

03 October 2019

Gaming

No Longer Attractive

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NEUTRAL



The gaming sector stood out as the star performer this year especially the NFO players such as BJTOTO and MAGNUM which rallied 26% and 47% YTD, respectively, boosted by the solid recovery of ticket sales. At one point, the casino operator, GENM also recovered considerably after being bashed down heavily end of last year due to a string of negatives such as a 10% casino tax hike, cancellation of Fox Theme Park and RM1.83b impairment for the US Tribe's promissory note. However, the recovery was scuttled by the Empire deal in August, putting GENM and GENTING back to a square one. We believe both the NFO players are fully valued after the good run for the year. As such, we cut the gaming sector to NEUTRAL from OVERWEIGHT previously. Having said that, the NFO names still offer above average yield 4% to 6%.



No longer attractive; downgrade to NEUTRAL. We are no longer upbeat on the gaming sector given the limited upside following the strong rally in NFO stocks while the casino stocks were hammered down due to a related party transaction (RPT). In the past three months, we downgraded both **BJTOTO (MP; TP: RM2.80)** and **MAGNUM (MP; TP: RM2.80)** to MARKET PERFORM from OUTPERFORM as they had rallied 26% and 47% YTD on the back of solid ticket sales benefiting from enforcement curbing illegal operators. We also cut **GENM (MP; TP: RM3.20)** to MARKET PERFORM due to its RPT acquisition of loss-making Empire which also affected sentiment toward **GENTING. (OP; TP: RM6.75)** As such, we are of the opinion that the gaming sector is being fairly priced in at the moment. Thus, we downgrade the sector to **NEUTRAL** from OVERWEIGHT. Nonetheless, GENTING is still attractive given the stock is trading at 50% discount to its valuation which implies 1.5SD

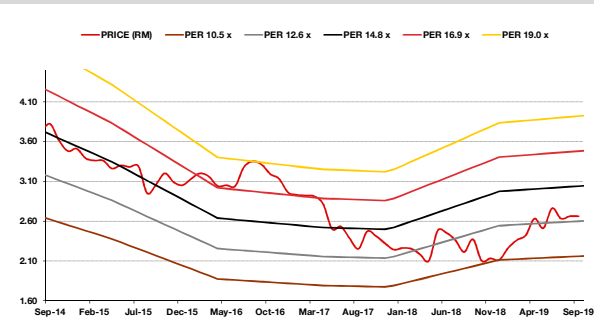
below its 3-year mean. The impending new licence in Japan is still the key price catalyst for GENTING.

Casino: RPT a key sentiment dampener. GENM surprised the market in early August with the acquisition of 13.2m equity share in Empire Resorts Inc (Empire) from related party Kien Huat Realty III Ltd (KH) for USD128.6m or c.RM538.8m and, eventually the 51:49 KH-GENM JV will need to pay c.USD53.6m to take Empire private. It was a costly acquisition for GENM which saw its share price plunging 15% or RM3.2b in market cap in just ten days after the announcement. This was because the deal was 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. Should GENM retain its 49% equity stake in Empire after the entire exercise, it may need to fork out c.RM1.69b for the acquisition eventually. We see it has no problem of financing this acquisition with its cash position of RM6.98b as at 2Q19. However, the negative earnings impact in the near term could be significant as the 49% stake in USD155.4m net loss, which amounts to RM320m is 17% of GENM's FY18 core earnings. As such, this RPT issue will continue to suppress sentiment in the near term which will affect GENTING as well. That aside, GENM will continue to see positive earnings from its local operation, especially the GITP which has started to reap fruits and the opening of outdoor theme park in 3Q20 should also see better non-gaming earnings further. In addition, the soon-to-commence Japan's IR bidding process will be the main focus for now. Based on Singapore IR's bidding experience in 2005-2006 when investors were seen snapping up casino stocks during the bidding period, we could see GENTING and **GENS (Not Rated)** in the spotlight again.

