

5 April 2023

Consumer Cyclical | Gaming - NFO

## Magnum (MAG MK)

**Neutral** (Maintained)

### Lifting Risk Premium On Heightened Risks

- **Still NEUTRAL, DCF-based TP drops to MYR1.06 from MYR1.23, 6% downside.** There will be six state elections this year. Three of these states house 33% of Magnum's total outlets. After Kedah's ban on number forecast operator (NFO) outlets, investors will likely remain cautious on NFOs. We think Magnum's ticket sales and dividend recovery are in the price, and there is a dearth of re-rating catalysts that can boost its earnings and valuation. That said, its c.5% dividend yield offers a cushion against these downside risks.
- **Investors may be concerned about further outlet closures.** Selangor, Kelantan, Terengganu, Negeri Sembilan, Kedah and Penang are expected to hold state elections before Aug-Oct 2023 (Figure 2). Given Kedah's ban on NFO outlets and Perlis deliberating a similar move, we highlight that any changes to the political landscape in Selangor, Penang and Negeri Sembilan will present additional risks to the outlook for the NFOs. These states are where 33% of Magnum's total current outlets are situated (Figure 3) and account for roughly 33% of ticket sales (sales/outlet vary minimally between states).
- **Worst-case scenario being realised will bring severe disappointment, and the best-case one, relief.** In the NFOs' worst-case scenario, state polls results may result in the closure of a third of Magnum's total current outlets. Although this will be very negative for its share price, we think that the mass closure of outlets is highly unlikely – as NFOs make meaningful contributions to the country's tax revenue. In the best-case (also our base-case) scenario, the political landscape remains the status quo, and fears of unfavourable policies recede.
- **Maintaining estimates, but TP drops to MYR1.06.** We keep our forecasts but lift our WACC assumption to 10.3% from 9.2% (TG: 0.5%) to factor in the heightened regulatory risks, as investors remain wary after Kedah's ban on NFO outlets. This pulls our TP down to MYR1.06 (which has 0% ESG adjustments). Our DCF-based TP implies 12.6x FY23F P/E. The stock is currently trading at 13.4x FY23F P/E and 8.6x FY23F EV/EBITDA.
- **Still NEUTRAL.** Despite the improvement in ticket sales, Magnum's share price has been trending south, signalling that: i) Its recovery has been priced in, and ii) regulatory uncertainties continue to outweigh any further incremental ticket sales recovery. Furthermore, we think that the stock lacks new positive catalysts. There are currently no signs that the Government is considering the implementation of favourable policies (eg tightening legislation against illegal NFOs and legalising online gaming) that could help bring Magnum's ticket sales and earnings to new heights. That said, its current 5% yield provides a cushion against any downside risks.
- **Key downside risks** include unfavourable shifts in the political landscape, changes to government policies and fluctuations in the luck factor.

Target Price (Return): MYR1.06 (-6%)  
Price (Market Cap): MYR1.13 (USD369m)  
ESG score: 3.00 (out of 4)  
Avg Daily Turnover (MYR/USD) 1.12m/0.25m

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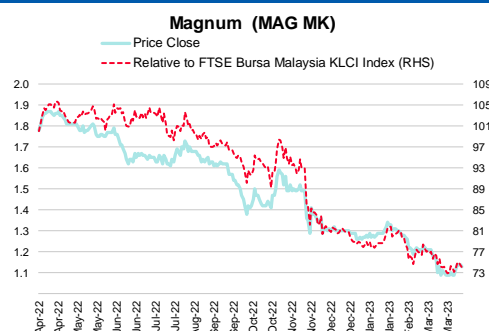


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(12.4)	(6.6)	(10.3)	(20.4)	(36.5)
Relative	(8.0)	(4.9)	(7.6)	(21.8)	(25.9)
52-wk Price low/high (MYR)	1.09 – 1.87				



Source: Bloomberg

#### Overall ESG Score: 3.00 (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 at its premises, and implementing energy-saving practices to reduce its carbon footprint.

##### S: GOOD

Magnum promotes responsible gaming, to prevent both excessive and underage gaming. In terms of employee 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 workplace.

