

Malaysia Company Guide

Genting Malaysia

Version 15 | Bloomberg: GENM MK | Reuters: GENM.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Aug 2019

FULLY VALUED (Downgrade from Hold)

Last Traded Price (6 Aug 2019): RM3.61 (KLCI: 1,611.79)

Price Target 12-mth: RM3.15 (-13% downside) (Prev RM3.35)

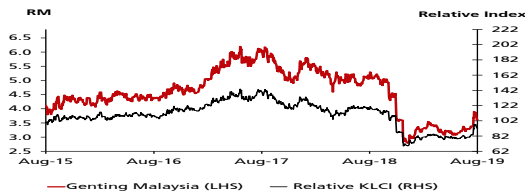
Analyst

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What's New

- Acquiring loss-making Empire Resorts for USD128.6m in a related party transaction
- Empire reported FY18 net loss of USD138.7m
- If Empire losses persist, FY20-21 earnings forecasts could be diluted by >20%
- Downgrade to FULLY VALUED with lower TP of RM3.15

Price Relative



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	18.0	17.8	15.7
PE Pre Ex. (X)	10.4	18.0	17.8	15.7
P/Cash Flow (X)	8.2	7.5	8.1	7.6
EV/EBITDA (X)	7.9	9.0	8.0	6.9
Net Div Yield (%)	5.3	2.8	2.8	3.2
P/Book Value (X)	1.2	1.0	1.0	0.9
Net Debt/Equity (X)	0.1	0.0	CASH	CASH
ROAE (%)	(0.1)	5.7	5.5	6.0
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		21.7	23.4	24.8
Other Broker Recs:		B: 9	S: 4	H: 6

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

Off its game

Cloudy prospects ahead. We downgrade our recommendation for Genting Malaysia (GENM) to FULLY VALUED with a lower target price (TP) of RM3.15. Although the potential opening of its outdoor theme park by 1HFY20 is a positive development, we remain concerned about the group's earnings outlook due to (1) punitively high casino tax and increased casino licence fees, (2) its recent acquisition of Empire Resorts (Empire) Inc, which could be highly earnings dilutive, (3) the accelerated US-China trade war which could dampen domestic and regional discretionary consumption growth and limit visitations to Genting Highlands.

Where we differ: Longer-than-expected gestation period to optimise returns from its GITP investment; conservative target price. Our earnings forecast is below consensus. We believe that it may take longer than expected for the group to optimise returns on its Genting Integrated Tourism Plan (GITP) investment. Our TP is also lower than consensus as we are relatively conservative in our valuation metrics.

Potential catalysts: Lower-than-expected visitors and weaker-than-expected returns from its GITP investment could offer potential downside to our earnings forecast.

Valuation:

We cut our sum-of-parts (SOP)-based TP for the group to RM3.15, upon imputing a larger holding company discount of 20% (previously 15%). Downgrade to FULLY VALUED.

Key Risks to Our View:

A stronger than expected improvement in consumer sentiment could improve GENM's domestic gaming operations. Higher-than-expected foreign visitors to Genting Highlands due to a weaker Ringgit and opening of the outdoor theme park could improve GENM's earnings prospects.

At A Glance

Issued Capital (m shrs)	5,938
Mkt. Cap (RMm/US\$m)	21,436 / 5,113
Major Shareholders (%)	
Genting Bhd	49
GIC Pte Ltd	2.6
Free Float (%)	52
3m Avg. Daily Val (US\$m)	8.6

ICB Industry : Consumer Services / Travel & Leisure



Live more, Bank less

WHAT'S NEW

An undesirable Empire

Conquering a losing Empire. Genting Malaysia Bhd (GENM) announced that its wholly-owned subsidiary Genting (USA) Ltd has proposed to acquire 13.2m shares in Empire Resorts Inc (Empire) from Kien Huat Realty III (KH) for USD128.6m (RM538.8m), representing USD9.74 per share. The 13.2m shares represent approximately 46% of common stock held by KH and approximately 35% of the outstanding voting power of Empire on a fully diluted basis. Given that Tan Sri Lim Kok Thay's family are substantial shareholders of both KH and Genting Bhd which owns 49% stake of GENM, this is a related party transaction.

