

February 27, 2022 08:00 PM GMT

NagaCorp | Asia Pacific

Reopening More Visible; OW

Stock Rating
Overweight

Industry View
In-Line

Price Target
HK\$8.50

Compared to Macau, near-term EBITDA growth is more visible thanks to ASEAN reopening. Keep OW.

WHAT'S CHANGED?

NagaCorp (3918.HK)	From:	To:
Price Target	HK\$7.30	HK\$8.50

(1) ASEAN reopening: Malaysia is finalizing its border reopening procedure and will seek cabinet approval to start quarantine-free travel. We estimate that Malaysian customers contributed ~30% of Naga's 2019 EBITDA. In our base case, we assume Malaysia starts the scheme with quota from 2Q22, while Singapore (~7% of Naga's 2019 EBITDA) will expand and eventually remove its quarantine-free travel quota in late 1H22. We expect EBITDA to reach 45%, 74%, and 93% of 2019's levels in 2022, 2023, and 2024, respectively, from 51% in 2H20.

(2) We think Macau junket closures (~17% of 2019 VIP revenue) have been priced in: SunCity ceased its operation at Naga in March 21, driving consensus earnings estimate cuts in 1H21.

(3) Chinese mass customers could come back after COVID: We think they are not the target of China's regulatory tightening on overseas gambling (~23% of 2019 mass market revenue). The growth of Chinese FDI into Cambodia, supported by the Regional Comprehensive Economic Partnership (RCEP), which started in Jan-22, should drive Chinese demand after COVID.

(4) Naga has the option to downsize Phase 3: It is budgeted at US\$3.5bn. Naga will pay only half of the capex. Net debt of US\$418mn as of end-2021 was 1.4x 2022e and 0.7x 2023e EBITDA, better than Macau and Philippines peers.

What's changed: We now peg our valuation to 2023e FCFE with a 10% discount for time value (previously 2022e, no discount). Our 2023e FCFE is up 7% – we expect Naga to keep maintenance capex low. Our price target rises 16%. We cut 2022e EBITDA 26% – Chinese demand may come back only after Covid.

Vs. consensus: Our EBITDA estimates are 23% below the Street for 2022 and 13% below for 2023. We expect more modest growth in Direct VIP. We are 8% higher on 2024e EBITDA – we expect regional competition to be manageable for Naga.

Investment conclusions: We reiterate our OW rating on Naga – Malaysia's travel reopening could be a key near-term positive catalyst. We believe Naga's long-term growth is enabled by its exclusive license to 2045, low taxes, and China's FDI in Cambodia. At 10% FCFE yield on our 2023e, we find the stock more attractive vs. regional peers.

With this report, Gareth Leung assumes coverage of NagaCorp.

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Asia Research

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NagaCorp (3918.HK, 3918 HK)

ASEAN Gaming / Hong Kong

Stock Rating	Overweight
Industry View	In-Line
Price target	HK\$8.50
Shr price, close (Feb 25, 2022)	HK\$7.25
52-Week Range	HK\$11.18-5.15
Up/downside to price target (%)	17
Sh out, dil, curr (mn)	4,341
Mkt cap, curr (mn)	US\$4,031
Avg daily trading value (mn)	HK\$26

Fiscal Year Ending	12/21	12/22e	12/23e	12/24e
ModelWare EPS (US\$)	(0.03)	0.04	0.08	0.11
Prior ModelWare EPS (US\$)	(0.02)	0.06	0.09	-
EPS (US\$)§	(0.01)	0.05	0.09	0.08
Revenue, net (US\$ mn)	226	864	1,464	1,688
EBITDA (US\$ mn)	10	300	489	617
ModelWare net inc (US\$ mn)	(147)	153	337	478
Curr P/E, for consensus	NM	26.4	11.9	8.4
P/BV	2.3	2.1	1.7	1.4
RNOA (%)	(4.7)	6.6	12.1	14.5
ROE (%)	(8.9)	9.3	17.2	20.2
EV/EBITDA**	427.8	15.0	9.0	7.1
Div yld (%)	0.0	2.3	5.0	7.1

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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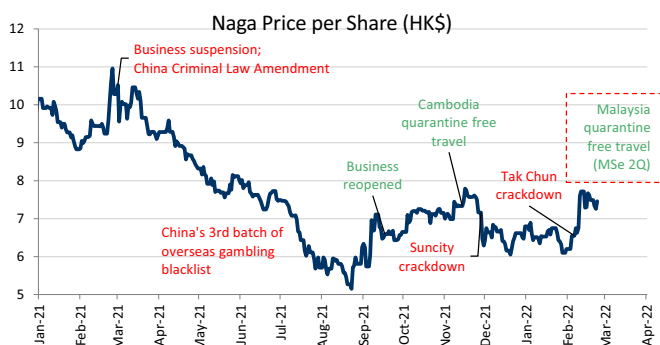
Investment Summary

Despite the recent stock rally, we remain constructive on Naga. We think ASEAN travel reopening – e.g., Malaysia and Singapore – will be a key near-term catalyst for the stock and will fuel EBITDA growth in 2022-23. We highlight these reasons for our OW rating on Naga.

(1) ASEAN reopening is more visible and should fuel EBITDA growth in 2022-23:

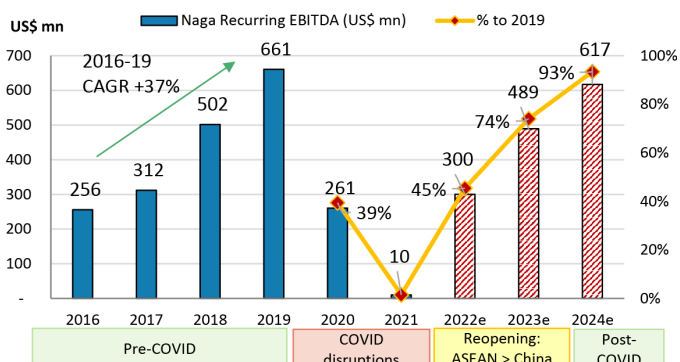
Malaysia is finalizing its border reopening procedure and will seek cabinet approval to start quarantine-free travel. We estimate that Malaysian customers contributed ~30% of Naga's 2019 EBITDA. In our base case, we assume that Malaysia starts the scheme with quota from 2Q22, while Singapore (~7% of Naga's 2019 EBITDA) will expand and eventually remove its quarantine-free travel quota in late 1H22. We expect EBITDA to reach 45%, 74%, and 93% of 2019 levels in 2022, 2023, and 2024, respectively, from 51% in 2H20.

