

22 November 2023

Sports Toto (SPTOTO MK)

High Jackpot Prizes Boost Ticket Sales

- **Stay NEUTRAL, with new DCF-derived MYR1.60 TP from MYR1.55, 8% upside.** Sports Toto's 1QFY24 (Jun) earnings beat expectations, thanks to higher-than-expected sales. While ticket sales are recovering closer to pre-pandemic levels, we think the current valuation (close to the mean) is fair, and the sector lacks re-rating catalysts for earnings and valuation to reach new highs. Nonetheless, the stock offers an attractive c.7% yield.
- **Beat expectations.** SPTOTO's 1QFY24 core net profit of MYR60.5m exceeded expectations, at 33% and 28% of ours and Street's full-year estimates, primarily due to higher-than-expected sales from Toto operations. The company declared a share dividend distribution on the basis of one treasury share for every 50 existing ordinary shares held – translating to c.3 sen per share, in line with expectations.
- **Results review.** YoY, 1QFY24 revenue rose 12.4% to MYR1.6bn on higher gaming (+7.2%) and motor (+17.1%) segment revenues. The improvement in gaming revenue continued to gain pace, now at c.92% of pre-pandemic level (1QFY23: c.86%) – partly driven by higher accumulated jackpot prizes (Figure 3). Meanwhile, the jump in motor revenue is attributed to new car sales contribution from Hatfield showroom. However, 1QFY24 EBIT margin shrank 1ppt to 7.8%. Gaming segment contracted 4.8% YoY due to higher prize payout of 60% (1QFY23: 57%), while the motor segment was affected by higher operating expenses following the opening of a new showroom. QoQ, 1QFY24 revenue dropped 1.4%, dragged down by HR Owen (-11.4%) on lower car sales cushioned by recovery in sales from gaming (+16%) segment. This led to a dip in 1QFY24 core profit at MYR60.5m.
- **Outlook.** We think the illegal number forecast operators (NFOs), which gained and retained market share since the COVID-19 pandemic, are the main reason preventing full recovery of SPTOTO's ticket sales. Additionally, the industry's structural decline, attributed to the younger generation's declining interest to purchase tickets, poses a long-term threat for the industry, in our view. Hence, stricter legislation against illegal NFOs and the legalisation of online gaming could serve as key catalysts for the sector. However, we believe such policies are not currently prioritised by the Government. Meanwhile, HR Owen's margin may continue to face pressure due to higher operating cost environment, coupled with increased depreciation and interest expenses following the Hatfield showroom launch.
- **Forecast and ratings.** Post results, we lift our Street-low FY24-26F earnings by c.8% after imputing higher sales assumption. Correspondingly, our DCF-derived TP is lifted slightly to MYR1.60 (inclusive of a 2% ESG premium). Our TP implies 10.8x FY24F P/E (close to its mean), or at a slight discount to its closest peer Magnum (MAG MK, NEUTRAL, TP: MYR1.14) to account for its challenging operating environment in the UK (through HR Owen). Key downside risks include unfavourable luck factor, unfavourable policies, and softer-than-expected ticket sales. The converse represents the upside risks.

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	199	209	213
Recurring net profit growth (%)	(13.8)	36.0	(9.6)	4.8	2.3
Recurring P/E (x)	12.33	9.08	10.07	9.61	9.39
P/B (x)	2.2	1.9	1.8	1.7	1.6
P/CF (x)	7.13	8.62	4.72	5.66	5.54
Dividend Yield (%)	5.8	6.0	7.4	7.8	8.0
EV/EBITDA (x)	6.56	6.30	6.22	5.87	5.63
Return on average equity (%)	18.9	22.9	18.1	18.1	17.7
Net debt to equity (%)	71.0	77.5	63.3	56.6	50.2

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Malaysia Results Review

Consumer Cyclical | Gaming

Neutral (Maintained)

Target Price (Return):	MYR1.60 (7.6%)
Price (Market Cap):	MYR1.49 (USD424m)
ESG score:	3.1 (out of 4)
Avg Daily Turnover (MYR/USD)	1.02m/0.22m

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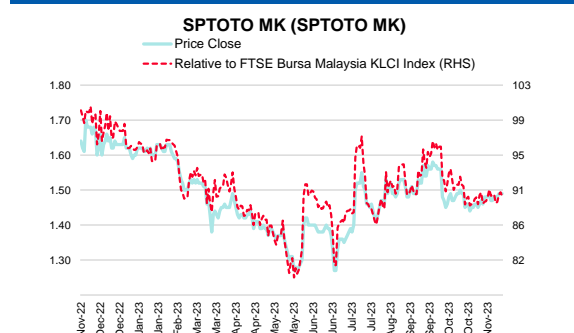


