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Stock Rating  
Equal-weight

Industry View  
In-Line

## NagaCorp

### Cambodia's Casino Leader, but Valuation Not Compelling; Initiate at Equal-weight

**NagaCorp has grown its respective earnings and dividend payouts at 30% and 45% CAGRs, 2008-12. We expect a 10% EPS CAGR, 2012-15, spurred by rising visitation and new VIP initiatives. However, the current valuation is not compelling, in our view.**

**Cambodia's largest casino operator by revenue share:** NagaCorp has monopoly status, through 2035, within a 200km radius of its Phnom Penh complex, with no restriction in terms of number of rooms/hotels, and it pays minimal tax. Thus, its net and EBITDA margins (41% and 49%, respectively, in 2012) surpass those of its Macau peers. But, its stock valuation, at 14.6x P/E and 10.6x EV/EBITDA on our 2013 estimates, is not compelling. The 2014E P/E discount to Macau's largest casino revenue generator, SJM Holdings, is only 8% versus a 37% long-term average. Our 2013-15 EPS and EBITDA estimates are 6-23% below consensus.

**Near-term growth from rising visitation and new VIP initiatives; Naga2 could add to midterm outlook.** We believe the ongoing rise in tourist numbers to Cambodia (24% in 2012; 17.5% in 2M13), along with economic growth in Cambodia/Vietnam, should drive NagaCorp's growth. In addition, we estimate Naga2, scheduled for 2016, could be worth HK\$0.6/share after deducting the effect of 1,566mn shares to be issued to the chairman.

**Risks include:** Apart from country risks, the success of border casinos, and Ho Tram in Vietnam, could hamper NagaCorp, as 35% of its mass-market visitors are from Vietnam. Plus, recently opened casinos in the Philippines will compete for the same VIP customer set.

**History of share sales/dilution risks:** NagaCorp recently issued 200mn shares (9.6% dilution) to expand VIP business, and the chairman has sold his stake twice in the past two years to fund Naga2.

#### Key Ratios and Statistics

Reuters: 3918.HK Bloomberg: 3918 HK  
Hong Kong Gaming

Price target	HK\$6.40
Up/downside to price target (%)	(3)
Shr price, close (May 8, 2013)	HK\$6.57
52-Week Range	HK\$6.98-2.67
Sh out, dil, curr (mn)	2,282
Mkt cap, curr (mn)	HK\$14,993
EV, curr (mn)	HK\$14,425
Avg daily trading value (mn)	US\$5.18

Fiscal Year ending	12/12	12/13e	12/14e	12/15e
ModelWare EPS (US)	5.43	5.81	6.46	7.17
Consensus EPS (US)\$	-	6.30	7.10	9.30
Revenue, net (US\$ mn)	279	336	407	453
EBITDA (US\$ mn)	140	161	181	202
ModelWare net inc (US\$ mn)	113	131	147	164
P/E	11.2	14.6	13.1	11.8
P/BV	3.1	3.2	3.0	2.7
RNOA (%)	33.7	33.9	34.1	35.2
ROE (%)	32.1	32.5	24.7	25.3
EV/EBITDA	8.5	10.6	9.3	8.2
Div yld (%)	6.3	4.8	5.3	5.9
FCF yld ratio (%)	5.7	4.8	6.3	6.4
Leverage (EOP) (%)	(18.2)	(38.4)	(39.2)	(38.4)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Thomson Reuters consensus estimates  
e = Morgan Stanley Research estimates

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Initiation

May 10, 2013

NagaCorp

## NagaCorp: Financial Summary

US\$ million; years ending December

Balance Sheet						Cash Flow Statement						
US\$ million	2011	2012	2013E	2014E	2015E	US\$ million	2010	2011	2012	2013E	2014E	2015E
Fixed Assets	188	238	266	282	294	Profit before Tax	48	96	118	135	152	168
Intangible Assets	84	80	77	73	70	Depreciation & Amortization	14	16	20	25	28	31
Other Assets	4	14	14	14	14	Other Non-Cash Adjustmer	(1)	(5)	(10)	(4)	(4)	(4)
<b>Total Non-Current Assets</b>	<b>276</b>	<b>333</b>	<b>358</b>	<b>369</b>	<b>378</b>	Changes In Working Capital	16	6	11	(15)	(15)	(31)
Stock	1	1	2	2	3	<b>Cash From Operations</b>	<b>78</b>	<b>113</b>	<b>139</b>	<b>141</b>	<b>161</b>	<b>164</b>
Debtors	24	21	42	67	102	CAPEX	(24)	(45)	(67)	(50)	(40)	(40)
Cash and deposits	65	73	230	254	270	Decrease In Investments	0	0	-	-	-	-
<b>Total Current Assets</b>	<b>90</b>	<b>95</b>	<b>273</b>	<b>323</b>	<b>375</b>	Other Investing Activities	(16)	(13)	21	-	-	-
<b>Total Assets</b>	<b>366</b>	<b>428</b>	<b>631</b>	<b>692</b>	<b>753</b>	<b>Cash From Investing Acti</b>	<b>(40)</b>	<b>(58)</b>	<b>(46)</b>	<b>(50)</b>	<b>(40)</b>	<b>(40)</b>
<b>Financed By:</b>						Dividends Paid	(30)	(48)	(64)	(90)	(97)	(108)
Creditors	19	26	33	44	48	Increase In Capital Stocks	-	-	-	155	-	-
<b>Total Current Liabilities</b>	<b>19</b>	<b>26</b>	<b>33</b>	<b>44</b>	<b>48</b>	Other Financing Activities	(0)	(0)	(0)	-	-	-
<b>Total Non-Current Liabilities</b>						<b>Cash From Financing Act</b>	<b>(30)</b>	<b>(48)</b>	<b>(64)</b>	<b>65</b>	<b>(97)</b>	<b>(108)</b>
Share Capital	26	26	29	29	29	Change in Cash	8	6	29	156	24	16
Reserves	326	376	569	620	676	<b>Cash balance at 31 Decen</b>	<b>23</b>	<b>29</b>	<b>58</b>	<b>215</b>	<b>239</b>	<b>255</b>
<b>Shareholders' Equity</b>	<b>352</b>	<b>402</b>	<b>598</b>	<b>648</b>	<b>704</b>							
Ratios and Operating Data						Income Statement						
	2011	2012	2013E	2014E	2015E	US\$ million	2010	2011	2012	2013E	2014E	2015E
Current ratio	4.8	3.7	8.3	7.4	7.7	Revenue	151	224	279	336	407	453
Gross Profit Margin%	73%	73%	72%	69%	69%	Cost of sales	(44)	(60)	(76)	(95)	(128)	(141)
EBITDA Margin%	49%	49%	47%	44%	44%	<b>Gross profit</b>	<b>107</b>	<b>164</b>	<b>203</b>	<b>241</b>	<b>279</b>	<b>312</b>
Net Margin%	41%	41%	39%	36%	36%	Administrative expenses	(31)	(32)	(41)	(50)	(61)	(68)
Div Payout Ratio	70%	71%	70%	70%	70%	Other operating expenses	(18)	(22)	(26)	(34)	(41)	(45)
Profit to Operating cash inflow	83%	84%	95%	93%	101%	<b>EBITDA</b>	<b>57</b>	<b>110</b>	<b>136</b>	<b>157</b>	<b>178</b>	<b>199</b>
Operating Data						Depreciation	(10)	(12)	(17)	(20)	(24)	(29)
VIP Tables	55	57	72	87	87	Amortization of license	(4)	(4)	(4)	(4)	(4)	(4)
Mass Tables	66	81	86	86	86	EBIT	43	94	116	134	150	166
Slot Machines	1,130	1,470	1,485	1,500	1,500	Profit before taxation	48	96	118	135	152	168
VIP win/Table/Day	3,992	4,562	4,562	5,018	5,520	Income Tax	(4)	(4)	(4)	(4)	(4)	(4)
Mass win/Table/Day	2,600	2,635	3,110	3,576	4,113	<b>PAT</b>	<b>44</b>	<b>92</b>	<b>113</b>	<b>131</b>	<b>147</b>	<b>164</b>
Slot win/Machines/Day	121	212	240	264	290	<b>EPS (US cents)</b>	<b>2.1</b>	<b>4.4</b>	<b>5.4</b>	<b>5.8</b>	<b>6.5</b>	<b>7.2</b>
No of visitors to Cambodia (m)	2.9	3.6	4.1	4.7	5.5	DPS (US cents)	1.5	3.1	3.8	4.1	4.5	5.0

Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

## Risk-Reward Snapshot: NagaCorp (3918.HK, HK\$6.57, EW, PT HK\$6.40)

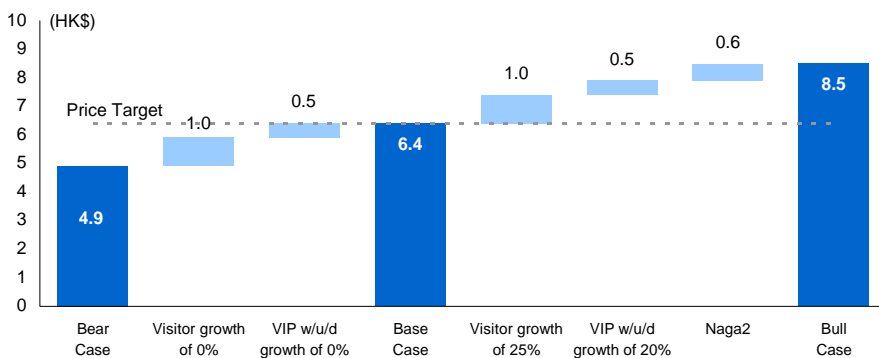
### Risk-Reward View: Solid local position balanced by rising regional competition



Source: Company data, Morgan Stanley Research.

Price Target HK\$6.40		Derived from the base case and a discount to our target multiples for SJM Holdings.
<b>Bull Case</b> HK\$8.50	Implies 17x base-case 14e EPS	Strong visitor growth of 25% for 2013/2014; VIP win/table growth of 20%, to US\$5.0K and US\$5.5K per day, for 2013 and 2014, respectively.
<b>Base Case</b> HK\$6.40	Implies 13x base-case 14e EPS	Continued growth in visitation and improved outlook for VIP business: We expect visitor growth of 15% for 2013/2014; VIP win/table growth of 0%/10% p.a., 2013-14. 30 VIP tables being added driving table growth by 25% per annum.
<b>Bear Case</b> HK\$4.90	Implies 10x base-case 14e EPS	Downturn in overall economy, more competition from Vietnam, and reduced visitation. Visitor growth of 5% for 2013/2014; VIP win/table growth of 0% in 2013/14.

### Bear to Bull: Upside potential from Naga2 and new VIP initiative



Source: Company data, Morgan Stanley Research. w/u/d=win per unit per day.

