

14 October 2022

Sports Toto Bhd

Only Yield Can Make the Darkness Bright

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SPTOTO guided for its ticket sales to only return to 80–85% of pre-pandemic levels over the near term given only moderate economic growth amidst high inflation that eats into consumers' spending power. However, the upside surprise could come from a spike in ticket sales in the event of a jackpot snowballing. We continue to like SPTOTO for its attractive dividend yield of >9%. We maintain our forecasts, TP of RM2.13 and OUTPERFORM call.

We came away from a recent engagement with the company feeling assured of it meeting our assumptions and forecasts. The key takeaways are as follows:

1. The company guided for its ticket sales to only return to 80–85% of pre-pandemic levels in its base case over the near term given only moderate economic growth amidst high inflation that eats into consumers' spending power. However, it does not rule out the possibility of ticket sales spiking to as high as >90% of pre-pandemic levels in the event of a jackpot snowballing. Recall, during the early part of this year, marginal punters were enticed by the snowballing jackpot of the *Supreme Toto 6/58* which eventually hit a whopping RM96m in end-March. Consequently, SPTOTO reported bumper earnings in 3QFY22 with ticket sales surging 45% QoQ to 97% of pre-pandemic levels.
2. The company has been sharing its views with the authorities on the legalisation of online gaming and the crackdown of illegal betting via police enforcement. We do not believe the discussion on the legalisation of online gaming will move beyond the sharing of views given the moral stance of the nation as a whole although historically, intensified crackdowns on illegal betting via police enforcement had resulted in a 5–15% expansion in the legal market.
3. Meanwhile, its UK-based luxury car distributor HR Owen (HRO) is expected to continue seeing strong topline growth amidst robust demand. However, its bottom line will be affected by higher operating expenses incurred in the opening of a new site in Hatfield by March 2023. During the pandemic period of FY21–22, HRO reported above-normal operating margin of 3.6%–3.3% (due to pent-up demand after the reopening, coupled with the UK government's pandemic relief fund and grants) as opposed to the pre-pandemic period of c.2%. Our forecasts have taken into account its operating margin normalising to 2% in FY23–24F.

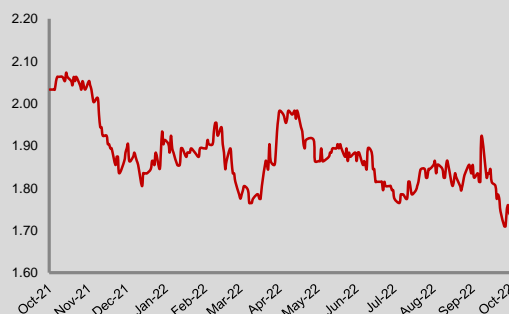
We maintain our FY23–24F forecasts that assume its ticket sales to recover to 89–94% of pre-pandemic levels (which is slightly more optimistic than the company's guidance of 80%–85%). There is no change to our dividend assumptions that are based on an 80% payout.

We also retain our FY23F–FY24F earnings forecasts with a dividend payout of 80% as we expect its ticket sales momentum to improve over time in tandem with better economic conditions.

OUTPERFORM ↔

Price : RM1.67
Target Price : RM2.13 ↔

Share Price Performance



KLCI	1,373.36
YTD KLCI chg	-12.4%
YTD stock price chg	-11.4%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	SPTOTO MK
Market Cap (RM m)	2,255.4
Shares outstanding	1,350.5
52-week range (H)	2.08
52-week range (L)	1.66
3-mth avg daily vol:	363,064
Free Float	51%
Beta	0.6

Major Shareholders

Berjaya Corp Bhd	48.6%
Vanguard Group	2.1%
Blackrock Inc	0.9%

Summary Earnings Table

FY Jun (RM m)	2022A	2023F	2024F
Turnover	5233	6414	6635
EBIT	312	437	458
PBT	272	406	426
Net Profit (NP)	162	266	279
Core Net Profit	162	266	279
Consensus (NP)		227	243
Earnings Revision (%)		-	-
Core EPS (sen)	12.0	19.7	20.7
Core EPS growth (%)	-11.3	64.5	5.0
NDPS (sen)	10.7	15.7	16.5
BV/Share (RM)	0.62	0.66	0.70
NTA/Share (RM)	0.10	0.14	0.18
Core PER (x)	12.5	8.5	8.1
Price/BV (x)	2.7	2.5	2.4
Price/NTA (x)	17.2	12.3	9.4
Gearing (x)	1.03	1.00	0.90
Net Yields (%)	6.4	9.4	9.9

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
Stocks Under Coverage																	
GENTING BHD	OP	4.26	5.86	37.56%	16,403.5	N	12/2022	20.3	30.6	30.2%	51.0%	21.0	13.9	0.5	2.4%	15.0	3.5%
GENTING MALAYSIA BHD	OP	2.58	3.64	41.09%	14,616.2	N	12/2022	7.2	16.6	-40.5%	129.7%	35.8	15.6	1.1	3.1%	12.0	4.7%
MAGNUM BHD	MP	1.42	1.59	11.97%	2,040.8	N	12/2022	8.3	12.9	66338.9%	54.8%	17.1	11.0	0.9	5.0%	6.7	4.7%
SPORTS TOTO BHD	OP	1.67	2.13	27.54%	2,255.4	N	06/2023	19.7	20.7	64.4%	5.0%	8.5	8.1	2.5	30.8%	15.7	9.4%
Simple Average								13.9	20.2	16598.3%	60.1%	24.6	13.5	0.8	10.3%		

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating			
GENERAL	Earnings Sustainability & Quality	★	★	★	
	Corporate Social Responsibility	★	★	★	
	Management/Workforce Diversity	★	★		
	Accessibility & Transparency	★	★	★	
	Corruption-Free Pledge	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	
SPECIFIC	Dependence on Socially Undesirable Businesses	★			
	Digital Transformation	★	★	★	
	Cyber Security	★	★	★	
	Customer Data Protection	★	★	★	
OVERALL		★	★	★	

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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