

# Singapore Flash Note

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DBS Group Research . Equity

5 Aug 2019

## Genting Singapore (GENS SP) : **BUY**

**Mkt. Cap:** US\$7,879m | **3m Avg. Daily Val:** US\$18.2m

**Last Traded Price ( 2 Aug 2019):** S\$0.90

**Price Target 12-mth:** S\$1.20 (33% upside)

### Analyst

Singapore Research Team ; equityresearch@dbs.com

### Time to take a chance

- 2Q19 adjusted EBITDA of S\$294m was in line with expectations, thanks to an elevated luck factor
- VIP chip volume picked up in 2Q19, while mass market business declined significantly
- Interim dividend of 1.5Scts declared
- Maintain BUY with unchanged TP of S\$1.20

#### Forecasts and Valuation

FY Dec (\$m)	2017A	2018A	2019F	2020F
Revenue	2,393	2,539	2,516	2,561
EBITDA	1,151	1,230	1,194	1,214
Pre-tax Profit	860	943	880	916
Net Profit	601	755	704	732
Net Pft (Pre Ex.)	618	758	704	732
Net Pft Gth (Pre-ex) (%)	141.8	22.5	(7.0)	4.0
EPS (S cts)	4.99	6.27	5.84	6.07
EPS Pre Ex. (S cts)	5.13	6.29	5.84	6.07
EPS Gth Pre Ex (%)	142	22	(7)	4
Diluted EPS (S cts)	4.99	6.27	5.85	6.08
Net DPS (S cts)	3.50	3.50	3.50	3.50
BV Per Share (S cts)	61.8	64.6	68.2	72.2
PE (X)	18.0	14.4	15.4	14.8
PE Pre Ex. (X)	17.5	14.3	15.4	14.8
P/Cash Flow (X)	8.6	9.5	8.9	8.6
EV/EBITDA (X)	7.1	6.2	6.6	6.3
Net Div Yield (%)	3.9	3.9	3.9	3.9
P/Book Value (X)	1.5	1.4	1.3	1.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	8.2	9.9	8.8	8.7

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

### Company Guide



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

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### What's New

**Adjusted EBITDA in line with expectations, underpinned by exceptional VIP win rate.** 2Q19 adjusted EBITDA of S\$294m (+11% y-o-y, -11% q-o-q) was in line with our and consensus' estimates, with 1H19 adjusted EBITDA forming 53% of FY19 consensus estimate. This was despite a considerable decline in the mass gaming business and a substantial credit impairment during the quarter. Genting Singapore (GENS) scored a notably higher than average VIP win rate of 3.7% (3% on average in past 9 quarters) and higher VIP volumes. On a hold-normalised basis, adjusted EBITDA would have come in at S\$230m (-20% y-o-y).

**Recovery in VIP chip volumes, but mass market business remains challenging.** VIP rolling chip volumes came in at c.US\$6.4bn (+9% y-o-y, +14% q-o-q), while the mass market business experienced a 10% drop in volume. Looking ahead, we maintain a cautious stance on the gaming business, amid growing uncertainty in the macroeconomic environment, and intense competition from regional casinos.



**Flash Note**

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**Marked increase in bad debts should be transitory.**

Impairment on trade receivables of S\$47.3m was considerably higher than GENS's historical average of S\$10-15m, as the company decided to be more prudent in light of the elevated luck factor during the quarter. This should normalise in subsequent quarters, but may remain slightly higher than the typical run-rate due to macroeconomic headwinds.

**Resilient operating cash flow and sustained balance sheet**

**strength.** 2Q19 operating cash flow was considerably robust at S\$341m (+32% y-o-y, on-par q-o-q), while GENS' balance sheet remained in a solid net cash position of S\$3,373m, following the repayment of S\$680m of borrowings during the quarter.

**Higher near-term capex requirements may dampen free cash**

**flows.** As part of the S\$4.5bn Resort World Sentosa renewal project, GENS will probably incur around S\$800m-S\$1,000m for land acquisition this year, with the remainder spread between mid-FY20-FY24 (around S\$250m/quarter after construction begins in mid FY20). The expansion plan is on track, with the complete revamp of the existing theatre scheduled for re-opening in 2021. As such, we are revising our capex estimate in FY19 up to S\$1bn.

**Japan integrated resort (IR) opportunity progressing**

**according to plans.** Regarding the Japan IR opportunity, GENS received confirmation that its Request-for-Concept (RFC) registration was officially approved by Osaka's local government, and is now working on another RFC submission which is due by 16 September. Although there is no concrete indication as to when the RFC will be issued, the management shared that the earliest closing would be in 1Q20, and that the winning operator should be selected by 2Q20.

