Singapore Results Review

10 May 2019

Consumer Cyclical | Gaming

Genting Singapore (GENS SP)

Neutral (Maintained)

Muted Topline Growth; Keep NEUTRAL

Target Price (Return)	SGD1.02 (+7.4%)
Price:	SGD0.95
Market Cap:	USD2,758m
Avg Daily Turnover (SGD/USD)	36.76m/8.86m

- **Stay NEUTRAL, new DCF-based TP to SGD1.02** from SGD1.08, 7% upside plus 3% FY19F yield. Genting Singapore's 1QFY19 core earnings of SGD207.8m (-4.4% YoY) are within our but above Street estimates. The YoY drop in core earnings was due to lower gaming volume, partially cushioned by lower costs. We tweak FY19-21 projections by 0-5.2%, imputing a lower VIP growth assumption, capex for the re-development of RWS as well as a minor model up-keeping exercise – which led to a lower TP.
- **1QFY19 results review.** 1Q19 core earnings of SGD207.8m (-4.4% YoY) are within our but above Street expectations, at 26.6% and 28.3% of full-year estimates. The YoY drop in core earnings was due to a lower topline (-5.1%), given the drop in gaming volume from the VIP segment. This, in turn, was due to its market share loss of 44% (1Q18: 49%). However, it was partially cushioned by higher volume from its mass business and lower costs. QoQ, the improvement in core earnings (+28.8%) was driven by lower selling, distribution, administrative costs as well as depreciation charges.
- **Topline growth may be muted.** We understand that management has turned prudent in its credit extension, given the global geopolitical effect on the economy. Hence, we expect slower growth in topline, as its VIP market share is not anticipated to grow in the absence of a generous credit policy. On the non-gaming division, daily visitor arrivals were largely flattish YoY at 19,000 (4Q: 22,000) while the hotel occupancy rate was at 93%.
- **Update on Japan.** On the integrated resorts license in Japan, the request-for-concept (RFC) process is expected to start in August while the request-for-proposal (RFP) process is anticipated to be initiated by cities (November at the earliest) once the national guidelines are published. Management remains confident, given its track record in Singapore, and is deploying more resources to be seriously engaged in the competitive bidding process.
- **Update on redevelopment.** The SGD4.5bn redevelopment includes two new immersive environments – Minion Park and Super Nintendo World, and a new Waterfront Lifestyle Complex housing two stylish hotels. Meanwhile, S.E.A. Aquarium will be expanded into the current Maritime Experiential Museum, to be rebranded as the Singapore Oceanarium. All facilities are expected to be ready by end-2025 with major capex spending expected in 2022-2023, with the exception of a SGD1bn land cost which is expected to be incurred in 2020 once the plans are finalised with the authority.
- **Forecast and risks.** We tweak FY19-21 projections by 0-5.2% as we imputed a lower VIP growth assumption (in view of the now-tighter credit policy), capex for the re-development of Resorts World Sentosa as well as a minor model up-keeping exercise. As such, our DCF-derived TP is lowered to SGD1.02 (WACC: 8.3%, TG: 0.5%). Key risks to our call include luck factor, market share contractions and a slowdown in tourist arrivals.

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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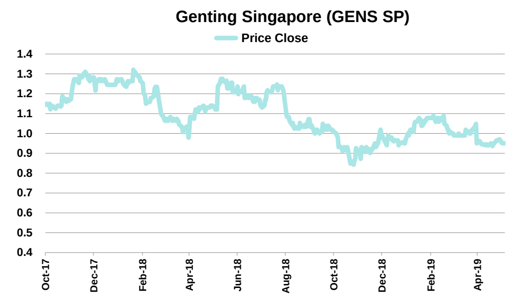
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.6)	(2.1)	(14.4)	0.0	(18.1)
Relative	1.7	(0.6)	(10.4)	5.2	(5.8)
52-wk Price low/high (SGD)					0.855 - 1.33



