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.

$OUTPERFORM \leftrightarrow$

Price: RM1.67 Target Price: RM2.13 \leftrightarrow



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

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Stock Information	
Shariah Compliant	
Bloomberg Ticker	

Shahan Compilant	INU
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

We maintain our TP of RM2.13 (WACC: 6%; TG: 2%). There is no adjustment to our TP based on ESG given our 3-star rating (Page 4). We continue to like SPTOTO for its attractive dividend of yield of >9% although we acknowledge that there is a lack of growth catalyst at its core NFO business. Maintain **OUTPERFORM**.

Risks to our recommendation: (i) non-renewal of licences, (ii) unfavourable prize payout ratios, (iii) weak consumer spending amidst high inflation, and (iv) products perceived to be socially undesirable.

Income Statement						Financial Data & Ratios					
FY Jun (RM m)	2020A	2021A	2022A	2023F	2024F	FY Jun	2020A	2021A	2022A	2023F	2024F
Revenue	4653	4829	5233	6414	6635	Growth (%)					
EBITDA	331	414	385	513	541	Revenue	-19.0	3.8	8.4	22.6	3.5
Depreciation	-64	-67	-72	-76	-83	EBITDA	-31.5	25.2	-7.1	33.5	5.4
EBIT	266	347	312	437	458	Operating Income	-41.1	30.3	-10.0	39.9	4.8
Other Income	26	12	16	15	11	Pre-tax Income		23.9	-3.2	49.1	5.0
Interest Expense	-64	-61	-65	-57	-55	5 Net Income		35.6	-11.3	64.5	5.0
Associate	-2	-17	9	11	11	Core Net Income	-33.4 -50.0	35.6	-11.3	64.5	5.0
Exceptional/FV	0	0	0	0	0						
PBT	227	281	272	406	426	Profitability (%)					
Taxation	-92	-93	-101	-122	-128	EBITDA Margin	7.1	8.6	7.3	8.0	8.1
Minority Interest	-1	-6	-9	-18	-19	Operating Margin	5.7	7.2	6.0	6.8	6.9
Net Profit	134	182	162	266	279	PBT Margin	4.9	5.8	5.2	6.3	6.4
Core Net Profit	134	182	162	266	279	Net Margin	2.9	3.8	3.1	4.1	4.2
						Core Net Margin	2.9	3.8	3.1	4.1	4.2
Balance Sheet						Effective Tax Rate	29.3	40.5	33.2	37.3	30.0
FY Jun (RM m)	2020A	2021A	2022A	2023F	2024F	ROA	7.1	8.5	8.4	10.7	10.6
Fixed Assets	183	294	296	297	296	ROE	18.2	22.4	19.3	29.9	29.5
Intangibles	691	705	705	705	705				10.0	20.0	20.0
Other FA	710	685	714	784	803	DuPont Analysis					
Inventories	439	321	433	550	568	Net margin (%)	2.9	3.8	3.1	4.1	4.2
Receivables	578	547	515	638	660	Assets Turnover (x)	1.60	1.71	1.80	2.05	2.08
Other CA	120	163	147	132	119	Leverage Factor (x)	3.94	3.47	3.48	3.53	3.37
Cash	188	111	100	31	32	ROE (%)	18.2	22.4	19.3	29.9	29.5
Total Assets	2909	2826	2909	3136	3183	(/	10.2	22.7	10.0	20.0	20.0
	2000	2020	2000	0100	0100	Leverage					
Payables	646	578	574	709	734	Debt/Asset (x)	0.44	0.42	0.42	0.37	0.38
ST Borrowings	435	521	450	450	450	Debt/Equity (x)	1.55	1.55	1.64	1.30	1.32
Other ST Liability	1	1	1	1	1	Net Debt/(Cash)	-900	-782	-859	-892	-854
LT Borrowings	773	535	655	605	555	Net Debt/Equity (x)	1.22	0.96	1.03	1.00	0.90
Other LT Liability	265	312	326	400	414	1, 7 ()	1.22	0.00	1.00	1.00	0.00
Minority Int.	51	64	67	82	85	Valuations					
Net Assets	738	814	836	889	945	Core EPS (sen)	9.9	13.5	12.0	19.7	20.7
	, 00	014	000	000	040	NDPS (sen)	10.4	8.0	10.7	15.7	16.5
Share Capital	135	135	135	135	135	BV/share (RM)	0.55	0.60	0.62	0.66	0.70
Reserves	603	679	701	754	810	NTA/share (RM)	0.03	0.08	0.10	0.14	0.18
Equity	738	814	836	889	945	Core PER (x)	22.1	14.7	12.5	8.5	8.1
1,	, 00	014	000	000	040	Net Div. Yield (%)	4.7	4.0	6.4	9.4	9.9
Cashflow Stateme	ent					PBV (x)	4.0	4.0	3.3	2.7	2.5
FY Jun (RM m)	2020A	2021A	2022A	2023F	2024F	P/NTA (x)	63.9	24.6	17.2	12.3	9.4
Operating CF	276	414	144	274	288	EV/EBITDA (x)	11.7	8.3	7.9	6.1	5.8
Investing CF	-102	-164	-30	-30	-30	= 7, = 2 ()	1 1.7	0.0	7.5	0.1	0.0
Financing CF	-102	-326	-125	-313	-257						
Change In Cash	42	-320 -77	-123	-513 -69	-237 1						
Free CF	175	250	114	244	258						
Source: Kenanga F	Research										

Name	Rating	Last Price	Target Price	Upside	Market Cap		Current	Core EF	Core EPS (sen)	Core EPS (sen) Core EPS G		Core EPS Growth		PER (x) - Core Earnings		ROE (%)	Net. Div. (sen)	Net Div Yld (%)
Name	Rating	(RM)	(RM)	(%)	(RM m)	Compliant	: FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-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%		5.6%	

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Stock ESG Ratings:

	Criterion		ı	Ratino	3	
1	Earnings Sustainability & Quality	*	*	*		
Ļ	Corporate Social Responsibility	*	*	*		
3	Management/Workforce Diversity	*	*			
GENERAL	Accessibility & Transparency	*	*	*		
뜅	Corruption-Free Pledge	*	*	*		
	Carbon-Neutral Initiatives	*	*	*		
ပ္ပ	Dependence on Socially Undesirable Businesses	*				
SPECIFIC	Digital Transformation	*	*	*		
Ä	Cyber Security	*	*	*		
S	Customer Data Protection	*	*	*		
•	OVERALL	*	*	*		

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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Published by:

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