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NagaCorp

Monopoly Casino License, BRI Beneficiary – Assuming Coverage with OW Rating



We believe the opening of Naga 2 and benefits from China's BRI should drive EBITDA growth of >20% p.a. through 2020e. Current 2019e valuation is attractive: 10% FCFE yield, 9x EV/EBITDA, 11x P/E and dividend yield of 5-6%.

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NagaCorp

Monopoly Casino License, BRI Beneficiary – Assuming Coverage with OW Rating

 Stock Rating

Overweight

 Industry View

Attractive

 Price Target

HK\$8.20

We believe the opening of Naga 2 and benefits from China's BRI should drive EBITDA growth of >20% p.a. through 2020e. Current 2019e valuation is attractive: 10% FCFE yield, 9x EV/EBITDA, 11x P/E and dividend yield of 5-6%.

Supply drives demand: We believe the opening of Naga 2 in November 2017 will increase total capacity 2-3x (rooms +113%, tables +100%, and slots +201%). With better hotel hardware/services, the company should be able to attract more premium mass/VIP customers, which should enable an EBITDA growth of >20% CAGR through 2020e. Two new key junkets (Suncity and Meg-Star) will be added in 1H18. In Macau, Galaxy's and Wynn Macau's market cap more than doubled in the next 18 months after opening of their second casino.

Key beneficiary of Belt and Road Initiative and "China Ready" strategy: Investment from China accounted for 52% of total foreign investment in Cambodia and grew 45% YoY in 2017. Cambodia's "China Ready" strategy (announced in 2016) also aims to attract 2mn Chinese tourists annually by 2020 (currently 1.2mn). We estimate that visitation from China should grow 13% p.a. through 2020 after growing at 46% in 2017.

Scores better than Macau on three fronts – monopoly through 2035, lower tax, and lower labor cost: It also pays higher dividend yield and has no debt on the balance sheet. EBITDA growth is comparable or higher.

Attractive valuation with high dividend yield: Our target price of HK\$8.2 is based on 2019e FCFE yield of 9%, higher than Macau peers' average of 6.0%. The stock also looks attractive at 8x 12M forward EV/EBITDA and 12x forward P/E on consensus numbers, both implying over 40% discount to Macau peers. NagaCorp has paid out 60% of its earnings every year since 2015, and we expect this to continue, driving above-peers' dividend yields of 5-6% in 2018/19e.

Risks: Our EBITDA estimates are below consensus owing to inclusion of potential revenue tax of 5% starting 2018. However, tax overhang remains until it's announced, expected in 2H18. We also cite political uncertainty around the election in mid-2018 and future investment on lower return projects.

NagaCorp (3918.HK, 3918 HK)

ASEAN Gaming Hong Kong

Stock Rating	Overweight
Industry View	Attractive
Price target	HK\$8.20
Shr price, close (Mar 5, 2018)	HK\$7.15
52-Week Range	HK\$7.66-3.29
Sh out, dil, curr (mn)	4,341
Mkt cap, curr (mn)	US\$3,964
Avg daily trading value (mn)	HK\$27

Fiscal Year Ending	12/17	12/18e	12/19e	12/20e
ModelWare EPS (US\$)	0.059	0.070	0.084	0.103
Prior ModelWare EPS (US\$)	-	-	-	-
Revenue, net (US\$ mn)	956	1,612	1,885	2,249
EBITDA (US\$ mn)	312	383	454	543
ModelWare net inc (US\$ mn)	255	303	364	449
P/E	13.2	13.1	10.9	8.8
P/BV	3.3	2.6	2.4	2.1
RNOA (%)	20.5	18.7	20.1	24.5
ROE (%)	20.4	21.9	24.0	26.8
EV/EBITDA	14.4	10.3	8.4	6.5
Div yld (%)	4.6	4.6	5.5	6.8

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
e = Morgan Stanley Research estimates

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Contents

5	Financial Summary
6	Risk-Reward
7	Key Charts
8	Investment Case
9	1) Strong EBITDA growth outlook driven by capacity expansion
10	2) Demand enablers – BRI and "China Ready" Strategy
15	3) Improved growth outlook for all segments
17	4) Cambodia: more structural than Macau
19	Investment Concerns
21	4Q17 Results Summary
22	Financials
24	Valuation
26	Appendix 1: Cambodia – Positive Economic Environment
27	Appendix 2: Overview of Naga 2
28	Appendix 3: Vladivostok Project

Financial Summary

Exhibit 1:

NagaCorp: Financial Summary

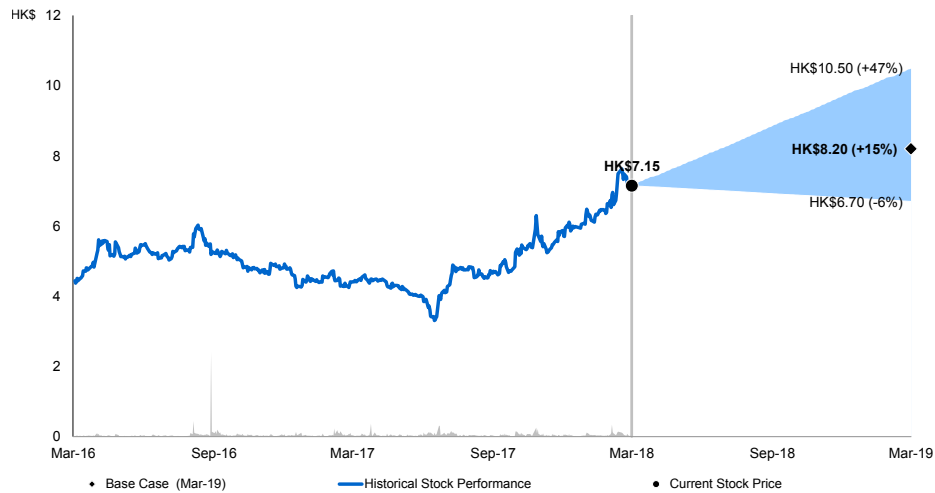
For the years ending December 31

Income Statement					Cash Flow Statement				
US\$ million	2017	2018E	2019E	2020E	US\$ million	2017	2018E	2019E	2020E
Revenue	956	1,612	1,885	2,249	Profit before Tax	263	305	367	452
VIP Revenue	625	1,160	1,371	1,650	Depreciation & Amortization	56	85	95	99
Mass Revenue	150	208	229	276	Other non-cash adjustments	1	(3)	(3)	(3)
EGM Revenue	151	182	211	246	Changes In Working Capital	12	(1)	(4)	(4)
Non-Gaming Revenue	30	62	73	77	Operating cash flows	332	386	455	544
Cost of sales	(483)	(907)	(1,072)	(1,287)	Capex	(364)	(245)	(115)	(40)
Gross profit	473	705	813	961	Others	1	-	-	-
VIP	154	274	324	389	Investing cash flows	(363)	(245)	(115)	(40)
Mass	146	202	223	268	Dividends Paid	(127)	(170)	(203)	(249)
EGM	149	179	208	241	Issuance of shares	-	-	-	-
Non-Gaming	25	50	60	62	Others	-	-	-	-
Administrative expenses	(67)	(102)	(112)	(129)	Financing cash flows	(127)	(170)	(203)	(249)
Other operating expenses	(94)	(143)	(157)	(180)	Change in Cash	(158)	(28)	137	255
EBITDA	312	383	454	543	Ending cash	53	24	161	416
Depreciation	(53)	(81)	(91)	(96)					
Amortization of license	(4)	(4)	(4)	(4)					
EBIT	256	298	359	444					
Profit before tax	263	305	367	452	Ratios	2017	2018E	2019E	2020E
Income Tax	(8)	(3)	(3)	(3)	Current ratio	2.0	1.3	2.1	3.1
Profit after tax	255	303	364	449	Gross Profit Margin%	49%	44%	43%	43%
EPS (HK cents)	61.6	54.0	65.0	80.2	- VIP	25%	24%	24%	24%
DPS (HK cents)	27.4	32.4	39.0	48.1	- Mass	97%	97%	97%	97%
					- EGM	99%	98%	98%	98%
					- Non-gaming	81%	81%	81%	81%
					EBITDA Margin%	33%	24%	24%	24%
					Net Margin%	27%	19%	19%	20%
					Dividend Payout Ratio (total)	60%	60%	60%	60%
					EBITDA to operating CF	94%	99%	100%	100%
					GGR Growth	85%	67%	17%	20%
					VIP Growth	177%	86%	18%	20%
					Mass Growth	15%	39%	10%	20%
					EGM Growth	4%	21%	16%	16%
					EBITDA Growth	25%	23%	19%	20%
					Net Profit Growth	39%	19%	20%	23%
					Operating Data				
					VIP Tables (avg)	237	315	365	365
					Mass Tables (avg)	103	159	199	199
					EGM Machines (avg)	1,949	2,500	3,000	3,500
					VIP win/table/Day (US\$)	7,229	10,092	10,294	12,352
					Mass win/table/Day (US\$)	3,982	3,584	3,154	3,785
					EGM win/unit/Day (US\$)	212	223	229	241
					Visitors to Cambodia (m)	5.6	5.9	6.2	6.5

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

Risk-Reward

Upside driven by capacity expansion in Cambodia



Source: Morgan Stanley Research estimates

Price Target **HK\$8.20**

Base case, target yield of 9% based on 2019e FCFE

Bull **HK\$10.50**

7.0% recurring FCFE yield 2019e

Stronger visitation growth; quicker than expected ramp of Naga2

Base **HK\$8.20**

9.0% recurring FCFE yield 2019e

Continued growth in visitations, visitation growth of 5% for 2018/19; VIP win/table growth of 40% for 2018e and 2% for 2019e; mass w/t/d down 10% in 2018e and 12% in 2019e during Naga 2 ramp; total average tables to reach 474 in 2018e and 564 in 2019e.

Bear **HK\$6.70**

11.0% recurring FCFE yield 2019e

Downturn in overall economy, more competition from Vietnam, reduced visitation, and slower than expected Naga2 ramp.

Why Overweight

- Capacity expansion in Naga 2.
- China's Belt and Road Initiative (BRI) and Cambodia's China Ready strategy to attract Chinese visitors, driving in strong VIP and mass earnings.
- Attractive valuation at 2019e FCFE yield of 10%, 9x EV/EBITDA, 11x P/E and dividend yield of 5-6% in 2018/19e.

Key Value Drivers

- Visitors growth, especially from China
- VIP roll, driven by new junkets addition (Suncity on 1st March 2018 and Meg-Star in 2Q18)
- Naga2 boost with at least 300 tables, 903 rooms, 2500 slots and additional non gaming areas
- Monopoly position in Cambodia

Potential Catalysts

- Stronger than expected earnings growth in 2018
- Two Macau junkets opening in 1H18
- Removal of overhang with respect to tax rate in Cambodia in 2H18

Risks to Achieving Price Target

- **Downside:**
- Political instability and/or natural disasters in Cambodia
- Potential share dilution for future developments and expansion
- Regional competition (e.g., Vietnam, Philippines, Korea, Macau, Singapore, etc.)

