

Hong Kong

ADD (no change)

Consensus ratings*: Buy 6 Hold 1 Sell 1

Current price:	HK\$10.76
Target price:	HK\$13.38
Previous target:	HK\$13.38
Up/downside:	24.3%
CGS-CIMB / Consensus:	13.8%
Reuters:	3918.HK
Bloomberg:	3918 HK
Market cap:	US\$5,981m HK\$46,709m
Average daily turnover:	US\$4.25m HK\$33.36m
Current shares o/s:	4,341m
Free float:	34.0%

*Source: Bloomberg

Key changes in this note

➤ No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	17.3	9.7	39.7
Relative (%)	17.3	14.7	39

Major shareholders

	% held
Dr. Chen Lip Keong	44.2
Fourth Star Finance	18.2
Cambodia Development Corp	3.7

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NagaCorp Ltd

1H19 results: Solid on all fronts

- 1H19 EBITDA and net profit rose 41% and 36% yoy and formed 50% and 53% of our full-year forecasts, respectively.
- Gross gaming revenue (GGR) grew at a healthy rate of 22% yoy in 1H19, primarily driven by mass gaming.
- Maintain Add and SOP target price, based on 11x FY19F EV/EBITDA.

1H19 results in line

1H19 EBITDA (US\$328m, +41% yoy) and net profit (US\$245m, +36% yoy) were in line with our expectations, at 50% and 53% of our full-year forecasts respectively. EBITDA was driven by mass table gaming revenue which grew 45% yoy and electronic table games revenue which grew 27% yoy, while VIP revenue only grew 18% yoy on the back of lower win rates (2.8% vs. 3.3% in 1H18). Overall GGR grew 22% yoy. Due to stronger relative growth in higher-margin mass gaming, gross margin increased by 4% pts yoy to 46% in 1H19.

Naga growth outpaces Macau on all fronts

In 1H19, Naga's gaming metrics were stronger than Macau's. Macau's GGR and estimated EBITDA growth was only -0.5% and 7% yoy in 1H19. We believe the outperformance of Naga over Macau should continue given stronger tourism and One Belt One Road related arrivals into Cambodia (+40% yoy China visitation to Cambodia in the first five months of FY19) and higher commission to junkets which incentivises player visitation to Cambodia. We forecast 27% EBITDA growth for Naga in FY19F vs. 10-12% for Macau, assuming 3% Macau GGR growth.

Recent developments should benefit Naga

Suncity's decision to quit proxy betting should benefit Naga given that we believe Suncity would have used proxy betting in its upcoming Hoi An resort in Vietnam in addition to junket rooms in Sihanoukville. Some of this VIP volume should be directed to Naga. In addition, the recent construction site building collapse in Sihanoukville, which killed 28 workers, should bring greater scrutiny and hence, slow down casino construction in Sihanoukville which we believe takes GGR market share away from Naga.

Expect share price outperformance to continue

As Macau GGR and EBITDA growth are moderating, regional gaming operators such as NagaCorp could become better equity investments. Naga's share price has outperformed the broader index by 15% over the past 3 months and by 39% over the past 12 months. Given lower policy risks in Cambodia coupled with stronger EBITDA and GGR growth vs. Macau, we believe Naga's share price will continue to outperform. Our target price is based on SOP, in which current operations are based on 11X FY19F EV/EBITDA. Naga's Russian gaming project which could be completed in FY19F adds HK\$0.48 to our target price. Risks to our positive view include weaker-than-expected earnings.

Financial Summary

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue (US\$m)	956	1,474	2,039	2,598	3,175
Operating EBITDA (US\$m)	320.0	512.0	650.0	794.8	954.5
Net Profit (US\$m)	255.2	390.6	464.0	587.9	725.8
Core EPS (US\$)	0.06	0.09	0.11	0.14	0.17
Core EPS Growth	(26.5%)	53.1%	18.8%	26.7%	23.5%
FD Core P/E (x)	18.78	15.31	12.89	10.17	8.24
DPS (US\$)	0.04	0.05	0.06	0.08	0.10
Dividend Yield	2.56%	3.92%	4.66%	5.91%	7.29%
EV/EBITDA (x)	18.53	11.48	8.93	7.13	5.73
P/FCFE (x)	NA	10.94	18.08	13.20	10.10
Net Gearing	(3.8%)	(6.6%)	(9.9%)	(15.1%)	(21.0%)
P/BV (x)	4.33	3.88	3.38	2.89	2.46
ROE	19.4%	26.7%	28.0%	30.6%	32.3%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.00	1.14	1.25

