

## NagaCorp Ltd (3918 HK, BUY, TP: HK\$14.00)

BUY

HOLD

SELL

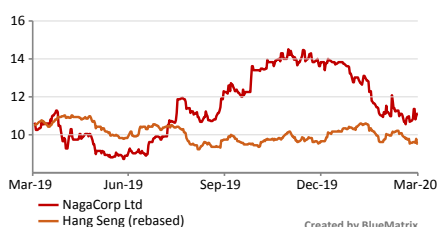
Target Price: HK\$14.00 Current Price: HK\$11.10

52-Week High	HK\$14.74
52-Week Low	HK\$8.60
EV (MM)	HK\$48,339
Market Cap (MM)	HK\$48,185
Shares Outstanding (MM)	4,341
Average Daily Trading Volume (MM)	8.6

Priced as of close on 6 March 2020.

Source: FactSet

### Price Performance



Source: FactSet

### China Renaissance vs Consensus (% diff)

	2020E	2021E
Rev (MM) (\$)	1,984 (-4%)	2,284 (-8%)
EPS (\$)	0.13 (-5.71%)	0.15 (-10.78%)

Note: Consensus estimates displayed, sourced from Bloomberg. Positive % diff = CR est. above consensus; negative = CR est. below consensus.

## Local demand backs solid performance amid outbreak

- Since reporting solid FY19 results on Feb 10, 2020, NagaCorp's share price has declined along with Macau gaming peers.
- We believe NagaCorp is doing better with local clients than Macau players, which are suffering from visa restrictions imposed to cope with virus spread.
- Cut FY20E revenue/EBITDA forecasts by 9%/7% on weak mass traffic during virus outbreak. Our TP of HK\$14 implies 11x/10x FY20E/21E EV/EBITDA.

**NagaWorld has more local high rollers.** We expect NagaCorp's 1H/2H20E revenue to grow 3%/15% YoY, vs +17% YoY in 2H19. Macau casinos are suffering a severe YoY decline in GGR after reopening on Feb 20 but we believe this is not the case for NagaWorld, located in central Phnom Penh, Cambodia. For VIP and most mass business, Macau casinos rely on clients who do not reside in Macau, so visa bans and virus fears are constraining travel and casino business. At NagaWorld, however, some high rollers are foreigners residing in Cambodia for work purposes, and a sizable part of the mass business comes from local residents with foreign passports. Therefore, we believe the impact of the COVID-19 outbreak on NagaCorp is less severe than for its Macau peers.

**Mass impacted more than VIP.** The outbreak is likely to still bring adverse impacts, given fewer flight arrivals and less willingness to leave home for entertainment. Relatively speaking, we believe high rollers are more committed to entertainment. Therefore, we believe virus concerns rank highest for slots GGR, then mass table GGR and, lastly, VIP table GGR. We lower our GGR YoY forecast for NagaCorp for 1H20E to -15%/0%/6% for the three respective segments. Since mass business has higher margin, we expect 1H20E EBITDA should record only a 1% YoY increase.

**Reiterate BUY and TP of HK\$14.00 (11x/10x FY20E/21E EV/EBITDA).** NagaCorp is currently trading at 9x FY20E EV/EBITDA, 11x P/E and a 5% dividend yield on our updated forecasts. We believe NagaCorp is relatively better positioned than its Macau peers in 2020, and the recent correction along with the market provides opportunity to accumulate. **Risks include:** potential for political unrest/cooling economy in Cambodia; change in gaming regulations may jeopardize NagaCorp's monopoly status or challenge its low tax position; and drop in customer demand from China and Southeast Asia.

### Summary Financial Data

Fiscal year-end: Dec	2019A	2020E	2021E	2022E
Revenue (MM) (\$)	1,755	1,913	2,100	2,325
EBITDA (MM) (\$)	669	699	768	861
EPS (\$)	0.12	0.13	0.14	0.16
EV/EBITDA	9x	9x	8x	6x
P/E	12x	11x	10x	9x
FCF yield	5%	7%	11%	12%
Dividend yield	6.0%	5.3%	5.8%	6.7%

Source: China Renaissance Securities (Hong Kong) Limited

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**Exhibit 1: NagaCorp – Forecasts of operational data**

