

20 May 2022

# Magnum Bhd

## 1QFY22 Below Expectation

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While ticket sales recovery was on track in 1QFY22, net profit of RM16.7m missed forecast due to unfavourable prize payout ratio. Ticket sales for the quarter hit 72% of pre-COVID level and a full recovery is expected in 2HFY22. Thus, FY22 is seen as a better year after two years of dismal COVID-affected results. Having said that, we see no encouraging catalyst for the stock. Thus, it remains as a MP with a lowered TP of RM1.93.

**1QFY22 below expectations.** At 9%/8% of house/street's FY22 estimates, 1QFY22 net profit of RM16.7m fell short of expectations owing to higher-than-expected prize payout rate (EPPR) of 69.8% vs. our FY22 assumption of 65%. However, it has resumed interim quarterly dividend of 1.0 sen in 1QFY22 (ex-date: 14 Jun; payment date: 24 Jun) against the 1.5 sen first and final dividend paid in 4QFY21.

**Dampened by luck factor.** Despite revenue rising 4%, 1QFY22 net profit declined 19% sequentially to RM16.7m from RM20.5m due to: (i) higher losses from Investment Holdings and Others segment on lower interest income, and (ii) unfavourable luck factor of 69.8% vs. 68.7%. Meanwhile, 1QFY22 NFO ticket sales rose 4% despite having lower draw days of 43 from 45, as ticket sales recovered. This helped average ticket sales per draw to improve 9% to RM12.7m from RM11.7m - 72% recovery rate against RM17.6m posted in FY19. Our FY22 ticket sales assumption is RM13.6m per draw.

**But ticket sales recovered slowly.** YoY, 1QFY22 net income more than doubled to RM16.7m from RM7.5m in 1QFY21 as higher ticket sales pushed revenue higher by 31% to RM501.0m from RM383.9m. Average ticket sales per draw surged 37% to RM12.7m from RM9.3m previously, leading ticket sales to grow 31% to RM544.6m from RM417.2m with draw days reduced to 43 from 45. The lower ticket sales in 1QFY21 were also attributable to MCO 2.0 with only sales outlets in Sarawak allowed to operate during this period amounting to 18 draws. Meanwhile, EPPR dropped slightly to 69.8% from 70.4%.

**A better FY22.** While the ticket sales recovery in 1QFY22 is not back to pre-MCO 3.0 lockdown levels, we believe it is on track to full recovery to pre-COVID level, likely starting from 2HFY22. As the country will not go back to full lockdown again even if COVID-19 infections rise in the future as we are entering the endemic phase, we believe ticket sales is unlikely to see substantial decline. As such, upcoming results will only get better. Post 1QFY22 results, we cut FY22/FY23 estimates by 23%/15% to reflect higher EPPR assumption of 68%/67% from 65%/65% previously. Accordingly, NDPS is trimmed proportionally based on unchanged 80% payout.

**Positives priced in; MARKET PERFORM maintained.** While a swift recovery of ticket sales is expected in FY22 with full recovery to pre-COVID levels expected in 2HFY22, we believe upside potential is limited given that near-term catalysts are already mostly priced in at the moment. Thus, MAGNUM is maintained at MARKET PERFORM with target price reduced slightly to RM1.93/DCF share from RM1.95/DCF. Our call is still supported by a decent dividend yield of >4% for FY22. **Upside risk to our recommendation** is a quicker-than-expected recovery of ticket sales.

## MARKET PERFORM ↔

Price : RM1.81  
Target Price : RM1.93 ↓

### Share Price Performance



KLCI 1,549.41  
YTD KLCI chg -1.2%  
YTD stock price chg -4.7%

### Stock Information

|                      |           |
|----------------------|-----------|
| Shariah Compliant    | No        |
| Bloomberg Ticker     | MAG MK    |
| Market Cap (RM m)    | 2,601.3   |
| Shares Outstanding   | 1,437.2   |
| 52-week range (H)    | 2.18      |
| 52-week range (L)    | 1.71      |
| 3-mth avg daily vol: | 1,257,571 |
| Free Float           | 61%       |
| Beta                 | 0.6       |

