

August 24, 2020 09:00 PM GMT

NagaCorp | Asia Pacific

# Earnings Revised Down Due to Covid-19, Recovery from 3Q Onwards

📄 Stock Rating Overweight     
 👁 Industry View Attractive     
 🎯 Price Target HK\$11.00

Lower Covid-19 cases in Cambodia and the full opening of the casino should drive QOQ growth in EBITDA and support the stock price. We remain OW.

WHAT'S CHANGED	NagaCorp (3918.HK)	From	To
	Price Target	HK\$10.00	<b>HK\$11.00</b>

**What's new?** We cut our earnings estimates again for 2020, after the casino remained shut for all of 2Q20 and the current recovery in 3Q is driven by locals with foreign passports (since international travel has not started yet). However, we think the company's 2Q result (August 27) and commentary around a recovery should support the stock price. We expect 3Q GGR to be down 50% YOY and EBITDA to be positive. This is better than other regional casinos (GENS, Bloomberry and Macau are loss making in 3Q, we estimate).

**Valuation is compelling if the business normalizes** - We now assume that the company can reach the 2019 level of revenue in 2022. The stock is trading at a 12% FCFE yield, 9.4x P/E and 7.3x EV/EBITDA on 2019 actual financials. However, we have to deduct roughly 5% of GGR (as revenue tax is to be announced sometime in 2021) and US\$24m as an additional interest expense from future years to calculate the normalized multiple which will be 11.1% FCFE yield, 10.2x P/E and 7.5x EV/EBITDA, still cheaper than regional peers.

**PT change** - Although we revised our 2020/21 EBITDA estimates down by 49% and 25% respectively, we now expect the 2019 revenue level to be reached only in 2022 and thus use our target FCFE yield of 8% (unchanged) on 2022 estimates and discount by 10% for time value of money. This is similar to our methodology for Macau stock. Our target yield of 8% (unchanged) is higher than the 7% we use for Macau due to their dependence on international travel, and balance sheet risk ahead of Phase 3/Russia construction.

**1H result and 2H outlook** - We expect 2Q revenue to be zero and an EBITDA loss of US\$35m (-118% YOY). For 1H20 EBITDA will be US\$108m (-66% YOY). We expect 1H20 DPS to be zero, and 2H20 DPS to be insignificant. However, we expect a 60% dividend payout to be reinstated for 2021 and onwards. This will imply a 2.9% yield for 2021. Interest expense for 2H20 is to be US\$21m (+31% YOY) due to a new bond of US\$350m at a 7.95% rate raised in July 2020.

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**NagaCorp (3918.HK, 3918 HK)**

ASEAN Gaming / Hong Kong

Stock Rating	Overweight
Industry View	Attractive
Price target	HK\$11.00
Shr price, close (Aug 24, 2020)	HK\$8.85
52-Week Range	HK\$14.74-7.08
Up/downside to price target (%)	24
Sh out, dil, curr (mn)	4,341
Mkt cap, curr (mn)	US\$4,957
Avg daily trading value (mn)	HK\$61

Fiscal Year Ending	12/19	12/20e	12/21e	12/22e
ModelWare EPS (US\$)	0.12	0.01	0.05	0.11
Prior ModelWare EPS (US\$)	-	0.07	0.09	0.10
EPS (US\$)§	0.12	0.04	0.09	0.13
Revenue, net (US\$ mn)	1,755	754	1,172	1,836
EBITDA (US\$ mn)	661	228	406	649
ModelWare net inc (US\$ mn)	521	54	238	479
RNOA (%)	31.4	5.3	11.3	18.6
ROE (%)	33.9	3.0	14.7	26.9
Div yld (%)	4.9	0.4	2.9	5.8

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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## Investment Summary

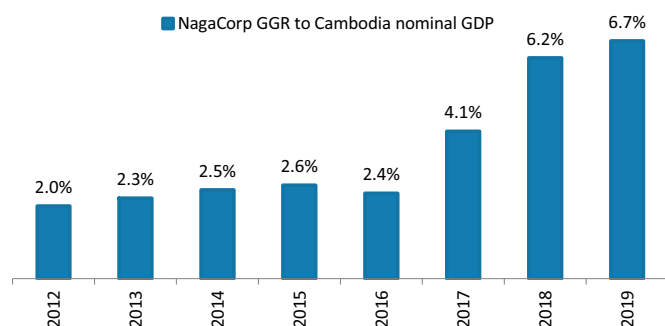
We reiterate Naga at OW, despite cutting estimates, as we prefer it over other regional casinos. Bloomberry could take longer to open and GENS has low exposure to local gamblers. The stock is still cheap with our base case assumption that casino business and travel normalizes in 2H21.

There are three key reasons for our OW rating -

**(1) Reasonable valuation considering growth prospects and monopoly status** - At a 11.6% FCFE yield and 9.4x P/E on 2019 actual, the stock is trading at a 30% discount to Macau peers and 0.5SD below its historical average. Despite near-term challenges from Covid-19 and travel restrictions, we expect the stock to continue to re-rate considering its monopoly status till 2045 and its medium- to long-term growth prospects (average annual GGR growth since 2015 was 38%).

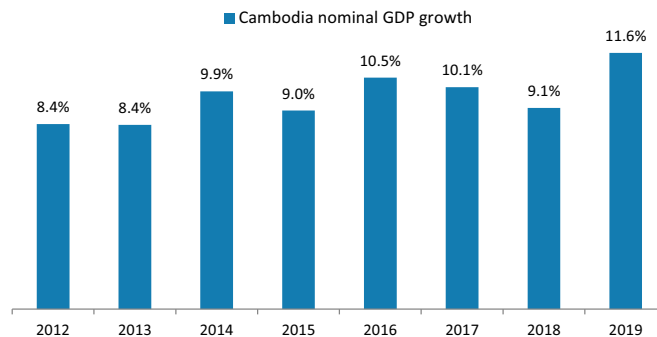
As shown below, Cambodia's GDP growth has been above 8% every year since 2012 and Naga's GGR to Cambodia GDP has jumped since 2017 as Chinese visitation to Cambodia increased after the China Ready strategy in 2016. We think long-term growth of Naga continues to be supported by local economic growth and the increase in Chinese visitation.

