

02 July 2013

Berjaya Sports Toto

Status Quo Outlook, MPH B Preferred

We are downgrading BJTOTO back to an UNDERPERFORM from OUTPERFORM after its share price rebounded swiftly to its pre-sell-down levels. The listing of STM-Trust is expected to be in Aug, which may draw interest for the expected 49 sen/share special dividend. However, we maintain our negative view on the Business Trust listing, which would de-rate the stock's current premium valuation in addition to it having to endure a 20% dilution in earnings and dividend payout. Our DCF-derived price target of RM4.02/share is maintained.

Share price back to normal. On 24 Jun, Berjaya Sports Toto Bhd ("BJTOTO", UP, TP: RM4.02) was one of six counters that hit 'limit-down' during the pre-close session, resulting in its share price tumbling down by RM1.01 or 24% to RM3.20. The unexpected sell-down was due to programme selling for the FTSE rebalancing. The share price rebounded swiftly the next trading day, hitting 'limit-up' or back to pre sell-down levels.

Ticket sales lagging behind Magnum. In the recent results season, the earnings reports showed that for the first time in three years, **Multi-purpose Holdings Bhd's ("MPHB", OP; TP: RM4.37)** Magnum have overtaken BJTOTO in 1QCY13 NFO ticket sales. Magnum's total ticket sales jumped 14.5% to RM920.6m from RM804.0m in the three months while BJTOTO's sales rose slightly by 2.2% to RM905.6m from RM885.8m previously. However, we notice that the ticket sales of BJTOTO are more consistent as compared to that of Magnum. (*please refer to chart in Pg 2*)

...but not a real problem. We believe that the consistent ticket sales trend at BJTOTO is mainly due to it having seven games (4D, 4D Jackpot and five other lotto games) where buying interest (especially during the accumulation of high jackpot prizes) is likely to be well spread among the games whereas Magnum's ticket sales will accelerate only when the prize jackpot balloons for its 4D jackpot as it only has two games (4D and 4D Jackpot). This also shows why the prize payout ratio for BJTOTO is more consistent as compared to that of Magnum.

BJTOTO always traded at a premium. In the past five years, BJTOTO has traded at an average premium PER of 15.0x as opposed to the 10.5x for MPH B, likely due to the fact that it is a pure NFO player while MPH B is an investment holding company with interest in NFO, property, hotel, insurance and stockbroking. However, MPH B's prospective PER has improved significantly to 13.8x on average since the announcement of its demerger exercise in May-12 although this is still at a discount to that of BJTOTO. Before May-12, MPH B was trading at an average 9.4x forward PER only. (*Please refer to chart in Pg 2*)

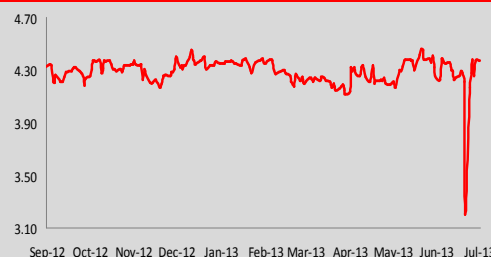
...but this may not be the case going forward. We believe that the premium valuation that BJTOTO has enjoyed previously will narrow for two reasons: 1) the listing of STM-Trust will reduce the attractiveness of BJTOTO where investor may buy the Business Trust directly to enjoy the full benefit of owning the NFO cash flow and 2) after the completion of MPH B's decoupling exercise, BJTOTO is no longer be the only proxy for NFO play. In fact, MPH B's valuation is now more attractive than that of BJTOTO in terms of earnings multiples and yields.

UNDERPERFORM at RM4.02/share. While we like its product offerings, we remain cautious about the separate listing of STM-Trust in SGX-ST, which will de-rate its valuations. Its earnings and dividend payout will also be diluted immediately by c.20%. In view that the share price is ahead of our unchanged DCF-derived price target of RM4.02/share, we are downgrading BJTOTO back to an UNDERPERFORM. **SWITCH to MPH B.**

UNDERPERFORM ↓

Price: RM4.37
Target Price: RM4.02 ↔

Share Price Performance



KLCI	1775.14
YTD KLCI chg	5.1%
YTD stock price chg	0.4%

Stock Information

Bloomberg Ticker	BST MK Equity
Market Cap (RM m)	5,860.2
Issued shares	1,341.0
52-week range (H)	4.47
52-week range (L)	3.20
3-mth avg daily vol:	1,402,794
Free Float	46%
Beta	0.8

