

Company Report

China Merchants Securities (HK) Co., Ltd.
Hong Kong Equity Research

NagaCorp (3918 HK)

FY16 in line; Naga2 to open on schedule in 3Q17E

■ FY16 EBITDA/NP of US\$256/184mn (+12%/+7% YoY) came in line with market estimates, on 6% revenue growth. Solid margin expansion at EBITDA level partially offset by increased D&A and tax

■ Final DPS of US\$0.0082, implying 1.3% yield. FY16 total DPS at 60% payout ratio, same as FY15 and mgmt. guidance

■ Naga2 on schedule to open in 3Q17E, and additional flights to China will further boost its daily traffic. Stock is trading at 13x FY17E P/E and 9x EV/EBITDA on consensus estimates

2H16 no surprise, no excitement. Waiting for Naga2

After a strong 10% YoY revenue growth in 1H16, Naga1's top-line growth decelerated to 1% in 2H16 due to 1) absence of EGM upfront fee, 2) weakened rolling on currency weakness of emerging countries against USD, and 3) low EGM win-rate due to the shift in gaming mix. However, lower junket commissions (67% in 2H16 vs. 77%/69% in 2H15/1H16) and tight opex control resulted in 8% 2H16 EBITDA growth YoY. Substantial tax hike to US\$20mn in 2H16 from US\$4mn in 1H16 might have been a small surprise, but the tax is likely to be at c.5% of GGR in the coming years. As a result, 2H16 net profit decreased 18% YoY to US\$59mn.

Guidance remains optimistic

1) Since Chinese New Year of 2017, CITS-Bassaka Air started covering third city in China, Hangzhou, following Xi'an and Changsha. Gaming conversion ratio for Hangzhou clients is better than Xi'an and Changsha, so possibly benefiting FY17E GGR. 2) Naga will add two more China destinations (Chengdu and one more) in 2H17E. 3) Daily footprint improved from 5,000 to 6,500 after NagaCity Walk opened. China Duty Free turned profitable since Dec 2016. 4) Naga2 is on schedule to open in mid-2017E. 5) Naga will work together with the Ministry of Tourism of Cambodia to set up office in China to promote Cambodia.

Valuation

Based on consensus, NagaCorp is expected to record 23% CAGR in EBITDA during FY16-18E, and is currently trading at 13x FY17E P/E and 9x EV/EBITDA, 32-43% discount to Macau gaming peers.

Financials

US\$ mn	FY12	FY13	FY14	FY15	FY16
Revenue	279	345	404	504	532
Net profit	113	140	136	173	184
Growth (%)	22.9%	24.0%	-3.0%	26.8%	6.7%
Diluted EPS (HK\$)	0.42	0.49	0.46	0.59	0.55
DPS (US\$)	0.30	0.33	0.32	0.35	0.28
P/E (full dilution) (x)	11.2x	9.7x	10.2x	8.0x	8.7x
EV/EBITDA (x)	8.7x	6.5x	6.9x	5.4x	5.4x
Dividend yield (%)	6.3%	7.1%	6.9%	7.5%	5.9%
ROE (%)	28.2%	23.4%	21.8%	25.1%	14.7%

Sources: Company data, CMS (HK) estimates

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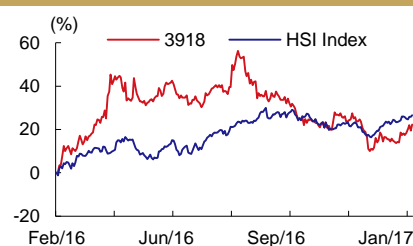
WHAT'S NEW

N.A.

NON RATED

Previous	NON RATED
Price	HK\$4.72
12-month Target Price (Potential up/downside)	N.A.
Previous	N.A.

Price Performance



Source: Bigdata

%	1m	6m	12m
3918 HK	3.1	(12.4)	10.8
HSI	4.4	4.4	21.8

Industry: Macau Gaming

Hang Seng Index	23,485
HSCEI	9,955

Key Data

52-week range (HK\$)	3.81 / 6.14
Market cap (US\$ mn)	1,498
Avg. daily volume (mn shares)	3.5
BVPS (HK\$)	4.15

Shareholdings Structure (after CB conversion)