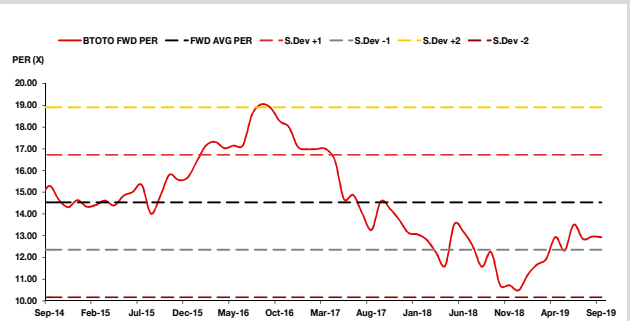
NFO: ticket sales remain upbeat. The NFO players continued to post meaningful improvements in ticket sales as was seen in the past few quarterly results boosted by enforcement clamping down on illegal operators. In fact, the latest quarterly results showed solid average ticket sales per draw despite the seasonal decline post-CNY effect. BJTOTO's 5Q19 (2M period) average ticket sales per draw of RM20.3m was 4% lower than 4Q19 with the CNY-effect but was the highest since 4Q16 while MAGNUM also saw 2Q19 average ticket sales per draw falling 10% QoQ to RM17.7m from the CNY-quarter of 1Q19 but it was still the highest since 1Q15. As such, it appears that the enforcement's efforts to curb illegal operators have worked in favour of better ticket sales for licensed operators. On the other hand, BJTOTO had impaired RM78.4m goodwill and assets in 5Q19 following its 88.3%-owned Berjaya Philippines Inc (BPI)'s disposal of shares in Philippine Gaming Management Corporation (PGMC) in July. Eventually, BPI's equity stake in PGMC was reduced to 39.99% from 99.99% to meet the bidding requirement of local participants for PCSO lottery system. With this, we trimmed our BJTOTO's FY20/FY21 earnings forecasts by 7%/8%.

A year-end peak quarter ahead, especially for the casino operators. The latest 2QCY19 earnings reporting season was a mixed bag. GENTING's 2Q19 results came in-line with overall good casino results from GENM and GENS where the "luck factor" was still good although business volume came off post a CNY-quarter. Besides the considerably strong casino earnings, GENM also saw improving non-gaming revenue as the GITP started to reap fruits. GENM also registered solid earnings from UK and North America casino operations due to lower opex and improved business. For NFO sub-sector, MAGNUM's 2Q19 beat estimates substantially by 20% given the higher-than-expected ticket sales of RM18.6m/draw in 1H19 vs. our FY19 assumption of RM16.7m/draw coupled with lower-than-expected prize payout ratio of 63.8% vs. our assumption of 66%. However, BJTOTO reported a shocking headline net loss of RM41.4m in 5Q19, which only consisted of two months as it changed its FYE to Jun from Apr, mainly due to the RM78.4m impairment mentioned above. However, core NFO numbers were satisfactory. Going forth, while NFO may not have year-end peak season for ticket sales, casino operators do enjoy better business volume during year-end festive season which is positive for market sentiment.

