

29 March 2023

Gaming

Good Old Days are Returning

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OVERWEIGHT



We maintain OVERWEIGHT on the gaming sector as leisure travel normalises post the pandemic. Tourism Malaysia projects 16.1m tourist arrivals in Malaysia in 2023, up 60% from 10.1m in 2022. Over the causeway, the Singapore Tourism Board expects a big jump in visitor arrivals to the island republic of 12m-14m this year over 4.7m recorded last year, underpinned by the return of international tourists, especially those from China. This should benefit casino operators GENM (OP; TP: RM3.56) and GENS (Not Rated), as well as their parent company GENTING (OP: TP: RM5.86). Meanwhile, we project ticket sales of number forecast operators (NFOs) to return to 90% of pre-pandemic levels by end-2023. Largely domestically-driven, their earnings are less directly exposed to external headwinds. Our top picks for the sector are GENTING, being a proxy to the recovery of tourism in both Malaysia and Singapore, and SPTOTO (OP; TP: RM1.95) given its double-digit dividend yields.

Casinos - Benefitting from the return of leisure travel.

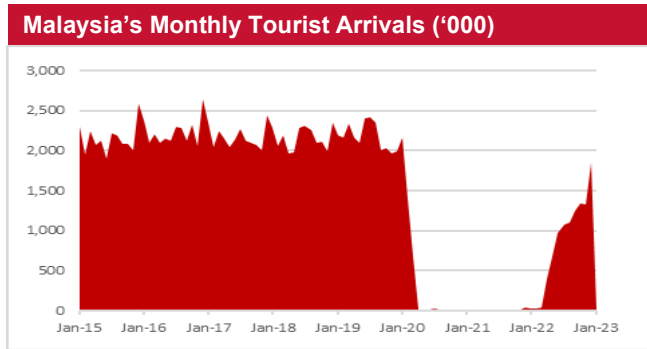
- Tourism Malaysia projects 16.1m tourist arrivals in Malaysia in 2023, up 60% from 10.1m in 2022, while neighbouring Singapore Tourism Board expects visitor arrivals to the island republic to reach 12m-14m this year as opposed to 4.7m last year, underpinned by the return of international tourists, especially those from China. At 16.1m in 2023, there is still plenty of room for Malaysia's tourist arrivals to rise as it makes up only 62% of the pre-pandemic peak of 26.1m in 2019.
- **GENM** will also benefit from the revival and rejuvenation of domestic leisure travel, as local visitors made up >80% of the total visitors to the Genting Highland's resort prior to the pandemic. Meanwhile, **GENS** is set to draw more visitors over the next three months with the *Van Gogh: The Immersive Experience exhibition*, while a newly renovated Festive Hotel will be re-launched in May as a lifestyle destination hotel with 389 rooms. Meanwhile, **GENM's** operations in the UK and US have very much shrugged off the pandemic since 2021 with earnings having already recovered to pre-pandemic levels. Newly opened Resorts World Hudson Valley in Dec 2022, the newest casino in New York State, is expected to deliver its maiden contribution in FY23.

NFOs - Recovery in ticket sales on track.

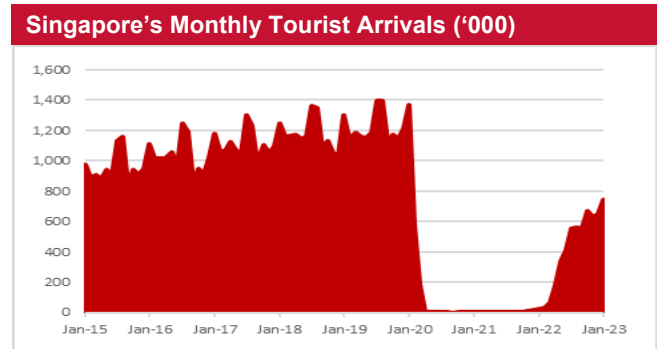
- There is a business continuity concern for operations of NFOs in Selangor, Penang and Negri Sembilan in the event of a change in the state government post the state election, widely expected to be held in Jun 2023 (NFO operations have already been banned three other states due for the state election, i.e., Kelantan, Terengganu and Kedah). There is also concern over sustained high inflation eating into consumer disposable income affecting spending on betting games.
- The good news is that NFO ticket sales are mainly domestically-driven and therefore less directly exposed to external headwinds. We expect the ticket sales recovery to plateau at 80%-85% of pre-pandemic levels before slowly picking up to the 90% level by end-2023. We expect **SPTOTO** to have a stronger recovery path with ticket sales returning to 87% of pre-pandemic level by FY23 (FYE: June) and 90% by FY24, given the potential boost from a spike in ticket sales of lotto games in the event their jackpots snowball, while **MAGNUM (OP; TP: RM1.39)** may only see its ticket sales recovering to 78%/80% of the pre-pandemic level by FY23/FY24 as we expect the return of its customers, predominantly in the older-age group, to be gradual. Overall, we prefer **SPTOTO** to **MAGNUM** for the former's stronger recovery of ticket sales and hence superior earnings.

Regulatory risk. Meanwhile, we rate the risk of casino and NFO licenses being revoked in Malaysia as low following the formation of a "unity" government led by a moderate Pakatan Harapan coalition.

Our top picks for the sector are **GENTING**, being a proxy to the recovery of tourism in both Malaysia and Singapore, and **SPTOTO** given its double-digit dividend yields.

