

July 21, 2022 10:49 PM GMT

NagaCorp | Asia Pacific

A Better Play than Macau; Retain OW

✔ Stock Rating | 👁 Industry View | 📊 Price Target
Overweight | Attractive | HK\$9.00

NagaCorp remains cheap vs. Macau despite more visible recovery and improving liquidity. Our increased price target reflects margin improvement and lower interest expenses.

WHAT'S CHANGED	NagaCorp (3918.HK)	From	To
	Price Target	HK\$8.50	HK\$9.00

Positive net income and FCFE: NagaCorp reported 2Q22 EBITDA of US\$70mn (+15% QoQ, 34% of 2Q19's level), roughly in line with our US\$75mn estimate. EBITDA margin was 53% vs. 40% in 2019, helped by cost controls (staff costs, rebates) and revenue mix. 1H22 net income turned positive to US\$53mm (22% of 2Q19's level).

More visible recovery from 2H22: Daily number of flights into Phnom Penh in July is tracking at 40% better than 2Q22 (Exhibit 1). Visitations from the key GGR sources could reach 70% of 2019's level in 3Q22. We think the limit on gaming table capacity will also be removed in 2H22 (eased to five pax per table since April from three pax). We expect EBITDA at US\$90mn in 3Q22 (+29% QoQ, 50% of 2019's level) and US\$339mn in 2022 (51% of full-year 2019).

Improving liquidity: Net debt was down 10% QoQ, to US\$332mn (0.7x of 2023e EBITDA) as of end-2Q22. We expect the gearing ratio to continue to improve and NagaCorp could return to a net cash position by end-2023, enabled by earnings recovery and bond buyback. We expect repurchase of up to US\$100mn in bonds this year and another US\$100mn in 2023 if the yield remains high (Exhibit 5). This could reduce its 2022e and 2023e interest expenses 15% and 30%, respectively (Exhibit 4).

Scrip dividends: NagaCorp announced US\$0.73 cents per share scrip dividend (60% payout, 2% yield) to save US\$32mn in cash. We expect 2022 final dividend will also be in scrip. This could cause 3% dilution, we estimate.

We retain our OW rating on NagaCorp as a COVID recovery play: Its valuation remains attractive vs. Macau at a 47% discount on 12-month forward EV/EBITDA (Exhibit 7) and less implied re-rating (Exhibit 6).

What's changed: Our price target rises 6%. We lift 2023e FCFE 7% because of lower interest expenses, remove the 10% discount for time value, raise target yield 50bps to reflect lower stock trading liquidity, and incorporate the 3% share dilution from the scrip dividends.

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NagaCorp (3918.HK, 3918 HK)

ASEAN Gaming / Hong Kong	
Stock Rating	Overweight
Industry View	Attractive
Price target	HK\$9.00
Shr price, close (Jul 21, 2022)	HK\$6.81
52-Week Range	HK\$7.80-5.15
Up/downside to price target (%)	32
Sh out, dil, curr (mn)	4,341
Mkt cap, curr (mn)	US\$3,766
Avg daily trading value (mn)	HK\$17

Fiscal Year Ending	12/21	12/22e	12/23e	12/24e
ModelWare EPS (US\$)	(0.03)	0.04	0.09	0.11
Prior ModelWare EPS (US\$)	(0.03)	0.04	0.08	0.11
EPS (US\$)§	(0.01)	0.03	0.08	0.10
Revenue, net (US\$ mn)	226	651	1,340	1,555
EBITDA (US\$ mn)	16	339	512	613
ModelWare net inc (US\$ mn)	(146)	185	374	495
Curr P/E, for consensus	NM	20.4	10.1	7.6
P/BV	2.3	2.0	1.6	1.3
RNOA (%)	(4.4)	8.3	14.5	17.3
ROE (%)	(8.8)	11.2	19.9	21.3
EV/EBITDA**	271.9	12.1	7.4	6.1
Div yld (%)	0.0	2.9	6.0	7.9

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

§ = Consensus data is provided by Refinitiv Estimates

** = Based on consensus methodology

e = Morgan Stanley Research estimates

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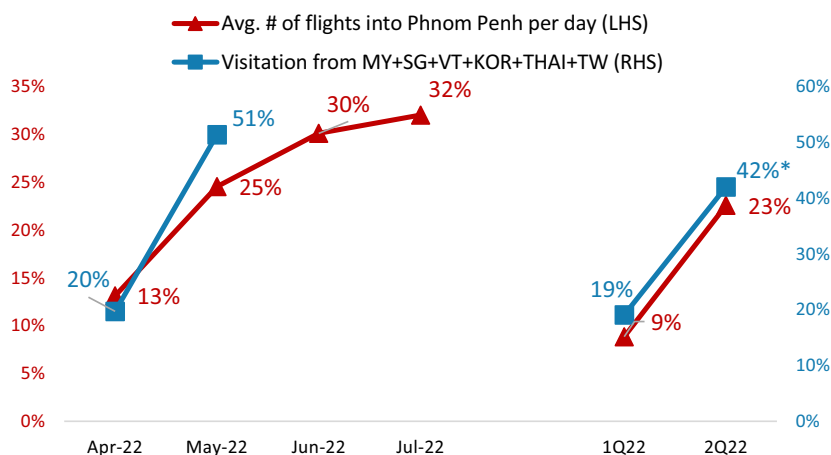
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Recovery Pace from COVID

Our tracker for daily number of flights into Phnom Penh shows July tracking at 40% better than 2Q22 (Exhibit 1). Visitations from the key GGR sources could reach 70% of 2019's level in 3Q22. We think the limit on gaming table capacity will also be removed in 2H22 (eased to five pax per table since April from three pax).

We expect EBITDA at US\$90mn in 3Q22 (+29% QoQ, 50% of 2019's level) and US\$339mn in 2022 (51% of full-year 2019).

