

16 August 2019

Genting Malaysia

A Costly Acquisition

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Although Empire is unlikely to be liquidated, GENM is paying a hefty price for the RPT acquisition which saw its market cap plunging RM3.2b as the proposal raised corporate governance issue due to the financial difficulty faced by the loss-making Empire. In addition, the proposed acquisition is not merely on equity stake but involves capital injection for debt restructuring. As such, this RPT will suppress stock sentiment further. Thus, we cut the stock to MP with revised TP of RM3.20.

Empire unlikely to be liquidated. Yesterday, responding to a query on Bursa Malaysia, GENM believed with (i) its proposed Empire Resorts Inc (Empire) shares acquisition from Kien Huat Reality III Ltd (KH) and (ii) a proposed 51:49 JV between KH and GENM to privatise Empire, the loss-making Empire should be able to resolve its present liquidity challenges. To recap, Empire announced to the United States Securities and Exchange Commission last Friday that if such measures, including the KH-GENM's bid to take it private, are unsuccessful, it may pursue a voluntary Chapter 11 bankruptcy proceeding on the Catskills casino.

A costly acquisition. Share price of GENM has contracted 15% or RM3.2b in market cap since the announcement of this proposed acquisition ten days ago. Under the deal, GENM will pay KH USD128.6m or c.RM538.8m for 13.2m Empire shares at USD9.74/share. And, eventually, the KH-GENM JV will need to pay c.USD53.6m to take Empire private. In all, this deal is viewed as vital to Empire which needs fresh capital injection to restructure its borrowings given its poor cash flow generating ability being loss-making for the past 20 years. The latest 1H19 results showed a net loss of USD73.7m against FY18 net loss of USD155.4m and it has a total payment commitment of USD112.0m over the next 12 months or USD827.0m over the next five years. Therefore, GENM's commitment is not capped at only cRM538.8m.

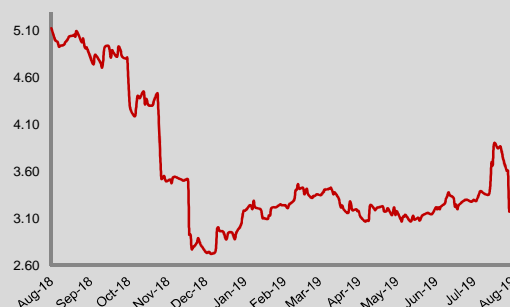
RM1.69b to own 49% stake in Empire eventually? In the filling, Empire's biggest outstanding debt is the USD520 Building Term Loans for the development of Resort World Catskills which commenced operations in Feb 2018. As of 2Q19, the Term Loans have outstanding of USD504.7m or USD688.5m payment commitment including interest payments over the next five years. Assuming GENM has to bear 49% of this term loans, it may need to inject USD247m or RM1.04b for the debt restructuring. Together with USD128.6m initial acquisition cost, USD26.3m or RM110.3m (49% of USD53.6m) privatisation cost, total capital outlay for this acquisition could eventually hit RM1.69b. We see it has no problem of financing this acquisition given its cash position of RM5.56b as at 1Q19. However, the negative earnings impact in the near term could be significant as the 49% stake in USD155.4m net loss, which accounts to RM320m is 17% of GENM's FY18 core earnings.

Negative in the near term; cut to MP. Although its share price has plunged 15% since the acquisition, valuation of GENM is still not attractive enough. In fact, the retracement has fairly reflected the earnings risk coupled with corporate governance issue. For now, we keep our estimates unchanged. But, we decided to remove the RM1.69b potential cost of this acquisition from our valuation matrix and tag a 20% discount for earnings and corporate governance risks. This reduced our target price to RM3.20 from RM4.30. Correspondingly, we downgrade the stock to MARKET PERFORM from OUTPERFORM. Risks to our downgrading include extreme good luck factor and business volume.

