

28 February 2020

# Genting Malaysia

## Covid-19 To Impact 1HFY20

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**4QFY19 results are below expectations due to lower hold percentage coupled with maiden share of associate losses for Empire. Going forth, the upcoming 1QFY20 are expected to be weaker on Covid-19 effect on travel. However, we believe all negatives should have been reflected in the share price. Thus, we keep our MP rating unchanged but revised TP lower to RM2.95.**

**4QFY19 below expectations.** At 88%/93% of house/street's estimates, FY19 core profit of RM1.31b came in below expectations due to: (i) weaker adjusted EBITDA from RWG on lower hold percentage in the mid-to-premium segment, and (ii) maiden share of associate losses of RM31.6m from Empire. It declared a special NDPS of 9.0 sen (ex-date: 13 Mar; payment date: 07 Apr) and proposed a final NDPS of 5.0 sen, all in 4QFY19, bringing FY19 NDPS to 20.0 sen vs. 19.0 sen inclusive of 8.0 sen special NDPS paid in FY18 and our FY19 assumption of 12.0 sen.

**Hold percentage hit sequential results.** 4QFY19 core profit plummeted 39% QoQ to RM216.2m from RM352.1m in the preceding quarter as revenue fell 7% to RM2.44b. The fall in earnings was primarily due to lower hold percentage in the mid-to-premium segment at RWG while GENM posted its maiden Empire contribution with a share of loss of RM31.6m at associate level. Meanwhile, adjusted EBITDA for UK & Egypt operation fell 30% to RM59.8m which was mitigated by higher earnings by 18% to RM65.3m at North America operation.

**Casino tax hike hit yearly results.** On YoY comparison, 4QFY19 core profit contracted 55% from RM479.7m while revenue fell 3%, led by Malaysia operation which was hit by lower hold percentages coupled with a 10% hike in casino tax and the abovementioned Empire's losses. Other non-Malaysia assets also experienced weaker earnings as North America fell 4% on higher operating cost while UK & Egypt posted 29% contraction at adjusted EBITDA level on luck factor. YTD, FY19 core profit declined 31% to RM1.31b from RM1.88b in FY18 which was also due to similar reasons mentioned above.

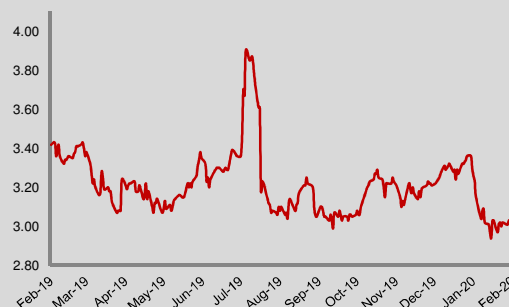
**Tough quarters ahead.** The on-going deadly Covid-19 outbreak is disrupting business activities in the region which is affecting the regional casino operators badly and GENM is not spared. As such, visitation at the uphill resort is expected to come off. Going forth, focus will be on turning around the loss-making Empire by synergising RWNYC with Resorts World Catskills as this high-profile RPT transaction has raised a corporate governance issue. Any successful turnaround effort will act as price catalyst as the stock was heavily sold-down since the announcement of the RPT.

**Virus scare is the new concern; MP maintained.** Post-results, we cut FY20 earnings estimates by 29% as we expect 1HFY20 results to slow down on the Covid-19 outbreak. Meanwhile, we introduce FY21 estimates where earnings are set to grow by 19%. Our target price is also lowered to RM2.95 from RM3.30 based on unchanged 20% discount to its SoP valuation. In all, we believe near-term negatives, including the RPT Empire transaction, should have been priced in. Thus, we keep our MARKET PERFORM rating. An **upside risk to our call** is extremely good "luck factor".

## MARKET PERFORM ↔

**Price:** RM2.93  
**Target Price:** RM2.95 ↓

### Share Price Performance



KLCI 1,505.59  
YTD KLCI chg -5.2%  
YTD stock price chg -10.9%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	GENM MK
Market Cap (RM m)	16,565.2
Shares Outstanding	5,653.6
52-week range (H)	4.00
52-week range (L)	2.92
3-mth avg daily vol:	10,120,850
Free Float	50%
Beta	1.2

### Major Shareholders

Genting Bhd	49.5%
Vanguard Group	1.9%
Gic Private Limited	1.8%

### Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	10407	10261	10975
EBIT	1571	1438	1550
PBT	1489	1201	1352
<b>Net Profit (NP)</b>	<b>1395</b>	<b>1099</b>	<b>1238</b>
<b>Core Net profit</b>	<b>1305</b>	<b>1099</b>	<b>1238</b>
Consensus (NP)		1294	1418
Earnings Revision (%)		-29.0	New
EPS (sen)	22.0	18.6	20.9
EPS growth (%)	-30.5	-15.8	12.6
NDPS (sen)	20.0	12.0	12.0
BV/Share (RM)	1.05	1.11	1.14
NTA/Share (RM)	0.79	0.85	0.89
PER (x)	13.3	15.8	14.0
PBV (x)	2.79	2.64	2.56
Price/NTA (x)	3.69	3.44	3.30
Net Gearing (x)	0.15	0.07	0.00
Net Yield (%)	6.8	4.1	4.1

