

September 8, 2020 09:00 PM GMT

NagaCorp | Asia Pacific

## Raising Estimates, Maintain OW

Stock Rating  
Overweight

Industry View  
Attractive

Price Target  
HK\$11.00

We maintain our OW rating and PT, but raise our 2020/21 EBITDA estimates after strong 3Q volume surprised us positively despite limited international travel.

**What's new** – NagaCorp reported 1H EBITDA of US\$80m (implied 2Q LBITDA of US\$37m), which was inline with our expectation. However, August volume for VIP, mass and slot tracked at 98%, 90% and 93%, respectively. August volume for VIP, mass and slot were up 57%, 44% and 4% MoM, respectively. If we assume September to be similar to August, it would imply 3Q GGR to be down 18% YoY. This is better than our/consensus expectations as the majority of overseas travelers are still not visiting Cambodia (number of tourists in June 2020 was 12,284 or - 97% YoY). We believe this was helped by pent-up demand (without gambling for entire 2Q in Cambodia), monopoly status of Naga, lack of alternative entertainment (night clubs were closed) and that more local expats gambled, replacing the loss of international travellers.

**Earnings revision bottomed** – Consensus EBITDA estimates for 2020 and 2021 have declined by 64% and 34%, respectively, YTD. Our new 2020 and 2021 estimates are 19% higher and inline with consensus. While part of the recovery in July/August could be due to pent up demand, we also believe that positive political relationship with China and gradual opening of overseas travel in Asia should continue to drive QoQ improvement in revenues. We also believe that opex in 2Q was down 40% YoY and 14% QoQ, which should help the margin in the event of revenue recovery.

**Dividend story intact** – In 2019, Sands China, Wynn Macau and GENS were all paying dividends, which could have implied 3.0%, 3.2% and 5.8% yields at the current price. However, all of them have suspended their dividends for 2020 due to the Covid-19 outbreak. Naga has kept its 60% payout intact, which should imply 5.1% in 2021, according to our estimates. Dividend is also important for the chairman to pay for Naga 3 capex.

**What's changed?** We increase our 2020e and 2021e EBITDA by 44% and 39%, respectively, to reflect faster than expected business recovery, but our PT stays unchanged at HK\$11 as it based on our 2022e FCFE which is unchanged.

**Investment conclusion** - We expect 2021/22 financials to be similar or better than 2019. The stock is trading at 11% FCFE yield, 9.7x P/E and 7.2x EV/EBITDA on 2019 actual financials, which is cheaper than Macau and other regional casinos.

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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 (Sep 8, 2020)  | HK\$9.05          |
| 52-Week Range                   | HK\$14.74-7.08    |
| Up/downside to price target (%) | 22                |
| Sh out, dil, curr (mn)          | 4,341             |
| Mkt cap, curr (mn)              | US\$5,069         |
| Avg daily trading value (mn)    | HK\$63            |

| Fiscal Year Ending          | 12/19 | 12/20e | 12/21e | 12/22e |
|-----------------------------|-------|--------|--------|--------|
| ModelWare EPS (US\$)        | 0.12  | 0.04   | 0.10   | 0.12   |
| Prior ModelWare EPS (US\$)  | -     | 0.01   | 0.05   | 0.11   |
| EPS (US\$)§                 | 0.12  | 0.03   | 0.09   | 0.12   |
| Revenue, net (US\$ mn)      | 1,755 | 1,017  | 1,647  | 1,831  |
| EBITDA (US\$ mn)            | 661   | 330    | 566    | 671    |
| ModelWare net inc (US\$ mn) | 521   | 186    | 432    | 529    |
| Curr P/E, for consensus     | 9.7   | 27.3   | 11.7   | 9.6    |
| P/BV                        | 4.2   | 2.9    | 2.6    | 2.3    |
| RNOA (%)                    | 31.4  | 10.3   | 19.1   | 19.8   |
| ROE (%)                     | 33.9  | 10.4   | 24.8   | 26.8   |
| EV/EBITDA**                 | 11.5  | 15.2   | 9.6    | 8.0    |
| Div yld (%)                 | 4.9   | 2.2    | 5.1    | 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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# Investment Summary

We believe strong post closure recovery, commitment to 60% dividend payout and bottoming consensus earnings revision could support the stock price in the near term.

**(1) Strong recovery post reopening and 60% payout ratio should put Naga ahead as a more preferred stock among its Asean peers** - Naga's gaming volumes recovered to over 90% of 1Q (pre-closure) level in August: VIP/Mass/Slot volumes recovered to 98%/90%/93% of 1Q20 (pre-closure) level, though 1Q was impacted by Covid-19 as Mass volume was flattish and Slot volume was down over 10%yoy.

