

27 May 2024

Consumer Cyclical | Gaming

Sports Toto (SPTOTO MK)

Neutral (Maintained)

Approaching a Softer Season

- **Keep NEUTRAL, new DCF-derived MYR1.69 TP from MYR1.55, 9% upside.** Sports Toto's 3QFY24 (Jun) earnings beat expectations, thanks to higher-than-expected sales during the festive season. Number forecast operators (NFOs) should see a high degree of defensiveness thanks to the decent yields and relatively inelastic demand. That said, we believe the current at-mean valuation is fair, considering the lack of exciting catalysts for the sector.
- **Above expectations.** 9MFY24 core net profit of MYR155m (-2.3% YoY) exceeded expectations at 89% and 81% of our and Street's full-year estimates, primarily due to higher-than-expected sales in both the gaming and motor segments, driven by stronger seasonality. A third DPS of MYR0.03 was declared and will go ex on 27 Jun, bringing YTD DPS to MYR0.08 (1HFY23: MYR0.065), above expectations.
- **Results review.** YoY, 9MFY24 revenue rose slightly by 3.9% to MYR4.7bn, driven by higher gaming (+2.6%) and motor (+7.1%) segment revenue. 9MFY24 EBIT margin expanded by 0.4ppts to 6.1% on a lower gaming prize payout of 60.6% (9M23: 62.1%), despite being offset by higher operating costs from HR Owen. QoQ, 3QFY24 revenue rose 23.8% to MYR1.7bn, benefiting from favourable seasonality in the gaming and motor segments. Gaming ticket sales rose due to the Lunar New Year festive season, while motor revenue was boosted by the release of new vehicle registration plates in the UK. Consequently, 3QFY24 core net profit surged 193.7% QoQ to MYR78.5m.
- **Outlook.** Ticket sales for 4QFY24F are expected to decline following strong 3QFY24 sales (driven by the Lunar New Year period). Beyond the immediate term, illegal NFOs have gained and retained market share, particularly since the closure of legal NFO outlets in the northern states of Kedah and Perlis, leading to the proliferation of illegal operators in these underserved areas. Stricter legislation against illegal NFOs and the legalisation of online gaming could serve as key catalysts for the sector, though we believe these policies are not currently prioritised by the Government. HR Owen's sales are also expected to decline after a seasonally strong 3QFY24, with margins likely to face continued pressure due to a higher operating cost environment.
- **Forecast and ratings.** Post results, we raise FY24-26F earnings by 14%, 10%, and 9% after incorporating a stronger sales assumption. Correspondingly, our DCF TP is lifted to MYR1.69 (inclusive of a 2% ESG premium), implying 10.9x FY25F P/E (close to its mean).
- **Key downside risks:** Unfavourable luck factor and policies, and softer-than-expected ticket sales. The converse represents upside risks.

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (MYRm)	5,229	6,100	5,704	5,879	6,057
Recurring net profit (MYRm)	162	220	198	209	216
Recurring net profit growth (%)	(13.8)	36.0	(10.1)	5.3	3.5
Recurring P/E (x)	12.83	9.45	10.52	9.99	9.66
P/B (x)	2.3	1.9	1.9	1.8	1.7
P/CF (x)	7.42	8.97	5.01	5.89	5.73
Dividend Yield (%)	5.6	5.8	7.3	7.5	7.8
EV/EBITDA (x)	6.76	6.48	6.46	6.08	5.78
Return on average equity (%)	18.9	22.9	18.1	18.2	18.0
Net debt to equity (%)	71.0	77.5	64.7	58.0	51.5

Source: Company data, RHB

Target Price (Return):	MYR1.69 (8.9%)
Price (Market Cap):	MYR1.55 (USD444m)
ESG score:	3.1 (out of 4)
Avg Daily Turnover (MYR/USD)	1.07m/0.23m

