

December 23, 2024 08:23 AM GMT

NagaCorp | Asia Pacific

Not Growth but still not Value Enough; EW

WHAT'S CHANGED

NagaCorp (3918.HK)	From	To
Price Target	HK\$3.25	HK\$2.75

We expect both 4Q24e and 2H24e to be down 9% YoY. We stay EW due to weak growth prospects and Russia impairment overhang. But dividends could resume in 2025 at 7% yield.

Estimate Changes: We cut our 2024e and 2025e EBITDA by 42% and 24%, respectively, to US\$193m (29% of 2019, -34% YoY) and US\$302m (45% of 2019, +56% YoY but +7% YoY vs 2024e recurring EBITDA). This is mostly to reflect the one-off charges in 2Q24, and to mark to market with buyside expectations. We are still 8-9% below sellside consensus for 2024e and 2025e EBITDA.

We expect both 4Q24e and 2H24e to be down 9% YoY to US\$73m and US\$138m, respectively.

We cut our price target by 15% to HK\$2.75. This is because we now price the stock on 2025e FCFE and deduct all Capex (both maintenance and Naga 3) from our FCFE calculation as we see lower returns for Naga 3. However, we credit the stock by decreasing our target yield by 2pts to 14.0% (still 2pts higher than pre-Covid avg.) to reflect Naga is now net cash and dividends may resume in 2025e.

We reiterate EW on Naga:

1. Dividends and potential downsizing of Naga 3 are positives: Naga is now back to a net cash position. We also expect it to downscale the Naga 3 project (original budget US\$3.5bn with 50% spent by Naga and 50% spent by the founder family in return for more shares upon Naga 3 completion; total US\$750m spent so far). These should allow Naga to resume dividends in 2025e, in our view. We expect a 60% payout ratio inline with the pre-Covid avg. and a 7% yield in 2025e.

2. But overhangs of further Russia impairment remains: We estimate there is still ~US\$190m BV of assets in Russia post 2Q impairment.

3. Growth and recovery still not in sight: We still see no visibility of revenue improvements - recovery in visitations is no longer able to drive more GGR recovery ([Exhibit 1](#), [Exhibit 2](#)). We expect VIP weakness to remain.

4. In the long run, competition risks may rise: First, we think Cambodia is more at risk from Thailand for the lack of visa-free arrangements with China, and non-gaming amenities. Second, the Cambodia govt. may encourage more Integrated Resorts to be set up in Cambodia.

On our 2025 estimates, Naga stock is trading at 5.4x EV/EBITDA (pre-Covid avg. 8.2x), 8.5x P/E (pre-Covid avg. 12.5x) and 13.2% FCFE yield (pre-Covid avg. 11.6%).

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NagaCorp (3918.HK, 3918 HK)

ASEAN Gaming | Hong Kong

Stock Rating	Equal-weight
Industry View	In-Line
Price target	HK\$2.75
Shr price, close (Dec 20, 2024)	HK\$2.93
52-Week Range	HK\$4.66-2.52
Up/downside to price target (%)	(6)
Sh out, dil, curr (mn)	4,423
Mkt cap, curr (mn)	US\$1,667
Avg daily trading value (mn)	HK\$8

Fiscal Year Ending	12/23	12/24e	12/25e	12/26e
EPS (US\$)**	0.04	0.02	0.04	0.05
Prior EPS (US\$)**	-	0.05	0.07	0.07
EPS (US\$)§	0.04	0.03	0.06	0.06
Revenue, net (US\$ mn)	533	570	579	598
EBITDA (US\$ mn)	293	193	302	310
ModelWare net inc (US \$ mn)	178	85	198	206
Curr P/E, for consensus	9.4	19.5	8.4	8.1
P/BV	0.9	0.8	0.7	0.7
RNOA (%)	7.3	3.7	7.9	8.2
ROE (%)	9.6	4.2	9.3	8.9
EV/EBITDA**	6.4	8.5	4.9	4.5
Div yld (%)	0.0	0.0	7.1	7.4

