

MST Golf Group Berhad

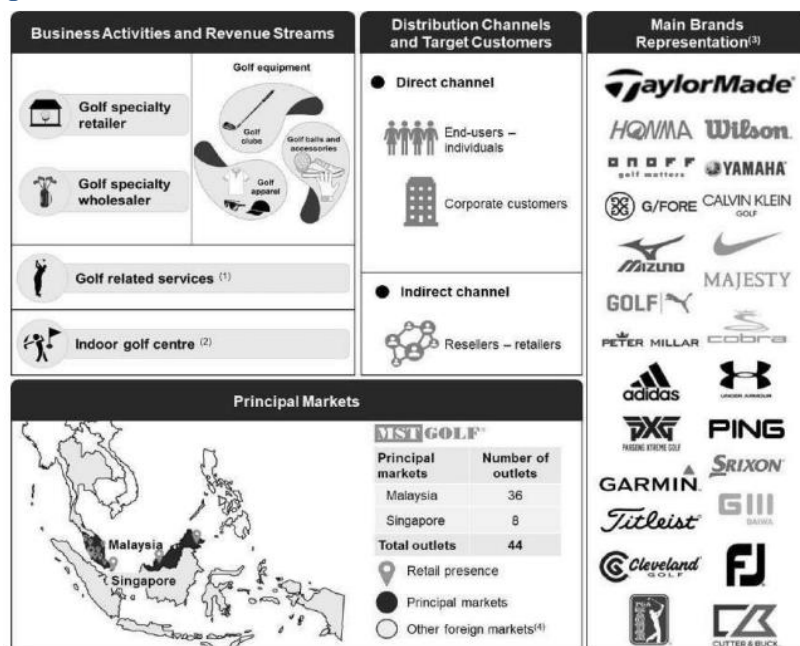
Mastering the Swinging Technique

- MST is involved in the specialty retail and wholesale of golf equipment. MST has 44 outlets as of FY22 and will expand to 59 outlets by 2025.
- MST will expand regionally to Indonesia, Thailand and Vietnam with 16 outlets by 2026. This should provide them a decent boost in top and bottomline going forward.
- Core earnings may grow by 9-29% to RM26.7-34.3m for FY23-24f underpinned by the domestic and regional expansion plans and return buying from “ilovegolf” members.
- MST is valued by ascribing a P/E of 21.5x pegged to 4.6 sen FY24f EPS, leading to a fair value of RM0.975. Prospective DY stood at 1.5-1.7% for FY23-24f.

Company Background

- Established in 1989, MST Golf Group Berhad (MST) is principally engaged in the specialty retail and wholesale of golf equipment comprising golf clubs, golf balls and accessories and golf apparel in Malaysia and Singapore. Besides, MST offers golf related services including golf coaching, rental of golf equipment mainly golf clubs and golf accessories.
- MST has 36 outlets in Malaysia and 8 outlets in Singapore. Singapore and Malaysia contributed around 19-27% and 58-74% towards the revenue, respectively over 2019-2022. Based on FY22's revenue, MST has 51% of the market share in Malaysia.
- Currently, MST has 97 brands under its retailing business with more than 12,000 stock keeping units, while the active members under its “ilovegolf” loyalty membership programme are more than 90,000.

Fig #1 MST Business Overview



Source: Company prospectus

IPO note report

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Not Rated

IPO price	RM0.81
Fair value	RM0.975
Capital upside	20.4%
Dividend return	1.7%
Total return	22.1%

FBM KLCI	1,403.03
FBM Small Cap	15,595.69

Company profile

MST Golf Group Berhad (MST) is principally engaged in the specialty retail and wholesale of golf equipment comprising golf clubs, golf balls and accessories and golf apparel in Malaysia and Singapore.

