5 August 2019

Consumer Cyclicals | Gaming

Genting Singapore (GENS SP)

Neutral (Maintained)

High Win Rate Offsets Decline In Mass Gaming

Target Price (Return)	SGD0.97 (+8%)
Price:	SGD0.90
Market Cap:	USD8,758m
Avg Daily Turnover (SGD/USD)	18.9m/13.9m

- **Maintain NEUTRAL with a lower TP of SGD0.97, from SGD1.02, 8% upside plus 4% yield.** 2Q19 result met our expectations. 2Q19 adjusted EBITDA grew 11% YoY to SGD294m bringing 1H19 adjusted EBITDA to SGD624m, which represents 50% of our estimates. This was attributed to stronger VIP volumes and a higher win rate which helped offset the significant decline in mass gaming. Moving forward, we expect adjusted EBITDA to soften as win rate normalises and volume eases.
- **Held up by good luck!** Gaming revenue grew 22% YoY to SGD441m in 2Q19. According to management, the 50% increase in casino levy for Singaporeans and permanent residents had a significant impact on mass gaming business during the quarter. This was however offset by a high rolling win rate of 3.7% and growth in VIP volumes which we estimated to be at c.11% YoY and c.15% QoQ. On a hold-normalised basis, adjusted EBITDA would be 22% lower, at SGD230m.
- **Precautionary impairment was higher-than-expected.** Impairment of gaming receivables was significantly higher in 2Q19 at SGD47.3m (2Q18: SGD0.5m and 1Q19: SGD11.1m). This was a surprise to us as the group has taken a cautious stance on extending credit to VIPs. Management highlighted the impairment was precautionary, and none of it has been written off yet. We believe the group has taken the opportunity to be prudent on the back of a decent set of results.
- **Positive news flow on Japan IR would be a catalyst to share price.** According to management, the submission for Phase 2 request-for-proposal is due on September 2019. Therefore, theoretically, the earliest Osaka could select an operator is in 2Q20.
- **The Board approved an interim 1H19 dividend of 1.5 cents/share.** We expect total dividend for the year to remain unchanged at 3.5 cents/share.
- **Cautious on outlook.** Management expect mass volumes to take more than a quarter or two to recover to pre-levy increase levels. We cut our adjusted EBITDA by 10%/7%/3% for FY19-21F as we lower our mass volume assumption and normalise the win rate. This lowers our TP to SGD0.97 from SGD1.02, based on a 7x FY19 EV/EBITDA. Maintain NEUTRAL.

This report marks the transfer of coverage to Juliana Cai.

Analyst

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Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	2,393	2,539	2,502	2,499	2,609
Recurring net profit (SGDm)	690	755	674	630	633
Recurring net profit growth (%)	82.4	9.4	(10.8)	(6.5)	0.3
Recurring P/E (x)	15.7	14.4	16.1	17.3	17.2
P/BV (x)	1.5	1.4	1.4	1.3	1.3
P/CF (x)	8.8	9.7	10.7	10.4	10.0
Dividend Yield (%)	3.9	3.9	3.9	3.9	3.9
EV/EBITDA (x)	7.2	6.3	6.3	6.5	6.4
ROE (%)	9.3	9.7	8.4	7.7	7.5
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	23.0	25.1	31.5	68.5	70.1

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Gaming
Genting Singapore
GENS SP
NEUTRAL

Valuation basis

7x EV/EBITDA

Key drivers

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

Key risks

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

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	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring EPS (SGD)	0.06	0.06	0.06	0.05	0.05
DPS (SGD)	0.04	0.04	0.04	0.04	0.04
BVPS (SGD)	0.62	0.65	0.66	0.68	0.70
ROE (%)	9.28	9.71	8.39	7.65	7.49

Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring P/E (x)	15.7	14.4	16.1	17.3	17.2
P/B (x)	1.5	1.4	1.4	1.3	1.3
FCF Yield (%)	10.6	9.2	6.8	4.1	2.7
Dividend yield (%)	3.9	3.9	3.9	3.9	3.9
EV/EBITDA (x)	7.2	6.3	6.3	6.5	6.4
EV/EBIT (x)	10.1	8.5	9.4	10.1	10.3

Income statement (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover	2,393	2,539	2,502	2,499	2,609
Gross profit	1,075	1,154	1,036	986	1,004
EBITDA (adj.)	1,151	1,230	1,169	1,141	1,180
Depreciation & amortisation	283	316	386	414	452
Operating profit	821	903	783	726	729
Net interest	35	36	55	57	57
Pre-tax profit	860	943	843	788	791
Taxation	-174	-188	-169	-158	-158
Net profit	686	755	674	630	633
Recurring net profit	690	755	674	630	633

