

6 December 2022

Consumer Cyclical | Gaming

Sports Toto (SPTOTO MK)

Buy (Maintained)

Lower Number Of Special Draw Days; Stay BUY

- **BUY, new MYR2.07 TP from MYR2.10, 29% upside with c.7% FY23F (Jun) yield.** Yesterday, the prime minister cut the number of special draw days for 2023 to eight, from 22. As special draws tend to fetch lower margins, this lower number of days will also crimp earnings. We cut FY23-25F earnings by 3% pa, but maintain our call – despite the heightened regulatory uncertainties and risks, there is still a possibility that the Government may tighten enforcement against illegal number forecast operators (NFO) to compensate for the lower tax revenues.
- **Decrease in special draw days.** Yesterday, the Prime Minister Datuk Seri Anwar Ibrahim announced that the number of special draw days allowed for 2023 has been decreased to eight, from 22. Earlier this year, in end-May, the Government had increased the number of special draw days to 22 days from 11 days. We have adjusted our assumptions to reflect eight special draw days a year into perpetuity.
- **Less special draw days = a smaller government revenue source.** Special draws tend to fetch lower margins vs normal draws, as NFOs have to pay an additional 10% as a special contribution to the Government on all special draw gross ticket sales (after deducting the 8% gaming tax). Historically, previous administrations have turned to special draws to shore up their coffers.
- **Forecasts.** To reflect the assumption of the decrease in the number of special draw days to eight (vs 22 previously) from 2023 onwards (into all future years), we also pare down Sports Toto's FY23-25F earnings by 3% each year.
- **Minor impact, still BUY.** The earnings reduction only shaves down our DCF-based TP to MYR2.07 from MYR2.10. Our TP includes a 0% ESG premium/discount as per our in-house proprietary methodology, as SPTOTO's ESG score is on par with the country median. We think the expectation of lower earnings is already in the price. We also highlight that, despite the increase in the number of special draw days in end-May, there was no significant improvement in SPTOTO's 1QFY23 earnings. We make no change to our BUY rating, premised on its handsome 7% dividend yield. While we recognise that regulatory uncertainty and risks remain, we do not rule out the possibility of favourable policies in the future, ie the potential ramp-up in enforcement efforts against illegal NFOs.
- **Key downside risks to our call** include adverse regulatory changes against the NFOs, the reduction in the number of special draw days, negative effects of any change in gaming taxes, and a worsening luck factor.

Forecasts and Valuation	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total turnover (MYRm)	4,829	5,233	5,768	5,890	6,012
Recurring net profit (MYRm)	175	162	212	221	232
Recurring net profit growth (%)	37.9	(7.4)	31.0	4.6	4.7
Recurring P/E (x)	12.39	13.37	10.21	9.76	9.32
P/B (x)	2.7	2.4	2.2	2.1	2.1
P/CF (x)	4.31	5.31	11.02	6.44	6.18
Dividend Yield (%)	5.0	5.4	6.6	8.1	9.4
EV/EBITDA (x)	6.72	6.68	5.55	5.35	5.12
Return on average equity (%)	23.4	18.9	22.8	22.4	22.6
Net debt to equity (%)	79.1	70.8	54.4	51.4	48.9

Source: Company data, RHB

Target Price (Return):	MYR2.07 (+29%)
Price (Market Cap):	MYR1.60 (USD492m)
ESG score:	3.00 (out of 4)
Avg Daily Turnover (MYR/USD)	1.98m/0.42m

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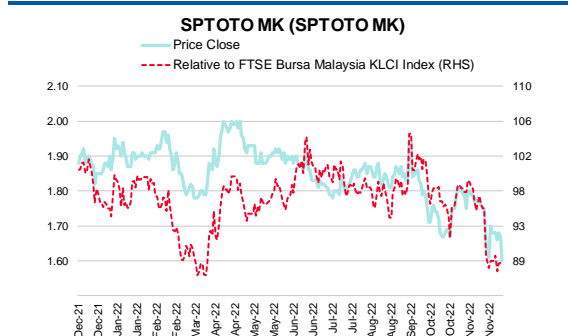


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(15.8)	(11.1)	(14.4)	(15.4)	(13.5)
Relative	(10.3)	(14.1)	(13.9)	(11.7)	(12.2)
52-wk Price low/high (MYR)	1.60 – 2.00				



Source: Bloomberg

Overall ESG Score: 3.00 (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

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% of women in it.

Note:

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

Financial Exhibits

Asia	Financial summary (MYR)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Malaysia	Recurring EPS	0.13	0.12	0.16	0.16	0.17
Consumer Cyclical	DPS	0.08	0.09	0.11	0.13	0.15
Sports Toto	BVPS	0.60	0.66	0.71	0.75	0.77
SPTOTO MK	Return on average equity (%)	23.4	18.9	22.8	22.4	22.6
Buy						
Valuation basis	Valuation metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
DCF, with the following assumptions:	Recurring P/E (x)	12.39	13.37	10.21	9.76	9.32
i. WACC of 8.8%	P/B (x)	2.7	2.4	2.2	2.1	2.1
ii. Terminal growth of 0.5%.	FCF Yield (%)	19.9	12.5	5.8	12.3	12.9
	Dividend Yield (%)	5.0	5.4	6.6	8.1	9.4
Key drivers	EV/EBITDA (x)	6.72	6.68	5.55	5.35	5.12
i. Ticket sales growth;	EV/EBIT (x)	8.14	8.32	6.71	6.51	6.32
ii. Improvement in luck factor						
Key risks	Income statement (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
i. Another wave of COVID-19 infections leading to outlet closures;	Total turnover	4,829	5,233	5,768	5,890	6,012
ii. Negative effect of any changes in gaming taxes;	Gross profit	823	1,115	1,228	1,254	1,280
iii. Weaker-than-expected overseas contribution;	EBITDA	386	389	448	463	482
iv. Reduction in the number of special draw days.	Depreciation and amortisation	(67)	(77)	(77)	(82)	(91)
	Operating profit	319	312	370	381	391
	Net interest	(44)	(65)	(56)	(51)	(46)
	Pre-tax profit	283	272	322	337	353
	Taxation	(96)	(101)	(106)	(111)	(117)
	Reported net profit	181	161	212	221	232
	Recurring net profit	175	162	212	221	232
Company Profile	Cash flow (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Sports Toto is one of the largest number forecast operators in Malaysia. It also has a presence in the Philippines' gaming market.	Change in working capital	81	2	(158)	(29)	(29)
	Cash flow from operations	502	407	196	335	350
	Capex	(71)	(138)	(70)	(70)	(70)
	Cash flow from investing activities	(156)	(113)	(70)	(70)	(70)
	Dividends paid	(87)	(47)	(142)	(176)	(203)
	Cash flow from financing activities	(393)	29	(306)	(315)	(338)
	Cash at beginning of period	308	364	559	575	500
	Net change in cash	(47)	323	(180)	(49)	(58)
	Ending balance cash	268	675	379	526	443
	Balance sheet (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Total cash and equivalents	364	559	575	500	431
	Tangible fixed assets	629	554	547	535	514
	Total investments	324	301	305	309	312
	Total assets	2,864	3,112	3,151	3,109	3,064
	Short-term debt	551	280	236	206	176
	Total long-term debt	505	956	900	850	800
	Total liabilities	1,989	2,155	2,120	2,027	1,948
	Total equity	875	957	1,032	1,082	1,116
	Total liabilities & equity	2,864	3,112	3,151	3,109	3,064
	Key metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Revenue growth (%)	4.2	8.4	10.2	2.1	2.1
	Recurrent EPS growth (%)	37.9	(7.4)	31.0	4.6	4.7
	Gross margin (%)	17.0	21.3	21.3	21.3	21.3
	Operating EBITDA margin (%)	8.0	7.4	7.8	7.9	8.0
	Net profit margin (%)	3.8	3.1	3.7	3.8	3.9
	Dividend payout ratio (%)	59.6	72.8	67.0	79.3	87.4
	Capex/sales (%)	1.5	2.6	1.2	1.2	1.2
	Interest cover (x)	5.25	4.80	5.78	6.43	7.13

Source: Company data, RHB

Figure 1: DCF valuation

FYE Jun (MYRm)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
EBIT	312.4	370.5	380.8	391.2	392.1	393.0	393.8	394.7	395.5	396.4
EBIT x (1-Tax)	196.0	248.2	255.2	262.1	262.7	263.3	263.9	264.4	265.0	265.6
(+) Depreciation & amortisation	76.7	77.0	82.5	91.3	98.8	106.5	114.6	122.8	131.4	140.2
(-) Capex	-	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)
(-) Working capital requirements	2.1	(157.5)	(28.6)	(29.5)	(24.8)	(25.1)	(25.4)	(25.8)	(26.1)	(26.5)
Free cash flow	274.8	97.8	239.0	253.9	266.7	274.7	283.0	291.5	300.3	309.4
NPV of free cash flow	274.8	89.9	202.1	197.4	190.6	180.5	171.0	161.9	153.4	145.3
Key assumptions										
Terminal growth	0.5%									
Terminal value	1,793.2									
WACC										
Beta	0.97									
Expected market return	11.9%									
Risk-free rate	4.0%									
Cost of equity	11.6%									
Equity weighting	59.8%									
Cost of debt	6.5%									
Effective tax rate	30.0%									
Firm value	3,422.1									
(-) net debt	(561.3)									
(-) minority interests	(66.1)									
Equity value	2,794.6									
Fair Value per share (MYR)	2.07									
ESG premium/discount	0%									
TP per share (MYR)	2.07									

Source: Company data, RHB

Recommendation Chart

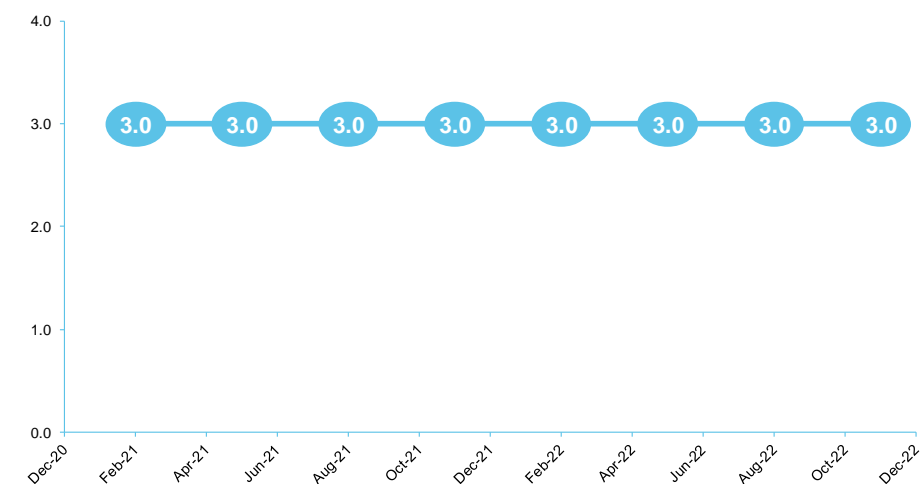


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-08-22	Buy	2.36	1.97
2021-08-05	Buy	2.23	1.92
2021-05-21	Buy	2.34	2.00
2021-05-12	Buy	2.34	2.02

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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