

July 12, 2021 10:42 PM GMT

NagaCorp | Asia Pacific

Expect Further Underperformance; EW

📈 Stock Rating
Equal-weight

👁 Industry View
In-Line

🎯 Price Target
HK\$7.00

A slower reopening, lack of Chinese demand post-COVID, and increased indebtedness make the stock less attractive. Negative consensus revisions ahead. Downgrade to EW.

WHAT'S CHANGED	NagaCorp (3918.HK)		
		From	To
	Rating	Overweight	Equal-weight
	Price Target	HK\$11.00	HK\$7.00

The stock has underperformed the Hang Seng Index by 33% since its business suspension on March 1. Yet, we are concerned that it may not have bottomed. We downgrade the stock from OW to EW for the following reasons:

(1) To early to play reopening theme – We think the business suspension could be prolonged amid high numbers of COVID cases and the discovery of the more infectious Delta variants in Cambodia. Herd immunity and recovery of overseas visitation (including Chinese) could take longer.

(2) Growth prospects revisited – We still view Naga's exclusive gaming license in Phnom Penh till 2045 as a key positive. Yet, **Chinese demand may not come back post-COVID** due to China's curbs on overseas gambling. We estimate 30% of 2019 EBITDA could be gone, resulting in 2022e EBITDA at 64% of 2019 only (~40% of 2019 EBITDA from Chinese tourists). Also, Naga 3 could be delayed beyond 2025.

(3) Increased indebtedness will hurt FCFE – The company's debt has doubled to US\$540m since the pandemic (net debt as of June 2021 could be US\$400m). We expect its 2021e/22e interest expenses to be 61%/47% higher respectively than in 2019, translating into lower FCFE even if EBITDA were to return to the 2019 level. We expect 2022e FCFE to be only 60% of the 2019 level.

(4) Valuation is reasonable but negative consensus revisions ahead – The stock is trading at 8% FCFE yield and 10x EV/EBITDA on our new 2022 estimates, which is richer than the historical average. We are also 74% and 30% below consensus in 2021e and 2022e EBITDA respectively. (For historical correlation between Naga's market cap and consensus EBITDA revisions, see [Appendix 1](#).)

What's Changed – **(1) 2021e** EBITDA and Net Income are lowered by 73% and 128% to US\$110m and -US\$74m respectively. We expect **1H21** EBITDA to be at US\$19m (**2Q** LBITDA US\$20m). **(2) 2022e** EBITDA is 28% lower, as we expect **2022e VIP/Mass/Slot revenues** to reach ~55%/85%/80% of 2019. **(3) Price target** is cut to HK\$7.0 for lower 2022e FCFE.

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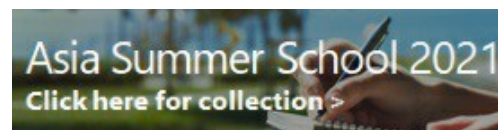
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NagaCorp (3918.HK, 3918 HK)

ASEAN Gaming / Hong Kong

Stock Rating	Equal-weight
Industry View	In-Line
Price target	HK\$7.00
Shr price, close (Jul 9, 2021)	HK\$7.08
52-Week Range	HK\$11.18-7.06
Up/downside to price target (%)	(1)
Sh out, dil, curr (mn)	4,341
Mkt cap, curr (mn)	US\$3,957
Avg daily trading value (mn)	HK\$36

Fiscal Year Ending	12/20	12/21e	12/22e	12/23e
ModelWare EPS (US\$)	0.02	(0.02)	0.07	0.09
Prior ModelWare EPS (US\$)	-	0.06	0.11	0.13
EPS (US\$)§	0.02	0.06	0.10	0.12
Revenue, net (US\$ mn)	879	436	1,134	1,458
EBITDA (US\$ mn)	261	110	422	544
ModelWare net inc (US\$ mn)	102	(74)	288	403
Curr P/E, for consensus	38.7	NM	13.8	9.8
P/BV	3.4	2.6	2.2	2.0
RNOA (%)	7.2	0.4	14.4	17.6
ROE (%)	5.7	(4.4)	19.2	22.8
EV/EBITDA**	21.5	38.9	10.0	8.1
Div yld (%)	1.7	0.0	4.4	6.1

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

Despite recent underperformance, we are concerned that the new normal in 2022 could be generating much lower FCF than in 2019 (pre-COVID). We highlight reasons for our downgrade:

(1) Prolonged Business Disruption – Naga has closed its operation since March 1.

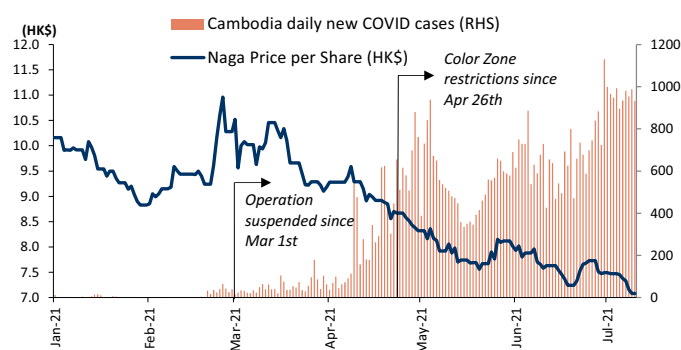
Though Naga is located in a yellow zone area in Phnom Penh (the lowest restriction level), we think the business closure could be extended to mid-3Q21, due to high COVID cases ([Exhibit 1](#)), and the daily new cases pace has not slowed down yet ([Exhibit 2](#)). Despite optimistic commentary by government, we do not expect international revenue recovery this year.

1a) Why we think business suspension could be longer? Since April 26, Naga's site has been placed in Yellow Zone under Phnom Penh's three-tier restriction system, and the integrated resort is not allowed to open for business ([Exhibit 3](#)). We think for Naga to reopen its operation, the number of new cases per day needs to get lower, perhaps to early-April or even March levels (<300), when the restriction system had not been implemented.

As shown in [Exhibit 2](#), the daily new cases curve has not peaked yet. Assuming it peaks now and comes down gradually, it might take more than two months for it to get back to <300 level. **More importantly**, the Ministry of Health has confirmed that the more infectious Delta and Beta variants are already in Cambodia ([Link](#)), which may delay the business reopening.

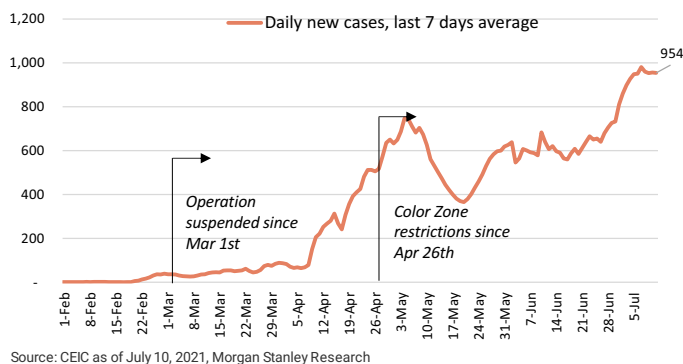
Naga's stock price since 2Q has been correlated negatively with number of new cases ([Exhibit 1](#)). There was a decline in number of cases in early May, but that failed to push up the stock price, as the number of cases was still high.