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

1H19 results: Solid on all fronts

Key gaming metrics

Figure 1: Quarterly metrics

USD'000	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
GGR	86,664	300,140	166,463	372,697	243,185	470,681	357,402	363,152	321,165	551,241
yoy	-44%	143%	49%	233%	181%	57%	115%	-3%	32%	17%
Mass buy in	169,371	205,791	191,252	221,406	263,769	309,995	313,867	350,616	344,399	411,864
yoy	13%	32%	27%	37%	56%	51%	64%	58%	31%	33%
EGM bill in	417,295	435,777	463,047	496,331	515,375	527,196	560,529	611,538	665,803	675,527
yoy	10%	21%	17%	37%	24%	21%	21%	23%	29%	28%
VIP rollings	3,733,361	4,032,329	3,236,108	10,123,072	5,644,059	11,195,576	8,194,813	10,624,084	8,186,962	14,993,423
yoy	34%	129%	58%	380%	51%	178%	153%	5%	45%	34%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Valuation

Figure 2: Naga – SOP-based target valuation

	US\$m	Per share
EBITDA in FY19F	650	
EV in FY19F (11x)	7,150	
Total debt	291	
Historical cash	317	
Equity value	7,175	1.65
Total equity value (US\$)		1.65
Russia project value (HK\$)		0.48
Total equity value (HK\$)		13.38

SOURCES: CGS-CIMB RESEARCH

Figure 3: Value of Naga's Russia project

	US\$m
Invested capital	350
ROIC in FY21F	15%
EBITDA	53
FY21F EV/EBITDA multiple	8x
Enterprise value	420
Net debt	-
Equity value	420
# shares fully diluted (m)	4,341
Equity value/share in FY19F (US\$)	0.10
Discount rate	25.0%
Equity value/share in FY19 (US\$)	0.06
Equity value/share in FY19 (HK\$)	0.48

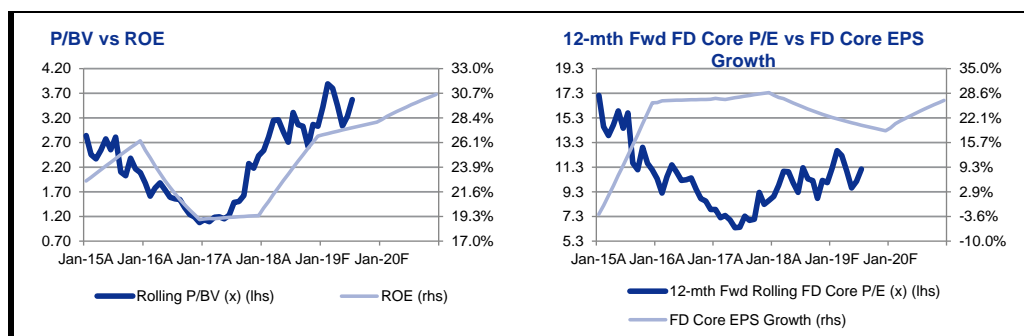
SOURCES: CGS-CIMB RESEARCH

Figure 4: NagaCorp consensus EV/EBITDA



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(US\$m)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Net Revenues	956.3	1,474.3	2,038.7	2,598.1	3,174.7
Gross Profit	472.9	673.5	876.6	1,091.2	1,301.6
Operating EBITDA	320.0	512.0	650.0	794.8	954.5
Depreciation And Amortisation	(56.4)	(93.0)	(78.5)	(78.5)	(78.5)
Operating EBIT	263.6	419.0	571.5	716.3	876.0
Financial Income/(Expense)	0.7	(16.2)	(23.5)	(22.2)	(21.0)
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	(1.0)	(3.4)	(2.4)	(2.2)	(2.2)
Profit Before Tax (pre-EI)	263.3	399.4	545.6	691.8	852.8
Exceptional Items					
Pre-tax Profit	263.3	399.4	545.6	691.8	852.8
Taxation	(8.1)	(8.8)	(81.5)	(103.9)	(127.0)
Exceptional Income - post-tax					
Profit After Tax	255.2	390.6	464.0	587.9	725.8
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	255.2	390.6	464.0	587.9	725.8
Recurring Net Profit	255.2	390.6	464.0	587.9	725.8
Fully Diluted Recurring Net Profit	255.2	390.6	464.0	587.9	725.8

