

Genting Singapore (GENS SP)

Konichiwa Yokohama?

HOLD

Share Price SGD 0.81
 12m Price Target SGD 0.86 (+8%)
 Previous Price Target SGD 0.86

Maintain HOLD and SGD0.86 TP for now

The Japanese integrated resort (IR) liberalisation process is progressing at a rapid clip. Of greatest interest to us is the Yokohama IR Request For Proposal (RFP) process, which we opine GENS has a good chance of winning. We estimate that the Yokohama IR will generate USD2.7b in net profit p.a. and is worth USD5.4b (SGD0.60/shr), which translates into substantial earnings and valuation upside for GENS. Maintain earnings estimates, HOLD call and SGD0.86 DCF-based TP for now.

Forecast Yokohama IR GGR of USD7.0b p.a.

We estimate that the Japanese IR industry total GGR will stand at USD11.7b p.a. with Kanto (Yokohama)/Kansai (Osaka, Wakayama)/Kyushu (Nagasaki) region accounting for 60%/27%/13% share of total GGR. In relation to Yokohama IR GGR, we estimate that it will stand at USD7.0b p.a. of which USD5.8b p.a. will be sourced from locals and USD1.2b p.a. will be sourced from tourists (Fig 30). In terms of VIP: mass market GGR mix, we forecast it to come in at 17%:83%.

GENS in a good position but not without risks

Our channel checks in Japan indicate to us that GENS is well positioned to win the Yokohama IR RFP process in the summer (Jun to Aug) of this year. We opine that this expectation is not without merit as GENS scores highly in promoting tourism, management and financial ability and responsible gambling initiatives relative to the other Yokohama IR RFP respondents. That said, we caution that all of GENS' efforts may come to naught if an anti-IR Yokohama mayor is elected on 22 Aug 2021.

Yokohama IR may add up to SGD0.60/shr to our TP

We estimate that the Yokohama IR will generate USD2.7b in net profit in the first full year of operations and is worth USD5.4b (SGD7.2b or SGD0.60/shr). Earnings and value accretion to GENS will depend on its shareholding in the company that may eventually construct and operate the Yokohama IR. Should GENS' shareholding be a hypothetical 40%, the earnings and value accretion will still be a substantial SGD1.4b, or the equivalent of SGD0.24/shr.

FYE Dec (SGD m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	2,480	1,064	1,124	1,594	2,157
EBITDA	1,190	427	434	689	1,058
Core net profit	704	124	170	382	693
Core FDEPS (cts)	5.8	1.0	1.4	3.2	5.7
Core FDEPS growth(%)	(8.1)	(82.4)	37.0	124.3	81.4
Net DPS (cts)	4.0	1.0	1.0	2.0	4.0
Core FD P/E (x)	15.8	82.8	57.3	25.5	14.1
P/BV (x)	1.4	1.3	1.2	1.2	1.2
Net dividend yield (%)	4.3	1.2	1.2	2.5	5.0
ROAE (%)	8.7	0.9	2.2	4.8	8.5
ROAA (%)	7.4	1.4	1.9	4.3	7.7
EV/EBITDA (x)	6.0	15.2	13.1	7.6	4.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	311	495	572
MKE vs. Consensus (%)	-	-	(45.2)	(22.9)	21.2

Company Description

Owns and operates Resorts World Sentosa, one of two integrated resorts in Singapore.

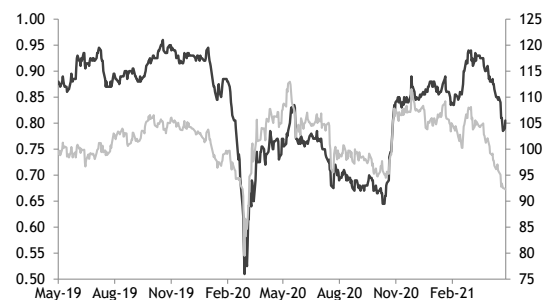
Statistics

52w high/low (SGD)	0.94/0.65
3m avg turnover (USDm)	18.8
Free float (%)	47.0
Issued shares (m)	12,094
Market capitalisation	SGD9.7B
	USD7.3B

Major shareholders:

Genting Bhd.	52.5%
The Vanguard Group, Inc.	1.1%
Blackrock Fund Advisors	1.0%

Price Performance



— Genting Spore - (LHS, SGD) — Genting Spore / Straits Times Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(11)	(4)	9
Relative to index (%)	(7)	(9)	(10)

Source: FactSet

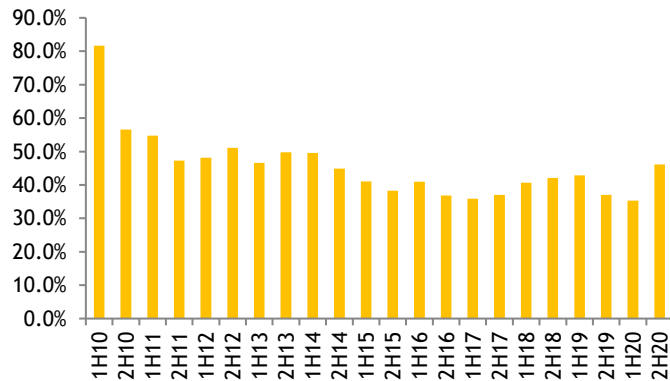
ESG@MKE
Tear Sheet Insert

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Value Proposition

- Owns and operates Resorts World Sentosa, one of two integrated resorts in Singapore.
- ROE < WACC due to VIP market slowdown driven by Chinese economic slowdown.
- Will consider expanding into other markets (e.g. Japan) if projected IRR > 15% and group ROEs return to > 10%.
- Redeemed SGD2.3b perpetual securities in 2017 but raising JPY bonds to finance a potential Japanese casino license.

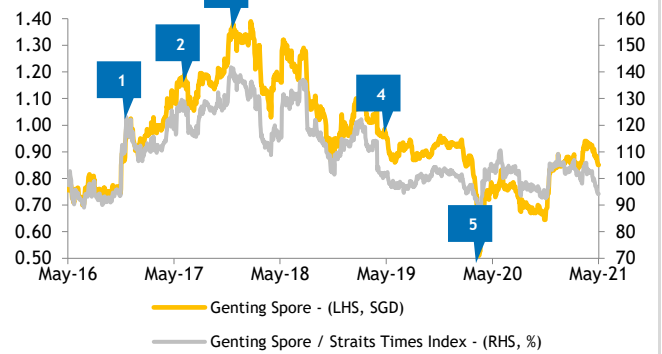
Share of Singapore gross gaming revenue



Source: Company, Las Vegas Sands, Maybank Kim Eng

Price Drivers

Historical share price trend



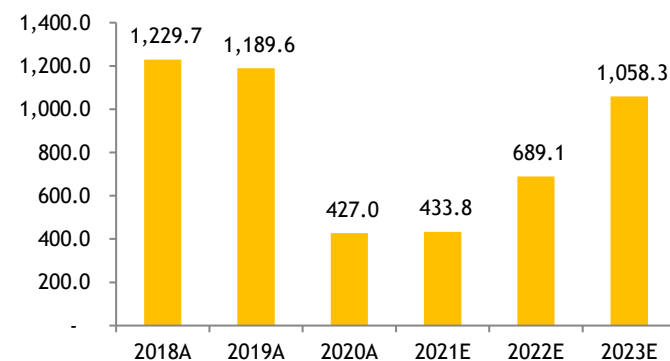
Source: Company, Maybank Kim Eng

- Declared maiden interim DPS of 1.5cents/Japanese Diet passed the IR Promotion Bill.
- Reported 1Q17 core net profit of >SGD150m due to lower than expected direct VIP rebate rates.
- Reported 3Q17 core net profit of >SGD175m due to higher than expected VIP volume.
- Casino entry levy hiked by 50% and casino tax rates will be hiked by 3-7ppts in Mar 2022.
- COVID-19 pandemic struck Singapore. RWS closed from 6 Apr until 30 Jun 2020.

Financial Metrics

- Key financial metric is EBITDA. Most casino operators are valued on EV/EBITDA basis.
- Forecast FY21E EBITDA to remain relatively flat as Singapore's borders remain largely closed.
- Forecast FY22E EBITDA to recover 59% YoY on Malaysian gamblers returning.
- Forecast FY23E EBITDA to recover 54% YoY on Chinese, Indonesian and Malaysian gamblers returning.
- Balance sheet in net cash position of SGD3.7b or SGD0.31/share as at end-4Q20.

EBITDA (SGDm)



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- VIP win rate - if VIP win rate is above theoretical levels, it can positively influence earnings.
- VIP: mass market mix - tilt towards mass market will expand margins due to less commissions and rebates.
- SGD4.5b RWS expansion - dubbed 'RWS2.0', this will expand gaming and non-gaming capacity.

Downside

- VIP win rate - if VIP win rate is below theoretical levels, it can negatively influence earnings.
- Bad debts - Chinese accounts for the majority of VIPs but gambling debts are not enforceable in China.
- Regional expansion - new jurisdictions often require high capex commitments without guaranteeing returns.

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Risk Rating & Score¹	21.1 (Medium)
Score Momentum²	-0.8
Last Updated	15 Apr 2021
Controversy Score³ (Updated: 10 Nov 2020)	1 - Business ethics

Business Model & Industry Issues

- GENS' Resorts World Sentosa (RWS) operates, in our opinion, in the most highly regulated casino jurisdiction in the world. In our view, GENS has strong ESG credentials which stand out among its regional peers, especially the Macanese ones.
- To be sure, the strong ESG credentials are not without 'costs'. For example, RWS has to bear VIP credit risk as the engagement of Macau style junkets which have often been accused of money laundering is not permitted.
- Moreover, the 50% increase in casino entry levies for Singaporean citizen and permanent resident (SCPR) gamblers effective 4 Apr 2019 also caused RWS to rely less on the steadier base of local gamblers and more on fickle international gamblers.
- That said, countries seeking to liberalise their casino industries like Japan are looking to Singapore's highly regulated casino industry and the strong ESG credentials it engenders for guidance.
- In our view, this could give GENS an advantage in bidding for a Japanese casino license.

