

Malaysia Company Guide

Genting Malaysia

Version 17 | Bloomberg: GENM MK | Reuters: GENM.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

30 Mar 2020

BUY (Upgrade from Fully Valued)

Last Traded Price (27 Mar 2020): RM1.97 (KLCI : 1,343.09)

Price Target 12-mth: RM2.40 (22% upside) (Prev RM2.65)

Analyst

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What's New

- The stock has dropped ~40% YTD, with valuation metrics showing near/below 1998 and 2008 crisis levels at this juncture
- FY20 is a challenging year for the group, but earnings are likely to rebound post FY20
- Conservatively cut FY20/21 earnings by 26/16% for reduced visitations and lower overseas contributions
- Upgrade to BUY with lower TP of RM2.40

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2019A	2020F	2021F	2022F
Revenue	10,407	9,753	10,570	11,496
EBITDA	2,596	1,970	2,314	2,730
Pre-tax Profit	1,489	622	981	1,433
Net Profit	1,395	637	955	1,354
Net Pft (Pre Ex.)	1,291	637	955	1,354
Net Pft Gth (Pre-ex) (%)	(36.7)	(50.6)	49.7	41.8
EPS (sen)	24.6	11.3	16.9	23.9
EPS Pre Ex. (sen)	22.8	11.3	16.9	23.9
EPS Gth Pre Ex (%)	(37)	(51)	50	42
Diluted EPS (sen)	24.6	11.3	16.9	23.9
Net DPS (sen)	20.0	10.1	15.2	21.5
BV Per Share (sen)	327	328	329	332
PE (X)	8.0	17.5	11.7	8.2
PE Pre Ex. (X)	8.6	17.5	11.7	8.2
P/Cash Flow (X)	4.3	5.3	4.4	3.9
EV/EBITDA (X)	5.5	6.8	5.1	3.7
Net Div Yield (%)	10.2	5.1	7.7	10.9
P/Book Value (X)	0.6	0.6	0.6	0.6
Net Debt/Equity (X)	0.2	0.1	0.0	CASH
ROAE (%)	7.5	3.4	5.1	7.2
Earnings Rev (%):		(26)	(16)	N/A
Consensus EPS (sen):		22.6	24.8	N/A
Other Broker Recs:		B: 7	S: 4	H: 9

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

Place your bets before the tide turns

Negatives priced in, value emerging. We upgrade our recommendation for Genting Malaysia (GENM) to BUY with a lower target price (TP) of RM2.40. Although we believe that FY20 is undoubtedly a challenging year for the group given the Covid-19 pandemic concerns, we believe that this is only temporary in nature and its operations will start picking up from 2HFY20. On the other hand, the stock has dropped ~40% on a YTD basis, which we believe has priced in the negatives. With value emerging, we advocate investors with a longer-term investment horizon to take advantage of its current price weakness to accumulate the stock.

Where we differ: Lower earnings estimates, conservative target price. Our FY20/21 earnings forecast are below consensus as we have conservatively factored in lower revenue assumptions for FY20/21.

Potential catalysts: Higher-than-expected visitors due to subsiding Covid-19 pandemic concerns and stronger-than-expected returns from its Genting Integrated Tourism Plan (GITP) investment could offer potential upside to our earnings forecast.

Valuation:

Post earnings revisions, we lower our sum-of-parts-based (SOP) target price (TP) for the group to RM2.40, upon rolling forward our valuation base to FY21. Our TP indicates an implied FY21 price-to-earnings (PE) of 14x, which is about -1SD below its historical mean PE multiple.

Key Risks to Our View:

Weaker-than-expected foreign visitors to Genting Highlands due to prolonged Covid-19 pandemic concerns and higher gaming tax could further dampen GENM's earnings prospects.

