

Company visit

Not rated

NagaCorp Ltd

Sector: Consumer Discretionary

Industry: Hotels Restaurants & Leisure

Sub-industry: Casinos & Gaming

Key data

Price (HK\$)	4.75
52wk High (HK\$)	6.03
52wk Low (HK\$)	3.99
Market Cap (HK\$m)	11,685
Market Cap (US\$m)	1,507
Shares outstanding (m)	2,460
Free float (%)	61.0
1M relative return	-6.3
6M relative return	-21.0
YTD relative return	-1.7
HSCEI	9,526
Dividend yield (FY15)	7.6
US\$:HK\$	7.7547

Inst Ownership (Top 5, %)

LIP KEONG CHEN	38.98
FRANKLIN RESOURCES	3.3
PICTET FUNDS	1.45
FEDERATED INVESTORS	1.42
BMO INVESTMENTS II I	1.4

Source: Bloomberg

Analyst

Crystal Xu

A0230515090009

BGY750

xuzh@swsresearch.com

Phone: (+86) 21 2329 7486

NagaCorp (3918 HK)

Odds generator

We held discussions with management of NagaCorp, the largest hotel, gaming, and leisure services operator in Cambodia, listed in Hong Kong since 2006. The company has a 70-year casino license expiring in 2065 and a 41-year monopoly within a 200 km radius of Cambodian capital Phnom Penh, expiring 2035. As of 2015, the group contributed 23.5% to the Cambodian tourism sector GDP and 1.26% to total Cambodian GDP.

Focus on mass. NagaCorp generates only 40% of total gross gaming revenue (GGR) from high-rollers, although compared with Macau, low limits and products provided to players mean average VIP spend is closer to Macau's premium mass players. Electronic gaming machines (EGM) accounted for 37.4% of total GGR in 1H16. VIP GGR rose 24% YoY in 1H16, against 17% YoY growth in mass GGR and 18% YoY growth in EGM GGR. Approximately 60% of NagaCorp visitors are from Malaysia and Singapore, most travelling independently.

Expansion plans. The plans to open its second location, the 1,000-room *Naga2*, with 250-300 gaming tables and 1,000 EGMs on the block adjacent to its original 700-room *NagaWorld* project, in 2017. The opening will effectively double the number of tables and significantly expand the company's EGM capacity, given 296 tables and 1,662 EGMs in *NagaWorld*. The two casinos are linked by an underground walkway, *NagaCity Walk*, lined with a combination of retail and public areas, opened in August this year. Management anticipates 1,000 footfalls per day. *NagaCity Walk* duty-free shopping is operated by China Duty-Free Group (owned by China International Travel Service).

Targeting Chinese visitors. At present, only 16% of visitors are from mainland China. NagaCorp is cooperating with travel agents and Cambodian independent airline operator Bassaka Air to bring more Chinese visitors via scheduled flights from Changsha and Xi'an, raising the total direct flights from China to Cambodia from six at present to eight or nine. The Cambodian tourism ministry forecasts 1.0m Chinese visitors in 2016, rising to 2.0m by 2020, an 18.9% Cagr.

Friendly environment. GDP growth for Cambodia is relatively stable at 7.0% YoY in the past three years and the International Monetary Fund's global economic forecasts suggest continued stable growth in 2016-17.

Valuation. NagaCorp is trading at 5.4x17F EV/Ebitda, with 54% discount to the total gaming sector average (11.6x17F EV/Ebitda). NagaCorp has paid out 60-80% of earnings in dividends during 2006 to 2015, and is trading at a 15A dividend yield of 7.44%.

Financial Table

HK\$	2012	2013	2014	2015
Revenue (m)	279	345	404	504
Growth (%)	24.6	23.7	17.2	24.6
Net income (m)	113	140	136	173
Growth (%)	22.9	24.0	-3.0	26.8
Diluted EPS	0.05	0.06	0.06	0.08
Growth (%)	22.9	15.7	-5.1	27.5
ROE (%)	30.0	28.0	22.2	26.3
Dividend yield (%)	6.3	4.1	5.1	7.2
Free cash flow per share	0.03	0.05	0.03	0.02
PE (x)	11.2	16.8	13.7	8.3
PB (x)	3.1	4.0	3.0	2.1
EV/Ebitda	8.6	12.5	9.6	5.7
Debt/equity	-	-	-	-

Source: SWS Research, Bloomberg



Source: Bloomberg

Odds generator

We held discussions with management of NagaCorp, the largest hotel, gaming, and leisure services operator in Cambodia, listed in Hong Kong since 2006. The company has a 70-year casino license expiring in 2065 and a 41-year monopoly within a 200 km radius of Cambodian capital Phnom Penh, expiring 2035. NagaCorp recorded net profit of US\$125.1m in 1H16, up 24% YoY, supported by a 26% YoY increase in VIP gross gaming revenue (GGR). Over the same period, mass GGR rose 17% YoY and electronic gaming machine (EGM) GGR increased 18% YoY. As of 2015, the group contributed 23.5% to the Cambodian tourism sector GDP and 1.26% to total Cambodian GDP.

In the five years since 2010, the company has recorded revenue growth at a 27.3% Cagr to US\$503.7m; net profit grew at a 31.4% Cagr to US\$172.6m.

