

24 February 2021/23-February 2021

Berjaya Sports Toto

Recovery In 2QFY21 Remains Strong

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2QFY21 Net Profit of RM65.1m matched expectations with ticket sales at 80% of pre-COVID level. While upcoming 3QFY21 is expected to be impacted negatively by MCO 2.0, earnings should recover swiftly as was the case in 1HFY21. Cut FY21 earnings estimate by 25% on MCO 2.0 but keep FY22 forecasts intact. Its earnings remain resilient which supports an attractive dividend yield of >5%. Thus, OP maintained at RM2.45.

2QFY21 in line. At 55%/62% of house/street's FY21 estimates, 1HFY21 met our expectations as the earnings recovery in 2QFY21 with net profit of RM65.1m was fairly satisfactory. As for consensus, we believe some analysts could have adjusted for a weak 2HFY21, of which we concur following the on-going MCO 2.0. Meanwhile, it declared a 2nd interim NDPS of 2.5 sen (ex-date: 31 Mar; payment date: 23 Apr) vs. 4.0 sen each paid in 1QFY21 and 2QFY20, bringing 1HFY21 NDPS to 6.5 sen against 8.0 sen paid in the same period last year.

Earnings recovery remained satisfactory. 2QFY21 Net Profit fell 4% QoQ to RM65.1m from RM67.9m in 1QFY21 as revenue slid 8% over the quarter. This was primarily led by the decline in HR Owen (HRO)'s earnings by 37% as its showroom operations were shut down for four weeks as the UK went for a 2nd national lockdown in Nov 2020. However, NFO's operating profit grew 6% to RM104.1m as ticket sales rose 4% with a better estimated prize payout ratio (EPPR) of 60.9% from 62.2% previously. The average ticket sales per draw improved 4% to RM17.6m from RM17.0m with unchanged number of 42 draws. In addition, the improved NFO results were also helped by lower opex.

Ticket sales were 20% lower than last year. Despite revenue falling 12% and 9% YoY in 2QFY21 and 1HFY21, net profit gained 5% and 3% from RM61.9m and RM128.9m in 2QFY20 and 1HFY20 respectively. This is largely due to better luck factor of 60.9% and 61.6% from 63.6% and 63.8%, respectively, besides stronger HRO earnings where the British government's reliefs made up one-third of the earnings in 1QFY21. Meanwhile, total ticket sales tumbled 20% and 19% YoY in 2QFY20 and 1HFY20, fairly in-line with management's guidance of 80%-85% at pre-COVID levels, respectively.

Expecting a weaker 3QFY21. Under the on-going MCO 2.0 with BJTOTO's NFO outlets in all states except Sarawak closed from 12 Jan to 16 Feb, upcoming 3QFY21 ticket sales is expected to be weakened again but should be better than that of MCO 1.0 as the outlets were then closed for almost the entire quarter in 4QFY20. As such, we cut FY21 average ticket sales per draw by 22% to RM14.9m from RM19.2m but keep FY22 at RM20.1m unchanged. Thus, we cut FY21E earnings and NDPS by 25% while keeping FY22 forecasts intact. Our NDPS is based on 80% earnings payout ratio.

Keep OP on attractive valuations. While 3QFY21 is expected to be weaker again following MCO 2.0, earnings should pick up swiftly after this which was witnessed in 1HFY21 ticket sales. This proves its earnings resiliency rendering its attractive yields sustainable making it a good avenue for income seekers. Hence, we reiterate our OP rating with unchanged DCF-derived TP of RM2.45. **Risk to our recommendation** is a slower-than-expected ticket sales recovery and unfavourable luck factor.

OUTPERFORM ↔

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

Share Price Performance



KLCI 1,565.05
YTD KLCI chg -3.8%
YTD stock price chg -4.1%

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)	2.61
52-week range (L)	1.88
3-mth avg daily vol:	991,800
Free Float	51%
Beta	0.7

Major Shareholders

Berjaya Corp Bhd	48.0%
Norges Bank	2.3%
Blackrock Inc	1.8%

Summary Earnings Table

FY Jun (RM m)	2020A	2021E	2022E
Turnover	4653.5	4379.3	5020.7
EBIT	266.5	321.7	394.0
PBT	227.1	261.6	354.1
Net Profit (NP)	134.2	181.3	245.9
Core Net Profit	134.2	181.3	245.9
Consensus (NP)		213.9	245.1
Earnings Revision (%)		-24.5	-
Core EPS (sen)	9.9	13.4	18.2
Core EPS growth (%)	-50.0	57.6	58.2
NDPS (sen)	10.4	10.7	14.6
BV/Share (RM)	0.55	0.57	0.61
NTA/Share (RM)	0.03	0.06	0.10
Core PER (x)	21.9	15.7	11.5
Price/BV (x)	4.0	3.7	3.4
Price/NTA (x)	63.2	34.6	21.6
Gearing (x)	1.22	1.08	0.98
Net Yields (%)	4.8	5.1	6.9