**Exhibit 1:** Naga's GGR to Cambodia nominal GDP



Source: CEIC, Company data, Morgan Stanley Research

**Exhibit 2:** Cambodia nominal GDP growth rate

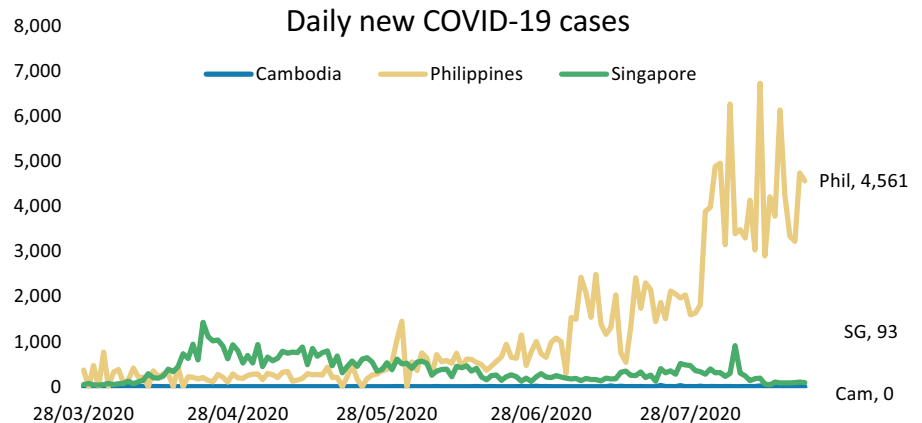


Source: CEIC, Morgan Stanley Research

**(2) Better recovery in the near term versus Asean peers** - Naga has reopened all its gaming and non-gaming businesses since July 18. In comparison, Bloomberry is still not open to the public and this is likely to be extended as Metro Manila is still under community quarantine and daily new cases for the last week are still at 3-4K. GENS has partially reopened its business since July and Singapore has reopened borders and allows essential business trips for travellers from China (June)/ Malaysia (August), but a meaningful recovery for GENS will only happen when leisure travel is resumed / a full reopening is allowed. Before that, GENS's business will remain low because of its highest revenue exposure to international travellers among regional peers at 75%. Please see

our detailed note on GENS ([LINK](#)).

**Exhibit 3:** Daily new COVID-19 cases: Philippines vs. Singapore vs. Cambodia



Source: CEIC updated till 20 Aug data, Morgan Stanley Research

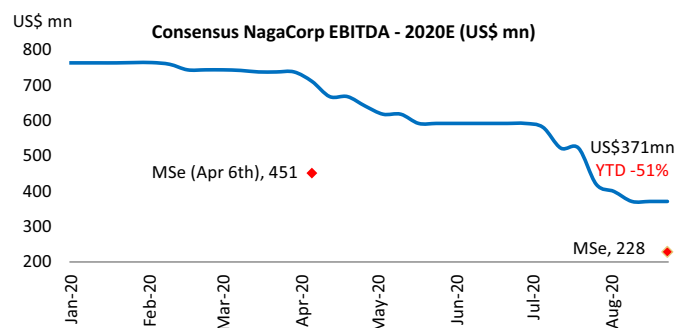
**(3) Foreign exposure is not as high as the market thought** - We estimate 40-45% of Naga's 2019 GGR exposure is to domestic gamblers, which is not affected by travel ban/quarantine measures. This is lower than Bloomberry's 53% or Macau's 90% (including Mainland Chinese as locals) but significantly higher than GENS's 25%.

For 2019, roughly 80% of Naga's VIP volume (which contributed 72% of 2019 GGR) was from overseas junkets, on which most of the gamblers are foreigners travelling from China/Malaysia while domestic gamblers (mainly expats in Cambodia) contributed most of the remaining 20% of VIP volume. For Mass & Slot (28% of 2019 GGR), we estimate roughly 60-70% of the revenues was from domestic players in 2019.

#### Key Concerns:

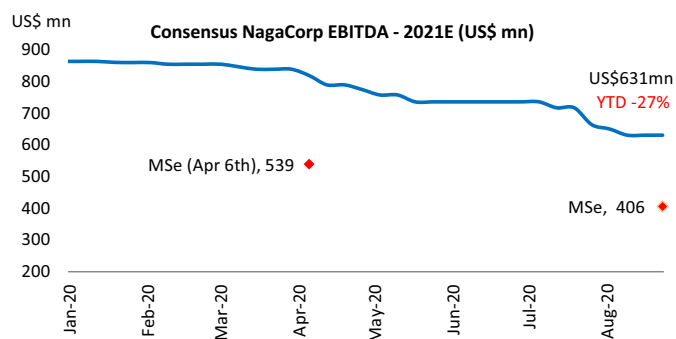
**(1) Further negative earnings revision:** Although 2020e and 2021e consensus EBITDA estimates are down by 51% and 27% YTD respectively, we are still 38% and 36% below consensus and expect them to catch up post the 2Q result on August 27. Visitation to Cambodia was down by 97%YOY in June, but this is not surprising. Cambodia is still suspending visa exemptions for Asean counties and requires 14-days quarantine upon arriving in Cambodia.

