

Company Note

Hong Kong

ADD (no change)

Consensus ratings*: Buy 5 Hold 2 Sell 0

Current price:	HK\$4.33
Target price:	HK\$5.07
Previous target:	HK\$4.78
Up/downside:	17.0%
CIMB / Consensus:	10.2%
Reuters:	3918.HK
Bloomberg:	3918 HK
Market cap:	US\$1,363m
	HK\$10,652m
Average daily turnover:	US\$2.73m
	HK\$21.29m
Current shares o/s:	2,460m
Free float:	61.0%

*Source: Bloomberg

Key changes in this note

- FY17F EPS increased by 15%.
- FY18F EPS increased by 36%.
- FY19F EPS increased by 54%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.7	-3.1	-13.9
Relative (%)	12.7	-8.2	-37.9

Major shareholders

	% held
Fourth Star Finance	32.1
Cambodia Development Corp	6.6
Franklin Resources	3.0

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NagaCorp Ltd

1H17: VIP strength

- 1H17 net profit was higher than expected at 74% of our full-year forecast.
- Naga's earnings strength in 1H17 was driven mainly by VIP segment through increased tourism to Cambodia and higher junket minimum bets.
- We expect Naga2 to soft open in Oct 2017F.
- Maintain Add but raise our target price to HK\$5.07, still based on 8x FY17 EV/EBITDA.

1H17 net profit higher than expected

1H17 net profit reached US\$150.6m (+20% yoy), higher than our expectation and Bloomberg consensus, at 74% of our full-year forecast. The earnings beat mainly came from better-than-expected revenue growth for the VIP segment, which increased by 89% yoy on the back of a 71% yoy increase in rollings, along with a 20bp increase yoy in the win rate to 2.7%. Due to VIP strength, overall gross gaming revenue (GGR) increased by 40% yoy to US\$387m in 1H17. The dividend payout ratio was maintained at 60%.

VIP and mass revenue stronger than expected

2Q17 VIP rollings increased by 129% yoy and 8% qoq, main gaming floor mass buy-ins grew by 32% yoy and 22% qoq and electronic game bill-ins rose by 21% yoy and 4% qoq. 1H17 VIP rolling yoy growth rate of 71% was higher than our original forecast of 15%, mass buy-ins 1H17 yoy growth rate of 23% was higher than our initial estimate of 16% but electronic gaming bill-ins yoy growth of 15% was lower than our original forecast of 22% growth.

Gross margin contraction in 1H17 as expected

Overall gross margin narrowed to 60% in 1H17, down 12% pts. on a yoy basis. The margin contraction in 1H17 was due to a greater proportion of revenue coming from the lower-margin VIP segment. 1H17 VIP margins were 27% vs. mass at 98% due to the presence of junket commissions in VIP. As a percentage of revenue, VIP jumped to 52% in 1H17 vs. 39% 1H16. The lower margin is expected due to VIP strength. Stronger turnover growth in 1H17 likely outweighs margin dilution from an investor perspective.

Tourism driving revenue growth

We believe the main reason for the growth in 1H17 turnover is the 36% yoy increase in Chinese visitors to Cambodia YTD (Jan-May 2017). The growth in Chinese visitors outpaced the 13% overall growth in Cambodian in-bound visitation. As a group, Chinese visitors comprised 19% of total tourist arrivals in Jan-May 2017 vs. 18% in 2016. Junkets are also requesting higher per bet limits, driving VIP turnover. The junket feedback for the Naga2 complex (opening in Oct) is positive, which should drive VIP momentum in 2H17F.

Unanswered questions

Management indicated that a new Cambodia gaming regulation that includes an updated tax regime may be announced at the end of the year or early next year. There was no management commentary on the convertible bonds. Management noted that the company's Vladivostok gaming property is scheduled to open in 2019F but we find this guidance aggressive.

Raise EPS estimates

We raise our EPS forecasts by 15-54% for FY17-19F on a fully diluted basis mainly due to our 5% increase in public floor buy-in estimates and 44-81% increase in VIP rollings. Our target price is still based on 8x FY17 EV/EBITDA (at a 33% discount to the historical Macau gaming sector average). Naga's forward EV/EBITDA of 3.5x (based on Bloomberg consensus estimates) is currently trading at a 73% discount to Macau's gaming sector average. A downside risk to our call is slower-than-expected earnings.

