

21 February 2020

Magnum Bhd

Buy On Weakness

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Although better sequentially, 4QFY19 results were slightly below our expectations due to poorer luck factor coupled with higher operating costs. Nonetheless, ticket sales remained healthy albeit lower on per draw basis. Going forth, enforcement's effort in clamping down illegal operators is the key to earnings growth. We believe recent price weakness, largely due to the RM182m tax dispute, is a buying opportunity. Thus, we upgrade the stock to OP with revised TP of RM2.75.

4QFY19 results slightly below our expectations, although net profit rose 17% sequentially to RM56.3m, accreting FY19 net profit to RM238.7m which made up 92% of our estimate but broadly matched market consensus at 95%. The main discrepancy is the estimated prize payout ratio (EPPR) of 65.0% in FY19 which was higher than our assumption of 64.5% while operating costs were also slightly higher than expected. Meanwhile, it declared a 4th NDPS of 3.0 sen (ex-date: 17 Mar; payment date: 27 Mar), bringing YTD FY19 NDPS to 16.0 sen which is higher than 15.0 sen paid in FY18 and our estimate of 14.5 sen based on 80% pay-out with the actual pay-out at 96%.

Sequential results helped by slightly better luck and higher investment income. 4QFY19 net profit jumped 17% QoQ to RM56.3m from RM48.0m, albeit with a 3% drop in revenue to RM630.5m, partly due to better luck as EPPR fell to 66.0% from 66.5% while the Investment Holdings and Other division recorded a favourable variance of RM8.3m due to lower fair value loss on investments and higher investment income. Operationally, total ticket sales fell 3% to RM685.3m as average ticket sales per draw also dipped 3% to RM16.3m from RM16.9m with unchanged 42 draws conducted in 4QFY19.

Ticket sales trend remained firm. YoY, 4QFY19 net profit declined 23% from RM72.9m in 4QFY18 as revenue contracted 13% from RM724.4m. This was largely due to: (i) lower overall ticket sales by 13% on lower average ticket sales per draw by 7% and 3 fewer draws from 45, and (ii) higher EPPR of 66.0% from 63.6%. YTD, FY19 net profit fell 4% to RM238.7m from RM247.8m while revenue was flattish at RM2.71b as the stronger average ticket sale per draw by 5% to RM17.6m was offset by a lower number of draws of 167 vs. 180 due to governmental reduction in special draw. Meanwhile, EPPR was slightly higher at 65.0% from 64.8% previously.

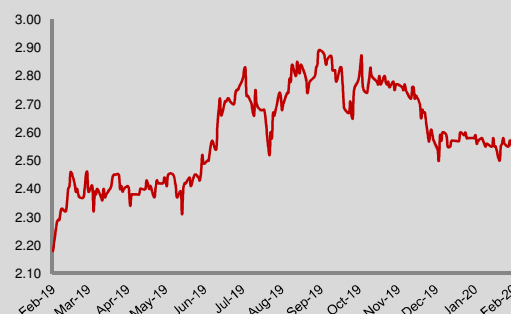
Three special draw cut in 2020 poses minimal impact. The 3 special draw cut to 8 times a year from 2020 onwards will have minimal impact to the NFO players given that these special draws come with 10% additional tax which crimps profitability. While top-line will be reduced by <2%, net profit will be 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 NFO's ticket sales higher. In all, we cut FY20E CNP by 7% as we upped EPPR assumption to 65% from 64.5% while raised operating costs by 1%. Meanwhile, we introduce FY21 forecasts in which we expect earnings to grow by 3% on the back of 3% growth in ticket sales with unchanged EPPR of 65%. Dividend pay-out remains at 80% for both

IBR tax dispute overplayed; Upgrade to OP. MAGNUM was slammed with another IRB tax notice amounting to RM182.8m in Dec last year, pressuring its share prices. In our opinion, the 8% drop is an overreaction as the claim is one-off while the final amount could be lower judging from previous settlement where it paid RM100m penalty for a RM476m tax dispute. Worst case, RM182.8m is equivalent to 13.0 sen/share which is slightly lower than our FY20E NDPS. As such, the current weakness is a buying opportunity. Thus, we upgrade the stock to OP from MP with a revised TP of RM2.75/DCF share from RM2.80/DCF share post earnings revision. **Risks to our upgrade include:** (i) poorer luck factors as well as (ii) decline in ticket sales.

OUTPERFORM ↑

Price : **RM2.54**
Target Price : **RM2.75** ↓

Share Price Performance



KLCI	1,534.98
YTD KLCI chg	-3.4%
YTD stock price chg	-1.2%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MAG MK
Market Cap (RM m)	3,614.3
Shares Outstanding	1,423.0
52-week range (H)	2.90
52-week range (L)	2.27
3-mth avg daily vol:	524,594
Free Float	58%
Beta	0.7

Major Shareholders

Casi Management Sdn Bhd	31.8%
Union Bancaire Privee	3.2%
Shan Hijauan Sdn Bhd	2.9%

