Gaming

Singapore

November 15, 2020

Maybank Kim Eng

Genting Singapore (GENS SP)

Not every day that it outshines Marina Bay Sands

HOLD

Share Price	SGD 0.75
12m Price Target	SGD 0.78 (+5%)
Previous Price Target	*SGD 0.76*

Maintain HOLD call with a tad higher TP of SGD0.78

3Q20 results surprised on the upside. We gather that the outperformance was due to local gamblers remaining in Singapore to gamble. Curiously, Resorts World Sentosa (RWS) generated more EBITDA than Marina Bay Sands (MBS) in nearly 10 years. We raise our FY20E EBITDA estimate by 425% but maintain our FY21E/FY22E EBITDA estimates. Consequently, our DCF-based TP is raised marginally to SGD0.78 from SGD0.76. With <10% upside potential still, we maintain HOLD on GENS.

3Q20 EBITDA +ve surprise due to slot machine GGR?

3Q20 core net profit of SGD73.2m brought 9M20 core net profit to SGD9.9m which was above our expectations as we were forecasting a FY net loss. The outperformance was largely due to 9M20 net gaming revenue falling 60% YoY or 14ppts narrower than we expected. Gleaning insights from MBS' 3Q20 results, we gather that high margin slot machine GGR (~20-25% of GGR) did not fall much YoY as local gamblers had to gamble in Singapore as they could not cross into Malaysia to do so.

Generated higher quarterly EBITDA than MBS

Of note, Resorts World Sentosa (RWS) generated a higher quarterly EBITDA than Marina Bay Sands (MBS) for the first time since 1Q11. We raise our FY20E EBITDA estimate by 425% as we now forecast FY20E mass market (tables and slot machines) GGR to fall a narrower 50% YoY (70% previously) (Fig. 2). Our FY21E/FY22E EBITDA estimates are unchanged as they are based on mass market GGR recovering to 75%/100% of pre-COVID-19 levels which we still deem as reasonable.

Long term EBITDA estimates little changed though

We also reduce our FY20E/FY21E/FY22E depreciation and amortisation estimates by 14% to be consistent with 6M20 results. Net impact of the above is that we now forecast FY20E net profit of SGD86.9m (SGD214.6m net loss previously) and raise FY21E/FY22E net profit forecasts by 12%/7%. As our long term EBITDA estimates are largely unchanged, we raise our DCF-based TP (WACC: 14.5%, g: 0%) marginally to SGD0.78 from SGD0.76. With <10% upside potential, maintain HOLD on GENS.

FYE Dec (SGD m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	2,539	2,480	1,065	1,644	2,208
EBITDA	1,230	1,190	382	771	1,105
Core net profit	765	704	87	412	695
Core FDEPS (cts)	6.3	5.8	0.7	3.4	5.8
Core FDEPS growth(%)	19.4	(8.1)	(87.7)	374.1	68.7
Net DPS (cts)	3.5	4.0	0.0	2.0	4.0
Core FD P/E (x)	15.4	15.8	nm	21.8	12.9
P/BV (x)	1.5	1.4	1.1	1.1	1.1
Net dividend yield (%)	3.6	4.3	0.0	2.7	5.4
ROAE (%)	9.9	8.7	1.1	5.0	8.3
ROAA (%)	7.9	7.4	1.0	4.5	7.5
EV/EBITDA (x)	6.7	6.0	13.1	5.8	3.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	(210)	345	529
MKE vs. Consensus (%)	-	-	141.5	19.5	31.4

Company Description

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

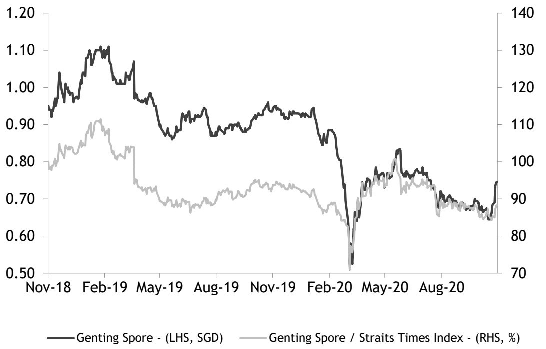
Statistics

52w high/low (SGD)	0.95/0.51
3m avg turnover (USDm)	11.5
Free float (%)	47.0
Issued shares (m)	12,065
Market capitalisation	SGD9.0B
	USD6.7B