Key Charts

Exhibit 2:

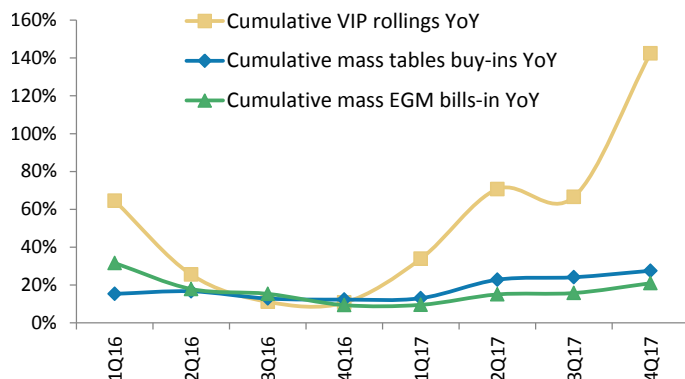
Project: Naga 1 + Naga 2 Capacity

	Naga1	Naga2	Total
Gaming tables	around 300	at least 300	600
- VIP tables	200	200	400
- Mass tables	100	100	200
- Slot machines	1,660	at least 2,500	at least 5,000
Hotel rooms	797	903	1,700
VIP Private Gaming suites	12	38	50
Retail space (sqm)	261	3,800	4,061
MICE/Theatre facilities (seats)	750	2,200	2,950
Car park bay	60	400	460

Note: VIP/Mass tables allocation will change according to demand; Source: Company, Morgan Stanley Research estimates

Exhibit 4:

Cumulative quarterly business volume growth - accelerated in 2017, VIP especially



Source: Company data, Morgan Stanley Research

Exhibit 6:

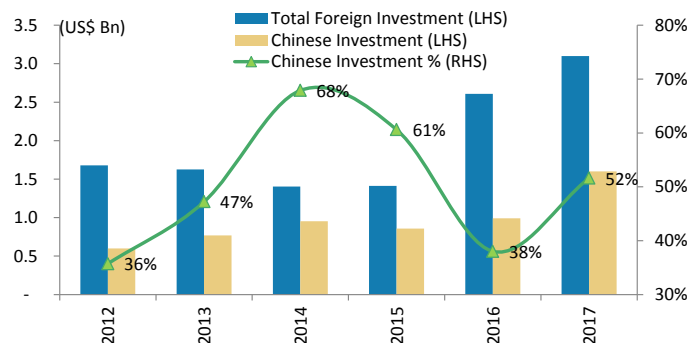
FCFE Valuation and multiples

FCFE Valuation (US\$ mn)	2017	2018E	2019E	2020E
Company EBITDA	312	383	454	543
Less: Income tax*	(8)	(3)	(3)	(3)
Less: Maintenance Capex	(25)	(40)	(40)	(40)
FCFE	279	340	411	501
Target FCFE Yield			9.0%	
Equity Value	3,098	3,778	4,569	5,562
Number of shares			4,341	
Price Target (HK\$)			8.20	
Upside/downside			15%	
Current multiples	2017	2018E	2019E	2020E
EV/EBITDA	12.9	10.6	8.6	6.7
P/E	16.0	13.5	11.2	9.1
Recurring FCFE Yield	6.8%	8.3%	10.1%	12.3%
Div Yield%	3.8%	4.5%	5.5%	6.7%

Source: Thomson Reuters as of 5 March 2018, Morgan Stanley Research (E) estimates

Exhibit 3:

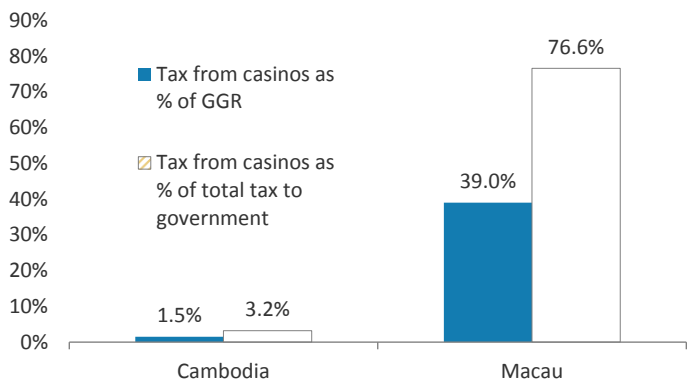
China accounted for 52% of all foreign investment in Cambodia for the past three years



Source: CDC, Morgan Stanley Research

Exhibit 5:

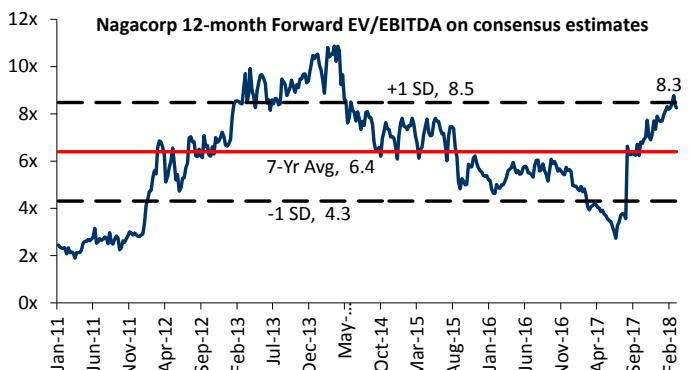
Tax revenue from casinos as a percentage of GGR and total tax revenue in 2016



Source: Company data, Morgan Stanley Research

Exhibit 7:

12-month forward EV/EBITDA on consensus estimates is now 8.3x, below Macau peers at 13x



Source: Thomson Reuters as of 5 March 2018, Morgan Stanley Research

Investment Case

We think NagaCorp's EBITDA will significantly increase in the next two years, driven by capacity expansion from Naga 2, which opened in November 2017 and benefits from favorable policies such as China's BRI and Cambodia's "China Ready" Strategy. Revenue growth is also supported by its monopoly casino license through 2035, new junkets addition, strong economic growth of the country, and influx of Chinese visitation. We expect stable and growing dividends in line with earnings growth.

Supply drives demand: We believe the opening of Naga 2 in November 2017 will increase total capacity 2-3x (rooms +113%, tables +100%, and slots +201%). With better hotel hardware/services, the company should be able to attract more premium mass/VIP customers, which should enable an EBITDA growth of >20% CAGR through 2020e. Two new key junkets (Suncity and Meg-Star) will be added in 1H18. In Macau, Galaxy's and Wynn Macau's market cap more than doubled in the 18 months after the opening of their second casino.

Beneficiary from China's BRI initiative and "China Ready" Strategy: Cambodia is a key country in China's Belt and Road Initiative. Investment from China accounted for 52% of total foreign investment in Cambodia and grew 45% YoY in 2017. China pledged US\$240mn in grants to Cambodia during the first BRI Forum in Beijing in May 2017, and the countries signed 13 agreements focusing on a wide range of areas including infrastructure, finance, tourism, trade, etc. Cambodia's China Ready Strategy (announced in 2016) also aims to attract 2mn Chinese tourists annually by 2020. We believe the continued implementation of these favorable policies will significantly improve infrastructure and tourism in Cambodia, driving visitation from China to grow 13% p.a. through 2020e after growing 4-6% in 2017.

Scores better than Macau on three fronts: They are: monopoly through 2035, lower tax, and lower labor cost. It also pays higher dividend yield and has no debt on the balance sheet. EBITDA growth is comparable or higher.

Removal of overhang related to CB dilution: On 8 August 2017, the conversions of TSCLK and NagaCity Walk CBs were completed and the company issued 1,881m shares, which caused 76% share dilution. This has completely removed the overhang related to CB dilution. As of end-2017, the total number of outstanding shares was 4,341mn.

Valuation: Our target price of HK\$8.2 is based on 9% FCFE yield on 2019e, higher than Macau peers' average at 6.0%. Valuation looks attractive at 8x 12M forward EV/EBITDA and 12x forward P/E on consensus numbers, both implying over 40% discount to Macau peers. NagaCorp has paid out 60% of its earnings every year since 2015. We expect this to continue, driving above-peers' dividend yields of 5-6% in 2018/19e.

What the market is missing: The stock has outperformed its Macau peers in 2017/YTD2018, yet the average EV/EBITDA discount to Macau peers remains 40%. In some sense, it deserves a premium over Macau, for example: 1) a monopoly license through 2035; 2) higher growth rate in the near term thanks to Naga 2 ramp; 3) higher dividend yield and growth than Macau peers. We are ahead of consensus revenue by 11% for 2018e and 18% for 2019e but below consensus EBITDA by 14% and 9% because of the gaming tax adjustment. We project a higher EBITDA CAGR and dividend growth compared to Macau.

Risks: Our EBITDA estimates are below consensus owing to inclusion of potential revenue tax of 5% starting 2018. The tax overhang remains until its final announcement, expected in 2H18. We also cite political uncertainty around elections in mid-2018 and future investment on lower return projects.

1) Strong EBITDA growth outlook driven by capacity expansion

Doubled capacity: The opening of Naga 2 in November 2017 will add at least 300 gaming tables, 2500 slots, and 903 hotel rooms, which will almost double Naga's capacity and MICE facilities. By the end of 2017, around 132 new tables were in place with Naga 2, according to the company. We expect the total number of gaming tables (including both Naga 1 and Naga 2) to reach 564 by the end of 2018, along with the addition of new junkets and casino ramping.

Presence of two new Macau junkets will provide access to Chinese wallets: According to the company, Suncity opened its VIP halls in Naga 2 on 1 March 2018 and Meg-Star plans to open in 2Q18. Macau junkets contributed more than 40% of GGR or US\$14bn in 2017 in Macau by our estimates, and two of the largest junkets to be added in Naga 2 will significantly bring more access to Chinese VIP wallets.

Exhibit 8:

Project: Naga 1 + Naga 2 Capacity

	Naga1	Naga 2	Total
Gaming tables	about 300	at least 300	600
- VIP tables	200	200	400
- Mass tables	100	100	200
- Slot machines	1,660	at least 2,500	at least 5,000
Hotel rooms	797	903	1,700
VIP Private Gaming suites	12	38	50
Retail space (sqm)	261	3,800	4,061
MICE/Theatre facilities (seats)	750	2,200	2,950
Car park bay	60	400	460

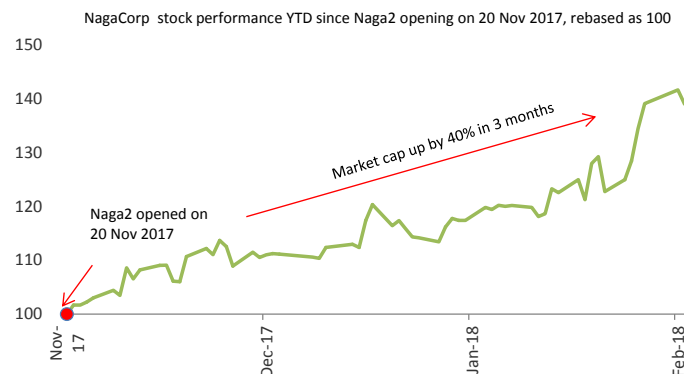
Source: VIP/Mass tables allocation will change according to demand; Source: Company, Morgan Stanley Research estimates

Strong EBITDA growth in 2018/19e: We believe the capacity expansion will drive stronger EBITDA growth at 23% in 2018 and 19% in 2019. This includes the impact from gaming tax effective from 2018 (we use 5% gaming tax assumption). Excluding the gaming tax deduction from EBITDA, our EBITDA growth forecasts would be 47% for 2018 and 18% for 2019.