Material E issues

- No material environmental issues. RWS was built on the demolished plot of the Imbiah lookout on Sentosa Island.
- RWS even houses 2.9 ha of protected secondary forest and >100,000 marine animals in the S.E.A. Aquarium (SEAA)
- SEAA has been criticised for keeping dolphins in captivity in the past.
- Yet, SEAA is accredited by the Association of Zoos and Aquariums and World Association of Zoos and Aquariums.
- SEAA partners James Cook University, Singapore and hosted Science in the SEAA series.
- The series involves researchers and experts sharing about their work with marine conservation enthusiasts.
- SEAA also promotes marine biodiversity by forming a conservation group, Guardians of the SEAA.
- Other environmental accreditations include BCA Green Mark, Singapore Packaging Awards, Singapore Green Building Council and CIPS Asia Supply Management Awards.
- Phased out plastic straws/bottles in 2018/2019, saving 3m straws and 6.7m plastic bottles p.a

Material S issues

- Regulated by the Casino Regulatory Authority (CRA) under the Casino Control Act (CCA).
- Problem gambling regulated by the National Council on Problem Gambling (NCPG).
- SCPR gamblers required to pay casino entry levies of SGD150 per 24 hours or SGD3,000 p.a.
- NCPG can issue visit limits and exclusion orders at the request of individuals, casinos or on its own initiative.
- In Nov 2015, RWS became the first casino in Asia Pacific to receive RG Check accreditation from the Responsible Gambling Council.
- Since Dec 2018, RWS attained RG Check reaccreditation and achieved the highest score amongst >150 venues.
- Launched Manage Game Play Programme in 2020, a tool to help patrons self-regulate time spent at gaming machines.
- Stations RG Ambassadors to inform and assist patrons on responsible gambling. RWS also holds RG road shows.

Key G metrics and issues

- BOD comprises Executive Chairman, President & COO, Lead Independent Director and 3 Independent NonExecutive Directors (INED).
- Madam Chan Swee Liang Carolina, Lead Independent Director is the sole woman director.
- Tan Sri Lim Kok Thay, Executive Chairman represents Genting Berhad, GENS' largest shareholder at 53%.
- No members of Tan Sri Lim's family hold management positions in GENS.
- FY20 reported directors' remuneration of SGD34.9m was up 72% YoY.
- The increment was largely due to recognition of incentive shares which have not vested yet.
- GENS stated that directors' FY20 cash remuneration was markedly lower YoY.
- Audit & Risk Committee and Remuneration Committee comprise three members each who are all INEDs.
- Nominating Committee comprises three members, of which, two are INEDs.
- Two of five RWS key management personnel are women, the CFO and CCO.
- PricewaterhouseCoopers LLP is the independent auditor. They have been appointed for >10 years.
- Last major related party transaction was in 2010 when Genting UK was sold to Genting Malaysia for GBP340m.
- That said, the investment community was of the opinion that the transaction favoured GENS over GENM.
- This was because GENM acquired Genting UK at valuation multiples that were higher than its own.
- Occasionally fined by the CRA but the fines were for infractions which were minor, in our view.
- Most fines were for SCPRs entering/remaining in the casino without valid casino entry levies
- Governed by the CCA which contains anti-money laundering regulations.
- CCA does not permit Macau style junkets which have often been accused of money laundering.
- Developed and employs a Prevention Of Money Laundering and Terrorism Financing Framework.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Primer on Japanese IR industry liberalisation process

Current state of Japanese IR industry liberalisation process

Despite the raging COVID-19 pandemic, we note that the Japanese integrated resort (IR) industry liberalisation process is progressing at a rapid clip after stalling last year. To date, 4 cities have launched Requests for Proposals (RFP) to select operators as partners to construct and operate IRs in Japan. They are Yokohama in Kanto region, Osaka in Kansai/Kinki region, Wakayama in Kansai/Kinki region and Nagasaki in Kyushu region (Fig. 1 and 2). In fact, the RFP process in Wakayama has already closed and a winner will be selected in the spring of this year.

Figure 1: Timeline of Japanese cities that launched IR RFPs

Yokohama	Osaka	Wakayama	Nagasaki
21 Jan 2021 - RFP launched	Dec 19 - RFP launched	Mar 2020 - RFP launched	7 Jan 2021 - RFP launched
15 Feb 2021 - first qualification inspection results	Feb 20 - qualification inspection results	May 2020 - qualification inspection results	12 Feb 2021 - qualification inspection results
31 May 2021 - second qualification inspection results	19 Mar to 6 Apr 2021 - submissions from new applicants accepted	15 Jan 2021 - RFP deadline	1 Mar 2021 - submission of primary examination documents deadline
11 Jun 2021 - RFP deadline	20 Jul 2021 - RFP deadline	Spring 2021 - winner chosen	19 Mar 2021 - primary examination results
Summer 2021 - winner chosen	Sep 2021 - winner chosen		Jun 2021 - submission of secondary examination documents deadline
			Aug 2021 - winner chosen

Source: Various

Figure 2: Location of Japanese cities that launched IR RFPs



Source: Various

Of greatest interest to us is Yokohama because GENS is one of the bidders that responded to the IR RFP process there. GENS' competitors in Yokohama are **Melco Resorts & Entertainment (MLCO US, Not Rated)**, **Sega Sammy Holdings (6460 JP, Not Rated)** and **SHOTOKU (Not Listed)** (Fig. 3). American gaming giants, **Las Vegas Sands (LVS US, Not Rated)** and **Wynn Resorts (WYNN US, Not Rated)** stated in May 2020 and Aug 2020 respectively that they will not be responding to the Yokohama IR RFP process. **Galaxy Entertainment (27 HK, Not Rated)** stated just two days ago that it will not be responding to the Yokohama IR RFP Process.

Figure 3: Operators that responded to IR RFPs launched by Japanese cities

Yokohama	Osaka	Wakayama	Nagasaki
Genting Singapore Melco Resorts & Entertainment Sega Sammy Holdings SHOTOKU	MGM - Orix	Clairevest	Oshidori - Mohegan Sun Casinos Austria NIKI & Chyau Fwu (Park View)

Source: Various

The way forward for Japanese IR industry liberalisation process

Japan has mulled liberalising its IR industry multiple times in the past. In fact, Singapore liberalised its IR industry in the mid-2000s due to the prospect of Japan liberalising its own back then. Former Japanese prime minister Shinzo Abe got the proverbial ball rolling in 2016 when his Liberal Democratic Party and partner Komeito Party passed the IR Promotion Law (Fig. 4). Most recently, Japan Casino Regulatory Commission released draft casino regulations. It was available for public comment until 9 May 2021.

Figure 4: Past milestones in the Japanese IR industry liberalisation process

	Date
Enactment of IR Promotion Law	26-Dec-16
Establishment of IR promotion headquarters	01-Mar-17
Enactment of IR Implementation Law	20-Jul-18
Enactment of Basic Law for countermeasures against addiction such as gambling	05-Oct-18
Establishment of Casino Management Committee	07-Jan-20
Determination of IR Basic Policy	18-Dec-20
Publication of Japan Casino Regulatory Commission draft casino regulations	2-Apr-2021

Source: Various

Going forward, we understand from our channel checks in Japan that the following milestones will unfold (Fig. 5):-

1. the 4 aforementioned cities will select operators as partners to construct and operate IRs in Japan this year;
2. successful operators and cities will formulate area development plans and submit them to the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) from 1 Oct 2021 to 28 Apr 2022;
3. area development plans will be evaluated on the criteria listed on Fig.6 but the weightage of each criterion is still unknown at this point;
4. if approved, the MLIT will certify area development plans which will be valid for 10 years but renewable every 5 years;

Note that the MLIT will only certify 3 area development plans which means that 1 of the 4 aforementioned cities will not host an IR

5. successful operators and cities will then formulate an implementation agreement to develop and operate IRs;
6. construction of IRs will likely commence in 2023. Operators will also apply for casino licenses with the Japan Casino Regulatory Commission (JCRC);
7. casino licenses may be granted by the JCRC before the IRs open. They will be valid for 3 years but are renewable every 3 years; and finally,
8. the IRs themselves will open after at least 5 years of construction due to earthquake safety requirements from 2028 to 2030.

Figure 5: Future milestones in the Japanese IR industry liberalisation process

Year	Milestone
2021	Cities select partner operators via RFP process
2022	Cities and operators jointly formulate area development plans and submit them to MLIT from 1 Oct 2021 to 28 Apr 2022 MLIT inspects area development plans and sets inspection standards. Certify area development plans if successful. Cities and operators jointly formulate implementation agreements
2023	Integrated resort construction commences Casino license applications submitted to JCRC
2028-2030	Casino licenses obtained Integrated resorts open

Source: Various

Figure 6: Area development plan evaluation criteria

Criteria
Internationally competitive and attractive stay type tourism attraction
- Whole IR area (concept, scale and design)
- MICE facilities (scale and quality)
- Facilities for enhancing local tourism attractions (quality)
- Customer transfer facilities to local tourism attractions (quality)
- Accommodation facilities (room size, composition, quality, international competitiveness)
- Facilities contributing to overnight tourism (international competitiveness and quality)
- Casino facilities (complements other facilities)
- Area where IR will be developed
Economic and social effects
Management ability, financial stability and relations with local community
Utilisation of casino profits
Responsible gambling initiatives

Source: MLIT

Japanese IR industry regulations even stricter than Singapore's

With all but 2 junkets (or International Market Agents as a euphemism) banned in Singapore and casino entry levies of SGD150 (USD112) per 24 hours or SGD3,000 (USD2,249) p.a. for Singaporean citizens and permanent resident (SCPR) gamblers, we opine that Singapore is easily one of the most highly regulated gaming jurisdictions in the world. Nonetheless, it would appear that Japan is aiming to do one (or more) better when it comes to casino-gaming regulations vis-à-vis Singapore. Examining Fig. 7, we note the following observations:

- **Junkets** - Legally speaking, Singapore does not ban junkets outright. That said, its legislations effectively make it very difficult for Macau style junkets to be licensed. On the other hand, Japan appears to have banned junkets outright.
- **Social safeguards for locals** - Casino entry levy for Japanese gamblers are lower than that for SCPR gamblers (USD55 for Japanese versus USD112 for SCPRs). That said, casino visits by Japanese will be limited to 3 every 7 days and 10 every 28 days. To our understanding, there are no such casino visit limits in Singapore unless specifically requested by SCPRs or their family members.

Casino visits by Japanese will be monitored by examining a Japanese's MyNumber card. Although the MyNumber card was launched nearly six years ago in Oct 2015, less than 30% of Japanese currently have been issued MyNumber cards.

- **Taxation** - 30% of gross gaming revenue (GGR) gaming tax rate in Japan is higher than that of Singapore even though the Japanese 10% consumption tax will not be levied on top of gaming tax. The current effective gaming tax rate (including GST) in Singapore is 12% of GGR for VIP and 22% of GGR for mass market.

