

Update Report

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SJ Securities Sdn. Bhd.

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Berjaya Corporation Bhd

BCorp to acquire highly attractive gaming license

Buy
Fair Value
RM2.70 (+75.3%)

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Stock Data

Price (RM)	1.54
Stock code	3395
Bloomberg Ticker	BC MK
Listing	Main Board
Share Cap (RM mn)	3170
Market Cap (RM mn)	6195
Par value (RM)	1.00
52-wk high (RM)	1.87
52-wk low (RM)	0.76
Major shareholder:-	
Tan Sri Dato' Seri Vincent Tan	22.1%
Hotel Resort Enterprise	16.0%
Goldman Sachs	11.7%

Financial Data

12 month trailing PER (x)	Na
BV per share (RM)	1.49
P/BV (x)	1.12
ROE (%)	-0.95
Beta (x)	1.43
Altman Z Score	1.53
Dividend yield (%)	0.60

Relative Performance (%)

1-month	-10.08
3-month	15.97
6-month	43.74
12-month	53.33
YTD	23.07

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Investment Highlights

Acquisition on sports betting. BCorp has announced the proposal to acquire a 70% stake in Ascot Sports Sdn Bhd for RM525mil. Ascot Sports is the license holder for the sports betting license and would essentially be the operator. The sports betting license will enable BCorp to gain the huge market in Football betting that is currently held by illegal operators.

Experienced operator. Ascot Sports is in actual fact an experienced operator in sports betting. It had previously operated on-line betting in the U.K in 2005 and sports betting in Philippines in 2007.

Roll out. BCorp has planned to roll out the sports betting system to BJToto through 220 of its outlets in West Malaysia on its initial phase. BJToto has 680 outlets currently which would be under its next phases of expansion. The roll out would be relatively fast as BJToto already has most of the required infrastructure to operate.

Capex. A relatively minimal capex would be required by BJToto while BCorp is expected to require only RM25mil for capex over 3 years.

Telephone betting. Besides rolling out to physical outlets, the sports betting will also be rolled out through Telephone betting. This is to cater to customers that would want to bet at night, concurrently with games held in Europe or other time zones. The telephone betting operations is expected to operate 24x7. Moreover, this enables Ascot to gain early market exposure to east Malaysia as well where outlet rollouts are expected to be later. A call center would service the operations. This has an added benefit or very large job creation.

Future system expansions. Besides the physical outlet and telephone betting, future betting systems could include sms based betting, pda phone betting, self-service kiosks at outlets and other telephone devices.

Future sports expansion. Future game expansions may include motor racing, golf, Tennis, basketball and other sports.

Initial Soccer coverage. Ascot is expected to initially cover the major European games including English Premier League, Italy Series A, Spanish Primera Liga and Germany Bundesliga 1. It is expected to cover a lot more games in the later stages.



Quick market penetration. The penetration and understanding of the sports betting mechanisms especially on soccer are expected to be fast. This is because illegal sports betting has been around for years and has been very widely accepted and used. We therefore expect very rapid growth for its operations.

Large untapped market. Currently there is a very large market not tapped by the illegal sports betting operators. It is not viable or profitable for them to engage to small punters. At the moment the minimum bets in the internet range from RM50-100 while the minimum bet for Telephone betting is RM10,000. The credit limits required by illegal operators is very large at RM5,000. Ascot could appeal to punters that would like to bet smaller amounts instead of such large sums. This together with the fact that it is legal, could encourage a very large crossover to Ascot.

Future upside. Ascot's earnings could boom even further in future if legislations enable online sports betting. The online sports betting market is huge and growing while it does not limits the reach to Malaysia only.

Globally accepted. Sports betting is nothing new globally. It has been widely accepted in Europe and has been legalized in all European countries for ages. Several countries including those in Southeast Asia has already long legalized sports betting. This includes Singapore, Hong Kong, China, Taiwan and South Korea. Even in Malaysia, it has thrived through illegal channels for years.

Attractive valuations. The purchase of the 70% equity stake is Ascot is relatively attractive. Based on the purchase price of RM525mil, the whole 100% stake would be valued at 750mil. This values the company at forward PER of approximately 6x for year 2. The gaming industry currently trades at a forward PER of 13x. The earnings would be on the basis of Sports betting turnover totaling 0.2% of total GDP. Considering that matured markets have a turnover of 1.5% of total GDP, the valuations provide very substantial upside potential.

Guarantee. Tan Sri Dato' Vincent Tan has given a personal gurantee that the company would make at least RM375mil for the first 3 years of operations. To back the profit, Tan Sri Vincent Tan has offered to deposit RM81.25mil worth of listed securities and BJCorp will withhold RM125mil in cash.

Estimated market size. Through comparisons with other Asian countries with legalized sports betting activities, Malaysia is estimated to have an annual turnover of RM20bil. This is on the basis of sports betting being approximately 1.5% of total GDP. Currently Singapore's and Hong Kong's Sports betting turnover is approximately 1.5% of total GDP. This basically offers huge potential growth for Ascot.