Exhibit 1: New COVID cases in Cambodia has been a key driver of Naga's stock in 2021



Source: Refinitiv (market prices data as of July 9, 2021), CEIC (COVID data as of July 10, 2021), Morgan Stanley Research

Exhibit 2: Cambodia's average number of daily new cases (last 7 days)



Source: CEIC as of July 10, 2021, Morgan Stanley Research

Exhibit 3: Phnom Penh Color Zones Mechanism

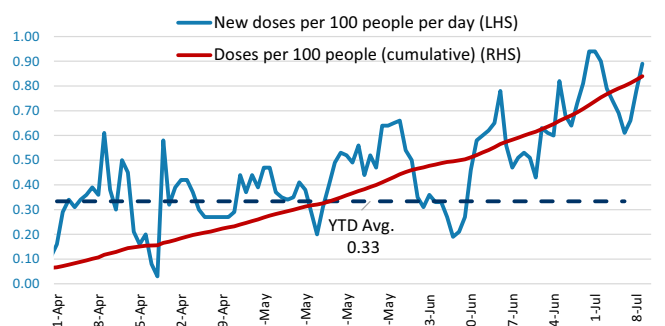
Restrictions	
Red Zones	All business activities including markets are prohibited. Only Commerce Ministry markets are permitted.
Orange Zones	(a) Individuals shall not leave homes except for: necessary travel for work, buying daily necessities/ food/ pharmaceuticals (up to 3 times per week), medical reasons, sports with two or fewer people (b) All businesses are closed except for: markets/ restaurants/ pharmacies for delivery that are approved by authorities, hotel and guesthouses/ public services and utilities up to 2% staffing, factories for medical products/food
Yellow Zones	Travel, work and business activities operate mostly as usual, except: - Schools and all kinds of entertainment (clubs, karaoke, bars, restaurants, resorts, etc) must remain closed. - Gathering are permitted for up to 10 people.

Source: Khmer Times, Morgan Stanley Research

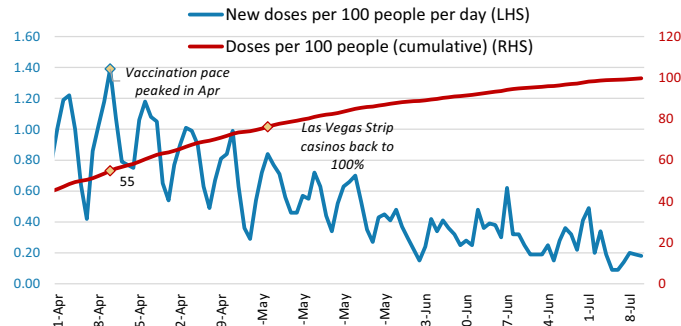
1b) Why we think vaccination rollout will be slower than the government expects?

Cambodia targets to vaccinate 10mn population and to reopen for foreign tourists by end-2021. However, this target translates to only ~60% of population fully vaccinated. To achieve ~70% population being fully vaccinated (herd immunity threshold that is commonly thought), it would require vaccination pace to be maintained at ~0.51 doses per 100 people per day, which is the average of the recent two months when ramping occurred ([Exhibit 4](#)).

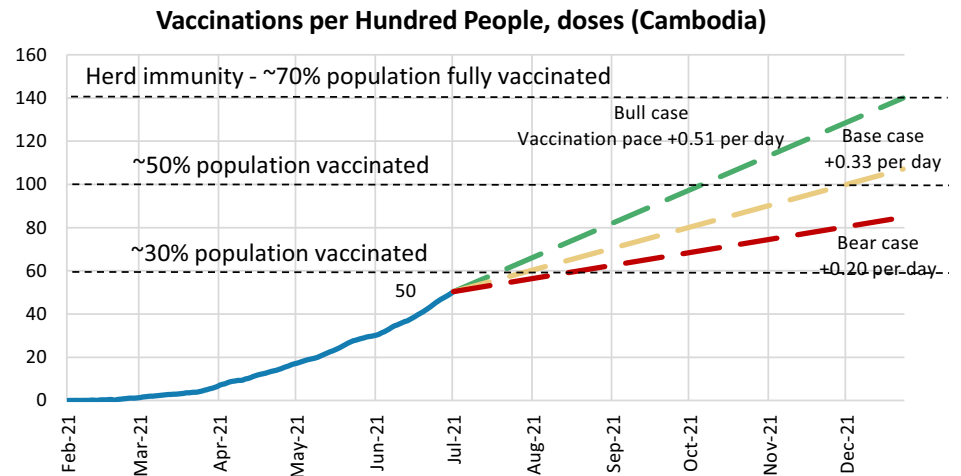
Lessons from the US (one of the most vaccinated countries): Its vaccination pace peaked when doses per 100 people was only 55 (herd immunity requires ~140 or above). Thus, in our base case, we assume Cambodia's rollout pace will remain at the YTD average of +0.33 doses per 100 people per day and herd immunity may not be reached till 2Q22 ([Exhibit 6](#)). The US allowed casinos on the Las Vegas Strip to operate at 100% capacity in May when its vaccinations per 100 people was at 80 doses. Under our base case, Cambodia may only attain that vaccination level in mid-October.

Exhibit 4: Cambodia vaccination pace and doses administered per 100 people


Source: CEIC as of July 10, 2021, Morgan Stanley Research

Exhibit 5: US vaccination pace and doses administered per 100 people


Source: CEIC as of July 10, 2021, Morgan Stanley Research

Exhibit 6: Vaccination pace for Cambodia: Bull/ Base/ Bear

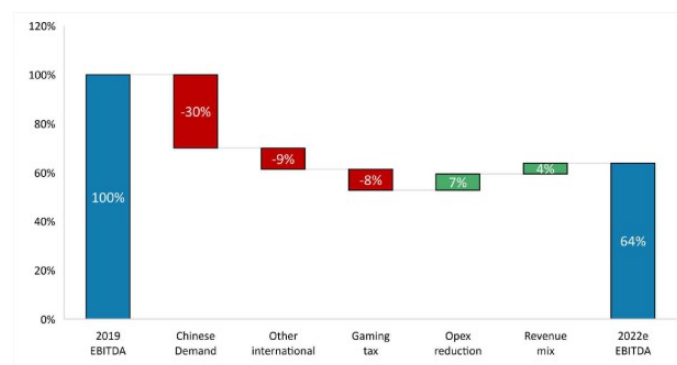
Source: CEIC as of July 10, 2021, Morgan Stanley Research estimates

(2) China is not opening the border till June 2022 – According to the WSJ ([Link](#)), China is planning to extend its border restrictions for at least another year to prevent emergence of new variants and for sensitive events in 2022 (e.g., Winter Olympics in February, State Council meeting in mid-May). This implies Chinese visitation to Cambodia could remain minimal for the most part of 2022. Furthermore, Chinese demand may not come back fully even after COVID, due to China's curbs on overseas gambling.

