

## CREDIT OPINION

17 October 2019

Update

✓ Rate this Research

### RATINGS

#### NagaCorp Ltd.

Domicile	Cayman Islands
Long Term Rating	B1
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## NagaCorp Ltd.

### Update to credit analysis

#### Summary

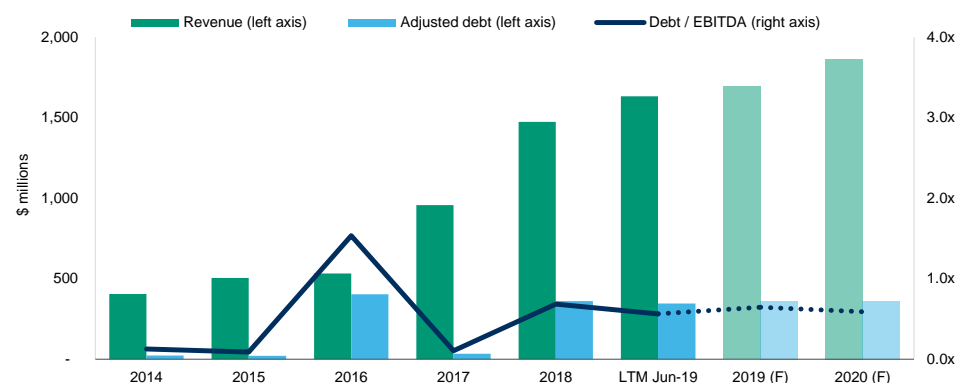
[NagaCorp Ltd.](#)'s (NagaCorp) B1 rating reflects (1) the dominant position of its integrated casino and hotel complex, NagaWorld, in Phnom Penh, [Cambodia](#) (B2 stable), because of the company's casino license with an exclusive right to operate casinos in and around the capital city of Phnom Penh; (2) the company's track record of strong operating performance since its listing despite economic challenges and increasing competition within the gaming industry in Asia; and (3) our expectation of solid financial metrics over the next 12-18 months despite its upcoming \$3.5 billion development project.

NagaCorp is rated one notch above Cambodia's sovereign rating, based on our assessment that there is a low likelihood of the company being affected in the event of a weakening in Cambodia's economic fundamentals. The company demonstrates a degree of insulation from domestic conditions because it generates most of its revenue from tourists and does not rely on local banks or capital markets for funding.

NagaCorp's rating is constrained by (1) its single-site operations, (2) uncertainty regarding tax rates and the timing of Cambodia's new gaming law, and (3) its exposure to political risk and the evolving regulatory framework in Cambodia.

Exhibit 1

#### NagaCorp's leverage to remain healthy over the next 12-18 months



Sources: Moody's Financial Metrics™, Moody's Investors Service estimates

## Credit strengths

- » Dominant market position
- » Diversified business, with exposure to mass-market and VIP players across Asia
- » Low labor costs and gaming tax environment, which support NagaCorp's healthy EBITDA margin
- » Strong operating performance, which supports solid financial metrics over the next 12-18 months
- » Excellent liquidity over the next 12 months

## Credit challenges

- » Execution risks from the development of Naga 3 but are sufficiently mitigated
- » Exposure to single-site operation risk
- » Uncertainty regarding tax rates and the timing of Cambodia's new gaming law
- » Exposure to political instability in Cambodia, changes in its economic policies and weaknesses related to the country's legal system

## Rating outlook

The stable outlook on NagaCorp's rating reflects our expectation that the company will undertake expansion plans in a prudent manner while maintaining solid financial metrics and liquidity over the next 12-18 months.

## Factors that could lead to an upgrade

NagaCorp's rating is unlikely to be upgraded because it is constrained at one notch above Cambodia's sovereign rating. To upgrade the rating, we would expect — in addition to a sovereign upgrade — the company to maintain its strong operating position within the Cambodian gaming market and solid financial metrics, as illustrated by its adjusted debt/EBITDA below 2.0x and adjusted retained cash flow (RCF)/debt above 25%.