**Exhibit 4:** Naga's 2020E consensus EBITDA revisions



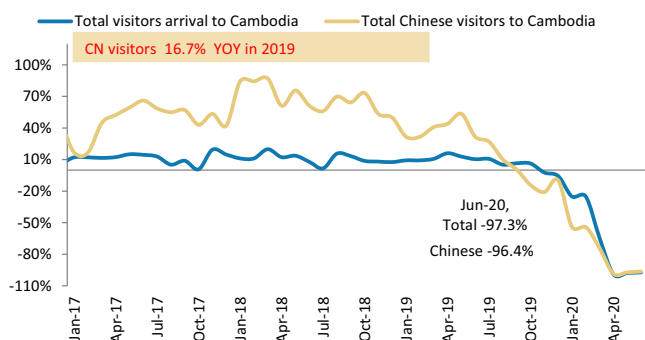
Source: Refinitiv as of 19 Aug, 2020, Morgan Stanley Research (MSe) estimates

**Exhibit 5:** Naga's 2021E consensus EBITDA revisions



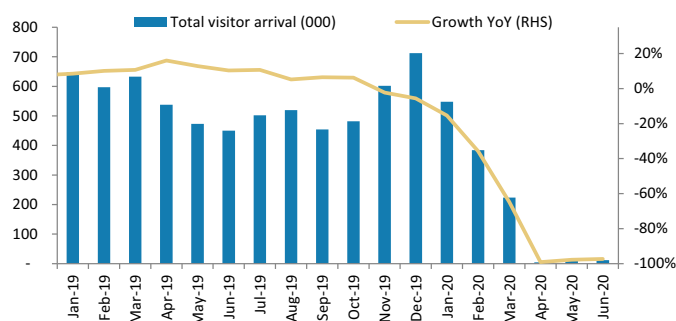
Source: Refinitiv as of 19 Aug, 2020, Morgan Stanley Research (MSe) estimates

**Exhibit 6:** Cambodia total visitation/ Chinese visitation YoY growth



Source: CEIC, Morgan Stanley Research

**Exhibit 7:** Cambodia total visitation

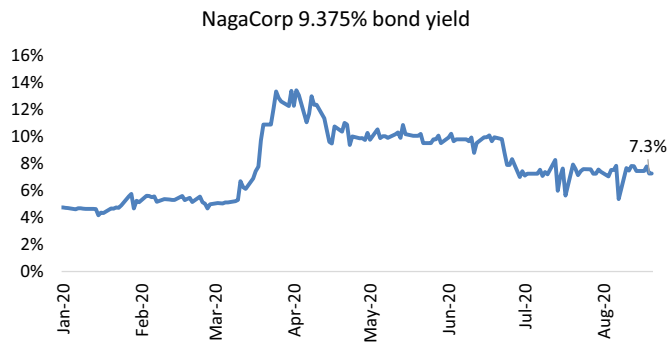


Source: CEIC, Morgan Stanley Research

**(2) Rising gearing, interest expense and lower CF:** We estimate Naga's gross cash was reduced to roughly US\$145mn as of end-2Q (from US\$473mn as of end-1Q) after paying the US\$210m 2019 final dividend in June 2020. The company raised a new US\$350m bond (at a 7.95% coupon) in July, which could increase interest expenses by US\$28m annually (5.4% of 2019 net income).

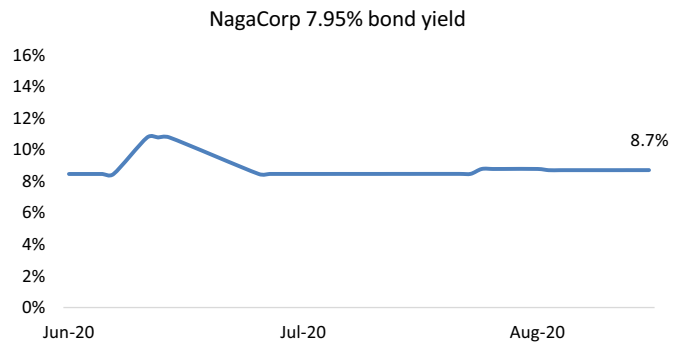
There are ongoing expenses including maintenance capex (US\$50m), Phase 1 renovation and annual capex for Phase 3 (which can be around US\$300m per annum but less early on). We expect the existing bond of US\$300m (9.375%) to be refinanced in May 2021 upon maturity, the yield on which is currently around 7.3%.

**Exhibit 8:** NagaCorp bond yield for the 9.375% 2021 Notes



Source: Refinitiv as of 19 Aug 2020, Morgan Stanley Research

**Exhibit 9:** NagaCorp bond yield for the new 7.95% 2024 Notes



Source: Refinitiv as of 19 Aug 2020, Morgan Stanley Research

## Operational Forecasts Summary

During 2Q20, Naga's casino was only open for one day, so the EBITDA is simply negative operating expense. After April 1, Naga closed most of its operations except 250 rooms in Naga 1 till July. Thus, we expect 2Q gross revenue to be close to zero with an EBITDA loss of US\$35m (-125%QoQ, -118%YoY).

For the rest of 2020, we expect Mass table to perform better than Slot and VIP. This is because the Mass table segment should have the highest exposure to domestic players (mainly expatriates in Cambodia / locals holding foreign passports), at roughly 70% in terms of 2019 revenue. The slot segment has similar exposure to domestic exposure in terms of head count but accounted for 60% of 2019 revenue. The VIP segment has the highest exposure to foreigners, since over 80% of VIP rolling volume is from overseas junkets and gamblers. Thus, we expect Mass table volume to decline by only 50% and 35% YOY in 3Q and 4Q respectively, as compared to VIP volume declines of -75% and -58% YOY and Slot volume's -72% and -55% YOY (Exhibit 10). Social distancing measures could mean that we will not reach the 2019 level in 1H21.

In terms of operating expenses, we expect opex to be down 8% QOQ, although upside risk remains that it could have been reduced more significantly despite no shrinking of the workforce. Opex should increase as the business level gradually resumes.