##### 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 women directors making up 30% of the Board.

#### Note:

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

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	1,260	2,031	1,898	1,934	1,973
Recurring net profit (MYRm)	13	103	121	133	137
Recurring net profit growth (%)	(87.6)	693.2	17.4	9.4	2.8
Recurring P/E (x)	124.58	15.71	13.38	12.23	11.89
P/B (x)	0.7	0.7	0.7	0.7	0.6
P/CF (x)	141.36	9.20	12.15	8.64	8.43
Dividend Yield (%)	1.3	4.4	5.3	5.8	6.2
EV/EBITDA (x)	22.12	9.52	8.59	7.89	7.62
Return on average equity (%)	0.0	4.3	5.0	5.4	5.5
Net debt to equity (%)	31.7	29.1	29.7	27.9	26.2

Source: Company data, RHB

## 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	0.09	0.10
Consumer Cyclical	DPS	0.02	0.05	0.06	0.07	0.07
<b>Magnum</b>	BVPS	1.64	1.66	1.69	1.72	1.74
MAG MK	Return on average equity (%)	0.0	4.3	5.0	5.4	5.5
Neutral						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
We use Discounted Cash Flow methodology to derive the target price. Key assumptions are:	Recurring P/E (x)	124.58	15.71	13.38	12.23	11.89
i. WACC: 10.3%	P/B (x)	0.7	0.7	0.7	0.7	0.6
ii. Terminal growth: 0.5%	FCF Yield (%)	0.4	9.9	7.3	10.6	10.9
	Dividend Yield (%)	1.3	4.4	5.3	5.8	6.2
	EV/EBITDA (x)	22.12	9.52	8.59	7.89	7.62
	EV/EBIT (x)	25.18	9.97	9.07	8.34	8.06
<b>Key drivers</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>
i. Ticket sales	Total turnover	1,260	2,031	1,898	1,934	1,973
ii. Luck factor	Gross profit	166	320	345	364	371
	EBITDA	96	218	246	263	269
	Depreciation and amortisation	(12)	(10)	(13)	(14)	(15)
	Operating profit	85	208	233	250	255
	Net interest	(47)	(46)	(46)	(45)	(44)
	Pre-tax profit	25	160	187	204	210
	Taxation	(27)	(59)	(65)	(72)	(74)
	Reported net profit	0	101	121	133	137
	Recurring net profit	13	103	121	133	137
<b>Key risks</b>	<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>
i. Another COVID-19 wave leading to outlet closures;	Change in working capital	(26)	7	(47)	(4)	(3)
ii. Gaming tax changes;	Cash flow from operations	11	177	134	188	193
iii. Luck factor;	Capex	(5)	(15)	(15)	(15)	(15)
iv. Reduction in the number of special draw days.	Cash flow from investing activities	(4)	(2)	(74)	(60)	(59)
	Dividends paid	(29)	(72)	(86)	(93)	(101)
	Cash flow from financing activities	(76)	(176)	(101)	(108)	(116)
	Cash at beginning of period	273	193	191	150	169
	Net change in cash	(68)	(1)	(41)	19	18
	Ending balance cash	204	191	150	169	187
<b>Company Profile</b>	<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>
Magnum is engaged in the gaming or numbers forecasting lottery business.	Total cash and equivalents	193	191	150	169	187
	Tangible fixed assets	77	74	82	83	83
	Total investments	389	399	389	389	389
	Total assets	3,510	3,514	3,453	3,476	3,497
	Short-term debt	175	190	175	175	175
	Total long-term debt	774	704	703	688	673
	Total liabilities	1,126	1,103	1,004	988	973
	Total equity	2,384	2,412	2,449	2,489	2,525
	Total liabilities & equity	3,510	3,514	3,453	3,476	3,497
	<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	(6.6)	1.9	2.0
	Recurrent EPS growth (%)	(87.6)	693.2	17.4	9.4	2.8
	Gross margin (%)	13.2	15.8	18.2	18.8	18.8
	Operating EBITDA margin (%)	7.7	10.7	12.9	13.6	13.7
	Net profit margin (%)	0.0	5.0	6.4	6.9	6.9
	Dividend payout ratio (%)	11720.8	71.1	71.0	70.3	73.7
	Capex/sales (%)	0.4	0.7	0.8	0.8	0.8
	Interest cover (x)	1.82	4.54	5.07	5.53	5.74

Source: Company data, RHB

Figure 1: Magnum's DCF valuation

FYE Dec (MYRm)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
EBIT	233	250	255	260	271	276	301	284	287	277
EBIT x (1-Tax)	163	175	178	182	189	193	211	199	201	194
(+) Depreciation & amortisation	13	14	15	16	17	17	18	19	20	21
(-) Capex	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)
(-) Working capital requirements	(47)	(4)	(3)	(3)	(4)	(4)	(5)	(3)	(5)	(4)
Free cash flow	114	170	175	179	187	192	209	200	201	195
NPV of free cash flow	104	140	130	121	115	107	105	91	84	73
Key assumptions										
Terminal growth	0.5%									
Terminal value	823									
WACC										
Beta	1.2									
Expected market return	10.9%									
Risk-free rate	4.0%									
Cost of equity	12.3%									
Equity weighting	75.0%									
Cost of debt	6.0%									
Effective tax rate	30.0%									
Firm value	1,893									
(-) net debt	-728									
(-) minority interests	-20									
Equity value	1,145									
(+) Unquoted Investment Securities	385									
Total value	1,531									
Intrinsic value per share (MYR)	1.06									
ESG premium/discount (%)	0.00									
TP per share (MYR)	1.06									