## Factors that could lead to a downgrade

NagaCorp's rating could face downward pressure if (1) Cambodia's rating is downgraded; (2) the operating environment deteriorates, resulting in protracted weakness in the company's operating cash flow generation; (3) the company fails to maintain its 100% ownerships in Ariston Sdn. Berhad, which holds its Cambodian casino license, and NagaWorld; (4) the company increases its debt leverage, capital spending or shareholder returns, such that its adjusted debt/EBITDA exceeds 2.5x and adjusted RCF/debt falls below 20% over the next 12-18 months; and (5) it has insufficient cash to cover its short-term debt obligations.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### NagaCorp Ltd.

\$ millions	2016	2017	2018	LTM Jun-19	2019 (F)	2020 (F)
Revenue	532	956	1,474	1,633	1,695	1,864
Cash & cash equivalents	211	53	393	323	354	376
Total debt	402	34	360	346	360	360
Debt / EBITDA	1.5x	0.1x	0.7x	0.6x	0.6x	0.6x
Net Debt / EBITDA	0.7x	-0.1x	0.1x	0.3x	0.1x	0.1x
EBIT / Interest expense	7.3x	6.5x	17.2x	13.8x	13.2x	14.2x
RCF / Debt	26%	574%	90%	103%	62%	82%

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's forecasts (F) are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated. LTM = Last 12 months.

Sources: Moody's Financial Metrics™, Moody's Investors Service estimates

## Profile

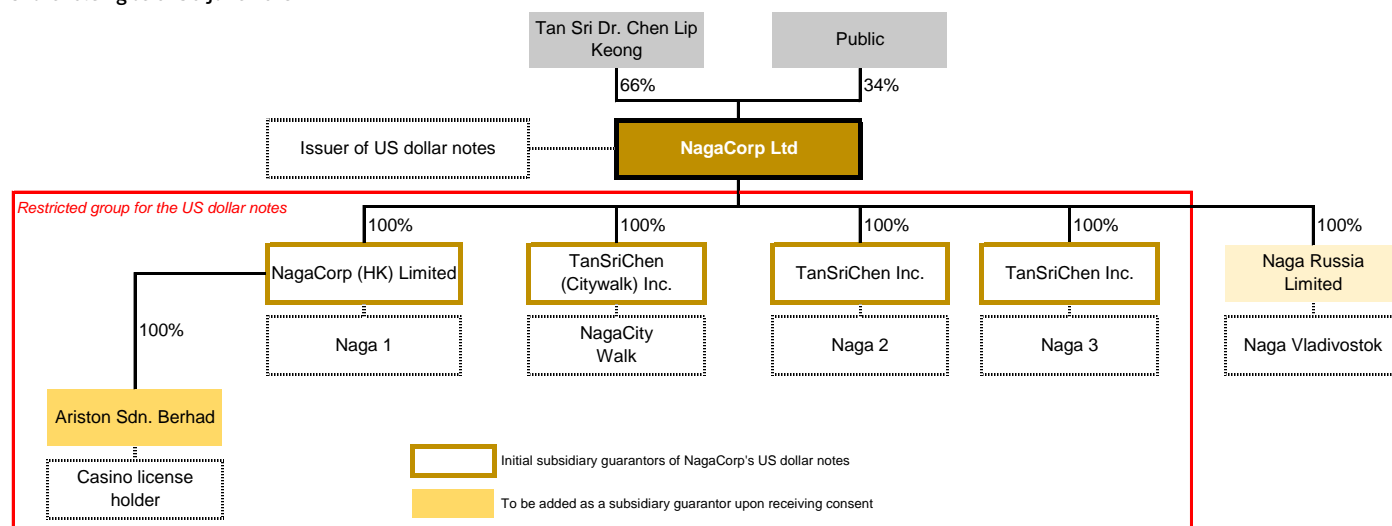
NagaCorp Ltd. (NagaCorp) owns and manages NagaWorld, which comprised two integrated casino and hotel complexes in Phnom Penh, Cambodia. For the 12 months ended 30 June 2019, NagaCorp generated revenue of \$1.6 billion, of which 98% came from its gaming operations. The company is currently developing an integrated casino and hotel complex in Vladivostok, Russia, and recently announced plans to add a third integrated casino and hotel complex (Naga 3) to NagaWorld.