### Major Shareholders

|                         |       |
|-------------------------|-------|
| Casi Management Sdn Bhd | 30.4% |
| Mwe Holdings Berhad     | 4.6%  |
| Shan Hijauan Sdn Bhd    | 3.5%  |

### Summary Earnings Table

| FYE Dec (RM m)         | 2021A      | 2022E        | 2023E        |
|------------------------|------------|--------------|--------------|
| Turnover               | 1259.6     | 2208.1       | 2406.8       |
| EBIT                   | 66.4       | 263.0        | 304.5        |
| PBT                    | 25.2       | 218.2        | 261.6        |
| <b>Net Profit (NP)</b> | <b>0.2</b> | <b>142.6</b> | <b>196.8</b> |
| <b>Core Net Profit</b> | <b>0.2</b> | <b>142.6</b> | <b>196.8</b> |
| Consensus (NP)         |            | 202.8        | 235.2        |
| Earnings Revision (%)  |            | -23.1        | -15.4        |
| Core EPS (sen)         | 0.0        | 9.9          | 13.7         |
| Core EPS growth (%)    | -99.8      | >100.0       | 38.1         |
| NDPS (sen)             | 1.5        | 7.9          | 11.0         |
| BV/Share (RM)          | 1.64       | 1.67         | 1.69         |
| NTA/Share (RM)         | -0.26      | -0.24        | -0.21        |
| Core PER (x)           | N/A        | 18.3         | 13.2         |
| PBV (x)                | 1.1        | 1.1          | 1.1          |
| Price/NTA (x)          | -7.2       | -7.6         | -8.6         |
| Gearing (x)            | 0.32       | 0.24         | 0.23         |
| Net Yield (%)          | 0.8        | 4.4          | 6.1          |

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## Income Statement

| Y/E: Dec (RM m)    | 1Q    | 4Q    | Q-o-Q | 1Q    | Y-o-Y | 3M    | 3M    | Y-o-Y |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|
|                    | FY22  | FY21  | Chg   | FY21  | Chg   | FY22  | FY21  | Chg   |
| Turnover           | 501.0 | 483.0 | 4%    | 383.9 | 31%   | 501.0 | 383.9 | 31%   |
| EBITDA             | 46.1  | 42.7  | 8%    | 20.4  | 125%  | 46.1  | 20.4  | 125%  |
| Depreciation       | -2.1  | -2.2  | -5%   | -2.5  | -17%  | -2.1  | -2.5  | -17%  |
| EBIT               | 44.0  | 40.6  | 8%    | 18.0  | 145%  | 44.0  | 18.0  | 145%  |
| Interest expense   | -11.5 | -11.3 | 2%    | -5.3  | 118%  | -11.5 | -5.3  | 118%  |
| Associates         | 0.0   | 0.0   | 0%    | 0.0   | 0%    | 0.0   | 0.0   | 0%    |
| Exceptional items  | 0.0   | 0.0   | 0%    | 0.0   | 0%    | 0.0   | 0.0   | 0%    |
| Pretax profit      | 32.4  | 29.2  | 11%   | 12.6  | 157%  | 32.4  | 12.6  | 157%  |
| Taxation           | -15.6 | -9.4  | 65%   | -5.3  | 194%  | -15.6 | -5.3  | 194%  |
| Profit after tax   | 16.9  | 19.8  | -15%  | 7.3   | 130%  | 16.9  | 7.3   | 130%  |
| Minority interest  | -0.2  | 0.7   | -129% | 0.2   | -217% | -0.2  | 0.2   | -217% |
| Net profit         | 16.7  | 20.5  | -19%  | 7.5   | 122%  | 16.7  | 7.5   | 122%  |
| Core net profit    | 16.7  | 20.5  | -19%  | 7.5   | 122%  | 16.7  | 7.5   | 122%  |
| EPS (sen)          | 1.2   | 1.4   | -19%  | 0.5   | 122%  | 1.2   | 0.5   | 122%  |
| NDPS (sen)         | 1.0   | 1.5   | -33%  | 0.0   | N/A   | 1.0   | 0.0   | N/A   |
| NTA/share (RM)     | -0.26 | -0.24 | 10%   | -0.26 | 3%    | -0.26 | -0.26 | 3%    |
| EBITDA margin      | 9%    | 9%    |       | 5%    |       | 9%    | 5%    |       |
| EBIT margin        | 9%    | 8%    |       | 5%    |       | 9%    | 5%    |       |
| Pretax margin      | 6%    | 6%    |       | 3%    |       | 6%    | 3%    |       |
| Effective tax rate | 48%   | 32%   |       | 42%   |       | 48%   | 42%   |       |