BJTOTO - Fwd PER Band

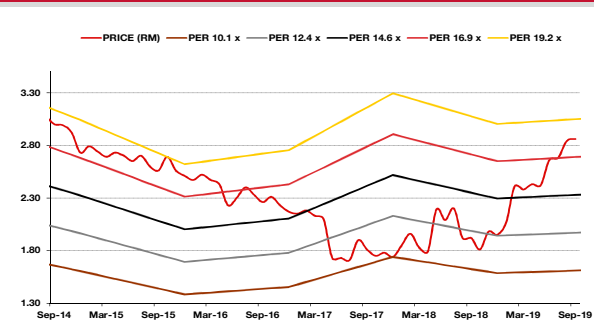


BJTOTO - Fwd PER Standard Deviation

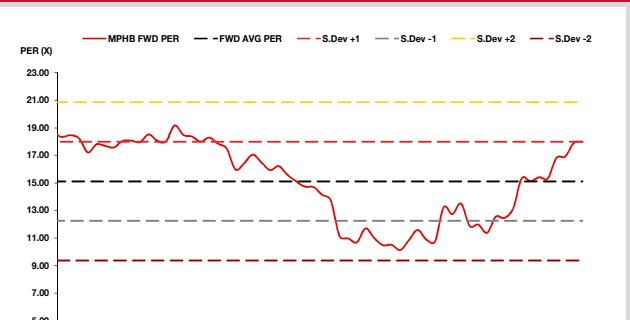


Source: Bloomberg, Kenanga Research

MAGNUM - Fwd PER Band

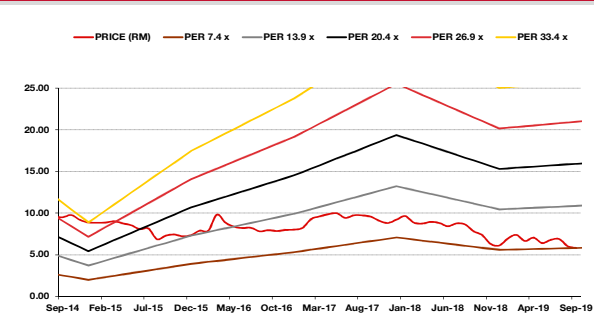


MAGNUM - Fwd PER Standard Deviation

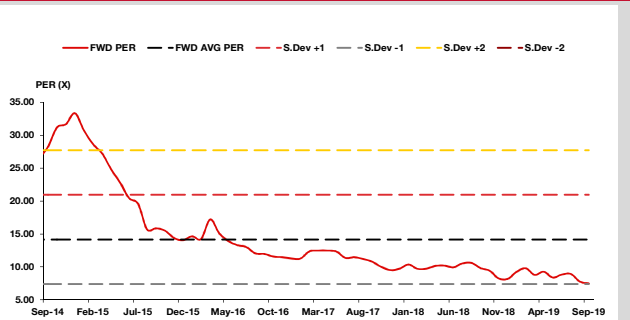


Source: Bloomberg, Kenanga Research

GENTING - Fwd PER Band

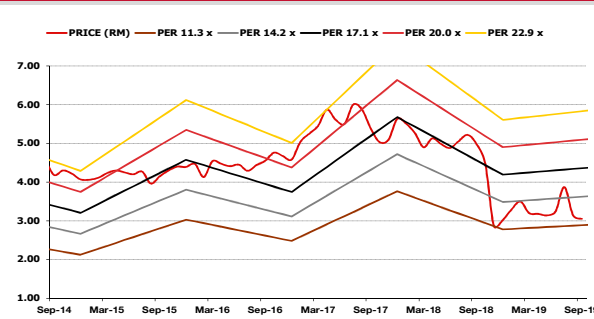


GENTING - Fwd PER Standard Deviation

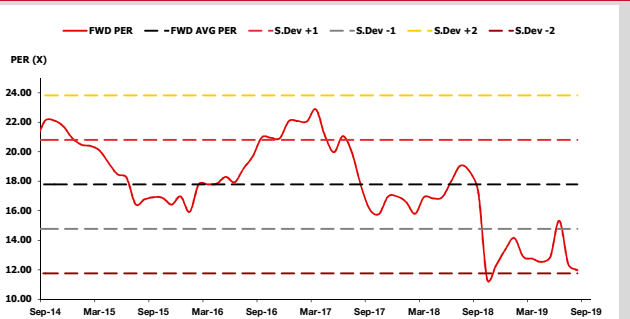


Source: Bloomberg, Kenanga Research

GENM - Fwd PER Band



GENM - Fwd PER Standard Deviation



Source: Bloomberg, Kenanga Research

Peer Comparison

Name	Price @ 20 Sep 2019 (RM)	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
					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.		
BERJAYA SPORTS TOTO BHD	2.66	3,583.0	N	06/2019	-8.3%	3.5%	-16.8%	1.8%	11.5	13.8	13.5	4.5	4.4	32.2%	5.8%	2.80	MP
GENTING BHD	5.80	22,333.3	N	12/2019	4.7%	5.3%	-31.3%	7.5%	5.9	8.6	8.0	0.6	0.6	7.1%	2.6%	6.75	OP
GENTING MALAYSIA BHD	3.05	18,111.0	N	12/2019	3.0%	2.9%	-26.2%	5.3%	9.6	13.0	12.4	1.0	0.9	7.4%	3.9%	3.20	MP
MAGNUM BHD	2.86	4,069.7	N	12/2019	-2.3%	2.0%	5.1%	2.0%	16.6	15.8	15.5	1.7	1.6	10.5%	4.5%	2.80	MP
Simple Average					-0.7%	3.4%	-17.3%	4.1%	10.9	12.8	12.4	2.0	1.9	14.3%	4.2%		

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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Published and printed by:

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