Fig 1: View of NagaCorp properties



Source: Company data, SWS Research

Fig 2: NagaWorld Garden Casino



Source: SWS Research & Company data

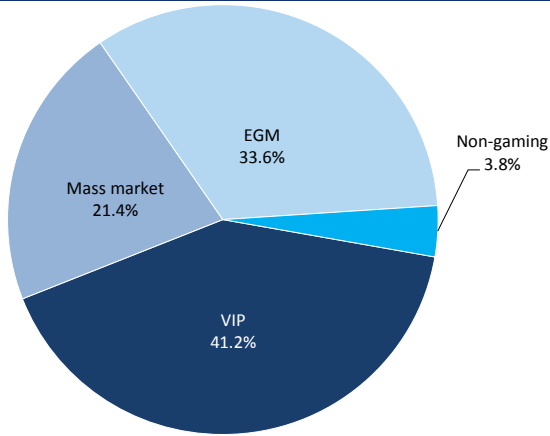
Fig 3: Hotel room in NagaWorld



Source: SWS Research & Company data

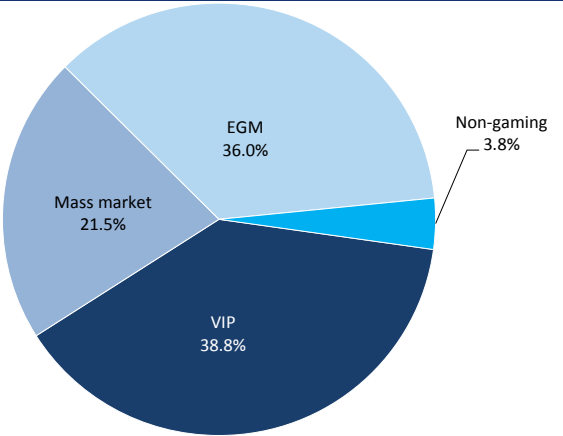
NagaCorp generates only around 40% of total GGR from high-rolling VIP play, which in Cambodia is more akin to premium mass play in Macau given low limits and products provided to players. However, in Macau, EGM accounted for just c.12% of total GGR in 3Q16, but brought in 37.4% of total GGR in 1H16 for NagaCorp. This is due to customer preferences with around 60% of gamers coming from Malaysia and Singapore, largely independent travellers.