Major shareholders:

Genting Bhd.	52.5%
The Vanguard Group, Inc.	1.5%
Blackrock Fund Advisors	0.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	8	3	(20)
Relative to index (%)	2	(1)	(5)

Source: FactSet

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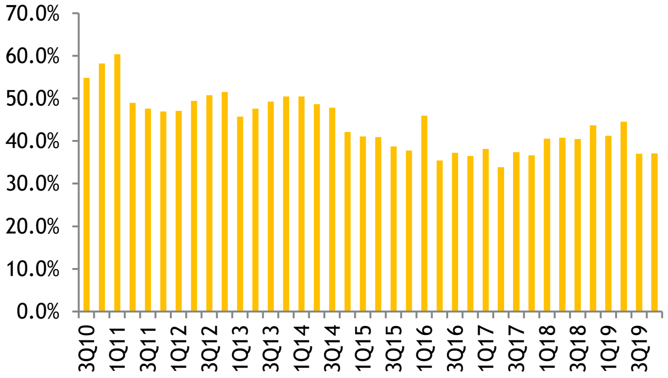
Value Proposition

- Owns and operates Resorts World Sentosa, one of two integrated resorts in Singapore.
- ROE<WACC due to VIP market slowdown driven by Chinese economic slowdown.
- 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*

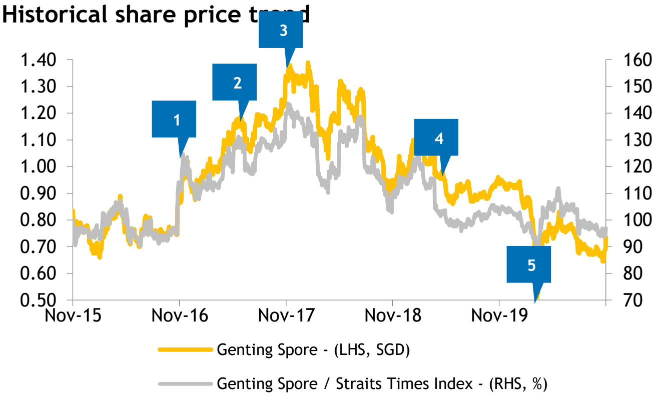


** 1Q20, 2Q20 and 3Q20 data not yet available*

Source: Company, Las Vegas Sands, Maybank Kim Eng

Price Drivers

Historical share price trend



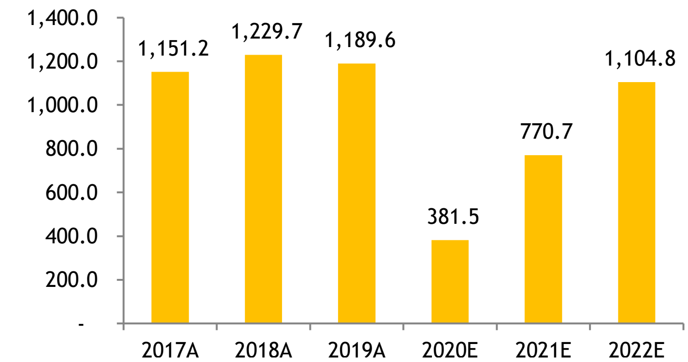
Source: Company, Maybank Kim Eng

1. Declared maiden interim DPS of 1.5cents/Japanese Diet passed the IR Promotion Bill.
2. Reported 1Q17 core net profit of >SGD150m due to lower than expected direct VIP rebate rates.
3. Reported 3Q17 core net profit of >SGD175m due to higher than expected VIP volume.
4. Casino entry levy hiked by 50% and casino tax rates will be hiked by 3-7ppts in Mar 2022.
5. COVID-19 pandemic struck Singapore. RWS closed from 6 Apr until 30 Jun 2020.

Financial Metrics

- Key financial metric is EBITDA. Most casino operators are valued on EV/EBITDA basis.
- Forecast FY20E EBITDA to plunge 68% YoY on RWS' three month closure and Singapore's borders being closed.
- Forecast FY21E EBITDA to recover to SGD770.7m as we expect Singaporean and Malaysian gamblers to return.
- Forecast FY22E EBITDA to recover to SGD1.1b as we expect Chinese and Indonesian gamblers to return.
- Balance sheet in net cash position of SGD3.4b or SGD0.28/share as at end-2Q20.

