

Genting Singapore (GENS SP)

Recent selldown unjustified; U/G to BUY

U/G from HOLD; TP raised 3 cents to SGD1.29

Since reporting 2Q18 results, GENS' share price has plunged 28%. 3Q18 results not only pleasantly surprised us, but GENS is cautiously optimistic on its outlook. We raise our earnings estimates by 5-7% and TP by 2% to SGD1.29 on an unchanged 10x FY18 EV/EBITDA (slightly below 5-year mean). In our view, GENS is unjustifiably trading at 'crisis' valuations of 5.4x FY19 EV/EBITDA or nearly half the 5-year mean and 1.3x FY19 P/BV or only 0.1x above the Global Financial Crisis trough. BUY for 45% upside.

9M18 VIP volume and win rate higher than expected

3Q18 core net profit of SGD211.2m (+13% YoY, +30% QoQ) brought 9M18 core net profit to SGD614.4m (+23% YoY), which was above our expectation at 83% of our full year estimate. 9M18 EBITDA of SGD943.6m (+5% YoY) was also above of our expectation at 80% of our full-year estimate. The outperformance was due to 9M18 VIP volume of SGD26.0b, which was -10% more than we expected, and 9M18 VIP win rate of 2.9%, which was -10bps more than we expected.

Both VIP and mass market performed better QoQ

3Q18 VIP volume of SGD8.3b was up 13% YoY and 5% QoQ as Resorts World Sentosa (RWS) extended more credit to VIPs, as exemplified by end-3Q18 net trade receivables balance of SGD142.3m which was up 3% YoY and 27% QoQ. 3Q18 impairment of trade receivables of SGD12.9m remained benign at 5% of VIP GGR. More importantly, the high margin 3Q18 mass market GGR of -SGD375m was flattish YoY and up -5% QoQ. Recall that 2Q18 mass market GGR of -SGD350m was down -5% YoY and -15% QoQ.

Raised earnings estimates by 5-7%

Going forward, GENS intends to extend more credit to VIPs to generate VIP volumes, albeit in a gradual way. While regional competition for mass market GGR is intense, GENS hopes that its planned SGD1b revamp of RWS will be approved soon to counter it. Reflecting 9% higher VIP volume and higher FY18 VIP win rate of 2.90% (2.85% thereafter), we raise our earnings estimates by 7%/5%/5% (Figure 12) and EV/EBITDA-based TP by 2% to SGD1.29 (Figure 13).

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	2,228	2,393	2,505	2,593	2,703
EBITDA	779	1,151	1,211	1,237	1,285
Core net profit	281	641	799	829	880
Core FDEPS (cts)	2.3	5.3	6.6	6.9	7.3
Core FDEPS growth(%)	(2.7)	127.9	24.6	3.7	6.2
Net DPS (cts)	3.0	3.5	3.5	3.5	3.5
Core FD P/E (x)	38.8	24.6	13.4	12.9	12.2
P/BV (x)	1.5	2.1	1.4	1.3	1.2
Net dividend yield (%)	3.3	2.7	3.9	3.9	3.9
ROAE (%)	3.7	8.2	10.5	10.3	10.4
ROAA (%)	2.4	6.1	8.2	8.4	8.9
EV/EBITDA (x)	8.1	11.1	6.0	5.4	4.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	773	795	813
MKE vs. Consensus (%)	-	-	3.4	4.3	8.2

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BUY

[Prior:HOLD]

Share Price SGD 0.89
12m Price Target SGD 1.29 (+45%)
Previous Price Target SGD 1.26

Company Description

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

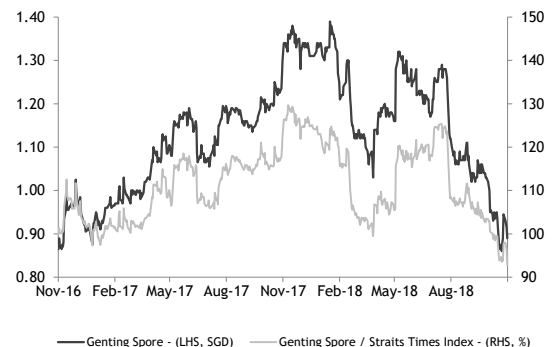
Statistics

52w high/low (SGD)	1.39/0.86
3m avg turnover (USDm)	26.9
Free float (%)	46.9
Issued shares (m)	12,094
Market capitalisation	SGD10.8B
	USD7.9B