Financial Summary

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (US\$m)	504	532	722	1,027	1,275
Operating EBITDA (US\$m)	228.8	257.6	312.6	441.4	518.8
Net Profit (US\$m)	172.6	184.2	236.3	338.6	409.0
Core EPS (US\$)	0.076	0.080	0.054	0.078	0.094
Core EPS Growth	25.9%	5.5%	(31.9%)	43.3%	20.8%
FD Core P/E (x)	12.35	12.32	10.18	7.11	5.88
DPS (US\$)	0.046	0.047	0.033	0.047	0.057
Dividend Yield	8.2%	8.5%	5.9%	8.4%	10.2%
EV/EBITDA (x)	4.89	4.13	5.81	2.88	1.27
P/FCFE (x)	28.86	34.41	18.42	8.22	5.76
Net Gearing	(20.8%)	(16.9%)	(34.2%)	(49.1%)	(60.1%)
P/BV (x)	1.83	1.03	1.39	1.04	0.83
ROE	26.3%	19.0%	15.9%	16.8%	15.7%
% Change In Core EPS Estimates			15.3%	35.7%	53.9%
CIMB/consensus EPS (x)			1.21	1.32	1.45

SOURCE: COMPANY DATA, CIMB FORECASTS

1H17: VIP strength

Changes to forecasts

Increase turnover forecasts ▶

Due to better-than-expected 1H17 performance in both VIP and mass, we increase our FY17-19F VIP turnover forecasts for Naga by 44-81%. We increase our public floor buy-in estimates by 5% for FY17-19F. We expect the general growth in Chinese tourism to Cambodia to help both VIP and mass.

We expect VIP strength to continue as junket feedback to Naga2 has been positive. Furthermore, we believe Naga will be a beneficiary of the overall recovery in the Asian VIP segment, as higher-spending players (resulting in higher table yields) are returning. Management indicated that it is constantly hosting Macau junkets for property tours at Naga.

Figure 1: Estimate changes US\$ m

US\$ m	2017F			2018F			2019F		
	Old	New	% change	Old	New	% change	Old	New	% change
Public floor buy-ins	717	754	5.2%	1003	1,055	5.2%	1,154	1,213	5.2%
win rate	21.0%	20.0%	-4.8%	21.0%	20.0%	-4.8%	21.0%	20.0%	-4.8%
revenue	150	151	0.2%	211	211	0.2%	242	243	0.2%
Electronic gaming bill-ins	1,829	1,724	-5.7%	2,834	2,672	-5.7%	3,118	2,939	-5.7%
revenue	165	148	-10.1%	223	197	-11.6%	179	150	-15.9%
Junket VIP rollings	10,021	14,378	43.5%	14,531	20,848	43.5%	16,710	30,230	80.9%
win rate	2.7%	2.7%	0.0%	2.7%	2.7%	0.0%	2.7%	2.7%	0.0%
revenue	271	388	43.5%	392	563	43.5%	451	816	80.9%
Revenue	620	722	16.5%	880	1,027	16.7%	935	1,275	36.3%
gross margin	70.0%	60.0%	-10 ppt	69.0%	61.0%	-8 ppt	68.0%	61.0%	-7 ppt
EBITDA	294	313	6.4%	370	441	19.2%	389	519	33.2%
EBITDA margin	47.4%	43.3%	-4.1 ppt	42.1%	43.0%	+0.9 ppt	41.6%	40.7%	-0.9 ppt
Net income	205	236	15.3%	250	339	35.7%	266	409	53.9%

SOURCES: CIMB

Key operational metrics

1H17 review ▶

VIP rollings recorded 71% growth in 1H17, leading to an 89% increase in overall revenues. Mass turnover also increased by 23%, resulting in only a 20% increase in 1H17 revenue due to lower mass win rates. Electronic gaming buy-ins grew by 15% but 1H17 revenue declined by 2% due to lower win rates. A US\$60m up-front fee for gaming machines was recognised in 1H17, similar to 1H16. We do not expect Naga to incur further gaming machine up-front fees for the remainder of the year.