GENM and KH will subsequently privatise Empire by acquiring the remaining shares not owned by them for USD9.74 cash per share. Given that KH currently owns 84% of Empire, we estimate that additional USD53.6m (RM225m) cash outlay is needed for the privatisation exercise for the remaining 5.5m outstanding shares. GENM and KH will then co-own Empire through a 49:51 joint venture (JV) structure, with the former holding a 49% stake.

We deem the acquisition price of USD9.74 per share as unattractive given that; (1) Empire has been persistently loss-making and, (2) it implies an expensive 1.8x price/book value (P/BV) at 1QFY19 book value.

The proposed related party acquisition is subject to approvals by the New York State Gaming Commission, independent board members and shareholders of Empire Resorts.

Background of Empire. Empire is a gaming and entertainment company publicly traded on the Nasdaq Stock Market. The company owns and operates Resorts World Catskills (RWC), a casino resort situated on a 1,700-acre site in Sullivan County, New York. The casino resort features a 332 all-suite hotel, 1,600 slot machines and over 150 live table games.

Empire also owns and operates the Monticello Casino and Raceway (MCR), which began operations in 1958 in Monticello, New York. MCR is proximate to RWC and features an electronic gaming machine and horse racing facility.

Rationale for the Empire deal. The main reasons for the group's proposed acquisition of Empire are as follows:

- Better positioning for the Resorts World brand in the northeastern US gaming market through more effective cross marketing with Resorts World Casino New York City (RWNYC), which is owned by GENM;
- Attracting additional customers from other US states such as New Jersey and Pennsylvania through new marketing efforts in these areas and increasing market penetration of high-end players;
- Achieving significant revenue and cost synergies associated with providing arm's length operating services to Empire which will result in the elimination of duplicative costs at Empire and RWNYC;
- Leverage on GENM's institutional support and experience in the leisure and hospitality industry to enhance Empire's financial performance.

An undesirable acquisition. We view the latest development negatively due to its potentially earnings dilutive impact. Empire has been consistently loss-making with a net loss of US\$138.7m in FY18. (1QFY19 loss of US\$37.6m)

GENM is announcing its 2QFY19 results on 29 August. Its management is expected to provide some insight on the company's earnings prospects and their plans to turn around Empire. However, if Empire's losses persist into 2020, we foresee >20% downside risks to our FY20-21 earnings estimates.

We understand that this acquisition is going to be equity accounted in GENM's books, given its 49% stake in the JV. Nonetheless, if its auditor requires the group to consolidate its stake in Empire as a quasi-subsiary with GENM deemed to have management control in determining the company's direction and strategy, GENM will need to account for an additional net debt of USD630.9m (based on 1QFY19 financial information) into its balance sheet.

Genting Malaysia

Downgrade to FULLY VALUED with TP of RM3.15. Given the downside risks to earnings (potentially >20% earnings dilution for FY20-21) arising from its acquisition of Empire, we cut our SOP-based TP for the group to RM3.15, upon imputing a larger holding company discount of 20% (previously 15%). Downgrade to FULLY VALUED.

CRITICAL DATA POINTS TO WATCH

Malaysian operations remain key earnings contributor. GENM is one of the most dominant global gaming players with operations covering Malaysia, UK and US. Nonetheless, the group's operations in Malaysia remain its key income contributor. In 2018, the Malaysian operations accounted for about 80% of the group's earnings before interest, taxes, depreciation and amortisation (EBITDA). We expect the domestic operations to be a mainstay for GENM's earnings with the launch of GITP.

GITP update. The group has progressively launched Sky Avenue and Sky Plaza shopping malls since end-2016. Genting Malaysia soft launched the Genting Highlands Premium Outlets in mid-June 2017. The group also opened all levels at the Sky Casino in 3Q17. The indoor (Skytropolis) theme park commenced its operations in December 2018.