Stock information

Bursa Code	5316
Bloomberg ticker	MSTGOLF MK
Listing market	MAIN
Share issued (m)	820.9.0
Market Cap (m)	664.9
Shariah	Yes

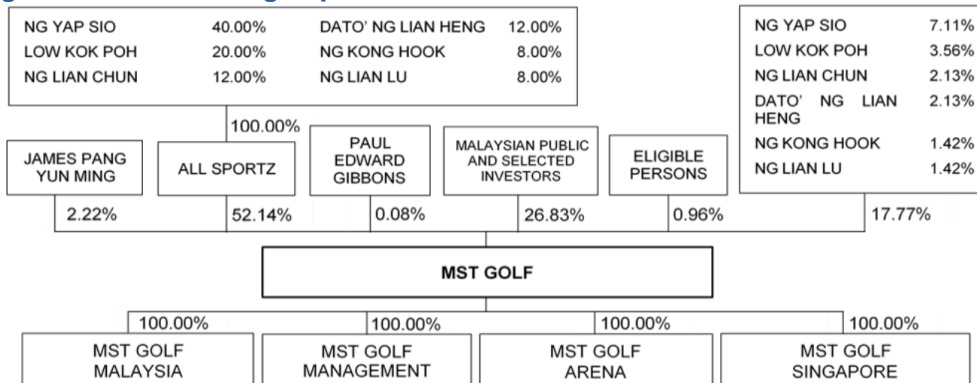
Major shareholders

	%
All Sportz	52.1
Ng Yap Sio	7.1
Low Kok Poh	3.6

Earnings snapshot

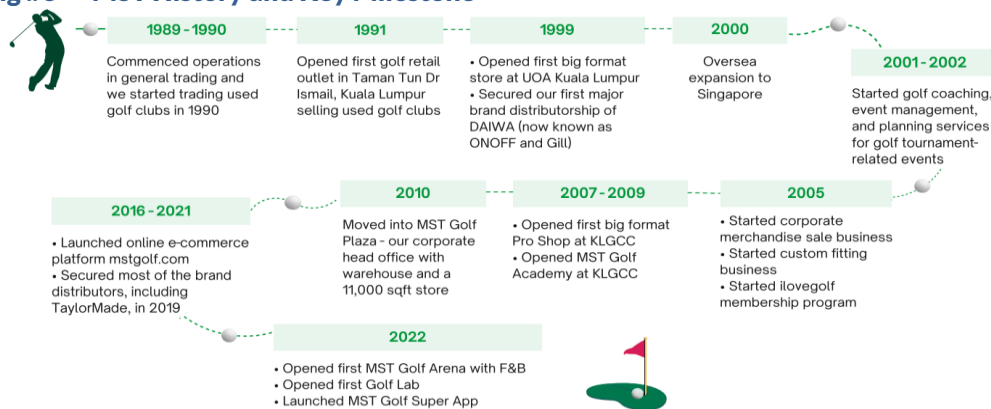
FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	18.0	26.7	34.3
EPS (sen)	3.2	4.2	4.6
P/E (x)	24.9	19.4	17.8

Fig #2 MST Post-IPO group structure



Source: Company prospectus

Fig #3 MST History and Key Milestone

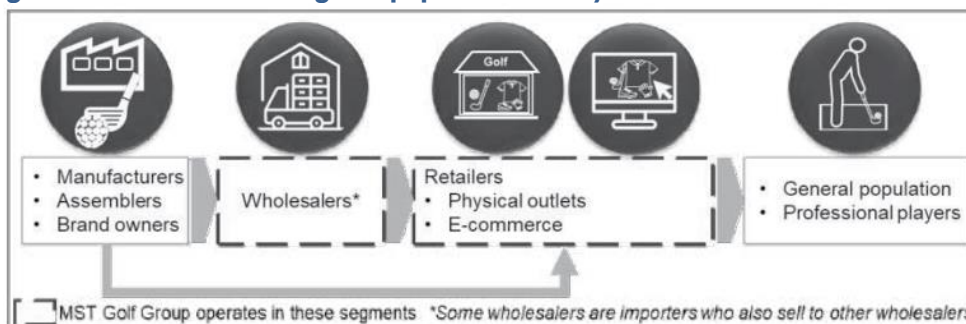


Source: Company

Industry Overview (from Vital Factor Consulting)

- **In the middle of the value chain within the golf equipment industry.** MST is under the wholesalers and retailers segment where they stand in between the (i) manufacturers, (ii) assemblers and (iii) brand owners and the end users.

