29 February 2024

Consumer Cyclical | Gaming

Magnum (MAG MK)

Neutral (from Sell)

Solid End To FY23; Upgrade To NEUTRAL

Target Price (Return):	MYR1.13 (-1.9%)
Price (Market Cap):	MYR1.15 (USD346m)
ESG score:	3.0 (out of 4)
Avg Daily Turnover (MYR/USD)	0.77m/0.16m

- **U/G to NEUTRAL from Sell, new MYR1.13 TP (DCF) from MYR0.90, 2% downside.** FY23 earnings and dividends exceeded our expectations, due to our previous conservative forecasts. We upgrade our recommendation as we see limited downside to valuations after lifting our forecasts. We believe number forecast operators (NFOs) will see a high degree of defensiveness thanks to the yields and relatively inelastic demand from punters.

- **Above our expectations, but within consensus'.** FY23 core earnings of MYR125.2m (+21.6% YoY) accounted for 113% and 95% of our and Street's full-year estimates. The deviation was due to lower operating costs despite above-average prize payouts. A fourth interim DPS of 2 sen (4Q22: 1.5 sen) was declared and will go ex on 12 Mar, bringing FY23 DPS to 6 sen (FY22: 5 sen) – exceeding our estimates.

- **Results review.** YoY, FY23 revenue rose 6.3% to MYR2.2bn despite a lower number of draws (2023: 165 vs 2022: 179), thanks to the continued recovery in ticket sales (FY23: 80% of pre-pandemic levels vs FY22's 75%). FY23 EBIT margin expanded by 0.5ppts to 10.8% despite a higher prize payout (FY23: 65.6% vs FY22: 64.3%), attributed to lower operating costs (-20% YoY), which we believe was due to operational efficiencies from cost rationalisation efforts. QoQ, 4Q23 revenue rose 6.9%, thanks to the strong jackpot run (Figure 1). Together with a lower prize payout (4Q23: 63.3% vs 3Q23: 64.9%), core earnings rose by 71.4% QoQ to MYR39.9m.

- **Outlook.** We anticipate that sales in 1Q24F will experience an upswing due to favourable seasonal factors, particularly driven by the Lunar New Year period. However, the sales and service tax (SST) hike, which takes effect on 1 Mar, will increase the tax burden for NFOs. Our channel checks indicate that illegal NFOs are capturing significant market share in two northern states, which have been underserved following the closure of legal NFO outlets. We believe the NFO sector requires the legalisation of online gaming and/or stricter regulations against illegal NFOs to achieve a meaningful recovery and growth in ticket sales.

- **Forecasts and ratings.** Post results, we lift our Street-low FY24-25F earnings by 11-14% after imputing lower operating cost assumptions, and introduce FY26F (+4% YoY) earnings. Consequently, our DCF-TP is lifted to MYR1.13, implying 11.5x FY24F P/E (close to its mean). We believe the current at-mean valuation is fair, considering the lack of exciting catalysts for the sector.

- **Key upside/downside risks:** Favourable/unfavourable luck factor and policies, and higher/lower-than-expected ticket sales.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	2,031	2,160	2,150	2,214	2,280
Recurring net profit (MYRm)	103	125	124	130	135
Recurring net profit growth (%)	693.2	21.1	(0.7)	4.2	4.1
Recurring P/E (x)	15.98	13.20	13.29	12.76	12.26
P/B (x)	0.7	0.7	0.7	0.7	0.6
P/CF (x)	9.36	7.19	15.88	11.16	10.75
Dividend Yield (%)	4.3	5.2	5.3	5.5	5.7
EV/EBITDA (x)	10.91	11.30	11.60	11.02	10.48
Return on average equity (%)	4.3	5.2	5.1	5.2	5.3
Net debt to equity (%)	29.1	24.5	24.7	23.2	21.7

Source: Company data, RHB

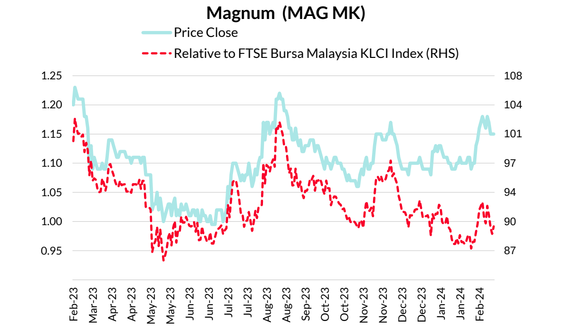
Analysts

Tai Yu Jie
+603 2302 8132
tai.yu.jie@rhbgroup.com

Lee Meng Horng
+603 2302 8115
lee.meng.horng@rhbgroup.com

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.5	4.5	0.0	(5.0)	(4.2)
Relative	(0.8)	1.9	(6.7)	(12.0)	(10.5)
52-wk Price low/high (MYR)					1.00 – 1.23



Source: Bloomberg

Overall ESG Score: 3.0 (out of 4)

E: GOOD
The lottery industry generally has low environmental risks. Magnum continues to contribute to environmental sustainability by implementing initiatives like minimising the usage of paper and plastic on its premises, and implementing energy-saving practices to reduce its carbon footprint.