Fig 4: Revenue breakdown in 1H15



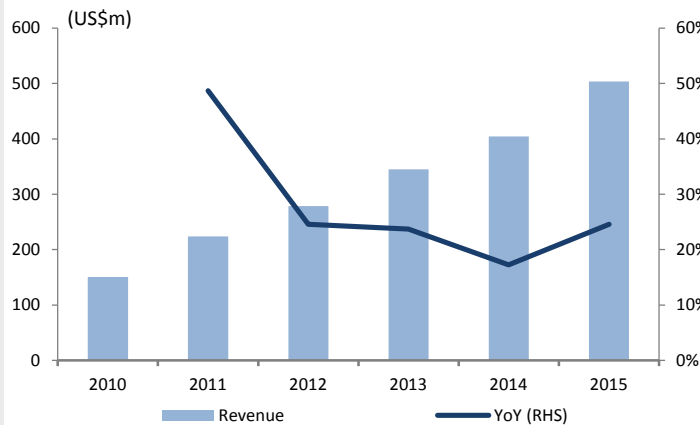
Source: SWS Research & Company data

Fig 5: Revenue breakdown in 1H16



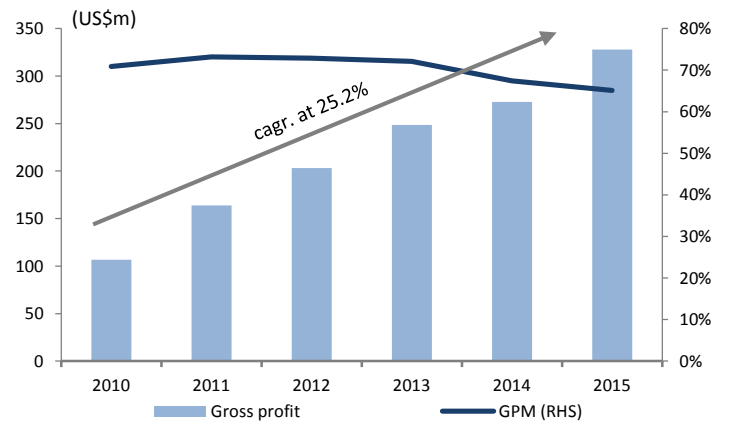
Source: SWS Research & Company data

Fig 6: Revenue during 2010 to 2015



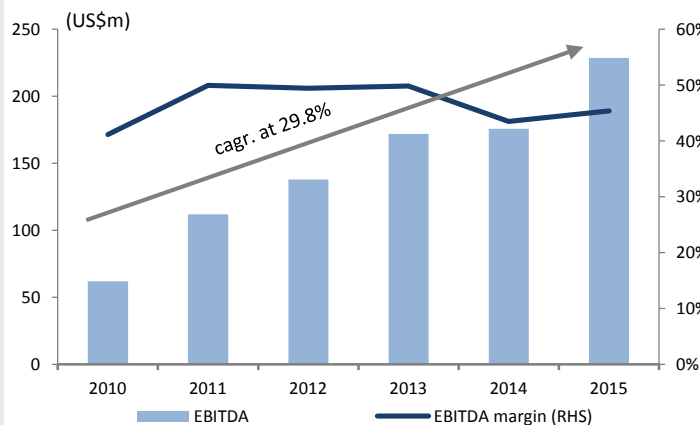
Source: SWS Research & Company data

Fig 7: Gross profit during 2010 to 2015



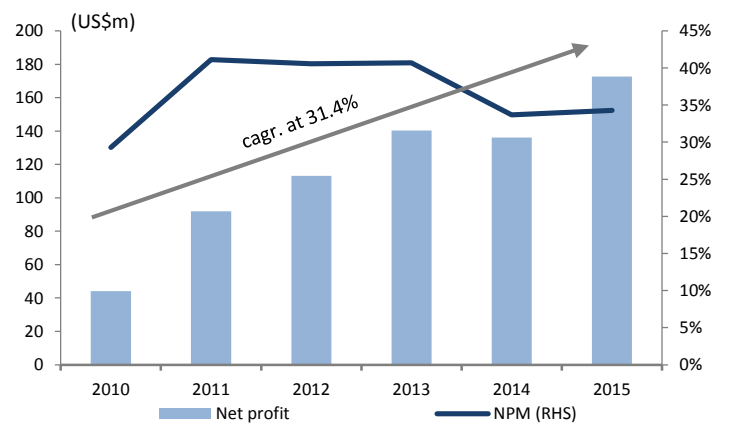
Source: SWS Research & Company data

Fig 8: EBITDA during 2010 to 2015



Source: SWS Research

Fig 9: Net profit during 2010 to 2015



Source: SWS Research

Favourable environment

Cambodian gaming tax is low, at just 1-2%, compared with 39% in Macau, 25% in Malaysia, around 20% in Philippines and Singapore.

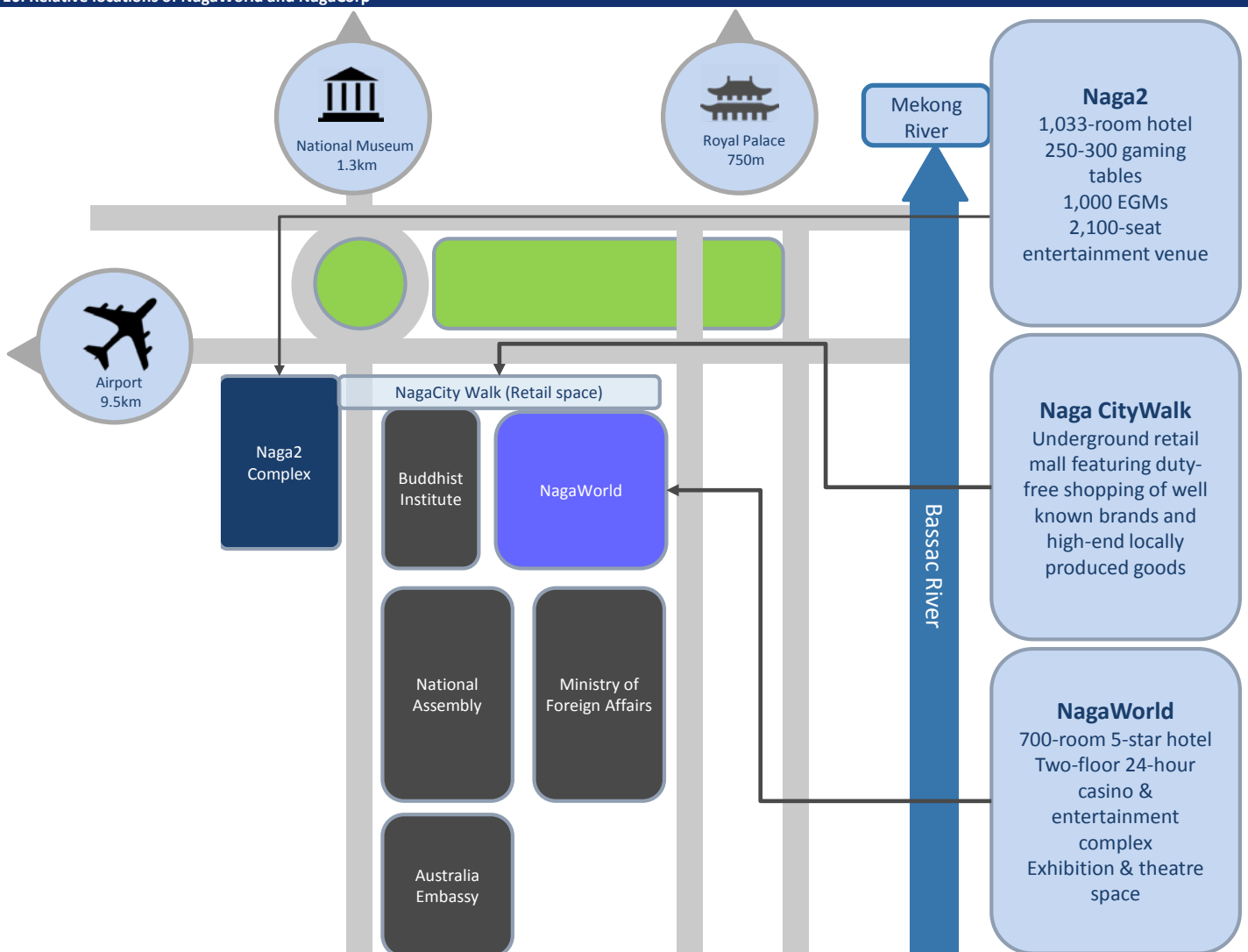
Furthermore, regulators have set no table limit policy, which means NagaCorp can increase or decrease the number of gaming tables according to business conditions. The exclusive license before 2035 ensures the company has no competition.