Exhibit 1: China's regulatory tightening on overseas gambling and travel reopening have been the two key themes driving Naga stock



Past performance is no guarantee of future results. Results shown do not include transaction costs. Source: Refinitiv (market prices data as of February 23, 2022), Morgan Stanley Research

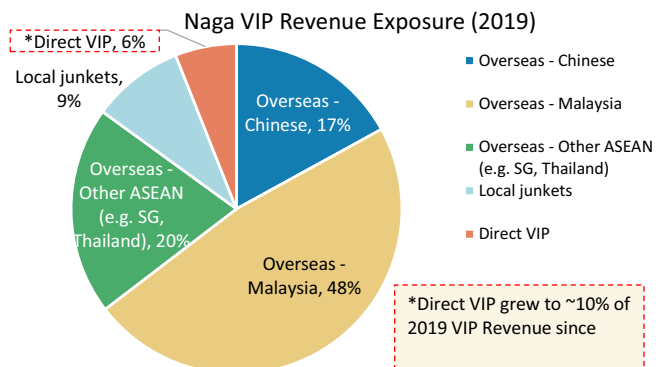
Exhibit 2: NagaCorp EBITDA forecasts in USD mn and percentage of 2019



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

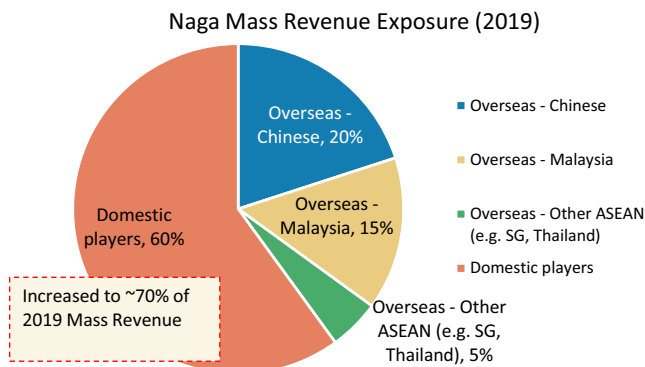
(1a) Naga's revenue exposure to various countries: Based on company filings and our conversation with management, we estimate that 55% of Naga's 2019 GGR was generated from ASEAN travelers (of which Malaysians contributed 38% of GGR), while 20% and roughly 25% of the 2019 GGR was from Chinese tourists and domestic demand (expats in Cambodia). Part of the domestic demand was from Chinese living in Cambodia as a result of China's fast FDI growth in Cambodia since 2015.

Exhibit 3: Estimated Naga VIP revenue exposure; VIP contributed 44% of 2019 EBITDA



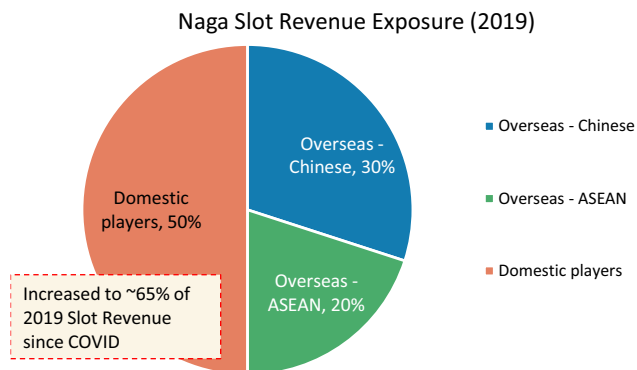
Source: Company data, Morgan Stanley Research estimates

Exhibit 4: Estimated Naga mass revenue exposure; mass contributed 38% of 2019 EBITDA



Source: Company data, Morgan Stanley Research estimates

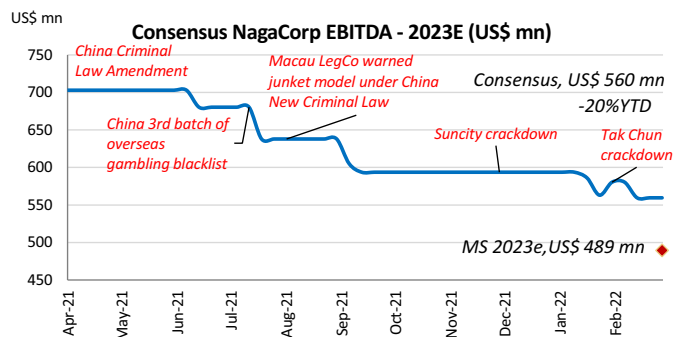
Exhibit 5: Estimated Naga slot revenue Exposure; slots contributed 18% of 2019 EBITDA



Source: Company data, Morgan Stanley Research estimates

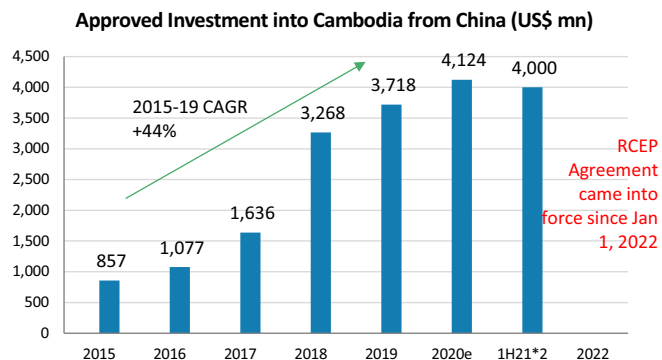
(2) We think the Macau junket closure has been largely priced in and Chinese mass demand could come back after COVID: We think Macau junket closures (~17% of 2019 VIP revenue) have been priced in. SunCity ceased its operation at Naga in March 2021, driving consensus earnings estimate cuts in 1H21. The Regional Comprehensive Economic Partnership (RCEP), which started in January 2022, should fuel growth of Chinese FDI into Cambodia, driving Chinese demand after COVID. We think Chinese mass customers (~23% of 2019 mass market revenue), who have lower spending vs. VIP customers, are not the target of China's regulatory tightening on overseas gambling, and they could return after Covid.

Exhibit 6: Major consensus EBITDA estimate cuts in 1H21; no major reductions after Macau junket closure



Source: Refinitiv as of February 23, 2022, Morgan Stanley Research (e) estimates

Exhibit 7: FDI drove Chinese demand in Cambodia; RCEP could fuel further FDI growth after COVID

