

Genting Malaysia

2Q19 On Track

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2Q19 core profit of RM359.7m, which met expectations, was driven by extreme favourable hold percentage that was the same as 1Q19. Besides, it also saw improving non-gaming revenue at the hilltop resorts which is likely to show even better results in the future with the long-awaited outdoor theme park opening in 3Q20. Meanwhile, the RPT transaction involving Empire will continue to cap market sentiment, but we believe near-term negatives should have been priced in. MP and TP at RM3.20 maintained.

1H19 matched expectation. At 53%/59% of house/street's FY19 estimates, 1H19 core profit of RM737.0m came within our estimate as 2Q19 was extremely strong on "luck factor", but the results beat market expectation. It declared 1st interim NDPS of 6.0 sen (ex-date: 18 Sep; payment date: 11 Oct) in 2Q19 which is the same as 2Q18.

2Q19 results remained solid. Despite core profit falling 5% QoQ to RM359.7m while revenue also decreased 5%, 2Q19 results were considerably strong, with 1Q19 luck factor extremely high, as hold percentage remaining high. Although domestic revenue dipped 8%, which was largely due to lower business volume, earnings only fell 3% on the abovementioned luck factor. North America unit posted 55% jump in adjusted EBITDA on normalisation as 1Q19 incurred expenses of RM27.1m for RWNYS. UK and Egypt segment posted 10% growth or RM4.1m rise in earnings. Overall, the decline in core profit was driven by higher taxation of RM43.6m or 148%.

Operation numbers were sound. Earnings at adjusted EBITDA level showed improvement YoY for both 2Q19 and 1H19 due to: (i) Malaysia casino experienced better luck for mid-to-premium segment as well as higher contributions from non-gaming business reaping fruits from GITP expansion program, (ii) higher North America earnings on lower operating losses for Resort World Bimini, and (iii) higher UK earnings due to impact of adopting MFRS 16. However, core profit fell 20% to RM359.7m in 2Q19 and 10% to RM737.0m in 1H19 which was primarily due to higher interest expense of 53% and 73%, respectively, on lower qualifying assets eligible for interest capitalisation as certain projects were completed under GITP.

Outdoor theme park to start in 3Q20 to drive non-gaming segment. After resolving the dispute with Fox, management is targeting to launch the brand-new outdoor theme park at Genting Highland in 3Q20, which should help to boost earnings in its non-gaming segment. However, the RPT transaction involving Empire, which is targeted to conclude by year-end has created another earnings risk as well as raised corporate governance issue. Based on FY18 data, the acquisition could impact GENM's earnings negatively by 17% should it remains loss-making in the future.

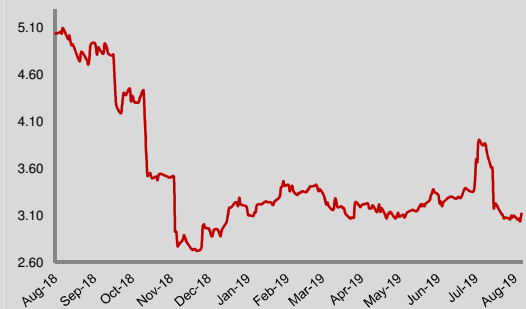
RPT headwind to remain; MP rating maintained. GENM came under heavy selling pressure since the announcement of the RPT which we believe should have priced in all near-term negatives. Thus, we keep our MARKET PERFORM rating at unchanged price target of RM3.20, which is based on 20% discount to its SoP valuation.

Risks to our call include extreme good "luck factor" and business.

MARKET PERFORM ↔

Price: **RM3.12**
Target Price: **RM3.20** ↔

Share Price Performance



KLCI 1,595.18
YTD KLCI chg -5.6%
YTD stock price chg 5.8%

Stock Information

Shariah Compliant No
Bloomberg Ticker GENM MK
Market Cap (RM m) 18,526.7
Shares Outstanding 5,938.0
52-week range (H) 5.12
52-week range (L) 2.70
3-mth avg daily vol: 17,507,390
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	1334
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)	9.8	13.3	12.7
PBV (x)	1.02	2.90	2.77
Price/NTA (x)	1.35	3.80	3.59
Net Gearing (x)	0.07	0.01	N Cash
Net Yield (%)	6.1	3.8	3.8

30 August 2019

Income Statement								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
Y/E : Dec (RM m)	FY19	FY18	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	2,601.5	2,735.6	-5%	2,422.1	7%	5,337.1	4,821.6	11%
EBITDA	679.7	684.1	-1%	701.8	-3%	1,363.8	1,309.6	4%
Depreciation	(260.9)	(256.6)	2%	(238.0)	10%	(517.5)	(478.7)	8%
EBIT	418.8	427.5	-2%	463.8	-10%	846.3	830.9	2%
Interest & other incomes	59.3	31.9	86%	92.2	-36%	91.2	171.6	-47%
Interest expense	(58.6)	(67.8)	-14%	(38.3)	53%	(126.4)	(73.2)	73%
Associates	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Exceptional items	56.8	(109.0)	-152%	(52.6)	-208%	(52.2)	(66.6)	-22%
Pretax profit	476.2	282.6	69%	465.1	2%	758.9	862.6	-12%
Taxation	(73.1)	(29.5)	148%	(86.9)	-16%	(102.6)	(142.3)	-28%
Profit after tax	403.1	253.1	59%	378.3	7%	656.3	720.3	-9%
Minority interest	13.4	15.1	-12%	17.4	-23%	28.5	33.6	-15%
Net profit	416.5	268.3	55%	395.7	5%	684.8	753.9	-9%
Core net profit	359.7	377.3	-5%	448.3	-20%	737.0	820.5	-10%
EPS (sen)	7.0	4.5	55%	6.7	5%	11.5	12.7	-9%
Core EPS (sen)	6.1	6.4	-5%	7.5	-20%	12.4	13.8	-10%
DPS (sen)	6.0	0.0	N/A	6.0	0%	6.0	6.0	0%
NTA/share (RM)	2.29	2.25	2%	2.45	-6%	2.29	2.45	-6%
EBITDA margin	26%	25%		29%		26%	27%	
EBIT margin	16%	16%		19%		16%	17%	
Pretax margin	18%	10%		19%		14%	18%	
Effective tax rate	15%	10%		19%		14%	16%	