Figure 2: Performance highlights (1H17)

US\$ '000	1H17	1H16	YoY
VIP gaming			
Rollings	7,765,690	4,549,246	70.7%
Win rate	2.7%	2.5%	
Revenue	210,524	111,630	88.6%
Mass gaming			
Buy-ins	375,162	305,569	22.8%
Win rate	19.9%	20.3%	
Revenue	74,485	61,972	20.2%
Mass electronic gaming			
Buy-ins	853,072	741,770	15.0%
Win rate	7.7%	8.5%	
Revenue	101,795	103,500	-1.6%
Revenue	401,598	288,479	39.2%
Net profit	150,632	125,187	20.3%
Net profit margin	37.5%	43.4%	-5.9%

SOURCES: CIMB, COMPANY REPORTS

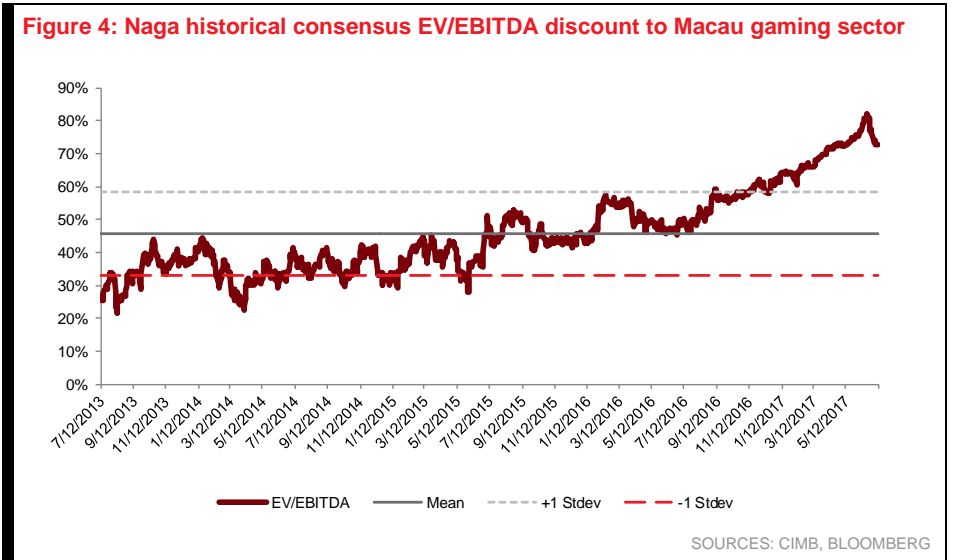
Figure 3: Historical quarterly performance

	VIP rollings (US\$ '000)		Mass market						
	YoY	QoQ	Mass tables buy-ins (US\$ '000)		EGM bills-in (US\$ '000)				
			YoY	QoQ	YoY	QoQ	YoY	QoQ	
1Q15	1,695,239	79%	-20%	129,972	12%	12%	289,551	6%	-3%
2Q15	1,929,503	31%	14%	131,979	10%	2%	339,733	13%	17%
3Q15	2,317,884	40%	20%	142,592	25%	8%	356,864	15%	5%
4Q15	1,933,292	-8%	-17%	145,634	26%	2%	384,504	28%	8%
1Q16	2,789,005	65%	44%	149,857	15%	3%	381,071	32%	-1%
2Q16	1,760,241	-9%	-37%	155,712	18%	4%	360,699	6%	-5%
3Q16	2,054,467	-11%	17%	150,923	6%	-3%	395,332	11%	10%
4Q16	2,110,384	9%	3%	161,307	11%	7%	361,772	-6%	-8%
1Q17	3,733,361	34%	77%	169,371	13%	5%	417,295	10%	15%
2Q17	4,032,329	129%	8%	205,791	32%	22%	435,777	21%	4%

