

Regional Flash Note

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DBS Group Research . Equity

13 Aug 2019

Genting Malaysia (GENM MK) : FULLY VALUED

Mkt. Cap: US\$4,550m | 3m Avg. Daily Val: US\$12.1m

Last Traded Price (9 Aug 2019): RM3.22

Price Target 12-mth: RM3.15 (2% downside) (Prev RM3.15)

Analyst

Regional Research Team; equityresearch@dbs.com

Empire in a challenging state

- Empire considering filing for voluntary bankruptcy to restructure its financial obligations
- Further capital injection may be needed
- If Empire's losses are sustained, GENM's FY20-21F earnings could be diluted by >20%
- Maintain FULLY VALUED; more downside risks to our earnings estimates and RM3.15 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	16.0	15.9	14.0
PE Pre Ex. (X)	9.3	16.0	15.9	14.0
P/Cash Flow (X)	7.3	6.6	7.2	6.8
EV/EBITDA (X)	7.1	8.1	7.1	6.1
Net Div Yield (%)	5.9	3.1	3.1	3.6
P/Book Value (X)	1.0	0.9	0.9	0.8
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, 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

A falling Empire. According to news report, Empire Resorts (Empire) Inc, had during its 2QFY19 results announcement last Friday, highlighted to shareholders regarding the option of filing for voluntary bankruptcy to facilitate the restructuring of its borrowings. Empire reported net loss of USD36.1m for 2QFY19 (2QFY18: net loss of USD37.3m) on the back of USD60.1m revenue (2QFY18: USD49.1m). This brings its net losses for 1HFY19 to USD73.7m (1HFY18: net loss of USD63.6m). Empire has long-term debt of USD533.7m and a net debt position of USD630.9m.

May not be able to meet its financial obligations without viable financing options. According to management of Empire, "We can offer no assurance that we will be in compliance with all obligations and covenants measured as of future quarterly periods within the next 12 months or that we will be able to obtain waivers or other relief from the lenders, if necessary. If the company determines not to make a specified equity contribution, or interest and principal payments as they become due, unless the lenders under the term loan facility and revolving credit facility waive or eliminate the financial covenants, or otherwise restructure our existing debt agreements, Montreign Operating LLC, its wholly-owned subsidiary that owns and operates Resorts World Catskills, would be unable to pay all such obligations and will be in default."



Flash Note

Our comment

An undesirable acquisition. The indications by Empire's management are that the company may consider the option of filing for voluntary bankruptcy if there are no viable financing options available. This reaffirms our negative stance that this acquisition is potentially both earnings and value dilutive in nature.

To recap, Genting Malaysia Bhd (GENM) last week announced that it has proposed to acquire 13.2m shares in Empire from Kien Huat Realty III (KH) for USD128.6m (RM538.8m), or 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. GENM and KH would 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 an 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.

Our major concerns are: (1) should the group not be able to turnaround Empire's earnings and losses are sustained in 2020 as well, there is >20% downside risks to our FY20-21F earnings estimates, and (2) in view of Empire's dire financial position, further capital injection may be needed post privatisation by GENM in order to meet its financial obligations.

GENM is poised to announce its 2QFY19 results on 29 August, and we understand that management will provide some insights on the earnings prospects and their plan to turn around Empire going forward.

Valuation and recommendation

Maintain FULLY VALUED with TP of RM3.15. Given the rising uncertainties surrounding this acquisition, there is (1) downside risks to earnings (potentially >20% earnings dilution in FY20-21) arising from GENM's acquisition of Empire, and (2) potentially further capital injection by GENM to Empire to meet its financial obligations. Therefore, there is further downside risk to our RM3.15 TP. We maintain our FULLY VALUED recommendation for GENM and put our earnings estimates and our SOP-based TP of RM3.15 under review.

Target Price & Ratings History



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

Source: DBS Bank

Analyst: Regional Research Team

Flash Note

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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: 13 Aug 2019 10:03:05 (MYT)

Dissemination Date: 13 Aug 2019 15:31:12 (MYT)

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