

26 February 2024

Consumer Cyclical | Gaming

Sports Toto (SPTOTO MK)

Neutral (Maintained)

Bumpy Road Ahead

Target Price (Return): MYR1.55 (1.9%)
 Price (Market Cap): MYR1.52 (USD429m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.48m/0.10m

- **Keep NEUTRAL, with new DCF-derived MYR1.55 TP from MYR1.60, 2% upside.** Sports Toto's 1HFY24 (Jun) earnings fell short of expectations, attributed to higher-than-average gaming prize payout and higher-than-expected operating costs from HR Owen. With 2QFY24 ticket sales at 87% of pre-pandemic levels (2QFY23: 93%), the path to sales recovery may not be straightforward due to the illegal number forecast operators' (NFOs) strong market share. However, the stock offers an attractive yield of c.7%.
- **Below expectations.** 1HFY24 core earnings of MYR84.5m (-38% YoY) came in below expectations, at 42.4% and 39.2% of ours and the Street's full-year estimates. The negative deviation was due to higher-than-average prize payout resulting from a sizable jackpot payout during the quarter, coupled with higher-than-expected operating costs from HR Owen. That said, the second DPS of 2 sen was declared and will go ex on 27 Mar – bringing YTD DPS to 5 sen (1HFY23: 4.5sen), within expectations.
- **Results review.** YoY, 1HFY24 revenue rose 4.8% to MYR3bn on stronger motor (+10.1%) segment revenue, while gaming (+0.2%) revenue remained flattish. Despite fewer draw days (1HFY24: 84 vs 1HFY23: 94), the gaming segment achieved higher sales per draw driven by higher accumulated jackpot prizes (Figure 3). Meanwhile, the higher motor revenue is attributed to new car sales contributions from the Hatfield showroom and favourable FX. However, 1HFY24 EBIT margin shrank 1.6ppts to 5.6% due to higher operating costs from both segments. QoQ, 2QFY24 revenue dipped 14.2%, dragged by both gaming (-5.7%) and motor (-21.4%) segments, due to lower accumulated jackpot prizes and fewer cars sold. Together with a higher prize payout of 62% (1QFY24: 60%) and higher operating costs from HR Owen, core earnings dipped 60.3% QoQ to MYR24m.
- **Outlook.** 3QFY24F sales are expected to pick up due to favourable seasonality, driven by the Lunar New Year period, despite the sales & service tax (SST) hike taking effect on 1 Mar – increasing the tax burden for the NFOs. Beyond the immediate term, management noted that illegal NFOs are gaining significant market share from two northern states, which are underserved following the closure of legal NFOs outlets. Meanwhile, HR Owen continues to face challenges from high inflation and interest rates in the UK. With higher depreciation and interest expenses from its newly launched Hatfield showroom, we believe HR Owen's margins will continue to remain under pressure.
- **Forecast and ratings.** Post results, we cut our FY24-26F earnings by 13%, 9%, and 7%. Correspondingly, our DCF-derived TP is lowered to MYR1.55 (inclusive of a 2% ESG premium), implying 11x FY25F P/E (close to its mean).
- **Key downside risks** include unfavourable luck factor and policies, and softer-than-expected ticket sales. The converse represents upside risks.

Analysts

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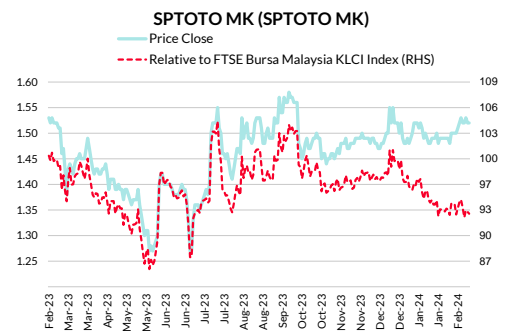


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.7	2.0	1.3	0.0	(0.7)
Relative	(3.8)	(1.5)	(5.3)	(7.6)	(7.0)
52-wk Price low/high (MYR)	1.27 – 1.58				



Source: Bloomberg

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (MYRm)	5,229	6,100	5,557	5,716	5,879
Recurring net profit (MYRm)	162	220	174	189	199
Recurring net profit growth (%)	(13.8)	36.0	(21.0)	8.6	5.2
Recurring P/E (x)	12.58	9.27	11.75	10.82	10.28
P/B (x)	2.3	1.9	1.8	1.8	1.7
P/CF (x)	7.28	8.80	5.13	6.12	5.89
Dividend Yield (%)	5.7	5.9	6.6	6.9	7.3
EV/EBITDA (x)	6.66	6.39	6.94	6.42	6.04
Return on average equity (%)	18.9	22.9	15.9	16.6	16.8
Net debt to equity (%)	71.0	77.5	65.0	58.9	52.8

Source: Company data, RHB

Overall ESG Score: 3.1 (out of 4)

E: EXCELLENT

The lottery industry generally has low environmental risks. Nevertheless, the group continues to contribute to environmental sustainability by implementing a few initiatives including the usage of recycled paper and energy-saving practices across its premises

S: GOOD

The group is committed to promoting responsible gaming, to prevent both excessive and underage gaming. In terms of employee health and safety, it adopts the best practices in providing a conducive and safe working environment. The group also engages in social activities that contribute to various communities.