NagaCorp was incorporated in the Cayman Islands in 2003 and has been listed on the Hong Kong Stock Exchange since 2006. The company was founded by Tan Sri Dr. Chen Lip Keong, the CEO and the largest shareholder, with a 66% stake as of 30 June 2019.

Exhibit 3

### NagaCorp's simplified corporate structure

Shareholding as of 30 June 2019



Source: Company data

## Detailed credit considerations

### Risks from the development of Naga 3 are sufficiently mitigated

NagaCorp's proposed \$3.52 billion expansion project, Naga 3, is the company's largest development to date (see Exhibit 4) but the key risks are sufficiently mitigated.

Exhibit 4

#### Summary of NagaCorp's projects

	Naga 1	Naga 2	NagaCity Walk	Naga Vladivostok	Naga 3
<b>Launch date</b>	December 2006	November 2017	August 2016	Expected 2020	Expected 2025
<b>Description</b>	Integrated hotel and casino	Integrated hotel and casino	Underground walkway and shopping centre	Integrated hotel and casino	Integrated hotel and casino
<b>Floor area (square metres)</b>	113,307	108,764	13,428	55,839	544,801
<b>Project cost</b>	\$722 million	\$600 million	\$100 million	Around \$300 million	\$3,515 million
<b>Gaming capacity</b>	252 gaming tables 1,680 gaming machines 10 VIP suites	300 gaming tables 2,500 gaming machines 38 VIP suites	N/A	48 gaming tables 376 gaming machines 6 VIP suites	800 gaming tables (including VIP) 2,500 gaming machines
<b>Non-gaming</b>	755 hotel rooms; 19 food & beverage; 1,594 square metres ballroom; 60-seat auditorium; and an exhibition space	903 hotel rooms; a multipurpose-entertainment/theatre with around 2,100 seating capacity	10.5 years tenancy agreement with China Duty Free Group, who operates 39 retail stores	279 hotel rooms	5 hotel towers, including a 48-storey condotel; 4,720 hotel bays; multi-entertainment podium; restaurants, retail and entertainment outlets

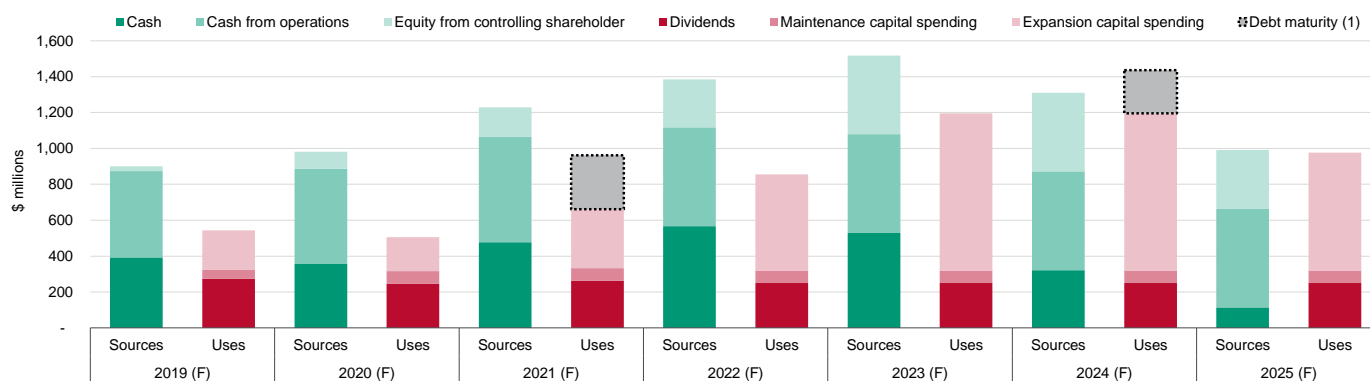
Source: Company data

The construction risks are mitigated by (1) the guaranteed maximum sum design and build agreement with CCAG Asia Co., Ltd., which undertakes to deliver a fully completed and operational Naga 3 that will allow the company to commence operations upon handover; (2) CCAG Asia Co., Ltd.'s successful track record of completing Naga 1, Naga 2 and NagaCity Walk on time and within budget; and (3) an arrangement with the company's controlling shareholder, Tan Sri Dr. Chen Lip Keong, to cover any cost overrun.