**Exhibit 10: Operational Summary (Quarterly)**

US\$ mn	4Q19	1Q20	2Q20e	3Q20e	4Q20e
<b>Gaming operations</b>					
<b>GGR</b>	<b>431</b>	<b>368</b>	<b>3</b>	<b>134</b>	<b>231</b>
VIP roll	12,744	9,693	100	2,722	5,394
Win rate	2.39%	2.79%	2.79%	2.85%	2.96%
<b>VIP revenue</b>	<b>305</b>	<b>270</b>	<b>3</b>	<b>78</b>	<b>160</b>
Mass drop	420	342	2	233	273
Mass hold rate	20.2%	19.9%	19.1%	19.4%	19.5%
<b>Mass revenue</b>	<b>85</b>	<b>68</b>	<b>0</b>	<b>45</b>	<b>53</b>
EGM bills-in	710	499	4	197	316
EGM hold rate	5.8%	5.9%	2.5%	5.6%	5.6%
<b>EGM revenue</b>	<b>41</b>	<b>30</b>	<b>0</b>	<b>11</b>	<b>18</b>
<b>Total mass and slot revenue</b>	<b>126</b>	<b>98</b>	<b>1</b>	<b>56</b>	<b>71</b>
<b>Non-Gaming operations</b>					
Occupancy rate	84%	84%	6%	40%	62%
ADR	31	38	33	26	26
Number of rooms	1,573	1,408	250	1,658	1,658
Non-gaming revenue	8	10	0	3	5
<b>Costs</b>					
Opex per day (excl. one-off)	(0.35)	(0.36)	(0.33)	(0.34)	(0.43)
VIP Rebates	(204)	(167)	(2)	(49)	(97)

Source: Company data, Morgan Stanley Research (e) estimates

**For 1H20, we expect EBITDA to be down 66%yoy (2Q LBITDA of US\$35m)** due to business closure during 2Q. We also expect Naga to cut the 1H dividend to preserve cash amidst Covid-19 and for Naga3's capex. For 2H, we expect EBITDA could be 10% higher HoH though GGR could be flattish. This is because the more resilient (due to domestic exposure) and higher-margin mass table segment will represent a bigger portion in the revenue mix, helping the EBITDA margin.

**Exhibit 11: Operational Summary (Half-Yearly)**

US\$ mn	1H19	2H19	1H20E	YOY	2H20E	YOY
VIP revenue	650	593	273	(58%)	237	(60%)
Mass revenue	146	172	68	(53%)	98	(43%)
EGM revenue	76	82	30	(61%)	29	(65%)
<b>GGR</b>	<b>872</b>	<b>847</b>	<b>371</b>	<b>(57%)</b>	<b>364</b>	<b>(57%)</b>
Non-gaming revenue	19	17	10	(49%)	9	(48%)
<b>Gross revenue</b>	<b>892</b>	<b>864</b>	<b>381</b>	<b>(57%)</b>	<b>373</b>	<b>(57%)</b>
Cost of sales	(483)	(425)	(197)	(59%)	(169)	(60%)
Non-gaming	16	14	8	(50%)	7	(46%)
<b>Gross Profit</b>	<b>408</b>	<b>439</b>	<b>184</b>	<b>(55%)</b>	<b>204</b>	<b>(54%)</b>
Staff costs	(48)	(47)	(45)	(6%)	(46)	(1%)
Other opex	(39)	(52)	(30)	(23%)	(37)	(28%)
<b>EBITDA</b>	<b>321</b>	<b>340</b>	<b>108</b>	<b>(66%)</b>	<b>120</b>	<b>(65%)</b>
D&A	(50)	(50)	(55)	9%	(55)	10%
<b>EBIT</b>	<b>270</b>	<b>291</b>	<b>53</b>	<b>(80%)</b>	<b>65</b>	<b>(78%)</b>
<b>Profit before tax</b>	<b>260</b>	<b>287</b>	<b>36</b>	<b>(86%)</b>	<b>48</b>	<b>(83%)</b>
Income tax	(15)	(15)	(15)	0%	(15)	0%
<b>Net income</b>	<b>245</b>	<b>272</b>	<b>21</b>	<b>(91%)</b>	<b>33</b>	<b>(88%)</b>
<b>DPS (US\$ cents)</b>	<b>3.39</b>	<b>5.09</b>	<b>-</b>	<b>(100%)</b>	<b>0.45</b>	<b>(91%)</b>

Source: Company data, Morgan Stanley Research (E) estimates

**On a yearly basis,** we expects Naga's GGR growth of -57%/+54%/+58%yoy for 2020/21/22. 2021 GGR could be at only 65% of the 2019 level as international travel is likely to remain weak at least for the first half of 2021. We think GGR can get back to the 2019 level by 2022.

**Exhibit 12: Operational Summary (Annual)**

Operation (US\$ mn)	2019	2020E	2021E	2022E
<b>Gross Revenue</b>	<b>1,755</b>	<b>754</b>	<b>1,172</b>	<b>1,836</b>
VIP Revenue	1,243	510	794	1,310
Mass Revenue	318	167	233	319
EGM Revenue	158	58	102	158
<b>GGR</b>	<b>1,719</b>	<b>735</b>	<b>1,129</b>	<b>1,788</b>
Non-Gaming Revenue	36	19	43	48
<b>Growth YoY</b>				
<b>Gross Revenue</b>	<b>19%</b>	<b>-57%</b>	<b>55%</b>	<b>57%</b>
VIP Revenue	16%	-59%	56%	65%
Mass Revenue	35%	-48%	40%	37%
EGM Revenue	22%	-63%	76%	55%
<b>GGR</b>	<b>20%</b>	<b>-57%</b>	<b>54%</b>	<b>58%</b>
Non-Gaming Revenue	-10%	-49%	133%	12%
<b>Net Profit</b>				
<b>Opex (incl Rebates)</b>	<b>(1,095)</b>	<b>(526)</b>	<b>(767)</b>	<b>(1,187)</b>
<b>EBITDA (calculated)</b>	<b>661</b>	<b>228</b>	<b>406</b>	<b>649</b>
- YOY	32%	-65%	78%	60%
<b>PAT</b>	<b>521</b>	<b>54</b>	<b>238</b>	<b>479</b>

Source: Company data, Morgan Stanley Research (E) estimates

## What's Changed

**PT/ Valuation methodology:** We raise our PT from HK\$10.0 to HK\$11.0. This is mainly driven by a change in valuation methodology - we now peg valuation to 2022 FCFE with a 10% discount for time value (previously pegged to 2021e FCFE without a discount) as we think 1H21 operations will still be impacted by international travel restrictions and revenue will only go back to the pre-Covid-19 level in 2022.

