

Hong Kong: Consumer Services
19 Sep, 2016
Action
BUY (Initiation)
TP upside (downside) 38.2%
Close Sep 15, 2016

Price	HK\$5.28
12M Target	HK\$7.30
Previous Target	N.A.
Hang Seng Index	23,335.6

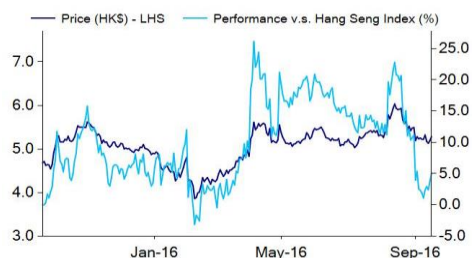
What's new?

- Our revenue/EBITDA/net profit projections for NagaCorp for 2018F are 31%/34%/41% above consensus. In our view, the market has yet to price in the full potential of Naga2.

Our view

- We initiate coverage of NagaCorp with a BUY rating and a TP of HK\$7.3, based on 8x our 2018F EV/EBITDA.
- We believe NagaCorp deserves a re-rating given the improving sentiment on gaming stocks and the undervalued Naga2.

Company profile: NagaCorp is an investment holding company. Through its subsidiaries, it is engaged in the operation of a hotel and entertainment complex, NagaWorld, in Cambodia.

Share price performance relative to Hang Seng Index


Market cap	US\$1,674.1 mn
6M avg. daily turnover	US\$3.5 mn
Outstanding shares	2,460.0 mn
Free float	58.0%
Major shareholders	Tan Sri Dr Chen, 39.0%
Net debt/equity	(30.1%)
BVPS (2016F)	US\$0.40
P/B (2016F)	1.80x

Financial outlook (US\$ mn)

Year to Dec	2015A	2016F	2017F	2018F
Sales	504	537	788	1,087
Op. profit	187	198	204	345
Net profit *	173	190	195	327
EPS (US\$)	0.08	0.07	0.06	0.08
EPS growth (%)	27.5	(4.2)	(24.3)	42.5
DPS (US\$)	0.05	0.04	0.03	0.05
P/E (X)	8.95	9.35	12.34	8.66
Div. yield (%)	6.7	6.5	4.9	7.0
ROE (%)	25.1	19.3	14.8	22.2

* Net profit attributable to the equity holders

NagaCorp (3918 HK)

An all-in bet as Naga2 not priced in yet

Background: Listed in 2006, NagaCorp has an exclusive license to operate casinos within a 200 km radius of Phnom Penh, until 2035. Its current hotel and casino complex, NagaWorld, features a 713-room hotel, 18 food and beverage outlets and entertainment outlets.

New properties and a more comprehensive services offering: The company's NagaCity Walk has had its soft-launch, while the TSCLK Complex (Naga 2) is scheduled to open in mid-2017. We believe Naga2 has a more mass-market oriented build out, with a planned ~250 mass market tables, 38 VIP suites and 1,000 electronic gaming machines (EGM). NagaCorp's number of hotel rooms will more than double to cater to an increase in traffic on the back of an enhanced retail experience (China Duty Free Group operating NagaCity Walk), improved VIP hospitality, with investment in a fixed-based operator at the airport for VIP customers, and the opening up of more cities with China outbound travel agents.

Growth vs. dilution: NagaCorp did a top-up placement in early September and together with Dr. Chen's CBs (assuming he elects a full CB option for TSCLK complex in mid-2017), we estimated the dilution effect to be around 83% in 2018, compared to 2015. This, however, can be fully offset by earnings growth when Naga2 is in full swing, based on our projections. Our revenue/EBITDA/net profit estimates for 2018F are 31%/34%/41% above current consensus estimates, and we argue that the market has yet to price in the full potential of Naga2.

Re-rating in sight; initiate with a BUY rating and a TP of HK\$7.3: Using 8x our 2018F EV/EBITDA, we derive a TP of HK\$7.3. We estimate a 2017F dividend yield of 4.9%, and we assume its payout ratio will be maintained at 60%. Our target price implies 38% upside from the current share price. We initiate coverage of NagaCorp with a BUY rating.

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ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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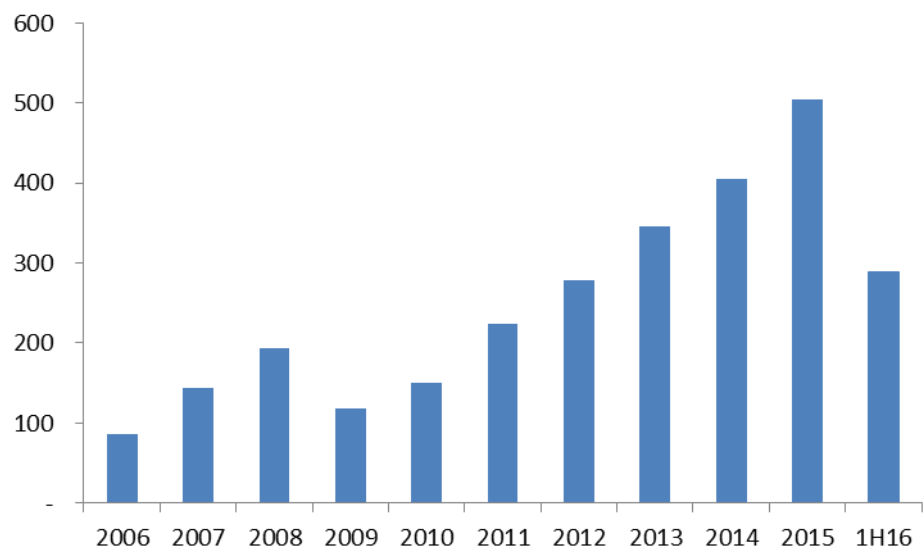
Company overview and track record

