

15 November 2018

Consumer Cyclical | Gaming

Genting Singapore

Stable Outlook; Stay At BUY

Buy (Maintained)

Target Price: SGD1.23
Price: SGD0.93
Market Cap: USD8.062m
Bloomberg Ticker: GENS SP

Maintain BUY with a new DCF-derived TP of SGD1.23, 32% upside, as we update our DCF assumptions and roll over our valuation base year to FY19. In view of a resilient financial performance, sustainable margins and expansion of its market share, we think the current share price is unjustified as it is trading at a discount to its 5-year EV/EBITDA average of 10x. Our SGD1.23 TP translates into an implied EV/EBITDA of 9x, which we deem close to its historical average.

Resilient FY18 performance. 9M18 revenue of SGD1,874m (+3% YoY) and core net profit of SGD616.1m (+12% YoY) were within our expectations at 73% but above consensus estimates at 78%. Moving forward, we believe earnings will be buoyed by its existing facilities at the Resorts World Sentosa (RWS), such as Universal Studios and S.E.A. Aquarium, which should continue to gain tourists attraction which, in turn, would drive its casino business.

More credit for VIPs. Genting Singapore's latest earnings report revealed a 42% YoY rise in trade receivables for 9M18 to SGD654m compared to a slowdown of 57% in 9M17 as the group slowly loosens the tap for its VIP customers. As this was accompanied by a 13% YoY increase in VIP rolling chip volume, we believe the company could have granted higher credit limits to its premium and VIP customers. As a result, Genting Singapore is likely to attract and retain a higher volume of premium and VIP customers, leading to an expansion in its gaming market share in Singapore.

Sustainable operating margins at current levels, as the provision for bad debts has been narrowing. Bad debt provision hit an all-time low of SGD0.5m in 2Q18 while cumulative 9M18 bad debt provision improved 49% YoY to SGD22.5m (vs 9M17: SGD43.6m).

Long term re-rating catalysts. The reinvestment proposal for RWS remains at the discussion stage where the group has engaged with an external consultant (more details probably in 4Q18). It has also set up offices in Osaka and Yokohama, marking its interest in constructing an IR in these cities. It is actively engaging with the respective stakeholders to better understand the business environment in these cities.

Forecasts and risks. We update our DCF assumptions (WACC: 7.8%, TG: 0.5%) and roll over our valuation base year to FY19. We also input a higher average ticket price for its non-gaming segment as well as a slightly higher VIP rolling volume growth assumption into our forecast. Key risks to our call include fluctuations in win rates and a slowdown in tourist arrivals at RWS as the SGD strengthens against regional currencies.

Maintain BUY with a lower TP of SGD1.23 from SGD1.42, 32% upside. At SGD0.93, we believe the stock is currently undervalued since it is trading at a relatively low EV/EBITDA of 6x, vs the regional peer average of 10x.

Share Data

Avg Daily Turnover (SGD/USD) 37.63m/9.05m
52-wk Price low/high (SGD) 0.855 - 1.41
Free Float (%) 47
Shares outstanding (m) 12,045
Estimated Return 32%

Shareholders (%)

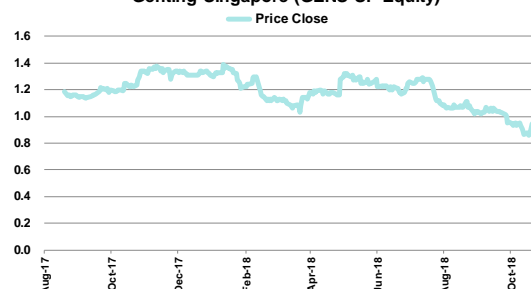
Genting 52.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(32.06)	(12.75)	(20.54)	(23.28)	(31.54)
Relative	(27.87)	(9.69)	(15.92)	(16.50)	(30.23)

Source: Bloomberg

Genting Singapore (GENS SP Equity)