Major Shareholders

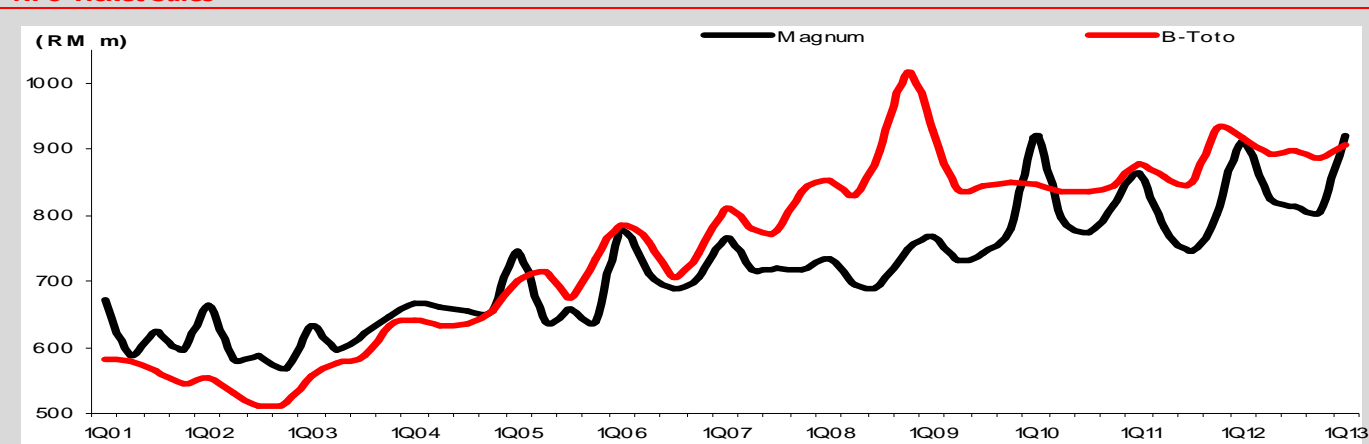
BERJAYA LAND BHD	47.58%
BERJAYA CORP BHD	2.30%
TAN SRI VINCENT TAN	0.66%

Summary Earnings Table

FY Apr (RM m)	2014E	2015E	2016E
Turnover	3689.4	3801.1	3916.3
EBIT	582.6	600.4	618.7
PBT	570.3	589.4	611.6
Net Profit (NP)	357.2	339.5	352.3
Core Net Profit	357.2	339.5	352.3
Consensus (NP)	423.5	427.8	430.4
Earnings Revision	-	-	-
Core EPS (sen)	26.4	25.1	26.1
Core EPS growth (%)	-5.0	-5.0	3.8
NDPS (sen)	23.8	22.6	23.5
BV/Share (RM)	0.4	0.5	0.5
NTA/Share (RM)	-0.03	-0.01	0.02
Core PER	16.5	17.4	16.8
Price/NTA (x)	-132.2	-551.3	240.8
Gearing (x)	0.1	N.Cash	N.Cash
Dividend Yield (%)	5.4	5.2	5.4

