

23 February 2022

Berjaya Sports Toto

A Soft 2QFY22

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The turnaround in 2QFY22 was highly expected given the resumption of business but the earnings were weaker than expected owing to the slower ticket sales recovery. Nonetheless, as the current ticket sales are nudging closer to pre-MCO 3.0 lockdown levels, we expect recovery to revert to 80%-85% of pre-COVID levels in 2HFY22 before full recovery in FY23. We continue to rate the stock an OP with a revised TP of RM2.22 for its above average dividend yields.

2QFY22 below expectation with net profit of RM53.3m bringing 1HFY22 net income to RM35.6m which accounted for 19% of our forecast as ticket sales recovery was slower than expected but met consensus at 24%. The recovery of NFO ticket sales post MCO 3.0 lockdown was slower than our estimate of 50%-60% initially before recovering to 70%-75% in 2QFY22. Meanwhile, it declared 2nd interim NDPS of 1.0 sen (ex-date: 30 Mar; 22 Apr), totalling YTD 1HFY22 to 2.0 sen against 6.5 sen paid in 1HFY21.

Turnaround sequentially as business resumed. 2QFY22 net profit of RM53.3m posted from net loss of RM12.4m in the preceding quarter as the resumption of business from 14 Sep 2021 boosted revenue up by 56%. There were 45 draws conducted in 2QFY22 from 8 draws previously while average ticket sales per draw rose to RM14.2m vs. RM10.1m previously. We estimated the prize payout ratio (EPPR) at 63.1% from 65.9%. Meanwhile, HR Owen (HRO) posted lower EBIT by 33% to RM18.3m as revenue fell 10% owing to lower car sales as the UK authority implemented restrictions due to the rising COVID cases there.

But the recovery was slower than expected. 2QFY21 net profit fell 18% YoY from RM65.1m, despite revenue rising slightly by 1%, as NFO earnings declined 26% owing to lower total ticket sales by 13% as the recovery was slow at 70%-75% vs. 80%-85% of pre-COVID levels previously. Thus, average ticket sales per draw contracted 19% from RM17.6m. The higher revenue was mainly attributable to higher car sales from HRO by 18%. YTD, 1HFY22 net profit plunged 73% to RM35.6m from RM132.9m solely due to the MCO 3.0 lockdown in 1QFY22 which saw its total ticket sales falling 50%. However, HRO reported higher operating profit by 26% on higher car sales coupled with favourable forex of converting GBP to MYR.

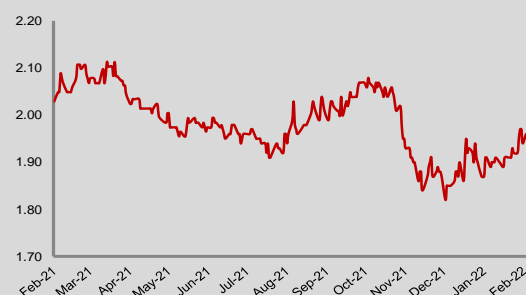
A better 2HFY22 as ticket sales are slowly back to pre-MCO 3.0 lockdown levels where the ticket sales were at c.80% of pre-COVID levels in Feb. With government authority quoted saying that the country will not go back to lockdown even as COVID cases are rising, we believe ticket sales is unlikely to see substantial decline. As such, upcoming results will only get better. Post-2QFY22 results, we trimmed our FY22 ticket assumption by 9% to RM16.0m per draw which led us to cut FY22 estimates by 13% while NDPS is also cut proportionally based on unchanged 80% payout. However, we keep our FY23 estimates unchanged.

Maintain OP for earnings recovery which supports its decent yield. We continue to like this high yielding stock which is supported by the recovery of ticket sales, making it a good avenue for income seekers. 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 reduced slightly to RM2.22 from RM2.23. **OP retained. Risks to our call** include a slower-than-expected ticket sales recovery and unfavourable luck factor.

OUTPERFORM ↔

Price : RM1.92
Target Price : RM2.22 ↓

Share Price Performance



KLCI	1,576.96
YTD KLCI chg	0.6%
YTD stock price chg	1.1%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	BST MK
Market Cap (RM m)	2,576.4
Shares outstanding	1,341.9
52-week range (H)	2.18
52-week range (L)	1.81
3-mth avg daily vol:	435,647
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	4752.7	5904.9
EBIT	347.2	288.8	432.6
PBT	281.5	232.2	385.3
Net Profit (NP)	182.1	161.8	261.6
Core Net Profit	182.1	161.8	261.6
Consensus (NP)		145.6	233.5
Earnings Revision (%)		-13.2	-
Core EPS (sen)	13.5	12.0	19.4
Core EPS growth (%)	58.2	3.7	88.6
NDPS (sen)	8.0	9.6	15.5
BV/Share (RM)	0.60	0.62	0.65
NTA/Share (RM)	0.08	0.09	0.13
Core PER (x)	14.7	16.0	9.9
Price/BV (x)	3.3	3.1	2.9
Price/NTA (x)	24.6	20.4	14.5
Gearing (x)	0.96	1.02	0.97
Net Yields (%)	4.0	5.0	8.1