Major shareholders:

Genting Bhd.	52.5%
The Vanguard Group, Inc.	1.2%
BlackRock Fund Advisors	0.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(13)	(21)	(32)
Relative to index (%)	(9)	(14)	(24)

Source: FactSet

Figure 1: Summary results

FY Dec (SGD m)	3Q18	3Q17	% YoY	2Q18	% QoQ	9M18	9M17	% YoY
Turnover	639.1	629.9	1.5	560.3	14.1	1,874.5	1,812.5	3.4
Operating expenses	(320.3)	(309.8)	3.4	(294.4)	8.8	(930.8)	(916.4)	1.6
EBITDA	318.8	320.1	(0.4)	265.9	19.9	943.6	896.1	5.3
Depreciation & amortisation	(72.1)	(69.0)	4.5	(69.5)	3.7	(211.3)	(208.6)	1.3
EBIT	246.7	251.1	(1.7)	196.4	25.6	732.4	687.5	6.5
Interest expense	9.9	10.2	(2.6)	8.4	17.3	25.0	30.3	(17.3)
Associates	1.2	0.7	65.4	1.0	22.1	2.9	2.7	6.1
Exceptional items	(0.8)	(44.0)	(98.1)	14.8	(105.7)	(9.2)	(31.3)	(70.7)
Pre-tax profit	257.0	218.0	17.9	220.6	16.5	751.2	689.2	9.0
Tax	(46.6)	(49.3)	(5.6)	(43.0)	8.3	(145.9)	(137.6)	6.0
Perpetual securities	-	(24.9)	(100.0)	-	N/M	-	(83.4)	(100.0)
Net profit	210.4	143.8	46.3	177.6	18.5	605.2	468.2	29.3
Net profit Ex EI	211.2	187.8	12.5	162.8	29.7	614.4	499.5	23.0
	3Q18	3Q17	+/- ppt	2Q18	+/- ppt	9M18	9M17	+/- ppt
EBITDA margin (%)	49.9	50.8	(0.9)	47.5	2.4	50.3	49.4	0.9
Tax rate (%)	18.1	22.6	(4.5)	19.5	(1.4)	19.4	20.0	(0.5)
Segmental Results Table								
FY Dec (SGD m)	3Q18	3Q17	% YoY	2Q18	% QoQ	9M18	9M17	% YoY
Turnover	639.1	629.9	1.5	560.3	14.1	1,874.5	1,812.5	3.4
- Singapore IR gaming	445.4	452.1	(1.5)	406.1	9.7	1,358.9	1,328.7	2.3
- Singapore IR non-gaming	192.8	177.1	8.9	153.5	25.6	513.5	481.3	6.7
- Others	0.9	0.7	27.1	0.6	37.0	2.1	2.6	(19.9)
Adjusted EBITDA	318.8	320.1	(0.4)	265.9	19.9	943.6	896.1	5.3
- Singapore IR	326.4	325.5	0.3	273.9	19.2	966.3	909.6	6.2
- Others	(7.6)	(5.4)	40.5	(8.0)	(4.9)	(22.7)	(13.5)	67.7
Adjusted EBITDA margin	49.9	50.8	(0.9)	47.5	2.4	50.3	49.4	0.9
- Singapore IR	51.2	51.7	(0.6)	48.9	2.2	51.6	50.3	1.4
- Others	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M

Source: Company

Results analysis

3Q18 EBITDA was flattish YoY due to:-

- 3Q18 VIP win rate of 2.9% which was ~20bps lower YoY;

But moderated by:-

- 3Q18 VIP volume growth of 13% YoY;

