

19 August 2022

Magnum Bhd

A Long Recovery Road from Pandemic

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1HFY22 results fell short of expectations due to a slower-than-expected recovery in ticket sales (at about 71% of pre-COVID-19 levels) coupled with an abnormally high prize payout ratio of close to 70% (vs. theoretical 67%). We cut our FY22-23F net profit by 16%/6% and reduce our DCF-derived TP by 18% to RM1.59 (WACC: 7.2%; TG: 2%) partly also to reflect a higher risk-free rate.

1HFY22 results came below expectations, with net profit of RM43.1m making up only 30%/25% of house/street's FY22 estimates. This was due to: (i) weak ticket sales of RM12.6m/draw vs. our FY22 assumption of RM13.6m/draw; and, (ii) high prize payout rate (EPPR) of 69.7% vs. our FY22 assumption of 68.0%. It declared 2nd interim NDPS of 1.5 sen, (ex-date: 14 Sep; payment date: 30 Sep), totalling 1HFY22 NDPS to 2.5 sen vs. none in 1HFY21.

Ticket sales remained weak. 1HFY22 net profit of RM43.1m jumped 350% from RM9.6m in 1HFY21 as there was a nationwide total lockdown from 1 Jun 2021 with revenue leaping 38% over the period. But, 2QFY22 ticket sales were still weak at RM12.5m/draw which was slightly lower than that of RM12.7m/draw in 1QFY22, at only 71% of pre-COVID level (FY19A: RM17.6m). Besides, EPPR of 69.7% in 1HFY22 was also higher than the theoretical ratio of 67%.

We cut our FY22/FY23 earnings forecasts by 16%/6% on lower assumption for: (i) ticket sales per draw to RM12.7m/RM14.0m from RM13.6m/RM14.9m; and, (ii) EPPR to 69%/67% from 68%/67%. Accordingly, NDPS is also trimmed proportionally based on unchanged 80% payout.

A better FY22 but recovery is still slow. While FY22 is definitely better than past two years which was hit hard by lockdowns, the ticket sales recovery is fairly slow, chalking only 71% of pre-COVID level in 1HFY22. As such, we are now expecting ticket sales to recover to 72%/79% of pre-COVID levels in FY22/FY23 from 77%/85% previously. Having said that, authority enforcement on illegal operator would be the main kicker for ticket sales growth in the future.

A dividend play. MAGNUM's recovery prospects from the pandemic are weak amidst high inflation that is eating into consumers' disposable incomes coupled with an aging customer profile specific for the industry. We cut our FY22F and FY23F net profit by 16% and 6%, respectively, and reduce our DCF-derived TP by 18% to RM1.59 (WACC: 7.2%; TG: 2%) from RM1.93 (WACC: 6.4%; TG: 2%) partly to reflect a higher risk-free rate. There is no adjustment to our TP based on ESG of which it is given a 3-star rating as appraised by us. The only saving grace is a decent dividend yield of 4-6%.

Risks to our recommendation:(i) non-renewal of licenses; (ii) unfavourable prize payout ratios; (iii) weak consumer spending amidst high inflation; and (iv) products perceived to be socially undesirable.

MARKET PERFORM ↔

Price : RM1.66
Target Price : RM1.59 ↓

Share Price Performance



KLCI 1,516.62
YTD KLCI chg -3.2%
YTD stock price chg -12.6%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MAG MK
Market Cap (RM m)	2,385.7
Shares Outstanding	1,437.2
52-week range (H)	2.18
52-week range (L)	1.60
3-mth avg daily vol:	393,816
Free Float	61%
Beta	0.6

Major Shareholders

Casi Management Sdn Bhd	30.4%
Mwe Holdings Berhad	4.6%
Shan Hijauan Sdn Bhd	3.5%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022F	2023F
Turnover	1259.6	2058.1	2263.9
EBIT	66.4	227.9	288.9
PBT	25.2	183.0	246.1
Net Profit (NP)	0.2	119.6	185.1
Core Net Profit	0.2	119.6	185.1
Consensus (NP)		172.6	219.4
Earnings Revision (%)		-16.1	-5.9
Core EPS (sen)	0.0	8.3	12.9
Core EPS growth (%)	-99.8	>100	54.8
NDPS (sen)	1.5	6.7	10.3
BV/Share (RM)	1.64	1.66	1.69
NTA/Share (RM)	-0.26	-0.24	-0.22
Core PER (x)	N/A	20.0	12.9
PBV (x)	1.1	1.0	1.0
Price/NTA (x)	-7.2	-6.9	-7.7
Gearing (x)	0.32	0.24	0.23
Net Yield (%)	0.8	4.0	6.2