Exhibit 1: Recovery in daily number of flights into Phnom Penh could suggest further improvement in visitations from key GGR sources for Cambodia (Malaysia, Singapore, Vietnam, Korea, Thailand, Taiwan)



*2Q22 Visitation is based on Apr and May actuals and our estimate for Jun based on the average number of flights into Phnom Penh
Source: Phnom Penh International Airport, CEIC, Morgan Stanley Research

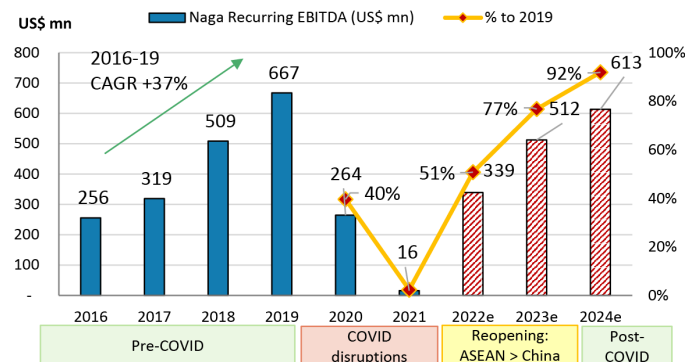
Exhibit 2: NagaCorp Gaming Volume Daily Runrate: 2019, 4Q21-3Q22e, April-June 2022

Avg. Daily Volume (in US\$ mn)	2019	4Q21	1Q22	2Q22A
Mass Table + EGM	12.1	6.7	8.4	9.7
% to 2019		55%	69%	80%
VIP (Direct + Referral)	128	8.1	9.5	12.5
% to 2019		6%	7%	10%

Avg. Daily Volume (in US\$ mn)	Apr-2022	May-2022	Jun-2022	3Q22e
Mass Table + EGM	9.5	9.4	10.2	11.7
% to 2019	79%	78%	85%	97%
VIP (Direct + Referral)	13.0	10.9	13.6	17.6
% to 2019	10%	9%	11%	14%

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

Exhibit 3: NagaCorp EBITDA forecasts in USD mn and percentage of 2019's level



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

Relevant Research:

[NagaCorp: Research Tactical Idea \(22 Jun 2022\)](#)

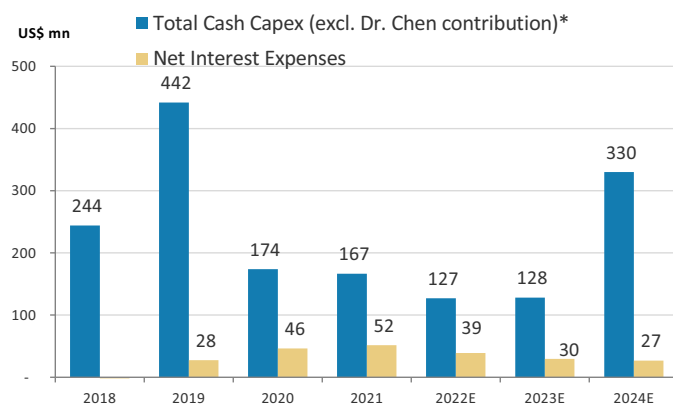
[NagaCorp: Reopening More Visible; OW \(27 Feb 2022\)](#)

Improving Liquidity

Net debt was down 10% QoQ to US\$332mn (0.7x of 2023e EBITDA) as of end-2Q22, helped by positive FCFE. We expect the gearing ratio to continue to improve and NagaCorp could return to a net cash position by end-2023, enabled by earnings recovery and bond buyback.

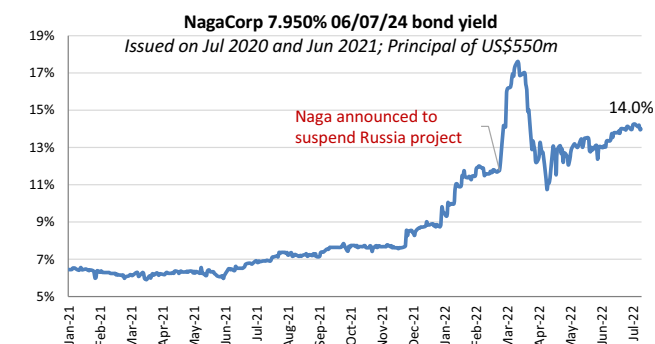
We expect NagaCorp to buy back up to US\$100mn in bonds this year and another US\$100mn in 2023 if the yield remains high (Exhibit 5). This could reduce its 2022e and 2023e interest expenses 15% and 30% respectively (Exhibit 4).

Exhibit 4: NagaCorp's Total Cash Capex and Net Interest Expenses 2019-2023E (US\$ mn)



*Roughly half of the capex for the US\$3.5bn NagaCorp 3 will be spent by Dr. Chen, the controlling shareholder of Naga, and the aggregate amount is credited to Other Reserves on Balance Sheet. Source: Company data, Morgan Stanley Research (E) estimates

Exhibit 5: NagaCorp's bond yield at 14% – the company will repurchase some bonds to lower interest expenses



Source: Refinitiv as of July 21, 2022, Morgan Stanley Research

Relevant Research:

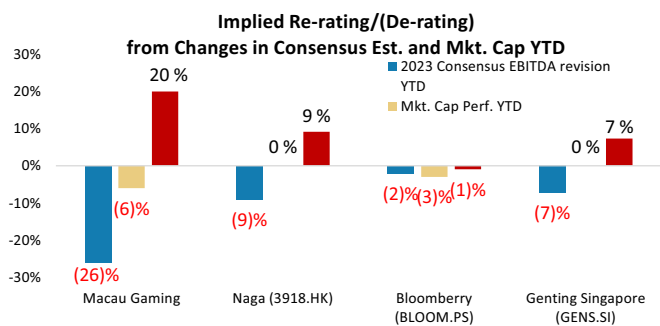
[Asia Gaming: Cash Bleeding Continues \(22 May 2022\)](#)

Attractive Valuation

As shown in Exhibit 6 below, even though NagaCorp stock has outperformed the Hang Seng Index by 12ppt YTD, the implied re-rating (market cap movement YTD minus 2023 consensus EBITDA estimate revision YTD) for NagaCorp (+9%) is still below that of Macau (+20%). Bloomberg looks the most attractive from this angle.