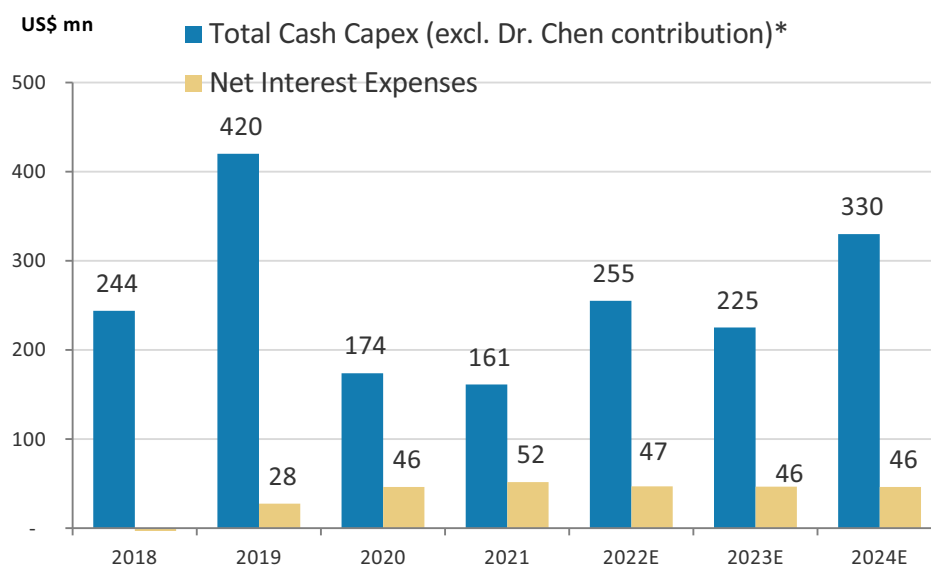


Note: 2020 data was not available but we estimate 1H21 dipped slightly YoY. Source: Council for the Development of Cambodia, the Phnom Penh Post, Morgan Stanley Research (e) estimates

(3) Naga has the option to downsize Phase 3, which is budgeted at US\$3.5bn, depending on the pace of business demand recovery: As of end-2021, US\$500mn out of the total US\$3.5bn has been spent on Phase 3, and Naga pays only half of the total capex. The majority of the capex should be incurred only in late-2024 and 2025 when the construction proceeds to the fit-out.

(4) Net debt of US\$418mn as of end-2021 was 1.4x 2022e and 0.7x 2023e EBITDA, better than Macau and Philippine peers: Furthermore, we estimate that the company is able to generate positive cash flow when EBITDA run rate is at 2H20's level of US\$1mn per day (when GGR was at 50% of 2019's level), after deducting for US\$145K net interest expenses per day, and US\$700k total capex per day for 2022. We expect Naga to reach 2H20's EBITDA run rate in 2Q22.

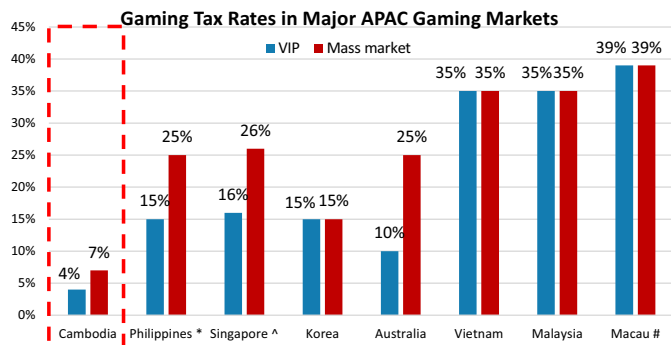
Exhibit 8: Naga's Total Cash Capex and Net Interest Expenses 2019-2023E (US\$ mn)



*Roughly half of the capex for the US\$3.5bn Naga 3 will be spent by Dr. Chen, the controlling shareholder of Naga, and the aggregate amount is credited to Other Reserves on Balance Sheet. Source: Company data, Morgan Stanley Research (E) estimates

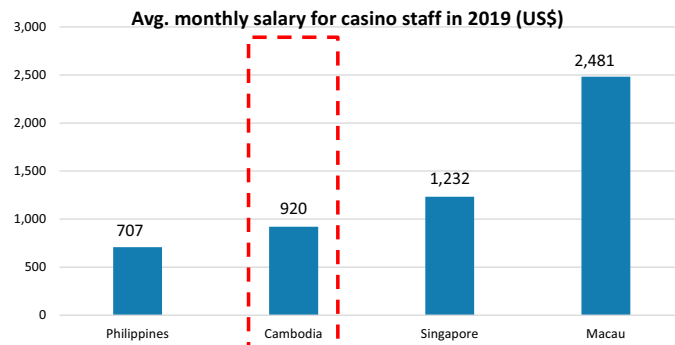
(5) The moat from exclusive gaming license till 2045 and more attractive taxes and costs structure is intact: Naga has the exclusive right to operate in Phnom Penh until 2045 and the gaming license will expire only in 2065, longer than other regional gaming peers – e.g., only 10-year license terms in Singapore and Macau, Bloomberg's license in the Philippines will expire in 2033. Furthermore, Cambodia also has one of the most attractive gaming tax and labor cost structures among gaming markets in APAC, as shown below.

Exhibit 9: Low tax rates of Cambodia vs. other major gaming markets in APAC



*Philippines has an extra 2% heritage tax on Mass table revenue which is not included in this chart.
 ^Singapore included the 9% GST on both Mass and VIP Revenue to be implemented since 2024.
 #Under the new Gaming Law of Macau draft (not passed yet), casinos may need to pay extra gaming taxes if they missed the minimum GGR set by the government. This is not included in the chart.
 Source: Company data, DICJ, PAGCOR, Morgan Stanley Research

Exhibit 10: Lower labor costs for Naga in Cambodia vs. other gaming markets



Source: Company data, UE Resorts International Management Presentation (Feb 2022), Morgan Stanley Research

Investment conclusions – we reiterate our OW rating on Naga: We think visibility on ASEAN reopening is improving, in particular in Malaysia and Singapore, which could be a near-term positive catalyst for the stock. We also think the negative news on Chinese junket closures has been largely priced in. We believe Naga's exclusive license to 2045, lower taxes and labor costs vs. gaming peers in Macau and Singapore, as well as growth of China's FDI in Cambodia support its long-term growth. At 10% FCFE yield on our 2023 estimate, we find the stock more attractive vs. regional peers.

