

1 June 2022

Consumer Cyclical | Gaming

Magnum (MAG MK)

Buy (from Neutral)

A Higher Number Of Special Draws; U/G To BUY

Target Price (Return): MYR2.01 (14.9%)
 Price (Market Cap): MYR1.75 (USD575m)
 ESG score: 3.00 (out of 4)
 Avg Daily Turnover (MYR/USD) 1.91m/0.45m

- Upgrade to BUY from Neutral, new MYR2.01 TP from MYR1.95, 15% upside.** On 30 May, [ChinaPress reported](#) that the number of special draw days allowed in 2022 has been increased to 22 days from 11 days. We are positive on this development, as it is earnings accretive. We see value emerging after the recent share price correction, as the stock now offers a decent 15% upside, with a boost from the increase in special draw days, and supported by a 5-6% yield.
- Increase in special draws.** On Monday, ChinaPress reported that the number of special draw days allowed in 2022 has been increased to 22 days from 11 days. The news article quoted sources from the number forecast operator (NFO) industry. To recap, when the Pakatan Harapan administration took office in 2019, it reduced the number of special draw days to 11 from 22, and further slashed it to eight days in 2020. Based on the news report, there will be a resumption to 22 special draw days per year. As there have only been five special draws YTD, this suggests that there will be 17 more in the remaining months of 2022. Figure 1 is a snapshot of the news article that illustrates the remaining special draws for the year.
- Recap of 1Q22 results.** 1Q22 core net profit fell short of our and Street's expectations, making up only 11% and 12% of full-year estimates. We suspect that the disappointing ticket sales were likely due to: i) Punters turning to Sports Toto (SPTOTO MK, BUY, TP: MYR2.23) during its historic Supreme 6/58 jackpot run, ii) the high number of COVID-19 Omicron cases in 1Q22, and iii) punters being financially worse off and/or having turned to illegal NFOs.
- Forecast.** After raising the number of special draw days to 22 in 2022 and for all future years, we increased Magnum's FY22-24F earnings by 2-3%. Note that special draws tend to be of lower margin vs normal draws, as the NFOs need to pay an additional 10% tax as a special contribution to the Government on all special draw gross ticket sales (after deducting the 8% gaming tax).
- Upgrade to BUY.** The higher earnings raised our DCF TP to MYR2.01 from MYR1.95. Our TP includes a 0% ESG premium/discount, based on its ESG score of 3.0, which is at the country median. We upgrade our rating, as: i) The stock price has slid 3% since the rating downgrade in our last report, now offering a decent capital upside of 15%, ii) the higher number of special draw days has yet to be priced in, in our view, and iii) the stock offers an FY23F yield of 6%.
- Key risks** include the reduction in the number of special draw days, another COVID-19 wave leading to outlet closures, changes in gaming taxes, and the luck factor.

Analysts

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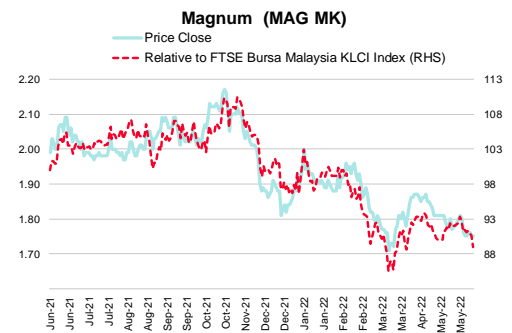


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.9)	(3.3)	(7.4)	(6.9)	(11.6)
Relative	(8.1)	(1.4)	(5.0)	(10.6)	(10.7)
52-wk Price low/high (MYR)	1.71 – 2.17				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	1,673	1,260	2,397	2,796	2,852
Recurring net profit (MYRm)	105	13	154	216	221
Recurring net profit growth (%)	(57.1)	(87.6)	1,079.8	40.2	2.6
Recurring P/E (x)	23.94	192.93	16.35	11.66	11.37
P/B (x)	1.1	1.1	1.1	1.0	1.0
P/CF (x)	31.09	212.85	11.56	9.51	9.12
Dividend Yield (%)	4.9	0.9	5.1	6.3	7.4
EV/EBITDA (x)	12.42	29.87	9.07	7.69	7.46
Return on average equity (%)	0.9	0.0	6.5	8.9	9.0
Net debt to equity (%)	28.0	31.7	30.3	27.7	26.2

Source: Company data, RHB

Overall ESG Score: 3.00 (out of 4)

