

24 August 2023

Sports Toto (SPTOTO MK)

A Sigh Of Relief

- **Still NEUTRAL with new MYR1.61 DCF-TP from MYR1.43, 6% upside.** Sports Toto's 4QFY23 (Jun) results beat our expectations, mainly due to a non-recurring write back of relocation costs. Its 4QFY23 2.5 sen DPS came in-line, delivering a dividend payout ratio (DPR) of 56% in FY23. While its sales/draw recovers, HR Owen's margins will likely remain under pressure. We recommend holding the stock for its 7% FY24F yield.
- **Exceeded our expectations.** SPTOTO's 4QFY23 (Jun) core net profit of MYR66m brought FY23 core earnings to MYR217m – exceeding our full year forecast by 13%, mainly driven by better-than-expected HR Owen results. It met Street's expectations at 102% of its full-year estimate. Its 4QFY23 DPS of 2.5 sen came in-line, bringing FY23 DPS to 9 sen.
- **Lottery business.** SPTOTO's lottery revenue in 4QFY23 stood at 79% of its pre-pandemic average, a reversal from 3QFY23's 89%. Revenue softened 11% QoQ against a seasonally stronger 3Q, thanks to the Lunar New Year. Despite this, operating profit jumped 137% due to lower prize payout ratio of 62% vs 3QFY23's 69%. YoY, its ticket sales per draw rose 2.2%. We understand that SPTOTO continues to work towards relocating its closed Kedah outlets to other states, which is slower-than-expected.
- **HR Owen's** revenue rose 6% and operating profit jumped 157% QoQ. Its operating margin jumped to 3.6% from 1.5%, mainly thanks to the write back of a provision made for relocation costs. Looking ahead, we think the challenges from high inflation and interest rates are likely to persist in the UK. With higher depreciation and interest expense from Hatfield, we believe HR Owen's margins would remain under pressure in FY24.
- **Clearer skies = faster dividend recovery?** In the three states (Selangor, Penang, and Negeri Sembilan) that house c.33% of SPTOTO's total outlets, the political status quo allows the company to operate business as usual – without the fear of outlet closures like in Kedah. We believe this diminished uncertainty reduces its need to hold cash and could lead to improved DPR – potentially expediting the normalisation of its DPS. Its DPR stood at 52% and 56% in 4QFY23 and FY23. With no further regulatory uncertainty in the near future, we think SPTOTO could lift it to 74-85% in FY24F-FY26F.
- **We trim FY24F-FY25F earnings estimates** by 2% on lower ticket sales per draw, given the slower-than-expected relocation of outlets from Kedah.
- **We maintain our call, with a new MYR1.61 TP**, including a 2% ESG premium. The higher TP is mainly due to a lower WACC, as we trimmed the Beta assumption to account for the improved regulatory environment. Despite lacklustre ticket sales recovery and continued challenges at HR Owen, we maintain our call as we think it is worth holding for its 7% dividend yield. Key downside risks include adverse regulations against the NFOs, changes in gaming tax, lower-than-expected contribution from HR Owen, disappointing dividends, and the luck factor. The opposite represents upside risks.

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (MYRm)	5,229	6,100	5,571	5,730	5,894
Recurring net profit (MYRm)	162	217	191	201	204
Recurring net profit growth (%)	(7.1)	33.9	(11.9)	5.1	1.7
Recurring P/E (x)	12.67	9.46	10.74	10.22	10.05
P/B (x)	2.3	1.9	2.0	1.9	1.9
P/CF (x)	5.06	na	3.25	6.60	6.49
Dividend Yield (%)	5.7	5.9	6.9	7.9	8.2
EV/EBITDA (x)	6.46	6.22	6.05	5.76	5.49
Return on average equity (%)	18.9	22.6	18.3	19.3	19.0
Net debt to equity (%)	71.6	79.0	68.4	66.6	60.8

Source: Company data, RHB

Malaysia Results Review

Consumer Cyclical | Gaming

Neutral (Maintained)

Target Price (Return):	MYR1.61 (6.2%)
Price (Market Cap):	MYR1.52 (USD434m)
ESG score:	3.1 (out of 4)
Avg Daily Turnover (MYR/USD)	1.52m/0.33m

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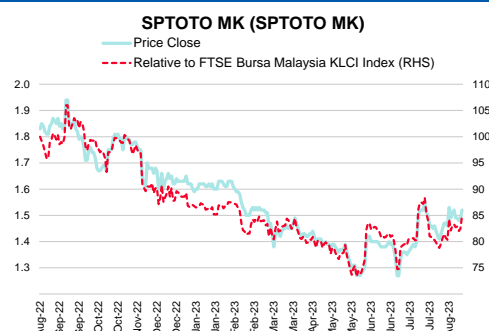


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(6.2)	(1.9)	16.0	(0.7)	(16.5)
Relative	(2.5)	(3.8)	14.0	0.5	(13.6)
52-wk Price low/high (MYR)				1.27	1.94



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: EXCELLENT

The lottery industry generally has low environmental risks. Nevertheless, SPTOTO 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

SPTOTO 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 company also engages in social activities that contribute to various communities.