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

** = Based on consensus methodology

§ = Consensus data is provided by Refinitiv Estimates

e = Morgan Stanley Research estimates

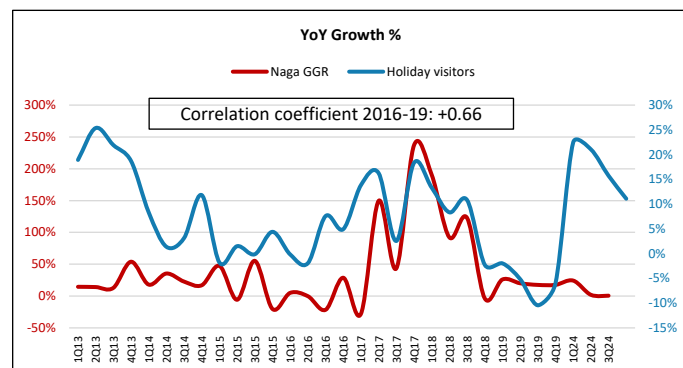
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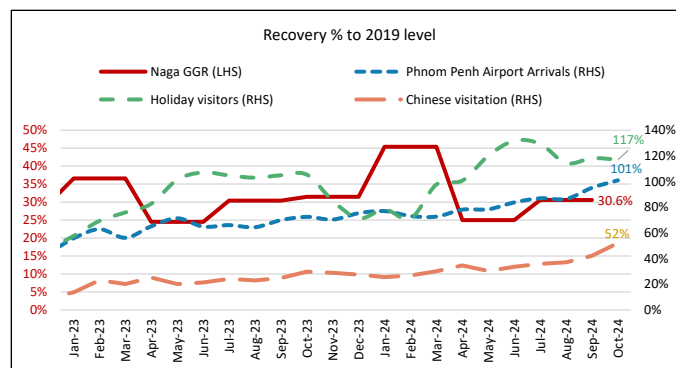
Key Charts

Exhibit 1: Despite improving holiday visitors to Cambodia, Naga's GGR did not see improvements



Source: CEIC, Company data, Morgan Stanley Research

Exhibit 2: Indeed, all other types of visitations broke correlation with Naga's GGR post-Covid



Source: CEIC, Morgan Stanley Research

Exhibit 3:
NagaCorp – FCFE valuation summary

FCFE Valuation									
US\$ m	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Company EBITDA	509	667	264	16	244	293	193	302	310
Less: Income tax	(9)	(30)	(30)	(6)	(0)	(0)	(0)	(0)	(0)
Less: Total Capex	(244)	(442)	(174)	(167)	(114)	(31)	(25)	(70)	(70)
Less: Net Interest Expense (w/o capitalized interests)	3	(28)	(46)	(52)	(43)	(37)	(27)	(11)	(13)
FCFE	259	168	14	(209)	88	224	141	221	227
Target FCFE Yield								14.0%	
Equity Value								1,578	
Number of shares (mn)								4,423	
Price Target (HK\$)								2.75	
Upside/downside								-6%	
Net Debt (Cash) as of end-1H24							(29)		
Actual CFO + CFI	160	266	94	(109)	182	246	166	216	226

Source: Refinitiv (as of Dec 22, 2024), Morgan Stanley Research (E) estimates

Exhibit 4: Naga Valuation Multiples on current prices

Current multiples	2018	2019	2022	2023	2024E	2025E	2026E
EV/EBITDA - Mse	3.2	2.5	6.7	5.6	8.5	5.4	5.3
EV/EBITDA - Consensus					7.7	5.0	4.8
P/E	4.3	3.2	15.6	9.4	19.6	8.5	8.1
Recurring FCFE Yield - Mse	15.5%	10.0%	5.2%	13.4%	8.4%	13.2%	13.6%
Recurring FCFE Yield - Consensus					9.6%	14.9%	15.3%
Div Yield%	14.3%	22.4%	3.9%	0.0%	0.0%	7.1%	7.4%

Source: Refinitiv as of Dec 22, 2024, Morgan Stanley Research (E) estimates

Valuation and Estimate Changes

(1) Valuation – cutting our price target by 15%

Our new price target of HK\$2.75 (was HK\$3.25) implies 6% downside from the current market price: The cut reflects:

- 24% lower 2025e EBITDA to 45% of 2019 level or just 3Q24 and 4Q24 runrate.** This is because we see little visibility on GGR recovery.
- We now deduct Total Capex (Maintenance + Growth for Naga 3) from our FCFE calculation (previously maintenance capex)** as we see lower returns for Naga 3 in the future.
- These are partly mitigated by lower Naga 3 capex expectations in 2025e** to US \$50m from US\$150m previously as we expect the company to downsize Naga 3.
- Also, we now lower our FCFE target yield from 16.0% to 14.0%, but which is still 2pts higher than pre-Covid average.** This is to reflect the company returning to a net cash position and a potential dividend resumption in 2025e. However, the company lacks the growth prospects unlike pre-Covid. So its target yield should be higher than the pre-Covid average, in our view.

