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## NagaCorp | Asia Pacific

## 3Q Operating Data – Broadly in Line

✔ Stock Rating  
Overweight

👁 Industry View  
Attractive

🎯 Price Target  
HK\$9.50

NagaCorp's 3Q18 operating data was weaker than our expectation, mainly due to lower VIP rolling volume, while mass drop volume was 4% higher than our estimate and EGM drops were in line. 3Q18 GGR of US\$357m was up 125% YoY and -22% QoQ, 15% lower than our estimates. Weak VIP rolling of US\$8.2bn (-27% QoQ vs. MSe US\$11.8bn) may be affected by national election in July, and we believe volume has recovered and picked up MoM in August and September.

We think our 2018 estimates (GGR US\$1.55bn and company EBITDA of US\$505m) are achievable especially with the help of new junkets potentially being added in 4Q18. The stock is trading at 8.4x EV/EBITDA and 11.5x P/E on our 2018e. We assume 5% growth in 2019 EBITDA; the stock is currently trading at 7.8x EV/EBITDA on our 2019e.

## Exhibit 1: Operations Data Summary

US\$ mn	3Q17	4Q17	1Q18	2Q18	3Q18	QOQ	YOY	3Q18E	3Q18 A vs. E
GGR (ex one-off slot)	159	380	254	460	357	-22%	125%	418	-15%
VIP roll	3,236	10,123	5,644	11,196	8,195	-27%	153%	11,828	-31%
VIP revenue	100	314	177	376	266	-29%	165%	331	-20%
Win rate	3.11%	3.11%	3.14%	3.35%	3.25%			2.80%	16%
Mass drop	191	221	264	310	314	1%	64%	303	4%
Mass revenue	35	40	47	54	58	8%	67%	56	4%
Mass hold rate	18.2%	18.2%	18.0%	17.3%	18.5%			18.4%	1%
EGM bills-in	463	496	515	527	561	6%	21%	566	-1%
EGM revenue (ex-one off)	24	25	29	31	33	8%	39%	32	4%
Total mass revenue	59	66	77	84	91	8%	55%	87	4%

Note: Numbers in blue are actual numbers provided by the company. Segment revenue and win/hold rate are calculated based on our assumptions. Source: Company data, Morgan Stanley Estimates

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## NagaCorp ( 3918.HK, 3918 HK )

ASEAN Gaming / Hong Kong

Stock Rating

Industry View

Price target

Shr price, close (Sep 28, 2018)

52-Week Range

Up/downside to price target (%)

Sh out, dil, curr (mn)

Mkt cap, curr (mn)

Avg daily trading value (mn)

Overweight

Attractive

HK\$9.50

HK\$8.20

HK\$9.19-4.66

16

4,341

US\$4,547

HK\$38

Fiscal Year Ending	12/17	12/18e	12/19e	12/20e
ModelWare EPS (US\$)	0.059	0.091	0.091	0.104
Prior ModelWare EPS (US\$)	-	-	-	-
Revenue, net (US\$ mn)	956	1,614	2,060	2,276
EBITDA (US\$ mn)	320	505	530	589
ModelWare net inc (US\$ mn)	255	394	397	450
P/E	13.2	11.5	11.5	10.1
P/BV	3.3	2.8	2.6	2.3
RNOA (%)	21.1	25.9	24.5	26.2
ROE (%)	20.4	28.5	24.7	25.5
EV/EBITDA	14.0	8.7	8.1	6.9
Div yld (%)	4.6	5.2	5.2	5.9

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

e = Morgan Stanley Research estimates

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3918.HK

**Valuation methodology**

Our target price of HK\$9.50 is based on 8% FCFE yield on 2019e, higher than Macau peers' average at 6.0%. Our 8% target FCFE yield is lower than the long-term average of 13% since 2011 in view of the company's leading position in a growing market, stable dividend, tax profile, opening of Naga 2, removed overhang of shares dilution. We still value the company at a discount in FCFE yield in view of greater political instability and less-developed infrastructure and connectivity vs. Macau peers.

**Downside risks**

1) Political instability and/or natural disasters in Cambodia; 2) potential share dilution for future developments and expansion; 3) regional competition (e.g., Vietnam, Philippines, Korea, Macau, Singapore, etc.).