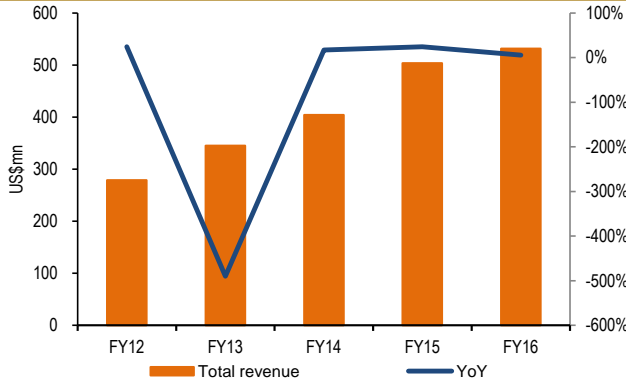
Tan Sri Dr Chen	65%
No. of shrs outstanding (shr)	4,341mn
Others	35%

Related Research

1. Macau Gaming – Strong CNY arrivals partially offset worries from weak Jan (NEUTRAL) 2017/02/01
2. Wynn Macau (1128 HK) – 4Q16 beat; Cotai margin reached 20% in Jan (BUY) 2017/01/27

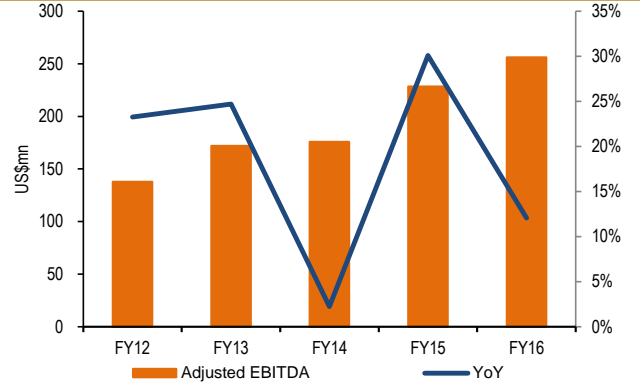
Focus charts

Figure 1: Revenue



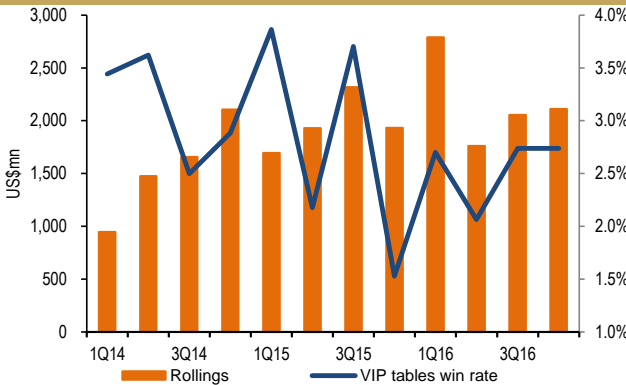
Sources: Company data, CMS (HK) estimates

Figure 2: Adjusted EBITDA



Sources: Company data, CMS (HK) estimates

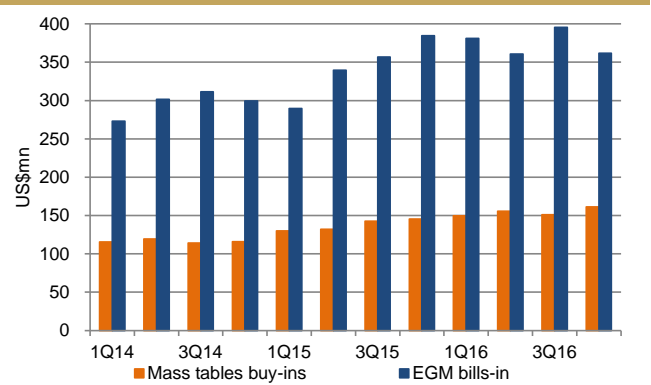
Figure 3: Quarterly rolling



Sources: Company data, CMS (HK) estimates

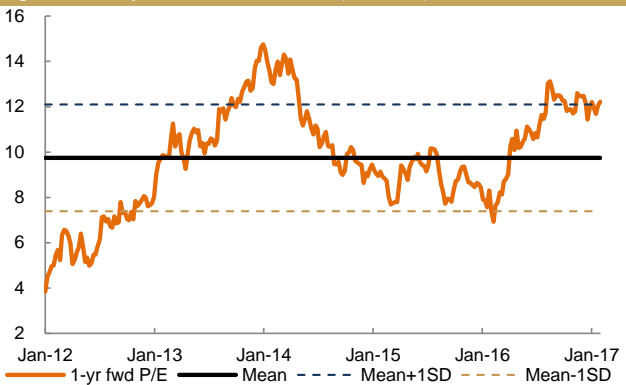
Note: 3Q/4Q16 win rate is estimated to be same as 2H16