	1H19	2H19	1H20E	2H20E	1H19	2H19	1H20E	2H20E
	US\$m	US\$m	US\$m	US\$m	YoY	YoY	YoY	YoY
Casino operations - gaming tables	796	765	837	894	22%	18%	5%	17%
Casino operations - electronic gaming	76	82	65	79	27%	18%	-15%	-4%
Non-gaming	19	17	20	18	0%	-19%	5%	5%
<b>Total revenue</b>	<b>892</b>	<b>864</b>	<b>922</b>	<b>991</b>	<b>22%</b>	<b>17%</b>	<b>3%</b>	<b>15%</b>
Cost of sales	(483)	(426)	(508)	(525)	14%	13%	5%	23%
<b>Gross profit</b>	<b>408</b>	<b>438</b>	<b>414</b>	<b>466</b>	<b>32%</b>	<b>20%</b>	<b>1%</b>	<b>6%</b>
<i>Gross margin</i>	46%	51%	45%	47%				
Staff costs	(59)	(66)	(60)	(67)	29%	41%	2%	2%
Depreciation and amortization	(50)	(50)	(58)	(61)	12%	3%	16%	22%
Other operating expenses	(21)	(31)	(23)	(30)	-31%	-18%	9%	-3%
<b>Operating profit</b>	<b>278</b>	<b>291</b>	<b>272</b>	<b>308</b>	<b>48%</b>	<b>26%</b>	<b>-2%</b>	<b>6%</b>
<i>Operating margin</i>	31%	34%	30%	31%				
<b>EBITDA</b>	<b>328</b>	<b>341</b>	<b>330</b>	<b>369</b>	<b>41%</b>	<b>22%</b>	<b>1%</b>	<b>8%</b>
<i>EBITDA margin</i>	37%	39%	36%	37%				
Non-operating items	(17)	0	(3)	2				
Income tax expense	(15)	(15)	(16)	(18)	244%	244%	5%	20%
Non-controlling interest	-	-	-	-				
<b>Net profit</b>	<b>245</b>	<b>276</b>	<b>253</b>	<b>291</b>	<b>36%</b>	<b>31%</b>	<b>3%</b>	<b>5%</b>
<i>Net margin</i>	27%	32%	27%	29%				
<b>Gaming related data for NagaWorld</b>								
<b>VIP gaming</b>								
Rolling chip volume	23,180	23,431	24,238	25,058	38%	25%	5%	7%
<i>VIP win rate</i>	2.8%	2.5%	2.9%	2.9%				
VIP GGR	650	593	691	714	18%	15%	6%	20%
VIP gross profit	173	174	189	196	25%	17%	9%	13%
<b>Mass tables gaming</b>								
Mass table buy-ins	756	888	754	931	32%	34%	0%	5%
<i>Mass table win rate</i>	19.3%	19.4%	19.3%	19.4%				
Mass table GGR	146	172	146	180	45%	28%	0%	5%
<b>Electronic gaming machines</b>								
EGM bills-in	1,341	1,419	1,140	1,376	29%	21%	-15%	-3%
<i>EGM win rate</i>	8.7%	8.9%	8.8%	8.8%				
EGM GGR (include entrance fee)	76	82	65	79	27%	18%	-15%	-4%

Source: Company data, CRSHK estimates

We believe NagaCorp is better positioned to deliver solid results during the current COVID-19 outbreak than its regional peers. However, assuming that measures taken to contain the virus spread might result in less economic activity and a decline in consumption power globally, we take a more conservative approach in projecting FY20E-22E financials.

We apply a 4-19% cut across our forecasts for NagaWorld's VIP and mass GGR for FY20E-21E, resulting in 7-11% cuts in EBITDA forecasts. In our model, we push back the opening time of NagaCorp's Vladivostok project from 3Q20E to 3Q21E. As a result, we cut the company's revenue forecasts by 9%/12% for FY20E/21E, resulting in 7%/11% cut in EBITDA forecasts for FY20E/21E, respectively. Our EPS forecasts are down 3/13% for FY20E/21E.

While the company announced a final dividend for FY19-end at an 80% payout ratio, we expect this to be an one-off event. We continue modelling a 60% payout ratio for the coming three years.

