

**Hong Kong**

November 20, 2019 - 9:40 AM

**ADD** (no change)

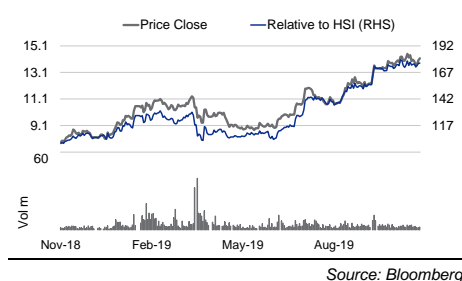
Consensus ratings\*: Buy 11 Hold 1 Sell 0

Current price:	HK\$14.16
Target price:	HK\$15.73
Previous target:	HK\$15.73
Up/downside:	11.1%
CGS-CIMB / Consensus:	6.7%
Reuters:	3918.HK
Bloomberg:	3918 HK
Market cap:	US\$7,853m
	HK\$61,469m
Average daily turnover:	US\$5.49m
	HK\$43.05m
Current shares o/s	4,341m
Free float:	34.0%

\*Source: Bloomberg

**Key financial forecasts**

	Dec-19F	Dec-20F	Dec-21F
Net Profit (US\$m)	495.0	593.6	689.9
Core EPS (US\$)	0.11	0.14	0.16
Core EPS Growth	26.7%	19.9%	16.2%
FD Core P/E (x)	15.86	13.23	11.38
Recurring ROE	30.7%	34.1%	37.5%
P/BV (x)	4.66	4.38	4.16
DPS (US\$)	0.069	0.082	0.096
Dividend Yield	3.79%	4.54%	5.28%



Price performance	1M	3M	12M
Absolute (%)	2.3	29.4	80.6
Relative (%)	0.9	26.3	77.9

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

**Analyst(s)**
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# NagaCorp Ltd

## Monopoly extended

- Casino monopoly has been extended for 10 years to 2045.
- The stock has outperformed over the past 12 months due to a diversified customer base and strong economic drivers within Cambodia.
- Maintain Add and target price based on 12.5x FY19F EV/EBITDA.

**Monopoly extended to 2045**

- NagaCorp's monopoly to operate casinos within a 200-km radius of Phnom Penh (with the exception of the Cambodia-Vietnam border, Bokor, Kirirom Mountains and Sihanoukville) has been extended by the Royal Government of Cambodia (RGC) for 10 years, from 2035 to the end of 2045. Naga's gaming licence remains unchanged with an expiration date in 2065.
- US\$10m was paid to RGC upon signing of the agreement and the annual cost of the 10-year monopoly extension will be US\$3m per year starting in 2036.
- The monopoly was extended due to Naga's commitment to invest US\$3.5bn for the construction of Naga3 which would generate economic benefits for Cambodia.
- Naga3 is expected to open in FY25E and will expand capacity by two times where the combined complexes will feature 5k hotel rooms, 1.3k gaming tables and 4.5k gaming machines which would be the largest integrated resort in the Mekong region.

**Our view on the monopoly extension**

- The monopoly extension confirms our positive view on the company but given that the extension takes place 15 years from now, we do not make any changes to our target price or earnings forecasts.
- Our positive view on Naga is due to several factors, including: 1) a diversified regional customer base; 2) Macau junkets due to higher commissions and the need to diversify the junket business away from Macau are increasingly looking for other gaming destinations for their clients; 3) increased political and economic cooperation between China and Cambodia which increases visitation and investments from China into Cambodia; 4) general growth in foreign direct investment into Cambodia which results in GDP expansion and increasing domestic wealth effect; and 5) capacity expansion and monopoly status within the largest city in Cambodia.
- NagaCorp also provided some guidance for the 2019 to 2025 period, where revenue growth is expected to be 10% per year with a steady dividend payout ratio of 60% per year. The 10% revenue growth is likely stronger than Macau's which is expected to see overall revenue growth roughly in line with China's GDP growth, in our view.

**Maintain Add as stock has been defensive**

- The stock has been an outperformer over the past 3 months despite general equity market volatility in Hong Kong as business operations are not entirely dependent on China. Our valuation remains based on SOP where we value the current operations at 12.5x FY19F EV/EBITDA, in line with Macau's historical average. Risks to our positive view: lower-than-expected gaming volumes and a slowdown in Cambodia's economy.