### Why Equal-weight

- Leveraged to strong economic growth in Cambodia and Vietnam
- Exclusive casino license through 2035 within a 200km radius of Phnom Penh
- Capacity expansion at Naga2 should support growth beyond 2016
- 2013/14 growth likely to be driven by high-roller segment – a lower-margin, volatile and riskier business
- Competition from Vietnam and other countries will likely intensify

### Key Value Drivers

- Visitation growth
- Rise in average mass-market wager size
- Additional tables
- Hotel room upgrades, addition of more VIP rooms/tables
- Naga2 potential to boost capacity by 2.5x for tables and hotel rooms

### Upside risks to price target

- New VIP initiatives to drive revenue growth along with new junket addition and revenue sharing arrangement
- Evidence of continued visitation growth
- Naga2 opening and driving growth

### Downside risks to price target

- Country risk in Cambodia
- Potential macro slowdown
- Potential share dilution
- Potential reduction in payout ratio
- High reliance on chairman's services
- Rising competition in the region

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## Investment Case

Although we are positive on the Asian gaming sector from an industry structure prospective, and expect NagaCorp to grow its earnings and dividend per share, the current valuation, at 14.6x P/E and 10.6x EV/EBITDA on our 2013 estimates, is not compelling enough to warrant a higher rating, in our view. In addition to initiating coverage on Hong Kong-listed NagaCorp stock with an Equal-weight rating, we also initiate coverage of the Hong Kong gaming industry with an In-Line view, as NagaCorp is currently the only stock in this industry category.

Excluding valuation, we believe there are several reasons to own the stock:

- **Strong EPS and dividend growth:** NagaCorp has grown its respective earnings and dividend payouts at 30% and 45% CAGRs, 2008-12. The company has maintained its net margin at 40% for the period, despite strong growth. We believe NagaCorp can sustain its 70% dividend payout ratio with its strong balance sheet with more than US\$200mn in cash (2013E) and limited need for maintenance capital expenditure.
- **Positive economic outlook:** Over 70% of NagaCorp's mass-market customers are Vietnamese/Cambodians. The International Monetary Fund (IMF) forecasts that the two countries' GDP CAGR may exceed 9%, 2013-18. Given NagaCorp's quasi-monopoly status in Cambodia gaming, and property upgrades/promotions, we expect solid earnings growth.
- **Low tax and no competition:** NagaCorp enjoys a very high net profit margin, around 40%. This is driven by low tax (implying roughly 2% of 2012 revenue), low labor cost, zero interest cost, and strong focus on the mass-market segment.
- **Short-term catalysts:** 2012 was the year of capacity addition, with the company opening the NagaRock Café in February, Rapid 2 gaming area in June, and Saigon Palace in December. The company is planning to further upgrade NagaWorld by opening seven private VIP gaming suites and the Aristocrat private club (premium mass-market area with up to 10 gaming tables) in 2013.

### Further upside could come from:

- VIP recovery:** In March 2013, NagaCorp raised US\$155mn by issuing 200mn new shares. The funds are slated to upgrade the VIP facilities and 150 rooms, purchase new vehicles, and build an immigration counter at the airport for VIP customers. This is also to test the market in advance of the Naga2 opening, which is targeted for a more premium mass-market and VIP offering. We expect the number of VIP tables to rise from 57 to 87 by end-2013, thus driving 53% growth without any rise in efficiency. We expect a significant increase in rolling chip volume, although higher commission rate for new junkets (structured as revenue sharing arrangements) could also mean a lower margin.
- Naga2:** Naga2 is similar in size to NagaWorld. The Naga2 plan features over 1,000 hotel rooms, 50 VIP luxury suites, up to 18,738sq m of retail space, a 4,000-seat MICE/theatre facility, and additional gaming space. If Naga2 executes well, the two properties will create synergies, and we expect higher win/table at the new casino. We estimate Naga2's value at HK\$2.5 per share, but after issuing new shares to the chairman, the overall effect would only be HK\$0.6 per share.

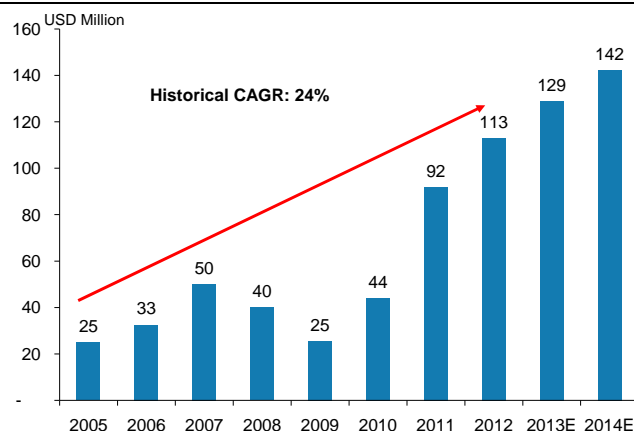
**Key risks include...**competition from Vietnamese casinos, including Ho Tram; country / regulatory risk; a potential rise in tax in 2018, volatility and risk of higher bad debt in VIP business; potential overhang of further share dilution; and potential de-rating of Asian gaming stocks, if liquidity dries up.

**Valuation is not compelling:** We believe NagaCorp should trade at a discount to its Macau peers, partly because of market perceptions of country risk. We have applied a 20% discount to our implied target 2013 multiples (P/E and EV/EBITDA) for SJM Holdings to arrive at our price target for NagaCorp. Our projections could be affected by movement in NagaCorp's reported EBITDA/net income, as well as by re-rating/de-rating in the Asian gaming market. NagaCorp's current 2014E P/E and EV/EBITDA multiples are at 8%/1% discounts to SJM's current levels, and at 21%/19% discounts to the Macau averages, which we think is not compelling.

## Investment Positives

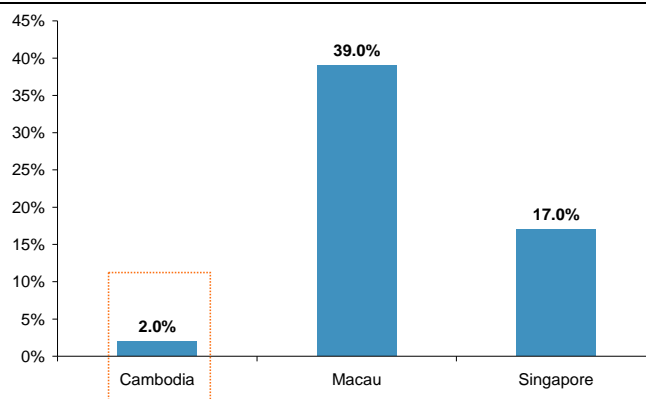
- Historical EPS and dividend growth:** NagaCorp has achieved EPS growth at a 24% CAGR, 2005-12. This has been accompanied by similar dividend payout growth, which we think is an encouraging sign for future growth. Over 70% of the company's mass-market customers are Cambodians/Vietnamese. Per IMF forecasts, the two countries' combined GDP CAGR could exceed 9%, 2013-18. Given NagaCorp's quasi-monopoly status in Cambodia gaming, and its property upgrades/promotions, we expect solid earnings growth.
- Good license terms:** NagaCorp operates the only licensed casino in Phnom Penh, with a long-term license (70 years), and with a 40-year monopoly within a 200km radius of Phnom Penh, with no limits on the amount of gaming space, tables or type of games.
- NagaCorp's pays a fixed amount of tax per annum** irrespective of the revenue and earnings and paid an effective tax of approximately 2% of revenues in 2012, which covers gaming tax, corporate tax, payroll tax, and even goods and services tax. The tax grows at 12.5% per annum until 2018. The tax is favorable compared with 39% in Macau and 16%/17% in Singapore. The company is currently in discussion with the government to extend the tax agreement beyond 2018.
- Lower costs:** Wages for NagaCorp's dealers start at US\$130 per month, double the Cambodian minimum wage, but below the dealer rates in Macau and Singapore. The construction cost of 1.2mn sq ft NagaWorld is around US\$230mn, and there is minimal depreciation. There is zero gearing, no interest cost, and a low fixed tax payment.
- Higher margin:** 41% of NagaCorp's revenues are generated from slot machine business (gross profit margin: 95%), and 28% of revenues come from the mass-market segment (gross profit margin: 95%). The junket business contributes 34% of total revenue. NagaCorp's EBITDA and net profit margins are well above those of the Macau names.
- Recent fundraising could allow NagaCorp to grow its VIP business:** The company plans to construct a private airport terminal for customers for the company's private jets; it will also upgrade its transportation services and replace VIP vehicles.

Exhibit 1  
**NagaCorp: Net Income CAGR of 24%, 2005-12**



Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

Exhibit 2  
**NagaCorp benefits from lower tax in Cambodia vs. rates for peers in other localities (2012)**



Source: Company data, Morgan Stanley Research.

Exhibit 3  
**Higher profit margin vs. regional peers**

	EBITDA Margin	PBT Margin	Net Profit Margin
NagaCorp (12 months 2012)	49.4%	42.2%	40.6%
<b>Macau Average (2012)</b>	<b>17.9%</b>	<b>13.3%</b>	<b>13.6%</b>
Sands China	20.9%	15.1%	15.1%
Wynn Macau	26.8%	23.2%	23.1%
SJM	10.3%	8.8%	8.7%
Melco Crown	22.1%	10.0%	10.4%
Galaxy	16.6%	12.3%	12.2%
MGM China	24.6%	20.1%	24.0%

Source: Company data, Morgan Stanley Research.

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- **High dividend:** NagaCorp pays out 70% of its earnings every year. We expect this to continue and to drive around a 5% dividend yield. We expect sustained earnings and dividend increases, 2013-15.
- **Increasing visibility:** With ongoing political stability, economic growth, continuing business growth, high dividend yield, and rising trading volume, NagaCorp's valuation multiple could continue to be re-rated higher.

Exhibit 4

## NagaWorld+Naga2

	NagaWorld @ 31/12/2012	Enhancement within NagaWorld (2013)	Upon completion of enhancement in 2013	Naga2
Gaming tables	138	32	170	200-300
Gaming machine stations	1,470	30	1500	500
Hotel rooms	660	Nil	660	1,033
VIP private gaming suites	Nil	7	7	50
Retail space(sq m)	381	Nil	381	18,738
MICE/theatre facilities (seating capacity)	750	Nil	750	4,000
Car park bay	60	Nil	60	533

Source: 15-Feb-2013 NagaCorp presentation.

### Company Description

Founded by Tan Sri Dr Chen Lip Keong in 1995, NagaCorp is the largest gaming, hotel and leisure operator in Cambodia. The company was listed in October 2006 on the Stock Exchange of Hong Kong Limited as the first Cambodian company to be publicly listed as well as the first IPO-listed gaming company traded on the stock exchange. NagaCorp holds a casino license granted by the Royal Government of Cambodia, for 70 years commencing from 2 January 1995, and 40 years of exclusivity within a 200km radius of Phnom Penh, Cambodia (excluding the Cambodia-Vietnam border area, Bokor, Kirirom Mountains and Sihanoukville).

