

Malaysia Flash Note

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DBS Group Research . Equity

29 Nov 2019

Genting Malaysia (GENM MK) : FULLY VALUED

Mkt. Cap: US\$4,214m | **3m Avg. Daily Val:** US\$6.4m

Last Traded Price (28 Nov 2019): RM3.11

Price Target 12-mth: RM2.90 (7% downside) (Prev RM2.90)

Analyst

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High hold percentage partially offset casino duty

- 3QFY19 earnings dampened by higher casino duty; mitigated by high hold percentage in mass/premium segments
- 9MFY19 earnings came within expectations
- Outdoor theme park scheduled to open in 3QFY20
- Maintain FULLY VALUED with RM2.90 TP

Forecasts and Valuation				
FY Dec (RMm)	2018A	2019F	2020F	2021F
Revenue	9,928	11,481	12,380	13,455
EBITDA	2,868	2,645	2,269	2,475
Pre-tax Profit	(4.0)	1,435	1,000	1,239
Net Profit	(19.5)	1,313	950	1,154
Net Pft (Pre Ex.)	2,041	1,362	950	1,154
Net Pft Gth (Pre-ex) (%)	45.5	(33.3)	(30.2)	21.4
EPS (sen)	(0.3)	22.2	16.1	19.5
EPS Pre Ex. (sen)	34.6	23.1	16.1	19.5
EPS Gth Pre Ex (%)	46	(33)	(30)	21
Diluted EPS (sen)	(0.3)	22.2	16.1	19.5
Net DPS (sen)	19.0	11.5	10.6	11.9
BV Per Share (sen)	309	354	363	376
PE (X)	nm	14.0	19.3	15.9
PE Pre Ex. (X)	9.0	13.5	19.3	15.9
P/Cash Flow (X)	7.0	6.5	6.9	6.5
EV/EBITDA (X)	6.9	7.4	7.9	6.5
Net Div Yield (%)	6.1	3.7	3.4	3.8
P/Book Value (X)	1.0	0.9	0.9	0.8
Net Debt/Equity (X)	0.1	0.1	CASH	CASH
ROAE (%)	(0.1)	6.3	4.4	5.2

Source of all data on this page: Company, AllianceDBS, 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

Dragged by higher casino duty. Stripping out various exceptional items, Genting Malaysia (GENM) reported core earnings of RM342m (-17% y-o-y, -5% q-o-q) for 3QFY19. The earnings reflect the increase in casino duty by 10 percentage points on gross gaming income in January 2019.

Despite the higher casino duty, its 3QFY19 earnings were partially mitigated by a high hold percentage in the mass to premium players segments, although we understand that overall business volume from the gaming segment dropped during the quarter due to reduced incentives for players. This was part of the group's cost rationalisation initiatives.

9MFY19 earnings within expectations. GENM's 9MFY19 core earnings of RM1.072m accounted for 78% of our full year earnings forecasts.

High hold percentage in mass to premium segments.

GENM's revenue from its Malaysian operations in 3QFY19 increased by 5% to RM1.8bn, driven mainly by the high hold percentage in the mass to premium players segments. However, we understand that the group experienced -9% y-o-y decline in VIP rolling chip volume and -6% drop in mass market volume during the quarter. This was due to GENM's cost rationalisation that led to less rebates for high rollers and reduced marketing activities to attract mass market players.



Flash Note

Its adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA) for the quarter dropped by -16% y-o-y to RM538m, mainly due to higher casino duty.

Overseas operations improving. 3QFY19 adjusted EBITDA for its UK and Egypt operations increased by 42% y-o-y to RM86m in 3QFY19, mainly driven by the adoption of the Malaysian Financial Reporting Standard 16 (MFRS 16) leases and less bad debt provisions. Adjusted EBITDA for its US operations decreased by 16% y-o-y to RM55m in 3QFY19 mainly due to higher payroll and operating expenses for Resorts World Casino New York City.

Outdoor theme park targeted to open in 3QFY20. After GENM's full settlement with Twenty First Century Fox Inc (Fox) and Walt Disney Co (Disney) over a legal dispute on the construction of a Fox World outdoor theme park at Genting Highlands, the group is targeting to open its outdoor theme park in 3QFY20.

Updates on Empire deal. The minority stakeholders approved the proposal to privatise Empire Resorts Inc (Empire) at USD9.74 per share in mid-November. Empire is in the process of being delisted from the US stock exchange.

Although GENM's management has not divulged much information on its plans for Empire, we understand that the group is actively taking steps to turn around Empire's operations. It is optimistic that Empire's earnings prospects will improve substantially by next year.

Outlook

Prospects remain challenging. 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 which is 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.

Valuation and Recommendation

Maintain FULLY VALUED with a lower TP of RM2.90. We are maintaining our FULLY VALUED recommendation with an unchanged sum-of-parts (SOP)-based target price (TP) of RM2.90. Our TP indicates an implied FY20 price-to-earnings (PE) of 18x, which was the group's historical 5-year mean PE multiple prior to the announcement of Empire acquisition.

Flash Note

Quarterly Income Statement (RMm)

FY Dec	3Q2018	2Q2019	3Q2019	% chg yoy	% chg qoq
Revenue	2,599	2,602	2,628	1.1	1.0
Cost of Goods Sold	(1,846)	(1,944)	(1,995)	8.1	2.7
Gross Profit	753	658	633	(16.0)	(3.8)
Other Oper. (Exp)/Inc	(233)	(261)	(274)	17.2	4.9
Operating Profit	520	397	359	(30.9)	(9.6)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	58.2	(31.2)	(35.8)	nm	(14.7)
Exceptional Gain/(Loss)	(1,907)	56.8	68.9	nm	21.3
Pre-tax Profit	(1,267)	476	444	nm	(6.8)
Tax	(245)	(73.1)	(49.9)	(79.6)	(31.7)
Minority Interest	18.4	13.3	17.1	(7.1)	28.6
Net Profit	(1,494)	416	411	nm	(1.3)
Net profit bef Except.	413	360	342	(17.2)	(4.9)
EBITDA	815	712	684	(16.0)	(3.8)
Margins (%)					
Gross Margins	29.0	25.3	24.1		
Opg Profit Margins	20.0	15.3	13.7		
Net Profit Margins	(57.5)	16.0	15.6		

Source of all data: 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:	27 Nov 18	3.00	4.65	HOLD
2:	03 Dec 18	2.91	3.05	HOLD
3:	07 Dec 18	2.87	3.05	HOLD
4:	25 Jan 19	3.18	3.05	HOLD
5:	28 Feb 19	3.50	3.20	HOLD
6:	24 May 19	3.09	3.35	HOLD
7:	26 Jul 19	3.90	3.35	HOLD
8:	07 Aug 19	3.18	3.15	FULLY VALUED
9:	13 Aug 19	3.12	3.15	FULLY VALUED
10:	30 Aug 19	3.14	2.90	FULLY VALUED

Source: AllianceDBS

Analyst: King Yoong CHEAH

Flash Note

AllianceDBS 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: 28 Nov 2019 22:52:02 (MYT)

Dissemination Date: 29 Nov 2019 08:45:24 (MYT)

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