

COMPANY RESULTS

Magnum (MAG MK)

1Q22: Below Expectations, Better Recovery Ahead

Magnum's 1Q22 results came in below expectations, mainly reflecting the slower-than-expected ticket sales recovery and losses from the investment holdings division. Nevertheless, we expect Magnum's ticket sales to recover to 85-90% of pre-pandemic levels in the coming quarters following the rehiring of migrant workers; valuations will partially price in the full earnings recovery and prospective yield of about 5.1% in 2022. Maintain BUY with a lower target price of RM2.38.

1Q22 RESULTS

Year to 31 Dec (RMm)	1Q22	qoq % chg	yoy % chg	Remarks
Revenue	501.0	3.7	30.5	Higher qoq due to festive sales during Chinese New Year and better ticket sales recovery
Gaming	501.0	3.7	30.5	Jackpot games accounted for 22% of gaming revenue
Others	0.0	4.8	(4.3)	
Gross profit	80.1	13.8	69.4	
EBIT	44.0	8.5	87.8	
PBT	32.4	11.0	156.6	
Gaming	40.7	17.4	196.6	
Others	(8.2)	51.8	668.8	
Net profit	16.7	(18.8)	121.6	
Core net profit	24.2	(22.4)	207.9	Lower qoq on the investment holding division's higher losses and tax rate
Margin (%)	(%)	+/- ppt	+/- ppt	
EBIT	8.8	0.4	2.7	Improved on lower prize payout.
PBT	6.5	0.4	3.2	
Net Profit	3.3	(0.9)	1.4	

Source: Magnum, UOB Kay Hian

RESULTS

- Below expectations.** Magnum reported 1Q22 revenue of RM501m (+30.5% yoy, +3.7% qoq) and core net profit of RM24.2m (+207.9% yoy, -22.4% qoq). 1Q22 net profit accounts for only 13% and 12% of our and consensus forecasts respectively. Despite a meaningful recovery in revenue, the lacklustre net profit mainly reflects the higher pre-tax loss recorded by the investment holdings and others division, resulting in a sharply higher tax rate of 52% on disallowed interest expenses.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	1,673	1,260	2,291	2,497	2,547
EBITDA	180	59	288	339	345
Operating profit	192	72	301	353	360
Net profit (rep./act.)	21	13	166	216	220
Net profit (adj.)	21	13	166	216	220
EPS (sen)	1.5	0.9	11.5	15.0	15.3
PE (x)	122.0	197.4	15.7	12.1	11.8
P/B (x)	1.1	1.1	1.1	1.1	1.1
EV/EBITDA (x)	18.2	55.3	11.4	9.7	9.5
Dividend yield (%)	2.5	0.8	5.4	7.5	7.6
Net margin (%)	1.3	1.0	7.2	8.6	8.7
Net debt/(cash) to equity (%)	28.3	32.0	27.3	25.8	24.7
Interest cover (x)	3.8	1.3	6.0	7.1	7.2
ROE (%)	0.9	0.6	7.0	9.0	9.1
Consensus net profit	-	-	203	235	239
UOBKH/Consensus (x)	-	-	0.82	0.92	0.92

Source: Magnum, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.81
Target Price	RM2.38
Upside	+31.5%
(Previous TP)	RM2.45)

COMPANY DESCRIPTION

Number forecasting operator.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	MAG MK
Shares issued (m):	1,437.2
Market cap (RMm):	2,601.3
Market cap (US\$m):	590.6
3-mth avg daily t'over (US\$m):	0.5

Price Performance (%)

52-week high/low	RM2.17/RM1.71			
1mth	3mth	6mth	1yr	YTD
(2.7)	(6.2)	(10.4)	(11.7)	(4.7)

Major Shareholders

Casi Management	30.4
MWE Hldgs	4.6
Shan Hijauan Bhd	3.5

FY22 NAV/Share (RM)	1.66
FY22 Net Debt/Share (RM)	0.45

PRICE CHART



Source: Bloomberg

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- **Better classic 4D games but weaker jackpot sales.** We estimate that Magnum's classic 4D ticket sales per draw improved 15% qoq in 1Q22. For jackpot sales, we estimate sales per draw to have declined by 10% yoy, and estimate that the more lucrative jackpot games accounted for about only 22% of total gaming revenue, down 3ppt yoy and 4ppt qoq. This is attributed to the snowballing of the rival Berjaya Sports Toto's jackpot price (reaching >RM97m before being struck).
- **Prize payout was above the theoretical level, but lower yoy.** We estimate 1Q22 prize payout to be about 69% (theoretically 63-64%), lower than 1Q21's prize payout of 73%.
- **Declared 1 sen DPS.** Magnum declared a 1 sen DPS in 1Q22 (1Q21: none), continuing its quarterly dividend payments for the second time since 4Q21. DPS of 1 sen (0.6% yield) represents an 86% payout.

