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## NagaCorp | Asia Pacific

## 4Q19 Review – EPS In Line, DPS Beat

✔ Stock Rating  
Overweight

◉ Industry View  
Attractive

© Price Target  
HK\$14.00

NagaCorp reported EBITDA and EPS for 4Q19 in line with our estimates and consensus.

However, the announcement of an 80% payout ratio for 2H19, implying 6.0% yield (and 57% growth in DPS to US\$0.0848) was a positive surprise to the market.

We expect a sustainable payout ratio of 60% for 2020 and beyond.

Although 1H20 could be affected by weaker Chinese visitation, current valuation is attractive at 9.0x EV/EBITDA, 11x P/E, 10% FCFE and 5% dividend yield based on our 2020 estimates.

We retain our OW rating.

Other details and concerns:

- VIP volume remained robust in 4Q19 (+19% QoQ), although mass table volume was down 10% QoQ because of volatility in the premium mass segment.
- Operating expenses were up 21% in 2019, mainly reflecting bonus payment to the Chairman (deferred from 2017/18). Another US\$26m bonus for 2019 is deferred for future payment.
- Income tax rose US\$20m in full-year 2019, which may affect 2020 earnings negatively.

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## NagaCorp ( 3918.HK, 3918 HK )

ASEAN Gaming / Hong Kong

Stock Rating	Overweight
Industry View	Attractive
Price target	HK\$14.00
Shr price, close (Feb 10, 2020)	HK\$11.00
52-Week Range	HK\$14.74-8.60
Up/downside to price target (%)	27
Sh out, dil, curr (mn)	4,341
Mkt cap, curr (mn)	US\$6,149
Avg daily trading value (mn)	HK\$55

Fiscal Year Ending	12/18	12/19e	12/20e	12/21e
ModelWare EPS (US\$)	0.090	0.115	0.125	0.154
Revenue, net (US\$ mn)	1,474	1,784	2,170	2,474
EBITDA (US\$ mn)	502	638	674	786
ModelWare net inc (US\$ mn)	391	497	543	667
P/E	11.9	15.2	11.3	9.2
P/BV	3.0	4.3	3.1	2.7
RNOA (%)	25.7	30.0	27.9	30.4
ROE (%)	28.3	32.3	30.8	33.4
EV/EBITDA	9.2	11.8	8.9	7.4
Div yld (%)	5.0	3.9	5.3	6.5

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

### **NagaCorp(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 of 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 share dilution.

### **Risks to Upside**

- 4Q19 results stronger than market expected.
- Recent workers' strike results in lower-than-expected labor costs rises.

### **Risks to Downside**

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

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(as of January 31, 2020)

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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>1188</b>	<b>37%</b>	<b>309</b>	<b>43%</b>	<b>26%</b>	<b>526</b>	<b>36%</b>
<b>Equal-weight/Hold</b>	<b>1451</b>	<b>45%</b>	<b>331</b>	<b>46%</b>	<b>23%</b>	<b>697</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>577</b>	<b>18%</b>	<b>80</b>	<b>11%</b>	<b>14%</b>	<b>227</b>	<b>16%</b>
<b>TOTAL</b>	<b>3,218</b>		<b>721</b>			<b>1452</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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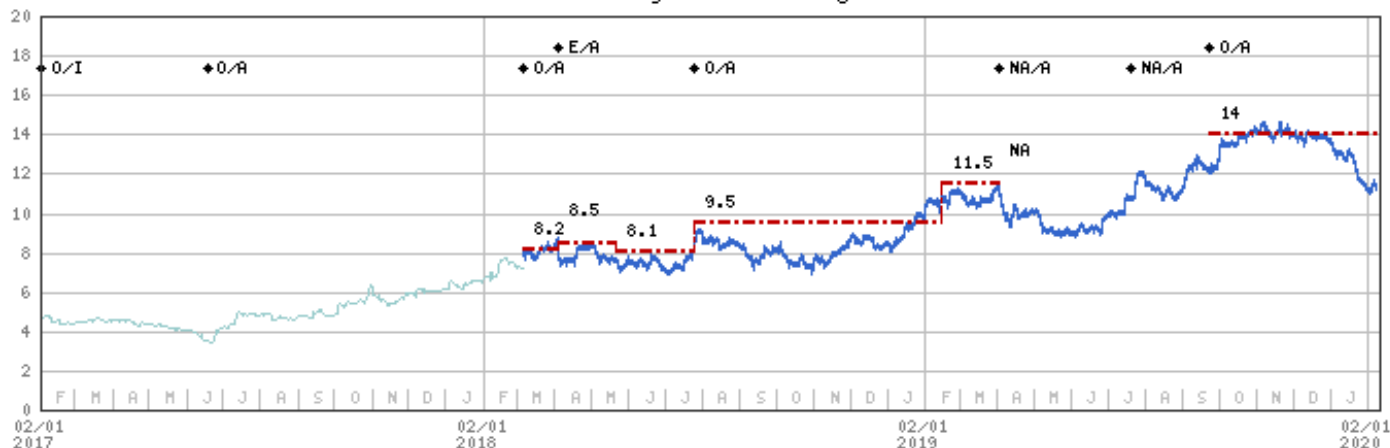
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### Stock Price, Price Target and Rating History (See Rating Definitions)

NagaCorp (3918.HK) - As of 2/9/20 in HKD  
Industry : ASEAN Gaming



Stock Rating History: 2/3/16 : NA; 2/1/17 : O; 3/6/18 : O; 4/4/18 : E; 7/25/18 : O; 4/3/19 : NA; 7/21/19 : NA; 9/23/19 : O  
 Price Target History: 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)  
 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* (02/10/2020)
<b>Praveen K Choudhary</b>		
Bloomberry Resorts Corporation (BLOOM.PS)	O (03/26/2018)	PP9.00
Genting Singapore PLC (GENS.SI)	E (04/04/2019)	S\$0.85
NagaCorp (3918.HK)	O (09/23/2019)	HK\$11.00

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\* Historical prices are not split adjusted.

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