

Genting Singapore (GENS SP)

The last potentially great gaming market opens up

Maintain BUY call and SGD1.46 TP

Japan has liberalised its casino industry. Many issues have yet to be finalised but we opine that GENS stands a good chance to win a license thanks to its responsible gaming experience and solid net cash position. Pundits estimate that Japanese gross gaming revenue (GGR) could be between USD6b-USD40b p.a. (2017 Singapore: USD4.6b). Our estimates, BUY call and SGD1.46 TP based on 12x FY18 EV/EBITDA, in-line with the 9-year 12M forward EV/EBITDA mean, are unchanged for now.

Japanese casino industry finally liberalised

The House of Councillors of the Japanese Diet passed the Integrated Resorts (IR) Implementation Bill last Friday. It was the last of three bills needed to legalise the Japanese casino industry. Its salient points are:- (i) cap of three IRs during the first stage of liberalisation (ii) casino floor area capped at 3% of total floor area (iii) gaming tax rate set at 30% of GGR (iv) Japanese will be subject to JPY6,000 entry fee every 24 hours and their number of visits limited to three weekly and ten monthly.

IR licenses likely to be issued in 2020

Going forward, (i) a casino control commission will be established (ii) about 300 additional regulations will be set (iii) an RFP process will be set for gaming operators and prefectures who are expected to submit joint bids (iv) a NGO similar to the National Council on Problem Gambling in Singapore will be created to handle responsible gaming issues. Consensus expects the RFP process to begin in mid-2019, IR licenses to be issued some time in 2020 and the first IRs to open in 2025.

Many issues yet to be determined though

The outstanding issues are (i) location of the IRs - Osaka, Yokohama, Wakyama, Nagasaki and Tomakomai are among >20 cities that have expressed interest in IRs (ii) whether one gaming operator can partner only one prefecture or whether multiple gaming operator can partner multiple prefectures (iii) capex commitments (iv) whether foreign gaming operators will be allowed to wholly own IRs; and (v) whether Macau style junkets will be allowed.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	2,228	2,393	2,457	2,560	2,667
EBITDA	779	1,151	1,179	1,222	1,268
Core net profit	285	648	743	787	837
Core FDEPS (cts)	2.4	5.4	6.2	6.5	6.9
Core FDEPS growth(%)	7.1	127.1	14.7	5.9	6.3
Net DPS (cts)	3.0	3.5	3.5	3.5	3.5
Core FD P/E (x)	33.2	21.0	20.7	19.6	18.4
P/BV (x)	1.3	1.8	2.0	1.9	1.8
Net dividend yield (%)	3.8	3.1	2.7	2.7	2.7
ROAE (%)	7.3	8.2	9.8	9.9	10.0
ROAA (%)	2.4	6.2	7.7	8.1	8.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	796	824	859
MKE vs. Consensus (%)	-	-	(6.5)	(4.5)	(2.6)

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BUY

Share Price	SGD 1.28
12m Price Target	SGD 1.46 (+14%)
Previous Price Target	SGD 1.46

Company Description

Owns and operates Resorts World Sentosa, one of two integrated resorts in Singapore.

Statistics

52w high/low (SGD)	1.39/1.03
3m avg turnover (USDm)	30.3
Free float (%)	46.8
Issued shares (m)	12,094
Market capitalisation	SGD15.5B
	USD11.3B

Major shareholders:

Genting Bhd.	52.5%
The Vanguard Group, Inc.	1.2%
BlackRock Fund Advisors	0.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	8	19
Relative to index (%)	5	17	18

Source: FactSet

GENS in good stead to win a license, in our view

Throughout the legislative process, we note that Japanese lawmakers made repeated references to the social safeguards installed in Singaporean IRs (i.e. entry fees, visit limits and research on gambling addiction). Therefore, we gather that gaming operators that operate in Singapore like GENS will have an advantage over others that do not. With its huge net cash pile of SGD3.0b as at end-1Q18, we also opine that GENS' financial position is better than many of the debt laden American gaming operators' and is therefore, better financed to see the construction of any IR through.