For gamblers in Japan, winnings by locals will be taxed while winnings by tourists will not be taxed. For gamblers in Singapore, neither winnings by locals nor tourists are taxed. In our view, this appears to be another social safeguard for Japanese gamblers.

- **Non-gaming facilities** - IR Implementation Law mandates that IRs must have total hotel and MICE areas of $\geq 100,000$ sqm and $\geq 120,000$ sqm respectively. This is no small feat as we understand that there is currently only one hotel in Japan that has total hotel area of $\geq 100,000$ sqm and less than 100 MICE facilities around the world have total MICE areas of $\geq 100,000$ sqm.
- **Smoking ban** - Casino floors in Japan will be subject to full smoking bans except in smoking rooms a la Macau. Casino floors in Singapore are more lenient as they are separated into smoking and non-smoking areas. GGRs are almost always higher in smoking areas compared to non-smoking ones.
- **'Clock' requirement** - Probably the most obvious social safeguard but not implemented in many casinos around the world is the requirement for Japanese casinos to display clocks or the time. In our experience, there is no such requirement at other Asian casinos.

Figure 7: Comparison of Singaporean and Japanese IR industries

	Singapore	Japan
Integrated resorts	2	3
Number of junkets	Only 2 junkets licensed	No junkets allowed
VIP definition	Gamblers who deposit \geq SGD100,000 (USD74,968)	Gamblers who deposit \geq JPY10m (USD91,192)
Social safeguards for locals	SGD150 (USD112) per 24 hours/ SGD3,000 (USD2,249) per annum casino entry levy	JPY6,000 (USD55) per 24 hours casino entry levy Visits limited to 3 every 7 days and 10 every 28 days Visits monitored by MyNumber card
Gaming tax	VIP - 5% of GGR (8-12% after Mar-22) Mass market - 15% of GGR (18-22% after Mar-22)	VIP - 30% of GGR Mass market - 30% of GGR Amount to defray Casino Management Committee expenses
GST/Consumption tax	7% of GGR less gaming tax	0%
Winnings tax	None	Winnings by locals will be taxed Winnings by tourists will not be taxed
Number of hotel rooms	Marina Bay Sands - 2,561 rooms Resorts World Sentosa - 1,536 rooms Genting Hotel Jurong - 557 rooms	Total hotel guest room area of $\geq 100,000$ sqm
Other non-gaming facilities	MICE, theme park, performance centers, food & beverage	Total MICE area of $\geq 120,000$ sqm
Smoking ban	Partial	Full except in smoking rooms
Others	None	Clocks or time must be displayed in casinos

Source: Various

Forecast Yokohama IR GGR of USD7.0b p.a.

Japanese IRs likely to resemble other Asian IRs in many respects

In determining the potential GGR that the Japanese IR industry may derive, we split them into two source markets (i.e. locals and tourists). We first examine the potential GGR that the Japanese IR industry may derive from locals. We examine the types of casino games that Japanese IRs will operate. The JCRC listed 9 casino games that will be permitted to operate inside IRs, with traditional Japanese games such as pachinko, pachislot and mahjong as notable exclusions. The nine games are:-

- baccarat (2 types)
- blackjack (4 types)
- poker (8 types)
- roulette
- Sic Bo
- Craps
- Casino War
- money wheel
- pai gow

Electronic games such as slot machines and electronic games will also be permitted. It appears to us that Japanese IRs will not be very different from other Asian IRs except for the fact that electronic games may feature more prominently due to the Japanese's love for pachinko. In 2019, the Japanese bet an eye watering JPY20t (USD182b) on pachinko. Like just about every other Asian IR, we gather that baccarat will feature prominently due to the Japanese's familiarity with Oicho-Kabu.

Oicho-Kabu is a traditional Japanese card game that is somewhat similar to baccarat. Oicho-Kabu means 8-9 and uses Japanese names for the numbers 1 to 10. Like baccarat, this game has a dealer, whom players try to beat. The goal of the game is to reach 9. That said, Oicho-Kabu is typically played with a different deck of cards called kabufuda cards. A kabufuda deck has four sets of ten cards. Three of the four sets are identical and the fourth set has a different number 1 and number 4.

Methodology #1 - Japanese local GGR as large as USD28.5b p.a.

Now that we have determined that Japanese IRs will offer similar games to other Asian IRs, we next examine the GGR as a percentage of nominal GDP of other Asian gaming jurisdictions (GGR penetration rate). We exclude Asian gaming jurisdictions that largely cater to tourists like Cambodia, Vietnam and South Korea. Though Singapore largely caters to tourists (c.80% of VIP GGR and c.40% of mass market GGR), we opine that its local GGR penetration rate will be useful as junkets are effectively banned and locals must pay casino entry levies to enter like Japan.

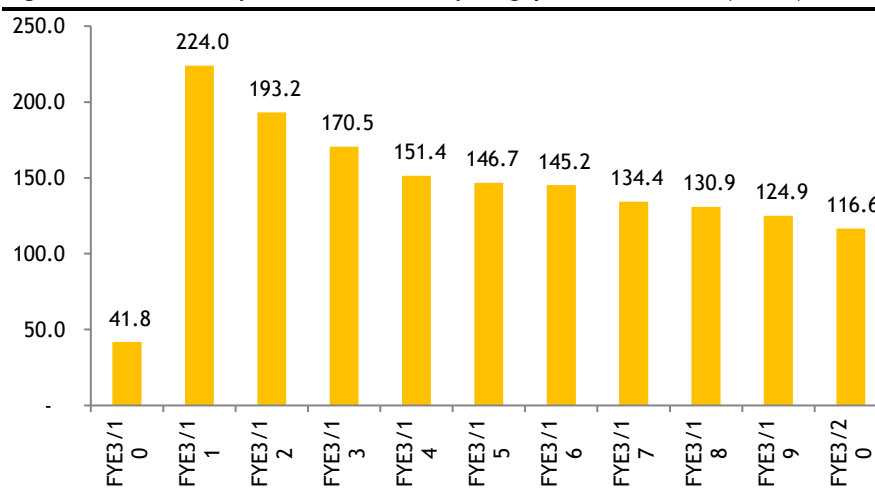
One of the 'revelations' of the COVID-19 pandemic is that we can now accurately determine how much of Singaporean IR industry GGR is derived from SCPRs. In 2H20, the Singaporean IRs could only welcome SCPR gamblers as Singapore's borders were largely shut. In 2H20, the Singaporean IR industry recorded SGD1.4b (USD1.0b) in GGR of which 22% was derived from VIP gamblers and 78% was derived from mass market gamblers. Annualising the aforementioned SGD1.4b (USD1.0b) GGR and dividing it by the 2020 nominal GDP of Singapore, we derive a Singaporean local GGR penetration rate of 0.58% (Fig. 8).

Figure 8: Singaporean local GGR penetration rate

SGDm	2H20
Total Singapore VIP GGR (A)	297.2
Total Singapore mass market GGR (B)	1,074.3
Total Singapore GGR (C=A+B)	1,371.5
VIP share of GGR (D=A/C)	21.7%
Mass market share of GGR (E=B/C)	78.3%
Total	100.0%
Annualised 2H20 Singapore GGR (F=CX2)	2,743.1
2020 Singapore nominal GDP (G)	469,096.0
Singaporean local GGR penetration rate (H=F/G)	0.58%

Source: GENS, Las Vegas Sands, Singapore Department Of Statistics, Maybank Kim Eng

We gather that the Singaporean local GGR penetration rate was even higher in the past as fewer SCPRs have been gambling at Singaporean IRs of late as exhibited by the steady decline in casino entry levies even though they were hiked by 50% on 11 Apr 2019 (Fig. 9). Notwithstanding, we opine that the aforementioned Singaporean local GGR penetration rate is still useful for analytical purposes. The Singaporean local GGR penetration rate of 0.58% sits close to the average of the GGR penetration rates of Macau (China nominal GDP as denominator), Philippines and Malaysia (Fig. 10).

Figure 9: Casino entry levies collected by Singapore Tote Board (SGDm)

Source: Singapore Tote Board

The Philippine GGR penetration rate is exceptionally high as there are no casino entry levies for Filipinos and many IRs are located in the capital of Manila (i.e. Entertainment City). The Macanese GGR penetration rate is lower as Macau is located in the far south of China. The Malaysian GGR penetration rate used to be higher, we understand, but has been easing as more discerning Malaysian VIPs have been gambling in Singapore, Cambodia (NagaWorld) and the Philippines of late.

Figure 10: GGR penetration rates of other Asian gaming jurisdictions

USD b	2019 GGR (A)	2019 nominal GDP (B)	Penetration rate (C=A/B)
Macau	36.6	14,340.6	0.26%
Philippines	4.8	376.8	1.29%
Malaysia	1.7	364.7	0.48%
Average			0.67%

Source: Macao Gaming Inspection & Coordination Bureau, Philippine Amusement & Gaming Corporation, Genting Malaysia, World Bank

Ascribing the aforementioned Singaporean local GGR penetration rate of 0.58% to the 2020 nominal GDP of Japan of USD4,870b, we derive a potential Japanese IR industry local GGR of a whopping USD28.5b (Fig. 11). This would make the Japanese IR industry the second largest gaming jurisdiction in the world after Macau even without tourist GGR. To be sure, we do not believe that this figure will be achieved with limited supply of only 3 IRs in Japan. We gather that there will need to be an IR in each of Japan's 8 regions in order to do so.

Figure 11: Japan IR industry potential local GGR - Methodology #1

2020 Japan nominal GDP (USD b) (A)	4,870
Singapore local GGR penetration rate (B)	0.58%
Japan local GGR (USD b) (C=AXB)	28.5

Source: World Bank, Maybank Kim Eng

Singapore is a city state. Thus, the wealth of the entire nation can flow to the IRs there in the form of GGR without much hindrance but for the casino entry levies. Japan on the other hand, is a large archipelago. The wealth of a particular region cannot freely flow to the IRs located in another region in the form of GGR. For example, Japanese residing in Hokkaido region in the northern and eastern most part of Japan are unlikely to travel to Kyushu region in the southern and western most part of Japan to gamble at the Nagasaki IR.

Methodology #2 - Japanese local GGR as large as USD65.7b p.a.