EBITDA (SGDm)



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- VIP win rate - if VIP win rate is above theoretical levels, it can positively influence earnings.
- VIP: mass market mix - tilt towards mass market will expand margins due to less commissions and rebates.
- SGD4.5b RWS expansion – dubbed 'RWS2.0', this will expand gaming and non-gaming capacity.

Downside

- VIP win rate – if VIP win rate is below theoretical levels, it can negatively influence earnings.
- Bad debts – Chinese accounts 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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Figure 1: Summary Results Table

FY Dec (SGD m)	3Q20	3Q19	% YoY	2Q20	% QoQ	9M20	9M19	% YoY
Turnover	**301.0**	**596.1**	***(49.5)***	**41.3**	***N/M***	**749.2**	**1,873.2**	***(60.0)***
- Singapore IR gaming	212.9	360.8	*(41.0)*	6.5	*N/M*	487.3	1,232.1	*(60.4)*
- Singapore IR non-gaming	59.9	234.6	*(74.5)*	16.3	*267.8*	214.6	638.9	*(66.4)*
- Others	28.2	0.7	*N/M*	18.5	*52.0*	47.3	2.2	*N/M*
Adjusted EBITDA/(LBITDA)	**149.0**	**278.0**	***(46.4)***	**(84.9)**	***(275.5)***	**215.7**	**902.1**	***(76.1)***
- Singapore IR	145.3	288.3	*(49.6)*	(79.0)	*(283.8)*	225.5	934.0	*(75.9)*
- Others	3.8	(10.2)	*(136.9)*	(5.9)	*(164.0)*	(9.8)	(31.9)	*(69.3)*
Exceptional items	(18.7)	3.6	*N/M*	(46.8)	*(60.0)*	(72.1)	3.7	*N/M*
EBITDA/(LBITDA)	**130.3**	**281.7**	***(53.7)***	**(131.8)**	***(198.9)***	**143.6**	**905.8**	***(84.1)***
Net profit/(loss) after taxation	**54.4**	**158.9**	***(65.7)***	**(163.3)**	***(133.3)***	**(62.2)**	**532.8**	***(111.7)***
Core net profit/(loss) after taxation	**73.2**	**155.2**	***(52.9)***	**(116.5)**	***(162.8)***	**9.9**	**529.0**	***(98.1)***
Adjusted EBITDA margin	**49.5**	**46.6**	***2.9***	**(205.6)**	***255.1***	**28.8**	**48.2**	***(19.4)***
- Singapore IR	**53.2**	**48.4**	***4.8***	**(346.9)**	***400.1***	**32.1**	**49.9**	***(17.8)***
- Others	**4.3**	**(4.4)**	***8.6***	**(17.0)**	***21.3***	**(3.7)**	**(5.0)**	***1.2***

Source: Company

Results analysis

- Note that GENS did not reveal its 1Q20, 2Q20 and 3Q20 gaming statistics in its quarterly business updates.
- 3Q20 adjusted EBITDA fell 46% YoY largely because RWS has imposed strict social distancing requirements at its casino:-
  - Entry limited to Genting Rewards members and/or Annual Levy Holders
  - Every alternate electronic gaming machine will be shut
  - Every table will be limited to four gamblers
  - Croupiers will not accept bets from standing gamblers
- Moreover, most of RWS' gamblers in 3Q20 were Singaporean citizens and permanent residents (SCPR) as Singapore's borders remain largely closed.
- RWS' gamblers in 3Q19 were a mix of Chinese, Malaysian, Indonesian, SCPR and other gamblers.
- GENS swung from 2Q20 adjusted LBITDA of SGD84.9m to 3Q20 adjusted EBITDA of SGD149m as RWS reopened on 1 Jul after being shut since 7 Apr 2020.