23 February 2022

Income Statement								
FY Jun (RM m)	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Turnover	1,245.4	797.6	56%	1,233.9	1%	2,042.9	2,579.8	-21%
EBITDA	103.4	14.3	624%	124.3	-17%	117.7	260.7	-55%
Depreciation	-16.1	-16.4	-2%	-16.4	-2%	-32.6	-33.3	-2%
EBIT	87.3	-2.2	>100%	107.9	-19%	85.1	227.4	-63%
Interest & other incomes	4.7	4.8	-1%	6.4	-26%	9.5	9.7	-2%
Investment expenses	-0.2	-0.3	-36%	0.1	-403%	-0.5	0.0	N/A
Interest expense	-15.3	-15.1	1%	-15.2	1%	-30.5	-30.9	-1%
Associates	3.3	0.5	631%	-3.8	-188%	3.8	-9.4	-140%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	79.8	-12.4	-743%	95.4	-16%	67.4	196.9	-66%
Taxation	-24.6	-2.5	903%	-29.4	-16%	-27.1	-61.7	-56%
Profit after tax	55.1	-14.9	>100%	66.0	-16%	40.3	135.2	-70%
Minority interest	-1.9	-2.8	-33%	-1.0	96%	-4.7	-2.3	107%
Net profit	53.3	-17.7	>100%	65.1	-18%	35.6	132.9	-73%
Core net profit	53.3	-17.7	>100%	65.1	-18%	35.6	132.9	-73%
EPS (sen)	3.9	-1.3	>100%	4.8	-18%	2.6	9.8	-73%
NDPS (sen)	1.0	1.0	0%	2.5	-60%	2.0	6.5	-69%
NTA/share (RM)	0.08	0.05	51%	0.07	13%	0.08	0.07	13%
EBITDA margin	8%	2%		10%		6%	10%	
EBIT margin	7%	0%		9%		4%	9%	
Pretax margin	6%	-2%		8%		3%	8%	
Effective tax rate	31%	-20%		31%		40%	31%	

Source: Company

Segmental Breakdown								
Segmental Breakdown (RM m)	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Segment revenue:								
NFO	589.5	74.2	694%	680.3	-13%	663.7	1,335.5	-50%
HRO	639.4	707.1	-10%	541.4	18%	1,346.5	1,208.5	11%
Investment & others	16.5	16.3	1%	12.3	34%	32.8	35.8	-8%
Group revenue	1,245.4	797.6	56%	1,233.9	1%	2,042.9	2,579.8	-21%
Segment result:								
NFO	76.5	-26.6	-388%	104.1	-26%	50.0	202.1	-75%
HRO	18.3	27.3	-33%	14.0	31%	45.6	36.1	26%
Investment & others	-7.5	-2.9	163%	-10.1	-26%	-10.4	-10.7	-3%
Group EBIT	87.3	-2.2	>100%	107.9	-19%	85.1	227.4	-63%
EBIT margin:								
NFO	13%	-36%		15%		8%	15%	
HRO	3%	4%		3%		3%	3%	
Investment & others	N/A	N/A		- N/A		N/A	N/A	
Group EBIT margin	7%	0%		9%		4%	9%	

Source: Company

23 February 2022

Other Data								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
FY Jun (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
NFO sales	640.7	80.7	694%	739.4	-13%	721.4	1,451.6	-50%
No of draws	45	8	463%	42	7%	53	84	-37%
Ticket sales per draw	14.2	10.1	41%	17.6	-19%	13.6	17.3	-21%
Estimated prize payout ratio	63.1%	65.9%	-4%	60.9%	3%	63.4%	61.6%	3%
Dividend payout	13.4	13.4	0%	33.6	-60%	26.8	87.5	-69%
Attributable profit	53.3	-17.7	>100%	65.1	-18%	35.6	132.9	-73%
Payout ratio	25.2%	N/A	N/A	51.6%	-51%	75.3%	65.8%	14%

Source: Company

Valuation - BJTOTO (New)					
(RM m)	RM m	RM/Share	%	Remarks	
PV of FCF for FY22-FY31	1,248.3	0.92	42%	5.7% WACC	
PV of FCF in Perpetuity	2,599.3	1.92	87%	5.7% WACC, g=2%	
Net Cash/(Debt)	-850.0	-0.63	-28%	estimated FY22	
	2,997.6	2.22	100%		
Issued share (m)	1,351.0				
DCF per share	RM2.22				

Source: Kenanga Research

Valuation - BJTOTO (Old)					
(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

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23 February 2022

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.	Hi st.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
BERJAYA SPORTS TOTO BHD	1.92	2,576.4	N	06/2022	-1.6%	24.2%	-11.1%	61.7%	14.2	16.0	9.9	3.2	3.1	19.7%	5.0%	2.22	OP
GENTING BHD	4.63	17,828.2	N	12/2021	8.0%	83.0%	-111.1%	6737.5%	83.5	N.A.	11.0	0.5	0.5	-0.1%	162.0%	6.38	OP
GENTING MALAYSIA BHD	2.86	16,168.1	N	12/2021	6.3%	101.8%	-180.8%	-24.8%	N.A.	N.A.	19.6	1.1	1.3	-8.1%	2.1%	3.41	OP
MAGNUM BHD	1.93	2,773.8	N	12/2021	-25.6%	77.4%	-82.0%	909.6%	27.2	151.2	15.0	1.2	1.2	0.8%	0.5%	1.96	MP
Simple Average					-3.2%	71.6%	-96.2%	1921.0%	41.6	83.6	13.9	1.5	1.5	3.1%	42.4%		

Source: Bloomberg, Kenanga Research

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23 February 2022

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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