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.0)	2.1	0.7	14.6	(9.2)
Relative	(5.8)	0.5	(0.2)	12.2	(10.3)
52-wk Price low/high (MYR)				1.27 – 1.70	



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 capitalization 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	0.84	0.87	0.91
SPTOTO MK	Return on average equity (%)	18.9	22.9	18.1	18.1	17.7
Neutral						
	Valuation metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Valuation basis	Recurring P/E (x)	12.33	9.08	10.07	9.61	9.39
DCF	P/B (x)	2.2	1.9	1.8	1.7	1.6
	FCF Yield (%)	6.9	(1.8)	17.7	14.2	14.6
Key drivers	Dividend Yield (%)	5.8	6.0	7.4	7.8	8.0
i. Ticket sales;	EV/EBITDA (x)	6.56	6.30	6.22	5.87	5.63
ii. Luck factor.	EV/EBIT (x)	8.00	7.51	7.51	7.09	6.82
Key risks	Income statement (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Downside risks:	Total turnover	5,229	6,100	5,557	5,716	5,879
i. Unfavourable luck factor;	Gross profit	853	974	887	913	939
ii. Unfavourable policies;	EBITDA	402	449	435	452	461
iii. Softer-than-expected ticket sales.	Depreciation and amortisation	(72)	(72)	(75)	(78)	(81)
The converse represents upside risks.	Operating profit	330	377	360	374	381
	Net interest	(64)	(65)	(70)	(70)	(70)
	Pre-tax profit	273	339	300	314	321
Company Profile	Taxation	(103)	(108)	(95)	(100)	(102)
Sports Toto is one of the largest NFO operators in Malaysia. It also has a presence in the Philippines' gaming market.	Reported net profit	161	225	199	209	213
	Recurring net profit	162	220	199	209	213
	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	425	354	362
	Capex	(142)	(268)	(70)	(70)	(70)
	Cash flow from investing activities	(103)	(169)	(80)	(81)	(81)
	Dividends paid	(47)	(128)	(147)	(156)	(160)
	Cash flow from financing activities	31	(17)	(218)	(227)	(230)
	Cash at beginning of period	364	559	633	760	807
	Net change in cash	209	46	127	47	51
	Ending balance cash	572	605	760	807	858
	Balance sheet (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Total cash and equivalents	559	633	760	807	858
	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	3,806	3,885	3,966
	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	1,200	1,258	1,317
	Total liabilities & equity	3,261	3,936	3,806	3,885	3,966
	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	(9.8)	4.8	2.3
	Gross margin (%)	16.3	16.0	16.0	16.0	16.0
	Operating EBITDA margin (%)	7.7	7.4	7.8	7.9	7.8
	Net profit margin (%)	3.1	3.7	3.6	3.7	3.6
	Dividend payout ratio (%)	72.5	53.7	74.0	75.0	75.0
	Capex/sales (%)	2.7	4.4	1.3	1.2	1.2
	Interest cover (x)	5.07	4.73	4.09	4.25	4.33

Source: Company data, 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: 3k tCO₂e). SPTOTO started Scope 3 emissions reporting in FY22.

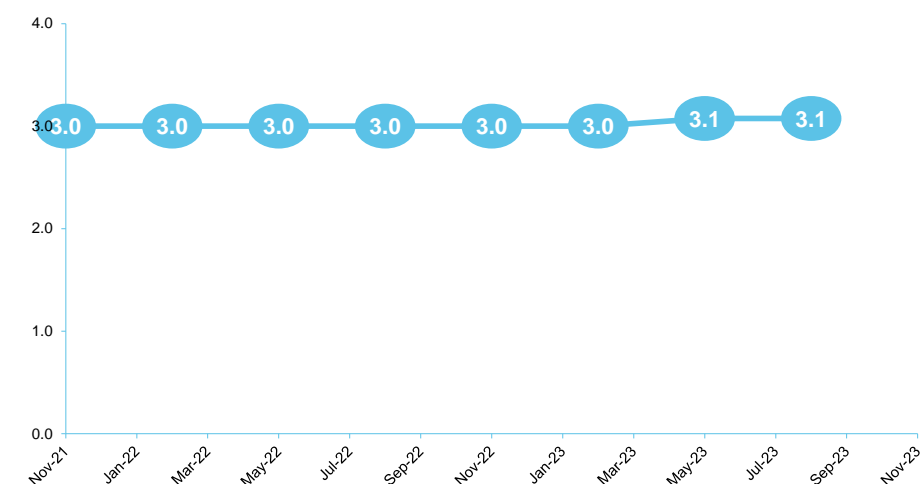
Emissions (tCO ₂ e)	Jun-21	Jun-22	Jun-23
Scope 1	2,550	2,337	2,890
Scope 2	3,429	3,021	2,739
Scope 3	-	-	3,619
Total emissions	5,979	5,358	9,248