GDP growth for Cambodia is relatively stable at 7.0% YoY in the past three years and the International Monetary Fund's global economic forecasts suggest continued stable growth in 2016-17. Players only can use US dollars in the casino.

Future growth

The plans to open its second location, the 1,000-room *Naga2*, with 250-300 gaming tables and 1,000 EGMs on the block adjacent to its original 700-room *NagaWorld* project, in 2017. The opening will effectively double the number of tables and significantly expand the company's EGM capacity, given 296 tables and 1,662 EGMs in *NagaWorld*.

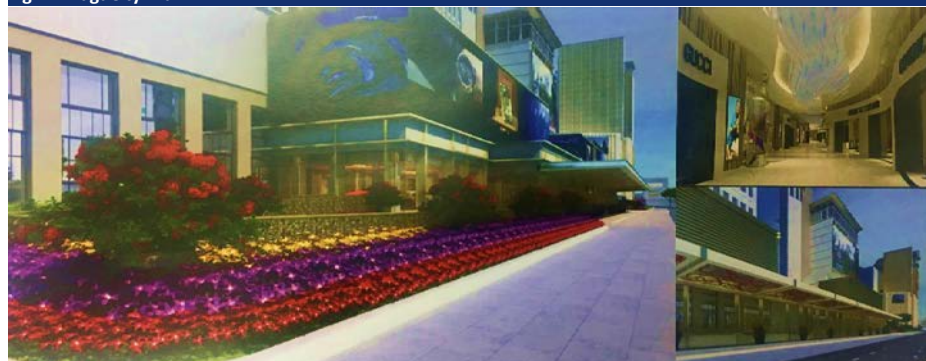
Fig 10: Relative locations of NagaWorld and NagaCorp



Source: SWS Research, Company data

The two casinos are linked by a walkway, *NagaCity Walk*, lined with a combination of retail and public areas, opened in August this year. Management anticipates 1,000 footfalls per day. *NagaCity Walk* duty-free shopping is operated by China Duty-Free Group (owned by China International Travel Service).

Fig 11: NagaCity Walk



Source: IMF World Economic Outlook Apr 2016, SWS Research

Engaging China

At present, only 16% of visitors are from mainland China. NagaCorp is cooperating with travel agents and Cambodian independent airline operator Bassaka Air to bring more Chinese visitors via scheduled flights from Changsha and Xi'an, raising the total direct flights from China to Phnom Penh from six at present to eight or nine.

The Cambodian tourism ministry forecasts 1.0m Chinese visitors in 2016, rising to 2.0m by 2020, an 18.9% Cagr.

Fig 12: Direct flights via China and Cambodia

Destination	Airlines	Time	Frequency
Shanghai-Phnom Penh	China Eastern Airlines	20:15-23:15	Daily
Guangzhou-Phnom Penh	China Southern Airlines	9:05-10:50	Daily
		11:35-13:30	Daily
		21:30-23:30	Daily
Xi'an/Changsha-Cambodia	Spring Airlines	6:20-9:00	Sundays, Tuesdays and Fridays
	Cambodia Angkor Air	13:25-15:20	Sundays, Mondays and Thursdays
	Bassaka Air	-	2-3 flights a week

Source: SWS Research

Management background

NagaCorp's largest shareholder, with a 42% stake, is company CEO and founder Tan Sri Dr Chen Lop Keong. Keong, a Malaysian, is also president of investment holding firm KaramBunai (KRBN:MK) focused on tourism in Sabah, Malaysian Borneo, with hotel, spa and golf operations, as well as plans to develop residential and commercial projects. Keong submitted a takeover offer to privatise the company in April 2016, securing 79% of stakes in the company as of the close of the offer in June. Keong is also president of bedding products and steel fittings producer FACB Industries (FACI:MK) and property developer Petaling Tin (PEG:MK). Keong is controlling shareholder of all three listed firms.

Timothy Patrick McNally joined the company in 2005 as chairman, after serving as executive director of the Hong Kong Jockey Club's security and legal services. McNally is also an international security consultant and is the president of B2G Global Strategies headquartered in California.

Valuation

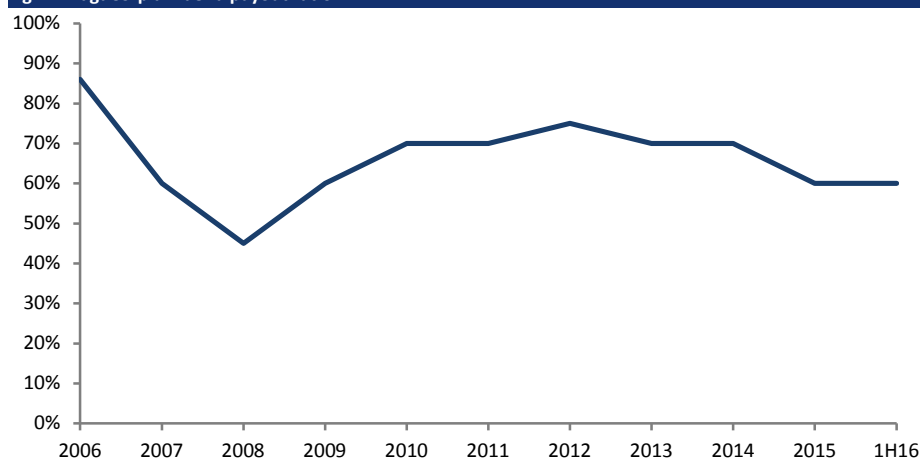
NagaCorp is trading at 5.4x17F EV/Ebitda, a 54% discount to the overall gaming sector average (11.6x17F EV/Ebitda). Sands China (1928:HK – Outperform) is trading at 17.2x 17F EV/Ebitda as the industry leader, Galaxy Entertainment (27:HK – N-R), MGM China (2282:HK – N-R), and Wynn Macau (1128:HK – N-R) are trading at 13-14x 17F EV/Ebitda, SJM Holdings (880:HK – N-R) is trading at 6.4x 17F EV/Ebitda. NagaCorp has paid out 60-80% of earnings in dividend during 2006 to 2015.

