

23 August 2019

Magnum Bhd

2Q19 A Luck-Driven Quarter

By Teh Kian Yeong | tehky@kenanga.com.my

MAGNUM reported yet another strong set of quarterly results with 1H19 net profit of RM134.4m beating expectations on favourable luck factor coupled with higher-than-expected ticket sales although 2Q19 ticket sales were lower QoQ as 1Q19 was a CNY quarter. We should see ticket sales improving further with active enforcement curbing illegal operators. However, it is fairly priced after a strong rally of 43% YTD. Maintain MP at RM2.80.

2Q19 beat expectations. 2Q19 core profit jumped 24% QoQ to RM74.4m which beat expectations with 1H19 core earnings rising 31% to RM134.4m, making up 60%/55% of house/street's full-year estimates. The positive deviation between our estimate and actual results were due to: (i) stronger-than-expected ticket sales of RM18.6m/draw in 1H19 vs. our FY19 assumption of RM16.7m/draw, and (ii) estimated prize payout ratio (EPPR) of 63.8% in 1H19 vs. our FY19 assumption of 66%. It declared a 2nd interim NDPS of 5.0 sen (ex-date: 18 Sep; payment date: 28 Sep) in 2Q19, totalling 1H19 NDPS to 9.0 sen which is higher than the 7.0 sen paid in 1H18.

Sequential results led by luck factor... Despite revenue falling by 12%, 2Q19 net profit leapt 24% QoQ to RM74.4m largely due to a favourable EPPR of 62.3% against 65.2% in 1Q19 and theoretical level of c.66%. The drop in revenue is not unexpected given the CNY effect in 1Q19. In fact, 2Q19 average ticket sales of RM17.7m/draw are still the 2nd highest since 1Q15 after an extremely strong RM19.6m/draw posted in 1Q19. Overall, total ticket sales fell 12% QoQ to RM724.2m from RM822.0m owing to the abovementioned reason and there were also 41 draws in 2Q19 as compared to 42 draws in the preceding quarter. The ticket sales also improved on the back of active enforcement on illegal operators by the authority.

...as well as stronger ticket sales. On YoY comparison, 2Q19 core profit surged 55% from RM48.1m while revenue grew 11% over the year. This was attributed to better luck factor of 62.3% vs. 66.5% while total ticket sales jumped 11% from RM652.4m in 2Q18, despite having one draw lesser, as average ticket sales rose 14% from RM15.5m/draw previously. Likewise, 1H19 core profit hiked 31% from RM103.0m on the back of 8% rise in revenue to RM1.42b from RM1.31b previously, thanks largely to 8% jump in total ticket sales and lower EPPR of 63.8% from 66.3%. The improvement in ticket sales was despite five less draws at 83 in 1H19 from 88 last year as government reduced the special draws but a 15% jump in average ticket sales per draw to RM18.6m from RM16.2m boosted overall numbers.

Raise FY19-FY20 estimates by 15%. Although we expect overall ticket sales to decline in FY19 given the special draws cut to 10 draws from 22 draws, impact to bottom-line is minimal, assuming no changes in luck factor, as these special draws come with 10% additional tax that caps profit margin. Nonetheless, with higher growth on ticket sales per draw of 6% from 2% in FY19 and unchanged at 2% in FY20, as well as lower EPPR assumptions of 64.5% for both years from 66%, we raised our FY19-FY20E earnings by 15% each while dividend assumptions are also upped by the same proportion based on unchanged earnings payout ratio of 80%. The ticket sales growth is supported by active enforcement on illegal operators by the authority.

But still MP. With enforcement combating illegal operators, we will continue to see recovery of ticket sales for the legal NFOs, for both MAGNUM and BJTOTO (MP; TP: RM2.80). Nonetheless, the strong rally pushing its share price by 43% YTD should have reflected all near-term positives. Thus, we keep our MARKET PERFORM for now but with a higher target price of RM2.80/DCF share from RM2.55/DCF share post-earnings revision. The target price implied CY20 PER of 15.1x which is in-line with its 1SD above its 3-year mean of 15.5x. Upside risks to our call include: (i) favourable luck factors as well as (ii) stronger-than-expected ticket sales.

MARKET PERFORM ↔

Price : RM2.78
Target Price : RM2.80 ↑

Share Price Performance



KLCI	1,602.47
YTD KLCI chg	-5.2%
YTD stock price chg	42.6%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MAG MK
Market Cap (RM m)	3,955.8
Shares Outstanding	1,423.0
52-week range (H)	2.83
52-week range (L)	1.78
3-mth avg daily vol:	975,395
Free Float	63%
Beta	0.7

Major Shareholders

Casi Management Sdn	31.0%
Union Bancaire Prive	3.2%
Shan Hijauan Sdn Bhd	2.9%

Summary Earnings Table

FYE Dec (RM m)	2018	2019E	2020E
Turnover	2704.3	2643.4	2696.2
EBIT	363.7	434.2	429.4
PBT	313.3	378.7	386.3
Net Profit (NP)	104.7	259.8	265.0
Core Net Profit	247.2	259.8	265.0
Consensus (NP)		244.3	251.7
Earnings Revision (%)		+15.3	+15.3
Core EPS (sen)	17.2	18.1	18.4
Core EPS growth (%)	19.7	5.1	2.0
NDPS (sen)	15.0	14.5	14.7
BV/Share (RM)	1.71	1.74	1.78
NTA/Share (RM)	-0.20	-0.16	-0.13
Core PER	11.3	15.4	15.1
PBV (x)	1.1	1.6	1.6
Price/NTA (x)	-9.8	-17.1	-22.0
Gearing (x)	0.16	0.16	0.13
Net Yield (%)	7.7	5.2	5.3

23 August 2019

Income Statement

	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
Y/E : Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	666.4	756.2	-12%	600.4	11%	1,422.6	1,312.7	8%
EBITDA	119.5	102.4	17%	85.5	40%	221.9	178.6	24%
Depreciation	(2.1)	(2.1)	4%	(1.8)	22%	(4.2)	(3.5)	21%
EBIT	117.3	100.4	17%	83.7	40%	217.7	175.2	24%
Interest expense	(12.7)	(12.6)	1%	(13.3)	-5%	(25.3)	(24.8)	2%
Associates	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	104.6	87.8	19%	70.4	49%	192.4	150.3	28%
Taxation	(29.4)	(26.8)	9%	(21.8)	35%	(56.2)	(46.0)	22%
Profit after tax	75.3	60.9	24%	48.6	55%	136.2	104.4	31%
Minority interest	(0.9)	(0.9)	-9%	(0.6)	50%	(1.8)	(1.4)	31%
Net profit	74.4	60.0	24%	48.1	55%	134.4	103.0	31%
Core net profit	74.4	60.0	24%	48.1	55%	134.4	103.0	31%
EPS (sen)	5.2	4.2	24%	3.4	55%	9.3	7.2	31%
NDPS (sen)	5.0	4.0	25%	3.0	67%	9.0	7.0	29%
NTA/share (RM)	(0.12)	(0.20)	-38%	(0.19)	-35%	(0.12)	(0.19)	-35%
EBITDA margin	18%	14%		14%		16%	14%	
EBIT margin	18%	13%		14%		15%	13%	
Pretax margin	16%	12%		12%		14%	11%	
Effective tax rate	28%	31%		31%		29%	31%	

Source: Company

Segmental Breakdown

Segmental Breakdown	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Segment revenue:								
Gaming	666.2	756.2	-12%	600.2	11%	1,422.5	1,312.6	8%
Investment Holdings & Others	63.2	57.1	11%	76.6	-18%	120.3	138.2	-13%
Eliminations	(63.0)	(57.1)	10%	(76.5)	-18%	(120.2)	(138.0)	-13%
Group revenue	666.4	756.2	-12%	600.4	11%	1,422.6	1,312.7	8%
Segment result:								
Gaming	103.2	95.9	8%	68.2	51%	199.1	152.0	31%
Investment Holdings & Others	64.5	49.0	31%	77.2	-16%	113.5	133.4	-15%
Eliminations	(63.0)	(57.1)	10%	(75.0)	-16%	(120.2)	(135.1)	-11%
Group PBT	104.6	87.8	19%	70.4	49%	192.4	150.3	28%
PBT margin:								
Gaming	15%	13%		11%		14%	12%	
Investment Holdings & Others	102%	86%		101%		94%	97%	
Eliminations	100%	100%		98%		100%	98%	
Group PBT margin	16%	12%		12%		14%	11%	

Source: Company

Other NFO Data

FYE Dec (RM m)	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Chg
	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
NFO sales	724.2	822.0	-12%	652.4	11%	1,546.2	1,426.7	8%
No of draws	41	42	-2%	42	-2%	83	88	-6%
Ticket sales per draw	17.7	19.6	-10%	15.5	14%	18.6	16.2	15%
Estimated prize payout ratio	62.3%	65.2%	-4%	66.5%	-6%	63.8%	66.3%	-4%

Source: Company

23 August 2019

Valuation - New				
	RM m	RM/Share	%	Valuation Basic
Gaming - PV of FCF for FY19-FY29	1,448.0	1.01	36.0%	5.99% WACC
PV of FCF in Perpetuity	2,394.1	1.67	59.5%	5.99% WACC, g = 2%
Investment Securities	370.5	0.26	9.2%	Estimated FY19 book value
Net Cash/(Debt)	-190.3	-0.13	-4.7%	FY20E
	4,022.3	2.80	100.0%	
No of shares	1,437.7			
Target price per share	RM2.80			

Source: Kenanga Research

Valuation - Old				
	RM m	RM/Share	%	Valuation Basic
Gaming - PV of FCF for FY19-FY28	1,299.4	0.90	35.4%	6.21% WACC
PV of FCF in Perpetuity	2,227.0	1.55	60.8%	6.21% WACC, g = 2%
Investment Securities	370.5	0.26	10.1%	Estimated FY19 book value
Net Cash/(Debt)	-231.3	-0.16	-6.3%	FY20E
	3,665.5	2.55	100.0%	
No of shares	1,437.7			
Target price per share	RM2.55			

Source: Kenanga Research

This section is intentionally left blank

23 August 2019

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
BERJAYA SPORTS TOTO BHD	2.67	3,596.5	N	06/2019	-8.3%	3.5%	-16.8%	1.8%	11.5	13.8	13.6	4.5	4.4	32.2%	5.8%	2.80	MP
GENTING BHD	5.96	22,949.4	N	12/2019	4.8%	5.3%	-30.9%	7.5%	6.1	8.8	8.2	0.7	0.6	7.2%	2.5%	7.65	OP
GENTING MALAYSIA BHD	3.08	18,289.2	N	12/2019	3.0%	2.9%	-26.2%	5.3%	9.7	13.2	12.5	1.0	1.0	7.4%	3.9%	3.20	MP
MAGNUM BHD	2.78	3,955.8	N	12/2019	-2.3%	2.0%	5.1%	2.0%	16.2	15.4	15.1	1.7	1.6	10.5%	4.7%	2.80	MP
Simple Average					-0.7%	3.4%	-17.2%	4.1%	10.9	12.8	12.3	2.0	1.9	14.3%	4.2%		

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

23 August 2019

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