S: GOOD
Magnum promotes responsible gaming. This is to prevent both excessive and underage gaming. In terms of its employees' health and safety, it has put in place policies and frameworks to provide a conducive and safe working environment. No accidents have occurred within the work place.

G: GOOD
Magnum has applied and adopted the majority 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 the company has yet to achieve the target of having 30% of the board comprised of female directors.

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

Financial Exhibits

Asia
Malaysia
Consumer Cyclical
Magnum
MAG MK
Neutral

Valuation basis

DCF

Key drivers

i. Ticket sales
ii. Luck factor

Key risks

i. Favourable/unfavourable luck factor and policies, and higher/lower-than-expected ticket sales.

Company Profile

Magnum is engaged in the gaming or numbers forecasting lottery business.

Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Recurring EPS	0.07	0.09	0.09	0.09	0.09
DPS	0.05	0.06	0.06	0.06	0.07
BVPS	1.66	1.70	1.72	1.75	1.78
Return on average equity (%)	4.3	5.2	5.1	5.2	5.3

Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Recurring P/E (x)	15.98	13.20	13.29	12.76	12.26
P/B (x)	0.7	0.7	0.7	0.7	0.6
FCF Yield (%)	9.8	13.0	5.1	7.8	8.1
Dividend Yield (%)	4.3	5.2	5.3	5.5	5.7
EV/EBITDA (x)	10.91	11.30	11.60	11.02	10.48
EV/EBIT (x)	11.42	11.44	11.75	11.17	10.63

Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover	2,031	2,160	2,150	2,214	2,280
Gross profit	320	324	297	312	322
EBITDA	218	201	198	206	214
Depreciation and amortisation	(10)	(2)	(3)	(3)	(3)
Operating profit	208	199	195	203	211
Net interest	(46)	(11)	(10)	(10)	(10)
Pre-tax profit	160	188	185	192	200
Taxation	(59)	(61)	(59)	(62)	(64)
Reported net profit	101	126	124	130	135
Recurring net profit	103	125	124	130	135

Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Change in working capital	7	46	(34)	4	4
Cash flow from operations	177	230	104	148	154
Capex	(15)	(16)	(20)	(20)	(20)
Cash flow from investing activities	(2)	1	(20)	(20)	(20)
Dividends paid	(72)	(79)	(87)	(91)	(94)
Cash flow from financing activities	(176)	(243)	(97)	(101)	(105)
Cash at beginning of period	193	191	174	161	188
Net change in cash	(1)	(12)	(13)	27	29
Ending balance cash	191	179	161	188	217

Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total cash and equivalents	191	174	161	188	217
Tangible fixed assets	2,813	2,818	2,835	2,852	2,869
Total assets	3,514	3,512	3,519	3,566	3,615
Short-term debt	190	153	153	153	153
Total long-term debt	704	624	624	624	624
Total liabilities	1,103	1,053	1,021	1,028	1,035
Total equity	2,412	2,459	2,498	2,538	2,580
Total liabilities & equity	3,514	3,512	3,519	3,566	3,615

Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Revenue growth (%)	61.3	6.3	(0.5)	3.0	3.0
Recurrent EPS growth (%)	693.2	21.1	(0.7)	4.2	4.1
Gross margin (%)	15.8	15.0	13.8	14.1	14.1
Operating EBITDA margin (%)	10.7	9.3	9.2	9.3	9.4
Net profit margin (%)	5.0	5.8	5.8	5.9	5.9
Dividend payout ratio (%)	71.1	68.6	70.0	70.0	70.0
Capex/sales (%)	0.7	0.7	0.9	0.9	0.9
Interest cover (x)	4.54	17.82	18.77	19.51	20.27

Source: Company data, RHB

Results at a Glance

Figure 1: Magnum jackpot prize

		4Q2022	3Q2023	4Q2023	QoQ	YoY	FY2022	FY2023	YoY
	Draws	48	41	42	2%	-13%	179	165	-8%
	Special Draws	8	2	2	0%	-75%	22	8	-64%
Average jackpot size	**4D Jackpot**	7,388,435	8,986,077	12,209,664	36%	65%	7,039,075	9,725,556	38%
	4D Jackpot Gold	8,043,490	6,919,116	3,901,140	-44%	-51%	8,069,228	7,217,550	-11%
	Total	**15,431,926**	**15,905,193**	**16,110,804**	**1%**	**4%**	**15,108,303**	**16,943,105**	**12%**

