

November 19, 2020 12:30 AM GMT

NagaCorp | Asia Pacific

Virtual Asia Pacific Summit
Feedback

✔ Stock Rating
Overweight

👁 Industry View
Attractive

🎯 Price Target
HK\$11.00

(+) Mass should continue to outperform VIP in 4Q, reflecting domestic demand and muted international travel. Mass QTD is tracking above 100% of pre-Covid level (September was 95%) while slot volume QTD is in line with September's 105%. For VIP, QTD volume is tracking at ~55-60% of pre-Covid level (September was 51%).

(+) 2021 mass will be helped further by addition of 12 premium mass tables in Naga2 by end-2020.

(=) PBT is one of the main drivers for management compensation. Though it could be lower after the implementation of gaming tax (4% for VIP; 7% for Mass & Slot) in 2021, it should not affect management compensation materially.

(=) Naga3 (of which Naga only needs to fund 50%/US\$1.7bn) will start piling work by end-2020. This will take 18-24 months. Naga expects to complete Phase 3 by 2025.

(=) Management will review dividend decisions every six months. The 60% interim dividend payout ratio is comfortable at the current level. More details will be released after the close of the 2H fiscal period.

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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 (Nov 18, 2020) | HK\$10.22 |
| 52-Week Range | HK\$14.74-7.08 |
| Up/downside to price target (%) | 8 |
| Sh out, dil, curr (mn) | 4,341 |
| Mkt cap, curr (mn) | US\$5,722 |
| Avg daily trading value (mn) | HK\$58 |

| Fiscal Year Ending | 12/19 | 12/20e | 12/21e | 12/22e |
|-----------------------------|-------|--------|--------|--------|
| ModelWare EPS (US\$) | 0.12 | 0.04 | 0.11 | 0.12 |
| Prior ModelWare EPS (US\$) | - | - | - | - |
| EPS (US\$)§ | 0.12 | 0.03 | 0.10 | 0.12 |
| Revenue, net (US\$ mn) | 1,755 | 911 | 1,664 | 1,830 |
| EBITDA (US\$ mn) | 661 | 298 | 584 | 672 |
| ModelWare net inc (US\$ mn) | 521 | 159 | 456 | 531 |
| Curr P/E, for consensus | 11.0 | 36.1 | 12.5 | 10.8 |
| P/BV | 4.2 | 3.3 | 2.9 | 2.6 |
| RNOA (%) | 31.4 | 8.9 | 19.6 | 19.8 |
| ROE (%) | 33.9 | 8.9 | 26.6 | 26.9 |
| EV/EBITDA** | 11.5 | 19.2 | 10.4 | 8.9 |
| Div yld (%) | 4.9 | 1.7 | 4.8 | 5.6 |

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

- 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

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(as of October 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 |
| Overweight/Buy | 1358 | 40% | 361 | 45% | 27% | 597 | 40% |
| Equal-weight/Hold | 1462 | 43% | 357 | 44% | 24% | 681 | 45% |
| Not-Rated/Hold | 4 | 0% | 1 | 0% | 25% | 3 | 0% |
| Underweight/Sell | 539 | 16% | 85 | 11% | 16% | 220 | 15% |
| TOTAL | 3,363 | | 804 | | | 1501 | |

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 11/17/20 in HKD
Industry : ASEAN Gaming



Stock Rating History: 11/1/15 : 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

| COMPANY (TICKER) | RATING (AS OF) | PRICE* (11/18/2020) |
|---|-----------------------|----------------------------|
| Praveen K Choudhary | | |
| Bloomberry Resorts Corporation (BLOOM.PS) | O (03/26/2018) | PP\$8.50 |
| Genting Singapore PLC (GENS.SI) | U (08/17/2020) | S\$0.84 |
| NagaCorp (3918.HK) | O (09/23/2019) | HK\$10.22 |

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