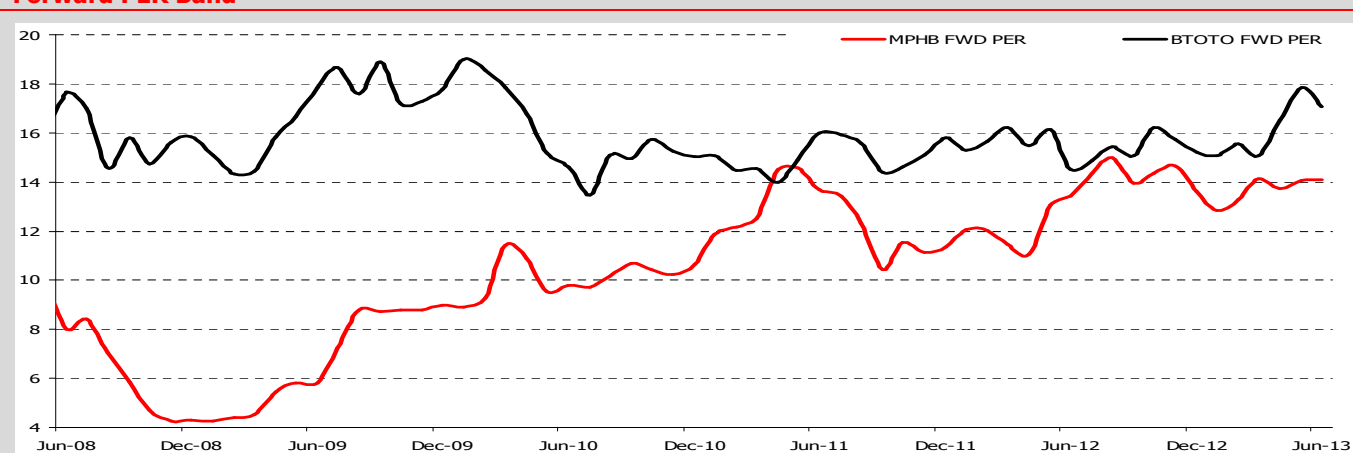
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NFO Ticket Sales



Source: Kenanga Research

Forward PER Band



Source: Kenanga Research

Valuation

(RM m)	RM m	RM/Share	%	Remarks
PV of FCF for FY14-FY24	1,907.2	1.41	32%	79.54% stake; 6.1% WACC
PV of FCF in perpetuity	2,640.5	1.95	44%	79.54% take; 6.1% WACC, g=1.5%
Net Cash/(Debt)	1,491.3	1.10	25%	estimated FY14E
	6,039.0	4.47	100%	
Issued share (m)	1,351.0			
SOP per share	RM4.47			
10% discount	-0.45			Being an investment holding company
Price Target	RM4.02			
SOP per share	RM4.47			
Cash distribution	-0.49			Assuming distribute all cash raised from the Offer for sale: 540m units @ SGD0.50
SOP per share ex cash distribution	RM3.98			
10% discount	-0.40			Being an investment holding company
Price target ex-cash distribution	RM3.58			