G: GOOD

SPTOTO 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% women representation 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	0.14	0.15	0.15
Consumer Cyclical	DPS	0.09	0.09	0.11	0.12	0.13
Sports Toto	BVPS	0.66	0.79	0.76	0.78	0.81
SPTOTO MK	Return on average equity (%)	18.9	22.6	18.3	19.3	19.0
Neutral						
	Valuation metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Valuation basis	Recurring P/E (x)	12.67	9.46	10.74	10.22	10.05
We use Discounted Cash Flow methodology to derive the target price. Key assumptions are:	P/B (x)	2.3	1.9	2.0	1.9	1.9
i. WACC: 10.3%;	FCF Yield (%)	13.1	(10.1)	27.3	11.7	12.0
ii. Terminal growth: 0.5%	Dividend Yield (%)	5.7	5.9	6.9	7.9	8.2
	EV/EBITDA (x)	6.46	6.22	6.05	5.76	5.49
Key drivers	EV/EBIT (x)	7.94	7.47	7.47	7.23	6.97
i. Ticket sales						
ii. Luck factor						
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	5,571	5,730	5,894
ii. Changes in gaming taxes;	Gross profit	853	1,006	925	957	990
iii. Weaker-than-expected overseas contribution;	EBITDA	387	428	408	426	440
iv. Reduction in the number of special draw days.	Depreciation and amortisation	(72)	(72)	(78)	(86)	(94)
	Operating profit	315	356	330	340	346
Company Profile	Net interest	(64)	(57)	(51)	(46)	(43)
Sports Toto is one of the largest NFO operators in Malaysia. It also has a presence in the Philippines' gaming market.	Pre-tax profit	273	337	287	301	311
	Taxation	(103)	(110)	(92)	(96)	(103)
	Reported net profit	161	222	191	201	204
	Recurring net profit	162	217	191	201	204
	Cash flow (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Change in working capital	3	(491)	303	(32)	(33)
	Cash flow from operations	406	(138)	632	311	316
	Capex	(138)	(70)	(70)	(70)	(70)
	Cash flow from investing activities	(113)	(70)	(70)	(70)	(70)
	Dividends paid	(47)	(122)	(142)	(162)	(169)
	Cash flow from financing activities	29	(301)	(281)	(297)	(300)
	Cash at beginning of period	364	559	621	510	442
	Net change in cash	322	(509)	280	(56)	(54)
	Ending balance cash	674	49	901	454	389
	Balance sheet (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Total cash and equivalents	559	621	510	442	384
	Tangible fixed assets	555	846	472	456	432
	Total investments	301	367	410	435	438
	Total assets	3,113	3,891	3,125	3,114	3,086
	Short-term debt	280	562	300	300	300
	Total long-term debt	964	959	960	900	800
	Total liabilities	2,156	2,752	2,029	1,975	1,908
	Total equity	957	1,139	1,096	1,139	1,179
	Total liabilities & equity	3,113	3,891	3,125	3,114	3,086
	Key metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Revenue growth (%)	8.3	16.6	(8.7)	2.9	2.9
	Recurrent EPS growth (%)	(7.1)	33.9	(11.9)	5.1	1.7
	Gross margin (%)	16.3	16.5	16.6	16.7	16.8
	Operating EBITDA margin (%)	7.4	7.0	7.3	7.4	7.5
	Net profit margin (%)	3.1	3.6	3.4	3.5	3.5
	Dividend payout ratio (%)	73.1	54.8	74.2	80.7	82.6
	Capex/sales (%)	2.6	1.1	1.3	1.2	1.2
	Interest cover (x)	4.84	4.46	5.55	6.15	6.80

