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## NagaCorp | Asia Pacific

## 4Q21 Preview: Volume stays muted but breakeven in EBITDA and Cash flow

Stock Rating  
Overweight

Industry View  
In-Line

Price Target  
HK\$7.30

We estimate Naga to report 2H21 EBITDA and Net Profit at US\$5m (-20%HoH) and -62m (+20%HoH). Current EBITDA run rate should still be below US\$1m per day (2H20 level) but breakeven in cash flow is achievable.

Naga will report its 4Q21 and full year 2021 results on Feb 7, 2022 and hold its investor presentation on Feb 8, 2022.

**4Q21 business volume remained muted:** Oct business volume was impacted by capacity limits of Naga's properties. Naga only reopened its properties fully from Nov. Despite gradual improvement in Dec, China's crackdown on Macau junkets in late-Nov should have impacted Naga negatively. We estimate 15-20% of Naga's pre-COVID VIP revenue was from Macau-based junkets.

**Yet, we expect breakeven in EBITDA and cash flow:** We expect 4Q21 EBITDA at US\$22m, 13% of 4Q19, improved from -US\$18m in 3Q21. This was driven by faster-recovering Mass revenue US\$40m (47% of 2019 level). We estimate Dec and Jan EBITDA run rate remains below 2H20 level of US\$1mn per day but Naga should be able to breakeven in cash flow, even after paying ~US\$120K interest expenses per day and ~US\$400K total capex per day.

**MSe vs. Consensus:** We see downside to consensus estimates. We estimate 2H21e EBITDA/ Net Profit at US\$5m (-20%HoH, 12% of 2H19)/ -62m (improved 20%HoH) vs. Consensus's US\$52m/ -5m. We expect 2021 EBITDA and Net Profit to be at US\$6m (-98%YoY) and -US\$129m (vs. +US\$132m in 2020).

**What to focus on in this earnings release:** (1) Impact on China's junket and overseas gambling crackdown; (2) Recovery of local demand; (3) Staff costs reduction; (4) Direct VIP (labelled as "Premium Mass") % to total revenue and impact on trade receivables; and (5) Phase 3 timeline and capex.

Naga stock is down 6% YTD vs. HSI up 4%, and is trading at 8x EV/EBITDA and 11% FCFE yield on our 2023 estimates.

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Themes for 2022

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2021

NagaCorp (3918.HK, 3918 HK)

ASEAN Gaming / Hong Kong

Stock Rating	Overweight
Industry View	In-Line
Price target	HK\$7.30
Shr price, close (Jan 26, 2022)	HK\$6.40
52-Week Range	HK\$11.18-5.15
Up/downside to price target (%)	14
Sh out, dil, curr (mn)	4,341
Mkt cap, curr (mn)	US\$3,568
Avg daily trading value (mn)	HK\$29

Fiscal Year Ending	12/20	12/21e	12/22e	12/23e
ModelWare EPS (US\$)	0.02	(0.02)	0.06	0.09
Prior ModelWare EPS (US\$)	-	-	-	-
EPS (US\$)§	0.02	(0.01)	0.07	0.10
Revenue, net (US\$ mn)	879	413	1,210	1,414
EBITDA (US\$ mn)	261	57	403	499
ModelWare net inc (US\$ mn)	102	(88)	274	372
Curr P/E, for consensus	34.9	NM	13.0	9.6
P/BV	3.4	2.5	2.1	1.8
RNOA (%)	7.2	(2.0)	12.4	15.4
ROE (%)	5.7	(5.3)	18.4	21.4
EV/EBITDA**	22.7	74.2	9.7	8.3
Div yld (%)	1.7	0.0	4.6	6.3

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

§ = Consensus data is provided by Refinitiv Estimates

\*\* = Based on consensus methodology

e = Morgan Stanley Research estimates

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## Operational Forecasts Summary

Exhibit 1: Quarterly estimates for Naga

US\$ mn	3Q19	4Q19	3Q20	4Q20	3Q21	4Q21E
<b>Gaming operations</b>						
GGR	416	431	238	260	8	94
- % to 2019			57%	60%	11%	22%
VIP revenue	289	305	166	176	3	40
VIP roll	10,687	12,744	6,234	6,684	8	1,591
- % to 2019			58%	52%	0.4%	12%
Mass revenue	87	85	48	58	2	40
- % to 2019			55%	68%	11%	47%
EGM revenue	41	41	24	26	3	14
- % to 2019			59%	63%	48%	34%
<b>EBITDA</b>						
EBITDA (excl. one-off)	193	176	80	95	(18)	22
EBITDA Margin (Gross)	45.5%	40.0%	33.2%	36.2%	-216.7%	23.3%

