

Hong Kong

ADD (no change)

Consensus ratings*: Buy 5 Hold 1 Sell 2

Current price:	HK\$7.78
Target price:	HK\$8.99
Previous target:	HK\$8.99
Up/downside:	15.5%
CGS-CIMB / Consensus:	5.2%
Reuters:	3918.HK
Bloomberg:	3918 HK
Market cap:	US\$4,304m
	HK\$33,773m
Average daily turnover:	US\$5.10m
	HK\$39.99m
Current shares o/s:	4,341m
Free float:	34.0%

*Source: Bloomberg

Key changes in this note

- FY18F EPS decreased by 5%.
- FY19F EPS decreased by 7%.
- FY20F EPS decreased by 6%.



Price performance	1M	3M	12M
Absolute (%)	1.6	-1.9	135
Relative (%)	6	4	120.1

Major shareholders

	% held
Dr Chen Lip Keong	43.8
Fourth Star Finance	18.2
Cambodia Development Corp	3.7

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NagaCorp Ltd

NDR feedback

- We organised an NDR in Kuala Lumpur for Naga's management to meet with investors on 12-13 Jun.
- Naga2 (opened in Nov 2017) continues to ramp up in terms of gross gaming revenue (GGR) due to strong visitation and VIP offerings.
- New Cambodian gaming legislations are likely to be released in Sep 2018, according to the company.
- Naga issued US\$300m bonds in May 2018, the proceeds of which will be used to boost VIP working capital and refurbish Naga 1.
- We reduce FY18-20F EPS by 5-7% due to higher interest expense assumptions. Our TP remains pegged to 11x FY18F EV/EBITDA. Risk is lower-than-expected earnings.

Naga2 ramps up with Suncity junket

Macau's top junket Suncity (c.45% VIP GGR Macau market share) continues to drive volume at Naga2, as we estimate Suncity is responsible for around 50% of Naga's VIP rolling volumes (Suncity's minimum bets are at least 50% higher than the junket average at Naga). After the 51% increase in Naga's VIP rollings in 1Q18, strong momentum continued in early 2Q18. We expect Naga2 to add another one of the top four Macau junkets (Meg Star) in 2H18F and estimate a 60% yoy increase in Naga's VIP rollings.

Mass segment continues to be driven by tourism

In 2017, Cambodia saw a 12% increase in tourist visitation but more importantly, Chinese visitation grew by 46% and arrivals at Phnom Penh Airport rose by 21%. YTD, Chinese visitation is up 85% yoy, driven by more direct flights from China, increased foreign direct investment from China (45% yoy growth in 2017), rising local property prices and an increase in tourism-related attractions in Phnom Penh. In our view, Naga2 has not cannibalised Naga1, as Naga2's current hotel occupancy rates are 90%+ and Naga1 occupancy rates are 85-90%.

New gaming legislation to be announced soon: no negative impact

Management expects the Ministry of Economy and Finance to introduce a new gaming bill in Sep 2018F, with implementation in 2019F. The company expects gaming tax rate to be mid-single digit, in line with market expectations. Naga also expects its gaming licence and monopoly status in Phnom Penh until 2035 to be protected. The only real concern is political risk but the Cambodian People's Party of Hun Sen (incumbent Prime Minister) is expected to win majority of the National Assembly seats in the Jul election.

Recent bond issuance serves two purposes

In May 2018, Naga issued US\$300m bonds (3-year, coupon of 9.4%). Of the US\$290m net proceeds, US\$150m will be used for the refurbishment of Naga1 over a 18-24 month period, according to the company. The remaining proceeds will be used for VIP working capital, which serves as a buffer against low hold rates in VIP. We view the increase in VIP working capital as positive, as Suncity and Meg Star typically bring in higher-spending players.

Maintain Add on one of the top picks in our gaming coverage

We reduce our FY18-20F EPS forecasts by 5-7% to take into account higher interest expenses. Over the past five years, Naga has traded at an average discount of 45% to the average 13x forward EV/EBITDA of the six Macau operators. Our target price is based on 11x FY18F EV/EBITDA (a 20% discount to the current Macau average of 14x). We believe that given Naga's new capacity and limited competition, the stock would re-rate to 11x by end-FY18F vs. 9.6x FY18F EV/EBITDA currently. A risk to our positive view is lower-than-expected earnings in FY18F.