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Income Statement

Y/E: Dec (RM m)	2Q FY22	4Q FY22	Q-o-Q Chg	2Q FY21	Y-o-Y Chg	1H FY22	1H FY21	Y-o-Y Chg
Turnover	482.1	501.0	-4%	326.5	48%	983.2	710.4	38%
EBITDA	51.8	46.1	12%	27.9	86%	97.8	48.4	102%
Depreciation	-2.1	-2.1	0%	-2.6	-21%	-4.1	-5.1	-19%
EBIT	49.7	44.0	13%	25.3	97%	93.7	43.2	117%
Interest expense	-11.6	-11.5	0%	-10.8	7%	-23.1	-16.1	43%
Associates	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	38.1	32.4	18%	14.5	164%	70.6	27.1	160%
Taxation	-11.5	-15.6	-26%	-12.5	-8%	-27.1	-17.8	52%
Profit after tax	26.6	16.9	58%	1.9	1266%	43.5	9.3	368%
Minority interest	-0.2	-0.2	-5%	0.1	-289%	-0.4	0.3	-244%
Net profit	26.4	16.7	59%	2.1	1187%	43.1	9.6	350%
Core net profit	26.4	16.7	59%	2.1	1187%	43.1	9.6	350%
EPS (sen)	1.8	1.2	59%	0.1	1187%	3.0	0.7	350%
NDPS (sen)	1.5	1.0	50%	0.0	N/A	2.5	0.0	N/A
NTA/share (RM)	-0.26	-0.26	-3%	-0.25	1%	-0.26	-0.25	1%
EBITDA margin	11%	9%		9%		10%	7%	
EBIT margin	10%	9%		8%		10%	6%	
Pretax margin	8%	6%		4%		7%	4%	
Effective tax rate	30%	48%		87%		38%	66%	

Source: Company

Segmental Breakdown

Segmental Breakdown	2Q FY22	4Q FY22	Q-o-Q Chg	2Q FY21	Y-o-Y Chg	1H FY22	1H FY21	Y-o-Y Chg
Segment revenue:								
Gaming	482.0	501.0	-4%	326.5	48%	983.0	710.3	38%
Investment Holdings & Others	0.2	21.6	-99%	0.0	N/M	21.8	0.0	N/M
Eliminations	0.0	-21.6	N/M	0.0	0%	-21.6	0.0	N/M
Group revenue	482.1	501.0	-4%	326.5	48%	983.2	710.4	38%
Segment result:								
Gaming	39.8	40.7	-2%	17.0	134%	80.4	30.7	162%
Investment Holdings & Others	-1.6	13.3	-112%	-2.5	-35%	11.7	-3.6	-428%
Eliminations	0.0	-21.6	N/M	0.0	0%	-21.6	0.0	N/M
Group PBT	38.1	32.4	18%	14.5	164%	70.6	27.1	160%
PBT margin:								
Gaming	8%	8%		5%		8%	4%	
Investment Holdings & Others	N/M	62%		N/M		54%	N/M	
Eliminations	0%	N/M		0%		N/M	0%	
Group PBT margin	8%	6%		4%		7%	4%	

Source: Company

Other NFO Data

FYE Dec (RM m)	2Q FY22	4Q FY22	Q-o-Q Chg	2Q FY21	Y-o-Y Chg	1H FY22	1H FY21	Chg
NFO sales	523.9	544.6	-4%	354.9	48%	1,068.5	772.1	38%
No of draws	42	43	-2%	28	50%	85	73	16%
Ticket sales per draw	12.5	12.7	-2%	12.7	-2%	12.6	10.6	19%
Estimated prize payout ratio	69.7%	69.8%	0%	66.7%	4%	69.7%	68.7%	1%

Source: Company

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Valuation

(RM m)	RM m	RM/Share	%	Remarks
Gaming - PV of FCF for FY22-FY32	952.1	42%	0.66	7.2% WACC
PV of FCF in Perpetuity	1,471.0	64%	1.02	7.2% WACC, g = 2%
Investment Securities	338.6	15%	0.24	FY22E book value
Net Cash/(Debt)	-473.8	-21%	-0.33	FY22E
	2,287.8	100%	1.59	
Issued share (m)	1,437.7			
DCF per share	RM1.59			

Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GENTING BHD	OP	4.73	5.86	23.89%	18,213.2	N	12/2022	34.0	47.6	118.8%	39.8%	13.9	9.9	0.5	4.0%	15.0	3.2%
GENTING MALAYSIA BHD	OP	3.02	3.71	22.85%	17,108.9	N	12/2022	12.5	20.3	3.5%	61.6%	24.1	14.9	1.3	5.4%	12.0	4.0%
MAGNUM BHD	MP	1.66	1.93	16.27%	2,385.7	N	12/2022	8.3	12.9	66338.9%	54.8%	20.0	12.9	1.0	5.0%	6.7	4.0%
SPORTS TOTO BHD	OP	1.87	2.33	24.60%	2,504.6	N	06/2022	13.4	21.3	-0.5%	58.5%	13.9	8.8	3.0	22.0%	10.7	5.7%
Simple Average								17.1	25.5	16615.2%	53.7%	19.3	12.6	0.9	9.1%		4.2%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	☆			
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Dependence on Socially Undesirable Businesses	★				
	Digital Transformation	★	★	★		
	Cyber Security	★	★	★		
	Customer Data Protection	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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