Although there is no concrete guidance on the development of its outdoor theme park at this juncture, we believe that the recent settlement with Twenty First Century Fox Inc (Fox) and Walt Disney Co (Disney) could speed up the opening of its delayed outdoor theme park to 1HFY20.

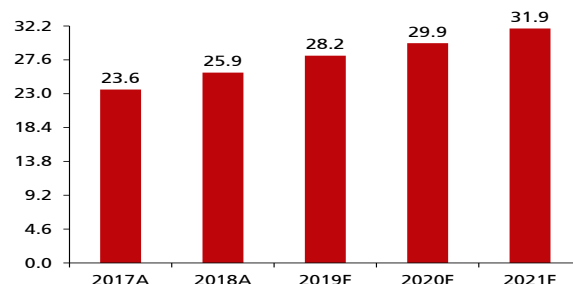
Overseas gaming to diversify its earnings base. Overseas operations constituted about 20% of the group's EBITDA in 2018. The group operates 40 casinos in the UK. The commencement of Resorts World Birmingham in October 2015, with 30 gaming tables and 150 slot machines, has helped the group to further strengthen its UK operations.

The group also operates Crockfords Cairo, a luxury destination in the Egyptian capital. The 12,500-sqft casino houses 30 slot machines, 10 electronic roulette terminals and 15 gaming tables. The table maximums are the highest available in Egypt.

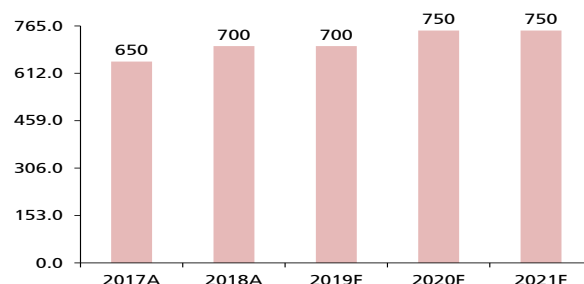
In the US, the group operates; (1) the racino (race track and casino) located at Aqueduct Racetrack in New York City and, (2) Resorts World Bimini in Bahamas. GENM also owns properties worldwide including a hotel, office and retail space in Miami.

The recent acquisition of Empire Resorts could further strengthen its US operations. Nonetheless, we deem the acquisition price of USD9.74 per share to be unattractive given that; (1) Empire has been persistently loss-making and, (2) it represents an expensive 1.8x P/BV at 1QFY19 book value.

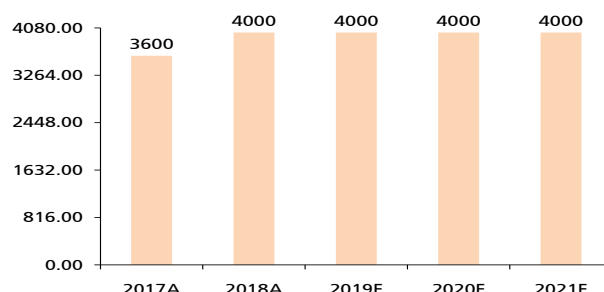
No. of Visitors (m)



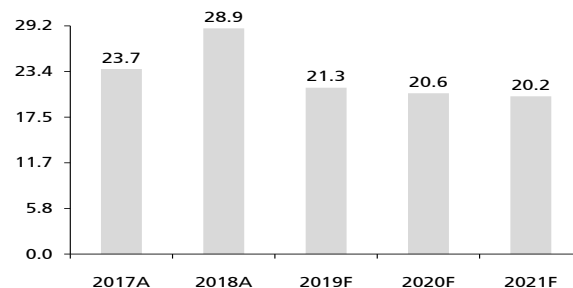
Gaming tables (Malaysia) (units)