Fig 13: Peer valuation

Code	Company	PE (x)			PB (x)			EV/Ebitda (x)		
		16F	17F	18F	16F	17F	18F	16F	17F	18F
1928 HK	Sands China Ltd	27.8	24.3	21.7	7.0	7.7	8.3	19.4	17.2	16.2
27 HK	Galaxy Entertainment	24.5	24.5	23.2	3.1	2.8	2.6	13.4	13.4	12.7
2282 HK	MGM China Holdings	21.3	28.6	17.9	8.1	6.7	5.5	16.2	13.9	10.5
1128 HK	Wynn Macau Ltd	29.2	21.0	17.9	15.9	13.1	11.1	17.6	13.2	12.3
880 HK	SJM Holdings Ltd	15.8	26.7	23.3	1.3	1.3	1.3	5.8	6.4	4.7
200 HK	Melco International	9.1	42.7	29.2	1.3	1.2	1.2	916.9	672.0	416.9
3918 HK	NagaCorp	8.6	11.6	9.9	1.8	1.7	1.6	5.7	5.4	3.9
	Average	19.5	25.6	20.5	5.5	4.9	4.5	142.1	105.9	68.2
	Average exl. Melco	21.2	22.8	19.0	6.2	5.5	5.1	13.0	11.6	10.0