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(as of September 30, 2018)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MSC
<b>Overweight/Buy</b>	<b>1178</b>	<b>37%</b>	<b>308</b>	<b>42%</b>	<b>26%</b>	<b>562</b>	<b>40%</b>
<b>Equal-weight/Hold</b>	<b>1378</b>	<b>44%</b>	<b>343</b>	<b>46%</b>	<b>25%</b>	<b>625</b>	<b>44%</b>
<b>Not-Rated/Hold</b>	<b>49</b>	<b>2%</b>	<b>5</b>	<b>1%</b>	<b>10%</b>	<b>7</b>	<b>0%</b>
<b>Underweight/Sell</b>	<b>554</b>	<b>18%</b>	<b>83</b>	<b>11%</b>	<b>15%</b>	<b>224</b>	<b>16%</b>
<b>TOTAL</b>	<b>3,159</b>		<b>739</b>			<b>1418</b>	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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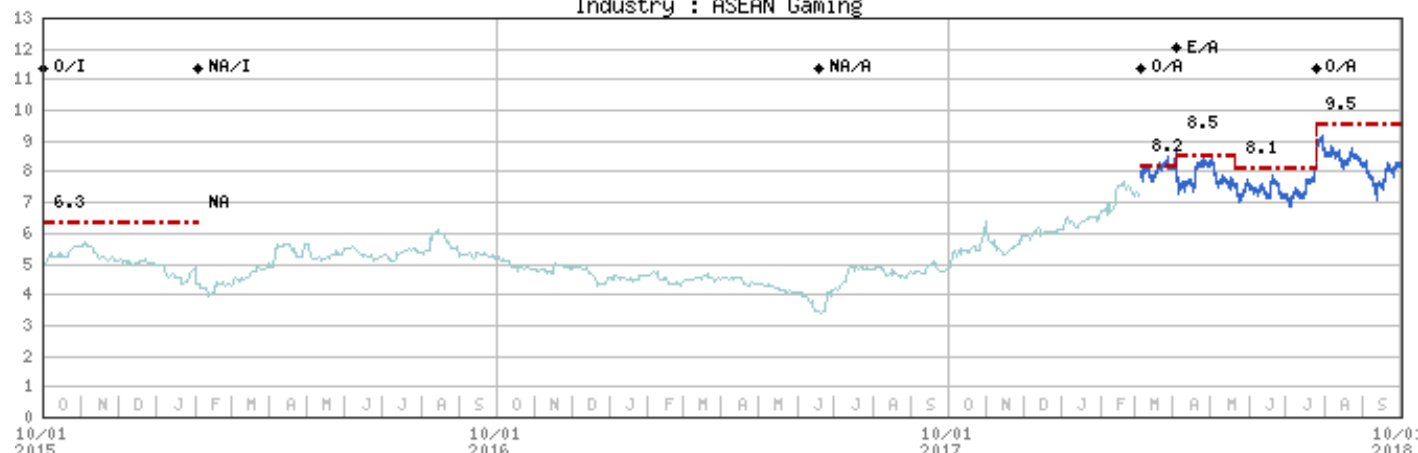
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### Stock Price, Price Target and Rating History (See Rating Definitions)

NagaCorp (3918.HK) - As of 10/1/18 in HKD  
Industry : ASEAN Gaming

Stock Rating History: 10/1/15 : O/I; 2/3/16 : NA/I; 6/18/17 : NA/A; 3/6/18 : O/A; 4/4/18 : E/A; 7/25/18 : O/A

Price Target History: 3/19/15 : 6.3; 2/3/16 : NA; 3/6/18 : 8.2; 4/4/18 : 8.5; 5/21/18 : 8.1; 7/25/18 : 9.5

Source: Morgan Stanley Research      Date Format : MM/DD/YY      Price Target ---      No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) —      Stock Price (Covered by Current Analyst) —  
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View  
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)  
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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## INDUSTRY COVERAGE: ASEAN Gaming

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/01/2018)
<b>Praveen K Choudhary</b>		
Bloomberry Resorts Corporation (BLOOMP.S)	O (03/26/2018)	PP\$8.35
Genting Singapore PLC (GENS.S)	O (04/12/2018)	S\$1.04
NagaCorp (3918.HK)	O (07/25/2018)	HK\$8.20

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\* Historical prices are not split adjusted.

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