

Rating Action: Moody's affirms NagaCorp's B1 ratings; outlook stable

17 Apr 2019

Singapore, April 17, 2019 -- Moody's Investors Service has affirmed the B1 corporate family rating of NagaCorp Ltd.

At the same time, Moody's has affirmed the B1 senior unsecured rating of the company's US dollar bond issuance. The bonds are unconditionally and irrevocably guaranteed by the major operating subsidiaries of NagaCorp.

The outlook on the ratings is stable.

RATINGS RATIONALE

"The rating affirmation reflects NagaCorp's strong performance and our expectation that key risks around the company's \$3.52 billion development of Naga 3 are sufficiently mitigated. We also expect the company will have sufficient resources over the next three years to fund 50% of the development cost, with the remaining share funded through equity contributions from the company's controlling shareholder, Tan Sri Dr. Chen Lip Keong, who has track record of providing funds for NagaCorp's previous expansions," says Jacintha Poh, a Moody's Vice President and Senior Credit Officer.

"Beyond 2021, NagaCorp's capacity to fund its portion of the development cost, without incremental borrowings, will depend on the company's ability to (1) refinance rather than repay all maturing debt; and (2) generate free cash flows of around \$270 million per annum," adds Poh, who is also Lead Analyst for NagaCorp.

On 14 April 2019, NagaCorp announced that it had entered into a guaranteed maximum sum design and build agreement of \$3.52 billion for the development of its Naga 3 project, which will have a gross floor area of 544,801 square meters. The development will commence on or before 30 September 2019 and complete by 30 September 2025.

The risks associated with the development of Naga 3 are mitigated by (1) the guaranteed maximum sum design and build agreement with CCAG Asia Co., Ltd., which undertakes to deliver a fully completed and operational Naga 3 that will allow the company to commence operations upon handover; (2) CCAG Asia Co., Ltd.'s successful track record of completing both the Naga 1 and Naga 2 projects; and (3) an arrangement with its controlling shareholder, which will cover any cost overrun.

The \$3.52 billion development cost will be spent across six years. According to the company, around 25% of the cost will be incurred between 4Q 2019 and 3Q 2022. The remaining 75% will likely be incurred between 4Q 2022 and 3Q 2025.

As of 31 December 2018, NagaCorp had a cash position of \$390 million, including \$150 million that will be used to refurbish Naga 1. Moody's expects the company to generate operating cash flows of around \$480 million in 2019 and around \$530 million in 2020, sufficient to cover its (1) maintenance capital spending estimated at around \$70 million; (2) dividend payouts of around \$250 million; and (3) its portion of the development cost for Naga 3 of around \$20 million in 2019 and around \$95 million in 2020.

NagaCorp's B1 ratings continue to reflect (1) the dominant position of its integrated casino and hotel complex, NagaWorld, in Phnom Penh, Cambodia (B2 stable), underpinned by the company's casino license with an exclusive right to operate casinos in and around the capital city of Phnom Penh; and (2) the company's track record of a strong operating performance since its listing, despite economic challenges and increasing competition within the gaming industry in Asia.

In 2018, NagaCorp achieved 60% growth in adjusted EBITDA to a record of \$525 million, driven by the company's (1) VIP gaming business, which rose 71% owing to the successful ramp-up of Naga 2, following its first full year of operations in 2018, and (2) strong gaming margins of 45%. Over the next 12-18 months, Moody's expects EBITDA growth to moderate owing to increase in gaming taxes and a reduction in consumer

discretionary spending over concerns of a slowdown in economic growth in Asia Pacific.

Nonetheless, Moody's expects NagaCorp to maintain solid financial metrics. Leverage, as measured by adjusted debt/EBITDA, will stay at 0.7x in 2019 and 0.6x in 2020, as compared to 0.7x in 2018. Retained cash flow (RCF)/debt will weaken to around 65% in 2019 and 78% in 2020, from 90% over the same period owing to higher dividend payouts.

NagaCorp is rated one notch above Cambodia's sovereign rating, based on Moody's assessment that there is a low likelihood of the company being affected in the event of a weakening in Cambodia's economic fundamentals. The company demonstrates a degree of insulation from domestic conditions because it generates most of its revenue from tourists and does not rely on local banks or the capital markets for funding.

The rating outlook is stable, reflecting Moody's expectation that NagaCorp will carry out its expansion plans in a prudent manner while maintaining solid financial metrics and liquidity over the next 12-18 months.

NagaCorp's rating is unlikely to be upgraded, because it is constrained to one notch above Cambodia's sovereign rating. To upgrade the rating, Moody's would expect -- in addition to a sovereign upgrade -- the company to maintain its strong operating position within the Cambodian gaming market and solid financial metrics, as evidenced by adjusted debt/EBITDA below 2.0x and adjusted retained cash flow/debt above 25%.

Downward rating pressure could emerge if (1) Cambodia's rating is downgraded; (2) the operating environment deteriorates, resulting in protracted weakness in operating cash flow generation; (3) the company fails to maintain 100% ownership of Ariston Sdn. Bhd, which holds its Cambodian casino license, and 100% ownership of NagaWorld; (4) the company increases its debt leverage, capital spending or shareholder returns, such that adjusted debt/EBITDA exceeds 2.5x and adjusted retained cash flow/debt falls below 20% over the next 12-18 months; and (5) the company has insufficient cash to cover its short-term debt obligations.

The principal methodology used in these ratings was Gaming Industry published in December 2017. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

NagaCorp Ltd. was incorporated in the Cayman Islands in 2003 and listed on the Hong Kong Stock Exchange in 2006. The company owns and manages NagaWorld, the largest integrated casino and hotel complex in Phnom Penh, Cambodia. It is developing a second integrated casino and hotel complex in Vladivostok, Russia, which the company expects will commence operations in 2019. NagaCorp was founded by Tan Sri Dr. Chen Lip Keong, the company's chief executive officer and largest shareholder with an approximate 66% stake as of 15 April 2019.

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