Stocks tend to outperform when new capacity is added in an upcycle: Historically, Macau stocks have tended to outperform as the new capacity drives higher profitability over the two years following the opening of new casinos. For example, market cap for Wynn Macau and Galaxy Macau more than doubled in the 18 months after the opening of their casinos in Cotai.

Exhibit 9:

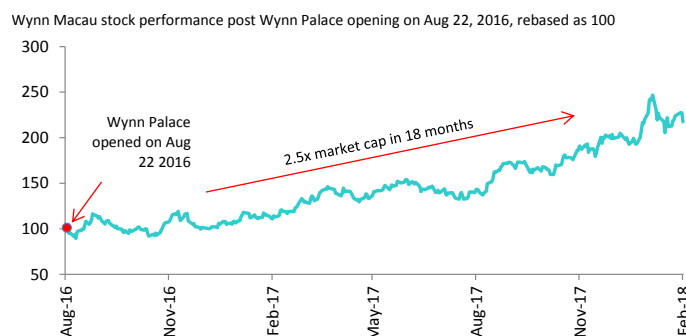
NagaCorp stock performance since opening of Naga 2



Source: Thomson Reuter, Morgan Stanley Research

Exhibit 10:

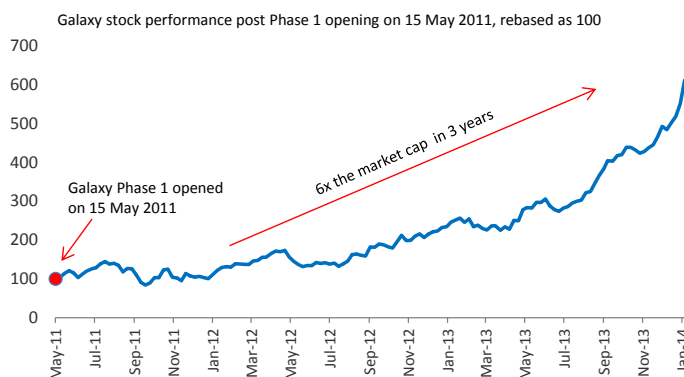
Wynn Macau stock performance since opening of Wynn Palace



Source: Thomson Reuter, Morgan Stanley Research

Exhibit 11:

Galaxy stock performance since opening of Phase 1



Source: Thomson Reuter, Morgan Stanley Research

2) Demand enablers – BRI and "China Ready" Strategy

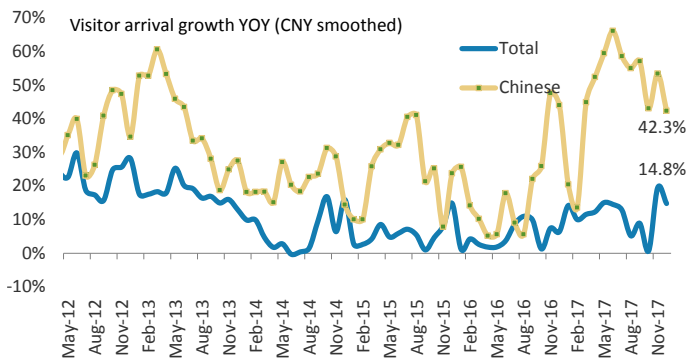
Where are gamblers from? Unlike Macau gaming operators, Naga-Corp historically did not much rely on Chinese gamblers. Historically, customers are from Southeast Asian countries (including Vietnam) and expats from other countries working in Cambodia. We believe that will start to change from 2018 with a continued pickup in Chinese visitation, the opening of Naga 2 to cater to premium Chinese gamblers, and the addition of two new key China-focused junkets addition in 1H18.

For VIP: 27% of VIP gamblers in 2017 are from the Greater China region; the rest are from SEA countries and others. By gaming revenue, 33% of VIP gaming revenue is from Greater China region. Most VIPs are repeat gamblers and come at least once a month. Since Naga 2 opened in November 2017, the company has acquired a number of new VIP players, from China especially, and we expect the trend to continue in 1H18, with the addition of new Macau junkets (Suncity on 1st March and Meg-Star in 2Q18).

For mass: Over 50%-60% of mass gamblers are local, the majority of which are expats from China, SEA, Korea, and Japan. They work in Cambodia in government as well as the construction and property development industries. The other 40% of gamblers are tourists and business travelers. The visitation numbers from China and Chinese expats are increasing, with higher spending capacity and also patronage (26,000 active loyalty members by 2017, visiting Naga casinos at least once every five months).

Exhibit 12:

Cambodia visitation – strong growth from China in 2017



Source: CEIC, Morgan Stanley Research

In addition, we believe the Naga 2 project meets international standards and has all means to cater to its premium gamblers. With the significant improvement of product offering and increasing gambling capacities, we argue that gambling in Cambodia will gradually change from being more a side effect of general tourism (Angkor Wat, etc.) to destination gambling like some of the casinos in Macau but not Las Vegas.

China has become the biggest source of visitation in Cambodia:

Total visitation to Cambodia grew 12% in 2017, to 5.6mn people. Chinese visitors grew 46% in 2017, to 1.2mn; as a percentage of total visitors, they increased from 6% in 2009 to 22% in 2017. China has now surpassed Vietnam to become the biggest source of visitors for Cambodia. We expect Chinese visitation CAGR of 13% in 2017-20e CAGR to 2mn by 2020, driven by favorable policies such as China's BRI and the "China Ready" Strategy.

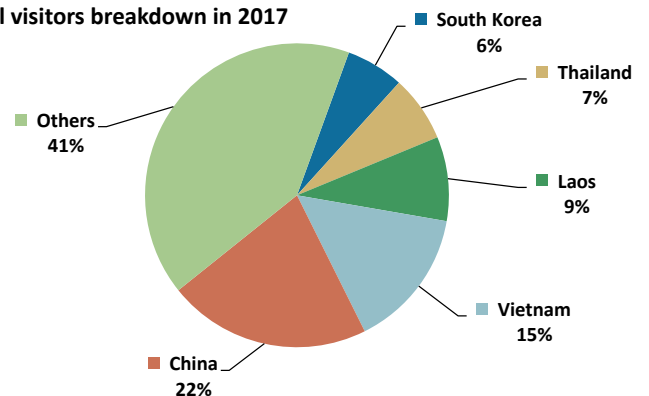
Enablers of unmet demand from low penetration:

We believe the penetration rate for gaming in Cambodia is still very low, especially for China's contribution. Although Chinese visitors to Cambodia grew 46% in 2017, they account for just 0.1% of total Chinese urban population (vs. 3% for Macau in 2017). With increasing Chinese outbound travel, plus continued favorable policies from China's BRI and "China Ready" Strategy, we believe the number of tourists from China will be much bigger.

Exhibit 13:

2017 total visitor arrivals by counties

Total visitors breakdown in 2017



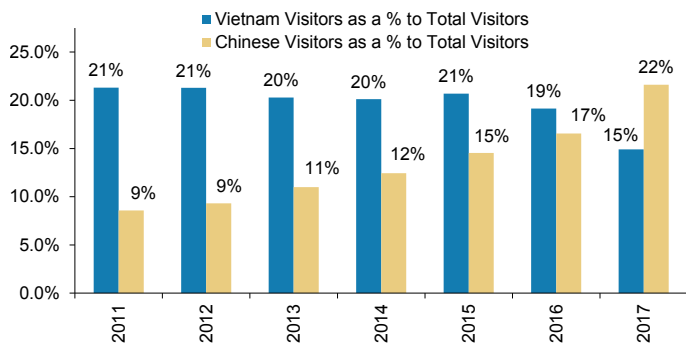
Source: Morgan Stanley Research

To conduct similar penetration analysis as we did for Macau/Las Vegas, we use the number of visitors to Cambodia divided by the weighted sum of urban population of China, Vietnam and Malaysia (22%, 15%, and 3% for 2017). They comprise the major customers for NagaCorp. Taking year 2017 as an example, we use total visitors to Cambodia visitors divided by the sum of 22% of China's urban population, 15% of Vietnam's urban population, and 3% of Malaysia's urban population to get the penetration ratio for Cambodian tourism. Though this method is conservative, we found the penetration rate in Cambodia is much lower at only 1.2% vs. Macau (2.7%) and Las Vegas (13%) in 2017.

Similar to the development cycle of Macau and Las Vegas, we believe penetration and demand for gaming will improve, driven by new supply, infrastructure development, and favorable tourism policies between Cambodia and China.

Exhibit 14:

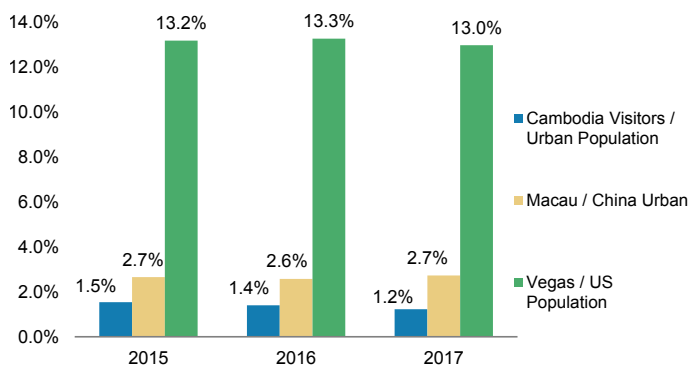
China has surpassed Vietnam to lead among sources of visitors



Source: Morgan Stanley Research

Exhibit 15:

Low tourism penetration in Cambodia



Source: Morgan Stanley Research

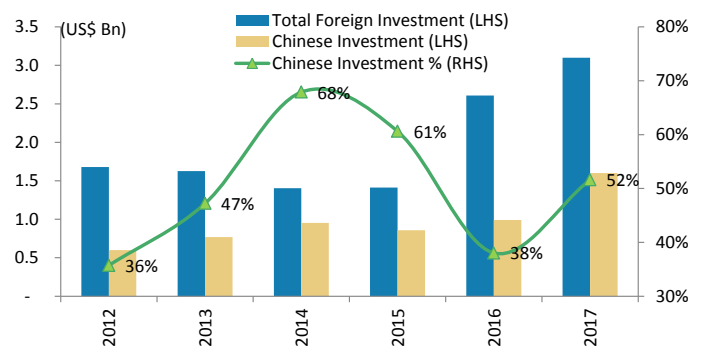
China's Belt and Road Initiative

Cambodia is a key country in China's Belt and Road Initiative, with increasing amounts of Chinese investment, which accounted for 52% of total investment in Cambodia and grew 45% YoY in 2017. China pledged US\$240mn in grants to Cambodia during first the BRI Forum in Beijing in May last year and the countries signed 13 agreements focusing on a wide range of areas including infrastructure, finance, tourism, trade, etc.

We believe the implementation of China's BRI will significantly improve infrastructure and tourism in Cambodia, drive visitation from China at a 13% CAGR for 2017-20e, and increase spending per capita with improvement in the local economy.