NagaCorp operates hotels, gaming and leisure business in Cambodia. Founded in 1995 by Tan Sri Dr Chen, NagaCorp was the first gaming stock listed in the Hong Kong Stock Exchange back in 2006. The company's flagship NagaWorld is the only integrated resort in Phnom Penh, with a 70-year casino license until 2065 and a 41-year monopoly, expiring in 2035. With a site area of 16,675 sqm, it features a 713 room hotel, as well as 18 food and beverage outlets and entertainment outlets. As of 30 June 2016, NagaWorld had 87 mass-market gaming tables, 209 VIP tables and 1,662 electronic gaming machines (EGMs) in operation. The company's contribution to Cambodia's GDP and the country's tourism GDP in 2015 was 1.26% and 23.5%, respectively, showcasing its significance to Cambodia's economy.

Revenue has increased almost fivefold, from US\$85mn in 2006 to over US\$503 mn in 2015, a nine-year CAGR of 21.9%

The company's revenue and net profit growth have been impressive since listing. Revenue has increased almost fivefold, from US\$85 mn in 2006 to over US\$503 mn in 2015, a nine-year CAGR of 21.9%. Except for 2009, where the global financial tsunami affected Junket VIP business performance, the company has been delivering positive top-line growth since listing. From the trough in 2009, the six-year revenue CAGR has been at an even higher rate of 27.5%.

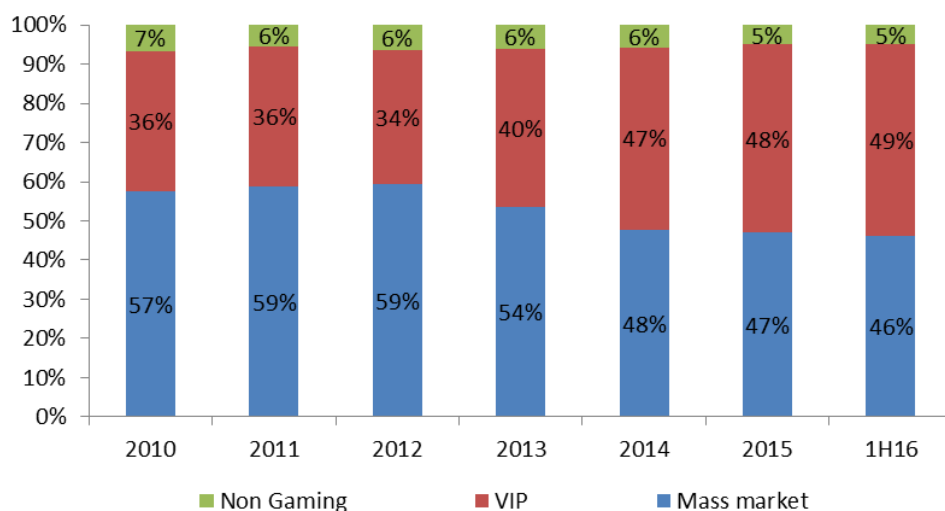
Figure 1: Historic revenue trend (US mn)



Source: Company data, Yuanta Investment Consulting,

NagaCorp's revenue mix has been relatively stable. From 2010–13, revenue from the mass market (mass market public tables and EGM machines) represented around 60% of total revenue while revenue from VIPs contributed around 35%. This mix has changed to around 50:50 (excluding EGM negotiation fees) since 2014, after the company opened a new VIP area and signed with more junket operators.

Figure 2: Revenue mix from 2010 to 1H16 (excluding EGM entrance fees)



Excluding EGM entrance fee of US 15m/40m/60m in 2013/2015/1H16 respectively

Source: Company data , Yuanta Investment Consulting,

A more appropriate way to look at the growth rate of the company is by means of comparing the mass market public floor table buy-ins, EGM bills-in and VIP Rollings, as the aforementioned revenue numbers are affected by different win-rates recorded during different periods. In short, NagaCorp's mass market business has been growing in the high-teens percentage, while its VIP business has been growing consistently at over twenty percent. (Figure 3)

Figure 3: Summary on Public Table Buy-ins, EGM Bills-in and VIP Rolling

	2012	2013	2014	2015	1H16
US (mn)					
Public Floor Buy-Ins	348.5	400.3	465.5	550.2	305.6
EGM Bills-in	995.5	1,098.0	1,185.6	1,370.7	741.8
VIP Rolling	3,786.7	4,573.6	6,185.3	7,875.9	4,549.2
YoY Growth rate (%)					
Public Floor Buy-Ins	34.4	14.9	16.3	18.2	16.7
EGM Bills-in	28.1	10.3	8.0	15.6	17.9
VIP Rolling	16.9	20.8	35.2*	27.3	25.5

* Higher commission paid to junket operators

Source: Company data , Yuanta Investment Consulting,

Its average dividend yield has been at around 7.7% for the past five years

Except for 2014, where there was a relatively high revision in staff wages (as incentives) as well as higher commission paid to junket operators, NagaCorp has reported positive earnings growth annually since the global financial crisis. The company has also been generous on dividend payment since listing, with its payout ratio staying above the 60% level from 2009 onwards. Its average dividend yield has been at around 7.7% for the past five years; the company paid out a total sum of US\$643 mn in dividends since IPO, vs total net profit of US\$972 mn (implying an average payout ratio of 66%).

