Malaysia

Flash Note

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DBS Group Research . Equity

28 Feb 2020

Genting Berhad (GENT MK) : BUY

Mkt. Cap: US$4,702m I **3m Avg. Daily Val:** US$6.9m

Last Traded Price (27 Feb 2020): RM5.16

Price Target 12-mth: RM6.80 (32% upside) (Prev RM7.25)

Analyst

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Company Guide

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

Genting - iBanking Login

Genting - Institution Login

Weighed by weak domestic gaming

- FY19 earnings below expectations mainly on lower contribution by GENM
- Cut FY20/21 earnings estimates by 14%/5%
- RWLV to commence operations by summer 2021
- Maintain BUY with a lower TP of RM6.80

Forecasts and Valuation

FY Dec (RMm)	2018A	2019A	2020F	2021F
Revenue	20,853	21,617	22,485	24,969
EBITDA	7,093	7,839	7,373	8,577
Pre-tax Profit	3,418	4,583	4,317	5,256
Net Profit	1,366	1,996	2,030	2,361
Net Pft (Pre Ex.)	2,642	2,244	2,030	2,361
Net Pft Gth (Pre-ex) (%)	30.7	(15.1)	(9.5)	16.3
EPS (sen)	36.8	51.5	52.4	60.9
EPS Pre Ex. (sen)	71.1	57.9	52.4	60.9
EPS Gth Pre Ex (%)	31	(19)	(10)	16
Diluted EPS (sen)	36.8	51.5	52.4	60.9
Net DPS (sen)	21.5	22.0	20.9	24.4
BV Per Share (sen)	923	926	963	1,006
PE (X)	14.0	10.0	9.9	8.5
PE Pre Ex. (X)	7.3	8.9	9.9	8.5
P/Cash Flow (X)	2.8	2.7	3.2	2.6
EV/EBITDA (X)	5.6	5.8	6.2	5.3
Net Div Yield (%)	4.2	4.3	4.1	4.7
P/Book Value (X)	0.6	0.6	0.5	0.5
Net Debt/Equity (X)	CASH	0.0	CASH	CASH
ROAE (%)	4.0	5.7	5.5	6.2

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

What's New

4QFY19 below expectations. Stripping out various adjustments including the disposal gains on investment properties of RM132m and net impairment losses of RM14m, Genting Berhad (GENT) reported 4QFY19 core earnings of RM407m (-38% y-o-y, -32% q-o-q).

The lower y-o-y earnings were mainly due to lower contributions from Genting Malaysia (GENM). This brought its FY19 core earnings to RM2,244m which were below our expectations.

GENS – within expectations. 4Q19 results were largely in line with our expectations. Genting Singapore's (GENS) 4Q19 adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) of S$288m (-2% y-o-y, +3% q-o-q) met expectations. 4Q19 was another lucky quarter for GENS, as its VIP win rate of 3.4% (vs historical average of 2.8-2.9%) tempered slight weakness in VIP (rolling chip volumes -2.2% y-o-y) and mass gaming volumes (non-rolling drop and slot handles: -3.3% y-o-y). On a hold-adjusted basis, adjusted EBITDA would have been S$260m (-5% y-o-y, +12% q-o-q).

There was a surprising uplift in final dividend to 2.5Scts/share (vs 2.0Scts/share a year ago), bringing total dividends in FY19 to 4.0Scts/share for an implied forward yield of 4.6%. This was a pleasant surprise, as we had initially anticipated dividends to be flat amid the challenging operating environment. Furthermore, GENS' management reiterated its commitment to rewarding shareholders and appeared confident of sustaining dividends.

GENM – a weak close. Stripping out various exceptional items including RM132m gain on disposal of investment properties and RM28m impairment losses, Genting Malaysia (GENM) reported core earnings of RM216m (-73% y-o-y, -37% q-o-q) for 4QFY19. The lower earnings on a y-o-y basis was mainly dragged by; (1) increase in casino duty by 10 percentage points on gross gaming revenue in January 2019, (2) lower hold percentage in Malaysia's mid to premium players segments coupled with lower business volume in the mass market segment and, (3) lower earnings contributions from its overseas operations. The quarter also included a share of 1.5 months losses from Empire Resorts, amounting to RM31m.