Fig #4 Value chain of the golf equipment industry



Source: Prospectus

- **MST's main role as wholesalers and retailers.** MST operates in the segment of (i) **Merchant wholesalers** – refer to operators that buy their goods from manufacturers and/or brand owners or other wholesalers and take title to the goods before the goods are resold,

- (ii) **Golf specialty retailers** –the stores deal mainly with golf equipment and accessories,
- (iii) **Pro shops** – the stores are usually operated at golf clubs or driving ranges,
- (iv) **Online retailers** – golf equipment is sold through online platforms or websites.

Fig #5 Wholesalers & Retailers



Source: Prospectus

- **Distribution of golf equipment.** MST is considered as an “intermediary” that provides the linkages between principals (mainly brand owners and are responsible for the exclusive supply of products under their brand names) and end-consumer or users.

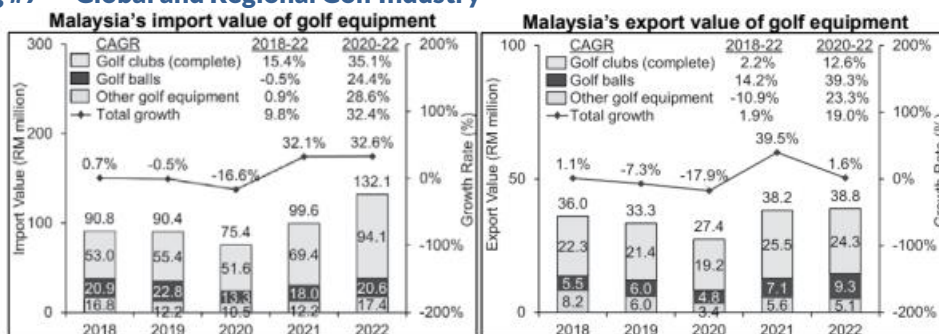
Fig #6 Global and Regional Golf Industry

2020	Global	Asia	Malaysia	Singapore	Indonesia ⁽¹⁾	Vietnam ⁽¹⁾	Thailand ⁽¹⁾
Population (million)	7,763.9	4,157.0	32.4	5.7*	270.2	97.6	66.2
Registered golfers ⁽²⁾ ('000)	n.a.	1,899	183	40	14	39	22
Golf courses ⁽³⁾ (number)	38,081	6,111	243	28	170	86	317
Percentage of golf courses compared to global/Asia (%)	-/-	16.0/-	0.6/4.0	0.1/0.5	0.4/2.8	0.2/1.4	0.8/5.2

Source: Prospectus

- **Relatively big market in the regional countries.** Based on the table above, Indonesia, Vietnam and Thailand have a population of 2-to-9 times as compared to Malaysia, while the registered golfers are lesser in ratio as compared to Malaysia. In view of the Covid-19 pandemic, we believe overall interest could have picked up and may translate to more demand in golf equipment.

Fig #7 Global and Regional Golf Industry

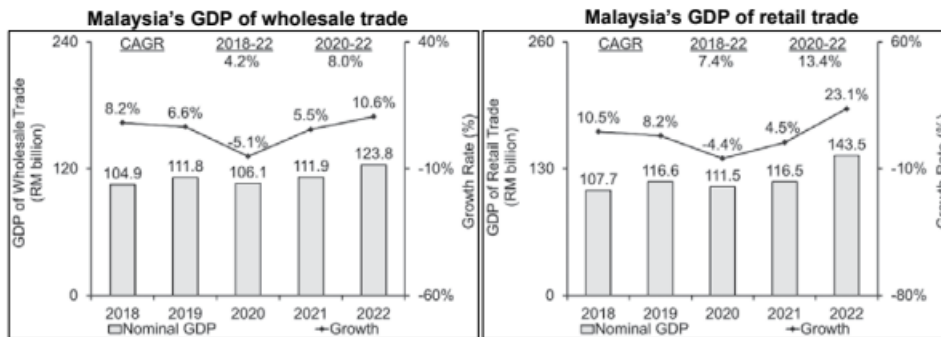


Source: DOSM, Prospectus

- **Growing imports and exports of golf equipment.** Between 2020 and 2022, the import value of golf equipment in Malaysia grew at a CAGR of 32.4% to RM132.1m

