

# Malaysia Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Jul 2019

## Genting Malaysia (GENM MK) : HOLD

**Mkt. Cap:** US\$5,042m | **3m Avg. Daily Val:** US\$6.3m

**Last Traded Price ( 25 Jul 2019):** RM3.67

**Price Target 12-mth:** RM3.35 (9% downside) (Prev RM3.35)

### Analyst

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### Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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### Fox saga – the empire strikes back

- Full settlement with Disney on postponed Fox outdoor theme park and dismissal of all legal claims
- Possible opening of revamped outdoor theme park in early 2020
- Stock rallied 9.2% in three days on speculation of early opening of theme park; positive developments priced in
- Maintain HOLD with RM3.35 TP

### Forecasts and Valuation

FY Dec (RMm)	2018A	2019F	2020F	2021F
Revenue	9,928	11,481	12,380	13,455
EBITDA	2,868	2,445	2,551	2,711
Pre-tax Profit	(4.0)	1,283	1,293	1,485
Net Profit	(19.5)	1,186	1,196	1,361
Net Pft (Pre Ex.)	2,041	1,186	1,196	1,361
Net Pft Gth (Pre-ex) (%)	45.5	(41.9)	0.9	13.7
EPS (sen)	(0.3)	20.1	20.3	23.0
EPS Pre Ex. (sen)	34.6	20.1	20.3	23.0
EPS Gth Pre Ex (%)	46	(42)	1	14
Diluted EPS (sen)	(0.3)	20.1	20.3	23.0
Net DPS (sen)	19.0	10.0	10.1	11.5
BV Per Share (sen)	309	352	365	382
PE (X)	nm	18.3	18.1	15.9
PE Pre Ex. (X)	10.6	18.3	18.1	15.9
P/Cash Flow (X)	8.3	7.6	8.3	7.8
EV/EBITDA (X)	8.0	9.1	8.2	7.0
Net Div Yield (%)	5.2	2.7	2.8	3.1
P/Book Value (X)	1.2	1.0	1.0	1.0
Net Debt/Equity (X)	0.1	0.0	CASH	CASH
ROAE (%)	(0.1)	5.7	5.5	6.0

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

### What's New

**Full settlement of legal proceedings against Fox.** Genting Malaysia Bhd (GENM) announced that the group has reached full settlement with Twenty First Century Fox Inc (Fox) and Walt Disney Co (Disney) over the construction of an outdoor theme park at Genting Highlands. The group stated that that all parties have agreed to fully resolve their disputes and dismiss all legal claims between one another, pending legal action in the US District Court for the California Central District.

**Licensing of certain Fox IPs remains.** Under the resolution, the parties signed a restated Memorandum of Agreement which grants GENM a licence to use certain Fox intellectual properties (IPs). GENM is currently updating its development and construction plans to complete the outdoor theme park utilising both Fox and non-Fox IPs. The outdoor theme park will be renamed.

To recap, GENM sued Fox back in Nov 2018 for pulling out of the outdoor theme park development in Resorts World Genting, seeking more than US\$1bn in damages.

### Our comments

**A positive development, possible early opening of outdoor theme park.** Our initial investment thesis was that the outdoor theme park will need about 12 months or more to commence operations with the impending legal proceeding against Fox. Without the latter's involvement, there would be considerable time needed for GENM to remove Fox IPs, redesign rides/themes and test the new rides, should GENM



## Flash Note

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decide to engage other global partners to license characters for its theme park or go on its own.

We believe that the full resolution of the Fox saga is a positive development for GENM, given that; (1) the settlement of legal proceedings against Fox removes a major uncertainty for the group and, (2) the use of certain Fox IPs could bring forward the opening of its outdoor theme park.

**Forward earnings could increase by 5-6%.** Nonetheless, minimal details and lack of clarity from GENM's management on the progress of the project has led to limited assessment on potential earnings impact on GENM.

Our back-of-envelope calculation indicates that the group's FY20/21 earnings will increase by 6%/5% if the outdoor theme park is opened in January 2020 assuming; (1) the opening of outdoor theme park to increase visitations to 32m/34m for FY20/21 (from 30m/32m for FY20/21), partially compensated by, (2) higher cost of operating theme park, raising FY20-21 operating expenses by 4-5% and, (3) higher depreciation expenses of RM150m/annum for FY20/21.

## Outlook

**Prospects remain challenging.** Despite the positive development, we believe that GENM's earnings prospects remain challenging due to; (1) punitively high casino tax and increased casino licence fees effective in 2019 and, (2) the accelerated US-China trade war which could dampen domestic and regional discretionary consumption growth and limit visitations to Genting Highlands.

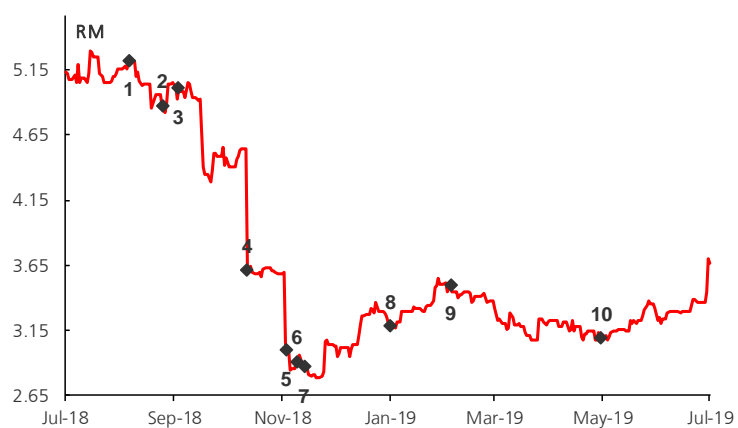
The group could also be vulnerable to the potential exit of foreign investors from emerging markets if external risks heighten further. This is due to GENM's high percentage of foreign shareholdings at 31% as at end 31st March.

## Valuation and Recommendation

**Maintain HOLD with TP of RM3.35.** We are maintaining our HOLD recommendation for GENM. We acknowledge that there is upside potential to our earnings estimates and target price (TP), pending more details on the outdoor theme park. However, we believe that GENM's recent stock rally of 9.2% in the past three days on speculation of a possible early opening of the outdoor theme park, has largely priced in its upside potential.

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### Target Price & Ratings History



**Note:** Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: King Yoong CHEAH

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*\*Share price appreciation + dividends*

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