20 March 2020

Consumer Cyclical | Gaming

Genting Singapore (GENS SP)

Buy (from Neutral)

Write-Off 2020, Look Forward To 2021; U/G To BUY

Target Price (Return):	SGD0.64 (+26%)
Price:	SGD0.51
Market Cap:	USD4,275m
Avg Daily Turnover (SGD/USD)	24.4m/17.7m

- **Upgrade to BUY from Neutral with new TP of SGD0.64 from SGD0.85, 26% upside plus c.8% yield.** Genting Singapore issued a profit guidance – 1H20 results to be adversely impacted by the COVID-19 outbreak. While this could pose more downward pressure to share price in the near term, we see value at current prices as it has a strong war chest of SGD3.7bn to help to tide through this period. We expect earnings to rebound in FY21F once this epidemic blows over.
- **Profit guidance was expected.** The group highlighted that it has experienced a significant decrease in visitors across all its facilities. Our ground checks further suggest that the hotel industry occupancy rate is at c.30% given the recent drop in tourist arrivals. With the continuing spread of COVID-19 around the world, we now think travel restrictions are likely to be in place until sometime in July-August this year. But we do expect tourist arrivals and Genting Singapore's revenue to recover sharply post 4Q20F on the back of pent-up demand.
- **Cost control measures in place.** The group is looking to streamline its workforce and improve productivity. It has effected cut on payrolls to reduce its fixed costs – non-executive directors' fees are reduced by 15% for 1Q20, executive directors' base salary reduced by 18% while base salary for managerial staff is lowered by 9-18%. Employees are encouraged to clear their annual leave or take no-pay leave during this period. The group is also using this period to renovate its hotels and attractions to draw more visitors once the COVID-19 outbreak blows over.
- **Write-off 2020 but 2021 would make a comeback.** We expect FY20F earnings to decline significantly as a result of the virus outbreak. We project the impact of COVID-19 to taper down sometime in August and tourism to recover in 4Q20. As such, we cut our topline by 44% in FY20F. With cost control measures in place, our FY20F EBITDA and PATMI fall by 57% and 86%. We raise FY21F-22F revenue by 4% and 2% due to more pent up demand. This in turn increases our FY21F-22F EBITDA by 10% and 7% and PATMI by 13% and 10%.

  Value buy. As share price has fallen 40% YTD, we now see value in the stock. Its cash stash of SGD3.7bn now represents c.60% of its market cap. While earnings would be adversely impacted this year, on a normalised EBITDA basis, the group is now trading at 2-3x EV/EBITDA, which is at a record low level. We also expect FY21F earnings to recover. Meanwhile, its ample cash stash could more than support its near-term working capital needs, capex requirements, and still maintain its DPS of 4 SG cents. Our TP is based on 6x average FY20F-21F EV/EBITDA.

Analyst

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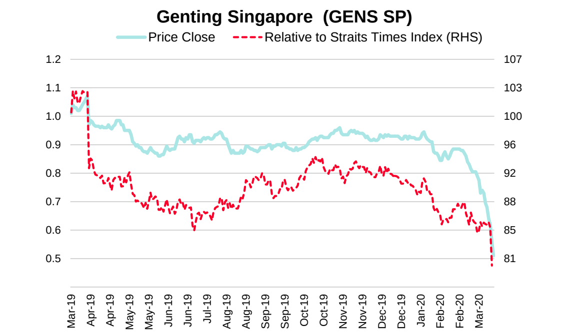
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(44.6)	(42.4)	(45.5)	(43.7)	(49.5)
Relative	(19.9)	(17.9)	(21.1)	(20.5)	(24.8)
52-wk Price low/high (SGD)					0.51 – 1.07



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	2,539	2,480	1,246	2,637	2,774
Recurring net profit (SGDm)	755	689	87	740	702
Recurring net profit growth (%)	(1.9)	(8.8)	(87.3)	748.0	(5.1)
Recurring P/E (x)	8.14	8.93	70.43	8.31	8.76
P/B (x)	0.8	0.8	0.8	0.8	0.8
P/CF (x)	5.49	5.73	13.94	4.92	4.76
Dividend Yield (%)	6.9	6.9	7.9	7.9	7.9
EV/EBITDA (x)	2.29	2.05	7.91	2.71	2.70
Return on average equity (%)	9.9	8.7	1.1	9.5	8.8
Net debt to equity (%)	(42.3)	(45.8)	(32.8)	(31.3)	(31.1)

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Consumer Cyclical
Genting Singapore
GENS SP
Buy

Valuation basis

6x FY20F-21F EV/EBITDA

Key drivers

i. Visitors arrivals;
ii. Average spending;
iii. Positive luck factor.