(3) Thus, EBITDA in 2022 will remain lower than in 2019. We estimate roughly 40% of Naga's 2019 EBITDA came from Chinese tourists in 2019 (Exhibit 9). In a more optimistic scenario – where the customer mix shifts (local expats contribute more revenues amidst limited international travel), which was observed in 4Q20 – could be sustained, and Chinese tourists could still account for ~25% of Naga's EBITDA. In our base case, we assume 30% of 2019 EBITDA is gone, due to weaker Chinese demand. We expect international travel, which may have contributed ~20% of 2019 EBITDA, to remain muted for at least 1H22.

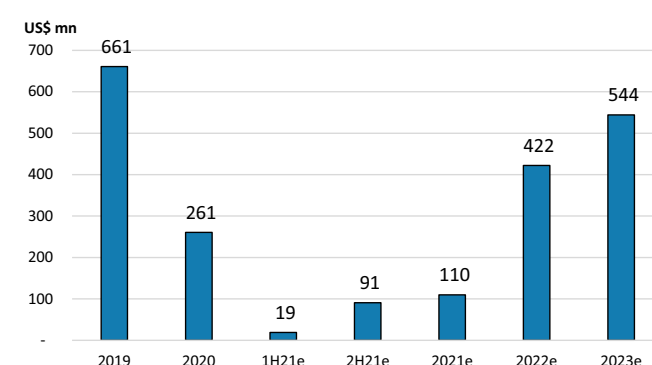
Furthermore, we expect the new gaming tax (4% for VIP, 7% for Mass) could be implemented in 2022 (the Law has been enacted, but the governing body – Commercial Games Commission of Cambodia – has yet to be formed). The new Gaming Tax could take out a further 8% of 2019 EBITDA.

Exhibit 7: Naga EBITDA Waterfall: 2022e vs 2019 (2019 as 100%)



Source: Morgan Stanley Research (e) estimates

Exhibit 8: NagaCorp EBITDA forecasts (US\$ mn)



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

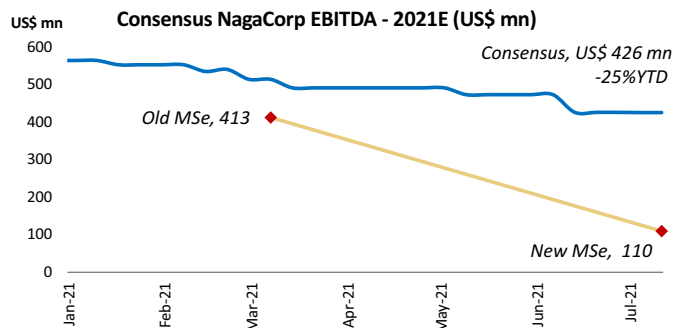
Exhibit 9: We estimate ~40% of Naga's 2019 EBITDA came from Chinese tourists

	GGR Mix 2019	2019 Revenue Exposure to		EBITDA			
		Total International	China	Margin	Mix	Exposure to China	Exposure Other Intl.
		(a)	(b)		(c)	(b) x (c)	[(a) - (b)] x (c)
VIP	72%	80%	64%	24%	44%	28%	7%
Mass	19%	40%	20%	82%	38%	8%	8%
Slot	9%	50%	25%	80%	18%	5%	5%
Total	100%	70%	52%	40%	100%	40%	19%

Source: Company data, Morgan Stanley Research estimates

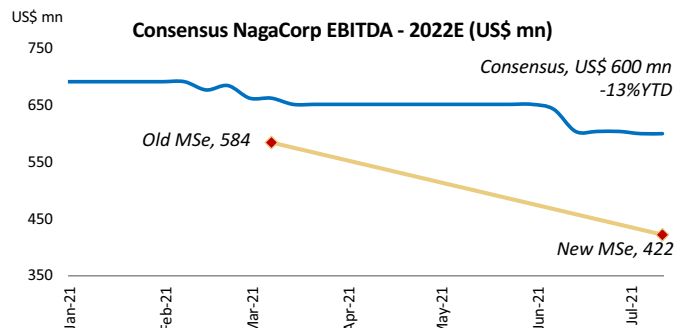
(4) Yet, consensus has been slow to cut down estimates – We are 74% and 30% below in terms of 2021e and 2022e EBITDA, and we expect meaningful negative revisions in the near term, which could put pressure on stock prices.

Exhibit 10: We are 75% below Consensus on 2021e EBITDA



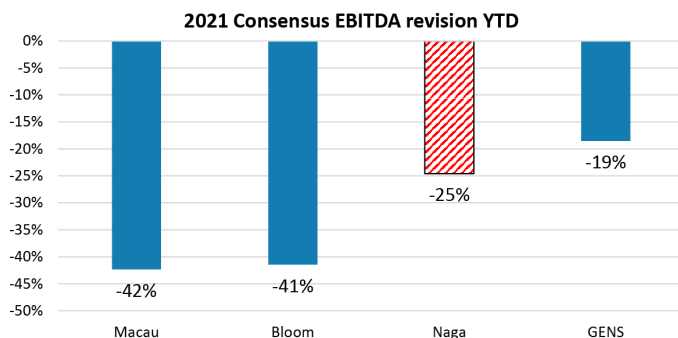
Source: Refinitiv as of July 9, 2021, Morgan Stanley Research (e) estimates

Exhibit 11: We are 30% below Consensus on 2022e EBITDA



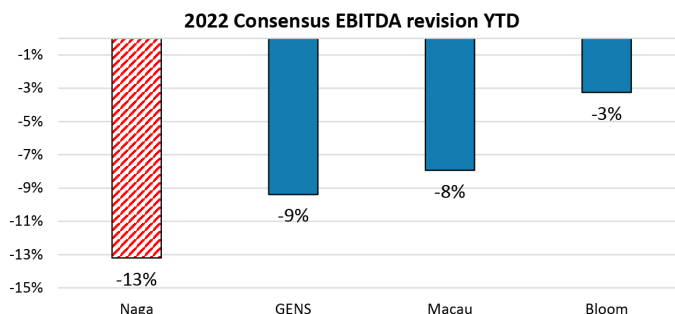
Source: Refinitiv as of July 9, 2021, Morgan Stanley Research (e) estimates

