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## NagaCorp | Asia Pacific

## VIP Softness and Potential Cost Inflation

Stock Rating  
Overweight

Industry View  
Attractive

Price Target  
HK\$14.00

NagaCorp's net income grew 53% in 2018 and 36% in 1H19 with the help of Naga2's ramp.

We recently upgraded our industry view on HK/Macau Gaming to Attractive, which could be a factor in fund rotation.

We highlight a few more company-specific risks:

- VIP softness:** 3Q19 VIP volume declined 30% QoQ, which may continue in 4Q19 owing to clampdown on mobile gambling at Sihanoukville. Future competition from the Hoiana project (backed by Suncity) could also impact its VIP business.
- Tax:** We expect potential gaming tax (~5% of GGR) to have an impact of ~20% on 2020 net income 20% when implemented.
- Labor cost:** Has been declining for the last 18 months. However, if the recent workers' strike results in a pay hike, the impact on net income could be 2-3%, assuming 2018 staff cost of US\$92m rises 10-20%.

Despite these concerns, the stock is attractively priced at 11x 2020e EV/EBITDA, 13x P/E, 8% FCFE yield and 4.5% dividend yield. Near-term softness could provide a long-term opportunity.

MORGAN STANLEY ASIA LIMITED+

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## NagaCorp ( 3918.HK, 3918 HK )

## ASEAN Gaming / Hong Kong

<b>Stock Rating</b>	<b>Overweight</b>
<b>Industry View</b>	<b>Attractive</b>
Price target	HK\$14.00
Shr price, close (Jan 10, 2020)	HK\$13.00
52-Week Range	HK\$14.74-8.32
Up/downside to price target (%)	8
Sh out, dil, curr (mn)	4,341
Mkt cap, curr (mn)	US\$7,267
Avg daily trading value (mn)	HK\$52

Fiscal Year Ending	12/18	12/19e	12/20e	12/21e
ModelWare EPS (US\$)	0.090	0.121	0.135	0.163
Revenue, net (US\$ mn)	1,474	1,888	2,362	2,684
EBITDA (US\$ mn)	502	664	718	829
ModelWare net inc (US\$ mn)	391	523	588	709
P/E	11.9	14.5	12.4	10.2
P/BV	3.0	4.2	3.6	3.1
RNOA (%)	25.7	31.5	30.1	32.2
ROE (%)	28.3	34.0	32.8	34.7
EV/EBITDA	9.2	11.3	9.9	8.3
Div yld (%)	5.0	4.1	4.9	5.9

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\$14.00 is our base case scenario value. We apply a target FCFE yield of 8.0% to our 2020 estimate, higher than Macau peers' average at 7.0%. Our 8.0% target FCFE yield is lower than the company's long-term average of 11% since 2012 in view of the company's leading position in a growing market, stable dividend, tax profile, Naga 2 ramp up, and removed overhang of shares dilution. We still value the company at a discount on FCFE yield in view of greater political instability and less-developed infrastructure and connectivity vs. Macau peers.

### Downside risks to our price target

1) Potential share dilution for future developments and expansion; 2) Regional competition (e.g., Vietnam, the Philippines, Korea, Macau, Singapore, etc.); 3) More competition from Sihanoukville; 4) High exposure to VIP revenue and risk to overall global VIP business.

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(as of December 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>1151</b>	<b>36%</b>	<b>289</b>	<b>42%</b>	<b>25%</b>	<b>513</b>	<b>36%</b>
<b>Equal-weight/Hold</b>	<b>1464</b>	<b>46%</b>	<b>321</b>	<b>47%</b>	<b>22%</b>	<b>690</b>	<b>48%</b>
<b>Not-Rated/Hold</b>	<b>2</b>	<b>0%</b>	<b>1</b>	<b>0%</b>	<b>50%</b>	<b>2</b>	<b>0%</b>
<b>Underweight/Sell</b>	<b>561</b>	<b>18%</b>	<b>76</b>	<b>11%</b>	<b>14%</b>	<b>225</b>	<b>16%</b>
<b>TOTAL</b>	<b>3,178</b>		<b>687</b>			<b>1430</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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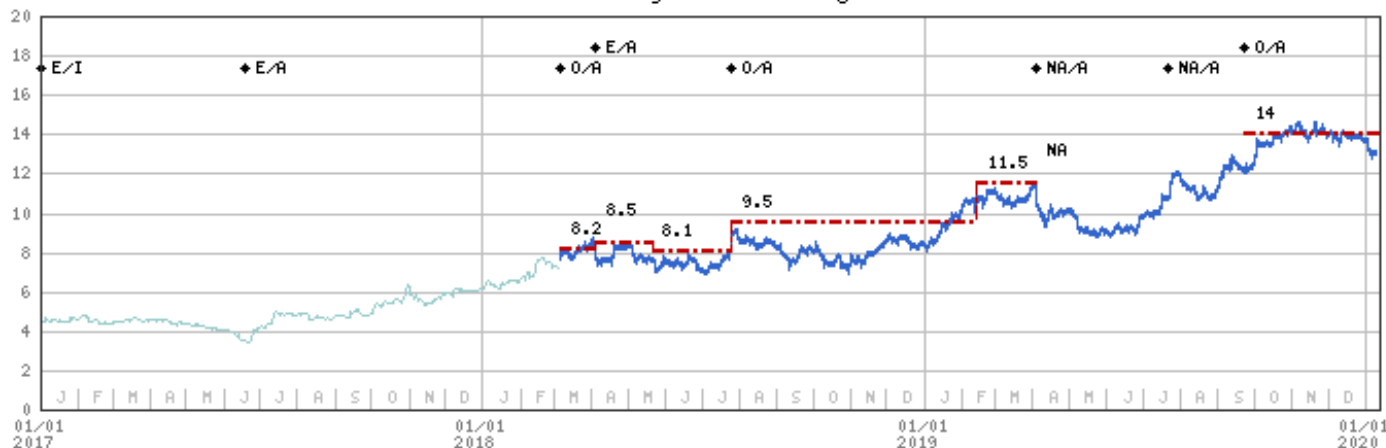
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### Stock Price, Price Target and Rating History (See Rating Definitions)

NagaCorp (3918.HK) - As of 1/11/20 in HKD  
 Industry : ASEAN Gaming



Stock Rating History: 2/6/15 : 0; 2/3/16 : NA; 1/1/17 : E; 3/6/18 : 0; 4/4/18 : E; 7/25/18 : 0; 4/3/19 : NA; 7/21/19 : NA; 9/23/19 : 0

Price Target History: 6/26/14 : 7.2; 2/6/15 : 7; 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; 2/14/19 : 11.5; 4/3/19 : NA; 9/23/19 : 14

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)  
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**INDUSTRY COVERAGE: ASEAN Gaming**

<b>COMPANY (TICKER)</b>	<b>RATING (AS OF)</b>	<b>PRICE* (01/10/2020)</b>
<b>Praveen K Choudhary</b>		
Bloomberry Resorts Corporation (BLOOMP.S)	O (03/26/2018)	PP10.60
Genting Singapore PLC (GENS.SI)	E (04/04/2019)	S\$0.93
NagaCorp (3918.HK)	O (09/23/2019)	HK\$13.00

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\* Historical prices are not split adjusted.

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