MARKET PERFORM

Price: **RM3.07**
Target Price: **RM3.20**

Share Price Performance



KLCI 1,600.29
YTD KLCI chg -5.3%
YTD stock price chg 4.1%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	GENM MK
Market Cap (RM m)	18,229.8
Shares Outstanding	5,938.0
52-week range (H)	5.12
52-week range (L)	2.70
3-mth avg daily vol:	16,652,810
Free Float	49%
Beta	1.3

Major Shareholders

Genting Bhd	47.1%
Vanguard Group	1.8%
Gic Private Limited	1.7%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	9928	10229	10525
EBIT	1752	1338	1370
PBT	-4	1477	1545
Net Profit (NP)	-20	1386	1459
Core Net profit	1879	1386	1459
Consensus (NP)		1244	1350
Earnings Revision (%)		-	-
EPS (sen)	31.7	23.4	24.6
EPS growth (%)	44.6	-26.2	5.2
NDPS (sen)	19.0	12.0	12.0
BV/Share (RM)	3.07	1.08	1.13
NTA/Share (RM)	2.31	0.82	0.87
PER (x)	9.7	13.1	12.5
PBV (x)	1.00	2.85	2.72
Price/NTA (x)	1.33	3.74	3.53
Net Gearing (x)	0.07	0.01	N Cash
Net Yield (%)	6.2	3.9	3.9

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Valuation (New)

(RM m)	EBITDA CY20E	Value	RM/share	Valuation Basic
RWG	1,853.4	17,026.3	2.87	11.2x CY20 EV/EBITDA ^
Genting UK	247.8	2,220.0	0.37	9.0x CY20 EV/EBITDA
North American Operations	283.9	2,543.7	0.43	9.0x CY20 EV/EBITDA
Wisma Genting		231.6	0.04	FY18A book value
Net Cash/(Debt)		1,787.6	0.30	Estimated FY20E
		23,809.2	4.01	
No of shares		5,938.0		
SOP value per share		4.01		
Discount 20%		-0.80		
Target Price		RM3.20		Round up to the nearest RM0.05

^ adjusted for (i) RM1.84b impairment on investment US Tribe project; (ii) RM1.69b potential total investment in Empire

Source: Kenanga Research

Valuation (Old)

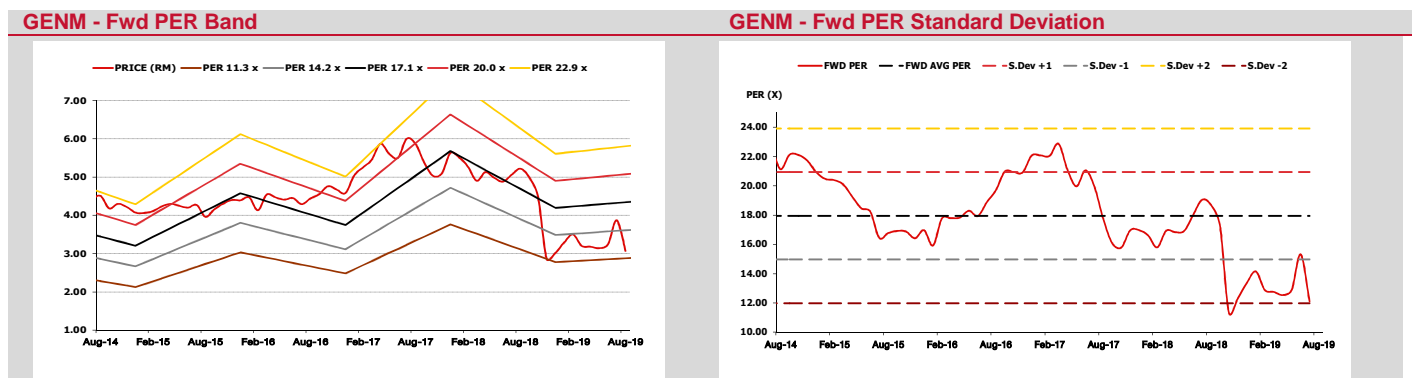
(RM m)	EBITDA CY20E	Value	RM/share	Valuation Basic
RWG	1,853.4	18,714.1	3.15	11.2x CY20 EV/EBITDA ^
Genting UK	247.8	2,220.0	0.37	9.0x CY20 EV/EBITDA
North American Operations	283.9	2,543.7	0.43	9.0x CY20 EV/EBITDA
Wisma Genting		231.6	0.04	FY18A book value
Net Cash/(Debt)		1,787.6	0.30	Estimated FY20E
		25,496.9	4.29	
No of shares		5,938.0		
SOP value per share		4.29		
Discount 0%		0.00		
Target Price		RM4.30		Round up to the nearest RM0.05

