

## COMPANY RESULTS

### Magnum (MAG MK)

2Q22: Sluggish Recovery, But Dividends Gradually Restoring

Magnum's 2Q22 results came in slightly below expectations, mainly reflecting slower-than-expected ticket sales recovery. Nevertheless, we expect ticket sales to recover to 85-90% of pre-pandemic levels in the coming quarters following the removal of SOPs and rehiring of migrant workers. This will allow valuations to partially price in the full earnings recovery and prospective yield of about 4.5-4.8% in 2022. Maintain BUY with a target price of RM2.36.

#### 2022 RESULTS

Year to 31 Dec (RMm)	2022	qoq % chg	yoy % chg	Remarks
Revenue	482.1	(3.8)	47.7	Higher yoy due to 1Q21 having 15 fewer draw days
Gaming	482.0	(3.8)	47.6	Jackpot games accounted for 20% of gaming revenue
Others	0.2	640.9	715.0	
Gross profit	82.1	2.5	69.8	
EBIT	49.7	13.0	96.5	
PBT	38.1	17.5	163.6	
Gaming	39.8	(2.3)	134.3	
Others	(1.6)	(80.3)	(35.3)	
Net profit	26.4	58.5	1187.3	
Core net profit	27.4	13.1	805.1	Higher qoq as 1Q22 affected by higher tax rate
Margin (%)	(%)	+/- ppt	+/- ppt	
EBIT	10.3	1.5	2.6	Improved on lower prize payout.
PBT	7.9	1.4	3.5	
Net Profit	5.7	0.8	4.8	

Source: Magnum, UOB Kay Hian

#### RESULTS

- **Below expectation.** Magnum reported 2Q22 revenue of RM482m (+47.7% yoy, -3.8% qoq) and core net profit of RM26.4m (+1187.3% yoy, +58.5% qoq). Despite commendable revenue growth (+47% yoy) from 2Q21's low base (15 fewer draw days in the quarter to comply with the government's re-imposed MCO), net profit came in below our expectations due to slower ticket sales recovery. 1H22 core net profit accounts for about 41% and 30% of our and consensus forecasts respectively.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	1,673	1,260	2,291	2,577	2,654
EBITDA	180	59	224	350	360
Operating profit	192	72	237	364	375
Net profit (rep./act.)	21	13	125	224	231
Net profit (adj.)	21	13	125	224	231
EPS (sen)	1.5	0.9	8.7	15.6	16.1
PE (x)	111.9	181.0	19.2	10.7	10.3
P/B (x)	1.0	1.0	1.0	1.0	1.0
EV/EBITDA (x)	17.0	51.7	13.7	8.7	8.5
Dividend yield (%)	2.7	0.9	4.4	8.0	8.2
Net margin (%)	1.3	1.0	5.4	8.7	8.7
Net debt/(cash) to equity (%)	28.3	32.0	27.6	25.2	23.4
Interest cover (x)	3.8	1.3	4.7	7.3	7.5
ROE (%)	0.9	0.6	5.3	9.3	9.5
Consensus net profit	-	-	173	219	228
UOBKH/Consensus (x)	-	-	0.72	1.02	1.01

Source: Magnum Berhad, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM1.66
Target Price	RM2.36
Upside	+42.2%
(Previous TP)	RM2.38

#### COMPANY DESCRIPTION

Number forecasting operator

#### STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	MAG MK
Shares issued (m):	1,437.2
Market cap (RMm):	2,385.7
Market cap (US\$m):	533.3
3-mth avg daily t'over (US\$m):	0.1

#### Price Performance (%)

52-week high/low		RM2.17/RM1.61		
1mth	3mth	6mth	1yr	YTD
0.6	(7.8)	(14.0)	(17.4)	(12.6)

#### Major Shareholders

	%
Casi Management	28.4
Asia 4D Hldgs	11.2
FY22 NAV/Share (RM)	1.66
FY22 Net Debt/Share (RM)	0.46