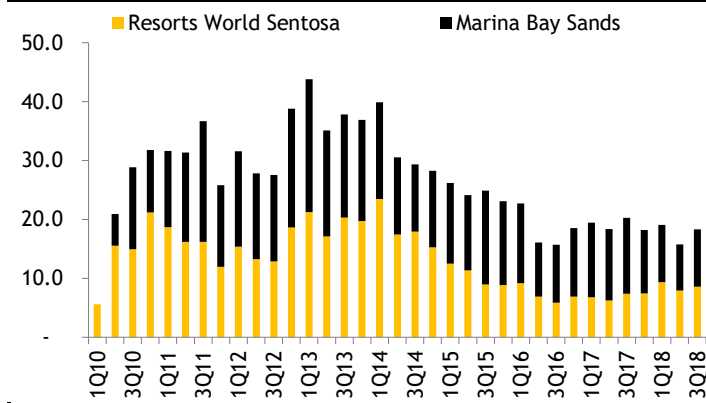
3Q18 EBITDA grew 20% QoQ due to:-

- 3Q18 VIP win rate of 2.9% which was ~30bps higher QoQ;
- 3Q18 mass market GGR of ~SGD375m which was ~5% higher QoQ;

But moderated by:-

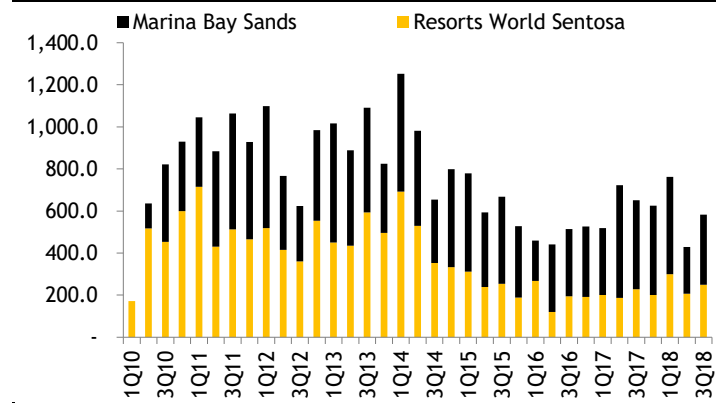
- 3Q18 impairment of trade receivables of SGD12.9m (2Q18: SGD0.5m)

Figure 2: Estimated Singapore VIP volume (SGDb)



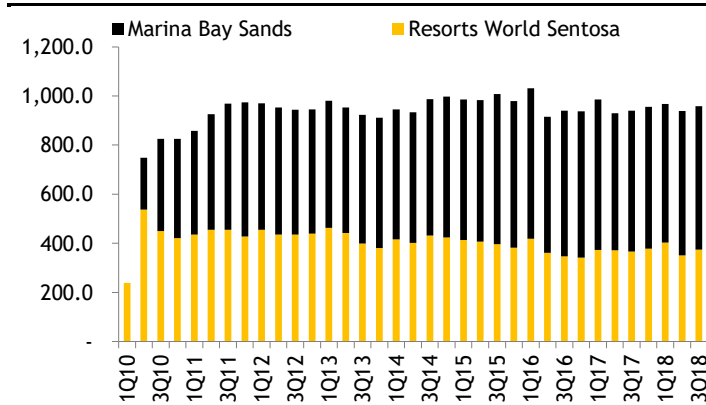
Source: Las Vegas Sands, Company, Maybank Kim Eng

Figure 3: Estimated Singapore VIP GGR (SGDm)



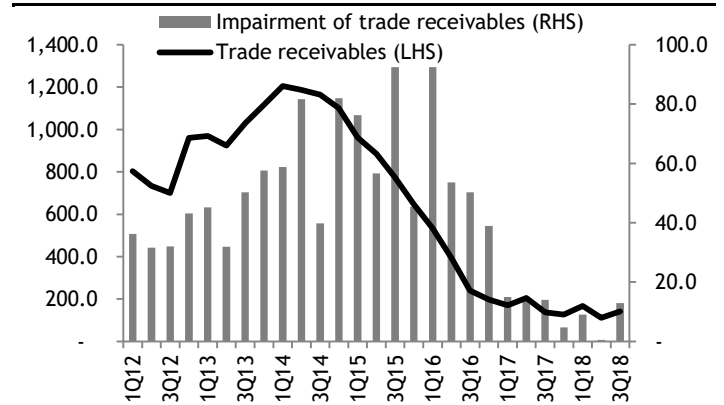
Source: Las Vegas Sands, Company, Maybank Kim Eng

