

19 November 2020

# Berjaya Sports Toto

## Strong Rebound In 1QFY21

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Its 1QFY21 which turned profitable as expected with net profit of RM67.9m, beating expectations owing to stronger-than-expected HRO earnings on impressive car sales boosted by clearing of backlogged orders. Ticket sales were well on track with better luck factor. Going forth, with ticket sales currently at 85% of pre-MCO level, BJTOTO's earnings remain resilient which supports an attractive yield of >6%. We continue to rate the stock an OP with raised TP of RM2.45.

**1QFY21 beat expectations.** At 30% of both our/street's FY21 estimates, 1QFY21 net profit of RM67.9m came above expectations. The main variance between our estimate and actual was owing to stronger-than-expected HR Owen (HRO) earnings on higher sales on backlogs clearing after the COVID-19 lockdown ended on 31 May in the UK. It declared 1<sup>st</sup> interim NDPS of 4.0 sen (ex-date: 30 Dec 2020; payment date: 19 Jan 2021) which is higher than the 2.4 sen paid in 4QFY20 but the same as for 1QFY20.

**Strong sequential rebound from the lockdown...** After its operations re-opening, 1QFY21 turned profitable with net profit of RM67.9m from net loss of RM43.3m in the preceding quarter as revenue surged 183% QoQ to RM1.35b from RM475.1m. The local NFO returned to the black with operating profit of RM98.0m from operating loss of RM20.2m as revenue soared 866% to RM655.2m. This was due to number of draws reverting back to normal at 42 from the MCO-affected 4QFY20 of only 6 draws. Average ticket sales per draw also improved 38% to RM17.0m from RM12.3m. Luck factor (EPPR) also improved to 62.2% from 64.3%. In addition, the improved NFO results were also helped by lower opex.

**...helped by better luck and lower opex.** HRO reported 74% jump in 1QFY21 revenue which led to a strong operating profit of RM22.1m from operating loss of RM8.3m in 4QFY20. The strong earnings, besides benefitting from backlog clearing sales, are also attributed to austerity measures undertaken by HRO and the British government reliefs which made up one-third of the earnings in 1QFY21. Meanwhile, Philippine Gaming Management Corp (PGMC) was still faced with a lockdown in the Philippine; thus, associate income remained at losses of RM5.6m from RM4.5m. YoY, 1QFY21 net profit inched up 1% from RM67.0m while revenue fell 6% from RM1.44b in 1QFY20. Overall, 1QFY21 ticket sales tumbled 18% from average ticket per draw of RM20.7m while EPPR improved from 64.0% in 1QFY20.

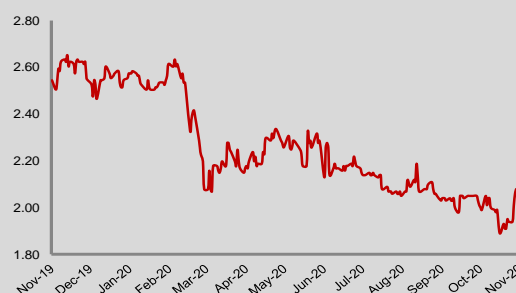
**Ticket sales recovery is encouraging.** NFO operation in 1QFY21 is on track with our forecast with actual ticket sales falling 18% YoY while current ticket sales has recovered to 85% of pre-MCO level. As such, we are comfortable with our FY21E average ticket sales per draw of RM19.2m which is 10% lower than RM21.3m posted in FY20. HRO's results were a pleasant surprise but it should normalise in the coming quarters while PGMC will remain loss-making as the COVID-19 situation in the Philippine is not abating. In all, we upgrade FY21/FY22 estimates by 6%/1% to reflect the strong HRO results in 1QFY21 as well as for cash-flow adjustment. NDPS is also adjusted proportionally based on unchanged 80% pay-out ratio.

**Still attractive valuation; remain OUTPERFORM.** With encouraging recovery in ticket sales, the MCO-led sharp earnings decline in 4QFY20 is seen as a one-off event with BJTOTO earnings regaining its resiliency status. This also supports its attractive >6% dividend yield which is a good avenue for income seekers. Thus, we maintain our OP rating with a higher DCF-derived TP of RM2.45 from RM2.40 post earnings revision. **Risk to our recommendation** is a slowdown in ticket sales and unfavourable luck factor.