Cash Flow

(US\$m)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
EBITDA	320.0	512.0	650.0	794.8	954.5
Cash Flow from Inv. & Assoc.					
Change In Working Capital	9.6	(3.6)	(9.8)	(11.0)	(10.3)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	2.7	0.0	0.0	0.0	0.0
Other Operating Cashflow	(1.0)	(7.3)	25.6	25.6	25.6
Net Interest (Paid)/Received	0.0	(19.5)	(28.0)	(28.0)	(28.0)
Tax Paid	(9.0)	(8.8)	(81.5)	(103.9)	(127.0)
Cashflow From Operations	322.2	472.8	556.3	677.5	814.9
Capex	(354.8)	(230.0)	(230.0)	(230.0)	(230.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	0.2	13.9	4.5	5.8	7.0
Cash Flow From Investing	(354.6)	(216.1)	(225.5)	(224.2)	(223.0)
Debt Raised/(repaid)	0.0	290.0	0.0		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(125.8)	(193.7)	(256.7)	(316.1)	(394.8)
Preferred Dividends					
Other Financing Cashflow	0.0	(89.2)	0.0	0.0	0.0
Cash Flow From Financing	(125.8)	7.1	(256.7)	(316.1)	(394.8)
Total Cash Generated	(158.1)	263.7	74.1	137.1	197.1
Free Cashflow To Equity	(32.4)	546.7	330.8	453.3	591.9
Free Cashflow To Firm	(32.4)	276.1	358.8	481.3	619.9

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(US\$m)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Cash And Equivalents	53	393	467	604	801
Total Debtors	101	117	162	206	252
Inventories	2	2	3	4	5
Total Other Current Assets	0	0	0	0	0
Total Current Assets	156	512	632	814	1,058
Fixed Assets	1,149	1,302	1,452	1,606	1,761
Total Investments	0	0	0	0	0
Intangible Assets	63	59	57	54	51
Total Other Non-Current Assets	95	94	94	94	94
Total Non-current Assets	1,306	1,455	1,602	1,754	1,906
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	78	80	116	150	186
Other Current Liabilities	2	12	12	12	12
Total Current Liabilities	80	92	128	162	199
Total Long-term Debt		291	291	291	291
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	44	44	44	44
Total Non-current Liabilities	0	335	335	335	335
Total Provisions	0	0	0	0	0
Total Liabilities	80	427	463	498	534
Shareholders' Equity	1,383	1,540	1,771	2,071	2,430
Minority Interests					
Total Equity	1,383	1,540	1,771	2,071	2,430

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	79.9%	54.2%	38.3%	27.4%	22.2%
Operating EBITDA Growth	24.2%	60.0%	27.0%	22.3%	20.1%
Operating EBITDA Margin	33.5%	34.7%	31.9%	30.6%	30.1%
Net Cash Per Share (US\$)	0.01	0.02	0.04	0.07	0.12
BVPS (US\$)	0.32	0.35	0.41	0.48	0.56
Gross Interest Cover	N/A	21.52	20.41	25.58	31.29
Effective Tax Rate	3.1%	2.2%	14.9%	15.0%	14.9%
Net Dividend Payout Ratio	60.0%	60.0%	60.1%	60.1%	60.1%
Accounts Receivables Days	33.20	27.05	24.99	25.95	26.37
Inventory Days	1.23	0.88	0.79	0.83	0.84
Accounts Payables Days	43.38	35.93	30.68	32.26	32.78
ROIC (%)	25.3%	31.5%	38.6%	43.7%	48.6%
ROCE (%)	20.1%	26.3%	29.6%	32.6%	34.7%
Return On Average Assets	18.5%	23.7%	23.2%	25.4%	27.0%

