.3	54.0	1,245.4	38.8	3,771.4	3,702.2	1.9
- Toto betting	814.5	478.3	70.3	589.5	38.2	1,478.2	1,813.8	(18.5)
- Motor dealership	895.0	632.1	41.6	639.4	40.0	2,241.5	1,840.6	21.8
- Others	18.9	12.0	58.0	16.5	14.7	51.7	47.8	8.2
	-	-		-		-	-	
EBIT	132.2	45.7	189.4	87.3	51.4	217.3	273.1	(20.4)
- Toto betting	100.2	28.6	250.2	76.5	30.9	150.2	230.7	(34.9)
- Motor dealership	39.0	24.7	57.9	18.3	113.5	84.6	60.8	39.1
- Others	(3.6)	(3.8)	(5.2)	(4.7)	(23.0)	(8.0)	(6.5)	23.9
- Unallocated corporate expenses	(3.4)	(3.8)	(10.7)	(2.8)	21.0	(9.4)	(11.9)	(20.9)

Source: Company

Results analysis

- 3QFY6/22 net profit of MYR79.6m was up 326% YoY even though there were 2 fewer draws YoY largely due to all c.680 NFO outlets operating in 3QFY6/22.
- Recall that in 3QFY6/21, 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.
- 3QFY6/22 jackpot sales were also strong at MYR333.1m (3QFY6/21: MYR112.7m, 2QFY6/22: MYR159.5m) due to Supreme Toto 6/58 whose jackpot peaked at MYR97.8m on 30 Mar 2022.
- 3QFY6/22 net profit of MYR79.6m was up 49% QoQ even though there were 2 fewer draws Qo largely due to seasonally higher Chinese New Year sales and the aforementioned jackpot sales.
- The better QoQ earnings were also helped by H.R. Owen which experienced higher car sales QoQ. 2QFY6/22 car sales were dampened by restrictions implemented by the British Government due to the Omicron variant.
- Yet, 9MFY6/22 net profit was still down 24% YoY as there were 33 fewer draws YoY. Recall that all c.680 NFO outlets were shut from 1 Jun to 13 Sep 2021 due to the Full Movement Control Order.

Figure 2: Major assumptions and estimates

	FY6/19A*	FY6/20A	FY6/21A	FY6/22E	FY6/23E	FY6/24E
Revised						
H.R. Owen sales (MYRm)	2,841.5	2,065.9	2,501.9	3,002.3	2,702.1	2,702.1
H.R. Owen EBITDA (MYRm)	79.1	39.2	115.3	153.4	74.5	74.5
H.R. Owen EBITDA margin	2.8%	1.9%	4.6%	5.1%	2.8%	2.8%
Previous						
H.R. Owen sales (MYRm)	2,841.5	2,065.9	2,501.9	2,435.6	2,435.6	2,435.6
H.R. Owen EBITDA (MYRm)	79.1	39.2	115.3	52.6	52.6	52.6
H.R. Owen EBITDA margin	2.8%	1.9%	4.6%	2.2%	2.2%	2.2%

* 14 months of operations

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

Figure 3: SPTOTO DCF-based valuation

	MYRm	MYR/sh	Comments
Sports Toto Malaysia DCF	3,705.0	2.76	WACC: 8.6%, g: 2.0%
(Net debt at Sports Toto Malaysia)	(700.0)	(0.52)	End-FY6/22E
Equity value	3,005.0	2.24	

Source: Maybank IBG Research

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	25.1	15.3	16.2	10.6	10.2
Core P/E (x)	23.4	14.6	16.2	10.6	10.2
P/BV (x)	3.9	3.3	2.9	2.7	2.6
P/NTA (x)	62.6	24.4	14.1	11.2	9.2
Net dividend yield (%)	4.8	4.0	3.3	7.6	7.9
FCF yield (%)	2.8	16.1	7.8	12.4	11.7
EV/EBITDA (x)	14.3	9.6	10.6	8.2	7.8
EV/EBIT (x)	18.2	11.5	13.2	9.7	9.2