**2020e:** Our 2020e net revenue, EBITDA and EPS are 38%, 49% and 81% lower respectively. This is to reflect the business closure throughout 2Q and weakness in business for the rest of the year as travel restrictions are likely to be prolonged (14-days quarantine upon arriving Cambodia and 2-weeks quarantine after returning to one's own country). Our new EPS estimate also reflects US\$14m interest expenses from Naga's new 7.95% Note due 2024 raised in July. Our DPS estimate is 88% lower as we now expect Naga to cut the interim dividend amidst a challenging business environment (previously a 60% payout for 1H) but we keep the 2H payout ratio at 60%.

**2021e:** We cut our 2021e net revenue, EBITDA and EPS by 16%, 25% and 40% respectively since we expect international travel to Cambodia will only start to normalize by 2Q21 as it will take longer for Cambodia to agree on travel arrangements with multiple countries where its customers come from (China, Korea, Malaysia, Singapore, Indonesia). Our 2021e DPS is also 40% lower as we keep the payout ratio unchanged.

**2022e:** We increase our 2022e net revenue, EBITDA and EPS by 20%, 10% and 8% respectively as we expect Naga's gaming revenues to recover to pre-Covid-19 levels in 2022.

**Exhibit 13:** Morgan Stanley Research estimates: New vs. Old

US\$ mn	New			Old			Variance		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Revenue	754	1,172	1,836	1,207	1,399	1,534	(38%)	(16%)	20%
Corporate EBITDA	228	406	649	451	539	592	(49%)	(25%)	10%
Net Income	54	238	479	283	393	445	(81%)	(40%)	8%
EPS (US cents)	1.25	5.48	11.03	6.53	9.06	10.25	(81%)	(40%)	8%
Dividend payout ratio	37%	60%	60%	60%	60%	60%	(23%)	(0%)	0%
DPS (US cents)	0.45	3.29	6.62	3.92	5.43	6.15	(88%)	(40%)	8%

Source: Morgan Stanley Research (E) estimates



## Comparison with Consensus

We are 38%/36%/10% lower than consensus in terms of 2020e/21e/22e EBITDA. We are also 74%/47%/12% below consensus in terms of 2020e/21e/22e EPS. This is because consensus has not yet fully reflected the 2Q business closure and the prolonged international travel halt. We expect further negative consensus revisions going forward (Consensus 2020e and 2021e EBITDA are down 51% and 27% YTD respectively).

**Exhibit 14:** Morgan Stanley Research estimates vs. consensus

US\$ mn	MSe			Consensus			Variance		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Revenue	754	1,172	1,836	1,148	1,727	1,934	(34%)	(32%)	(5%)
Corporate EBITDA	228	406	649	371	631	723	(38%)	(36%)	(10%)
Net Income	54	238	479	229	447	540	(76%)	(47%)	(11%)
EPS (US cents)	1.25	5.48	11.03	4.86	10.33	12.47	(74%)	(47%)	(12%)
Dividend payout ratio	37%	60%	60%	36%	54%	59%	1%	6%	1%
DPS (US cents)	0.45	3.29	6.62	1.74	5.54	7.40	(74%)	(41%)	(11%)

Source: Refinitiv as of 19 Aug 2020, Morgan Stanley Research (MSe) estimates

# Valuation

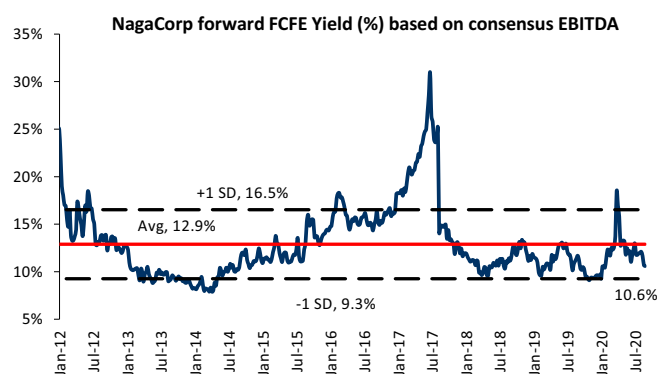
Current valuation on 2019 actuals looks reasonable at 11.6% FCFE yield and 9.4x P/E; both are at 0.5 to 1 SD cheaper than long-term historical averages since 2012. This implies roughly a 30% and 50% discount to Macau peers. The stock may look expensive on 12-month forward multiples below driven by recent negative consensus earnings revisions.

