Morgan Stanley | RESEARCH

July 24, 2018 11:35 PM GMT

IDEA

NagaCorp

Research Tactical Idea

We believe the share price will rise relative to the country index over the next 60 days.

This is because of raised forecasts/guidance.NagaCorp reported 1H18 EBITDA of US\$233m (68% HoH, 29% YoY), significantly higher than our and consensus estimates. We have revised up our 2018 and 2019 EBITDA forecasts by 34% and 15%, respectively, from stronger than expected 1H result. We also expect the growth momentum to continue in 2H18 with more junket openings and Naga2 ramp up. The stock is now trading at attractive 8x EV/EBITDA, 11x PE, 9.8% FCFE yield and 5.5% dividend yield, on our 2019 estimates.

We estimate that there is about an 80%+ (or "highly likely") probability for the scenario.

Estimated probabilities are illustrative and assigned subjectively based on our assessment of the likelihood of the scenario.

MORGAN STANLEY ASIA LIMITED+

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NagaCorp (3918.HK, 3918 HK)

ASEAN Gaming / Hong Kong

Stock Rating Industry View Price target Shr price, close (Jul 24, 2018) 52-Week Range Sh out, dil, curr (mn) Mkt cap, curr (mn)	Overweight Attractive HK\$9.50 HK\$7.67 HK\$8.63-4.48 4,341 US\$4,242
EV, curr (mn) Avg daily trading value (mn)	US\$4,189 HK\$32

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Valuation Methodology and Risks

3918.HK

Valuation methodology

Our target price of HK\$9.5 is based on 8% FCFE yield on 2019e, higher than Macau peers' average at 6.0%. Our 8% target FCFE yield is lower than the long-term average of 13% since 2011 in view of the company's leading position in a growing market, 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.

Downside risks

1) Political instability and/or natural disasters in Cambodia; 2) Potential share dilution for future developments and expansion; 3) Regional competition (e.g., Vietnam, Philippines, Korea, Macau, Singapore, etc.)



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(as of June 30, 2018)

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	COVERAGE UI	NIVERSE	INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
STOCK RATING	COUNT	% OF	COUNT	% OF	% OF	COUNT	% OF
CATEGORY		TOTAL		TOTAL IBC	RATING		TOTAL
				CATEGORY			OTHER
							MISC
Overweight/Buy	1170	38%	292	39%	25%	550	39%
Equal-weight/Hold	1343	43%	363	49%	27%	645	46%
Not-Rated/Hold	50	2%	5	1%	10%	7	0%
Underweight/Sell	544	18%	81	11%	15%	211	15%
TOTAL	3,107		741			1413	

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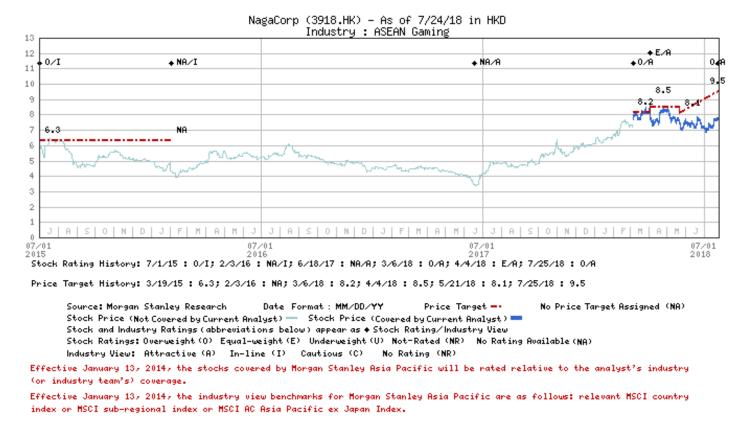
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

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INDUSTRY COVERAGE: ASEAN Gaming

COMPANY (TICKER)	RATING (AS OF)	PRICE* (07/24/2018)	
Praveen K Choudhary			
Bloomberry Resorts Corporation (BLOOMPS) Genting Singapore PLC (GENS.SI) NagaCorp (3918.HK)	O (03/26/2018) O (04/12/2018) O (07/25/2018)	PP10.00 S\$1.28 HK\$7.67	

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