

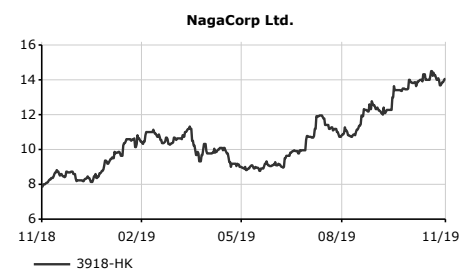
20 November 2019

Asia Research

Rating: Buy

Price Target: HK\$15.50

Price	HK\$14.16
52wk Range	HK\$7.50 - HK\$14.66
Shares Outstanding (MM)	4,341.0
Market Capitalization (MM)	HK\$61,468.7
Enterprise Value (MM)	HK\$61,646.5
30D Avg Volume (000s)	2,819.3
Short Interest/Float	0.0%
Dividend Yield	3.5%
YTD % Chg	66.5%
YTD % Chg Relative to Index	42.0%
Total Implied Return to PT	12.9%
Pricing Date	November 19, 2019



NagaCorp Ltd.

Global Gaming Operators

3918-HK | HKSE | HK\$14.16

Company Update

Naga doubles the available runway for Naga3 via exclusive license extension

Ten-year extension to exclusivity. NagaCorp announced it has entered into an agreement with the government of Cambodia to extend the company's gaming exclusivity period by an additional ten years. Recall that NagaCorp is operating under a 70-year license (through 2065), of which the company had exclusive rights to operate casinos within a 200-kilometre radius of Phnom Penh through 2035. The new agreement extends the exclusivity period through 2045. In exchange, the company has paid a \$10mm fee to the government, and will pay an additional \$3mm per year over the ten-year period from 2036 to 2045.

Naga3's runway just doubled. It is important to keep in mind that the company's next project, the ~\$3.5bn Naga3, is anticipated to open in late 2025 when the company would have had approximately ten years of exclusivity remaining. The new agreement therefore extends the runway for Naga3 and makes the return profile that much better and with greater visibility. While the Naga3 project is long-dated, we remain bullish on the project in part due to the transformational nature of the Naga2 project (November 2017) and the impact it has had on Phnom Penh as a gaming destination. Phnom Penh/Naga is the most insulated operator/market from the volatility associated with China (i.e. proxy/online crackdown leading to a decline in brick-and-mortar business) driven in part by the close relationship between China/Cambodia. Further, this same close relationship is a key driver of FDI into Phnom Penh and underpins the exceptional growth reported during the first nine months of 2019 and our expectations of continued strong growth over the near, medium, and longer terms. Beyond this there are numerous levers, including strong tourism growth, robust economic trends generating increased wealth, and the continuing refurbishment of Naga1 (including converting non-gaming space to gaming space).

Maintain Buy rating. We are raising our 2019 and 2020 estimates slightly in order to account for continued strength following the company's release of 3Q19 metrics and as detailed herein. We are also raising our PT to \$15.50 (from \$14.50), which is based on a 10x multiple of our 2020 EBITDA estimate, in addition to the present value of the company's Naga3. It is important to note that our forward EBITDA estimates herein assume a ~5.5% GGR tax is implemented from 1H20. Further delays to the implementation of the GGR tax would yield significant upside to our EBITDA estimates.

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Year to Dec	Net Revenue	Adjusted EBITDA	EPS
2019E	1,786	639	0.11
Prior	1,772	635	--
2020E	2,154	635	0.12
Prior	2,120	627	--

*Please see analyst certification and required disclosures starting on page 3 of this report.

Earnings model

We note that our earnings model, as highlighted in the table below, assumes the implementation of a GGR tax in 2020 of approximately 5.5% of GGR. Absent this GGR tax our 2020 EBITDA estimate of \$635mm would be closer to \$753mm (vs. consensus of \$762mm). Therefore, any further delays to the implementation of the GGR tax could yield material upside to our estimates.

