

# Genting Singapore (GENS SP)

## Journey of recovery begins with this step

### Upgrade to BUY with higher TP of SGD0.95 (+22%)

Phase 3 of Singapore's reopening will begin on 28 Dec 2020. In addition, the Pfizer-BioNTech vaccine will arrive soon and Singapore will gradually reopen its borders. Our earnings estimates are unchanged but we lower our WACC from 14.5% to 11.8% as we revert to the five year mean beta of 1.2x (1.5x previously) and roll forward our valuation base year from end-FY20E to end-FY21E to derive a revised DCF-based TP of SGD0.95 (from SGD0.78). Upgrade GENS to BUY (from HOLD).

### Phase 3 reopening positive for GENS

Among the easing measures, attractions (which include integrated resorts) will be allowed to increase operating capacity to 65% from 50%. GENS' 3Q20 earnings outperformance was largely based on 25% operating capacity ([link](#)). Attractions were allowed to increase operating capacity to 50% from 25% from 18 Sep 2020 onwards. RWS casino was also open to all guests from 9 Oct 2020 onwards (previously only to Genting Rewards members). Thus, 4Q20 earnings ought to be better QoQ.

### Other developments also sending out positive vibes

The first batch of the Pfizer-BioNTech vaccine will arrive by year end. Singapore aims to vaccinate its entire population by end-2021. This will instil confidence in Singaporeans to visit RWS again. We gather that they accounted for ~20%/~50% of pre-COVID-19 VIP/mass market GGR. Prime Minister Lee also stated that Singapore will gradually reopen its borders. This is important as we gather that Chinese, Malaysians and Indonesians accounted for ~80%/~50% of pre-COVID-19 VIP/mass market GGR.

### Increasingly confident of our earnings estimates

Our FY21E/FY22E earnings estimates are unchanged as they are based on VIP and mass market GGR recovering to 50%/75% and 75%/100% of pre-COVID-19 levels. That said, we lower our WACC from 14.5% to 11.8% as we revert to the five year mean beta of 1.2x (1.5x previously) as we are increasingly confident of our earnings estimates; we also roll forward our valuation base year from end-FY20E to end-FY21E to derive a revised DCF-based TP of SGD0.95.

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	24.9	14.8
P/BV (x)	1.5	1.4	1.3	1.2	1.2
Net dividend yield (%)	3.6	4.3	0.0	2.4	4.7
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	16.5	7.5	4.7
Net gearing (%) (incl perp:	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	16	397	585
MKE vs. Consensus (%)	-	-	444.9	3.9	18.8

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# BUY

[Prior:HOLD]

Share Price	SGD 0.85
12m Price Target	SGD 0.95 (+11%)
Previous Price Target	SGD 0.78

### 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)	14.2
Free float (%)	47.0
Issued shares (m)	12,065
Market capitalisation	SGD10.3B
	USD7.7B

### Major shareholders:

Genting Bhd.	52.5%
The Vanguard Group, Inc.	1.3%
Blackrock Fund Advisors	1.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	14	27	(9)
Relative to index (%)	10	12	4

Source: FactSet

**ESG**

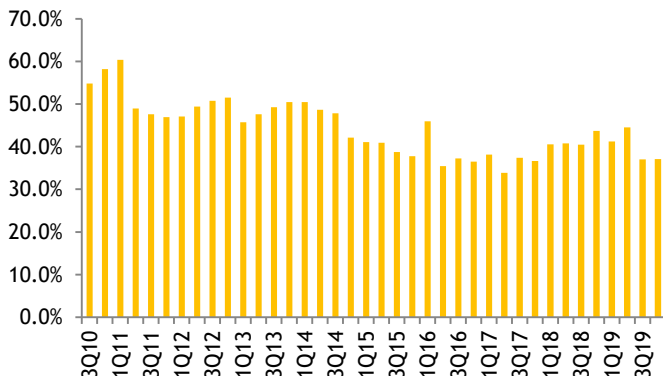
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## Value Proposition