We next examine Singaporean IR industry local GGR as a percentage of Singaporean non-casino gaming turnover (GGR to non-casino gaming turnover ratio). Singapore has a thriving non-casino gaming industry with betting on lotteries, sports betting and totalisator (horse racing) hitting SGD8.9b (USD6.7b) in FY3/20 (Fig. 12). Unlike the Singaporean IRs, our observation is that there is not much tourist participation in Singaporean non-casino gaming. Dividing the annualised 2H20 Singapore GGR of SGD2.7b by FY3/20 total non-casino gaming turnover of SGD8.9b, we derive a ratio of 30.8% (Fig. 13).

Figure 12: Singaporean non-casino gaming turnover

SGD m	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20
Lotteries and sports betting turnover	6,020	6,237	6,323	6,247	6,343	6,797	7,018	7,196	7,402	8,098	7,899
Totalisator turnover	2,095	1,848	1,741	1,568	1,545	1,453	1,377	1,224	1,134	1,058	997
Total non-casino gaming turnover	8,114	8,085	8,063	7,815	7,888	8,250	8,395	8,421	8,536	9,157	8,896

Source: Singapore Tote Board

Figure 13: Singaporean IR industry local GGR as a percentage of Singapore total non-casino gaming turnover

Annualised 2H20 Singapore GGR (A)	SGD m 2,743.1
FY3/20 total non-casino gaming turnover (B)	8,896.2
Singapore IR industry local GGR as a percentage of Singapore total non-casino gaming turnover (C=A/B)	30.8%

Source: GENs, Las Vegas Sands, Singapore Tote Board, Maybank Kim Eng

Japan has an even larger non-casino gaming industry with betting on pachinko, racing and lotteries coming in at JPY26t (USD238b) in 2019 (Fig. 14). Pachinko accounted for an overwhelming 77% of total non-casino gaming turnover in 2019. Ascribing the aforementioned Singaporean IR industry local GGR as a percentage of Singapore total non-casino gaming turnover of 30.8% to the 2019 Japanese total non-casino gaming turnover discounted by 10% (to account for the potential that some non-casino gaming turnover may be cannibalised by IRs), we derive a potential Japanese IR industry local GGR of an even larger USD65.7b (Fig. 15).

Figure 14: Japanese non-casino gaming turnover

JPYt	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Pachinko	25.9	25.4	25.6	25.0	24.5	23.2	22.7	21.4	20.7	20.0
Horse racing	2.4	2.3	2.4	2.4	2.5	2.6	2.7	2.8	2.8	2.9
Power boat racing	0.9	0.9	0.9	0.9	1.0	1.0	1.1	1.2	1.3	1.5
Bicycle racing	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7
Motorcycle racing	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Tarakuji lottery	0.9	1.0	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8
Sports promotion lottery	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total	31.0	30.3	30.6	30.1	29.7	28.5	28.1	27.0	26.4	26.0

Source: Leisure White Papers, Nichiyukyo, Ministry of Economy, Trade and Industry, Japan Productivity Center, Japan Sport Council

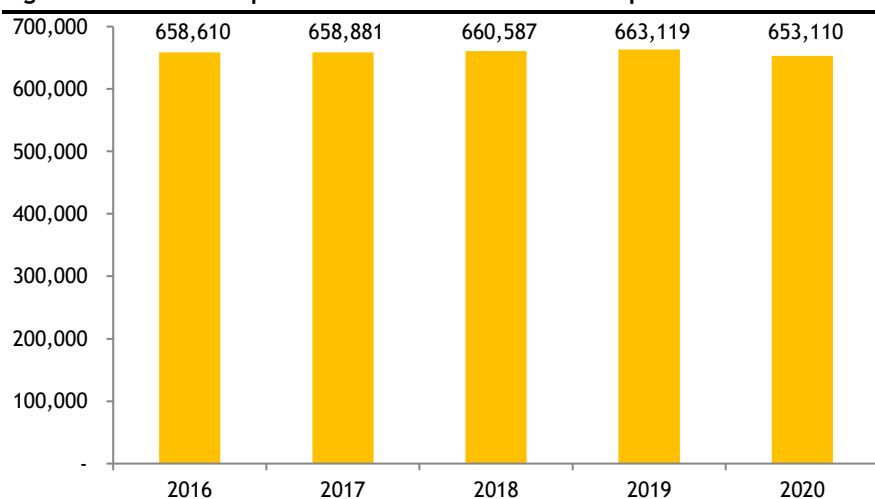
Figure 15: Japan IR industry potential local GGR - Methodology #2

2019 Japanese total non-casino gaming turnover cannibalised by 10% (JPYt) (A)	23.4
Singapore IR industry local GGR as a percentage of Singapore total non-casino gaming turnover (B)	30.8%
Japan IR industry local GGR (JPYt) (C=AxB)	7.2
USD/JPY exchange rate (D)	110.0
Japan IR industry local GGR (USDb) (E=CX1000/D)	65.7

Source: Leisure White Papers, Nichiyukyo, Ministry of Economy, Trade and Industry, Japan Productivity Center, Japan Sport Council, Maybank Kim Eng

This would make the Japanese IR industry the largest gaming jurisdiction in the world even without tourist GGR. To be sure, we do not believe that this figure will be achieved with limited supply of only 3 IRs in Japan. We gather that there will need to be an IR in each of Japan's 47 prefectures in order to do so. Pachinko parlours are near ubiquitous in Japan. There are 653,110 pachinko machines in Japan as at end-2020 or 1 pachinko machine for every c.200 Japanese man, woman and child (Fig. 16). On the other hand, there will only be 3 IRs in Japan.

Figure 16: Number of pachinko machines installed in Japan



Source: Ministry of Economy, Trade and Industry

Japanese local GGR of USD9.3b p.a. more likely, in our view

Given that our two methodologies above (GGR penetration rate and GGR to non-casino gaming turnover ratio) returned huge potential Japanese IR industry local GGRs of USD28.5b and USD65.7b p.a., it is fair for investors to wonder why the likes of Las Vegas Sands, Wynn Resorts, Galaxy Entertainment and SunCity Group (1383 HK, Not Rated) withdrew from attempting to expand into Japan. We gather that this is because:

- the addressable market for Japanese IRs is not the GDP of Japan itself but the GDP of the region that the IRs will be located in; and
- the regulations surrounding the Japanese IR industry will be even more strict than Singapore's as explained on page 6 and 7.

With this in mind, we examined the 2017 nominal GDP of Japan by region and focused on the regions that have launched IR RFPs (i.e. Kanto, Kansai/Kinki, Kyushu) (Fig. 17). Kanto region accounted for the largest share of 2017 nominal GDP of Japan at 41%. Kansai/Kinki region accounted for a distant third largest share of 2017 nominal GDP of Japan at 15% while Kyushu region accounted for the fifth largest share of 2017 nominal GDP of Japan at 9%.

Figure 17: 2017 nominal GDP of Japan by region

Region	JPYm	Share
Hokkaido & Tohoku	62,876,554	11.2%
Kanto	230,169,663	41.0%
Chubu	86,157,122	15.3%
Kansai/Kinki	85,900,028	15.3%
Chugoku	30,386,743	5.4%
Shikoku	14,582,050	2.6%
Kyushu	51,451,211	9.2%
Total	561,523,371	100.0%

Source: Japan Cabinet Office

Next, we multiply 2020 nominal GDP of Japan in USD with the aforementioned share of 2017 nominal GDP of Japan by region for Kanto, Kansai/Kinki and Kyushu, multiply the product with Singaporean local GGR penetration rate of 0.58% and then discount the product by 50% to account for the fact that the regulations surrounding the Japanese IR industry will be stricter than Singapore's. The end result is potential Japanese IR industry local GGR of USD9.3b with Kanto region accounting for 63% share of GGR (Fig. 18). This will still make the Japanese IR industry the second largest gaming jurisdiction in the world after Macau even without tourist GGR.

Figure 18: Potential Japanese IR industry local GGR calculation (USDb)

Region	2020 Japan nominal GDP	Region share of Japan nominal GDP	2020 region nominal GDP	Local GGR penetration rate	Local GGR pre-50% discount	Local GGR post-50% discount
	A	B	C=AXB	D	E=CXD	F=EX50%
Kanto	4,870.0	41.0%	1,996.2	0.58%	11.7	5.8
Kansai	4,870.0	15.3%	745.0	0.58%	4.4	2.2
Kyushu	4,870.0	9.2%	446.2	0.58%	2.6	1.3
Total						9.3

Source: World Bank, Japan Cabinet Office, Maybank Kim Eng

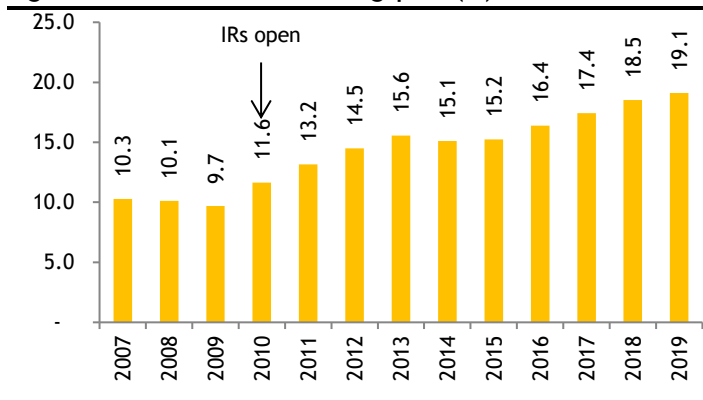
Tourist GGR will be more mass market than VIP, in our view

Roughly 80% of Singapore IR industry VIP GGR and c.40% of Singapore IR industry mass market GGR is derived from tourists. That said, we do not believe that tourists will contribute much to Japanese IR industry VIP GGR for three reasons. First, junkets will not be allowed in Japan. VIPs often rely on junkets for credit extension to gamble. IRs themselves are reluctant to extend credit to VIPs directly as gambling debts are not enforceable in China. Two, China has criminalised cross-border gambling and is cracking down on those soliciting Chinese, especially Chinese VIPs, to gamble overseas. Three, Japan is not a private wealth centre like Singapore that attracts a lot of VIPs.