**Figure 1: Nagaworld rendering (from left to right: Naga1, 2, 3)**


**Figure 2: Sector Comparisons**

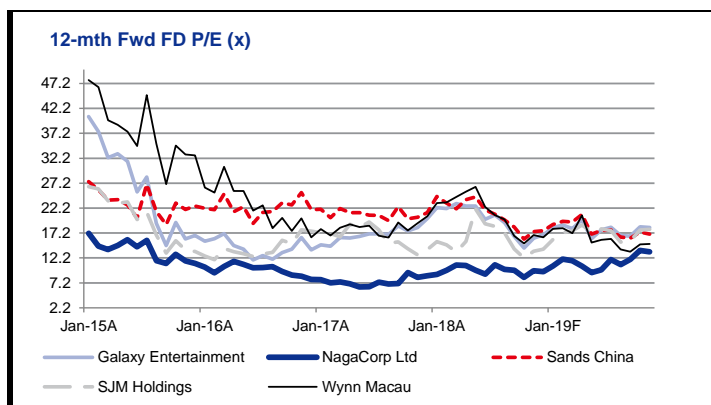
Company	Bloomberg Ticker	Bloomberg Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		2-year EPS CAGR (%)	P/BV (x)		EV/EBITDA (x)		ROE (%)		Yield (%)	
						FY19F	FY20F		FY19F	FY20F	FY19F	FY20F	FY19F	FY20F	FY19F	FY20F
Galaxy Entertainment	27 HK	ADD	53.65	60.23	29,697	18.1	18.3	-3%	3.3	2.9	14.0	14.0	19%	17%	1.6%	1.6%
Sands China	1928 HK	ADD	38.30	43.02	39,570	19.8	16.8	10%	8.7	8.4	15.2	13.4	45%	51%	5.2%	6.1%
MGM China Holdings	2282 HK	ADD	11.92	18.11	5,787	18.5	14.7	70%	4.1	3.5	9.5	7.8	25%	26%	2.7%	3.4%
Wynn Macau	1128 HK	ADD	17.36	19.19	11,525	16.6	14.9	-2%	42.5	31.7	11.5	10.5	298%	244%	5.4%	6.0%
SJM Holdings	880 HK	HOLD	8.36	8.07	6,049	16.0	18.1	-4%	1.7	1.6	14.4	12.7	11%	9%	3.1%	3.6%
<b>HK listed Macau average</b>						<b>17.8</b>	<b>16.6</b>	<b>14%</b>	<b>12.1</b>	<b>9.6</b>	<b>12.9</b>	<b>11.6</b>	<b>79%</b>	<b>69%</b>	<b>3.6%</b>	<b>4.1%</b>
Genting Bhd	GENT MK	ADD	6.13	7.90	5,678	11.1	10.6	-14%	0.6	0.6	4.7	4.0	5%	5%	2.0%	2.0%
Berjaya Sports Toto	BST MK	HOLD	2.56	2.62	830	14.2	14.2	0%	4.3	4.0	8.8	8.8	31%	29%	5.8%	6.3%
Genting Malaysia	GENM MK	HOLD	3.25	3.15	4,420	12.9	12.6	-14%	1.0	1.0	7.6	7.2	8%	8%	3.1%	3.4%
<b>Malaysia average</b>						<b>12.7</b>	<b>12.5</b>	<b>-9%</b>	<b>2.0</b>	<b>1.9</b>	<b>7.0</b>	<b>6.7</b>	<b>15%</b>	<b>14%</b>	<b>3.6%</b>	<b>3.9%</b>
Paradise	034230 KS	REDUCE	19,750	15,000	1,538	60.9	40.2	na	1.4	1.4	19.9	14.5	2%	3%	0.8%	1.3%
Grand Korea Leisure	114090 KS	ADD	20,550	25,000	1,089	16.3	12.4	12%	2.1	1.9	7.9	6.6	14%	16%	3.4%	3.9%
Kangwon Land	035250 KS	HOLD	31,450	33,000	5,762	20.9	18.0	12%	1.9	1.8	6.7	6.3	9%	10%	3.1%	3.1%
<b>Korea average</b>						<b>32.7</b>	<b>23.5</b>	<b>12%</b>	<b>1.8</b>	<b>1.7</b>	<b>11.5</b>	<b>9.1</b>	<b>8%</b>	<b>10%</b>	<b>2.4%</b>	<b>2.8%</b>
NagaCorp Ltd	3918 HK	ADD	14.16	15.73	7,853	15.9	13.2	23%	4.7	4.4	11.5	9.9	31%	34%	3.8%	4.5%
Summit Ascent Holdings	102 HK	ADD	1.09	3.14	7,853	81.3	25.1	189%	1.0	1.0	3.5	2.3	1%	4%	0.0%	0.0%
Genting Singapore	GENS SP	ADD	0.95	1.00	8,376	17.2	17.6	-9%	1.4	1.4	6.9	7.2	8%	8%	3.7%	3.7%
<b>Other average</b>						<b>38.1</b>	<b>18.7</b>	<b>68%</b>	<b>2.4</b>	<b>2.2</b>	<b>7.3</b>	<b>6.5</b>	<b>14%</b>	<b>15%</b>	<b>2.5%</b>	<b>2.7%</b>