**Interim dividend of 1.5Scts (flat y-o-y); trimmed FY19**

**dividend estimate.** We believe the company is on track to match FY18's dividend of 3.5Scts which implies a dividend yield of around 3.8%. To adopt a more realistic and prudent stance, we have revised our dividend expectations down to 3.5Scts/share, from 4.0Scts/share in FY19 and 4.5Scts/share in FY20. An increase in dividends the next few years appear unlikely, given GENS' higher capital spending plans and the management's prudent stance.

**Over-penalised by the market; maintain BUY with**

**unchanged TP of S\$1.20.** With GENS trading at 6.3x EV/EBITDA (FY19), which is around -2SD of its mean valuation of 11.7x, we believe the company has been over-penalised by the market for softness in its near-term EBITDA and free cash flows, and the current share price is at an attractive level. We remain positive on GENS' medium and long term growth prospects, and the company deserves to trade at -1SD of EV/EBITDA. Clinching the Japanese integrated resorts project in Osaka would be a near-term re-rating catalyst.

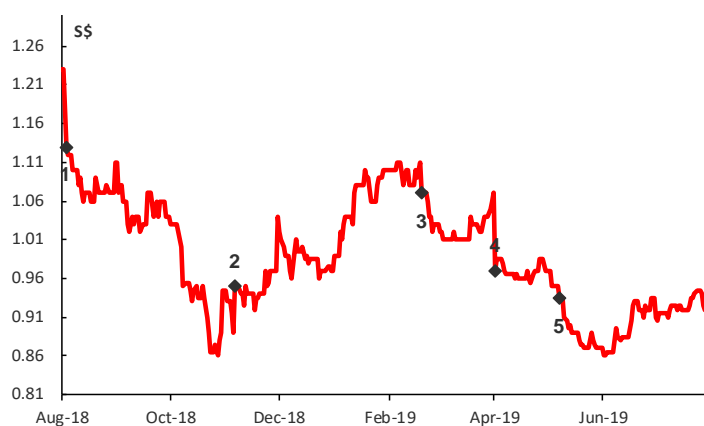
## Flash Note

### Quarterly / Interim Income Statement (\$m)

FY Dec	2Q2018	1Q2019	2Q2019	% chg yoy	% chg qoq
Revenue	560	640	637	13.6	(0.6)
Cost of Goods Sold	(309)	(351)	(383)	23.7	9.0
<b>Gross Profit</b>	<b>251</b>	<b>289</b>	<b>254</b>	<b>1.2</b>	<b>(12.2)</b>
Other Oper. (Exp)/Inc	(54.5)	(52.1)	(64.0)	17.5	22.9
<b>Operating Profit</b>	<b>196</b>	<b>237</b>	<b>190</b>	<b>(3.3)</b>	<b>(19.9)</b>
Other Non Opg (Exp)/Inc	(3.4)	1.98	2.31	nm	16.5
Associates & JV Inc	0.99	1.01	1.19	20.0	17.7
Net Interest (Exp)/Inc	8.45	12.6	10.6	24.9	(16.2)
Exceptional Gain/(Loss)	18.2	(4.3)	5.40	(70.3)	nm
<b>Pre-tax Profit</b>	<b>221</b>	<b>248</b>	<b>209</b>	<b>(5.1)</b>	<b>(15.7)</b>
Tax	(43.0)	(42.9)	(41.0)	(4.6)	(4.4)
Minority Interest	0.0	0.0	0.0	-	-
<b>Net Profit</b>	<b>178</b>	<b>205</b>	<b>168</b>	<b>(5.2)</b>	<b>(18.0)</b>
Net profit bef Except.	159	210	163	2.2	(22.3)
EBITDA	266	330	294	10.7	(10.7)
<b>Margins (%)</b>					
Gross Margins	44.8	45.2	39.9		
Opg Profit Margins	35.0	37.0	29.8		
Net Profit Margins	31.7	32.1	26.4		

Source of all data: Company, DBS Bank

### Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	06 Aug 18	1.13	1.55	BUY
2:	09 Nov 18	0.95	1.55	BUY
3:	22 Feb 19	1.07	1.54	BUY
4:	04 Apr 19	0.97	1.54	BUY
5:	10 May 19	0.94	1.20	BUY

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

Source: DBS Bank

Analyst: Singapore Research Team

**Flash Note**

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*\*Share price appreciation + dividends*

Completed Date: 5 Aug 2019 08:15:52 (SGT)

Dissemination Date: 5 Aug 2019 09:25:25 (SGT)

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