INCOME STATEMENT (MYR m)

Revenue	4,635.7	4,829.1	5,095.4	5,737.5	5,796.1
EBITDA	305.9	414.5	359.6	452.8	463.2
Depreciation	(66.2)	(67.3)	(70.0)	(70.0)	(70.0)
EBIT	239.7	347.2	289.6	382.8	393.2
Net interest income / (exp)	(18.7)	(48.7)	(12.6)	(6.0)	(2.6)
Associates & JV	(1.9)	(17.1)	(9.5)	(1.9)	(1.9)
Exceptionals	7.7	0.0	0.0	0.0	0.0
Pretax profit	226.8	281.5	267.5	374.9	388.6
Income tax	(93.1)	(93.5)	(103.9)	(124.5)	(129.1)
Minorities	(1.0)	(5.9)	(5.6)	(7.9)	(8.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	132.7	182.1	157.9	242.5	251.4
Core net profit	125.0	182.1	157.9	242.5	251.4

BALANCE SHEET (MYR m)

Cash & Short Term Investments	307.8	274.0	139.9	222.6	216.9
Accounts receivable	566.0	543.1	572.6	557.9	563.5
Inventory	438.7	320.7	344.1	383.9	387.4
Property, Plant & Equip (net)	183.1	293.8	253.8	213.8	173.8
Intangible assets	691.3	705.3	705.3	705.3	705.3
Investment in Associates & JVs	119.3	104.0	94.5	92.6	90.6
Other assets	602.8	584.7	584.7	584.7	584.7
Total assets	2,909.0	2,825.5	2,694.9	2,760.8	2,722.4
ST interest bearing debt	465.4	557.0	257.3	322.1	257.3
Accounts payable	612.8	539.9	566.7	612.5	616.6
LT interest bearing debt	1,015.5	771.0	835.1	734.4	698.5
Other liabilities	26.0	80.0	80.0	80.0	80.0
Total Liabilities	2,119.7	1,947.5	1,738.8	1,749.0	1,652.3
Shareholders Equity	737.8	814.2	886.6	934.5	984.6
Minority Interest	51.5	63.8	69.4	77.3	85.5
Total shareholder equity	789.3	878.0	956.0	1,011.8	1,070.1
Total liabilities and equity	2,909.0	2,825.5	2,694.9	2,760.8	2,722.4

CASH FLOW (MYR m)

Pretax profit	226.8	281.5	267.5	374.9	388.6
Depreciation & amortisation	66.2	67.3	70.0	70.0	70.0
Adj net interest (income)/exp	18.7	48.7	12.6	6.0	2.6
Change in working capital	(34.7)	167.0	(26.1)	20.6	(5.1)
Cash taxes paid	(116.5)	(79.8)	(103.8)	(124.3)	(129.0)
Other operating cash flow	(5.8)	17.1	9.5	1.9	1.9
Cash flow from operations	154.7	501.7	229.7	349.0	329.0
Capex	(72.9)	(73.4)	(30.0)	(30.0)	(30.0)
Free cash flow	81.8	428.2	199.7	319.0	299.0
Dividends paid	(168.4)	(87.3)	(85.5)	(194.6)	(201.3)
Equity raised / (purchased)	(19.8)	(18.2)	0.0	0.0	0.0
Change in Debt	55.5	(220.9)	(235.6)	(35.9)	(100.7)
Other invest/financing cash flow	(81.5)	(144.2)	(12.6)	(6.0)	(2.6)
Effect of exch rate changes	17.8	8.7	0.0	0.0	0.0
Net cash flow	(114.6)	(33.8)	(134.1)	82.6	(5.6)