Valuation methodology: We now peg our valuation to 2025e FCFE (previously from 2024e). We use recurring FCFE as the basis for our valuation across our Asian gaming coverage because we think this metric best reflects recurring cash flow generation for these companies.

Exhibit 5: NagaCorp – FCFE valuation summary

FCFE Valuation									
US\$ m	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Company EBITDA	509	667	264	16	244	293	193	302	310
Less: Income tax	(9)	(30)	(30)	(6)	(0)	(0)	(0)	(0)	(0)
Less: Total Capex	(244)	(442)	(174)	(167)	(114)	(31)	(25)	(70)	(70)
Less: Net Interest Expense (w/o capitalized interests)	3	(28)	(46)	(52)	(43)	(37)	(27)	(11)	(13)
FCFE	259	168	14	(209)	88	224	141	221	227
Target FCFE Yield								14.0%	
Equity Value								1,578	
Number of shares (mn)								4,423	
Price Target (HK\$)								2.75	
Upside/downside								-6%	
Net Debt (Cash) as of end-1H24							(29)		
Actual CFO + CFI	160	266	94	(109)	182	246	166	216	226

Source: Refinitiv (as of Dec 22, 2024), Morgan Stanley Research (E) estimates

Bull and bear case values:

- **Our new bear case value is HK\$1.85** (37% downside from the current share price, 10% below the previous value of HK\$2.05).
 - The decrease is roughly inline with our base case value reduction as we have now cut our 2025e EBITDA and use 2025e FCFE for our Bull, Bear and Base case value calculations.
 - We assume a further 10% YoY decline in GGR in 2025e for the bear case value (vs. Base case +2% YoY) – VIP GGR at 11% of 2019's level (2024e 13%), mass table GGR at 80% of 2019 (2024e 88%), and EGM GGR at 64% of 2019 (2024e 64%).
 - We use a target FCFE yield of 17.0%, 2pts lower vs. previously inline with changes in target yield for base case. This is to reflect the company returning to a net cash position and potential dividend resumption in 2025e.
- **Our new bull case value is HK\$3.75** (28% upside to the current share price, 16% below the previous value of HK\$4.45). This is because:
 - The decrease is roughly inline with our base case value reduction as we have now cut our 2025e EBITDA and use 2025e FCFE for our Bull, Bear and Base case value calculations.
 - We assume 13% YoY growth in GGR in 2025e for the bull case value (vs. Base case +2% YoY) – VIP GGR at 15% of 2019's level (2024e 13%), mass table GGR at 97% of 2019 (2024e 88%), and EGM GGR at 79% of 2019 (2024e 64%).
 - We use a target FCFE yield of 12.0% (unchanged). This is inline with Naga's pre-Covid average FCFE yield.

Please see the [Risk Reward module](#) for details.

Exhibit 6: NagaCorp – bull, base, and bear case values

	Bull	Base	Bear
Equity Value (US\$ mn)	2,141	1,573	1,061
Enterprise Value (US\$ mn)	2,113	1,544	1,033
Equity value per share (HK\$)	3.75	2.75	1.85
<i>Upside/downside</i>	28%	-6%	-37%

Source: Refinitiv (as of Dec 22, 2024), Morgan Stanley Research (E) estimates

(2) Cutting estimates

2024 estimates: We lower our 2024e EBITDA by 42% to US\$193m (29% of 2019 level, -34% YoY). This is to reflect the lower-than-expected EBITDA in 9M24 and 4Q24e EBITDA of US\$73m (-9%YoY). This leads to our 2024e Net Income being 61% lower. We also remove 2024e dividends.

2025 estimates: We lower our 2025e EBITDA by 24% to US\$302m (45% of 2019 level, +56% YoY). But this is +7% vs. 2024 recurring EBITDA runrate (excluding one-off impairments in 2Q24). This leads to 2025e Net Income being 31% lower. We now expect Naga to resume dividends at 60% payout in 2025e at US\$ 2.74 cents per share or ~7.5% yield. Naga's payout ratio was 60% from 2015-2018 and 70% from 2010 to 2014.

2026 estimates: We lower our 2026e EBITDA by 30% to US\$310m (47% of 2019 level, +3% YoY). This leads to 2026e Net Income being 34% lower. We now expect Naga to keep dividend payout at 60% in 2026e at ~7.8% yield.