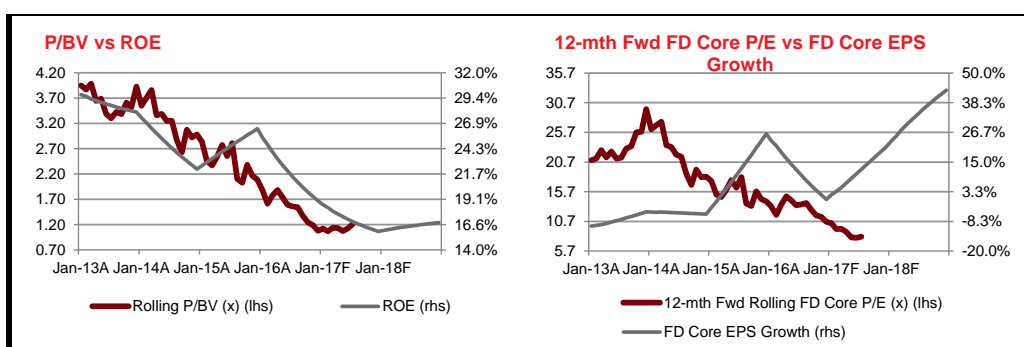
SOURCES: CIMB, COMPANY REPORTS

Valuation and recommendation

We maintain our Add recommendation on Naga as its 3.5x forward EV/EBITDA multiple (based on Bloomberg consensus estimates) is at a 73% discount to the Macau gaming sector average vs. its historical 46% discount. Potential catalysts for the shares are investor confidence returning following concerns about additional convertible bond dilution and stronger-than-expected ramp-up of Naga2.



BY THE NUMBERS



Profit & Loss

(US\$m)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Net Revenues	503.7	531.6	722.3	1,026.9	1,274.8
Gross Profit	327.8	366.8	433.4	626.4	777.6
Operating EBITDA	228.8	257.6	312.6	441.4	518.8
Depreciation And Amortisation	(39.5)	(47.9)	(53.5)	(71.5)	(71.5)
Operating EBIT	189.3	209.7	259.1	369.9	447.2
Financial Income/(Expense)	1.6	1.1	1.5	2.1	2.6
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	(1.9)	(2.6)	(2.6)	(2.6)	(2.6)
Profit Before Tax (pre-EI)	189.0	208.2	258.0	369.4	447.3
Exceptional Items					
Pre-tax Profit	189.0	208.2	258.0	369.4	447.3
Taxation	(16.4)	(24.1)	(21.7)	(30.8)	(38.2)
Exceptional Income - post-tax					
Profit After Tax	172.6	184.2	236.3	338.6	409.0
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	172.6	184.2	236.3	338.6	409.0
Recurring Net Profit	172.6	184.2	236.3	338.6	409.0
Fully Diluted Recurring Net Profit	172.6	184.2	236.3	338.6	409.0

Cash Flow

(US\$m)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
EBITDA	228.8	257.6	312.6	441.4	518.8
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(16.5)	(30.6)	0.7	(17.5)	(13.0)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	0.6	0.3	0.0	0.0	0.0
Other Operating Cashflow	(1.9)	(2.6)	(2.6)	(2.6)	(2.6)
Net Interest (Paid)/Received	0.0	0.0	0.0	0.0	0.0
Tax Paid	(15.3)	(22.9)	(21.7)	(30.8)	(38.2)
Cashflow From Operations	195.7	201.6	289.1	390.5	465.0
Capex	(140.2)	(137.0)	(160.0)	(100.0)	(50.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	18.4	1.3	1.5	2.1	2.6
Cash Flow From Investing	(121.9)	(135.7)	(158.5)	(97.9)	(47.4)
Debt Raised/(repaid)			0.0		
Proceeds From Issue Of Shares	0.0	122.6			
Shares Repurchased					
Dividends Paid	(108.5)	(118.1)	(173.5)	(172.4)	(224.5)
Preferred Dividends					
Other Financing Cashflow	(0.5)	(2.7)	422.6	422.6	422.6
Cash Flow From Financing	(109.0)	1.8	249.1	250.2	198.1
Total Cash Generated	(35.2)	67.8	379.7	542.8	615.7
Free Cashflow To Equity	73.9	65.9	130.6	292.6	417.6
Free Cashflow To Firm	73.9	65.9	130.6	292.6	417.6

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(US\$m)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	143.1	210.9	590.5	1,133.4	1,749.1
Total Debtors	46.0	72.6	98.6	140.2	174.0
Inventories	1.2	1.5	2.6	3.6	4.4
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Current Assets	190.3	284.9	691.7	1,277.1	1,927.5
Fixed Assets	408.4	837.4	936.3	963.1	940.0
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	69.7	66.2	63.2	60.2	57.2
Total Other Non-Current Assets	54.6	102.1	102.1	102.1	102.1
Total Non-current Assets	532.7	1,005.7	1,101.6	1,125.4	1,099.3
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	34.8	37.0	64.8	89.9	111.6
Other Current Liabilities	1.6	2.7	2.7	2.7	2.7
Total Current Liabilities	36.4	39.7	67.6	92.6	114.3
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Non-current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	36.4	39.7	67.6	92.6	114.3
Shareholders' Equity	686.6	1,251.0	1,725.7	2,309.9	2,912.5
Minority Interests					
Total Equity	686.6	1,251.0	1,725.7	2,309.9	2,912.5