### Exhibit 2: NagaCorp – Earnings forecast revisions

US\$m	New FY20E	Old FY20E	% chg	New FY21E	Old FY21E	% chg	New FY22E
<b>Overall</b>							
Total revenue	1,913	2,100	-9%	2,100	2,381	-12%	2,325
EBITDA	699	755	-7%	768	865	-11%	861
EBITDA margin	37%	36%	1ppt	37%	36%	0ppt	37%
Net profit	544	560	-3%	596	689	-13%	688
EPS (US\$)	0.125	0.129	-3%	0.137	0.159	-13%	0.159
DPS (US\$)	0.075	0.078	-3%	0.082	0.095	-14%	0.095
<b>NagaWorld</b>							
Total revenue	1,913	2,071	-8%	2,070	2,260	-8%	2,204
EBITDA	699	751	-7%	769	836	-8%	844
EBITDA margin	37%	36%	0ppt	37%	37%	0ppt	38%
VIP GGR	1,405	1,466	-4%	1,519	1,587	-4%	1,593
Mass GGR	470	562	-16%	511	628	-19%	569
<b>Vladivostok project</b>							
Total revenue	-	30	n.a.	30	121	n.a.	121
EBITDA	-	(0)	n.a.	(0)	26	n.a.	16
EBITDA margin	-	-1%	n.a.	-1%	21%	n.a.	13%
VIP GGR	-	16	n.a.	16	71	n.a.	71
Mass GGR	-	11	n.a.	11	44	n.a.	44

Source: Company data, CRSHK estimates

In comparison with consensus, our revenue forecasts for FY20E/21E are 4/8% lower than Bloomberg consensus, and EBITDA is 8/12% lower. We believe buy-side consensus should mostly have been corrected, reflected by the sharp share price decline in the past month.

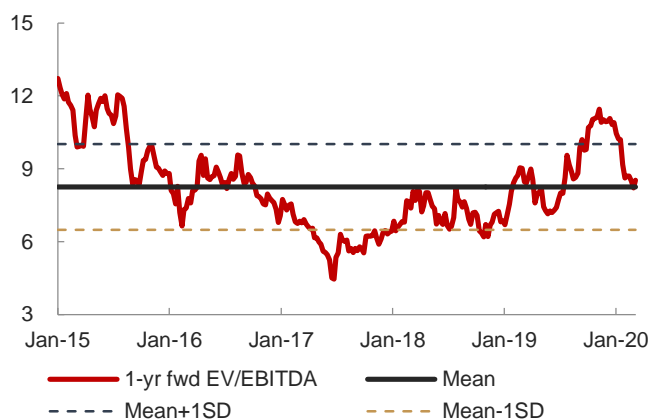
## Valuation

### Currently trading at 9x/8x FY20E/21E EV/EBITDA

NagaCorp shares are currently trading at 9x FY20E EV/EBITDA, 11x P/E and a 5% dividend yield, on our revised forecasts. NagaCorp suffered a share price correction along with Macau gaming peers (down 18% and 16%, respectively YTD), due to headwinds on the travel industry due to the virus spread. However, we believe that NagaCorp can deliver a more solid result in the coming year, because NagaWorld has a greater contribution from key clients residing in the city than the Macau casinos.

We maintain our BUY rating and TP of HK\$14.00, at 11x/10x FY20E/21E EV/EBITDA, implying 14x/13x FY20E P/E. With 1Q20 operating data to be announced in early April, we expect the market to regain confidence in NagaCorp, bringing a re-rating for the stock.

**Exhibit 3: NagaCorp – 1-year forward EV/EBITDA**



Source: Bloomberg, company data, CRSHK estimates

**Exhibit 4: NagaCorp – 1-year forward P/E**



Source: Bloomberg, company data, CRSHK estimates

**Exhibit 5: NagaCorp vs. Macau gaming industry 1-year forward EV/EBITDA**



Source: Bloomberg, company data, CRSHK estimates

**Exhibit 6: NagaCorp vs. Macau gaming industry 1-year forward P/E**



Source: Bloomberg, company data, CRSHK estimates

## Risks

**Economic risks.** 1) A cool down in Southeast Asian economies, which are NagaCorp's key target markets, due to weaker global consumption demand. 2) A substantial drop in foreign direct investment, which could result in a slowdown in overall economic activity in Cambodia.

**Political risk.** Political disruption could adversely impact Cambodia's tourism industry, discouraging inbound visitation.

**Policy risks.** Gaming policies might experience more frequent changes than in other nations, since Phnom Penh does not have a long history of regulating the gaming market. Detailed risks include: 1) a potential increase in gaming tax payments since the current rate is far lower than in other regions; and 2) the issuance of another gaming license in Phnom Penh, ending NagaWorld's monopoly position in the city.

**Weaker overseas demand.** A sudden drop in demand from key target markets such as China and Southeast Asia could result in lower-than-expected EBITDA growth

**Regional gaming competition.** The increasing number of gaming venues in the region could adversely affect the company's performance.

**Market cannibalization.** Expanding NagaWorld through Phase 3 development may lead to significant growth in the number of gaming tables and hotels, which may outpace demand, leading to a slowdown in revenue growth.