#### PRICE CHART



Source: Bloomberg

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- **Better classic 4D games but weaker jackpot sales.** We estimate that Magnum's classic 4D ticket sales per draw improved 4% qoq in 2Q22. For jackpot sales, we estimate sales per draw to have declined by 12% qoq, and estimate that the more lucrative jackpot games accounted for about only 20% of total gaming revenue, down 4ppt yoy and 2ppt qoq. Overall, Magnum's revenue declined 3.8% qoq, mainly due to lower number of draws (2Q22: 42 draws; 1Q22: 43 draws) and 1Q22's strong seasonality during Chinese New Year.
- **Prize payout was above the theoretical level, but lower yoy.** We estimate 2Q22 prize payout to be about 68% (theoretically 63-64%), lower than 2Q21's prize payout of 72%.
- **Positively, Magnum declared higher DPS of 1.5 sen.** Magnum declared a 1.5 sen DPS in 2Q22 (2Q21: none), continuing its quarterly dividend payments for the third time since 4Q21. This implied a 0.9% yield and represents an 82% payout. To note, the interim DPS declared is also higher than 1Q22's DPS of 1.0 sen.

### STOCK IMPACT

- **Ticket sales to recover better in 2H22, driving share price recovery.** While 1H22 ticket sales were only about 70-75% of pre-pandemic levels, we anticipate that Magnum's ticket sales and revenue will further recover to around 80-85% of pre-pandemic levels in 2H22. This is anchored on assumptions that punters (especially elderlies and foreigners) are now more willing to place bets due to the removals of MySejahtera scanning and capacity restrictions since June. Coupled with the nation's rehiring of migrant workers, we expect Magnum's earnings recovery to revitalise to >90% of pre-pandemic levels by 4Q22.
- **Rooting for a good recovery in share price, pricing in defensive business nature.** Magnum is still trading close to the pandemic lows at attractive valuations of 10-11x 2023F PE, well below the number forecasting operator sector's five-year mean of 14-15x. Such valuations are appealing given the stock's low beta, and the business' defensive nature as well as steady cash flow streams. R-averse investors would also be increasingly attracted to Magnum's earnings resilience and high prospective dividend yield of 4.5-4.8% from 2022 onwards and close to 7.3% in 2023.
- **Monetisation of stake in U-Mobile remains a key catalyst, but timeline remains unknown.** A key catalyst for Magnum would be the monetisation of its 6.3% stake in U-Mobile. According to earlier media reports, U-Mobile could be seeking an IPO to raise US\$500m. The successful monetisation of its 6.3% stake in U-Mobile (book value of RM270m, or 7% of its market cap) could fetch RM400m, representing 17% of its market cap. Note that U-Mobile has turned EBITDA positive and has >10% market share of the country's mobile subscriptions.

### EARNINGS REVISION/RISK

- **We cut our 2022 net profit forecasts by 5%** as we incorporate the slower ticket sales recovery and higher pre-tax loss recorded by investment holdings and others division. 2022's effective tax rate is now estimated to be 36% before falling to pre-pandemic levels of 30-31%.

### VALUATION/RECOMMENDATION

- **Maintain BUY with a lowered DCF-based target price of RM2.36**, which implies 15x 2023F PE after incorporating U-mobile's value of 19 sen/share. Magnum is also appealing for its resilient prospective yield of about 4.5-4.8% in 2022.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- Providing 300+ employees' work stations with indoor potted plants, and implementing a plastic-free week.</li> </ul> </li> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- Has attained World Lottery Association's Responsible Gaming Level 2 Certification</li> <li>- Donated to more than 240 non-government/non-profit organisations.</li> </ul> </li> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- Comprehended and applied Malaysian Code on Corporate Governance (MCCG)</li> </ul> </li> </ul>
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### KEY ASSUMPTIONS