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

## BY THE NUMBERS

Profit & Loss				
(US\$m)	Dec-18A	Dec-19F	Dec-20F	Dec-21F
<b>Total Net Revenues</b>	<b>1,474.3</b>	<b>1,928.6</b>	<b>2,246.2</b>	<b>2,501.5</b>
<b>Gross Profit</b>	<b>673.5</b>	<b>887.2</b>	<b>1,033.3</b>	<b>1,150.7</b>
<b>Operating EBITDA</b>	<b>512.0</b>	<b>676.8</b>	<b>787.2</b>	<b>893.1</b>
Depreciation And Amortisation	(93.0)	(78.5)	(78.5)	(78.5)
<b>Operating EBIT</b>	<b>419.0</b>	<b>598.3</b>	<b>708.6</b>	<b>814.6</b>
Financial Income/(Expense)	(16.2)	(23.7)	(23.0)	(22.4)
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	(3.4)	(2.4)	(2.2)	(2.2)
<b>Profit Before Tax (pre-EI)</b>	<b>399.4</b>	<b>572.2</b>	<b>683.4</b>	<b>789.9</b>
Exceptional Items				
<b>Pre-tax Profit</b>	<b>399.4</b>	<b>572.2</b>	<b>683.4</b>	<b>789.9</b>
Taxation	(8.8)	(77.1)	(89.8)	(100.1)
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>390.6</b>	<b>495.0</b>	<b>593.6</b>	<b>689.9</b>
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>390.6</b>	<b>495.0</b>	<b>593.6</b>	<b>689.9</b>
Recurring Net Profit	390.6	495.0	593.6	689.9
<b>Fully Diluted Recurring Net Profit</b>	<b>390.6</b>	<b>495.0</b>	<b>593.6</b>	<b>689.9</b>

Cash Flow				
(US\$m)	Dec-18A	Dec-19F	Dec-20F	Dec-21F
<b>EBITDA</b>	<b>512.0</b>	<b>676.8</b>	<b>787.2</b>	<b>893.1</b>
Cash Flow from Inv. & Assoc.				
Change In Working Capital	(26.7)	(12.8)	(8.6)	(6.9)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	3.1	0.0	0.0	0.0
Other Operating Cashflow	12.8	21.3	20.6	20.1
Net Interest (Paid)/Received	(16.2)	(23.7)	(23.0)	(22.4)
Tax Paid	(8.2)	(77.1)	(89.8)	(100.1)
<b>Cashflow From Operations</b>	<b>476.7</b>	<b>584.5</b>	<b>686.3</b>	<b>783.7</b>
Capex	(243.3)	(320.0)	(400.0)	(450.0)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/Investments				
Other Investing Cashflow	(73.6)	4.3	5.0	5.6
<b>Cash Flow From Investing</b>	<b>(316.9)</b>	<b>(315.7)</b>	<b>(395.0)</b>	<b>(444.4)</b>
Debt Raised/(repaid)	288.8	0.0		
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(170.8)	(266.0)	(327.2)	(385.7)
Preferred Dividends				
Other Financing Cashflow	(14.1)	(14.1)	(14.1)	(14.1)
<b>Cash Flow From Financing</b>	<b>104.0</b>	<b>(280.1)</b>	<b>(341.2)</b>	<b>(399.7)</b>
Total Cash Generated	263.7	(11.3)	(49.9)	(60.4)
<b>Free Cashflow To Equity</b>	<b>448.6</b>	<b>268.8</b>	<b>291.3</b>	<b>339.3</b>
<b>Free Cashflow To Firm</b>	<b>179.3</b>	<b>296.8</b>	<b>319.3</b>	<b>367.3</b>



Balance Sheet				
(US\$m)	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Cash And Equivalents	393	382	332	271
Total Debtors	117	153	178	199
Inventories	2	3	3	3
Total Other Current Assets	0	0	0	0
<b>Total Current Assets</b>	<b>512</b>	<b>538</b>	<b>513</b>	<b>474</b>
Fixed Assets	1,302	1,448	1,601	1,754
Total Investments	0	0	0	0
Intangible Assets	59	57	54	51
Total Other Non-Current Assets	94	94	94	94
<b>Total Non-current Assets</b>	<b>1,455</b>	<b>1,598</b>	<b>1,748</b>	<b>1,898</b>
Short-term Debt				
Current Portion of Long-Term Debt				
Total Creditors	80	104	121	134
Other Current Liabilities	12	12	12	12
<b>Total Current Liabilities</b>	<b>92</b>	<b>116</b>	<b>133</b>	<b>147</b>
Total Long-term Debt	291	291	291	291
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	44	44	44	44
<b>Total Non-current Liabilities</b>	<b>335</b>	<b>335</b>	<b>335</b>	<b>335</b>
Total Provisions	0	0	0	0
<b>Total Liabilities</b>	<b>427</b>	<b>451</b>	<b>468</b>	<b>482</b>
Shareholders' Equity	1,540	1,684	1,793	1,889
Minority Interests				
<b>Total Equity</b>	<b>1,540</b>	<b>1,684</b>	<b>1,793</b>	<b>1,889</b>