Exhibit 11: Asia – Gaming: Comps Table

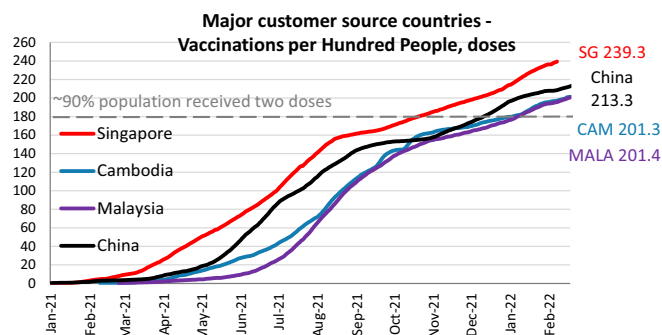
23-Feb-22	Current Price	MS	Mkt Cap	6M Avg Vol.	EV/EBITDA					FCFE Yield			Div Yield			2022 YTD Vs.				
					Rating	(US\$ m)	(US\$ m)	Mse			Consensus			2019	2022E		2023E	2019	2022E	2023E
								2019	2022E	2023E	2022E	2023E								
Macau Total (ex Studio)	LOC\$		66,345		8.0x	22.5x	10.5x	20.6x	10.9x	11.1%	2.8%	9.0%	4.7%	0.2%	2.4%	16%				
ASEAN																				
Genting Singapore	0.78	EW	7,013	14	5.0x	9.9x	6.4x	8.7x	6.7x	10.0%	5.5%	8.2%	5.1%	2.6%	3.8%	(8%)				
NagaCorp	7.5	OW	4,151	3	6.2x	15.2x	9.3x	11.7x	8.2x	13.3%	5.7%	10.0%	8.8%	2.2%	4.8%	9%				
Bloomberg	7.4	OW	1,570	1	5.6x	9.1x	6.0x	10.2x	7.8x	14.9%	8.8%	17.1%	5.4%	1.7%	4.2%	14%				
ASEAN Total			12,734		5.5x	10.5x	6.7x	10.2x	7.6x	11.7%	6.0%	9.9%	6.4%	2.2%	4.3%	4%				
Asia simple average					6.7x	23.7x	9.4x	16.9x	9.0x	13.6%	2.8%	10.5%	5.3%	0.8%	3.0%	10%				

Source: Refinitiv (data as of February 23, 2022), Morgan Stanley Research (E) estimates

Key downside risks:

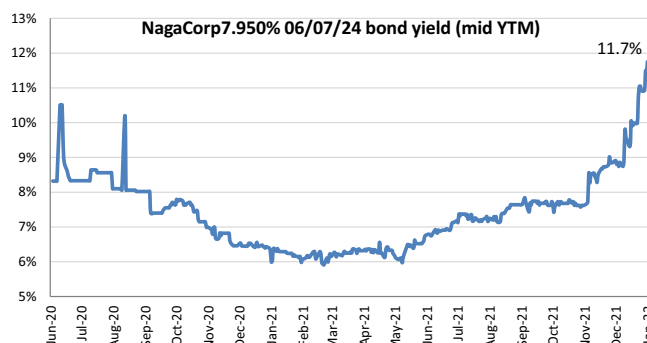
- 1. Disruption in ASEAN reopening from spike in Covid hospitalization cases or deaths:** Yet, as shown in [Exhibit 12](#), vaccination rates are high for Cambodia and its main gaming source markets.
- 2. Another business closure in Cambodia owing to Covid:** Naga closed its business in Cambodia in 2Q21 and 3Q21 in view of the Delta variant and lower vaccination rates at the time. Currently, the vaccination rate in Cambodia is 100%, and half of the adult population have been given a booster dose.
- 3. More severe-than-expected regional competition for ASEAN gaming customers:** Chinese outbound travel may remain restricted in the near term. However, we believe each ASEAN gaming market provides a different value proposition for gaming customers.
- 4. Rising bond yield for Naga:** We expect a lower need for Naga to raise extra debt in the near term, helped by ASEAN reopening.

Exhibit 12: High vaccination rates in main gaming source markets for Cambodia



Source: CEIC as of Feb 22, 2022, Morgan Stanley Research estimates

Exhibit 13: Naga's bond yield is high, but we do not see a need for it to raise new debt near term; Moody's rates Naga one notch above Cambodia's sovereign debt



Note: Moody rated Naga "B1" vs. Cambodia's "B2" ([Link](#)). Source: Refinitiv as of February 23, 2022, Morgan Stanley Research (e) estimates

Price Target, Bull and Bear Case Values

We now peg our price target valuation to our 2023 FCFE estimate with a 10% discount for time value, rolled forward from 2022e FCFE, to which we did not apply the discount. The target FCFE stays at 8.0%. Our price target moves up from HK\$7.30 to HK\$8.50 because of the change in valuation assumptions and 7% higher 2023e FCFE – we expect Naga to keep maintenance capex low.

Exhibit 14: Naga FCFE valuation summary

FCFE Valuation

US\$ m	2019	2020	2021	2022E	2023E	2024E
Company EBITDA	661	261	10	300	489	617
Less: Income tax	(30)	(30)	(6)	(6)	(6)	(6)
Less: Maintenance Capex	(45)	(84)	(7)	(10)	(20)	(30)
Less: Net Interest Expense (w/o capitalized interests)	(28)	(46)	(52)	(47)	(46)	(46)
FCFE	558	101	(54)	237	417	535
<i>Target FCFE Yield</i>					<i>8.0%</i>	
Equity Value (10% discount)					4,735	
Number of shares (mn)					4,341	
Price Target (HK\$)					8.50	
<i>Upside/downside</i>					<i>17%</i>	
Net Debt (Cash) as of end-2021			418			

Source: Refinitiv as of February 23, 2022, Company data, Morgan Stanley Research (E) estimates

In view of the change in assumptions for our valuation, our bull and bear case scenario values – please see the [Risk Reward module](#) for details – increase as well. Our bull case value rises from HK\$10.00 to HK\$11.60 while our bear case value rises from HK\$4.00 to HK\$4.50.

Base case assumptions:

- Visible international demand (excluding Chinese) to come back after 2Q22.
- Increase in domestic demand during COVID continues.
- Chinese mass and slot customers come back as of late 2023.
- Some cannibalization occurs between Direct VIP and local junkets.
- **As a percentage of 2019 levels:** revenues recover in 2022e, 2023e, and 2024e to 42%, 81%, and 89% for VIP; 70%, 89%, and 112% for mass, and 69%, 90%, and 116% for slot, respectively (2H20A: 58%, 61%, 61% for VIP, mass, slot).
 - **Vs. previously:** As a percentage of 2019 levels, revenues recover in 2022e and 2023e to 63% and 72% for VIP; 87% and 100% for mass and slot.

Bear case assumptions:

- Pace of international demand recovery (excluding Chinese) from 2022-24 is halved vs. base case.
- Increased domestic demand during COVID disappears.
- Chinese Mass and Slot customers do not return even after COVID.
- Cannibalization between Direct VIP and local junket results in no further growth in Direct VIP.
- **As a percentage of 2019 levels:** revenues recover in 2022e, 2023e, and 2024e to 22%, 47%, and 49% for VIP; 61%, 70%, and 80% for mass; and 60%, 70%, and 77% for slot, respectively.
 - **Vs. previously:** As a percentage of 2019 levels, revenues recover in 2022e and 2023e to 39% and 63% for VIP; 69% and 90% for mass and slot.

Bull case assumptions:

- Faster international demand recovery (excluding Chinese) in 2022-24.
- Growth in domestic demand registered during COVID continues.
- Chinese mass and slot customers come back as of 2H23.
- Cannibalization between Direct VIP and local junket is minimal
- **As a percentage of 2019 levels:** revenues recover in 2022e, 2023e, and 2024e to 42%, 81%, and 89% for VIP; 70%, 89%, and 112% for mass; and 69%, 90%, and 116% for slot, respectively.
 - **Vs. previously:** As a percentage of 2019 levels, revenues recover in 2022e and 2023e to 84% and 101% for VIP; 92% and 111% for mass and slot.