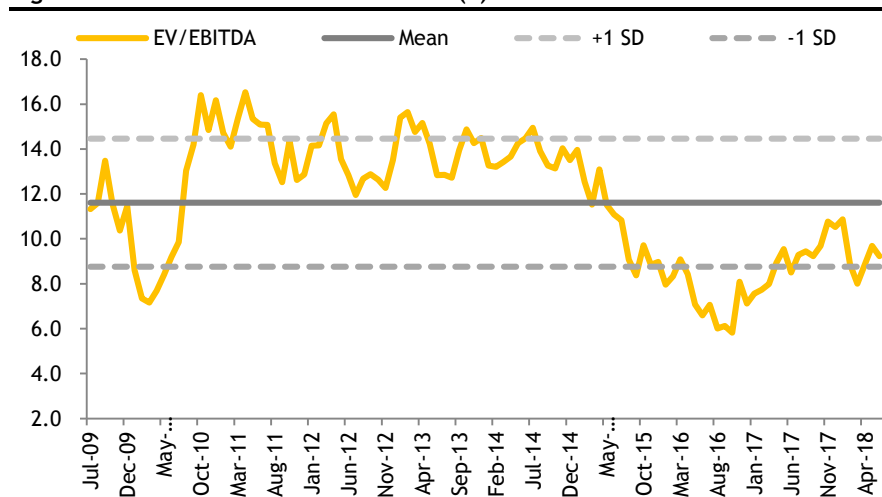
For now, we have not imputed any earnings or valuation contribution from any potential Japanese IR into our GENS earnings estimates and TP.

Figure 1: GENS EV/EBITDA valuation

	EBITDA	EV/EBITDA	EV	EV/sh	Comments
RWS	1,200.1	12.0	14,401.7	1.20	FY18E
Others	(20.9)	12.0	(250.7)	(0.02)	FY18E
Net cash/(debt)			3,211.4	0.27	End-FY18E
AFS financial assets			217.3	0.02	Cost
Equity value			17,579.7	1.46	

Source: Maybank Kim Eng

Figure 2: GENS 12M forward EV/EBITDA (x)

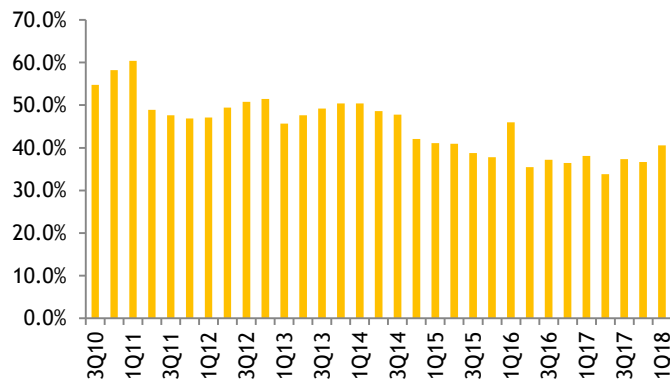


Source: Company, Maybank Kim Eng, Bloomberg

Value Proposition

- Owns and operates Resorts World Sentosa (RWS), one of two integrated resorts in Singapore.
- ROE < WACC due to VIP market slowdown driven by Chinese economic slowdown.
- That said, confident of declaring annual DPS of SGD0.035 p.a. going forward.
- Will consider expanding into other markets (e.g. Japan) if projected IRR > 15% and group ROEs return to > 10%.
- Redeemed SGD2.3b perpetual securities in Sep/Oct 2017 but raising JPY bonds to finance a potential Japanese casino license.