Source: Bloomberg

Figure 1: 1QFY19 results review

FYE Dec (SGDm)	1Q18	4Q18	1Q19	QoQ (%)	YoY (%)	Comments
Revenue	**675.1**	**664.8**	**640.4**	**(3.7)**	**(5.1)**	Lower due to the shrinkage in VIP market share
Gaming	*507.4*	*444.2*	*430.2*	*(3.2)*	*(15.2)*	
Non-gaming	*167.1*	*220.0*	*209.3*	*(4.9)*	*25.2*	Higher average spending per visitor
Others	*0.6*	*0.5*	*0.9*	*79.0*	*55.9*	
Reported Adjusted EBITDA	**358.9**	**286.0**	**320.1**	**11.9**	**(10.8)**	YoY: Lower due to lower topline, GP margin and higher impairment on trade receivables
Singapore IR	366.0	294.4	329.7	12.0	(9.9)	
Others	(7.0)	(8.3)	(9.6)	15.4	37.2	QoQ: Higher due to lower impairments on trade receivables, administrative and selling and distribution expenses
Adjusted EBITDA	**335.9**	**287.1**	**329.7**	**14.8**	**(1.8)**	
Adjusted EBITDA Margin (%)	*49.8*	*43.2*	*51.5*			
Depreciation	(69.7)	(104.3)	(92.6)	(11.2)	32.9	Higher depreciation due to prudent measures taken in view of the upcoming RWS rejuvenation plans
EBIT	**266.2**	**182.9**	**237.1**	**29.7**	**(10.9)**	
EBIT Margin (%)	*39.4*	*27.5*	*37.0*			
Interest expense	(9.0)	(8.9)	(9.2)	3.4	3.0	
Interest income	15.7	20.3	21.8	7.5	39.4	
Associates	0.7	1.1	1.0	(3.7)	45.3	
EI/Others	(0.1)	(3.2)	(2.4)	(27.2)	2353.1	Consists of forex gain/loss, share-based payment and others
Pretax profit	**273.5**	**192.1**	**248.4**	**29.3**	**(9.2)**	
Pretax Margin (%)	*40.5*	*28.9*	*38.8*			
Tax	(56.3)	(41.9)	(42.9)	2.4	(23.8)	
Effective tax rate (%)	*20.6*	*21.8*	*17.3*			
Minority Interest	0.0	0.0	0.0	Nm	Nm	
Net Profit	**217.2**	**150.2**	**205.5**	**36.8**	**(5.4)**	
Core Profit	**217.3**	**153.4**	**207.8**	**35.5**	**(4.4)**	Within expectations, but above Street estimate
Net Margin (%)	*32.2*	*23.1*	*32.5*			

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-29
EBIT	983.1	945.8	913.8	852.2	828.7	891.5	926.9	968.7	1,010.1	1,040.6
EBIT x (1-Tax)	776.7	747.2	721.9	673.3	654.7	704.3	732.3	765.2	798.0	822.1
(+) Depreciation & Amortisation	278.5	321.1	313.9	366.2	415.4	449.9	447.0	429.4	412.9	397.4
(-) Capex	(1,000.0)	(200.0)	(1,200.0)	(1,200.0)	(1,000.0)	(400.0)	(150.0)	(150.0)	(150.0)	(150.0)
(-) Working capital requirements	(20.8)	(5.7)	(6.5)	(4.9)	(6.6)	(11.4)	(19.8)	(22.0)	(21.1)	(19.3)
Free cash flow	34.4	862.6	(170.6)	(165.4)	63.5	742.8	1,009.4	1,022.7	1,039.8	1,050.2
NPV of free cash flow	31.4	727.4	(132.9)	(119.0)	42.2	455.7	572.0	535.3	503.6	469.9
Key assumptions										
Terminal growth	0.5%									
Terminal value	6,064.3									
WACC	8.3%									
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	9,150.0									
(+) 4Q18 Net cash	3,180.5									
(-) 4Q18 Minority interests	(0.0)									
Equity value	12,330.4									
TP per share (SGD)	**1.02**									

Source: RHB, Company data

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