At A Glance

Issued Capital (m shrs)	5,654
Mkt. Cap (RMm/US\$m)	11,138 / 2,568
Major Shareholders (%)	
Genting Bhd	49
GIC Pte Ltd	2.6
Free Float (%)	51
3m Avg. Daily Val (US\$m)	10.8
GIC Industry : Consumer Discretionary / Consumer Services	



Live more, Bank less

WHAT'S NEW
Too cheap to ignore

On-going Covid-19 concerns could weigh on earnings for FY20. Although >60% of visitations to Resorts World Genting (RGW) are primarily domestic day trippers, we believe that on-going Covid-19 pandemic fears could still have a significant impact on its FY20 earnings. Our base case assumes that 1) the Covid-19 epidemic peaks in mid-2Q2020 with normal operations to resume by 2HFY20, and 2) fears of a pandemic will deter international and domestic visitors, judging from the severe acute respiratory syndrome (SARS) outbreak in 2003. Furthermore, the 28-day movement control order (MCO) period in Malaysia from 18 March to 14 April will further erode its earnings.

On the other hand, the group also announced the temporary closure of Resorts World Casino New York City (RWCNY) and Resorts World Catskills (RWC) in the US from mid-March until further notice.

Expect discretionary spending to moderate. Given that severe impact of the Covid-19 pandemic on the global economy, we also expect discretionary spending to moderate in 2HFY20, even after concerns over the pandemic has subsided. This is likely to cap the topline growth of GENM.

In view of all these negative factors, FY20 is undoubtedly a challenging year for the group. Nonetheless, we believe that this is temporary in nature and its operations will start picking up from 2HFY20.

Outdoor theme park remains on track to be opened in 3QFY20. On a positive note, we understand that the outdoor theme park remains on track to commence operations on 3QFY20, despite the implementation of MCO. We believe that the opening of outdoor theme will boost the visitations to Genting Highland, which could sustain its growth prospects in the 2HFY20.

Cut FY20/21 earnings forecast by 26%/16%. We cut our FY20/21 earnings forecasts by 26%/16% mainly to account for (1) lowering our visitors assumption for FY20/21 to 26.6m/ 28.3m (FY20/21: 27.4m/ 29.5m previously) due to Covid-19 impact in FY20 and taking a more conservative stance for FY21, (2) our assumption that contributions from its US operations to contract by -15% for FY20 (we had previously assumed 5% growth in FY20), and (3) our assumption that other overseas contributions to contract by -10% for FY20. Post revision, we assume visitor growth for FY20/21 at -8%/7%, respectively. We believe that our earnings estimates for FY20/21 are rather conservative (now 50%/32% below consensus).

Selling overdone, value has emerged. Despite the challenging near-term outlook, we believe that the recent share price weakness has priced in these negative factors. On a YTD basis, GENM's share price has dropped ~40% and we believe that the selling is overdone. As illustrated in Appendix 1, GENM's valuations are close to its 1998 and 2008 crisis lows in terms of EV/EBITDA and forward PE valuations, while below both crisis levels in terms of P/BV.

Given such distressed valuations, we advocate investors with a longer-term investment horizon to take advantage of its current price weakness to accumulate the stock. Furthermore, with the recent sell down and foreign investors exiting the emerging markets, its foreign shareholdings have hit a record low at 24.5% on 16th March. This represents a noticeable drop from its 26.8% level in Dec 2019, which was a record low back then.