Figure 4: Quarterly mass table and EGM



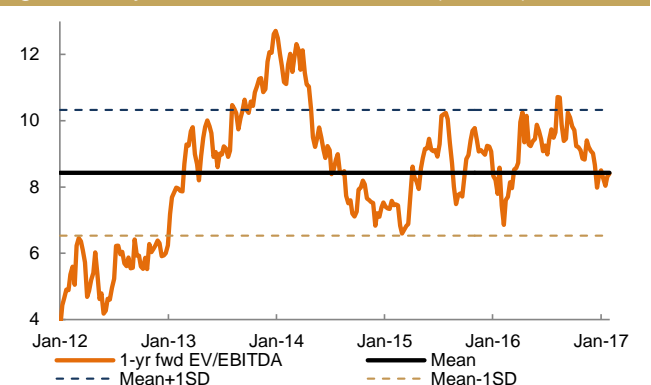
Sources: Company data, CMS (HK) estimates

Figure 5: 1-year forward P/E (diluted)



Sources: Company data, Bloomberg, CMS (HK) estimates

Figure 6: 1-year forward EV/EBITDA (diluted)



Sources: Company data, Bloomberg, CMS (HK) estimates

Other takeaways

Increasing visitation to Cambodia. Total visitation to Cambodia increased 5% YoY to 5mn in 2016. Number of Chinese visitors grew 20% YoY to 0.8mn, accounting for 17% of total visitors.

Partnership with the Ministry of Tourism Cambodia (“MOT”). Naga Travel Limited, a wholly owned subsidiary of NagaWorld has been chosen to partner with MOT to promote Chinese visitation to Cambodia. They will jointly open representative offices in China to 1) launch promotion activities and 2) issue Cambodian visas. MOT targets to increase tourism to 7mn by 2020, of which 2mn from China. With the support from MOT, NagaCorp could better penetrate into China market and attract more Chinese players to its casinos.

Currently 13 junkets to promote VIP business. 1) 50% of the rooms are filled by VIP players; 2) VIP players normally stay 2-3 nights; and 3) VIP win rate was better in 4Q16 than 3Q16.

Operational data

US\$m	2H15	1H16	2H16	YoY	HoH	Comment
Casino operations - gaming tables	180	174	182	1%	5%	Slowed growth in both VIP and mass
Casino operations - electronic gaming	49	104	42	-14%	-59%	Low win rate YoY and no upfront fee
Non-gaming	13	11	19	48%	70%	NagaCity Walk started contributing
Total revenue	242	288	243	0%	-16%	
Cost of sales	(97)	(82)	(83)	-15%	2%	
Gross profit	145	207	160	11%	-23%	Less junket commission rate
<i>Gross margin</i>	60%	72%	66%			
Staff costs	(26)	(33)	(31)	18%	-5%	
Operating lease charges	(3)	(3)	(3)	18%	9%	
Depreciation and amortisation	(21)	(24)	(24)	17%	2%	
Other operating expenses	(20)	(19)	(21)	6%	13%	
Operating profit	75	129	81	7%	-37%	
<i>Operating margin</i>	31%	45%	33%			
EBITDA	96	153	103	8%	-32%	Operating leverage
<i>EBITDA margin</i>	40%	53%	43%			
Non-operating items	(0)	-	(1)			
Income tax expense	(3)	(4)	(20)	484%	441%	Increased as guided
Non-controlling interest	-	-	-			
Net profit	72	125	59	-18%	-53%	
<i>Net margin</i>	30%	43%	24%			
Gaming related data						
VIP gaming						
Rolling chip volume	4,251	4,549	4,165	-2%	-8%	Weakened HoH due to strong USD
<i>VIP win rate</i>	2.7%	2.5%	2.7%			
VIP GGR	115	112	114	-1%	2%	
VIP gross profit	27	35	37	40%	7%	Less junket commission rate
Mass tables gaming						
Mass table buy-ins	288	306	312	8%	2%	
<i>Mass table win rate</i>	22.5%	20.3%	21.7%			
Mass table GGR	65	62	68	4%	9%	
Electronic gaming machines						
EGM bills-in	741	742	757	2%	2%	
<i>EGM win rate</i>	9.0%	8.5%	7.9%			Low win rate due to shift in game mix
EGM GGR (exclude upfront fee)	49	44	42	-14%	-3%	
EGM upfront fee	-	60	-			
EGM GGR (include upfront fee)	49	104	42	-14%	-59%	

