

23 November 2023

# Magnum (MAG MK)

## Subpar Dividend Stock; Downgrade To SELL

- **D/G to SELL from Neutral, new MYR0.90 TP (DCF) from MYR1.14, 22% downside, 4% yield.** While the 9M23 results surpassed our expectations on better-than-expected sales, the dividend payout fell short. We downgrade the stock to due to its persistently high above average prize payouts for 11 consecutive quarters (potentially impacting future earnings) along with its conservative dividend distribution relative to positive net cash flow. We prefer Sports Toto (SPTOTO MK, NEUTRAL, TP: MYR1.60) on valuation grounds and superior dividend yield.
- **Dividends disappoint yet again.** 9M23 core earnings accounted for 82% and 58% of our and Street's full-year estimates. This deviation was on higher-than-expected ticket sales due to our prior conservative forecasts, considering the consistent quarters of earnings disappointments attributed to lower-than-expected sales and higher-than-expected prize payouts. Magnum declared a third interim DPS of 1 sen (3Q22: 1 sen) and will go ex-dividend on 6 Dec, bringing YTD DPS to 4 sen – below expectations.
- **Results review.** Despite the lower number of draws (9M23: 122, 9M22: 131), 9M23 revenue rose 7.5% YoY on sales recoveries post the economic reopening. YoY, 3Q23 revenue rose 2.2% to MYR520.5m, at 77% of pre-pandemic levels (3Q22: 75%). However, 3Q23 EBITDA margin shrank 0.6ppts to 9% due to a higher prize payout of 65% (3Q22: 63%). QoQ, 3Q23 revenue dipped 3.1% on lower footfall as a result of decreased average jackpot prizes (Figure 2). This, along with a relatively higher prize payout (2Q23: 63%), led to core profit falling 43% QoQ to MYR23.3m.
- **Outlook.** We think the sector is impacted by competition from illegal number forecast operators (NFOs) while facing a structural decline due to reduced interest in ticket purchases among the younger generation. For meaningful ticket sales recovery and growth, Magnum would need the legalisation of online gaming and/or stricter regulations against illegal NFOs. Additionally, we are caution that the above-average prize payout ratio may further pose further downside risks to earnings and dividends.
- **Forecast.** Post results, we lift our Street-low FY23F earnings by 7% after imputing higher sales assumptions but cut our dividend payout estimates. We also cut our FY24-25F earnings by c.7% after assuming higher-prize payouts as we think there could be a change in the payout structure given the slow sales recovery. Our TP is lowered to MYR0.90 after raising our risk premium assumption to account for the risk of further high-prize payout, which implies 11.5x FY24F P/E, broadly in line with the valuation ascribed to closest peer Sports Toto. Our TP includes a 0% ESG premium/discount.
- **Downgrade to SELL** due to its persistently high prize payout, low dividend distribution at relatively unattractive yields, and lack of exciting catalysts. Upside risks: Favourable luck factor and policies, and higher-than-expected ticket sales. Although it is speculative, the strong cash flow yields and low dividend payout may be a prelude to an M&A or privatisation angle.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	1,260	2,031	2,173	2,196	2,218
Recurring net profit (MYRm)	13	103	111	112	113
Recurring net profit growth (%)	(68.4)	693.2	7.6	0.6	1.0
Recurring P/E (x)	126.74	15.98	14.86	14.77	14.62
P/B (x)	0.7	0.7	0.7	0.7	0.7
P/CF (x)	143.81	9.36	11.01	9.79	9.66
Dividend Yield (%)	1.3	4.3	4.3	4.3	5.2
EV/EBITDA (x)	25.21	10.91	10.24	10.01	9.80
Return on average equity (%)	0.0	4.3	4.6	4.6	4.6
Net debt to equity (%)	31.7	29.1	28.1	26.3	25.3