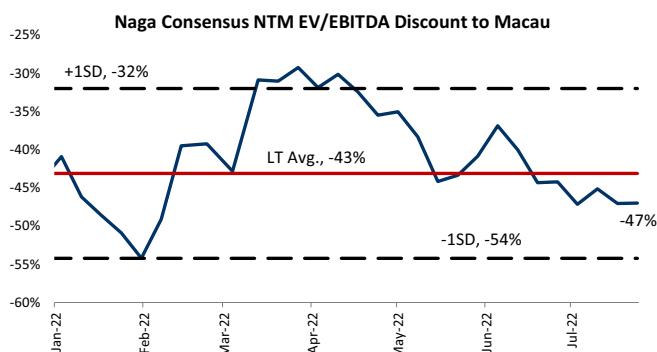
NagaCorp stock is still trading at a 47% discount versus Macau on 12-month forward EV/EBITDA (Exhibit 7) and we think this could continue to narrow by virtue of NagaCorp's more visible earnings recovery and improving balance sheet.

Exhibit 6: EBITDA estimate revision charts



Source: Refinitiv as of July 21, 2022, Morgan Stanley Research

Exhibit 7: NagaCorp stock is trading at a 47% discount to Macau despite visible recovery in earnings and balance sheet



Source: Refinitiv as of July 21, 2022, Morgan Stanley Research

Exhibit 8: Asia – Gaming: Comps Table

	Current Price	MS	Mkt Cap	6M Avg Vol.	EV/EBITDA			FCFE Yield		Latest Net Debt/EBITDA	2022 YTD Perf.	2022 YTD Vs. Country Index
					MSe	Consensus	Consensus	2019	2023E			
21-Jul-22	LOC\$	Rating	(US\$ m)	(US\$ m)	2019	2023E	2023E	2019	2023E	2019	YTD	
Macau Total (ex Studio)			52,831		6.5x	21.1x	11.8x	13.9%	2.8%	2.2x	(6%)	6%
ASEAN												
Genting Singapore	0.8	EW	6,729	12	4.6x	6.1x	6.5x	10.4%	8.2%	(2.6x)	0%	(1%)
NagaCorp	6.8	OW	3,766	1	5.6x	8.2x	7.8x	15.0%	11.9%	0.5x	0%	12%
Bloomberg	6.1	OW	1,185	1	4.6x	6.2x	6.9x	19.7%	13.7%	2.5x	(3%)	10%
ASEAN Total			11,680		5.0x	6.8x	7.0x	12.8%	10.0%	(0.5x)	(3%)	9%

Source: Refinitiv as of July 21, 2022, Morgan Stanley Research (E) estimates

1H22/2Q22 Review

NagaCorp reported 2Q22 EBITDA of US\$70mn (+15% QoQ, 34% of 2Q19's level). This is roughly in line with our US\$75mn estimate. Recovery in gaming revenues, especially in the Referral VIP segment, was slower than we expected. Yet margin improvement was better thanks to cost control (in staff costs, rebates) and revenue mix improvement (mass+EGM is now 75% of gross profit, up from 56% in 2019).

- **Positive net income and FCFE:** 1H22 net income turned positive to US\$53mn (22% of 1H19's level), after losses in both 1H21 and 2H21. We estimate that 1H22 and 2Q22 FCFE were US\$95mn and US\$52mn (+21%QoQ, 29% of 2Q19) respectively.
- **Liquidity improved:** Cash at end-1H22 was US\$213mn (up US\$90mn QoQ) and net debt was US\$332mn (0.7x on 2023e EBITDA). It spent US\$42mn and US\$27mn cash on capex and interest expenses, respectively, in 1H22.
- **Capital allocation plans:**
 - **NagaCorp plans to buy back part of the US\$550mn 7.95% 2024 Senior Notes on the secondary market:** The goal: to reduce interest expenses and take advantage of the high yield (14%). We think NagaCorp could aim to buy back up to US\$100mn in bonds this year and another US\$100mn in another year if the yield remains high. This could reduce its 2022e and 2023e interest expenses 15% and 30%, respectively, and *improve FCFE by 3-4% for each of the two years*. Dr. Chen does not intend to sell his US\$45mn stake in the bonds at this time.
 - **NagaCorp announced an interim scrip dividend of US\$0.73 cents per share (60% payout) to preserve cash:** This implies a 1.7% dividend yield. This could save US\$32mn in cash. We expect the 2022 final dividend to be in scrip, instead of cash. This could increase the number of shares outstanding by 3%, assuming an average market price of NagaCorp shares of HK\$7.0.