**Exhibit 15:** Naga: FCFE valuation and multiples

US\$ m	2019	2020E	2021E	2022E
<b>Company EBITDA</b>	<b>661</b>	<b>228</b>	<b>406</b>	<b>649</b>
Less: Income tax	(30)	(30)	(8)	(8)
Less: Maintenance Capex	(50)	(50)	(50)	(50)
Less: Interest Expense, Net	(16)	(41)	(53)	(51)
<b>FCFE</b>	<b>565</b>	<b>107</b>	<b>295</b>	<b>540</b>
Target FCFE Yield				8.0%
<b>Equity Value</b>	<b>7,058</b>	<b>1,340</b>	<b>3,688</b>	<b>6,753</b>
Number of shares				4,341
<b>Price Target (HK\$)</b>				<b>11.0</b>
Upside/downside				26%
<b>Current multiples</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
EV/EBITDA	7.3	21.2	11.9	7.5
P/E	9.4	90.2	20.5	10.2
Recurring FCFE Yield	11.6%	2.2%	6.1%	11.1%
Div Yield%	7.5%	0.4%	2.9%	5.9%

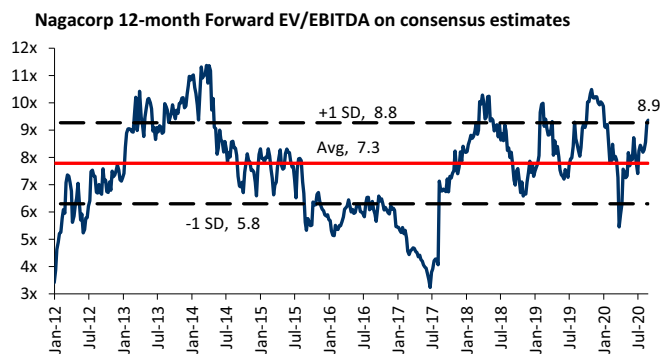
Source: Refinitiv as of 19 Aug, 2020, Company data, Morgan Stanley Research (E) estimates

**Exhibit 16:** NagaCorp forward FCFE yield (%) based on consensus EBITDA



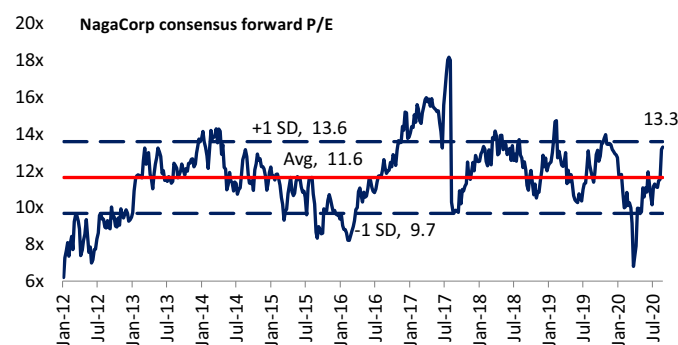
Source: Refinitiv as of 19 Aug, 2020, Morgan Stanley Research

**Exhibit 17:** NagaCorp forward EV/EBITDA on consensus estimates



Source: Refinitiv as of 19 Aug, 2020, Morgan Stanley Research

**Exhibit 18:** NagaCorp forward P/E on consensus estimates



Source: Refinitiv as of 19 Aug, 2020, Morgan Stanley Research

Exhibit 19: Asia Gaming Valuation Comps

19-Aug-20	Current Price	MS	Mkt Cap	6M Avg Vol.	EV/EBITDA					FCFE Yield		Div Yield		Net Debt/EBITDA	2020 YTD
	LOC\$	Rating	(US\$ m)	(US\$ m)	MS		Consensus			2019	2021E	2019	2020E	2019	Perf.
					2019	2021E	2022E	2021E	2022E						
<b>MACAU</b>															
Sands China	32.2	EW	33,557	78	12.0x	15.0x	12.8x	14.5x	11.8x	7.5%	5.9%	3.1%	0.0%	1.0x	-23%
Galaxy	59.2	EW	33,094	108	13.2x	14.8x	12.5x	14.6x	11.5x	6.6%	5.8%	1.5%	0.0%	(2.4x)	3%
Wynn Macau	14.4	OW	9,657	24	10.5x	13.3x	10.9x	13.5x	11.5x	9.8%	6.7%	3.1%	0.0%	2.6x	-25%
Melco Resorts (Attri.)	19.0	OW	9,069	55	9.3x	11.9x	9.2x	10.0x	9.1x	7.3%	4.8%	3.4%	0.0%	2.2x	-23%
SJM	9.8	OW	7,181	18	13.4x	18.1x	10.9x	13.5x	10.4x	6.3%	4.2%	3.1%	0.0%	0.1x	11%
MGM China	10.4	OW	5,080	11	9.3x	12.7x	9.7x	11.8x	10.0x	9.6%	7.1%	1.7%	0.0%	2.4x	-19%
<b>Macau average (ex Studio)</b>			<b>97,636</b>		<b>11.3x</b>	<b>14.3x</b>	<b>11.0x</b>	<b>13.0x</b>	<b>10.7x</b>	<b>7.9%</b>	<b>5.7%</b>	<b>2.7%</b>	<b>0.0%</b>	<b>1.0x</b>	<b>-14%</b>
<b>ASEAN</b>															
Genting Singapore	0.71	UW	6,250	18	4.0x	5.1x	4.4x	5.8x	4.6x	11.3%	6.7%	5.7%	2.8%	(3.2x)	-23%
NagaCorp	8.8	OW	4,907	8	7.3x	11.9x	7.5x	7.7x	6.7x	11.6%	6.1%	7.5%	0.4%	(0.0x)	-36%
Bloomberry	6.2	OW	1,389	1	5.1x	9.0x	5.6x	7.7x	5.8x	16.8%	6.4%	6.5%	0.0%	1.4x	-46%
<b>ASEAN average</b>			<b>12,545</b>		<b>5.5x</b>	<b>8.7x</b>	<b>5.8x</b>	<b>7.1x</b>	<b>5.7x</b>	<b>13.2%</b>	<b>6.4%</b>	<b>6.6%</b>	<b>1.1%</b>	<b>(0.6x)</b>	<b>-35%</b>
<b>Asia simple average</b>					<b>9.4x</b>	<b>12.4x</b>	<b>9.3x</b>	<b>11.0x</b>	<b>9.0x</b>	<b>9.7%</b>	<b>6.0%</b>	<b>4.0%</b>	<b>0.4%</b>	<b>0.5x</b>	<b>-20%</b>

