

October 6, 2020 01:15 AM GMT

NagaCorp | Asia Pacific

Risk Reward Update

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

Risk Reward for NagaCorp (3918.HK) has been updated

WHAT'S CHANGED?	Updated Components
	EPS
	Investment Thesis
	Bull Base Bear Scenarios

Reason for change

We have kept our price target unchanged as our 2022e EBITDA and FCFE, which we peg our valuation to, remain largely unmoved.

- We cut our 2020e revenue by 10%. This is to reflect much slower VIP recovery since Sep, possibly due to weaker junket business/reopening of Macau/normalization of pent-up demand. This is partially compensated by slightly stronger-than-expected recovery in the Mass & Slot segment. As a result, EBITDA and EPS/DPS are down by 10% and 15%, respectively.
- We increase our 2021e revenue slightly by 1% as we have kept our 2021e VIP volume unchanged at 89% of the 2019 level, but increase our 2021e Slot revenue slightly to reflect the accelerating recovery since Sep, thanks to conversion of non-gaming space into gaming zones. Our 2021e EBITDA and EPS/DPS increase by 3% and 6%, respectively, due to operating leverage.

MORGAN STANLEY ASIA LIMITED+

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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 (Oct 5, 2020)					HK\$9.20
52-Week Range					HK\$14.74-7.08
Fiscal Year Ending	12/19	12/20e	12/21e	12/22e	
EPS (US\$)**	0.12	0.04	0.11	0.12	
Prior EPS (US\$)**	-	0.04	0.10	0.12	

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
 ** = Based on consensus methodology
 e = Morgan Stanley Research estimates

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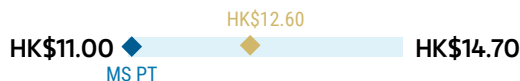
Risk Reward – NagaCorp (3918.HK)

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

◆ Mean ◆ Morgan Stanley Estimates

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 8.6x P/E and 8.6% FCFE yield on 2021e

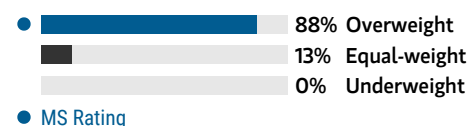
RISK REWARD CHART



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

Source: Thomson Reuters, Morgan Stanley Research

Consensus Rating Distribution



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 -50%/+88%/+8% in 2020/21/22; Mass (table + slot) revenue growth of -43%/+63%/+15% 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 -60%/+78%/0% in 2020/21/22; Mass (incl Slot) revenue growth of -53%/+53%/+5% in 2020/21/22.

Risk Reward – NagaCorp (3918.HK)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
Company VIP Revenue Growth (%)	16	(50)	88	8
Company Mass & Slot Revenue Growth (%)	31	(43)	63	15
Corporate EBITDA margin (Gross) (%)	38	33	35	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

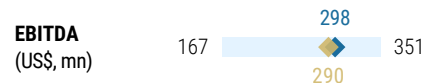
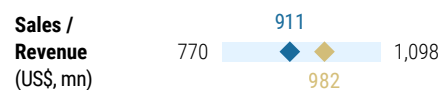
OWNERSHIP POSITIONING

Inst. Owners, % Active 79.1%

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 September 30, 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
Overweight/Buy	1326	40%	360	46%	27%	590	39%
Equal-weight/Hold	1444	43%	341	43%	24%	676	45%
Not-Rated/Hold	4	0%	1	0%	25%	3	0%
Underweight/Sell	557	17%	85	11%	15%	226	15%
TOTAL	3,331		787			1495	

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 10/5/20 in HKD
Industry : ASEAN Gaming



Stock Rating History: 10/1/15 : 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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COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/05/2020)
Praveen K Choudhary		
Bloomberry Resorts Corporation (BLOOMP.S)	O (03/26/2018)	PP\$6.90
Genting Singapore PLC (GENS.SI)	U (08/17/2020)	S\$0.68
NagaCorp (3918.HK)	O (09/23/2019)	HK\$9.20

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* Historical prices are not split adjusted.

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