

# Genting Bhd

## 2Q19 In Line; Still In Deep Value

By Teh Kian Yeong | [tehky@kenanga.com.my](mailto:tehky@kenanga.com.my)

2Q19 performance was satisfactory with overall good casino results where "luck factor" was still good but plantation earnings were hit by lower CPO. Despite the current headwind, especially the RPT deal in GENM, GENTING is still a key beneficiary of earnings recovery in GENS, GITP expansion story and new market in Japan. Trading close to a new low since 2010 and discount to SoP at -1SD 3-year mean, it is deep in value. Keep OP at a revised TP of RM6.75.

**2Q19 results within expectations.** Despite core profit falling 26% QoQ to RM543.5m, 2Q19 results were on track to meet our forecast with 1H19 core profit of RM1.28b making up 51% of our FY19 estimates but beat market expectations as it made up 55% of consensus estimates. A first interim NDPS of 6.5 sen was declared in 1H19 which is lower than 8.5 sen paid in 1H18.

**Lower earnings sequentially.** 2Q19 core profit contracted 26% QoQ to RM543.5m, on the back of 2% dip in revenue, owing to: (i) weaker casino earnings by 4%, and (ii) higher depreciation and taxation. GENM's Malaysia operation saw lower earnings due to higher taxation, but "luck factor" remained strong. Meanwhile, GENS faced higher provision and depreciation while gaming revenue rose on higher volume and improved "luck factor". However, GENP reported lower earnings with plantation earnings being thumped 40% as FFB output fell 7% coupled with 2% decline in CPO prices. However, earnings for power segment surged 80% or RM60.1m as 1Q19 earnings were affected by outages at Banten Power Plant while Oil & Gas earnings fell 12%.

**Casino operations led yearly results.** YoY, 2Q19 core profit declined 20% from RM683.4m although revenue leapt 13%. This was due to: (i) a 24% jump in depreciation as GENS had written down or recognised assets that can be demolished or rebuilt after the government approved its Expansion 2.0, and (ii) a 24% decline in plantation adjusted EBITDA as CPO prices contracted 16%. Overall, casino earnings rose 10% on improved results for all geographical segments except Malaysia on overall business volume, but "luck factor" remained high. Power earnings jumped 18% on higher generation from Banten Power Plant while oil & gas unit recorded lower earnings by 15% on lower oil prices. YTD, FY19 core profit fell 4% to RM1.28b despite revenue rising 9%, on the back of similar reason as the YoY changes for 2Q19.

**A mixed outlook,** as GENS is cautious on the VIP business while GENM should see increasing contribution from non-gaming segment as the outdoor theme park is targeted to open in 3Q20. Meanwhile, the North American operations should improve further as the new Resort World Bimini has shown improvement in recent quarters while the UK operations could be volatile due to its VIP-centric business profile while the Resort World Birmingham may need some time before showing meaningful results. Weak CPO outlook does not augur well for GENP.

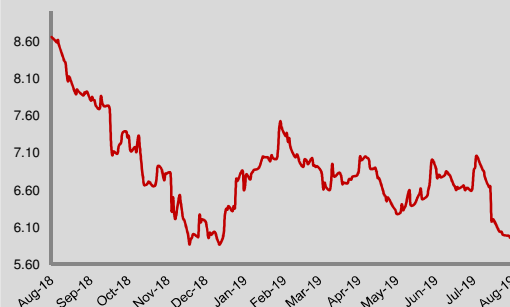
**Deep value; keep OUTPERFORM.** Post-2Q19 results, we trimmed FY19/FY20 estimates by 0.6% each, solely adjusted for GENP's earnings downgrade. Our target price is reduced to RM6.75 from RM7.65 on changes in target prices of GENM and GENP and market prices for GENS and LANDMRK, with higher holding company discount of 42.4% from 38.5% to its SoP valuation. The stock is close to a new low since 2010, trading at 49.5% discount to its SoP which is closer to -1SD 3-year mean of 50.5% which we believe is fairly attractive. As such, we maintain our OUTPERFORM rating.

**Risks to our call** are: (i) decline in casino business volume (ii) coupled with poorer "luck factor" as well as (iii) decline in CPO prices.

# OUTPERFORM ↔

Price: **RM5.90**  
Target Price: **RM6.75** ↓

### Share Price Performance



KLCI	1,595.18
YTD KLCI chg	-5.6%
YTD stock price chg	-2.3%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	GENT MK
Market Cap (RM m)	22,718.4
Shares Outstanding	3,850.6
52-week range (H)	8.63
52-week range (L)	5.83
3-mth avg daily vol:	4,420,648
Free Float	51%
Beta	1.2

### Major Shareholders

Kien Huat Realty Sdn Bhd	42.4%
Massachusetts Mutual Life	4.9%
Vanguard Group	2.2%

### Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	20853	21833	22997
EBIT	5747	5354	5601
PBT	3418	5021	5243
<b>Net Profit (NP)</b>	<b>1366</b>	<b>2510</b>	<b>2699</b>
<b>Core Net Profit</b>	<b>3654</b>	<b>2510</b>	<b>2699</b>
Consensus (NP)		2324	2411
Earnings Revision (%)		-0.6%	-0.6%
EPS (sen)	97.6	67.0	72.1
EPS growth (%)	86.6	-31.3	7.6
DPS (sen)	21.5	15.0	15.0
BV/Share (RM)	9.16	1.19	1.26
NTA/Share (RM)	7.64	0.99	1.05
PER (x)	6.0	8.8	8.2
PBV (x)	0.64	4.97	4.69
Price/NTA (x)	0.77	5.95	5.61
Net Gearing (x)	N. Cash	0.02	0.05
Dividend Yield (%)	3.6	2.5	2.5

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Income Statement								
Y/E : Dec (RM m)	2Q FY19	1Q FY18	Q-o-Q Chg	2Q FY18	Y-o-Y Chg	1H FY19	1H FY18	Y-o-Y Chg
Turnover	5,445.7	5,572.8	-2%	4,823.3	13%	11,018.5	10,074.1	9%
EBITDA	1,971.2	2,055.5	-4%	1,903.5	4%	4,026.7	3,928.4	3%
Depreciation	(649.9)	(625.3)	4%	(523.3)	24%	(1,275.2)	(1,049.5)	22%
EBIT	1,321.3	1,430.2	-8%	1,380.2	-4%	2,751.5	2,878.9	-4%
Interest & other incomes	206.9	174.7	18%	221.2	-6%	381.6	431.5	-12%
Interest expense	(267.5)	(293.7)	-9%	(255.8)	5%	(561.2)	(506.8)	11%
Associates	13.0	42.4	-69%	71.7	-82%	55.5	95.6	-42%
Exceptional items	56.2	(174.5)	-132%	(299.9)	-119%	(118.3)	(341.3)	-65%
Pretax profit	1,329.9	1,179.1	13%	1,117.4	19%	2,509.0	2,557.9	-2%
Taxation	(272.9)	(207.7)	31%	(293.9)	-7%	(480.6)	(616.9)	-22%
Profit after tax	1,057.0	971.4	9%	823.5	28%	2,028.3	1,941.0	5%
Minority interest	(457.3)	(409.7)	12%	(440.0)	4%	(867.0)	(954.7)	-9%
Net profit	599.7	561.6	7%	383.5	56%	1,161.3	986.2	18%
Core net profit	543.5	736.1	-26%	683.4	-20%	1,279.6	1,327.5	-4%
EPS (sen)	16.0	15.0	7%	10.2	56%	31.0	26.3	18%
Core EPS (sen)	14.5	19.7	-26%	18.3	-20%	34.2	35.5	-4%
NDPS (sen)	6.5	0.0	N/A	8.5	-24%	6.5	8.5	-24%
NTA/share (RM)	7.68	7.50	2%	7.39	4%	7.68	7.39	4%
EBITDA margin	36%	37%		39%		37%	39%	
EBIT margin	24%	26%		29%		25%	29%	
Pretax margin	24%	21%		23%		23%	25%	
Effective tax rate	21%	18%		26%		19%	24%	

Source: Company

Segmental Breakdown								
Segmental Breakdown	2Q FY19	1Q FY18	Q-o-Q Chg	2Q FY18	Y-o-Y Chg	1H FY19	1H FY18	Y-o-Y Chg
Segment revenue:								
Leisure & hospitality	4,488.6	4,626.9	-3%	4,027.7	11%	9,115.5	8,393.4	9%
Plantations	494.7	601.0	-18%	379.9	30%	1,095.7	886.9	24%
Properties	53.2	47.7	12%	41.8	27%	100.9	95.6	6%
Oil & gas	79.5	74.4	7%	80.9	-2%	153.9	166.5	-8%
Power	291.1	196.7	48%	251.5	16%	487.8	469.1	4%
Investment & others	38.6	26.1	48%	41.5	-7%	64.7	62.6	3%
<b>Group revenue</b>	<b>5,445.7</b>	<b>5,572.8</b>	<b>-2%</b>	<b>4,823.3</b>	<b>13%</b>	<b>11,018.5</b>	<b>10,074.1</b>	<b>9%</b>
Segment result:								
Leisure & hospitality	1,752.0	1,830.9	-4%	1,600.0	10%	3,582.9	3,460.7	4%
Plantations	75.7	126.7	-40%	100.1	-24%	202.4	253.2	-20%
Properties	17.5	18.3	-4%	11.9	47%	35.8	36.2	-1%
Oil & gas	48.3	55.1	-12%	56.8	-15%	103.4	117.7	-12%
Power	135.2	75.1	80%	114.1	18%	210.3	203.9	3%
Investment & others	(36.6)	(50.6)	-28%	20.7	-277%	(87.2)	(143.3)	-39%
<b>Group Adjusted EBITDA</b>	<b>1,992.1</b>	<b>2,055.5</b>	<b>-3%</b>	<b>1,903.6</b>	<b>5%</b>	<b>4,047.6</b>	<b>3,928.4</b>	<b>3%</b>
EBITDA margin:								
Leisure & hospitality	39%	40%		40%		39%	41%	
Plantations	15%	21%		26%		18%	29%	
Properties	33%	38%		28%		35%	38%	
Oil & gas	60.8%	74.1%		70.2%		67.2%	70.7%	
Power	46.4%	38.2%		45.4%		43.1%	43.5%	
Investment & others	N/M	N/M		49.9%		N/M	N/M	
<b>Group EBITDA margin</b>	<b>36.6%</b>	<b>36.9%</b>		<b>39.5%</b>		<b>36.7%</b>	<b>39.0%</b>	