### Hong Kong Gaming

**Industry View: In-Line**

## Investment Concerns

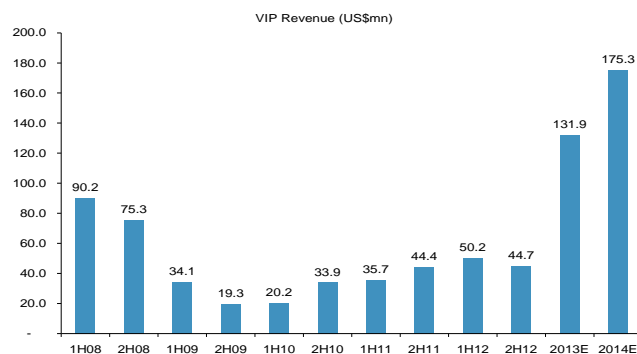
- Lower end of VIP customers:** There is only one casino in Phnom Penh, and the minimum wagers for both VIP and the mass-market segments are much lower than those of regional peers. Thus, NagaCorp is unlikely to attract the same customer base as does Macau/Singapore or create the same scale of operation.
- Competition from Vietnam:** Development of a large-scale casino industry in Vietnam (or Thailand) targeting foreign tourists would create new competition. However, the Vietnamese government does not allow residents of its own country to enter casinos, so the impact on NagaCorp would be limited.
- Valuation discounts compared with Macau and Singapore names:** NagaCorp has the lowest P/E ratio among its regional peers, including Galaxy, SJM, Wynn Macau, Sands China, MGM China and Genting Singapore. In general, NagaCorp is trading at a valuation discount compared with peers in Macau and Singapore.
- 1Q13 slowdown in VIP business:** 1Q13 operational data revealed that VIP rolling chip volume fell 11% YoY. The slowdown was partially due to a week-long period of national mourning in Cambodia in February. Still, we believe January and March rolling volumes only achieved single-digit growth. Our full-year VIP rolling growth forecast is 20%, 22% for Q2 and 35% for 2H.
- VIP business declined significantly in 2009:** VIP revenue declined 70% on the back of the global downturn and liquidity crunch. We believe the segment is still volatile and less predictable than is the mass-market arena.
- Share overhang from promoter:** On 2-April-2012, Dr Chen sold 214mn shares (10.28% of existing share capital) at HK\$3.04/share, reducing his stake from 60.3% to 50%. The sale was for funding the construction of Naga2. On 20-Nov-2012, Dr. Chen sold another 90mn shares (4.8% of existing shares) at HK\$4.45 per share, diluting his stake to 45%. Upon completion of Naga2, he is to receive 1,566mn shares at an agreed price of HK\$1.8376 per share (12.5% and 10.8% respective discounts to the three-month and five-day volume-weighted average prices prior to signing agreement), which could return his stake to 75%.
- Equity placement:** NagaCorp completed a top-up placement of 200mn new shares at HK\$6.05 per share on

13-Mar-2013. This represents about 9.6% of the existing shares. While the reasoning for this fundraising for VIP expansion is well understood by the investor community, in our view, we cannot rule out any further equity dilution.

- Tax chargeable after 2018:** NagaCorp's tax agreement with the government fixes the monthly tax payment at US\$320,000 for 2011 (subject to a 12.5% rise p.a.) until 2018. If the tax rate returns to 20% (i.e., the corporate tax rate of Cambodia), the DCF value (Exhibit 10) could decrease by 14%.
- Country risk** could translate into higher cost of debt in Cambodia than in Hong Kong/China.
- We remain **below consensus** on EBITDA and EPS estimates because of our expectations of rising commission levels and reduced margins for VIP business, to compensate for higher volume.

Exhibit 5

### Historical decline in VIP business in 2009



Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

Exhibit 6

### NagaCorp: Morgan Stanley estimates vs. consensus

Thomson Consensus Estimates	2013E	2014E	2015E
Revenue	335	414	492
EBITDA	168	200	242
EPS Cents	6.30	7.10	9.30
<b>Morgan Stanley Research Estimates</b>			
Gross Revenue	336	407	453
EBITDA	157	178	199
EPS Cents	5.81	6.46	7.17
<b>Variance % with Thomson Estimates</b>			
Revenue	0.3%	-1.6%	-8.0%
EBITDA	-6.4%	-11.2%	-18.0%
EPS	-7.8%	-9.0%	-22.9%

Source: Thomson Reuters, Morgan Stanley Research.



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## Company Valuation

We value NagaCorp at a 20% discount to our implied target multiples for SJM Holdings (the leader by revenue market share of the six Macau operators), which we value using a DCF. Our SJM price target is HK\$21. We use 12.9x PE on 2014 EPS to arrive at our NagaCorp price target of HK\$6.4 per share.

We value NagaCorp relative to SJM because both run consistent net cash position, have consistently paid a dividend yield of 5% or more for the past few years and have capacity to grow marginally, but big capacity growth is at least three years away. Also, while NagaCorp has monopoly status, SJM/Macau demand drivers are stronger than those for NagaCorp.

We apply a 20% discount to SJM's valuation multiples mainly because of market perceptions of country risk associated with Cambodia. Also, maintenance capex as a percentage of EBITDA is much higher for NagaCorp.

Historically, NagaCorp has traded at a 37% discount to SJM's P/E, but the recent increase in market liquidity and awareness could reduce the average discount, in our view to 20%. The current discount on 2014 PE is only 8%, which we think is too optimistic and the risk is to the downside. NagaCorp has historically traded at a 55% discount to the Macau casino average, but it is currently trading at a 27% discount.

We did not use the Philippine gaming market as a valuation comparison, as it does not yet have a pure-play operator with a consistent financial record.

Exhibit 7

### NagaCorp: Valuation based on SJM target multiples

	2012	2013E	2014E	2015E
<b>SJM Price Target (HK\$)</b>	<b>21.0</b>			
No. of Shares	5,500			
Market Cap	115,500			
Net Cash	(21,647)			
EV	93,853			
EBITDA	7,631	8,172	8,826	9,882
Net Income	6,745	7,187	7,790	8,781
P/E	17.1	16.1	14.8	13.2
EV/EBITDA	12.3	11.5	10.6	9.5
<b>NagaCorp (20% discount to SJM )</b>				
NagaCorp P/E Multiple	12.9			
NagaCorp EV/EBITDA Multiple	9.2			
<b>Price Target when</b>				
Applied to 2013 EPS	5.7			
Applied to 2013 EBITDA	5.7			
<b>Applied to 2014 EPS</b>	<b>6.4</b>			
Applied to 2014 EBITDA	6.3			

Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

Exhibit 8

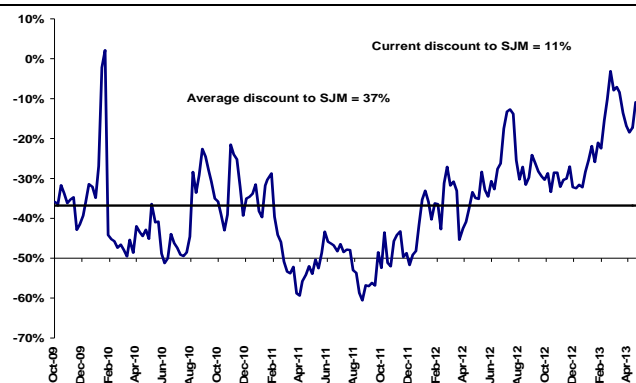
### SJM versus NagaCorp

	SJM		NagaCorp	
	12A	13E	12A	13E
Dividend yield	5.0%	4.8%	6.3%	4.9%
Net cash (US\$m)	2,793	3,251	73	230
Net cash/mkt cap	22%	25%	6%	12%
EPS CAGR (09-12)	89%	65%	64%	47%
DPS CAGR (09-12)	115%	81%	74%	53%
Capex (US\$m)	103	103	68	50
Capex/EBITDA	10.5%	9.5%	50.0%	31.8%

Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

Exhibit 9

### NagaCorp discount to SJM forward P/E



Source: Thomson Reuters, Morgan Stanley Research.

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We crosscheck our valuation with a DCF analysis that we normally use for Macau and other gaming stocks. We arrive at a DCF value of HK\$7.1 per share, slightly above our price target. We use a 13.7% WACC, and terminal value of 7x 2022 estimated FCF.

Exhibit 10

### NagaCorp: DCF valuation

(In US\$mn)	2008	2012	2013E	2014E	2015E
Company EBITDA	47	136	157	178	199
Less: Tax Expense	(2)	(4)	(4)	(4)	(4)
Less: CAPEX	-	(68)	(50)	(40)	(40)
Net Working Capital	-	11	(15)	(15)	(31)
<b>Free Cash Flow to Firm</b>	<b>45</b>	<b>75</b>	<b>88</b>	<b>119</b>	<b>123</b>
<b>Valuation</b>					
Terminal Value (7x 2022 FCF)			1,143		
NPV of Forecast FCF			696		
Total Enterprise Value			1,839		
Less: Net Debt (2013-March)			(230)		
Market Value			2,068		
<b>Value (HK\$)</b>	<b>7.1</b>				
Number of Shares	2,282				

Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

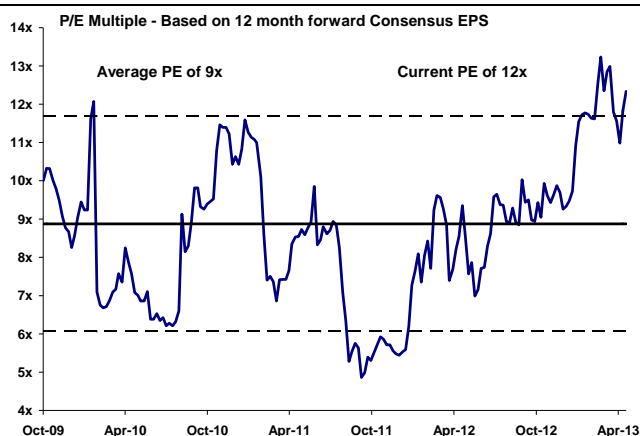
### SJM: Price target and risk discussion

We arrive at our SJM price target of HK\$21.0 using a DCF analysis (WACC of 8% and long-term growth between 2013 and 2020 of 5% per annum). Our WACC of 8% is based on a 5% risk premium, 3.3% risk-free rate, 1.2 beta, and 5% cost of debt. Terminal value is 5x 2013e EBITDA (based on zero growth in FCF from now into perpetuity).

**Risks to our SJM price target include:** **Upside:** 1) Premium mass delivering margin expansion; 2) higher dividend; 3) return of VIP growth. **Downside:** 1) new casinos of other gaming operators in Cotai could erode SJM's market share; and 2) SJM's win/table continues to trail the market average.

Exhibit 11

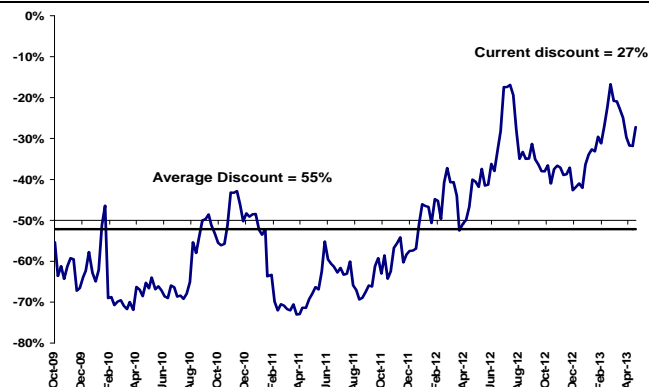
### NagaCorp: Forward P/E is higher than its average



Source: Thomson Reuters, Morgan Stanley Research.

Exhibit 12

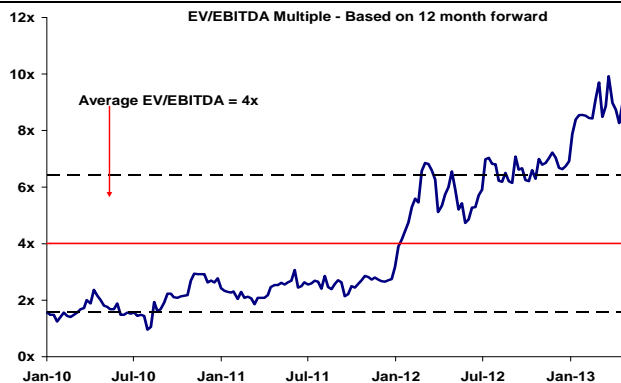
### NagaCorp: P/E discount to Macau average



Source: Thomson Reuters, Morgan Stanley Research.

