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NagaCorp | Asia Pacific

Strong Net Income; 100% Dividend Payout

✔ Stock Rating
Overweight

◉ Industry View
Attractive

◎ Price Target
HK\$11.00

Naga reported 2H20 net income of US\$83m (-70%YOY), helped by strong mass revenue (-39%YOY). The 100% payout ratio could put unnecessary pressure on the balance sheet.

Naga reported 4Q20 GGR of US\$260m, up 9% QOQ (-40%YOY). 2H20 EBITDA was US\$174m (-49%YOY) and Net Income was US\$83m (-70%YOY).

(+) Staff cost was cut further to ~US\$39m in 2H20 (-3%HOH, -17%YOY). This was due to the number of employees dropping from 8,625 in 2019 to 8,371 (-3%).

(+) The company has ample cash (US\$452m by end 2020) to pay for US\$300m bond expiring in May 2021, thus saving US\$28m of interest expense p.a.

(=) 4Q20 VIP Roll grew by +7%QOQ to 52% of 4Q19; Slot handle +4%QOQ to 67% of 4Q19. Mass table volume grew 33%QOQ to 86% of 4Q19, helped by the premium mass segment.

(=) Consensus 2020 net income expectation has dropped by 48% since October 2020. Thus, net income of US\$102m (-80%YOY) was not a positive surprise.

(-) VIP contributed to 39% of total gross profit for 2020 (41% in 2019). While majority of this is from Locals and SE Asian patrons, this segment could face more risk in future.

(-) Net cash declined from US\$286m in 1H20 to US\$115m in 2H20. Gross interest expenses (before capitalized interests) grew 84%HOH to US\$35m as Naga raised US\$350m 7.95% bonds in July 2020.

(-) A 100% payout ratio of US\$1.88 cents DPS was declared, higher than the usual 60%. We believe it should conserve cash for bond repayment, capex (for Naga 3 and Russian project), and an uncertain COVID outlook.

Exhibit 1: 4Q Results Summary

US\$ mn	4Q19	3Q20	4Q20	4Q QOQ	4Q YOY
Gaming operations					
GGR	431	238	260	9%	(40%)
VIP revenue	305	166	176	6%	(42%)
VIP roll	12,744	6,234	6,684	7%	(48%)
Mass revenue	85	48	58	23%	(32%)
Mass drop	420	270	359	33%	(14%)
EGM revenue	41	24	26	7%	(37%)
EGM bills-in	710	456	473	4%	(33%)
Total mass and slot revenue	126	71	84	17%	(33%)

Source: Company data, Morgan Stanley Research

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Asia Research

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NagaCorp (3918.HK, 3918 HK)

ASEAN Gaming / Hong Kong

Stock Rating	Overweight
Industry View	Attractive
Price target	HK\$11.00
Shr price, close (Mar 8, 2021)	HK\$9.63
52-Week Range	HK\$11.18-7.08
Up/downside to price target (%)	14
Sh out, dil, curr (mn)	4,341
Mkt cap, curr (mn)	US\$5,385
Avg daily trading value (mn)	HK\$48

Fiscal Year Ending	12/19	12/20e	12/21e	12/22e
ModelWare EPS (US\$)	0.12	0.02	0.07	0.11
Prior ModelWare EPS (US\$)	-	-	-	-
EPS (US\$)§	0.12	0.02	0.08	0.11
Revenue, net (US\$ mn)	1,755	844	1,287	1,585
EBITDA (US\$ mn)	661	231	431	634
ModelWare net inc (US\$ mn)	521	86	298	490
Curr P/E, for consensus	10.3	62.7	18.1	11.0
P/BV	4.2	3.5	2.9	2.6
RNOA (%)	31.4	5.9	15.4	20.2
ROE (%)	33.9	4.8	18.1	26.8
EV/EBITDA**	11.5	23.8	13.2	9.3
Div yld (%)	4.9	0.9	3.3	5.5

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

§ = Consensus data is provided by Thomson Reuters Estimates

** = Based on consensus methodology

e = Morgan Stanley Research estimates

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Valuation Methodology and Risks

NagaCorp(3918.HK)

Our price target of HK\$11.0 is our base case scenario value. We apply a target FCFE yield of 8.0% to our 2022 estimate. The target yield is higher than Macau peers' average of 7.0% but is lower than the company's long-term average of 13% since 2012 in view of the company's leading position in a growing market, stable dividend, tax profile, and Naga 2 ramp-up.