2019 mass market GGR per tourist to Singapore stood at c.USD60

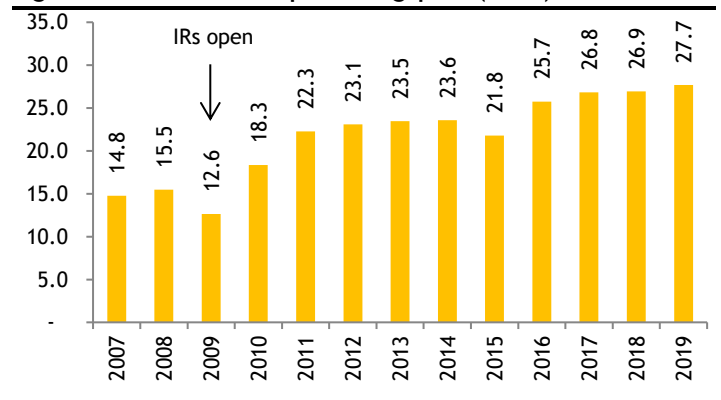
Without a doubt, integrated resorts have been instrumental in propelling Singapore’s tourism industry. Between 2009 (the year before the Singaporean IRs opened) and 2019 (the year before the COVID-19 pandemic struck), tourist arrivals to Singapore and tourism receipts in Singapore doubled or more to 19.1m and SGD27.7b respectively (Fig. 19 and 20). According to a 2019 survey conducted by the Singapore Tourism Board, 48% of tourists to Singapore visited IRs (i.e. Marina Bay Sands and GENS’ Resorts World Sentosa) (Fig. 22). If we divide 40% of 2019 Singapore IR industry mass market GGR by 2019 tourist arrivals, we estimate that tourists spend an average of SGD78 (USD59) on mass market GGR in Singapore (Fig. 23).

Figure 19: Tourist arrivals to Singapore (m)



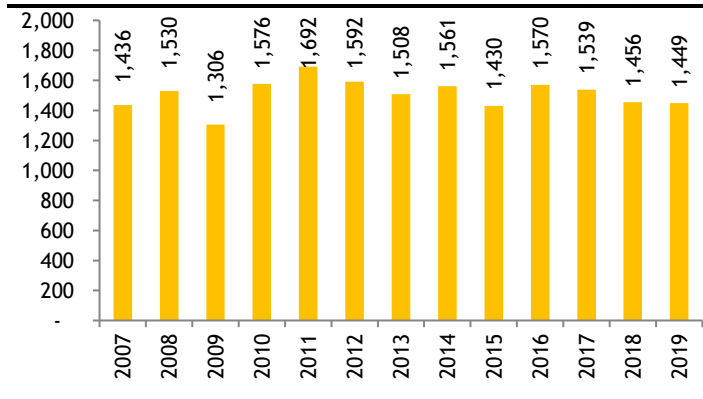
Source: Singapore Tourism Board

Figure 20: Tourism receipts in Singapore (SGDb)



Source: Singapore Tourism Board

Figure 21: Tourism receipt per capita in Singapore (SGD)



Source: Singapore Tourism Board

Figure 22: Share of tourists who visited top attractions in Singapore in 2019

Attraction	Share
Gardens By The Bay	50%
Integrated Resort	48%
Sentosa Island	26%
Singapore Flyer/Flight experience	12%
Singapore Zoo	9%
Night Safari	6%
National Orchid Gardens	5%
River Safari	4%
Jurong Bird Park	3%

Source: Singapore Tourism Board

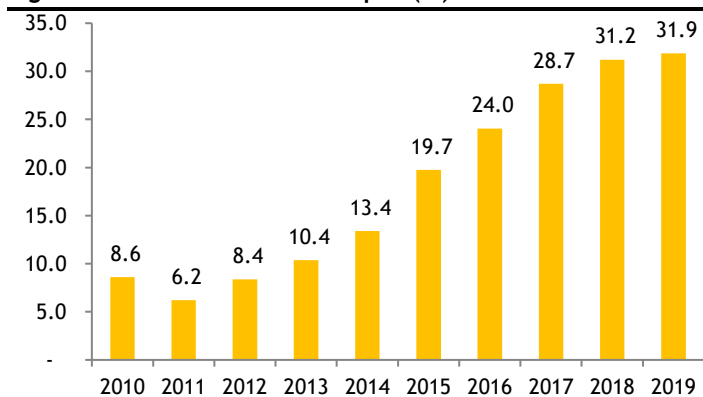
Figure 23: 2019 mass market GGR per tourist to Singapore

Parameter	Legend	
2019 Singapore mass market GGR derived from tourists (SGDm) A = 40% of 2019 Singapore mass market GGR		1,492.5
2019 Singapore tourist arrivals (m)	B	19.1
2019 Singapore mass market GGR/tourist (SGD)	C=A/B	78.1
2019 Singapore mass market GGR/tourist (USD)	D=C/1.33	58.7

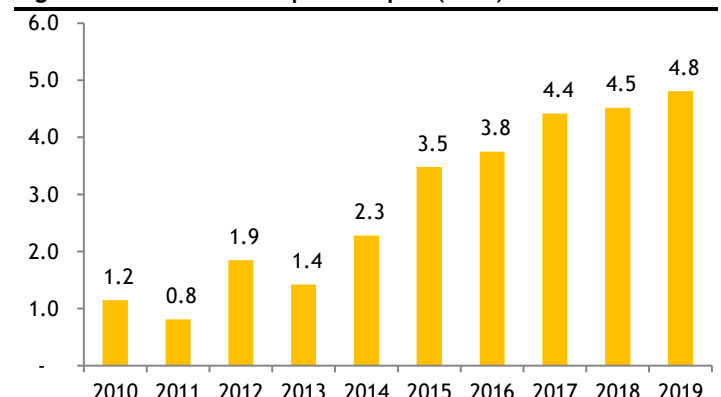
Source: Las Vegas Sands, GENS, Singapore Tourism Board, Maybank Kim Eng

Japanese tourist GGR of USD2.4b p.a., in our estimation

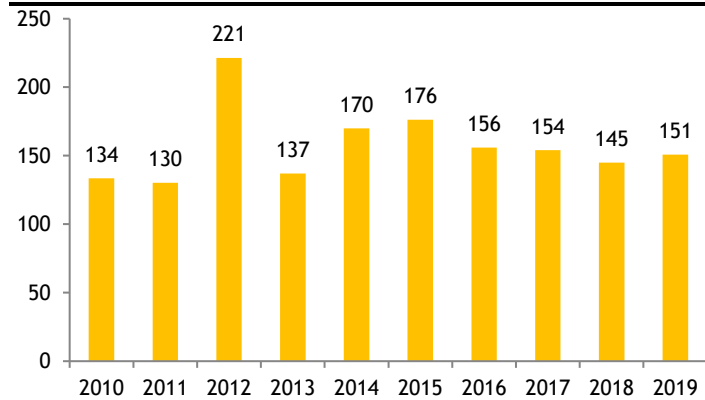
Similarly, Japan hopes to position its IRs to attract more tourists to visit and spend in Japan. Japan has set a target of 60m tourist arrivals and JPY15t tourism receipts by 2030. Pre-COVID-19 pandemic, Japan's tourism industry was already on a tear as it eased visa requirements for tourists from other Asian countries. Between 2011 (the year the Great Sendai Earthquake struck) and 2019 (the year before the COVID-19 pandemic struck), tourist arrivals to Japan and tourism receipts in Japan leaped fivefold or more to 31.9m and JPY4.8t respectively (Fig. 24 and 25). The average tourist to Japan spent JPY151k (USD1,372) in 2019 (Fig. 26) or 26% more than the average tourist to Singapore (i.e. SGD1,449 or USD1,089) (Fig. 21).

Figure 24: Tourist arrivals to Japan (m)

Source: Japan National Tourism Organization

Figure 25: Tourism receipts in Japan (JPYt)

Source: Japan Tourism Agency

Figure 26: Tourism receipt per capita in Japan (JPYk)

Source: Japan Tourism Agency

Figure 27: Top 10 source of tourism receipts in Japan

Country	Tourism receipts (JPYb)	Visitor arrivals (m)	Tourism receipts/tourist(JPY)
	A	B	C=A/B
China	1,770.4	9.6	184,609
Taiwan	551.7	4.9	112,822
South Korea	424.7	5.6	76,111
Hong Kong	352.5	2.3	153,930
USA	322.8	1.7	187,674
Thailand	173.2	1.3	131,212
Australia	151.9	0.6	245,000
United Kingdom	99.9	0.4	237,857
Vietnam	87.5	0.5	175,000
Singapore	85.2	0.5	173,878
Total	4,019.8	27.4	146,601

Source: Japan National Tourism Organization, Japan Tourism Agency

According to the 2019 International Visitor Survey conducted by Japan Tourism Agency, 51%/41%/10% of tourists to Japan visited Kanto/Kinki/Kyushu regions (Fig. 28). Obviously, there is an overlap as we suspect that those who visit Kanto (Tokyo) often journey on to Kinki (Osaka) via bullet train and vice versa. We find it interesting that more high spending Chinese tourists visited Kinki region than Kanto region. Kyushu region is most frequented by South Korean tourists. This should not come as a surprise as that region is physically closest to South Korea.

Figure 28: Regions visited by tourists to Japan

	Hokkaido	Tohoku	Kanto	Hokuriku-Shin'etsu	Chubu	Kinki	Chugoku	Shikoku	Kyushu
Total	8%	2%	51%	5%	14%	41%	5%	1%	10%
China	7%	1%	54%	2%	23%	60%	1%	1%	4%
Taiwan	11%	4%	32%	10%	10%	27%	3%	2%	8%
South Korea	10%	1%	24%	1%	4%	29%	3%	1%	27%
Hong Kong	8%	2%	34%	7%	11%	32%	4%	2%	14%
USA	5%	3%	88%	5%	9%	40%	9%	2%	4%
Thailand	14%	3%	55%	6%	14%	29%	2%	1%	5%
Australia	9%	4%	91%	20%	14%	54%	18%	2%	5%
United Kingdom	5%	3%	90%	10%	13%	45%	16%	3%	8%
Vietnam	1%	1%	71%	2%	24%	45%	4%	0%	6%
Singapore	11%	1%	64%	6%	9%	36%	4%	1%	5%

Source: Japan Tourism Agency

To derive potential Japanese IR industry tourist GGR, we multiply 2019 tourist arrivals to Japan with 50%/40%/10% share of tourist arrivals for Kanto/Kinki/Kyushu regions as per Fig. 28 and multiply the product with mass market GGR/tourist of USD75 (28% higher than Singapore IR industry mass market GGR/tourist in tandem with 26% higher tourism receipts per capita in Japan than in Singapore). The end result is potential Japanese IR industry tourist GGR of USD2.4b with Kanto region accounting for 50% share of GGR (Fig. 29).