Exhibit 13

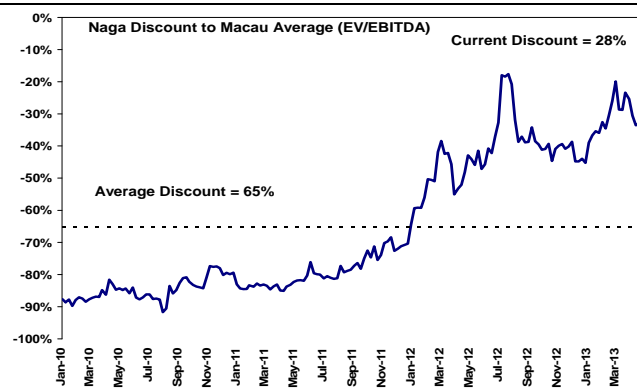
### NagaCorp: Forward EV/EBITDA



Source: Thomson Reuters, Morgan Stanley Research.

Exhibit 14

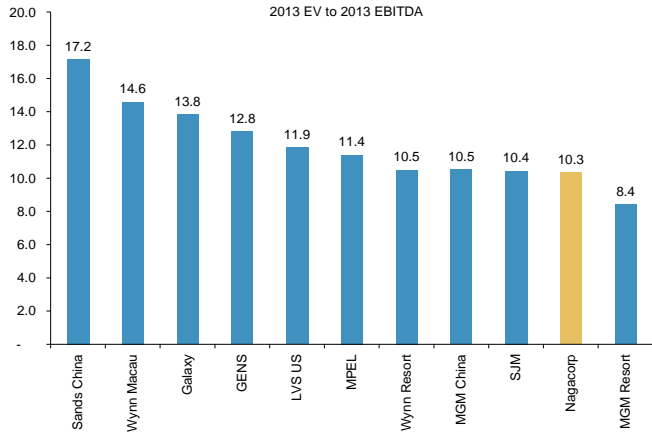
### NagaCorp: EV/EBITDA discount to Macau average



Source: Thomson Reuters, Morgan Stanley Research.

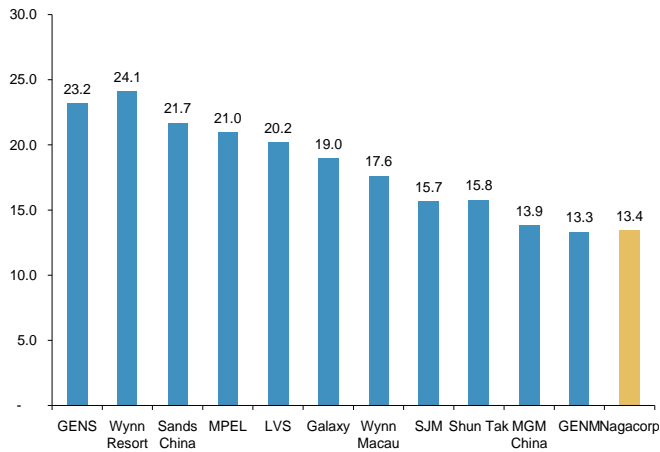
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Exhibit 15  
**2013E EV/EBITDA**



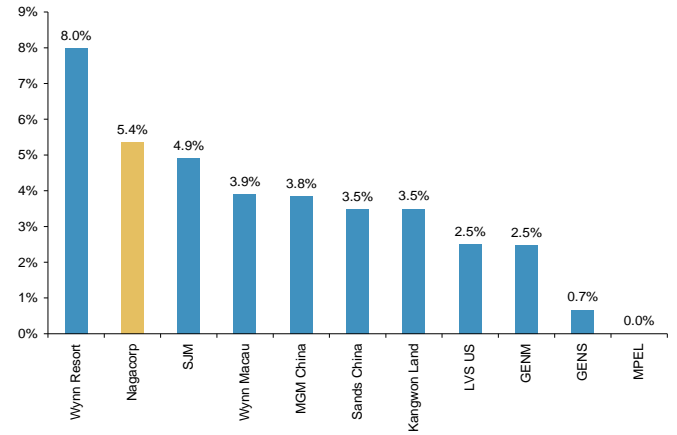
Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

Exhibit 17  
**2013E P/E**



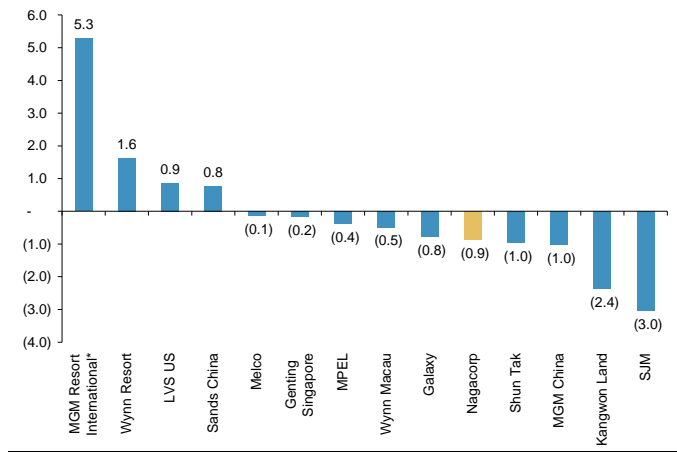
Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

Exhibit 16  
**2013E dividend yield**



Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

Exhibit 18  
**Net debt/EBITDA, 2013E**



Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

## Valuation Scenarios: Bear to Bull

**Base Case:** We derive our mass-market revenue forecast from Cambodia visitation growth, which grew 17.5% YoY for the first two months of 2013. We expect 15% per annum growth for 2013/14. We expect the number of tables to rise from 57 to 87 by early 2014, thus driving 50% growth over the next two years. We expect VIP win/table to grow at a 0%/10% rate YoY in 2013/14, to US\$4.6K / US\$5.0K per day, on new junket relationships and revenue sharing arrangements.

**Bear Case:** This assumes VIP win/table remains flattish and mass-market revenues grow 10-20% per annum, driven by only 5% visitation growth.

**Bull Case:** We derive our mass-market revenue growth forecast from visitation growth, and, since it's the high-margin business, any significant increase in visitation and spending growth could have a meaningful effect on EBITDA. Our bull case assumes 20% visitation growth per annum for 2013/14, similar to that in the past three years, driving win/table for the mass-market segment to grow at the same pace. It also assumes VIP win/table growth at a 20% pace.

In our bull case, on top of assuming higher visitation growth and rising VIP volume, we also add value creation by adding Naga2, a new casino that could start contributing to the group in 2016. We expect total value addition of US\$2.5bn based on our DCF analysis. However, the company will have to issue 1,566mn new shares, thus the value addition would only be HK\$0.6 per share, based on our estimates.

Exhibit 19

### Bull/Base/Bear case analysis

	Bull case	Base case	Bear case
Mass Revenue Growth	20%	10%	0%
Visitation Growth	25%	15%	5%
Mass win/table/day growth	20%	10%	0%
VIP win/table/day growth	20%	10%	0%
Naga 2 valuation (HK\$)	0.6		

Source: Morgan Stanley Research assumptions.

Exhibit 20

### Naga 2 could add HK\$0.6 to the valuation

Naga 2	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Free cash flow to the firm	192	197	202	207	212	218	223
Terminal Value (7x 2022 FCF)	1,633						
NPV of Forecast FCF	886						
Total Enterprise Value	2,519						
To be Paid to Chairman(US\$m )	1,106						
To be Paid to Chairman(No. of Shares )	1,566						
<b>Incremental Value Add</b>	<b>0.6</b>						

Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

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Exhibit 21

## Global gaming valuation comparables

	Price	Market Cap	6M Avg Vol.	EVEBITDA			P/E		P/BV	FCF Yield % Div Yield			2012	YTD
8-May-13	Local curr	(US\$m)	(US\$m)	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E	2013E	Perf	Perf
<b>MACAU</b>														
Sands China	42.00	43,193	53	17.2	14.8	21.7	18.0	8.4	7.8	3.5%	4.1%	3.5%	55%	24%
Wynn Macau	24.45	16,299	25	14.6	15.2	17.6	18.1	15.5	11.5	5.2%	0.5%	3.9%	7%	17%
MPEL	24.46	13,552	94	11.4	9.4	21.0	17.2	3.3	2.7	5.3%	5.4%	0.0%	75%	45%
SJM	20.60	14,568	19	10.4	9.2	15.7	14.2	5.2	4.7	7.8%	7.8%	4.9%	42%	14%
Galaxy	38.00	20,034	62	13.8	11.8	19.0	16.7	5.2	4.0	3.7%	4.6%	0.0%	113%	25%
MGM China	19.16	9,424	13	10.5	8.7	13.9	11.7	8.5	6.3	7.7%	9.4%	3.8%	38%	37%
<b>Average</b>				<b>13.0</b>	<b>11.5</b>	<b>18.1</b>	<b>16.0</b>	<b>7.7</b>	<b>6.2</b>	<b>5.5%</b>	<b>5.3%</b>	<b>2.7%</b>	<b>55%</b>	<b>27%</b>
<b>US</b>														
Las Vegas Sands	56.77	46,827	344	11.9	10.2	20.2	16.9	4.7	4.1	4.5%	4.9%	2.5%	8%	23%
Wynn Resorts	138.84	14,011	161	10.5	10.8	24.1	20.7	NA	NA	6.6%	7.1%	8.0%	2%	23%
MGM Resorts International	14.71	7,199	128	8.4	7.5	NM	NM	0.8	0.7	13.9%	16.9%	0.0%	12%	26%
Penn National Gaming	58.58	4,604	47	7.8	7.0	22.4	19.1	3.4	3.0	5.0%	5.1%	0.0%	29%	19%
Boyd Gaming	12.98	1,128	17	8.7	7.9	10.1	10.2	6.6	5.9	26.9%	28.4%	0.0%	-11%	95%
<b>Average</b>				<b>9.5</b>	<b>8.7</b>	<b>19.2</b>	<b>16.7</b>	<b>3.9</b>	<b>3.4</b>	<b>11.4%</b>	<b>12.5%</b>	<b>2.1%</b>	<b>8%</b>	<b>38%</b>
<b>AUS/NZ</b>														
Crown	13.00	9,614	20	14.7	13.3	20.0	17.2	2.6	2.4	7.9%	7.9%	2.8%	32%	22%
Echo Entertainment	3.65	3,014	10	8.8	7.9	20.6	17.1	1.0	1.0	8.6%	8.6%	2.5%	0%	6%
Aristocrat	4.07	2,244	7	13.0	12.1	21.1	19.3	5.4	4.9	4.5%	4.5%	3.1%	43%	29%
<b>Average</b>				<b>12.2</b>	<b>11.1</b>	<b>20.6</b>	<b>17.9</b>	<b>3.7</b>	<b>3.4</b>	<b>7.0%</b>	<b>7.0%</b>	<b>2.8%</b>	<b>25%</b>	<b>19%</b>
<b>GENTING GROUP</b>														
Genting Singapore	1.49	14,769	36	12.8	10.4	23.2	20.1	1.9	1.8	5.3%	5.8%	0.7%	-8%	8%
Genting Malaysia	3.89	7,745	7	8.1	6.3	13.3	12.8	1.5	1.4	7.0%	7.2%	2.5%	-7%	10%
Genting Berhad*	10.84	13,519	12	6.0	5.2	17.2	15.6	1.8	1.6			0.7%	-16%	18%
<b>KOREA</b>														
Kangwon Land	31,200	5,860	12	8.0	7.1	15.0	13.6	2.4	2.2	6.8%	7.5%	3.5%	8%	7%
Grand Korea Leisure	35,650	2,021	9	9.5	9.4	16.0	16.3	5.7	4.8	8.3%	8.3%	3.8%	57%	24%
Paradise	23,300	1,942	14	17.9	17.6	14.9	13.5	2.5	2.2	5.2%	5.9%	1.6%	105%	35%
<b>PHILIPPINES</b>														
Alliance Global*	25.05	6,193	9	11.9	10.1	19.3	16.4	2.8	2.5			1.6%	62%	49%
Belle Corp*	6.40	1,678	2	18.5	11.9	19.7	13.2	5.6	3.9	-5.0%	0.0%	0.0%	-4%	32%
Bloomberry*	11.92	3,088	4	23.6	12.1	37.4	15.4	6.0	4.2			0.0%	-54%	-10%
Genting Hong Kong*	3.81	3,806	0	24.3	21.1	16.4	12.0	4.9	4.9			0.0%	15%	51%
<b>OTHERS</b>														
Nagacorp Ltd*	6.57	1,882	8	10.6	9.3	14.6	13.1	3.3	3.0			4.7%	140%	40%
<b>Average</b>				<b>13.4</b>	<b>10.7</b>	<b>18.3</b>	<b>14.6</b>	<b>4.0</b>	<b>3.4</b>	<b>4.6%</b>	<b>5.8%</b>	<b>2.1%</b>	<b>25%</b>	<b>22%</b>

Source: Company data, Thomson Reuters, Morgan Stanley Research.