Source: Company

## Segmental Breakdown

| Segmental Breakdown          | 1Q           | 4Q           | Q-o-Q      | 1Q           | Y-o-Y       | 3M           | 3M           | Y-o-Y       |
|------------------------------|--------------|--------------|------------|--------------|-------------|--------------|--------------|-------------|
|                              | FY22         | FY21         | Chg        | FY21         | Chg         | FY22         | FY21         | Chg         |
| Segment revenue:             |              |              |            |              |             |              |              |             |
| Gaming                       | 501.0        | 483.0        | 4%         | 383.9        | 31%         | 501.0        | 383.9        | 31%         |
| Investment Holdings & Others | 21.6         | 0.0          | N/A        | 0.0          | N/A         | 21.6         | 0.0          | N/A         |
| Eliminations                 | -21.6        | 0.0          | N/A        | 0.0          | N/A         | -21.6        | 0.0          | N/A         |
| <b>Group revenue</b>         | <b>501.0</b> | <b>483.0</b> | <b>4%</b>  | <b>383.9</b> | <b>31%</b>  | <b>501.0</b> | <b>383.9</b> | <b>31%</b>  |
| Segment result:              |              |              |            |              |             |              |              |             |
| Gaming                       | 40.7         | 34.7         | 17%        | 13.7         | 197%        | 40.7         | 13.7         | 197%        |
| Investment Holdings & Others | 13.3         | -5.4         | >100%      | -1.1         | >100%       | 13.3         | -1.1         | >100%       |
| Eliminations                 | -21.6        | 0.0          | N/A        | 0.0          | N/A         | -21.6        | 0.0          | N/A         |
| <b>Group PBT</b>             | <b>32.4</b>  | <b>29.2</b>  | <b>11%</b> | <b>12.6</b>  | <b>157%</b> | <b>32.4</b>  | <b>12.6</b>  | <b>157%</b> |
| PBT margin:                  |              |              |            |              |             |              |              |             |
| Gaming                       | 8%           | 7%           |            | 4%           |             | 8%           | 4%           |             |
| Investment Holdings & Others | 62%          | N/M          |            | N/M          |             | 62%          | N/M          |             |
| Eliminations                 | 100%         | 0%           |            | 0%           |             | 100%         | 0%           |             |
| <b>Group PBT margin</b>      | <b>6%</b>    | <b>6%</b>    |            | <b>3%</b>    |             | <b>6%</b>    | <b>3%</b>    |             |

Source: Company

## Other NFO Data

| FYE Dec (RM m)               | 1Q    | 4Q    | Q-o-Q | 1Q    | Y-o-Y | 3M    | 3M    | Chg |
|------------------------------|-------|-------|-------|-------|-------|-------|-------|-----|
|                              | FY22  | FY21  | Chg   | FY21  | Chg   | FY22  | FY21  | Chg |
| NFO sales                    | 544.6 | 525.0 | 4%    | 417.2 | 31%   | 544.6 | 417.2 | 31% |
| No of draws                  | 43    | 45    | -4%   | 45    | -4%   | 43    | 45    | -4% |
| Ticket sales per draw        | 12.7  | 11.7  | 9%    | 9.3   | 37%   | 12.7  | 9.3   | 37% |
| Estimated prize payout ratio | 69.8% | 68.7% | 2%    | 70.4% | -1%   | 69.8% | 70.4% | -1% |