Figure 4: Estimated Singapore mass market GGR (SGDm)



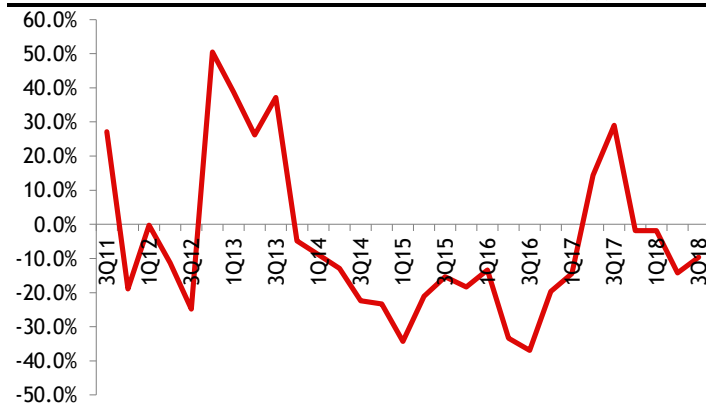
Source: Las Vegas Sands, Company, Maybank Kim Eng

Figure 5: GENS trade receivables vs impairments (SGDm)



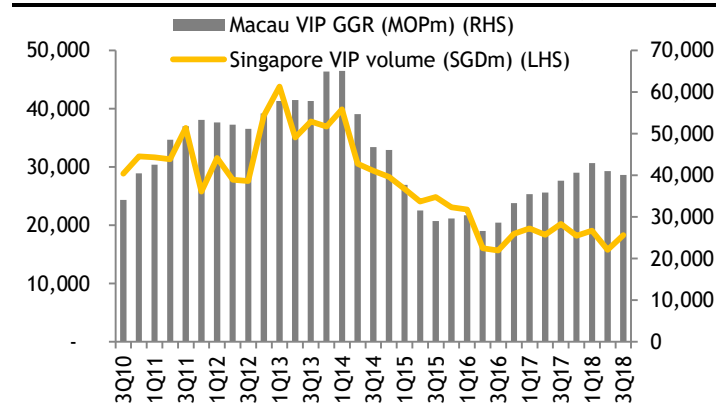
Source: Company

Figure 6: Estimated Singapore VIP volume chg YoY (%)



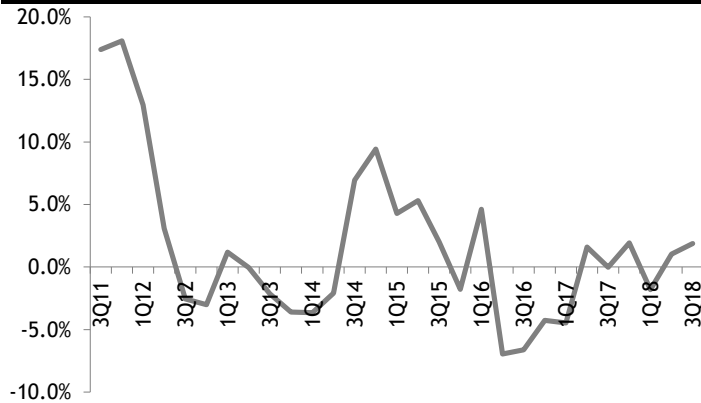
Source: Las Vegas Sands, Company, Maybank Kim Eng

Figure 7: Singapore VIP volume vs Macau VIP GGR (R² : 0.79)