Exhibit 9: NagaCorp – 1H22 Results Summary

US\$ mn	1H19	1H21	2H21	% to 2H19	1H22A	% to 1H19
VIP revenue	650	81	33	5%	79	12%
Mass revenue	146	30	37	21%	103	71%
EGM revenue (Naga share)	76	19	25	31%	56	73%
GGR	872	129	94	11%	237	27%
Non-gaming revenue	19	1	1	8%	6	29%
Gross revenue	892	130	95	11%	243	27%
Cost of sales	(483)	(56)	(27)	6%	(51)	11%
VIP	173	26	15	8%	41	24%
Mass	143	29	30	18%	95	66%
EGM	76	18	23	29%	51	67%
-Shared revenue	76	18	23	29%	51	67%
Non-gaming	16	1	1	7%	5	29%
Gross Profit	408	75	69	16%	192	47%
Staff costs (excl. one-off)	(48)	(33)	(36)	78%	(39)	81%
Other opex (SG&A)	(32)	(37)	(22)	42%	(23)	71%
EBITDA (recurring)	328	5	11	3%	130	40%
<i>EBITDA margin (Gross)</i>	36.8%	3.5%	11.6%		53.5%	
D&A	(50)	(55)	(64)	129%	(55)	110%
EBIT	278	(51)	(53)	(18%)	75	27%
Interest Expense	(17)	(22)	(15)	532%	(18)	105%
Profit before tax	262	(72)	(68)	(24%)	57	22%
Income tax	(15)	(5)	(1)	8%	(1)	8%
Net income	247	(77)	(69)	(25%)	56	22%
Diluted EPS (US\$ cents)	5.65	(1.78)	(1.60)	(25%)	1.21	21%
DPS (US\$ cents)	3.39	-	-	0%	0.73	22%
<i>Dividend payout ratio</i>	36%	0%	0%		60%	

Source: Company data, Morgan Stanley Research estimates

What's Changed

Valuation – our price target increased from HK\$8.5 to HK\$9.0

Methodology:

- Pegged to 2023e FCFE (unchanged).
- We now remove the 10% discount for time value.
- Our 2023e FCFE is 7% higher because of our higher 2023e EBITDA ([Exhibit 11](#)) and lower interest expenses.
- The increase is partly offset by:
 - Our 50bps higher target FCFE yield at 8.5% to reflect lower trading volume of the stock, and
 - 3% increase in the number of shares outstanding owing to scrip dividends for 2022

Exhibit 10: NagaCorp – FCFE valuation summary

FCFE Valuation

US\$ m	2019	2020	2021	2022E	2023E	2024E
Company EBITDA	667	264	16	339	512	613
Less: Income tax	(30)	(30)	(6)	(6)	(6)	(6)
Less: Maintenance Capex	(45)	(53)	(7)	(24)	(30)	(30)
Less: Net Interest Expense (w/o capitalized interests)	(28)	(46)	(52)	(39)	(30)	(27)
FCFE	565	135	(49)	270	447	550
Target FCFE Yield					8.5%	
Equity Value					5,254	
Number of shares (mn)					4,464	
Price Target (HK\$)					9.00	
Upside/downside					32%	
Net Debt (Cash) as of end-1H22				332		

Source: Refinitiv as of July 21, 2022, Morgan Stanley Research (E) estimates

In view of the change in assumptions for our valuation, our bull and bear case scenario values – please see the [Risk Reward module](#) for details – increase as well. Our bull case value rises from HK\$11.60 to HK\$12.00 while our bear case value rises from HK\$4.50 to HK\$5.50.

Estimate changes

2022 estimates: Our EBITDA and EPS estimates are 13% and 21% higher. This reflects revenue mix improvement (VIP revenue is 53% lower but mass+EGM revenue is 20% higher) and lower interest expenses as NagaCorp repurchases its bonds. We expect 2022 final dividend will also be in scrip form, same as the interim dividend.

2023 estimates: Our EBITDA and EPS estimates are 5% and 11% higher. This reflects revenue mix improvement (VIP revenue is 53% lower but Mass+EGM revenue is 20% higher) and lower interest expenses as NagaCorp repurchases its bonds. We expect NagaCorp to return to cash dividends in 2023.

2024 estimates: Our EBITDA estimate is 1% lower despite our gross revenue estimate being 8% lower. This is helped by lower opex and rebates estimates. Our EPS estimate is 3% higher thanks to lower interest expenses as NagaCorp repurchases its bonds.

Exhibit 11: Morgan Stanley Research estimates: new vs. old

Vs. Published

US\$ mn	2019A	New MSe			Last Published			Variance		
		2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
VIP Revenue	1,243	246	840	983	519	1,013	1,107	(53%)	(17%)	(11%)
Mass Revenue	318	263	320	357	224	284	357	17%	13%	(0%)
EGM Revenue	158	131	156	174	110	143	183	19%	9%	(5%)
GGR	1,719	640	1,316	1,513	853	1,440	1,647	(25%)	(9%)	(8%)
Gross Revenue	1,755	651	1,340	1,555	864	1,464	1,688	(25%)	(8%)	(8%)
Corporate EBITDA	667	339	512	613	300	489	617	13%	5%	(1%)
Net Income	521	185	374	495	153	337	478	21%	11%	3%
EPS (US cents)	12.01	4.25	8.63	11.40	3.52	7.77	11.02	21%	11%	3%
<i>Dividend payout ratio</i>	71%	60%	60%	60%	60%	60%	60%	0 ppts	0 ppts	0 ppts
DPS (US cents)	8.48	2.55	5.18	6.84	2.11	4.66	6.61	21%	11%	3%

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

Comparison vs. consensus

We are 7% higher than consensus for 2022e EBITDA to reflect stronger mass and EGM revenue recovery. Yet, we are 5% and 3% lower for 2023e and 2024e EBITDA – our opex estimates are higher than consensus, but still lower than 2019's level.