Source: Company data, Morgan Stanley Research (E) estimates

Exhibit 2: Half-Yearly estimates for Naga

US\$ mn	2H19	2H20	1H21	2H21E	2H HOH	% to 2H19
VIP revenue	593	342	81	43	26%	7%
Mass revenue	172	106	30	42	55%	24%
EGM revenue (Naga share)	82	50	19	17	52%	21%
<b>GGR</b>	<b>847</b>	<b>498</b>	<b>129</b>	<b>102</b>	<b>34%</b>	<b>12%</b>
Non-gaming revenue	17	4	1	2	(34%)	12%
<b>Gross revenue</b>	<b>864</b>	<b>501</b>	<b>130</b>	<b>104</b>	<b>33%</b>	<b>12%</b>
Cost of sales	(425)	(248)	(56)	(43)	22%	10%
Non-gaming	14	3	1	2	(33%)	13%
<b>Gross Profit</b>	<b>439</b>	<b>254</b>	<b>75</b>	<b>61</b>	<b>46%</b>	<b>14%</b>
Staff costs (excl. one-off)	(47)	(39)	(33)	(29)	(3%)	63%
Other opex (SG&A)	(52)	(40)	(24)	(27)	(15%)	52%
<b>EBITDA (recurring)</b>	<b>340</b>	<b>174</b>	<b>18</b>	<b>5</b>	<b>102%</b>	<b>1%</b>
<i>EBITDA margin (Gross)</i>	39.4%	34.8%	13.6%	4.6%	12 ppts	
D&A	(50)	(50)	(55)	(48)	2%	96%
<b>EBIT</b>	<b>291</b>	<b>124</b>	<b>(37)</b>	<b>(43)</b>	<b>236%</b>	<b>(15%)</b>
Interest Expense	(3)	(28)	(22)	(16)	460%	555%
<b>Profit before tax</b>	<b>287</b>	<b>97</b>	<b>(66)</b>	<b>(57)</b>	<b>181%</b>	<b>(20%)</b>
Income tax	(15)	(16)	(5)	(5)	19%	33%
<b>Net income</b>	<b>272</b>	<b>81</b>	<b>(71)</b>	<b>(62)</b>	<b>285%</b>	<b>(23%)</b>
<b>Diluted EPS (US\$ cents)</b>	<b>6.26</b>	<b>1.87</b>	<b>(1.78)</b>	<b>(1.43)</b>	<b>294%</b>	<b>(23%)</b>
<b>DPS (US\$ cents)</b>	<b>5.09</b>	<b>1.88</b>	-	-	<b>548%</b>	<b>0%</b>
<i>Dividend payout ratio</i>	81%	100%	0%	0%	39 ppts	