The funding risks are partially mitigated because (1) 50% of the development cost will be funded by equity contributions from the controlling shareholder, who has a track record of providing funds for NagaCorp's previous development projects; and (2) of our expectation that NagaCorp will have sufficient resources over the next three years to fund the remaining 50% of the development cost. Beyond 2021, NagaCorp's capacity to fund its portion of the development cost, without incremental borrowings, will depend on the company's ability to (1) refinance rather than repay all maturing debt — \$300 million bond due in 2021 and around \$240 million construction loan for Naga Vladivostok; and (2) generate free cash flow of around \$250 million per annum (see Exhibit 5).

Exhibit 5

#### NagaCorp will have sufficient resources to fund half of the development cost for Naga 3



(1) Assuming all maturing debt is refinanced rather than repaid.

Sources: Company data, Moody's Investors Service estimates

The equity contribution from the controlling shareholder will be done through an advance share subscription. The cash advance provided will be interest-free and shall be forfeited in the event of failure to deliver a fully completed and operational Naga 3. Further, the controlling shareholder will only receive shares after the completion of Naga 3, which will increase his stake to 73% from 66% as of 30 June 2019.

On 14 April 2019, the company announced its intention to develop Naga 3, a third integrated casino and hotel complex in Phnom Penh, located within walking distance of Naga 1 and Naga 2. The project, slated for completion in 2025, is larger than both Naga 1 and Naga 2 combined in terms of scale and costs.

### Dominant market position despite exposure to single-site operation risk

NagaWorld has a dominant position because of NagaCorp's casino license, which gives the company the exclusive right to operate casinos in and around the capital city of Phnom Penh. NagaCorp's casino license was awarded to its wholly owned subsidiary, Ariston Sdn. Berhad, by the Cambodian government on 2 January 1995 for a duration of 70 years, expiring in 2065. Ariston Sdn. Berhad will be the sole casino operator within a 200-kilometer radius of Phnom Penh, except the Cambodia-Vietnam border area, Bokor, Kirirom Mountains and Sihanoukville, up to year-end 2035. Furthermore, NagaCorp's casino license allows the company to adjust its capacity to suit market demand because there are no restrictions on operating hours or the number of gaming tables and machines.

According to media outlets, there are more than 100 casinos in Cambodia. However, these are concentrated in Poipet, Bavet and Sihanoukville, and do not compete in the same segment as NagaWorld because they serve mainly players from border countries such as Thailand and Vietnam.

Since its inception, NagaCorp generated most of its revenue from NagaWorld, highlighting the company's high concentration risk stemming from its single-site operations. Although NagaCorp is currently developing Naga Vladivostok, the complex will not be operational until 2020. Even then, we expect Naga Vladivostok to account for less than 10% of NagaCorp's revenue and NagaWorld to continue to be the company's main revenue driver.

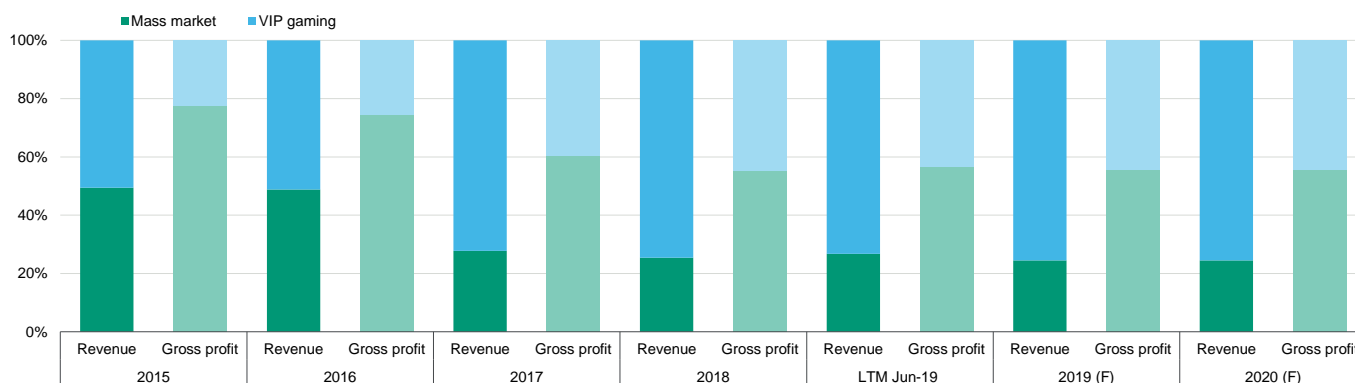
### Diversified business, with exposure to mass-market and VIP players across Asia