What's Changed

We introduce our 2024 estimates as well as our segment forecasts for Direct VIP and Referral VIP.

We cut our 2022 EBITDA and EPS estimates 26% and 44%, respectively, in view of lower Chinese gambling demand in 2022 and more potential cannibalization between Direct VIP and Local Referral VIP business.

For 2023, we cut our EBITDA and EPS estimates 2% and 9%, respectively, because we want to be more conservative about the impact from potential regional competition. However, we do not expect that to be significant – each gaming market (e.g., Cambodia, Singapore) serves clientele with distinct preferences. We also increase our VIP revenue assumption 13% to reflect faster recovery in ASEAN junket demand.

We project half of local junket demand (9% of 2019 VIP revenue) to go to Direct VIP and Direct VIP to increase to just 15% of 2019 VIP revenue from ~5% during Covid. Yet, the domestic market could be deeper than expected – Direct VIP was ~40% higher than its pre-Covid level in 2H20 when Referral VIP was at ~50% of its pre-Covid level, which could provide upside to our base case estimates.

In our base case, we also expect no Macau junket demand (17% of 2019 VIP revenue), but look for Chinese tourists to start coming back in late 2023, contributing primarily to mass and slot revenue.

Exhibit 15: Morgan Stanley Research estimates: new vs. old

Vs. Published

US\$ mn	2019A	New MSe			Last Published		Variance	
		2022E	2023E	2024E	2022E	2023E	2022E	2023E
VIP Revenue	1,243	519	1,013	1,107	779	896	(33%)	13%
Mass Revenue	318	224	284	357	277	319	(19%)	(11%)
EGM Revenue	158	110	143	183	129	161	(15%)	(11%)
GGR	1,719	853	1,440	1,646	1,185	1,376	(28%)	5%
Gross Revenue	1,755	864	1,464	1,688	1,150	1,344	(25%)	9%
Corporate EBITDA	661	300	489	617	403	499	(26%)	(2%)
Net Income	521	153	337	478	274	372	(44%)	(9%)
EPS (US cents)	12.01	3.52	7.77	11.02	6.31	8.58	(44%)	(9%)
<i>Dividend payout ratio</i>	71%	60%	60%	60%	60%	60%	0 ppts	0 ppts
DPS (US cents)	8.48	2.11	4.66	6.61	3.79	5.15	(44%)	(9%)

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

Where We Are Compared to Consensus

We are 23% and 13% lower than the Street for 2022e and 2023e EBITDA, respectively:

We are more conservative on the growth prospects of the Direct VIP segment. Despite showing fast growth during COVID, business volume remained low at <10% of 2019 VIP revenue. Furthermore, we are concerned that some of the growth seen in Direct VIP migrated from local junket demand.

However, we are 8% higher than consensus on 2024e EBITDA: We expect regional competition to be manageable for Naga, and domestic gaming demand in Cambodia will help growth in the mass and slot segments.

Exhibit 16: Morgan Stanley Research estimates vs. consensus

Vs. Consensus

US\$ mn	MSe			Consensus			Variance		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Gross Revenue	864	1,464	1,688	835	1,314	1,265	3%	11%	33%
Corporate EBITDA	300	489	617	389	560	570	(23%)	(13%)	8%
Net Income	153	337	478	222	393	338	(31%)	(14%)	41%
EPS (US cents)	3.52	7.77	11.02	5.07	9.08	8.00	(31%)	(14%)	38%
Dividend payout ratio	60%	60%	60%	61%	52%	63%	(1) pts	8 pts	(3) pts
DPS (US cents)	2.11	4.66	6.61	3.10	4.70	5.00	(32%)	(1%)	32%

Source: Refinitiv as of February 23, 2022, company data, Morgan Stanley Research

Operational Forecasts Summary

Exhibit 17: Operational Summary (Yearly)

Operation (US\$ mn)	2018	2019	2020	2021	2022E	2023E	2024E
Gross Revenue	1,474	1,755	879	226	864	1,464	1,688
VIP Revenue	1,069	1,243	613	113	519	1,013	1,107
- Referral VIP	1,011	1,175	534	64	368	845	957
- Direct VIP	59	68	79	49	151	168	150
Mass Revenue	236	318	174	66	224	284	357
EGM Revenue	129	158	82	44	110	143	183
GGR	1,434	1,719	870	223	853	1,440	1,646
Non-Gaming Revenue	40	36	9	2	10	24	42
As a % to 2019							
Gross Revenue			50%	13%	49%	83%	96%
VIP Revenue			49%	9%	42%	81%	89%
Mass Revenue			55%	21%	70%	89%	112%
EGM Revenue			52%	28%	69%	90%	116%
GGR			51%	13%	50%	84%	96%
Non-Gaming Revenue			25%	7%	29%	66%	116%
% of total GGR							
VIP Revenue	75%	72%	70%	51%	61%	70%	67%
Mass Revenue	16%	19%	20%	30%	26%	20%	22%
EGM Revenue	9%	9%	9%	20%	13%	10%	11%
Gross Margin							
Total	46%	48%	49%	64%	54%	47%	49%
VIP	27%	28%	27%	36%	30%	28%	28%
- Referral VIP	26%	26%	22%	17%	18%	21%	23%
- Direct VIP	60%	60%	61%	61%	61%	61%	61%
Mass	97%	99%	99%	90%	90%	90%	90%
EGM	98%	99%	98%	94%	90%	90%	90%
Gaming	45%	47%	48%	63%	54%	46%	48%
Non-Gaming	81%	83%	82%	79%	79%	79%	79%
P&L							
Opex (incl Rebates)	(973)	(1,095)	(618)	(204)	(519)	(904)	(989)
EBITDA (calculated)	502	661	261	10	300	489	617
- YOY	61%	32%	-61%	-96%	2923%	63%	26%
EBITDA margin (Gross)	34.0%	37.6%	29.7%	4.4%	34.8%	33.4%	36.6%
EBITDA/table/day	3,185	3,596	1,354	51	1,537	2,506	3,152
Profit before taxation	399	552	132	(141)	159	344	485
Income tax	(9)	(30)	(30)	(6)	(6)	(6)	(6)
PAT	391	521	102	(147)	153	337	478
EPS	9.00	12.01	2.36	(3.39)	3.52	7.77	11.02
DPS	5.40	8.48	2.17	-	2.11	4.66	6.61
Dividend payout ratio	60%	71%	92%	0%	60%	60%	60%

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

Exhibit 18: Operational Summary (Half-Yearly)