Financial Summary

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (US\$m)	532	956	1,573	1,997	2,460
Operating EBITDA (US\$m)	257.6	320.0	402.9	511.2	563.0
Net Profit (US\$m)	184.2	255.2	293.8	385.2	432.8
Core EPS (US\$)	0.080	0.059	0.068	0.089	0.100
Core EPS Growth	5.5%	(26.5%)	15.1%	31.1%	12.3%
FD Core P/E (x)	17.40	13.52	14.65	11.17	9.95
DPS (US\$)	0.047	0.035	0.041	0.053	0.060
Dividend Yield	4.77%	3.56%	4.09%	5.38%	6.04%
EV/EBITDA (x)	8.04	13.29	9.55	6.59	5.12
P/FCFE (x)	48.60	NA	9.63	16.68	13.87
Net Gearing	(16.9%)	(3.8%)	(23.7%)	(36.4%)	(44.4%)
P/BV (x)	1.85	3.11	2.23	1.68	1.34
ROE	19.0%	19.4%	17.7%	17.1%	15.0%
% Change In Core EPS Estimates			(4.86%)	(6.78%)	(6.08%)
CIMB/consensus EPS (x)			1.00	1.11	1.17

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

NDR feedback

Changes to estimates

Our FY18/19/20F EPS forecasts are lowered by 5/7/6% due to higher interest expense assumptions from the US\$300m bonds issued in May 2018 (3-year, coupon of 9.4%). Our interest expenses assumptions for FY18/19/20F are now US\$15m/28m/28m, instead of US\$0 previously.

Figure 1: Changes in our estimates

US\$ m	2018F			2019F			2020F		
	Old	New	% change	Old	New	% change	Old	New	% change
Public floor buy-ins	1261	1,261	0.0%	1,576	1,576	0.0%	1,891	1,891	0.0%
win rate	19.0%	19.0%	0 ppt	19.0%	19.0%	0 ppt	19.0%	19.0%	0 ppt
revenue	239	239	0.0%	299	299	0.0%	359	359	0.0%
Electronic gaming bill-ins	2,447	2,447	0.0%	2,936	2,936	0.0%	3,377	3,377	0.0%
revenue	264	264	0.0%	162	162	0.0%	187	187	0.0%
Junket VIP rollings	33,800	33,800	0.0%	49,010	49,010	0.0%	61,262	61,262	0.0%
win rate	3.0%	3.0%	0 ppt	3.0%	3.0%	0 ppt	3.0%	3.0%	0 ppt
revenue	1,014	1,014	0.0%	1,470	1,470	0.0%	1,838	1,838	0.0%
Revenue	1,573	1,573	0.0%	1,997	1,997	0.0%	2,460	2,460	0.0%
gross margin	43.0%	43.0%	0 ppt	42.0%	42.0%	0 ppt	40.0%	40.0%	0 ppt
EBITDA	403	403	0.0%	511	511	0.0%	563	563	0.0%
EBITDA margin	25.6%	25.6%	0 ppt	25.6%	25.6%	0 ppt	22.9%	22.9%	0 ppt
Net income	309	294	-4.9%	413	385	-6.8%	461	433	-6.1%