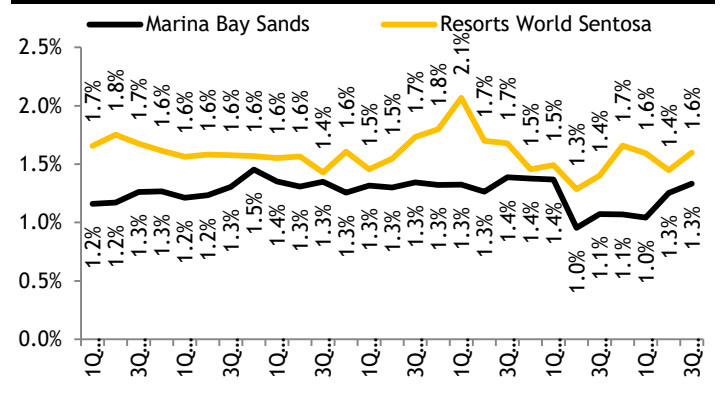
Source: Company, Las Vegas Sands, Gaming Inspection & Coordination Bureau

Figure 8: Estimated Singapore mass market GGR chg YoY (%)



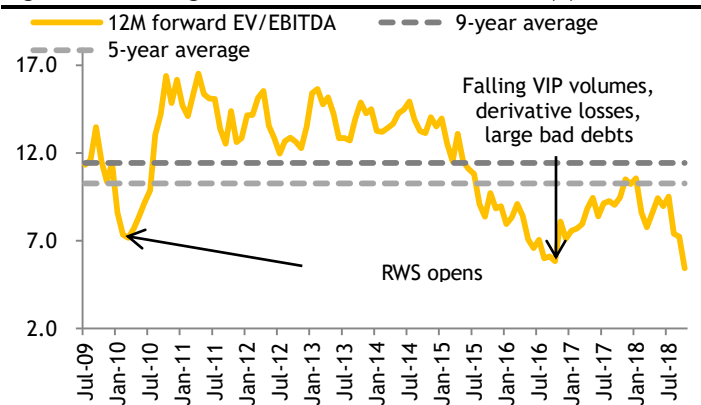
Source: Las Vegas Sands, Company, Maybank Kim Eng

Figure 9: Estimated direct VIP rebate rates as % of VIP volume



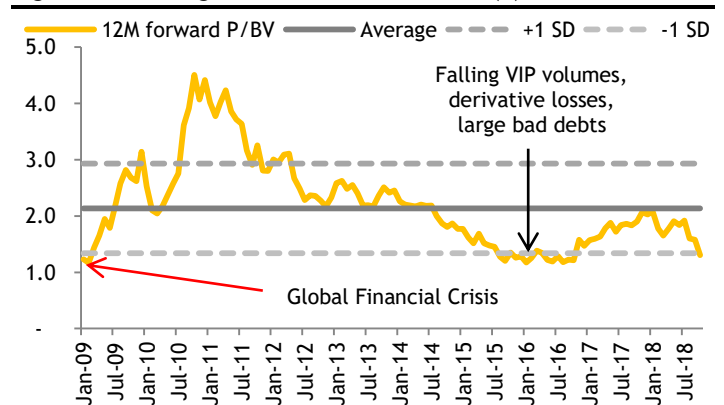
Source: Las Vegas Sands, Company, Maybank Kim Eng

Figure 10: Rolling GENS 12M forward EV/EBITDA (x)



Source: Company, Maybank Kim Eng, Bloomberg

Figure 11: Rolling GENS 12M forward P/BV (x)



Source: Company, Maybank Kim Eng, Bloomberg

Figure 12: Revisions in assumptions

SGDm	FY15A*	FY16A*	FY17A*	FY18E	FY19E	FY20E
Previous						
Industry VIP volume (A)	98,229.1	72,979.4	76,243.5	80,055.7	84,058.4	88,261.4
RWS share of VIP volume (B)	42.4%	39.5%	36.6%	40.0%	40.0%	40.0%
RWS VIP volume (C=AXB)	41,614.8	28,851.4	27,896.7	32,022.3	33,623.4	35,304.5
VIP win rate (D)	2.38%	2.68%	2.93%	2.85%	2.85%	2.85%
VIP GGR (E=CXD)	991.8	774.6	817.2	912.6	958.3	1,006.2
Revised						
Industry VIP volume (A)	98,229.1	72,979.4	76,243.5	72,431.3	76,052.9	79,855.5
RWS share of VIP volume (B)	42.4%	39.5%	36.6%	48.0%	48.0%	48.0%
RWS VIP volume (C=AXB)	41,614.8	28,851.4	27,896.7	34,767.0	36,505.4	38,330.7
VIP win rate (D)	2.38%	2.68%	2.93%	2.90%	2.85%	2.85%
VIP GGR (E=CXD)	991.8	774.6	817.2	1,008.2	1,040.4	1,092.4

