

Genting Bhd

GENS' 2Q19 Results In Line

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GENS reported a weaker set of 2Q19 results, which was well anticipated following a strong CNY-led 1Q19 while the coming 2H19 is likely to be softer. Meanwhile, 2Q19 saw better volume and luck factor, higher provisioning with depreciation continued to trend higher on expansion plan. It is officially involved in the Japan casino bidding and has just submitted RFC. For now, we keep GENTING at OP pending its 1Q19 results release this month-end.

GENS' 2Q19 met expectations. At 52% of consensus' FY19 estimates, Genting Singapore Ltd (GENS, Not Rated)'s 1H19 core profit of SGD373.8m was in line, with 2H19 expecting to soften after a strong 1Q19. At the adjusted EBITDA level, 1H19 earnings of SGD634.1m accounted for 53% each of house/street's FY19 EBITDA estimates. It declared a 1H19 DPS of SGD0.015 which is the same as 1H18.

Weaker sequential earnings post CNY. 2Q19 core profit fell 20% QoQ to SGD166.0m from SGD207.8m as revenue dipped 1% over the quarter to SGD636.8m. While gaming revenue inched up slightly by 3% on higher volume coupled with improved luck factor, non-gaming revenue fell 7%, which led to the slight fall in group revenue. 2Q19 rolling chip win improved to 3.7% from 3.3% while market share rose to 47% from 44%. However, the significant decline in bottom-line was attributable to higher provision coupled with higher depreciation. 2Q19 impairment on trade receivables jumped to SGD47.3m from SGD11.1m in 1Q19 while the depreciation continued to rise, by 7%, as it had prudently written down or recognised assets that can be demolished or rebuilt after the government approved its Expansion 2.0. However, coming quarters' depreciation may not be as high.

Better YoY results on favourable luck factor for VIP. 2Q19 core profit rose 2% YoY from SGD162.8m in 2Q18 given the better rolling chip win percentage at the VIP segment. However, 2Q19 top-line grew at a higher percentage of 14% as high depreciation of SGD99.1m, owing to the abovementioned reason, which was 43% higher than SGD69.5m posted in 2Q18, dented bottom-line. YTD, 1H19 core profit fell 5% to SGD373.8m from SGD403.1m, despite revenue rising 3%, which was largely due to 38% jump in depreciation charges to SGD191.7m due to the abovementioned reason.

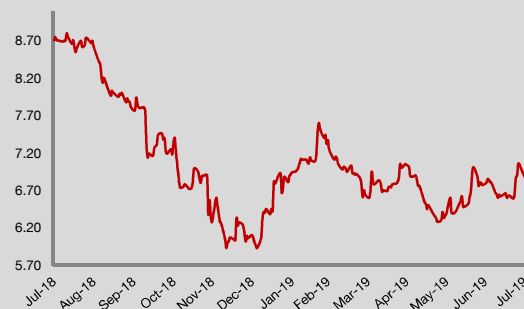
Challenging outlook on geopolitics. Management is cautious on the VIP business, especially for mainland Chinese visitors over the uncertain economic environment, but it remains optimistic on the mass market. On the other hand, there are a few new properties in Cambodia with clients mainly from Indochina, which is different from GENS' profile. Hence, management believes that there should not be a huge impact. Meanwhile, for the new market in Japan, the city of Osaka has already started the Request-for-Concept (RFC) process for the integrated resorts of which GENS has just submitted the phase-1 RFC while phase-2 RFC will be due on 16 Sep before the Request-for-Proposal's dateline in Nov/Dec. For now, it is still too early to gauge the potential outcome of the bidding process.

Maintain GENTING's call for now. We are keeping our OUTPERFORM call, price target of RM7.65/share, which is based on 3-year mean discount of 38.5% to SoP of RM12.40, and earnings estimates for GENTING unchanged for now, pending the release of its 2Q19 results later this month-end. Risks to our call include weak business volume and poorer luck factor.

OUTPERFORM ↔

Price : RM6.76
Target Price : RM7.65 ↔

Share Price Performance



KLCI 1,626.76
YTD KLCI chg -3.8%
YTD stock price chg 11.9%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	GENT MK
Market Cap (RM m)	26,029.9
Shares Outstanding	3,850.6
52-week range (H)	8.74
52-week range (L)	5.85
3-mth avg daily vol:	3,497,290
Free Float	51%
Beta	1.1

Major Shareholders

Kien Huat Realty Sdn Bhd	42.4%
Massachusetts Mutual Life	4.9%
Vanguard Group Inc	2.2%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	20853	22139	23219
EBIT	5747	6022	6254
PBT	3418	5770	5905
Net Profit (NP)	1366	2884	3040
Core Net Profit	3654	2884	3040
Consensus (NP)		2311	2408
Earnings Revision (%)		-	-
EPS (sen)	97.6	77.0	81.2
EPS growth (%)	86.6	-21.1	5.4
DPS (sen)	21.5	15.0	15.0
BV/Share (RM)	9.16	1.20	1.28
NTA/Share (RM)	7.64	1.00	1.07
PER (x)	6.9	8.8	8.3
PBV (x)	0.74	5.64	5.28
Price/NTA (x)	0.88	6.75	6.29
Net Gearing (x)	N Cash	0.02	0.04
Dividend Yield (%)	3.2	2.2	2.2