Source: Company data, RHB

# Malaysia Results Review

Consumer Cyclical | Gaming

**Sell** (from Neutral)

Target Price (Return):	MYR0.90 (-21.8%)
Price (Market Cap):	MYR1.15 (USD353m)
ESG score:	3.0 (out of 4)
Avg Daily Turnover (MYR/USD)	0.91m/0.19m

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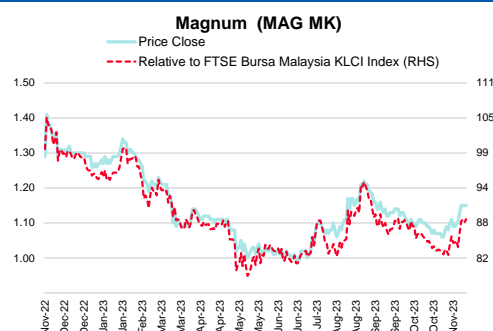


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## Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(10.9)	5.5	(0.9)	11.7	(14.8)
Relative	(8.2)	4.5	(1.2)	9.1	(15.8)
52-wk Price low/high (MYR)				1.00 – 1.41	



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

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Malaysia	Recurring EPS	0.01	0.07	0.08	0.08	0.08
Consumer Cyclical	DPS	0.02	0.05	0.05	0.05	0.06
<b>Magnum</b>	BVPS	1.64	1.66	1.69	1.72	1.74
MAG MK	Return on average equity (%)	0.0	4.3	4.6	4.6	4.6
Sell						
	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Valuation basis</b>	Recurring P/E (x)	126.74	15.98	14.86	14.77	14.62
DCF	P/B (x)	0.7	0.7	0.7	0.7	0.7
	FCF Yield (%)	0.4	9.8	7.9	9.0	9.1
<b>Key drivers</b>	Dividend Yield (%)	1.3	4.3	4.3	4.3	5.2
i. Ticket sales;	EV/EBITDA (x)	25.21	10.91	10.24	10.01	9.80
ii. Luck factor.	EV/EBIT (x)	28.70	11.42	10.72	10.52	10.35
<b>Key risks</b>	<b>Income statement (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Upside risks: Favourable luck factor and policies, and higher-than-expected ticket sales.	Total turnover	1,260	2,031	2,173	2,196	2,218
	Gross profit	166	320	358	363	368
<b>Company Profile</b>	EBITDA	96	218	231	233	236
Magnum is engaged in the gaming or numbers forecasting lottery business.	Depreciation and amortisation	(12)	(10)	(10)	(11)	(13)
	Operating profit	85	208	220	221	223
	Net interest	(47)	(46)	(44)	(44)	(44)
	Pre-tax profit	25	160	176	177	179
	Taxation	(27)	(59)	(65)	(65)	(66)
	Reported net profit	0	101	111	112	113
	Recurring net profit	13	103	111	112	113
	<b>Cash flow (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Change in working capital	(26)	7	(16)	1	1
	Cash flow from operations	11	177	150	169	171
	Capex	(5)	(15)	(20)	(20)	(20)
	Cash flow from investing activities	(4)	(2)	(20)	(20)	(20)
	Dividends paid	0	0	(72)	(72)	(86)
	Cash flow from financing activities	(76)	(176)	(116)	(116)	(131)
	Cash at beginning of period	273	193	191	205	238
	Net change in cash	(68)	(1)	14	33	20
	Ending balance cash	204	191	205	238	258
	<b>Balance sheet (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total cash and equivalents	193	191	205	238	258
	Tangible fixed assets	2,815	2,813	2,822	2,831	2,838
	Total assets	3,510	3,514	3,549	3,591	3,620
	Short-term debt	175	190	190	190	190
	Total long-term debt	774	704	704	704	704
	Total liabilities	1,126	1,103	1,098	1,100	1,102
	Total equity	2,384	2,412	2,451	2,491	2,518
	Total liabilities & equity	3,510	3,514	3,549	3,591	3,620
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	(24.7)	61.3	7.0	1.0	1.0
	Recurrent EPS growth (%)	(68.4)	693.2	7.6	0.6	1.0
	Gross margin (%)	13.2	15.8	16.5	16.5	16.6
	Operating EBITDA margin (%)	7.7	10.7	10.6	10.6	10.6
	Net profit margin (%)	0.0	5.0	5.1	5.1	5.1
	Dividend payout ratio (%)	11716.1	71.1	64.6	64.2	76.3
	Capex/sales (%)	0.4	0.7	0.9	0.9	0.9
	Interest cover (x)	1.82	4.54	4.96	4.98	5.02