Figure 1: NagaCorp earnings model

NagaCorp	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Year ends December 31									
Revenue									
Casino Operations	223.0	296.8	343.8	355.3	775.0	1,305.1	1,581.2	1,883.2	2,040.9
Income from Gaming Machines	101.9	84.6	136.8	145.5	150.9	129.3	157.6	217.9	235.7
F&B, Hotel and Other	20.0	22.9	23.1	30.7	30.4	39.9	46.9	52.5	58.8
Total revenue	\$344.9	\$404.3	\$503.7	\$531.5	\$956.4	\$1,474.3	\$1,785.7	\$2,153.6	\$2,335.4
Administrative expense	(47.0)	(51.5)	(47.2)	(52.6)	(67.2)	(79.3)	(74.3)	(76.5)	(78.8)
Other operating expenses	(57.9)	(82.5)	(97.2)	(111.8)	(150.2)	(185.6)	(220.9)	(268.4)	(290.8)
Gaming taxes @ 5.5% on GGR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(118.0)	(128.1)
Total EBITDA	\$171.8	\$176.0	\$228.5	\$256.1	\$319.7	\$511.8	\$638.9	\$634.6	\$688.6
Interest income (expense)	0.0	0.0	0.0	0.0	0.0	(19.5)	(31.4)	(28.1)	(28.1)
Profit before taxation	145.4	142.0	189.0	208.2	263.3	399.4	514.4	520.5	574.5
Taxation	(5.1)	(5.9)	(16.4)	(24.1)	(8.1)	(8.8)	(20.1)	(11.2)	(12.6)
Profit attributable to equity holders	140.3	136.1	172.6	184.2	255.2	390.6	494.2	509.3	561.9
EPS	\$0.063	\$0.060	\$0.076	\$0.070	\$0.059	\$0.090	\$0.114	\$0.117	\$0.129
Shares outstanding	2235.1	2281.9	2270.0	2616.9	4341.0	4341.0	4341.0	4341.0	4341.0

Source: Union Gaming

Valuation

We value NagaCorp using an EV/EBITDA approach on forward earnings. Our 12-month price target is HK\$15.50 (from \$14.50) and is based on a 10x multiple of our 2020 EBITDA estimate, in addition to the present value of the company's Naga3. This multiple is slightly higher than the range we have historically assigned to Naga, but is still broadly in line with the regional peer set. We note that our forward earnings forecasts assume that a 5.5% GGR tax is levied upon Naga and is reflected in our earnings estimates and PT. The lack of implementation of a gaming tax, or a differential in the magnitude of the gaming tax could have a material impact on our forward earnings estimates.

Risks

Risks to shares of NagaCorp include: political risk (loss of exclusive license, adjustment to the company's advantageous low monthly fixed obligation tax), development risk including potential delays to the Vladivostok project, incremental regional competition, and volatility associated with a growing VIP business.

Important Disclosure

Analyst Certification

The analyst, Grant Govertsen, primarily responsible for the preparation of this research report attests to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

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Ratings Definitions

Current Ratings Definition

Union Gaming Securities LLC and Union Gaming Securities Asia Limited use a traditional ratings construct (Buy, Hold, and Sell) that is underscored by percentage upside/downside from current trading levels along with dividend yields for total return. We exclude special dividends and contemplate regular dividends only in our total return forecasts. These are absolute ratings, not relative or forced ratings. We define a Buy rating as a company whose shares exhibit total return (appreciation and dividends) potential of at least 15% within the next 12 months, and conversely a Sell rating as a company whose shares exhibit downside potential of at least 15% within the next 12 months. A Hold rating is reserved for companies whose shares exhibit total return potential between those parameters.

Buy – the total forecasted return is expected to be greater than 15% within the next 12 months

Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 15%

Sell – whose shares exhibit downside potential of at least 15% within the next 12 months

Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

Valuation and Risks

Valuation

Valuation Methodology for Price Target: Enterprise Value-to-EBITDA, Sum-of-the-Parts Analysis, Price-to-Earnings Ratio, Discounted Cash Flow Analysis, Price-to-AFFO, Net Asset Value.

Risks

Investment Risks: Union Gaming Securities' equity research team covers the casino, gambling, gaming, lottery and related sectors. The companies operating within these sectors generally have a global presence or significant exposure to China and Las Vegas, among other markets. In addition, the markets that companies in these sectors operate are highly regulated by local and federal governments. Risks across or specific to one or more of these sectors include regulatory or legislative impacts related to licensing, tourism or the competitive landscape. Licenses to operate gaming facilities or supply gaming equipment or lottery services are often governed by regulatory authorities. Additional Risks for investing in these sectors include volatility in consumer discretionary spending and consumer confidence, currency, interest rates, unemployment rates, access to capital, the cost of capital, commodity costs, geopolitical uncertainty, and unfavorable government regulations. Companies operating within our covered sectors rely in part on tourism, and business trends could be impacted by changes or influences to tourism in a given market or markets, including visa policy, transit policies and security, transportation infrastructure, weather and natural disasters.

Ratings Distribution (as of 11/20/2019)

Coverage Universe

Ratings	Count	Pct.
BUY	23	72%
HOLD	9	28%
SELL	0	0%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
BUY	8	35%
HOLD	1	11%
SELL	0	0%

NagaCorp Ltd. Rating History as of 11/18/2019

powered by: BlueMatrix



General Disclosures

Additional information is available upon request.

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