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Income Statement

	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
Y/E : Dec (SGD m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	636.8	640.4	-1%	560.3	14%	1,277.1	1,235.4	3%
EBITDA	294.4	329.7	-11%	265.9	11%	624.1	624.8	0%
Depreciation	(99.1)	(92.6)	7%	(69.5)	43%	(191.7)	(139.2)	38%
EBIT	195.3	237.1	-18%	196.4	-1%	432.4	485.7	-11%
Interest & other incomes	19.6	21.8	-10%	17.2	14%	41.4	32.8	26%
Interest expense	(9.1)	(9.2)	-2%	(8.7)	4%	(18.3)	(17.7)	4%
Associates	1.2	1.0	18%	1.0	20%	2.2	1.7	30%
Pretax profit	209.4	248.4	-16%	220.6	-5%	457.8	494.2	-7%
Taxation	(41.0)	(42.9)	-4%	(43.0)	-5%	(83.9)	(99.3)	-16%
Net profit	168.4	205.5	-18%	177.6	-5%	373.9	394.8	-5%
Core net profit	166.0	207.8	-20%	162.8	2%	373.8	403.1	-7%
EPS (cent)	1.4	1.7	-20%	1.3	2%	3.1	3.3	-7%
EBITDA margin	46%	51%		47%		49%	51%	
EBIT margin	31%	37%		35%		34%	39%	
Pretax margin	33%	39%		39%		36%	40%	
Effective tax rate	20%	17%		19%		18%	20%	

Source: Company

Segmental Breakdown

Segmental	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Q-o-Q
Breakdown	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Segment revenue:								
RWS - gaming	441.1	430.2	3%	362.5	22%	871.3	829.7	5%
RWS - non-gaming	195.0	209.3	-7%	197.2	-1%	404.3	404.5	0%
Others	0.6	0.9	-33%	0.6	-4%	1.5	1.2	25%
Group revenue	636.8	640.4	-1%	560.3	14%	1,277.1	1,235.4	3%
Segment result:								
RWS	306.5	339.3	-10%	273.9	12%	645.8	639.9	1%
Other	(12.1)	(9.6)	26%	(8.0)	50%	(21.7)	(15.1)	44%
Group EBITDA	294.4	329.7	-11%	265.9	11%	624.1	624.8	0%
EBITIDA margin:								
RWS	48%	53%		49%		51%	52%	
Other	N/M	N/M		N/M		N/M	N/M	
Group EBITDA margin	46%	51%		47%		49%	51%	

Source: Company

Valuation

(RM m)	RM m	RM/Share	%	Valuation Basic
GENM (49.3%)	10,624.0	2.84	22.9%	TP: RM3.80
GENP (51.5%)	3,663.0	0.98	7.9%	TP: RM9.00
GENS (52.9%)	17,900.5	4.78	38.6%	Market value
Landmarks (30.3%)	64.1	0.02	0.1%	Market value
Management Fee	4,378.7	1.17	9.4%	DCF @ 11.4% WACC, g = 1%
Power	4,262.5	1.14	9.2%	12x CY20 PER
Oil & Gas	475.8	0.13	1.0%	12x CY20 PER
Net Cash/(Debt)	5,063.7	1.35	10.9%	Adjusted FY20E
	46,432.3	12.40	100.0%	
No of shares	3,743.2			
SOP value per share	RM12.40			
Discount @ 38.5%	-4.75			
Target Price	RM7.65			Round to the nearest RM0.05

Source: Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
BERJAYA SPORTS TOTO BHD	2.67	3,596.5	N	06/2019	0.8%	3.4%	3.7%	1.4%	13.3	12.8	12.7	4.2	4.0	32.0%	6.2%	3.00	OP
GENTING BHD	6.76	26,029.9	N	12/2019	4.8%	5.3%	-30.9%	7.5%	6.9	10.0	9.3	0.7	0.7	7.2%	2.2%	7.65	OP
GENTING MALAYSIA BHD	3.75	22,267.7	N	12/2019	3.0%	2.9%	-26.2%	5.3%	11.8	16.0	15.2	1.2	1.2	7.4%	3.2%	4.30	OP
MAGNUM BHD	2.65	3,770.8	N	12/2019	-5.9%	2.0%	-8.9%	2.2%	15.4	16.9	16.6	1.6	1.5	9.1%	4.9%	2.55	MP
Simple Average					0.7%	3.4%	-15.6%	4.1%	11.9	14.0	13.4	2.0	1.8	13.9%	4.1%		

Source: Bloomberg, Kenanga Research

Global Peer Comparison

Name	Last Price	Market	Currency	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
		Cap		FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price	
GENTING SINGAPORE LTD	0.90	10851.5	SGD	12/2019	-0.3%	0.7%	-5%	1%	14.8	15.3	15.5	1.4	1.3	9.9%	4.1%	N.R.	N.R.
GALAXY ENTERTAINMENT GROUP L	50.10	217038.5	HKD	12/2019	-1.6%	6.0%	0%	6%	16.0	16.3	15.4	3.5	3.1	22.9%	1.9%	N.R.	N.R.
MELCO RESORTS & ENTERT-ADR	20.95	9784.0	USD	12/2019	9.4%	4.0%	14%	25%	24.7	20.3	17.0	4.4	4.1	14.0%	3.1%	N.R.	N.R.
MGM CHINA HOLDINGS LTD	12.40	47120.0	HKD	12/2019	22.0%	7.9%	97%	29%	44.2	19.1	15.0	5.3	4.4	12.2%	2.1%	N.R.	N.R.
SJM HOLDINGS LTD	8.20	46445.7	HKD	12/2019	2.8%	12.8%	-2%	-16%	15.3	16.6	18.3	1.7	1.6	10.8%	3.4%	N.R.	N.R.
SANDS CHINA LTD	36.35	293951.4	HKD	12/2019	6.1%	6.5%	9%	10%	20.0	17.4	15.8	8.5	8.2	41.9%	5.5%	N.R.	N.R.
WYNN MACAU LTD	16.88	87724.7	HKD	12/2019	-2.4%	4.8%	-7%	12%	14.1	15.0	13.3	57.8	54.1	276.4%	6.5%	N.R.	N.R.

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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