**Rising wages.** Labor costs in Cambodia are relatively low. A hike in the minimum wage would impact NagaCorp's staff costs.

**Financing needs.** The company has a high dividend payout ratio of 60%, which could come under pressure if the company needs to raise finance to support its expansion.

**Exhibit 7: NagaCorp - financial summary**
**Balance Sheet**

US\$ mn	FY19	FY20E	FY21E	FY22E
<b>Current assets</b>	<b>456</b>	<b>508</b>	<b>523</b>	<b>869</b>
Cash and cash equivalents	273	314	314	644
Account and other receivables	127	138	152	168
Inventories	3	3	3	4
Other current assets	53	53	53	53
<b>Non-current assets</b>	<b>1,891</b>	<b>2,032</b>	<b>2,006</b>	<b>1,982</b>
Property and equipment	1,595	1,741	1,719	1,699
Right-of-use assets	86	85	84	83
Intangible assets	71	67	64	60
Other non-current assets	140	140	140	140
<b>Total assets</b>	<b>2,347</b>	<b>2,540</b>	<b>2,529</b>	<b>2,851</b>
<b>Current liabilities</b>	<b>175</b>	<b>197</b>	<b>216</b>	<b>235</b>
ST borrowings	-	-	-	-
Account payables	159	181	200	219
Other current liabilities	16	16	16	16
<b>Non-current liabilities</b>	<b>384</b>	<b>384</b>	<b>95</b>	<b>95</b>
LT borrowings	295	295	6	6
Other non-current liabilities	89	89	89	89
<b>Total liabilities</b>	<b>559</b>	<b>580</b>	<b>310</b>	<b>330</b>
Share capital	54	54	54	54
Treasury shares	-	-	-	-
Reserves	1,734	1,906	2,164	2,467
Minority interest	-	-	-	-
<b>Shareholders' equity</b>	<b>1,788</b>	<b>1,960</b>	<b>2,218</b>	<b>2,521</b>
<b>Total equity and liabilities</b>	<b>2,347</b>	<b>2,540</b>	<b>2,529</b>	<b>2,851</b>

**Statement of cash flows**

US\$ mn	FY19E	FY20E	FY21E	FY22E
<b>Operating cashflow</b>	<b>708</b>	<b>675</b>	<b>725</b>	<b>810</b>
Net income	521	544	596	688
Depreciation and amortization	98	119	126	125
Change in working capital	69	10	5	3
Other operating cashflow	19	1	(2)	(5)
<b>Investing cashflow</b>	<b>(457)</b>	<b>(256)</b>	<b>(95)</b>	<b>(95)</b>
CAPEX	(425)	(260)	(100)	(100)
Interest received	4	4	5	5
Investment in bonds	23	-	-	-
Other investing cashflow	(59)	-	-	-
<b>Financing cashflow</b>	<b>(294)</b>	<b>(379)</b>	<b>(630)</b>	<b>(385)</b>
Net proceeds from borrowings	(20)	(6)	(292)	-
Share issue (repurchase)	-	-	-	-
Dividend paid	(273)	(373)	(338)	(385)
Other financing cashflow	-	-	-	-
Foreign exchange rate adj.	-	-	-	-
<b>Net change in cash</b>	<b>(43)</b>	<b>41</b>	<b>0</b>	<b>330</b>

Source: Company data, CRSHK estimates

**Income statement**

US\$ mn	FY19	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>1,755</b>	<b>1,913</b>	<b>2,100</b>	<b>2,325</b>
Cost of sales	(909)	(1,033)	(1,140)	(1,250)
Employee benefit expenses	(125)	(128)	(136)	(157)
Short term lease expenses	(3)	(3)	(3)	(3)
Depreciation and amortization	(100)	(119)	(126)	(125)
Other operating expenses	(49)	(50)	(52)	(54)
<b>Adjusted EBITDA</b>	<b>669</b>	<b>699</b>	<b>768</b>	<b>861</b>
<b>Operating profit</b>	<b>569</b>	<b>580</b>	<b>642</b>	<b>736</b>
Interest expense	(20)	(6)	(3)	-
Interest income	4	4	5	5
Other non-operating items	(1)	-	-	-
<b>Pre-tax profit</b>	<b>552</b>	<b>579</b>	<b>644</b>	<b>741</b>
Income tax expense	(30)	(34)	(48)	(53)
<b>After-tax profit</b>	<b>521</b>	<b>544</b>	<b>596</b>	<b>688</b>
Non-controlling interests	-	-	-	-
<b>Net profit to shareholders</b>	<b>521</b>	<b>544</b>	<b>596</b>	<b>688</b>
Basic EPS (US\$)	0.12	0.13	0.14	0.16
Diluted EPS (US\$)	0.12	0.13	0.14	0.16
DPS (US\$)	0.08	0.08	0.08	0.10