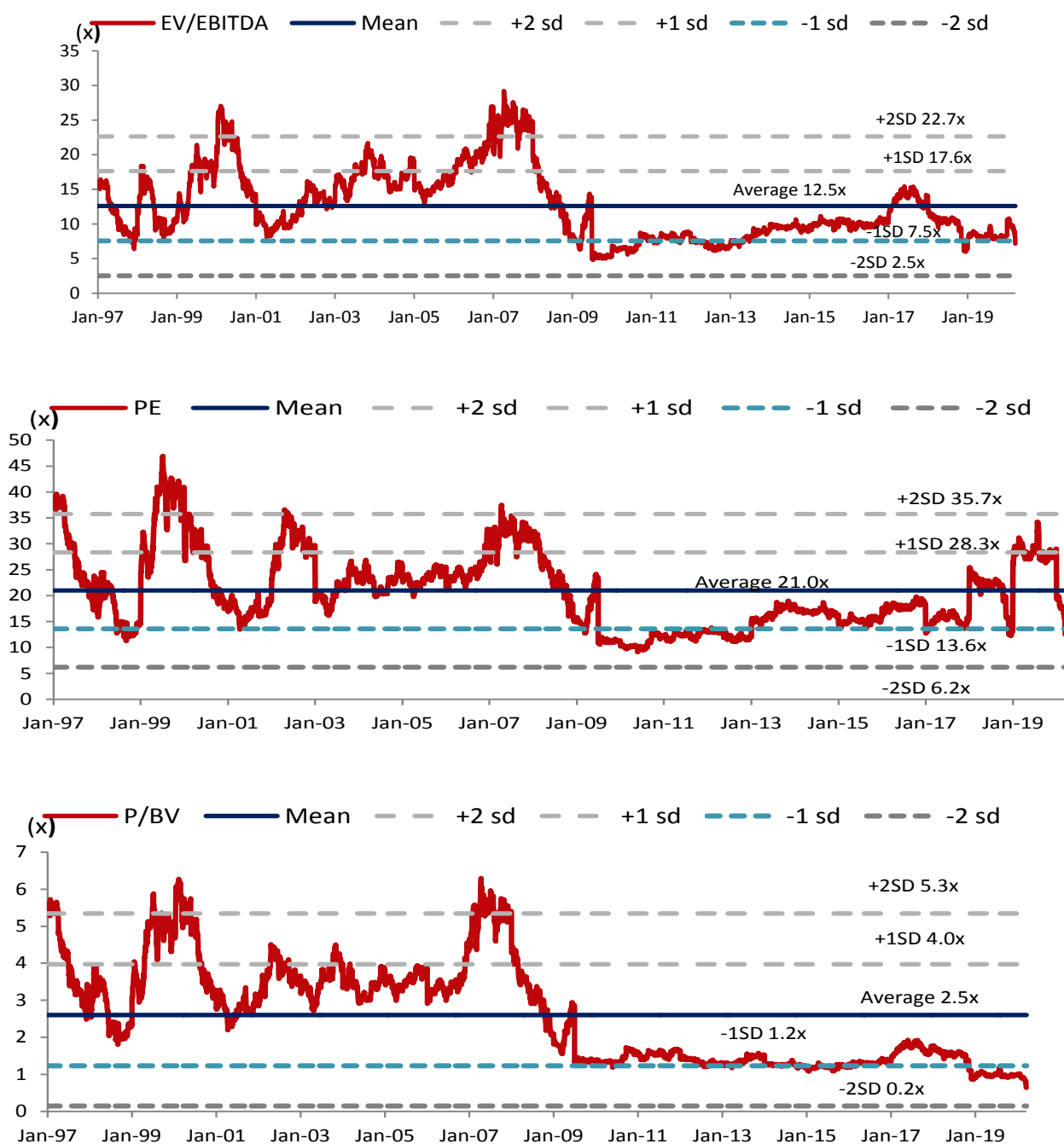
Upgrade to BUY with lower TP of RM2.40. Post earnings revisions, we upgrade our recommendation for the group to BUY with a lower SOP-based TP of RM2.40, upon rolling forward our valuation base to FY21. Our TP indicates an implied FY21 PE of 14x, which is about -1SD below its historical mean PE multiple.

Prolonged Covid-19 pandemic and higher tax rate are key risks to our recommendation. Besides the potential for a prolonged Covid-19 pandemic that could erode its earnings, the government raising casino tax serves as another key risk to our BUY recommendation. Our sensitivity analysis shows that a 1% increase in gaming tax could reduce its FY21/22 earnings by 4%/5%, respectively.

Although we do not discount the probability of another casino tax hike, we wish to highlight that the last tax hike was rather recent where the government announced the increase of casino tax from 25% to 35% (effective from January 2019) when they tabled Budget 2019 back in 2 November 2018. Prior to that, the last casino tax increase for Genting Malaysia was in 1998, where the rate was raised from a progressive scale of 22%-25% to 25%.

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Appendix 1: GENM's valuations are close to its 1998 and 2008 crisis lows in terms of EV/EBITDA and forward PE valuations, while below both crisis levels in terms of P/BV



Source: AllianceDBS

Appendix 2: SOP Valuation

	RMm	RM/share	Remarks
Malaysian gaming	11,775	2.12	6x 2021F EV/EBITDA
Genting UK	1,530	0.27	6x 2021F 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	(794)	(0.14)	
Sum-of-parts	16,753	3.00	
Less: Holding co discount (20%)	(3,351)	(0.60)	
Adjusted sum-of-parts (RM)	13,403	2.40	
Implied PER		14	

Source: AllianceDBS

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, the UK and US. The group's operations in Malaysia remain its key income contributor, accounting for about 80% of the group's EBITDA in 2019. 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 operations in December 2018.