E=Morgan Stanley Research estimates, except for companies with asterisks, which are consensus estimates from Thomson Reuters.

## Earnings Drivers

NagaCorp generated revenue, EBITDA, and net income of US\$279mn, US\$136mn, and US\$113mn in 2012. This was 25%, 22%, and 23% higher than the respective levels in 2011. This implies stable margin structure.

**Revenue drivers:** NagaCorp generated 2012 revenue of US\$279mn (+24.6% YoY). Casino revenue contributed 93.7%, while non-gaming was 6.3% of the revenue. Casino revenue is split as: 34% VIP, 28% mass market, and 32% electronic gaming machines. Non-gaming revenue mainly comprises hotel revenue, F&B revenue, and retail rental.

**Mass market:** We believe mass-market earnings are mainly a function of tourist arrivals and spending increases by locals. The number of visitors to Cambodia has grown at a 13% CAGR since 2006. In 2012, 3.2mn tourists arrived in Cambodia, 11% higher than 2011 and for the first two months of 2013, there was a 17.5% increase in visitors arrival. Around 21.3% of visitors are Vietnamese, 11.5% are Korean, 9.3% are Chinese, with the remainder from the rest of Asia.

**Slot machines:** The number of slot machines increased from 1,130 in 2011 to 1,470 in 2012 driving revenue increase from US\$68.7mn to US\$87.9mn. With stable margin, gross profit grew from US\$66mn to US\$83mn. Total bill-ins grew 28%, to US\$995mn in 2012, largely from the increasing number of tourists to NagaWorld.

**VIP market:** There were 55 and 57 VIP tables in 2011 and 2012, respectively, with 16,019 VIP visitors in 2011, and 25,090 in 2012, a 56.6% YoY increase. The effective commission rate was roughly 1% in NagaCorp, with a gross profit percentage of 37% in 2012. Minimum check-in to be qualified as a VIP customer in NagaWorld is US\$15,000, which is significantly lower than the thresholds in Macau or other regions. Nearly 75% of the VIP total rolling comes from the 35-40 junket operators with which NagaCorp coordinates, while the other 25% is from direct VIP marketing.

Exhibit 22

### NagaCorp: Drivers for mass and VIP revenue

US\$ m	2010	2011	2012	2013E	2014E
Mass Revenue Per Visitors	17	22	22	24	24
(Mass +Slot) Revenue Per Visitors	44	53	54	55	54
VIP Revenue per VIP customers	6,824	5,003	3,783	4,155	4,802

Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

Exhibit 23

### NagaCorp: Revenue split by segment

US\$ m	2010	2011	2012	2013E	2014E
VIP Revenue	54	80	95	120	159
Mass Revenue	42	63	78	98	112
EGM Revenue	45	69	88	99	109
Non-Gaming Revenue	10	12	18	20	27
<b>Total Revenue</b>	<b>151</b>	<b>224</b>	<b>279</b>	<b>336</b>	<b>407</b>
<b>Growth % YOY</b>					
VIP Revenue	1%	48%	18%	26%	33%
Mass Revenue	69%	51%	24%	25%	15%
EGM Revenue	31%	53%	28%	13%	10%
Non-Gaming Revenue	81%	23%	46%	10%	35%
<b>Total Revenue</b>	<b>28%</b>	<b>49%</b>	<b>25%</b>	<b>21%</b>	<b>21%</b>

Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

Exhibit 24

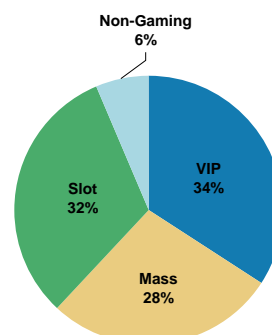
### NagaCorp: Table and machine efficiency

US\$ m	2010	2011	2012	2013E	2014E
VIP w/u/d	3,025	3,992	4,562	4,562	5,018
Mass w/u/d	1,673	2,600	2,635	3,110	3,576
Slot w/u/d	181	217	212	240	264
RevPAR		29	29	32	35
<b>Growth % YOY</b>					
VIP w/u/d		32%	14%	0%	10%
Mass w/u/d		55%	1%	18%	15%
Slot w/u/d	19%	20%	-2%	13%	10%
RevPAR			-1%	10%	10%

Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

Exhibit 25

### NagaCorp: Revenue mix (2012)



Source: Company data, Morgan Stanley Research.

**Gross profit driver:** The 2012 gross profit margins were: VIP (37%), mass (95%), EGM (94%), and non-gaming (61%). The reason for the lower VIP business margin (vs. mass market) is junkets taking a fixed part of rolling chip volume as commission.

**EBITDA driver:** The company's US\$136mn EBITDA grew 22% YoY for 2012. The EBITDA margin remained at 49% for 2011-12. As such, we have factored in a largely flat EBITDA margin, at around 43.5%, for 2013-15. Our lower margin forecast results from higher commissions paid to junkets that are agreeing to take revenue sharing and, in return, bring more rolling chip volume. The company has been prudent in controlling the cost with staff cost per employee staying stable.

**Net profit:** NagaCorp's net profit was US\$44mn, US\$92mn, and US\$113mn, respectively, in 2010, 2011, and 2012. The key cost is depreciation after EBITDA, as interest cost and tax are minimal.

Exhibit 26

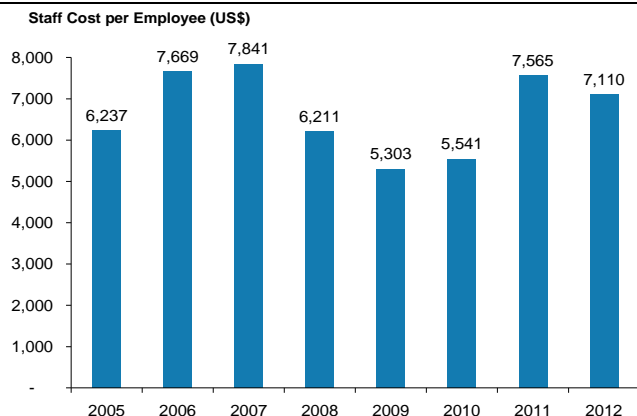
### NagaCorp: Gross profit by segment

US\$ m	2010	2011	2012	2013E	2014E
VIP Gross Profit	20	31	35	43	54
Mass Gross Profit	39	60	74	93	107
EGM Gross Profit	43	66	83	93	103
Non-Gaming Gross Profit	5	6	11	12	16
<b>Total Gross Profit</b>	<b>107</b>	<b>164</b>	<b>203</b>	<b>241</b>	<b>279</b>
<b>Margin (%)</b>					
VIP Gross Profit	36%	39%	37%	36%	34%
Mass Gross Profit	95%	96%	95%	95%	95%
EGM Gross Profit	95%	96%	94%	94%	94%
Non-Gaming Gross Profit	48%	52%	61%	61%	61%
<b>Total Gross Profit</b>	<b>71%</b>	<b>73%</b>	<b>73%</b>	<b>72%</b>	<b>69%</b>

Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

Exhibit 27

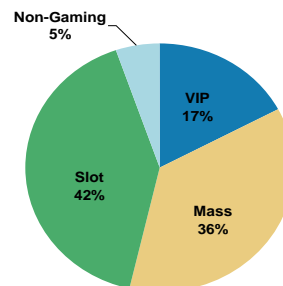
### NagaCorp: Controlled staff cost drives margin



Source: Company data, Morgan Stanley Research.

Exhibit 28

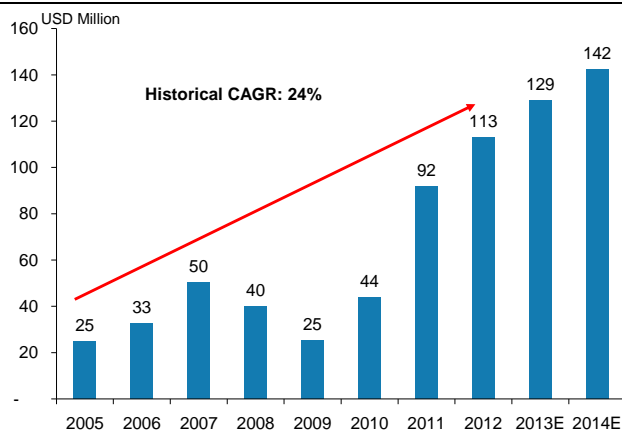
### NagaCorp: Gross profit mix (2012)



Source: Company data, Morgan Stanley Research.