NagaCorp's business is fairly diversified across both segments of (1) mass-market gaming, which is generally stable and provides the company with a consistent base of earnings; and (2) VIP gaming, which fluctuates and depends heavily on arrangements with gaming promoters but adds a significant upside to the company's earnings. The mass-market gaming segment has a higher profit margin than the VIP gaming segment because of its lower cost structure.

Although NagaCorp generated 73% of its gaming revenue from the VIP gaming segment in the 12 months ended 30 June 2019, the company achieved a fairly balanced gross profit distribution across its business segments. Over the next 12-18 months, we expect the distribution of NagaCorp's revenue and gross profit to remain broadly unchanged from 2018 (see Exhibit 6).

Exhibit 6

### NagaCorp to generate a fairly balanced gross profit across its three major business segments in 2018-19



Sources: Company data, Moody's Investors Service estimates

NagaCorp also derived its earnings from a diversified customer base. According to the company's database for VIP arrivals, its VIP gaming players are largely from Malaysia, Greater China and other Southeast Asian countries. We expect the proportion of players from Greater China to increase because of NagaCorp's collaboration with gaming promoters in Macau including SunCity, Tak Chun and Guangdong Group.

While NagaCorp is unable to track the nationalities of all its mass-market gaming players, these players typically sign up as members under the company's Golden Edge Rewards Club, which allows them to accumulate points during gaming to offset retail, food and beverage, and accommodation spending. The database of active members in NagaCorp's rewards program shows that the company's mass-market players are largely from Malaysia, Greater China and other Southeast Asian countries.

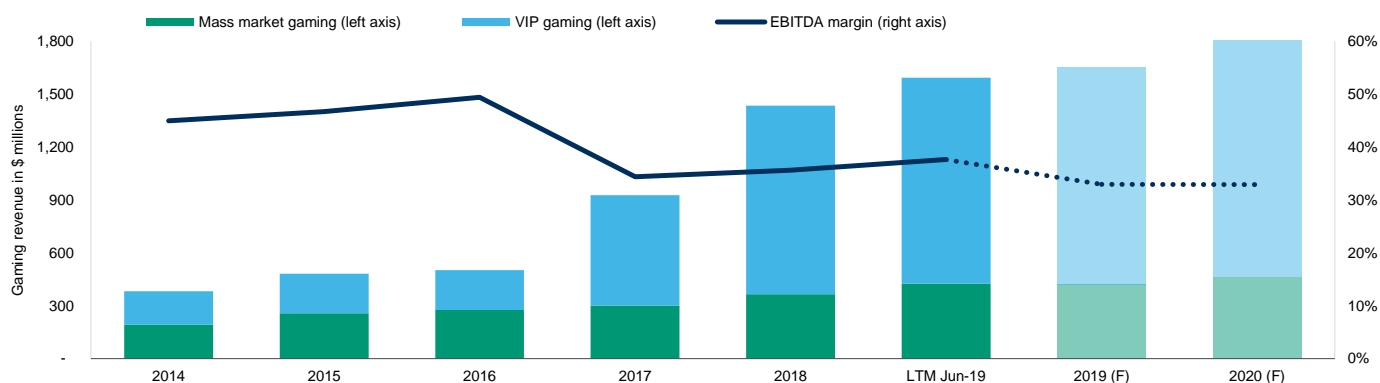
### EBITDA margin to decline because of the growing VIP gaming business but will remain supported by low labor costs and gaming tax environment

Over the next 12-18 months, we expect NagaCorp to generate an EBITDA margin of around 33%, which is lower than its last five-year average of around 42%, but still high among the listed gaming companies in Asia because the company benefits from low labor costs and gaming tax environment in Cambodia.

