

Genting Singapore (GENS SP)

Has big plans for 2019

Retain BUY call with a tad lower TP of SGD1.26 (-2%)

Although the Macau VIP market growth is decelerating, we are sanguine about the Singaporean one. Yet, GENS still trades at an attractive 6.8x FY19E EV/EBITDA or -1.5 SD to LT mean and only 11.0x FY19E ex-net cash PER. We roll forward our valuation to 9.0x FY19E EV/EBITDA (close to -1SD to LT mean of 8.5x) from 10.0x FY18E EV/EBITDA (5-year mean) leading to a trimmed TP by 2% to SGD1.26. Key 2019 lookouts are RWS rejuvenation plans and potential expansion into Japan.

Macau VIP woes may not spill over to Singapore

Macau VIP GGR has been easing YoY since Sep 2018 due to the decelerating Chinese economy (Fig 1). Still, there are concerns that the easing will continue in 2019 due to the partial smoking ban on VIP gaming floors effective 1 Jan 2019. That said, we are less concerned for RWS as:- (i) it can ease its hitherto tight credit policy to VIPs (end-2Q18 trade receivables of SGD111.9m was a record low) and generate more VIP volume (Fig 2); and (ii) it is not subject to a smoking ban.

Stable earnings estimates maintained for now

Our channel checks reveal that hitherto, RWS VIP volumes have not been as adversely affected as Macau's and its mass market GGR have stabilised post the opening of Naga2 in Phnom Penh, Cambodia in Nov 2017. Both bode well for earnings stability. Thus, our earnings estimates are retained. Assuming 4Q18 RWS VIP win rate is within the theoretical range of 2.7-3.0%, we estimate that our FY18 EBITDA estimate of SGD1.2b and FY18 core net profit estimate of ~MYR800m will be met.

RWS rejuvenation and Japan in focus this year

In 1H19, GENS is expected to announce its RWS rejuvenation plan which we believe is part of the government sanctioned Greater Southern Waterfront project ([link](#)). We are not averse to the budgeted capex being revised upwards from the initial guidance of SGD1b over 3-4 years as long as it is value accretive. In 2H19/1H20, Japan will issue RFPs for three integrated resorts. We opine that GENS stands a good chance to win one thanks to its responsible gaming experience and solid net cash position.

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	15.5	15.0	14.1
P/BV (x)	1.5	2.1	1.6	1.5	1.4
Net dividend yield (%)	3.3	2.7	3.4	3.4	3.4
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	7.4	6.7	6.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	783	800	821
MKE vs. Consensus (%)	-	-	2.0	3.5	7.2

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BUY

Share Price	SGD 1.03
12m Price Target	SGD 1.26 (+22%)
Previous Price Target	SGD 1.29

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)	25.9
Free float (%)	46.9
Issued shares (m)	12,094
Market capitalisation	SGD12.5B
	USD9.2B

Major shareholders:

Genting Bhd.	52.5%
The Vanguard Group, Inc.	1.3%
BlackRock Fund Advisors	0.9%

Price Performance



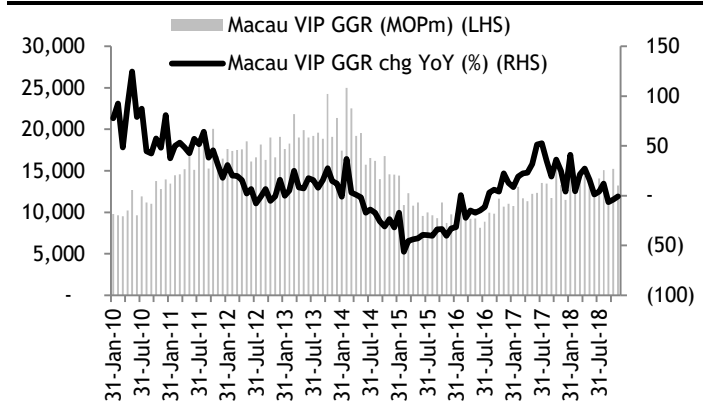
	-1M	-3M	-12M
Absolute (%)	4	8	(21)
Relative to index (%)	(0)	3	(13)

Source: FactSet

[Link to sector note:](#)

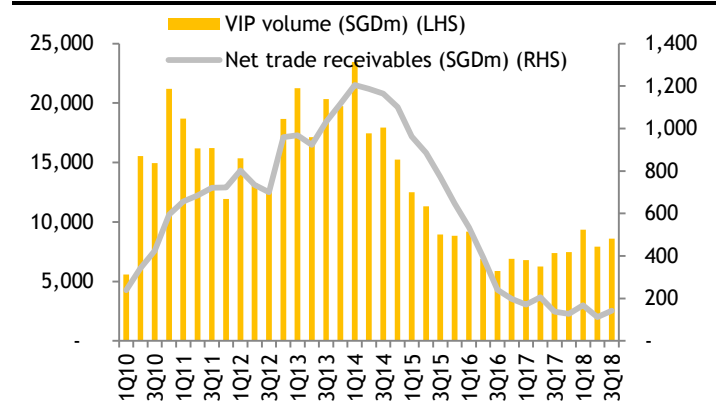
[Malaysia Casinos - Selectively optimistic](#)

