

April 3, 2019 04:58 PM GMT

## NagaCorp | Asia Pacific

Naga Phase 3 Capex Too High,  
1Q19 Operating Data Weak

Stock Rating  
Overweight

Industry View  
Attractive

Price Target  
HK\$11.50

NagaCorp reported GGR of US\$321m (-12% QoQ, +32% YoY), weaker than our expectation of US\$409m.

Both VIP rolling chip volume of US\$8.2bn (-23% QoQ, +45% YoY) and mass were weaker sequentially, owing to seasonality.

However, on a YoY basis both VIP and mass revenue grew 25-30%. If sustained, that could help the company achieve our 2019e EBITDA growth of 20%.

The company also secured a site for Phase 3, not too far from Phase 1 and 2, which could cost it US\$3-4bn.

NagaCorp has net cash of US\$110m as of year-end 2018, and it can generate excess cash of US\$300m annually (after paying US\$300m in dividends).

Yet, the funding gap remains. The company plans either a debt offering (high interest expense) or to get funding from the chairman (meaning future equity dilution).

Phase 2 was a success in terms of ROIC, but Phase 3 – with more than 4,000 keys and huge capex – may be a bit too ambitious.

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## NagaCorp ( 3918.HK, 3918 HK )

ASEAN Gaming / Hong Kong

Stock Rating

Industry View

Price target

Shr price, close (Apr 3, 2019)

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\$11.50

HK\$11.18

HK\$11.66-6.53

3

4,341

US\$6,183

HK\$39

Fiscal Year Ending	12/18	12/19e	12/20e	12/21e
ModelWare EPS (US\$)	0.090	0.111	0.102	0.106
Prior ModelWare EPS (US\$)	-	-	-	-
Revenue, net (US\$ mn)	1,474	1,774	1,985	2,027
EBITDA (US\$ mn)	512	621	588	589
ModelWare net inc (US\$ mn)	391	481	443	461
P/E	11.9	12.8	14.0	13.4
P/BV	3.0	3.5	3.2	2.9
RNOA (%)	26.3	28.8	25.4	25.8
ROE (%)	28.3	31.3	25.1	23.9
EV/EBITDA	9.0	9.6	9.8	9.4
Div yld (%)	5.0	4.7	4.3	4.5

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

framework

e = Morgan Stanley Research estimates

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## Valuation Methodology and Risks

### 3918.HK

Our price target of HK\$8.5 is our base case scenario value. We apply a target FCFE yield of 8% to our 2019 estimate, higher than Macau peers' average at 6.0%. Our 8% target FCFE yield is lower than the company's 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, and 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 to our price target

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

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(as of March 31, 2019)

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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>1126</b>	<b>36%</b>	<b>304</b>	<b>43%</b>	<b>27%</b>	<b>529</b>	<b>38%</b>
<b>Equal-weight/Hold</b>	<b>1394</b>	<b>44%</b>	<b>319</b>	<b>45%</b>	<b>23%</b>	<b>643</b>	<b>46%</b>
<b>Not-Rated/Hold</b>	<b>46</b>	<b>1%</b>	<b>5</b>	<b>1%</b>	<b>11%</b>	<b>6</b>	<b>0%</b>
<b>Underweight/Sell</b>	<b>593</b>	<b>19%</b>	<b>82</b>	<b>12%</b>	<b>14%</b>	<b>227</b>	<b>16%</b>
<b>TOTAL</b>	<b>3,159</b>		<b>710</b>			<b>1405</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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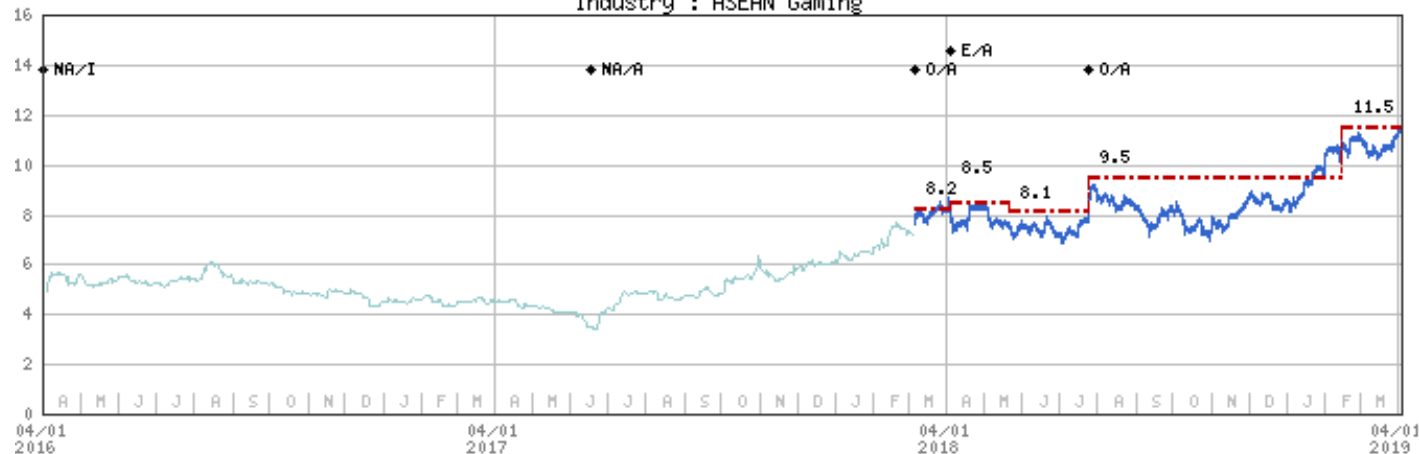
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### Stock Price, Price Target and Rating History (See Rating Definitions)

NagaCorp (3918.HK) - As of 4/2/19 in HKD  
Industry : ASEAN Gaming



Stock Rating History: 4/1/16 : 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: 2/3/16 : NA; 3/6/18 : 8.2; 4/4/18 : 8.5; 5/21/18 : 8.1; 7/25/18 : 9.5; 2/14/19 : 11.5

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**

<b>COMPANY (TICKER)</b>	<b>RATING (AS OF)</b>	<b>PRICE* (04/03/2019)</b>
<b>Praveen K Choudhary</b>		
Bloomberry Resorts Corporation (BLOOMP.S)	O (03/26/2018)	PP12.20
Genting Singapore PLC (GENS.SI)	O (04/12/2018)	S\$1.07
NagaCorp (3918.HK)	O (07/25/2018)	HK\$11.18

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\* Historical prices are not split adjusted.