Cash flow (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Change in working capital	98	-8	-35	-51	-46
Cash flow from operations	1,231	1,120	1,016	1,047	1,093
Capex	-78	-122	-279	-603	-803
Cash flow from investing activities	457	-105	-277	-603	-803
Dividends paid	-361	-422	-423	-423	-423
Cash flow from financing activities	-2,750	-637	-1,193	-433	-423
Cash at beginning of period	4,963	3,834	4,214	3,760	3,771
Net change in cash	-1,062	377	-454	11	-133
Ending balance cash	3,834	4,214	3,760	3,771	3,638

Balance sheet (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total cash and equivalents	3,834	4,214	3,760	3,771	3,638
Tangible fixed assets	5,069	4,857	4,755	4,968	5,343
Total investments	220	223	226	226	226
Total assets	9,607	9,767	9,279	9,490	9,732
Short-term debt	203	206	10	0	0
Total long-term debt	1,013	832	260	260	260
Total liabilities	2,165	1,986	1,247	1,250	1,284
Total equity	7,442	7,781	8,032	8,239	8,449
Total liabilities & equity	9,607	9,767	9,279	9,490	9,732

Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Revenue growth (%)	7.4	6.1	(1.5)	(0.1)	4.4
Recurrent EPS growth (%)	82.2	9.4	(11.0)	(6.5)	0.3
Gross margin (%)	44.9	45.4	41.4	39.5	38.5
Operating EBITDA margin (%)	48.1	48.4	46.7	45.7	45.3
Net profit margin (%)	25.1	29.7	26.9	25.2	24.2
Capex/sales (%)	3.3	4.8	11.1	24.1	30.8
Interest cover (x)	23.0	25.1	31.5	68.5	70.1

Source: Company data, RHB

Figure 1: 2Q19 results summary

FYE Dec (SGDm)	2Q19	1Q19	2Q18	QoQ (%)	YoY (%)	YTD FY19	YTD FY18	YoY (%)	Comments
Revenue	**636.8**	**640.4**	**560.3**	**(0.6)**	**13.6**	**1,277.1**	**1235.4**	**3.4**	
Gaming	*441.1*	*430.2*	*362.5*	**2.5**	**21.7**	*871.3*	*829.7*	**5.0**	Higher win rate and VIP volumes offset significant decline in mass gaming business.
Non-gaming	*195.0*	*209.3*	*197.2*	**(6.8)**	**(1.1)**	*404.3*	*404.5*	**(0.0)**	
Others	*0.6*	*0.9*	*0.6*	**(32.5)**	**(3.7)**	*1.5*	*1.2*	**24.8**	
Adjusted EBITDA	**296.8**	**329.7**	**280.7**	**(10.0)**	**5.7**	**624.1**	**624.8**	**(0.1)**	
Singapore IR	294.4	339.3	265.9	(13.2)	10.7	645.8	639.9	0.9	
Others	(12.1)	(9.6)	(8.0)	25.6	50.3	(21.7)	(15.1)	44.2	
Adjusted EBITDA Margin (%)	**46.6**	**51.5**	**50.1**			**48.9**	**50.6**		
Singapore IR	66.7	78.9	73.4			74.1	77.1		
Others	(6.2)	(4.6)	(4.1)			(5.4)	(3.7)		
EBIT	**217.3**	**256.6**	**228.4**	**(15.3)**	**(4.8)**	**247.5**	**510.1**	**(51.5)**	Higher depreciation due to retirement of certain old assets in view of RWS 2.0.
EBIT Margin (%)	*34.1*	*40.1*	*40.8*			*19.4*	*41.3*		
Pretax profit	**209.4**	**248.4**	**220.6**	**(15.7)**	**(5.1)**	**457.8**	**494.2**	**(7.4)**	
Pretax Margin (%)	*32.9*	*38.8*	*39.4*			*35.8*	*40.0*		
Net Profit	**168.4**	**205.5**	**177.6**	**(18.0)**	**(5.2)**	**373.9**	**394.8**	**(5.3)**	
Core PATMI	**168.4**	**205.5**	**177.6**	**(18.0)**	**(5.2)**	**373.9**	**394.8**	**(5.3)**	
Net Margin (%)	*26.4*	*32.1*	*31.7*			*29.3*	*32.0*		

Source: Company, RHB

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