Figure 2: Major assumptions

SGDm	FY17A*	FY18A*	FY19A*	FY20E	FY21E	FY22E
Previous						
RWS mass market GGR	1,489.0	1,506.3	1,384.8	414.2	1,035.4	1,380.5
Depreciation and amortisation	282.9	315.5	389.8	389.8	389.8	389.8
Revised						
RWS mass market GGR	1,489.0	1,506.3	1,384.8	690.3	1,035.4	1,380.5
Depreciation and amortisation	282.9	315.5	389.8	335.5	335.5	335.5

Source: Company (historical), Maybank Kim Eng (forecasts)

Figure 3: GENS DCF-based valuation

	Value	Value/sh	Comments
RWS	5,382.9	0.45	WACC: 14.5%, g: 0%
Net cash	3,735.5	0.31	End-FY20E
Investments	299.5	0.02	End-FY20E
Equity value	**9,417.9**	**0.78**	

Source: Maybank Kim Eng

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	18.1	16.6	103.4	21.8	12.9
Core P/E (x)	15.3	15.8	103.4	21.8	12.9
Core FD P/E (x)	15.4	15.8	nm	21.8	12.9
P/BV (x)	1.5	1.4	1.1	1.1	1.1
P/NTA (x)	1.5	1.4	1.1	1.1	1.1
Net dividend yield (%)	3.6	4.3	0.0	2.7	5.4
FCF yield (%)	8.7	7.6	0.6	8.6	11.6
EV/EBITDA (x)	6.7	6.0	13.1	5.8	3.6
EV/EBIT (x)	9.0	9.0	108.9	10.3	5.1
INCOME STATEMENT (SGD m)					
Revenue	2,539.2	2,480.3	1,065.2	1,644.0	2,207.7
EBITDA	1,229.7	1,189.6	381.5	770.7	1,104.8
Depreciation	(315.5)	(389.8)	(335.5)	(335.5)	(335.5)
EBIT	914.2	799.8	46.0	435.2	769.3
Net interest income /(exp)	36.4	59.6	63.9	60.4	67.8
Associates & JV	4.0	4.0	4.0	4.0	4.0
Exceptionals	(11.3)	(16.5)	0.0	0.0	0.0
Pretax profit	943.2	846.9	113.9	499.6	841.1
Income tax	(187.8)	(158.3)	(27.0)	(87.6)	(145.9)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	755.4	688.6	86.9	412.0	695.2
Core net profit	765.5	704.0	86.9	412.0	695.2
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	4,333.1	3,947.3	3,992.1	4,514.7	4,822.9
Accounts receivable	143.8	137.5	23.9	59.9	89.8
Inventory	48.8	48.7	20.9	32.3	43.3
Property, Plant & Equip (net)	4,857.0	4,667.1	4,438.1	4,184.8	3,959.7
Intangible assets	103.3	152.9	152.9	152.9	152.9
Investment in Associates & JVs	58.3	62.2	66.2	70.2	74.2
Other assets	222.8	234.5	234.5	234.5	234.5
Total assets	**9,767.1**	**9,250.1**	**8,928.7**	**9,249.3**	**9,377.3**
ST interest bearing debt	206.4	4.0	2.5	249.3	2.5
Accounts payable	454.8	489.5	259.3	331.2	418.3
LT interest bearing debt	832.2	256.7	254.2	4.9	2.5
Other liabilities	492.0	442.0	268.0	349.0	426.0
Total Liabilities	**1,985.8**	**1,192.5**	**784.2**	**934.0**	**849.1**
Shareholders Equity	7,781.3	8,057.6	8,144.5	8,315.3	8,528.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**7,781.3**	**8,057.6**	**8,144.5**	**8,315.3**	**8,528.2**
Total liabilities and equity	**9,767.1**	**9,250.1**	**8,928.7**	**9,249.3**	**9,377.3**
CASH FLOW (SGD m)					
Pretax profit	943.2	846.9	113.9	499.6	841.1
Depreciation & amortisation	315.5	389.8	335.5	335.5	335.5
Adj net interest (income)/exp	(36.4)	(59.6)	(63.9)	(60.4)	(67.8)
Change in working capital	(8.4)	(66.8)	(88.9)	24.6	46.1
Cash taxes paid	(181.3)	(207.4)	(201.1)	(7.3)	(68.6)
Other operating cash flow	113.8	182.9	68.1	64.5	67.9
Cash flow from operations	1,146.4	1,085.9	163.6	856.5	1,154.1
Capex	(122.1)	(247.2)	(106.5)	(82.2)	(110.4)
Free cash flow	1,024.3	838.6	57.0	774.3	1,043.8
Dividends paid	(421.6)	(422.0)	0.0	(241.1)	(482.3)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(215.1)	(671.0)	(4.0)	(2.5)	(249.3)
Other invest/financing cash flow	(10.1)	(11.7)	(8.2)	(8.1)	(4.1)
Effect of exch rate changes	2.9	(1.0)	0.0	0.0	0.0
Net cash flow	380.3	(267.0)	44.9	522.6	308.1