We believe the strong recovery was helped by pent-up demand (without gambling for entire 2Q in Cambodia), lack of alternative entertainment (night clubs were closed), monopoly status of Naga and that more local expats gambled, replacing the loss of international travellers. However, we think the recovery pace should slow down from here and full recovery will still require international travel resumption.

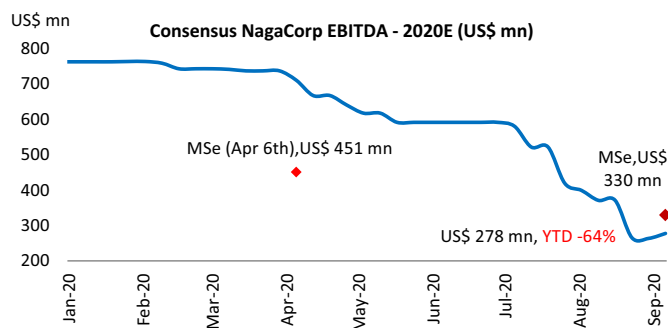
**Exhibit 1:** Naga gaming volumes: Post-closure vs. 1Q20 (Pre-closure)

| Average daily volume (US\$'000) | Pre-closure | Post-closure |         |           | Mse (% to 1Q20) |     |     |
|---------------------------------|-------------|--------------|---------|-----------|-----------------|-----|-----|
|                                 | 1Q20        | July         | Aug*    | % to 1Q20 | Sep             | 3Q  | 4Q  |
| VIP rollings                    | 106,519     | 66,252       | 104,016 | 98%       | 98%             | 82% | 90% |
| Mass table volume               | 3,762       | 2,345        | 3,377   | 90%       | 90%             | 77% | 84% |
| Slot volume                     | 5,524       | 4,922        | 5,119   | 93%       | 93%             | 86% | 92% |

Note: \*Naga disclosed actual gaming volumes for Aug 1-26. We assume Aug 27-31 to be the same as the first 26 days.  
Source: Company data, Morgan Stanley Research (e) estimates

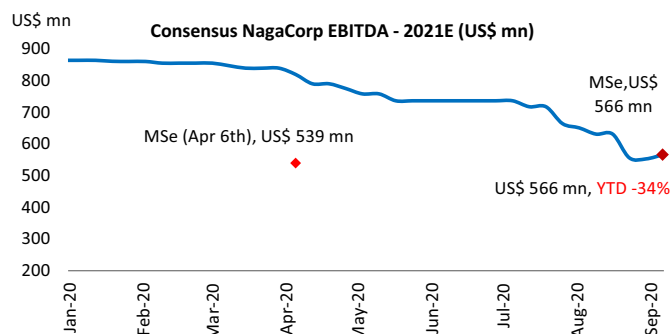
**(2) We believe consensus earnings estimates have bottomed, which will be a near-term catalyst to drive the stock price up.** 2020e and 2021e consensus EBITDA have fallen 64% and 34% YTD. Although Cambodia still closed the border for general tourism (e-visa, visa-on-arrival are suspended) and international travel into Cambodia is still largely limited, we expect positive consensus estimate revisions in the near term as the market factors in the controlled Covid situation in Cambodia and Naga's strong recovery post reopening.

**Exhibit 2:** Naga's 2020E consensus EBITDA revisions



Source: Refinitiv as of 7 Sep, 2020, Morgan Stanley Research (MSe) estimates

**Exhibit 3:** Naga's 2021E consensus EBITDA revisions



Source: Refinitiv as of 7 Sep, 2020, Morgan Stanley Research (MSe) estimates

## What's Changed

**PT/ Valuation methodology:** Our PT remains the same at HK\$11.00. Our valuation methodology (pegging valuation to 2022e FCFE with a 10% discount for time value) is also unchanged.

**2020e:** We increase our 2020e revenue by 35% as Naga's gaming volumes have already recovered to over 90% of 1Q (pre-closure) level. This implies customer mix has changed significantly as domestic gamblers (mainly Chinese expats doing businesses in Cambodia) stepped up and became the main revenue contributor (in 2019, we estimate over 70% of GGR were from travellers). Our 2020e EBITDA is also 44% higher to reflect better cost control measures. As a result, EPS/Net income are 243% higher due to operating leverage. Our 2020e DPS is 463% higher as we now expect Naga to be able to keep paying 60% of its earnings going forward, as it did even amidst the difficult business environment in 1H20.