Source: Refinitiv as of 19 Aug, 2020, Morgan Stanley Research (E) estimates

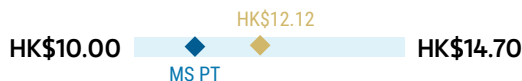
## Risk Reward – NagaCorp (3918.HK)

Near-term pain from International travel bans; Longer-term upside from Naga3

### PRICE TARGET HK\$11.00

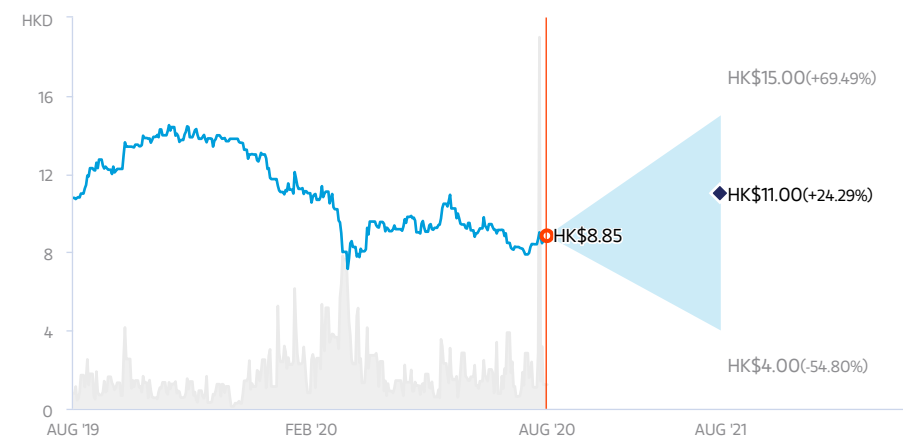
Our price target of HK\$11.0 is our base case scenario value. We apply a target FCFE yield of 8.0% to our 2022 estimate with a 10% discount for time value. The target yield is higher than Macau peers' average of 7.0% but is lower than the company's long-term average of 13% since 2012 in view of the company's leading position in a growing market, stable dividend, tax profile, and Naga 2 ramp-up.

#### Consensus Price Target Distribution



Source: Thomson Reuters, Morgan Stanley Research

### RISK REWARD CHART



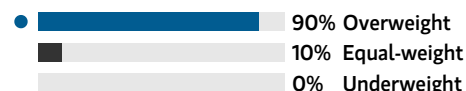
Key: — Historical Stock Performance    ● Current Stock Price    ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research

### OVERWEIGHT THESIS

- Capacity expansion at Naga 2 has been successful and is still ramping up.
- China's Belt and Road Initiative (BRI) and growth in Chinese visitor numbers should continue to drive VIP and mass earnings growth though with a decline in the near term due to travel restrictions.
- Naga has better license terms/monopoly status, lower taxes and lower labor costs compared to Macau gaming companies.
- Naga offers higher dividends and growth compared to ASEAN gaming peers.
- Reasonable valuation at 8x EV/EBITDA, 10x P/E, FCFE yield of 11% and dividend yield of 6% on 2022e.

#### Consensus Rating Distribution



● MS Rating

Source: Thomson Reuters, Morgan Stanley Research

#### Risk Reward Themes

- Pricing Power:** Positive  
**Regulation:** Negative  
**Secular Growth:** Positive

View descriptions of Risk Rewards Themes, [here](#)

#### BULL CASE

HK\$15.00

6.0% FCFE yield 2021e with 10% discount

Same GGR and EBITDA estimates as base case. Lower FCFE yield at 6.0%.

#### BASE CASE

HK\$11.00

8.0% FCFE yield 2022e with 10% discount

Continued Naga 2 ramp in 2021-22. VIP revenue growth of -59%/+56%/+65% in 2020/21/22; Mass (table + slot) revenue growth of -48%/+40%/+37% in 2020/21/22.

#### BEAR CASE

HK\$4.00

12.0% FCFE yield 2021e with 10% discount

Downturn in overall economy. Slower-than-expected recovery from Covid-19. More competition from Vietnam. Reduced visitation. Slower-than-expected Naga 2 ramp. VIP revenue growth of -69%/+46%/+55% in 2020/21/22; Mass (incl Slot) revenue growth of -58%/+30%/+27% in 2020/21/22.

## Risk Reward – NagaCorp (3918.HK)

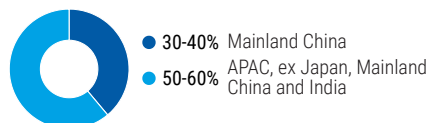
### KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
Company VIP Revenue Growth (%)	16	(59)	56	65
Company Mass & Slot Revenue Growth (%)	30	(54)	52	44
Corporate EBITDA margin (Gross) (%)	38	30	35	35

### INVESTMENT DRIVERS

- Lifting of quarantine requirement in Cambodia.
- Lifting of travel restrictions in China, Malaysia and Singapore.
- Removal of overhang with respect to tax rate in Cambodia in 2020/21.

### GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate  
View explanation of regional hierarchies, [here](#)

### RISKS TO PT/RATING

#### RISKS TO UPSIDE

- Faster-than-expected recovery from Covid-19.
- Larger-than-expected cost reductions.

