

Berjaya Sports Toto Berhad

The Worst is Over

TP: RM2.40 (15.0%)

Last Traded: RM2.09

BUY

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Results Review

- Berjaya Sports Toto's (BJToto) FY20 core profit of RM136.2mn missed analysts' forecasts. The variance was largely due to cancellations of draws during the movement control order (MCO), i.e. 40 draws, which were more than our expectations of 37 draws.
- Adjusting for the timing difference after the change of financial year, BJToto's FY20 revenue and profit before tax declined by 18.3% and 27.8% YoY to RM4.7bn and RM227.1mn, respectively. The decline was underpinned by suspensions of 40 draws (39 normal & 1 special) during the MCO. Moreover, the decline was also attributed to the motor franchising division as H.R. Owen shut down its operations from 23 March to 31 May, in compliance with the UK's lockdown order. In specific, the NFO segment recorded respective 23.8% and 38.2% YoY drop in revenue and operating profit while the motor franchising division recorded respective 12.5% and 53.9% YoY drop in revenue and operating profit for FY20.
- The comparison of the quarterly results is meaningless due to suspension of 4D and lotto games. As far as the balance sheet is concerned, net gearing expanded to 1.2x as at June-20 (vs. 1x as at June-19) with total cash dwindling to RM307mn (vs. RM422mn as at June-19). However, we are not overly concerned as the company has resumed operations on 17 June 2020.
- BJToto declared its third interim dividend with a share distribution of approximately 13.5mn treasury shares on the basis of one treasury share for every one hundred existing shares held. The share dividend is equivalent to approximately 2.4sen per share.

Impact

- We cut our FY21-22 earnings projections by 14.7%-15.6% to factor in lower sales of super cars in 2021-22, in line with the weak global economy outlook. We also reduced our DPS projections to 16-17sen (from 18 previously) for FY21 and FY22.

Outlook

- BJToto's lotto game Supreme Toto 6/58 jackpot has ballooned to more than RM20mn and we believe this would encourage more punters to continue trying their luck especially during this difficult period.
- Like other NFO players, BJToto has been hit hard by the Covid-19 pandemic. As such, we do not think there would be any negative budgetary policies in Budget 2021, which would derail earnings recovery for the NFO sector.

Share Information

Bloomberg Code	BST MK
Stock Code	1562
Listing	Main Market
Share Cap (mn)	1,347.0
Market Cap (RMmn)	RM2,815.2
52-wk Hi/Lo (RM)	2.78/1.94
12-mth Avg Daily Vol ('000 shrs)	1,070
Estimated Free Float (%)	52.3
Beta	0.73

Major Shareholders (%)

Berjaya Corp (47.7%)

Forecast Revision

	FY21	FY22
Forecast Revision (%)	(14.7)	(15.6)
Net profit (RMmn)	230.9	238.7
Consensus	249.5	250.5
TA's / Consensus (%)	92.6	95.3
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY21	FY22
Net Debt / Equity (%)	92.7	90.7
FCPS (sen)	13.5	14.5
Price / CFPS (x)	15.5	14.4
ROA (%)	8.0	7.5
NTA/Share (sen)	3.4	4.0
Price/NTA (x)	61.9	0.0

Scorecard

	% of FY	
vs TA	72.9	Below
vs Consensus	79.0	Below

Share Performance (%)

Price Change	BJTOTO	FBM KLCI
1 mth	(3.2)	(1.2)
3 mth	(8.3)	10.8
6 mth	(21.4)	2.9
12 mth	(24.3)	(1.2)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Valuation

- With the reductions in earnings and DPS, we lower BJToto's DDM-valuation to RM2.40/share (from RM2.67/share previously). We continue to like BJToto for its defensive earnings quality and compelling dividend yield. **Maintain Buy.**

Table 1: Earnings Summary (RMmn)

DDM valuation	
Rf	4%
Rm	14%
Beta	0.8
CAPM	11.4%
NPV	3247.1
Share outstanding (mn share)	1351.0
DDM/share	2.40

Table 2: Earnings Summary (RMmn)