We believe that GENM's legal 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 2HFY20. Management is comfortable that the outdoor theme park will be on track to be opened by 3QFY20.

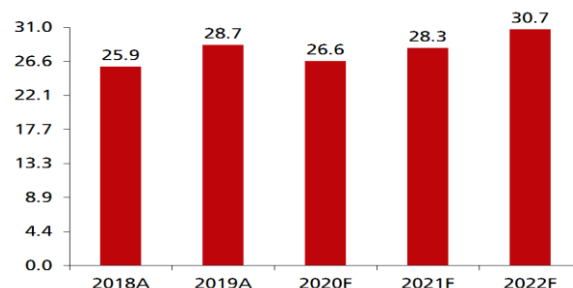
Overseas gaming to diversify earnings base. Overseas operations constituted about 20% of the group's EBITDA in 2019. The group operates 40 casinos in the UK. The commencement of Resorts World Birmingham since October 2015, with 30 gaming tables and 150 slot machines, has further strengthened its UK operations.

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.

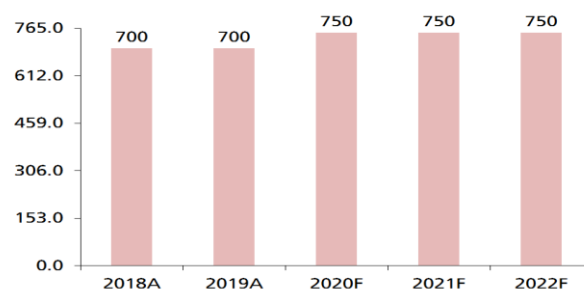
In the US, the group operates; (1) the racino (race track and casino) located at Aqueduct Racetrack in New York City, and (2) Resorts World Bimini in Bahamas. GENM also owns properties worldwide including a hotel, office and retail space in Miami.

The acquisition of Empire Resorts in 2HFY19 could further strengthen its US operations. Nonetheless, we deem the acquisition price of USD9.74 per share as unattractive given that (1) Empire has been persistently loss-making, and (2) this represents an expensive 1.8x price/book value (P/BV) at 1QFY19 book value.

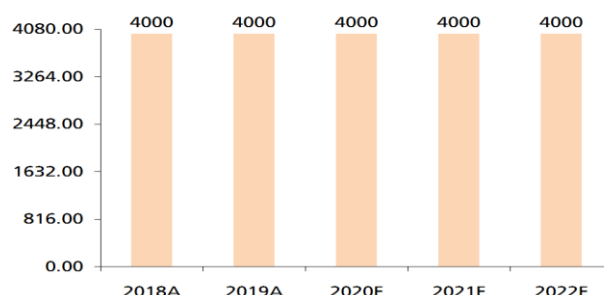
No. of Visitors (m)



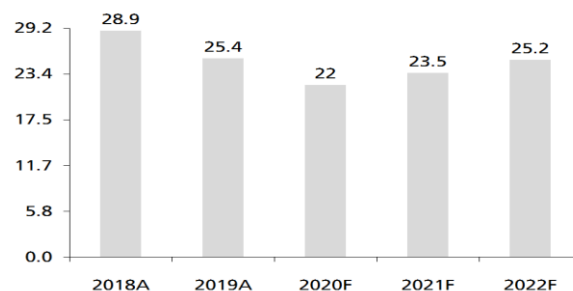
Gaming tables (Malaysia) (units)



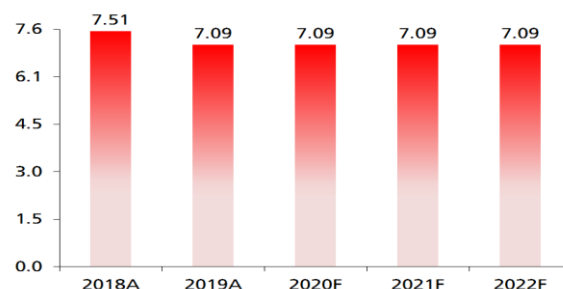
Slot Machine (Malaysia) (units)