* Estimates based on data points provided by the company

Source: Company, Maybank Kim Eng

Figure 13: GENS EV/EBITDA valuation

SGDm	EBITDA	EV/EBITDA	EV	EV/sh	Comments
RWS	1,231.7	10.0	12,316.6	1.02	FY18E
Others	(20.9)	10.0	(208.9)	(0.02)	FY18E
Net cash/(debt)			3,260.9	0.27	End-FY18E
AFS financial assets			217.3	0.02	Cost
SOP			15,585.9	1.29	

Source: Maybank Kim Eng

Since reporting poorer-than-expected 2Q18 results on 6 Aug 2018, GENS' share price has plunged 28%. We gather this was due to investors' concerns that the VIP market deceleration in Macau will spill over to Singapore and eventually, RWS. That said, RWS grew its 3Q18 VIP volumes YoY and QoQ and expects more growth going forward as it gradually extends more credit to VIPs.

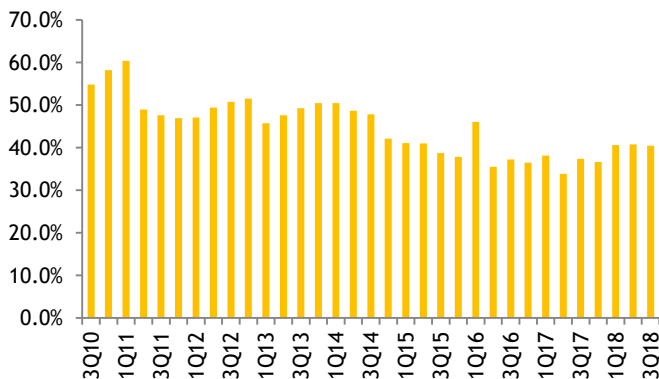
GENS is trading at 5.4x FY19 EV/EBITDA or nearly half the 5-year mean (Figure 10) and 1.3x FY19 P/BV or only 0.1x above the Global Financial Crisis trough (Figure 11). In fact, the former is a record low. We opine that such 'crisis' valuations are unwarranted as there are no signs of any crisis. In fact, GENS is cautiously optimistic on its outlook, especially the VIP market.

We raise our earnings estimates by 5-7% to account for 9% higher VIP volume and higher FY18 VIP win rate of 2.90% (2.85% thereafter) (Figure 12) and TP by 2% to SGD1.29 on an unchanged 10x FY18 EV/EBITDA (slightly below 5-year mean) (Figure 13). With 45% upside potential, we upgrade GENS to BUY from HOLD.

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

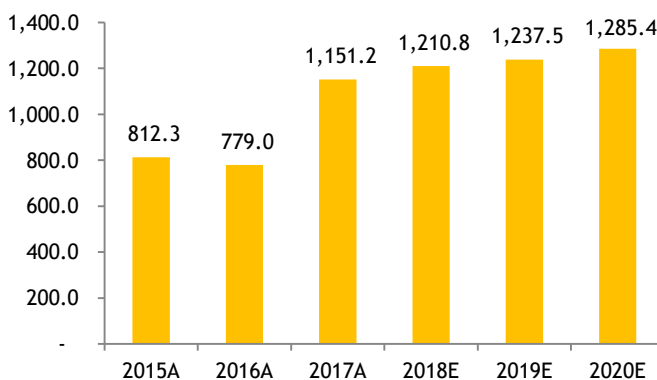


Source: Company, Las Vegas Sands, Maybank Kim Eng

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.