US\$ mn	2H20	2H21	% to 2H19	1H22e	% to 1H19	2H22e	% to 2H19
VIP revenue	342	33	5%	151	23%	369	62%
Mass revenue	106	37	21%	91	62%	133	77%
EGM revenue (Naga share)	50	25	31%	47	61%	63	77%
GGR	498	94	11%	288	33%	565	67%
Non-gaming revenue	4	1	8%	4	18%	7	41%
Gross revenue	501	95	11%	292	33%	572	66%
Cost of sales	(248)	(27)	6%	(118)	24%	(279)	66%
Gross Profit	254	69	16%	174	43%	293	67%
Staff costs (excl. one-off)	(39)	(36)	78%	(33)	69%	(33)	71%
Other opex (SG&A)	(40)	(28)	55%	(33)	84%	(67)	130%
EBITDA (recurring)	174	5	1%	107	33%	193	57%
EBITDA margin (Gross)	34.8%	4.9%		36.7%		33.7%	
D&A	(50)	(64)	129%	(64)	128%	(64)	130%
EBIT	124	(59)	(20%)	43	16%	129	44%
Interest Expense	(28)	(15)	532%	(10)	55%	(10)	332%
Profit before tax	97	(73)	(25%)	37	14%	122	42%
Income tax	(16)	(1)	8%	(3)	21%	(3)	21%
Net income	81	(74)	(27%)	34	14%	119	44%
Diluted EPS (US\$ cents)	1.87	(1.71)	(27%)	0.78	14%	2.74	44%
DPS (US\$ cents)	1.88	-	0%	0.47	14%	1.64	32%
Dividend payout ratio	100%	0%		60%		60%	

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

Financial Summary

Exhibit 19: NagaCorp Financial Summary

For the years ending December 31						
Income Statement						
US\$ million	2019A	2020A	2021A	2022E	2023E	2024E
Gross Revenue	1,755	879	226	864	1,464	1,688
VIP Revenue	1,243	613	113	519	1,013	1,107
Mass Revenue	318	174	66	224	284	357
EGM Revenue	158	82	44	110	143	183
Non-Gaming Revenue	36	9	2	10	24	42
Gaming tax (4% of VIP; 7% of Mass)	-	-	(12)	(44)	(70)	(82)
Cost of sales	(909)	(452)	(70)	(353)	(712)	(777)
Gross profit	846	427	144	466	682	830
VIP	347	167	41	158	279	311
Mass	314	172	60	201	255	320
EGM	156	81	41	99	129	165
Non-Gaming	30	8	2	8	19	33
Administrative expenses	(61)	(61)	(64)	(74)	(74)	(74)
Other operating expenses	(84)	(79)	(69)	(66)	(88)	(108)
EBITDA	661	261	10	300	489	617
Depreciation	(96)	(97)	(116)	(126)	(125)	(126)
Amortization of license	(3)	(3)	(3)	(3)	(3)	(3)
EBIT	561	161	(109)	172	361	489
Other revenue (mainly Rental)	7	4	5	7	7	7
Net interest expenses	(16)	(32)	(37)	(19)	(24)	(11)
Profit before tax	552	132	(141)	159	344	485
Income Tax	(30)	(30)	(6)	(6)	(6)	(6)
Profit after tax	521	102	(147)	153	337	478
Basic EPS (US\$ cents)	12.01	2.36	(3.39)	3.52	7.77	11.02
DPS (US\$ cents)	8.48	2.17	-	2.11	4.66	6.61
Cash Flow Statement						
US\$ million	2019A	2020A	2021A	2022E	2023E	2024E
Profit before Tax	552	132	(141)	159	344	485
Depreciation & Amortization	100	100	129	129	128	129
Other non-cash adjustments	(11)	6	30	13	18	4
Changes In Working Capital	50	(24)	27	(20)	(51)	(9)
Operating cash flows	690	213	45	281	439	608
Capex (incl. capitalized int.)	(432)	(162)	(161)	(255)	(225)	(330)
Others	8	43	(6)	0	1	1
Investing cash flows	(424)	(119)	(167)	(255)	(224)	(329)
Dividends Paid	(273)	(233)	(82)	(12)	(106)	(214)
Debt issuance/ (repayment)	-	335	(100)	-	-	-
Interest paid	(28)	(28)	(37)	(19)	(25)	(11)
Others	-	-	6	-	-	-
Financing cash flows	(309)	70	(212)	(31)	(131)	(225)
Change in Cash	(43)	164	(334)	(5)	83	54
Ending cash	273	438	103	97	181	235
Balance Sheet						
US\$ million	2019A	2020A	2021A	2022E	2023E	2024E
Fixed Assets	1,595	1,674	1,932	2,236	2,511	2,965
Intangible Assets	156	158	154	151	149	146
Others	140	144	148	148	148	148
Non-Current Assets	1,891	1,976	2,234	2,535	2,807	3,259
Debtors	127	120	67	86	111	128
Restricted bank & fixed deposits	53	14	22	22	22	22
Cash and cash equivalents	273	438	103	97	181	235
Current Assets	456	574	194	207	315	387
Creditors	159	148	124	124	98	107
Others	16	318	27	27	27	27
Current Liabilities	175	467	151	151	125	134
Senior notes	295	337	543	543	543	543
Lease liabilities	49	56	57	57	57	57
Others	40	33	26	26	26	26
Non-Current Liabilities	384	426	626	626	626	626
Share Capital	54	54	54	54	54	54
Reserves	1,734	1,602	1,595	1,911	2,317	2,832
Shareholders' Equity	1,788	1,656	1,650	1,965	2,371	2,886
Ratios						
	2019A	2020A	2021A	2022E	2023E	2024E
Gross Profit Margin (%)	48%	49%	64%	54%	47%	49%
- VIP	28%	27%	36%	30%	28%	28%
- Mass	99%	99%	90%	90%	90%	90%
- EGM	99%	98%	94%	90%	90%	90%
- Non-gaming	83%	82%	79%	79%	79%	79%
EBITDA Margin (%)	38%	30%	4%	35%	33%	37%
Dividend Payout Ratio (total)	71%	92%	0%	60%	60%	60%
GGR (% to 2019)		51%	13%	50%	84%	96%
VIP		49%	9%	42%	81%	89%
Mass		55%	21%	70%	89%	112%
EGM		52%	28%	69%	90%	116%
EBITDA (% to 2019)	39%	2%	45%	74%	93%	93%
Net Profit (% to 2019)	20%	-28%	29%	65%	92%	92%
Operating Data						
	2019A	2020A	2021A	2022E	2023E	2024E
VIP Tables (avg)	337	349	349	349	349	349
Mass Tables (avg)	167	177	186	186	186	186
EGM Machines (avg)	2,000	2,100	2,200	2,200	2,200	2,200
Mass win/table/Day (US\$)	5,238	2,698	979	3,300	4,190	5,238
EGM win/unit/Day (US\$)	333	160	76	210	273	349
Visitors to Cambodia (m)	6.6	1.3	0.2	1.6	4.8	6.7
- % to 2019		19%	3%	24%	72%	101%

