

22 February 2019

Consumer Cyclical | Gaming

## Genting Singapore (GENS SP)

**Buy** (Maintained)

### News Flow Around The Corner; Keep BUY

Target Price (Return) SGD1.22 (+10%)  
 Price: SGD1.11  
 Market Cap: USD9,521m  
 Avg Daily Turnover (SGD/USD) 28.32m/6.95m

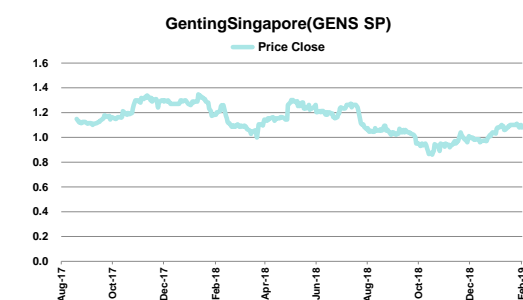
- **Maintain BUY, as we fine-tune our TP to SGD1.22** from SGD1.23, 10% upside plus 3% FY19F yield. Our call and TP is on Genting Singapore's (GENS) stable earnings and upcoming news flow on the Resorts World Sentosa (RWS) rejuvenation plan, as well as its bid for a casino licence in Japan. FY18 revenue and core earnings came in at SGD2.5bn (+6% YoY) and SGD761m (+22% YoY), ie below our estimates but in line with the Street's, at 91% and 97%. The group declared a final interim DPS of SGD0.02, bringing full-year DPS to SGD0.035 (flat YoY), which is within expectations.
- **FY18 results review.** The earnings miss was mainly due to higher-than-expected depreciation expenses of SGD315m (12% YoY) and higher-than-expected provisions for trade receivables of SGD58.1m (+20% YoY). Management said the prudent approach on depreciation expense was carried out in view of its rejuvenation plan for RWS. Meanwhile, the unexpected increase in trade receivables was a result of its expansion in VIP market share – GENS has affirmed that this is a manageable amount moving forward. On a positive note, adjusted EBITDA rose 18% YoY, largely due market share gains, higher non-gaming contributions and on-going productivity initiatives that widened margins.
- **Outlook remains stable.** GENS' credit extension strategy and marketing efforts has led to a gain in VIP market share to 47%, from 37% in FY17. This supported its topline growth, mainly driven by customers from South-East Asia. In FY19, we expect market share to be sustained at current levels, as the group has now turned more prudent in granting credit to VIP players. On top of that, its non-gaming division saw an increase in daily visitor arrivals, which hit 22,000 in 4Q18 (1H18: 18,000) as well as higher average spending across all its product offerings.
- **Upcoming news flow.** As the group incurs higher depreciation cost moving forward, we believe this signals that its RWS rejuvenation plans are around the corner. For Japan, details of the plan should be announced by the Japanese authority in 1H19. Management has also guided that a request for proposal (RFP) for the casino integrated resorts is expected in 2H19.
- **Forecast and risks.** We trim our FY19-21 projections by 7-11% as we imputed a more conservative VIP growth assumption (in view of competition from regional casinos), higher depreciation cost and took into account higher provisions for trade receivables. We also imputed higher net cash of SGD3.2bn (vs SGD2.6bn in FY17) which supports our DCF-derived TP of SGD1.22 (WACC: 8.3%, TG: 0.5%). Key risks to our call include fluctuations in win rate, market share contraction and a slowdown in tourist arrivals at RWS as the SGD strengthens against other currencies.

#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	13.8	0.9	18.7	4.7	(14.6)
Relative	11.5	(1.4)	16.6	8.5	(7.8)
52-wk Price low/high (SGD)	0.855 - 1.33				



Source: Bloomberg

Forecasts and Valuations	Dec-17	Dec-18	Dec-19F	Dec-20F	2021F
Total turnover (SGDm)	2,393	2,539	2,679	2,754	2,828
Recurring net profit (SGDm)	690	761	797	836	848
Recurring net profit growth	82.4	10.3	4.7	5.0	1.4
Recurring P/E (x)	19.8	17.9	17.0	16.2	16.0
P/BV (x)	1.8	1.7	1.7	1.6	1.5
P/CF (x)	10.8	12.0	12.7	12.1	12.0
Dividend Yield (%)	3.1	3.1	3.1	3.1	3.1
EV/EBITDA (x)	9.9	8.6	7.9	7.3	6.8
ROE (%)	8.1	10.0	10.0	10.0	9.7
Net debt to equity (%)	Netcash	Netcash	Netcash	Netcash	Netcash
Interest coverage (x)	23.0	42.8	52.2	62.6	75.9

Source: Company data, RHB

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Figure 1: FY18 results review