Exhibit 12: Morgan Stanley Research estimates vs. consensus

Vs. Consensus

US\$ mn	2019A	MSe			Consensus			Variance		
		2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Gross Revenue	1,755	651	1,340	1,555	635	1,123	1,396	3%	19%	11%
Corporate EBITDA	667	339	512	613	316	540	634	7%	(5%)	(3%)
Net Income	521	185	374	495	145	360	443	27%	4%	12%
EPS (US cents)	12.01	4.25	8.63	11.40	3.30	8.39	10.10	29%	3%	13%
<i>Dividend payout ratio</i>	71%	60%	60%	60%	53%	49%	58%	7 ppts	11 ppts	2 ppts
DPS (US cents)	8.48	2.55	5.18	6.84	1.76	4.12	5.90	45%	26%	16%

Source: Refinitiv as of July 21, 2022, Morgan Stanley Research (E) estimates

Financial Summary

Exhibit 13: NagaCorp – Financial Summary

For the years ending December 31						
Income Statement						
US\$ million	2019A	2020A	2021A	2022E	2023E	2024E
Gross Revenue	1,755	879	226	651	1,340	1,555
VIP Revenue	1,243	613	113	246	840	983
Mass Revenue	318	174	66	263	320	357
EGM Revenue	158	82	44	131	156	174
Non-Gaming Revenue	36	9	2	10	24	42
Gaming tax (4% of VIP; 7% of Mass)	-	-	(12)	(37)	(67)	(76)
Cost of sales	(909)	(452)	(70)	(144)	(576)	(662)
Gross profit	846	427	144	469	697	817
VIP	347	167	41	107	250	306
Mass	314	172	60	236	286	320
EGM	156	81	41	119	141	158
Non-Gaming	30	8	2	8	19	33
Administrative expenses	(61)	(61)	(64)	(59)	(74)	(74)
Other operating expenses	(84)	(79)	(69)	(77)	(89)	(104)
EBITDA	667	264	16	339	512	613
Depreciation	(96)	(97)	(116)	(120)	(111)	(111)
Amortization of license	(3)	(3)	(3)	(3)	(3)	(3)
EBIT	568	164	(104)	217	398	500
Other revenue (mainly Rental)	7	4	5	5	5	5
Net interest expenses	(16)	(32)	(37)	(26)	(18)	1
Profit before tax	552	132	(140)	191	381	501
Income Tax	(30)	(30)	(6)	(6)	(6)	(6)
Profit after tax	521	102	(146)	185	374	495
Basic EPS (US\$ cents)	12.01	2.36	(3.37)	4.25	8.63	11.40
DPS (US\$ cents)	8.48	2.17	-	2.55	5.18	6.84
Cash Flow Statement						
US\$ million	2019A	2020A	2021A	2022E	2023E	2024E
Profit before Tax	552	132	(140)	191	381	501
Depreciation & Amortization	100	100	119	122	114	114
Other non-cash adjustments	(11)	6	35	20	11	(8)
Changes In Working Capital	50	(24)	22	(72)	(7)	(6)
Operating cash flows	690	213	36	261	499	601
Capex (incl. capitalized int.)	(432)	(162)	(150)	(127)	(128)	(330)
Others	8	43	5	0	1	1
Investing cash flows	(424)	(119)	(145)	(127)	(127)	(329)
Dividends Paid	(273)	(233)	(82)	-	(30)	(234)
Debt issuance/ (repayment)	-	335	(97)	(100)	(100)	(43)
Interest paid	(28)	(28)	(43)	(26)	(19)	(0)
Financing cash flows	(309)	70	(226)	(126)	(148)	(277)
Change in Cash	(43)	164	(335)	8	224	(4)
Ending cash	273	438	103	111	335	330
Balance Sheet						
US\$ million	2019A	2020A	2021A	2022E	2023E	2024E
Fixed Assets	1,595	1,674	1,932	1,989	2,104	2,573
Intangible Assets	156	158	154	151	149	146
Others	140	144	148	148	148	148
Non-Current Assets	1,891	1,976	2,234	2,288	2,400	2,867
Debtors	127	120	67	65	102	118
Restricted bank & fixed deposits	53	14	22	22	22	22
Cash and cash equivalents	273	438	103	111	335	330
Current Assets	456	574	194	199	459	472
Creditors	159	148	124	50	79	91
Others	16	318	27	27	27	27
Current Liabilities	175	467	151	77	106	118
Senior notes	295	337	543	443	343	300
Lease liabilities	49	56	57	57	57	57
Others	40	33	26	26	26	26
Non-Current Liabilities	384	426	626	526	426	383
Share Capital	54	54	54	54	54	54
Reserves	1,734	1,602	1,595	1,830	2,273	2,783
Shareholders' Equity	1,788	1,656	1,650	1,884	2,327	2,838
Ratios						
	2019A	2020A	2021A	2022E	2023E	2024E
Net debt/ LTM EBITDA	(0.05)x	(0.4)x	26.8 x	0.9 x	(0.03)x	(0.1)x
Gross Profit Margin (%)	48%	49%	64%	72%	52%	53%
- VIP	28%	27%	36%	44%	30%	31%
- Mass	99%	99%	90%	90%	90%	90%
- EGM	99%	98%	94%	90%	90%	90%
- Non-gaming	83%	82%	79%	79%	79%	79%
EBITDA Margin (%)	38%	30%	7%	52%	38%	39%
Dividend Payout Ratio (total)	71%	92%	0%	60%	60%	60%
GGR (% to 2019)		51%	13%	37%	77%	88%
- VIP		49%	9%	20%	68%	79%
- Mass		55%	21%	83%	101%	112%
- EGM		52%	28%	83%	99%	110%
EBITDA (% to 2019)		40%	2%	51%	77%	92%
Net Profit (% to 2019)		20%	-28%	35%	72%	95%
Operating Data						
	2019A	2020A	2021A	2022E	2023E	2024E
VIP Tables (avg)	337	349	349	349	349	349
Mass Tables (avg)	167	177	186	186	186	186
EGM Machines (avg)	2,000	2,100	2,200	2,200	2,200	2,200
VIP win/table/Day (US\$)	10,106	4,799	887	1,933	6,594	7,693
Mass win/table/Day (US\$)	5,238	2,698	979	3,876	4,714	5,238
EGM win/unit/Day (US\$)	333	160	76	251	299	333
Visitors to Cambodia (m)	6.6	1.3	0.2	2.2	5.0	6.9
- % to 2019		19%	3%	33%	75%	105%

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

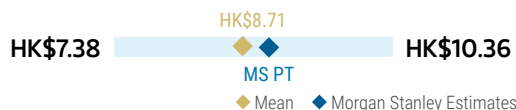
Risk Reward – NagaCorp (3918.HK)