Figure 29: Potential Japanese IR industry tourist GGR calculation

Region	2019 Japan tourist arrivals (m) A	Share of tourist arrivals B	2019 region tourist arrivals (m) C=AXB	Mass market GGR/ tourist (USD) D	Foreign mass market GGR (USD) E=CXD/1000
Kanto	31.9	50.0%	15.9	75.0	1.2
Kansai	31.9	40.0%	12.8	75.0	1.0
Kyushu	31.9	10.0%	3.2	75.0	0.2
Total					2.4

Source: Japan National Tourism Organization, Japan Tourism Agency, Maybank Kim Eng

Forecast Japanese total GGR of USD11.7b p.a. with mass market dominating

Consolidating our forecasts from Fig. 18 and Fig. 29, we estimate that the Japanese IR industry total GGR will stand at USD11.7b p.a. with Kanto/Kansai/Kyushu region accounting for 60%/27%/13% share of total GGR (Fig. 30). At this point, it should become abundantly clear as to why GENS withdrew from the Osaka IR RFP process and is now concentrating on the Yokohama IR RFP process.

Figure 30: Japanese IR industry total GGR forecast (USD)

Region	Local GGR (A)	Tourist GGR (B)	Total GGR (C=A+B)
Kanto (Yokohama)	5.8	1.2	7.0
Kansai (Osaka and Wakayama)	2.2	1.0	3.1
Kyushu (Nagasaki)	1.3	0.2	1.5
Total	9.3	2.4	11.7

Source: Maybank Kim Eng

Assuming that Japanese IR industry local GGR will be split 20%:80% in terms of VIP: mass market GGR mix a la Singapore as detailed in Fig. 8 and Japanese IR industry tourist GGR will be split 0%:100% in terms of VIP: mass market GGR mix (see page 13 for our explanation on why we do not believe that tourists will contribute much to Japanese IR industry VIP GGR), we estimate that the Japanese IR industry total GGR will be split 16%:84% in terms of VIP: mass market GGR mix (Fig. 31).

Figure 31: Japanese IR industry total GGR VIP: mass market mix forecast (USD)

Region	Local VIP GGR A=20% X local GGR	Local mass market GGR B = 80% X local GGR	Tourist mass market GGR C	Total GGR D=A+B+C	VIP share of GGR E=A/D	Mass market share of GGR F=100%-E
Kanto	1.2	4.7	1.2	7.0	16.6%	83.4%
Kansai	0.4	1.7	1.0	3.1	13.9%	86.1%
Kyushu	0.3	1.0	0.2	1.5	16.9%	83.1%
Total	1.9	7.5	2.4	11.7	15.9%	84.1%

Source: Maybank Kim Eng

In relation to our Japanese IR industry total GGR VIP: mass market mix forecast, we test its reasonableness by associating it with Japan's Gini coefficient and comparing it to the VIP: mass market GGR mix of other Asian gaming jurisdiction and their associated Gini coefficient. What we have observed in the past is that the more equal wealth distribution is in a country (i.e. low Gini coefficient) the lower the share VIP GGR will command of total GGR and vice versa (Fig. 32).

Figure 32: Gini coefficient and VIP share of total GGR of selected Asian gaming jurisdictions

Country	2019 Gini coefficient	2019 VIP share of total GGR
China	0.47	46.2%
Malaysia	0.40	47.5%
Singapore	0.38	21.7%*
Japan	0.34	15.9%

* from Fig. 8

Source: National Bureau of Statistics of China, Singapore Department of Statistics, World Bank, Gaming Inspection & Coordination Bureau, Genting Malaysia, Maybank Kim Eng

We examine the Gini coefficients of China, Malaysia and Singapore and compare them to that of Japan. Japan's Gini coefficient is lower than all of them at 0.34, implying that wealth distribution is more equal in Japan. Accordingly, this supports our Japanese IR industry total GGR VIP: mass market mix forecast of 16%:84% which will be less reliant on VIP GGR than China (Macau), Malaysia and Singapore.

GENS in a good position but not without risks, in our view

GENS' better positioned than its competitors by miles, in our view

GENS has divulged very little information on its Yokohama IR bid. Notwithstanding, our channel checks in Japan indicate to us that GENS is very actively pursuing its Yokohama IR bid and is better positioned to win the Yokohama IR RFP process than many of its competitors (i.e. Melco Resorts & Entertainment, Sega Sammy Holdings and SHOTOKU). SHOTOKU is not even a gaming company. Its main lines of business are manufacturing broadcasting equipment, mechatronic engineering and machining. We re-examine Fig. 6 to ascertain the criteria that the MLIT will employ before certifying area development plans and see which criteria GENS may excel in. Note that the weightage of each criterion is still unknown at this point.

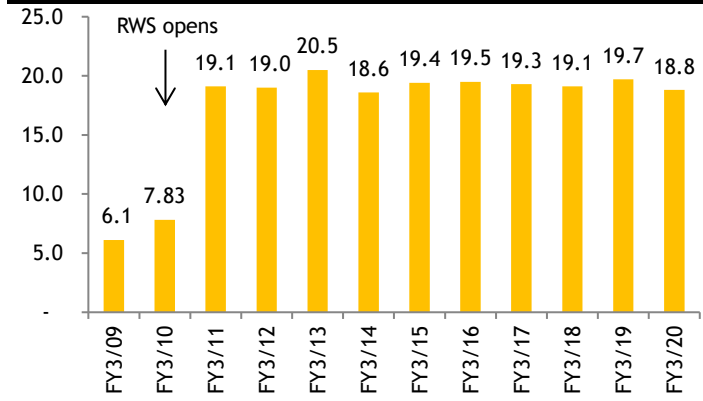
- **Whole IR area (concept, scale and design)** - Unfortunately, GENS has not divulged any information on this criterion. That said, neither has any of its competitors. Thus, we cannot say if GENS has an advantage or disadvantage in this criterion.
- **MICE facilities (scale and quality)** - Examining Resorts World Sentosa, we cannot say that GENS excels in this criterion. That said, we can say the same for its competitors. Las Vegas Sands would have excelled in this criterion (Marina Bay Sands hosts a huge 120,000 sqm MICE facility) but it had stated in May 2020 that it is not pursuing a Japanese IR bid.
- **Facilities for enhancing local tourism attractions, customer transfer facilities to local tourism attractions, facilities contributing to overnight tourism (international competitiveness and quality)** - We understand that the aforementioned criteria scores bidders on their ability to boost tourism not only to the IRs but to local tourism attractions as well.

We opine that GENS scores highly on this criterion. The opening of RWS in Jan 2010 with its attractions, namely Universal Studios Singapore, more than tripled the number of visitors to Sentosa island (Fig. 33). Today, Sentosa island is the third most visited attraction in Singapore (Fig. 22). The Sentosa Development Corporation (SDC) had this to say of RWS in its Annual Report 09/10 ([link](#)):-

“Since Resorts World Sentosa’s opening in January 2010, its unique and integrated offerings have dramatically augmented Sentosa’s positioning as ‘Asia’s Favourite playground’. Coupled with the opening of five other new attractions and the upswing in the global economy, Sentosa’s total island visitorship has seen a more than two-fold increase, including more Free Independent travellers (FITs). Hotel occupancy and revenues have also registered an upward trend. These have positively impacted attractions revenues across the island at the national level, the Singapore Tourism Board has been reporting a more than 20 per cent increase in tourist arrivals for the first half of 2010 as compared to last year.”

Before RWS opened, it also invested SGD80m to construct a second vehicular bridge connecting the rest of Singapore to Sentosa island in 2009 (Fig. 34). The bridge doubled road capacity to and from Sentosa island and not only benefitted RWS but other local tourism attractions on Sentosa island as well.

Figure 33: Number of visitors to Sentosa island



Source: Sentosa Development Corporation

Figure 34: Sentosa second vehicular bridge

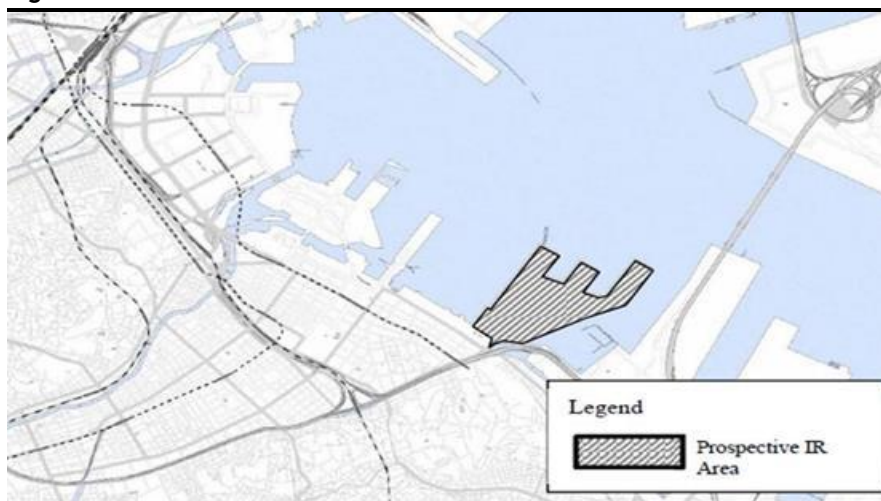


Source: Sentosa Development Corporation

We cannot say the same for its competitors. By our observation, Melco provides bus transfers between its Macau IRs and the more tourist friendly Macau Peninsula at most. Thus, we opine that GENS is unique in scoring highly on this criterion.

- **Accommodation facilities (room size, composition, quality, international competitiveness)** - This is probably a criterion that GENS and Melco will excel in given their experience in managing IRs. Sega Sammy owns 45% of Paradise City in Incheon, South Korea but that IR only has 711 rooms.
- **Casino facilities (complements other facilities)** - Again, this is probably another criterion that GENS, Melco and possibly Sega Sammy will all excel in given their experience in managing IRs. That said, we gather that GENS has a slight advantage being part of the Genting Group which has operated casinos for more than 50 years.
- **Area where IR will be developed** - The Yokohama IR will be located at Yamashita Pier regardless of who the eventual winner of the Yokohama IR RFP process will be (Fig. 35). Thus, we cannot say if GENS has an advantage or disadvantage in this criterion.

Figure 35: Location of Yamashita Pier in Yokohama



Source: City Of Yokohama

- **Economic and social effects** - As explained on page 13, the Singaporean IRs (Marina Bay Sands and RWS) helped at least double tourist arrivals to Singapore and tourism receipts in Singapore to 19.1m and SGD27.7b respectively between 2009 and 2019.

As explained on page 9 also, we gather that fewer SCPRs have been gambling at Singaporean IRs of late as exhibited by the steady decline in casino entry levies. Thus, GENS has a track record of generating economic benefits for others than itself while minimising social effects.