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(29.5)	4.2	5.5	12.6	1.0
EBITDA growth	(38.9)	35.5	(13.3)	25.9	2.3
EBIT growth	(48.6)	44.9	(16.6)	32.2	2.7
Pretax growth	(45.9)	24.1	(5.0)	40.1	3.7
Reported net profit growth	(41.5)	37.2	(13.2)	53.5	3.7
Core net profit growth	(59.2)	45.7	(13.2)	53.5	3.7
Profitability ratios (%)					
EBITDA margin	6.6	8.6	7.1	7.9	8.0
EBIT margin	5.2	7.2	5.7	6.7	6.8
Pretax profit margin	4.9	5.8	5.2	6.5	6.7
Payout ratio	104.9	59.0	54.2	80.2	80.1
DuPont analysis					
Net profit margin (%)	2.9	3.8	3.1	4.2	4.3
Revenue/Assets (x)	1.6	1.7	1.9	2.1	2.1
Assets/Equity (x)	3.9	3.5	3.0	3.0	2.8
ROAE (%)	18.2	23.5	18.6	26.6	26.2
ROAA (%)	4.5	6.3	5.7	8.9	9.2
Liquidity & Efficiency					
Cash conversion cycle	23.2	25.3	22.6	20.1	19.4
Days receivable outstanding	40.1	41.3	39.4	35.5	34.8
Days inventory outstanding	38.5	31.0	25.3	24.8	26.0
Days payables outstanding	55.4	47.0	42.1	40.2	41.5
Dividend cover (x)	1.0	1.7	1.8	1.2	1.2
Current ratio (x)	1.2	1.0	1.3	1.2	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.5	1.5	1.6	1.6
Net gearing (%) (incl perps)	148.6	120.0	99.6	82.4	69.0
Net gearing (%) (excl. perps)	148.6	120.0	99.6	82.4	69.0
Net interest cover (x)	12.8	7.1	23.0	64.1	148.4
Debt/EBITDA (x)	4.8	3.2	3.0	2.3	2.1
Capex/revenue (%)	1.6	1.5	0.6	0.5	0.5
Net debt/ (net cash)	1,173.2	1,054.0	952.4	834.0	738.9

Source: Company; Maybank IBG Research

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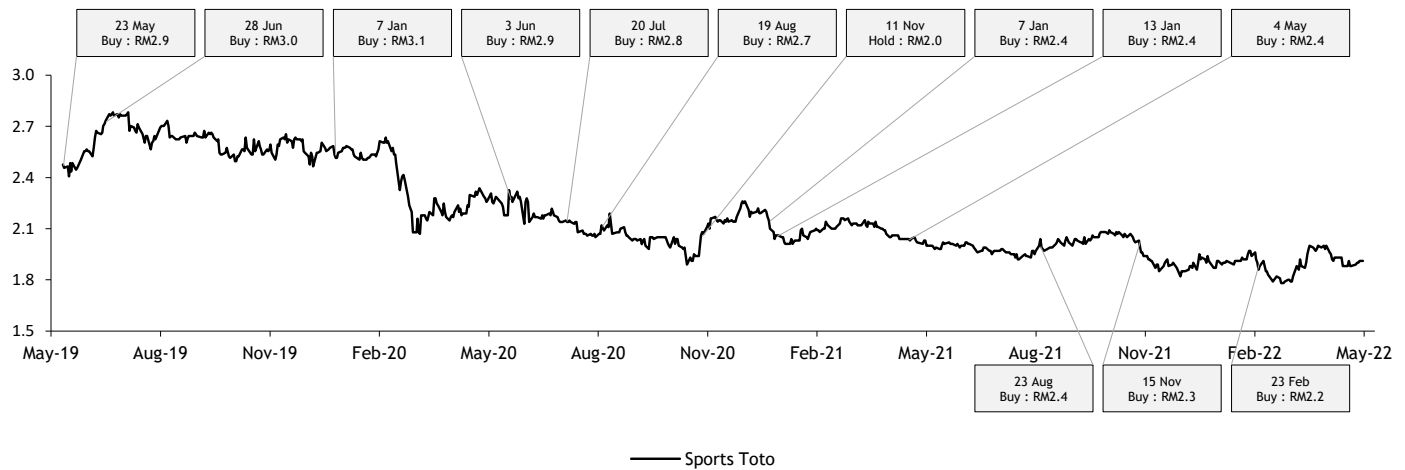
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