	Singapore	Hong Kong	Malaysia
Population (mil)	4.6	7	25.7
GDP/Capita (USD)	51,500	43,700	15,200
Totals bets (USD mil)	3,639	443	5,860
Bets/Capita (USD)	791	635	228
Bets in % of GDP	1.54%	1.45%	1.50%
Market size in original currency	SGD5.1bil	HKD34.4bil	MYR19.9bil

Source: Company, SJ Research



Future expansions with other NFOs. Ascot is expected to expand further through the other NFOs after it has run and streamlined its systems through BJToto. The other players include Magnum under Multi Purpose Holdings Bhd, Da ma cai under Tanjong and Lotteries Corporation Sdn Bhd under Olympia Industries Bhd.

ICULS. Bcorp has announced an ICUL proposal for 8.0% ICULS on the basis of one ICUL for every 8 BJCorp shares. The 8.0% ICULS will have a tenure of 10 years and are convertible at par by surrendering one ICUL for one new BJCorp share. The ICUL exercise would raise up to RM614.5mil. Most of the proceeds would go into the acquisition of Ascot.

Recommendation. We reiterate our buy call on BJCorp. The injection of Ascot provides the group extremely large growth potential. Although there is some political risk to this deal, the deal is very well worth the risk. We expected very strong revenue and net profit growth for BJCorp upon successful execution. It would also provide the group with very strong cash flows and open the likelihood of more attractive dividends. We value BJCorp at RM2.70 based on a 30% discount of RNAV per share of RM3.90.

Financial Highlight					
P&L FYE 31st Dec		2008	2009	2010E	2011F
	Units				
Revenue	RM (mn)	3,463.9	6,338.3	6,545.0	8,450.0
Operating profit	RM (mn)	443.6	733.8	855.0	1,350.0
Finance cost	RM (mn)	(337.8)	(212.8)	(270.0)	(400.0)
Profit before Tax	RM (mn)	1,177.8	295.2	455.0	885.0
Taxation	RM (mn)	(45.8)	(188.6)	(225.0)	(300.0)
Profit after tax	RM (mn)	1,132.0	106.6	230.0	585.0
Minority interest	RM (mn)	(536.1)	(159.0)	(250.0)	(220.0)
Net Profit	RM (mn)	595.9	(52.4)	(20.0)	365.0
EPS	sen	16.0	(1.4)	(0.5)	9.8
Diluted EPS	sen	15.7	na	na	9.8
DPS	sen	9.0	2.0	3.0	4.0
Growth %		2008	2009	2010E	2011F
Revenue	%	56.6	83.0	3.3	29.1
Operating	%	70.6	65.4	16.5	57.9
PBT	%	335.7	-74.9	54.1	94.5
Net Profit/Loss	%	233.4	-108.8	-61.8	-1925.0
Margins %		2008	2009	2010E	2011F
Operating Margin	%	12.8	11.6	13.1	16.0
PBT Margin	%	34.0	4.7	7.0	10.5
Net Margin	%	17.2	-0.8	-0.3	4.3

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Per Share Data					
	Units	2008	2009	2010E	2011F
Book Value	RM	1.5	1.5	1.5	1.6
Cash Flow	sen	10.3	15.6	18.3	20.2
Basic EPS	sen	16.0	-1.4	-0.5	9.8
Diluted EPS	sen	15.7	na	na	9.8
Gross DPS	sen	9.0	2.0	3.0	4.0
Payout ratio	%	56.2	-141.9	-557.8	40.8
PER	x	4.1	-66.0	-314.2	17.2
P/Cash Flow	x	6.5	6.0	9.2	8.4
P/Book Value	x	0.4	0.6	1.1	1.1
Dividend yield	%	13.5	2.2	1.8	2.4
ROE	%	10.6	-0.9	-0.4	6.3
Net Gearing	%	38.8	33.9	34.1	33.0

Constituent of Indices	
FBM KLCI	No
FTSE Bursa Malaysia Large 30 Index	No
FTSE Bursa Malaysia Mid 70 Index	Yes
FTSE Bursa Malaysia EMAS Shariah Index	Yes





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Stock rating definitions

Buy – The stock is expected to perform positively. Expected return including both capital appreciation and dividends is expected to exceed 15% over 12 months.

Hold – The stock is expected to stay sidelined. Expected return including both capital appreciation and dividends is expected to range between negative 5% to positive 15% over 12 months.

Sell – The stock is expected to perform negatively. Expected return including both capital appreciation and dividends is expected to be negative 5% or lower over 12 months.

Not Rated – The stock is not under research coverage and the reports serves for purely informational purposes only.

Trading Buy – The stock is expected to be volatile while providing for near term positive trading opportunities. This is under the high risk category with near term catalysts.