Source: Kenanga Research

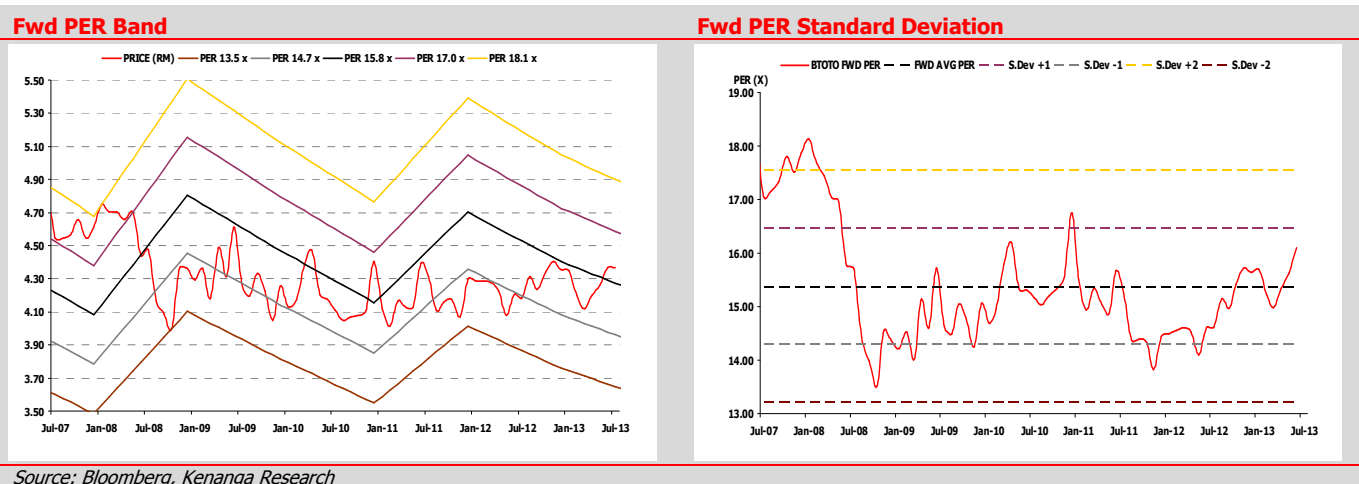
Malaysian Gaming Sector Comparisons

Company	Price (RM)	PER(x)			Est. Div. Yld. (%)	His. ROE (%)	His. P/BV (x)	NP Growth (%)		Target Price (RM)	Rating
		CY12	CY13	CY14				CY13	CY14		
Core Coverage											
BToto	4.37	15.2	16.1	17.0	5.4	74.1	12.5	-5.5	-5.0	4.02	UP
MPHB	3.62	15.3	14.0	14.1	4.6	10.2	1.5	9.0	-0.3	4.37	OP
Genting	10.38	14.6	17.9	15.3	0.6	13.4	1.8	-17.8	17.0	12.28	OP
Genting Malaysia	4.00	14.4	14.7	15.2	1.7	13.1	1.7	-2.1	-3.3	4.39	OP
Simple Average		14.9	15.7	15.4							

Source: Kenanga Research

Income Statement						Financial Data & Ratios					
FY Apr (RM m)	2012A	2013A	2014E	2015E	2016E	FY Apr (RM m)	2012A	2013A	2014E	2015E	2016E
Revenue	3608	3628	3689	3801	3916	Growth					
EBITDA	616	596	611	630	650	Turnover (%)	5.1	5.1	0.6	1.7	3.0
Depreciation	-27	-27	-28	-30	-32	EBITDA (%)	9.7	9.7	-3.2	2.5	3.2
Operating Profit	589	569	583	600	619	Operating Profit (%)	9.2	9.2	-3.5	2.4	3.1
Other Incomes	18	35	20	18	16	PBT (%)	13.4	13.4	-1.3	0.2	3.4
Interest Expense	-30	-31	-29	-25	-20	Net Profit (%)	14.9	14.9	-4.2	-7.2	-5.0
Associate	0	-3	-3	-3	-4	Core Net Profit (%)	13.1	13.1	-6.4	-5.0	-5.0
Exceptional Items	0	0	0	0	0	Profitability (%)					
PBT	577	569	570	589	612	EBITDA Margin	17.1	17.1	16.4	16.6	16.6
Taxation	-165	-173	-160	-165	-171	Operating Margin	16.3	16.3	15.7	15.8	15.8
Minority Interest	-10	-11	-53	-85	-88	PBT Margin	16.0	16.0	15.7	15.5	15.5
Net Profit	402	385	357	340	352	Net Margin	11.1	11.1	10.6	9.7	8.9
Core Net Profit	402	376	357	340	352	Core Net Margin	11.1	11.1	10.4	9.7	8.9
						Effective Tax Rate	28.6	30.4	28.0	28.0	28.0
						ROA	30.1	28.1	26.3	26.3	27.5
						ROE	86.5	74.1	61.4	55.0	54.1
						DuPont Analysis					
						Net Margin (%)	11.1	10.6	9.7	8.9	9.0
						Assets Turnover (x)	2.53	2.36	2.62	2.77	2.93
						Leverage Factor (x)	3.01	2.72	2.35	2.16	2.00
						ROE (%)	84.7	68.2	59.6	53.6	52.7
						Leverage					
						Debt/Asset (x)	0.39	0.36	0.28	0.36	0.28
						Debt/Equity (x)	1.16	0.97	0.67	0.97	0.67
						Net Cash/(Debt)	-141	-120	-30	15	63
						Net Debt/Equity (x)	0.30	0.21	0.05	-0.02	-0.09
						Valuations					
						EPS (sen)	29.7	27.8	26.4	25.1	26.1
						NDPS (sen)	27.0	28.0	23.8	22.6	23.5
						BV/Share (RM)	0.4	0.4	0.4	0.5	0.5
						NTA/Share (RM)	-0.13	-0.06	-0.03	-0.01	0.02
						PER (x)	14.5	15.1	16.5	17.4	16.8
						Net Div. Yield (%)	6.3	6.7	5.4	5.2	5.4
						P/BV (x)	12.3	10.1	9.8	9.3	8.8
						P/NTA (x)	-34.4	-70.7	-132.2	-551.3	240.8
						EV/EBITDA (x)	9.5	9.5	9.7	9.4	9.1

Source: Kenanga Research



Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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