as golf is one of the singular-based sports played outdoors during Covid-19 pandemic. Meanwhile, the export value of golf equipment in Malaysia grew at a CAGR of 19.0% to RM38.8m in 2022 mainly due to gradual reopening of international borders and the global economic recovery in 2021.

Fig #8 Malaysia's GDP of wholesale trade and retail trade



Source: DOSM, Prospectus

- **Malaysia's GDP of wholesale trade and retail trade are on the upward trend.** The GDP of wholesale and retail trade has grown to RM123.8bn (4Y CAGR: 4.2%) and RM143.5bn (4Y CAGR: 7.4%), respectively in 2022 mainly attributed to the resumption of consumer and tourism-related activities. In 1Q23, GDP of wholesale and retail trade grew by 5.4% YoY and 18.3% YoY to RM29.1bn and RM37.8bn, respectively.

Fig #9 Competitors in the golf equipment industry

Company name	FYE ⁽¹⁾	Grp/Co. revenue ⁽²⁾ (RM '000)	Grp/Co. GP ⁽²⁾ (RM '000)	Grp/Co. GP Margin	Grp/Co. NP/(NL) ⁽²⁾ (RM '000)	Grp/Co. NP/(NL) Margin	Number of retail outlets [^]
MST Golf Group	Dec-22	300,875	129,195	42.9%	29,115	9.7%	44
Malaysia Operations							
MST Golf Group	Dec-22	200,112 ⁽³⁾	88,794	44.4%			36 ⁽³⁾
Leonian (Malaysia) S/B ⁽⁴⁾	Dec-22	47,548	n.a.	n.a.	2,782	5.9%	20
RGT Technology S/B ⁽⁵⁾	Dec-21	10,492	3,276	31.2%	1,188	11.3%	1
Winston's S/B ⁽⁶⁾	Dec-21	8,769	n.a.	n.a.	1,461	16.7%	1
Vin Sporting House S/B ⁽⁷⁾	Dec-21	7,216	1,789	24.8%	213	3.0%	1
Desa Golf House S/B ⁽⁸⁾	Dec-21	5,830	1,304	22.4%	474	8.1%	1
Golfsmart (M) S/B ⁽⁹⁾	Mar-22	2,030	346	17.0%	20	1.0%	4
SKT Ventures S/B ⁽¹⁰⁾	Dec-21	1,548	528	34.1%	(29)	(1.9%)	1
Singapore Operations⁽¹¹⁾							
Leonian Singapore Pte Ltd ⁽¹²⁾	Dec-21	442,956	n.a.	n.a.	9,448	2.1%	13
MST Golf Group	Dec-22	100,763 ⁽⁷⁾	40,401	40.1%			8 ⁽¹³⁾
Pan-West Pte Ltd ⁽¹⁴⁾	Dec-21	17,802	n.a.	n.a.	783	4.4%	4

Source: Company prospectus

- **MST has superior margins as compared to its peers,** GP margin stood above 40%, while the peers' range around 17-34.1%.

Fig #10 Market size and share

Golf Equipment ⁽¹⁾ - 2022	Export (RM million) ^(a)	Import (RM million) ^(a)	MST Golf Group's import	
			(RM million) ^{(b) (2)}	Market share ^{(c) (3)}
Malaysia	38.8	132.1	67.5	51%
Singapore	208.6 ⁽⁴⁾	273.8 ⁽⁴⁾	49.1	18%

Source: Company prospectus

- **MST has a lion share of 51% in Malaysia**, as they import about RM67.5m as a group vs. Malaysia's import of RM132.1m.

