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## NagaCorp | Asia Pacific

# Post 1Q20 Update: Lower Opex, Ample Cash, FY19 Dividend is Safe

Stock Rating  
Overweight

Industry View  
Attractive

Price Target  
HK\$10.00

Lower opex and ample liquidity should sustain the dividend. With the potential travel reopening between China/Malaysia in the next 6-12 months, we expect earnings to normalize. Valuations at 13x P/E and 4.5% dividend yield on 2021e look fair but our estimates are significantly below consensus.

The casino in Cambodia has been closed since April 1 till further notice. We highlight recent updates:

**1. Naga reported 1Q GGR growth** of 15% YOY, mainly due to an increase in VIP volume of 18% YOY. Mass revenue and slot revenue were flat and down 15% YOY, respectively.

**2. Lower daily operating expenses** - Casinos have been closed since April 1 and they are incurring daily opex, which we had calculated to be roughly US\$0.5m a day. However, since then, they have cut the opex and staff costs meaningfully and current daily cost is around US\$0.25m per day excluding interest expense.

**3. Local demand** - Many local residents have foreign passports. According to the company, roughly 50% of its mass and slot revenue comes from locals. On our estimates, mass and slot revenue contributed 27% and 56% of gross revenue and gross profit, respectively, in 2019. However, roughly 90% of VIP revenue used to come from overseas customers/junkets, which could take longer to come back.

**4. Dividend will not be cut amidst ample liquidity** - As of December 2019, the company had gross cash (include deposits) of US\$327m (net cash of US\$32m). The gross cash rose to US\$473m by March 2020. They have to pay US\$221m of final dividend (for 2019) in June 2020, which has been approved by the board and thus will certainly be paid. Leaving US\$50m for cage capital, the company still has gross cash of US\$202m to manage opex.

**5. Current high yield bond of US\$300m due in May 2021 will likely be repaid** - While the bond yield bottomed at 4.4% in January 2020, it has gone up recently to 10%, which is not ideal for refinancing.

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## NagaCorp ( 3918.HK, 3918 HK )

ASEAN Gaming / Hong Kong

Stock Rating	Overweight
Industry View	Attractive
Price target	HK\$10.00
Shr price, close (May 6, 2020)	HK\$9.69
52-Week Range	HK\$14.74-7.08
Up/downside to price target (%)	3
Sh out, dil, curr (mn)	4,341
Mkt cap, curr (mn)	US\$5,426
Avg daily trading value (mn)	HK\$56

Fiscal Year Ending	12/19	12/20e	12/21e	12/22e
ModelWare EPS (US\$)	0.12	0.07	0.09	0.10
Prior ModelWare EPS (US\$)	-	-	-	-
EPS (US\$)§	0.12	0.11	0.13	0.14
Revenue, net (US\$ mn)	1,755	1,207	1,471	1,613
EBITDA (US\$ mn)	661	451	539	592
ModelWare net inc (US\$ mn)	521	283	393	445
P/E	14.5	19.2	13.8	12.2
P/BV	4.2	3.0	2.7	2.5
RNOA (%)	31.4	15.3	16.4	16.6
ROE (%)	33.9	15.8	22.0	22.5
EV/EBITDA	11.6	12.9	10.8	9.7
Div yld (%)	4.9	3.1	4.3	4.9

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

§ = Consensus data is provided by Thomson Reuters Estimates  
e = Morgan Stanley Research estimates

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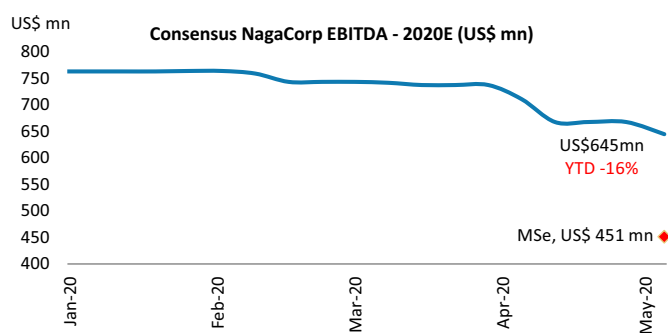
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**6. Growth capex can be delayed** - While the company still has to spend US\$1.7bn on Naga 3 (the company will pay half of US\$3.5bn capex for Naga 3), it has the flexibility to delay the spending to conserve cash. While the project can be downsized, the company has not taken that decision yet. We also expect the Russian project to be delayed to 2022 opening (from 2021 opening previously). Naga will need to spend more than half of project capex (US\$350m). Maintenance capex of roughly US\$50m and remainder of Naga 1 renovation is still on track.

**7. COVID-19 cases** - Cambodia has had no new cases for 22 consecutive days till 4 May (latest).

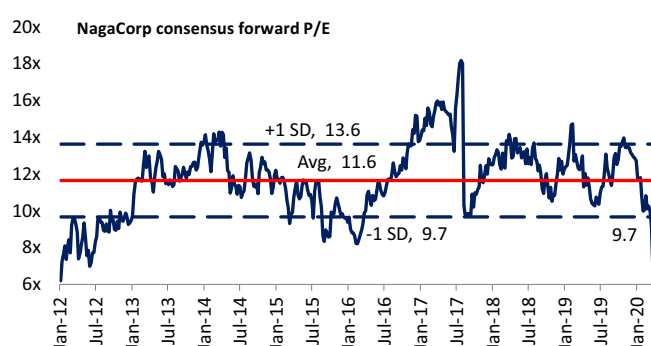
**Investment Conclusion** - The stock is trading at 13x P/E and 4.5% dividend yield on our 2021 estimates, which looks fair to us. With potential opening of travel between China/Malaysia over the next 6-12 months, we expect revenue and profit to normalize. Our estimates are 30% below consensus for both 2020/2021e EBITDA.

