

Outthink. Outperform.

## A tepid quarter

Berjaya Sports Toto's (BST) 1QFY17 core net profit was within our expectations. While its core number forecasting business has delivered resilient revenue growth of 3.6% YoY during the quarter, the overall group core net profit failed to benefit from it due to higher OPEX cost arising from H.R. Owen. We are maintaining our HOLD recommendation on BST, as we believe the outlook for its core number forecasting business remains challenging.

### 1QFY17 results within our expectations

BST's 1QFY17 results were within our expectations but fall short of consensus expectations, as core net profit of RM69.9mn (-2.4% yoy) accounted for 25% and 21% of full year estimates, respectively.

### Toto revenue sees a reversal in trend

Its core number forecasting business has buck the negative trend in previous quarter, delivering a resilient growth of 3.6% YoY. We think that it is too early to conclude on whether the worst is already over, as sales in the quarter were driven by attractiveness of the high prize jackpot, which is purely driven by luck factor. Hence we still remain cautions on the outlook.

### But H.R Owen and PGMC limit the upside

H.R Owen managed to delivery strong revenue growth of 17.5%, due to new car sales and new model launches, couple with favourable exchange rate. However, its pre-tax profit contribution has decline to RM6.9mn from RM10.9mn, due to higher operating expenditure for the quarter. The decline in pre-tax profit of 0.9% in PGMC, can be attributed to the lower operating leverage due to lower rental income earned in Peso.

### A lower first interim dividend of 4.0 sen declared

BST declared a first interim dividend of 4.0 sen (net yield of 1.2%) albeit lower than the 5.0sen last year, we are not changing our 18.0sen expectation yet, as the absolute dividend pay-out will increase as earnings normalise in following quarters.

### Maintained HOLD with an unchanged DDM-based TP of RM3.00

We maintain our HOLD recommendation for BST with an unchanged DDM-based TP of RM3.00 (discount rate of 7.5%; growth rate of 1.5%). We believe BST lacks catalysts as earnings growth remains challenging due to: 1) weak consumer sentiment; 2) increasing illegal gaming activities; and 3) potentially weaker new cars sales volume in its UK motor vehicle franchise post Brexit vote.

### Earnings & Valuation Summary

FYE 30 Apr	2015	2016	2017E	2018E	2019E
Revenue (RMm)	5,288.4	5,563.2	5,889.0	6,189.7	6,334.2
EBITDA (RMm)	554.5	520.2	510.6	504.7	499.9
Pretax profit (RMm)	534.0	446.3	427.7	436.4	444.0
Net profit (RMm)	361.6	306.2	286.6	291.5	295.7
EPS (sen)	26.8	21.4	21.4	21.8	22.1
PER (x)	11.1	12.2	13.5	13.3	13.1
Core net profit (RMm)	349.5	317.8	286.6	291.5	295.7
Core EPS (sen)	26.1	23.8	21.4	21.8	22.1
Core EPS growth (%)	5.1	(9.1)	(9.8)	1.7	1.4
Core PER (x)	11.1	12.2	13.5	13.3	13.1
Net DPS (sen)	21.5	19.0	18.0	18.0	18.0
Dividend Yield (%)	7.4	6.6	6.2	6.2	6.2
EV/EBITDA (x)	6.6	6.8	6.6	6.4	6.2
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			0.8	0.9	-

Source: Company, Affin Hwang estimates, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)  
(Formerly known as HwangDBS Investment Bank Bhd)

## Results Note

# Berjaya Sports Toto

BST MK  
Sector: Gaming

RM3.32 @ 19 Sept 2016

**HOLD (maintain)**

Downside 10%

**Price Target: RM3.00**

Previous Target: RM3.00



## Price Performance

	1M	3M	12M
Absolute	-1.8%	13.7%	6.5%
Rel to KLCI	1.1%	11.2%	6.2%

## Stock Data

Issued shares (m)	1,348.0
Mkt cap (RMm)/(US\$m)	4475.3/1080.7
Avg daily vol - 6mth (m)	0.9
52-wk range (RM)	2.88-3.47
Est free float	49.4%
BV per share (RM)	0.57
P/BV (x)	5.8
Net cash/(debt) (RMm) (4Q16)	(297.3)
ROE (2017E)	43.1%
Derivatives	Nil
Shariah Compliant	No

## Key Shareholders

Berjaya Corp	49.0%
Great Eastern	2.3%
State Street Corp	2.1%

Source: Affin Hwang, Bloomberg

Lim Tee Yang, CFA  
(603) 2146 7487  
[teeyang.lim@affinhwang.com](mailto:teeyang.lim@affinhwang.com)

### Risks

Upside risks include: 1) lower-than-expected prize payouts; 2) higher-than-expected dividend payouts; 3) higher-than-expected revenue per draw; and 4) better-than-expected earnings from the nationwide computerised lottery project in Vietnam.

Downside risks include: 1) higher-than-expected prize payouts; 2) lower-than-expected dividend payouts; and 3) lower-than-expected revenue per draw.

**Fig 1: Results Review**

FYE 30 Apr (RMm)	1QFY17	QoQ % chg	YoY % chg	Comment
Revenue	1,435.6	(3.3)	7.2	All 3 main operating entity reported revenue growth in MYR
<i>Toto</i>	799.2	(5.2)	2.0	
<i>Franchised motor vehicle</i>				Boosted by new car sales and new model launches, coupled with favorable currency movement
	626.1	0.4	17.5	
<i>Others</i>	10.3	(42.0)	(54.3)	
Op costs	(1,322.3)	(0.0)	8.2	
<b>EBIT</b>	<b>113.3</b>	<b>(30.0)</b>	<b>(3.5)</b>	
<i>EBIT margin (%)</i>	<i>7.9</i>	<i>-3.0ppt</i>	<i>-0.9ppt</i>	
Investment income	5.8	(35.0)	27.4	
Investment expense	(1.6)	(78.6)	>100	
Interest expense	(12.8)	0.4	Nm	
Associates	2.8	(268.1)	Nm	
Exceptionals	(11.1)	18.8	Nm	Derived from FX losses
<b>Pretax profit</b>	<b>96.4</b>	<b>(31.0)</b>	<b>(14.7)</b>	
<b>Core pretax</b>	<b>107.5</b>	<b>(27.9)</b>	<b>(4.1)</b>	
Tax	(35.0)	7.1	(1.0)	
<i>Tax rate (%)</i>	<i>36.3</i>	<i>+14.4ppt</i>	<i>+5.0ppt</i>	
MI	(2.6)	Nm	(56.5)	
<b>Net profit</b>	<b>58.7</b>	<b>15.9</b>	<b>(48.8)</b>	
EPS (sen)	4.4	(43.9)	(18.9)	
<b>Core net profit</b>				Decline in core profit is due to lower PBT contribution from both PGMC (decline in operating leverage) and H.R Owen (higher OPEX)
	<b>69.9</b>	<b>(43.9)</b>	<b>(19.1)</b>	

Source: Affin Hwang, Company data

**Equity Rating Structure and Definitions**


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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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Affin Hwang Investment Bank Berhad (14389-U)  
(formerly known as HwangDBS Investment Bank Berhad)  
A Participating Organisation of Bursa Malaysia Securities Bhd  
Chulan Tower Branch,  
3rd Floor, Chulan Tower,  
No 3, Jalan Conlay,  
50450 Kuala Lumpur.  
[www.affinhwang.com](http://www.affinhwang.com)  
Email : [affin.research@affinhwang.com](mailto:affin.research@affinhwang.com)  
Tel : + 603 2143 8668  
Fax : + 603 2145 3005