This brings its FY19 core earnings to RM1,291m which were below expectations. The key variations between our earnings forecasts and the group's reported earnings were the lower than expected contributions from all its major operations.

GENP – in line with expectations. Genting Plantation's (GENP) 4QFY19 core profit of RM62.6m (+254% y-o-y, +326% q-o-q) and FY19 core profit of RM139m (-13% y-o-y) came in within our and consensus expectations, constituting 105% of our FY19 forecast and 98% of consensus. The stronger y-o-y results were primarily due to stronger crude palm oil (CPO) prices.
The average selling prices (ASPs) of CPO and palm kernel (PK) were RM2,278/tonne (+23% y-o-y, +16% q-o-q) and RM1,231/tonne (-9% y-o-y, +13% q-o-q) respectively. Fresh fruit bunches (FFB) production was 580,000 mt (-5% y-o-y) for the quarter. The weaker y-o-y FFB production was due to lower yields from Malaysian estates on the back of dry weather conditions.

Cut earnings forecast by 5-14%. We revise our 20/21F earnings estimates by -14%/-5%, mainly to reflect the combined effects of; (1) lowering the earnings estimates of GENM and GENS in FY20/21, partially compensated by; (2) raising the FY20/21 earnings estimates of GENP.

Outlook

Genting Singapore

COVID-19 impact. Our base case assumes; 1) COVID-19 outbreak peaking in early-mid 2Q2020, 2) based on the severe acute respiratory syndrome (SARS) outbreak in 2003 and other pandemics, pent-up consumer spending and travel demand should swiftly materialise shortly after. While our FY21F EBITDA remains intact, we revised FY20F EBITDA downward by 20% to reflect the following:

1. Singapore has effectively banned all mainland Chinese passport holders from entering or transiting through Singapore. GENS's top line will take a considerable hit as Chinese tourists account for around 20% of Singapore's tourism receipts (as at 1H2019). Additionally, VIP volumes should be hardest hit, given its elevated exposure to the Chinese market.
2. Our economists recently downgraded Singapore's 2020 real gross domestic product (GDP) forecast to 0.9% from 1.4% previously. We believe local consumer spending will continue to be soft in the near term and translate into lower local visitors to the casino and GENS' attractions. Furthermore, 1Q2020 will still be adversely impacted by the levy hike which was implemented in 2Q2019.
3. GENS will accelerate the refurbishment of its hotels during the inevitable downturn, focus on productivity initiatives and pull other cost levers to keep its operating expenses in check.

All eyes on Yokohama. Following the company's sudden withdrawal from Osaka, GENS is now participating in the request-for-concept for a Yokohama integrated resorts (IR), and will likely also participate in Tokyo if the city decides to enter the IR race. However, the competition in Yokohama will probably be tougher, with at least five other competitors in the running - Las Vegas Sands, Melco Resorts, Wynn Resorts, Galaxy Entertainment and Sega Sammy in the running. Additionally, residents in Yokohama appear to be more opposed to an IR with a casino. The project could be subject to repeated delays, or even scrapped entirely.

Competition in Tokyo will not be any less intense if it pursues an IR project as casino operators would certainly be drawn to the city's attractive demographics and booming tourism.

The timeline for Yokohama's request for proposal process will likely begin in 2Q2020, while the winning operator should be selected in 4Q2020.