**2021e:** 2021e revenue is 48% higher as we now expect Naga to almost fully recover in 2021 (2021e GGR is 94% of 2019 level in our model) helped by stronger-than-expected domestic demand. 2021e EBITDA increases by a smaller extent at 39% as we expect the 5% gaming revenue tax to kick in from 2021. 2021e EPS/Net income/DPS increase by 82% due to operating leverage.

**2022e:** Our 2022e revenue is 5% higher as we increased our 2021 revenue estimate and we expect revenue growth to continue, making 2022 GGR 5% higher than 2019 level. This leads to 2022e EBITDA and EPS/DPS being 10% higher.

**Exhibit 4:** Morgan Stanley Research estimates: New vs. Old

| US\$ mn               | New   |       |       | Old   |       |       | Variance |       |       |
|-----------------------|-------|-------|-------|-------|-------|-------|----------|-------|-------|
|                       | 2020E | 2021E | 2022E | 2020E | 2021E | 2022E | 2020E    | 2021E | 2022E |
| Revenue               | 1,017 | 1,647 | 1,831 | 754   | 1,116 | 1,747 | 35%      | 48%   | 5%    |
| Corporate EBITDA      | 330   | 566   | 671   | 228   | 406   | 649   | 44%      | 39%   | 3%    |
| Net Income            | 186   | 432   | 529   | 54    | 238   | 479   | 243%     | 82%   | 10%   |
| EPS (US cents)        | 4.27  | 9.96  | 12.19 | 1.25  | 5.48  | 11.03 | 243%     | 82%   | 10%   |
| Dividend payout ratio | 60%   | 60%   | 60%   | 37%   | 60%   | 60%   | 23%      | 0%    | (0%)  |
| DPS (US cents)        | 2.56  | 5.98  | 7.31  | 0.45  | 3.29  | 6.62  | 463%     | 82%   | 10%   |

Source: Morgan Stanley Research (E) estimates

## Comparison with Consensus

We are +19%/0%/-5% vs. consensus in terms of 2020e/21e/22e EBITDA. We are also 65%/10%/2% higher than consensus in terms of 2020e/21e/22e EPS. This is because consensus has not yet fully reflected the strong recovery in business in July and August. We expect positive consensus revisions going forward (Consensus 2020e and 2021e EBITDA are down 64% and 34% YTD, respectively). Bottoming of EBITDA consensus estimates could be a near-term catalyst for the stock.

**Exhibit 5:** Morgan Stanley Research estimates vs. consensus

| US\$ mn               | MSe   |       |       | Consensus |       |       | Variance |       |       |
|-----------------------|-------|-------|-------|-----------|-------|-------|----------|-------|-------|
|                       | 2020E | 2021E | 2022E | 2020E     | 2021E | 2022E | 2020E    | 2021E | 2022E |
| Revenue               | 1,017 | 1,647 | 1,831 | 949       | 1,582 | 1,901 | 7%       | 4%    | (4%)  |
| Corporate EBITDA      | 330   | 566   | 671   | 278       | 566   | 706   | 19%      | (0%)  | (5%)  |
| Net Income            | 186   | 432   | 529   | 118       | 389   | 517   | 57%      | 11%   | 2%    |
| EPS (US cents)        | 4.27  | 9.96  | 12.19 | 2.59      | 9.09  | 11.98 | 65%      | 10%   | 2%    |
| Dividend payout ratio | 60%   | 60%   | 60%   | 0%        | 59%   | 59%   | 60%      | 1%    | 1%    |
| DPS (US cents)        | 2.56  | 5.98  | 7.31  | -         | 5.39  | 7.13  | NM       | 11%   | 3%    |

Source: Refinitiv as of 7 Sep 2020, Morgan Stanley Research (MSe) estimates

# Valuation

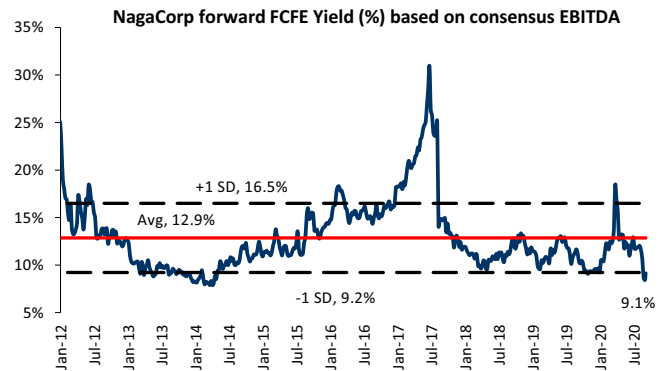
Current valuation on 2019 actual looks reasonable to us at 11.1% FCFE yield and 9.7x P/E. This implies roughly a 30% discount to Macau peers. We believe the consensus estimates for the stock have bottomed and potential positive revision could be a near-term catalyst to drive up stock price.

