

# Genting Malaysia (GENM MK)

## Resetting RWG expectations

# BUY

Share Price MYR 2.87  
 12m Price Target MYR 3.38 (+23%)  
 Previous Price Target MYR 3.45

### Maintain BUY call with lower TP of MYR3.38 (-2%)

RWG has been shut for the third time. We assume that it will be shut for 3 months this time and widen FY21E core net loss by 76% but leave our FY22E/FY23E core net profit unchanged. Trim our DCF-based TP by 2% to MYR3.38 from MYR3.45. Maintain BUY call. Recall that should RWNV be converted into a downstate commercial casino; and GENM write back its Mashpee Wampanoag investment, we estimate that they will boost FY23E earnings by 63% and boost our DCF-based TP by MYR0.85 ([link.](#))

### Assume RWG will shut for 3 months

Due to the recent surge in new COVID-19 cases (Fig. 1 & 2), RWG was shut on 31 May 2021 (casinos were shut on 24 May 2021). RWG was shut for 3 months from 18 Mar to 18 Jun 2020 and shut again for 25 days from 22 Jan to 15 Feb 2021. We gather that RWG will be shut for 3 months this time and Genting SkyWorlds will only open in Dec 2021 to coincide with school holidays (10 Dec to 31 Dec 2021). Thus, we cut FY21E RWG visitor arrivals to 8.5m from 12.0m and widen FY21E core net loss by 76%.

### FY21E unlikely to be as bad as FY20A

While we expect FY21E to be another loss making year, we forecast that the FY21E core net loss will only be half that of FY20A. GENUK casinos (c.10% of pre-COVID-19 EBITDA) reopened on 17 May 2021 after having been shut since 3 Jan 2021. RWNV (c.10% of pre-COVID-19 EBITDA) Apr 2021 gross gaming revenue has recovered to pre-COVID-19 levels (Fig. 3) and 49%-owned loss making Resorts World Catskills (RWC) Apr 2021 gross gaming revenue has recovered to 84% of pre-COVID-19 levels (Fig. 4).

### Long term earnings estimates unchanged

Yet, we leave FY22E/FY23E core net profit estimates based on FY22E/FY23E RWG visitor arrivals of 24.2m/26.2m unchanged. COVID-19 vaccination is expected to surge from Jun 2021 to 150,000/day as Malaysia takes delivery of 16m COVID-19 vaccine doses (Fig. 5). This will bring down the number of new-COVID-19 cases and hopefully preclude RWG from shutting going forward. RWG visitor arrivals rebounded quickly when it reopened and interstate travel was allowed in 3Q20 (Fig. 6 & 7).

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	10,407	4,529	5,233	10,446	11,042
EBITDA	2,637	330	977	3,230	3,465
Core net profit	1,303	(1,445)	(676)	1,036	1,277
Core FDEPS (sen)	23.0	(25.6)	(11.9)	18.2	22.5
Core FDEPS growth(%)	(35.6)	nm	nm	nm	23.3
Net DPS (sen)	20.0	14.5	14.5	14.5	20.0
Core FD P/E (x)	14.3	nm	nm	15.7	12.8
P/BV (x)	1.0	1.0	1.2	1.2	1.2
Net dividend yield (%)	6.1	5.4	5.1	5.1	7.0
ROAE (%)	7.6	(13.6)	(4.8)	7.7	9.3
ROAA (%)	4.0	(4.7)	(2.3)	3.5	4.4
EV/EBITDA (x)	7.8	62.5	24.3	6.9	6.2
Net gearing (%) (incl perps)	23.9	53.5	73.6	61.5	53.4
Consensus net profit	-	-	(357)	971	1,320
MKE vs. Consensus (%)	-	-	(89.0)	6.7	(3.3)

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### Company Description

Owns and operates Resorts World Genting, the only integrated resort in Malaysia. Also owns casinos in the UK, US and Bahamas.

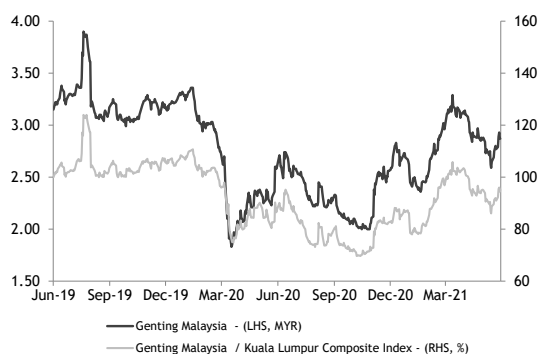
### Statistics

52w high/low (MYR)	3.29/2.00
3m avg turnover (USDm)	8.4
Free float (%)	47.5
Issued shares (m)	5,653
Market capitalisation	MYR16.2B USD3.9B