Exhibit 12: Our 2021e EBITDA will be 80% below consensus on Jan 1, 2021



Source: Refinitiv as of July 9, 2021, Morgan Stanley Research (e) estimates

Exhibit 13: Our 2022e EBITDA will be 39% below consensus on Jan 1, 2021

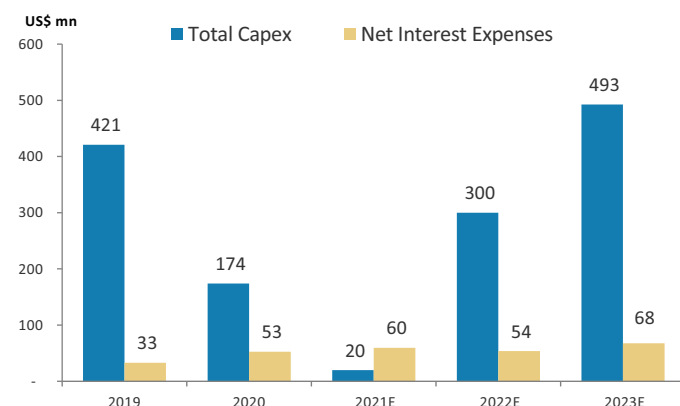


Source: Refinitiv as of July 9, 2021, Morgan Stanley Research (e) estimates

(5) Opex and capex reduction will only help a bit – We expect opex (Administrative expenses + Other operating expenses) to be 30% and 23% lower than 2019 in 2021e and 2022e respectively, due to staff cost reductions. Yet, this would only help 2022e EBITDA by US\$33m vs 2019. We expect Naga to delay its >US\$250m capex for Phase 3, Russia and Angkor Wat till 2022. This should mitigate its need to raise extra debt this year or next but will also delay the growth upside from these projects.

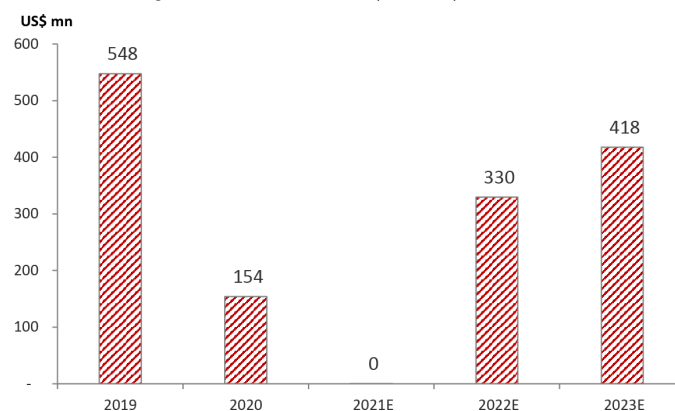
(6) Increased indebtedness will hurt FCFE – The company's debt has almost doubled to US\$540m since the pandemic (net debt as of June 2021 could be US\$400m). We expect its 2021e and 2022e interest expenses (before capitalized interests) to be 61% and 47% higher than in 2019. This would translate into lower FCFE, and even see EBITDA back at the 2019 level (which we think won't happen by 2023). Yet, Naga's US\$550m 7.95% bond due in 2024 (US\$200m of which raised in June 2021) remain lower vs. last year despite having increased since June. This may allow Naga to refinance at a lower rate in the future.

Exhibit 14: Naga's Total Capex and Net Interest Expenses 2019-2023E (US\$ mn)



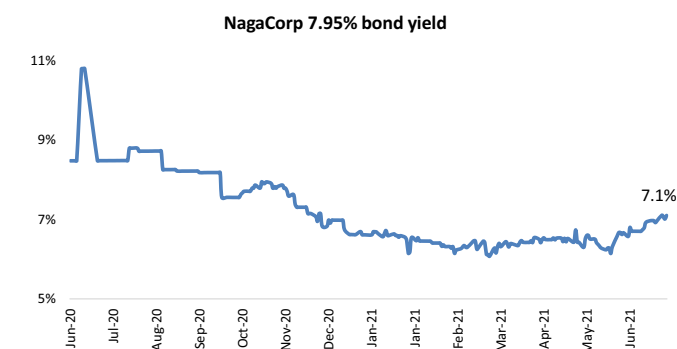
Source: Company data, Morgan Stanley Research (E) estimates

Exhibit 15: Naga's FCFE 2019-2023E (US\$ mn)



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

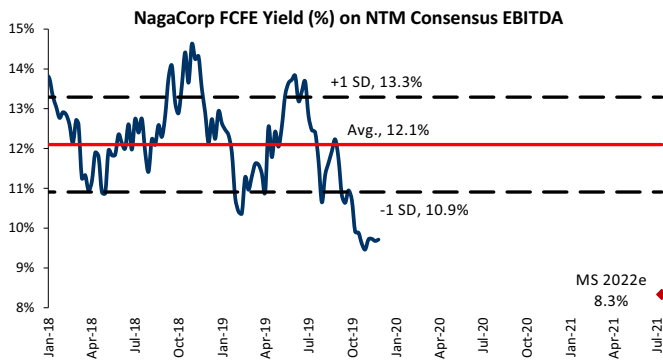
Exhibit 16: Yield movement of Naga 7.95% bond due 2024



Source: CEIC as of July 9 2021, Morgan Stanley Research

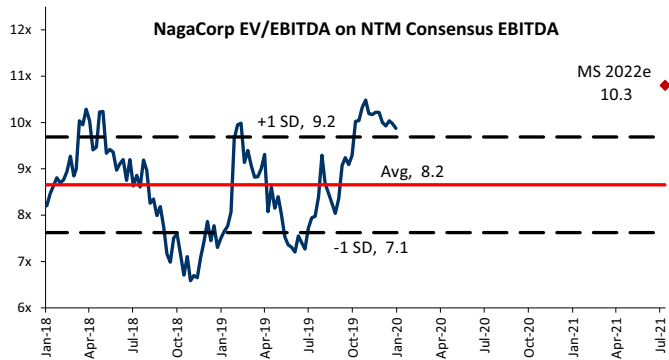
(7) Valuation is rich vs. history but reasonable vs. peers, on our new 2022 estimates. The stock is trading at an 8% FCFE yield and 11x EV/EBITDA in 2022e, both over 1SD more expensive than the historical averages, despite the recent fall in stock price. Valuation is much cheaper than in 2019, but recovery back to pre-COVID levels could take longer, due to high exposure to VIP revenue (over 70% of Gross Revenue came from VIP in 2019 and in 2020).

Exhibit 17: Naga is over 1SD more expensive than historical average in 2022e FCFE yield despite recent fall in stock price...



Source: Refinitiv as of July 9, 2021, Morgan Stanley Research (e) estimates

Exhibit 18: ...and similarly in terms of EV/EBITDA on our 2022e



Source: Refinitiv as of July 9, 2021, Morgan Stanley Research (e) estimates

What's Changed

We have kept our valuation methodology unchanged – 2022e FCFE with 8.0% target yield. But our price target is cut to HK\$7.0 from HK\$11.0, due to lower 2022e EBITDA.