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

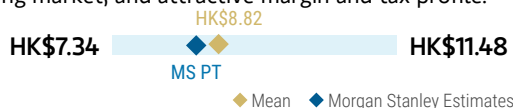
Risk Reward – NagaCorp (3918.HK)

Travel Reopening Is More Visible; Moat from Exclusive License Until 2045 Intact

PRICE TARGET HK\$8.50

HK\$8.5: base case scenario value. We apply a target FCFE yield of 8.0% to our 2023 estimate with a 10% discount for time value. The target yield is higher than Macau peers' average of 7.0%, but lower than the company's historical average of 12% since 2018 in view of the company's monopoly status in a fast-growing market, and attractive margin and tax profile.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART



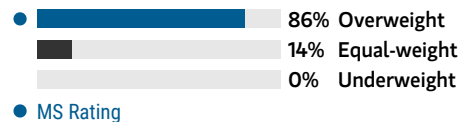
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- We estimate that ASEAN gaming customers contributed ~55% of 2019 gross revenue and ~45% of 2019 EBITDA. We think the ongoing ASEAN travel reopening will fuel earnings recovery in 2022 and 2023.
- Chinese junket demand will not come back after COVID; Chinese demand in mass and slot may come back only in late 2023. Yet we think these have been largely priced in. Furthermore, the RCEP from January 2022 may fuel future Chinese demand growth.
- Direct VIP, which has 3x margin vs. Junket VIP, is growing. Yet we think there could be some degree of cannibalization.
- Naga has better license terms/monopoly status, lower taxes, and labor costs compared to gaming companies in Macau and Singapore.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Pricing Power: *Positive*

View descriptions of Risk Rewards Themes [here](#)

BULL CASE

HK\$11.60

7.0% FCFE yield 2023e with a 10% discount

Faster recovery in 2022-24: Pace of international demand recovery (excluding Chinese) increases, growth in domestic demand during COVID is sustained, Chinese mass and slot customers come back from 2H23, cannibalization between Direct VIP and local junket is minimal.

As a percentage of 2019 levels: VIP, mass, and slot revenues recover in 2022e, 2023e, and 2024e to 42%, 81%, and 89%; 70%, 89%, and 112%; and 69%, 90%, and 116%, respectively (2H20A: 58%, 61%, and 61% for VIP, mass, and slot).

BASE CASE

HK\$8.50

8.0% FCFE yield 2023e with a 10% discount

Base case recovery in 2022-24: International demand (excluding Chinese) comes back more visibly from 2Q22, domestic demand increases during COVID stay intact, Chinese mass and slot customers come back in late 2023, some cannibalization between Direct VIP and local junket.

As a percentage of 2019 levels, VIP, mass, and slot revenues recover in 2022e, 2023e, and 2024e to 42%, 81%, and 89% for VIP; 70%, 89%, and 112% for mass; and 69%, 90%, and 116% for slot (2H20A: 58%, 61% and 61%).

BEAR CASE

HK\$4.50

9.0% FCFE yield 2023e with a 10% discount

Slower recovery in 2022-24: Pace of international demand recovery (excluding Chinese) is halved vs. base case, rise in domestic demand during COVID disappears, Chinese mass and slot customers do not come back, cannibalization between Direct VIP and local junket results in no further growth in Direct VIP.

As a percentage of 2019 levels: Revenue recovers in 2022e, 2023e, and 2024e to 22%, 47%, and 49% for VIP; 61%, 70%, and 80% for mass; and 60%, 70%, and 77% for slot (2H20A: 58%, 61%, and 61%).

Risk Reward – NagaCorp (3918.HK)

KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Company VIP Revenue Growth (%)	(82)	359	95	9
Company Mass & Slot Revenue Growth (%)	(57)	202	28	26
Corporate EBITDA margin (Gross) (%)	4	35	33	37

CATALYST CALENDAR

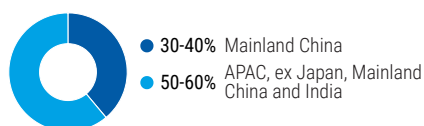
Date	Event
01 Apr 2022 - 15 Apr 2022	1Q22 Earnings

Source: Refinitiv, Morgan Stanley

INVESTMENT DRIVERS

- Malaysia starts quarantine-free travel.
- Singapore increases or removes quota for its quarantine-free travel scheme.
- EBITDA improves consecutively QoQ.
- Naga 3 project size, design, and timeline are updated.

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies [here](#)

SUSTAINABILITY & ESG



RISKS TO PT/RATING

RISKS TO UPSIDE

- Faster-than-expected ASEAN travel reopening
- Continued growth in domestic demand observed in 2H20 and 2M21
- Deeper-than-expected Direct VIP demand, leading to smaller/no cannibalization between Direct VIP and local junket VIP
- Flexibility in Naga3 budget in response to changing market demand

RISKS TO DOWNSIDE

- Travel disruption affects reopening in ASEAN and Cambodia
- Severe regional competition for ASEAN customers

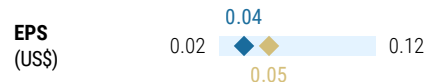
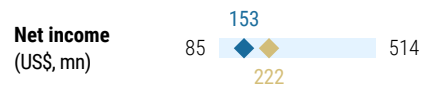
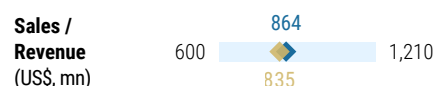
OWNERSHIP POSITIONING

Inst. Owners, % Active: 74%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2022e



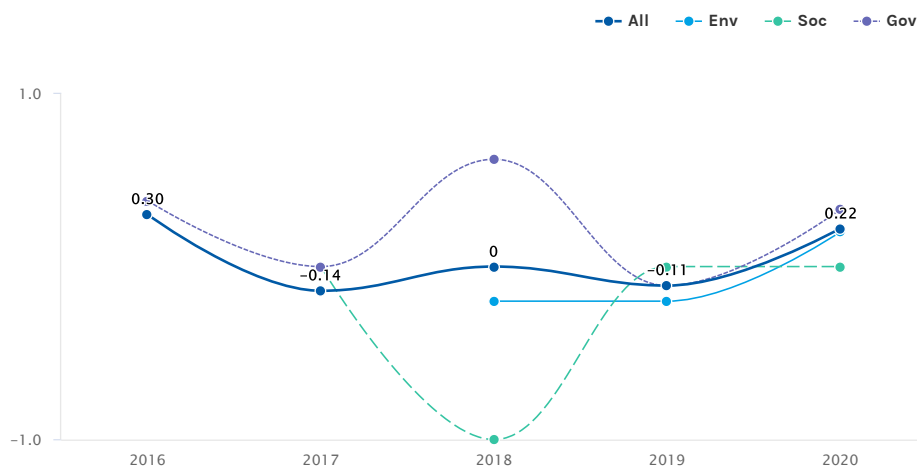
◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Risk Reward – NagaCorp (3918.HK)