Figure 1: Macau VIP GGR and chg YoY



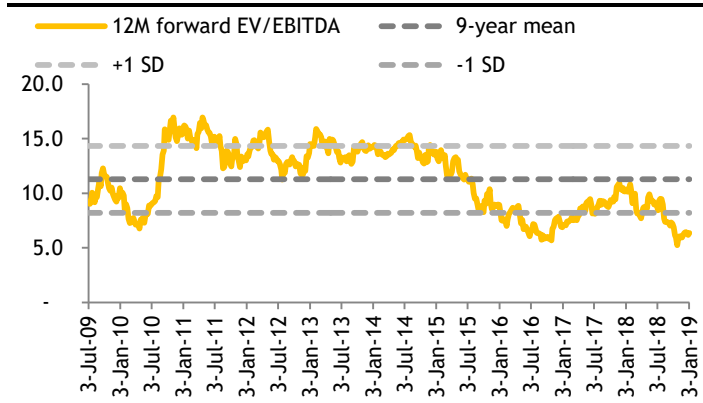
Source: Gaming Inspection & Coordination Bureau

Figure 2: RWS VIP volume vs. net trade receivables (R²: 0.78)



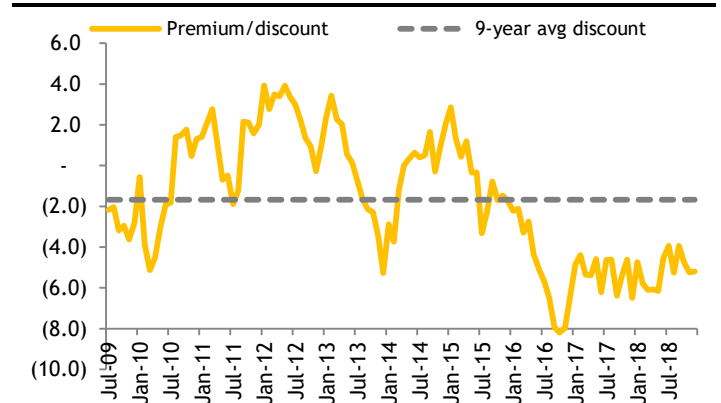
Source: Company, Maybank Kim Eng

Figure 3: GENS rolling 12M forward EV/EBITDA (x)



Source: Company, Maybank Kim Eng, Bloomberg

Figure 4: GENS +/- to Macau rolling 12M forward EV/EBITDA



Source: Company, Maybank Kim Eng, Bloomberg

Historically, GENS trades at an average 1.7x discount to the Macau average 12M forward EV/EBITDA. Currently, the Macau average 12M forward EV/EBITDA is 10.7x. Ascribing the above mentioned 1.7x discount, we ascribe 9.0x FY19E EV/EBITDA.

Figure 5: GENS major assumptions

SGDm	FY16A*	FY17A*	FY18E	FY19E	FY20E
RWS VIP volume (A)	28,851.4	27,896.7	34,767.0	36,505.4	38,330.7
RWS VIP win rate (B)	2.68%	2.93%	2.90%	2.85%	2.85%
RWS VIP GGR (C=AXB)	774.6	817.2	1,008.2	1,040.4	1,092.4
RWS mass market GGR	1,466.8	1,489.0	1,524.5	1,600.7	1,680.7
RWS direct VIP rebate rate	1.8%	1.5%	1.5%	1.5%	1.5%
RWS impairment loss on trade receivables	235.1	48.3	31.0	38.3	39.5

* estimates based on data points provided by company

Source: Company, Maybank Kim Eng

Figure 6: GENS EV/EBITDA valuation

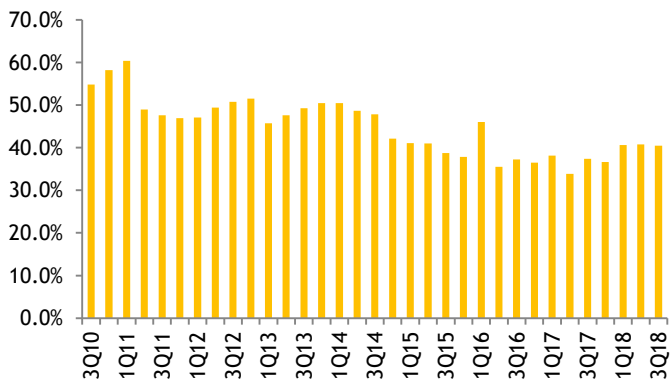
	EBITDA	EV/EBITDA	EV	EV/sh	Comments
RWS	1,258.3	9.0	11,325.1	0.94	FY19E
Others	(20.9)	9.0	(188.0)	(0.02)	FY19E
Net cash/(debt)			3,844.2	0.32	End-FY19E
AFS financial assets			217.3	0.02	Cost
Equity value			15,198.5	1.26	

