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## NagaCorp | Asia Pacific

# Bullish Outlook with August Volume Similar to 1Q20; Keeping 60% Dividend Payout Ratio

Stock Rating  
Overweight

Industry View  
Attractive

Price Target  
HK\$11.00

NagaCorp reported 1H GGR of US\$372m (-57% YoY) and net profit of US\$21m (-92% YoY), in line with our expectation.

However, EBITDA of US\$89m (-72% YoY) slightly missed our estimate, mainly owing to a US\$26m bonus paid to Dr. Chen (US\$11.8m in 1H19).

(+) In August, Naga's daily volume for VIP rolling/mass/slot reached 90% of the 1Q20 (pre-Covid) level. It was also up 40% MoM for VIP and mass table business.

(+) Interim DPS of US\$0.29 cents is not large, but keeping the 60% payout ratio is positive, in our view.

(+) Cash balance of US\$623m is adequate, although the US\$300m note is payable in mid-2021 and junket deposit is ~US\$150-200m higher than usual.

(+) Daily opex declined to US\$0.3m in August (US\$0.5m in 2019). Staff cost is down 16% YoY.

(+) Attractive valuation at 9x P/E and 12.3% FCFE yield on 2019.

(-) Added uncertainty after news of China's potential blacklisting of overseas gambling destinations.

(-) Phase 3 capex of US\$3.5bn is still looming with potential delay

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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\$11.00
Shr price, close (Aug 27, 2020)	HK\$8.18
52-Week Range	HK\$14.74-7.08
Up/downside to price target (%)	34
Sh out, dil, curr (mn)	4,341
Mkt cap, curr (mn)	US\$4,582
Avg daily trading value (mn)	HK\$62

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\$)	-	-	-	-
EPS (US\$)§	0.12	0.02	0.08	0.12
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
Curr P/E, for consensus	8.8	84.8	19.3	9.6
P/BV	4.2	2.8	2.6	2.2
RNOA (%)	31.4	5.3	11.3	18.6
ROE (%)	33.9	3.0	14.7	26.9
EV/EBITDA**	11.5	22.2	12.6	7.7
Div yld (%)	4.9	0.4	3.1	6.3

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

§ = Consensus data is provided by Thomson Reuters Estimates

\*\* = Based on consensus methodology

e = Morgan Stanley Research estimates

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## Valuation Methodology and Risks

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

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.

### **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

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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 MISC
<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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### Stock Price, Price Target and Rating History (See Rating Definitions)

NagaCorp (3918.HK) - As of 8/26/20 in HKD  
Industry : ASEAN Gaming



Stock Rating History: 8/1/15 : 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; 8/25/20 : 11

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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<b>COMPANY (TICKER)</b>	<b>RATING (AS OF)</b>	<b>PRICE* (08/27/2020)</b>
<b>Praveen K Choudhary</b>		
Bloomberry Resorts Corporation (BLOOM.PS)	O (03/26/2018)	PP6.01
Genting Singapore PLC (GENS.SI)	U (08/17/2020)	S\$0.71
NagaCorp (3918.HK)	O (09/23/2019)	HK\$8.18

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