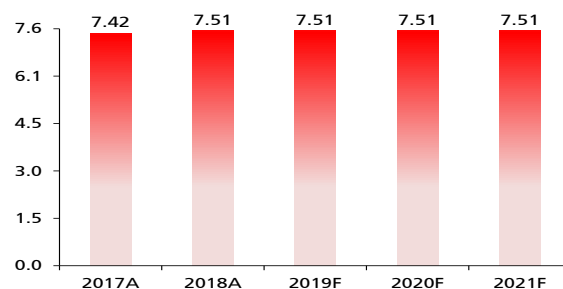
Slot machines (Malaysia) (units)



EBITDA margin (%)



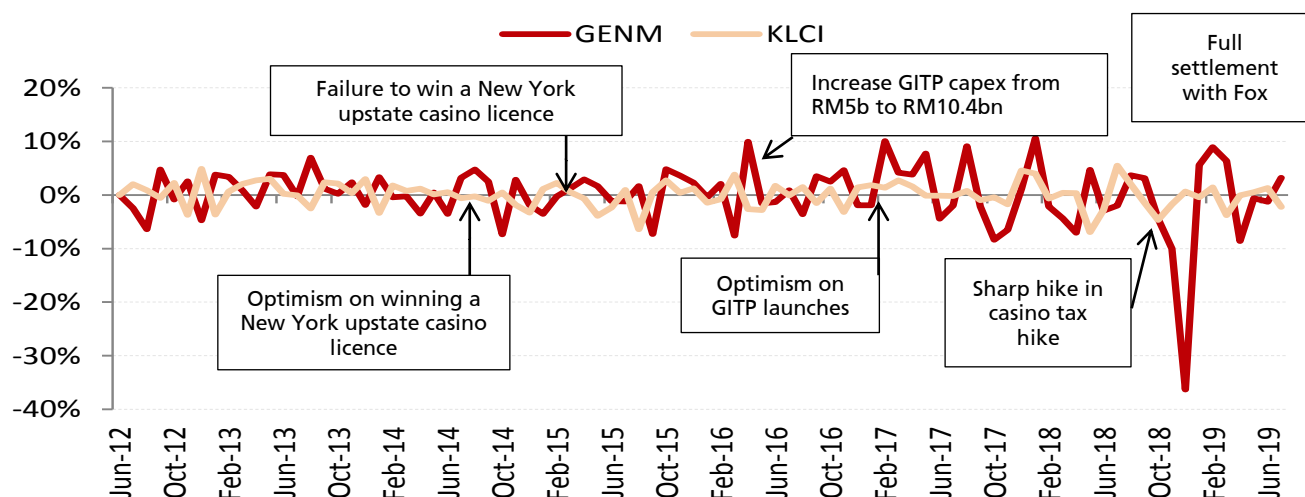
Management fees (% of leisure revenue)



Source: Company, AllianceDBS

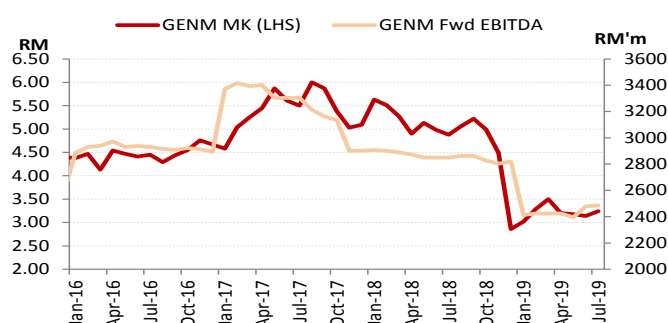
Appendix 1: GENM's share price correlation with critical factors

Graph 1: GENM's m-o-m share price movement (%) vs FBM KLCI's m-o-m index movement (%)