Investment merits

- **Dominant leader position.** MST is having 51% market share with top 25 brands under its distribution channel throughout Malaysia and Singapore. Meanwhile, MST has near to 94k in its "ilovegolf" loyalty member programme, which has contributed significantly towards its revenue. Besides, MST provides extensive range of golf related products and services such as indoor golf centre. With that, it managed to capture the full-range from amateur to professional players.
- **Expansion plans in the current markets...** Out of the RM129m IPO proceeds, 48.4% or RM62.8m is earmarked for Malaysia and Singapore expansion plans, and to upgrade and refurbish the Groups existing golf retail outlets in Malaysia as well as the head office and warehouse at Subang Jaya. Malaysia and Singapore will have 49 (from 36) outlets and 10 (from 8) outlets by 2025.
- **...and regional markets.** Besides, 41.4% or RM53.6m is allocated for regional expansion plans into Indonesia, Thailand and Vietnam to establish golf retail outlets and retail outlets with indoor golf centres. The new retail outlets within the region will be via JV arrangements with the local partners in the respective countries. On 18-Apr-2023, MST entered into a MoU with PT Sinar Eka Selaras (subsidiary of PT Erajaya Swasembada Tbk) for a proposed JV to establish golf retail outlets and indoor golf centres in Indonesia. PT Erajaya Swasembada Tbk is involved in distribution and retailing of telco equipment, computer, electronic devices as well as fashion products for brands such as ASICS, Garmin and JD Sports.

Fig #11 Planned retail outlets in the region (2024-2026)

Location		2024	2025	2026	Total
Indonesia	Retail outlets	2	1	-	3
	Retail outlet with indoor golf centre	-	1	2	3
Thailand	Retail outlets	2	1	1	4
	Retail outlet with indoor golf centre	-	1	1	2
Vietnam	Retail outlets	-	2	-	2
	Retail outlet with indoor golf centre	-	-	2	2
Total		4	6	6	16

Source: Company prospectus

- **Planned regional retail outlets.** The intention in the regional space will be to have 16 outlets by 2026 (Fig #11). With this, we expect MST will be more entrenched and the position as a leader will be harder for the competitors to compete.
- **Sturdy margins in the retailing industry.** Over the years, it has established a strong GP margin of over 40%. Meanwhile, the core PATAMI margins stood around the 7-10% range. In its 1Q23 result, the GP and core PATAMI margins registered at 43.1% and 10.2%, respectively.

IPO Details

Fig #12 Utilisation of IPO proceeds

	Detail of utilisation	Estimated time frame for utilisation	RM ('m)	%
(i)	Expansion in Malaysia and Singapore	Within 36 months	62.8	48.4
(ii)	Expansion into new geographical markets	Within 36 months	53.6	41.3
(iii)	Upgrade of digital technology facilities	Within 36 months	3.0	2.3
(iv)	Working capital requirements	Within 24 months	3.3	2.5
(v)	Estimated listing expenses	Within 1 month	7.0	5.4
	Total		20.58	100.0

Source: Company prospectus

Financials

- **Solid growth in top and bottomline.** Despite the Covid-19 pandemic, MST managed to grow its revenue from RM170.2m in FY20 to RM300.9m in FY22 underpinned by rising players during the Covid-19 period, translating to higher demand for golf equipment. Hence, the bottomline has increased from RM9.3m to RM18.0m in the same period.
- **Conservative projections with the expansion plans.** As golf is a niche sport, we expect a moderate growth under a higher inflationary environment, thus we forecast the revenue to increase at a moderate range within 10-15% for FY23-24f to RM344.5m and RM379.9m respectively. Meanwhile, the core PATAMI may grow at 9-29% in FY23-24f to RM26.7m and RM34.3m, respectively. We like MST for its dominant market position which provides them a stable growth in terms of revenue and profit going forward. Also, we believe MST may reap the rewards from the regional expansion throughout 2024-2026 into high population countries such as Indonesia, Thailand and Vietnam.