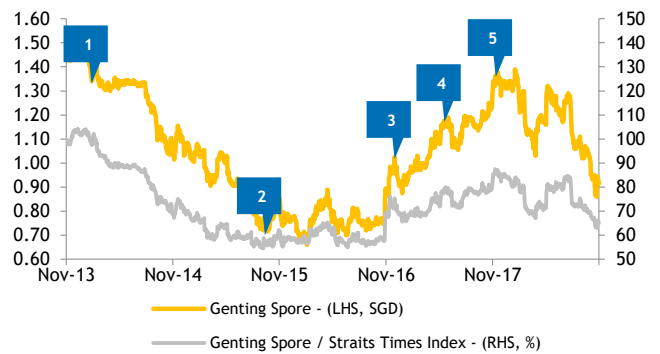
EBITDA (SGDm)



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



Source: Company, FactSet, 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, 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 will expand margins due to less commissions and rebates.

Downside

- VIP win rate - If VIP win rate is below theoretical levels, 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.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	35.5	22.6	13.4	12.9	12.2
Core P/E (x)	38.7	24.6	13.4	12.9	12.2
Core FD P/E (x)	38.8	24.6	13.4	12.9	12.2
P/BV (x)	1.5	2.1	1.4	1.3	1.2
P/NTA (x)	1.5	2.2	1.4	1.3	1.3
Net dividend yield (%)	3.3	2.7	3.9	3.9	3.9
FCF yield (%)	9.4	7.5	9.0	9.6	9.9
EV/EBITDA (x)	8.1	11.1	6.0	5.4	4.7
EV/EBIT (x)	13.0	14.7	7.8	7.0	6.0

INCOME STATEMENT (SGD m)

Revenue	2,228.1	2,392.6	2,504.7	2,593.1	2,702.5
EBITDA	779.0	1,151.2	1,210.8	1,237.5	1,285.4
Depreciation	(296.7)	(282.9)	(282.9)	(282.9)	(282.9)
EBIT	482.3	868.3	927.9	954.5	1,002.5
Net interest income / (exp)	39.3	35.4	37.7	46.6	58.2
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	965.6	1,001.1	1,060.7
Income tax	(112.1)	(174.5)	(166.8)	(172.5)	(180.9)
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	0.0	0.0	0.0	0.0	0.0
Reported net profit	266.3	601.0	798.8	828.6	879.8
Core net profit	280.9	640.9	798.8	828.6	879.8

BALANCE SHEET (SGD m)

Cash & Short Term Investments	5,066.5	3,951.2	4,273.7	4,468.5	4,708.4
Accounts receivable	197.7	126.9	156.6	161.6	169.7
Inventory	61.5	48.6	50.9	52.7	54.9
Property, Plant & Equip (net)	5,241.6	5,068.9	4,911.2	4,757.9	4,610.1
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	9,791.9	9,840.1	9,942.5
ST interest bearing debt	185.6	203.1	388.6	388.6	0.2
Accounts payable	349.7	462.7	482.3	505.3	528.3
LT interest bearing debt	978.4	1,012.9	624.3	235.8	235.5
Other liabilities	402.0	487.0	478.0	484.0	494.0
Total Liabilities	1,916.0	2,165.3	1,972.9	1,613.9	1,257.9
Shareholders Equity	7,221.9	7,441.6	7,819.0	8,226.2	8,684.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	7,221.9	7,441.6	7,819.0	8,226.2	8,684.7
Perpetual securities	2,308.3	0.0	0.0	0.0	0.0
Total liabilities and equity	11,446.3	9,606.8	9,791.9	9,840.1	9,942.5

CASH FLOW (SGD m)

Pretax profit	496.6	860.0	965.6	1,001.1	1,060.7
Depreciation & amortisation	296.7	282.9	282.9	282.9	282.9
Adj net interest (income)/exp	(39.3)	(35.4)	(37.7)	(46.6)	(58.2)
Change in working capital	168.2	97.7	(12.3)	16.2	12.6
Cash taxes paid	(64.4)	(78.2)	(175.6)	(165.9)	(171.3)
Other operating cash flow	307.0	128.9	71.1	71.1	71.1
Cash flow from operations	1,164.8	1,255.9	1,093.9	1,158.8	1,197.8
Capex	(138.1)	(78.3)	(125.2)	(129.7)	(135.1)
Free cash flow	1,026.7	1,177.6	968.7	1,029.2	1,062.7
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)	322.6	194.7	239.9