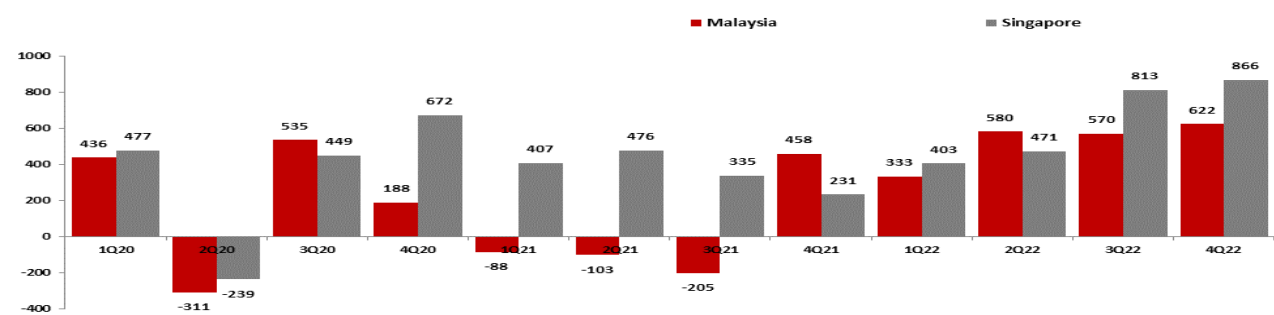


Source: CEIC



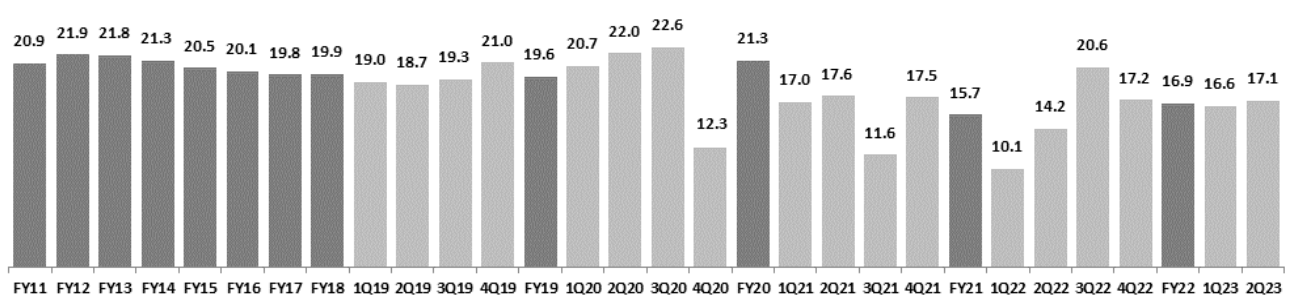
Source: CEIC

GENTING: EBITDA – Malaysia vs. Singapore (RM m)



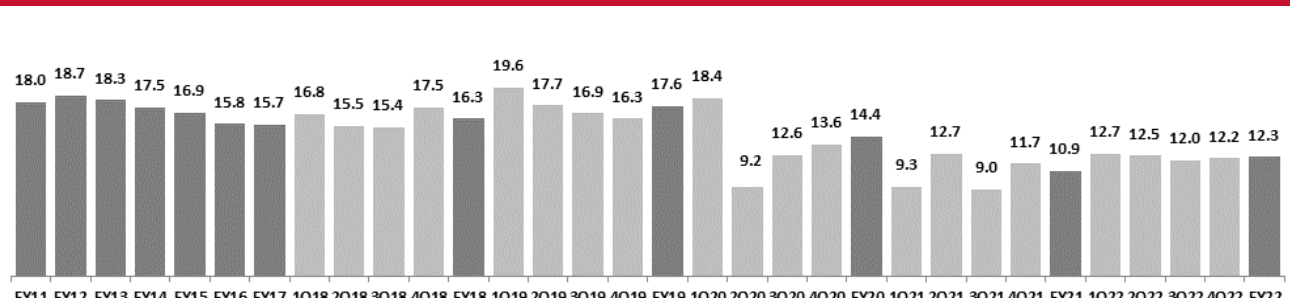
Source: Company

SPTOTO: Average Ticket Sales Per Draw (RM m)



Source: Company

MAGNUM: Average Ticket Sales Per Draw (RM m)



Source: Company

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GENTING BHD	OP	4.54	5.86	29.07%	17,481.6	N	12/2023	36.3	42.7	344.7%	17.6%	12.5	10.6	0.5	4.2%	16.0	3.5%
GENTING MALAYSIA BHD	OP	2.58	3.56	37.98%	14,622.8	N	12/2023	16.6	21.1	5940.9%	27.5%	15.6	12.2	1.1	7.5%	15.0	5.8%
MAGNUM BHD	OP	1.09	1.39	27.52%	1,566.5	N	12/2023	12.3	12.6	75.9%	2.0%	8.8	8.7	0.7	7.4%	9.9	9.0%
SPORTS TOTO BHD	OP	1.45	1.95	34.48%	1,954.9	N	06/2023	20.1	20.8	68.1%	3.6%	7.2	7.0	2.1	29.6%	16.1	11.1%
Sector Aggregate					35,625.8					405.9%	18.7%	12.8	10.8	0.7	5.7%		7.4%

Source: 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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