Exhibit 16:

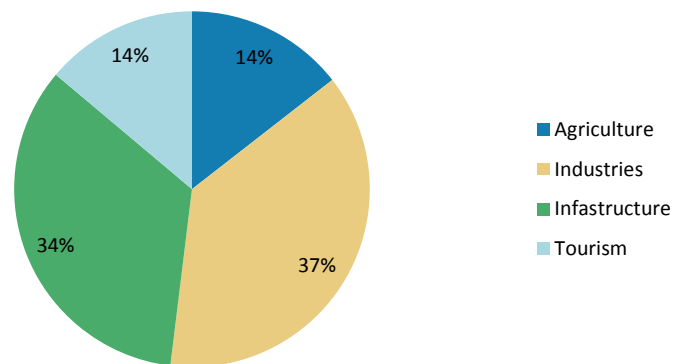
China accounted for 52% of all foreign investment in Cambodia over the past three years



Source: CDC, Morgan Stanley Research

Exhibit 17:

Almost 50% of total committed foreign investment in Cambodia is in tourism and infrastructure



Source: CDC, Morgan Stanley Research

Infrastructure investment will improve the local economy and tourism: Cambodia-China cooperation under BRI focuses on seven areas including both infrastructure and tourism, which accounted for 48% of total committed foreign investment from 2012-2016.

Several key projects under BRI are now ongoing/proposed, as shown in **Exhibit 18**

In addition, Cambodia has also proposed several rail renovation and development projects under BRI, which will significantly improve the convenience of transportation between Cambodia and neighboring countries, such as Thailand. We believe these projects will start to benefit local and cross-border transportation from 2019. They will add also more new blood to the local economy and benefit the employment market – thus driving business and local GDP growth.

Exhibit 18:

Summary of key projects under BRI

Developments	Total investment	Timing
1st Expressway of 2,230km from Phnom Penh to Sihanoukville to be completed by 2040.	US\$26bn	Completed by 2040
New International Airport in Siem Reap with 6x of current site size (2,400 ha vs. 400ha of existing airport) and at least doubled capacity (5m passengers for existing airport)	US\$880mn	Start construction in 2018
Seven hydropower plants and power transmission lines providing electricity to half of Cambodia	US\$2.4bn	Six already completed, another one to be completed in 2018
13 agreements signed during the Belt and Road Forum in May 2017 covering industries of infrastructure, production capacity, trade, finance, maritime cooperation, and tourism	US\$240mn	Varied from short term to long term

Source: Morgan Stanley Research

Exhibit 19:

Route map of China's Belt and Road Initiative



Source: China Daily

"China Ready" Strategy

Cambodia is working to develop more facilities for Chinese tourists, including an accreditation system for tourism establishments, as part of its "China Ready" strategy announced in May 2016 as a five-year plan for attracting Chinese tourists to the country. With tourism being one of the main drivers of the Cambodian economy, the government further pushed to speed up implementation of the "China Ready" strategy in November 2017, which aims to attract 2mn Chinese tourists annually by 2020.

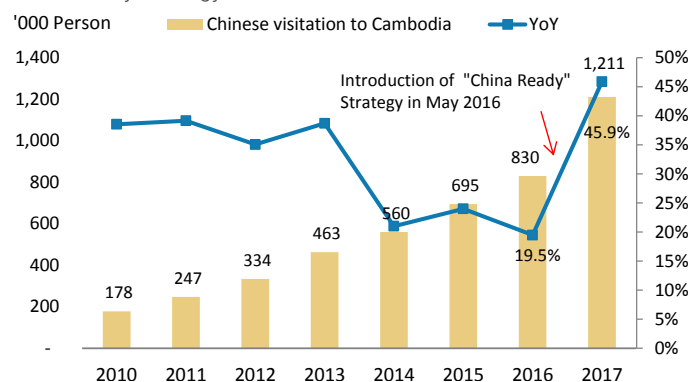
The country is currently looking into increasing the capacity of hospitality services, holding dedicated exhibitions for Chinese tourists, and training Cambodians to be fluent in Chinese Mandarin. These steps are in line with the Tourism Ministry's guidelines to build a better reputation when dealing with tourists through scaling up human resource skills and training operators on achieving their goals. It also provides easy signage and documents for visa processing, encourages local usage of Chinese currency and language, and ensures that food and accommodation facilities suit Chinese taste.

The "China Ready" strategy has been very successful in luring visitors. Total Chinese visitation to Cambodia increased 46% in 2017 vs. 20% in 2016 following the introduction of the strategy in mid-2016.

In addition to the national "China Ready" Strategy, NagaCorp also launched its own "China Strategy" since 2013. The company completed VIP room renovation, built a swimming pool, opened Chinese food establishments and other facilities, and hired more Mandarin speaking staff to cater to Chinese tourists. NagaCorp also owns the Naga Academy to teach new hires Mandarin and customer service skills to help Chinese tourists.

Exhibit 20:

China Ready Strategy



Source: Ministry of Tourism Cambodia, Morgan Stanley Research (Estimates)

More charter flights teamed with CYTS

In addition to more than 200 flights (**Exhibit 21**) from Greater China to Phnom Penh/Siem Reap Airports every week, NagaCorp has teamed with CYTS (Chinese domestic travel agency) to promote Cambodian tourism and introduce more charter flights to boost visitation. Charter flights between mainland Chinese cities and Phnom Penh increased from 386 in 2013 to 582 by the end of 2017.

Naga has partnered with Bassaka Air and currently operates charter flights between Phnom Penh and Macau three times a week. They also have charter flights for mainland Chinese cities, such as Xi'An, Shenyang, Nanjing, etc., at 2-3 times per week from each city. Each flight can transport up to 150 visitors, with average stay of two nights. The private VIP terminal at Phnom Penh International Airport for Naga will also be opened in 2018.

Exhibit 21:

Current Direct International flights to Phnom Penh Airport and Siem Reap Airport

Direct flights to Cambodia Phnom Penh			Direct flights to Cambodia Siem Reap		
Country	City	Flights p/w	Country	City	Flights p/w
China	Guangzhou	36	China	Guangzhou	23
China	Shanghai	16	China	Shanghai	17
China	Nanning	2	China	Beijing	6
Hong Kong	Hong Kong	22	Thailand	Bangkok	70
Taiwan	Taipei	18	Singapore	Singapore	16
Burma	Yangon	7	Malaysia	Kuala Lumpur	18
Laos	Vientiane	7	Korea	Seoul	8
Korea	Seoul	14	Taiwan	Taipei	3
Vietnam	Hanoi	4	Hong Kong	Hong Kong	14
Singapore	Singapore	32	Philippines	Manila	4
Thailand	Bangkok	84	Vietnam	Ho Chi Minh City	42
Malaysia	Kuala Lumpur	42	Vietnam	Hanoi	33
Vietnam	Ho Chi Minh City	42			
Total from Greater China		94	Total from Greater China		132

Source: Morgan Stanley Research, date as of November 2017

Exhibit 22:

Current Direct International flights to Phnom Penh Airport Cambodia



Source: Cambodia Airport Website

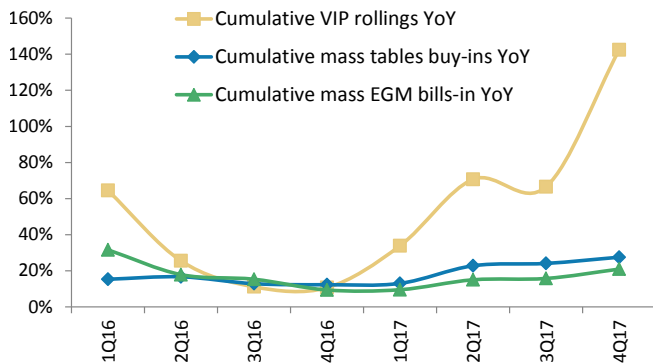
3) Improved growth outlook for all segments

Strong growth in 2017 and improved outlook for 2018/19e: With less than two months of operations at Naga 2, the company posted strong YoY revenue growth in all segments in 2017: 177% for VIP, 16% for mass, and 19% for EGM. We expect the growth trend to continue and normalize in 2018/19e with the addition of new capacity. We estimate revenue growth of 86% for VIP, 39% for mass, and 35% for EGM in 2018.

VIP growth: The main driver of VIP demand is junkets. We believe the addition of new junkets and better product offering will significantly drive up VIP revenue, 86% in 2018 and 18% in 2019; VIP win per table per day will also grow 40% in 2018 and 2% in 2019. We believe the two new major Macau junkets will bring further access to Chinese pockets.

Exhibit 23:

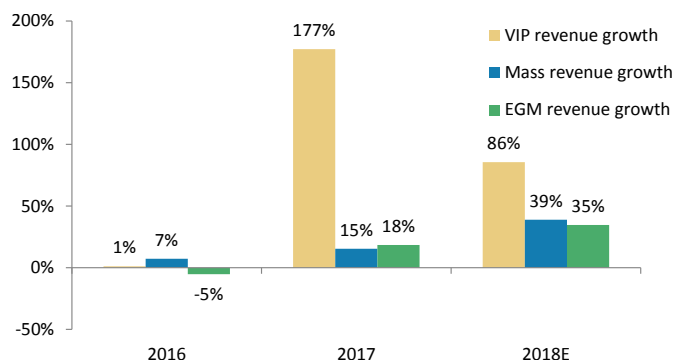
Cumulative quarterly business volume growth - accelerated in 2017, VIP especially



Source: Company data, Morgan Stanley Research

Exhibit 24:

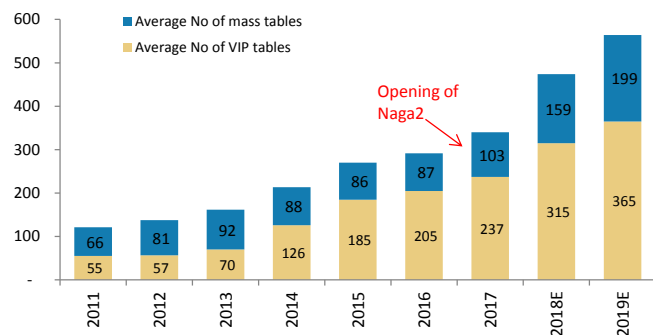
Revenue growth for segments



Source: Company data, Morgan Stanley Research estimate

Exhibit 25:

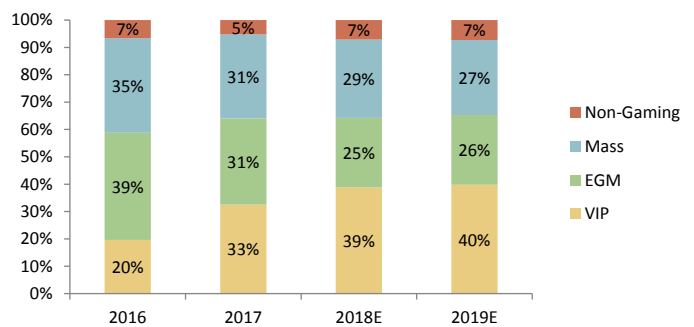
Number of tables increasing after Naga 2 opening



Source: Company data, Morgan Stanley Research (Estimate)

Exhibit 26:

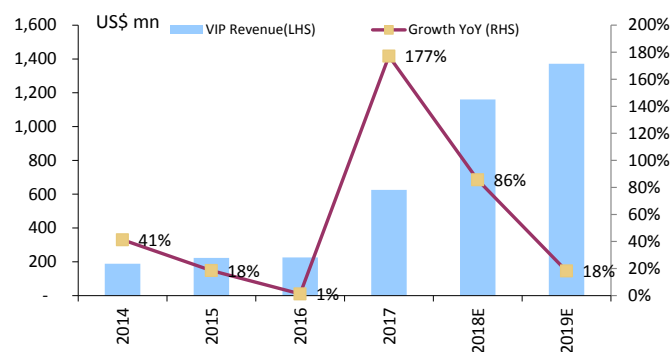
Gross profit mix of NagaCorp



Source: Company data, Morgan Stanley Research (Estimate)