NagaCorp's EBITDA margin will decline because of the company's growing proportion of revenue from the VIP gaming business, which generates much lower margins than the mass-market gaming business (see Exhibit 7). Over the next 12-18 months, we estimate that NagaCorp's gross profit margin will be around 25% for its VIP gaming business and around 97% for its mass-market gaming business.

Exhibit 7

#### Growing revenue from the VIP gaming business will lead to a decline in the EBITDA margin



Sources: Company data, Moody's Financial Metrics™, Moody's Investors Service estimates

In general, labor costs account for a high percentage of operating costs for any casino, and NagaCorp has access to a large supply of labor at competitive rates compared with that of its peers in other Asian gaming markets such as Macau, the Philippines and Singapore. As of 30 June 2019, NagaCorp had a workforce of 8,051 employees, most of them being locals.

NagaCorp also benefited from the low gaming tax environment in Cambodia where the company is exempted from corporate income tax and has had a competitive tax structure with fixed monthly tax obligations and periodic additional tax obligations. The company's tax payment averaged around 2% of gaming revenue per annum between 2013 and 2018.

However, there is uncertainty regarding NagaCorp's future tax obligations because the Cambodian government will enact a new gaming law, although it is unclear when the gaming law will take effect. According to published reports, the government has indicated that once the draft gaming law is enacted, the expected tax rate would be less than 10% of gaming revenue. According to the research and consulting firm Global Market Advisors, a tax rate of less than 10% of gaming revenue is still among the lowest gaming tax rates in the Asia-Pacific.

### Strong operating performance supports solid financial metrics over the next 12-18 months

In the first nine months of 2019, NagaCorp's gaming revenue increased 20% year-over-year to \$1.3 billion. This was driven by the company's VIP gaming business, which saw a 38% increase in rollings during the first nine months of 2019 because of the successful ramp-up of Naga 2. Growth in the VIP gaming business continues to be supported by competitive incentives or commissions to gaming promoters.

At the same time, NagaCorp's mass-market gaming business continues to be driven by the company's tie-ups with China International Travel Services Limited, China Duty Free Group and Bassaka Air, which will increase visitation into Cambodia and NagaWorld. Over the last five years, Chinese tourist arrivals to Cambodia grew by a compound annual growth rate of 29%. Chinese tourist arrivals to Cambodia reached 1.5 million in the first seven months of 2019, accounting for 40% of all tourist arrivals to the country.

We expect revenue and EBITDA growth to moderate because of an increase in gaming taxes and a reduction in consumer discretionary spending over concerns of a slowdown in economic growth in the Asia-Pacific.

Nonetheless, we expect NagaCorp to maintain solid financial metrics. Leverage, as measured by adjusted debt/EBITDA, will stay at 0.6x in 2019 and 2020, similar to that for the 12 months ended 30 June 2019 (see Exhibit 1). RCF/debt will weaken to around 62% in 2019 and 82% in 2020, from 103% over the same period because of higher dividend payouts.

### Strong fundamentals, and low reliance on domestic sources for revenue and funding support NagaCorp's rating, which is one notch higher than Cambodia's rating

Referencing our cross-sector rating methodology, [Assessing the Impact of Sovereign Credit Quality on Other Ratings](#), we view NagaCorp to be fundamentally stronger than Cambodia from a credit perspective and believe the company demonstrates a degree of insulation from domestic macroeconomic and financial disruptions.

Although NagaCorp operates solely in Cambodia, it derives most of its revenue and cash flow from tourist arrivals because Cambodian passport holders are prohibited from gaming in NagaWorld. Furthermore, the company has always funded growth through funds raised offshore either through equity or convertible bond issuances and is not reliant on domestic banks or capital markets for funding.

Consequently, we view the likelihood of NagaCorp being affected in the event of a weakening of Cambodia's economic fundamentals to be low, supporting a rating that is one notch above the sovereign rating.