Exhibit 29

### NagaCorp: Net income CAGR 24%, 2005-12



Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

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NagaCorp

Exhibit 30

**NagaCorp: Operational summary**

Operational Data (US\$ mn)	2010	2011	2012	2013E	2014E	2015E
<b>Total Revenue</b>	<b>151</b>	<b>224</b>	<b>279</b>	<b>336</b>	<b>407</b>	<b>453</b>
VIP Revenue	54	80	95	120	159	175
Mass Revenue	42	63	78	98	112	129
EGM Revenue	45	69	88	99	109	119
Non-Gaming Revenue	10	12	18	20	27	29
<b>Total Gross Profit</b>	<b>107</b>	<b>164</b>	<b>203</b>	<b>241</b>	<b>279</b>	<b>312</b>
VIP Revenue	20	31	35	43	54	59
Mass Revenue	39	60	74	93	107	123
EGM Revenue	43	66	83	93	103	112
Non-Gaming Revenue	5	6	11	12	16	18
<b>Gross Margin</b>	<b>71%</b>	<b>73%</b>	<b>73%</b>	<b>72%</b>	<b>69%</b>	<b>69%</b>
Total Gaming Tables	117	121	138	158	173	173
Total EGM Machines	1,032	1,130	1,470	1,485	1,500	1,500

<b>VIP Business</b>						
VIP Roll (US\$ m)	2,377	3,238	3,787	4,783	6,358	6,993
Win Rate	2.3%	2.5%	2.5%	2.5%	2.5%	2.5%
<b>VIP Revenue (US\$m)</b>	<b>54</b>	<b>80</b>	<b>95</b>	<b>120</b>	<b>159</b>	<b>175</b>
Number of Tables	49	55	57	72	87	87
Win/Table/Day (US\$)	3,025	3,992	4,562	4,562	5,018	5,520
Number of People	7,928	16,019	25,090	28,854	33,182	38,159
Revenue per person	6,824	5,003	3,783	4,155	4,802	4,594
Commission	(32)	(46)	(56)	(72)	(99)	(108)
Direct Cost	(2)	(3)	(4)	(5)	(7)	(7)
Gross Profit (VIP )	20	31	35	43	54	59
<b>Mass Business</b>						
Mass Drop (US\$ m)	204	259	348	437	502	577
Win Rate	20.4%	24.1%	22.4%	22.4%	22.4%	22.4%
<b>Mass Revenue (US\$m)</b>	<b>42</b>	<b>63</b>	<b>78</b>	<b>98</b>	<b>112</b>	<b>129</b>
Number of Mass Tables	68	66	81	86	86	86
Win/Table/Day (US\$)	1,673	2,600	2,635	3,110	3,576	4,113
Direct Cost	(2)	(3)	(4)	(5)	(6)	(7)
Gross Profit (VIP )	39	60	74	93	107	123

<b>EGM Business (Slots)</b>						
Slot Handle (US\$ m)	538	777	995	1,136	1,263	1,389
Win Rate	12.7%	11.5%	11.4%	11.4%	11.4%	11.4%
<b>EGM Revenue (US\$m)</b>	<b>68</b>	<b>89</b>	<b>114</b>	<b>130</b>	<b>145</b>	<b>159</b>
Naga Share of revenue	51%	68%	68%	68%	68%	68%
Naga Share of revenue	35	61	78	89	99	109
Upfront Fee	10	8	10	10	10	10
Gross revenue (including upfront fee)	45	69	88	99	109	119
Number of Machines	1,032	1,130	1,470	1,485	1,500	1,500
Win/Slot/Day (US\$)	181	217	212	240	264	290
Company reported Win/Slot		229	236			
Direct Cost	(2)	(3)	(5)	(6)	(6)	(7)
<b>Gross Profit (EGM )</b>	<b>43</b>	<b>66</b>	<b>83</b>	<b>93</b>	<b>103</b>	<b>112</b>

Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.



## Earnings Outlook

We forecast the company's revenue to grow 23% and 20% in FY13 and FY14, respectively. Our assumptions are based on the following:

**VIP rolling chip volume** grows 20%/20% for 2013/2014. We expect the win rate to stay flat, at 2.5%. NagaCorp plans to open five VIP suites on the top floor of the hotel block. We believe NagaCorp may use these five VIP suites to attract junket business from China.

**Mass:** NagaCorp opened a new premium mass-market gaming area, Saigon Palace, on the second floor of the property at the end of 2012 to target Vietnamese visitors. Nine gaming tables and 150 slot machines were added. We expect mass-market revenue to grow 35%/20% in 2013/2014, helped by the expansion.

**For slot machines,** we expect total bill-ins to grow 20%/20% for 2013/2014. NagaCorp added 150 slot machines at Saigon Palace by end-2012. We believe the expansions will help drive growth.

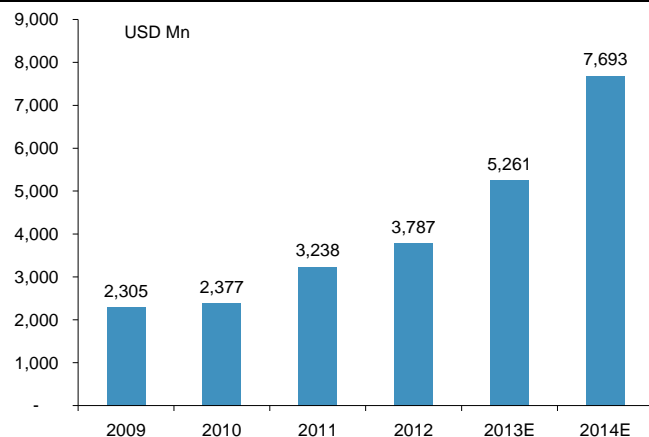
**Hotels:** NagaCorp increased its number of hotel rooms by 44% YoY, to 720, at end-2012. We expect non-gaming revenue to grow 19%/10% in 2013/2014.

**EBITDA:** We forecast the company's EBITDA to grow 12.4% and 18.4% in 2013 and 2014, respectively, because of the opening of the Pool Block, property upgrades, and new VIP capacity to be added. We assume administrative expenses and other operating expenses each rise 23% in each year for 2013-15, similar to revenue growth. As such, we have factored in a largely flat EBITDA margin, at around 43-44% for each year for 2013-15.

**Hotel and entertainment:** As at December 2012, NagaCorp managed 660 hotel rooms, 13 food and beverage outlets and meetings, incentives, conventions and exhibitions (MICE) facilities, including a 25,000sqm meeting and ballroom space (6,500sqm ballroom), an auditorium, and exhibition space, which can accommodate up to 750 participants.

Exhibit 31

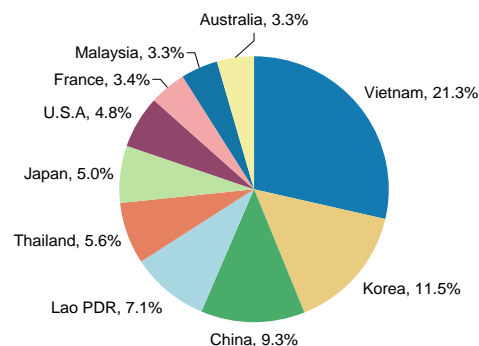
### NagaCorp: We expect significant jump in VIP roll



Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

Exhibit 32

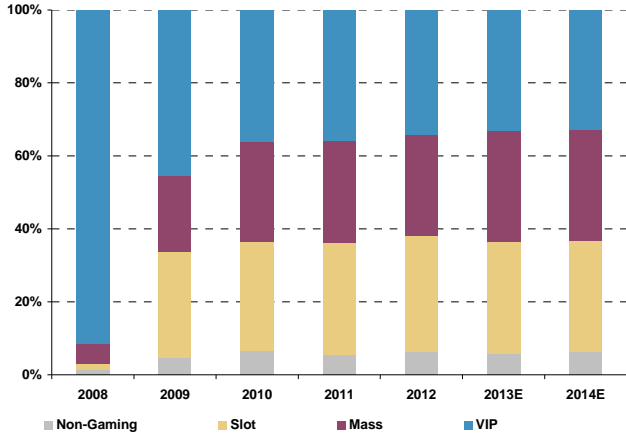
### Cambodia: Top 10 arrivals by country (2012)



Source: Ministry of Tourism Cambodia.

Exhibit 33

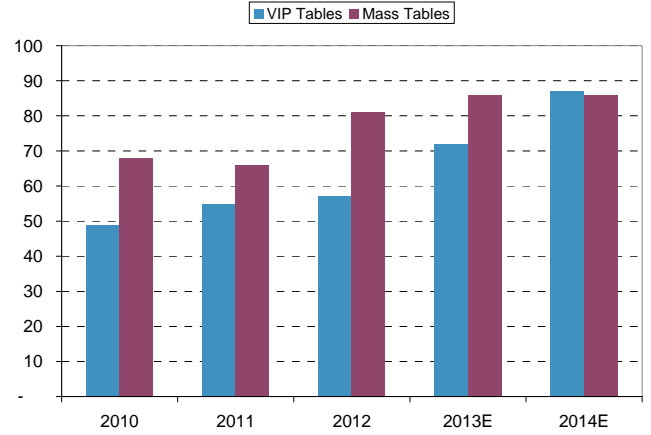
## NagaCorp: Revenue mix



Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

Exhibit 34

## NagaCorp: Table counts – Mass vs. VIP



Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

## Naga2: Next Leg of Earnings Growth

Naga2, with a total built-up area of 97,620sqm, will feature over 1,000 hotel rooms, 50 luxury VIP suites, up to 18,738sqm of retail space, a 4,000 seating capacity MICE/theatre facilities and additional gaming space (up to 300 gaming tables and 500 EGMs). In November 2012, the official ground-breaking ceremony for Naga2 was held and piling works have since commenced.

As shown in Exhibit 35, Naga2 is more than doubling table and hotel capacity for the company.

Exhibit 35

### NagaWorld + Naga2

Naga2	NagaWorld	Enhancement	Completion in 2013	Naga2	Total
Gaming tables	138	32	170	250	400
Gaming machine stations	1,470	30	1,500	500	2,000
Hotel rooms	660	0	660	1,033	1,693
VIP Private Gaming suites	0	7	7	50	57
Retail space(sq m)	381	0	381	18,738	19,119
MICE/Theatre facilities (seating capacity)	750	0	750	4,000	4,750
Car park bay	60	0	60	533	593

Source: Company data, Morgan Stanley Research.

May 10, 2013

NagaCorp

Exhibit 36

**Naga2 Analysis**

<b>Naga 2</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
VIP Table	100	100	100	100	100	100	100
VIP win/Table/Day	4,500	4,590	4,682	4,775	4,871	4,968	5,068
VIP revenue(US\$m)	164	168	171	174	178	181	185
Mass Table	150	150	150	150	150	150	150
VIP win/Table/Day	2,600	2,652	2,705	2,759	2,814	2,871	2,928
VIP revenue(US\$m)	142	145	148	151	154	157	160
Slot machines	500	500	500	500	500	500	500
Slot win/Table/Day	200	204	208	212	216	221	225
Slot revenue(US\$m)	37	37	38	39	40	40	41
<b>Total Gaming Revenue (US\$m)</b>	<b>343</b>	<b>350</b>	<b>357</b>	<b>364</b>	<b>371</b>	<b>379</b>	<b>386</b>
Hotel rooms	1,033	1,033	1,033	1,033	1,033	1,033	1,033
RevPAR	35	35	35	35	35	35	35
Hotel Revenue (US\$ m)	13	14	15	15	16	17	18
Growth		5%	5%	5%	5%	5%	5%
Retail space (sq. m)	18,738	18,738	18,738	18,738	18,738	18,738	18,738
Rental per sq. m per month	5	5	5	5	5	5	5
Retail revenue (US\$ m)	1.1	1.1	1.1	1.1	1.1	1.1	1.1
<b>Total Revenue</b>	<b>521</b>	<b>532</b>	<b>543</b>	<b>554</b>	<b>566</b>	<b>577</b>	<b>589</b>
<b>EBITDA</b>	<b>219</b>	<b>223</b>	<b>228</b>	<b>233</b>	<b>238</b>	<b>242</b>	<b>248</b>
EBITDA margin	42%	42%	42%	42%	42%	42%	42%
Maintenance capex	(50)	(50)	(50)	(50)	(50)	(50)	(50)
<b>FCF</b>	<b>169</b>	<b>173</b>	<b>178</b>	<b>183</b>	<b>188</b>	<b>192</b>	<b>198</b>

Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

## Balance Sheet Analysis

We estimate NagaCorp's net cash position will be US\$241mn/US\$260mn by 2013/14, and we expect the company to maintain its 70% dividend payout ratio. The company has zero gearing, partly because of the high borrowing cost in Cambodia. We expect the company to remain debt-free over the coming years.

NagaCorp does not need to invest additional capex for Naga2, which will the chairman will fund (through his 214mn share sale on 2-Apr-2012) in return for 1,566mn new shares, to be issued in 2016.

