

1 October 2018

Asia Research

Rating: Buy

Price Target: HK\$10.00

Price	HK\$8.20
52wk Range	HK\$4.66 - HK\$9.19
Shares Outstanding (MM)	4,341.0
Market Capitalization (MM)	HK\$35,596.3
Enterprise Value (MM)	HK\$35,179.4
30D Avg Volume (000s)	2,977.1
Short Interest/Float	0.0%
Dividend Yield	3.7%
YTD % Chg	35.5%
YTD % Chg Relative to Index	26.5%
Total Implied Return to PT	25.7%
Pricing Date	October 1, 2018



NagaCorp Ltd.

Global Gaming Operators

3918-HK | HKSE | HK\$8.20

Company Update

Naga 3Q18 review; Naga2-fueled growth still accelerating; reiterate Buy rating

3Q18 key metrics. NagaCorp reported unaudited KPIs in the form of gaming volumes across its three primary segments, as well as total GGR:

- VIP volume +153% y/y, to US\$8.2bn
- Mass table volume +64%, to \$314mm
- Slot/ETG bills-in +21%, to \$561mm
- Total GGR +115%, to \$357mm

Mass tables accelerating. The growth rate in mass tables continues to accelerate and reached +64% in 3Q18, which we believe is indicative of not only a successfully ramping Naga2, but also that the company is attracting more premium mass caliber players. The \$314mm in gaming volume reported in 3Q18 run-rates to \$628mm for 2H18, which compares favorably to our pre-results 2H18 estimate of \$594mm. As 4Q is generally a more robust quarter than 3Q, we are adjusting our estimates to \$640mm in mass volume for 2H18, or growth of 55%.

Slots performance. Slot/ETG volume grew 21%, to \$561mm. This run-rates to \$1,122mm for 2H18, which is broadly in line with our current forecast of \$1,132mm. Given that slots are more closely correlated to generic tourism trends, which, of course, remain very robust in Cambodia, we are comfortable leaving our current estimate intact. However, as the company continues to build out its player database, and as it brings online more slots at Naga2, we would look for this segment to maintain a double-digit growth rate.

VIP update. VIP volume of \$8.2bn, up 153%, was the only segment that came in below our implied forecast (of ~\$9.0bn). Given the lumpiness of VIP we are not concerned by the delta. Further, and similarly to mass tables, we generally expect 4Q to be stronger than 3Q. With increased junket awareness of Naga2, and some of the best commissions available in the whole of Asia, we expect this segment to continue to post better-than-Macau growth rates for the foreseeable future. We are adjusting our 2H18 rolling chip volume estimate to \$16.8bn (from \$18.0bn) to account for 3Q18 results.

Adjusting estimates; reiterate Buy rating. Our new estimates are modestly lower to account for our revised VIP expectations, which are mostly offset by higher mass market expectations. We are now expecting \$450mm and \$464mm in EBITDA, in 2018 and 2019, respectively (from \$452mm and \$469mm). The 2019 estimates bake in a 5.5% GGR tax, which, while we expect it to be implemented in early 2019, could be even further delayed and therefore yield significant upside to our model (\$84mm in GGR taxes in 2019). Given that Naga2 continues to ramp very nicely, and continued outperformance in mass market, we are reiterating our Buy rating and maintaining our HK\$10 PT.

Analysts

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Year to Dec	Net Revenue	Adjusted EBITDA	EPS
2018E	1,417	450	0.08
Prior	1,446	452	--
2019E	1,574	464	0.08
Prior	1,613	469	--

*Please see analyst certification and required disclosures starting on page 3 of this report.