Figure 4: Summary on Net Profit and Dividend Payment

Year	Net Profit (US mn)	Dividend Declared (US mn)	Dividend Payout Ratio
2006	33	28	86%
2007	50	30	60%
2008	40	18	45%
2009	25	15	60%
2010	44	31	70%
2011	92	64	70%
2012	113	85	75%*
2013	140	98	70%
2014	136	95	70%
2015	173	104	60%
1H16	125	75*	60%

* US\$63 mn to shareholders and US\$12 mn to bondholders

Source: Company data

Naga 2 – Increased attraction for visitors

NagaCity Walk had its soft launch in August 2016, while the TSCLK Complex is scheduled to commence operation in mid-2017

NagaCorp decided in 2011 to develop NagaCity Walk and TSCLK Complex, which will be situated a stone's throw away from its current premises. The total built-up area is around 123,353 sqm, which includes the NagaCity Walk of approximately 13,248 sqm of retail and public space, and the TSCLK Complex which features 1,033 hotel rooms, 38 luxury VIP suites, 200–300 mass gaming tables, 500–1 500 EGMs and a multipurpose entertainment/theatre with a seating capacity of approximately 2,100. NagaCity Walk had its soft launched in August 2016, while the TSCLK Complex is scheduled to commence operation in mid-2017.

Figure 5: Snapshot on NagaWorld, NagaCity Walk and TSCLK Complex

	NagaWorld	NagaCity Walk	TSCLK
Site Area (sqm)	16,675	9,519	7,766
GFA (sqm)	113,307	13,248	110,105
Mass Gaming Table Number	87	200-300	
VIP Table/Suite Number	209	38	
EGM Number	1,662	1000	
Retail Space (sqm)	381	3,900	
MICE / Theatre Facilities (Seats)	750	2,100	
Parking Space	60	533	
Hotel Room	713	1,033	

Source: Company data, Yuanta Investment Consulting,

Pursuant to the share purchase agreement entered between the company and its major shareholder Dr. Chen in 2011, Dr. Chen will bear all the construction costs of NagaCity Walk and TSCLK Complex (estimated cost at around US\$365 mn in return for the rights to receive shares or convertible bonds (or a mixture of both) upon transferring the completed assets to the company). Dr. Chen elected to use the convertible bonds option in May 2016 after the NagaCity Walk project (US\$94 mn) is transferred to the company. The exercise price of these convertibles is set at HK\$1.6699 (subject to adjustment on any further capital restructuring) and thus 439.07 mn shares will be allotted to Dr. Chen whenever he elects to convert. On similar terms, another 1,265.84 mn shares or convertible bond equivalent will be allotted to Dr. Chen, likely in the middle of 2017 when the TSCLK complex is transferred to the company. These convertibles rank the same as ordinary shares in terms of dividend entitlement. We have assumed Dr. Chen will elect the convertible bond option in full for the TSCLK Complex as he did for the NagaCity Walk project, with no conversion during our forecasting period.

The big increase in mass market tables and hotel rooms can capture opportunities arising from any of the events to be hosted by the MCE Theatre

In terms of GFA, Naga 2 is comparable to the existing NagaWorld with more add on facilities such as the retail space and the MCE Theatre, which should likely turn the whole complex into an even more attractive tourist destination. Nagacity Walk will be operated by China Duty Free Group and company is expecting footfall of 1,000 per day. The MCE Theatre may bode well for future events/forums (e.g. concerts, sporting events etc.) around the region, similar to that of Sands (1928 HK) in its Cotai operation. The big increase in mass market tables and hotel rooms can capture opportunities arising from any of the events to be hosted by the MCE Theatre.

To accommodate the launches of these new properties, NagaCorp raised over US\$155 mn in 2013 through a placement in order to launch various initiatives. This includes a US\$15 mn investment in FBO at the Phnom Penh International Airport (housing its own immigration facility, VIP lounge, food and beverage outlets and other services for VIP customers (ready by end 2016)). It also includes US\$2 mn to upgrade its airport to casino transportation fleet, US\$20 mn to upgrade 150 existing rooms in NagaWorld to a higher standard for VIP customers, as well as US\$5 mn for various promotional campaigns. From the layout, NagaWorld is likely to turn into a VIP-focused venue while the upcoming TSCLK complex should be more for mass market. The company has also had success on bringing in more Chinese customers via cooperation with Chinese outbound travel agents and an independent airline in early 2016, these logistic and upgrade investments should be fruitful when more routine direct flight cities are involved.

A wider range of activities than just gambling bodes well for attracting tourists going forward

One of the major tourist attractions in Cambodia is Angkor Wat, a temple complex and the largest religious monument in the world, with the site measuring 162.6 hectares. It was originally constructed as a Hindu temple of god Vishnu for the Khmer Empire, gradually transforming into a Buddhist temple toward the end of the 12th century. According to the Apsara Authority, Angkor Wat attracted more than 2.1 million visitors in 2015. In fact, the direct flight cooperation with China travel agents launched in January 2016 is a package tour to bring PRC customers from Changsha and Xian to Angkor Wat as well as two nights of compulsory stay in NagaWorld, which has proven to be a success. Meanwhile, the company has plans to introduce three more direct flight cities (Hangzhou, Fujian and Chengdu) in 2016, with flight capacity probably the hurdle to overcome. On a separate note, another HK-listed company, Jimei (1159 HK), announced a framework agreement in March 2016 on building an entertainment resort complex, including property, hotel, golf course, theme park and other entertainment and tourism business in Cambodia. These wider range of activities than just gambling bodes well for attracting tourists going forward.