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## Income Statement

	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
Y/E : Dec (RM m)	FY19	FY18	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	2,442.0	2,624.2	-7%	2,507.0	-3%	10,406.9	9,927.5	5%
EBITDA	551.4	694.4	-21%	748.5	-26%	2,641.4	2,872.8	-8%
Depreciation	(279.4)	(273.7)	2%	(242.7)	15%	(1,070.6)	(954.8)	12%
EBIT	271.9	452.6	-40%	173.4	57%	1,570.8	1,751.8	-10%
Interest & other incomes	23.5	(4.2)	-660%	29.2	-20%	110.5	299.0	-63%
Interest expense	(60.4)	(63.5)	-5%	(42.6)	42%	(250.3)	(155.8)	61%
Associates	(31.6)	0.0	N/A	0.0	N/A	(31.6)	0.0	N/A
Exceptional items	83.5	58.7	42%	240.4	-65%	90.0	(1,899.0)	-105%
Pretax profit	286.9	443.7	-35%	400.4	-28%	1,489.4	(4.0)	-37279%
Taxation	(4.6)	(49.9)	-91%	305.0	-102%	(157.2)	(82.3)	91%
Profit after tax	282.2	393.8	-28%	705.4	-60%	1,332.2	(86.4)	-1643%
Minority interest	17.5	17.1	3%	14.8	19%	63.1	66.8	-5%
Net profit	299.7	410.8	-27%	720.1	-58%	1,395.4	(19.6)	-7224%
Core net profit	216.2	352.1	-39%	479.7	-55%	1,305.4	1,879.4	-31%
EPS (sen)	5.0	6.9	-27%	12.1	-58%	23.5	(0.3)	-7224%
Core EPS (sen)	3.6	5.9	-39%	8.1	-55%	22.0	31.7	-31%
DPS (sen)	14.0	0.0	N/A	13.0	8%	20.0	19.0	5%
NTA/share (RM)	2.36	2.32	2%	2.31	2%	2.36	2.31	2%
EBITDA margin	23%	28%		17%		25%	27%	
EBIT margin	11%	17%		7%		15%	18%	
Pretax margin	12%	17%		16%		14%	0%	
Effective tax rate	2%	11%		-76%		11%	-2056%	

Source: Company

## Segmental Breakdown

Segmental Breakdown	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
	FY19	FY18	Chg	FY18	Chg	FY19	FY18	Chg
Segment revenue:								
LH - Malaysia	1,604.8	1,792.6	-10%	1,698.6	-6%	7,066.6	6,594.6	7%
UK & Egypt	422.3	414.7	2%	426.6	-1%	1,676.4	1,780.7	-6%
USA & Bahamas	368.5	355.8	4%	343.0	7%	1,469.4	1,384.8	6%
Properties	27.6	23.8	16%	26.3	5%	101.7	101.5	0%
Investment & others	18.8	37.3	-50%	12.5	50%	92.8	65.9	41%
<b>Group revenue</b>	<b>2,442.0</b>	<b>2,624.2</b>	<b>-7%</b>	<b>2,507.0</b>	<b>-3%</b>	<b>10,406.9</b>	<b>9,927.5</b>	<b>5%</b>
Segment result:								
LH - Malaysia	415.1	537.5	-23%	582.2	-29%	2,048.2	2,297.3	-11%
UK & Egypt	59.8	85.7	-30%	62.1	-4%	231.6	182.4	27%
USA & Bahamas	65.3	55.4	18%	92.0	-29%	289.3	305.8	-5%
Properties	11.9	10.2	17%	13.8	-14%	49.3	47.4	4%
Investment & others	(0.7)	5.6	-113%	(1.6)	-56%	23.0	39.9	-42%
<b>Group Adjusted EBITDA</b>	<b>551.4</b>	<b>694.4</b>	<b>-21%</b>	<b>748.5</b>	<b>-26%</b>	<b>2,641.4</b>	<b>2,872.8</b>	<b>-8%</b>
Adjusted EBITDA margin:								
LH - Malaysia	26%	30%		34%		29%	35%	
UK & Egypt	14%	21%		15%		14%	10%	
USA & Bahamas	18%	16%		27%		20%	22%	
Properties	43%	43%		52%		48%	47%	
Investment & others	-4%	15%		-13%		25%	61%	
<b>Group EBITDA margin</b>	<b>23%</b>	<b>26%</b>		<b>30%</b>		<b>25%</b>	<b>29%</b>	