We cannot say the same for its competitors. The Macau IRs built and operated by Melco certainly attracted more Mainland Chinese tourists to Macau but we gather that they primarily benefitted itself and the Macanese government via the 39% gaming tax on GGR with not much consideration for social effects.

- **Management ability, financial stability and relations with local community** - We opine that GENS scores highly in this criterion too. Again, GENS is part of the Genting Group which has operated casinos for more than 50 years. Furthermore, GENS sources almost all of its VIPs directly. Conversely, Melco and Sega Sammy's Paradise City source almost all of their VIPs via junkets.

Balance sheet wise, GENS has the strongest net cash position of USD2.8b as at 31 Dec 2020 (Fig. 36). A huge net cash position is instrumental to securing a Japanese IR license as banks are unwilling to lend more than 50% of capex requirements due to the short initial tenure of area development plan certifications (10 years) and casino licenses (3 years).

Figure 36: Net cash/(debt) position of Yokohama IR bidders as at 31 Mar 2021 (USD\$b)

GENS*	Sega Sammy**	Melco Resorts & Entertainment	SHOTOKU
2.8	0.9	-4.7	N/A

* as at 31 Dec 2021, translated at USD/SGD exchange rate of 1.00:1.33

** translated at USD/JPY exchange rate of 1.00:110

Source: GENS, Melco Resorts & Entertainment, Sega Sammy

In terms of relations with local community, we opine that it will be too subjective to gauge if GENS has an advantage or disadvantage in this criterion. Notwithstanding, we have not heard anything negative in this criterion with regards to GENS.

- **Utilisation of casino profits** - We gather that this criterion gauges if IR bidders will allocate a percentage of casino profits to corporate social responsibility efforts. Again, GENS has not divulged any information on this criterion. That said, neither has any of its competitors. Thus, we cannot say if GENS has an advantage or disadvantage in this criterion.
- **Responsible gambling initiatives** - We opine that GENS scores highly in this criterion as well. To be sure, problem gambling in Singapore is regulated by the National Council on Problem Gambling (NCPG). SCPR gamblers are also required by law to pay casino entry levies of SGD150 per 24 hours or SGD3,000 p.a.

In addition to the above, RWS voluntarily became the first casino in Asia Pacific to receive RG Check accreditation from the Responsible Gambling Council in Nov 2015. Since Dec 2018, RWS attained RG Check reaccreditation and achieved the highest score amongst >150 venues.

Of late, RWS launched Manage Game Play Programme in Sep 2020, a tool to help patrons self-regulate time spent at gaming machines. RWS also stations RG Ambassadors to inform and assist patrons on responsible gambling. These RG Ambassadors also holds RG road shows to raise awareness of responsible gambling.

To be sure, Melco also received RG Check accreditation from the Responsible Gambling Council for its Macanese and Philippine IRs but they were only obtained recently in Apr 2021.

All in all, we reiterate our view that GENS is well positioned to win the Yokohama IR RFP process in the summer (Jun to Aug) of this year. In fact, esteemed online gaming magazine Inside Asian Gaming (IAG) quoted sources as saying that, “Sources have told IAG that Genting Singapore is now very strongly positioned in Yokohama...” ([link](#)) and “(GENS) President and COO Tan Hee Teck has done a creditable job representing Genting in Japan, coming across as polite, professional and likeable - all admirable qualities appreciated in Japan.” ([link](#))

One more hurdle before Yokohama decides on its IR

While we are of the opinion that GENS is well positioned to win the Yokohama IR RFP process, there is a risk that Yokohama may decide not to host an IR at all at the proverbial last minute. Yokohama mayoral elections are scheduled for 22 Aug 2021. The current Yokohama mayor Fumiko Hayashi has been an ardent supporter of the Yokohama IR RFP process. That said, we understand that the same cannot be said of Yokohama’s residents. There is no guarantee that Fumiko Hayashi will not be replaced with an anti-IR mayor who may scrap the Yokohama IR RFP process altogether.

If she is re-elected or replaced by a pro-IR mayor, we believe that Yokohama will eventually host an IR. As stated on page 5, the MLIT will only certify 3 area development plans which means that 1 of the 4 aforementioned cities (Yokohama, Osaka, Wakayama, Nagasaki) will not host an IR. Thus, there is no guarantee that Yokohama will host an IR. That said, we believe that Yokohama will. Prime Minister Yoshihide Suga is widely believed to be a patron of Yokohama’s IR bid. Suga was elected to the Yokohama Municipal Assembly in 1987 and to the House of Representatives, representing Kanagawa's Second district (consists of wards in Yokohama) in 1996.

In the same vein, we also believe that Wakayama and Nagasaki will host IRs. Liberal Democratic Party Secretary General Toshiro Nikai was born in Wakayama, was elected to the Wakayama Prefectural Assembly in 1975 and is now serving his eighth term in the House of Representatives, representing Wakayama's Third District. Chairman of the Kyushu IR Promotion Council which is championing a Nagasaki IR is Yutaka Aso. Yutaka Aso is a younger brother of former Prime Minister and current Deputy Prime Minister and Finance Minister, Taro Aso. At this point, Osaka seems to be the only city without a high ranking patron.

Yokohama IR may add up to SGD0.60/shr to our TP

We next attempt to quantify the earnings and value accretion to GENS should it win the Yokohama IR RFP process. Although GENS directly responded to the Yokohama IR RFP process, we have been made to understand that GENS may not own 100% of the company that may eventually construct and operate the Yokohama IR. Most foreign companies that wish to expand into Japan often establish joint ventures with Japanese companies and GENS is unlikely to be any different. Notwithstanding, we make the following assumptions:

- **Net gaming revenue** - As explained above, we forecast Yokohama IR GGR of USD7.0b p.a. For simplicity's sake, we assume that its VIP: mass market GGR mix will be 15%:85% instead of our forecasted 17%:83%. We also assume that 50% of VIP GGR will be rebated directly to VIPs in the form of complimentary accommodation, food and beverage, entertainment etc.
- **Non-gaming revenue** - Due to lack of information on non-gaming facilities that may be offered at the Yokohama IR, we assume that it will account for 30% of net gaming revenue. We note that non-gaming revenue accounted for 42% of net gaming revenue at Marina Bay Sands (MBS) and 33% of net gaming revenue at RWS since both IRs opened in 2010.
- **Fixed operating expenses** - Again, there is no information on how large the Yokohama IR may be. Yokohama did not lay out its expectations in its 'Matters related to the Project for Establishment and Operation of Specified Complex Tourist Facilities in Yokohama' document ([link](#)). That said, Osaka did and expects its IR to have total gross floor area (GFA) of 1.0m sqm ([link](#)) which is huge.

To put things into perspective, the GFA of MBS is 581,400 sqm while the GFA of RWS is 343,000 sqm. We assume that the Yokohama IR will also have total GFA of 1.0m sqm. We also note that RWS has been incurring fixed operating expenses at c.USD900/sqm since it opened in 2010. Multiplying the two aforementioned parameters, we forecast the Yokohama IR to incur fixed operating expenses of USD900m p.a.

- **Salaries** - At its peak, RWS employed c.14,000 employees (c. 6,000 employees currently) and MBS employs c.10,000 employees currently. If the Yokohama IR will have total GFA of 1.0m sqm and be larger than MBS and RWS combined, we gather that it will require c.20,000 employees. Assuming average salary per employee of USD50,000 (2019 average GDP per capita in Japan: USD40,247), we forecast that the Yokohama IR will incur salaries of USD1.0b p.a.
- **Impairment of VIP receivables** - Recall that Japan has banned junkets outright. This means that IRs will have to extend credit to VIPs directly. We assume that 10% of current year VIP GGR will be impaired. We note that RWS has been impairing an average of 10% of current year VIP GGR since it opened in 2010.
- **Gaming tax** - This is relatively straightforward as it is calculated at 30% of GGR regardless of whether it is VIP or mass market GGR. Unlike Singapore, we understand that the 10% consumption tax will not be levied on top of gaming tax.
- **Depreciation** - We assume that the Yokohama IR will cost USD10b to construct and be depreciated over 20 years or 5% p.a. Osaka expects its IR to cost JPY930b (USD8.5b) and we understand that Yokohama IR RFP process respondents have proposed capex ranging from JPY620b (USD5.7b) to JPY1.3t (USD11.9b).

- **Corporate tax** - Japan's corporate tax rate is 23.2%. That said, Japanese companies also incur local corporate tax, enterprise tax, local corporate special tax, special corporate business tax and inhabitants' tax. Thus, the effective Japanese corporate tax rate is 30.6%. For simplicity's sake, we assume effective corporate tax rate of 30%.
- **Capex** - Again, we assume that the Yokohama IR will cost USD10b to construct and will take 5 years to complete due to earthquake safety requirements. Thereafter, we assume that 5% of total revenue will be incurred as maintenance capex. We note that gaming companies tend to incur 3-5% of total revenue as maintenance capex.

Assuming that the Yokohama IR will be 100% equity financed, we estimate that it will generate USD2.7b in net profit in the first full year of operations. Assuming cost of equity of 12.3% (cost of equity discount rate we utilise to discount RWS' cash flows) and terminal growth rate of -0.5% (long term population growth forecast of Japan by Statistics Bureau Japan), we estimate that the Yokohama IR is worth USD5.4b (SGD7.2b or SGD0.60/shr) (Fig. 37).