- 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\*

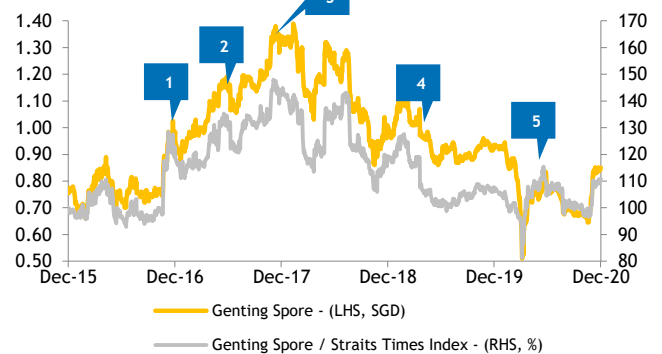


\* 1Q20, 2Q20 and 3Q20 data not yet available

Source: Company, Las Vegas Sands, Maybank Kim Eng

## Price Drivers

### Historical share price trend



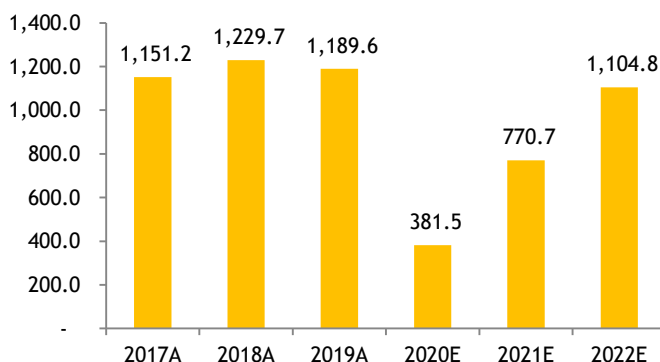
Source: Company, Maybank Kim Eng

- 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.
- Casino entry levy hiked by 50% and casino tax rates will be hiked by 3-7ppts in Mar 2022.
- 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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## Business Model & Industry Issues

- GENS' Resorts World Sentosa (RWS) operates, in our opinion, in the most highly regulated casino jurisdiction in the world. In our view, GENS has strong ESG credentials which stand out among its regional peers, especially the Macanese ones.
- To be sure, the strong ESG credentials are not without 'costs'. For example, RWS has to bear VIP credit risk as the engagement of Macau style junkets which have often been accused of money laundering is not permitted.
- Moreover, the 50% increase in casino entry levies for Singaporean citizen and permanent resident (SCPR) gamblers effective 4 Apr 2019 also caused RWS to rely less on the steadier base of local gamblers and more on fickle international gamblers.
- That said, countries seeking to liberalise their casino industries like Japan are looking to Singapore's highly regulated casino industry and the strong ESG credentials it engenders for guidance.
- In our view, this could give GENS an advantage in bidding for a Japanese casino license.

## Material E issues

- No material environmental issues. RWS was built on the demolished plot of the Imbiah lookout on Sentosa Island.
- RWS even houses 2.9 ha of protected secondary forest and >100,000 marine animals in the S.E.A. Aquarium (SEAA)
- SEAA has been criticised for keeping dolphins in captivity in the past.
- Yet, SEAA is accredited by the Association of Zoos and Aquariums and World Association of Zoos and Aquariums.
- SEAA partners James Cook University, Singapore and hosted Science in the SEAA series.
- The series involves researchers and experts sharing about their work with marine conservation enthusiasts.
- SEAA also promotes marine biodiversity by forming a conservation group, Guardians of the SEAA.
- Other environmental accreditations include BCA Green Mark, Singapore Packaging Awards and Singapore Green Building Council.
- Phased out plastic straws/bottles in 2018/2019, saving 3m straws and 6.7m plastic bottles p.a.

## Material S issues

- Regulated by the Casino Regulatory Authority (CRA) under the Casino Control Act (CCA).
- Problem gambling regulated by the National Council on Problem Gambling (NCPG).
- SCPR gamblers required to pay casino entry levies of SGD150 per 24 hours or SGD3,000 p.a.
- NCPG can issue visit limits and exclusion orders at the request of individuals, casinos or on its own initiative.
- In Nov 2015, RWS became the first casino in Asia Pacific to receive RG Check accreditation from the Responsible Gambling Council.
- In Dec 2018, RWS attained RG Check reaccreditation and achieved the highest score amongst >150 venues.

## Key G metrics and issues

- BOD comprises Executive Chairman, President & COO, Lead Independent Director and 3 Independent Non-Executive Directors (INED).
- Madam Chan Swee Liang Carolina, Lead Independent Director is the sole woman director.
- Tan Sri Lim Kok Thay, Executive Chairman represents Genting Berhad, GENS' largest shareholder at 53%.
- No members of Tan Sri Lim's family hold management positions in GENS.
- FY19 directors' remuneration of SGD20.3m accounted for 3% of FY19 net profit.
- Board Committees are Audit and Risk Committee, Nominating Committee and Remuneration Committee.
- Audit and Risk Committee comprises three members who are all INEDs.
- Nominating Committee comprises four members, of which, three are INEDs.
- Remuneration Committee comprises three members who are all INEDs.
- Two of five RWS key management personnel are women, the CFO and CCO.
- PricewaterhouseCoopers LLP is the independent auditor. They have been appointed for >10 years.
- Last major related party transaction was in 2010 when Genting UK was sold to Genting Malaysia for GBP340m.
- That said, the investment community was of the opinion that the transaction favoured GENS over GENM.
- This was because GENM acquired Genting UK at valuation multiples that were higher than its own.
- Occasionally fined by the CRA but the fines were for infractions which were minor, in our view.
- Most fines were for SCPRs entering/remaining in the casino without valid casino entry levies
- Governed by the CCA which contains anti-money laundering regulations.
- CCA does not permit Macau style junkets which have often been accused of money laundering.
- Developed and employs a Prevention Of Money Laundering and Terrorism Financing Framework.