Key risks

i. Negative luck factor;
ii. Slowdown in economy;
iii. Regulatory risks.

Company Profile

Genting Singapore is engaged in the development and operation of integrated resorts. It owns the Resort World Sentosa in Singapore which offers a casino, Universal Studios theme park, Adventure Cove Waterpark, S.E.A. Aquarium, MICE facilities, hotels and retail outlets.

Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	0.06	0.06	0.01	0.06	0.06
DPS	0.04	0.03	0.04	0.04	0.04
BVPS	0.65	0.67	0.63	0.65	0.67
Return on average equity (%)	9.9	8.7	1.1	9.5	8.8

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	8.14	8.93	70.43	8.31	8.76
P/B (x)	0.8	0.8	0.8	0.8	0.8
FCF Yield (%)	16.3	14.7	(12.3)	7.3	11.2
Dividend Yield (%)	6.9	6.9	7.9	7.9	7.9
EV/EBITDA (x)	2.29	2.05	7.91	2.71	2.70
EV/EBIT (x)	3.09	3.06	127.67	4.14	4.32

Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	2,539	2,480	1,246	2,637	2,774
Gross profit	1,154	1,029	201	1,129	1,096
EBITDA	1,218	1,173	452	1,331	1,317
Depreciation and amortisation	(316)	(390)	(424)	(460)	(493)
Operating profit	903	783	28	871	824
Net interest	36	60	70	46	46
Pre-tax profit	943	847	102	922	874
Taxation	(188)	(158)	(15)	(182)	(172)
Reported net profit	755	689	87	740	702
Recurring net profit	755	689	87	740	702

Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	(8)	(67)	(52)	(2)	(36)
Cash flow from operations	1,120	1,073	441	1,249	1,291
Capex	(120)	(172)	(1,200)	(800)	(600)
Cash flow from investing activities		(128)	(1,193)	(803)	(766)
Dividends paid	(422)	(422)	(483)	(483)	(483)
Cash flow from financing activities	(817)	(1,668)	(426)	(483)	(483)
Cash at beginning of period	3,834	4,214	3,947	2,769	2,733
Net change in cash		(723)	(1,178)	(36)	43
Ending balance cash		3,491	2,769	2,733	2,776

Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	4,333	3,947	2,769	2,733	2,776
Tangible fixed assets	4,857	4,667	5,470	5,838	5,975
Total investments	58	62	67	71	76
Total assets	9,767	9,250	8,752	9,170	9,424
Short-term debt	206	4	0	0	0
Total long-term debt	832	257	260	260	260
Total liabilities	1,986	1,192	1,104	1,279	1,327
Total equity	7,781	8,058	7,648	7,892	8,097
Total liabilities & equity	9,767	9,250	8,752	9,170	9,424

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	6.1	(2.3)	(49.8)	111.6	5.2
Recurrent EPS growth (%)	(2.1)	(8.9)	(87.3)	748.0	(5.1)
Gross margin (%)	45.4	41.5	16.1	42.8	39.5
Operating EBITDA margin (%)	48.0	47.3	36.3	50.5	47.5
Net profit margin (%)	29.7	27.8	7.0	28.1	25.3
Dividend payout ratio (%)	55.8	61.3	553.0	65.2	68.7
Capex/sales (%)	4.7	6.9	96.3	30.3	21.6
Interest cover (x)	25.1	38.2	3.1	95.7	90.6

Source: Company data, RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-17	Neutral	0.85	0.89
2020-02-13	Neutral	0.85	0.89
2020-02-13	Neutral	0.85	0.89
2019-11-08	Neutral	0.97	0.94
2019-10-11	Neutral	0.97	0.91
2019-08-05	Neutral	0.97	0.89
2019-05-10	Neutral	1.02	0.94
2019-04-04	Neutral	1.08	0.97
2019-02-22	Buy	1.22	1.07

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Not Rated:	Stock is not within regular research coverage

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