Source: Company

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Geographical Breakdown								
Geographical Breakdown	2Q FY19	1Q FY18	Q-o-Q Chg	2Q FY18	Y-o-Y Chg	1H FY19	1H FY18	Y-o-Y Chg
Revenue:								
Malaysia	1,754.5	1,907.7	-8%	1,590.1	10%	3,662.2	3,187.9	15%
Singapore	1,935.9	1,932.9	0%	1,656.8	17%	3,868.8	3,666.0	6%
UK	420.1	419.3	0%	436.0	-4%	839.4	848.4	-1%
USA	378.1	367.0	3%	344.8	10%	745.1	691.1	8%
<b>Total Casino Revenue</b>	<b>4,488.6</b>	<b>4,626.9</b>	<b>-3%</b>	<b>4,027.7</b>	<b>11%</b>	<b>9,115.5</b>	<b>8,393.4</b>	<b>9%</b>
Adjusted EBITDA:								
Malaysia	675.1	702.4	-4%	688.9	-2%	1,377.5	1,371.9	0%
Singapore	929.2	1,021.5	-9%	803.9	16%	1,950.7	1,886.3	3%
UK	45.1	41.0	10%	29.6	52%	86.1	60.1	43%
USA	102.6	66.0	55%	77.6	32%	168.6	142.4	18%
<b>Total Casino EBITDA</b>	<b>1,752.0</b>	<b>1,830.9</b>	<b>-4%</b>	<b>1,600.0</b>	<b>10%</b>	<b>3,582.9</b>	<b>3,460.7</b>	<b>4%</b>
EBITDA Margin								
Malaysia	38%	37%		43%		38%	43%	
Singapore	48%	53%		49%		50%	51%	
UK	11%	10%		7%		10%	7%	
USA	27%	18%		23%		23%	21%	
<b>Casino EBITDA margin</b>	<b>39%</b>	<b>40%</b>		<b>40%</b>		<b>39%</b>	<b>41%</b>	

Source: Company

Valuation - New					
(RM m)	RM m	RM/Share	%	Valuation Basic	
GENM (49.3%)	8,946.5	2.39	20.5%	TP: RM3.20	
GENP (51.5%)	3,581.6	0.96	8.2%	TP: RM8.80	
GENS (52.9%)	16,938.1	4.53	38.7%	Market value	
Landmarks (30.3%)	68.5	0.02	0.2%	Market value	
Management Fee	4,379.4	1.17	10.0%	DCF @ 11.4% WACC, g = 1%	
Power	4,262.5	1.14	9.7%	12x CY20 PER	
Oil & Gas	475.8	0.13	1.1%	12x CY20 PER	
Net Cash/(Debt)	5,088.1	1.36	11.6%	Adjusted FY20E	
	43,740.5	11.69	100.0%		
No of shares	3,743.2				
<b>SOP value per share</b>	<b>RM11.69</b>				
Discount @ 38.5%	-4.94				
<b>Target Price</b>	<b>RM6.75</b>			Round to the nearest RM0.05	

Source: Kenanga Research

Valuation - Old					
(RM m)	RM m	RM/Share	%	Valuation Basic	
GENM (49.3%)	10,624.0	2.84	22.9%	TP: RM3.80	
GENP (51.5%)	3,663.0	0.98	7.9%	TP: RM9.00	
GENS (52.9%)	17,900.5	4.78	38.6%	Market value	
Landmarks (30.3%)	64.1	0.02	0.1%	Market value	
Management Fee	4,378.7	1.17	9.4%	DCF @ 11.4% WACC, g = 1%	
Power	4,262.5	1.14	9.2%	12x CY20 PER	
Oil & Gas	475.8	0.13	1.0%	12x CY20 PER	
Net Cash/(Debt)	5,063.7	1.35	10.9%	Adjusted FY20E	
	46,432.3	12.40	100.0%		
No of shares	3,743.2				
<b>SOP value per share</b>	<b>RM12.40</b>				
Discount @ 38.5%	-4.75				
<b>Target Price</b>	<b>RM7.65</b>			Round to the nearest RM0.05	

Source: Kenanga Research

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## Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)				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.			
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
<b>Simple Average</b>					<b>-0.7%</b>	<b>3.4%</b>	<b>-17.3%</b>	<b>4.1%</b>	<b>10.9</b>	<b>12.9</b>	<b>12.4</b>	<b>2.0</b>	<b>1.9</b>	<b>14.3%</b>	<b>4.2%</b>		

Source: Bloomberg, Kenanga Research

## Regional Casino

Name	Last Price	Market Cap	Currency	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	TP	Rating
					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

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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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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