Figure 37: Potential earnings and value accretion from a Yokohama IR to GENS assuming 100% ownership

USDb	Legend	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	TV*	Comments
VIP GGR	A	-	-	-	-	-	1.1	1.0	1.0	1.0	1.0		15% of total GGR and decline by 0.5% p.a.
(Direct VIP rebate)	B	-	-	-	-	-	-0.5	-0.5	-0.5	-0.5	-0.5		50% of VIP GGR
Mass market GGR	C	-	-	-	-	-	6.0	5.9	5.9	5.9	5.8		85% of total GGR and decline by 0.5% p.a.
Net gaming revenue	D=A+B+C	-	-	-	-	-	6.5	6.4	6.4	6.4	6.3		
Non-gaming revenue	E	-	-	-	-	-	1.9	1.9	1.9	1.9	1.9		30% of net gaming revenue
Total revenue	F=D+E	-	-	-	-	-	8.4	8.4	8.3	8.3	8.3		
(Fixed operating expenses)	G	-	-	-	-	-	-0.9	-0.9	-0.9	-0.9	-0.9		USD900 per sqm on 1.0m sqm
(Salaries)	H	-	-	-	-	-	-1.0	-1.0	-1.0	-1.0	-1.0		20,000 staff paid USD50,000 p.a.
(Impairment of VIP receivables)	I	-	-	-	-	-	-0.1	-0.1	-0.1	-0.1	-0.1		10% of VIP GGR
(Gaming tax)	J	-	-	-	-	-	-2.1	-2.1	-2.1	-2.1	-2.1		30% of VIP and mass market GGR
EBITDA	K=F+G+H+I+J	-	-	-	-	-	4.3	4.3	4.3	4.2	4.2		
Depreciation	L	-	-	-	-	-	-0.5	-0.5	-0.5	-0.5	-0.5		5% of USD10b capex
EBIT/Pre-tax profit	M=K+L	-	-	-	-	-	3.8	3.8	3.8	3.7	3.7		
Corporate tax	N=MX-30%	-	-	-	-	-	-1.1	-1.1	-1.1	-1.1	-1.1		30% corporate tax rate
Net profit	O=M+N	-	-	-	-	-	2.7	2.6	2.6	2.6	2.6		
Capex	P	-0.5	-1.0	-2.5	-3.0	-3.0	-0.4	-0.4	-0.4	-0.4	-0.4		5% of total revenue as maintenance capex
FCF	Q=K+N+P	-0.5	-1.0	-2.5	-3.0	-3.0	2.7	2.7	2.7	2.7	2.7	20.9	
DCF (WACC: 12.3%, g: -0.5%)	5.4	(SGD7.2b or SGD0.60/shr)											

* TV = terminal value. Calculated at 2032 FCF / (12.3% WACC + 0.5% g)

Source: Maybank Kim Eng

Depending on GENS' shareholding in the company that may eventually construct and operate the Yokohama IR, the earnings and value accretion to GENS may vary. Should GENS' shareholding be a hypothetical 40%, the earnings and value accretion to GENS will still be a substantial SGD1.4b and SGD0.24/shr respectively. For now, we maintain our earnings estimates, HOLD call and SGD0.86 DCF-based TP (Fig. 38).

Figure 38: GENS DCF-based valuation

	Value	Value/sh	Comments
RWS	6,300.0	0.52	WACC: 12.3%, g: 0%
Net cash	4,008.0	0.33	End-FY21E
Investments	102.6	0.01	End-FY21E
Equity value	10,410.7	0.86	

Source: Maybank Kim Eng

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	16.6	133.1	57.0	25.4	14.0
Core P/E (x)	15.8	82.5	57.0	25.4	14.0
Core FD P/E (x)	15.8	82.8	57.3	25.5	14.1
P/BV (x)	1.4	1.3	1.2	1.2	1.2
P/NTA (x)	1.4	1.3	1.3	1.2	1.2
Net dividend yield (%)	4.3	1.2	1.2	2.5	5.0
FCF yield (%)	7.6	1.5	4.2	6.8	9.0
EV/EBITDA (x)	6.0	15.2	13.1	7.6	4.6
EV/EBIT (x)	9.0	52.1	35.7	12.7	6.2

INCOME STATEMENT (SGD m)

Revenue	2,480.3	1,063.7	1,123.9	1,593.9	2,157.2
EBITDA	1,189.6	427.0	433.8	689.1	1,058.3
Depreciation	(389.8)	(302.4)	(274.9)	(274.9)	(274.9)
EBIT	799.8	124.6	158.9	414.2	783.4
Net interest income / (exp)	59.6	41.5	43.8	48.2	55.2
Associates & JV	4.0	1.2	1.2	1.2	1.2
Exceptionals	(16.5)	(54.4)	0.0	0.0	0.0
Pretax profit	846.9	113.0	203.9	463.6	839.8
Income tax	(158.3)	(43.7)	(33.6)	(81.7)	(147.0)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	688.6	69.2	170.3	381.9	692.9
Core net profit	704.0	124.2	170.3	381.9	692.9

BALANCE SHEET (SGD m)

Cash & Short Term Investments	3,947.3	3,994.1	4,270.8	4,426.9	4,815.2
Accounts receivable	137.5	56.1	41.9	75.2	99.8
Inventory	48.7	43.8	46.3	48.4	42.4
Property, Plant & Equip (net)	4,667.1	4,453.3	4,234.6	4,039.4	3,872.3
Intangible assets	152.9	131.3	131.3	131.3	131.3
Investment in Associates & JVs	62.2	63.5	64.7	66.0	67.2
Other assets	234.5	45.5	45.5	45.5	45.5
Total assets	9,250.1	8,787.6	8,835.0	8,832.6	9,073.6
ST interest bearing debt	4.0	4.0	260.0	2.8	0.0
Accounts payable	489.5	343.1	371.9	415.3	416.7
LT interest bearing debt	256.7	262.8	2.8	0.0	0.0
Other liabilities	442.0	342.0	315.0	389.0	421.0
Total Liabilities	1,192.5	952.0	949.8	806.8	837.5
Shareholders Equity	8,057.6	7,835.6	7,885.2	8,025.8	8,236.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	8,057.6	7,835.6	7,885.2	8,025.8	8,236.1
Total liabilities and equity	9,250.1	8,787.6	8,835.0	8,832.6	9,073.6

CASH FLOW (SGD m)

Pretax profit	846.9	113.0	203.9	463.6	839.8
Depreciation & amortisation	389.8	302.4	274.9	274.9	274.9
Adj net interest (income)/exp	(59.6)	(41.5)	(43.8)	(48.2)	(55.2)
Change in working capital	(66.8)	(59.9)	40.5	8.0	(17.1)
Cash taxes paid	(207.4)	(143.2)	(60.5)	(8.2)	(114.8)
Other operating cash flow	182.9	75.7	46.6	49.0	54.0
Cash flow from operations	1,085.9	246.5	461.6	739.1	981.6
Capex	(247.2)	(92.7)	(56.2)	(79.7)	(107.9)
Free cash flow	838.6	153.8	405.4	659.4	873.7
Dividends paid	(422.0)	(301.6)	(120.6)	(241.3)	(482.6)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(671.0)	(4.9)	(4.0)	(260.0)	(2.8)
Other invest/financing cash flow	(11.7)	204.0	(4.1)	(2.0)	(0.0)
Effect of exch rate changes	(1.0)	(4.4)	0.0	0.0	0.0
Net cash flow	(267.0)	46.8	276.7	156.1	388.3

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	(2.3)	(57.1)	5.7	41.8	35.3
EBITDA growth	(3.3)	(64.1)	1.6	58.9	53.6
EBIT growth	(12.5)	(84.4)	27.5	160.7	89.1
Pretax growth	(10.2)	(86.7)	80.5	127.4	81.2
Reported net profit growth	(8.8)	(89.9)	145.9	124.3	81.4
Core net profit growth	(8.0)	(82.4)	37.1	124.3	81.4
Profitability ratios (%)					
EBITDA margin	48.0	40.1	38.6	43.2	49.1
EBIT margin	32.2	11.7	14.1	26.0	36.3
Pretax profit margin	34.1	10.6	18.1	29.1	38.9
Payout ratio	70.0	174.2	70.8	63.2	69.6
DuPont analysis					
Net profit margin (%)	27.8	6.5	15.2	24.0	32.1
Revenue/Assets (x)	0.3	0.1	0.1	0.2	0.2
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
ROAE (%)	8.7	0.9	2.2	4.8	8.5
ROAA (%)	7.4	1.4	1.9	4.3	7.7
Liquidity & Efficiency					
Cash conversion cycle	(97.7)	(176.5)	(147.3)	(124.6)	(106.8)
Days receivable outstanding	20.4	32.8	15.7	13.2	14.6
Days inventory outstanding	13.6	26.1	23.5	18.8	14.9
Days payables outstanding	131.7	235.4	186.5	156.6	136.3
Dividend cover (x)	1.4	0.6	1.4	1.6	1.4
Current ratio (x)	5.9	8.8	6.0	7.8	8.1
Leverage & Expense Analysis					
Asset/Liability (x)	7.8	9.2	9.3	nm	nm
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.2	0.6	0.6	0.0	0.0
Capex/revenue (%)	10.0	8.7	5.0	5.0	5.0
Net debt/ (net cash)	(3,686.6)	(3,727.3)	(4,008.0)	(4,424.1)	(4,815.2)

Source: Company; Maybank

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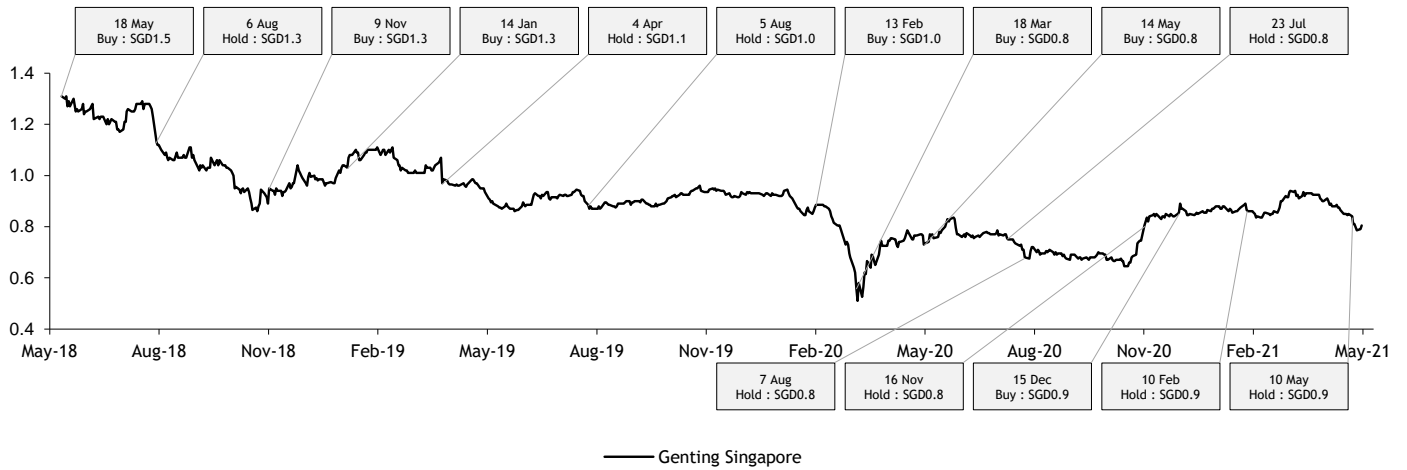
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