#### 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.
- Worsened employer labor relations

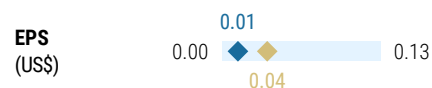
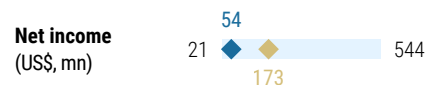
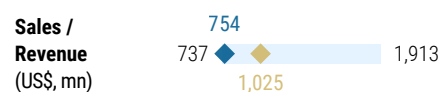
### OWNERSHIP POSITIONING

Inst. Owners, % Active 83.6%

Source: Thomson Reuters, Morgan Stanley Research

### MS ESTIMATES VS. CONSENSUS

FY Dec 2020e



◆ Mean ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

## Financial Summary

## Exhibit 20: NagaCorp Financial Summary

## Nagacorp Ltd.

For the years ending December 31									
Income Statement					Balance Sheet				
US\$ million	2019A	2020E	2021E	2022E	US\$ million	2019A	2020E	2021E	2022E
<b>Gross Revenue</b>	<b>1,755</b>	<b>754</b>	<b>1,172</b>	<b>1,836</b>	Fixed Assets	1,595	1,868	2,087	2,226
VIP Revenue	1,243	510	794	1,310	Intangible Assets	156	153	149	146
Mass Revenue	318	167	233	319	Others	140	140	140	140
EGM Revenue	158	58	102	158	<b>Non-Current Assets</b>	<b>1,891</b>	<b>2,160</b>	<b>2,376</b>	<b>2,512</b>
Non-Gaming Revenue	36	19	43	48	Debtors	127	68	106	165
Gaming tax (5% of GGR)		-	(56)	(89)	Cash and deposits	327	204	150	296
Cost of sales	(909)	(367)	(573)	(940)	<b>Current Assets</b>	<b>456</b>	<b>274</b>	<b>257</b>	<b>463</b>
<b>Gross profit</b>	<b>846</b>	<b>387</b>	<b>600</b>	<b>896</b>	Creditors	159	64	100	165
VIP	347	150	233	385	Others	16	16	16	16
Mass	316	165	231	316	<b>Current Liabilities</b>	<b>175</b>	<b>80</b>	<b>116</b>	<b>181</b>
EGM	155	57	100	155	Senior notes	295	645	645	645
Non-Gaming	30	15	36	40	Lease liabilities	49	49	49	49
Administrative expenses	(61)	(56)	(58)	(66)	Others	40	40	40	40
Other operating expenses	(84)	(77)	(79)	(91)	<b>Non-Current Liabilities</b>	<b>384</b>	<b>734</b>	<b>734</b>	<b>734</b>
<b>EBITDA</b>	<b>661</b>	<b>228</b>	<b>406</b>	<b>649</b>	Share Capital	54	54	54	54
Depreciation	(96)	(106)	(110)	(114)	Reserves	1,734	1,567	1,728	2,007
Amortization of license	(3)	(3)	(3)	(3)	<b>Shareholders' Equity</b>	<b>1,788</b>	<b>1,621</b>	<b>1,782</b>	<b>2,061</b>
<b>EBIT</b>	<b>561</b>	<b>119</b>	<b>292</b>	<b>531</b>					
<b>Profit before tax</b>	<b>552</b>	<b>84</b>	<b>246</b>	<b>487</b>	<b>Ratios</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Income Tax	(30)	(30)	(8)	(8)	Gross Profit Margin (%)	48%	51%	51%	49%
<b>Profit after tax</b>	<b>521</b>	<b>54</b>	<b>238</b>	<b>479</b>	- VIP	28%	29%	29%	29%
<b>Basic EPS (US\$ cents)</b>	<b>12.01</b>	<b>1.25</b>	<b>5.48</b>	<b>11.03</b>	- Mass	99%	99%	99%	99%
<b>DPS (US\$ cents)</b>	<b>8.48</b>	<b>0.45</b>	<b>3.29</b>	<b>6.62</b>	- EGM	98%	98%	98%	98%
					- Non-gaming	83%	83%	83%	83%
					EBITDA Margin (%)	38%	30%	35%	35%
					Dividend Payout Ratio (total)	71%	37%	60%	60%
					GGR Growth	20%	-57%	54%	58%
					VIP Growth	16%	-59%	56%	65%
					Mass Growth	35%	-48%	40%	37%
					EGM Growth	22%	-63%	76%	55%
					EBITDA Growth	32%	-65%	78%	60%
					Net Profit Growth	33%	-90%	340%	101%
					<b>Operating Data</b>				
					VIP Tables (avg)	337	349	349	349
					Mass Tables (avg)	167	174	174	174
					EGM Machines (avg)	2,000	2,100	2,200	2,200
					VIP win/table/Day (US\$)	10,106	3,996	6,234	10,286
					Mass win/table/Day (US\$)	5,238	2,619	3,666	5,023
					EGM win/unit/Day (US\$)	333	116	196	303
					Visitors to Cambodia (m)	6.6	6.9	7.3	7.7

Source: Company data, Morgan Stanley Research (E) estimates

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(as of July 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>1288</b>	<b>39%</b>	<b>337</b>	<b>45%</b>	<b>26%</b>	<b>573</b>	<b>39%</b>
<b>Equal-weight/Hold</b>	<b>1418</b>	<b>43%</b>	<b>328</b>	<b>44%</b>	<b>23%</b>	<b>678</b>	<b>46%</b>
<b>Not-Rated/Hold</b>	<b>4</b>	<b>0%</b>	<b>1</b>	<b>0%</b>	<b>25%</b>	<b>3</b>	<b>0%</b>
<b>Underweight/Sell</b>	<b>554</b>	<b>17%</b>	<b>86</b>	<b>11%</b>	<b>16%</b>	<b>225</b>	<b>15%</b>
<b>TOTAL</b>	<b>3,264</b>		<b>752</b>			<b>1479</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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#### INDUSTRY COVERAGE: ASEAN Gaming

COMPANY (TICKER)	RATING (AS OF)	PRICE* (08/24/2020)
<b>Praveen K Choudhary</b>		
Bloomberry Resorts Corporation (BLOOM.PS)	O (03/26/2018)	PP6.08
Genting Singapore PLC (GENS.SI)	U (08/17/2020)	S\$0.70
NagaCorp (3918.HK)	O (09/23/2019)	HK\$8.85

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

\* Historical prices are not split adjusted.