Nonetheless, NagaCorp remains exposed to political instability in Cambodia, changes in economic policies and weaknesses related to the country's legal system, which could hurt the company's operations.

### Other considerations

NagaCorp's US dollar senior unsecured notes are not exposed to either legal or structural subordination risk. Therefore, the notes are rated in line with the company's B1 corporate family rating. NagaCorp's US dollar notes are also guaranteed by the company's major operating subsidiaries (see Exhibit 3).

According to Cambodia's 1997 Law on Foreign Exchange, there are no restrictions on foreign-exchange operations through authorized banks. Authorized banks are required, however, to report the amount of any transfer equaling or exceeding \$100,000 to the National Bank of Cambodia on a regular basis. NagaCorp has a demonstrated track record of repatriating funds from its operation of NagaWorld to the holding company and paying dividends to the company's shareholders.

### Environmental, social and governance considerations

In terms of environmental, social and governance (ESG) risks, we considered NagaCorp's exposure to elevated social risks, particularly around evolving demographic and societal trends which may drive a change in demand away from traditional casino-style gaming. These risks are somewhat mitigated by the company's ability to adjust capacity to suit market demand because there are no restrictions under its casino license on operating hours or the number of gaming tables and machines.

We have also considered governance risk around the controlling shareholder's concentrated ownership of NagaCorp. However, the risk is partially balanced by the oversight exercised through board consisting of majority independent directors and demonstration of support by the controlling shareholder, who has funded the company's expansion by injecting equity.

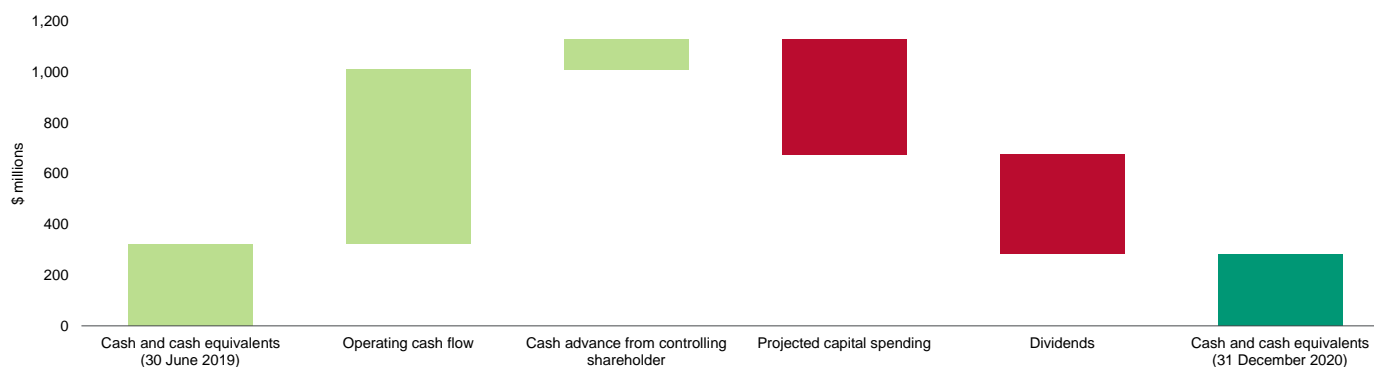
## Liquidity analysis

NagaCorp has excellent liquidity, supported by the generation of stable operating cash flow. As of 30 June 2019, the company had cash and cash equivalents of \$323 million and reported debt of around \$345 million relating to its senior unsecured notes and lease liabilities.

Over the next 18 months, we expect NagaCorp to generate around \$690 million of operating cash flow and receive \$120 million from the controlling shareholder for the development of Naga 3. These amounts will be sufficient to cover (1) an estimated capital spending of around \$450 million, and (2) a projected dividend payout of around \$390 million (see Exhibit 8).

Exhibit 8

### NagaCorp is expected to maintain excellent liquidity over the next 18 months



Sources: Company data, Moody's Investors Services estimates

## Rating methodology and scorecard factors

When mapped to our [Gaming Industry](#) rating methodology, the scorecard-indicated outcome for NagaCorp is Baa2 based on its financials for the 12 months ended 30 June 2019 and our 12-18-month forward view (see Exhibit 9). The actual B1 rating reflects NagaCorp's single-site operations in Cambodia and, therefore, it is constrained by the country's rating.