Remains cheap vs. Macau despite more visible recovery and improving liquidity

PRICE TARGET HK\$9.00

We apply a target FCFE yield of 8.5% to our 2023 estimate, 100bps higher to Macau peers' average of 7.0%, but lower than the company's historical average of 12% since 2018 in view of the company's monopoly status in a fast-growing market, and attractive margin and tax profile.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART



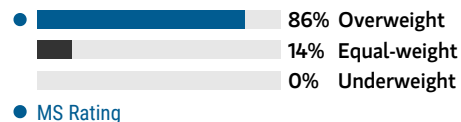
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- We retain our OW rating on NagaCorp as a COVID recovery play.
- We expect more visible recovery from 2H22. Daily number of flights into Phnom Penh in July is tracking well above 2Q22. Visitations from the key GGR sources could reach 70% of 2019's level in 3Q22. We think the limit on gaming table capacity will also be removed in 2H22.
- Liquidity is improving. Net debt has been falling, and we expect the gearing ratio to continue to improve and NagaCorp could return to a net cash position by end-2023, enabled by earnings recovery and bond buyback.
- Valuation remains attractive vs. Macau at a deep discount on 12-month forward EV/EBITDA and less implied re-rating YTD.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Pricing Power: *Positive*

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

BULL CASE

HK\$12.00

7.5% FCFE yield 2023e

Faster recovery in 2022-24: Pace of international demand recovery (excluding Chinese) increases, growth in domestic demand during COVID is sustained, Chinese mass and slot customers come back from 2H23, cannibalization between Direct VIP and local junket is minimal.

As a percentage of 2019 levels: VIP, mass, and slot revenues recover in 2022e, 2023e, and 2024e to 42%, 81%, and 89%; 94%, 113%, and 124%; and 95%, 114%, and 125%, respectively (2H20A: 58%, 61%, and 61% for VIP, mass, and slot).

BASE CASE

HK\$9.00

8.5% FCFE yield 2023e

Base case recovery in 2022-24: International demand (excluding Chinese) comes back more visibly after 2Q22, domestic demand increases during COVID stay intact, Chinese mass and slot customers come back in late 2023, some cannibalization between Direct VIP and local junket.

As a percentage of 2019 levels, VIP, mass, and slot revenues recover in 2022e, 2023e, and 2024e to 20%, 68%, and 79% for VIP; 83%, 101%, and 112% for mass; and 83%, 99%, and 110% for slot (2H20A: 58%, 61% and 61%).

BEAR CASE

HK\$5.50

9.0% FCFE yield 2023e

Slower recovery in 2022-24: Pace of international demand recovery (excluding Chinese) is halved vs. base case, rise in domestic demand during COVID disappears, Chinese mass and slot customers do not come back, cannibalization between Direct VIP and local junket results in no further growth in Direct VIP.

As a percentage of 2019 levels: Revenue recovers in 2022e, 2023e, and 2024e to 22%, 47%, and 49% for VIP; 61%, 70%, and 80% for mass; and 60%, 70%, and 77% for slot (2H20A: 58%, 61%, and 61%).

Risk Reward – NagaCorp (3918.HK)

KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Company VIP Revenue Growth (%)	(82)	118	241	17
Company Mass & Slot Revenue Growth (%)	(57)	257	21	11
Corporate EBITDA margin (Gross) (%)	7	52	38	39

CATALYST CALENDAR

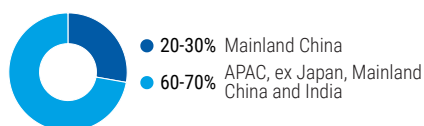
Date	Event
03 Oct 2022	3Q22 Results Release

Source: Refinitiv, Morgan Stanley

INVESTMENT DRIVERS

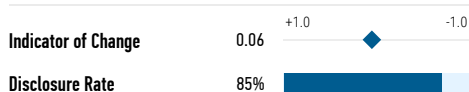
- Malaysia starts quarantine-free travel.
- Singapore increases or removes quota for its quarantine-free travel scheme.
- EBITDA improves consecutively QoQ.
- Naga 3 project size, design, and timeline are updated.

GLOBAL REVENUE EXPOSURE



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

SUSTAINABILITY & ESG



RISKS TO PT/RATING

RISKS TO UPSIDE

- Faster-than-expected ASEAN travel reopening
- Continued growth in domestic demand
- Deeper-than-expected Direct VIP demand, leading to smaller/no cannibalization between Direct VIP and local junket VIP
- Flexibility in Naga3 budget in response to changing market demand

RISKS TO DOWNSIDE

- Travel disruption, affecting reopening in ASEAN and Cambodia
- Severe regional competition for ASEAN customers

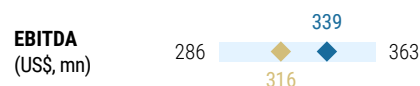
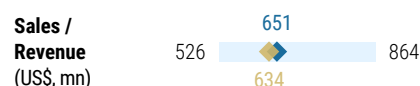
OWNERSHIP POSITIONING

Inst. Owners, % Active 74%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2022e