Source: Company, RHB

Figure 2: Earnings review

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Revenue	**538.9**	**520.5**	**556.3**	**6.9**	**3.2**	**2,031.1**	**2,159.9**	**6.3**	FY23 ticket sales recovered to 80% of pre-pandemic levels.
Gross Profit	**81.5**	**65.6**	**94.3**	**43.7**	**15.8**	**320.4**	**324.2**	**1.2**	
GP margin (%)	*15.1*	*12.6*	*17.0*			15.8	*15.0*		
Adjusted EBITDA	**61.5**	**46.8**	**66.4**	**41.9**	**8.1**	**217.8**	**232.3**	**6.6**	
Adjusted EBITDA margin (%)	*11.4*	*9.0*	*11.9*			10.7	*10.8*		
Depreciation	(2.1)	(2.3)	(2.3)	0.5	13.3	(9.8)	(9.6)	(2.0)	
Adjusted EBIT	**59.4**	**44.5**	**73.7**	**65.7**	**24.1**	**208.0**	**232.3**	**11.7**	
EBIT margin (%)	*11.0*	*8.5*	*13.2*			10.2	*10.8*		
Interest Expense	(9.7)	(11.1)	(11.2)	0.4	15.4	(45.8)	(44.4)	(3.0)	
EI/Others	6.7	6.5	(3.4)	Nm	Nm	(2.3)	0.5	Nm	Disposal of PPE and changes in fair value of investment securities.
Reported PBT	**56.5**	**39.8**	**59.2**	**48.5**	**4.8**	**159.9**	**188.4**	**17.8**	
Tax	(19.2)	(9.7)	(22.4)	130.7	16.6	(58.8)	(61.4)	4.5	
Effective tax rate (%)	*34.0*	*24.4*	*37.9*			36.8	*32.6*		
Minority Interest	0.3	(0.3)	(0.2)	(42.1)	Nm	(0.5)	(1.2)	159.4	
Net Profit	**37.5**	**29.8**	**36.6**	**22.7**	**(2.6)**	**100.7**	**125.8**	**24.9**	
Core Profit	**30.8**	**23.3**	**39.9**	**71.4**	**29.7**	**103.0**	**125.2**	**21.6**	Above expectations.
Core net margin (%)	*5.7*	*4.5*	*7.2*			5.1	*5.8*		

Source: Company, RHB

Figure 3: DCF valuation

FYE Dec	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY32F
EBIT	195	203	211	217	223	229	236	242	249	257
EBIT*(1-tax rate)	136	141	147	151	155	159	164	168	173	178
Add: D&A	2	2	2	3	3	3	3	4	4	4
Less: WC investments (WC Inv)	-34	4	4	4	5	5	5	5	5	5
Less: Fixed investments (FC Inv)	-20	-20	-20	-20	-20	-20	-20	-20	-20	-20
FCFF	83	127	133	137	142	147	152	157	162	167
Disc. FCFF	77	109	105	100	95	91	87	83	79	75
Terminal value at T=10	2308									
PV of terminal value	1039									
NPV	900									
(-) Debt	-703									
(-) Minority Interest	0									
Equity Value	1236									
(+) Unquoted Investment Securities at book value	385									
Total value	1621									
ESG premium/discount	0%									
Fair Value per share	**1.13**									
Implied FY24F P/E	13.0									
Rf	4.0%									
Beta	0.9									
Risk premium	8.0%									
Rm	12.0%									
TG (%)	1.0%									
CoE	11.4%									
CoD	4.0%									
WACC	8.3%									

Source: RHB

Emissions And ESG

Trend analysis
na

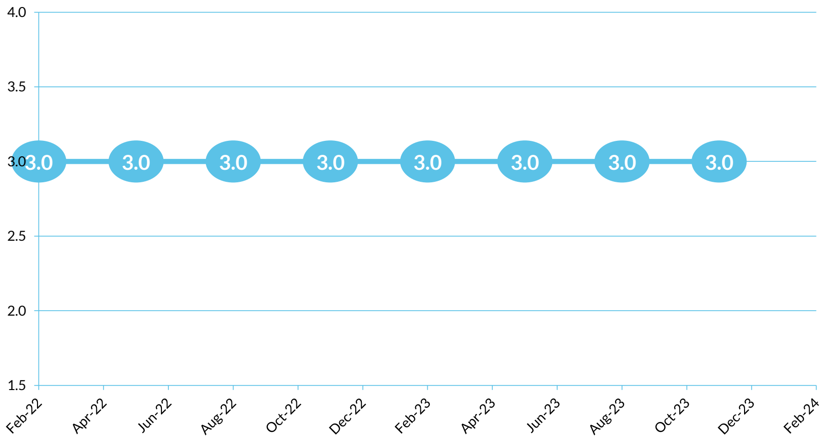
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	-	-	-
Scope 2	-	-	-
Scope 3	-	-	-
Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

- Magnum incorporates climate risks, such as catastrophic losses linked to extreme weather events, into the group's insurance policy.

ESG Rating History



Source: RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-23	Sell	0.90	1.14
2023-10-17	Neutral	1.14	1.10
2023-08-18	Neutral	1.19	1.16
2023-05-19	Neutral	1.04	1.02
2023-04-05	Neutral	1.06	1.12
2023-03-01	Neutral	1.23	1.23
2022-12-06	Neutral	1.27	1.31
2022-11-25	Neutral	1.31	1.38
2022-08-19	Neutral	1.55	1.66
2022-06-01	Buy	2.01	1.77
2022-05-20	Neutral	1.95	1.80
2022-02-25	Buy	2.51	1.87
2021-11-26	Buy	2.58	1.97
2021-11-15	Buy	2.58	2.05
2021-11-09	Buy	2.58	2.12

Source: RHB, Bloomberg

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470