Genting Malaysia

Empire's losses could be lower than expected. We gather that Empire Resorts has reported narrowed 4QFY19 losses before tax (LBT) of USD29m (vs 4QFY18 LBT: USD47m) due to higher revenue and cost optimisation exercises. Post privatisation of Empire Resorts in November, we understand that its management has been actively taking steps to turn around Empire Resorts' operations. These include; (1) Empire's cost of debt was about ~11% prior to privatisation; management is actively leveraging on the strength of the Genting group to refinance/renegotiate its cost of debt to below 10%. We estimated that a 1% reduction could reduce its interest expenses by ~USD6m per annum, (2) trimming its workforce by cutting ~240 full time employees and renegotiating the salary packages of remaining staff, (3) benefit from revenue and cost synergies by cutting its advertising and promotional (A&P) expenses and engage in joint marketing activities with RWCNY, (4) other cost saving exercises including USD10m cost savings on Empire Resorts' corporate cost as an unlisted entity.

In view of the ongoing revenue and cost optimisation to turn around Empire Resorts, coupled with review of earnings estimates guided by its management in its filing with the Securities and Exchange Commission, we believe that our initial estimates of GENM's share of losses of RM296m/RM250m for FY20/21 from Empire Resorts could be overly conservative.

Ongoing concerns of COVID-19 could drag earnings for FY20. Although >60% of visitations to Resorts World Genting (RGW) are primarily domestic day trippers, we believe that ongoing fears of the COVID-19 outbreak could still have an adverse impact on its FY20 earnings. Our base case assumes that; 1) COVID-19 epidemic peaks in early-mid 2Q2020, 2) based on the severe acute respiratory syndrome (SARS) outbreak in 2003, fears of a pandemic deterred international and domestic visitors. So far, GENM's management guidance is that visitations have dropped by the mid-teens. This is not surprising as visitations to high traffic areas have reduced notably during COVID-19. In 2003 during the SARS outbreak, GENM's reported net earnings dropped by ~20% y-o-y.

Cut FY20/21 earnings forecast by 2-10%. We have cut our FY20/21 earnings forecasts by 10%/2% mainly to account for; (1) lowering our visitors assumption for FY20/21 to 27.4m/ 29.5m (FY20/21: 29.4m/30.5m previously) due to COVID-19 impact in FY20 and taking a more conservative stance for FY21, (2) partially offset by lowering our share of Empire Resort's FY20/21 losses to RM178m/RM174m (RM296m/250m previously). Post revision, we assume visitor growth for FY20/21 at -5%/8% respectively.

Genting Plantation

Upside risks to CPO price. We foresee a fall in demand for palm oil due to the ongoing COVID-19 outbreak. However, we anticipate the fall in production yields in upcoming months to exceed the decrease in demand arising from COVID-19. We believe that most trees are going through resting periods. Based on Malaysian Palm Oil Board's (MPOB) statistics, the magnitude of the decline in palm oil production is larger than the decline in demand for palm oil from India and China, leading to a decline in stock levels from 2.00m mt in December 2019 to 1.76m mt in January 2020.

We believe plantation players will continue to do well, as the fall in stock levels and lower production could support crude palm oil (CPO) prices. We believe that the benefits of higher CPO prices far outweigh the negatives of lower production yields at this juncture.

We also think that the drop in production in MPOB's January 2020 statistics was primarily driven by small holder/planters/farmers reducing or cutting their fertiliser application when CPO prices were low. We also expect to CPO prices to recover strongly if COVID-19 dissipates. MPOB palm oil price has already declined by 20% from its January high of RM3,100/mt. We believe that there is more upside risks to our base CPO price assumption of RM2,450 for FY19.

Genting Bhd

RWLV to commence operations by summer 2021. GENT's management highlighted that the construction of Resorts World Las Vegas (RWLV) is progressing well. It is expecting the casino and resort to commence operations by summer 2021. To recap, in 2013 GENT ventured directly (instead of through subsidiaries) into the gaming space in the US when it acquired an 87-acre site at the north end of the Las Vegas Strip from Boyd Gaming Corporation. The success of this venture, the group's first direct involvement in the US gaming sector, could change the group's earnings profile.

Valuation and Recommendation

Upon revising target prices (TPs) of GENS, GENM and GENP, we maintain our BUY recommendation on GENT with a lower sum-of-parts (SOP)-based TP of RM6.80.