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	6.1	(2.3)	(57.1)	54.3	34.3
EBITDA growth	6.8	(3.3)	(67.9)	102.0	43.4
EBIT growth	5.3	(12.5)	(94.2)	845.5	76.8
Pretax growth	9.7	(10.2)	(86.5)	338.5	68.4
Reported net profit growth	25.7	(8.8)	(87.4)	374.1	68.7
Core net profit growth	19.4	(8.0)	(87.7)	374.1	68.7
Profitability ratios (%)					
EBITDA margin	48.4	48.0	35.8	46.9	50.0
EBIT margin	36.0	32.2	4.3	26.5	34.8
Pretax profit margin	37.1	34.1	10.7	30.4	38.1
Payout ratio	55.8	70.0	0.0	58.5	69.4
DuPont analysis					
Net profit margin (%)	29.7	27.8	8.2	25.1	31.5
Revenue/Assets (x)	0.3	0.3	0.1	0.2	0.2
Assets/Equity (x)	1.3	1.1	1.1	1.1	1.1
ROAE (%)	9.9	8.7	1.1	5.0	8.3
ROAA (%)	7.9	7.4	1.0	4.5	7.5
Liquidity & Efficiency					
Cash conversion cycle	(93.5)	(97.7)	(151.5)	(101.6)	(97.8)
Days receivable outstanding	19.2	20.4	27.3	9.2	12.2
Days inventory outstanding	13.4	13.6	18.3	11.0	12.3
Days payables outstanding	126.1	131.7	197.1	121.7	122.3
Dividend cover (x)	1.8	1.4	nm	1.7	1.4
Current ratio (x)	5.2	5.9	13.6	6.6	8.1
Leverage & Expense Analysis					
Asset/Liability (x)	4.9	7.8	nm	9.9	nm
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)	0.8	0.2	0.7	0.3	0.0
Capex/revenue (%)	4.8	10.0	10.0	5.0	5.0
Net debt/ (net cash)	(3,294.5)	(3,686.6)	(3,735.5)	(4,260.6)	(4,817.9)

Source: Company; Maybank

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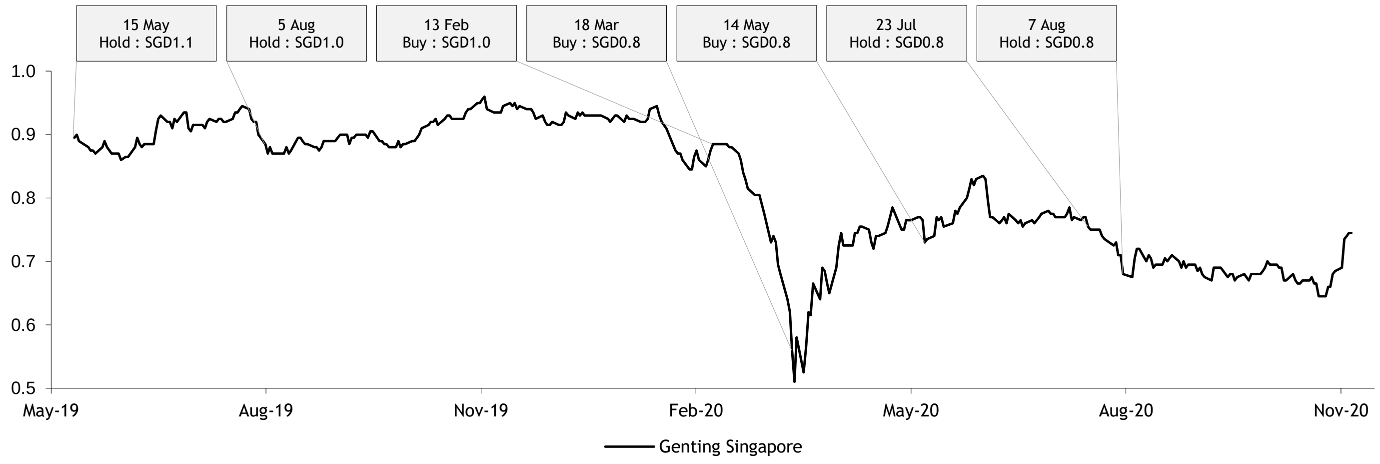

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