G: GOOD

The group has applied and adopted most of the best practices of the Malaysian Code on Corporate Governance. Nevertheless, we note that independent directors comprise less than half of the board, and it has yet to achieve the target of having 30% of women on the board.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia	Financial summary (MYR)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Malaysia	Recurring EPS	0.12	0.16	0.13	0.14	0.15
Consumer Cyclical	DPS	0.09	0.09	0.10	0.11	0.11
Sports Toto	BVPS	0.67	0.80	0.83	0.86	0.90
SPTOTOMK	Return on average equity (%)	18.9	22.9	15.9	16.6	16.8
Neutral						
	Valuation metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Valuation basis	Recurring P/E (x)	12.58	9.27	11.75	10.82	10.28
DCF	P/B (x)	2.3	1.9	1.8	1.8	1.7
	FCF Yield (%)	6.8	(1.8)	16.1	12.9	13.6
Key drivers	Dividend Yield (%)	5.7	5.9	6.6	6.9	7.3
i. Ticket sales;	EV/EBITDA (x)	6.66	6.39	6.94	6.42	6.04
ii. Luck factor.	EV/EBIT (x)	8.12	7.61	8.55	7.86	7.40
	Income statement (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Key risks	Total turnover	5,229	6,100	5,557	5,716	5,879
i. Another wave of COVID-19 leading to outlet closures;	Gross profit	853	974	887	913	939
ii. Changes in gaming taxes;	EBITDA	402	449	397	422	440
iii. Weaker-than-expected overseas contribution;	Depreciation and amortisation	(72)	(72)	(75)	(78)	(81)
iv. Reduction in the number of special draw days.	Operating profit	330	377	322	345	359
	Net interest	(64)	(65)	(70)	(70)	(70)
Company Profile	Pre-tax profit	273	339	262	285	300
Sports Toto is one of the largest NFO operators in Malaysia. It also has a presence in the Philippines' gaming market.	Taxation	(103)	(108)	(83)	(91)	(95)
	Reported net profit	161	225	174	189	199
	Recurring net profit	162	220	174	189	199
	Cash flow (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Change in working capital	0	0	75	(8)	(8)
	Cash flow from operations	280	232	399	334	348
	Capex	(142)	(268)	(70)	(70)	(70)
	Cash flow from investing activities	(103)	(169)	(80)	(81)	(81)
	Dividends paid	(47)	(128)	(134)	(142)	(149)
	Cash flow from financing activities	31	(17)	(204)	(212)	(220)
	Cash at beginning of period	364	559	633	747	789
	Net change in cash	209	46	115	42	47
	Ending balance cash	572	605	747	789	836
	Balance sheet (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Total cash and equivalents	559	633	747	789	836
	Tangible fixed assets	1,392	1,575	1,571	1,563	1,552
	Total investments	104	126	136	146	157
	Total assets	3,261	3,936	3,794	3,868	3,944
	Short-term debt	274	560	560	560	560
	Total long-term debt	964	959	959	959	959
	Total liabilities	2,304	2,793	2,606	2,628	2,649
	Total equity	957	1,143	1,188	1,240	1,295
	Total liabilities & equity	3,261	3,936	3,794	3,868	3,944
	Key metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Revenue growth (%)	8.3	16.6	(8.9)	2.9	2.9
	Recurrent EPS growth (%)	(13.8)	35.8	(21.2)	8.6	5.2
	Gross margin (%)	16.3	16.0	16.0	16.0	16.0
	Operating EBITDA margin (%)	7.7	7.4	7.1	7.4	7.5
	Net profit margin (%)	3.1	3.7	3.1	3.3	3.4
	Dividend payout ratio (%)	72.5	53.7	77.0	75.0	75.0
	Capex/sales (%)	2.7	4.4	1.3	1.2	1.2
	Interest cover (x)	5.07	4.73	3.67	3.92	4.08