Exhibit 9

### Rating factors NagaCorp Ltd.

Gaming Industry Grid [1]	Current LTM 6/30/2019		Moody's 12-18 Month Forward View As of 6/30/2019 [2]	
	Measure	Score	Measure	Score
<b>Factor 1 : Scale (10%)</b>				
a) Net revenues (\$ billion)	\$1.6	Ba	\$1.7 - \$1.9	Ba
<b>Factor 2 : Business Profile (30%)</b>				
a) Business profile		B		B
<b>Factor 3 : Financial Policy (20%)</b>				
a) Financial policy		Ba		Ba
<b>Factor 4 : Leverage &amp; Coverage (40%)</b>				
a) Debt / EBITDA	0.6x	Aa	0.6x - 0.7x	Aa
b) EBIT / Interest expense	13.8x	Aa	13.2x - 14.2x	Aa
c) RCF / Debt	103%	Aaa	62% - 82%	Aaa
<b>Rating:</b>				
a) Scorecard-indicated outcome		Baa2		Baa2
b) Actual rating assigned				B1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestiture.

Sources: Moody's Financial Metrics™, Moody's Investors Service estimates



## Ratings

Exhibit 10

Category	Moody's Rating
<b>NAGACORP LTD.</b>	
Outlook	Stable
Corporate Family Rating	B1
Senior Unsecured	B1

Source: Moody's Investors Service

## Appendix

Exhibit 11

### Peer comparison table

(\$ millions)	NagaCorp Ltd B1 Stable			Melco Resorts Finance Limited Ba2 Stable			Studio City Finance Limited B1 Stable		
	FYE Dec-17	FYE Dec-18	LTM Jun-19	FYE Dec-17	FYE Dec-18	LTM Jun-19	FYE Dec-17	FYE Dec-18	LTM Jun-19
Revenue	\$956	\$1,474	\$1,633	\$4,685	\$4,598	\$4,867	\$537	\$570	\$588
EBITDA	\$329	\$525	\$614	\$779	\$788	\$858	\$284	\$315	\$318
Total debt	\$34	\$360	\$346	\$1,531	\$2,581	\$2,975	\$2,025	\$1,625	\$1,795
Cash & cash equivalents	\$53	\$317	\$323	\$837	\$883	\$651	\$346	\$339	\$519
EBIT margin	28%	29%	31%	11%	10%	10%	20%	26%	25%
EBIT / Interest expense	6.5x	17.2x	13.8x	7.9x	6.5x	4.4x	0.7x	0.9x	1.0x
Debt / EBITDA	0.1x	0.7x	0.6x	2.0x	3.3x	3.5x	7.1x	5.2x	5.7x
RCF / Debt	574%	90%	103%	-2%	11%	11%	7%	10%	11%
FFO / Debt	828%	137%	178%	48%	26%	25%	7%	10%	11%

All figures and ratios calculated using Moody's estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months.

Source: Moody's Financial Metrics™

Exhibit 12

### Moody's-adjusted debt breakdown

#### NagaCorp Ltd.

(\$ millions)	FYE Dec-17	FYE Dec-18	LTM Jun-19
<b>As reported debt</b>	<b>0</b>	<b>291</b>	<b>346</b>
Operating leases	34	69	0
<b>Moody's-adjusted debt</b>	<b>34</b>	<b>360</b>	<b>346</b>

All figures and ratios calculated using Moody's estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months.

Source: Moody's Financial Metrics™

Exhibit 13

### Moody's-adjusted EBITDA breakdown

#### NagaCorp Ltd.

(\$ millions)	FYE Dec-17	FYE Dec-18	LTM Jun-19
<b>As reported EBITDA</b>	<b>320</b>	<b>512</b>	<b>607</b>
Operating leases	9	12	6
Unusual	1	1	1
<b>Moody's-adjusted EBITDA</b>	<b>329</b>	<b>525</b>	<b>614</b>

All figures and ratios calculated using Moody's estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months.

Source: Moody's Financial Metrics™

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