SOURCES: CGS-CIMB RESEARCH

Valuation and sector comparison

Figure 2: Sector comparison

Company	Bloomberg Ticker	Bloomberg Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)			2-year EPS CAGR (%)		P/BV (x)		EV/EBITDA (x)		ROE (%)		Yield (%)	
						FY18F	FY19F	FY19F	FY18F	FY19F	FY18F	FY19F	FY18F	FY19F	FY18F	FY19F		
Galaxy Entertainment	27 HK	ADD	63.55	88.10	34,975	20.4	17.8	20%	4.2	3.6	15.2	12.8	22%	22%	1.2%	1.4%		
Sands China	1928 HK	ADD	43.90	51.39	45,206	22.4	18.2	24%	9.8	9.0	16.9	14.4	44%	52%	4.6%	4.6%		
MGM China Holdings	2282 HK	ADD	20.55	24.52	9,955	27.6	18.5	34%	7.4	5.9	17.7	12.6	30%	35%	1.8%	3.2%		
Wynn Macau	1128 HK	ADD	27.05	34.55	17,915	21.8	16.7	46%	72.1	47.6	15.4	12.7	261%	344%	4.1%	5.4%		
SJM Holdings	880 HK	HOLD	10.32	7.63	7,442	31.7	33.7	-6%	2.4	2.3	25.3	24.5	7%	7%	1.6%	1.5%		
HK listed Macau average						24.8	21.0	24%	19.2	13.7	18.1	15.4	73%	92%	2.6%	3.2%		
Genting Bhd	GENT MK	ADD	8.59	10.80	8,217	14.7	12.0	25%	0.9	0.8	5.6	4.8	6%	7%	1.4%	1.4%		
Berjaya Sports Toto	BST MK	ADD	2.48	2.99	834	12.9	11.7	14%	4.4	4.1	8.6	8.0	34%	36%	6.5%	6.8%		
Genting Malaysia	GENM MK	HOLD	4.95	5.25	6,993	18.1	14.4	26%	1.5	1.5	11.8	9.7	8%	10%	2.4%	3.0%		
Malaysia average						15.2	12.7	22%	2.2	2.1	8.7	7.5	16%	18%	3.5%	3.7%		
Paradise	034230 KS	REDUCE	18,600	15,000	1,531	1113.5	53.5	na	1.7	1.7	29.6	20.2	0%	3%	0.5%	0.8%		
Grand Korea Leisure	114090 KS	ADD	26,750	38,500	1,497	14.7	13.0	32%	2.9	2.6	8.7	7.4	21%	21%	3.0%	3.4%		
Kangwon Land	035250 KS	HOLD	28,450	26,000	5,507	18.3	14.4	0%	1.7	1.6	6.1	4.3	9%	11%	3.5%	3.5%		
Korea average						382.2	27.0	16%	2.1	2.0	14.8	10.6	10%	12%	2.3%	2.6%		
NagaCorp Ltd	3918 HK	ADD	7.78	8.99	4,304	13.9	10.4	27%	2.2	1.7	9.5	6.6	19%	18%	4.3%	5.8%		
Summit Ascent Holdings	102 HK	ADD	0.87	1.45	165	62.1	39.5	52%	0.8	0.8	2.6	2.0	1%	2%	0.0%	0.0%		
Genting Singapore	GENS SP	ADD	1.23	1.40	10,917	21.0	20.4	8%	1.9	1.8	9.8	9.3	9%	9%	2.4%	2.4%		
Other average						32.3	23.5	29%	1.6	1.4	7.3	6.0	10%	10%	2.2%	2.7%		

NOTE: AS OF 20 JUN 2018

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 3: Naga's consensus forward EV/EBITDA discount vs. Macau average

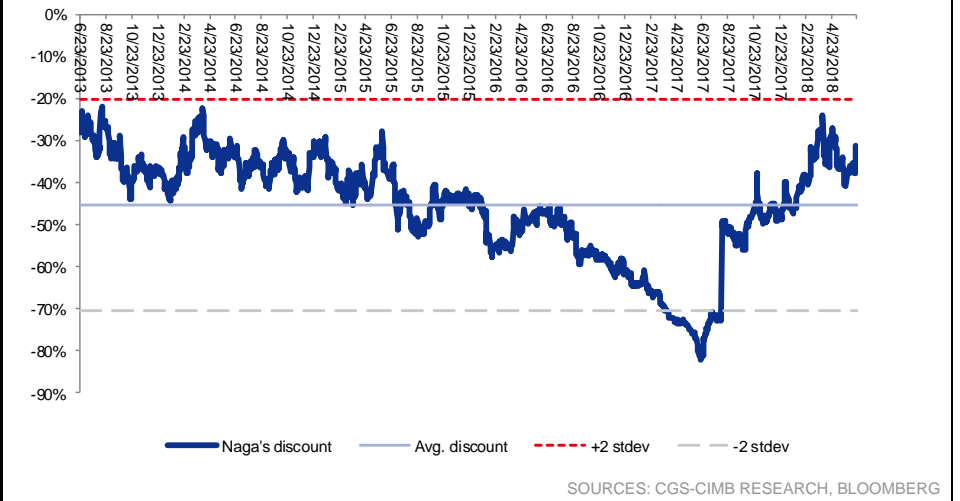
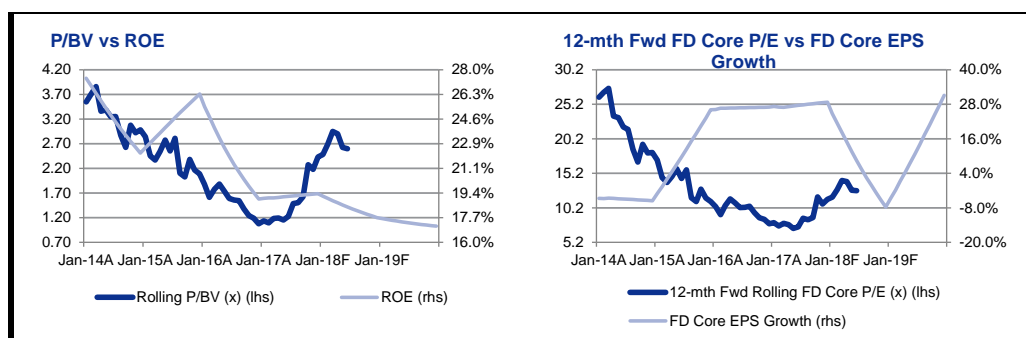