FYE Dec (SGDm)	4Q17	3Q18	4Q18	QoQ (%)	YoY (%)	YTD FY17	YTD FY18	YoY (%)	Comments
<b>Revenue</b>	<b>580.1</b>	<b>639.1</b>	<b>664.8</b>	<b>4.0</b>	<b>14.6</b>	<b>2,392.6</b>	<b>2,539.2</b>	<b>6.1</b>	Higher topline growth due to growth in VIP market share
Gaming	417.6	445.4	444.2	(0.3)	6.4	1746.2	1803.2	3.3	
Non-gaming	162.1	192.8	220.0	14.1	35.7	643.3	733.5	14.0	Higher average ticket price for RWS attractions
Others	0.4	0.9	0.5	(41.8)	17.4	3.0	2.6	(14.6)	
<b>Reported Adjusted EBITDA</b>	<b>255.1</b>	<b>318.8</b>	<b>286.0</b>	<b>(10.3)</b>	<b>12.1</b>	<b>1151.2</b>	<b>1229.7</b>	<b>6.8</b>	Registered lower EBITDA margin due to higher trade receivables in 4Q18 but this was lightly cushioned by a higher rolling win rate of 3.4%
Singapore IR	262.5	326.4	294.4	(9.8)	12.1	1172.1	1260.7	7.6	
Others	(7.4)	(7.6)	(8.3)	9.1	13.2	(20.9)	(31.0)	48.5	
<b>Adjusted EBITDA</b>	<b>253.6</b>	<b>319.1</b>	<b>287.1</b>	<b>(10.0)</b>	<b>13.2</b>	<b>1,043.3</b>	<b>1,225.4</b>	<b>17.5</b>	
Adjusted EBITDA Margin (%)	43.7	49.9	43.2			43.6	48.3		
Depreciation	(74.3)	(72.1)	(104.3)	44.6	40.3	(282.9)	(315.5)	11.5	Higher depreciation due to prudent measures taken in view of the upcoming RWS rejuvenation plans
<b>EBIT</b>	<b>179.3</b>	<b>247.0</b>	<b>182.9</b>	<b>(26.0)</b>	<b>2.0</b>	<b>760.4</b>	<b>909.9</b>	<b>19.7</b>	
EBIT Margin (%)	30.9	38.6	27.5			31.8	35.8		
Interest expense	(8.9)	(9.3)	(0.0)	(99.9)	(99.9)	(35.6)	(35.9)	0.7	
Interest income	14.0	19.2	20.3	5.7	44.9	71.1	71.3	0.3	
Associates	0.6	1.2	0.0	(98.4)	(97.1)	3.4	4.0	17.0	
El/Others	(14.3)	(1.1)	(3.2)	189.2	(77.4)	60.8	(6.0)	(109.9)	
<b>Pretax profit</b>	<b>170.8</b>	<b>257.0</b>	<b>200.0</b>	<b>(22.2)</b>	<b>17.1</b>	<b>860.0</b>	<b>943.2</b>	<b>9.7</b>	
Pretax Margin (%)	29.4	40.2	30.1			35.9	37.1		
Tax	(36.8)	(46.6)	(41.9)	(10.1)	13.8	(174.5)	(187.8)	7.7	
Effective tax rate (%)	21.6	18.1	21.0			20.3	19.9		
Minority Interest	0.0	0.0	0.0	Nm	Nm	-	-	Nm	
<b>Net Profit</b>	<b>134.0</b>	<b>210.4</b>	<b>158.1</b>	<b>(24.9)</b>	<b>18.0</b>	<b>685.6</b>	<b>755.4</b>	<b>10.2</b>	
<b>Core Profit</b>	<b>148.3</b>	<b>211.5</b>	<b>161.3</b>	<b>(23.7)</b>	<b>8.8</b>	<b>624.8</b>	<b>761.4</b>	<b>21.9</b>	Below expectation but in line with consensus
Net Margin (%)	25.6	33.1	24.3			26.1	30.0		

Source: RHB, Company data

Figure 2: Genting Singapore's DCF valuation

FYE Dec	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26	Dec-27	Dec-28	Dec-28
EBIT	1,030.3	1,067.1	1,094.6	1,126.7	1,186.8	1,221.3	1,249.4	1,278.1	1,307.3	1,344.5
EBIT x (1-Tax)	813.9	821.7	842.9	867.6	913.8	940.4	962.1	984.2	1,006.7	1,035.2
(+) Depreciation & Amortisation	292.6	290.0	287.7	285.5	283.4	281.4	279.5	277.8	276.2	274.6
(-) Capex	(250.0)	(250.0)	(250.0)	(250.0)	(250.0)	(250.0)	(250.0)	(250.0)	(250.0)	(250.0)
(-) Working capital requirements	(21.8)	(20.2)	(19.5)	(19.3)	(19.8)	(18.6)	(17.9)	(17.4)	(17.0)	(17.4)
Free cash flow	834.6	841.6	861.1	883.7	927.4	953.2	973.8	994.5	1,015.8	1,042.5
NPV of free cash flow	733.3	682.7	645.2	611.6	593.4	562.6	530.9	500.8	473.3	448.7
<b>Key assumptions</b>										
Terminal growth	0.5%									
Terminal value	5,791.0									
<b>WACC</b>										
Beta	1.09									
Expected market return	8.3%									
Risk-free rate	2.8%									
Equity weighting	85.0%									
Cost of debt	7.0%									
Effective tax rate	19.9%									
Firm Value	11,573.5									
(+) 4Q18 Net cash	3,180.5									
(-) 4Q18 Minority interests	(0.0)									
Equity value	14,754.0									
<b>TP per share (SGD)</b>	<b>1.22</b>									

Source: RHB, Company data

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