

Malaysia Company Update

Berjaya Sports Toto

Bloomberg: BST MK | Reuters: BSTB.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19 Nov 2020

BUY

Last Traded Price (18 Nov 2020): RM2.10 (KLCI : 1,604.75)
Price Target 12-mth: RM2.95 (40% upside) (Prev RM2.92)

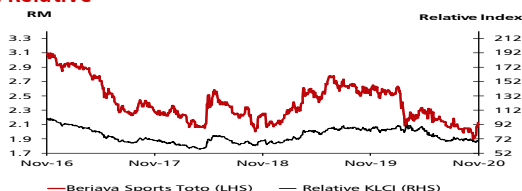
Analyst

Woo Kim TOH +60 32604 3917 wookim@alliancedbs.com

What's New

- 1QFY21 net profit of RM68m within expectations
- Resuming dividend payment; declared 1st interim DPS of 4.0 sen
- Lower prize payout and operating costs helped to offset weaker sales for NFO
- Maintain BUY call with unchanged TP of RM2.95, based on DDM

Price Relative



Forecasts and Valuation

FY Jun (RMm)	2020A	2021F	2022F	2023F
Revenue	4,654	5,471	5,600	5,733
EBITDA	328	510	557	574
Pre-tax Profit	227	399	443	457
Net Profit	134	255	283	293
Net Pft (Pre Ex.)	134	255	283	293
Net Pft Gth (Pre-ex) (%)	(51.7)	90.1	11.1	3.2
EPS (sen)	10.0	19.1	21.2	21.8
EPS Pre Ex. (sen)	10.0	19.1	21.2	21.8
EPS Gth Pre Ex (%)	(52)	90	11	3
Diluted EPS (sen)	10.0	19.1	21.2	21.8
Net DPS (sen)	10.4	17.0	18.9	19.5
BV Per Share (sen)	55.4	57.5	59.8	62.1
PE (X)	21.0	11.0	9.9	9.6
PE Pre Ex. (X)	21.0	11.0	9.9	9.6
P/Cash Flow (X)	15.2	8.2	7.5	7.3
EV/EBITDA (X)	11.4	7.4	6.9	6.7
Net Div Yield (%)	5.0	8.1	9.0	9.3
P/Book Value (X)	3.8	3.7	3.5	3.4
Net Debt/Equity (X)	1.1	1.1	1.1	1.1
ROAE (%)	18.3	33.8	36.1	35.8
Earnings Rev (%)	-	-	-	-
Consensus EPS (sen):		19.0	18.5	19.0
Other Broker Recs:		B: 8	S: 1	H: 2

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

Lifted by better luck factor and cost-cutting initiatives

Investment Thesis:

In recovery mode. With the recent third wave of the COVID-19 outbreak, a few countries have re-introduced various degrees of lockdown measures, including Malaysia. We note that it is business-as-usual for number forecast operators (NFOs) and no draws were cancelled (unlike the previous movement control order or MCO), though we could expect some impact on sales especially in 2QFY21. BST remains cautiously optimistic that its financial performance will gradually recover, given the fairly resilient nature of the NFO business during past economic crises and episodes of turbulence.

Longer-term driver. 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.

Undemanding valuation. BST is currently trading at 11.2x FY21 PE, which is -1SD below its 5-year historical mean. Its net dividend yield is also attractive at 8.0%.

Valuation:

Our RM2.95 TP for BST is based on Dividend Discount Model.

Where we differ:

FY21-22 EPS higher than consensus. Our FY21-22 earnings forecasts are higher than consensus as we are more optimistic about gaming revenue growth, amid efforts by the authorities to curb illegal NFO activities.

Key Risks to Our View:

Lower-than-expected ticket sales on intensifying industry competition and gaming tax/betting duty hike would pose key risks to our recommendation.

At A Glance

Issued Capital (m shrs)	1,344
Mkt. Cap (RMm/US\$m)	2,821 / 690
Major Shareholders (%)	
Tan Sri Vincent Tan	49.2
AIA	3.4
Great Eastern	2.4
Free Float (%)	50.8
3m Avg. Daily Val (US\$m)	0.56
GIC Industry	Consumer Discretionary / Consumer Services



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WHAT'S NEW

1QFY21 – Lifted by lower prize payout and cost control measures

Within estimates. Berjaya Sports Toto (BST) booked a net profit of RM68m in 1QFY21, accounting for c.27% of our and consensus full-year estimates. Helped by a lower prize payout, 1QFY21 results were slightly on the stronger side, but this should normalise going forward.