Source: Company data, RHB

## Results at a Glance

Figure 1: Earnings review

FYE Dec (MYRm)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	Comments
<b>Revenue</b>	<b>509.0</b>	<b>537.1</b>	<b>520.5</b>	<b>(3.1)</b>	<b>2.2</b>	<b>1,492.2</b>	<b>1,603.6</b>	<b>7.5</b>	Ticket sales remain at c.80% of pre-pandemic levels.
<b>Gross profit</b>	<b>76.7</b>	<b>96.0</b>	<b>186.1</b>	<b>93.9</b>	<b>142.6</b>	<b>239.0</b>	<b>350.3</b>	<b>46.6</b>	
<i>GP margin (%)</i>	<i>15.1</i>	<i>17.9</i>	<i>35.8</i>			<i>16.0</i>	<i>21.8</i>		
<b>Adjusted EBITDA</b>	<b>44.0</b>	<b>68.2</b>	<b>56.7</b>	<b>(16.8)</b>	<b>28.9</b>	<b>140.8</b>	<b>165.9</b>	<b>17.8</b>	Depreciation of PPE and changes in fair value of investment securities.
<i>Adjusted EBITDA margin (%)</i>	<i>8.6</i>	<i>12.7</i>	<i>10.9</i>			<i>9.4</i>	<i>10.3</i>		
Depreciation	2.5	2.4	(12.2)	Nm	Nm	7.8	(7.3)	Nm	
<b>Adjusted EBIT</b>	<b>46.5</b>	<b>70.6</b>	<b>44.5</b>	<b>(37.0)</b>	<b>(4.4)</b>	<b>148.6</b>	<b>158.6</b>	<b>6.7</b>	
<i>EBIT margin (%)</i>	<i>9.1</i>	<i>13.1</i>	<i>8.5</i>			<i>10.0</i>	<i>9.9</i>		
Interest expense	(13.0)	(11.0)	(11.1)	(0.9)	14.4	(36.1)	(33.2)	8.0	
El/others	(0.7)	2.8	6.5	134.1	Nm	(9.1)	3.9	Nm	
<b>Reported PBT</b>	<b>32.9</b>	<b>62.3</b>	<b>39.8</b>	<b>(36.1)</b>	<b>21.3</b>	<b>103.5</b>	<b>129.3</b>	<b>25.0</b>	
Tax	(12.4)	(18.4)	(9.7)	47.1	21.9	(39.6)	(39.0)	1.3	
<i>Effective tax rate (%)</i>	<i>37.8</i>	<i>29.4</i>	<i>24.4</i>			<i>38.2</i>	<i>30.2</i>		
Minority interest	(0.4)	(0.3)	(0.3)	1.2	6.1	(0.8)	(1.0)	(34.4)	
<b>Net profit</b>	<b>20.1</b>	<b>43.6</b>	<b>29.8</b>	<b>(31.7)</b>	<b>48.5</b>	<b>63.1</b>	<b>89.2</b>	<b>41.3</b>	
<b>Core Profit</b>	<b>20.7</b>	<b>40.9</b>	<b>23.3</b>	<b>(43.0)</b>	<b>12.4</b>	<b>72.2</b>	<b>85.3</b>	<b>18.2</b>	
<i>Core net margin (%)</i>	<i>4.1</i>	<i>7.6</i>	<i>4.5</i>			<i>4.8</i>	<i>5.3</i>		