Unexpected Top-Up Placement

NagaCorp announced an unexpected top-up placement on September 1, 2016. The subscription price was HK\$5 (8.9% discount vs latest closing) with 190 mn shares, raising around US\$120 mn. This is the third placement executed by the company since 2012. Details of the company's funding activities and shareholder structure movement are summarized in the figures below.

Figure 6: Funding activities summary

Date	Method	Shares Involved	Price HK\$	Fund raised HK\$ mn	Purposes
Nov 12	Placing old shares	90 mn	4.43	398.7	
Mar 13	Placings	200 mn	6.05	1,210.0	Various initiatives
May 16	Convertibles	439.1 mn *			NagaCity Walk
Sep 16	Top-Up	190 mn	5.00	950.0	Naga 2 fittings
2017	Convertibles	1,265.8 mn**			TSCLK

* Assuming full conversion

** Assuming Chairman elects CB option and full conversion

Source: Company data, Yuanta Investment Consulting

Figure 7: Shareholder structure-changes analysis

Shareholder	After top-up placement		Full Conversion on City Walk CB		Full Conversion on TSCLK CB *	
	# of shares (m)	%	# of shares (m)	%	# of shares (m)	%
Dr. Chen and his associates	958.95	39.0	1,398.02	48.2	2,663.85	64.0
Other public shareholders	1,501.04	61.0	1,501.04	51.8	1,501.04	36.0
Total	2,459.99	100.0	2,899.06	100.0	4,164.90	100.0

* Assuming Dr. Chen elects to take the TSCLK CB option in full

Source: Company data, Yuanta Investment Consulting

A well-known overhang on NagaCorp is the potential place down of shares by Dr. Chen. The conversion prices (~HK\$1.66) of his CBs (assuming he elects a CB option for the TSCLK complex) are at big discounts to the latest share price, hence the temptation to convert and an eventual place down may look high. We argue that Dr. Chen should be in no rush to do this, mainly as:

- ▶ After the top-up placement on September 1, 2016, Dr. Chen is subject to a lock-up of 90 days;
- ▶ The potential TSCLK CB is of a much bigger size and earnings growth can be explosive on Naga2, hence an imminent place down is definitely premature;
- ▶ The CBs are entitled to dividend payments like ordinary shares. We estimate the yield at around 4.9% (at current 60% payout ratio). It may not be easy for Dr. Chen to find an alternative investment that can generate such a "safe and controllable" return if cashing out.

We admit that the top-up placement, the potential place down of Dr. Chen and NagaCorp's relative frequent activities in the equity market can all be to investors' disliking. Having said that, we believe these should be already priced-in and are not a concern to us.

Earnings projection - growth vs dilution

The earnings growth of the company should be even more promising with the launching of TSCLK Complex in mid-2017

While we have seen good organic growth from NagaWorld in the past couple of years, the earnings growth of the company should be even more promising with the launching of TSCLK Complex in mid-2017. Looking at the plan for Naga2, mass gaming tables will be increased by a hefty 290%, VIP tables should increase by around 20% and EGM machine numbers will likely double. The number of hotel rooms will also rise by 144%. Gaming revenue on these new premises may be difficult to predict, but we believe the latest operating statistics can be used for projection.

Figure 8: Gaming Revenue Projection for 2018 (Naga1 + Naga 2)

US (mn)	No Cannibalization	30% Cannibalization
Public Floor		
Buy-ins (1H16)	305.6	305.6
Avg. number of tables for 1H16	86	86
Buy-ins per table for 1H16	3.553	3.553
Annualized Buy-Ins per table	7.107	7.107
Proj. 2018 buy-in amount per table (on 15% organic growth)	9.399	6.579
Number of tables in 2018 (+Naga2)	337	337
Estimated total 2018 Buy-In amount	3,167.4	2,217.1
Win Rate (avg. of Year 12-1H16)	22.08%	22.08%
Proj. 2018 mass market table revenue	699.4	489.5
VIP		
VIP Rollings (1H16)	4,549.2	4,549.2
Avg. number of tables for 1H16	193	193
Rollings per table for 1H16	23.57	23.57
Annualized Rollings per table	47.14	47.14
Proj. 2018 Rolling amount per table (on 25% organic growth)	73.66	51.56
Number of tables in 2018 (+Naga2)	247	247
Estimated total 2018 Rollings	18,193.9	12,735.3
Win rate (avg. of Year 12-1H16)	2.76%	2.76%
Proj. 2018 VIP revenue	502.1	351.5
EGM		
Bills-in (1H16)	741.8	741.8
Avg. number of machines for 1H16	1,631	1,631
Bills-in per machine for 1H16	0.455	0.455
Annualized Bills-in per machine	0.909	0.909
Proj. 2018 Bills-in per machine (on 10% organic growth)	1.100	0.770
EGM in 2018 (+Naga 2)	2,662	2,662
Estimated total 2018 Bills-in	2,928.2	2,049.7
Win rate (avg. of Year 12-1H16)	10.18%	10.18%
Proj. 2018 EGM Revenue *	208.7	146.1
Proj. 2018 Gaming Revenue	1,410.2	987.1
Estimated EGM Negotiation fee	50	50
Proj 2018 Total Gaming Revenue	1,460	1,037
Increment versus 2015	189%	105%

* 70:30 splitting on EGM operating contracts, with the company getting 70% split

Source: Company data, Yuanta Investment Consulting,

If the new tables and machines can generate as much as the existing ones (i.e. no cannibalization), we estimate a revenue increase of 189%

Our revenue projection in 2018F (for Naga1 + Naga2) is based on 1) the annualized buy-in/rolling/bills-in rates for mass tables/VIP/EGM in 1H16; 2) an organic growth rate (from 2016 to 2018F) on respective segments using historic records; and 3) a 30% cannibalization assumption on the plan enhanced number of tables/EGM. We also included a US\$50 mn EGM negotiation rate in 2018F as well as applying the average win rate (from 2012 to 1H16) on respective segments, to deduce the revenue of the combined complex. Based on this, we project total gaming revenue for 2018F can reach US\$1.037 bn, or 105% above the amount achieved in 2015. For illustration, if the new tables and machines can generate as much as the existing ones (i.e. no cannibalization), we estimate a revenue increase of 189%.