FYE	30 June (RMmn)	2019^#	2020	2021F	2022F	2023F
Revenue		6,693.4	4,653.5	5,394.4	5,557.4	5,687.3
EBITDA		502.7	330.7	435.4	454.2	478.9
EBITDA margin	(%)	7.5	7.1	8.1	8.2	8.4
Pretax profit		419.4	227.1	353.2	365.1	388.3
Net profit		226.8	134.2	230.9	238.7	253.8
Core net profit		232.2	136.2	230.9	238.7	253.8
EPS	(sen)	16.8	10.2	17.1	17.7	18.8
Core EPS	(sen)	14.8	10.4	17.1	17.7	18.8
Core EPS growth	(%)	(14.1)	(29.6)	64.3	3.4	6.3
PER	(x)	14.1	20.1	12.2	11.8	11.1
Net DPS	(sen)	16.0	10.4	16.0	17.0	17.0
Net div yield	(%)	7.7	5.0	7.7	8.1	8.1
Core ROE	(%)	31.9	18.3	31.8	32.3	33.6

^ 14-month ended June

Financial year ended April

Table 3: 4QFY20 Results Analysis (RMmn)

FYE June (RM'mn)	4Q19*	3Q20	4Q20	QoQ (%)	YoY (%)	FY19*	FY20	YoY (%)
Revenue	1,477.9	1,333.5	475.1	(64.4)	(67.9)	5,698.1	4,653.5	(18.3)
EBIT	97.1	86.1	(27.7)	>-100	>-100	432.2	266.5	(38.3)
Finance costs	(12.9)	(16.7)	(16.0)	(3.8)	23.7	(50.7)	(63.8)	26.0
Associates & JV	(2.0)	1.2	(4.5)	>-100	>-100	(7.2)	(1.9)	(73.9)
EI	(82.4)	(8.7)	(2.8)	(67.8)	(96.6)	(88.7)	(3.9)	(95.6)
Pretax profit	8.9	74.3	(45.5)	>-100	>-100	314.6	227.1	(27.8)
Tax	(29.6)	(24.7)	0.3	>100	>100	(134.7)	(91.9)	(31.8)
MI	3.2	(1.0)	0.0	nm	nm	(2.3)	(2.9)	25.5
Reported net profit	(17.5)	48.6	(45.2)	>-100	>-100	177.6	132.4	(25.5)
Core net profit	65.0	57.3	(42.4)	>-100	>-100	266.3	136.2	(48.8)
EPS (sen)	4.9	4.3	(3.0)	>-100	>-100	19.8	10.2	(48.4)
Net DPS (sen)	na	0.0	2.4	nm	nm	0.0	10.4	nm
				%pts	%pts			%pts
EBIT margin (%)	6.6	6.5	(5.8)	(12.3)	(12.4)	7.6	5.7	(1.9)
Pretax margin (%)	0.6	5.6	(9.6)	(15.1)	(10.2)	5.5	4.9	(0.6)
Tax rate (%)	nm	33.3	0.7	(32.6)	nm	42.8	40.5	(2.4)
<i>Other information</i>								
NFO revenue	810.4	749.0	67.8	(90.9)	(91.6)	3,238.2	2,466.6	(23.8)
Number of draws (day)	41.0	36.0	6.0	(30.0)	(35.0)	174.0	126.0	(48.0)
- Normal draws (day)	39.0	33.0	6.0	(27.0)	(33.0)	157.0	117.0	(40.0)
- Special draws (day)	2.0	3.0	0.0	(3.0)	(2.0)	17.0	9.0	(8.0)
Revenue/draw	19.8	20.8	11.3	(45.7)	(42.8)	74.6	71.4	(4.3)
NFO EBIT	103.7	79.1	(20.2)	(125.5)	(119.4)	420.5	259.8	(38.2)
NFO EBIT margin (%)	12.8	10.6	(29.7)	(40.3)	(42.5)	13.0	10.5	(2.5)

* 4Q19 & FY19 results are blended figures of previous results ended April 2019

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Wednesday, August 19, 2020, the analyst, Tan Kam Meng, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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