**Exhibit 6: Naga: FCFE valuation and multiples**

| US\$ m   | 2019         | 2020E        | 2021E        | 2022E        |
|--|--------------|--------------|--------------|--------------|
| <b>Company EBITDA</b>                                  | <b>661</b>   | <b>330</b>   | <b>566</b>   | <b>671</b>   |
| Less: Income tax                                       | (30)         | (30)         | (8)          | (8)          |
| Less: Maintenance Capex                                | (50)         | (55)         | (60)         | (60)         |
| Less: Net Interest Expense (w/o capitalized interests) | (17)         | (47)         | (58)         | (56)         |
| <b>FCFE</b>  | <b>563</b>   | <b>198</b>   | <b>439</b>   | <b>547</b>   |
| <i>Target FCFE Yield</i>                               |              |              |              | <b>8.0%</b>  |
| <b>Equity Value</b>                                    | <b>7,041</b> | <b>2,472</b> | <b>5,493</b> | <b>6,833</b> |
| Number of shares                                       |              |              |              | 4,341        |
| <b>Price Target (HK\$)</b>                             |              |              |              | <b>11.0</b>  |
| <i>Upside/downside</i>                                 |              |              |              | 21%          |
| <b>Current multiples</b>                               | <b>2019</b>  | <b>2020E</b> | <b>2021E</b> | <b>2022E</b> |
| EV/EBITDA  | 7.2          | 14.5         | 8.5          | 7.1          |
| P/E  | 9.7          | 27.3         | 11.7         | 9.6          |
| Recurring FCFE Yield                                   | 11.1%        | 3.9%         | 8.7%         | 10.8%        |
| Div Yield%   | 7.2%         | 2.2%         | 5.1%         | 6.2%         |

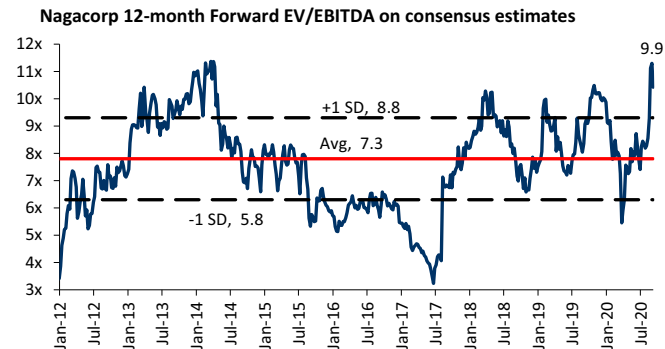
Source: Refinitiv as of 7 Sep, 2020, Company data, Morgan Stanley Research (E) estimates

**Exhibit 7: NagaCorp forward FCFE yield (%) based on consensus EBITDA**



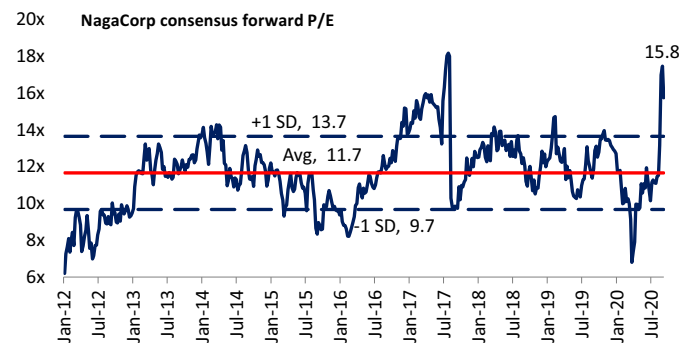
Source: Refinitiv as of 7 Sep, 2020, Morgan Stanley Research