4.0 sen DPS declared. BST resumed its usual dividend payment and declared first interim DPS of 4.0 sen, in line with our expectations.

NFO – lower prize payout offset decline in sales. As expected, BST's NFO business in Malaysia had only recovered back to 80-85% of the pre-MCO level, with 1QFY21 revenue having declined by 18.2% y-o-y due to the prevailing weak consumer sentiment. Notwithstanding that, this was offset by a lower prize payout (estimated to be about 60% vs. 64% in 1QFY20) as well as lower operating expenses incurred during the quarter. All in all, this has helped BST to register a small 2.8% y-o-y increase in segmental profit contribution for its NFO business, despite the decline in sales.

H.R. Owen – H.R. Owen achieved surprising sales growth of 11% y-o-y to RM667m in 1QFY21, generated from the new car sector because of backlog fulfilment after the COVID-19 pandemic lockdown ended on May 2020 in the UK. This was also partly helped by the favourable exchange rate (a stronger pound) for conversion into MYR as the reporting currency.

Segmental profit from H.R. Owen almost tripled from RM7.8m in 1QFY20 to RM22.1m in 1QFY21. Apart from higher sales, the improved profitability was also driven by cost-control measures as well as certain governmental reliefs obtained (arising from the lockdown order imposed by the UK Government).

Outlook

Long-term prospects remain positive. With the recent third wave of the COVID-19 outbreak, a few countries have re-introduced various degrees of lockdown measures, including Malaysia. We note that it is business-as-usual for NFOs and no draws were cancelled (unlike the previous MCO), though we could expect some impact on sales especially in 2QFY21.

Nevertheless, BST remains cautiously optimistic that its financial performance will gradually recover, given the fairly resilient nature of the NFO business during past economic crises and episodes of 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.

Still challenging environment for H.R. Owen. Despite the better results, the operating environment for H.R. Owen remains challenging due to: 1) economic uncertainties with the on-going 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 TP of RM2.95. Despite the near-term hiccups, we are still positive that its long-term prospects remain bright as the group will continue to benefit from the clampdown on illegal NFOs.

The on-going 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.

Company Background

BST is the largest number forecast operator (NFO) by market share among the three legal NFOs in Malaysia.

Quarterly / Interim Income Statement (RMm)

FY Jun	1Q2020	4Q2020	1Q2021	% chg yoy	% chg qoq
Revenue	1,437	475	1,346	(6.3)	183.3
Cost of Goods Sold	(1,327)	(479)	(1,231)	(7.3)	157.1
Gross Profit	110	(3.8)	115	4.8	nm
Other Oper. (Exp)/Inc	(12.4)	(24.0)	11.2	(190.6)	(146.8)
Operating Profit	97.2	(27.8)	126	29.8	nm
Other Non Opg (Exp)/Inc	10.7	(0.9)	(0.1)	nm	(92.2)
Associates & JV Inc	(0.8)	(4.5)	(5.6)	(603.1)	25.0
Net Interest (Exp)/Inc	(11.2)	(12.3)	(19.0)	(69.4)	(54.3)
Exceptional Gain/(Loss)	7.00	0.0	0.0	nm	nm
Pre-tax Profit	103	(45.5)	101	(1.4)	nm
Tax	(34.9)	0.30	(32.3)	(7.5)	nm
Minority Interest	(1.0)	1.90	(1.3)	(30.3)	(168.6)
Net Profit	67.0	(43.3)	67.9	1.3	(256.7)
Net profit bef Except.	60.0	(43.3)	67.9	13.1	(256.7)
EBITDA	112	(11.4)	143	28.2	nm
Margins (%)					
Gross Margins	7.6	(0.8)	8.5		
Opg Profit Margins	6.8	(5.9)	9.4		
Net Profit Margins	4.7	(9.1)	5.0		

Historical PE and PB band [Pls always check if PE/ PB band is correctly represented]



