

19 November 2021

Berjaya Sports Toto

Lockdown Closure Hit 1QFY22

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The 1QFY22 loss was already highly anticipated given the MCO 3.0 lockdown. However, recovery in ticket sales post re-opening has been slow, initially booking 50%-60% of pre-COVID level to 70%-75% currently against 80%-85% prior to the lockdown. We are now expecting recovery to 80-85% level in 2HFY22 before a full recovery in FY23. Even then, BJTOTO still offers above average dividend yield of >5% with potential recovery to >7%. As such, we continue to rate the stock an OP with a revised TP of RM2.23.

The loss in 1QFY22 was already expected given the lockdown closure but ticket sales after reopening of 50%-60% at pre-COVID level was much lower than the 80%-85% levels prior to the MCO 3.0 lockdown. 1QFY22 core loss of RM17.7m was posted against house/street's FY22 net profit forecasts of RM209.2m/RM168.8m. Despite the losses, 1st NDPS of 1.0 sen (ex-date: 16 Dec 2021; payment date: 05 Jan 2022) was declared in 1QFY22 which is not a surprise as the reopening of outlets has improved earnings certainty.

Lockdown closure hit earnings badly with 1QFY22 turning to core loss of RM17.7m against core profit of RM30.5m in the preceding quarter as revenue plunged 29% over the quarter. There was only 8 draws in 1QFY22 against 28 draws in 4QFY21 given the cancellation of 37 draws from 15 draws due to the MCO 3.0 lockdown. However, average ticket sales per draw fell sharply to RM10.1m from RM17.5m while we also estimated that prize payout ratio (EPPR) rose to 65.9% from 62.2%. This led to its NFO operations reported operating loss of RM26.6m from EBIT of RM47.8m previously. However, HR Owen (HRO)'s earnings remained strong at RM27.3m from RM28.4m while share of associate income turned positive with RM0.5m profit from loss of RM6.2m previously given the overall improved results from the Philippines units as movement restriction there eased.

HRO's earnings remained strong. Comparing to core profit of RM67.9m in 1QFY21, 1QFY22 losses were largely attributable to the abovementioned MCO 3.0 lockdown where 1QFY21 conducted 42 draws vs. 8 draws in 1QFY22 while average ticket sales per draw was RM17.0m against RM10.1m. 1QFY22 EPPR was 65.9% from 62.2% previously. Similarly to sequential comparison, HRO also posted 23% YoY jump in EBIT from RM22.1m while share of associate income turned profitable from loss of RM5.6m last year.

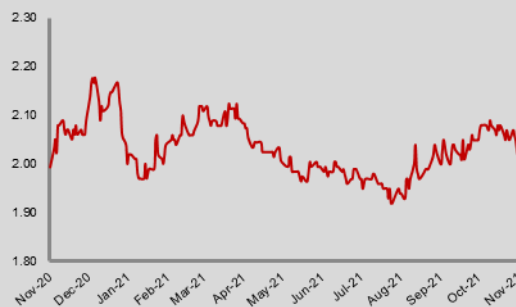
2QFY22 to turn around but ticket sales may still be weak. Although NFO outlets were allowed to re-open from 14 Sep 2021 against our assumption of 01 Oct, overall FY22 ticket sales is expected to be lower than our estimates given the slow recovery standing at 70%-75% currently of pre-COVID levels against 80-85% prior to MCO 3.0 lockdown. Together with Kedah banning NFO outlets, we cut FY22E/FY23E ticket sales by 2%/9% to RM2.46b/RM3.06b. On the other hand, we downgrade FY22/FY23 earnings estimates by 11%/12% given the ticket sales cut, one-off Prosperity Tax in 2022 but keep associate income assumption unchanged for now pending sustainability.

Reiterate OP on good valuations. We still like this yielding stock which is supported by its earnings resiliency, making it a good avenue for income seekers. While 1QFY22 ticket sales recovery may be slow, we expect ticket sales to pick up swiftly to 80-85% of pre-COVID level in 2HFY22 and a full recovery is expected in FY23. Post earnings revision, our DCF-derived TP is trimmed slightly to RM2.23 from RM2.42. It remains as OP. **Risks to our call** include a slower-than-expected ticket sales recovery and unfavourable luck factor.