Source: Company data, RHB

Latest ESG-Related Developments

- SPToto utilises petrol and diesel for company vehicles and generators, with CO₂e 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

Results at a Glance

Figure 1: Earnings Review

FYE Jun (MYRm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments
Revenue	1,419.1	1,617.2	1,594.9	(1.4)	12.4	Higher contribution from both the gaming and motor segments.
Adjusted EBITDA	125.2	128.3	124.2	(3.2)	(0.8)	
Adjusted EBITDA margin (%)	8.8	7.9	7.8			
Depreciation	(14.8)	(21.8)	(20.9)	(4.1)	41.6	
Adjusted EBIT	110.4	106.5	103.2	(3.1)	(6.5)	
EBIT margin (%)	7.8	6.6	6.5			
Investment related income	8.9	6.5	7.5	15.8	(15.8)	
Finance cost	(16.2)	(22.9)	(25.4)	10.7	56.3	
Share of associate	4.2	6.8	4.8	(30.4)	12.8	
El/Others	(1.1)	0.2	(0.3)	(235.4)	(73.3)	FX gain/loss.
Reported PBT	106.2	95.0	89.8	(5.5)	(15.4)	
Tax	(33.2)	(29.9)	(28.8)	(3.6)	(13.2)	
Effective tax rate (%)	31.3	31.5	32.1			
Minority Interest	(1.5)	(2.8)	(0.8)	(70.4)	(44.8)	
Net Profit	71.5	62.3	60.2	(3.5)	(15.9)	
Core Profit	72.6	62.1	60.5	(2.7)	(16.7)	Within expectations.
Core net margin (%)	5.1	3.8	3.8			

Source: Company, RHB

Figure 2: Segmental Earnings

FYE Jun (MYRm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments
Revenue						
Toto betting	701.2	648.4	752.0	16.0	7.2	Improvement in average sales per draw as well as higher accumulated jackpot prizes.
Motor dealership	692.2	914.5	810.6	(11.4)	17.1	New car sales contribution from Hatfield showroom.
Others	25.7	54.3	32.3	(40.6)	25.6	
Total	1419.1	1617.2	1594.9	(1.4)	12.4	
Segmental profit						
Toto betting	101.3	70.6	96.5	36.6	(4.8)	Higher payout YoY.
Motor dealership	15.0	32.8	9.9	(69.8)	(33.8)	Higher operating cost environment, coupled with increased depreciation and interest expenses.
Others	(3.5)	6.5	(0.4)	(105.9)	(89.2)	
Total	112.7	109.9	106.0	(3.5)	(6.0)	
Segmental margin						
Toto betting	14.4	10.9	12.8	1.9	(1.6)	
Motor dealership	2.2	3.6	1.2	(2.4)	(0.9)	
Others	(13.8)	11.9	(1.2)	(13.1)	12.6	
Total	7.9	6.8	6.6			

Source: Company, RHB

Figure 3: Jackpot prize

		1QFY23	4QFY23	1QFY24	QoQ	YoY
	Draws	45	40	41	2%	-9%
	Special Draws	7	1	2	100%	-71%
Average jackpot size	4D Jackpot	10,623,083	10,385,649	13,396,396	29%	26%
	Power 6/55	6,082,581	6,076,480	8,724,990	44%	43%
	Supreme 6/58	23,342,348	13,470,106	23,503,788	74%	1%
	Star 6/50	3,936,603	3,454,508	4,661,419	35%	18%
	Total	43,984,615	33,386,744	50,286,594	51%	14%

Source: Company, RHB

Figure 4: DCF valuation

FYE Dec	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F
EBIT	360	374	381	384	385	387	391	395	399	400
EBIT*(1-tax rate)	265	274	278	280	281	282	285	287	289	290
Add: D&A	32	35	38	41	44	48	51	54	57	60
Less: WC investments (WC Inv)	75	-8	-8	-5	-5	-1	-2	-2	-3	-29
Less: Fixed investments (FC Inv)	-70	-70	-70	-70	-70	-70	-70	-70	-70	-70
FCFF	302	231	238	246	251	259	263	269	273	251
Disc. FCFF	277	195	184	174	163	154	144	135	126	106
Terminal value at T=10	3174									
PV of terminal value	1342									
NPV	1659									
Less Debt	-886									
Less Minority Interest	-6									
Equity Value of Firm	2108									
ESG premium/discount	2%									
Fair Value per share	1.60									
Implied FY24F P/E	10.8									
Rf	4.0%									
Beta	1.3									
Risk premium	7.7%									
Rm	11.7%									
TG (%)	1.0%									
CoE	13.9%									
CoD	4.0%									
WACC	9.0%									

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-11-15	Buy	2.34	2.03

Source: RHB, Bloomberg

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