

24 May 2023

Sports Toto (SPTOTO MK)

A Very Unlucky Quarter

- **Still NEUTRAL and DCF-derived MYR1.42 TP, 8% upside.** Sports Toto's 3QFY23 (Jun) core profit of MYR19m was as expected, but its Toto segment fell short while HR Owen outperformed. Its Toto business had a very unlucky quarter, with a prize payout ratio of 69% (vs long-term average of 60%). HR Owen's margin improved QoQ but remains below pre-pandemic levels. We keep our call as the stock lacks catalysts, and we think its share price has priced in the near-term negatives.
- **Below expectations.** 9MFY23 core profit of MYR152m was within our (79%), but below Street (65%) full-year estimates. We highlight that its Toto segment fell short of our expectations, while HR Owen outperformed. Its 3QFY23 DPS of 2 sen brings YTD DPS to 6.5 sen – below expectations.
- **Higher Toto sales/draw, but very unlucky quarter.** Toto revenue fell 4% QoQ, mainly due to the lower number of draw days (41 vs 48). However, ticket sales/draw improved to MYR19m from MYR17m, showing continued ticket sales recovery. Toto's operating profit fell 69% QoQ, largely due to high prize payout as the Supreme 6/58 first prize was struck twice in 3QFY23. Historically, the prize was struck once every three to four quarters. 3QFY23's high prize payout ratio of 69% brought YTD prize payout ratio to 61.6%, above its long-term average of c.60%.
- **HR Owen's revenue rose 39% QoQ** as it saw a higher number of vehicles sold, likely due to improved supply conditions. As a result, its operating profit jumped almost fourfold – achieving an operating margin of 1.5% during the quarter, which is still lower than pre-pandemic's 2-3% level.
- **Outlook.** With ticket sales/draw almost at pre-pandemic levels, we expect it to return towards full recovery. On Kedah, SPTOTO is waiting to see if the political tide changes in the next state election in 2Q/3Q23. On HR Owen, we expect its operating margin to remain <2% due to elevated costs and higher depreciation costs from the launch of its Hatfield showroom.
- **We maintain FY23F-25F**, as our higher HR Owen margins assumption negates the higher Toto prize payout assumption for FY23F. We lower FY23F-25F DPS to 9-11 sen from 10-12.5 sen.
- **Still NEUTRAL, with unchanged MYR1.42 TP.** We maintain our WACC and TG assumptions of 10.8% and 0.5%, and 0% ESG adjustment. Our TP implies a 9.8x FY24F P/E, or at -1SD from its 5-year mean. It is trading at 9x forward P/E, slightly below our ascribed valuation. We maintain the NEUTRAL call as the stock price has priced in the near-term negatives. Its current 7% FY24F yield cushions downside risks. Historically, the stock offers 7-8% yields. Key upside/downside risks: Political landscape shifts, changes to government policies, and fluctuations in the luck factor.
- **ESG framework update.** As there is now greater focus on the E pillar on critical climate change issues, we tweaked our ESG weightage. Henceforth, we assign a 50% weightage to the E pillar, followed by 25% each to the S and G pillars. See our [2 May thematic research](#) for more details.

Forecasts and Valuation	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total turnover (MYRm)	4,829	5,233	5,389	5,450	5,661
Recurring net profit (MYRm)	175	162	192	195	206
Recurring net profit growth (%)	37.9	(7.4)	18.8	1.5	5.6
Recurring P/E (x)	10.14	10.95	9.21	9.08	8.59
P/B (x)	2.2	2.0	1.8	1.7	1.6
P/CF (x)	3.53	4.35	11.51	4.91	5.56
Dividend Yield (%)	6.1	6.6	6.9	7.3	8.4
EV/EBITDA (x)	5.71	5.67	5.17	4.87	4.58
Return on average equity (%)	23.4	18.9	20.6	19.5	19.4
Net debt to equity (%)	79.1	70.8	53.3	49.6	45.9