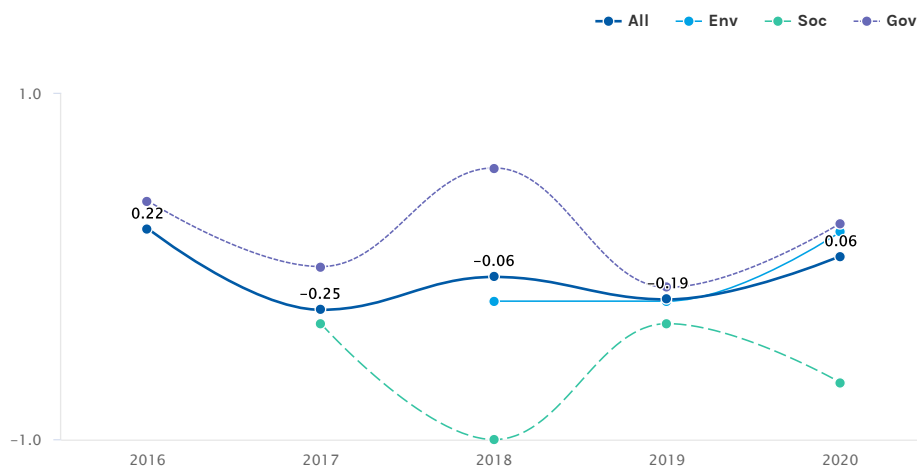
◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Risk Reward – NagaCorp (3918.HK)

SUSTAINABILITY AND ESG

INDICATOR OF CHANGE OVER TIME



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%	0.00%	0.00%
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

SUMMARY

NagaCorp does not 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 +0.06, 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 a result of reduced business activities in 2020 amid COVID, resulting in lower CO2 emissions (-26% YoY), less waste generated (-51% YoY), and lower water consumption (-34% YoY).

Other key ESG metrics that 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 decreased 3%, to 8,371.

Valuation Methodology and Risks

Bloomberry Resorts Corporation (BLOOM.PS)

PP9.0: base case scenario value, derived by applying a target 2023e FCFE yield of 8.5%. Our target FCFE yield of 8.5% is the historical average since 2015 - amid ASEAN travel reopening, the path back to normalized earnings has become more visible now. The target yield is higher than those of ASEAN peers Genting Singapore (7.2%) and NagaCorp (8.0%) owing to lower stock trading liquidity and more competition.

Risks to Upside

- Intact market share leadership
- Re-rating potential driven by Okada's listing in the US and positive estimate revisions
- Increased domestic consumption, fueled by election and pent-up demand
- Potential increase in EM capital inflow

Risks to Downside

- Emergence of more lethal but infectious COVID variant
- Government policy against gaming
- Market share risk from Okada

Genting Singapore PLC (GENS.SI)

Base case scenario value. We apply a target yield of 7.2% to our 2023 FCFE forecast with a 10% discount for time value. Our target yield is based on the long-term average since 2012.

Risks to Upside

- Market share gain
- Chinese gambling demand comes back earlier than expected
- The increase in local demand during COVID stays even after SG outbound travel recovers
- Dividend increase

Risks to Downside

- Disruptions to ASEAN reopening
- Local demand tapering off as Singaporeans prefer to travel overseas amid ASEAN reopening
- Market share loss
- Competition from other gaming markets, e.g., Cambodia and the Philippines

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Global Stock Ratings Distribution

(as of June 30, 2022)

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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	1383	39%	320	42%	23%	595	39%
Equal-weight/Hold	1561	44%	353	46%	23%	715	47%
Not-Rated/Hold	0	0%	0	0%	0%	0	0%
Underweight/Sell	574	16%	87	11%	15%	215	14%
TOTAL	3,518		760			1525	

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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Overweight (O). The stock's total return is expected to exceed 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.

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.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to 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.

Underweight (U). The stock's total return is expected to be below 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.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

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.

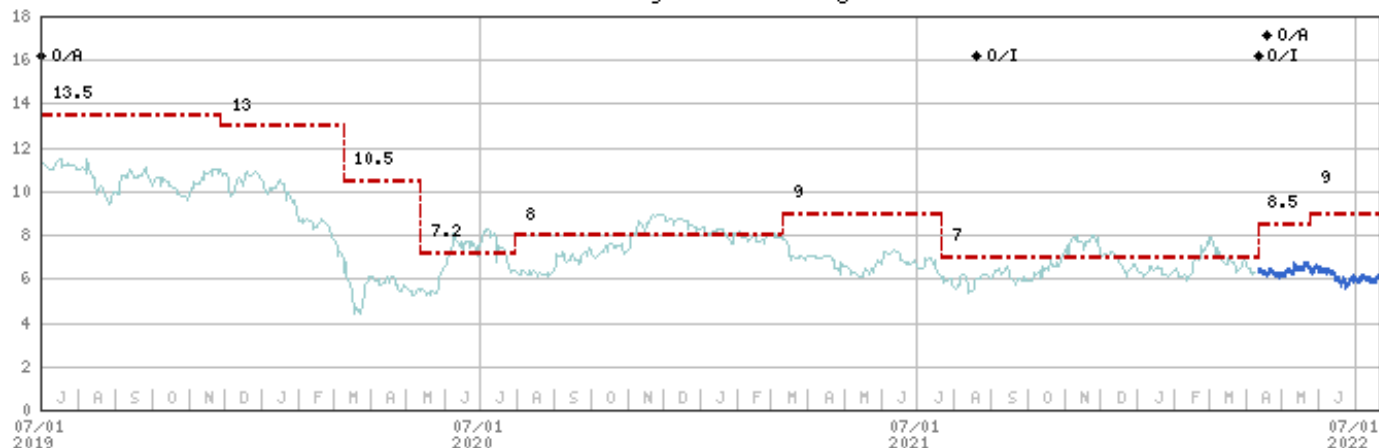
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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

Bloomberry Resorts Corporation (BLOOM.PS) - As of 7/20/22 in PHP
Industry : ASEAN Gaming



Stock Rating History: 7/1/17 : O/A; 3/26/18 : O/A; 8/19/21 : O/I; 4/11/22 : O/I; 4/19/22 : O/A