Exhibit 27:

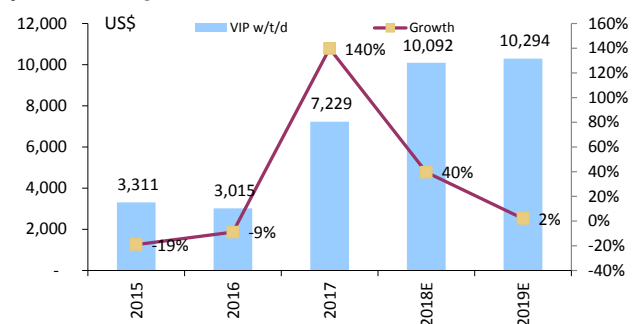
VIP revenue growth estimate



Source: Company data, Morgan Stanley Research (Estimate)

Exhibit 28:

VIP win per table per day growing with addition of new Macau junkets in Naga 2



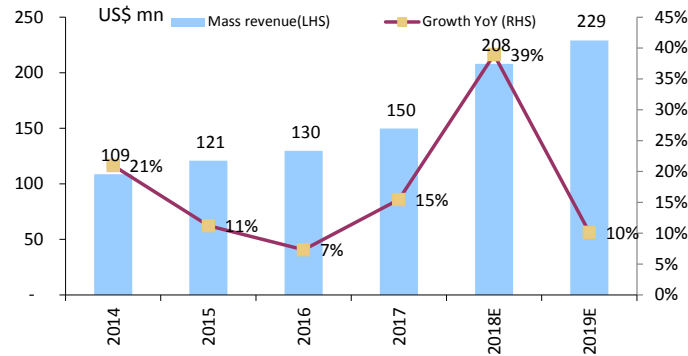
Source: Company data, Morgan Stanley Research (Estimate)

Mass growth: We believe the stronger mass growth in 2017 will continue at 39% in 2018 and 10% in 2019, with increasing number of tables from the Naga 2 opening. Mass table buy-in grew 16% QoQ in 4Q17, beating seasonality of 8% QoQ. However, we estimate that the company will increase mass tables to 199 by end of 2018, which will

lead our win per table per day estimate to decrease 10% in 2018 and 12% in 2019 during the new property ramp. While VIP revenue is mainly driven by junkets, we found mass revenue is more correlated with visitation.

Exhibit 29:

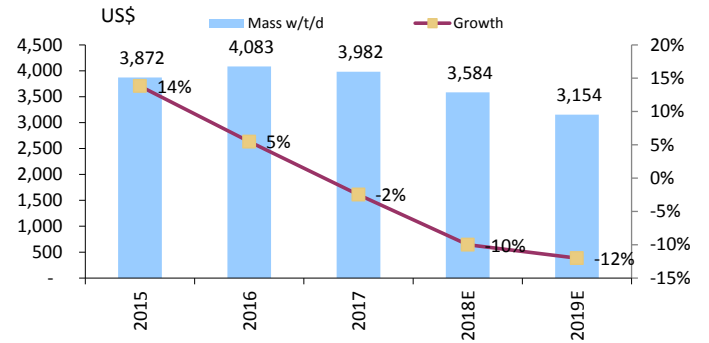
We expect mass revenue to grow at 36% in 2018 and 19% in 2019



Source: Company data, Morgan Stanley Research (Estimate)

Exhibit 30:

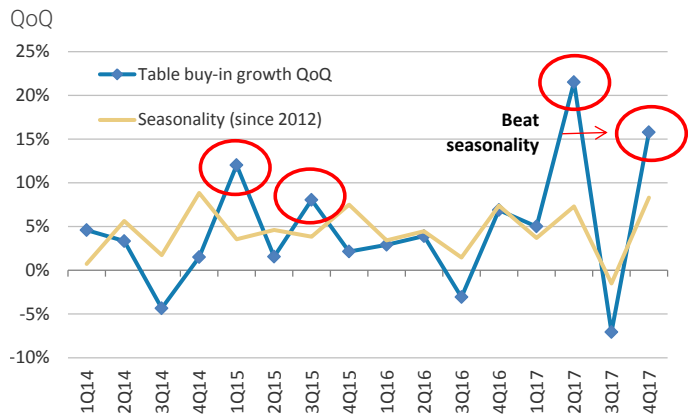
We expect mass win/t/d to decrease from 2017 due to additional tables in Naga 2



Source: Company data, Morgan Stanley Research (Estimate)

Exhibit 31:

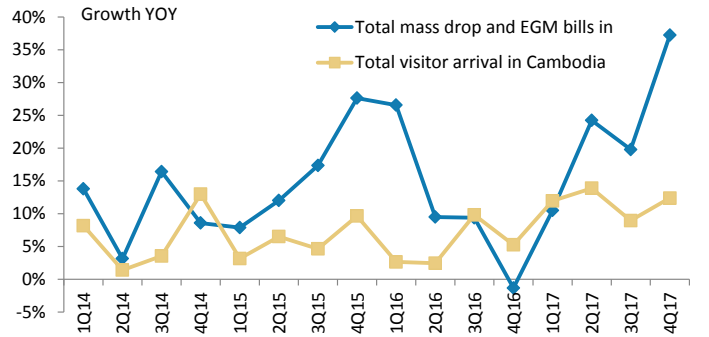
Mass table buy-in grew 16% QoQ in 4Q17, beating seasonality of 8% QoQ



Source: Company data, Morgan Stanley Research

Exhibit 32:

Mass revenue is correlated with visitation



Source: Company data, Morgan Stanley Research

4) Cambodia: more structural than Macau

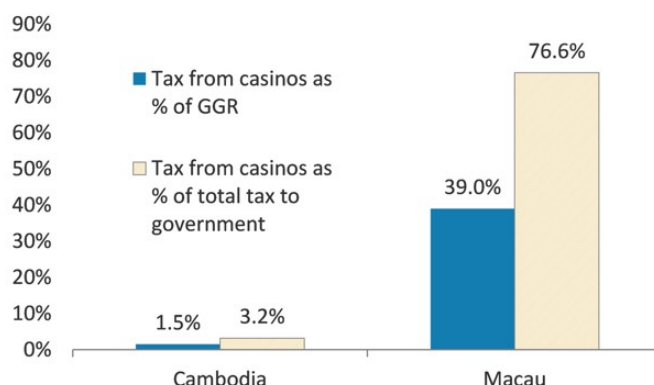
Monopoly license: NagaCorp operates as the only licensed casino in Phnom Penh, with a long-term license (70 years), and with a 40-year monopoly within a 200km radius of Phnom Penh that expires in 2035, with no limits on the amount of gaming space, tables or type of games. Macau's licences come up for renewal in 2020/2022.

Favorable tax: NagaCorp enjoys more favorable tax rate, enabling it to pay higher commissions to attract junkets compared with tax rates in Macau (39%) and Singapore (16%/17%). The removal of overhang with respect to tax rate in Cambodia in 2018 serves as another growth catalyst. The company guided toward a mid-single-digit tax rate under the upcoming Cambodia gambling law. However, we also conduct sensitivity analysis in the risk section to reflect the uncertainty of final tax rate.

Low operating cost: The average salary paid to casino staff is approx US\$1,000 in Cambodia which is around 1/3rd less than Macau. Naga 2 capacity similar to Naga 1 would require 4,000 more employees at a similar staff cost per employee. As of the end of 2017, NagaCorp had 8,610 staff in total. The headcount budget in 2018 is around 200-300 people. We see cost synergies and margin expansion potential here as two properties connected as a common power grid in future and the company relocated staff between two properties and better utilize human capital.

Exhibit 33:

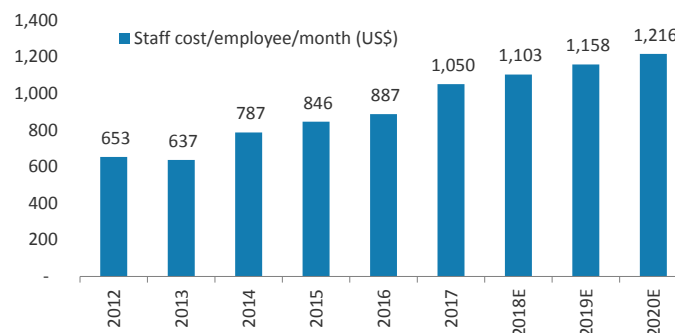
Tax revenue from casinos as a percentage of GGR and total tax revenue in 2016



Source: Company data, Morgan Stanley Research

Exhibit 34:

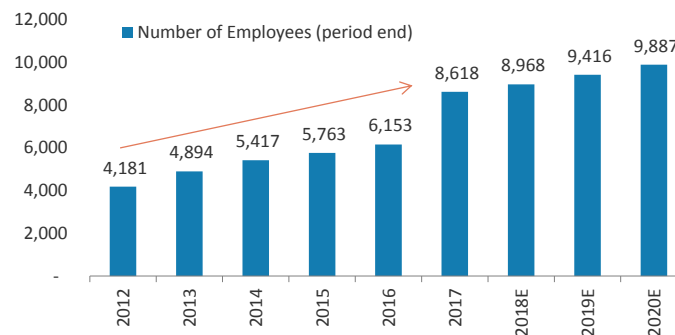
Controlled staff cost drives margin



Source: Company data, Morgan Stanley Research estimate

Exhibit 35:

NagaCorp staff headcount



Source: Company data, Morgan Stanley Research estimate

Exhibit 36:

Pros and Cons - NagaCorp and Macau

	NagaCorp	Macau	Details
Tax rate	😊	😞	Lower gaming tax rates 5% (2018e) in Cambodia vs. 39% in Macau. The tax rate is now at only 2% before the implementation of gaming law in 2H18e.
Cost	😊	😞	Low cost destination and operating cost is also lower than in Macau (67% vs. 79% in 2017).
Regulatory restrictions	😊	😞	No ATM withdrawal limit, smoking ban, anti-corruption in Cambodia vs. Macau.
Valuation	😊	😞	12M forward EV/EBITDA on consensus numbers is at 8x vs. Macau peers overall at 13x.
Dividend	😊	😞	NagaCorp has paid out 60% of its earnings every year since 2015 with dividend yield of 5%-6% in 2018/19e, while only Sands in Macau can achieve this level at the moment.
License	😊	😞	Macau license expiring in 2020/22e vs. NagaCorp's monopoly license through 2035.
Segment mix	😞	😊	Macau on average looks better at 57% revenue from VIP vs. almost 70% for NagaCorp, and the gap is expected to widen further.