# OUTPERFORM ↔

Price : **RM2.10**  
Target Price : **RM2.45** ↑

### Share Price Performance



KLCI	1,604.75
YTD KLCI chg	1.0%
YTD stock price chg	-17.8%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	BST MK
Market Cap (RM m)	2,821.4
Shares outstanding	1,343.5
52-week range (H)	2.65
52-week range (L)	1.88
3-mth avg daily vol:	1,097,561
Free Float	51%
Beta	0.7

### Major Shareholders

Berjaya Corp Bhd	48.0%
Norges Bank	2.3%
Blackrock Inc	1.9%

### Summary Earnings Table

FY Jun (RM m)	2020A	2021E	2022E
Turnover	4653.5	5029.3	5020.7
EBIT	266.5	406.5	394.0
PBT	227.1	346.3	354.8
<b>Net Profit (NP)</b>	<b>134.2</b>	<b>240.0</b>	<b>245.9</b>
<b>Core Net Profit</b>	<b>134.2</b>	<b>240.0</b>	<b>245.9</b>
Consensus (NP)		227.3	243.2
Earnings Revision (%)		5.8	1.1
Core EPS (sen)	9.9	17.8	18.2
Core EPS growth (%)	-50.0	108.6	19.5
NDPS (sen)	10.4	14.2	14.6
BV/Share (RM)	0.55	0.58	0.62
NTA/Share (RM)	0.03	0.07	0.11
Core PER (x)	21.9	11.8	11.5
Price/BV (x)	4.0	3.6	3.4
Price/NTA (x)	63.2	30.3	19.9
Gearing (x)	1.22	1.05	0.95
Net Yields (%)	4.8	6.8	6.9

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Income Statement								
	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
FY Apr (RM m)	FY21	FY20	Chg	FY20	Chg	FY21	FY20	Chg
Turnover	1,345.9	475.1	183%	1,436.9	-6%	1,345.9	1,436.9	-6%
EBITDA	136.4	-11.3	>100%	118.5	15%	136.4	118.5	15%
Depreciation	-16.9	-16.4	3%	-14.3	18%	-16.9	-14.3	18%
EBIT	119.5	-27.7	>100%	104.2	15%	119.5	104.2	15%
Interest & other incomes	3.3	4.5	>100%	15.1	-78%	3.3	15.1	-78%
Investment expenses	-0.1	-1.7	-96%	-0.2	-57%	-0.1	-0.2	-57%
Interest expense	-15.7	-16.0	-2%	-15.4	2%	-15.7	-15.4	2%
Associates	-5.6	-4.5	25%	-0.8	617%	-5.6	-0.8	617%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	101.4	-45.5	>100%	102.9	-1%	101.4	102.9	-1%
Taxation	-32.3	0.3	>100%	-34.9	-8%	-32.3	-34.9	-8%
Profit after tax	69.2	-45.2	>100%	67.9	2%	69.2	67.9	2%
Minority interest	-1.3	1.9	-169%	-1.0	32%	-1.3	-1.0	32%
Net profit	67.9	-43.3	>100%	67.0	1%	67.9	67.0	1%
Core net profit	67.9	-43.3	>100%	67.0	1%	67.9	67.0	1%
EPS (sen)	5.0	-3.2	>100%	5.0	1%	5.0	5.0	1%
NDPS (sen)	4.0	2.4	67%	4.0	0%	4.0	4.0	0%
NTA/share (RM)	0.050	0.077	-35%	0.075	-34%	0.050	0.075	-34%
EBITDA margin	10%	-2%		8%		10%	8%	
EBIT margin	9%	-6%		7%		9%	7%	
Pretax margin	8%	-10%		7%		8%	7%	
Effective tax rate	32%	1%		34%		32%	34%	