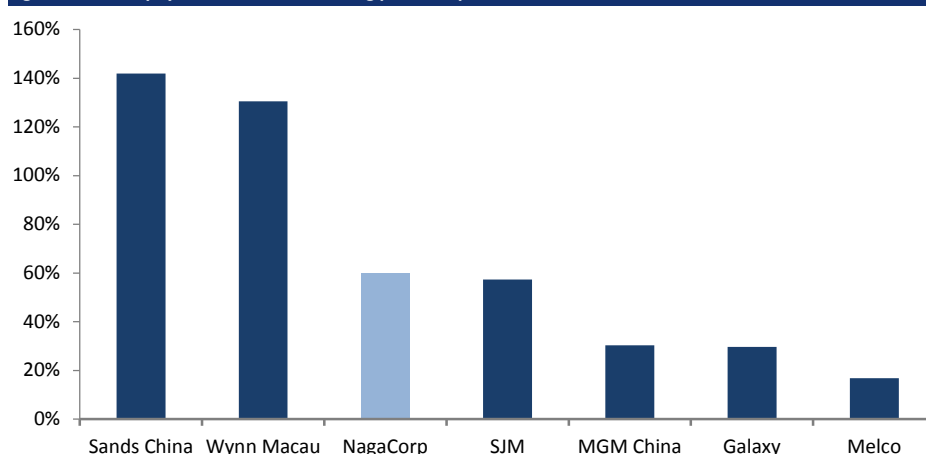
Source: SWS Research & Company data

Fig 14: NagaCorp dividend payout ratio



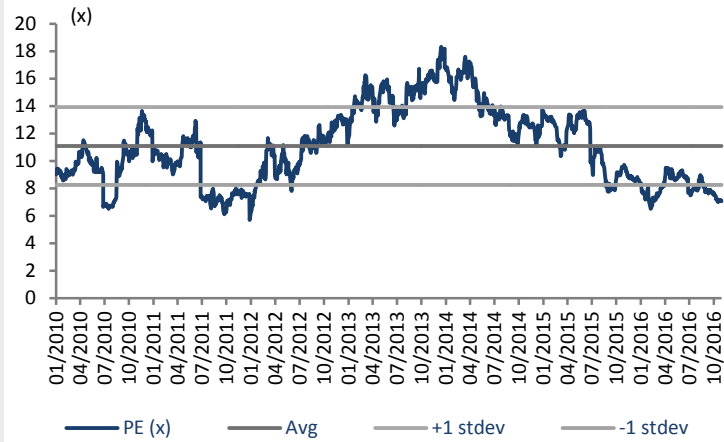
Source: SWS Research & Company data

Fig 15: Dividend payout ratio in 2015 among peer companies



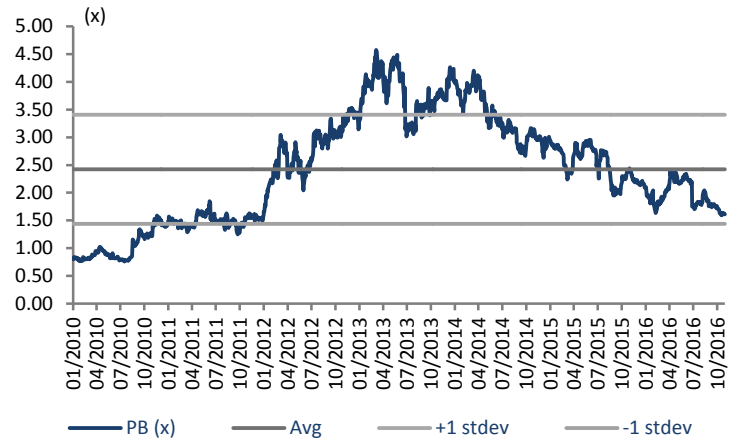
Source: Bloomberg, SWS Research

Fig 16: PE band charts



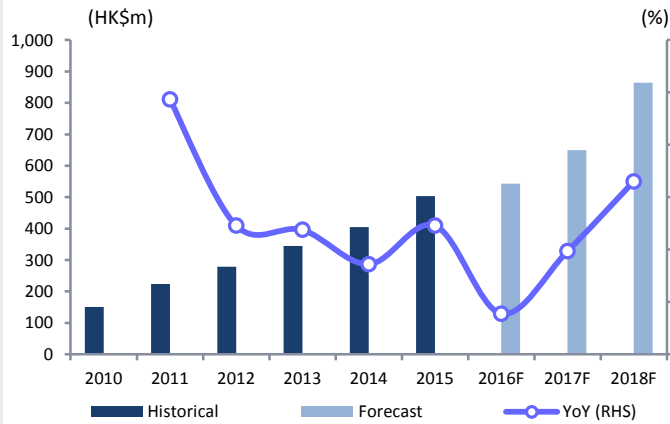
Source: SWS Research & Bloomberg

Fig 17: PB band charts



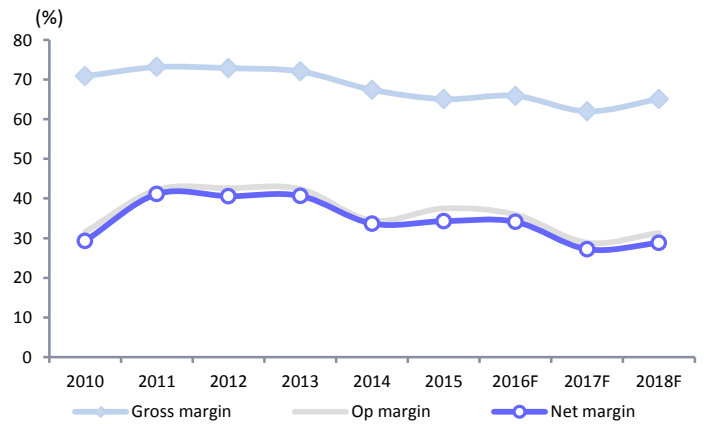
Source: SWS Research & Bloomberg

Fig 18: Revenue



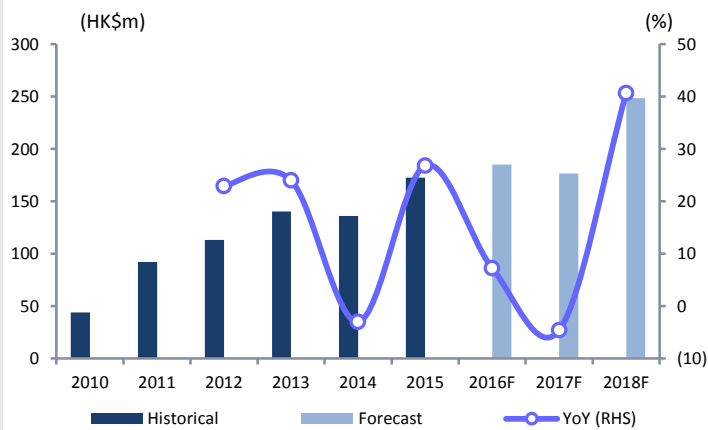
Source: SWS Research & Bloomberg

Fig 19: Margins



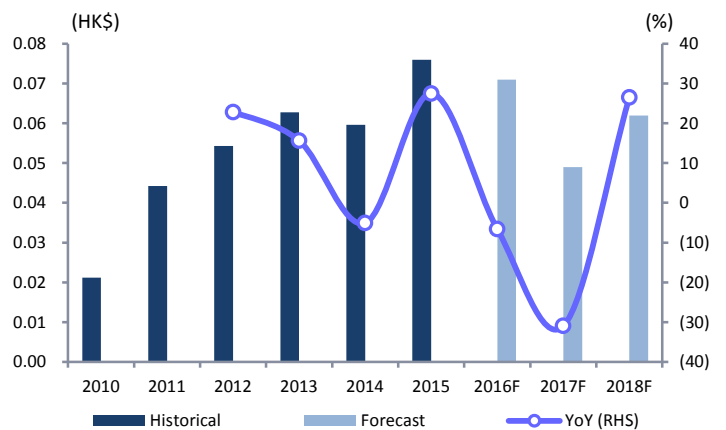
Source: SWS Research & Bloomberg

Fig 20: Net profit



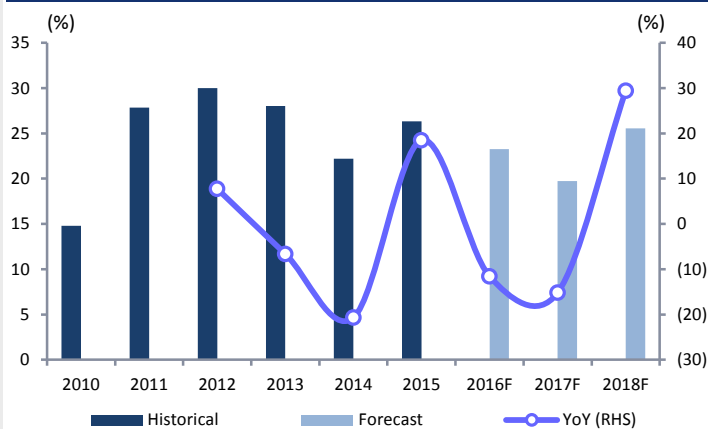
Source: SWS Research & Bloomberg

Fig 21: EPS



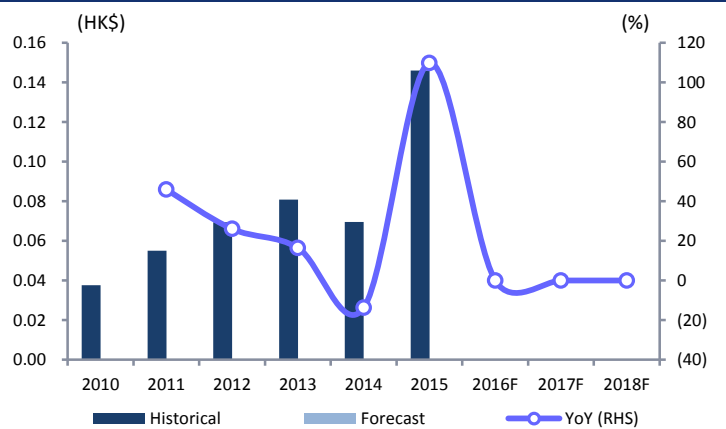
Source: SWS Research & Bloomberg

Fig 22: ROE



Source: SWS Research & Bloomberg

Fig 23: Cash flow per share



Source: SWS Research & Bloomberg

Appendix

Income Statement

HK\$m	2012	2013	2014	2015
Revenue	279	345	404	504
Operating Income	119	146	139	189
Pretax Income	118	145	142	189
Income bef XO Items	113	140	136	173
Net Income	113	140	136	173
Basic EPS Before XO Items	0.05	0.06	0.06	0.08
Basic EPS	0.05	0.06	0.06	0.08
Diluted EPS Before XO Items	0.05	0.06	0.06	0.08
Diluted EPS	0.05	0.06	0.06	0.08
Dividends per Share	0.04	0.04	0.04	0.05
Ebitda	139	173	173	228
Return on Common Equity	30.0	28.0	22.2	26.3

Source: Bloomberg

Balance Sheet

HK\$m	2012	2013	2014	2015
Total Current Assets	95	271	234	190
Total Long-Term Assets	333	369	426	533
Total Assets	428	640	661	723
Total Current Liabilities	26	40	35	36
Total Long-Term Liabilities	-	-	-	-
Total Liabilities	26	40	35	36
Total Shareholders' Equity	402	600	626	687
Shares Outstanding	2,082	2,282	2,271	2,270
Book Value per Share	0.19	0.26	0.28	0.30
Tangible Book Value / Sh	0.15	0.23	0.24	0.27
Shareholder Equity/Total Liab	94	94	95	95

Source: Bloomberg

Cash Flow Statement

HK\$m	2012	2013	2014	2015
Net Income	113	140	136	173
Depreciation and Amortisation	20	26	34	40
Change in Working Capital	-8	162	-31	-45
Cash - Operating Activities	144	181	159	197
Capital Expenditures	-72	-59	-97	-140