Financial Highlights

FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	170.2	206.5	300.9	344.5	379.9
EBITDA	30.5	38.9	57.8	66.0	70.9
PBT	18.3	26.3	38.8	45.1	49.2
PATMI - Core	9.3	12.9	18.0	26.7	34.3
PATMI - Reported	9.3	12.9	18.0	26.7	34.3
Revenue growth (%)	-3%	21%	46%	15%	10%
Core PATMI growth (%)	38%	40%	48%	29%	9%
Core EPS (sen)	1.6	2.2	3.2	4.2	4.6
DPS (sen)	-	0.2	1.4	1.3	1.4
Dividend Yield (%)	0.0%	0.3%	1.7%	1.5%	1.7%
GP Margin (%)	40%	41%	41%	43%	42%
PAT Margin (%)	5%	8%	9%	9%	10%
P/E (x)	51.6	36.9	24.9	19.4	17.8
P/B (x)	20.4	17.8	6.9	2.7	2.4
ROE (%)	49%	52%	40%	20%	14%
Net Gearing (x)	CASH	0.01	0.34	CASH	CASH

Source: Company prospectus, MSSB Research

Valuation

- At the IPO offer price of RM0.81, MST is trading at 24.9x based on FY22 core net EPS of 3.2 sen. Meanwhile, MST's forward P/E valuation for FY23-24f is estimated at 19.4x and 17.8x, respectively.
- We arrived at our fair value of RM0.975 (20.4% potential upside from its IPO price) by ascribing a target P/E of 21.5x to our forecasted FY24f EPS of 4.6 sen. The assigned P/E is in line with Consumer Discretionary Distribution & Retail P/E (Fig #13) of 21.4x.

Fig #13 Bloomberg - Consumer Discretionary Distribution & Retail P/E

Ticker	Name	Weight (%)#1	Shares	Price	P/E
	Food, Beverage & Tobacco (44 members)	43.393436	27,334,554372		28.39
	Consumer Services (20 members)	16.184499	32,507,978580		15.97
	Consumer Discretionary Distribution & Retail (23 members)	10.067956	22,350,740446		21.38
	Energy (1 member)	8.568276	993,454000		22.98
	Capital Goods (8 members)	7.443725	13,441,436198		11.94
	Automobiles & Components (5 members)	4.785163	4,476,596881		10.49
	Consumer Durables & Apparel (35 members)	3.599183	15,449,943548		16.86
	Consumer Staples Distribution & Retail (4 members)	1.762776	3,557,677134		27.16
	N/A (2 members)	1.430958	5,684,999992		1.02
	Financial Services (2 members)	0.808356	749,389042		21.18
	Commercial & Professional Services (7 members)	0.527542	4,094,723807		11.90
	Household & Personal Products (4 members)	0.454134	2,475,946728		191.67
	Transportation (1 member)	0.310066	738,988087		12.34
	Materials (4 members)	0.226667	1,138,704225		11.77
	Health Care Equipment & Services (3 members)	0.225754	4,661,578589		10.72
	Technology Hardware & Equipment (2 members)	0.149199	514,528550		10.47
	Pharmaceuticals, Biotechnology & Life Sciences (1 member)	0.062311	221,226000		12.95

Source: Bloomberg

- MST adopts a formal dividend policy of 30% and we believe this will be able to reward shareholders going forward by 1.3-1.4 sen for FY23-24f, translating to dividend yield of 1.5-1.7%, respectively.

Investment risks

- **Distribution agreements subject to termination.** MST's distribution and/or retail rights for the brands of products are secured through agreements entered between MST and the respective brand owners or their representatives and there is no assurance that these agreements will be renewed even if MST meets the requirements. Hence that will provide significant risks for MST if there is any termination of distribution agreements in the future.
- **Potential slowdown in demand as consumer preference and spending habits may change.** As golf is a niche sport, and the growth during FY20-22 was due to Covid-19 pandemic, golf is allowed under that scenario as one of the sports to be played. However, consumers could have more options to choose from and it may tilt consumer preference and spending habits. Also, the elevated inflationary environment could be challenging for end-users to switch their golf equipment from time to time.

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As of **Thursday, 20 Jul, 2023**, the analyst(s), Loui Low Ley Yee, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned
