Berjaya Sports Toto

Strongest Ticket Sales In 6 Years

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OUTPERFORM ↔

Price : RM2.63

Target Price : RM2.80 ↔

2QFY20 net profit of RM61.7m is well on track, with ticket sales hitting 6-year high on average per draw basis, with a slightly better luck factor. Going forth, we still see uptick in ticket sales given sustained enforcement's effort against illegal operators. In addition, under the current difficult business environment due to the deadly Covid-19 outbreak, NFO stands out to be a defensive sector. Thus, OP at TP of RM2.80 is kept. It also offers above average yield of >5%.

2QFY20 results met expectation. BJTOTO reported lower 2QFY20 net profit which fell 7% sequentially to RM61.9m, totalling 1HFY20 net earnings to RM128.9m that matched expectations, at 49%/50% of house/street's FY20 estimates. It also declared a 2nd interim NDPS of 4.0 sen in 2QFY20 (ex-date: 10 Mar; payment date: 09 Apr) which is the same as 1QFY20. Given the change in financial year-end from April to June in 2019, there are no comparable YoY results.

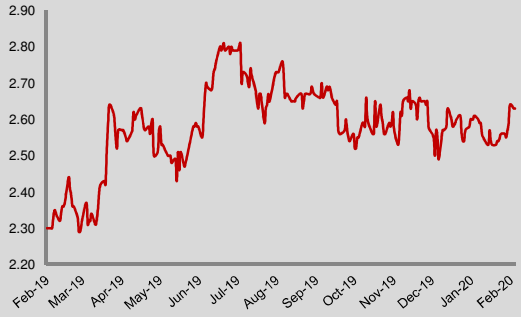
A weaker sequential results… 2QFY20 net profit contracted 7% QoQ to RM61.9m from RM67.0m in the preceding quarter largely due to lower investment-related income by RM9.9m to RM5.2m from RM15.1m but was mitigated by share of associate profit of RM2.2m from a loss of RM0.8m previously which we believe could be due to the inclusion of Philippine Gaming Management Corporation (PGMC) following BJTOTO's equity stake in the Philippine unit having been reduced to 39.99% from a wholly-owned subsidiary previously.

… but ticket sales remained strong with a slightly better luck. However, operationally, NFO numbers were impressive with average ticket sales per draw hitting a 6-year high at RM22.0m, the highest since the Chinese New Year-driven Feb-Apr quarter in 2013, thanks to better 4D Jackpot as well as fruitful results of enforcement clamping down on illegal operators. This led to a 6% hike in total ticket sales to RM849.2m. On the other hand, estimated prize payout ratio (EPPR) was slightly lower at 63.6% from 64.0% which propelled EBIT higher by 11% to RM105.5m. Meanwhile, HR Owen reported lower operating profit by 9% to RM7.1m largely attributed to lower car sales by 11%.

Three special draws cut in 2020 has minimal impact. In Budget 2020, total number of special draws was cut further to 8 times a year from 11 starting 2020. In our view, this will have minimal impact on the NFO players given that these special draws come with 10% additional tax which crimps profitability. While top-line will be reduced by <2%, net profit will be impacted by <1% and the shortfall should be absorbed by potential uptick in ticket sales. On the other hand, the continuous enforcement clamping down on illegal operators will continue to drive NFOs' ticket sales higher.

Keep OUTPERFORM for its defensiveness. In the current economy climate which is affected by the deadly Covid-19 outbreak that is disrupting business activities in the region, we believe it has minimal impact to the NFO sub-segment unlike other gaming sub-segment such as casino operators which are more affected. Hence, NFO remains a defensive business while at the same time offering attractive yield, at c.6% for BJTOTO. As such, we keep our OUTPERFORM rating with unchanged target price of RM2.80/DCF per share. **Risks to our upgrade include:** (i) weaker-than-expected ticket sales, and (ii) higher-than-expected EPPR.

Share Price Performance



KLCI	1,537.08
YTD KLCI chg	-3.3%
YTD stock price chg	1.9%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	BST MK
Market Cap (RM m)	3,542.6
Shares outstanding	1,347.0
52-week range (H)	2.82
52-week range (L)	2.26
3-mth avg daily vol:	516,964
Free Float	52%
Beta	0.8

Major Shareholders

Berjaya Corp Bhd	46.9%
Blackrock Inc	2.3%
Vanguard Group	2.0%

Summary Earnings Table

FY Jun (RM m)	2019A	2020E	2021E
Turnover	6698.6	6142.6	6358.1
EBIT	527.8	474.6	485.9
PBT	402.8	380.0	386.8
Net Profit (NP)	**235.0**	**260.7**	**265.3**
Core Net Profit	**313.5**	**260.7**	**265.3**
Consensus (NP)		257.7	266.3
Earnings Revision (%)		-	-
Core EPS (sen)	23.2	19.3	19.6
Core EPS growth (%)	17.0	-3.0	1.8
NDPS (sen)	16.0	15.4	15.7
BV/Share (RM)	0.59	0.61	0.65
NTA/Share (RM)	0.02	0.04	0.08
Core PER (x)	11.3	13.6	13.4
Price/BV (x)	4.5	4.3	4.0
Price/NTA (x)	141.2	62.7	32.4
Gearing (x)	0.83	0.80	0.70
Net Yields (%)	6.1	5.9	6.0

Note:
FY19A is a 14-month financial period from May 18 to Jun 19

Income Statement

FY Apr (RM m)	2Q FY20	1Q FY20	Q-o-Q Chg	1H FY20
Turnover	1,408.0	1,436.9	-2%	2,844.9
EBITDA	120.0	118.5	1%	238.4
Depreciation	(16.0)	(14.3)	12%	(30.3)
EBIT	103.9	104.2	0%	208.1
Interest & other incomes	5.2	15.1	-66%	20.2
Investment expenses	(0.1)	(0.2)	-31%	(0.3)
Interest expense	(15.8)	(15.4)	2%	(31.2)
Associates	2.2	(0.8)	-378%	1.4
Exceptional items	0.0	0.0	0%	0.0
Pretax profit	95.4	102.9	-7%	198.3
Taxation	(32.6)	(34.9)	-7%	(67.5)
Profit after tax	62.8	67.9	-8%	130.8
Minority interest	(0.9)	(1.0)	-9%	(1.9)
Net profit	61.9	67.0	-7%	128.9
Core net profit	61.9	67.0	-7%	128.9
EPS (sen)	4.6	5.0	-7%	9.5
NDPS (sen)	4.0	4.0	0%	8.0
NTA/share (RM)	0.082	0.075	8%	0.082
EBITDA margin	9%	8%		8%
EBIT margin	7%	7%		7%
Pretax margin	7%	7%		7%
Effective tax rate	34%	34%		34%

Source: Company

Segmental Breakdown

Segmental Breakdown (RM m)	2Q FY20	1Q FY19	Q-o-Q Chg	1H FY20
Segment revenue:				
NFO	849.2	800.5	6%	1,649.7
HRO	537.3	601.9	-11%	1,139.2
Investment & others	21.5	34.5	-38%	56.0
Group revenue	1,408.0	1,436.9	-2%	2,844.9
Segment result:				
NFO	105.5	95.3	11%	200.9
HRO	7.1	7.8	-9%	15.0
Investment & others	(8.7)	1.0	-960%	(7.7)
Group EBIT	103.9	104.2	0%	208.1
EBIT margin:				
NFO	12.4%	11.9%		12.2%
HRO	1.3%	1.3%		1.3%
Investment & others	N/M	N/M		N/M
Group EBIT margin	7.4%	7.3%		7.3%

Source: Company

Other Data

FY Apr (RM m)	2Q FY20	1Q FY19	Q-o-Q Chg	1H FY20
NFO sales	923.1	870.1	6%	1,793.2
No of draws	42	42	0%	84
Ticket sales per draw	22.0	20.7	6%	21.3
Estimated prize payout ratio	63.6%	64.0%	-1%	63.8%
Dividend payout	53.9	53.9	0%	107.8
Attributable profit	61.9	67.0	-7%	128.9
Payout ratio	87.0%	80.5%	8%	83.6%

Source: Company

Valuation

(RM m)	RM m	RM/Share	%	Remarks
PV of FCF for FY20-FY30	1,703.9	1.26	45%	5.7% WACC
PV of FCF in Perpetuity	2,735.1	2.02	72%	5.7% WACC, g=2%
Net Cash/(Debt)	-656.4	-0.49	-17%	estimated FY20
	3,782.6	2.80	100%	
Issued share (m)	1,351.0			
DCF per share	**RM2.80**			Round to the nearest RM0.05

Source: Kenanga Research

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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	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	2.63	3,542.6	N	06/2019	-8.3%	3.5%	-16.8%	1.8%	11.3	13.6	13.4	4.5	4.3	32.2%	5.9%	2.80	OP
GENTING BHD	5.52	21,255.2	N	12/2019	6.1%	5.7%	-29.6%	7.3%	5.7	8.0	7.5	0.6	0.6	7.3%	2.7%	7.00	OP
GENTING MALAYSIA BHD	3.01	17,017.5	N	12/2019	5.5%	2.9%	-21.3%	4.7%	9.5	12.0	11.5	1.0	0.9	7.9%	4.0%	3.30	MP
MAGNUM BHD	2.53	3,600.1	N	12/2019	-2.3%	2.0%	5.1%	2.0%	14.7	14.0	13.7	1.5	1.4	10.5%	5.1%	2.80	MP
Simple Average					**0.3%**	**3.5%**	**-15.7%**	**3.9%**	**10.3**	**11.9**	**11.5**	**1.9**	**1.8**	**14.5%**	**4.4%**		

Source: Bloomberg, Kenanga Research

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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.***

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