In the meantime, the extra cash will be used to renovate 150 rooms to attract VIP customers, build a check-in counter at the airport, and purchase some vehicles. Also, VIP customers would need to be sure of the casino's ability to pay back in the event of players winning big sums.

Exhibit 37

### NagaCorp: Balance sheet

Balance Sheet (US\$ mn)	2010	2011	2012	2013E	2014E	2015E
<b>Non-current assets</b>						
Property, plant and equipment	156	187	238	256	272	285
Interest in leasehold land held for own use under operating lease	1	1	1	1	1	1
Intangible assets	87	84	80	77	73	70
Trade receivables	3	-	-	-	-	-
Deposit payments for purchase of raw materials	-	4	14	14	14	14
<b>Total</b>	<b>247</b>	<b>276</b>	<b>333</b>	<b>348</b>	<b>360</b>	<b>370</b>
<b>Current assets</b>						
Consumables	1	1	1	2	2	3
Trade and other receivables	25	24	21	42	69	103
Deposit payments for purchase of raw materials	6	5	-	-	-	-
Fixed deposits at bank	21	36	15	15	15	15
<b>Cash and cash equivalents</b>	<b>23</b>	<b>29</b>	<b>58</b>	<b>226</b>	<b>245</b>	<b>257</b>
<b>Current liabilities</b>						
Trade and other payables	14	19	26	35	47	52
Current tax liability	-	0	0	0	0	0
Obligations under finance leases	0	0	-	-	-	-
<b>Total Current Liabilities</b>	<b>14</b>	<b>19</b>	<b>26</b>	<b>36</b>	<b>48</b>	<b>53</b>
Net current assets	61	76	69	248	284	325
Total assets less current liabilities	309	352	402	596	644	695
<b>Non-current liabilities</b>						
Obligations under finance leases	0	-	-	-	-	-
<b>NET ASSETS</b>	<b>309</b>	<b>352</b>	<b>402</b>	<b>596</b>	<b>644</b>	<b>695</b>
<b>CAPITAL AND RESERVES</b>						
Share capital	26	26	26	29	29	29
Reserves	283	326	376	568	615	667
<b>TOTAL EQUITY</b>	<b>309</b>	<b>352</b>	<b>402</b>	<b>596</b>	<b>644</b>	<b>695</b>
<b>Net Debt (Cash)</b>	<b>(44)</b>	<b>(65)</b>	<b>(73)</b>	<b>(241)</b>	<b>(260)</b>	<b>(272)</b>

Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

May 10, 2013

NagaCorp

## Cash Flow Analysis

NagaCorp has been cash flow positive since inception. We expect the company to generate operating cash flow of US\$142mn in 2013. This, along with US\$155mn raised in March 2013, should help the cash balance remain above US\$200mn in the near future.

We see the risk of higher capex than we have currently estimated because of new VIP initiatives. However, we do not believe the company needs to raise any more equity considering the current strength of its balance sheet.

Exhibit 38

### NagaCorp: Cash flow statement

US\$ million	2010	2011	2012	2013E	2014E	2015E
<b>Profit before Tax</b>	<b>48</b>	<b>96</b>	<b>118</b>	<b>133</b>	<b>147</b>	<b>159</b>
Depreciation & Amortization	14	16	20	25	28	30
Other Non-Cash Adjustments	(1)	(5)	(10)	(4)	(4)	(4)
Changes In Working Capital	16	6	11	(12)	(15)	(31)
Cash From Operations	78	113	139	142	154	154
<b>CAPEX</b>	<b>(24)</b>	<b>(45)</b>	<b>(67)</b>	<b>(40)</b>	<b>(40)</b>	<b>(40)</b>
Decrease In Investments	0	0	-	-	-	-
Other Investing Activities	(16)	(13)	21	-	-	-
Cash From Investing Activities	(40)	(58)	(46)	(40)	(40)	(40)
Dividends Paid	(30)	(48)	(64)	(89)	(95)	(103)
Increase In Capital Stocks	-	-	-	155	-	-
Other Financing Activities	(0)	(0)	(0)	-	-	-
Cash From Financing Activities	(30)	(48)	(64)	66	(95)	(103)
Change in Cash	8	6	29	168	20	11
<b>Cash balance at 31 December</b>	<b>23</b>	<b>29</b>	<b>58</b>	<b>226</b>	<b>245</b>	<b>257</b>

Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

Exhibit 39

### NagaCorp: Income statement

US\$ m	2010	2011	2012	2013E	2014E	2015E
Casino Revenue	141	211	261	324	387	425
Hotel and Entertainment operations	10	12	18	20	27	29
Revenue	151	224	279	344	414	454
Cost of sales	(44)	(60)	(76)	(103)	(138)	(152)
Gross profit	107	164	203	242	276	303
Administrative expenses	(31)	(32)	(41)	(52)	(62)	(68)
Other operating expenses	(18)	(22)	(26)	(34)	(41)	(45)
EBITDA	57	110	136	155	173	189
Depreciation	(10)	(12)	(17)	(20)	(24)	(29)
Amortization of license	(4)	(4)	(4)	(4)	(4)	(4)
EBIT	43	94	116	132	145	157
Other revenue	4	2	1	2	2	2
Interest Expense	-	-	-	-	-	-
Profit before taxation	48	96	118	133	147	159
Income Tax	(4)	(4)	(4)	(4)	(4)	(4)
PAT	44	92	113	129	142	154

Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

## Business Overview

NagaWorld, the company's hotel and entertainment complex, is in Phnom Penh, the capital city of Cambodia. NagaWorld's geographic location is one of the key factors that attracts an increasing number of tourists from different parts of Asia every year. Adjacent to Vietnam, Thailand, and Laos, Cambodia is less than six hours by air from most major cities in Asia.

### Business segment

The company has two main business segments: (1) casino operations and (2) hotel and entertainment.

### Casino operation

The company's major source of revenue is its casino gaming operation. 94% of total revenues were generated from gaming, composed of 30% mass market, 36% VIP, and 34% slot machines in 2012.

**Mass market:** Supported by strong growth in tourist arrivals and the company's strong emphasis on public floor gaming, there has been robust growth in total buy-ins in the mass segment. Around 35% of visitors to the public gaming floor are Vietnamese, 35% are Cambodians, and the other 30% are from the rest of Asia. Marketing efforts (e.g., the launch of the Luxury Bus Program from Ho Chi Minh City to Phnom Penh in May 2012 and loyalty program, i.e., Golden Edge Rewards Club in Jan 2012) have been made by management to continue to attract more mass-segment customers.

**VIP market:** Minimum check-in to be qualified as a VIP customer in NagaWorld is US\$15,000, which is significantly lower than the thresholds in Macau or other regions. Nearly 75% of the VIP total rolling comes from 35-40 junket operators that NagaCorp is coordinating with, while the other 25% is from direct VIP marketing. The company maintains a conservative credit policy, with selective granting of credit to only reputable junket operators with a proven track record since 2009, to improve revenue stability and margin. 60% of VIP customers are from Malaysia, with the rest from other parts of Asia.

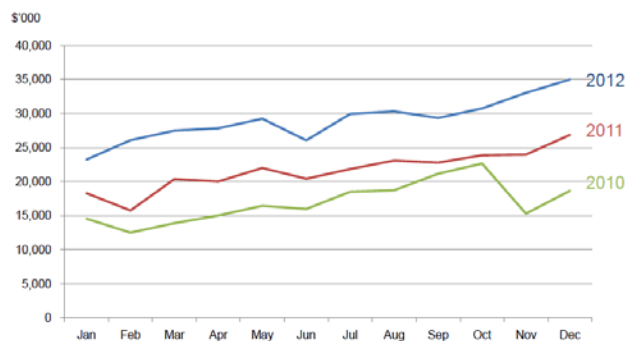
**Slot machines:** Total bill-ins have risen at a 65% three-year CAGR, to US\$977mn in 2012, fostered mainly by the increasing number of tourists to NagaWorld. The company launched the Rapid1 and Rapid2 gaming areas in 2H11 and 1H12, respectively, where the games have lower minimum bet sizes and higher player turnover. By moving low-end players from the main public floor to Rapid game areas, the company is

able to secure more space for high-end mass-market players, which brings incremental revenue from both the premium and low-end mass-market segments.

**Hotel and entertainment:** As of December 2012, NagaCorp managed 610 hotel rooms, 13 food and beverage outlets, and MICE facilities, including a 25,000sqm meeting and ballroom space (6,500sqm ballroom), an auditorium, and exhibition space, which can accommodate up to 750 participants.

Exhibit 40

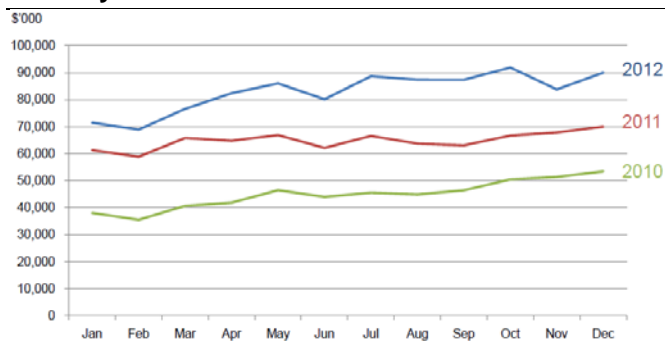
### Gaming tables – Positive growth in monthly buy-ins



Source: Feb 2013 NagaCorp presentation.

Exhibit 41

### Electronic gaming machines – Positive Growth in monthly bill-ins



Source: Feb 2013 NagaCorp presentation.

Exhibit 42

## First luxury boutique



Source: Company presentation.

Exhibit 43

## Aristocrat Private Club – A membership club in public floor for customers playing higher table limits



Source: Company presentation.

Exhibit 44

## NagaRock



Source: Company presentation.

Exhibit 45

## Saigon Palace



Source: Company presentation.



May 10, 2013  
NagaCorp

## NagaCorp Assets

**NagaWorld:** NagaWorld consists of an eight-storey entertainment wing, 14-storey hotel wing, and a car park block. It has 65 VIP tables, 72 mass-market gaming tables, 1,351 slot machines, 610 hotel rooms, and 13 F&B outlets as at end-2012. During 2011 and 2012, NagaCorp launched new gaming floors (Rapid 1 and Rapid 2), with 91 and 92 rapid gaming machines, respectively. In February 2012, NagaRock – a lifestyle gaming and entertainment place with higher-limit tables, slot machines and restaurants – opened, targeting the premium mass customer segment.

In early 2012, its third wing, the Pool Block, added 110 hotel rooms, and another 110 hotel rooms were completed in 4Q12. The new facility is specifically targeted at Vietnamese tourists who use the Luxury Bus program from Ho Chi Minh City to Phnom Penh. A new gaming place, Saigon Palace, opened in December 2012 to cater to Vietnamese customers. NagaCorp also plans to open five VIP suites on the top floor of the hotel block. NagaWorld also has a broad portfolio of nongaming facilities. The Club 88 Karaoke and the Aristocrat Wine and Cigar Bar are popular entertainment venues.

**Naga2 project:** NagaCorp is planning to expand its facilities with its acquisition of TSC Inc and City Walk Inc in an agreement with the CEO Tan Sri Dr Chen Lip Keong concluded in 2011. The project, Naga2, includes the development and construction of the hotel and gaming complex, a retail walkway and a tourist park in Cambodia. It will feature over 1,000 hotel rooms, 50 VIP luxury suites, up to 18,738sqm of retail space, a 4,000-seating capacity MICE/theatre facility and additional gaming space. The company aims to complete the project by end-2015 and to firmly position itself as a regional integrated gaming/entertainment hub.