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	2,228	2,393	2,719	2,773	2,880
Reported net profit (SGDm)	385	686	841	861	914
Recurring net profit (SGDm)	379	690	841	861	914
Recurring net profit growth (%)	(26.9)	82.4	21.9	2.3	6.2
Recurring EPS (SGD)	0.03	0.06	0.07	0.07	0.08
DPS (SGD)	0.03	0.04	0.04	0.04	0.04
Recurring P/E (x)	29.2	16.4	13.4	13.3	12.6
P/B (x)	1.18	1.51	1.43	1.38	1.31
P/CF (x)	9.7	9.0	10.2	10.4	10.0
Dividend Yield (%)	3.2	3.8	3.8	3.7	3.7
EV/EBITDA (x)	9.8	7.8	6.2	6.0	5.4
Return on average equity (%)	4.0	8.1	11.0	10.7	10.7
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Our vs consensus EPS (adjusted) (%)	-	-	8.4	8.6	12.3

Source: Company data, RHB

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Figure 1: Genting Singapore's valuation

FYE Dec	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26	Dec-27	Dec-28	Dec-29
EBIT	1,158.5	1,205.8	1,230.1	1,255.4	1,306.9	1,321.7	1,336.6	1,351.7	1,366.8	1,392.8
EBIT x (1-Tax)	892.0	928.5	947.2	966.7	1,006.3	1,017.7	1,029.2	1,040.8	1,052.4	1,072.5
(+) Depreciation & Amortization	238.2	238.7	239.2	239.8	240.2	240.7	241.1	241.5	241.9	242.3
(-) 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)	(17.3)	(16.7)	(16.5)	(17.2)	(15.5)	(15.2)	(15.0)	(14.8)	(15.5)
Free cash flow	858.4	899.8	919.8	939.9	979.3	992.9	1,005.1	1,017.3	1,029.6	1,049.3
NPV of free cash flow	754.6	730.6	689.9	651.4	627.7	587.2	549.2	513.6	481.1	453.1
Key assumptions										
Terminal growth	0.5%									
Terminal value	5,872.0									
WACC										
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	23.0%									
Firm Value										
(+) 3Q18 Net cash	2,982.2									
(-) 3Q18 Minority interests	(0.0)									
Equity value	14,892.5									
TP per share (SGD)										
	1.23									

Source: Company data, RHB

Figure 2: Peer Comparison

Regional peers	Ticker	Last Price (LCY)	Market cap USD'm	P/E (x)		EV/EBITDA (x)		P/BV (x)		DY (%)		ROE (%)	
				FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19
Galaxy Entertainment Ltd	27 HK equity	44.40	24,521	14.4	13.5	11.5	10.9	3.0	2.5	2.0	2.1	22.2	20.0
Wynn Macau Ltd	1128 HK equity	16.06	10,668	13.0	11.8	10.5	10.0	27.7	31.6	8.3	8.3	225.4	336.3
MGM China Holdings Ltd	2282 HK equity	11.82	5,741	27.0	14.6	12.4	9.8	4.8	3.9	1.8	3.8	18.7	28.0
SJM Holdings Ltd	880 HK equity	6.84	4,948	15.0	17.0	8.5	7.9	1.5	1.4	4.0	3.4	9.5	7.9
Peer Average				17.3	14.2	10.7	9.6	9.2	9.9	4.0	4.4	68.9	98.0

Source: Bloomberg

Figure 3: Forecast Assumptions

Assumptions	Dec-18F	Dec-19F	Dec-20F
Visitor growth (%)	1.5%	1.5%	1.5%
Rolling chip volume growth (%)	15%	10%	8%
VIP win rate	2.9%	2.8%	2.8%
Casino	2,035	2,079	2,186
% of revenue	75%	75%	76%
Hotel	255	255	255
% of revenue	9%	9%	9%
F&B	27	28	28
% of revenue	1%	1%	1%
Theme Park	403	411	411
% of revenue	15%	15%	14%
Total Revenue	2,719	2,773	2,880

Source: Company data, RHB

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