OUTPERFORM ↔

Price : RM1.97
Target Price : RM2.23 ↓

Share Price Performance



KLCI	1,523.79
YTD KLCI chg	-6.4%
YTD stock price chg	-10.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	BST MK
Market Cap (RM m)	2,630.1
Shares outstanding	1,341.9
52-week range (H)	2.27
52-week range (L)	1.92
3-mth avg daily vol:	543,386
Free Float	51%
Beta	0.7

Major Shareholders

Berjaya Corp Bhd	48.5%
Norges Bank	1.8%
Blackrock Inc	1.6%

Summary Earnings Table

FY Jun (RM m)	2021A	2022E	2023E
Turnover	4829.1	4954.5	5904.9
EBIT	347.2	324.1	432.6
PBT	281.5	267.4	385.3
Net Profit (NP)	182.1	186.4	261.6
Core Net Profit	182.1	186.4	261.6
Consensus (NP)		168.8	240.7
Earnings Revision (%)		-10.9	-11.5
Core EPS (sen)	13.5	13.8	19.4
Core EPS growth (%)	58.2	19.4	63.7
NDPS (sen)	8.0	11.0	15.5
BV/Share (RM)	0.60	0.62	0.66
NTA/Share (RM)	0.08	0.10	0.14
Core PER (x)	14.5	14.2	10.1
Price/BV (x)	3.3	3.2	3.0
Price/NTA (x)	24.6	20.1	14.4
Gearing (x)	0.96	1.02	0.96
Net Yields (%)	4.0	5.6	7.9



19 November 2021

Income Statement								
	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
FY Jun (RM m)	FY22	FY21	Chg	FY21	Chg	FY22	FY21	Chg
Turnover	797.6	1,127.0	-29%	1,345.9	-41%	797.6	1,345.9	-41%
EBITDA	14.3	91.7	-84%	136.4	-90%	14.3	136.4	-90%
Depreciation	-16.4	-17.5	-6%	-16.9	-3%	-16.4	-16.9	-3%
EBIT	-2.2	74.2	N/M	119.5	N/M	-2.2	119.5	N/M
Interest & other incomes	4.8	2.8	72%	3.3	44%	4.8	3.3	44%
Investment expenses	-0.3	-6.6	-95%	-0.1	371%	-0.3	-0.1	371%
Interest expense	-15.1	-14.9	2%	-15.7	-3%	-15.1	-15.7	-3%
Associates	0.5	-6.2	N/M	-5.6	N/M	0.5	-5.6	N/M
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	-12.4	49.2	N/M	101.4	N/M	-12.4	101.4	N/M
Taxation	-2.5	-17.2	-86%	-32.3	-92%	-2.5	-32.3	-92%
Profit after tax	-14.9	32.0	N/M	69.2	N/M	-14.9	69.2	N/M
Minority interest	-2.8	-1.5	89%	-1.3	115%	-2.8	-1.3	115%
Net profit	-17.7	30.5	N/M	67.9	N/M	-17.7	67.9	N/M
Core net profit	-17.7	30.5	N/M	67.9	N/M	-17.7	67.9	N/M
EPS (sen)	-1.3	2.3	N/M	5.0	N/M	-1.3	5.0	N/M
NDPS (sen)	1.0	0.0	N/M	4.0	-75%	1.0	4.0	-75%
NTA/share (RM)	0.052	0.081	-35%	0.050	5%	0.052	0.050	5%
EBITDA margin	2%	8%		10%		2%	10%	
EBIT margin	0%	7%		9%		0%	9%	
Pretax margin	-2%	4%		8%		-2%	8%	
Effective tax rate	-20%	35%		32%		-20%	32%	