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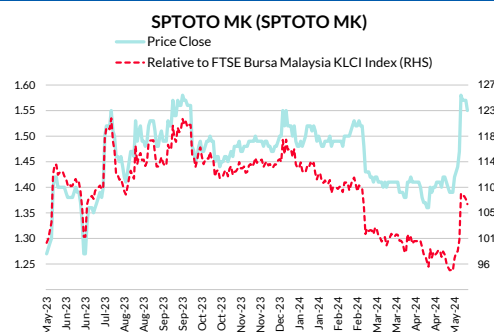


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.7	11.5	2.0	4.0	22.0
Relative	(6.6)	8.5	(2.5)	(7.4)	7.1
52-wk Price low/high (MYR)				1.27	1.58



Source: Bloomberg

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	0.15	0.16	0.16
Consumer Cyclical	DPS	0.09	0.09	0.11	0.12	0.12
Sports Toto	BVPS	0.67	0.80	0.83	0.87	0.91
SPTOTOMK	Return on average equity (%)	18.9	22.9	18.1	18.2	18.0
Neutral						
	Valuation metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Valuation basis	Recurring P/E (x)	12.83	9.45	10.52	9.99	9.66
DCF	P/B (x)	2.3	1.9	1.9	1.8	1.7
	FCF Yield (%)	6.7	(1.7)	16.6	13.6	14.1
Key drivers	Dividend Yield (%)	5.6	5.8	7.3	7.5	7.8
i. Ticket sales;	EV/EBITDA (x)	6.76	6.48	6.46	6.08	5.78
ii. Luck factor.	EV/EBIT (x)	8.24	7.72	7.80	7.34	7.00
Key risks	Income statement (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
i. Another wave of COVID-19 leading to outlet closures;	Total turnover	5,229	6,100	5,704	5,879	6,057
ii. Changes in gaming taxes;	Gross profit	853	974	911	939	967
iii. Weaker-than-expected overseas contribution;	EBITDA	402	449	433	452	465
iv. Reduction in the number of special draw days.	Depreciation and amortisation	(72)	(72)	(75)	(78)	(81)
	Operating profit	330	377	359	374	385
	Net interest	(64)	(65)	(70)	(70)	(70)
Company Profile	Pre-tax profit	273	339	298	314	325
Sports Toto is one of the largest NFO operators in Malaysia. It also has a presence in the Philippines' gaming market.	Taxation	(103)	(108)	(95)	(100)	(103)
	Reported net profit	161	225	198	209	216
	Recurring net profit	162	220	198	209	216
	Cash flow (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Change in working capital	0	0	68	(9)	(9)
	Cash flow from operations	280	232	417	354	364
	Capex	(142)	(268)	(70)	(70)	(70)
	Cash flow from investing activities	(103)	(169)	(80)	(81)	(81)
	Dividends paid	(47)	(128)	(153)	(157)	(162)
	Cash flow from financing activities	31	(17)	(223)	(227)	(232)
	Cash at beginning of period	364	559	633	746	793
	Net change in cash	209	46	113	46	51
	Ending balance cash	572	605	746	793	844
	Balance sheet (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Total cash and equivalents	559	633	746	793	844
	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	3,820	3,901	3,985
	Short-term debt	274	560	560	560	560
	Total long-term debt	964	959	959	959	959
	Total liabilities	2,304	2,793	2,626	2,649	2,673
	Total equity	957	1,143	1,194	1,252	1,311
	Total liabilities & equity	3,261	3,936	3,820	3,901	3,985
	Key metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Revenue growth (%)	8.3	16.6	(6.5)	3.1	3.0
	Recurrent EPS growth (%)	(13.8)	35.8	(10.2)	5.3	3.5
	Gross margin (%)	16.3	16.0	16.0	16.0	16.0
	Operating EBITDA margin (%)	7.7	7.4	7.6	7.7	7.7
	Net profit margin (%)	3.1	3.7	3.5	3.6	3.6
	Dividend payout ratio (%)	72.5	53.7	77.0	75.0	75.0
	Capex/sales (%)	2.7	4.4	1.2	1.2	1.2
	Interest cover (x)	5.07	4.73	4.08	4.25	4.37