We believe that GENT continues to offer deep value. As the parent company of GENS and GENM, GENT provides a cheaper exposure to both its subsidiaries.

SOP Valuation

Genting's RNAV

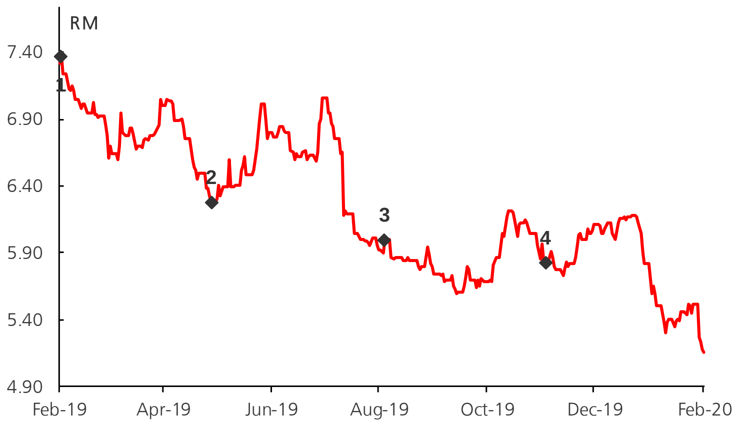
Listed assets	Stake	No of shares (m)	Forex rate (RM/$)	Target price (LC$)	Target value (RM m)	Basis
Genting Singapore	52.0%	12,198.5	3.04	1.10	21,611.8	Target price
Genting Malaysia	49.3%	5,929.3	1.00	2.65	7,946.4	Target price
Genting Plantation	54.6%	758.8	1.00	9.60	3,977.6	Target price
Landmarks	30.3%	480.8	1.00	0.40	58.3	Share price
Total value of listed assets					**33,594.1**	
Non-listed assets						
Management and licensing fees from Resorts					6,209.0	NPV
Oil & Gas					4,265.0	Book value
Power plants					1,738.3	DCF
Less: Net debt (ex-listed subsidiaries)					(8,541.6)	
Total					**37,264.7**	
Fully diluted no of shares (m)					3,877	
SOP/share (RM)					**9.67**	
Less: Holding co discount (30%)					(2.87)	
Adjusted SOP/share (RM)					**6.80**	

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2018	3Q2019	4Q2019	% chg yoy	% chg qoq
Revenue	5,397	5,295	5,303	(1.7)	0.2
Cost of Goods Sold	(3,562)	(3,326)	(3,437)	(3.5)	3.3
Gross Profit	**1,835**	**1,969**	**1,867**	**1.7**	**(5.2)**
Other Oper. (Exp)/Inc	(645)	(661)	(727)	12.6	10.0
Operating Profit	**1,190**	**1,308**	**1,140**	**(4.2)**	**(12.9)**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	19.9	43.1	(31.6)	nm	(173.3)
Net Interest (Exp)/Inc	(80.5)	(85.7)	(111)	(38.1)	(29.8)
Exceptional Gain/(Loss)	0.0	(312)	122	nm	(139.2)
Pre-tax Profit	**1,129**	**954**	**1,120**	**(0.9)**	**17.3**
Tax	105	(237)	(184)	(275.2)	(22.1)
Minority Interest	(579)	(412)	(406)	29.8	(1.3)
Net Profit	**655**	**306**	**529**	**(19.3)**	**73.0**
Net profit bef Except.	655	617	407	(38.0)	(34.2)
EBITDA	1,855	2,041	1,776	(4.2)	(13.0)
Margins (%)					
Gross Margins	34.0	37.2	35.2		
Opg Profit Margins	22.0	24.7	21.5		
Net Profit Margins	12.1	5.8	10.0		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Feb 19	7.37	8.85	BUY
2:	24 May 19	6.28	7.80	BUY
3:	30 Aug 19	6.00	7.25	BUY
4:	29 Nov 19	5.83	7.25	BUY

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

Source: AllianceDBS
Analyst: King Yoong CHEAH

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*

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