Source: Company data, RHB

Malaysia Results Review

Consumer Cyclical | Gaming

Neutral (Maintained)

Target Price (Return):	MYR1.42 (+8%)
Price (Market Cap):	MYR1.31 (USD386m)
ESG score:	3.08 (out of 4)
Avg Daily Turnover (MYR/USD)	1.15m/0.26m

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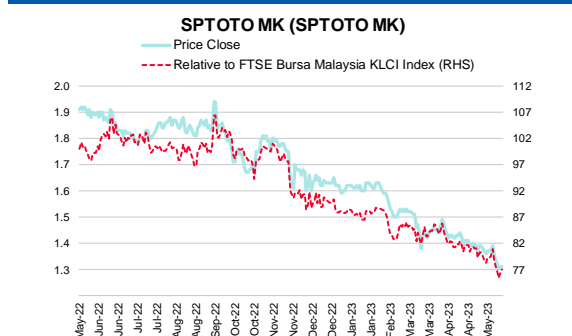


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(19.1)	(7.1)	(14.4)	(18.6)	(31.4)
Relative	(13.5)	(6.3)	(11.2)	(16.4)	(22.9)
52-wk Price low/high (MYR)	1.30 – 1.94				



Source: Bloomberg

Overall ESG Score: 3.0 (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

The group 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 on the board.

Note:

Small cap stocks are defined as companies with a market capitalisation 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	0.14	0.14	0.15
Consumer Cyclical	DPS	0.08	0.09	0.09	0.10	0.11
Sports Toto	BVPS	0.60	0.66	0.72	0.76	0.81
SPTOTO MK	Return on average equity (%)	23.4	18.9	20.6	19.5	19.4
Neutral						
Valuation basis	Valuation metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
We use Discounted Cash Flow methodology to derive the target price. Key assumptions are:	Recurring P/E (x)	10.14	10.95	9.21	9.08	8.59
i. WACC: 10.8%;	P/B (x)	2.2	2.0	1.8	1.7	1.6
ii. Terminal growth: 0.5%.	FCF Yield (%)	24.3	15.2	4.7	16.4	14.0
	Dividend Yield (%)	6.1	6.6	6.9	7.3	8.4
	EV/EBITDA (x)	5.71	5.67	5.17	4.87	4.58
	EV/EBIT (x)	6.91	7.07	6.37	6.06	5.78
Key drivers	Income statement (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
i. Ticket sales;	Total turnover	4,829	5,233	5,389	5,450	5,661
ii. Luck factor.	Gross profit	823	1,115	1,148	1,161	1,206
	EBITDA	386	389	409	418	438
	Depreciation and amortisation	(67)	(77)	(77)	(82)	(91)
	Operating profit	319	312	332	336	347
	Net interest	(44)	(65)	(55)	(51)	(45)
	Pre-tax profit	283	272	284	293	309
	Taxation	(96)	(101)	(88)	(94)	(99)
	Reported net profit	181	161	192	195	206
	Recurring net profit	175	162	192	195	206
Key risks	Cash flow (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
i. Another wave of COVID-19 leading to outlet closures;	Change in working capital	81	2	(180)	23	(34)
ii. Changes in gaming taxes;	Cash flow from operations	502	407	154	360	318
iii. Weaker-than-expected overseas contribution;	Capex	(71)	(138)	(70)	(70)	(70)
iv. Reduction in the number of special draw days.	Cash flow from investing activities	(156)	(113)	(70)	(70)	(70)
The opposite represents upside risks.	Dividends paid	(87)	(47)	(122)	(128)	(149)
	Cash flow from financing activities	(393)	29	(286)	(268)	(283)
	Cash at beginning of period	308	364	559	586	510
	Net change in cash	(47)	323	(202)	23	(35)
	Ending balance cash	268	675	357	609	475
Company Profile	Balance sheet (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Sports Toto is one of the largest number forecast operators (NFO) in Malaysia. It also has a presence in the Philippines' gaming market.	Total cash and equivalents	364	559	586	510	442
	Tangible fixed assets	629	554	547	535	514
	Total investments	324	301	271	349	374
	Total assets	2,864	3,112	3,112	3,083	3,075
	Short-term debt	551	280	236	206	176
	Total long-term debt	505	956	900	850	800
	Total liabilities	1,989	2,155	2,080	1,981	1,911
	Total equity	875	957	1,032	1,102	1,164
	Total liabilities & equity	2,864	3,112	3,112	3,083	3,075
	Key metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Revenue growth (%)	4.2	8.4	3.0	1.1	3.9
	Recurrent EPS growth (%)	37.9	(7.4)	18.8	1.5	5.6
	Gross margin (%)	17.0	21.3	21.3	21.3	21.3
	Operating EBITDA margin (%)	8.0	7.4	7.6	7.7	7.7
	Net profit margin (%)	3.8	3.1	3.6	3.6	3.6
	Dividend payout ratio (%)	59.6	72.8	63.3	65.8	72.2
	Capex/sales (%)	1.5	2.6	1.3	1.3	1.2
	Interest cover (x)	5.25	4.80	5.18	5.68	6.32