We believe gross and operating margins are likely to suffer a bit at the initial stage of Naga2, especially in 2017F when Naga2 only contributes for half a year. Margins, however, should gradually improve as Naga2 goes into full swing, likely from 2018F onwards. We share the company's view that the Cambodian Government is unlikely to raise the tax rate aggressively, as NagaCorp plays an important role for the country. Under our projections, net profit growth will be static in 2017F (EPS will go down due to dilution, something well known to the market) but will shoot up by ~70% in 2018F (or 89% vs 2015) This should more than offset the dilution effect from the top-up placement and potential conversion of Dr. Chen's CBs, estimated at around 83%.

Figure 9: Assumptions and Projections

	2013A	2014A	2015A	1H16A	2016F	2017F	2018F
Gross Margin (%)	72.1	67.4	65.1	71.7	65.9	62.0	65.1
Adm. Exp./Rev. (%)	13.6	12.7	9.4	8.5	10.0	13.0	12.0
Other Exp./Rev. (%)	16.8	20.4	19.3	19.3	20.0	24.0	22.0
Effective tax rate (%)	3.5	4.1	8.7	2.9	5.0	5.5	6.0
Net Profit (US mn)	140.2	136.1	172.6	125.2	189.9	194.7	327.3
Net Margin (%)	40.7	33.7	34.3	43.4	35.4	24.7	30.1
EBITDA (US mn)	172	176	229	153	247	274	430
EPS basic (US cents)	6.28	5.96	7.60	5.51	8.37	7.92	13.30
EPS diluted (US cents)	6.28	5.96	7.60	5.26	7.28	5.51	7.86

Source: Company data, Yuanta Investment Consulting,

Investment Project in Vladivostok, Russia

The Group entered into an agreement in 2013 to make an investment of not less than US\$350 mn in a gaming and resort development project in Russia under the name 'Primorsky Entertainment Resort City', situated on an area with dual frontage and majestic views of the sea, an inland lake, and flanked by two hills. The project is not expected to be operational before 2018 and hence we have not built any revenue contribution into our model. It is noteworthy that the Russian operation Tigre de Cristal by peer Summit Ascent (102 HK) achieved an adjusted EBITDA of HK\$35.2 mn in its first six months of operation (1H16), and thus we believe this project can act as a further re-rating catalyst post 2018.

1H16 results recap

Helped by a 15% increase in mass market gross gaming revenue (GGR), a 26% increase in VIP Rollings as well as an EGM negotiation fee of US\$60 mn (US\$40 mn in 1H15), NagaCorp reported net profit of US\$125.2 mn in 1H16, indicating YoY growth of 24%. One of the main reasons for the jump in revenue was due to the increase in Chinese customers, after the company's collaboration with Chinese outbound travel agents and an independent airline (Chinese International Travel Service and Bassaka). The collaboration brings in Chinese customers directly from two cities (Changsha and Xian) in China on flights scheduled three times a week, starting in January 2016. This also explains the 14% YoY increase in non-gaming revenue during the period.

The EGM negotiation fee refers to an amount received by the company from certain investors for the placement and operation of EGM in NagaWorld. The company's accounting practice is to take this negotiation fee upfront, instead of amortizing it throughout the operating period of the investors. During the analyst meeting, mgmt further explained that they foresee a similar revenue stream for its planned new properties (i.e. Naga 2) to recur annually over the next few years.

Luck is not with the company in terms of 1H16 results, with win-rates falling YoY in all three segments, mass market table, EGM and VIP. The mass market table segment's win rate is down 21.3% to 20.3%, EGM's is down 10.7% to 8.5% and VIP's is down 3.0% to 2.5%. To illustrate the impact on the win-rate, the company estimates that using the luck-adjusted theoretical win-rate of 2.85%, gross revenue for the VIP segment alone would jump from a 4% increase to a 26% increase YoY in 1H16 (or an additional US\$27 mn). We share management's view that not much can be done on the luck factor and emphasis should be put on the growth of VIP Rollings and mass market buy-ins, where the company did well in the period. For EGM, mgmt explained that the win-rate decline is due to outsourced operators enhancing the payout rate to attract traffic, but the payout-rate should eventually be normalized going forward.

Comparison with Macau Peers

On an EV/EBITDA basis, NagaCorp has been trading at a 40–50% discount to its Macau peers, despite operating in the same gaming business with similar business models. This discount gap was somewhat justified a few years ago when Chinese VIP customers were fueling strong Macau GGR growth as well as the expansion profile of those Macau gaming operators. The Naga2 expansion as well as the consistent growth of gaming revenue means this valuation gap should in fact deserve to narrow, in our view.