### Major shareholders:

Genting Bhd.	47.1%
Genting Malaysia Bhd.	4.8%
Great Eastern Life Assurance Co. Ltd.	3.5%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(0)	(3)	11
Relative to index (%)	0	(3)	10

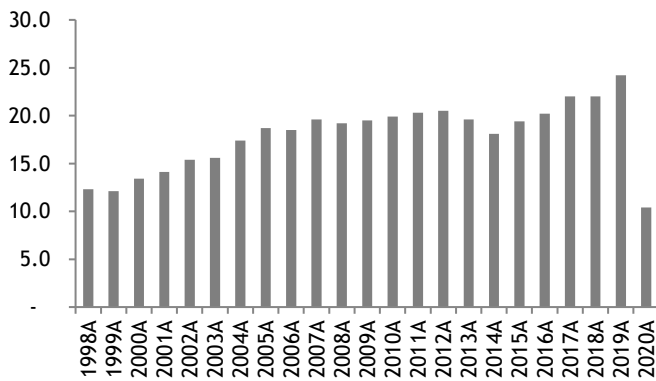
Source: FactSet

**ESG@MKE**  
 Tear Sheet Insert

## Value Proposition

- Owns and operates Resorts World Genting (RWG), Genting UK (GENUK), Resorts World New York (RWNY) and Resorts World Bimini (RWB).
- RWG is ~80% of group earnings and resilient. RWG is expanding via the Genting Integrated Tourism Plan (GITP).
- GITP involves 1,536 hotel rooms, outdoor theme park, indoor theme park, mall, plaza and new cable car line.
- ROEs fell to <10% after 2013, dragged by start-up losses at RWB.
- ROE may remain below WACC due to the acquisition of 49% shareholding in Empire Resorts.

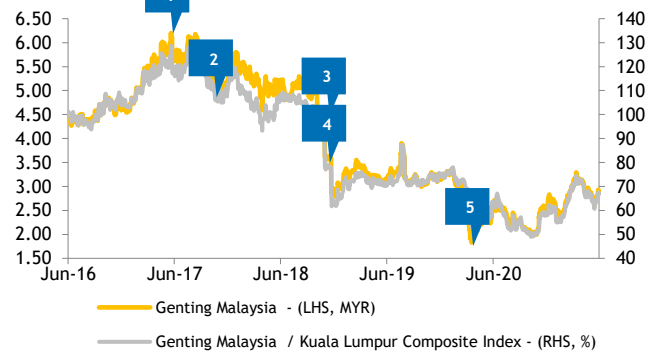
### RWG visitor arrivals (m)



Source: Company

## Price Drivers

### Historical share price trend



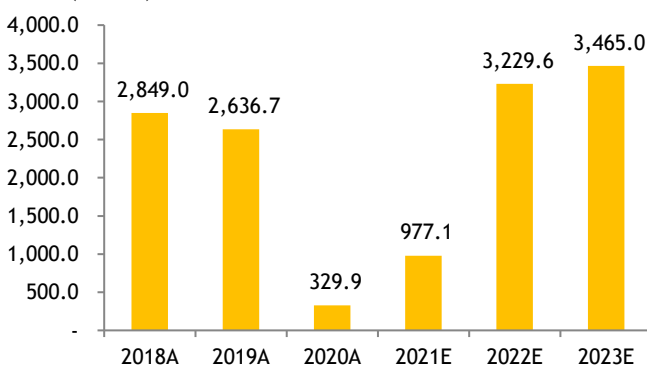
Source: Company, Maybank Kim Eng

- Investors enthused by opening of new properties at RWG, driven by the GITP.
- 2Q17 and 3Q17 results were below expectations due to low VIP win rate at RWG.
- National Budget 2019 in Nov 2018 proposed for RWG casino duty rate to be hiked by 10ppts from 1 Jan 2019.
- Fox withdrew RWG's right to Fox-brand its outdoor theme park.
- COVID-19 pandemic spreads in Malaysia. RWG was shut from 18 Mar 2020 to 18 Jun 2020.

## Financial Metrics

- Key financial metric is EBITDA. Most casino operators are valued on EV/EBITDA basis.
- Forecast FY21E EBITDA to recover 196% YoY as the COVID-19 impact on GENM's casinos moderates.
- Forecast FY22E EBITDA to grow by 231% YoY as RWG's Genting SkyWorlds theme park ramps up.
- Forecast FY23E EBITDA to grow by 7% YoY as the COVID-19 pandemic fully subsides.
- We expect balance sheet to remain net debt as GENM has been more progressive in paying dividends.