Figure 4: Naga's consensus forward EV/EBITDA



BY THE NUMBERS



Profit & Loss

(US\$m)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	531.6	956.3	1,573.4	1,997.4	2,459.9
Gross Profit	366.8	472.9	676.6	838.9	984.0
Operating EBITDA	257.6	320.0	402.9	511.2	563.0
Depreciation And Amortisation	(47.9)	(56.4)	(78.5)	(78.5)	(78.5)
Operating EBIT	209.7	263.6	324.3	432.7	484.5
Financial Income/(Expense)	1.1	0.7	(13.8)	(26.5)	(26.1)
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	(2.6)	(1.0)	(1.0)	(1.0)	(1.0)
Profit Before Tax (pre-EI)	208.2	263.3	309.5	405.2	457.4
Exceptional Items					
Pre-tax Profit	208.2	263.3	309.5	405.2	457.4
Taxation	(24.1)	(8.1)	(15.7)	(20.0)	(24.6)
Exceptional Income - post-tax					
Profit After Tax	184.2	255.2	293.8	385.2	432.8
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	184.2	255.2	293.8	385.2	432.8
Recurring Net Profit	184.2	255.2	293.8	385.2	432.8
Fully Diluted Recurring Net Profit	184.2	255.2	293.8	385.2	432.8

Cash Flow

(US\$m)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	257.6	320.0	402.9	511.2	563.0
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(30.6)	9.6	(0.3)	(3.7)	1.0
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	0.3	2.7	0.0	0.0	0.0
Other Operating Cashflow	(2.6)	(1.0)	14.0	27.0	27.0
Net Interest (Paid)/Received	0.0	0.0	(15.0)	(28.0)	(28.0)
Tax Paid	(22.9)	(9.0)	(15.7)	(20.0)	(24.6)
Cashflow From Operations	201.6	322.2	385.8	486.5	538.4
Capex	(137.0)	(354.8)	(230.0)	(230.0)	(230.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments					
Other Investing Cashflow	1.3	0.2	1.2	1.5	1.9
Cash Flow From Investing	(135.7)	(354.6)	(228.8)	(228.5)	(228.1)
Debt Raised/(repaid)		0.0	290.0	0.0	
Proceeds From Issue Of Shares	122.6				
Shares Repurchased					
Dividends Paid	(118.1)	(125.8)	(164.6)	(203.9)	(245.9)
Preferred Dividends					
Other Financing Cashflow	(2.7)	0.0	422.6	422.6	422.6
Cash Flow From Financing	1.8	(125.8)	548.0	218.7	176.7
Total Cash Generated	67.8	(158.1)	705.0	476.7	487.0
Free Cashflow To Equity	65.9	(32.4)	447.0	258.0	310.3
Free Cashflow To Firm	65.9	(32.4)	172.0	286.0	338.3

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(US\$m)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	211	53	758	1,235	1,722
Total Debtors	73	101	167	212	261
Inventories	1	2	3	4	5
Total Other Current Assets	0	0	0	0	0
Total Current Assets	285	156	928	1,451	1,988
Fixed Assets	837	1,149	1,297	1,452	1,607
Total Investments	0	0	0	0	0
Intangible Assets	66	63	60	57	54
Total Other Non-Current Assets	102	95	95	95	95
Total Non-current Assets	1,006	1,306	1,452	1,604	1,755
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	37	78	145	187	238
Other Current Liabilities	3	2	2	2	2
Total Current Liabilities	40	80	146	189	240
Total Long-term Debt			300	300	300
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	0	0	300	300	300
Total Provisions	0	0	0	0	0
Total Liabilities	40	80	446	489	540
Shareholders' Equity	1,251	1,383	1,933	2,566	3,203
Minority Interests					
Total Equity	1,251	1,383	1,933	2,566	3,203