**Exhibit 1:** Naga: 2020E Consensus EBITDA estimate



Source: Refinitiv as of 5 May 2020, Morgan Stanley Research estimates

**Exhibit 2:** Naga: Consensus Forward P/E Timeseries



Source: Refinitiv as of 5 May 2020, Morgan Stanley Research

## Valuation Methodology and Risks

### **NagaCorp(3918.HK)**

Our price target of HK\$10.0 is our base case scenario value. We apply a target FCFE yield of 8.0% to our 2021 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, and Naga 2 ramp-up.

### **Risks to Upside**

- Faster-than-expected recovery from Covid-19.
- Recent workers' strike in Jan 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, Sihanoukville etc.).
- Slower-than-expected recovery from Covid-19.
- High exposure to VIP revenue and risk to overall global VIP business.

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	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
<b>Overweight/Buy</b>	<b>1216</b>	<b>38%</b>	<b>300</b>	<b>42%</b>	<b>25%</b>	<b>533</b>	<b>37%</b>
<b>Equal-weight/Hold</b>	<b>1432</b>	<b>45%</b>	<b>325</b>	<b>46%</b>	<b>23%</b>	<b>698</b>	<b>48%</b>
<b>Not-Rated/Hold</b>	<b>3</b>	<b>0%</b>	<b>1</b>	<b>0%</b>	<b>33%</b>	<b>3</b>	<b>0%</b>
<b>Underweight/Sell</b>	<b>553</b>	<b>17%</b>	<b>81</b>	<b>11%</b>	<b>15%</b>	<b>220</b>	<b>15%</b>
<b>TOTAL</b>	<b>3,204</b>		<b>707</b>			<b>1454</b>	

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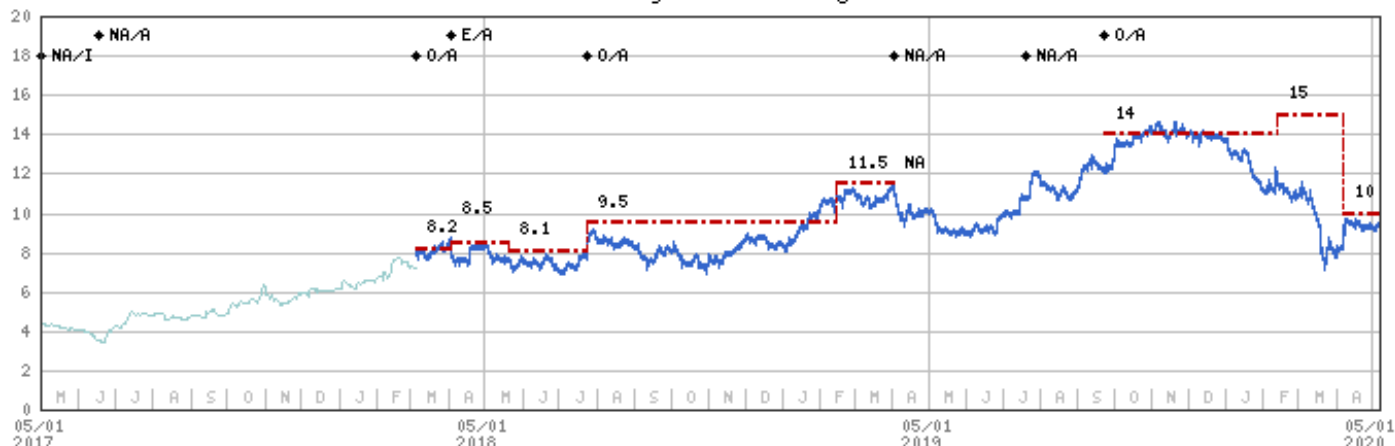
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NagaCorp (3918.HK) - As of 5/5/20 in HKD  
Industry : ASEAN Gaming



Stock Rating History: 5/1/15 : O/I; 2/3/16 : NA/I; 6/18/17 : NA/A; 3/6/18 : O/A; 4/4/18 : E/A; 7/25/18 : O/A; 4/3/19 : NA/A;  
7/21/19 : NA/A; 9/23/19 : O/A

Price Target History: 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; 2/12/20 : 15; 4/7/20 : 10

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) ■  
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**INDUSTRY COVERAGE: ASEAN Gaming**

<b>COMPANY (TICKER)</b>	<b>RATING (AS OF)</b>	<b>PRICE* (05/06/2020)</b>
<b>Praveen K Choudhary</b>		
Bloomberry Resorts Corporation (BLOOM.PS)	O (03/26/2018)	PP5.17
Genting Singapore PLC (GENS.SI)	E (04/04/2019)	S\$0.77
NagaCorp (3918.HK)	O (09/23/2019)	HK\$9.69

Stock Ratings are subject to change. Please see latest research for each company.

\* Historical prices are not split adjusted.

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