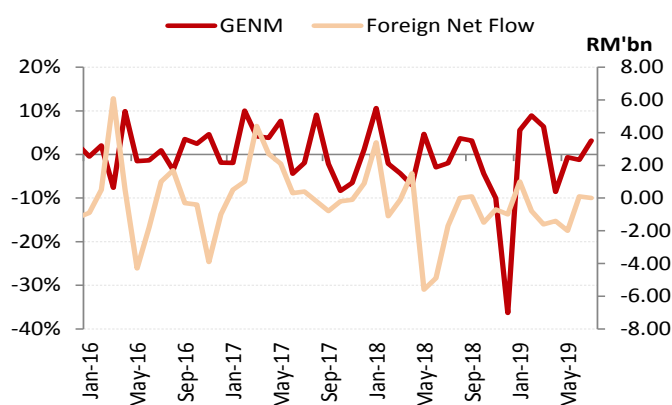
Source: Company, Bloomberg Finance L.P., AllianceDBS

GENM's share price vs expected forward EBITDA



Source: Bloomberg Finance L.P., AllianceDBS

GENM's share price vs foreign fund flows



Source: Bloomberg Finance L.P., AllianceDBS

Remarks

GENM's share price performance is highly correlated to market expectations for its forward EBITDA (correlation coefficient of 0.7). As such, the successful launch of GTP serves as a key re-rating catalyst for the group as it will improve the group's earnings prospects.

Remarks

The group's share price performance is closely correlated with the foreign fund flows. This is because its non-Shariah-compliant status prohibits many Malaysian funds from investing in the stock. On the other hand, its foreign shareholding has always been consistently high at >30%. As such, the movement of foreign fund flows in the Malaysia equity market will have a significant impact on its share price performance.

Genting Malaysia

Balance Sheet:

GENM was in a slight net debt position as at March 2019. We estimate that the group will be in a minor net debt position at end-FY19. We maintain that its financial position remains healthy in view of its strong cash-generating business.

Share Price Drivers:

Domestic consumer spending. Given that GENM continues to derive the bulk of its earnings from its Malaysian operations, with day-trippers making up about 70% of visitors, the group is exposed to discretionary consumer spending in Malaysia. A recovery in the domestic consumer sentiment will be an earnings catalyst for GENM.

GITP progress. The progress of the multi-billion dollar GITP unveiled in 2013 remains one of the key drivers for GENM's share price. Any earlier/late-than-expected progress could have an impact on its share price. Besides that, a longer-than-expected gestation period for the group to optimise returns on its GITP investment could lead to near-term earnings disappointment.

News flow for overseas expansion. The group has sizeable overseas operations and continues to keep an eye on potential opportunities abroad. Any positive/negative news flow related to its overseas ventures could impact its share price.

Key Risks:

Weaker-than-expected consumer sentiment. Further weakening of consumer sentiment could hurt domestic gaming operations.

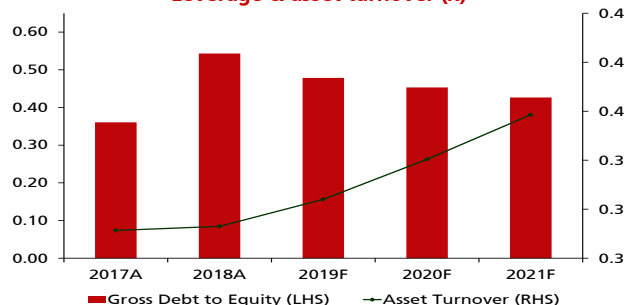
Malaysian gaming tax hike. The sharp increase in casino tax announced during Budget 2019 shows that the government will not hesitate to hike gaming taxes to increase its revenue. Domestic gaming players remain vulnerable to tax hikes going forward.

Negative surprises from overseas ventures. To sustain earnings growth going forward, GENM has been actively expanding its gaming operations in the UK and US. As such, the group's overall financial performance is increasingly exposed to risks in these countries.