Source: Bloomberg Finance L.P., AllianceDBS estimates



Source: Bloomberg Finance L.P., AllianceDBS estimates

Key Assumptions

FY Jun	2019A	2020A	2021F	2022F	2023F
Number of draws	189	128	167	167	167
Gaming revenue growth	12.0	(32.3)	34.4	3.00	3.00
Estimated prize payout	65.6	64.4	64.0	64.0	64.0
Dividend payout ratio (%)	94.5	104	90.0	90.0	90.0

Income Statement (RMm)

FY Jun	2019A	2020A	2021F	2022F	2023F
Revenue	6,580	4,654	5,471	5,600	5,733
Cost of Goods Sold	(6,030)	(4,325)	(4,961)	(5,043)	(5,159)
Gross Profit	550	328	510	557	574
Other Opng (Exp)/Inc	(35.9)	(64.2)	(67.6)	(68.6)	(69.6)
Operating Profit	514	264	443	489	504
Other Non Opng (Exp)/Inc	3.70	12.4	12.4	12.4	12.4
Associates & JV Inc	(10.2)	(1.9)	(5.0)	(5.0)	(5.0)
Net Interest (Exp)/Inc	(37.3)	(47.5)	(51.6)	(53.3)	(54.9)
Exceptional Gain/(Loss)	(50.8)	0.0	0.0	0.0	0.0
Pre-tax Profit	419	227	399	443	457
Tax	(149)	(91.9)	(141)	(157)	(162)
Minority Interest	(43.9)	(1.0)	(1.9)	(2.1)	(2.2)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	227	134	255	283	293
Net Profit before Except.	278	134	255	283	293
EBITDA	550	328	510	557	574
Growth					
Revenue Gth (%)	16.2	(29.3)	17.6	2.4	2.4
EBITDA Gth (%)	23.9	(40.3)	55.4	9.2	3.0
Opng Profit Gth (%)	25.3	(48.6)	67.7	10.3	3.2
Net Profit Gth (Pre-ex) (%)	21.8	(51.7)	90.1	11.1	3.2
Margins & Ratio					
Gross Margins (%)	8.4	7.1	9.3	10.0	10.0
Opng Profit Margin (%)	7.8	5.7	8.1	8.7	8.8
Net Profit Margin (%)	3.4	2.9	4.7	5.1	5.1
ROAE (%)	31.2	18.3	33.8	36.1	35.8
ROA (%)	8.6	4.9	8.9	9.7	9.9
ROCE (%)	17.6	7.6	12.7	13.8	14.2
Div Payout Ratio (%)	95.3	104.6	90.0	90.0	90.0
Net Interest Cover (x)	13.8	5.6	8.6	9.2	9.2

Source: Company, AllianceDBS

Mainly because of
higher draws conducted

Quarterly Income Statement (RMm)

FY Jun	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021
Revenue	1,437	1,408	1,334	475	1,346
Cost of Goods Sold	(1,327)	(1,286)	(1,237)	(479)	(1,231)
Gross Profit	110	122	96.6	(3.8)	115
Other Oper. (Exp)/Inc	(12.4)	(22.2)	(6.0)	(24.0)	11.2
Operating Profit	97.2	99.4	90.6	(27.8)	126
Other Non Opg (Exp)/Inc	10.7	5.10	(4.9)	(0.9)	(0.1)
Associates & JV Inc	(0.8)	2.20	1.20	(4.5)	(5.6)
Net Interest (Exp)/Inc	(11.2)	(11.3)	(12.6)	(12.3)	(19.0)
Exceptional Gain/(Loss)	7.00	0.0	0.0	0.0	0.0
Pre-tax Profit	103	95.4	74.3	(45.5)	101
Tax	(34.9)	(32.6)	(24.7)	0.30	(32.3)
Minority Interest	(1.0)	(0.9)	(1.0)	1.90	(1.3)
Net Profit	67.0	61.9	48.6	(43.3)	67.9
Net profit bef Except.	60.0	61.9	48.6	(43.3)	67.9
EBITDA	112	115	108	(11.4)	143

Normalisation in NFOs business and higher sales contribution from H.R. Owen

Growth

Revenue Gth (%)	(4.8)	(2.0)	(5.3)	(64.4)	183.3
EBITDA Gth (%)	(7.3)	3.5	(6.3)	nm	nm
Opg Profit Gth (%)	(13.5)	2.3	(8.9)	(130.7)	(553.7)
Net Profit Gth (Pre-ex) (%)	(14.5)	3.2	(21.5)	(189.1)	(256.7)

