

19 November 2020

Consumer Cyclical | Gaming

## Berjaya Sports Toto (BST MK)

**Buy** (Maintained)

**Lucky Star Shines; Keep BUY**

Target Price (Return): MYR2.44 (16.2%)  
Price: MYR2.10  
Market Cap: USD690m  
Avg Daily Turnover (MYR/USD) 2.09m/0.50m

- **Keep BUY with new DCF-based MYR2.44 TP from MYR2.40, 16% upside and 7% yield.** 1QFY21 (Jun) net profit was above expectations on a better luck factor and strong motor dealership earnings contributions. We expect earnings going forward to be supported by Berjaya Sports Toto's resilient Toto betting business, which will continue to benefit from ongoing government efforts to curb illegal gambling. FY21F-22F yields of 7.1-7.6% are attractive for long-term yield-seeking investors.
- **Above expectations.** 1QFY21 core profit of MYR67.9m came above both our and Street's expectations, at 34% and 30% of full-year estimates. This was due to a lower-than-expected prize payout and stronger-than-expected motor dealership segment contribution. A first interim dividend of 4 sen (flat YoY) was declared, which also came above our expectations.
- **A lucky quarter and strong motor dealership contributions.** 1QFY21 core profit increased 16.2% YoY, mainly due to the strong earnings contributions from the Toto betting and motor dealership segments. This more than offset the higher share of associate losses in the Philippines. The Toto betting segment EBIT grew 2.8% YoY on a lower prize payout of c.58% (1Q20: c.61%) despite the decline in overall ticket sales (-18.2%). For the UK motor dealership business, EBIT increased 182.4% YoY, boosted by higher sales (+10.8% YoY) and lower operating costs.
- **Resilient outlook.** Despite lower 1QFY21 ticket sales YoY, this remains robust, hovering at c.80-85% of pre-Movement Control Order (MCO) ticket sales levels, even during the Conditional MCO. For the motor dealership business, the recovery pace should again slow due to the UK's 1-month lockdown. Nevertheless, recovery should resume swiftly once the lockdown is lifted, as evidenced by 1QFY21's results. In the Philippines, we are not overly concerned with BST's Philippines Gaming Management Corp (PGMC) associate, as earnings impact to the group is minimal (<3%).
- **Earnings forecast.** Post results, we increase our FY21F-23F earnings by 12.5%, 1.4%, and 1.4% after factoring in a lower prize payout in FY21 and stronger motor dealership segment earnings contributions. We now assume a higher dividend of 15 sen from 14 sen for FY21F.
- **Attractive yield.** Maintain BUY with a new MYR2.44 TP after the positive earnings revision. We continue to like the stock for its attractive FY21F-22F yields of 7.1-7.6%, backed by the resilient Toto business. Further upsides could come from potential replacement draws in 2021 and the ongoing efforts to clamp down on the illegal gambling market. While the underlying risk on non-renewal of PGMC's lottery equipment lease agreement, the impact to our earnings forecasts is minimal, at <3%.
- **Key risks** include luck factor, changes in gaming taxes, and weaker-than-expected contributions from the overseas segment.

### Analysts

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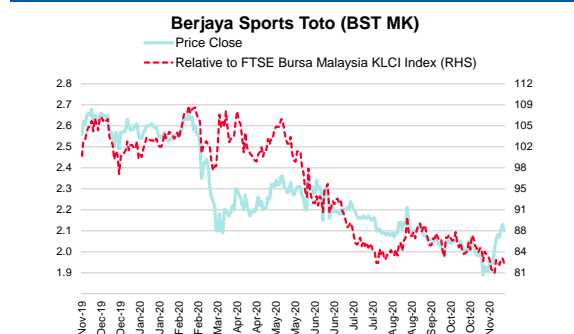


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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(18.6)	5.5	0.5	(9.9)	(17.0)
Relative	(19.6)	(1.2)	(1.2)	(23.7)	(17.0)
52-wk Price low/high (MYR)				1.89 – 2.68	



Source: Bloomberg

Forecasts and Valuation	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Total turnover (MYRm)	6,693	4,636	5,141	5,478	5,533
Recurring net profit (MYRm)	318	125	224	237	241
Recurring net profit growth (%)	20.8	(60.5)	78.6	6.0	1.5
Recurring P/E (x)	8.93	22.64	12.68	11.96	11.78
P/B (x)	3.9	3.8	3.7	3.6	3.5
P/CF (x)	7.94	18.34	8.56	8.26	8.05
Dividend Yield (%)	7.6	5.0	7.1	7.6	7.6
EV/EBITDA (x)	5.75	10.36	7.64	7.32	7.15
Return on average equity (%)	30.9	18.2	29.9	30.8	30.4
Net debt to equity (%)	90.1	114.0	108.9	104.4	98.4