Cash - Investing Activities	-72	-59	-122	-123
Cash - Financing Activities	-64	58	-111	-109
Net Changes in Cash	8	179	-74	-35
Free Cash Flow	72	121	62	57
Free Cash Flow / Basic Sh	0.03	0.05	0.03	0.02
Free Cash Flow / Diluted Sh	0.03	0.05	0.03	0.02
Cashflow per Share	0.07	0.08	0.07	0.09

Source: Bloomberg

Information Disclosure :

The views expressed in this report accurately reflect the personal views of the analyst. The analyst declares that neither he/she nor his/her associate serves as an officer of nor has any financial interests in relation to the listed corporation reviewed by the analyst. None of the listed corporations reviewed or any third party has provided or agreed to provide any compensation or other benefits in connection with this report to any of the analyst, the Company or the group company(ies). A group company(ies) of the Company confirm that they, whether individually or as a group (i) are not involved in any market making activities for any of the listed corporation reviewed; or (ii) do not have any individual employed by or associated with any group company(ies) of the Company serving as an officer of any of the listed corporation reviewed; or (iii) do not have any financial interest in relation to the listed corporation reviewed or (iv) do not, presently or within the last 12 months, have any investment banking relationship with the listed corporation reviewed.

Undertakings of the Analyst

I (We) am (are) conferred the Professional Quality of Securities Investment Consulting Industry by the Securities Association of China and have registered as the Securities Analyst. I hereby issue this report independently and objectively with due diligence, professional and prudent research methods and only legitimate information is used in this report. I am also responsible for the content and opinions of this report. I have never been, am not, and will not be compensated directly or indirectly in any form for the specific recommendations or opinions herein.

Disclosure with respect to the Company

The company is a subsidiary of Shenwan Hongyuan Securities. The company is a qualified securities investment consulting institute approved by China Securities Regulatory Commission with the code number ZX0065.