**Exhibit 8: NagaCorp forward EV/EBITDA on consensus estimates**



Source: Refinitiv as of 7 Sep, 2020, Morgan Stanley Research

**Exhibit 9: NagaCorp forward P/E on consensus estimates**



Source: Refinitiv as of 7 Sep, 2020, Morgan Stanley Research

Exhibit 10: Asia Gaming Valuation Comps

| 7-Sep-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        | 2021E       | 2019            | 2021E       | 2019 | Perf. |
|                                  |               |        |               |             | 2019         | 2021E        | 2022E        | 2021E        | 2022E        |              |             |             |             |                 |             |      |       |
| <b>MACAU</b>                     |               |        |               |             |              |              |              |              |              |              |             |             |             |                 |             |      |       |
| Sands China                      | 33.3          | EW     | 34,705        | 77          | 12.4x        | 15.4x        | 13.2x        | 14.5x        | 11.9x        | 7.3%         | 5.6%        | 3.0%        | 6.0%        | 1.0x            | -20%        |      |       |
| Galaxy                           | 58.4          | EW     | 32,660        | 107         | 13.0x        | 14.5x        | 11.3x        | 14.3x        | 11.1x        | 6.7%         | 5.9%        | 1.6%        | 1.4%        | (2.4x)          | 2%          |      |       |
| Wynn Macau                       | 14.1          | OW     | 9,482         | 23          | 10.4x        | 13.1x        | 10.8x        | 13.2x        | 11.2x        | 10.0%        | 6.8%        | 3.2%        | 3.2%        | 2.6x            | -26%        |      |       |
| Melco Resorts (Attri.)           | 19.0          | OW     | 9,081         | 54          | 9.3x         | 12.2x        | 8.8x         | 9.9x         | 8.8x         | 7.4%         | 4.8%        | 3.4%        | 3.5%        | 2.2x            | -23%        |      |       |
| SJM                              | 10.3          | OW     | 7,514         | 20          | 14.0x        | 18.8x        | 10.4x        | 14.0x        | 10.5x        | 6.0%         | 4.0%        | 2.9%        | 1.3%        | 0.1x            | 16%         |      |       |
| MGM China                        | 10.4          | OW     | 5,089         | 11          | 9.4x         | 13.1x        | 9.8x         | 11.7x        | 9.9x         | 9.7%         | 6.7%        | 1.7%        | 1.1%        | 2.4x            | -18%        |      |       |
| <b>Macau average (ex Studio)</b> |               |        | <b>98,531</b> |             | <b>11.4x</b> | <b>14.5x</b> | <b>10.7x</b> | <b>12.9x</b> | <b>10.6x</b> | <b>7.8%</b>  | <b>5.7%</b> | <b>2.6%</b> | <b>2.7%</b> | <b>1.0x</b>     | <b>-13%</b> |      |       |
| <b>ASEAN</b>                     |               |        |               |             |              |              |              |              |              |              |             |             |             |                 |             |      |       |
| Genting Singapore                | 0.70          | UW     | 6,161         | 18          | 3.9x         | 5.0x         | 4.2x         | 6.0x         | 4.5x         | 11.4%        | 6.8%        | 5.8%        | 2.9%        | (3.2x)          | -24%        |      |       |
| NagaCorp                         | 9.1           | OW     | 5,103         | 8           | 7.2x         | 8.5x         | 7.1x         | 9.0x         | 7.2x         | 11.1%        | 8.7%        | 7.2%        | 5.1%        | (0.0x)          | -33%        |      |       |
| Bloomberry                       | 7.0           | OW     | 1,571         | 1           | 5.6x         | 9.9x         | 6.0x         | 8.5x         | 6.2x         | 14.8%        | 5.5%        | 5.7%        | 1.1%        | 1.4x            | -39%        |      |       |
| <b>ASEAN average</b>             |               |        | <b>12,834</b> |             | <b>5.6x</b>  | <b>7.8x</b>  | <b>5.8x</b>  | <b>7.8x</b>  | <b>6.0x</b>  | <b>12.5%</b> | <b>7.0%</b> | <b>6.2%</b> | <b>3.0%</b> | <b>(0.6x)</b>   | <b>-32%</b> |      |       |
| <b>Asia simple average</b>       |               |        |               |             | <b>9.5x</b>  | <b>12.3x</b> | <b>9.1x</b>  | <b>11.2x</b> | <b>9.0x</b>  | <b>9.4%</b>  | <b>6.1%</b> | <b>3.8%</b> | <b>2.8%</b> | <b>0.5x</b>     | <b>-18%</b> |      |       |

Source: Refinitiv as of 7 Sep, 2020, Morgan Stanley Research (E) estimates

## Operational Forecasts Summary

Exhibit 11: Operational Summary (Quarterly)