Source: Company data, RHB

24 May 2023

Consumer Cyclical | Gaming

Figure 1: 3QFY23 results review

FYE Jun (MYRm)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)	Comments
Revenue	1,728.4	1,408.2	1,655.2	17.5	(4.2)	3,771.4	4,482.5	18.9	
<i>Gaming</i>	814.5	756.9	725.0	(4.2)	(11.0)	1,478.2	2,183.2	47.7	Lower QoQ due to lower number of draw days (41 vs 48) Higher revenue QoQ due to higher number of vehicles sold (likely due to improving supply conditions)
<i>Motor</i>	895.0	622.5	863.6	38.7	(3.5)	2,241.5	2,178.3	(2.8)	
<i>Others</i>	18.9	28.8	66.6	131.5	252.4	51.7	121.1	134.3	
EBITDA	141.5	104.9	60.2	(42.6)	(57.4)	259.4	292.3	12.7	
<i>EBITDA margin (%)</i>	8.2	7.4	3.6			6.9	6.5		
Depreciation	(16.2)	(16.8)	(16.2)	3.4	(0.3)	(49.0)	(47.8)	2.4	
EBIT	125.3	88.1	44.0	(50.1)	(64.9)	210.4	244.4	16.2	
<i>EBIT margin (%)</i>	7.2	6.3	2.7			5.6	5.5		
<i>Gaming</i>	100.2	96.5	29.8	(69.2)	(70.3)	150.2	227.5	51.5	Gaming operating profit fell 69% QoQ due to higher prize payout ratio (69% vs 59%). HR Owen's operating profit jumped almost fourfold due to higher revenue
<i>Motor</i>	39.0	2.7	12.7	379.3	(67.3)	84.6	30.4	(64.1)	
<i>Others</i>	(3.6)	(0.0)	10.8	N.M.	N.M.	(8.0)	7.3	N.M.	
<i>Unallocated corporate expense</i>	(10.3)	(11.1)	(9.4)	3.9	4.3	(16.3)	(20.8)	(27.4)	
Interest expense	(16.2)	(18.6)	(22.0)	(18.3)	(35.8)	(46.7)	(56.9)	(21.8)	
Investment income	4.5	15.0	6.9	(53.6)	54.5	13.5	30.8	128.6	
Associates	2.0	4.6	5.4	16.6	171.2	5.7	14.2	146.6	
El/Others	0.0	7.0	3.8	45.5	N.M.	0.0	9.2	N.A.	
Pretax profit	115.5	96.0	38.0	(60.4)	(67.1)	182.9	241.7	32.1	
<i>Pretax margin (%)</i>	6.7	6.8	2.3			4.9	5.4		
Tax	(39.4)	(30.6)	(15.8)	48.5	60.0	(66.5)	(79.6)	(19.7)	
<i>Effective tax rate (%)</i>	34.1	31.9	41.5			36.4	32.9		
Minority interest	3.4	(0.5)	1.0	N.M.	72.1	(1.3)	(1.0)	20.4	
Net profit	79.6	64.9	23.2	(64.2)	(70.8)	115.2	161.1	39.9	
Core profit	79.6	57.9	19.4	(66.5)	(75.6)	115.2	151.9	31.9	Within our (79%) but below Street (65%) forecasts
<i>Net margin (%)</i>	4.6	4.1	1.2			3.1	3.4		