EBITDA margin (%)



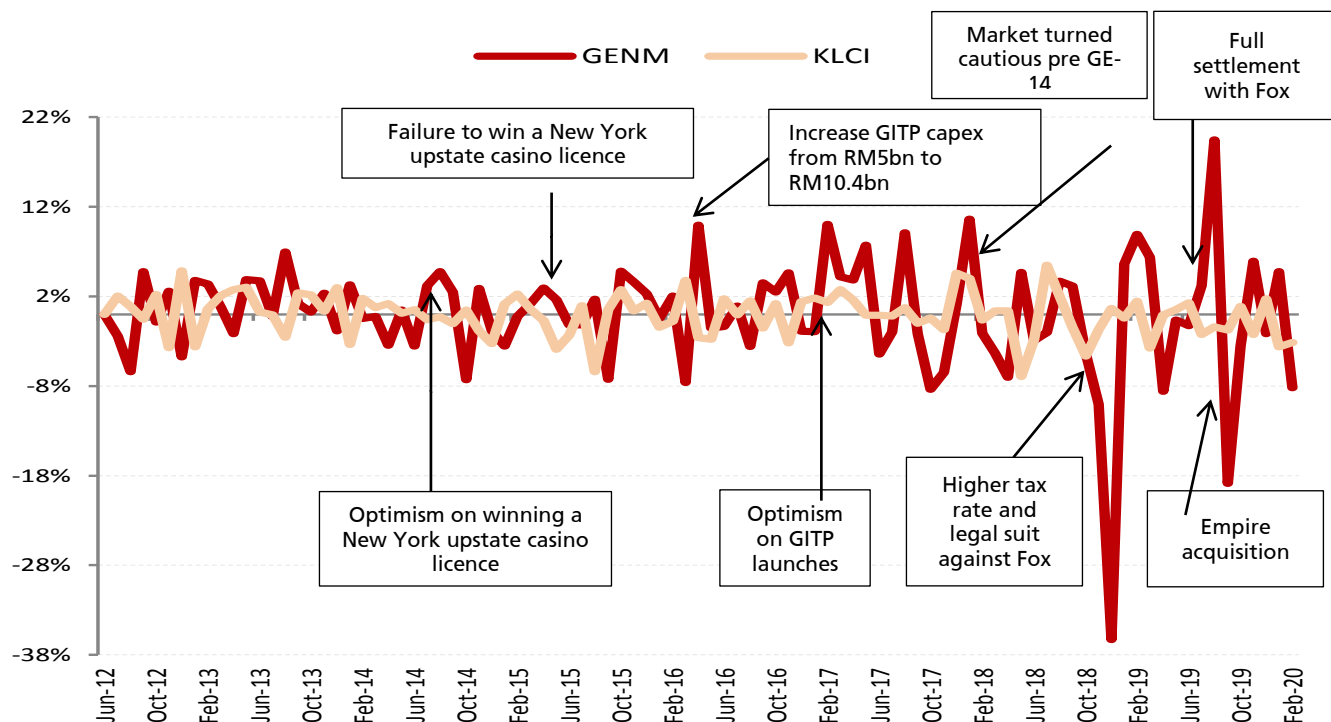
Management fees (% of leisure revenue)



Source: Company, AllianceDBS

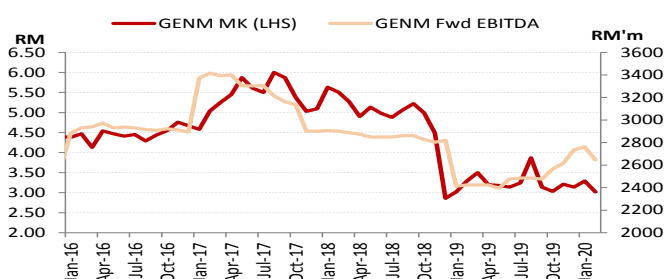
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Appendix 1: GENM's share price correlation with critical factors