| US\$ mn                            | 3Q19       | 4Q19       | 1Q20       | 2Q20     | 3Q20e      | 4Q20e      |
|------------------------------------|------------|------------|------------|----------|------------|------------|
| <b>Gaming operations</b>           |            |            |            |          |            |            |
| <b>GGR</b>                         | <b>416</b> | <b>431</b> | <b>368</b> | <b>4</b> | <b>300</b> | <b>332</b> |
| VIP roll                           | 10,687     | 12,744     | 9,693      | (22)     | 7,935      | 8,677      |
| Win rate                           | 2.70%      | 2.39%      | 2.79%      | -3.16%   | 2.85%      | 2.90%      |
| <b>VIP revenue</b>                 | <b>289</b> | <b>305</b> | <b>270</b> | <b>1</b> | <b>226</b> | <b>252</b> |
| Mass drop                          | 468        | 420        | 342        | 2        | 262        | 287        |
| Mass hold rate                     | 18.6%      | 20.2%      | 19.9%      | 22.0%    | 19.4%      | 19.5%      |
| <b>Mass revenue</b>                | <b>87</b>  | <b>85</b>  | <b>68</b>  | <b>0</b> | <b>51</b>  | <b>56</b>  |
| EGM bills-in                       | 709        | 710        | 499        | 5        | 430        | 460        |
| EGM hold rate                      | 5.8%       | 5.8%       | 5.9%       | 60.7%    | 5.3%       | 5.3%       |
| <b>EGM revenue</b>                 | <b>41</b>  | <b>41</b>  | <b>30</b>  | <b>3</b> | <b>23</b>  | <b>24</b>  |
| <b>Total mass and slot revenue</b> | <b>128</b> | <b>126</b> | <b>98</b>  | <b>4</b> | <b>74</b>  | <b>80</b>  |
| <b>Non-Gaming operations</b>       |            |            |            |          |            |            |
| Occupancy rate                     | 84%        | 84%        | 80%        | 10%      | 27%        | 63%        |
| ADR                                | 31         | 31         | 34         | 28       | 30         | 30         |
| Number of rooms                    | 1,573      | 1,573      | 1,408      | 250      | 1,658      | 1,658      |
| Non-gaming revenue                 | 8          | 8          | 5          | 0        | 2          | 6          |
| <b>Costs</b>                       |            |            |            |          |            |            |
| Opex per day (excl. Chen bonus)    | (0.41)     | (0.35)     | (0.36)     | (0.31)   | (0.35)     | (0.36)     |
| VIP Rebates                        | (171)      | (204)      | (168)      | 0        | (140)      | (154)      |
| <b>EBITDA</b>                      |            |            |            |          |            |            |
| EBITDA                             | 180        | 161        | 123        | (37)     | 114        | 129        |
| EBITDA Margin (Gross)              | 42.3%      | 36.6%      | 33.1%      | -809.3%  | 37.8%      | 38.3%      |

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

Exhibit 12: Operational Summary (Half-Yearly)

| US\$ mn                              | 1H19       | 2H19       | 1H20       | 1H YOY       | 2H20E      | 2H YOY       |
|--------------------------------------|------------|------------|------------|--------------|------------|--------------|
| VIP revenue                          | 650        | 593        | 271        | (58%)        | 478        | (19%)        |
| Mass revenue                         | 146        | 172        | 68         | (53%)        | 107        | (38%)        |
| EGM revenue                          | 76         | 82         | 33         | (57%)        | 47         | (42%)        |
| <b>GGR</b>                           | <b>872</b> | <b>847</b> | <b>372</b> | <b>(57%)</b> | <b>632</b> | <b>(25%)</b> |
| Non-gaming revenue                   | 19         | 17         | 5          | (71%)        | 7          | (56%)        |
| <b>Gross revenue</b>                 | <b>892</b> | <b>864</b> | <b>378</b> | <b>(58%)</b> | <b>639</b> | <b>(26%)</b> |
| Cost of sales                        | (483)      | (425)      | (204)      | (58%)        | (331)      | (22%)        |
| Non-gaming                           | 16         | 14         | 5          | (72%)        | 6          | (55%)        |
| <b>Gross Profit</b>                  | <b>408</b> | <b>439</b> | <b>174</b> | <b>(57%)</b> | <b>309</b> | <b>(30%)</b> |
| Staff costs                          | (48)       | (47)       | (40)       | (17%)        | (46)       | (2%)         |
| Other opex (incl. Chen bonus)        | (39)       | (52)       | (47)       | 20%          | (20)       | (62%)        |
| <b>EBITDA</b>                        | <b>321</b> | <b>340</b> | <b>86</b>  | <b>(73%)</b> | <b>243</b> | <b>(28%)</b> |
| EBITDA margin (Gross)                | 36.0%      | 39.4%      | 22.8%      | (13%)        | 38.1%      | (1%)         |
| D&A                                  | (50)       | (50)       | (49)       | (2%)         | (52)       | 4%           |
| <b>EBIT</b>                          | <b>270</b> | <b>291</b> | <b>37</b>  | <b>(86%)</b> | <b>192</b> | <b>(34%)</b> |
| Interest Expense (after capitalized) | (17)       | (3)        | (5)        | -71%         | (15)       | 409%         |
| Others                               | 7          | (1)        | 3          | -59%         | 4          | -751%        |
| <b>Profit before tax</b>             | <b>260</b> | <b>287</b> | <b>35</b>  | <b>(87%)</b> | <b>181</b> | <b>(37%)</b> |
| Income tax                           | (15)       | (15)       | (14)       | (10%)        | (17)       | 10%          |
| <b>Net income</b>                    | <b>245</b> | <b>272</b> | <b>21</b>  | <b>(91%)</b> | <b>164</b> | <b>(40%)</b> |
| Basic / Diluted EPS (US\$ cents)     | 5.65       | 6.26       | 0.48       | (92%)        | 3.79       | (40%)        |
| DPS (US\$ cents)                     | 3.39       | 5.09       | 0.29       | (91%)        | 2.27       | (55%)        |