Sources: Company data, CMS (HK) estimates

NagaCorp's pipeline projects

	NagaWorld 1	NagaCity Walk	Naga2	Primorsky Entertainment Resort	City
Opening time	Oct 2003	Aug 2016	3Q17E		2019E
Gross land area	16,675sqm	9,519sqm	7,766sqm		210,000sqm
Gross floor area	113,307sqm	10,024sqm	110,105sqm		TBC
Hotel rooms	713	-	1,019		1,000
Retail space	381sqm	3,800sqm	3,900sqm		TBC
Tables	210 VIP 87 mass	-	200-300		100
Slot machines	1,648	-	500		500
Project budget	Completed	Completed	US\$275mn		US\$350mn

Source: Company data

Peer valuation table

Company	Ticker	Rating	Target Px (lcl crncy)	Current Px (lcl crncy)	+/- side	Mkt Cap (US\$ mn)	52-Wk Price (lcl crncy)	Avg T/O (US\$mnn)	P/E (x)		
									FY16E	FY17E	FY18E
NagaCorp*	3918 HK	NON RATED	n.a.	4.72	n.a.	1,498	3.81 / 6.14	2.1	8.7	12.7	10.0
Peers											
Macau Legend*	1680 HK	NON RATED	n.a.	1.50	n.a.	1,213	0.89 / 1.79	3.2	n.a.	n.a.	60.0
Summit Ascent	102 HK	BUY	2.80	2.24	25%	430	1.34 / 3.19	1.6	45.7	22.1	21.6
Galaxy	27 HK	BUY	39.00	34.15	14%	18,826	21.80 / 39.20	74.5	23.5	20.5	19.7
SJM	880 HK	NEUTRAL	5.30	5.93	-11%	4,329	4.40 / 6.79	10.9	15.6	20.3	18.6
Wynn Macau	1128 HK	BUY	18.00	13.52	33%	9,064	7.05 / 14.90	26.0	45.5	25.5	22.2
Sands China	1928 HK	BUY	41.10	31.60	30%	32,909	23.70 / 39.30	81.0	22.4	19.1	17.6
MGM China	2282 HK	NEUTRAL	14.70	14.34	3%	7,031	8.50 / 17.62	12.3	20.5	22.8	12.9
Melco Crown	MPEL US	BUY	24.40	16.69	46%	8,211	10.70 / 18.51	75.9	44.4	38.4	22.6
Simple Avg									31.1	24.1	24.4
Mkt Cap Avg									26.7	22.2	19.4

Company	Ticker	EV/EBITDA (x)			ROE (%)			Dividends Yield (%)			Net Debt/Equity (%)		
		FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
NagaCorp*	3918 HK	5.4	8.9	6.0	14.7	18.4	24.6	5.9	4.1	5.9	NetCash	NetCash	NetCash
Peers													
Macau Legend*	1680 HK	73.3	27.5	18.0	(3.5)	(1.3)	1.1	-	-	-	33.7	69.0	97.1
Summit Ascent	102 HK	19.6	10.7	12.5	5.0	9.4	8.8	-	-	-	(18.8)	(16.9)	44.1
Galaxy	27 HK	13.0	11.1	10.4	13.6	14.1	13.3	1.3	1.5	1.5	(24.5)	(32.3)	(38.9)
SJM	880 HK	7.7	10.8	11.2	8.8	6.6	7.0	3.2	2.5	2.7	(26.8)	(19.7)	(18.7)
Wynn Macau	1128 HK	18.7	14.5	12.7	60.9	140.4	157.5	3.0	4.4	4.4	1,236.5	1,509.1	1,349.8
Sands China	1928 HK	16.8	14.2	13.2	28.0	35.3	39.9	6.3	6.3	6.3	66.9	73.7	68.5
MGM China	2282 HK	15.3	12.5	9.3	39.3	29.1	37.6	1.7	1.5	2.7	150.7	127.8	66.2
Melco Crown	MPEL US	12.5	11.1	9.4	5.7	7.8	12.3	8.9	2.2	2.2	99.7	133.0	107.4
Simple Avg		22.1	14.0	12.1	19.2	28.9	33.6	4.3	3.2	3.7			
Mkt Cap Avg		15.9	13.1	11.8	25.5	36.6	41.4	4.4	3.8	4.0			

Note: * are based on market estimates from Bloomberg

Sources: Company data, Bloomberg, CMS (HK) estimates

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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