

Malaysia Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19 Aug 2020

Berjaya Sports Toto (BST MK) : BUY

Mkt. Cap: US\$668m | **3m Avg. Daily Val:** US\$0.78m

Last Traded Price (18 Aug 2020): RM2.09

Price Target 12-mth: RM2.95 (41% upside) (Prev RM2.95)

Analyst

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Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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Wagering on gradual recovery

- 4QFY20 net losses of RM43m were worse than expected mainly due to lockdown measures
- Declared 1-for-100 share dividend
- NFOs resumed operations at end-June; gross sales per draw expected to gradually improve in 1QFY21
- Undemanding valuation; maintain BUY with unchanged RM2.95 DDM-based TP

Forecasts and Valuation

FY Jun (RMm)	2019A	2020A	2021F	2022F
Revenue	6,580	4,654	5,471	5,600
EBITDA	550	328	510	557
Pre-tax Profit	419	227	399	443
Net Profit	227	134	255	283
Net Pft (Pre Ex.)	278	134	255	283
Net Pft Gth (Pre-ex) (%)	21.8	(51.7)	90.1	11.1
EPS (sen)	16.9	10.0	19.1	21.2
EPS Pre Ex. (sen)	20.7	10.0	19.1	21.2
EPS Gth Pre Ex (%)	22	(52)	90	11
Diluted EPS (sen)	20.7	10.0	19.1	21.2
Net DPS (sen)	16.0	10.4	17.0	18.9
BV Per Share (sen)	53.9	55.4	57.5	59.8
PE (X)	12.3	20.9	11.0	9.9
PE Pre Ex. (X)	10.1	20.9	11.0	9.9
P/Cash Flow (X)	7.8	15.2	8.2	7.5
EV/EBITDA (X)	6.5	11.4	7.4	6.8
Net Div Yield (%)	7.7	5.0	8.1	9.0
P/Book Value (X)	3.9	3.8	3.6	3.5
Net Debt/Equity (X)	0.9	1.1	1.1	1.1
ROAE (%)	31.2	18.3	33.8	36.1

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

Losses in 4QFY20. Berjaya Sports Toto (BST) incurred net losses of RM43m in 4QFY20, taking its full-year FY20 earnings to RM134m accounting for c.88% and 78% of our and consensus full-year forecasts. The losses in 4QFY20 were larger mainly due to the significant reduction in draws during the quarter as well as negative operating leverage.

1-for-100 share dividend. Using its treasury shares, BST declared a third interim dividend per share (DPS) with share distribution of 1 treasury share for every 100 ordinary shares. Based on RM31.8m book cost of the 13.4m treasure shares, this translates to approximately 2.4sen/share.

Prolonged closure in 4QFY20 due to lockdown measures.

The implementation of lockdown measures by various countries has significantly affected BST's number forecast operator (NFO) business in Malaysia as well as its auto retailing business in the United Kingdom (UK). In Malaysia, BST was only allowed to resume its operations on 17 June. 34 draws were cancelled and only 6 draws were conducted in 4QFY20. In addition, we estimate that gross sales per draw were also lower initially as punters needed to adjust and conform to strict social distancing guidelines.

In the UK, its subsidiary H.R. Owen shut down its operations for more than 2 months to comply with the UK government's lockdown order from 23 March 2020 to 31 May 2020.



Live more, Bank less

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Outlook

Long-term prospects remain positive. BST is cautiously optimistic that its financial performance will gradually recover, given the fairly resilient nature of the NFO business during past economic crises and turbulence.

Over the longer term, we are positive that as a dominant player in the NFO sector, BST will benefit from the strict enforcement by the authorities in curbing illegal NFO activities. The market size of illegal NFOs is estimated to be about 2-3x bigger than the legalised NFO market. There is plenty of room for the legal NFOs to grow their earnings if the authorities reduce illegal NFO activities significantly.

Expect lower contribution from H.R. Owen. We expect the challenging operating environment for H.R. Owen, a franchise motor vehicle dealership in the UK, to persist in the near term. Our concerns mainly stem from; (1) economic uncertainties with the ongoing COVID-19 pandemic and, (2) issues related to the UK's exit from the European Union (Brexit). Nonetheless, we note that HR Owen's profit contribution to the group is relatively small. In FY20, HR Owen accounted for ~10% of the group's earnings.

Valuation and Recommendation

We maintain our BUY call for BST with an unchanged dividend discount model (DDM)-based target price (TP) of RM2.95. Despite the near-term hiccups, we are positive that its long-term prospects remain bright as the group will continue to benefit from the clampdown on illegal NFOs.

The ongoing monetary easing by major central banks globally, including Bank Negara Malaysia (BNM), could also promote a yield-seeking investing strategy, which favours companies like BST.

Quarterly Income Statement (RMm)

FY Jun	Feb-Apr 2019	Jan-Mar 2020	Apr-Jun 2020	% chg yoy	% chg qoq
Revenue	1,509	1,334	475	(68.5)	(64.4)
Cost of Goods Sold	(1,390)	(1,237)	(479)	(65.5)	(61.3)
Gross Profit	119	96.6	(3.8)	nm	nm
Other Oper. (Exp)/Inc	(6.6)	(6.0)	(24.0)	263.6	300.0
Operating Profit	112	90.6	(27.8)	(124.7)	(130.7)
Other Non Opg (Exp)/Inc	0.0	(4.9)	(0.9)	nm	(81.6)
Associates & JV Inc	(1.6)	1.20	(4.5)	(181.3)	nm
Net Interest (Exp)/Inc	(1.8)	(12.6)	(12.3)	(583.3)	2.4
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	109	74.3	(45.5)	nm	nm
Tax	(37.8)	(24.7)	0.30	(100.8)	(101.2)
Minority Interest	(1.0)	(1.0)	1.90	nm	(290.0)
Net Profit	70.2	48.6	(43.3)	nm	(189.1)
Net Profit bef Except.	70.2	48.6	(43.3)	nm	(189.1)
EBITDA	120	108	(11.4)	nm	nm
Margins (%)					
Gross Margins	7.9	7.2	(0.8)		
Opg Profit Margins	7.4	6.8	(5.9)		
Net Profit Margins	4.7	3.6	(9.1)		

Source of all data: Company, AllianceDBS

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Target Price & Ratings History



Note : Share price and target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Woo Kim TOH

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AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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