Key Drivers

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
VIP Chip Volume (% Change)	142.4%	68.8%	40.0%	30.0%	25.0%
VIP Chip Win Percentage (%)	3.0%	3.0%	3.0%	3.0%	3.0%
Mass mkt chip drop (% chg.)	27.5%	57.2%	40.0%	25.0%	15.0%
Mass mkt chip win (%-tage)	19.0%	19.0%	19.0%	19.0%	19.0%
Slot Handle (% Change)	20.9%	22.2%	15.0%	12.0%	20.9%
Slot Hold Percentage (%)	7.9%	8.8%	8.8%	8.8%	7.9%
Net Win Per Slot (% Change)	5.0%	5.0%	5.0%	5.0%	5.0%
Net Win Per Table (% Change)	70.4%	35.0%	11.8%	29.1%	23.3%
No. Of Slots	2,250	2,000	2,000	2,000	2,000
No. Of Tables	384	479	600	600	600

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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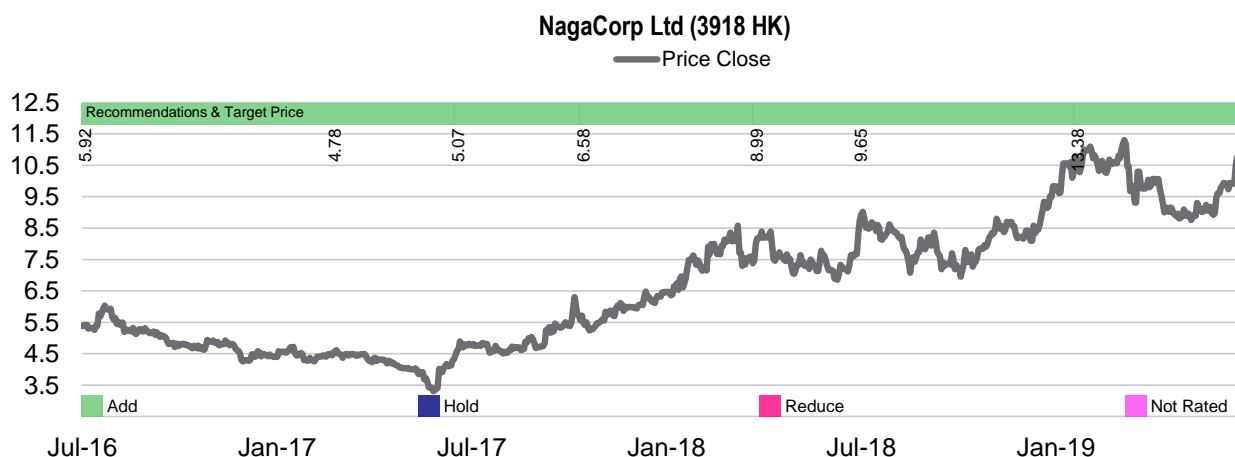
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791 companies under coverage for quarter ended on 30 June 2019		
	Rating Distribution (%)	Investment Banking clients (%)
Add	57.9%	4.2%
Hold	26.5%	1.8%
Reduce	15.5%	0.4%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2018, Anti-Corruption 2018

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, Declared, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BGP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, Declared, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Very Good, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **DELTA** – Excellent, n/a, **DEMCO** – Excellent, Certified, **DDD** – Very Good, Declared, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HREIT** – Excellent, Certified, **ICHI** – Excellent, Declared, **HUMAN** – not available, n/a, **III** – Good, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD*** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **JWD** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Declared, **MALEE** – Very Good, Certified, **MC** – Very Good, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Declared, **NETBAY** – Good, n/a, **OSP** – not available, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PR9** – not available, n/a, **PSH** – Excellent, Certified, **PSTC** – Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **RSP** – not available, n/a, **S** – Very Good, n/a, **SAMART** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Very Good, Certified, **SF** – Good, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Declared, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, Declared, **TMB** – Excellent, Certified, **TNR** – Very Good, Declared, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Very Good, Declared, **UNIQ** – Good, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Very Good, Certified, **WORK** – Good, n/a.

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- Companies that have declared their intention to join CAC, and
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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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