Exhibit 19: Naga FCFE Valuation Summary

FCFE Valuation (Primary Valuation Methodology)

US\$ m	2019	2020	2021E	2022E	2023E
Company EBITDA	661	261	110	422	544
Less: Income tax	(30)	(30)	(30)	(9)	(9)
Less: Maintenance Capex	(50)	(24)	(20)	(30)	(50)
Less: Net Interest Expense (w/o capitalized interests)	(33)	(53)	(60)	(54)	(68)
FCFE	548	154	0	330	418
Target FCFE Yield	8.0%				
Equity Value	4,121				
Number of shares (mn)	4,340				
Price Target (HK\$)	7.0				
Upside/downside	-1%				

Source: Refinitiv as of July 9, 2021, Company data, Morgan Stanley Research (E) estimates

For our 2021 estimates, we lower our EBITDA and Net Income estimates by 73% and 128% to US\$110m (-58%YOY) and -US\$74m respectively for prolonged business disruption due to COVID in 2021. For 1H21, we expect Naga's business suspension to remain throughout 2Q, generating LBITDA of US\$20m (1H21e EBITDA to be at US\$19m, -78%YoY, -94% vs 1H19).

For our 2022 estimates, our EBITDA and Net Income estimates are 28% and 38% lower for lack of Chinese overseas gambling demand, slower international travel recovery and higher interest expenses. We expect 2022e VIP/Mass/Slot revenues to reach only 57%/84%/79% of 2019 levels respectively. **Our 2023e EBITDA** is also 19% lower, on lower Chinese gambling demand.

Exhibit 20: Morgan Stanley Research estimates: New vs. Old

			New MSe			Last Published			Variance		
US\$ mn	2019A	2020A	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Gross Revenue	1,755	879	436	1,134	1,458	1,077	1,429	1,552	(60%)	(21%)	(6%)
Corporate EBITDA	661	261	110	422	544	413	584	671	(73%)	(28%)	(19%)
Net Income	521	102	(74)	288	403	264	463	549	(128%)	(38%)	(27%)
EPS (US cents)	12.01	2.36	(1.69)	6.63	9.28	6.08	10.65	12.65	(128%)	(38%)	(27%)
Dividend payout ratio	71%	92%	0%	60%	60%	60%	60%	60%	(60) ppts	0 ppts	(0) ppts
DPS (US cents)	8.48	2.17	-	3.98	5.57	3.65	6.39	7.59	(100%)	(38%)	(27%)

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

Comparing with the consensus, we are 74% and 30% lower for 2021e and 2022e EBITDA respectively, as we expect business suspension to be maintained longer, international revenue to come back slower, and decreased Chinese overseas gambling demand post-COVID.

Exhibit 21: Morgan Stanley Research estimates vs. Consensus

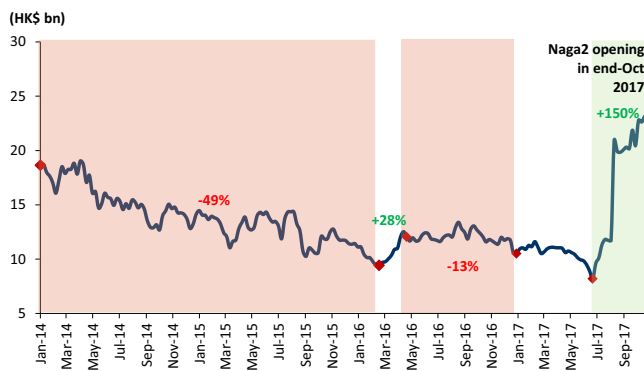
US\$ mn			MSe			Consensus			Variance		
	2019A	2020A	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Gross Revenue	1,755	879	436	1,134	1,458	1,128	1,503	1,573	(61%)	(25%)	(7%)
Corporate EBITDA	661	261	110	422	544	426	600	680	(74%)	(30%)	(20%)
Net Income	521	102	(74)	288	403	259	432	499	(128%)	(33%)	(19%)
EPS (US cents)	12.01	2.36	(1.69)	6.63	9.28	5.98	9.93	11.57	(128%)	(33%)	(20%)
Dividend payout ratio	71%	92%	0%	60%	60%	62%	55%	63%	0 ppts	5 ppts	(3) ppts
DPS (US cents)	8.48	2.17	-	3.98	5.57	3.72	5.43	7.27	(100%)	(27%)	(23%)

Source: Refinitiv as of July 10, 2021, company data, Morgan Stanley Research (E) estimates

Appendix 1: Consensus Revisions and Market Cap Movement

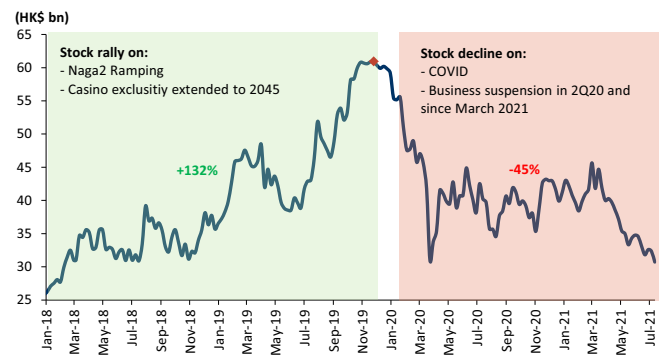
Historically, Naga's consensus revision direction (represented by NTM EBITDA YoY growth) coincides largely with market cap movement. However, as shown in [Exhibit 23](#) and [Exhibit 25](#), that correlation is weaker in 2018-19 as the market rallied on Naga2 ramping and the slowing Consensus NTM EBITDA YoY remained high (>30%). We expect meaningful downward revision for 2021e and 2022e EBITDA going forward, which could put pressure on the stock price.

Exhibit 22: Naga Market Cap movement - Before Naga 2



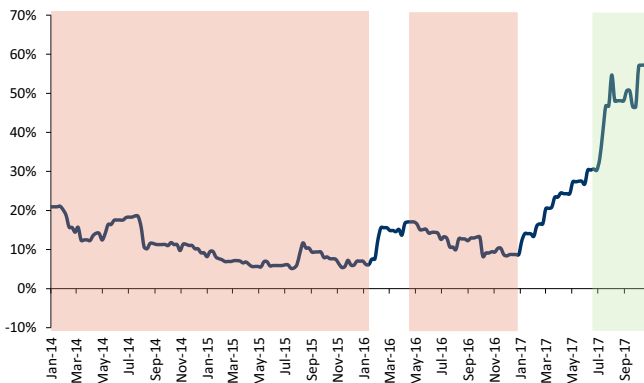
Source: Refinitiv, Morgan Stanley Research

Exhibit 23: Naga Market Cap movement - After Naga 2



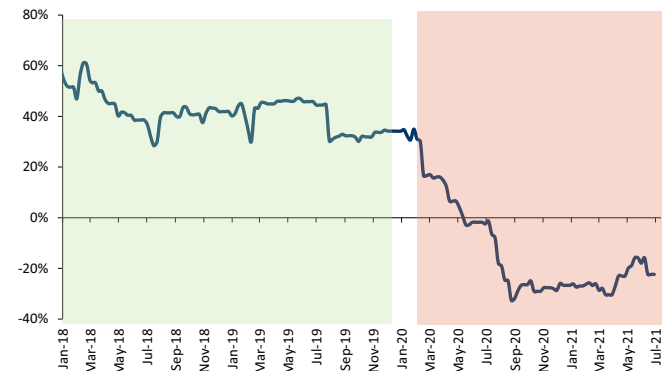
Source: Refinitiv as of July 9, 2021, Morgan Stanley Research