Source: Company data, RHB

### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Jun-19</b>	<b>Jun-20</b>	<b>Jun-21F</b>	<b>Jun-22F</b>	<b>Jun-23F</b>
Malaysia	Recurring EPS	0.24	0.09	0.17	0.18	0.18
Consumer Cyclical	DPS	0.16	0.10	0.15	0.16	0.16
<b>Berjaya Sports Toto</b>	BVPS	0.53	0.55	0.56	0.58	0.60
BST MK	Return on average equity (%)	30.9	18.2	29.9	30.8	30.4
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Jun-19</b>	<b>Jun-20</b>	<b>Jun-21F</b>	<b>Jun-22F</b>	<b>Jun-23F</b>
We use DCF methodology to derive the TP. Key assumptions:	Recurring P/E (x)	8.93	22.64	12.68	11.96	11.78
i. WACC: 8.2%;	P/B (x)	3.9	3.8	3.7	3.6	3.5
ii. Terminal growth: 0.5%.	FCF Yield (%)	11.1	2.9	9.9	10.3	10.7
	Dividend Yield (%)	7.6	5.0	7.1	7.6	7.6
	EV/EBITDA (x)	5.75	10.36	7.64	7.32	7.15
	EV/EBIT (x)	6.14	12.92	8.93	8.57	8.41
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Jun-19</b>	<b>Jun-20</b>	<b>Jun-21F</b>	<b>Jun-22F</b>	<b>Jun-23F</b>
i. Ticket sales;	Total turnover	6,693	4,636	5,141	5,478	5,533
ii. Luck factor.	Gross profit	1,423	846	1,095	1,167	1,179
	EBITDA	566	332	448	465	473
	Depreciation and amortisation	(36)	(66)	(64)	(68)	(71)
	Operating profit	531	266	384	397	402
	Net interest	(37)	(47)	(52)	(51)	(50)
	Pre-tax profit	394	227	339	359	365
	Taxation	(164)	(93)	(112)	(119)	(120)
	Reported net profit	227	133	224	237	241
	Recurring net profit	318	125	224	237	241
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Jun-19</b>	<b>Jun-20</b>	<b>Jun-21F</b>	<b>Jun-22F</b>	<b>Jun-23F</b>
i. Luck factors;	Change in working capital	(87)	(79)	(24)	(22)	(18)
ii. Fluctuation in orders;	Cash flow from operations	357	155	332	344	352
iii. Regulatory risks.	Capex	(43)	(73)	(50)	(50)	(50)
	Cash flow from investing activities	1	(92)	(50)	(50)	(50)
	Dividends paid	(263)	(168)	(203)	(216)	(216)
	Cash flow from financing activities	(352)	(195)	(208)	(322)	(320)
	Cash at beginning of period	418	422	308	381	352
	Net change in cash	6	(132)	73	(29)	(18)
	Ending balance cash	432	298	381	352	334
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Jun-19</b>	<b>Jun-20</b>	<b>Jun-21F</b>	<b>Jun-22F</b>	<b>Jun-23F</b>
BST is one of the largest number forecast operators in Malaysia. It also has an existing presence in the Philippines' gaming market.	Total cash and equivalents	422	308	381	352	334
	Tangible fixed assets	192	519	504	486	465
	Total investments	331	351	354	363	373
	Total assets	2,667	2,909	3,057	3,026	3,021
	Short-term debt	366	435	495	455	415
	Total long-term debt	755	773	773	773	773
	Total liabilities	1,892	2,120	2,243	2,187	2,154
	Total equity	775	789	814	838	867
	Total liabilities & equity	2,667	2,909	3,057	3,026	3,021
	<b>Key metrics</b>	<b>Jun-19</b>	<b>Jun-20</b>	<b>Jun-21F</b>	<b>Jun-22F</b>	<b>Jun-23F</b>
	Revenue growth (%)	18.1	(30.7)	10.9	6.6	1.0
	Recurrent EPS growth (%)	20.8	(60.5)	78.6	6.0	1.5
	Gross margin (%)	21.3	18.2	21.3	21.3	21.3
	Operating EBITDA margin (%)	8.5	7.2	8.7	8.5	8.5
	Net profit margin (%)	3.4	2.9	4.4	4.3	4.4
	Dividend payout ratio (%)	95.3	105.9	90.6	91.1	89.8
	Capex/sales (%)	0.6	1.6	1.0	0.9	0.9
	Interest cover (x)	8.94	4.20	5.85	6.01	6.28

