

6 October 2020

Global Research

Rating: Buy

Price Target: HK\$13.50

Price	HK\$9.20
52wk Range	HK\$7.08 - HK\$14.74
Shares Outstanding (MM)	4,341.0
Market Capitalization (MM)	HK\$39,937.3
Enterprise Value (MM)	HK\$40,423.4
30D Avg Volume (000s)	3,733.3
Short Interest/Float	0.0%
Dividend Yield	4.5%
YTD % Chg	(32.3)%
YTD % Chg Relative to Index	(35.9)%
Total Implied Return to PT	51.3%
Pricing Date	October 5, 2020



NagaCorp Ltd.

Global Gaming Operators

3918-HK | HKSE | HK\$9.20

Company Update

Strong recovery continues - reiterate Buy rating

Naga released its 3Q trading update this week. Encouragingly, the strong reopening trend reported in August continued through September, giving us confidence in the sustainability of the recovery. Average daily mass market volumes were down just 7% from the 1Q20 pre-closure period while EGM volumes were flat. Average daily VIP volumes were down ~30% compared with the pre-closure period as this segment relies more heavily on international gamblers. However, better VIP hold resulted in overall strong average daily VIP net revenue trends, down only 10% compared with the pre-closure period.

Renewed focus on mass market key to the recovery. The recovery has been driven by the mass market, namely expatriates living in Phnom Penh. This demographic primarily consists of Chinese expats living and working in Cambodia. The local expat community is a unique customer base for Naga that has plenty of capital in country and little to no reliance on junkets for credit for gaming liquidity. With limited entertainment options in the current environment, Naga has been able to grab greater wallet share from this customer segment. Further, business travel to Phnom Penh has picked up in recent weeks, now with 32 weekly direct flights to Cambodia, including 21 from Greater China.

National Assembly (NA) approves draft gaming law. On Monday, the NA opened the legislative session and approved the current draft gaming law. This advances the long-awaited law to the senate for further review. Recall, the law will institute a gaming tax of 4% on VIP and 7% on Mass GGR and extend Naga's 200km exclusivity around Phnom Penh until 2045. With the draft gaming law making significant progress, we have opted to add the gaming tax expense to our model beginning in 2021.

We are revising our forward estimates. We are now modeling 2020 net revenue of \$842m (up from \$770m) and Adjusted EBITDA of \$245m (up from \$167m). For 2021, we are modeling \$538m of Adjusted EBITDA (down from \$564m) and inclusive of \$77m in estimated GGR taxes. In 2022, we are modeling \$746m of Adjusted EBITDA (down from \$785m), inclusive of \$99m in estimated GGR taxes. The new GGR taxes are mostly offset by cost savings initiatives stemming from the COVID shut down.

Maintain Buy and HK\$13.50 Price Target. Naga is the first Asian gaming company in our coverage universe to report a material recovery in gaming volumes since reopening. Yet, shares are still trading at a substantial discount at ~7x our 2022 EBITDA estimate. We are sticking with our Buy rating and \$13.50 price target, which is based on a 9.5x multiple of our revised 2022 estimate. We continue to believe shares of Naga are oversold and poised for a sharp recovery once investor confidence returns to the Asian gaming space, likely when cross-border visitation throughout the region picks up and/or when Macau begins to see some meaningful gaming volumes.

Analysts

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Year to Dec	Net Revenue	Adjusted EBITDA	EV/EBITDA
2020E	842	245	21.3x
2021E	1,593	538	9.7x
2022E	2,048	746	7.0x

*Please see analyst certification and required disclosures starting on page 3 of this report.

Figure 1. NagaCorp Summary Earnings Model

Period Ending Date	2013 DEC	2014 DEC	2015 DEC	2016 DEC	2017 DEC	2018 DEC	2019 DEC	2020E DEC	2021E DEC	2022E DEC
Income Statement										
Casino Operations	223.0	296.8	343.8	355.3	775.0	1,305.1	1,561.4	751.2	1,402.2	1,807.1
Income from Gaming Machines	101.9	84.6	136.8	145.5	150.9	129.3	158.1	77.8	159.7	197.8
F&B, Hotel and Other	20.0	22.9	23.1	30.7	30.4	39.9	36.0	12.9	31.3	43.0
Total revenue	\$344.9	\$404.3	\$503.7	\$531.5	\$956.4	\$1,474.3	\$1,755.5	\$841.9	\$1,593.2	\$2,047.9
Administrative expense	(47.0)	(51.5)	(47.2)	(52.6)	(67.2)	(79.3)	(61.3)	(51.6)	(60.9)	(58.5)
Other operating expenses	(57.9)	(82.5)	(97.2)	(111.8)	(150.2)	(185.6)	(224.0)	(205.4)	(210.0)	(220.0)
Gaming taxes @ 4% VIP / 7% Mass	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(77.2)	(99.1)
Total EBITDA	\$171.8	\$176.0	\$228.5	\$256.1	\$319.7	\$511.8	\$671.7	\$244.9	\$538.5	\$746.1
Interest income (expense)	0.0	0.0	0.0	0.0	0.0	(19.5)	(20.2)	(18.9)	(27.8)	(27.8)
Profit before taxation	145.4	142.0	189.0	208.2	263.3	399.4	551.6	133.6	424.6	632.3
Taxation	(5.1)	(5.9)	(16.4)	(24.1)	(8.1)	(8.8)	(30.4)	(29.6)	(34.0)	(34.0)
Profit attributable to equity holders	\$140.3	\$136.1	\$172.6	\$184.2	\$255.2	\$390.6	\$521.3	\$104.0	\$390.6	\$598.3
EPS	\$0.06	\$0.06	\$0.08	\$0.07	\$0.06	\$0.09	\$0.12	\$0.02	\$0.09	\$0.14
Shares outstanding	2,235	2,282	2,270	2,617	4,341	4,341	4,341	4,341	4,341	4,341

Source: Company documents, Union Gaming

Important Disclosure

Analyst Certification

The analyst, John DeCree, primarily responsible for the preparation of this research report attests to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

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Current Ratings Definition

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Buy – the total forecasted return is expected to be greater than 15% within the next 12 months

Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 15%

Sell – whose shares exhibit downside potential of at least 15% within the next 12 months

Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

Valuation and Risks

Valuation

Valuation Methodology for Price Target: Enterprise Value-to-EBITDA, Sum-of-the-Parts Analysis, Price-to-Earnings Ratio, Discounted Cash Flow Analysis, Price-to-AFFO, Net Asset Value.

Risks

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BUY	24	73%	BUY	8	33%
HOLD	9	27%	HOLD	2	22%
SELL	0	0%	SELL	0	0%

NagaCorp Ltd. Rating History as of 10/02/2020

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