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	(7.2)	7.4	4.7	3.5	4.2
EBITDA growth	(4.1)	47.8	5.2	2.2	3.9
EBIT growth	3.0	80.0	6.9	2.9	5.0
Pretax growth	77.8	73.2	12.3	3.7	6.0
Reported net profit growth	254.3	125.6	32.9	3.7	6.2
Core net profit growth	(3.1)	128.1	24.6	3.7	6.2
Profitability ratios (%)					
EBITDA margin	35.0	48.1	48.3	47.7	47.6
EBIT margin	21.6	36.3	37.0	36.8	37.1
Pretax profit margin	22.3	35.9	38.5	38.6	39.2
Payout ratio	135.3	70.0	52.7	50.9	47.9
DuPont analysis					
Net profit margin (%)	12.0	25.1	31.9	32.0	32.6
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 (%)	3.7	8.2	10.5	10.3	10.4
ROAA (%)	2.4	6.1	8.2	8.4	8.9
Liquidity & Efficiency					
Cash conversion cycle	(11.7)	(77.4)	(97.3)	(95.3)	(95.6)
Days receivable outstanding	68.2	24.4	20.4	22.1	22.1
Days inventory outstanding	14.7	16.0	13.8	13.7	13.7
Days payables outstanding	94.7	117.8	131.5	131.1	131.3
Dividend cover (x)	0.7	1.4	1.9	2.0	2.1
Current ratio (x)	9.2	4.8	4.2	4.3	6.7
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	0.8	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)	(3,260.9)	(3,844.2)	(4,472.6)

Source: Company; Maybank

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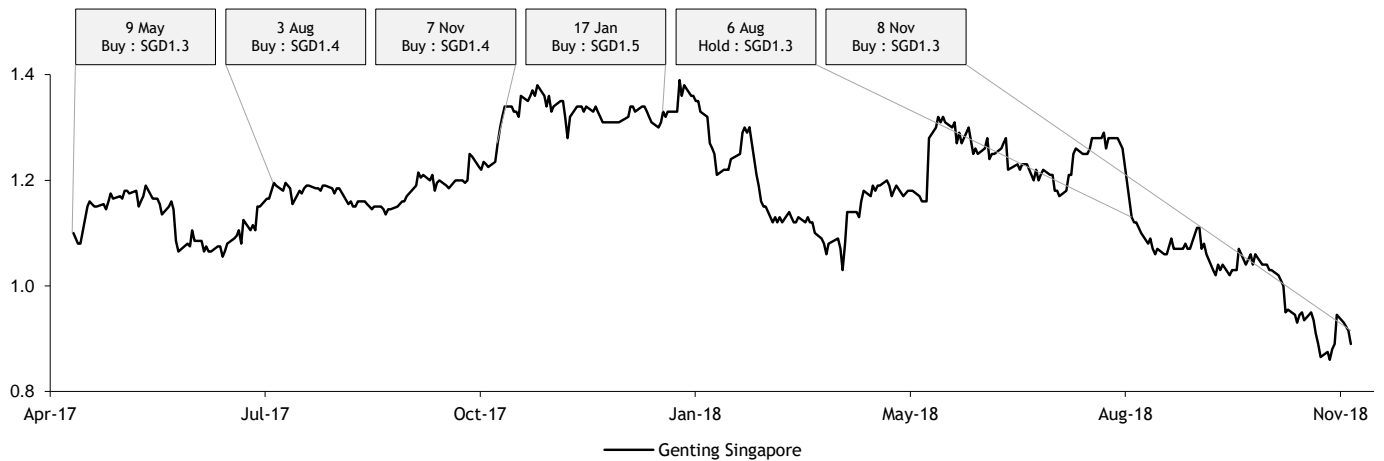
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