Summary Earnings Table

FYE Dec (RM m)	2019	2020E	2021E
Turnover	2705.7	2769.5	2852.6
EBIT	393.8	405.3	414.2
PBT	343.2	355.8	366.4
Net Profit (NP)	238.7	246.5	253.9
Core Net Profit	238.7	246.5	253.9
Consensus (NP)		261.2	270.0
Earnings Revision (%)		-7.0	New
Core EPS (sen)	16.6	17.1	17.7
Core EPS growth (%)	-3.7	3.3	3.0
NDPS (sen)	16.0	13.7	14.1
BV/Share (RM)	1.72	1.76	1.79
NTA/Share (RM)	-0.18	-0.15	-0.11
Core PER (x)	15.5	14.8	14.4
PBV (x)	1.5	1.4	1.4
Price/NTA (x)	-14.1	-17.2	-22.6
Gearing (x)	0.23	0.20	0.17
Net Yield (%)	6.2	5.4	5.6

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Income Statement

	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
Y/E : Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	630.9	652.1	-3%	724.4	-13%	2,705.7	2,704.3	0%
EBITDA	95.6	86.4	11%	121.5	-21%	404.0	372.5	8%
Depreciation	(3.2)	(2.7)	20%	(3.4)	-6%	(10.1)	(8.8)	15%
EBIT	92.4	83.8	10%	118.1	-22%	393.8	363.7	8%
Interest expense	(12.4)	(12.9)	-4%	(13.1)	-5%	(50.6)	(50.4)	0%
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	80.0	70.8	13%	104.9	-24%	343.2	313.3	10%
Taxation	(24.7)	(21.1)	17%	(31.5)	-21%	(102.1)	(205.3)	-50%
Profit after tax	55.2	49.7	11%	73.5	-25%	241.1	108.0	123%
Minority interest	1.0	(1.7)	>100%	(0.6)	>100%	(2.4)	(2.7)	-9%
Net profit	56.3	48.0	17%	72.9	-23%	238.7	105.4	127%
Core net profit	56.3	48.0	17%	72.9	-23%	238.7	247.8	-4%
EPS (sen)	3.9	3.4	17%	5.1	-23%	16.6	17.2	-4%
NDPS (sen)	3.0	4.0	-25%	4.0	-25%	16.0	15.0	7%
NTA/share (RM)	(0.12)	(0.13)	-9%	(0.26)	-53%	(0.12)	(0.26)	-53%
EBITDA margin	15%	13%		17%		15%	14%	
EBIT margin	15%	13%		16%		15%	13%	
Pretax margin	13%	11%		14%		13%	12%	
Effective tax rate	31%	30%		30%		30%	66%	

Source: Company

Segmental Breakdown

Segmental Breakdown	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Segment revenue:								
Gaming	630.5	652.1	-3%	724.4	-13%	2,705.0	2,704.1	0%
Investment Holdings & Others	40.8	266.9	-85%	57.2	-29%	428.0	270.8	58%
Eliminations	(40.4)	(266.8)	-85%	(57.1)	-29%	(427.4)	(270.6)	58%
Group revenue	630.9	652.1	-3%	724.4	-13%	2,705.7	2,704.3	0%
Segment result:								
Gaming	74.7	73.9	1%	103.3	-28%	347.7	352.6	-1%
Investment Holdings & Others	45.6	263.8	-83%	58.8	-22%	422.9	223.0	90%
Eliminations	(40.4)	(266.8)	-85%	(57.1)	-29%	(427.4)	(262.2)	63%
Group PBT	80.0	70.8	13%	104.9	-24%	343.2	313.3	10%
PBT margin:								
Gaming	12%	11%		14%		13%	13%	
Investment Holdings & Others	112%	99%		103%		99%	82%	
Eliminations	100%	100%		100%		100%	97%	
Group PBT margin	13%	11%		14%		13%	12%	

Source: Company

Other NFO Data

FYE Dec (RM m)	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Chg
	FY19	FY19	Chg	FY18	Chg	FY19	FY18	
NFO sales	685.3	708.8	-3%	787.4	-13%	2,940.3	2,939.2	0%
No of draws	42	42	0%	45	-7%	167	180	-7%
Ticket sales per draw	16.3	16.9	-3%	17.5	-7%	17.6	16.3	8%
Estimated prize payout ratio	66.0%	66.5%	-1%	63.6%	4%	65.0%	64.8%	0%

Source: Company

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Valuation - New				
	RM m	RM/Share	%	Valuation Basic
Gaming - PV of FCF for FY20-FY29	1,580.9	1.10	39.8%	5.99% WACC
PV of FCF in Perpetuity	2,322.1	1.62	58.5%	5.99% WACC, g = 2%
Investment Securities	370.5	0.26	9.3%	Estimated FY19 book value
Net Cash/(Debt)	-303.7	-0.21	-7.7%	FY20E
	3,969.7	2.76	100.0%	
No of shares	1,437.7			
Target price per share	RM2.75			Round to the nearest RM0.05

Source: Kenanga Research

Valuation - Old				
	RM m	RM/Share	%	Valuation Basic
Gaming - PV of FCF for FY20-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

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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	06/2020	-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	5.45	20,985.6	N	12/2019	6.1%	5.7%	-29.6%	7.3%	5.6	7.9	7.4	0.6	0.6	7.3%	2.8%	7.00	OP
GENTING MALAYSIA BHD	3.03	17,130.6	N	12/2019	5.5%	2.9%	-21.3%	4.7%	9.5	12.1	11.6	1.0	0.9	7.9%	4.0%	3.30	MP
MAGNUM BHD	2.54	3,614.3	N	12/2020	2.4%	3.0%	3.3%	2.8%	15.3	14.8	14.4	1.5	1.4	9.9%	5.4%	2.75	OP
Simple Average					1.4%	3.8%	-16.1%	4.1%	10.4	12.1	11.7	1.9	1.8	14.3%	4.5%		

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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