Exhibit 24: Naga Consensus NTM EBITDA YoY Growth - Before Naga 2



Source: Refinitiv, Morgan Stanley Research

Exhibit 25: Naga Consensus NTM EBITDA YoY Growth - After Naga 2



Source: Refinitiv as of July 9, 2021, Morgan Stanley Research

Operational Forecasts Summary

Exhibit 26: Operational Summary (Yearly)

Operation (US\$ mn)	2019	2020	2021E	2022E	2023E
Gross Revenue	1,755	879	436	1,134	1,458
VIP Revenue	1,243	613	279	714	929
Mass Revenue	318	174	103	267	333
EGM Revenue	158	82	50	125	156
GGR	1,719	870	431	1,106	1,418
Non-Gaming Revenue	36	9	4	28	40
Growth YoY					
Gross Revenue	19%	-50%	-50%	160%	29%
VIP Revenue	16%	-51%	-55%	156%	30%
Mass Revenue	35%	-45%	-41%	160%	25%
EGM Revenue	22%	-48%	-39%	150%	25%
Total mass revenue	31%	-46%	-41%	157%	25%
GGR	20%	-49%	-50%	156%	28%
Non-Gaming Revenue	-10%	-75%	-53%	547%	44%
As a % to 2019					
Gross Revenue		50%	25%	65%	83%
VIP Revenue		49%	22%	57%	75%
Mass Revenue		55%	32%	84%	105%
EGM Revenue		52%	32%	79%	99%
GGR		51%	25%	64%	82%
Non-Gaming Revenue		25%	12%	77%	111%
% of total GGR					
VIP Revenue	72%	70%	65%	65%	65%
Mass Revenue	19%	20%	24%	24%	24%
EGM Revenue	9%	9%	12%	11%	11%
Gross Margin					
Total	48%	49%	50%	49%	48%
VIP	28%	27%	22%	24%	24%
Mass	99%	99%	99%	92%	92%
EGM	98%	98%	98%	91%	91%
Gaming	47%	48%	49%	48%	47%
Non-Gaming	83%	82%	83%	83%	83%
P&L					
Opex (incl Rebates)	(1,095)	(618)	(326)	(655)	(842)
EBITDA (calculated)	661	261	110	422	544
- YOY	32%	-61%	-58%	285%	29%
EBITDA margin (Gross)	37.6%	29.7%	25.2%	37.2%	37.3%
EBITDA/table/day	3,596	1,354	562	2,162	2,787
Profit before taxation	552	132	(44)	296	412
Income tax	(30)	(30)	(30)	(9)	(9)
PAT	521	102	(74)	288	403
EPS	12.01	2.36	(1.69)	6.63	9.28
DPS	8.48	2.17	-	3.98	5.57
Dividend payout ratio	71%	92%	0%	60%	60%

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

Exhibit 27: Operational Summary (Half-Yearly)

US\$ mn	1H19	2H19	1H20	2H20	1H21E	2H21E
VIP revenue	650	593	271	342	81	198
Mass revenue	146	172	68	106	30	73
EGM revenue	76	82	33	50	17	33
GGR	872	847	372	498	127	304
Non-gaming revenue	19	17	5	4	2	2
Gross revenue	892	864	378	501	129	306
Cost of sales	(483)	(425)	(204)	(248)	(65)	(154)
Non-gaming	16	14	5	3	2	2
Gross Profit	408	439	174	254	64	153
Staff costs	(48)	(47)	(40)	(39)	(25)	(33)
Other opex (SG&A)	(39)	(52)	(47)	(40)	(20)	(29)
EBITDA	321	340	86	174	19	91
<i>EBITDA margin (Gross)</i>	<i>36.0%</i>	<i>39.4%</i>	<i>22.8%</i>	<i>34.8%</i>	<i>14.7%</i>	<i>29.6%</i>
D&A	(50)	(50)	(49)	(50)	(50)	(49)
EBIT	270	291	37	124	(31)	41
Interest Expense	(17)	(3)	(5)	(28)	(28)	(28)
Others	7	(1)	3	2	2	1
Profit before tax	260	287	35	97	(58)	14
Income tax	(15)	(15)	(14)	(16)	(15)	(15)
Net income	245	272	21	81	(73)	(1)
Diluted EPS (US\$ cents)	5.65	6.26	0.48	1.87	(1.68)	(0.01)
DPS (US\$ cents)	3.39	5.09	0.29	1.88	-	-
<i>Dividend payout ratio</i>	<i>0.36</i>	<i>81%</i>	<i>61%</i>	<i>100%</i>	<i>0%</i>	<i>0%</i>

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

Exhibit 28: Operational Summary (Quarterly)

US\$ mn	2Q19	1Q21	2Q21E	3Q21E	4Q21E
Gaming operations					
GGR	552	127	-	64	240
VIP revenue	433	81	-	39	159
VIP roll	14,993	2,906	-	1,453	5,778
Win rate	2.89%	2.77%	NM	2.70%	2.75%
Mass revenue	78	30	-	16	56
Mass drop	412	202	-	101	318
Mass hold rate	18.8%	14.7%	NM	16.2%	17.7%
EGM revenue	41	17	-	9	24
EGM bills-in	676	298	-	149	412
EGM hold rate	6.1%	5.7%	NM	5.9%	5.8%
Total mass and slot revenue	119	47	-	25	81