Key Ratios

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	24.6%	5.5%	35.9%	42.2%	24.1%
Operating EBITDA Growth	29.9%	12.6%	21.4%	41.2%	17.5%
Operating EBITDA Margin	45.4%	48.5%	43.3%	43.0%	40.7%
Net Cash Per Share (US\$)	0.06	0.09	0.14	0.26	0.40
BVPS (US\$)	0.30	0.54	0.40	0.53	0.67
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	8.7%	11.6%	8.4%	8.3%	8.6%
Net Dividend Payout Ratio	60.0%	60.0%	60.0%	60.0%	60.1%
Accounts Receivables Days	27.20	40.82	43.24	42.43	44.98
Inventory Days	2.56	2.94	2.55	2.80	2.93
Accounts Payables Days	72.06	79.76	64.31	70.51	73.96
ROIC (%)	42.3%	38.6%	24.9%	32.6%	38.0%
ROCE (%)	29.1%	21.8%	17.5%	18.4%	17.2%
Return On Average Assets	24.7%	18.2%	15.2%	16.0%	15.0%

Key Drivers

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
VIP Chip Volume (% Change)	27.3%	10.6%	65.0%	45.0%	45.0%
VIP Chip Win Percentage (%)	2.8%	2.6%	2.7%	2.7%	2.7%
Mass mkt chip drop (% chg.)	18.2%	12.3%	22.0%	40.0%	15.0%
Mass mkt chip win (%-tage)	22.0%	21.0%	20.0%	20.0%	20.0%
Slot Handle (% Change)	15.6%	9.4%	15.0%	55.0%	10.0%
Slot Hold Percentage (%)	9.8%	8.2%	8.0%	8.0%	8.0%
Net Win Per Slot (% Change)	-1.4%	0.0%	0.0%	0.0%	0.0%
Net Win Per Table (% Change)	2.5%	-1.1%	-24.2%	43.6%	36.8%
No. Of Slots	1,656	1,648	2,656	2,656	2,656
No. Of Tables	287	300	600	600	600

SOURCE: CIMB RESEARCH, COMPANY DATA

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#01

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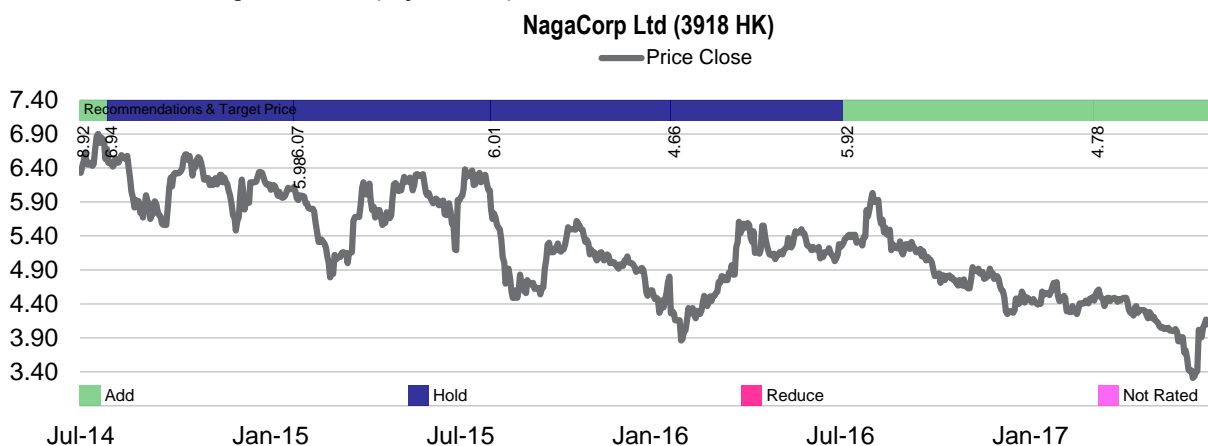
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Add	51.2%	5.5%
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Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016

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