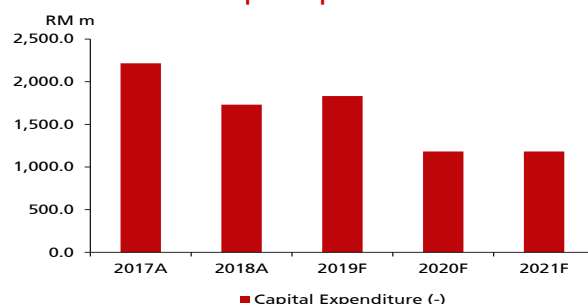
Company Background

GENM has a casino monopoly in Malaysia. GENM also owns Genting UK (GENUK), US racino Resorts World in New York (RWNY) and Resorts World Bimini (RWB).

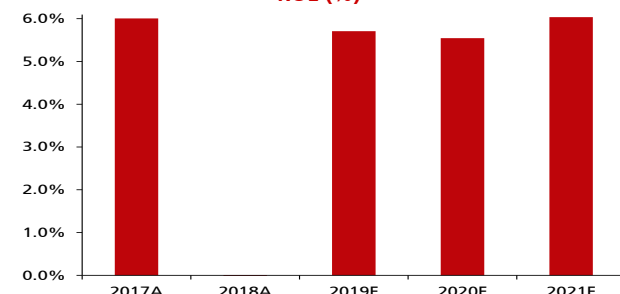
Leverage & asset turnover (x)



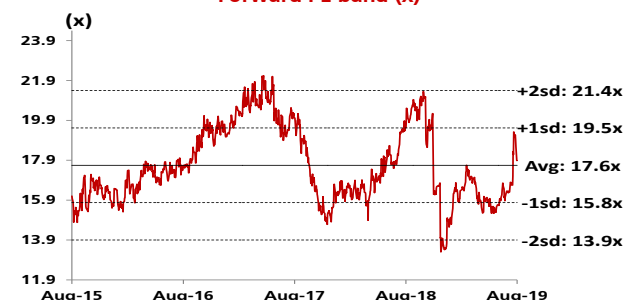
Capital expenditure



ROE (%)



Forward PE band (x)



PB band (x)



SOP Valuation

	RMm	RM/share	Remarks
Malaysian gaming	16,908	2.98	9x 2019F EV/EBITDA
Genting UK	1,879	0.33	8x 2019F EV/EBITDA (similar to Rank Group)
Genting US	2,144	0.38	DCF @ 12% WACC
Property	2,098	0.37	1x Book value
Net debt	(688)	(0.12)	
Sum-of-parts	22,341	3.94	
Less: Holding co discount (20%)	(4,468)	(0.79)	
Adjusted sum-of-parts (RM)	17,873	3.15	

Key Assumptions

FY Dec	2017A	2018A	2019F	2020F	2021F
No. of Visitors (m)	23.6	25.9	28.2	29.9	31.9
Gaming tables (Malaysia)	650	700	700	750	750
Slot Machine (Malaysia)	3,600	4,000	4,000	4,000	4,000
EBITDA margin (%)	23.7	28.9	21.3	20.6	20.2
Management fees (% of leisure revenue)	7.42	7.51	7.51	7.51	7.51

Income Statement (RMm)