Key Ratios

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	5.5%	79.9%	64.5%	26.9%	23.2%
Operating EBITDA Growth	12.6%	24.2%	25.9%	26.9%	10.1%
Operating EBITDA Margin	48.5%	33.5%	25.6%	25.6%	22.9%
Net Cash Per Share (US\$)	0.09	0.01	0.11	0.22	0.33
BVPS (US\$)	0.54	0.32	0.45	0.59	0.74
Gross Interest Cover	N/A	N/A	21.62	15.45	17.30
Effective Tax Rate	11.6%	3.1%	5.1%	4.9%	5.4%
Net Dividend Payout Ratio	60.0%	60.0%	60.0%	60.1%	60.1%
Accounts Receivables Days	40.82	33.20	31.12	34.60	35.16
Inventory Days	2.94	1.23	1.04	1.20	1.21
Accounts Payables Days	79.76	43.38	45.29	52.21	52.67
ROIC (%)	38.6%	25.3%	24.4%	29.3%	29.7%
ROCE (%)	21.8%	20.1%	18.0%	17.0%	15.3%
Return On Average Assets	18.2%	18.5%	16.0%	15.2%	13.5%

Key Drivers

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
VIP Chip Volume (% Change)	10.6%	142.4%	60.0%	45.0%	25.0%
VIP Chip Win Percentage (%)	2.6%	3.0%	3.0%	3.0%	3.0%
Mass mkt chip drop (% chg.)	12.3%	27.5%	60.0%	25.0%	20.0%
Mass mkt chip win (%-tage)	21.0%	19.0%	19.0%	19.0%	19.0%
Slot Handle (% Change)	9.4%	20.9%	35.0%	20.0%	15.0%
Slot Hold Percentage (%)	8.2%	7.9%	7.9%	7.9%	7.9%
Net Win Per Slot (% Change)	5.0%	5.0%	5.0%	5.0%	5.0%
Net Win Per Table (% Change)	-1.1%	70.4%	3.5%	41.2%	24.2%
No. Of Slots	1,648	2,250	2,800	2,800	2,800
No. Of Tables	300	384	600	600	600

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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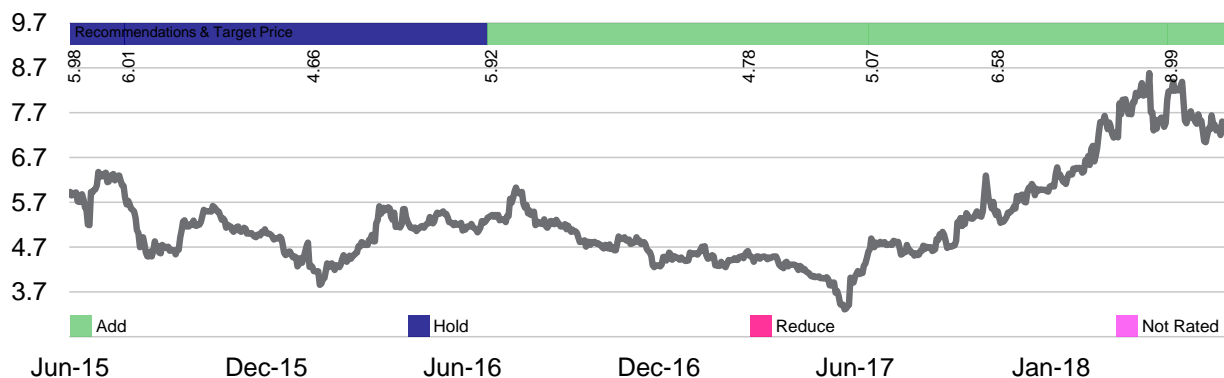
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	Rating Distribution (%)	Investment Banking clients (%)
Add	61.1%	5.5%
Hold	29.7%	2.0%
Reduce	8.9%	0.4%

Spitzer Chart for stock being researched (2 year data)

NagaCorp Ltd (3918 HK)

— Price Close



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

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Definition:

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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