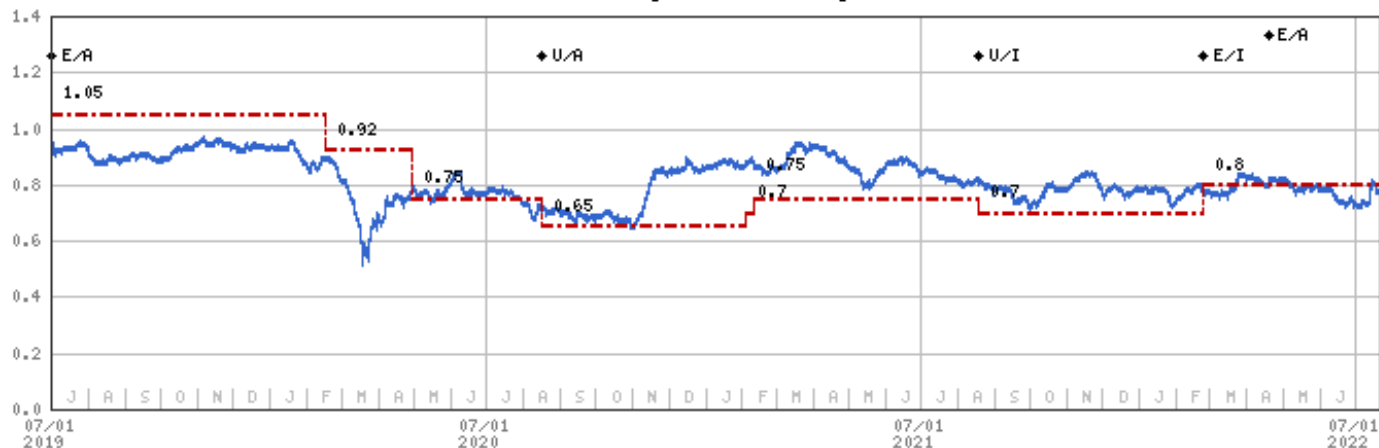
Price Target History: 6/18/17 : 13.5; 8/11/17 : 13; 1/4/18 : 12.5; 3/26/18 : 16; 4/9/18 : 14.5; 5/9/18 : 14; 12/5/18 : 11.5; 5/14/19 : 13.5; 11/28/19 : 13; 3/9/20 : 10.5; 5/13/20 : 7.2; 7/30/20 : 8; 3/11/21 : 9; 7/21/21 : 7; 4/11/22 : 8.5; 5/25/22 : 9

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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Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Genting Singapore PLC (GENS.SI) - As of 7/20/22 in SGD
Industry : ASEAN Gaming



Stock Rating History: 7/1/17 : O/A; 2/26/18 : E/A; 4/12/18 : O/A; 4/4/19 : E/A; 8/17/20 : U/A; 8/19/21 : U/I; 2/23/22 : E/I; 4/19/22 : E/A

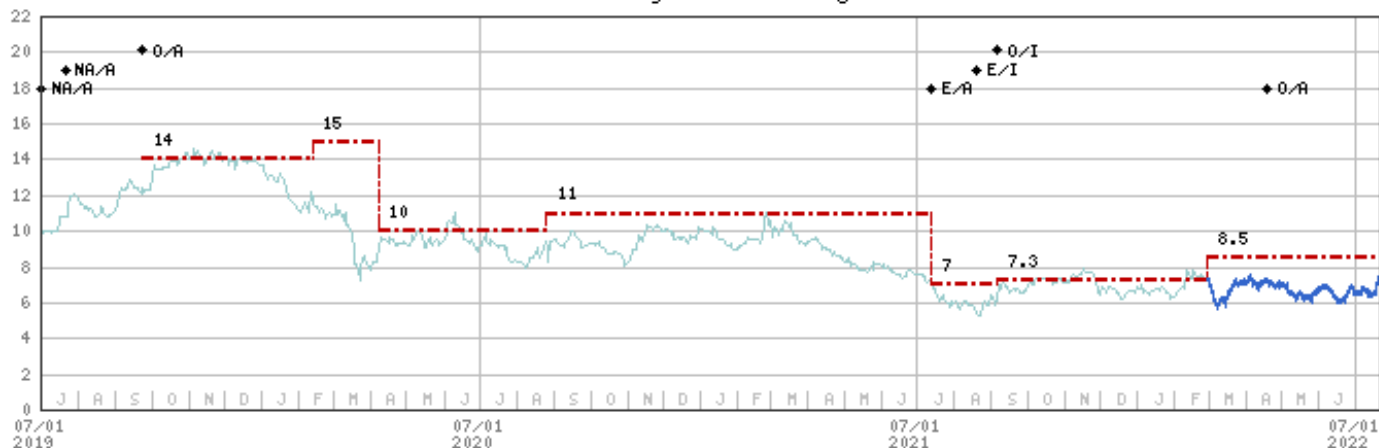
Price Target History: 5/15/17 : 1.25; 11/7/17 : 1.4; 2/26/18 : 1.3; 4/12/18 : 1.4; 5/14/18 : 1.5; 8/8/18 : 1.3; 2/28/19 : 1.2; 4/4/19 : 1.1; 5/10/19 : 1.05; 2/17/20 : 0.92; 4/29/20 : 0.75; 8/17/20 : 0.65; 2/4/21 : 0.7; 2/11/21 : 0.75; 8/19/21 : 0.7; 2/23/22 : 0.8

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)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

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NagaCorp (3918.HK) - As of 7/20/22 in HKD
Industry : ASEAN Gaming



Stock Rating History: 7/1/17 : 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; 7/13/21 : E/A; 8/19/21 : E/I; 9/6/21 : 0/I; 4/19/22 : 0/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; 7/13/21 : 7; 9/6/21 : 7.3; 2/28/22 : 8.5

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* (07/21/2022)
Gareth Leung, CFA		
Bloomberry Resorts Corporation (BLOOMP.S)	O (04/11/2022)	PP6.13
NagaCorp (3918.HK)	O (09/06/2021)	HK\$6.81
Praveen K Choudhary		
Genting Singapore PLC (GENS.SI)	E (02/23/2022)	S\$0.78

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* Historical prices are not split adjusted.