11 August 2025

Consumer Cyclical | Gaming

Gaming - NFO

Neutral (Maintained)

Expecting Softer Quarters Ahead

Stocks Covered	2
Rating (Buy/Neutral/Sell):	0/2/0
Last 12m Earnings Revision Trend:	Negative

- **We believe the at-mean valuation of number forecast operators (NFOs) is fair,** reflecting their defensive nature and limited growth catalysts, while offering an attractive 5-7% yield. Among the stocks, we favour Sports Toto (SPTOTO) for its compelling valuation and superior yield. It stands out as a top choice for investors seeking high income stability with limited upside from growth drivers in the sector, making it a strong defensive stock pick. We remain NEUTRAL on the sector.
- **Outlook.** Ticket sales are expected to normalise sequentially following the strong 1Q25 performance, which was boosted by the Lunar New Year and high jackpot run. Beyond the immediate term, our channel checks indicate that illegal NFOs continue to pose strong competition, having gained market share during the COVID-19 pandemic and after the suspension of legal operations in the northern states. The NFOs are currently awaiting a court decision to resume operations there, which would help them regain some lost ground. While stricter enforcement against illegal NFOs and the legalisation of online gaming could be potential catalysts for the sector, these measures do not appear to be a priority for the Government, at this stage.
- **Another national carnival for SPTOTO's jackpot?** As at 8 Aug 2025, the total prize money for Supreme Toto 6/58 jackpot, the largest of SPTOTO's eight games, stands at MYR72.3m – with the potential to spark another nationwide betting frenzy in 2H2025, and driving ticket sales to the Jan 2025 high levels. Recall that 3QFY25 (Jun) revenue surged to MYR1.91b (+12.5% YoY), contributed by average sales per draw of MYR20.9m. This resulted in a 54.3% net profit growth to MYR105.7m, on the back of a MYR121.7m jackpot prize in Jan 2025. This could be the upside risk to our current assumption of a normalised average sales per draw of MYR17.7m. Meanwhile, the massive jackpot prize is likely to attract a younger demographic drawn to a gamified lottery experience, potentially regaining market share from the illegal operators. Should the jackpot growth sustain, it could enhance SPTOTO's profitability for FY26F, bolstering the stock's 5-7% yield appeal.
- **SPTOTO dividends resilient despite HR Owen challenges.** SPTOTO's HR Owen is expected to encounter ongoing challenges due to weak economic conditions, high inflation, and elevated interest rates in the UK. However, as SPTOTO mainly relies on its lottery operations to finance dividend payments, the issues at HR Owen are unlikely to materially affect its dividend distributions.
- **Monetisation of Magnum's stake in U Mobile.** Magnum's 6.3% stake in U Mobile currently has a book value of MYR385.4m. With U Mobile targeting an IPO valuation of MYR10bn, the value of Magnum's stake could rise to MYR633m – potentially adding an additional 12% upside to our MYR1.29 TP.
- **Key downside sector risks** include unfavourable luck factor and policies, as well as softer-than-expected ticket sales. The converse represents the upside risks.

Top Pick	**Target Price**
Sports Toto (SPTOTO MK) – NEUTRAL	MYR1.47

Analysts

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

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

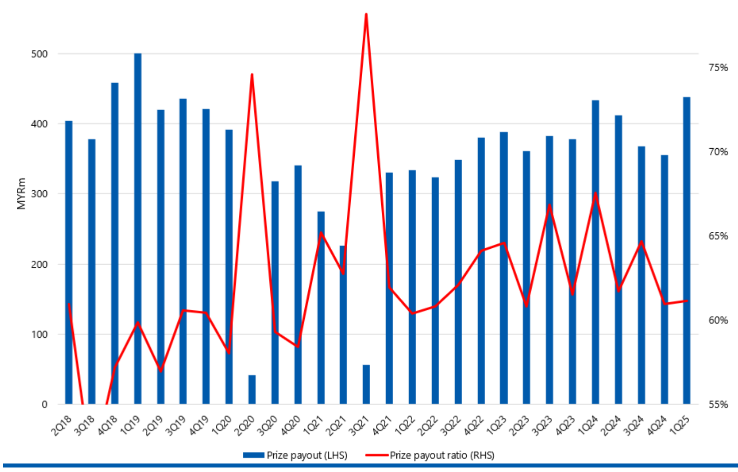
Figure 1: Jackpot prize pool

Source: Company data

Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-25F	P/B (x) Dec-25F	ROAE (%) Dec-25F	Yield (%) Dec-25F
Magnum	Neutral	1.29	(2.1)	12.9	0.7	5.8	5.4
Sports Toto	Neutral	1.47	9.6	8.1	1.4	17.4	6.9