Source: Company

Segmental Breakdown								
	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
Segmental Breakdown (RM m)	FY22	FY21	Chg	FY21	Chg	FY22	FY21	Chg
Segment revenue:								
NFO	74.2	449.7	-83%	655.2	-89%	74.2	655.2	-89%
HRO	707.1	661.9	7%	667.2	6%	707.1	667.2	6%
Investment & others	16.3	15.4	6%	23.5	-31%	16.3	23.5	-31%
Group revenue	797.6	1,127.0	-29%	1,345.9	-41%	797.6	1,345.9	-41%
Segment result:								
NFO	-26.6	47.8	N/M	98.0	N/M	-26.6	98.0	N/M
HRO	27.3	28.4	-4%	22.1	23%	27.3	22.1	23%
Investment & others	-2.9	-2.1	35%	-0.6	367%	-2.9	-0.6	367%
Group EBIT	-2.2	74.2	-103%	119.5	-102%	-2.2	119.5	-102%
EBIT margin:								
NFO	-36%	11%		15%		-36%	15%	
HRO	4%	4%		3%		4%	3%	
Investment & others	-18%	-14%		-3%		-18%	-3%	
Group EBIT margin	0%	7%		9%		0%	9%	

Source: Company

19 November 2021

Other Data								
	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
FY Jun (RM m)	FY22	FY21	Chg	FY21	Chg	FY22	FY21	Chg
NFO sales	80.7	488.8	-83%	712.2	-89%	80.7	712.2	-89%
No of draws	8	28	-71%	42	-81%	8	42	-81%
Ticket sales per draw	10.1	17.5	-42%	17.0	-41%	10.1	17.0	-41%
Estimated prize payout ratio	65.9%	62.2%	6%	62.2%	6%	65.9%	62.2%	6%
Dividend payout	13.4	0.0	N/A	53.9	-75%	13.4	53.9	-75%
Attributable profit	-17.7	30.5	N/M	67.9	N/M	-17.7	67.9	N/M
Payout ratio	N/M	0.0%	N/A	79.4%	N/A	N/M	79.4%	N/A

Source: Company

Valuation - BJTOTO (New)					
(RM m)	RM m	RM/Share	%	Remarks	
PV of FCF for FY22-FY31	1,261.7	0.93	42%	5.7% WACC	
PV of FCF in Perpetuity	2,598.5	1.92	86%	5.7% WACC, g=2%	
Net Cash/(Debt)	-853.0	-0.63	-28%	estimated FY22	
	3,007.1	2.23	100%		
Issued share (m)	1,351.0				
DCF per share	RM2.23				

Source: Kenanga Research

Valuation - BJTOTO (Old)					
(RM m)	RM m	RM/Share	%	Remarks	
PV of FCF for FY22-FY31	1,354.3	1.00	41%	5.6% WACC	
PV of FCF in Perpetuity	2,768.3	2.05	85%	5.6% WACC, g=2%	
Net Cash/(Debt)	-848.7	-0.63	-26%	estimated FY22	
	3,273.8	2.42	100%		
Issued share (m)	1,351.0				
DCF per share	RM2.42				

Source: Kenanga Research

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19 November 2021

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	1.96	2,630.1	N	06/2022	2.6%	19.2%	2.4%	40.3%	14.5	14.2	10.1	3.3	3.2	22.6%	5.6%	2.23	OP
GENTING BHD	5.08	19,560.9	N	12/2021	43.8%	49.3%	69.1%	460.0%	91.6	54.1	9.7	0.6	0.6	1.1%	147.6%	6.47	OP
GENTING MALAYSIA BHD	3.13	17,694.5	N	12/2021	6.3%	101.8%	-173.1%	-17.2%	N.A.	N.A.	21.4	1.2	1.4	-7.3%	1.9%	3.47	OP
MAGNUM BHD	2.04	2,931.8	N	12/2021	-21.1%	82.8%	-35.9%	228.5%	28.8	44.8	13.6	1.2	1.2	2.7%	1.8%	2.04	MP
Simple Average					7.9%	63.3%	-34.4%	177.9%	45.0	37.7	13.7	1.6	1.6	4.8%	39.2%		

Source: Bloomberg, Kenanga Research

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19 November 2021

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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