Source: Company data, RHB

Results at a Glance

Figure 1: Earnings review

FYE Jun (MYRm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY (%)	Comments
Revenue	1,655.2	1,368.1	1,694.3	23.8	2.4	4,482.5	4,657.2	3.9	QoQ: Stronger sales due to seasonality
Adjusted EBITDA	65.1	83.9	138.8	65.4	113.3	303.9	346.8	14.1	
Adjusted EBITDA margin (%)	3.9	6.1	8.2			6.8	7.4		
Depreciation	(16.2)	(20.0)	(23.3)	16.6	43.3	(50.8)	(64.2)	26.4	
Adjusted EBIT	48.8	63.9	115.5	80.7	136.6	253.1	282.7	11.7	
EBIT margin (%)	3.0	4.7	6.8			5.6	6.1		Lower gaming prize payout offset by higher operating cost from HR Owen
Investment related income	6.9	7.8	7.6	(2.0)	10.1	30.8	22.9	(25.6)	
Finance cost	(22.0)	(24.8)	(24.4)	(1.7)	10.6	(56.9)	(74.5)	31.0	
Share of associate	5.4	1.0	2.5	163.3	(53.2)	14.2	8.2	(42.0)	
El/Others	0.9	0.2	(0.1)	N.m.	N.m.	0.9	(0.2)	N.m.	FX gain/loss.
Reported PBT	40.0	48.1	101.2	110.4	153.4	242.1	239.1	(1.2)	
Tax	(15.8)	(25.4)	(31.1)	22.4	97.1	(79.6)	(85.3)	7.2	
Effective tax rate (%)	39.5	52.8	30.7			32.9	35.7		
Minority Interest	(1.0)	1.5	0.3	(80.5)	N.m.	(2.9)	1.0	N.m.	
Net Profit	23.2	24.2	70.4	190.8	203.3	159.6	154.8	(3.0)	
Core Profit	22.4	24.0	70.5	193.7	215.2	158.7	155.0	(2.3)	Above expectations.
Core net margin (%)	1.4	1.8	4.2			3.5	3.3		

Source: Company, RHB

Figure 2: Segmental earnings

FYE Jun (MYRm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY (%)
Revenue								
Toto betting	725.0	709.2	779.2	9.9	7.5	2183.2	2240.4	2.6
Motor dealership	863.6	637.3	884.9	38.9	2.5	2178.3	2332.7	7.1
Others	66.6	21.6	30.2	39.7	(54.7)	121.1	84.1	(30.6)
Total	1655.2	1368.1	1694.3	23.8	2.4	4482.5	4657.2	3.9
Segmental profit								
Toto betting	29.8	80.6	103.1	27.9	246.3	227.5	280.1	23.1
Motor dealership	12.7	(6.9)	19.9	N.m.	56.0	30.4	22.9	(24.7)
Others	10.8	(5.9)	(2.3)	61.5	N.m.	7.3	(8.5)	N.m.
Total	53.3	67.8	120.7	78.1	126.3	265.2	294.5	11.0
Segmental margin								
Toto betting	4.1	11.4	13.2	1.9	9.1	10.4	12.5	2.1
Motor dealership	1.5	(1.1)	2.2	3.3	0.8	1.4	1.0	(0.4)
Others	16.3	(27.2)	(7.5)	19.7	(23.8)	6.0	(10.1)	(16.1)
Total	3.2	5.0	7.1			5.9	6.3	