Source: Morgan Stanley Research

Exhibit 37:

Operating comparison table

Vertical Analysis (US\$ mn)	Naga Corp			Macau		
	2015	2016	2017	2015	2016	2017
Gross Revenues	100%	100%	100%	100%	100%	100%
GGR	95%	94%	97%	90%	88%	88%
Non Gaming	5%	6%	3%	10%	12%	12%
Opex	55%	53%	67%	81%	80%	79%
EBITDA	45%	47%	33%	19%	20%	21%
PAT	34%	35%	27%	10%	10%	11%
% of total GGR						
VIP Revenue	46%	45%	68%	55%	53%	57%
Mass Revenue	25%	26%	16%	39%	41%	37%
EGM Revenue	28%	29%	16%	6%	6%	6%
Win per table/day (US\$)						
VIP	3,311	3,015	7,229	23,715	25,033	33,308
Mass	3,872	4,083	3,982	8,855	8,056	8,599
EGM	231	211	212	338	291	307

Source: Source: Company data, Morgan Stanley Research

Investment Concerns

1) Political instability in Cambodia: The general election on 29 July 2018 is only a few months away. The election result will determine whether Cambodia continues to advance towards a two-party democracy or reinforce its status as a single-party autocracy. We view the uncertainty from the general election as one of the major short-term risks to NagaCorp's operations – it may create social instability which would harm tourism.

2) Regional competition: New legislation passed in Vietnam allows locals to gamble under a three-year pilot program in a limited number of resorts from 1 December 2017. This may decrease arrivals from Vietnam – the second-largest source for Cambodian tourism – and hence would impair the revenues of NagaCorp. Also, looking at the scope of expansion in Vietnam's infrastructure, investors and junket interests also pose a challenge for future gaming in Cambodia.

Regional competition also comes from Malaysia, the source of most of NagaCorp's historical VIPs. 20th Century Fox World Theme Park in Genting Highlands is scheduled to open in late 2018. We also see the competition from the Philippines (Okada Manila opened in end 2016), and even Macau (MGM Cotai opened in February 2018).

However we don't see regional competition as a major threat. It should not have a big impact on margins, since most of the other casinos in Cambodia and Vietnam have dispersed locations, far away from Phnom Penh, where NagaCorp enjoys a monopoly licence in an area with a 200km radius through 2035. NagaCorp also owns nicer casino properties with better products offering compared to other casinos in Vietnam.

Exhibit 38:

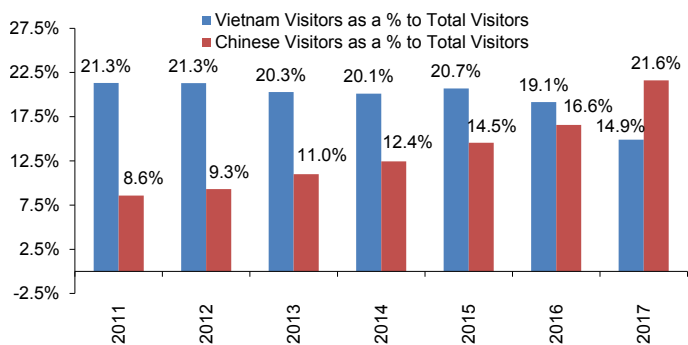
In 2017 Vietnam visitors declined by 13.0% YoY



Source: CEIC, Morgan Stanley Research

Exhibit 39:

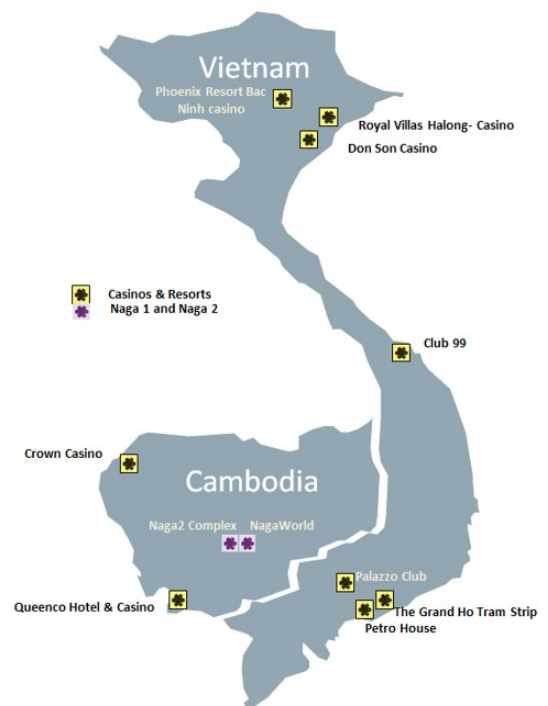
Visitors from Vietnam declining to new low



Source: CEIC, Morgan Stanley Research

Exhibit 40:

Casinos in Cambodia and Vietnam



Source: Morgan Stanley Research

Exhibit 41:

Capacity of new regional competing casinos

Summary	Okada Manila	Naga 2	MGM Cotai	20th Century Fox World	Van Don Casino Project
Location	Philippines	Cambodia	Macau	Malaysia	Vietnam
Opening time	Dec-2016	Nov-2017	Feb-18	Late 2018	Mar-2019
Area	220,000sqm	109,000sqm	186,000sqm	101,000sqm	NA
Gaming capacity	500 tables + 3,000 slots	300 tables + 2,500 slots	177 tables +1,150 slots	NA	140 tables +1,500 slots
Hotel rooms	993	903	1,390	6,000(e)	1,000(e)

Source: Morgan Stanley Research

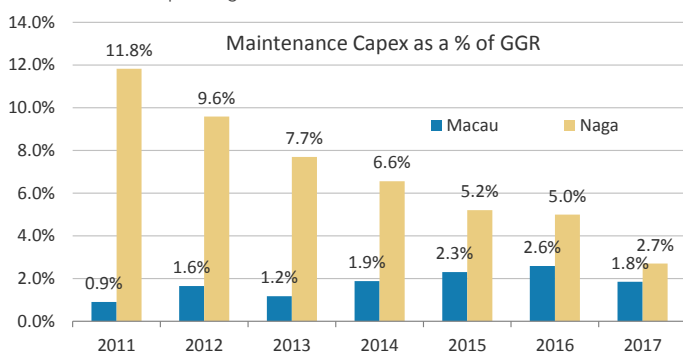
3) Increased junket commission and maintenance capex may compress margins:

With the addition of new junkets in Naga 2, we expect gaming revenue increase to be added more from VIP rather than mass. This will result in higher VIP commission to attract junkets and lower EBITDA margin as a percentage of total gaming revenue. Also the maintenance capex on Naga 2 is expected to be higher with more headcounts added and more than doubled gaming facilities.

We expect 1.76% effective VIP commission ratio in 2018/19e. This is higher than 1.73% in 2017 and 1.63% in 2016. Unlike Macau peers, which pay junkets commission based only on rolling chips, NagaCorp has set up an incentive program with junkets sharing 70% of their VIP revenue. In addition to that, junkets will also get extra commission based on 1.2% of 30% total rolling volume.

Exhibit 42:

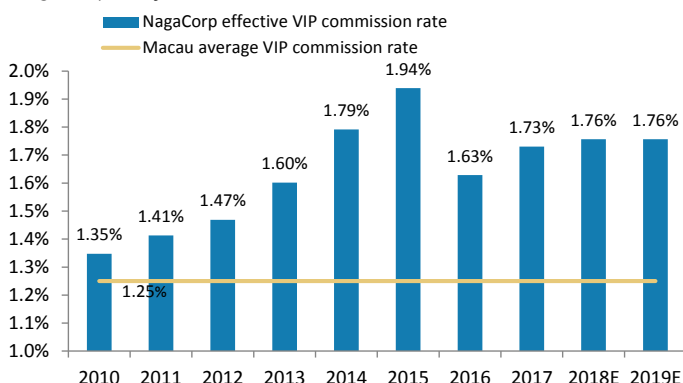
Maintenance capex higher than Macau



Source: Company Data, Morgan Stanley Research

Exhibit 43:

NagaCorp VIP junket commission rate



Source: Company data, Morgan Stanley Research

(4) Tax rate still not certain: As we discussed earlier, the removal of overhang with respect to tax rate in Cambodia in 2018 (we expect the new tax rate to be announced in 2H18) will potentially serve as another growth catalyst. However, we want to discuss more scenarios here to figure out the uncertainty around tax rate possibilities. We assume a gaming tax rate of 5% in our model and conducted a sensitivity analysis to see different net income levels.

We varied our tax rate from 3% as the bull case scenario to 8% as the bear case scenario to see different EBITDA and net income growth levels. Our EBITDA numbers are significantly lower than consensus – the Street has not deducted gaming tax at the EBITDA level, which we have done to be consistent with Macau peers.

(5) Potential expansion outside Cambodia and Vladivostok might be disappointing: The company has been facing delays in various projects including Vladivostok, Russia. Overseas expansion may face uncertainties and regulatory issues in different countries. Also, more capex is needed for new projects, which we believe would increase the company's financing burden.

Exhibit 44:

Tax rate and earnings sensitivity

Sensitivity analysis on tax rate	2018e	2019e	2018e	2019e	2018e	2019e
	EBITDA (US\$mn)		Growth		vs. consensus	
Bull: 3%	414	490	33%	18%	-7%	-2%
Base: 5%	383	454	23%	19%	-14%	-9%
Bear: 8%	336	399	8%	19%	-24%	-20%
	Net Income (US\$mn)		Growth		vs. consensus	
Bull: 3%	334	400	31%	20%	6%	14%
Base: 5%	303	364	19%	20%	-4%	3%
Bear: 8%	256	310	0%	21%	-19%	-12%

Source: Company Data, Morgan Stanley Research

4Q17 Results Summary

Exhibit 45:

4Q17 results summary

US\$ mn	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	QOQ	YOY
GGR (ex one-off slot)	121	96	111	113	155	172	159	380	139%	237%
VIP roll	2,789	1,760	2,054	2,110	3,733	4,032	3,236	10,123	213%	380%
VIP revenue	68	43	56	58	101	109	100	314	213%	444%
Win rate	2.45%	2.45%	2.74%	2.74%	2.71%	2.71%	3.11%	3.11%	0.0%	0.4%
Mass drop	150	156	151	161	169	206	191	221	16%	37%
EGM Bills-in	381	361	395	362	417	436	463	496	7%	37%
Total Mass volume	531	516	546	523	587	642	654	718	10%	37%

Source: Company data, Morgan Stanley Research

Exhibit 46:

2H17 results summary

US\$ mn	1H15	2H15	1H16	2H16	1H17	2H17	HOH	YOY
VIP revenue	108	115	112	114	211	415	97%	264%
Mass revenue	56	65	62	68	74	75	1%	11%
EGM revenue	88	49	104	42	102	49	-52%	17%
GGR	252	229	277	224	387	539	39%	141%
Non-gaming revenue	10	13	11	19	15	16	5%	-19%
Gross revenue	262	242	288	243	402	555	38%	128%
Cost of sales	(78)	(97)	(82)	(83)	(162)	(322)	99%	288%
VIP	34	27	35	37	56	98	75%	163%
Mass	54	61	60	66	73	73	-1%	9%
EGM	86	47	102	41	100	49	-51%	19%
-Shared revenue	46	47	42	41	40	49		
-Upfront fee	40	-	60	-	60	-		
Non-gaming	8	10	9	15	11	13	17%	-12%
Gross Profit	183	145	207	160	240	233	-3%	46%
Staff costs	(31)	(26)	(33)	(31)	(35)	(59)	69%	90%
Other opex	(20)	(23)	(21)	(32)	(24)	(43)	79%	36%
EBITDA	133	96	153	97	181	131	-28%	35%
D&A	(19)	(21)	(24)	(24)	(26)	(30)	15%	25%
EBIT	114	75	129	73	155	101	-35%	38%
Others	0	0	(0)	6	(0)	8	NM	27%
Profit before tax	114	75	129	79	155	109	-30%	37%
Income tax	(13)	(3)	(4)	(20)	(4)	(4)	0%	-80%
Net income	101	72	125	59	151	105	-31%	77%
DPS (US\$ cents)	2.67	1.89	2.77	0.82	2.08	1.45	-30%	77%
Interim operation	1H15	2H15	1H16	2H16	1H17	2H17	HOH	YOY
VIP roll (US\$ mn)	3,625	4,251	4,549	4,165	7,766	13,359	72%	221%
Win rate	2.97%	2.71%	2.45%	2.74%	2.71%	3.11%	0.4%	0.4%
Mass drop (US\$ mn)	262	288	306	312	375	413	10%	32%
Slot hold (US\$ mn)	629	741	742	757	853	959	12%	27%
VIP w/t/d (US\$)	3,425	3,373	2,999	2,998	6,408	10,931	71%	265%
Mass w/t/d (US\$)	3,632	4,104	3,914	4,229	4,730	3,969	-16%	-6%
EGM w/u/d (US\$)	258	224	209	211	219	237	8%	12%
VIP tables	173	188	205	209	181	209	16%	0%
Mass tables	85	86	87	87	87	103	18%	18%
EGM	1,442	1,628	1,659	1,655	1,654	1,955	18%	18%

Source: Company data, Morgan Stanley Research

Financials

Revenue: We project that NagaCorp can continue strong gaming revenue growth in all segments, with VIP revenue growth at 86% and 18%, mass growth at 39% and 10% and EMG growth at 35% and 24% in 2018e and 2019e. Our total revenue forecast is US\$1.6bn for 2018 and US\$1.9bn for 2019, which is 11% and 18% ahead of consensus.

EBITDA: Our EBITDA estimates of US\$383m and US\$454m are below consensus by 14% for 2018 and 9% for 2019, owing to gaming tax adjustment. The market has not deducted gaming tax from the EBITDA level, which we have done so as to be consistent with Macau peers.

We expect the gaming law will be implemented in 2018 and the gaming rate at 5% in our estimate. Our gaming tax estimates are US\$78m for 2018 and US\$91m for 2019. If added back to EBITDA, our EBITDA numbers are 4% and 9% higher than consensus.

Mix: We expect VIP revenue as a percentage of total GGR to grow as new junkets are added in for Naga 2 while mass share of total GGR slightly declined. EGM revenue will be affected by one-off upfront fees from EMG manufacturers, where we factored US\$60m for 2018e and 2019e as new EGM machines are added in for Naga 2.

Margin: We forecast VIP table yield to ramp up continuously with more junket tables in Naga 2, while mass and EGM win/table/day to go down slightly owing to table capacity expansion. Gross margin is expected to go down by 500bps YoY to 44% in 2018e.

Reasons behind wage hikes and decreases: There have been a few wage hikes historically. The company started "China Strategy" in 2013 to penetrate the VIP market for Chinese and tourism from China. It raised wages in 2014 as it hired more multilingual professionals. A more recent wage hike happened in 2016, with hiring of more experienced personnel to prepare for the Naga 2 opening.

Exhibit 47:

Our estimates

US\$ mn	MS			YoY growth		
	2017	2018E	2019E	2017	2018E	2019E
Revenue	956	1,612	1,885	80%	69%	17%
EBITDA	312	383	454	25%	23%	19%
EBITDA before gaming tax adj.	312	460	544	25%	47%	18%
Net Income	255	303	364	39%	19%	20%
EPS (US cents)	7.9	7.0	8.4	1%	-12%	20%

Source: Thomson Reuters, Morgan Stanley Estimates

Exhibit 48:

Our estimates vs. consensus

US\$ mn	MS		Consensus		Variance	
	2018E	2019E	2018E	2019E	2018E	2019E
Revenue	1,612	1,885	1,458	1,593	11%	18%
EBITDA	383	454	444	500	-14%	-9%
EBITDA before gaming tax adj.	460	544	444	500	4%	9%
Net Income	303	364	315	352	-4%	3%
EPS (US cents)	7.0	8.4	7.2	8.0	-3%	5%

Source: Thomson Reuters, Morgan Stanley Estimates

Reasons behind wage hikes and decreases (continued):

We also saw a wage downturn from 2007-2010, as there were some issues around VIP business and Naga stopped giving credit during that time.

The wage hike in 2017 mainly reflected CEO/management commissions and bonuses. We expect total staff cost to grow at around 10% through 2020, excluding management commissions.

Capex: We expect US\$130m capex for Naga 2 in 2018 and US\$100m capex for Naga 1, split evenly in 2018/19e, owing to renovation. Maintenance capex is around US\$35-40mn each year in 2018/19e. For the Russian project, the development capex in 2017 was around US\$15m. Future capex will be mainly funded by Chinese contractors. We expect US\$25 capex in 2018/19e, and majority of which will be for maintenance. The company has enough cash to cover maintenance and overseas investment.

CB dilution: On 8 August 2017, the conversions of TSCLK and NagaCity Walk convertible bonds were completed and the company issued 1,881m shares, which caused 76% share dilution. This has been reflected in EPS, which grew only 1% in 2017 and we project will be down 12% in 2018e. The fair value of the CBs, amounting to US\$379m, was included in equity on initial recognition. As of end-2017, the total number of outstanding shares was 4,341mn.

Exhibit 49:

Revenue and productivity forecast

Revenue growth YoY	2015	2016	2017	2018E	2019E
VIP revenue	18%	1%	177%	86%	18%
Mass revenue	11%	7%	15%	39%	10%
EGM revenue	12%	-5%	18%	35%	24%
GGR	15%	1%	92%	70%	18%
Productivity (US\$)	2015	2016	2017	2018E	2019E
VIP w/t/d	3,311	3,015	7,229	10,092	10,294
Mass w/t/d	3,872	4,083	3,982	3,584	3,154
EGM w/u/d	231	211	212	223	229
Productivity growth YoY	2015	2016	2017	2018E	2019E
VIP w/t/d growth	-19%	-9%	140%	40%	2%
Mass w/t/d growth	14%	5%	-2%	-10%	-12%
EGM w/u/d growth	8%	-9%	1%	5%	3%

Source: Thomson Reuters, Morgan Stanley Research estimates

Exhibit 50:

Operational summary

Operation (US\$ mn)	2015	2016	2017	2018E	2019E
Gross Revenue	504	532	956	1,612	1,885
VIP Revenue	223	226	625	1,160	1,371
Mass Revenue	121	130	150	208	229
EGM Revenue	137	146	151	182	211
Gaming revenue	481	501	926	1,551	1,812
Non-Gaming Revenue	23	31	30	62	73
Gross Profit					
Total	328	367	473	705	813
VIP	61	72	154	274	324
Mass	116	127	146	202	223
EGM	133	144	149	179	208
Gaming	310	343	448	655	754
Non-Gaming	18	24	25	50	60
Gross Margin					
Total	65%	69%	49%	44%	43%
VIP	27%	32%	25%	24%	24%
Mass	96%	98%	97%	97%	97%
EGM	97%	99%	99%	98%	98%
Gaming	64%	68%	48%	42%	42%
Non-Gaming	79%	79%	81%	81%	81%
Net Profit					
Opex	(275)	(281)	(644)	(1,230)	(1,431)
EBITDA	229	250	312	383	454
- YOY	30%	10%	25%	23%	19%
Profit before taxation	189	208	263	305	367
Effective tax rate	9%	12%	3%	26%	25%
Total tax as % of GGR	3%	5%	1%	5%	5%
PAT	173	184	255	303	364

Source: Company data, Morgan Stanley Research estimates

Valuation

Our target price of HK\$8.2 is based on 9% FCFE yield on 2019e, higher than Macau peers' average at 6.0%. Our 9% target FCFE yield is lower than the long-term average of 13% since 2011 in view of stable dividend, tax profile, opening of Naga 2, removed overhang of shares dilution. We still value the company at a discount in FCFE yield in view of greater political instability and less-developed infrastructure and connectivity vs. Macau peers.

Valuation also looks attractive at 8x 12-month forward EV/EBITDA and 12x 2018e forward P/E on consensus numbers, both implying over 40% discount to Macau peers.

The stock was de-rated during 2015-1H17 in response to negative earnings estimate revisions and share dilution of replacement and convertible bonds. The stock started to re-rate from 2H17 before the new casino opening. We believe the removal of CB dilution overhang and strong EBITDA growth outlook driven by new capacities should further drive outperformance.

NagaCorp has paid out 60% of its earnings every year since 2015. We expect this to continue and to drive above-peers dividend yields of 5-6% in 2018/19e.

Exhibit 51:

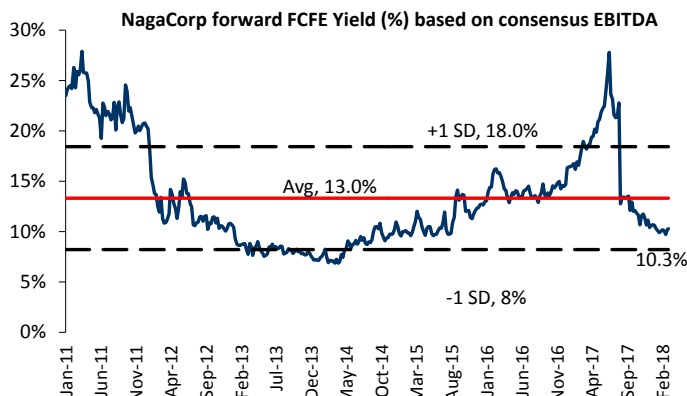
FCFE Valuation and multiples

FCFE Valuation (US\$ mn)	2017	2018E	2019E	2020E
Company EBITDA	312	383	454	543
Less: Income tax*	(8)	(3)	(3)	(3)
Less: Maintenance Capex	(25)	(40)	(40)	(40)
FCFE	279	340	411	501
Target FCFE Yield			9.0%	
Equity Value	3,098	3,778	4,569	5,562
Number of shares			4,341	
Price Target (HK\$)			8.20	
Upside/downside			15%	
Current multiples	2017	2018E	2019E	2020E
EV/EBITDA	12.9	10.6	8.6	6.7
P/E	16.0	13.5	11.2	9.1
Recurring FCFE Yield	6.8%	8.3%	10.1%	12.3%
Div Yield%	3.8%	4.5%	5.5%	6.7%

Source: Thomson Reuters as of 5 March 2018. Morgan Stanley Research (E) estimates

Exhibit52:

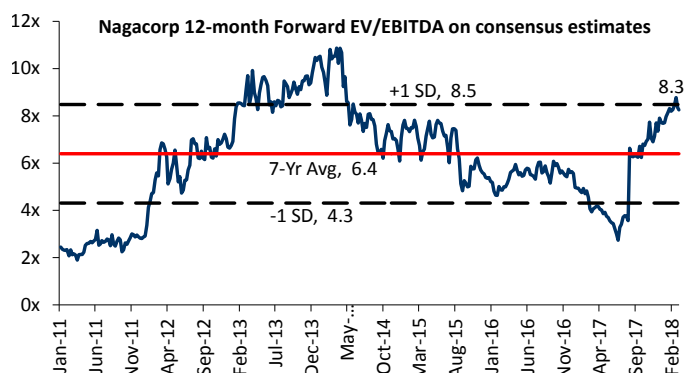
NagaCorp forward FCFE yield (%) based on consensus EBITDA