Figure 10: Comparison between NagaCorp and Macau operators

Particulars	NagaCorp	Macau Operators
License	A 70-year casino license till 2065 and a 41-year monopoly expiring in 2035.	Existing concession and sub-concession holders contracts expire on various dates between 2020 and 2022.
Competition	Monopoly	High, with leader's market share less than 20%
Number of Tables and EGMs	No Restrictions on number of tables, EGM and gaming space	Needs government approval
Table Games	Baccarat, Blackjack, Roulette, Texas Hold'em etc.	Majority for Baccarat, all other game types also available
Betting Currency	USD	HKD/MOP
Minimum Bet (Public Floor, Baccarat)	US 40	A few HK\$300 tables, HK\$800 the norm
VIP Classification	Depending on junket arrangement, for direct VIP, around US 4K to 5K	Varies, but buy-ins likely to be over HK\$1 mn
Smoking Ban	Law passed but yet to implement	Yes
Major source of customers	Malaysia/Singapore/Vietnam/Thailand/ China	HK/China
Gaming revenue (2013-15)	2-year CAGR of ~20%	Macau GGR fell 36%

Source: Company data, Yuanta Investment Consulting,

Valuation and recommendation

The market has de-rated NagaCorp from a peak EV/EBITDA valuation of 12.4x in 2013 to a ratio of only 5.9x in 2015, very much in-line with the de-rating of Macau stocks (China Galaxy (27 HK) and Sands (1928 HK) from around 23x EV/EBITDA in 2013 to around 14x in 2015). We believe a market re-rating for NagaCorp is likely in coming years due to 1) an improving perception on Macau gaming stocks with Macau's GGR finally turning positive in August 2016, after 26 consecutive months of decline; 2) its earnings growth potential to be stimulated by Naga2 when it reaches full swing in 2018F and onwards and which sentiment on gaming stocks may further improve; and 3) the company's Russian investment, which is likely to bear fruit.

Using 8x our EV/EBITDA valuation on NagaCorp's 2018F numbers, which is a 10% discount to the average EV/EBITDA of the company for 2012 to 2015, we derive a TP of HK\$7.3 after accounting for the dilution of Dr. Chen's CBs. We estimated that the yield is at 4.9% for FY2017, assuming the payout ratio remains at 60%. Our target price represents a 38% upside from the last traded price. Our revenue/EBITDA/net profit projection on NagaCorp is 31%/34%/41%, respectively, in 2018F, above that of market consensus and we believe the market has yet to price in the potential earnings growth driver of Naga2. We initiate coverage of NagaCorp with a BUY rating.

Figure 11(a): Peer valuation comparison (as of Sep 16, 2016)

Company	Ticker	Rating	Price	Mkt Cap (US\$ mn)	EPS			PER (x)			EPS growth (%)		
					2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F
NagaCorp	3918 HK	Buy	HK\$5.19	1,645.6	0.07	0.06	0.08	9.2	12.2	8.5	(4.2)	(24.3)	42.5
Global peers													
Melco Crown	MPEL US	NR	US 15.79	7,768.2	0.07	0.05	0.03	49.3	40.8	29.9	N/A	(29.9)	(48.0)
Genting Malaysia	GENM MK	NR	MYR 4.37	5,981.4	0.24	0.28	0.33	18.4	15.7	13.5	7.2	17.0	18.3
Genting Singapore	GENS SP	NR	SGD 0.735	6,454.6	0.02	0.03	0.03	38.7	24.5	21.0	185.3	70.8	16.3
Kangwon Land	035250 KS	NR	KRW 38450	7,291.9	2.415k	2.651k	2.929k	15.9	14.5	13.1	10.9	9.8	10.5
Global Average								30.5	23.8	19.4			
Local peers													
Sands China Ltd	1928 HK	NR	HK\$35.95	37,392.9	1.213	1.397	1.552	29.1	25.7	23.2	(13.6)	15.1	11.1
Galaxy Ent.	27 HK	NR	HK\$30.15	16,588.5	1.238	1.212	1.291	24.3	24.7	23.4	26.6	(2.1)	6.5
Wynn	1128 HK	NR	HK\$ 14.02	9,388.2	0.400	0.594	0.719	33.5	23.3	19.3	(13.1)	48.7	21.0
MGM China	2282 HK	NR	HK\$13.60	6,660.8	0.597	0.450	0.724	22.3	28.6	18.2	(27.2)	(24.6)	60.7
Melco Int'l	200 HK	NR	HK\$ 10.68	2,129.0	0.145	0.216	0.325	66.3	41.6	28.9	106.5	49.5	50.4
SJM Holdings	880 HK	NR	HK\$ 5.76	4,199.8	0.338	0.185	0.228	16.8	28.7	22.9	(22.5)	(45.2)	22.9
Macau Legend	1680 HK	NR	HK\$ 1.20	973.5	(0.041)	(0.019)	0.016	N/A	N/A	600.0	2.4	54.5	N/A
Summit Ascent	102 HK	NR	HK\$2.90	555.3	0.047	0.115	0.270	59.2	24.2	15.9	N/A	144.7	134.8
Imperial Pac.	1076 HK	NR	HK\$0.14	2,537.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Local Average								35.9	28.1	21.7			