Source: Company data, RHB

Figure 1: 4QFY23 results review

FYE Jun (MYRm)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Revenue	1,461.1	1,655.2	1,617.2	(2.3)	10.7	5,232.5	6,099.7	16.6	
<i>Gaming</i>	664.9	725.0	648.4	(10.6)	(2.5)	2,143.1	2,831.6	32.1	QoQ decline against a seasonally strong 3Q, driven by Lunar New Year.
<i>Motor</i>	774.2	863.6	914.5	5.9	18.1	3,015.7	3,092.7	2.6	The fluctuations in the revenue is largely driven by the supply of new and used vehicles, as HR Owen has an order backlog that will last them for several quarters.
<i>Others</i>	22.0	66.6	54.3	(18.5)	146.8	73.7	175.4	138.0	
EBITDA	118.0	60.4	126.2	109.2	7.0	377.4	414.2	9.8	
EBITDA margin (%)	8.1	3.6	7.8			7.2	6.8		
Depreciation	(23.7)	(16.2)	(21.0)	(29.1)	11.5	(72.7)	(68.8)	5.4	
EBIT	94.3	44.1	105.3	138.6	11.7	304.7	345.4	13.4	
EBIT margin (%)	6.5	2.7	6.5			5.8	5.7		
<i>Gaming</i>	85.8	29.8	70.6	137.2	(17.7)	235.9	298.1	26.4	Significantly stronger QoQ due to lower prize payout ratio.
<i>Motor</i>	15.8	12.7	32.8	157.3	107.2	100.4	63.2	(37.1)	Meaningful improvement QoQ and YoY due to a write back of relocation expenses in 4QFY23.
<i>Others</i>	(3.0)	10.8	6.5	40.2	312.8	(11.1)	13.7	223.9	4QFY22 and 3QFY23 felt the impact of high inflation and interest rates.
Unallocated corporate expense	(4.3)	(9.2)	(4.6)	32.7	0.2	(20.6)	(29.7)	44.2	
Interest expense	(18.4)	(22.0)	(22.9)	(4.0)	(24.5)	(65.1)	(79.8)	(22.6)	Higher interest expenses due to higher interest rates.
Investment income	4.6	6.9	4.4	(36.5)	(4.6)	18.1	35.2	94.6	
Associates	3.3	5.4	6.8	27.4	107.5	9.0	21.0	132.3	
EI/Others	(1.2)	3.7	(4.1)	211.8	247.7	(1.2)	4.9	519.9	
Pretax profit	82.6	38.0	89.5	135.2	8.4	265.5	326.7	23.1	
Pretax margin (%)	5.7	2.3	5.5			5.1	5.4		
Tax	(35.0)	(15.8)	(29.9)	(89.6)	14.5	(101.5)	(109.5)	(7.9)	
Effective tax rate (%)	42.3	41.5	33.4			38.2	33.5		
Minority interest	(1.2)	1.0	2.8	(189.5)	330.5	(2.5)	4.7	291.8	
Net profit	46.4	23.2	62.3	168.5	34.3	161.6	221.9	37.4	
Core profit	47.6	19.6	66.4	239.7	39.6	162.7	217.0	33.3	Above our expectations, mainly due to the write back of HR Owen's relocation costs.
Net margin (%)	3.3	1.2	4.1			3.1	3.6		

Source: Company data, RHB

Figure 2: DCF valuation

FYE Jun (MYRm)	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
EBIT	330.5	339.6	346.4	347.2	346.2	345.5	347.1	348.8	349.7	348.1
EBIT x (1-Tax)	224.7	231.0	232.1	232.6	231.9	231.5	232.6	233.7	234.3	233.2
(+) Depreciation & amortisation	77.7	86.3	93.7	101.3	109.2	117.4	125.8	134.5	143.5	152.7
(-) Capex	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)
(-) Working capital requirements	302.7	(31.9)	(33.3)	(30.0)	(29.4)	(23.6)	(26.7)	(27.1)	(28.9)	(27.8)
Free cash flow	535.2	215.4	222.5	234.0	241.7	255.3	261.6	271.1	278.8	288.1
NPV of free cash flow	485.1	177.0	165.7	158.0	148.0	141.7	131.6	123.6	115.3	108.0
Key assumptions										
Terminal growth	0.5%									
Terminal value	1,208.8									
WACC										
Beta	1.30									
Expected market return	11.9%									
Risk-free rate	4.0%									
Cost of equity	14.2%									
Equity weighting	59.8%									
Cost of debt	6.5%									
Effective tax rate	30.0%									
Firm value	2,962.9									
(-) net debt	(750.1)									
(-) minority interests	(74.5)									
Equity value	2,138.2									
Fair Value per share (MYR)	1.58									
ESG premium/discount	2%									
TP per share (MYR)	1.61									

Source: Company data, RHB

Recommendation Chart

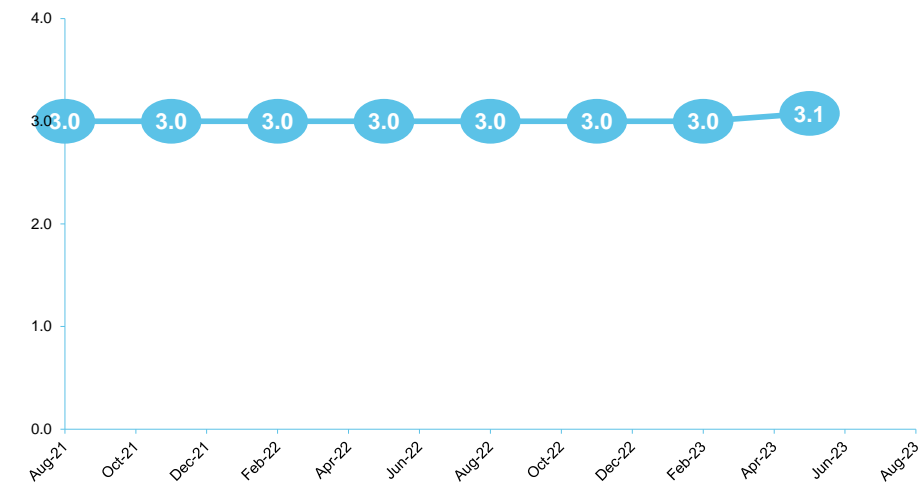


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-11-09	Buy	2.34	2.06
2021-09-14	Buy	2.36	2.03

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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