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

## Exhibit 13: Operational Summary (Annual)

| Operation (US\$ mn)                     | 2019           | 2020E        | 2021E          | 2022E          |
|---|----------------|--------------|----------------|----------------|
| <b>Gross Revenue</b>                    | <b>1,755</b>   | <b>1,017</b> | <b>1,647</b>   | <b>1,831</b>   |
| VIP Revenue                             | 1,243          | 749          | 1,180          | 1,275          |
| Mass Revenue                            | 318            | 175          | 283            | 340            |
| EGM Revenue                             | 158            | 80           | 141            | 169            |
| <b>GGR</b>                              | <b>1,719</b>   | <b>1,004</b> | <b>1,604</b>   | <b>1,783</b>   |
| Non-Gaming Revenue                      | 36             | 13           | 42             | 47             |
| <b>Growth YoY</b>                       |                |              |                |                |
| <b>Gross Revenue</b>                    | <b>19%</b>     | <b>-42%</b>  | <b>62%</b>     | <b>11%</b>     |
| VIP Revenue                             | 16%            | -40%         | 58%            | 8%             |
| Mass Revenue                            | 35%            | -45%         | 62%            | 20%            |
| EGM Revenue                             | 22%            | -49%         | 77%            | 20%            |
| <b>Total mass revenue</b>               | <b>31%</b>     | <b>-46%</b>  | <b>66%</b>     | <b>20%</b>     |
| <b>GGR</b>                              | <b>20%</b>     | <b>-42%</b>  | <b>60%</b>     | <b>11%</b>     |
| Non-Gaming Revenue                      | -10%           | -64%         | 229%           | 12%            |
| <b>% of total GGR</b>                   |                |              |                |                |
| VIP Revenue                             | 72%            | 75%          | 74%            | 71%            |
| Mass Revenue                            | 19%            | 17%          | 18%            | 19%            |
| EGM Revenue                             | 9%             | 8%           | 9%             | 9%             |
| <b>P&amp;L</b>                          |                |              |                |                |
| Operating costs (plug), excl gaming tax | (185)          | (153)        | (154)          | (155)          |
| Gaming tax (5% of GGR)                  |                |              | (80)           | (89)           |
| <b>Opex (incl Rebates)</b>              | <b>(1,095)</b> | <b>(687)</b> | <b>(1,081)</b> | <b>(1,160)</b> |
| <b>EBITDA (calculated)</b>              | <b>661</b>     | <b>330</b>   | <b>566</b>     | <b>671</b>     |
| - YOY                                   | 32%            | -50%         | 72%            | 19%            |
| <i>EBITDA margin (Gross)</i>            | <i>37.6%</i>   | <i>32.4%</i> | <i>34.3%</i>   | <i>36.6%</i>   |
| <b>EBITDA/table/day</b>                 | <b>3,596</b>   | <b>1,722</b> | <b>2,963</b>   | <b>3,514</b>   |
| <b>Profit before taxation</b>           | <b>552</b>     | <b>216</b>   | <b>440</b>     | <b>537</b>     |
| Income tax                              | (30)           | (30)         | (8)            | (8)            |
| <b>PAT</b>                              | <b>521</b>     | <b>186</b>   | <b>432</b>     | <b>529</b>     |
| <b>EPS</b>                              | <b>12.01</b>   | <b>4.27</b>  | <b>9.96</b>    | <b>12.19</b>   |
| <b>DPS</b>                              | <b>8.48</b>    | <b>2.56</b>  | <b>5.98</b>    | <b>7.31</b>    |

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



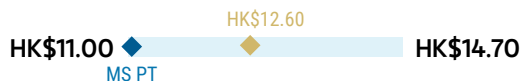
## Risk Reward – NagaCorp (3918.HK)

Strong recovery post-reopening; 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



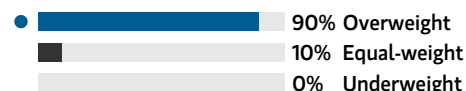
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

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 7.2x EV/EBITDA, 9.7x P/E, FCFE yield of 11% and dividend yield of 5.1% 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 -4.0%/+58%/+8% in 2020/21/22; Mass (table + slot) revenue growth of -4.6%/+66%/+20% in 2020/21/22.