Source: Company

Segmental Breakdown								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
Segmental Breakdown	FY19	FY18	Chg	FY18	Chg	FY19	FY18	Chg
Segment revenue:								
LH - Malaysia	1,759.7	1,909.5	-8%	1,591.9	11%	3,669.2	3,191.4	15%
UK & Egypt	420.1	419.3	0%	436.0	-4%	839.4	848.4	-1%
USA & Bahamas	378.1	367.0	3%	344.7	10%	745.1	691.1	8%
Properties	23.6	26.7	-12%	23.3	1%	50.3	52.2	-4%
Investment & others	23.6	13.1	80%	26.2	-10%	36.7	38.5	-5%
Group revenue	2,605.1	2,735.6	-5%	2,422.1	8%	5,340.7	4,821.6	11%
Segment result:								
LH - Malaysia	540.0	555.6	-3%	540.2	0%	1,095.6	1,073.9	2%
UK & Egypt	45.1	41.0	10%	29.5	53%	86.1	60.1	43%
USA & Bahamas	102.6	66.0	55%	77.6	32%	168.6	142.4	18%
Properties	12.3	14.9	-17%	13.4	-8%	27.2	33.3	-18%
Investment & others	11.5	6.6	74%	41.1	-72%	18.1	(0.2)	-9150%
Group Adjusted EBITDA	711.5	684.1	4%	701.8	1%	1,395.6	1,309.5	7%
Adjusted EBITDA margin:								
LH - Malaysia	31%	29%		34%		30%	34%	
UK & Egypt	11%	10%		7%		10%	7%	
USA & Bahamas	27%	18%		23%		23%	21%	
Properties	52%	56%		58%		54%	64%	
Investment & others	49%	50%		157%		49%	-1%	
Group EBITDA margin	27%	25%		29%		26%	27%	

Source: Company

30 August 2019

Valuation				
(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

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30 August 2019

Peer Comparison

Name	Last 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.	1-Yr. Fwd.	Price (RM)
BERJAYA SPORTS TOTO BHD	2.65	3,569.6	N	06/2019	-8.3%	3.5%	-16.8%	1.8%	11.4	13.7	13.5	4.5	4.3	32.2%	5.8%	2.80	MP
GENTING BHD	5.90	22,718.4	N	12/2019	4.7%	5.3%	-31.3%	7.5%	6.0	8.8	8.2	0.6	0.6	7.1%	2.5%	6.75	OP
GENTING MALAYSIA BHD	3.12	18,526.7	N	12/2019	3.0%	2.9%	-26.2%	5.3%	9.8	13.3	12.7	1.0	1.0	7.4%	3.8%	3.20	MP
MAGNUM BHD	2.81	3,998.5	N	12/2019	-2.3%	2.0%	5.1%	2.0%	16.3	15.6	15.2	1.7	1.6	10.5%	4.6%	2.80	MP
Simple Average					-0.7%	3.4%	-17.3%	4.1%	10.9	12.9	12.4	2.0	1.9	14.3%	4.2%		

Source: Bloomberg, Kenanga Research

Regional Casino

Name	Last Price	Market Cap	Currency	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	TP	Rating
				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.			
GENTING SINGAPORE LTD	0.88	10610.4	SGD	12/2019	-0.4%	0.3%	-6%	0%	14.4	14.9	15.2	1.3	1.3	9.9%	4.2%	N.R.	N.R.
GALAXY ENTERTAINMENT GROUP	49.65	215113.1	HKD	12/2019	0.1%	4.9%	-1%	5%	16.5	16.1	15.4	3.1	3.0	22.9%	1.9%	N.R.	N.R.
MELCO RESORTS & ENTERT-ADR	20.81	9718.6	USD	12/2019	9.6%	4.0%	11%	26%	24.6	20.5	17.3	4.3	4.1	14.0%	3.2%	N.R.	N.R.
MGM CHINA HOLDINGS LTD	11.64	44232.0	HKD	12/2019	21.5%	7.7%	100%	29%	31.9	18.0	14.2	4.5	4.1	12.2%	2.2%	N.R.	N.R.
SJM HOLDINGS LTD	7.46	42254.3	HKD	12/2019	2.6%	10.5%	-1%	-18%	13.9	14.9	17.0	1.5	1.5	10.8%	3.8%	N.R.	N.R.
SANDS CHINA LTD	35.75	289104.4	HKD	12/2019	6.7%	6.7%	9%	11%	18.8	17.1	15.5	10.7	8.1	41.9%	5.6%	N.R.	N.R.
WYNN MACAU LTD	15.54	80760.7	HKD	12/2019	-0.5%	3.5%	-8%	12%	13.4	14.0	12.5	38.9	64.2	276.4%	6.8%	N.R.	N.R.

Source: Bloomberg, Kenanga Research

30 August 2019

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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