**Ratios**

	FY19	FY20E	FY21E	FY22E
<b>YoY</b>				
Total revenue	19%	9%	10%	11%
Adjusted EBITDA	31%	4%	10%	12%
Operating profit	36%	2%	11%	15%
Net profit	33%	4%	10%	15%
<b>Profitability</b>				
EBITDA margin	38%	37%	37%	37%
OP margin	32%	30%	31%	32%
NP margin	30%	28%	28%	30%
ROE	29%	28%	27%	27%
ROIC	26%	25%	27%	31%
<b>Liquidity</b>				
Debt/equity	16%	15%	0%	0%
Net debt/equity	-2%	-4%	-16%	-27%
Current ratio	2.6x	2.6x	2.4x	3.7x
Quick ratio	2.3x	2.3x	2.2x	3.5x
<b>Operating efficiency</b>				
Asset turnover	0.7x	0.8x	0.8x	0.8x
<b>Valuation ratios</b>				
EV/EBITDA	9x	9x	8x	6x
P/E	12x	11x	10x	9x
FCF yield	5%	7%	11%	12%
Dividend yield	6%	5%	6%	7%

## Appendix A

### Analyst Certification

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Hold	44	33.08%	44	100.00%
Sell	6	4.51%	6	100.00%

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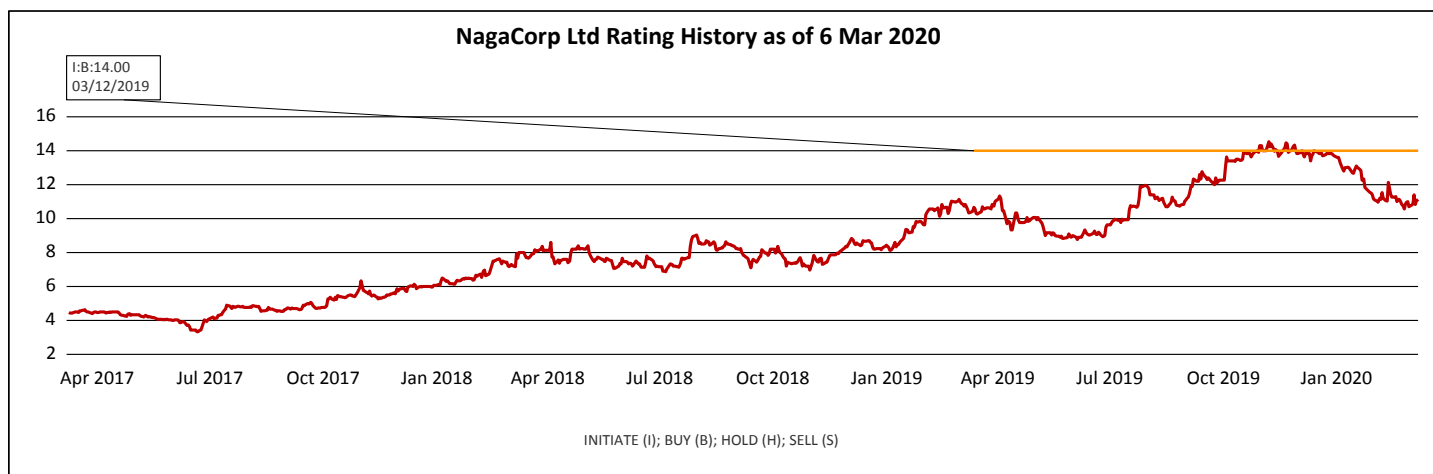
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**Valuation Methodology**

**3918 HK:**

Our target price for NagaCorp is HK\$14.00, based on 11x FY20E EV/EBITDA, implying 14x FY20E P/E.

**Risks include:** 1) Potential for political unrest and a cooling economy in Cambodia; 2) any change in gaming regulations that may jeopardize NagaCorp’s monopoly status or challenge its current low tax position; 3) increase in regional gaming competition; 4) market cannibalization through Phase 3 development of NagaWorld; 5) drop in demand from key target markets such as China and Southeast Asia, which could result in lower-than-expected EBITDA growth; 6) rising wages; and 7) financing needs.

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