Source: Maybank Kim Eng

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

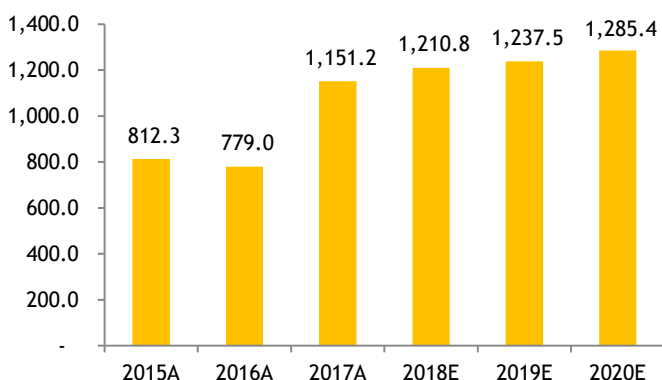


Source: Company, Las Vegas Sands, Maybank Kim Eng

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.

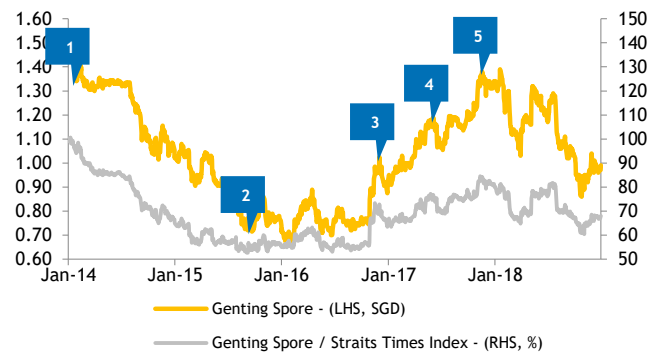
EBITDA (SGDm)



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, can positively influence earnings.
- VIP: mass market mix - tilt towards mass market will expand margins due to less commissions and rebates.
- Local mass market base - Singaporeans account for the majority of mass market gamblers and are more resilient.

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	15.5	15.0	14.1
Core P/E (x)	38.7	24.6	15.5	15.0	14.1
Core FD P/E (x)	38.8	24.6	15.5	15.0	14.1
P/BV (x)	1.5	2.1	1.6	1.5	1.4
P/NTA (x)	1.5	2.2	1.6	1.5	1.4
Net dividend yield (%)	3.3	2.7	3.4	3.4	3.4
FCF yield (%)	9.4	7.5	7.8	8.3	8.6
EV/EBITDA (x)	8.1	11.1	7.4	6.7	6.0
EV/EBIT (x)	13.0	14.7	9.6	8.7	7.7

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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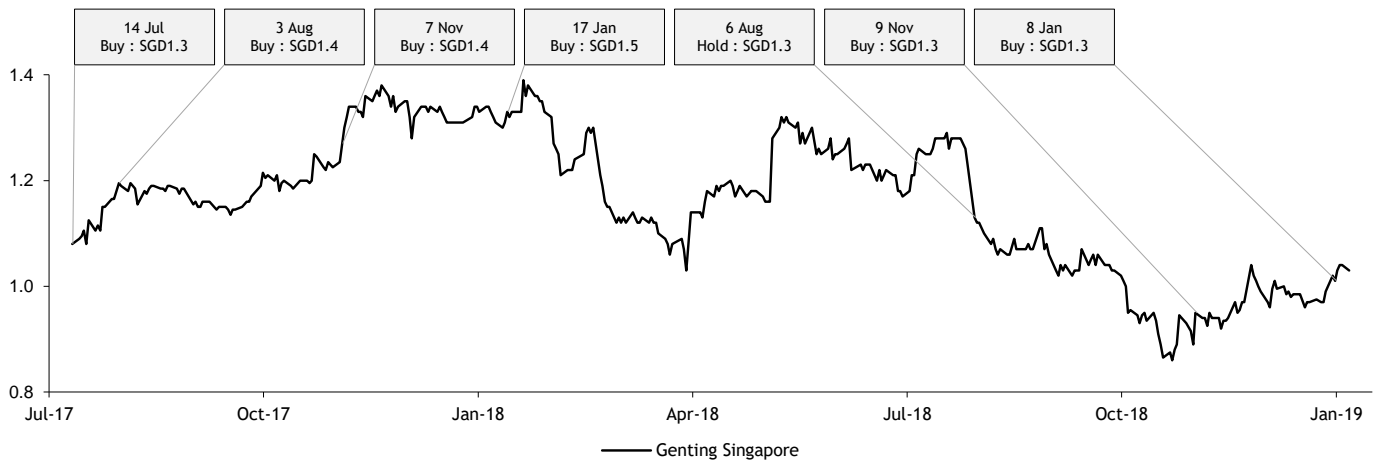
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