Source: Company data, RHB

Figure 2: Expected timeline of state elections

State	Latest date of election
Selangor	26 Aug 2023
Kelantan	28 Aug 2023
Terengganu	1 Sep 2023
Negeri Sembilan	2 Sep 2023
Kedah	4 Sep 2023
Penang	2 Oct 2023

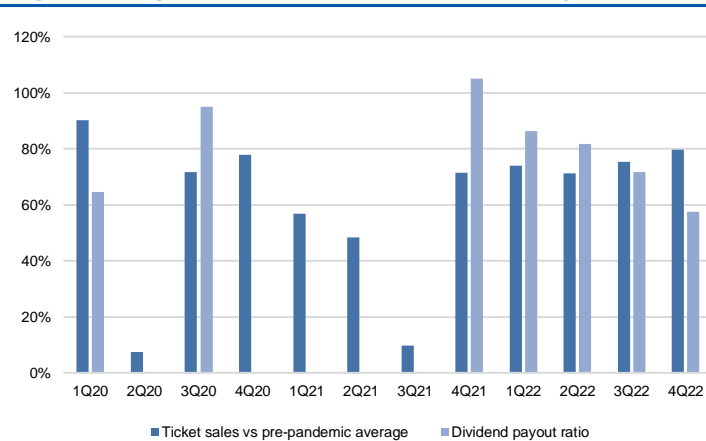
Sources: Various

Figure 3: Magnum's outlets according to state as of Apr 2023

Magnum		
	Number of outlets	% of total outlets
Johor	59	13%
Kedah	0	0%
Kelantan	0	0%
Kuala Lumpur	67	14%
Labuan	2	0%
Malacca	34	7%
Negeri Sembilan	29	6%
Pahang	16	3%
Penang	41	9%
Perak	83	18%
Perlis	1	0%
Sabah	0	0%
Sarawak	53	11%
Selangor	85	18%
Terengganu	0	0%
<b>Total</b>	<b>470</b>	

Source: Company data, RHB

Figure 4: Magnum's ticket sales and dividend payout recovery



Note: 2Q20 and 4Q20 DPR were negative, as they were loss-making quarters. There were no dividends in 1Q21, 2Q21 and 3Q21

Source: Company data, RHB

## Recommendation Chart

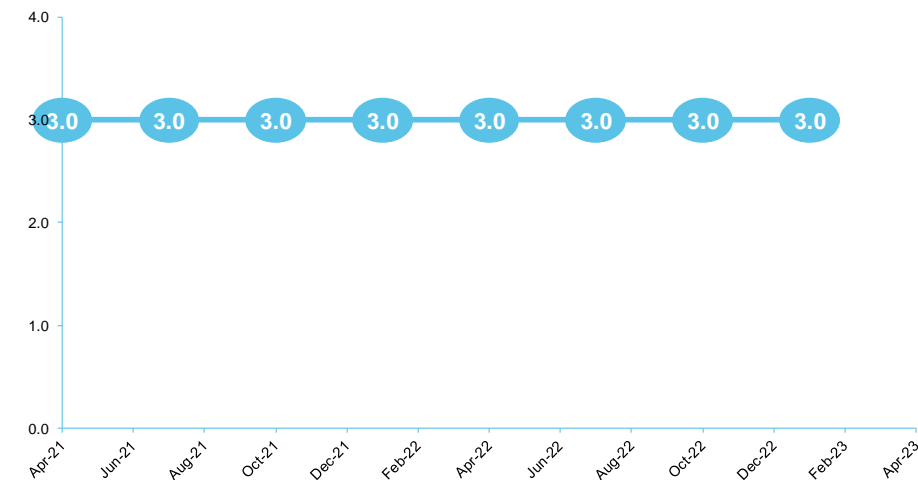


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-08-27	Buy	2.61	2.00
2021-08-05	Buy	2.61	1.99
2021-05-20	Buy	2.73	2.01
2021-05-12	Buy	2.73	2.09

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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