Source: Company, Bloomberg L.P., AllianceDBS

GENM's share price vs expected forward EBITDA

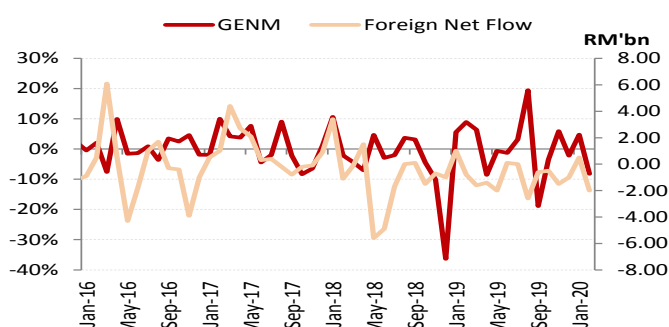


Source: Bloomberg L.P., AllianceDBS

Remarks

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

GENM's share price vs foreign fund flows



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 >20%. As such, the sharp movement of foreign fund flows in the Malaysia equity market could have a significant impact on its share price performance, although its foreign shareholdings have hit a record low of 24.5% on 16 March.

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Balance Sheet:

GENM was in a slight net debt position as at Dec 2019. We estimate that the group will be in a minor net debt position at end-FY20. Its financial position remains healthy in view of its strong cash-generating business.

Share Price Drivers:

Domestic consumer spending. GENM continues to derive the bulk of its earnings from its Malaysian operations, with day-trippers making up > 60% of visitors. It is exposed to discretionary consumer spending in Malaysia. A recovery in the domestic consumer sentiment and subsiding Covid-19 pandemic concerns will serve as catalysts for GENM's earnings.

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/later-than-expected progress, notably, its outdoor theme park, could have an impact on its share price. Besides that, a longer-than-expected gestation period for optimising returns on its GITP investment could lead to near-term earnings disappointment.

Newsflow 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 hikes. The sharp increase in casino tax announced during Budget 2019 shows that the government could 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, 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.

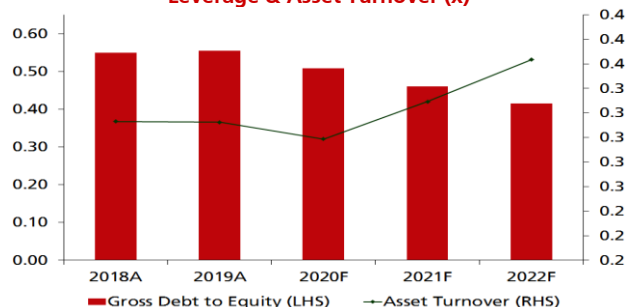
Environment, Social, Governance:

GENM issued its first sustainability report in 2016 and corporate governance report in 2017, increasing its Bloomberg ESG Disclosure Score from 19 points in 2015 to 36 points in 2018. Over the past decade, the group has been actively involved in research and development for new treatments and new ways for early detection of Alzheimer's disease, through various investments in life sciences companies. In early 2019, GENM completed the development of a new Dementia Care Centre in University of Malaya.

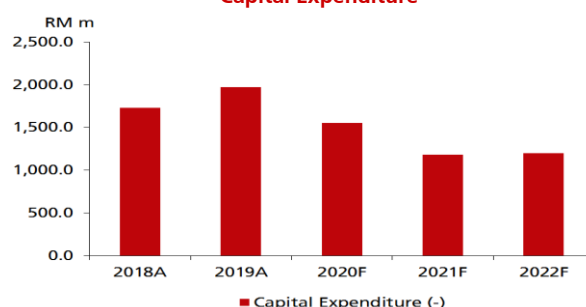
Company Background

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

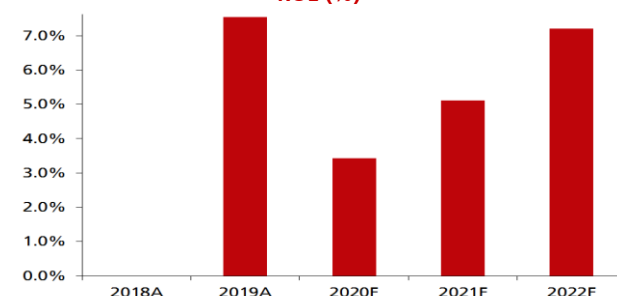
Leverage & Asset Turnover (x)



Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)



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Key Assumptions

FY Dec	2018A	2019A	2020F	2021F	2022F
No. of Visitors (m)	25.9	28.7	26.6	28.3	30.7
Gaming tables (Malaysia)	700	700	750	750	750
Slot Machine (Malaysia)	4,000	4,000	4,000	4,000	4,000
EBITDA margin (%)	28.9	25.4	22.0	23.5	25.2
Management fees (% of leisure revenue)	7.51	7.09	7.09	7.09	7.09

Impacted by concerns of Covid-19 pandemic and weakened consumer sentiments

Income Statement (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	9,928	10,407	9,753	10,570	11,496
Cost of Goods Sold	(7,055)	(8,231)	(7,605)	(8,082)	(8,596)
Gross Profit	2,873	2,176	2,148	2,487	2,900
Other Opg (Exp)/Inc	(959)	(1,071)	(1,209)	(1,220)	(1,218)
Operating Profit	1,914	1,105	939	1,268	1,682
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	(31.6)	(178)	(174)	(170)
Net Interest (Exp)/Inc	143	(140)	(139)	(113)	(79.7)
Exceptional Gain/(Loss)	(2,061)	104	0.0	0.0	0.0
Pre-tax Profit	(4.0)	1,489	622	981	1,433
Tax	(82.3)	(157)	(44.7)	(86.2)	(139)
Minority Interest	66.8	63.0	60.0	60.0	60.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	(19.5)	1,395	637	955	1,354
Net Profit before Except.	2,041	1,291	637	955	1,354
EBITDA	2,868	2,596	1,970	2,314	2,730
Growth					
Revenue Gth (%)	6.4	4.8	(6.3)	8.4	8.8
EBITDA Gth (%)	24.1	(9.5)	(24.1)	17.5	18.0
Opg Profit Gth (%)	39.5	(42.3)	(15.0)	35.0	32.7
Net Profit Gth (Pre-ex) (%)	45.5	(36.7)	(50.6)	49.7	41.8
Margins & Ratio					
Gross Margins (%)	28.9	20.9	22.0	23.5	25.2
Opg Profit Margin (%)	19.3	10.6	9.6	12.0	14.6
Net Profit Margin (%)	(0.2)	13.4	6.5	9.0	11.8
ROAE (%)	(0.1)	7.5	3.4	5.1	7.2
ROA (%)	(0.1)	4.2	2.0	3.0	4.3
ROCE (%)	6.6	3.2	2.9	4.0	5.4
Div Payout Ratio (%)	N/A	81.2	90.0	90.0	90.0
Net Interest Cover (x)	NM	7.9	6.8	11.2	21.1

Share of 49% estimated losses in Empire

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Revenue	2,507	2,736	2,602	2,628	2,442
Cost of Goods Sold	(1,807)	(2,217)	(1,944)	(1,995)	(2,075)
Gross Profit	700	519	658	633	367
Other Oper. (Exp)/Inc	(243)	(257)	(261)	(274)	(280)
Operating Profit	458	262	397	359	87.1
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	(31.6)
Net Interest (Exp)/Inc	(13.4)	(35.9)	(31.2)	(35.8)	(36.9)
Exceptional Gain/(Loss)	(91.5)	(105)	56.8	68.9	83.5
Pre-tax Profit	400	283	476	444	287
Tax	305	(29.5)	(73.1)	(49.9)	(4.6)
Minority Interest	14.8	15.2	13.3	17.1	17.4
Net Profit	720	268	416	411	300
Net profit bef Except.	812	374	360	342	216
EBITDA	748	680	712	684	520

Growth

Revenue Gth (%)	(3.5)	9.1	(4.9)	1.0	(7.1)
EBITDA Gth (%)	(8.2)	(9.0)	4.6	(3.8)	(24.0)
Opg Profit Gth (%)	(11.9)	(42.7)	51.4	(9.6)	(75.7)
Net Profit Gth (Pre-ex) (%)	96.5	(54.0)	(3.7)	(4.9)	(36.8)