Exhibit 7: Morgan Stanley Research estimates: new vs. old

Vs. Published

US\$ mn			New MSE			Last Published			Variance		
	2019A	2023A	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
VIP Revenue	1,243	178	157	156	158	203	247	288	(22%)	(37%)	(45%)
Mass Revenue	318	210	282	289	298	239	267	284	18%	8%	5%
EGM Revenue	158	127	113	116	120	129	153	170	(12%)	(24%)	(30%)
GGR	1,719	515	552	562	576	1,022	1,258	1,258	(46%)	(55%)	(54%)
Gross Revenue	1,755	-	536	545	563	1,009	1,234	1,234	(47%)	(56%)	(54%)
Corporate EBITDA	667	293	193	302	310	336	398	442	(42%)	(24%)	(30%)
Net Income	521	178	85	198	206	222	288	310	(61%)	(31%)	(34%)
EPS (US cents)	12.01	4.02	1.93	4.47	4.65	5.01	6.52	7.00	(61%)	(31%)	(34%)
Dividend payout ratio	0%	0%	0%	60%	60%	30%	40%	50%	(30) ppts	20 ppts	10 ppts
DPS (US cents)	-	-	-	2.68	2.79	1.50	2.61	3.50	(100%)	3%	(20%)

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

We are now below consensus

We are 8-9% below consensus for 2024e, 2025e and 2026e EBITDA.

Exhibit 8: Morgan Stanley Research estimates vs. consensus

Vs. Consensus

US\$ mn			MSE			Consensus			Variance		
	2019A	2023A	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Gross Revenue	1,755	533	570	579	598	579	604	622	(2%)	(4%)	(4%)
Corporate EBITDA	667	293	193	302	310	213	330	340	(9%)	(8%)	(9%)
Net Income	521	178	85	198	206	194	226	236	(56%)	(13%)	(13%)
EPS (US cents)	12.01	4.02	1.93	4.47	4.65	4.38	5.12	5.34	(56%)	(13%)	(13%)
Dividend payout ratio	0%	0%	0%	60%	60%	0%	60%	60%	0 ppts	0 ppts	0 ppts
DPS (US cents)	-	-	-	2.68	2.79	-	3.07	3.20	(13%)	(13%)	(13%)