Source: Company data, Morgan Stanley Research (E) estimates

Exhibit 3: Yearly estimates for Naga

Operation (US\$ mn)	2017	2018	2019	2020	2021E
<b>Gross Revenue</b>	<b>956</b>	<b>1,474</b>	<b>1,755</b>	<b>879</b>	<b>235</b>
VIP Revenue	625	1,069	1,243	613	124
Mass Revenue	150	236	318	174	71
EGM Revenue	151	129	158	82	36
<b>GGR</b>	<b>926</b>	<b>1,434</b>	<b>1,719</b>	<b>870</b>	<b>231</b>
Non-Gaming Revenue	30	40	36	9	3
<b>As a % to 2019</b>					
<b>Gross Revenue</b>				50%	13%
VIP Revenue				49%	10%
Mass Revenue				55%	22%
EGM Revenue				52%	23%
<b>GGR</b>				<b>51%</b>	<b>13%</b>
Non-Gaming Revenue				25%	9%
<b>% of total GGR</b>					
VIP Revenue	68%	75%	72%	70%	54%
Mass Revenue	16%	16%	19%	20%	31%
EGM Revenue	16%	9%	9%	9%	16%
<b>Gross Margin</b>					
<b>Total</b>	<b>49%</b>	<b>46%</b>	<b>48%</b>	<b>49%</b>	<b>55%</b>
VIP	25%	27%	28%	27%	23%
Mass	97%	97%	99%	99%	91%
EGM	99%	98%	98%	98%	91%
<b>Gaming</b>	<b>48%</b>	<b>45%</b>	<b>47%</b>	<b>48%</b>	<b>55%</b>
<b>Non-Gaming</b>	<b>81%</b>	<b>81%</b>	<b>83%</b>	<b>82%</b>	<b>83%</b>
<b>P&amp;L</b>					
<b>Opex (incl Rebates)</b>	<b>(644)</b>	<b>(973)</b>	<b>(1,095)</b>	<b>(618)</b>	<b>(216)</b>
<b>EBITDA (calculated)</b>	<b>312</b>	<b>502</b>	<b>661</b>	<b>261</b>	<b>6</b>
- YOY	22%	61%	32%	-61%	-98%
EBITDA margin (Gross)	32.6%	34.0%	37.6%	29.7%	2.5%
<b>EBITDA/table/day</b>	<b>2,030</b>	<b>3,185</b>	<b>3,596</b>	<b>1,354</b>	<b>30</b>
<b>Profit before taxation</b>	<b>263</b>	<b>399</b>	<b>552</b>	<b>132</b>	<b>(129)</b>
Income tax	(8)	(9)	(30)	(30)	(10)
<b>PAT</b>	<b>255</b>	<b>391</b>	<b>521</b>	<b>102</b>	<b>(139)</b>
<b>EPS</b>	<b>5.88</b>	<b>9.00</b>	<b>12.01</b>	<b>2.36</b>	<b>(3.20)</b>
<b>DPS</b>	<b>3.53</b>	<b>5.40</b>	<b>8.48</b>	<b>2.17</b>	<b>-</b>
Dividend payout ratio	60%	60%	71%	92%	0%

Source: Company data, Morgan Stanley Research (E) estimates

## Valuation Methodology and Risks

### **NagaCorp (3918.HK)**

Our price target of HK\$7.30 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 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**

- Earlier-than-expected business resumption
- Faster-than-expected Cambodia easing travel restrictions
- Strong demand by local expats observed in 2H20 and first two months of 2021 could sustain

### **Risks to Downside**

- Delay in Naga3 and Russia projects
- Prolonged business suspension and Cambodia's travel restrictions
- China's crackdown on overseas gambling
- Indebtedness continues to rise, hurting FCFE

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	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
<b>Overweight/Buy</b>	<b>1505</b>	<b>42%</b>	<b>403</b>	<b>45%</b>	<b>27%</b>	<b>671</b>	<b>42%</b>
<b>Equal-weight/Hold</b>	<b>1547</b>	<b>43%</b>	<b>402</b>	<b>45%</b>	<b>26%</b>	<b>695</b>	<b>44%</b>
<b>Not-Rated/Hold</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>	<b>0%</b>	<b>0</b>	<b>0%</b>
<b>Underweight/Sell</b>	<b>544</b>	<b>15%</b>	<b>90</b>	<b>10%</b>	<b>17%</b>	<b>220</b>	<b>14%</b>
<b>TOTAL</b>	<b>3,596</b>		<b>895</b>			<b>1586</b>	

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

NagaCorp (3918.HK) - As of 1/25/22 in HKD  
 Industry : ASEAN Gaming



Stock Rating History: 1/1/17 : NA/I; 6/18/17 : NA/A; 3/6/18 : 0/A; 4/4/18 : E/A; 7/25/18 : 0/A; 4/3/19 : NA/A; 7/21/19 : NA/A; 9/23/19 : 0/A; 7/13/21 : E/A; 8/19/21 : E/I; 9/6/21 : 0/I

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; 7/13/21 : 7; 9/6/21 : 7.3

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) ■  
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**INDUSTRY COVERAGE: ASEAN Gaming**

COMPANY (TICKER)	RATING (AS OF)	PRICE* (01/26/2022)
<b>Praveen K Choudhary</b>		
Bloomberry Resorts Corporation (BLOOMP.S)	O (03/26/2018)	PP\$6.06
Genting Singapore PLC (GENS.SI)	U (08/17/2020)	S\$0.75
NagaCorp (3918.HK)	O (09/06/2021)	HK\$6.40

Stock Ratings are subject to change. Please see latest research for each company.

\* Historical prices are not split adjusted.

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