Share of Singapore gross gaming revenue

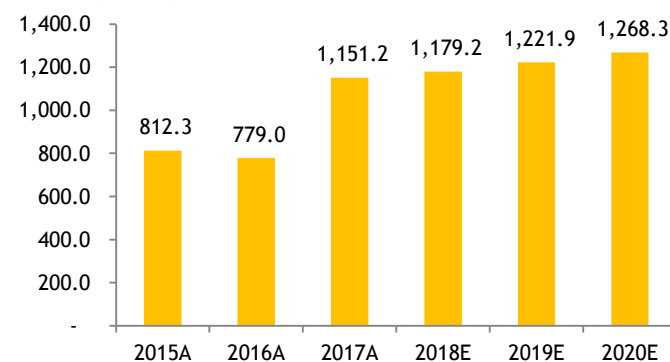


Source: Company, Las Vegas Sands, Maybank Kim Eng

Financial Metrics

- Key financial metric is EBITDA. Most casino operators are valued on EV/EBITDA basis.
- FY17 EBITDA surged 48% YoY on normalised VIP win rate and fewer bad debts.
- Assuming normalised VIP win rate of 2.85% in the long run, forecast steady state EBITDA of SGD1.2b-SGD1.3b.
- Recurring capex light at SGD120m-SGD135m p.a. or -5% of net revenue.
- Balance sheet in net cash position of SGD2.7b or SGD0.23/share as at end-4Q17.

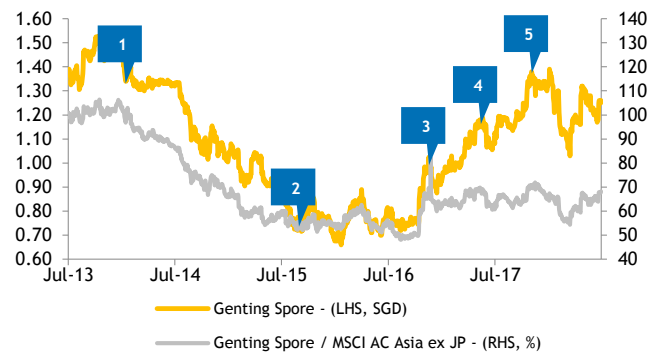
EBITDA (SGDm)



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

- Singapore VIP market deteriorated due to high previous year base and fewer Chinese VIPs.
- Reported 2Q15 net loss due to derivative and foreign exchange losses.
- Declared maiden interim DPS of 1.5cents/Japanese Diet passed the IR Promotion Bill.
- Reported 1Q17 core net profit of >SGD150m due to lower than expected direct VIP rebate rates.
- Reported 3Q17 core net profit of >SGD175m due to higher than expected VIP volume.

Swing Factors

Upside

- VIP win rate - If VIP win rate is above theoretical levels, it can positively influence earnings.
- Local mass market base - Singaporeans account for the majority of mass market gamblers and are more resilient.
- VIP: mass market mix - Tilt towards mass market to expand margins due to less commissions and rebates.

Downside

- VIP win rate - If VIP win rate is below theoretical levels, it can negatively influence earnings.
- Bad debts - Chinese account for the majority of VIPs but gambling debts are not enforceable in China.
- Regional expansion - new jurisdictions often require high capex commitments without guaranteeing returns.

