

Illegal World Cup betting might hurt BST

► Recommendation:

Buy

Target Price: RM4.91

By ECMLibra Investment Research (June 3)

2010 World Cup Unlikely To Cannibalise NFO Industry

WE considered trimming our FY11 estimates to reflect cannibalisation from BST's punters shifting some of their bets to illegal sports betting during the 2010 World Cup.

Historically, this amounted to 4%-5% reduction in revenue per draw during the World Cup Period.

However, we noticed that the NFO industry grew by 6% in 2006 despite the World Cup then because it was held in a

► BERJAYA SPORTS TOTO BHD				
	2009	2010F	2011F	2012F
REVENUE (RM mil)	3,695.7	3,343.0	3,220.9	3,282.8
NET PROFIT (RM mil)	413.6	390.7	388.8	398.3
EPS (sen)	30.7	29.0	28.9	29.6
P/E (x)	13.8	14.6	14.7	14.3

different time zone, foreign workers were not deported and the regulatory environment then was favourable.

We deem the operating conditions surrounding the 2010 World Cup to be similar to that of 2006.

Therefore, we maintain our earning estimates.

Legalised sports betting will actually help BST al-

though BST is not expected to receive much from the touted 1% on retail sales commission payable by sister company, Ascot Sports, we believe legalised sports betting will actually boost revenues.

Taking a leaf out of history, increased outlet visits driven by large jackpots led to higher revenues for both lotto

and non-lotto games (4D, 5D and 6D).

In the same vein, we expect increased outlet visits driven by sports betting to again lead to overall revenue growth as sports betting punters who are not regular NFO punters bet on not only sports but mainstay NFO games.

More importantly, that lit-

tle cannibalisation effect World Cups have had on BST's revenue will be arrested once and for all.

Upgrade To 'Buy' On Emerging Value

We assumed 15% reduction in revenue per draw for FY10 due to competition from Magnum's 4D Jackpot.

Thereafter, we assumed 2% growth in revenue per draw (1998-2008 NFO industry CAGR: 2.6%).

Our unchanged TP of RM4.91 (TGR: 1.5%, WACC: 7.9%) currently offers 16% upside potential and 5.4% net dividend yields, thus we revert back to our earlier 'Buy' call.

We would also like to point

out that BST's share price is resilient during recessionary periods and periods of low consumer confidence due to its stable earnings (assuming stable prize payout ratios) and attractive dividend yields.

With the upcoming subsidy rationalisation programme, BST will provide "safe harbour" for investors.

We collated and analysed NFO industry statistics from 1998 onwards to study the effects the previous two World Cups had on the industry.

The 2006 World Cup was held in Germany while the 2002 World Cup was held in South Korea and Japan. Our study concluded with interesting observations.