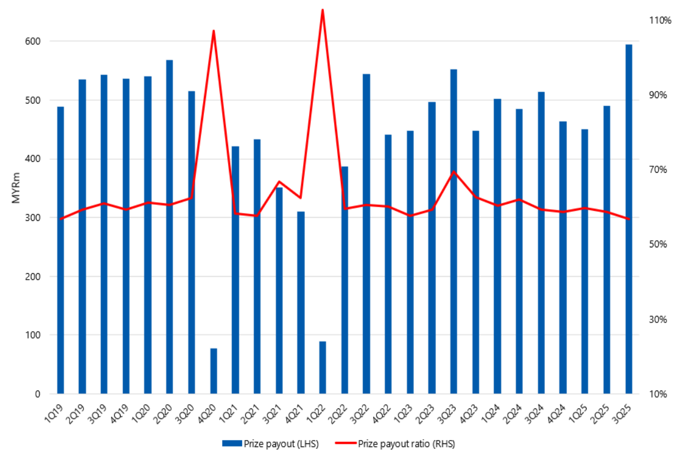
Source: Company data, RHB

Figure 2: Magnum's prize payout trend



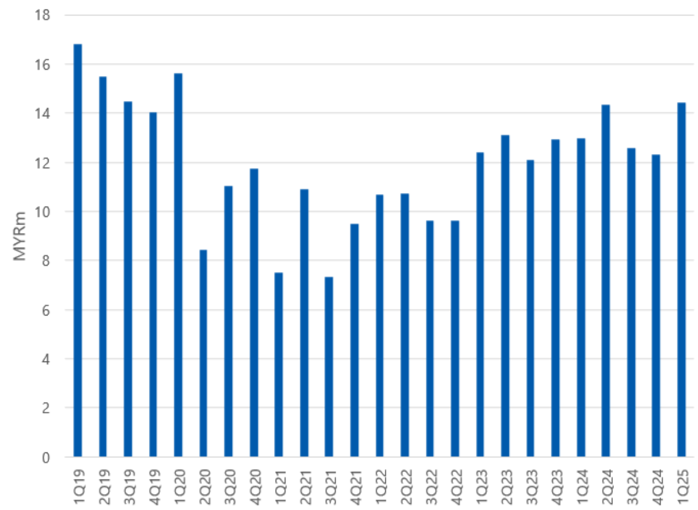
Source: Company data, RHB

Figure 3: SPTOTO's prize payout trend



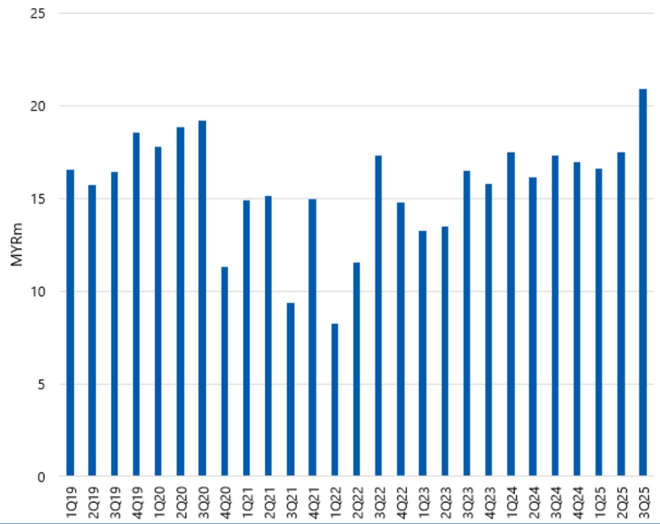
Source: Company data, RHB

Figure 4: Magnum's sales per draw trend



Source: Company data, RHB

Figure 5: SPTOTO's sales per draw trend



Source: Company data, RHB

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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 5093 9888
Fax : +6221 5093 9777

SINGAPORE

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