Risks to Upside

- Quick recovery post-reopening is sustainable.
- Cambodia lifting international travel restrictions.
- Increase dividend payout ratio to >60%

Risks to Downside

- Potential delay in Naga3 and Russia projects due to slower capex spend in 2020 and the new US\$350m Angkor Wat project
- Potential share dilution for future developments and expansion.
- Regional competition
- Resurgence of Covid-19.
- PRC's crackdown of overseas gambling

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(as of February 28, 2021)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MSC
Overweight/Buy	1493	43%	400	47%	27%	664	43%
Equal-weight/Hold	1439	42%	359	42%	25%	651	42%
Not-Rated/Hold	6	0%	1	0%	17%	5	0%
Underweight/Sell	518	15%	87	10%	17%	214	14%
TOTAL	3,456		847			1534	

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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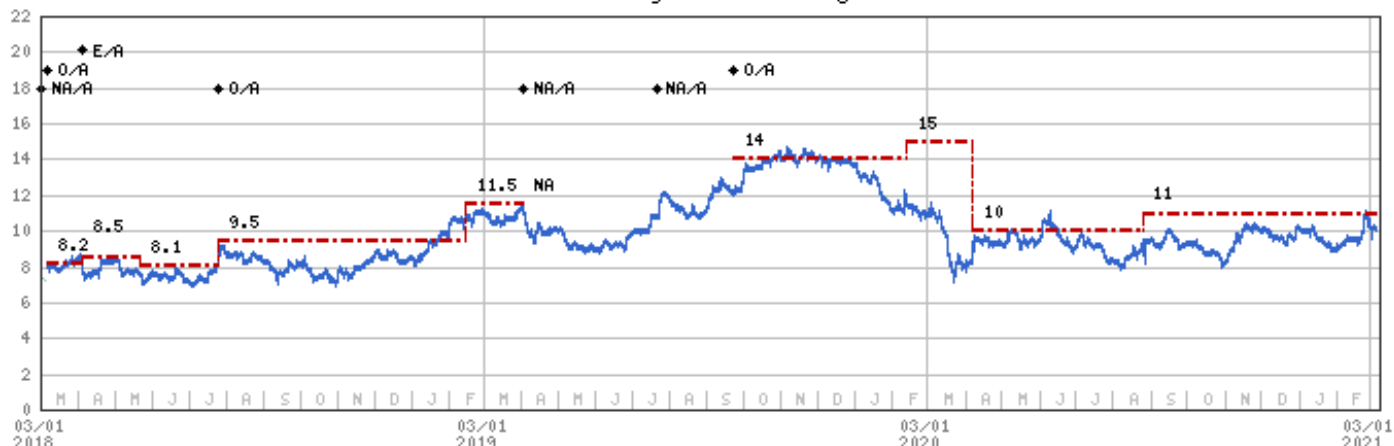
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Stock Price, Price Target and Rating History (See Rating Definitions)

NagaCorp (3918.HK) - As of 3/7/21 in HKD
Industry : ASEAN Gaming



Stock Rating History: 3/1/16 : NA/I; 6/18/17 : NA/A; 3/6/18 : O/A; 4/4/18 : E/A; 7/25/18 : O/A; 4/3/19 : NA/A; 7/21/19 : NA/A; 9/23/19 : O/A

Price Target History: 2/3/16 : NA; 3/6/18 : 8.2; 4/4/18 : 8.5; 5/21/18 : 8.1; 7/25/18 : 9.5; 2/14/19 : 11.5; 4/3/19 : NA; 9/23/19 : 14; 2/12/20 : 15; 4/7/20 : 10; 8/25/20 : 11

Source: Morgan Stanley Research Date Format: MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Genting Singapore PLC (GENS.SI)	U (08/17/2020)	S\$0.86
NagaCorp (3918.HK)	O (09/23/2019)	HK\$9.63

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