Releasing securities research reports is the basic form of the securities investment consulting services. The company may analyze the values or market trends of securities and related products or other relevant affecting factors, provide investment analysis advice on securities valuation/ investment rating, etc. by issuing securities research reports solely to its clients.

The Company fulfills its duty of disclosure within its sphere of knowledge. The clients may contact compliance@swsresearch.com for the relevant disclosure materials or log into www.swsresearch.com for the analysts' qualifications, the arrangement of the quiet period and the affiliates' shareholdings.

Introduction of Share Investment Rating

Security Investment Rating :

When measuring the difference between the markup of the security and that of the market's benchmark within six months after the release of this report, we define the terms as follows:

Trading BUY: Share price performance is expected to generate more than 20% upside over a 6-month period.

BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.

Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.

Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.

Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.

Industry Investment Rating:

When measuring the difference between the markup of the industry index and that of the market's benchmark within six months after the release of the report, we define the terms as follows:

Overweight : Industry performs better than that of the whole market ;

Equal weight : Industry performs about the same as that of the whole market ;

Underweight : Industry performs worse than that of the whole market.

We would like to remind you that different security research institutions adopt different rating terminologies and rating standards. We adopt the relative rating method to recommend the relative weightings of investment. The clients' decisions to buy or sell securities shall be based on their actual situation, such as their portfolio structures and other necessary factors. The clients shall read through the whole report so as to obtain the complete opinions and information and shall not rely solely on the investment ratings to reach a conclusion. The Company employs its own industry classification system. The industry classification is available at our sales personnel if you are interested.

HSCEI is the benchmark employed in this report.

Thursday, 03 November, 2016

Bringing China to the World

Disclaimer :

This report is to be used solely by the clients of SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities, hereinafter referred to as the "Company"). The Company will not deem any other person as its client notwithstanding his receipt of this report.

This report is based on public information, however, the authenticity, accuracy or completeness of such information is not warranted by the Company. The materials, tools, opinions and speculations contained herein are for the clients' reference only, and are not to be regarded or deemed as an invitation for the sale or purchase of any security or other investment instruments.

The clients understand that the text message reminder and telephone recommendation are no more than a brief communication of the research opinions, which are subject to the complete report released on the Company's website (<http://www.swsresearch.com>). The clients may ask for follow-up explanations if they so wish.

The materials, opinions and estimates contained herein only reflect the judgment of the Company on the day this report is released. The prices, values and investment returns of the securities or investment instruments referred to herein may fluctuate. At different periods, the Company may release reports which are inconsistent with the materials, opinions and estimates contained herein.

Save and except as otherwise stipulated in this report, the contactor upon the first page of the report only acts as the liaison who shall not provide any consulting services.

The clients shall consider the Company's possible conflict of interests which may affect the objectivity of this report, and shall not base their investment decisions solely on this report. The clients should make investment decisions independently and solely at your own risk. Please be reminded that in any event, the company will not share gains or losses of any securities investment with the clients. Whether written or oral, any commitment to share gains or losses of securities investment is invalid. The investment and services referred to herein may not be suitable for certain clients and shall not constitute personal advice for individual clients. The Company does not ensure that this report fully takes into consideration of the particular investment objectives, financial situations or needs of individual clients. The Company strongly suggests the clients to consider themselves whether the opinions or suggestions herein are suitable for the clients' particular situations; and to consult an independent investment consultant if necessary.

Under no circumstances shall the information contained herein or the opinions expressed herein forms an investment recommendation to anyone. Under no circumstances shall the Company be held responsible for any loss caused by the use of any contents herein by anyone. Please be particularly cautious to the risks and exposures of the market via investment.

Independent investment consultant should be consulted before any investment decision is rendered based on this report or at any request of explanation for this report where the receiver of this report is not a client of the Company.

The Company possesses all copyrights of this report which shall be treated as non-public information. The Company reserves all rights related to this report. Unless otherwise indicated in writing, all the copyrights of all the materials herein belong to the Company. In the absence of any prior authorization by the Company in writing, no part of this report shall be copied, photocopied, replicated or redistributed to any other person in any form by any means, or be used in any other ways which will infringe upon the copyrights of the Company. All the trademarks, service marks and marks used herein are trademarks, service marks or marks of the Company, and no one shall have the right to use them at any circumstances without the prior consent of the Company.

This report may be translated into different languages. The Company does not warrant that the translations are free from errors or discrepancies.

This report is for distribution in Hong Kong only to persons who fall within the definition of professional investors whether under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") or the Securities and Futures (Professional Investor) Rules (Chapter 571D of the laws of the Hong Kong under the SFO).

This report is for distribution in the United Kingdom only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) order 2001 (as amended) (the "Order") or (ii) are persons falling within Article 49(2)(a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc") of the Order (All such persons together being referred to as "Relevant Persons"). This document is directed only at Relevant Persons. Other Persons who are not Relevant Persons must not act or rely upon this document or any of its contents.

Distribution in Singapore

If distributed in Singapore, this report is meant only for Accredited Investors and Institutional Investors as defined under Section 4A of the Securities and Futures Act of Singapore. If you are not an Accredited Investor or an Institutional Investor, you shall ignore the report and its contents. The Singapore recipients of the report are to contact the Singapore office of Shenwan Hongyuan Singapore Private Limited at 65-6323-5208, or 65-6323-5209 in respect of any matters arising from, or in connection with, the report.