Key Ratios				
	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	54.2%	30.8%	16.5%	11.4%
Operating EBITDA Growth	60.0%	32.2%	16.3%	13.5%
Operating EBITDA Margin	34.7%	35.1%	35.0%	35.7%
Net Cash Per Share (US\$)	0.023	0.021	0.009	(0.005)
BVPS (US\$)	0.35	0.39	0.41	0.44
Gross Interest Cover	21.52	21.37	25.31	29.09
Effective Tax Rate	2.2%	13.5%	13.1%	12.7%
Net Dividend Payout Ratio	60.0%	60.1%	60.1%	60.1%
Accounts Receivables Days	27.05	25.59	27.02	27.52
Inventory Days	0.88	0.83	0.87	0.89
Accounts Payables Days	35.93	32.13	33.86	34.48
ROIC (%)	31.5%	40.4%	43.3%	45.3%
ROCE (%)	26.3%	31.7%	35.2%	38.5%
Return On Average Assets	23.7%	25.3%	28.0%	30.8%

Key Drivers				
	Dec-18A	Dec-19F	Dec-20F	Dec-21F
VIP Chip Volume (% Change)	68.8%	30.0%	15.0%	10.0%
VIP Chip Win Percentage (%)	3.0%	3.0%	3.0%	3.0%
Mass mkt chip drop (% chg.)	57.2%	30.0%	24.0%	17.0%
Mass mkt chip win (%-tage)	19.0%	19.0%	19.0%	19.0%
Slot Handle (% Change)	22.2%	30.0%	15.0%	20.9%
Slot Hold Percentage (%)	8.8%	8.8%	8.8%	7.9%
Net Win Per Slot (% Change)	5.0%	5.0%	5.0%	5.0%
Net Win Per Table (% Change)	35.0%	3.8%	16.6%	11.3%
No. Of Slots	2,000	2,000	2,000	2,000
No. Of Tables	479	600	600	600

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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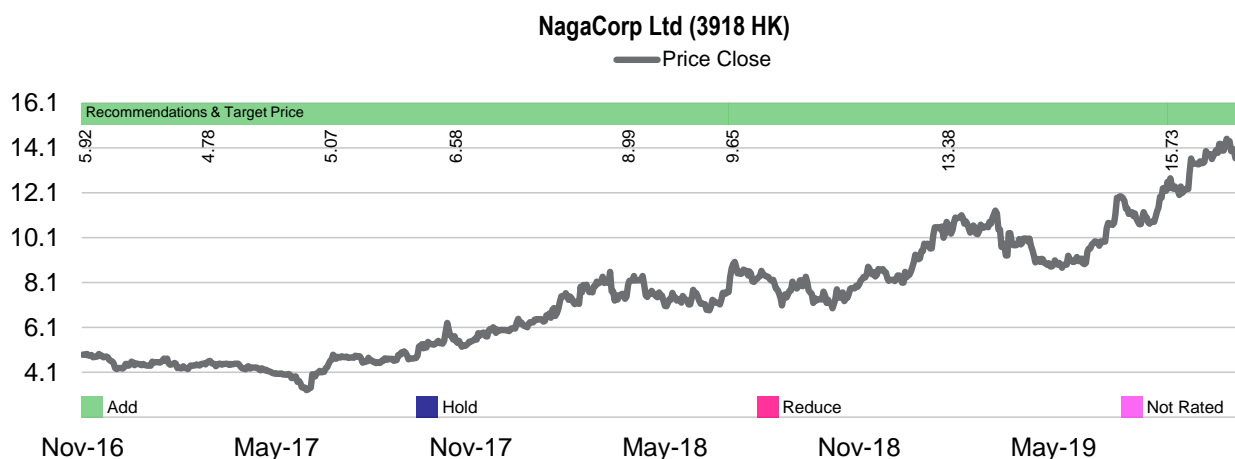
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Add	58.8%	0.9%
Hold	26.3%	0.0%
Reduce	14.9%	0.1%



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**

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- 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.*

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