Source: Company data, RHB

Figure 1: 1QFY21 results review

FYE Jun (MYRm)	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	<b>1,436.9</b>	<b>475.1</b>	<b>1,345.9</b>	<b>183.3</b>	<b>(6.3)</b>	YoY: Declined due to slow economic recovery post re-opening.
Gaming	800.5	67.8	655.2	865.9	(18.2)	
Motor	601.9	384.1	667.2	73.7	10.8	
Others	34.5	23.2	23.5	1.4	(31.9)	
<b>EBITDA</b>	<b>118.6</b>	<b>(11.2)</b>	<b>136.5</b>	<b>n.m.</b>	<b>15.1</b>	
EBITDA margin (%)	8.3	(2.4)	10.1			
Depreciation	(14.4)	(16.5)	(17.0)	(2.9)	(18.0)	
<b>EBIT</b>	<b>104.2</b>	<b>(27.7)</b>	<b>119.5</b>	<b>n.m.</b>	<b>14.7</b>	
EBIT margin (%)	7.3	(5.8)	8.9			
Gaming	95.3	(20.2)	98.0	n.m.	2.8	YoY: Lower prize payouts.
Motor	7.8	(8.3)	22.1	n.m.	182.4	YoY: Stronger motor sales and lower operating costs.
Others	4.7	4.4	3.2	27.9	32.2	
Unallocated corporate expense	(3.7)	(3.7)	(3.8)	83.0	0.4	
Interest expense	(15.4)	(16.0)	(15.7)	2.2	(1.7)	
Investment income	6.3	2.8	3.2	16.4	(48.7)	
Associates	(0.8)	(4.5)	(5.6)	24.6	616.6	
El/others	8.6	0.0	0.0	n.m.	n.m.	El:1QFY20 saw a gain on disposal of an investment property.
<b>Pre-tax profit</b>	<b>102.9</b>	<b>(45.5)</b>	<b>101.4</b>	<b>n.m.</b>	<b>(1.4)</b>	
Pre-tax margin (%)	7.2	(9.6)	7.5			
Tax	(34.9)	0.3	(32.3)	n.m.	7.6	
Effective tax rate (%)	34.0	0.7	31.8			
Minority interest	(1.0)	1.9	(1.3)	n.m.	(32.4)	
<b>Net profit</b>	<b>67.0</b>	<b>(43.3)</b>	<b>67.9</b>	<b>n.m.</b>	<b>1.3</b>	
<b>Core profit</b>	<b>58.4</b>	<b>(43.3)</b>	<b>67.9</b>	<b>n.m.</b>	<b>16.2</b>	Above expectations.
Net margin (%)	4.1	(9.1)	5.0			

Source: Company data, RHB

Figure 2: DCF valuation

FYE Jun (MYRm)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
EBIT	397.5	401.7	408.3	415.1	421.9	428.9	436.0	443.2	450.5	457.9
EBIT x (1-Tax)	266.3	269.1	273.6	278.1	282.7	287.4	292.1	296.9	301.8	306.8
(+) Depreciation & amortisation	67.8	71.2	76.6	82.2	88.1	94.1	100.2	106.6	113.2	120.0
(-) Capex	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)
(-) Working capital requirements	(21.9)	(17.9)	(19.9)	(20.4)	(20.9)	(21.3)	(21.8)	(22.3)	(22.8)	(23.4)
Free cash flow	262.3	272.4	280.3	290.0	299.9	310.1	320.5	331.2	342.2	353.4
NPV of free cash flow	242.3	232.5	221.1	211.3	201.9	192.9	184.3	175.9	167.9	160.2
Key assumptions										
Terminal growth	0.5%									
Terminal value	2,246.1									
WACC										
Beta	1.0									
Expected market return	10.8%									
Risk-free rate	2.9%									
Cost of equity	10.8%									
Equity weighting	59.6%									
Cost of debt	6.5%									
Effective tax rate	30.0%									
Firm value	4,236.6									
(-) net debt	(886.49)									
(-) minority interests	(54.87)									
Equity value	3,295.2									
TP per share (MYR)	2.44									

Source: Company data, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-11-15	Buy	2.40	2.07
2020-08-04	Neutral	2.31	2.09
2020-04-06	Neutral	2.39	2.22
2019-03-19	Neutral	2.50	2.31
2018-12-17	Neutral	2.24	2.16
2018-11-02	Neutral	2.31	2.20

Source: RHB, Bloomberg

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Analyst	Company
-	-

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