#### BEAR CASE

HK\$5.00

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 -50%/+48%/-2% in 2020/21/22; Mass (incl Slot) revenue growth of -56%/+56%/+10% in 2020/21/22.

## Risk Reward – NagaCorp (3918.HK)

### KEY EARNINGS INPUTS

| Drivers                                | 2019 | 2020e | 2021e | 2022e |
|--|------|-------|-------|-------|
| Company VIP Revenue Growth (%)         | 16   | (40)  | 58    | 8     |
| Company Mass & Slot Revenue Growth (%) | 31   | (46)  | 66    | 20    |
| Corporate EBITDA margin (Gross) (%)    | 38   | 32    | 34    | 37    |

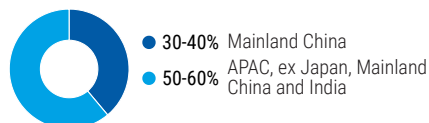
### CATALYST CALENDAR

| Date                      | Event  | Source: Thomson Reuters, Morgan Stanley |
|---------------------------|--|---|
| 08 Feb 2021 - 12 Feb 2021 | Full Year 2020 Nagacorp Ltd Earnings Release |   |

### 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

- Quick recovery post-reopening is sustainable.
- Cambodia lifting international travel restrictions.

#### RISKS TO DOWNSIDE

- Potential share dilution for future developments and expansion.
- Regional competition (e.g., Vietnam, Philippines, Korea, Macau, Singapore, Sihanoukville etc.).
- Resurgence of Covid-19.
- Worsened employer labor relations
- PRC's crackdown of overseas gambling

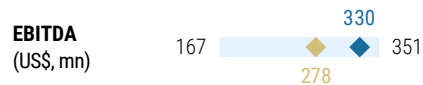
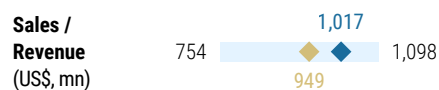
### OWNERSHIP POSITIONING

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



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(as of August 31, 2020)

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| STOCK RATING<br>CATEGORY | COVERAGE UNIVERSE |               | INVESTMENT BANKING CLIENTS (IBC) |                   |                            | OTHER MATERIAL<br>INVESTMENT SERVICES<br>CLIENTS (MISC) |                                |
|--------------------------|-------------------|---------------|----------------------------------|-------------------|----------------------------|---|--------------------------------|
|                          | COUNT             | % OF<br>TOTAL | COUNT                            | % OF<br>TOTAL IBC | % OF<br>RATING<br>CATEGORY | COUNT   | % OF<br>TOTAL<br>OTHER<br>MISC |
| <b>Overweight/Buy</b>    | <b>1282</b>       | <b>39%</b>    | <b>339</b>                       | <b>44%</b>        | <b>26%</b>                 | <b>568</b>  | <b>39%</b>                     |
| <b>Equal-weight/Hold</b> | <b>1426</b>       | <b>44%</b>    | <b>340</b>                       | <b>45%</b>        | <b>24%</b>                 | <b>676</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>555</b>        | <b>17%</b>    | <b>83</b>                        | <b>11%</b>        | <b>15%</b>                 | <b>224</b>  | <b>15%</b>                     |
| <b>TOTAL</b>             | <b>3,267</b>      |               | <b>763</b>                       |                   |                            | <b>1471</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 9/7/20 in HKD  
Industry : ASEAN Gaming



Stock Rating History: 9/1/15 : 0/I; 2/3/16 : NA/I; 6/18/17 : NA/A; 3/6/18 : 0/A; 4/4/18 : E/A; 7/25/18 : 0/A; 4/3/19 : NA/A; 7/21/19 : NA/A; 9/23/19 : 0/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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**INDUSTRY COVERAGE: ASEAN Gaming**

| <b>COMPANY (TICKER)</b>                   | <b>RATING (AS OF)</b> | <b>PRICE* (09/08/2020)</b> |
|---|-----------------------|----------------------------|
| <b>Praveen K Choudhary</b>                |                       |                            |
| Bloomberry Resorts Corporation (BLOOM.PS) | O (03/26/2018)        | PP7.16                     |
| Genting Singapore PLC (GENS.SI)           | U (08/17/2020)        | S\$0.69                    |
| NagaCorp (3918.HK)                        | O (09/23/2019)        | HK\$9.05                   |

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\* Historical prices are not split adjusted.

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