Earnings model

Figure 1: NagaCorp earnings model

NagaCorp	2013	2014	2015	2016	2017	2018E	2019E
Year ends December 31							
Revenue							
Casino Operations	223.0	296.8	343.8	355.3	775.0	1,252.0	1,318.3
Income from Gaming Machines	101.9	84.6	136.8	145.5	150.9	125.3	210.8
F&B, Hotel and Other	20.0	22.9	23.1	30.7	30.4	40.1	44.9
Total revenue	\$344.9	\$404.3	\$503.7	\$531.5	\$956.4	\$1,417.4	\$1,574.0
Administrative expense	(47.0)	(51.5)	(47.2)	(52.6)	(67.2)	(72.2)	(75.1)
Other operating expenses	(57.9)	(82.5)	(97.2)	(111.8)	(150.2)	(182.7)	(193.6)
Gaming taxes @ 5.5% on GGR	0.0	0.0	0.0	0.0	0.0	0.0	(83.9)
Total EBITDA	\$171.8	\$176.0	\$228.5	\$256.1	\$319.7	\$449.9	\$464.4
Interest income (expense)	0.0	0.0	0.0	0.0	0.0	(17.6)	(28.1)
Profit before taxation	145.4	142.0	189.0	208.2	263.3	344.7	350.3
Taxation	(5.1)	(5.9)	(16.4)	(24.1)	(8.1)	(9.0)	(10.1)
Profit attributable to equity holders	140.3	136.1	172.6	184.2	255.2	335.7	340.2
EPS	\$0.063	\$0.060	\$0.076	\$0.070	\$0.059	\$0.077	\$0.078
Shares outstanding	2235.1	2281.9	2270.0	2616.9	4341.0	4341.0	4341.0

Source: Union Gaming

Valuation

We value NagaCorp using an EV/EBITDA approach on forward earnings. Our 12 month price target is HK\$10 (unchanged) and is based on a 10.5x multiple of our 2019 EBITDA estimate. This multiple is slightly higher than the range we have historically assigned to Naga, but is still broadly in line with the regional peer set. We note that our forward earnings forecasts assume that a 5.5% GGR tax is levied upon Naga and is reflected in our earnings estimates and PT. The lack of implementation of a gaming tax, or a differential in the magnitude of the gaming tax could have a material impact on our forward earnings estimates.

Risks

Risks to shares of NagaCorp include: political risk (loss of exclusive license, adjustment to the company's advantageous low monthly fixed obligation tax), development risk including potential delays to the Vladivostok project, incremental regional competition, and volatility associated with a growing VIP business.

Important Disclosure

Analyst Certification

The analyst, Grant Govertsen, primarily responsible for the preparation of this research report attests to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

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Current Ratings Definition

Union Gaming Securities LLC and Union Gaming Securities Asia Limited use a traditional ratings construct (Buy, Hold, and Sell) that is underscored by percentage upside/downside from current trading levels along with dividend yields for total return. We exclude special dividends and contemplate regular dividends only in our total return forecasts. These are absolute ratings, not relative or forced ratings. We define a Buy rating as a company whose shares exhibit total return (appreciation and dividends) potential of at least 15% within the next 12 months, and conversely a Sell rating as a company whose shares exhibit downside potential of at least 15% within the next 12 months. A Hold rating is reserved for companies whose shares exhibit total return potential between those parameters.

Buy – the total forecasted return is expected to be greater than 15% within the next 12 months

Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 15%

Sell – whose shares exhibit downside potential of at least 15% within the next 12 months

Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

Valuation and Risks

Valuation

Valuation Methodology for Price Target: Enterprise Value-to-EBITDA, Sum-of-the-Parts Analysis, Price-to-Earnings Ratio, Discounted Cash Flow Analysis, Price-to-AFFO, Net Asset Value.

Risks

Investment Risks: Union Gaming Securities' equity research team covers the casino, gambling, gaming, lottery and related sectors. The companies operating within these sectors generally have a global presence or significant exposure to China and Las Vegas, among other markets. In addition, the markets that companies in these sectors operate are highly regulated by local and federal governments. Risks across or specific to one or more of these sectors include regulatory or legislative impacts related to licensing, tourism or the competitive landscape. Licenses to operate gaming facilities or supply gaming equipment or lottery services are often governed by regulatory authorities. Additional Risks for investing in these sectors include volatility in consumer discretionary spending and consumer confidence, currency, interest rates, unemployment rates, access to capital, the cost of capital, commodity costs, geopolitical uncertainty, and unfavorable government regulations. Companies operating within our covered sectors rely in part on tourism, and business trends could be impacted by changes or influences to tourism in a given market or markets, including visa policy, transit policies and security, transportation infrastructure, weather and natural disasters.

Ratings Distribution (as of 10/02/2018)

Coverage Universe

Ratings	Count	Pct.
BUY	22	76%
HOLD	7	24%
SELL	0	0%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
BUY	9	41%
HOLD	1	14%
SELL	0	0%

NagaCorp Ltd. Rating History as of 09/28/2018

powered by: BlueMatrix



General Disclosures

Additional information is available upon request.

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