Source: Company, RHB

Figure 3: DCF valuation

	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY34F
FYE Dec										
EBIT	374	385	421	426	463	468	507	509	549	553
EBIT*(1-tax rate)	274	281	306	309	334	337	363	365	392	395
Add: D&A	35	38	41	45	49	53	57	62	67	72
Less: WC investments (WC Inv)	-9	-9	-6	-6	-2	-4	-4	-4	-31	3
Less: Fixed investments (FC Inv)	-70	-70	-80	-80	-90	-90	-100	-100	-120	-120
FCFF	231	240	261	268	291	296	317	323	308	349
Disc. FCFF	209	198	195	181	178	164	159	147	127	131
Terminal value at T=10	3792									
PV of terminal value	1422									
NPV	1690									
Less Debt	-886									
Less Minority Interest	-6									
Equity Value of Firm	2220									
ESG premium/discount	2%									
Fair Value per share	1.69									
Implied FY25F P/E	10.9									
Rf	4.0%									
Beta	1.6									
Risk premium	7.7%									
Rm	11.7%									
TG (%)	1.0%									
CoE	16.0%									
CoD	4.0%									
WACC	10.3%									

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 introduction of Scope 3 emissions reporting in FY22.

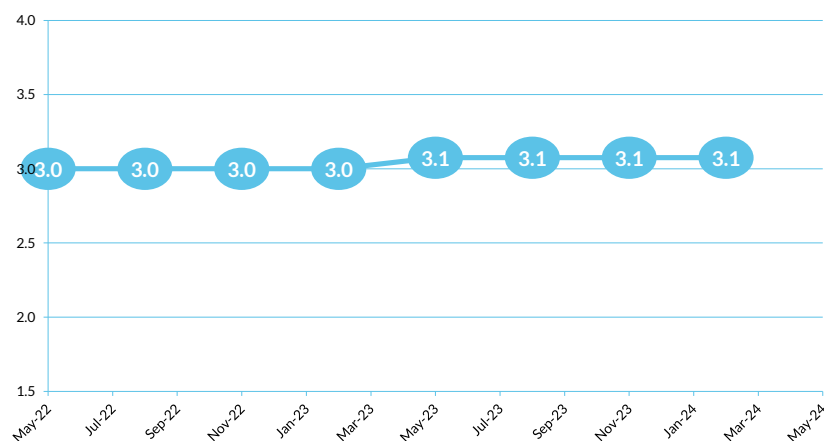
Emissions (tCO2e)	Jun-21	Jun-22	Jun-23
Scope 1	2,550	2,337	2,890
Scope 2	3,429	3,021	2,739
Scope 3	-	-	3,619
Total emissions	5,979	5,358	9,248

Source: Company data, RHB

Latest ESG-Related Developments

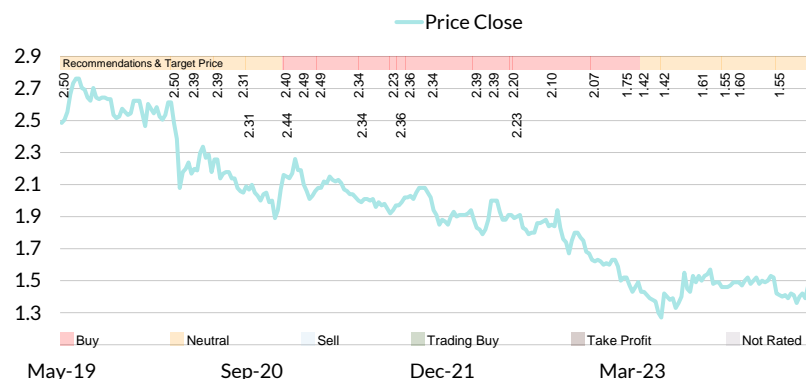
- SPTOTO utilises petrol and diesel for company vehicles and generators, with CO2 emissions from fuel consumption calculated using the IPCC Guidelines.
- HR Owen consumes substantial natural gas, and its emissions were computed using the UK Government GHG Conversion Factors for Company Reporting.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-26	Neutral	1.55	1.48
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

Source: RHB, Bloomberg

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