SUSTAINABILITY AND ESG

INDICATOR OF CHANGE OVER TIME



Environment	Unit	Dec '18	Dec '19	Dec '20
CO2 emissions (Scope 1 and 2)	tonnes CO2 equivalent	38,766	38,956	28,643
Total waste	tonnes	6,514	6,518	3,179
Waste recycled	Percentage	4.67%	4.74%	2.71%
Water consumption	cubic metre	694,614	699,571	459,002
Social				
Avg training hrs per employee	Hours	85.73	27.27	19.11
Employee turnover	Percentage	15.21%	15.06%	11.80%
Governance				
Avg tenure of the board	Years	10.13	10.97	11.97
Female board members	Percentage	0%	0%	0%
Females in management	Percentage	37%	39%	39%
Independent board members	Percentage	50.00%	42.86%	42.86%
Shares owned by board members	Percentage	44.17%	44.17%	44.76%

Indicator of change chart is plotted using the fiscal aligned methodology. View explanation of 'Indicator of Change' methodology [here](#)

Source: Company Data, Morgan Stanley Research

SUMMARY

NagaCorp does not disclose a separate ESG report but provides sufficient parameters of Environmental, Social, and Governance in its Annual Report.

In 2020, Naga had an ESG Indicator of Change of +0.22, indicating an overall YoY improvement in ESG data points.

The improvement was driven by Governance and Environmental data points. Yet, the improvement in Environmental data points could be largely a result of reduced business activities in 2020 amid COVID, resulting in lower CO2 emissions (-26% YoY), less waste generated (-51% YoY), and lower water consumption (-34% YoY).

Other key ESG metrics that changed in 2020 were:

(+) Higher shares owned by board members from 44.17% in 2019 to 44.76% in 2020;

(-) Average training hours per employee dropped 30% YoY in 2020; and

(=) Total workforce size decreased 3%, to 8,371.

Valuation Methodology and Risks

Bloomberry Resorts Corporation (BLOOM.PS)

Our price target of PP7.0 is our base case scenario value, derived by applying a target FCFE yield of 9.0% to our 2022e FCFE. Our target FCFE yield of 9.0% is the historical average since 2017 after all four concessionaires started operating. The target yield is higher than those of ASEAN peers such as Singapore (7.2%) and Naga (8.0%) due to lower liquidity and more competition.

Risks to Upside

- Better-than-expected cost control
- Easing of Manila community quarantine order
- Faster-than-expected rollout of vaccines in Philippines
- Faster ramping and more details of PIGO

Risks to Downside

- Deterioration in Covid-19 situation
- Government policy against gaming
- Further China crackdown on capital outflows
- Market share risk from Okada, RWM and potential new operator Waterfront

Genting Singapore PLC (GENS.SI)

Base case scenario value. We apply a target yield of 7.2% to our 2023 FCFE forecast with a 10% discount for time value. Our target yield is based on the long-term average since 2012.

Risks to Upside

- Market share gain
- Removal of VTL quota/ resuming quarantine free travel with Japan and Korea
- Chinese gambling demand comes back earlier than expected
- The increase in local demand during COVID stays even after SG outbound travel recovers
- Dividend increase

Risks to Downside

- Disruptions to ASEAN reopening
- Market share loss
- Competition from other gaming markets, e.g., Cambodia and Philippines
- Increased capex for RWS2.0

Disclosure Section

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Global Stock Ratings Distribution

(as of January 31, 2022)

The Stock Ratings described below apply to Morgan Stanley's Fundamental Equity Research and do not apply to Debt Research produced by the Firm. For disclosure purposes only (in accordance with FINRA requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

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	1498	42%	401	46%	27%	650	42%
Equal-weight/Hold	1508	42%	385	44%	26%	695	45%
Not-Rated/Hold	0	0%	0	0%	0%	0	0%
Underweight/Sell	554	16%	89	10%	16%	213	14%
TOTAL	3,560		875			1558	

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.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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

Bloomberry Resorts Corporation (BLOOM.PS) - As of 2/26/22 in PHP
Industry : ASEAN Gaming



Stock Rating History: 2/1/17 : 0/I; 6/18/17 : 0/A; 3/26/18 : 0/A; 8/19/21 : 0/I

Price Target History: 8/15/16 : 7; 3/24/17 : 8.3; 4/20/17 : 10; 5/16/17 : 12; 6/18/17 : 13.5; 8/11/17 : 13; 1/4/18 : 12.5; 3/26/18 : 16; 4/9/18 : 14.5; 5/9/18 : 14; 12/5/18 : 11.5; 5/14/19 : 13.5; 11/28/19 : 13; 3/9/20 : 10.5; 5/13/20 : 7.2; 7/30/20 : 8; 3/11/21 : 9; 7/21/21 : 7

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)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Genting Singapore PLC (GENS.SI) - As of 2/26/22 in SGD
Industry : ASEAN Gaming



Stock Rating History: 2/1/17 : E/I; 5/15/17 : 0/I; 6/18/17 : 0/A; 2/26/18 : E/A; 4/12/18 : 0/A; 4/4/19 : E/A; 8/17/20 : U/A; 8/19/21 : U/I; 2/23/22 : E/I

Price Target History: 11/4/16 : 0.78; 2/27/17 : 1.05; 5/15/17 : 1.25; 11/7/17 : 1.4; 2/26/18 : 1.3; 4/12/18 : 1.4; 5/14/18 : 1.5; 8/8/18 : 1.3; 2/28/19 : 1.2; 4/4/19 : 1.1; 5/10/19 : 1.05; 2/17/20 : 0.92; 4/29/20 : 0.75; 8/17/20 : 0.65; 2/4/21 : 0.7; 2/11/21 : 0.75; 8/19/21 : 0.7; 2/23/22 : 0.8

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)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

NagaCorp (3918.HK) - As of 2/26/22 in HKD
 Industry : ASEAN Gaming



Stock Rating History: 2/1/17 : 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; 7/13/21 : E/A; 8/19/21 : E/I; 9/6/21 : O/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) ■
 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)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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INDUSTRY COVERAGE: ASEAN Gaming

COMPANY (TICKER)	RATING (AS OF)	PRICE* (02/24/2022)
Praveen K Choudhary		
Bloomberry Resorts Corporation (BLOOMPS)	O (03/26/2018)	PP7.17
Genting Singapore PLC (GENS.SI)	E (02/23/2022)	S\$0.77
NagaCorp (3918.HK)	O (09/06/2021)	HK\$7.25

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