	2021	2022F	2023F
Outlets	486	486	486
Draw day/annum	105	168	172
Prize payout (%)	67	65	63

Source: UOB Kay Hian

### SNAPSHOT OF MAGNUM

No. of outlets	486
Location	Peninsular Malaysia & Sarawak
No. of games	5
Types of games	4D, 4D Jackpot, 4D Jackpot GOLD, mGOLD, Magnum Life

Source: Magnum, UOB Kay Hian

### U-MOBILE SHAREHOLDING

Company	Stake (%)
Singapore Technologies Telemedia	49
Berjaya Group's Tan Sri Vincent Tan*	29.7
Sultan Ibrahim of Johor	15
Magnum	6.3
<b>Total</b>	<b>100</b>

Note: \*Stake owned via: a) U Telemedia Sdn Bhd's 21.44%, b) a direct stake of 6.2%, and c) Berjaya

### PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	1,260	2,291	2,577	2,654
EBITDA	59	224	350	360
Deprec. & amort.	(13)	(13)	(14)	(15)
EBIT	72	237	364	375
Associate contributions	0	0	0	0
Net interest income/(expense)	(47)	(48)	(48)	(48)
Pre-tax profit	25	189	317	327
Tax	(27)	(66)	(94)	(97)
Minorities	2	2	2	2
Net profit	13	125	224	231
Net profit (adj.)	13	125	224	231

### BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	60	96	102	107
Other LT assets	3,149	3,149	3,149	3,149
Cash/ST investment	193	292	340	375
Other current assets	109	150	161	164
<b>Total assets</b>	<b>3,528</b>	<b>3,701</b>	<b>3,766</b>	<b>3,767</b>
ST debt	175	175	175	175
Other current liabilities	172	297	330	340
LT debt	774	774	774	774
Other LT liabilities	6	11	11	11
Shareholders' equity	2,363	2,382	2,415	2,450
Minority interest	21	20	18	17
<b>Total liabilities &amp; equity</b>	<b>3,528</b>	<b>3,701</b>	<b>3,766</b>	<b>3,767</b>

### CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	12	221	258	251
Pre-tax profit	25	189	317	327
Tax	(49)	(66)	(94)	(97)
Deprec. & amort.	13	13	14	15
Working capital changes	(26)	85	21	7
Other operating cashflows	49	0	0	0
Investing	(51)	(20)	(20)	(20)
Capex (growth)	(20)	(20)	(20)	(20)
Proceeds from sale of assets	0	0	0	0
Others	(32)	0	0	0
Financing	(31)	(106)	(190)	(197)
Dividend payments	(29)	(106)	(190)	(197)
Issue of shares	0	0	0	0
Proceeds from borrowings	(2)	0	0	0
Loan repayment	n.a.	n.a.	n.a.	n.a.
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	(70)	96	48	35
Beginning cash & cash equivalent	245	174	270	318
Changes due to forex impact	18	22	22	22
Ending cash & cash equivalent	193	292	340	375

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	4.7	9.8	13.6	13.6
Pre-tax margin	2.0	8.3	12.3	12.3
Net margin	1.0	5.4	8.7	8.7
ROA	0.4	3.4	6.0	6.1
ROE	0.6	5.3	9.3	9.5
<b>Growth</b>				
Turnover	(24.7)	81.9	12.5	3.0
EBITDA	(67.2)	277.9	56.6	2.8
Pre-tax profit	(82.5)	650.0	67.3	3.3
Net profit	(38.2)	844.8	79.8	3.2
Net profit (adj.)	(38.2)	844.8	79.8	3.2
EPS	(38.2)	844.8	79.8	3.2
<b>Leverage</b>				
Debt to total capital	28.5	28.3	28.1	27.8
Debt to equity	40.2	39.8	39.3	38.7
Net debt/(cash) to equity	32.0	27.6	25.2	23.4
Interest cover (x)	1.3	4.7	7.3	7.5

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