FY Dec	2017A	2018A	2019F	2020F	2021F
Revenue	9,330	9,928	11,481	12,380	13,455
Cost of Goods Sold	(7,121)	(7,055)	(9,036)	(9,829)	(10,744)
Gross Profit	2,209	2,873	2,445	2,551	2,711
Other Opng (Exp)/Inc	(837)	(959)	(1,124)	(1,242)	(1,237)
Operating Profit	1,372	1,914	1,321	1,310	1,475
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	189	143	(37.7)	(17.1)	10.6
Exceptional Gain/(Loss)	(241)	(2,061)	0.0	0.0	0.0
Pre-tax Profit	1,320	(4.0)	1,283	1,293	1,485
Tax	(247)	(82.3)	(157)	(156)	(184)
Minority Interest	88.7	66.8	60.0	60.0	60.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	1,161	(19.5)	1,186	1,196	1,361
Net Profit before Except.	1,403	2,041	1,186	1,196	1,361
EBITDA	2,312	2,868	2,445	2,551	2,711
Growth					
Revenue Gth (%)	4.5	6.4	15.7	7.8	8.7
EBITDA Gth (%)	(4.6)	24.1	(14.8)	4.3	6.3
Opg Profit Gth (%)	(13.9)	39.5	(31.0)	(0.8)	12.6
Net Profit Gth (Pre-ex) (%)	(11.0)	45.5	(41.9)	0.9	13.7
Margins & Ratio					
Gross Margins (%)	23.7	28.9	21.3	20.6	20.2
Opg Profit Margin (%)	14.7	19.3	11.5	10.6	11.0
Net Profit Margin (%)	12.4	(0.2)	10.3	9.7	10.1
ROAE (%)	6.0	(0.1)	5.7	5.5	6.0
ROA (%)	3.9	(0.1)	3.3	3.3	3.6
ROCE (%)	4.1	6.6	3.6	3.5	3.9
Div Payout Ratio (%)	86.4	N/A	50.0	50.0	50.0
Net Interest Cover (x)	NM	NM	35.1	76.8	NM

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019
Revenue	2,400	2,422	2,599	2,507	2,736
Cost of Goods Sold	(1,812)	(1,805)	(1,846)	(1,807)	(2,217)
Gross Profit	587	618	753	700	519
Other Oper. (Exp)/Inc	(241)	(238)	(233)	(243)	(257)
Operating Profit	347	380	520	458	262
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	44.5	53.9	58.2	(13.4)	(35.9)
Exceptional Gain/(Loss)	(58.0)	(4.6)	(1,907)	(91.5)	(105)
Pre-tax Profit	398	465	(1,267)	400	283
Tax	(55.5)	(86.9)	(245)	305	(29.5)
Minority Interest	16.2	17.4	18.4	14.8	15.2
Net Profit	358	396	(1,494)	720	268
Net profit bef Except.	416	400	413	812	374
EBITDA	652	654	815	748	680

Growth

Revenue Gth (%)	(5.7)	0.9	7.3	(3.5)	9.1
EBITDA Gth (%)	(7.4)	0.3	24.6	(8.2)	(9.0)
Opg Profit Gth (%)	(7.6)	9.5	36.9	(11.9)	(42.7)
Net Profit Gth (Pre-ex) (%)	(13.7)	(3.8)	3.2	96.5	(54.0)

Margins

Gross Margins (%)	24.5	25.5	29.0	27.9	19.0
Opg Profit Margins (%)	14.4	15.7	20.0	18.3	9.6
Net Profit Margins (%)	14.9	16.3	(57.5)	28.7	9.8

Balance Sheet (RMm)

FY Dec	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	13,835	14,841	15,548	15,489	15,434
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	9,074	7,538	9,240	8,800	8,360
Cash & ST Invt	6,117	8,101	9,255	10,621	12,179
Inventory	112	109	141	153	168
Debtors	684	658	776	837	909
Other Current Assets	147	472	472	472	472
Total Assets	29,968	31,718	35,432	36,371	37,522
ST Debt	310	478	500	500	500
Creditor	2,665	2,737	3,459	3,762	4,113
Other Current Liab	278	156	156	156	156
LT Debt	6,591	9,283	9,443	9,279	9,114
Other LT Liabilities	984	1,099	1,099	1,099	1,099
Shareholder's Equity	19,335	18,221	20,776	21,576	22,541
Minority Interests	(193)	(254)	0.0	0.0	0.0
Total Cap. & Liab.	29,968	31,718	35,432	36,371	37,522
Non-Cash Wkg. Capital	(2,000)	(1,654)	(2,226)	(2,456)	(2,719)
Net Cash/(Debt)	(784)	(1,660)	(688)	842	2,565
Debtors Turn (avg days)	26.8	24.2	24.7	24.7	24.7
Creditors Turn (avg days)	159.5	161.6	142.9	153.5	151.2
Inventory Turn (avg days)	6.2	6.6	5.8	6.3	6.2
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.4
Current Ratio (x)	2.2	2.8	2.6	2.7	2.9
Quick Ratio (x)	2.1	2.6	2.4	2.6	2.7
Net Debt/Equity (X)	0.0	0.1	0.0	CASH	CASH
Net Debt/Equity ex MI (X)	0.0	0.1	0.0	CASH	CASH
Capex to Debt (%)	32.1	17.7	18.4	12.1	12.3
Z-Score (X)	2.4	2.5	2.3	2.4	2.4