^ adjusted for RM1.84b impairment on investment US Tribe project

Source: Kenanga Research

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E	FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Revenue	8932	9330	9928	10229	10525	Growth					
EBIT	2433	2209	2707	2389	2453	Turnover (%)	6.4	4.5	6.4	3.0	2.9
Depreciation	-801	-940	-955	-1051	-1082	EBITDA (%)	21.1	-9.2	22.5	-11.7	2.7
Operating Profit	1632	1269	1752	1338	1370	Op. Profit (%)	23.1	-22.3	38.1	-23.6	2.4
Interest Expense	236	304	299	313	340	PBT (%)	102.0	-57.3	-100.3	>100%	4.6
Interest Income	-70	-115	-156	-174	-165	Core Net Profit (%)	42.6	-18.1	44.6	-26.2	5.2
Associate	0	0	0	0	0	Profitability (%)					
Jointly Ctrl Entity	1293	-139	-1899	0	0	EBITDA Margin	27.2	23.7	27.3	23.4	23.3
PBT	3091	1319	-4	1477	1545	Operating Margin	18.3	13.6	17.6	13.1	13.0
Taxation	-290	-247	-82	-148	-155	PBT Margin	34.6	14.1	0.0	14.4	14.7
Minority Interest	79	89	67	57	69	Core Net Margin	17.8	13.9	18.9	13.6	13.9
Net Profit	2880	1161	-20	1386	1459	Effective Tax Rate	9.4	18.7	4.3	10.0	10.0
Core Net Profit	1587	1300	1879	1386	1459	ROA	4.8	6.0	4.9	6.6	4.9
						ROE	8.0	6.7	10.3	7.3	7.3
						DuPont Analysis					
						Net Margin (%)	17.8	13.9	18.9	13.6	13.9
						Assets T/over (x)	0.32	0.31	0.31	0.32	0.32
						Leverage Factor(x)	1.40	1.55	1.74	1.69	1.64
						ROE (%)	8.0	6.7	10.3	7.3	7.3
						Leverage					
						Debt/Asset (x)	0.16	0.23	0.31	0.29	0.27
						Debt/Equity (x)	0.22	0.36	0.54	0.49	0.44
						Net Cash/(Debt)	942	-892	-1315	-108	1195
						Net Debt/Equity (x)	-0.05	0.05	0.07	0.01	-0.06
						Valuations					
						Core EPS (sen)	26.8	22.0	31.7	23.4	24.6
						NDPS (sen)	16.5	17.0	19.0	12.0	12.0
						BV (RM)	3.35	3.25	3.07	1.08	1.13
						NTA (RMM)	2.50	2.47	2.31	0.82	0.87
						Core PER (x)	11.5	14.0	9.7	13.1	12.5
						Net Div. Yield (%)	5.4	5.5	6.2	3.9	3.9
						P/BV (x)	0.92	0.94	1.00	2.85	2.72
						P/NTA (x)	1.23	1.24	1.33	3.74	3.53
						EV/EBITDA (x)	10.8	15.5	7.1	7.6	7.4

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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Peer Comparison

Name	Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
BERJAYA SPORTS TOTO BHD	2.73	3,677.3	N	06/2019	0.8%	3.4%	3.7%	1.4%	13.6	13.1	12.9	4.3	4.1	32.0%	6.1%	3.00	OP
GENTING BHD	6.04	23,257.5	N	12/2019	4.8%	5.3%	-30.9%	7.5%	6.2	9.0	8.3	0.7	0.6	7.2%	2.5%	7.65	OP
GENTING MALAYSIA BHD	3.07	18,229.8	N	12/2019	3.0%	2.9%	-26.2%	5.3%	9.7	13.1	12.5	1.0	1.0	7.4%	3.9%	3.20	MP
MAGNUM BHD	2.68	3,813.5	N	12/2019	-5.9%	2.0%	-8.9%	2.2%	15.6	17.1	16.8	1.6	1.5	9.1%	4.9%	2.55	MP
Simple Average					0.7%	3.4%	-15.6%	4.1%	11.3	13.1	12.6	1.9	1.8	13.9%	4.3%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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