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FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	17.7	22.6	20.7	19.6	18.4
Core P/E (x)	33.1	21.0	20.7	19.6	18.4
Core FD P/E (x)	33.2	21.0	20.7	19.6	18.4
P/BV (x)	1.3	1.8	2.0	1.9	1.8
P/NTA (x)	1.3	1.9	2.0	1.9	1.8
Net dividend yield (%)	3.8	3.1	2.7	2.7	2.7
FCF yield (%)	10.9	8.7	6.0	6.4	6.6
EV/EBITDA (x)	na	na	na	na	na
EV/EBIT (x)	na	na	na	na	na
INCOME STATEMENT (SGD m)					
Revenue	2,228.1	2,392.6	2,456.6	2,559.6	2,667.3
EBITDA	779.0	1,151.2	1,179.2	1,221.9	1,268.3
Depreciation	(296.7)	(282.9)	(282.9)	(282.9)	(282.9)
EBIT	482.3	868.3	896.3	939.0	985.4
Net interest income / (exp)	39.3	35.4	8.5	17.4	29.1
Associates & JV	(6.2)	3.4	0.0	0.0	0.0
Exceptionals	(18.8)	(47.1)	0.0	0.0	0.0
Pretax profit	496.6	860.0	904.9	956.4	1,014.5
Income tax	(112.1)	(174.5)	(161.4)	(169.3)	(177.5)
Minorities	0.0	0.0	0.0	0.0	0.0
Perpetual securities	(118.2)	(84.6)	0.0	0.0	0.0
Discontinued operations	266.3	0.0	0.0	0.0	0.0
Reported net profit	532.7	601.0	743.5	787.1	837.0
Core net profit	285.1	648.1	743.5	787.1	837.0
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	5,066.5	3,951.2	4,224.3	4,378.8	4,578.0
Accounts receivable	197.7	126.9	141.7	148.8	156.3
Inventory	61.5	48.6	49.9	52.0	54.2
Property, Plant & Equip (net)	5,241.6	5,068.9	4,908.8	4,753.8	4,604.3
Intangible assets	146.3	124.8	124.8	124.8	124.8
Investment in Associates & JVs	50.9	54.3	54.3	54.3	54.3
Other assets	681.7	232.2	220.4	220.4	220.4
Total assets	11,446.3	9,606.8	9,724.2	9,732.9	9,792.2
ST interest bearing debt	185.6	203.1	388.6	388.6	0.2
Accounts payable	349.7	462.7	476.1	498.6	521.5
LT interest bearing debt	978.4	1,012.9	624.3	235.8	235.5
Other liabilities	402.0	487.0	472.0	481.0	490.0
Total Liabilities	1,916.0	2,165.3	1,960.5	1,603.5	1,247.2
Shareholders Equity	7,221.9	7,441.6	7,763.7	8,129.4	8,545.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	7,221.9	7,441.6	7,763.7	8,129.4	8,545.1
Perpetual securities	2,308.3	0.0	0.0	0.0	0.0
Total liabilities and equity	11,446.3	9,606.8	9,724.2	9,732.9	9,792.2
CASH FLOW (SGD m)					
Pretax profit	496.6	860.0	904.9	956.4	1,014.5
Depreciation & amortisation	296.7	282.9	282.9	282.9	282.9
Adj net interest (income)/exp	(39.3)	(35.4)	(8.5)	(17.4)	(29.1)
Change in working capital	168.2	97.7	(2.7)	13.3	13.2
Cash taxes paid	(64.4)	(78.2)	(176.4)	(160.2)	(168.0)
Other operating cash flow	307.0	128.9	41.9	41.9	41.9
Cash flow from operations	1,164.8	1,255.9	1,042.0	1,116.9	1,155.4
Capex	(138.1)	(78.3)	(122.8)	(128.0)	(133.4)
Free cash flow	1,026.7	1,177.6	919.2	988.9	1,022.1
Dividends paid	(360.4)	(360.8)	(421.4)	(421.4)	(421.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	(2,300.0)	0.0	0.0	0.0
Change in Debt	(467.3)	28.9	(203.1)	(388.6)	(388.6)
Perpetual securities distribution	(118.2)	(117.9)	0.0	0.0	0.0
Other invest/financing cash flow	(166.2)	510.2	(21.6)	(24.5)	(12.9)
Effect of exch rate changes	46.8	(67.5)	0.0	0.0	0.0
Net cash flow	(38.6)	(1,129.5)	273.1	154.5	199.3