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

Financial Summary

Exhibit 29: NagaCorp Financial Summary

For the years ending December 31											
Income Statement						Balance Sheet					
US\$ million	2019A	2020A	2021E	2022E	2023E	US\$ million	2019A	2020A	2021E	2022E	2023E
Gross Revenue	1,755	879	436	1,134	1,458	Fixed Assets	1,595	1,674	1,600	1,824	2,247
VIP Revenue	1,243	613	279	714	929	Intangible Assets	156	158	155	153	150
Mass Revenue	318	174	103	267	333	Others	140	144	144	144	144
EGM Revenue	158	82	50	125	156	Non-Current Assets	1,891	1,976	1,899	2,120	2,541
Non-Gaming Revenue	36	9	4	28	40	Debtors	127	120	87	113	124
Gaming tax (4% of VIP; 7% of Mass)	-	-	-	(56)	(71)	Cash and deposits	327	452	264	298	309
Cost of sales	(909)	(452)	(219)	(524)	(681)	Current Assets	456	574	353	412	435
Gross profit	846	427	217	554	706	Creditors	159	148	105	120	143
VIP	347	167	62	172	224	Others	16	318	20	20	20
Mass	316	172	102	246	307	Current Liabilities	175	467	125	140	163
EGM	155	81	49	113	142	Senior notes	295	337	537	537	737
Non-Gaming	30	8	4	23	33	Lease liabilities	49	56	56	56	56
Administrative expenses	(61)	(61)	(43)	(55)	(58)	Others	40	33	33	33	33
Other operating expenses	(84)	(79)	(59)	(57)	(77)	Non-Current Liabilities	384	426	626	626	826
EBITDA	661	261	110	422	544	Share Capital	54	54	54	54	54
Depreciation	(96)	(97)	(97)	(96)	(97)	Reserves	1,734	1,602	1,447	1,712	1,933
Amortization of license	(3)	(3)	(3)	(3)	(3)	Shareholders' Equity	1,788	1,656	1,501	1,766	1,987
EBIT	561	161	10	323	445						
Other revenue (mainly Rental)	7	4	3	7	7	Ratios	2019A	2020A	2021E	2022E	2023E
Net interest expenses	(16)	(32)	(57)	(33)	(40)	Gross Profit Margin (%)	48%	49%	50%	49%	48%
Profit before tax	552	132	(44)	296	412	- VIP	28%	27%	22%	24%	24%
Income Tax	(30)	(30)	(30)	(9)	(9)	- Mass	99%	99%	99%	92%	92%
Profit after tax	521	102	(74)	288	403	- EGM	98%	98%	98%	91%	91%
Basic EPS (US\$ cents)	12.01	2.36	(1.69)	6.63	9.28	- Non-gaming	83%	82%	83%	83%	83%
DPS (US\$ cents)	8.48	2.17	-	3.98	5.57	EBITDA Margin (%)	38%	30%	25%	37%	37%
						Dividend Payout Ratio (total)	71%	92%	0%	60%	60%
Cash Flow Statement						GGR Growth	20%	-49%	-50%	156%	28%
US\$ million	2019A	2020A	2021E	2022E	2023E	VIP Growth	16%	-51%	-55%	156%	30%
Profit before Tax	552	132	(44)	296	412	Mass Growth	35%	-45%	-41%	160%	25%
Depreciation & Amortization	100	100	100	99	99	EGM Growth	22%	-48%	-39%	150%	25%
Other non-cash adjustments	(11)	6	27	24	31	EBITDA Growth	32%	-61%	-58%	285%	29%
Changes In Working Capital	50	(24)	(11)	(10)	11	Net Profit Growth	33%	-80%	-172%	-491%	40%
Operating cash flows	690	213	72	410	553						
Capex (incl. capitalized int.)	(432)	(162)	(23)	(321)	(520)	Operating Data					
Others	8	43	0	1	1	VIP Tables (avg)	337	349	349	349	349
Investing cash flows	(424)	(119)	(23)	(320)	(519)	Mass Tables (avg)	167	177	186	186	186
Dividends Paid	(273)	(233)	(82)	(23)	(182)	EGM Machines (avg)	2,000	2,100	2,200	2,200	2,200
Others	-	-	-	-	-	VIP win/table/Day (US\$)	10,106	4,799	2,188	5,607	7,289
Financing cash flows	(309)	70	(237)	(57)	(23)	Mass win/table/Day (US\$)	5,238	2,698	1,511	3,928	4,910
Change in Cash	(43)	164	(187)	34	11	EGM win/unit/Day (US\$)	333	160	93	233	291
Ending cash	273	438	250	284	295	Visitors to Cambodia (m)	6.6	1.3	0.3	4.6	6.7

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

Risk Reward – NagaCorp (3918.HK)

Moat from Exclusive License till 2045 Intact but Reopening Play needs Longer

PRICE TARGET HK\$7.00

Our price target of HK\$7.0 is our base-case scenario value. We apply a target FCFE yield of 8.0% to our 2022 estimate. 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

HK\$7.00 MS PT HK\$15.70

Source: Thomson Reuters, Morgan Stanley Research

HK\$12.10
Mean Morgan Stanley Estimates

RISK REWARD CHART



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

Source: Thomson Reuters, Morgan Stanley Research

EQUAL-WEIGHT THESIS

- Business disruption could last longer due to high COVID cases in Cambodia and vaccination progress could be slower.
- Chinese demand may not come back early due to China extending outbound travel restrictions for at least till 2H22 and China's crackdown on overseas gambling.
- VIP is risky and more volatile. It still contributed 39% of gross profit in 2020 (70% of gross revenue), and we find it negative for valuation.
- Capacity expansion at Naga 2 has been successful and should continue to ramp post-COVID (late-2022).
- Naga has better license terms/monopoly status, lower taxes and lower labor costs compared to Macau gaming companies.

Consensus Rating Distribution

86% Overweight
14% Equal-weight
0% Underweight

MS Rating

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Contrarian: Negative
Pricing Power: Positive

View descriptions of Risk Rewards Themes [here](#)

BULL CASE

HK\$11.00

6.0% FCFE yield 2022e

Rebound in overall economy. Faster recovery from COVID. China's crackdown eases. VIP revenue recovers to 30%/76%/92% of 2019 level in 2021e/22e/23e (49% in 2020). Mass revenue growth recovers to 38%/101%/122% of 2019 level in 2021e/22e/23e (55% in 2020). The new gaming tax (4% for VIP, 7% for Mass) is to be implemented in 2022.

BASE CASE

HK\$7.00

8.0% FCFE yield 2022e

VIP revenue recovers to 22%/57%/75% of 2019 level in 2021e/22e/23e (49% in 2020). Mass revenue growth recovers to 32%/84%/105% of 2019 level in 2021e/22e/23e (55% in 2020). The new gaming tax (4% for VIP, 7% for Mass) is to be implemented in 2022.

BEAR CASE

HK\$5.00

9.0% FCFE yield 2022e

Downturn in overall economy. Slower recovery from COVID. China's crackdown continues. VIP revenue recovers to 17%/40%/64% of 2019 level in 2021e/22e/23e (49% in 2020). Mass revenue growth recovers to 30%/69%/90% of 2019 level in 2021e/22e/23e (55% in 2020). The new gaming tax (4% for VIP, 7% for Mass) is to be implemented in 2022.

Risk Reward – NagaCorp (3918.HK)

KEY EARNINGS INPUTS

Drivers	2020	2021e	2022e	2023e
Company VIP Revenue Growth (%)	(51)	(55)	156	30
Company Mass & Slot Revenue Growth (%)	(46)	(41)	157	25
Corporate EBITDA margin (Gross) (%)	30	25	37	37

CATALYST CALENDAR

Date	Event	Source: Thomson Reuters, Morgan Stanley
25 Aug 2021 - 30 Aug 2021	Half Year 2021 Nagacorp Ltd Earnings Release	

INVESTMENT DRIVERS

- Lifting of travel restrictions between Cambodia and China/Malaysia/Singapore.
- Recovery pace back to pre-COVID level.