Margins

Gross Margins (%)	7.6	8.6	7.2	(0.8)	8.5
Opg Profit Margins (%)	6.8	7.1	6.8	(5.9)	9.4
Net Profit Margins (%)	4.7	4.4	3.6	(9.1)	5.0

Balance Sheet (RMm)

FY Jun	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	192	515	524	532	539
Invts in Associates & JVs	70.6	119	119	119	119
Other LT Assets	980	948	948	948	948
Cash & ST Invts	422	308	258	211	165
Inventory	486	441	463	486	510
Debtors	459	507	532	558	586
Other Current Assets	57.8	18.6	53.6	88.6	124
Total Assets	2,667	2,856	2,897	2,943	2,991
ST Debt	366	417	417	417	417
Creditor	567	437	459	482	506
Other Current Liab	182	174	174	174	174
LT Debt	755	773	763	753	743
Other LT Liabilities	21.6	261	261	261	261
Shareholder's Equity	722	742	770	800	832
Minority Interests	53.5	51.6	53.5	55.6	57.8
Total Cap. & Liab.	2,667	2,856	2,897	2,943	2,991
Non-Cash Wkg. Capital	254	355	415	477	540
Net Cash/(Debt)	(699)	(882)	(922)	(959)	(995)
Debtors Turn (avg days)	26.3	37.9	34.6	35.5	36.4
Creditors Turn (avg days)	37.1	43.0	33.4	34.5	35.4
Inventory Turn (avg days)	27.2	39.7	33.7	34.8	35.7
Asset Turnover (x)	2.5	1.7	1.9	1.9	1.9
Current Ratio (x)	1.3	1.2	1.2	1.3	1.3
Quick Ratio (x)	0.8	0.8	0.8	0.7	0.7
Net Debt/Equity(X)	0.9	1.1	1.1	1.1	1.1
Net Debt/Equityex MI (X)	1.0	1.2	1.2	1.2	1.2
Capex to Debt (%)	3.7	6.4	6.5	6.5	6.6
Z-Score (X)	4.5	3.2	3.7	3.7	3.7

Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Jun	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	419	227	399	443	457
Dep. & Amort.	35.9	64.2	67.6	68.6	69.6
Tax Paid	(149)	(91.9)	(141)	(157)	(162)
Assoc. & JV Inc/(loss)	10.2	1.90	5.00	5.00	5.00
Chg in Wkq.Cap.	(134)	(132)	(25.5)	(26.8)	(28.1)
Other Operating CF	174	115	39.2	40.9	42.5
Net Operating CF	357	185	343	373	384
Capital Exp.(net)	(41.7)	(76.4)	(76.4)	(76.4)	(76.4)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(6.0)	(3.0)	(40.0)	(40.0)	(40.0)
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	48.4	(26.6)	26.2	24.0	21.9
Net Investing CF	0.70	(106)	(90.2)	(92.4)	(94.5)
Div Paid	(263)	(168)	(228)	(253)	(261)
Chg in Gross Debt	(10.3)	67.7	(10.0)	(10.0)	(10.0)
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(79.2)	(111)	(65.4)	(64.9)	(64.3)
Net Financing CF	(352)	(212)	(303)	(328)	(335)
Currency Adjustments	(1.5)	18.5	0.0	0.0	0.0
Chg in Cash	4.20	(115)	(49.9)	(46.8)	(46.2)
Opq CFPS (sen)	36.7	23.7	27.5	29.9	30.8
Free CFPS (sen)	23.6	8.07	19.9	22.2	22.9

Assume 90% payout ratio

Source: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	20 Nov 19	2.59	3.07	BUY
2:	24 Jan 20	2.52	3.07	BUY
3:	19 Feb 20	2.63	3.07	BUY
4:	14 Apr 20	2.17	2.88	BUY
5:	03 Jun 20	2.28	2.92	BUY
6:	19 Aug 20	2.12	2.92	BUY

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

Source: AllianceDBS

Analyst: Woo Kim TOH

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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DBS Regional Research Offices

HONG KONG

DBS (Hong Kong) Ltd

Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@db.com

MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com
Co. Regn No. 198401015984 (128540-U)

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
e-mail: groupresearch@db.com
Company Regn. No. 196800306E

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.db.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: indonesia@research@db.com