Source: Company data, RHB

Figure 2: Magnum jackpot prize

		3Q22	2Q23	3Q23	QoQ	YoY	9M22	9M23	YoY
	<b>Draws</b>	46	40	41	2%	-11%	131	122	-7%
	<b>Special Draws</b>	7	1	2	100%	-71%	14	6	-57%
<b>Average jackpot size</b>	<b>4D Jackpot</b>	6,378,227	12,867,995	8,986,077	-30%	41%	6,624,589	9,288,826	40%
	<b>4D Jackpot Gold</b>	8,446,479	9,208,328	6,919,116	-25%	-18%	8,026,072	8,266,015	3%
	<b>Total</b>	<b>14,824,706</b>	<b>22,076,322</b>	<b>15,905,193</b>	<b>-28%</b>	<b>7%</b>	<b>14,650,660</b>	<b>17,554,841</b>	<b>20%</b>

Source: Company data, RHB

Figure 3: DCF valuation

FYE Dec	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY32F
EBIT	221	223	225	227	229	230	232	234	236	238
EBIT*(1-tax rate)	156	157	159	160	161	162	163	164	166	167
Add: D&A	9	11	12	13	14	15	16	17	19	20
Less: WC investments (WC Inv)	1	1	1	1	1	1	1	1	1	-59
Less: Fixed investments (FC Inv)	-20	-20	-20	-20	-20	-20	-20	-20	-20	-20
FCFF	147	149	151	154	156	158	161	163	165	107
Disc. FCFF	135	126	118	110	103	96	90	84	79	47
Terminal value at T=10	1418									
PV of terminal value	620									
NPV	989									
(-) Debt	-703									
(-) Minority Interest	0									
Equity Value	907									
(+) Unquoted Investment Securities at book value	385									
Total value	1292									
ESG premium/discount	0%									
<b>Fair Value per share</b>	<b>0.90</b>									
Implied FY24F P/E	11.5									
Rf	4.0%									
Beta	1.0									
Risk premium	8.0%									
Rm	12.0%									
TG (%)	1.0%									
CoE	11.9%									
CoD	4.0%									
WACC	8.6%									

Source: RHB

Emissions And ESG

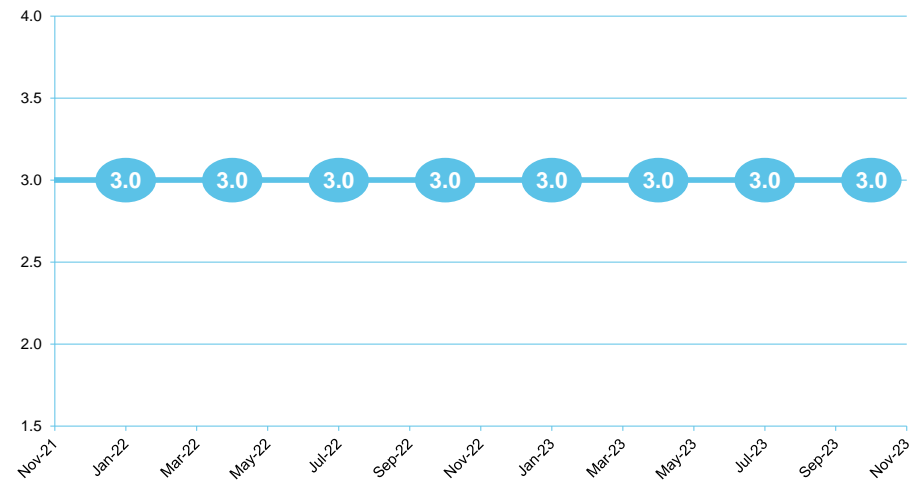
Trend analysis	Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
na	Scope 1	-	-	-
	Scope 2	-	-	-
	Scope 3	-	-	-
	Total emissions	na	na	na

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 policies.

ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-09-14	Buy	2.61	2.06

Source: RHB, Bloomberg

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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<b>Not Rated:</b>	Stock is not within regular research coverage

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