Source: Company data, RHB

Figure 2: DCF valuation

FYE Jun (MYRm)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
EBIT	332.0	336.0	346.9	354.9	364.3	365.4	368.5	372.3	376.2	377.5
EBIT x (1-Tax)	229.0	228.5	235.9	237.8	244.1	244.8	246.9	249.4	252.0	252.9
(+) Depreciation & amortisation	77.0	82.5	91.3	98.8	106.5	114.6	122.8	131.4	140.2	149.3
(-) Capex	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)	(70.0)
(-) Working capital requirements	(133.2)	(23.1)	(34.3)	(32.7)	(42.1)	(29.3)	(22.0)	(26.1)	(26.5)	(26.8)
Free cash flow	102.9	217.8	222.9	233.9	238.5	260.1	277.8	284.7	295.8	305.4
NPV of free cash flow	92.8	177.5	163.9	155.3	142.9	140.8	135.7	125.5	117.7	109.7
Key assumptions										
Terminal growth	0.5%									
Terminal value	1,177.3									
WACC										
Beta	1.40									
Expected market return	11.9%									
Risk-free rate	4.0%									
Cost of equity	15.0%									
Equity weighting	59.8%									
Cost of debt	6.5%									
Effective tax rate	30.0%									
Firm value	2,539.3									
(-) net debt	(546.5)									
(-) minority interests	(69.7)									
Equity value	1,923.0									
Fair Value per share (MYR)	1.42									
ESG premium/discount	0%									
TP per share (MYR)	1.42									

Source: Company data, RHB

Recommendation Chart

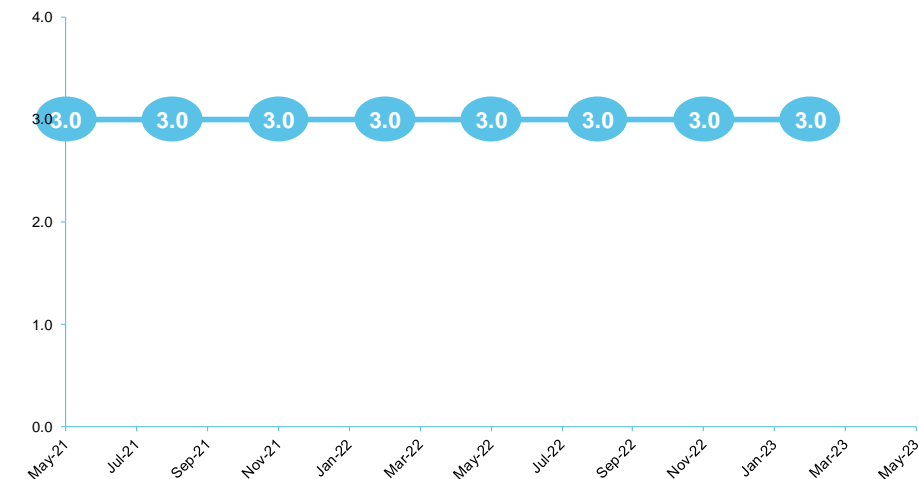


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-04-05	Neutral	1.42	1.43
2023-02-23	Buy	1.75	1.53
2022-12-06	Buy	2.07	1.62
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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