Source: Company data, RHB

Results at a Glance

Figure 1: Earnings review

FYE Jun (MYRm)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY (%)	Comments
Revenue	1,408.2	1,594.9	1,368.1	(14.2)	(2.8)	2,827.3	2,962.9	4.8	Stronger motor segment
Adjusted EBITDA	113.6	124.2	83.9	(32.4)	(26.2)	238.8	208.1	(12.9)	
Adjusted EBITDA margin (%)	8.1	7.8	6.1			8.4	7.0		
Depreciation	(19.7)	(20.9)	(20.0)	(4.6)	1.2	(34.5)	(40.9)	18.5	
Adjusted EBIT	93.9	103.2	63.9	(38.1)	(31.9)	204.3	167.2	(18.2)	
EBIT margin (%)	6.7	6.5	4.7			7.2	5.6		
Investment related income	15.0	7.5	7.8	4.2	(47.9)	23.8	15.3	(35.9)	
Finance cost	(18.6)	(25.4)	(24.8)	(2.3)	33.0	(34.9)	(50.2)	43.9	
Share of associate	4.6	4.8	1.0	(80.0)	(79.3)	8.8	5.7	(35.2)	
EI/Others	1.1	(0.3)	0.2	N.m.	(81.3)	0.1	(0.1)	N.m.	FX gain/loss
Reported PBT	96.0	89.8	48.1	(46.4)	(49.9)	202.2	137.9	(31.8)	
Tax	(30.6)	(28.8)	(25.4)	(11.8)	(17.1)	(63.8)	(54.2)	(15.1)	
Effective tax rate (%)	31.9	32.1	52.8			31.6	39.3		
Minority interest	(0.5)	(0.8)	1.5	N.m.	N.m.	(2.0)	0.7	N.m.	
Net profit	64.9	60.2	24.2	(59.7)	(62.7)	136.4	84.4	(38.1)	
Core profit	63.7	60.5	24.0	(60.3)	(62.3)	136.3	84.5	(38.0)	Within expectations
Core net margin (%)	4.5	3.8	1.8			4.8	2.9		

Source: Company, RHB

Figure 2: Segmental earnings

FYE Jun (MYRm)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY (%)	Comments
Revenue									
Toto betting	756.9	752.0	709.2	(5.7)	(6.3)	1458.2	1461.2	0.2	Improvement in average sales offset by lower draw days
Motor dealership	622.5	810.6	637.3	(21.4)	2.4	1314.6	1447.9	10.1	Contribution from new Hatfield showroom and favourable FX
Others	28.8	32.3	21.6	(33.0)	(24.9)	54.5	53.9	(1.1)	
Total	1408.2	1594.9	1368.1	(14.2)	(2.8)	2827.3	2962.9	4.8	
Segmental profit									
Toto betting	96.5	96.5	80.6	(16.4)	(16.5)	197.8	177.1	(10.5)	Higher payout
Motor dealership	2.7	9.9	(6.9)	N.m.	N.m.	17.6	3.0	(83.1)	Higher operating cost
Others	(0.0)	(0.4)	(5.9)	1431.3	20175.9	(3.6)	(6.3)	75.4	
Total	99.1	106.0	67.8	(36.1)	(31.6)	211.8	173.8	(18.0)	
Segmental margin									
Toto betting	12.7	12.8	11.4			13.6	12.1		
Motor dealership	0.4	1.2	(1.1)			1.3	0.2		
Others	(0.1)	(1.2)	(27.2)			(6.6)	(11.6)		
Total	7.0	6.6	5.0			7.5	5.9		

Source: Company, RHB

Figure 3: Jackpot prize

		2QFY23	1QFY24	2QFY24	QoQ	YoY	1HFY23	1HFY24	YoY
	Draws	49	41	42	2%	-14%	94	84	-11%
	Special draws	8	2	2	0%	-75%	15	4	-73%
Average jackpot size	4D Jackpot	10,346,176	13,396,396	11,864,600	-11%	15%	10,484,629	12,630,498	20%
	Power 6/55	5,391,135	8,724,990	6,044,571	-31%	12%	5,736,858	7,384,781	29%
	Supreme 6/58	16,568,515	23,503,788	15,815,937	-33%	-5%	19,955,432	19,659,863	-1%
	Star 6/50	5,986,551	4,661,419	1,971,547	-58%	-67%	4,961,577	3,316,483	-33%
	Total	38,292,377	50,286,594	35,696,656	-29%	-7%	41,138,496	42,991,625	5%