E: EXCELLENT

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.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.07	0.01	0.11	0.15	0.15
Consumer Cyclical	DPS	0.09	0.01	0.09	0.11	0.13
Magnum	BVPS	1.66	1.64	1.66	1.70	1.73
MAG MK	Return on average equity (%)	0.9	0.0	6.5	8.9	9.0
Buy						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Recurring P/E (x)	23.94	192.93	16.35	11.66	11.37
	P/B (x)	1.1	1.1	1.1	1.0	1.0
	FCF Yield (%)	2.6	0.3	8.1	9.9	10.4
	Dividend Yield (%)	4.9	0.9	5.1	6.3	7.4
	EV/EBITDA (x)	12.42	29.87	9.07	7.69	7.46
	EV/EBIT (x)	13.19	34.00	9.43	7.97	7.75
	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total turnover	1,673	1,260	2,397	2,796	2,852
	Gross profit	300	166	480	561	572
	EBITDA	225	96	315	367	375
	Depreciation and amortisation	(13)	(12)	(12)	(13)	(14)
	Operating profit	212	85	303	354	361
	Net interest	(48)	(47)	(47)	(46)	(45)
	Pre-tax profit	144	25	256	308	316
	Taxation	(123)	(27)	(103)	(92)	(95)
	Reported net profit	21	0	154	216	221
	Recurring net profit	105	13	154	216	221
	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	2	(26)	5	(10)	(4)
	Cash flow from operations	81	12	218	264	276
	Capex	(15)	(5)	(15)	(15)	(15)
	Cash flow from investing activities	(56)	(52)	(62)	(61)	(60)
	Dividends paid	(107)	(29)	(129)	(158)	(187)
	Cash flow from financing activities	(60)	(31)	(144)	(173)	(202)
	Cash at beginning of period	307	273	193	204	235
	Net change in cash	(35)	(70)	12	31	14
	Ending balance cash	272	202	204	235	249
	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	273	193	204	235	249
	Tangible fixed assets	83	77	80	82	83
	Total investments	400	389	389	389	389
	Total assets	3,576	3,511	3,520	3,563	3,582
	Short-term debt	190	175	175	175	175
	Total long-term debt	759	774	759	744	729
	Total liabilities	1,161	1,127	1,112	1,097	1,082
	Total equity	2,415	2,384	2,409	2,466	2,501
	Total liabilities & equity	3,576	3,511	3,520	3,563	3,582
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(38.2)	(24.7)	90.3	16.7	2.0
	Recurrent EPS growth (%)	(57.1)	(87.6)	1079.8	40.2	2.6
	Gross margin (%)	17.9	13.2	20.0	20.1	20.1
	Operating EBITDA margin (%)	13.4	7.7	13.1	13.1	13.1
	Net profit margin (%)	1.3	0.0	6.4	7.7	7.8
	Dividend payout ratio (%)	578.1	11714.7	84.1	73.3	84.5
	Capex/sales (%)	0.9	0.4	0.6	0.5	0.5
	Interest cover (x)	4.42	1.82	6.50	7.72	8.00

Source: Company data, RHB

Figure 1: NFO special draws from Jun 2022 to Dec 2022

2022年6月至12月的特别开彩日 (星期二)	Special draw days from Jun 2022 to Dec 2022 (Tuesdays)
6月14日 (新增)	14 June (New)
6月28日 (新增)	28 June (New)
7月19日 (新增)	19 July (New)
7月26日	26 July
8月2日	2 August
8月9日 (新增)	9 August (New)
8月16日 (新增)	16 August (New)
9月6日 (新增)	6 September (New)
9月27日	27 September
10月18日 (新增)	18 October (New)
10月25日	25 October
11月15日 (新增)	15 November (New)
11月22日 (新增)	22 November (New)
11月29日	29 November
12月6日 (新增)	6 December (New)
12月20日 (新增)	20 December (New)
12月27日	27 December

Source: ChinaPress, RHB

Figure 2: Magnum's DCF valuation

FYE Dec (MYRm)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
EBIT	303	354	361	365	368	372	376	380	396	412
EBIT x (1-Tax)	193	248	253	255	258	260	263	266	277	288
(+) Depreciation & amortisation	12	13	14	15	16	17	17	18	19	20
(-) Capex	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)
(-) Working capital requirements	5	(10)	(4)	(6)	(6)	(6)	(6)	(6)	(8)	(8)
Free cash flow	195	236	247	250	253	256	259	263	273	285
NPV of free cash flow	180	200	193	179	167	155	145	135	129	124
Key assumptions										
Terminal growth	0.5%									
Terminal value	1,644.5									
WACC	8.7%									
Beta	0.9									
Expected market return	10.9%									
Risk-free rate	4.0%									
Cost of equity	10.2%									
Equity weighting	75.0%									
Cost of debt	6.0%									
Effective tax rate	30.0%									
Firm value	3,251.1									
(-) net debt	(729.7)									
(-) minority interests	(21.3)									
Equity value	2,500.1									
(+) Unquoted Investment Securities	385.4									
Total value	2,885.5									
Intrinsic value per share (MYR)	2.01									
ESG premium/discount	0%									
TP per share (MYR)	2.01									

Source: Company data, RHB

Recommendation Chart

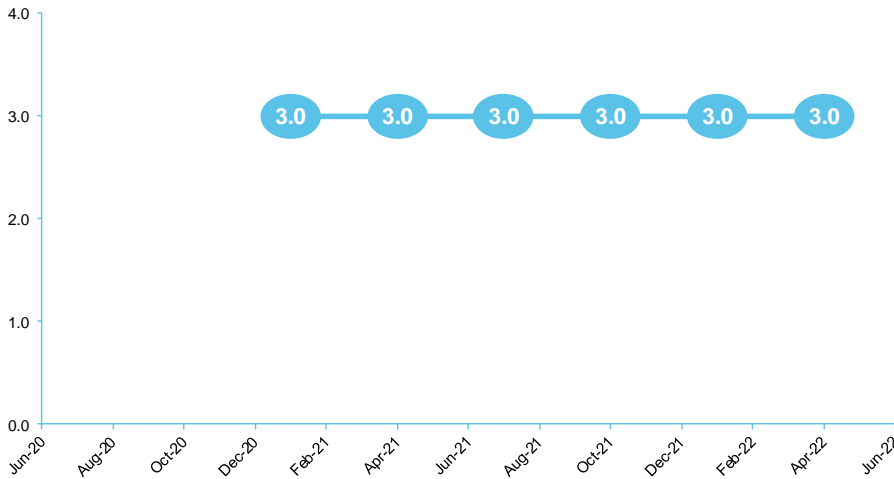


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-05-20	Neutral	1.95	1.80
2022-02-25	Buy	2.51	1.87
2021-11-09	Buy	2.58	2.12
2021-08-05	Buy	2.61	1.99
2021-05-12	Buy	2.73	2.09
2021-01-04	Buy	2.97	2.32
2020-12-30	Buy	2.73	2.25
2020-11-27	Buy	2.66	2.19

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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