Figure 1: GENS DCF-based valuation

	Value	Value/sh	Comments
RWS	6,840.9	0.57	WACC: 11.8%, g: 0%
Net cash	4,260.6	0.35	End-FY21E
Investments	303.5	0.03	End-FY21E
<b>Equity value</b>	<b>11,405.0</b>	<b>0.95</b>	

Source: Maybank Kim Eng



FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Key Metrics</b>					
P/E (reported) (x)	18.1	16.6	117.9	24.9	14.7
Core P/E (x)	15.3	15.8	117.9	24.9	14.7
Core FD P/E (x)	15.4	15.8	nm	24.9	14.8
P/BV (x)	1.5	1.4	1.3	1.2	1.2
P/NTA (x)	1.5	1.4	1.3	1.3	1.2
Net dividend yield (%)	3.6	4.3	0.0	2.4	4.7
FCF yield (%)	8.7	7.6	0.6	7.6	10.2
EV/EBITDA (x)	6.7	6.0	16.5	7.5	4.7
EV/EBIT (x)	9.0	9.0	136.4	13.2	6.8

**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
<b>Total assets</b>	<b>9,767.1</b>	<b>9,250.1</b>	<b>8,928.7</b>	<b>9,249.3</b>	<b>9,377.3</b>
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
<b>Total Liabilities</b>	<b>1,985.8</b>	<b>1,192.5</b>	<b>784.2</b>	<b>934.0</b>	<b>849.1</b>
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
<b>Total shareholder equity</b>	<b>7,781.3</b>	<b>8,057.6</b>	<b>8,144.5</b>	<b>8,315.3</b>	<b>8,528.2</b>
<b>Total liabilities and equity</b>	<b>9,767.1</b>	<b>9,250.1</b>	<b>8,928.7</b>	<b>9,249.3</b>	<b>9,377.3</b>

**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
<b>Net cash flow</b>	<b>380.3</b>	<b>(267.0)</b>	<b>44.9</b>	<b>522.6</b>	<b>308.1</b>



FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
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
<b>Profitability ratios (%)</b>					
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
<b>DuPont analysis</b>					
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
<b>Liquidity &amp; Efficiency</b>					
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
<b>Leverage &amp; Expense Analysis</b>					
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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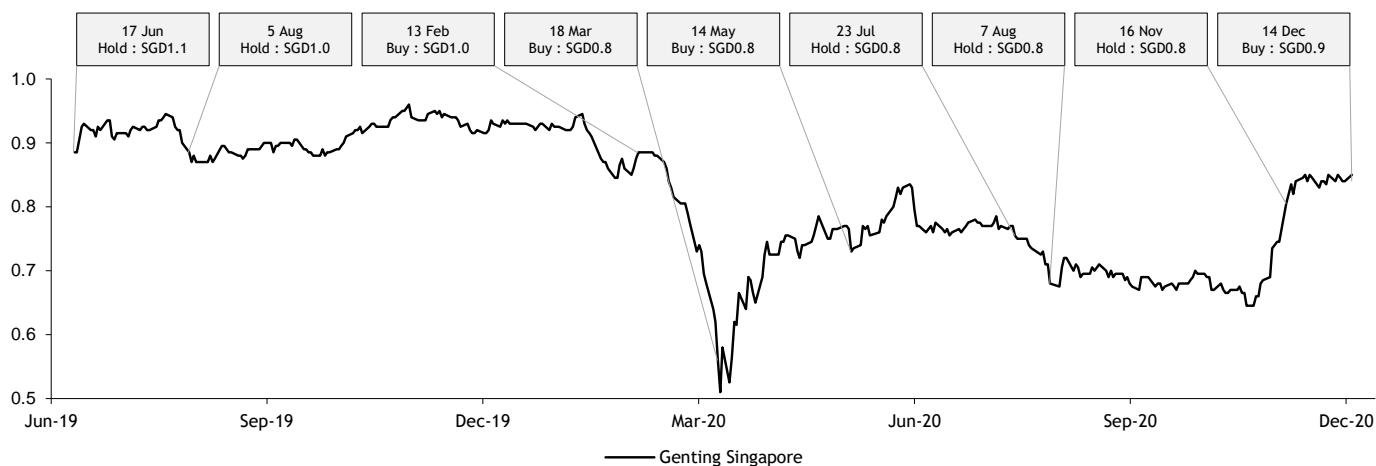
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