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Income Statement

	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
FY Jun (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Turnover	1,233.9	1,345.9	-8%	1,408.0	-12%	2,579.8	2,844.9	-9%
EBITDA	124.3	136.4	-9%	120.0	4%	260.7	238.4	9%
Depreciation	-16.4	-16.9	-3%	-16.0	2%	-33.3	-30.3	10%
EBIT	107.9	119.5	-10%	103.9	4%	227.4	208.1	9%
Interest & other incomes	6.4	3.3	94%	5.2	25%	9.7	20.2	-52%
Investment expenses	0.1	-0.1	-200%	-0.1	-163%	0.0	-0.3	-100%
Interest expense	-15.2	-15.7	-3%	-15.8	-3%	-30.9	-31.2	-1%
Associates	-3.8	-5.6	-33%	2.2	-273%	-9.4	1.4	-773%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	95.4	101.4	-6%	95.4	0%	196.9	198.3	-1%
Taxation	-29.4	-32.3	-9%	-32.6	-10%	-61.7	-67.5	-9%
Profit after tax	66.0	69.2	-5%	62.8	5%	135.2	130.8	3%
Minority interest	-1.0	-1.3	-26%	-0.9	7%	-2.3	-1.9	20%
Net profit	65.1	67.9	-4%	61.9	5%	132.9	128.9	3%
Core net profit	65.1	67.9	-4%	61.9	5%	132.9	128.9	3%
EPS (sen)	4.8	5.0	-4%	4.6	5%	9.8	9.5	3%
NDPS (sen)	2.5	4.0	-38%	4.0	-38%	6.5	8.0	-19%
NTA/share (RM)	0.070	0.050	40%	0.082	-14%	0.070	0.082	-14%
EBITDA margin	10%	10%		9%		10%	8%	
EBIT margin	9%	9%		7%		9%	7%	
Pretax margin	8%	8%		7%		8%	7%	
Effective tax rate	31%	32%		34%		31%	34%	

Source: Company

Segmental Breakdown

	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
Segmental Breakdown (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Segment revenue:								
NFO	680.3	655.2	4%	849.2	-20%	1,335.5	1,649.7	-19%
HRO	541.4	667.2	-19%	537.3	1%	1,208.5	1,139.2	6%
Investment & others	12.3	23.5	-48%	21.5	-43%	35.8	56.0	-36%
Group revenue	1,233.9	1,345.9	-8%	1,408.0	-12%	2,579.8	2,844.9	-9%
Segment result:								
NFO	104.1	98.0	6%	105.5	-1%	202.1	200.9	1%
HRO	14.0	22.1	-37%	7.1	96%	36.1	15.0	141%
Investment & others	-10.1	-0.6	1550%	-8.7	16%	-10.7	-7.7	39%
Group EBIT	107.9	119.5	-10%	103.9	4%	227.4	208.1	9%
EBIT margin:								
NFO	15%	15%		12%		15%	12%	
HRO	3%	3%		1%		3%	1%	
Investment & others	N/A	N/A		N/A		N/A	N/A	
Group EBIT margin	9%	9%		7%		9%	7%	

Source: Company

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Other Data								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
FY Jun (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
NFO sales	739.4	712.2	4%	923.1	-20%	1,451.6	1,793.2	-19%
No of draws	42	42	0%	42	0%	84	84	0%
Ticket sales per draw	17.6	17.0	4%	22.0	-20%	17.3	21.3	-19%
Estimated prize payout ratio	60.9%	62.2%	-2%	63.6%	-4%	61.6%	63.8%	-3%
Dividend payout	33.6	53.9	-38%	53.9	-38%	87.5	107.8	-19%
Attributable profit	65.1	67.9	-4%	61.9	5%	132.9	128.9	3%
Payout ratio	51.6%	79.4%	-35%	87.0%	-41%	65.8%	83.6%	-21%

Source: Company

Valuation - New					
(RM m)	RM m	RM/Share	%	Remarks	
PV of FCF for FY21-FY31	1,427.0	1.06	43%	5.4% WACC	
PV of FCF in Perpetuity	2,713.5	2.01	82%	5.4% WACC, g=2%	
Net Cash/(Debt)	-831.7	-0.62	-25%	estimated FY21	
	3,308.8	2.45	100%		
Issued share (m)	1,351.0				
DCF per share	RM2.45				

Source: Kenanga Research

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 FY21	
	3,338.5	2.47	100%		
Issued share (m)	1,351.0				
DCF per share	RM2.45			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	-5.9%	14.6%	35.1%	35.6%	21.1	15.6	11.5	3.8	3.7	24.0%	5.1%	2.45	OP
GENTING BHD	4.65	17,905.2	N	12/2020	-45.5%	58.0%	-78.6%	135.0%	7.3	34.3	14.6	0.5	0.5	1.4%	2.6%	5.80	OP
GENTING MALAYSIA BHD	2.87	16,224.8	N	12/2020	-56.5%	86.4%	-237.5%	-77.6%	13.0	N.A.	42.3	0.9	1.1	-10.6%	3.8%	2.45	MP
MAGNUM BHD	2.25	3,233.7	N	12/2020	-37.7%	45.1%	-51.6%	88.7%	13.6	28.0	14.8	1.3	1.3	4.6%	2.8%	2.10	MP
Simple Average					-36.4%	51.1%	-83.2%	45.4%	13.8	26.0	20.8	1.6	1.6	4.9%	3.6%		

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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