Source: Thomson Reuters as of 5 March 2018. Morgan Stanley Research (E) estimates

Exhibit53:

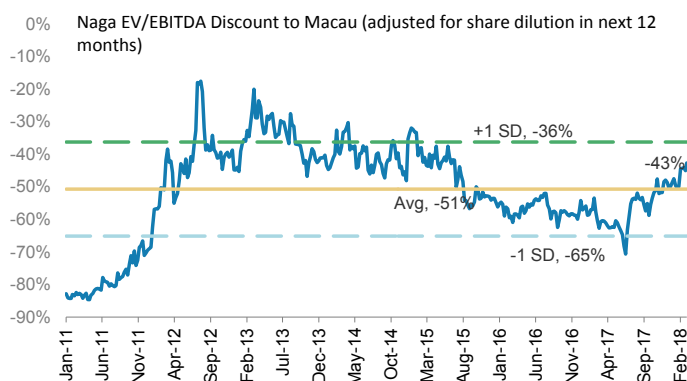
NagaCorp 12M forward EV/EBITDA on consensus estimates



Source: Thomson Reuters as of 5 March 2018. Morgan Stanley Research (E) estimates

Exhibit54:

NagaCorp EV/EBITDA discount vs. Macau on consensus estimates



Source: Thomson Reuters as of 5 March 2018. Morgan Stanley Research (E) estimates

Exhibit55:

Valuation comps – Macau vs. NagaCorp

5-Mar-18	Current Price Price LOC\$	Price Target Target LOC\$	Up / Down Down %	MS Rating	Mkt Cap (US\$ m)	6M Avg Vol. Vol. (US\$ m)	EV/EBITDA		P/E		Recurring FCFF Yield		Recurring FCFE Yield		Div Yield			Net Debt / EBITDA		2017 Perf.	2018 Perf.
							2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E	2016	2017E	2018E	2017E	2018E		
MACAU																					
Sands China	41.90	46.00	10%	EW	44,348	78	16.3	15.2	19.7	18.3	5.3%	5.9%	5.4%	6.0%	4.7%	4.7%	5.0%	1.3	1.2	20%	7%
Galaxy	65.85	64.00	-3%	OW	37,467	96	16.6	15.2	20.8	19.0	5.7%	6.3%	5.6%	6.1%	0.7%	1.1%	1.4%	(0.5)	(0.9)	87%	9%
Wynn Macau	26.05	30.50	17%	EW	17,820	35	15.4	13.8	21.0	18.0	6.1%	6.8%	6.4%	7.2%	1.6%	2.2%	3.8%	3.7	2.5	101%	8%
MGM China	22.75	27.00	19%	OW	11,337	24	16.3	10.8	29.5	16.8	5.4%	8.4%	5.2%	8.0%	1.2%	0.9%	2.9%	3.1	1.3	47%	-1%
SJM	7.18	7.40	3%	UW	5,232	13	15.6	10.0	19.0	41.2	5.6%	8.4%	7.0%	7.9%	3.3%	2.8%	3.1%	(1.4)	2.7	15%	3%
Simple average							16.0	13.0	22.0	22.7	5.6%	7.2%	5.9%	7.1%	2.3%	2.4%	3.2%	1.2	1.4	54%	5%
ASEAN Gaming																					
Genting Singapore	1.12	1.30	16%	EW	10,247	23	9.0	8.6	18.6	17.6	10.5%	10.3%	7.0%	7.3%	2.7%	3.1%	3.1%	(2.3)	(2.5)	45%	-15%
NagaCorp	7.15	8.20	15%	OW	4,031	4	10.4	8.5	13.1	10.9	8.6%	10.7%	8.5%	10.3%	3.9%	3.8%	5.7%	(0.2)	(0.1)	138%	20%
Simple average							9.5	8.3	15.8	14.1	9.8%	11.0%	8.1%	9.0%	1.3%	2.3%	3.6%	(0.7)	(1.0)	87%	12%

Source: Thomson Reuters as of 5 March 2018. Morgan Stanley Research estimates

Appendix 1: Cambodia – Positive Economic Environment

GDP: According to the World Travel and Tourism Council, the total contribution of Travel & Tourism to Cambodia's GDP was US\$5.5bn (28.3% of GDP) in 2016. This is forecast to rise 9.9% in 2017 and then 6.6% p.a. to US\$11.5bn (27.3% of GDP) in 2027.

Employment: In 2016, the total contribution of Travel & Tourism to employment, including jobs indirectly supported by the industry, was 25.9% of total employment (2.25m jobs). This is expected to rise 6.7% in 2017, to 2.4m jobs, and then 3.5% p.a. to 3.4m jobs in 2027 (33.0% of total).

Investment: Travel & Tourism investment in 2016 was US\$0.6bn, 15.5% of total investment. It should rise 5.1% in 2017 and then 6.4% p.a. over the next ten years to US\$1.2bn in 2027, 14.1% of total.

Cambodia's social-political risks have improved in the past year: Concerns have subsided that the 2018 national elections will result

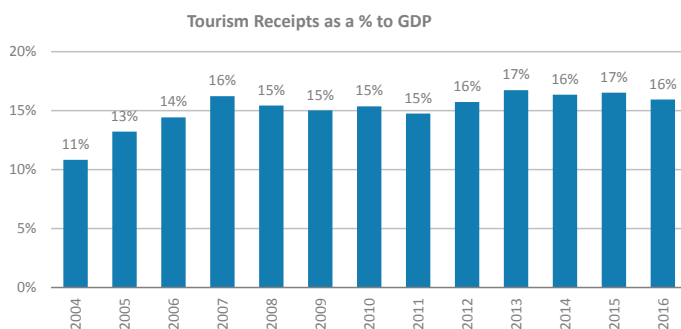
in a disruptive change of government. In addition, a new labor law and revisions to the process for setting minimum wages have reduced the recurring labor unrest issue.

Real GDP growth rates are expected to be 6.8% in 2018/19e, per World Bank estimates: It should be a strong couple years thanks to recovering tourism activity coupled with fiscal expansion, compensating for some moderations in garment exports and construction, which are two key sectors of the economy.

Outbound visitations from China are strongly influenced by political factors: Tour groups have been stopped from visiting Taiwan and South Korea during periods of political tension. Currently Cambodia in good terms with China and this can be use to promote tourism.

Exhibit 56:

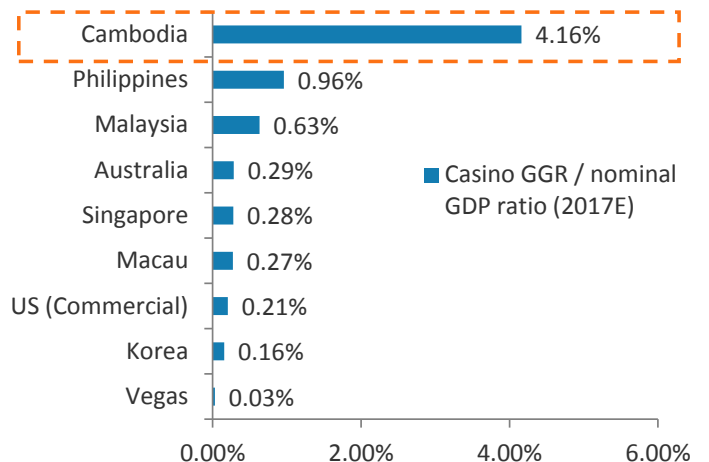
Tourism receipts contributed around 16% of total Nominal GDP of Cambodia in 2016



Source: CEIC, Morgan Stanley Data

Exhibit 57:

GGR to country's GDP



Source: Company Data, Morgan Stanley Research

Appendix 2: Overview of Naga 2

Exhibit 58:

Exterior of the US\$369-million Naga 2 in Phnom Penh, Cambodia



Source: Provided by NagaCorp

Exhibit 59:

Lobby of Naga 2



Source: Provided by NagaCorp

Exhibit 60:

VIP gaming area at Naga2



Source: Provided by NagaCorp

Exhibit 61:

Mass gaming area at Naga2



Source: Provided by NagaCorp

Exhibit 62:

NABA Theater



Source: Provided by NagaCorp

Exhibit 63:

Superior hotel room



Source: Provided by NagaCorp

Appendix 3: Vladivostok Project

NagaCorp announced that it has entered into an investment agreement with Primorsky authorities to invest not less than US\$350m to develop a hotel and casino resort complex at the site area of 21.6 hectares. It is unlikely to be ready before 2019.

Unlike in Macau or Singapore, casino business in Primorsky Krai is not subject to a tax on gross gaming revenue. Gaming tax in the Russian Federation is not based on gross gaming revenue; rather, it is determined by applying a fixed monthly rate to the number of gaming tables and slots. The monthly rates per table and per slot applicable to the Group are currently RUB125,000 and RUB7,500 respectively.

The development capex that NagaCorp invested in 2017 was US\$15m, and it will be further funded by Chinese contractors. We expect US\$25-30m capex in 2018, US\$20m-25m of which will be for maintenance. The company has enough cash to cover maintenance and overseas investment. We expect the project to be completed in late 2019/2020; construction started in 2H17.

Currently the gaming market in Russia's Far East is monopolized by Summit Ascent Holdings, a Hong Kong listed company (0102.HK, Not Covered). Summit Ascent holds development rights on two parcels of land in the Primorsky Krai Integrated Entertainment Zone ("IEZ") – namely, Lot 9 and Lot 10. The first gaming and hotel property, named Tigre de Cristal, is built on Lot 9 and has been open for business since 4Q15. It registered net revenue of HK\$205m and EBITDA of HK\$57m in 1H17.

Exhibit 64:

Key stats of Russia projects vs. Naga 2

Summary	Naga2	Vladivostok
Opening time	Nov-17	2019e or later
Gross land area	7,766sqm	210,000sqm
Gross floor area	110,105sqm at least 300 tables	TBC 100 tables
Gaming capacity	2,500 slots	500 slots
Resort rooms	903	around 380
Retail space		TBC
F&D outlets	4	TBC
	2,200-seat theatre	
	Spa	
Other non-gaming	Karaoke lounge	TBC
Project budget	Completed	US\$350mn

Source: Company Data, Morgan Stanley Research

Exhibit 65:

Overview on NagaCorp's Vladivostok Russia project



Source: Provided by NagaCorp

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(as of February 28, 2018)

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	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
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Equal-weight/Hold	1369	43%	357	47%	26%	643	45%
Not-Rated/Hold	53	2%	5	1%	9%	7	0%
Underweight/Sell	552	18%	87	11%	16%	222	16%
Total	3,149		764			1427	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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INDUSTRY COVERAGE: ASEAN Gaming

COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/05/2018)
Alex Poon		
Bloomberry Resorts Corporation (BLOOM.PS)	O (08/15/2016)	PP14.30
NagaCorp (3918.HK)	O (03/05/2018)	HK\$7.15
Praveen K Choudhary		
Genting Singapore PLC (GENS.SI)	E (02/26/2018)	S\$1.12

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.

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