Source: Company

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## Valuation - (New)

| (RM m)                           | RM m          | RM/Share | %     | Remarks           |
|----------------------------------|---------------|----------|-------|-------------------|
| Gaming - PV of FCF for FY22-FY32 | 1,084.3       | 39%      | 0.75  | 6.4% WACC         |
| PV of FCF in Perpetuity          | 1,947.4       | 70%      | 1.35  | 6.4% WACC, g = 2% |
| Investment Securities            | 363.2         | 13%      | 0.25  | FY22E book value  |
| Net Cash/(Debt)                  | -624.4        | -23%     | -0.43 | FY22E             |
|                                  | 2,770.5       | 100%     | 1.93  |                   |
| Issued share (m)                 | 1,437.7       |          |       |                   |
| <b>DCF per share</b>             | <b>RM1.93</b> |          |       |                   |

Source: Kenanga Research

## Valuation - (Old)

| (RM m)                           | RM m          | RM/Share | %     | Remarks           |
|----------------------------------|---------------|----------|-------|-------------------|
| Gaming - PV of FCF for FY22-FY32 | 1,118.2       | 40%      | 0.78  | 6.4% WACC         |
| PV of FCF in Perpetuity          | 1,947.4       | 69%      | 1.35  | 6.4% WACC, g = 2% |
| Investment Securities            | 363.2         | 13%      | 0.25  | FY22E book value  |
| Net Cash/(Debt)                  | -624.4        | -22%     | -0.43 | FY22E             |
|                                  | 2,804.4       | 100%     | 1.95  |                   |
| Issued share (m)                 | 1,437.7       |          |       |                   |
| <b>DCF per share</b>             | <b>RM1.95</b> |          |       |                   |

Source: Kenanga Research

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## Peer Comparison

| Name                    | Last Price | Market   | Shariah   | Current | Revenue Growth |             | Core Earnings Growth |              | PER (x) - Core Earnings |             |             | PBV (x)    |            | ROE (%)     | Net Div.Yld. (%) | Target     | Rating |
|-------------------------|------------|----------|-----------|---------|----------------|-------------|----------------------|--------------|-------------------------|-------------|-------------|------------|------------|-------------|------------------|------------|--------|
|                         | (RM)       | Cap      | Compliant | FYE     | 1-Yr. Fwd.     | 2-Yr. Fwd.  | 1-Yr. Fwd.           | 2-Yr. Fwd.   | Hist.                   | 1-Yr. Fwd.  | 2-Yr. Fwd.  | Hist.      | 1-Yr. Fwd. | 1-Yr. Fwd.  | 1-Yr. Fwd.       | Price (RM) |        |
| BERJAYA SPORTS TOTO BHD | 1.90       | 2,544.8  | N         | 06/2022 | -1.6%          | 24.2%       | -11.1%               | 61.7%        | 14.1                    | 15.9        | 9.8         | 3.2        | 3.1        | 19.7%       | 5.1%             | 2.22       | OP     |
| GENTING BHD             | 4.86       | 18,713.8 | N         | 12/2022 | 75.5%          | 1.6%        | 159.3%               | 24.6%        | N.A.                    | 12.0        | 9.7         | 0.6        | 0.6        | 4.7%        | 3.1%             | 6.12       | OP     |
| GENTING MALAYSIA BHD    | 3.03       | 17,165.6 | N         | 12/2022 | 137.7%         | 2.5%        | 45.5%                | 26.2%        | N.A.                    | 17.2        | 13.6        | 1.3        | 1.3        | 7.6%        | 4.0%             | 3.83       | OP     |
| MAGNUM BHD              | 1.81       | 2,601.3  | N         | 12/2022 | 75.3%          | 9.0%        | 79105.6%             | 38.1%        | 14,451.8                | 18.3        | 13.2        | 1.1        | 1.1        | 6.0%        | 4.4%             | 1.95       | MP     |
| <b>Simple Average</b>   |            |          |           |         | <b>71.8%</b>   | <b>9.3%</b> | <b>19824.8%</b>      | <b>37.6%</b> | <b>7233.0</b>           | <b>15.8</b> | <b>11.6</b> | <b>1.5</b> | <b>1.5</b> | <b>9.5%</b> | <b>4.1%</b>      |            |        |

Source: Bloomberg, Kenanga Research

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**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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