STOCK IMPACT

- **Defensive nature enticing amid market uncertainty.** Magnum offers highly attractive risk-reward dynamics at current share prices, trading at attractive valuations of 10-11x 2023F PE, which is well below the number forecasting operators (NFO) sector's three-year mean of 14-15x. Such valuations are particularly appealing for Magnum given its asset-light business model and doles out most of the domestic cash flows as dividends.
- **Lush prospective yield appeals amid market uncertainty.** Magnum offers sustainable prospective yields of 4.3-5.1% from 2022 onwards and close to 7.5% in 2023, backed by earnings resilience and a stable payout ratio of 80-90%. This should satisfy investors' hunger for sustainable high-yield plays in a low interest rate environment and volatile capital market.
- **Emerging from pandemic-related restrictions.** Magnum, which is still trading close to pandemic lows, remains as an ideal defensive haven amid a risk-off market, given its low beta, steady cashflow streams and lush dividend yields. While current ticket sales and revenue have recovered to only 80-85% of pre-pandemic levels, we expect the recent weeks' removals of MySejahtera scanning and capacity restrictions coupled with the nation's rehiring of migrant workers, to further revitalise Magnum's earnings recovery to >90% of pre-pandemic levels by as early as 2Q22. This will allow Magnum to restore its attractive annualised dividend yields of >6% from 2H22 onwards
- **Monetisation of stake in U-Mobile remains a key catalyst, but timeline remains unknown.** A key catalyst for Magnum would be the monetisation of its 6.3% stake in U-Mobile. According to earlier media reports, U-Mobile could be seeking an IPO to raise US\$500m. The successful monetisation of its 6.3% stake in U-Mobile (book value of RM270m, or 7% of its market cap) could fetch RM400m, representing 14% of its market cap. Note that U-Mobile has turned EBITDA positive and has 10% market share of the country's mobile subscriptions.

EARNINGS REVISION/RISK

- **We cut our 2022 net profit forecast by 13%** as we incorporate the higher pre-tax loss recorded by the investment holdings and others division, as well as higher tax on disallowed interest expenses. 2022's effective tax rate is now estimated to be 36% before falling to pre-pandemic levels of 30-31%.

VALUATION/RECOMMENDATION

- **Maintain BUY with a lower DCF target price of RM2.38**, which implies 15x 2023F PE after incorporating U-mobile's option value of 19 sen/share. Magnum is also appealing for its resilient prospective yield of about 5.1% in 2022.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Providing 300+ employees' work stations with indoor potted plants, and implementing a plastic-free week.
<ul style="list-style-type: none"> • Social <ul style="list-style-type: none"> - Has attained World Lottery Association's Responsible Gaming Level 2 Certification - Donated to more than 240 non-government/non-profit organisations.
<ul style="list-style-type: none"> • Governance <ul style="list-style-type: none"> - Comprehended and applied Malaysian Code on Corporate Governance (MCCG).

KEY ASSUMPTIONS

	2021	2022F	2023F
Outlets	486	486	486
Draw day/annum	105	168	168
Prize payout (%)	67	60	60

Source: UOB Kay Hian

SNAPSHOT OF MAGNUM

No. of outlets	486
Location	Peninsular Malaysia & Sarawak
No. of games	5
Types of games	4D, 4D Jackpot, 4D Jackpot GOLD, mGOLD, Magnum Life

Source: Magnum, UOB Kay Hian

U-MOBILE SHAREHOLDING

Company	Stake (%)
Singapore Technologies Telemedia	49
Berjaya Group's Tan Sri Vincent Tan*	29.7
Sultan Ibrahim of Johor	15
Magnum	6.3
Total	100

Note: *Stake owned via: a) U Telemedia Sdn Bhd's 21.44%, b) a direct stake of 6.2%, and c) Berjaya

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	1,260	2,291	2,497	2,547
EBITDA	59	288	339	345
Deprec. & amort.	(13)	(13)	(14)	(15)
EBIT	72	301	353	360
Associate contributions	0	0	0	0
Net interest income/(expense)	(47)	(48)	(48)	(48)
Pre-tax profit	25	253	305	312
Tax	(27)	(89)	(91)	(93)
Minorities	2	2	2	2
Net profit	13	166	216	220
Net profit (adj.)	13	166	216	220

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	60	96	102	107
Other LT assets	3,149	3,149	3,149	3,149
Cash/ST investment	193	298	327	347
Other current assets	109	150	158	160
Total assets	3,528	3,701	3,766	3,767
ST debt	175	175	175	175
Other current liabilities	172	297	320	326
LT debt	774	774	774	774
Other LT liabilities	6	11	11	11
Shareholders' equity	2,363	2,388	2,409	2,431
Minority interest	21	20	18	17
Total liabilities & equity	3,528	3,701	3,766	3,767

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	12	263	243	238
Pre-tax profit	25	253	305	312
Tax	(49)	(89)	(91)	(93)
Deprec. & amort.	13	13	14	15
Working capital changes	(26)	85	14	4
Other operating cashflows	49	0	0	0
Investing	(51)	(20)	(20)	(20)
Capex (growth)	(20)	(20)	(20)	(20)
Proceeds from sale of assets	0	0	0	0
Others	(32)	0	0	0
Financing	(31)	(141)	(194)	(198)
Dividend payments	(29)	(141)	(194)	(198)
Issue of shares	0	0	0	0
Proceeds from borrowings	(2)	0	0	0
Loan repayment	n.a.	n.a.	n.a.	n.a.
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	(70)	102	29	20
Beginning cash & cash equivalent	245	174	276	306
Changes due to forex impact	18	22	22	22
Ending cash & cash equivalent	193	298	327	347

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	4.7	12.6	13.6	13.5
Pre-tax margin	2.0	11.0	12.2	12.2
Net margin	1.0	7.2	8.6	8.7
ROA	0.4	4.6	5.8	5.9
ROE	0.6	7.0	9.0	9.1
Growth				
Turnover	(24.7)	81.9	9.0	2.0
EBITDA	(67.2)	385.7	17.8	1.7
Pre-tax profit	(82.5)	902.9	20.6	2.1
Net profit	(38.2)	1,159.5	30.1	2.1
Net profit (adj.)	(38.2)	1,159.5	30.1	2.1
EPS	(38.2)	1,159.5	30.1	2.1
Leverage				
Debt to total capital	28.5	28.3	28.1	27.9
Debt to equity	40.2	39.7	39.4	39.0
Net debt/(cash) to equity	32.0	27.3	25.8	24.7
Interest cover (x)	1.3	6.0	7.1	7.2

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