Source: Company, AllianceDBS

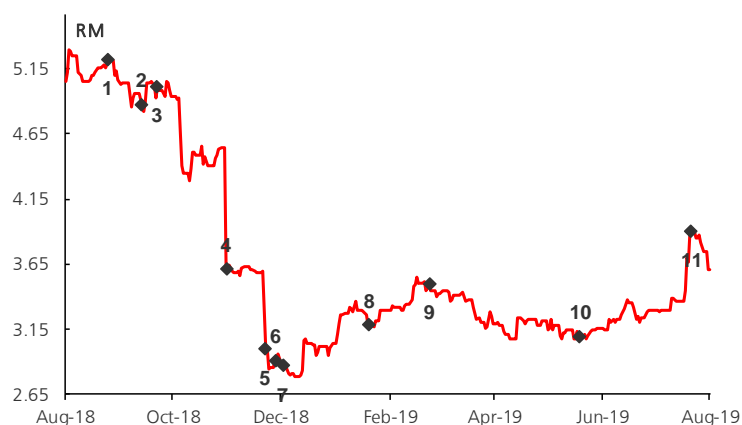
Genting Malaysia

Cash Flow Statement (RMm)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	1,320	(4.0)	1,283	1,293	1,485
Dep. & Amort.	940	955	1,124	1,242	1,237
Tax Paid	(203)	(297)	(157)	(156)	(184)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	135	2.10	572	230	263
Other Operating CF	(37.2)	1,955	37.7	17.1	(10.6)
Net Operating CF	2,155	2,611	2,860	2,625	2,790
Capital Exp.(net)	(2,216)	(1,731)	(1,832)	(1,182)	(1,182)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(64.4)	(89.9)	(37.7)	(17.1)	10.6
Net Investing CF	(2,281)	(1,821)	(1,870)	(1,199)	(1,171)
Div Paid	(991)	(1,075)	(396)	(396)	(396)
Chg in Gross Debt	2,670	2,688	660	335	335
Capital Issues	0.0	(111)	0.0	0.0	0.0
Other Financing CF	(237)	(302)	0.0	0.0	0.0
Net Financing CF	1,442	1,199	265	(60.2)	(60.2)
Currency Adjustments	(175)	14.7	0.0	0.0	0.0
Chg in Cash	1,141	2,003	1,255	1,366	1,559
Opg CFPS (sen)	34.2	44.2	38.7	40.6	42.8
Free CFPS (sen)	(1.0)	14.9	17.4	24.4	27.2

Source: Company, AllianceDBS

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	30 Aug 18	5.22	5.70	BUY
2:	18 Sep 18	4.87	5.70	BUY
3:	27 Sep 18	5.01	5.70	BUY
4:	05 Nov 18	3.61	4.65	HOLD
5:	27 Nov 18	3.00	4.65	HOLD
6:	03 Dec 18	2.91	3.05	HOLD
7:	07 Dec 18	2.87	3.05	HOLD
8:	25 Jan 19	3.18	3.05	HOLD
9:	28 Feb 19	3.50	3.20	HOLD
10:	24 May 19	3.09	3.35	HOLD
11:	26 Jul 19	3.90	3.35	HOLD

Source: AllianceDBS

Analyst: King Yoong CHEAH

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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: 7 Aug 2019 10:34:54 (MYT)

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Sources for all charts and tables are AllianceDBS unless otherwise specified.

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