



Berjaya Sports Toto (BST MK) : BUY

Mkt. Cap: US\$699m | 3m Avg. Daily Val: US\$0.71m

Last Traded Price (14 Dec 2018): RM2.17

Price Target 12-mth: RM2.45 (13% upside) (Prev RM2.45)

Shariah Compliant: No

Analyst

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No surprises

- 1HFY19 earnings came within expectations
- Dividend yield remains attractive at >7%
- Maintain BUY with RM2.45 TP

Forecasts and Valuation

FY Apr (RMm)	2018A	2019F	2020F	2021F
Revenue	5,661	5,537	5,468	5,545
EBITDA	426	465	452	456
Pre-tax Profit	377	419	411	416
Net Profit	230	267	262	265
Net Pft (Pre Ex.)	228	267	262	265
Net Pft Gth (Pre-ex) (%)	(7.9)	17.2	(2.0)	1.3
EPS (sen)	17.1	20.0	19.5	19.8
EPS Pre Ex. (sen)	17.0	20.0	19.5	19.8
EPS Gth Pre Ex (%)	(8)	17	(2)	1
Diluted EPS (sen)	17.0	20.0	19.5	19.8
Net DPS (sen)	16.0	16.8	16.5	16.7
BV Per Share (sen)	54.6	57.8	60.8	63.9
PE (X)	12.7	10.9	11.1	11.0
PE Pre Ex. (X)	12.7	10.9	11.1	11.0
P/Cash Flow (X)	9.3	9.4	9.7	9.6
EV/EBITDA (X)	8.7	7.9	8.1	7.9
Net Div Yield (%)	7.4	7.7	7.6	7.7
P/Book Value (X)	4.0	3.8	3.6	3.4
Net Debt/Equity (X)	0.9	0.9	0.7	0.7
ROAE (%)	30.6	35.5	33.0	31.7

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

- The group reported a core net profit of RM63m (+2% y-o-y, -26% q-o-q) in 2QFY19. The marginal improvement in core earnings on a y-o-y basis was mainly due to better contributions from H.R. Owen where it recorded a PBT of RM6.2m in 2QFY19 compared with RM1.3m losses in 2QFY18.
- We believe that q-o-q comparison does not serve as a good gauge for the group, given the highly seasonal nature of its gaming business.
- Its 1HFY19 core net profit formed about 55% of our and consensus full-year estimates, which we deem to be within expectations. This is because its six months results was mainly boosted by strong 1QFY19 earnings reported arising from (1) higher gaming revenue with highly attractive jackpot prizes, and (2) lower payout ratio (60.7% in 1QFY19 vs 61.5% theoretical payout). 2QFY19 has shown that these factors were not sustainable and we expect to them to continue normalising in the coming quarters.
- The group declared a second interim DPS of 4 sen. This brings 1HFY19 DPS to 8 sen, which is on track to meet our full-year DPS target of 16.8 sen for FY19
- 2QFY19 gaming revenue for its key subsidiary, Sports Toto Malaysia, dropped 1.4% y-o-y, mainly dragged by the absence of strong sales from its high jackpot in the Grand Toto 6/63 game registered in 2QFY18.

Valuation



We maintain our BUY call on the stock with a DDM-based TP of RM2.45. Its dividend yield of > 7% should provide support to the share price.

Our channel checks and recent discussions with the management of NFOs indicate that the authority has accelerated its efforts to restrain illegal NFO activities, particularly in 2H18. Given that the illegal NFOs' market size is about 2-3x of the legalised NFO market, we believe that there is plenty of room for the NFOs to grow their earnings if the authority successfully reduces illegal NFO activities.

Being a dominant player in the NFO sector, we are positive that the group will benefit from the more stringent enforcement by the authorities in curbing the illegal NFO activities.

Key risks

Steeper-than-expected decline in ticket sales on the back of rising competition and weaker consumer sentiment continue to be the key earnings risks for the group.

Quarterly Income Statement (RMm)

FY Apr	2Q2018	1Q2019	2Q2019	% chg yoy	% chg qoq
Revenue	1,384	1,501	1,353	(2.3)	(9.9)
Cost of Goods Sold	(1,272)	(1,369)	(1,245)	(2.1)	(9.1)
Gross Profit	112	132	108	(3.6)	(18.3)
Other Oper. (Exp)/Inc	(8.0)	10.3	(2.7)	(66.4)	(126.3)
Operating Profit	104	142	105	1.3	(26.1)
Other Non Opg (Exp)/Inc	0.73	0.70	0.70	(4.6)	0.0
Associates & JV Inc	0.39	(4.4)	(1.5)	nm	(65.9)
Net Interest (Exp)/Inc	(8.7)	(7.4)	(7.5)	14.0	(1.4)
Exceptional Gain/(Loss)	0.0	2.10	(2.4)	nm	nm
Pre-tax Profit	96.1	133	94.3	(1.9)	(29.2)
Tax	(32.9)	(42.9)	(31.6)	(3.9)	(26.3)
Minority Interest	(1.5)	(3.3)	(2.4)	(65.3)	(27.3)
Net Profit	61.7	86.9	60.3	(2.3)	(30.6)
Net profit bef Except.	61.7	84.8	62.7	1.6	(26.1)
EBITDA	112	150	105	(6.0)	(30.1)
Margins (%)					
Gross Margins	8.1	8.8	8.0		
Opg Profit Margins	7.5	9.5	7.8		
Net Profit Margins	4.5	5.8	4.5		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



Note : Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	19 Dec 17	2.25	2.40	HOLD
2:	19 Mar 18	2.12	2.20	HOLD
3:	18 Apr 18	2.08	2.20	HOLD
4:	19 Jun 18	2.49	2.30	HOLD
5:	20 Sep 18	2.30	2.30	HOLD
6:	27 Sep 18	2.35	2.30	HOLD
7:	07 Dec 18	2.13	2.45	BUY

Source: AllianceDBS

Analyst: King Yoong CHEAH

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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