Source: Company

Segmental Breakdown								
	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
Segmental Breakdown (RM m)	FY21	FY20	Chg	FY20	Chg	FY21	FY20	Chg
Segment revenue:								
NFO	655.2	67.8	866%	800.5	-18%	655.2	800.5	-18%
HRO	667.2	384.1	74%	601.9	11%	667.2	601.9	11%
Investment & others	23.5	23.2	1%	34.5	-32%	23.5	34.5	-32%
Group revenue	1,345.9	475.1	183%	1,436.9	-6%	1,345.9	1,436.9	-6%
Segment result:								
NFO	98.0	-20.2	>100%	95.3	3%	98.0	95.3	3%
HRO	22.1	-8.3	->100%	7.8	182%	22.1	7.8	182%
Investment & others	-0.6	0.7	-190%	1.0	-161%	-0.6	1.0	-161%
Group EBIT	119.5	-27.7	>100%	104.2	15%	119.5	104.2	15%
EBIT margin:								
NFO	15%	-30%		12%		15%	12%	
HRO	3%	-2%		1%		3%	1%	
Investment & others	-3%	3%		3%		-3%	3%	
Group EBIT margin	9%	-6%		7%		9%	7%	

Source: Company

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Other Data								
	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
FY Apr (RM m)	FY21	FY20	Chg	FY20	Chg	FY21	FY20	Chg
NFO sales	712.2	73.7	866%	870.1	-18%	712.2	870.1	-18%
No of draws	42	6	600%	42	0%	42	42	0%
Ticket sales per draw	17.0	12.3	38%	20.7	-18%	17.0	20.7	-18%
Estimated prize payout ratio	62.2%	64.3%	-3%	64.0%	-3%	62.2%	64.0%	-3%
Dividend payout	53.9	31.8	69%	53.9	0%	53.9	53.9	0%
Attributable profit	67.9	-43.3	-257%	67.0	1%	67.9	67.0	1%
Payout ratio	79.4%	-73.5%	-208%	80.5%	-1%	79.4%	80.5%	-1%

Source: Company

Valuation – New					
(RM m)	RM m	RM/Share	%	Remarks	
PV of FCF for FY21-FY31	1,448.2	1.07	43%	5.4% WACC	
PV of FCF in Perpetuity	2,711.3	2.01	81%	5.4% WACC, g=2%	
Net Cash/(Debt)	-821.0	-0.61	-25%	estimated FY20	
	3,338.5	2.47	100%		
Issued share (m)	1,351.0				
<b>DCF per share</b>	<b>RM2.45</b>			round to the nearest RM0.05	

Source: Kenanga Research

Valuation – Old					
(RM m)	RM m	RM/Share	%	Remarks	
PV of FCF for FY21-FY31	1,500.0	1.11	46%	5.3% WACC	
PV of FCF in Perpetuity	2,491.2	1.84	76%	5.3% WACC, g=2%	
Net Cash/(Debt)	-715.8	-0.53	-22%	estimated FY20	
	3,275.3	2.42	100%		
Issued share (m)	1,351.0				
<b>DCF per share</b>	<b>RM2.40</b>			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	2.10	2,821.4	N	06/2021	8.1%	-0.2%	78.8%	2.5%	21.1	11.8	11.5	3.8	3.6	31.5%	6.8%	2.45	OP
GENTING BHD	4.16	16,018.4	N	12/2020	-50.6%	66.9%	-	292.1%	6.6	N.A.	12.6	0.4	0.5	-0.9%	2.9%	5.10	OP
GENTING MALAYSIA BHD	2.55	14,415.8	N	12/2020	-59.3%	97.5%	-	-24.1%	11.6	N.A.	26.8	0.8	0.9	-4.2%	2.0%	2.75	OP
MAGNUM BHD	2.20	3,161.8	N	12/2020	-31.6%	37.2%	-41.6%	62.2%	13.3	22.7	14.0	1.3	1.3	5.6%	3.5%	2.20	MP
<b>Simple Average</b>					<b>-33.3%</b>	<b>50.4%</b>	<b>-58.2%</b>	<b>83.2%</b>	<b>13.1</b>	<b>17.2</b>	<b>16.2</b>	<b>1.6</b>	<b>1.6</b>	<b>8.0%</b>	<b>3.8%</b>		

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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