GLOBAL REVENUE EXPOSURE



- 30-40% Mainland China
- 50-60% APAC, ex Japan, Mainland China and India

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies [here](#)

SUSTAINABILITY & ESG

Indicator of Change	0.22	+1.0	-1.0
Disclosure Rate	85%		

RISKS TO PT/RATING

RISKS TO UPSIDE

- Earlier-than-expected business resumption
- Faster-than-expected Cambodia easing travel restrictions
- Strong demand by local expats observed in 4Q20 could sustain

RISKS TO DOWNSIDE

- Delay in Naga3 and Russia projects
- Prolonged business suspension and Cambodia's travel restrictions
- China's crackdown on overseas gambling
- Indebtedness continues to rise, hurting FCFE

OWNERSHIP POSITIONING

Inst. Owners, % Active 74.2%

Source: Thomson Reuters, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2021e

Sales / Revenue (US\$, mn) 436 ◆ 1,373
1,128

EBITDA (US\$, mn) 110 ◆ 558
426

Net income (US\$, mn) (74) ◆ 357
259

EPS (US\$) (0.02) ◆ 0.08
0.06

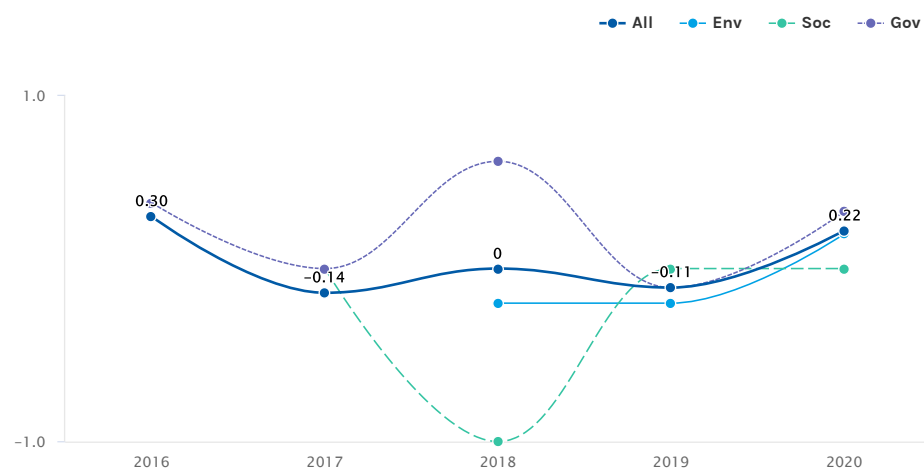
◆ Mean ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward – NagaCorp (3918.HK)

SUSTAINABILITY AND ESG

INDICATOR OF CHANGE OVER TIME



SUMMARY

NagaCorp does not report disclose a separate ESG report but provides sufficient parameters of Environmental, Social and Governance in its Annual Report.

In 2020, Naga had an ESG Indicator of Change of +0.22, indicating an overall YoY improvement in ESG data points.

The improvement was driven by Governance and Environmental data points. Yet, the improvement in Environmental data points could be largely due to reduced business activities in 2020 amidst COVID, resulting in lower CO2 emissions (-26%YOY), fewer waste generated (-51%YOY) and lower water consumption (-34%YOY).

Other Key ESG metrics changed in 2020 were: (+) Higher shares owned by board members from 44.17% in 2019 to 44.76% in 2020, (-) Average training hours per employee dropped 30% YOY in 2020, and (=) total workforce size reduced by 3% to 8,371.

Environment	Unit	Dec '18	Dec '19	Dec '20
CO2 emissions (Scope 1 and 2)	tonnes CO2 equivalent	38,766	38,956	28,643
Total waste	tonnes	6,514	6,518	3,179
Waste recycled	Percentage	4.67%	4.74%	2.71%
Water consumption	cubic metre	694,614	699,571	459,002
Social				
Avg training hrs per employee	Hours	85.73	27.27	19.11
Employee turnover	Percentage	15.21%	15.06%	11.80%
Governance				
Avg tenure of the board	Years	10.13	10.97	11.97
Female board members	Percentage	0%	0%	0%
Females in management	Percentage	37%	39%	39%
Independent board members	Percentage	50.00%	42.86%	42.86%
Shares owned by board members	Percentage	44.17%	44.17%	44.76%

Indicator of change chart is plotted using the fiscal aligned methodology. View explanation of 'Indicator of Change' methodology [here](#)

Source: Company Data, Morgan Stanley Research

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(as of June 30, 2021)

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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 MSC
Overweight/Buy	1530	44%	416	48%	27%	675	44%
Equal-weight/Hold	1439	41%	362	42%	25%	657	43%
Not-Rated/Hold	1	0%	0	0%	0%	0	0%
Underweight/Sell	529	15%	91	10%	17%	206	13%
TOTAL	3,499		869			1538	

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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Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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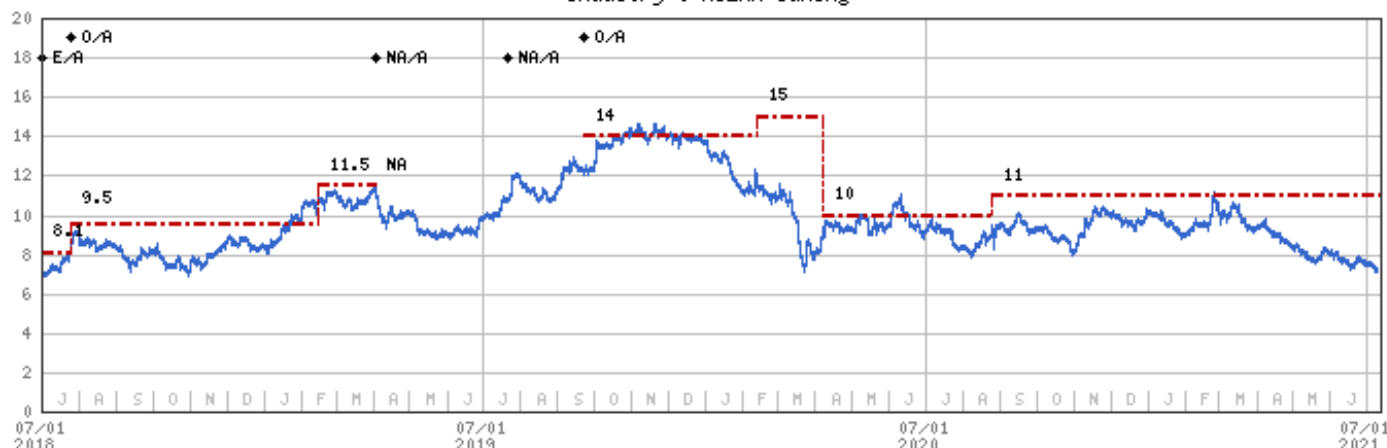
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

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Stock Price, Price Target and Rating History (See Rating Definitions)

NagaCorp (3918.HK) - As of 7/11/21 in HKD
Industry : ASEAN Gaming

Stock Rating History: 7/1/16 : 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: 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* (07/12/2021)
Praveen K Choudhary		
Bloomberry Resorts Corporation (BLOOM.PS)	O (03/26/2018)	PP6.84
Genting Singapore PLC (GENS.SI)	U (08/17/2020)	S\$0.85
NagaCorp (3918.HK)	E (07/12/2021)	HK\$7.09

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.

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