Source: Company data, Yuanta Investment Consulting, Bloomberg

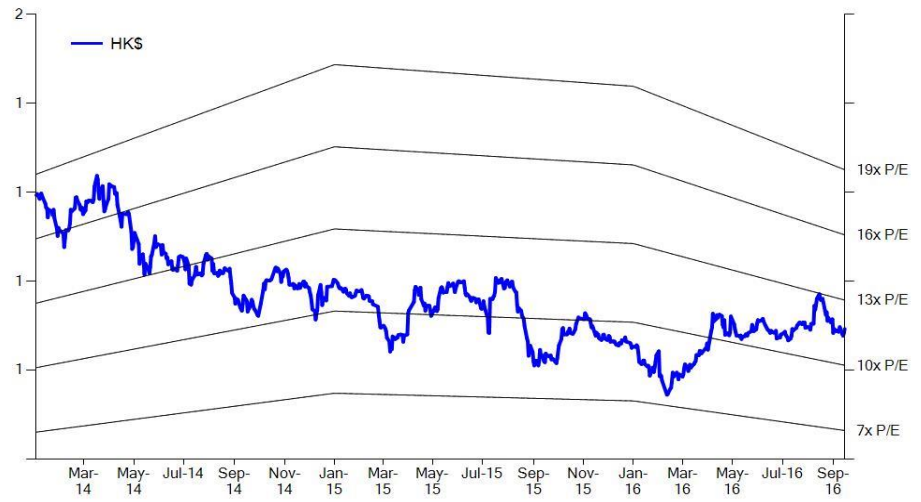
Notes: EPS figures are denominated in local currency, 2018 Local Average on PER exclude Macau Legend

Figure 11(b): Peer valuation comparison (continued) (as of Sep 16, 2016)

Company	Ticker	Rating	Price	Mkt Cap (US\$ mn)	ROE (%)			EV/EBITDA			PBR (x)		
					2016F	2017F	2018F	2016F	2017F	2018F	2016F	2017F	2018F
NagaCorp	3918 HK	Buy	HK\$5.19	1,645.6	19.3	14.8	22.2	5.5	7.4	5.4	1.8	1.8	1.9
Global peers													
Melco Crown	MPEL US	NR	US 15.79	7,768.2	N/A	N/A	N/A	12.3	11.4	10.3	2.2	2.1	2.0
Genting Malaysia	GENM MK	NR	MYR 4.37	5,981.4	6.9	7.8	8.7	9.8	8.4	7.3	1.3	1.2	1.1
Genting Singapore	GENS SP	NR	SGD 0.735	6,454.6	2.5	4.2	4.8	10.3	8.7	8.2	1.0	1.0	1.0
Kangwon Land	035250 KS	NR	KRW 38450	7,291.9	16.3	16.4	16.5	8.9	8.2	7.5	2.5	2.3	2.1
Global Average					8.6	9.5	10.0	10.3	9.2	8.3	1.8	1.7	1.6
Local peers													
Sands China Ltd	1928 HK	NR	HK\$35.95	37,392.9	23.4	30.1	35.6	20.1	17.9	17.0	7.3	8.0	8.6
Galaxy Ent.	27 HK	NR	HK\$30.15	16,588.5	12.1	11.3	11.3	12.9	12.9	12.4	2.9	2.7	2.5
Wynn	1128 HK	NR	HK\$ 14.02	9,388.2	52.7	70.8	73.3	19.3	14.4	13.5	18.6	14.7	12.1
MGM China	2282 HK	NR	HK\$13.60	6,660.8	39.5	25.2	32.0	16.7	13.9	10.7	8.4	6.9	5.6
Melco Int'l	200 HK	NR	HK\$ 10.68	2,129.0	1.5	3.6	3.9	827.5	438.7	419.6	1.3	1.3	1.2
SJM Holdings	880 HK	NR	HK\$ 5.76	4,199.8	7.9	4.6	5.1	6.4	7.1	5.0	1.4	1.4	1.3
Macau Legend	1680 HK	NR	HK\$ 1.20	973.5	(3.5)	(2.2)	0.6	37.7	22.4	12.8	1.1	1.2	1.2
Summit Ascent	102 HK	NR	HK\$2.90	555.3	6.0	12.0	15.7	66.9	30.6	27.7	3.1	2.7	2.3
Imperial Pac.	1076 HK	NR	HK\$0.14	2,537.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Local Average					17.5	19.4	22.2	25.7	17.0	14.2	5.5	4.9	4.4

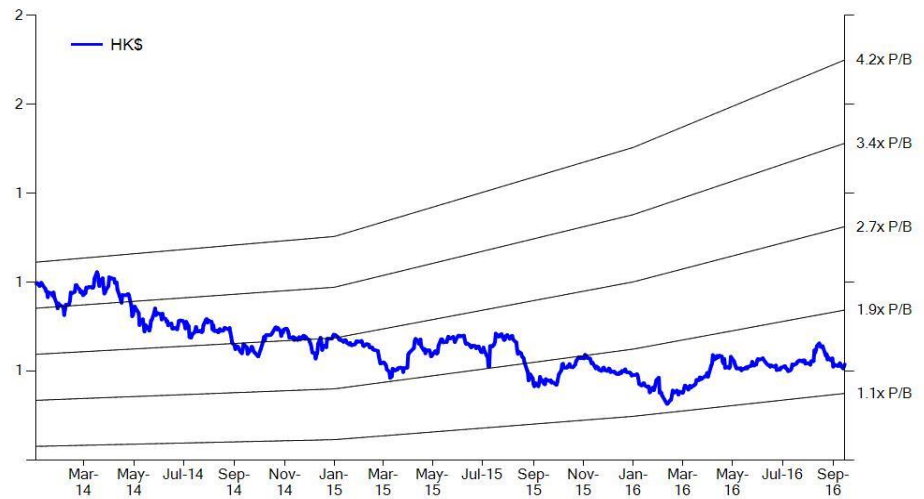
Source: Company data, Yuanta Investment Consulting, Bloomberg, Local Average on EV/EBITDA exclude Melco