Exhibit 46

### Location of NagaWorld & Naga2



Source: Feb 2013 NagaCorp presentation.

Exhibit 47

### Naga2 perspectives



Source: Feb 2013 NagaCorp presentation.

Exhibit 48

### Naga2 perspectives



Source: Feb 2013 NagaCorp presentation.

## Company Background

Founded by Tan Sri Dr Chen Lip Keong in 1995, NagaCorp is the largest gaming, hotel and leisure operator in Cambodia. The company was listed in October 2006 on the Stock Exchange of Hong Kong Limited as the first Cambodian company to be publicly listed, as well as the first IPO-listed gaming company traded on the stock exchange.

NagaCorp holds a casino license granted by the Royal Government of Cambodia for 70 years commencing 2-Jan-1995, and 40 years of exclusivity (i.e., through 2035) within a 200km radius of Phnom Penh (excluding the Cambodia-Vietnam border area, Bokor, Kirirom Mountains and Sihanoukville).

NagaCorp management has a proven track record. Since its listing in 2006, NagaCorp has delivered a solid net profit CAGR of 23%, benefitting from the robust growth in Cambodia's tourist arrivals. In 2012, the company's net profit more than doubled, and its 49% EBITDA margin was one of the highest among regional gaming peers. As noted, management continues to upgrade its property to better utilize the existing space.

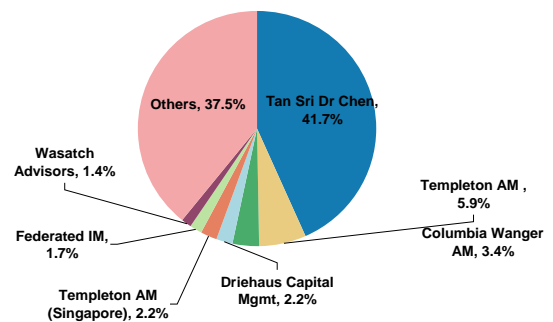
Tan Sri Dr Chen Lip Keong is the Chief Executive Director and the founder of NagaCorp. Dr Chen has played a key role in establishing the firm's casino operations in Cambodia and in

negotiating with the government on various agreements, including tax benefits.

The chairman, Mr. Timothy McNally, joined NagaCorp in 2005, in part to oversee internal controls and anti-money laundering procedures. He worked for over 20 years with the US Federal Bureau of Investigation and was the former executive director of security and corporate legal services at the Hong Kong Jockey Club.

Exhibit 49

### Shareholding structure as of March 2013



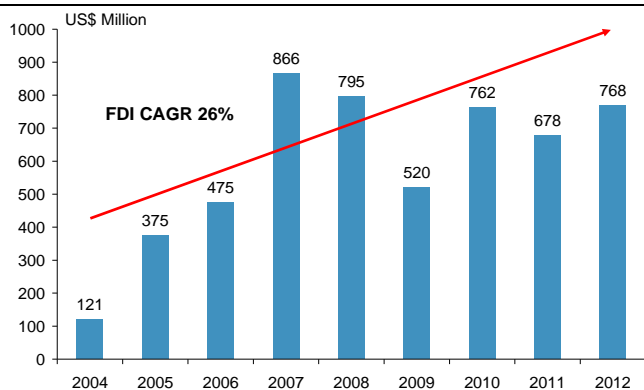
Source: Company data, Morgan Stanley Research

## Cambodia: Favorable Economic Environment

Cambodia's key industries are garment exports, tourism, agriculture and construction. In 2011 and 2012, GDP growth were 6.9% and 6.6%, respectively; for 2013, the World Bank's estimate is 6.7%. Foreign direct investment has been increasing at a 26% CAGR, 2004-12.

Exhibit 50

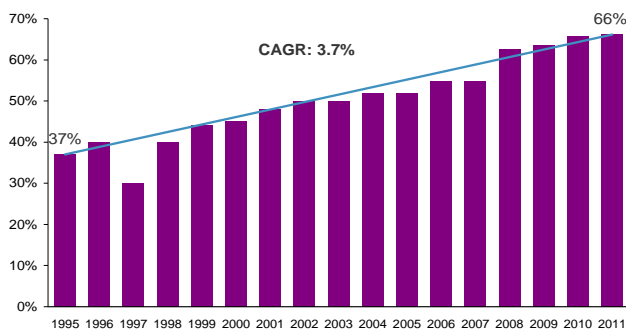
### Cambodia: Favorable macro climate – Increasing FDI



Source: Cambodia Business Review, January 2013.

Exhibit 51

### Hotel occupancy rate



Source: CEIC.

### Visitation

Cambodia received 3.6mn visitors in 2012, 25% higher than in 2011. The strong growth in visitation was mainly driven by people from Vietnam, Korea and China.

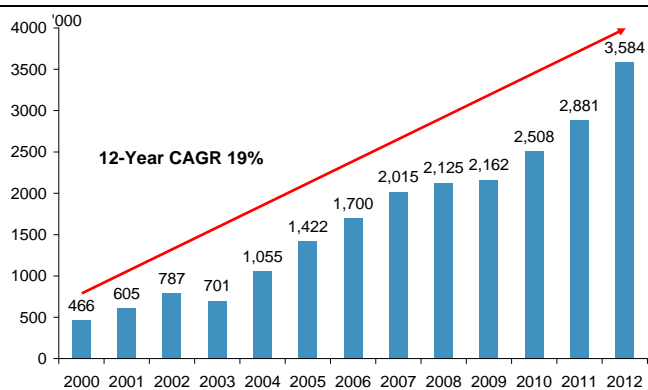
**More flights:** Currently, there are about 360 weekly flights to Cambodia (vs. 160 weekly flights in 2010), and the figure continues to increase. In 2012, Cambodia experienced a 24% rise in visitation. New airlines flying to Cambodia in 2012 included Philippines' Cebu – Pacific Airlines (Manila to Siem Reap), Germany's Condor Air (Frankfurt to Siem Reap), and Singapore's Tiger Air (Singapore to Phnom Penh).

**New air route access and capacity expansion:** New 2013 air routes to Cambodia include from Doha, Manila, Jakarta, Dubai, and India's main cities. The existing international airport expansion is slated to double capacity by 2015, and a new international airport is in the planning stages.

**Mass market:** The largest increase in visitation for 2012 was from the three countries on which NagaCorp focuses: China, Korea, and Vietnam.

Exhibit 52

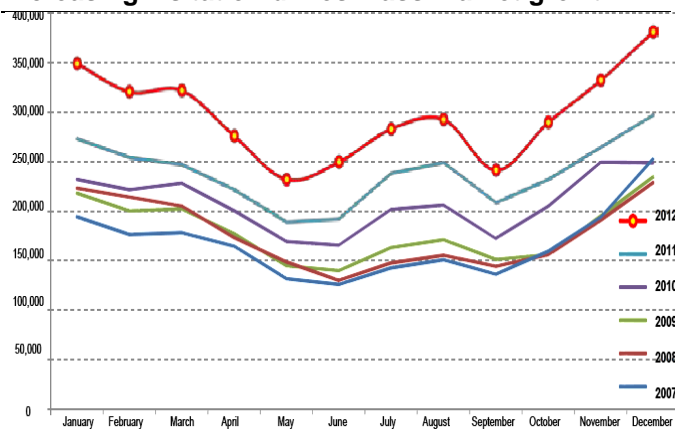
### Tourist arrivals since 2000



Source: Ministry of Tourism Cambodia.

Exhibit 53

### Increasing visitation drives mass-market growth



Source: Statistics and Tourism Information Department, MOT.



**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of April 30, 2013)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>1034</b>	<b>36%</b>	<b>399</b>	<b>39%</b>	<b>39%</b>
<b>Equal-weight/Hold</b>	<b>1250</b>	<b>44%</b>	<b>479</b>	<b>47%</b>	<b>38%</b>
<b>Not-Rated/Hold</b>	<b>105</b>	<b>4%</b>	<b>27</b>	<b>3%</b>	<b>26%</b>
<b>Underweight/Sell</b>	<b>473</b>	<b>17%</b>	<b>123</b>	<b>12%</b>	<b>26%</b>
<b>Total</b>	<b>2,862</b>		<b>1028</b>		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

### Analyst Stock Ratings

**Overweight (O or Over)** - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

**Equal-weight (E or Equal)** - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

**Not-Rated (NR)** - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index on a risk-adjusted basis, over the next 12-18 months.

**Underweight (U or Under)** - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

### Analyst Industry Views

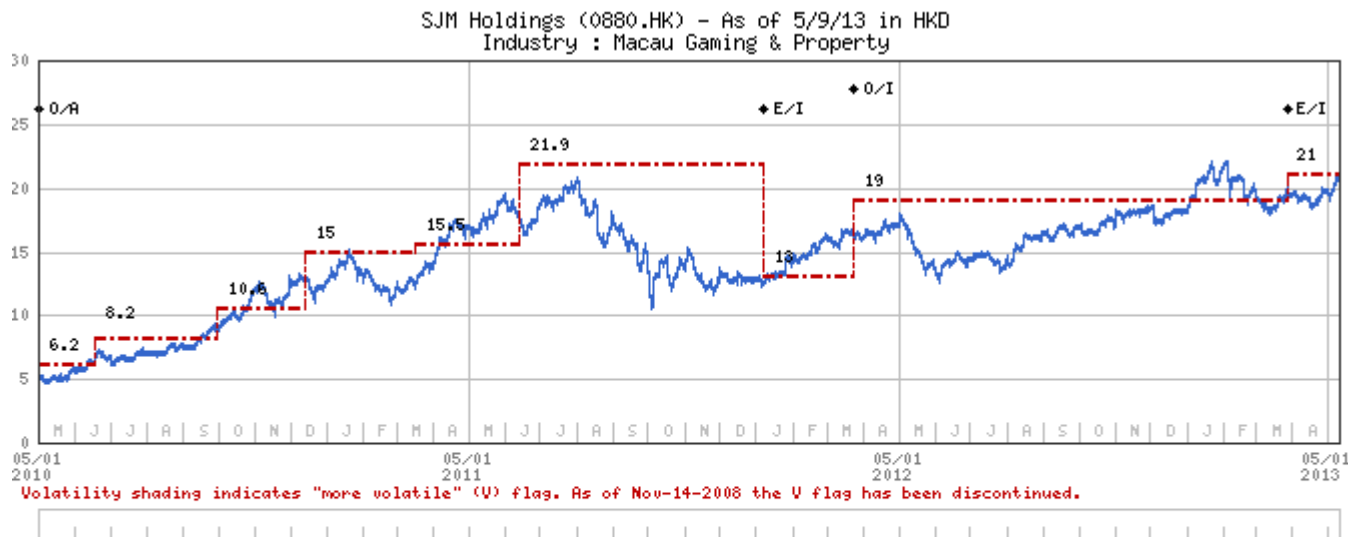
**Attractive (A)**: The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

**In-Line (I)**: The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

**Cautious (C)**: The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

### Stock Price, Price Target and Rating History (See Rating Definitions)



Source: Morgan Stanley Research      Date Format : MM/DD/YY      Price Target --      No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■  
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View  
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (U) No Rating Available (NA)  
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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May 10, 2013

NagaCorp

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## Industry Coverage: Hong Kong Gaming

Company (Ticker)	Rating (as of)	Price* (05/09/2013)
<b>Praveen K Choudhary</b> NagaCorp (3918.HK)	E (05/10/2013)	HK\$6.52

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