Margins

Gross Margins (%)	27.9	19.0	25.3	24.1	15.0
Opg Profit Margins (%)	18.3	9.6	15.3	13.7	3.6
Net Profit Margins (%)	28.7	9.8	16.0	15.6	12.3

Balance Sheet (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	14,841	16,621	16,962	16,924	16,906
Invt in Associates & JVs	0.0	630	630	456	286
Other LT Assets	7,538	8,000	7,101	6,001	4,861
Cash & ST Invt	8,101	6,529	6,888	7,698	8,544
Inventory	109	123	112	117	125
Debtors	658	632	602	652	710
Other Current Assets	472	778	342	252	202
Total Assets	31,718	33,313	32,637	32,100	31,633
ST Debt	600	1,603	1,329	1,329	1,329
Creditor	2,737	2,979	2,925	3,108	3,306
Other Current Liab	33.5	146	146	146	146
LT Debt	9,283	8,484	7,979	7,162	6,362
Other LT Liabilities	1,099	1,932	1,932	1,932	1,932
Shareholder's Equity	18,221	18,498	18,561	18,657	18,792
Minority Interests	(254)	(328)	(235)	(234)	(234)
Total Cap. & Liab.	31,718	33,313	32,637	32,100	31,633
Non-Cash Wkg. Capital	(1,532)	(1,591)	(2,015)	(2,233)	(2,416)
Net Cash/(Debt)	(1,782)	(3,558)	(2,420)	(794)	853
Debtors Turn (avg days)	24.2	22.2	22.5	22.5	22.5
Creditors Turn (avg days)	161.6	145.7	168.4	160.5	158.7
Inventory Turn (avg days)	6.6	5.9	6.7	6.1	6.0
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.4
Current Ratio (x)	2.8	1.7	1.8	1.9	2.0
Quick Ratio (x)	2.6	1.5	1.7	1.8	1.9
Net Debt/Equity (X)	0.1	0.2	0.1	0.0	CASH
Net Debt/Equity ex MI (X)	0.1	0.2	0.1	0.0	CASH
Capex to Debt (%)	17.5	19.6	16.7	13.9	15.6
Z-Score (X)	2.3	2.1	2.1	2.2	2.2

Healthy balance sheet

Source: Company, AllianceDBS

Genting Malaysia

Cash Flow Statement (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	(4.0)	1,489	622	981	1,433
Dep. & Amort.	955	1,071	1,209	1,220	1,218
Tax Paid	(297)	(164)	(44.7)	(86.2)	(139)
Assoc. & JV Inc/(loss)	0.0	31.6	178	174	170
Chg in Wkg.Cap.	2.10	148	(12.0)	128	133
Other Operating CF	1,955	2.40	139	113	79.7
Net Operating CF	2,611	2,577	2,091	2,529	2,894
Capital Exp.(net)	(1,731)	(1,972)	(1,550)	(1,182)	(1,200)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	(663)	(178)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(89.9)	13.2	(139)	(113)	(79.7)
Net Investing CF	(1,821)	(2,622)	(1,867)	(1,295)	(1,280)
Div Paid	(1,075)	(1,074)	(574)	(859)	(1,218)
Chg in Gross Debt	2,688	240	745	434	450
Capital Issues	(111)	(40.1)	0.0	0.0	0.0
Other Financing CF	(302)	(588)	0.0	0.0	0.0
Net Financing CF	1,199	(1,461)	171	(425)	(768)
Currency Adjustments	14.7	(17.1)	0.0	0.0	0.0
Chg in Cash	2,003	(1,523)	396	809	846
Opg CFPS (sen)	46.1	42.9	37.1	42.4	48.8
Free CFPS (sen)	15.5	10.7	9.56	23.8	29.9

Equity injection onto Empire

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:	24 May 19	3.09	3.35	HOLD
2:	26 Jul 19	3.90	3.35	HOLD
3:	07 Aug 19	3.18	3.15	FULLY VALUED
4:	13 Aug 19	3.12	3.15	FULLY VALUED
5:	30 Aug 19	3.14	2.90	FULLY VALUED
6:	29 Nov 19	3.14	2.90	FULLY VALUED
7:	28 Feb 20	2.89	2.65	FULLY VALUED

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: 30 Mar 2020 08:10:11 (MYT)

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