Figure 12: 12-month forward looking P/E band



Source: Company data, Yuanta Investment Consulting

Figure 13: 12-month forward looking P/B band



Source: Company data, Yuanta Investment Consulting

Balance Sheet

Year as of Dec (US\$ mn)	2014A	2015A	2016F	2017F	2018F
Cash & ST investment	204	143	297	322	455
Inventories	1	1	1	2	3
Accounts receivable	29	46	49	72	99
Others	0	0	0	0	0
Current assets	234	190	347	396	557
LT investments	0	7	8	9	9
Net fixed assets	337	407	555	860	879
Others	89	119	115	112	108
Other assets	426	533	679	980	996
Total assets	661	723	1,025	1,376	1,553
Accounts payable	35	35	37	54	75
ST borrowings	0	0	0	0	0
Others	0	2	4	2	2
Current liabilities	35	36	41	56	77
Long-term debts	0	0	0	0	0
Others	0	0	0	0	0
Long-term liabilities	0	0	0	0	0
Total liabilities	35	36	41	56	77
Paid-in capital	29	28	31	31	31
Capital surplus	0	0	0	0	0
Retained earnings	606	658	860	924	1,080
Capital adjustment	(9)	0	94	365	365
Shareholders' equity	626	687	985	1,320	1,476

Source: Company data, Yuanta Investment Consulting

Cash Flow

Year to Dec (US\$ mn)	2014A	2015A	2016F	2017F	2018F
Net profit	136	173	190	195	327
Depr & amortization	34	40	49	70	85
Change in working	(12)	(16)	(1)	(6)	(7)
Others	0	0	0	(5)	(4)
Operating cash flow	158	196	238	254	401
Capex	(97)	(140)	(100)	(100)	(100)
Change in LT inv.	(25)	17	0	0	0
Change in other	1	1	1	2	3
Investment cash flow	(121)	(122)	(99)	(98)	(97)
Change in share	(9)	0	120	0	0
Net change in debt	0	0	0	0	0
Other adjustments	(102)	(109)	(106)	(130)	(171)
Financing cash flow	(111)	(109)	(106)	(130)	(171)
Net cash flow	(74)	(35)	34	26	133
Free cash flow	37	74	139	156	304

Source: Company data, Yuanta Investment Consulting

Profit and Loss

Year to Dec (US\$ mn)	2014A	2015A	2016F	2017F	2018F
Sales	404	504	537	788	1,087
Cost of goods sold	(132)	(176)	(183)	(300)	(380)
Gross profit	273	328	354	488	707
Operating expenses	(134)	(144)	(161)	(291)	(370)
Operating profit	141	187	198	204	345
Interest income	1	2	2	2	3
Interest expense	N.A.	N.A.	N.A.	N.A.	N.A.
Net interest	1	2	2	2	3
Net Invst.Inc/(loss)	N.A.	0	0	0	0
Net oth non-op.Inc/(loss)	0	0	0	0	0
Net extraordinaries	N.A.	0	0	0	0
Pretax income	142	189	200	206	348
Income taxes	(6)	(16)	(10)	(11)	(21)
Net profit *	136	173	190	195	327
EBITDA	175	227	247	274	430
EPS (US\$)	0.06	0.08	0.07	0.06	0.08
EPS (US\$) Bonus Adj.	0.06	0.08	0.07	0.06	0.08

Source: Company data, Yuanta Investment Consulting

* Net profit attributable to the equity holders

Key Ratios

Year to Dec	2014A	2015A	2016F	2017F	2018F
Growth (% YoY)					
Sales	N.A.	24.6	6.5	46.8	38.0
Op profit	N.A.	33.0	5.7	2.8	69.4
EBITDA	N.A.	30.0	9.0	10.6	57.2
Net profit	N.A.	26.8	10.0	2.5	68.1
EPS	N.A.	27.50	(4.24)	(24.28)	42.51
Profitability (%)					
Gross margin	67.4	65.1	65.9	62.0	65.1
Operating margin	34.8	37.2	36.9	25.9	31.7
EBITDA margin	43.2	45.0	46.1	34.7	39.5
Net profit margin	33.7	34.3	35.4	24.7	30.1
ROA	41.2	25.0	21.7	16.2	22.3
ROE	21.8	25.1	19.3	14.8	22.2
Stability					
Gross debt/equity (%)	0.0	0.0	0.0	0.0	0.0
Net cash (debt)/equity (%)	28.5	20.8	30.1	24.4	30.8
Int. coverage (X)	N.A.	N.A.	N.A.	N.A.	N.A.
Int. & ST debt cover (X)	N.A.	N.A.	N.A.	N.A.	N.A.
Cash flow int. cover (X)	N.A.	N.A.	N.A.	N.A.	N.A.
Cash flow/int. & ST debt (X)	N.A.	N.A.	N.A.	N.A.	N.A.
Current ratio (X)	6.7	5.2	8.5	7.0	7.2
Quick ratio (X)	6.6	5.2	8.5	7.0	7.2
Net debt (US\$ mn)	(204)	(143)	(297)	(322)	(455)
BVPS (US\$)	0.27	0.30	0.40	0.54	0.60
Valuation Metrics (x)					
P/E	11.4	8.9	9.3	12.3	8.7
P/FCF	42.3	20.9	12.7	15.4	9.3
P/B	2.5	2.2	1.8	1.8	1.9
P/EBITDA	8.9	6.8	7.2	8.8	6.6
P/S	3.8	3.1	3.3	3.0	2.6

Source: Company data, Yuanta Investment Consulting

Appendix A: Important Disclosures

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NagaCorp (3918 HK) – Three-year recommendation and target price history



NO DATA

Source: Bloomberg, Yuanta Investment Consulting

Notes: A = price adjusted for stock & cash dividends; B = unadjusted target price; C = target price adjusted for stock & cash dividends. Employee bonus dilution is not reflected in A, B or C.

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Source: Yuanta Investment Consulting

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