Source: Refinitiv (as of Dec 22, 2024), Morgan Stanley Research (E) estimates

Financial Summary

Exhibit 9: NagaCorp – Financial Summary

For the years ending December 31					
Income Statement					
US\$ million	2019A	2023A	2024E	2025E	2026E
Gross Revenue	1,755	533	570	579	598
VIP Revenue	1,243	178	157	156	158
Mass Table Revenue	318	210	282	289	298
EGM Revenue	158	127	113	116	120
Non-Gaming Revenue	36	18	17	18	22
Gaming tax (4% of VIP; 7% of Mass)		(31)	(34)	(35)	(36)
Cost of sales	(909)	(80)	(89)	(81)	(82)
Gross profit	846	422	447	464	480
VIP	347	107	81	89	90
Mass table	314	192	256	263	271
EGM	156	107	95	98	101
Non-Gaming	30	15	14	15	18
Administrative expenses	(61)	(44)	(63)	(66)	(69)
Other operating expenses	(84)	(81)	(91)	(95)	(100)
EBITDA	667	293	193	302	310
Depreciation	(96)	(94)	(92)	(94)	(92)
Amortization of license	(3)	(3)	(3)	(3)	(3)
EBIT	568	196	99	205	216
Other revenue (mainly Rental)	7	4	9	9	9
Net interest expenses	(16)	(18)	(14)	(3)	(5)
Profit before tax	552	178	85	202	211
Income Tax	(30)	(0)	(0)	(0)	(0)
Profit after tax	521	178	85	202	211
Basic EPS (US\$ cents)	12.01	4.02	1.92	4.56	4.77
DPS (US\$ cents)	8.48	-	-	2.74	2.86
Cash Flow Statement					
US\$ million	2019A	2023A	2024E	2025E	2026E
Profit before Tax	552	178	85	202	211
Depreciation & Amortization	100	97	94	97	95
Other non-cash adjustments	(11)	15	13	3	4
Changes in Working Capital	50	(1)	(38)	(73)	(8)
Operating cash flows	690	289	155	229	302
Capex (incl. capitalized int.)	(432)	(55)	(25)	(70)	(70)
Others	8	12	1	0	1
Investing cash flows	(424)	(43)	(24)	(70)	(69)
Dividends Paid	(273)	-	-	(61)	(124)
Debt issuance/ (repayment)	-	-	(391)	-	20
Interest paid	(28)	(38)	(14)	(4)	(5)
Financing cash flows	(309)	(54)	(405)	(64)	(109)
Change in Cash	(43)	192	(275)	95	123
Ending cash	273	348	74	169	292
Balance Sheet					
US\$ million	2019A	2023A	2024E	2025E	2026E
Fixed Assets	1,595	2,016	1,964	1,990	2,018
Intangible Assets	156	137	135	132	129
Others	140	188	188	188	188
Non-Current Assets	1,891	2,341	2,287	2,310	2,335
Debtors	127	40	43	44	45
Restricted bank & fixed deposits	53	19	19	19	19
Cash and cash equivalents	273	348	74	169	292
Current Assets	456	410	136	232	357
Creditors	159	169	133	60	54
Others	16	484	13	13	13
Current Liabilities	175	653	146	73	66
Senior notes	295	-	80	80	100
Lease liabilities	49	50	50	50	50
Others	40	23	23	23	23
Non-Current Liabilities	384	73	153	153	173
Share Capital	54	55	55	55	55
Reserves	1,734	1,969	2,069	2,261	2,398
Shareholders' Equity	1,788	2,025	2,125	2,316	2,453
Ratios					
	2019A	2023E	2024E	2025E	2026E
Net debt/ LTM EBITDA	(0.05)x	(1.25)x	(0.1)x	(0.4)x	(0.7)x
Gross Profit Margin (%)	48%	79%	78%	80%	80%
- VIP	28%	60%	52%	57%	57%
- Mass	99%	92%	91%	91%	91%
- EGM	99%	84%	84%	84%	84%
- Non-gaming	83%	84%	82%	82%	82%
EBITDA Margin (%)	38%	55%	34%	52%	52%
Dividend Payout Ratio (total)	71%	0%	0%	60%	60%
GGR (% to 2019)		30%	32%	33%	33%
- VIP		14%	13%	13%	13%
- Mass		66%	88%	91%	94%
- EGM		81%	72%	73%	76%
EBITDA (% to 2019)		44%	29%	45%	47%
Net Profit (% to 2019)		34%	16%	39%	40%
Operating Data					
	2019A	2023A	2024E	2025E	2026E
VIP Tables (avg)	337	349	349	349	349
Mass Tables (avg)	167	186	186	186	186
EGM Machines (avg)	2,000	2,200	2,200	2,200	2,200
VIP win/table/Day (US\$)	10,106	1,396	1,232	1,225	1,242
Mass win/table/Day (US\$)	5,238	3,089	4,138	4,262	4,390
EGM win/unit/Day (US\$)	333	230	210	216	222
Visitors to Cambodia (m)	6.6	5.5	6.0	6.3	6.5
- % to 2019		82%	91%	95%	98%

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

Risk Reward – NagaCorp (3918.HK)

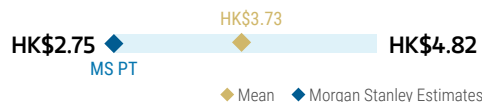
No Longer a Growth Stock, but still Not Value Enough

PRICE TARGET HK\$2.75

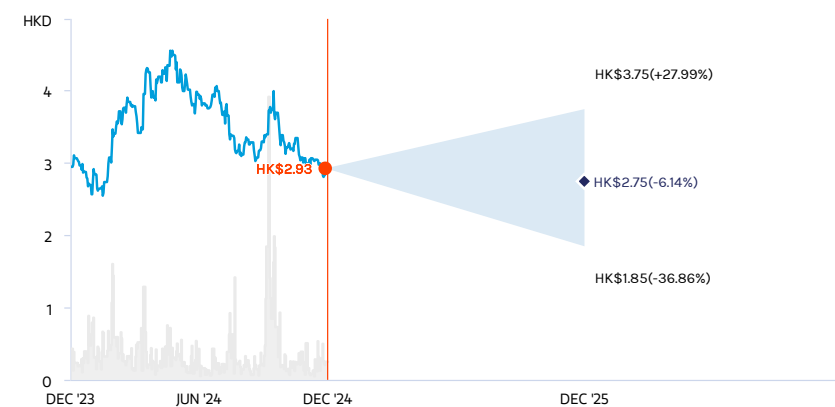
We apply a target FCFE yield of 14.0% to our 2025 estimate. The target FCFE yield is ~2pts higher than the historical average of 11.6% (2018-2019) to reflect the less visible growth prospects and higher rate environment.