Source: Company

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## Valuation - New

(RM m)	EBITDA CY20E	Value	RM/share	Valuation Basic
RWG	1,744.5	17,654.3	2.97	11.2x CY20 EV/EBITDA ^
Genting UK	247.8	2,220.0	0.37	9.0x CY20 EV/EBITDA
North American Operations	283.9	2,543.7	0.43	9.0x CY20 EV/EBITDA
Wisma Genting		231.6	0.04	FY18A book value
Net Cash/(Debt)		-699.5	-0.12	Estimated FY20E
		21,950.0	3.70	
No of shares		5,938.0		
<b>SOP value per share</b>		<b>3.70</b>		
Discount 20%		<b>-0.75</b>		
<b>Target Price</b>		<b>RM2.95</b>		Round up to the nearest RM0.05

^ adjusted for (i) RM1.84b impairment on investment US Tribe project; (ii) RM1.69b potential total investment in Empire

Source: Kenanga Research

## Valuation - Old

(RM m)	EBITDA CY20E	Value	RM/share	Valuation Basic
RWG	1,909.0	17,448.5	2.94	11.2x CY20 EV/EBITDA ^
Genting UK	247.8	2,220.0	0.37	9.0x CY20 EV/EBITDA
North American Operations	283.9	2,543.7	0.43	9.0x CY20 EV/EBITDA
Wisma Genting		231.6	0.04	FY18A book value
Net Cash/(Debt)		2,007.5	0.34	Estimated FY20E
		24,451.2	4.12	
No of shares		5,938.0		
<b>SOP value per share</b>		<b>4.12</b>		
Discount 20%		<b>-0.82</b>		
<b>Target Price</b>		<b>RM3.30</b>		Round up to the nearest RM0.05

^ adjusted for (i) RM1.84b impairment on investment US Tribe project; (ii) RM1.69b potential total investment in Empire

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	2.56	3,448.3	N	06/2019	-8.3%	3.5%	-16.8%	1.8%	11.0	13.3	13.0	4.4	4.2	32.2%	6.0%	2.80	OP
GENTING BHD	5.16	19,869.0	N	12/2020	-4.2%	5.3%	-15.0%	17.5%	8.1	9.6	8.1	0.5	0.5	5.5%	2.9%	6.65	OP
GENTING MALAYSIA BHD	2.93	16,565.2	N	12/2020	-1.4%	7.0%	-15.8%	12.6%	13.3	15.8	14.0	0.9	0.9	5.8%	4.1%	2.95	MP
MAGNUM BHD	2.51	3,571.6	N	12/2020	2.4%	3.0%	3.3%	2.8%	15.1	14.6	14.2	1.5	1.4	9.9%	5.5%	2.75	OP
<b>Simple Average</b>					<b>-2.9%</b>	<b>4.7%</b>	<b>-11.1%</b>	<b>8.7%</b>	<b>11.9</b>	<b>13.3</b>	<b>12.3</b>	<b>1.8</b>	<b>1.8</b>	<b>13.3%</b>	<b>4.6%</b>		

Source: Bloomberg, Kenanga Research

## Regional Casino

Name	Last Price	Market Cap	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	TP	Rating
	(USD)	(USD)	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.		
GENTING SINGAPORE LTD	0.63	7605.3	12/2020	-3.6%	5.3%	-16%	9%	15.3	16.8	15.4	1.3	1.3	8.7%	4.3%	N.R.	N.R.
GALAXY ENTERTAINMENT GROUP	7.33	31798.2	12/2019	2.2%	-2.2%	-3%	-5%	19.0	18.6	19.4	3.6	3.5	22.9%	1.6%	N.R.	N.R.
MELCO RESORTS & ENTERT-ADR	22.55	10948.4	12/2019	10.3%	1.5%	6%	9%	22.5	23.7	21.5	4.6	4.5	14.0%	2.7%	N.R.	N.R.
MGM CHINA HOLDINGS LTD	1.53	5810.1	12/2019	18.9%	0.7%	81%	15%	32.6	20.1	17.2	4.6	4.3	12.2%	2.1%	N.R.	N.R.
SJM HOLDINGS LTD	1.23	6983.5	12/2019	-2.2%	4.8%	4%	-25%	17.9	18.2	22.0	1.9	1.9	10.8%	3.1%	N.R.	N.R.
SANDS CHINA LTD	5.22	42209.2	12/2019	2.0%	1.8%	6%	3%	21.5	20.3	19.9	12.2	9.4	41.9%	4.9%	N.R.	N.R.
WYNN MACAU LTD	2.29	11878.3	12/2019	-8.0%	0.0%	-17%	-10%	15.3	17.8	19.9	44.5	69.6	365.2%	5.6%	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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