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	(7.2)	7.4	2.7	4.2	4.2
EBITDA growth	(4.1)	47.8	2.4	3.6	3.8
EBIT growth	3.0	80.0	3.2	4.8	4.9
Pretax growth	77.8	73.2	5.2	5.7	6.1
Reported net profit growth	608.5	12.8	23.7	5.9	6.3
Core net profit growth	6.6	127.3	14.7	5.9	6.3
Profitability ratios (%)					
EBITDA margin	35.0	48.1	48.0	47.7	47.6
EBIT margin	21.6	36.3	36.5	36.7	36.9
Pretax profit margin	22.3	35.9	36.8	37.4	38.0
Payout ratio	67.6	70.0	56.7	53.5	50.3
DuPont analysis					
Net profit margin (%)	23.9	25.1	30.3	30.8	31.4
Revenue/Assets (x)	0.2	0.2	0.3	0.3	0.3
Assets/Equity (x)	1.6	1.3	1.3	1.2	1.1
ROAE (%)	7.3	8.2	9.8	9.9	10.0
ROAA (%)	2.4	6.2	7.7	8.1	8.6
Liquidity & Efficiency					
Cash conversion cycle	(11.7)	(77.4)	(98.7)	(97.0)	(97.0)
Days receivable outstanding	68.2	24.4	19.7	20.4	20.6
Days inventory outstanding	14.7	16.0	13.9	13.7	13.7
Days payables outstanding	94.7	117.8	132.3	131.2	131.3
Dividend cover (x)	1.5	1.4	1.8	1.9	2.0
Current ratio (x)	9.2	4.8	4.2	4.2	6.6
Leverage & Expense Analysis					
Asset/Liability (x)	6.0	4.4	5.0	6.1	7.9
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	1.5	1.1	0.9	0.5	0.2
Capex/revenue (%)	6.2	3.3	5.0	5.0	5.0
Net debt/ (net cash)	(3,902.5)	(2,735.2)	(3,211.4)	(3,754.4)	(4,342.3)

Source: Company; Maybank

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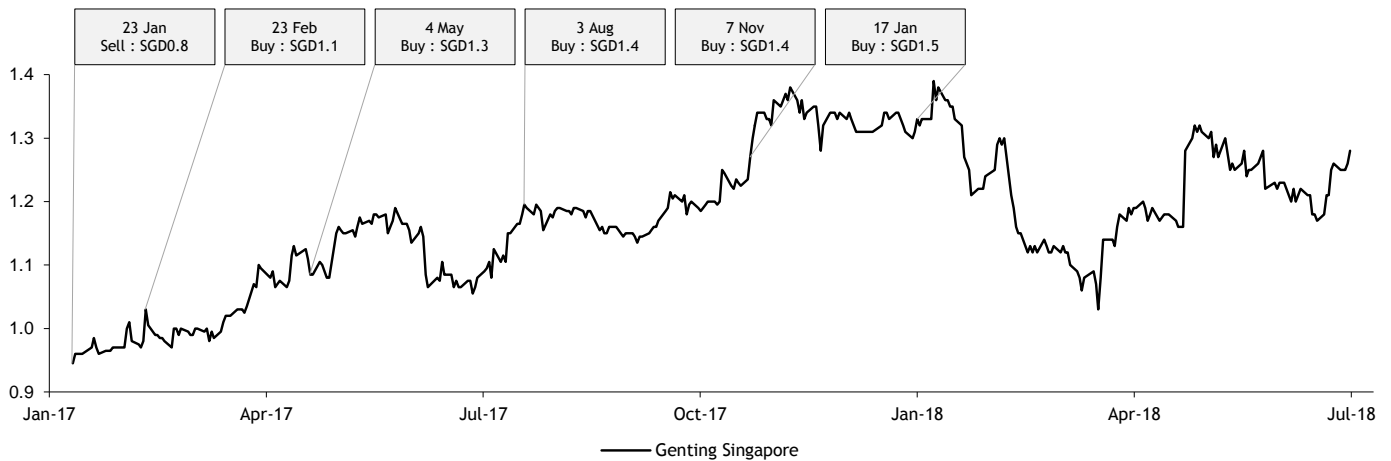
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