Source: Company, RHB

Figure 4: DCF valuation

FYE Dec	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY34F
EBIT	345	359	368	385	387	391	395	399	400	402
EBIT*(1-tax rate)	254	264	270	281	282	285	287	290	290	291
Add: D&A	35	38	41	44	48	51	54	57	60	63
Less: WC investments (WC Inv)	-8	-8	-5	-5	-1	-2	-2	-3	-29	2
Less: Fixed investments (FC Inv)	-70	-70	-70	-70	-70	-70	-70	-70	-70	-70
FCFF	211	224	235	251	259	263	269	273	251	287
Disc. FCFF	193	187	179	175	165	153	143	132	111	116
Terminal value at T=10	3411									
PV of terminal value	1378									
NPV	1553									
Less debt	-886									
Less minority interest	-6									
Equity Value of Firm	2038									
ESG premium/discount	2%									
Fair Value per share	1.55									
Implied FY25F P/E	11.0									
Rf	4.0%									
Beta	1.4									
Risk premium	7.7%									
Rm	11.7%									
TG (%)	1.0%									
CoE	14.7%									
CoD	4.0%									
WACC	9.5%									

Source: RHB

Emissions And ESG

Trend analysis

In FY23, Scope 1 emissions increased to 2.8k tonnes of CO2 equivalents (tCO2e) (FY22: 2.3k tCO2e), while Scope 2 decreased to 2.7k tCO2e (FY22: 3.0k tCO2e). SPToto started the Scope 3 emissions reporting in FY22.

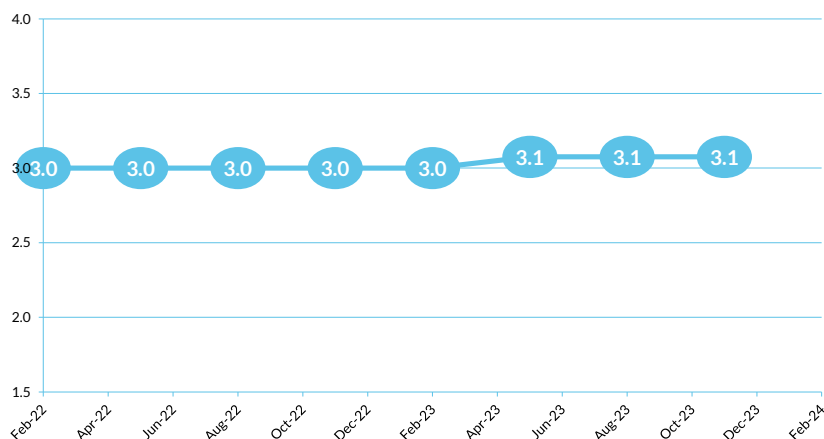
Emissions (tCO2e)	Jun-21	Jun-22	Jun-23
Scope 1	2,550	2,337	2,890
Scope 2	3,429	3,021	2,739
Scope 3	-	-	3,619
Total emissions	5,979	5,358	9,248

Source: Company data, RHB

Latest ESG-Related Developments

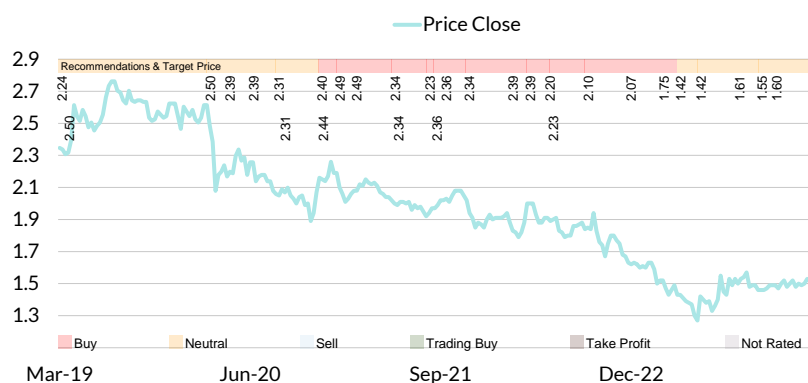
- SPToto utilises petrol and diesel for company vehicles and generators, with CO2 emissions from fuel consumption calculated using the IPCC Guidelines.
- HR Owen consumes substantial natural gas, and its emissions were computed using the UK Government GHG Conversion Factors for Company Reporting.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-22	Neutral	1.60	1.49
2023-10-17	Neutral	1.55	1.49
2023-08-24	Neutral	1.61	1.53
2023-05-24	Neutral	1.42	1.27
2023-04-05	Neutral	1.42	1.43
2023-02-23	Buy	1.75	1.53
2022-12-06	Buy	2.07	1.62
2022-11-24	Buy	2.10	1.70
2022-08-24	Buy	2.10	1.83
2022-08-24	Buy	2.23	1.83
2022-06-01	Buy	2.23	1.88
2022-05-24	Buy	2.20	1.92
2022-04-06	Buy	2.39	1.95
2022-02-23	Buy	2.39	1.90
2021-11-19	Buy	2.34	1.94

Source: RHB, Bloomberg

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Not Rated:	Stock is not within regular research coverage

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