Consensus Price Target Distribution

Source: Refinitiv, Morgan Stanley Research



RISK REWARD CHART



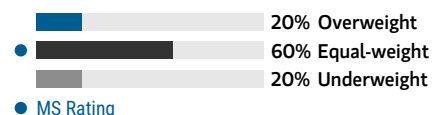
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

EQUAL-WEIGHT THESIS

- Naga is now back to a net cash position. We expect it to downscale the Naga 3 project, which should be positive. These should allow Naga to resume dividends in 2025e, in our view. We expect a 60% payout ratio, inline with the pre-Covid avg. and a 7% yield in 2025e.
- However, overhang of further Russia impairment remains.
- Also, growth and recovery are still not yet in sight. Recovery in visitations is no longer able to drive more GGR recovery.
- In the long run, competition risk may rise from regional markets (e.g. Thailand) and domestically (the government may want to add more integrated resorts in Cambodia).

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Pricing Power: *Positive*

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

BULL CASE

HK\$3.75

12.0% FCFE yield 2025e

Faster recovery in 2025: As a percentage of 2019 levels, revenue recovers in 2025e to 15% for VIP; 97% for mass; and 79% for slot (2024e: 13%, 88%, and 72%).

BASE CASE

HK\$2.75

14.0% FCFE yield 2025e

Base case recovery in 2025: As a percentage of 2019 levels, VIP, mass, and slot revenues recover in 2025e to 13% for VIP; 91% for mass table; and 73% for slot (2024e: 13%, 88%, and 72%).

BEAR CASE

HK\$1.85

17.0% FCFE yield 2024e

Further decline in 2025: As a percentage of 2019 levels, revenue declines in 2025e to 11% for VIP; 80% for mass; and 65% for slot (2024e: 13%, 88%, and 72%).

Risk Reward – NagaCorp (3918.HK)

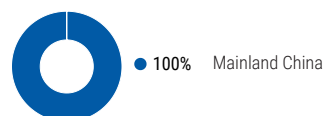
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Company VIP Revenue Growth (%)	51	(11)	(1)	1
Company Mass & Slot Revenue Growth (%)	3	17	3	3
Corporate EBITDA margin (Gross %)	55	34	52	52

INVESTMENT DRIVERS

- GGR recovery
- Cost discipline to improve cash flows

GLOBAL REVENUE EXPOSURE



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

RISKS TO PT/RATING

RISKS TO UPSIDE

- Faster-than-expected GGR recovery
- Management outlining feasible plans to reignite growth in various segments, particularly VIP segment

RISKS TO DOWNSIDE

- Slower-than-expected demand recovery
- More severe regional competition

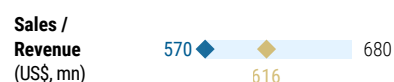
OWNERSHIP POSITIONING

Inst. Owners, % Active 60.9%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e



◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Risk Reward Reference links

1. View explanation of Options Probabilities methodology - [Options_Probabilities_Exhibit_Link.pdf](#)
2. View descriptions of Risk Rewards Themes - [RR_Themes_Exhibit_Link.pdf](#)
3. View explanation of regional hierarchies - [GEG_Exhibit_Link.pdf](#)
4. View explanation of Theme/Exposure methodology - [ESG_Sustainable_Solutions_External_Link.pdf](#)
5. View explanation of HERS methodology - [ESG_HERS_External_Link.pdf](#)

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(as of November 30, 2024)

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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	1420	38%	356	45%	25%	646	38%
Equal-weight/Hold	1731	46%	367	46%	21%	819	48%
Not-Rated/Hold	5	0%	0	0%	0%	1	0%
Underweight/Sell	593	16%	73	9%	12%	228	13%
Total	3,749		796			1694	

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)



Stock Rating History: 12/1/19 : O/A; 7/13/21 : E/A; 8/19/21 : E/I; 9/6/21 : O/I; 4/19/22 : O/A; 2/21/24 : E/I

Price Target History: 9/23/19 : 13.87; 2/12/20 : 14.86; 4/7/20 : 9.91; 8/25/20 : 10.9; 7/13/21 : 6.94; 9/6/21 : 7.23; 2/28/22 : 8.42; 7/22/22 : 8.92; 11/2/22 : 5.45; 7/6/23 : 5.5; 2/21/24 : 3.25

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)
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NagaCorp (3918.HK)	E (02/21/2024)	HK\$2.93
Praveen K Choudhary		
Genting Singapore Ltd (GENS.SI)	E (11/08/2024)	S\$0.75

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