### EBITDA (MYRm)



Source: Company, Maybank Kim Eng

## Swing Factors

### Upside

- VIP win rate - if it 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.
- Higher visitor arrivals to RWG - the purpose of the GITP is to attract more high margin mass market gamblers.

### Downside

- Related party transactions (RPT) - GENM has a history of executing RPTs that do not favour minority shareholders.
- Regional expansion - new jurisdictions often require high capex commitments without guaranteeing returns.
- High foreign shareholding of 17% as at end-4Q20 poses downside risk to share price in a weak market.

# ESG@MKE

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Risk Rating & Score <sup>1</sup>	26.4 (Medium)
Score Momentum <sup>2</sup>	-1.1
Last Updated	15 Apr 2021
Controversy Score <sup>3</sup> (Updated: 31 Oct 2019)	1 - Corporate governance incidents

## Business Model & Industry Issues

- GENM's Resorts World Genting (RWG) has always been the 'cash cow' of the group. With the cash flows generated by RWG,
- GENM has attempted to expand beyond Malaysia.
- Resorts World New York City (RWNYC) is a successful green-field investment. That said, GENM has not been averse to employing related party transactions (RPT) to expand (e.g. acquisition of Genting UK (GENUK) and Empire Resorts).
- To be fair, not all RPTs were negative for minority shareholders. The acquisition of GENUK turned out to be more positive than we expected and we viewed the disposal of 17% of Genting Hong Kong (GENHK) positively.
- Yet, the recurrence of RPTs continues to raise eyebrows with the latest being the acquisition of 49% of loss generating Empire Resorts. On another note, GENM has been a lot more progressive with dividends.

## Material E issues

- RWG sits at the peak of Mount Ulu Kali. Thus, it is not served by municipal or national sewerage companies
- Although RWG recently increased its gross floor area by ~50%, 94% of its ~10k acre virgin rainforest remains intact.
- RWG has 8 pumping stations which extract raw water from Sungai Cherok to 10 water treatment plants.
- RWG consumed a reduced 4.6m m<sup>3</sup> (-43% YoY) of water in 2020 due to being shut 18 Mar to 18 Jun 2020. Yet, water consumed/visitor grew to 0.25 m<sup>3</sup> (+44% YoY) in 2020.
- Invested in a new cable car system called Awana Skyway that can carry 3.6k pax/hour. It opened in 2016.
- Awana Skyway has not only reduced traffic congestion and pollution but also traffic accidents at RWG.
- RWG phased out plastic straws and replaced food boxes with biodegradable and compostable food containers.

## Material S issues

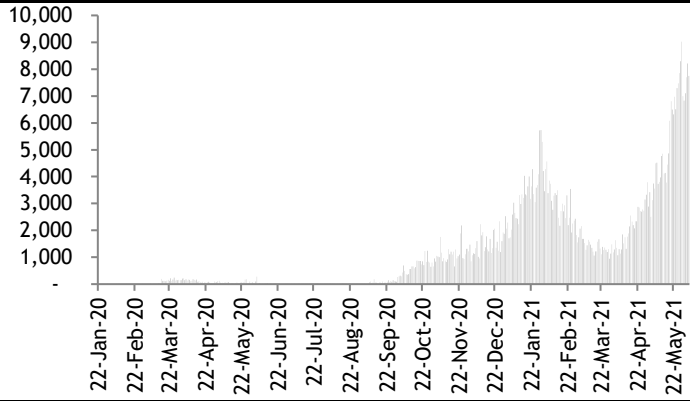
- Access to RWG casino is denied to persons below the age of 21 and Malaysian Muslims.
- Bank Negara Malaysia precludes RWG from extending credit to gamblers.
- RWG has a 24 hour Responsible Gaming Hotline and Self Exclusion Programme (SEP).
- GENUK and RWNYC have similar responsible gaming initiatives and SEPs.
- RWG promotes Request For Assistance programme to problem gamblers.
- In 2020, GENUK was awarded AML Team of the Year Award by Gambling Compliance Global Regulatory Awards.
- GENUK also accorded GamCare's Safer Gambling Standard (Level 3) by Safer Gambling Standard Great Britain.
- GENUK contributes 0.1% of gross gaming revenue (GGR) to responsible gaming causes.
- RWNYC is required to contribute 44% of GGR to the New York State education fund as a form of gaming tax.
- Women account for ~40% of GENM's workforce. The ratio of total remuneration for women and men is equal at 1:1.
- RWG operates 11 residential staff complexes with 9,844 rooms that can accommodate 22,488 staff

## Key G metrics and issues

- BOD comprises Chairman & Chief Executive, Deputy Chief Executive, President & Chief Operating Officer and 7 Independent Non-Executive Directors (INED).
- Tan Sri Lim Kok Thay (TSLKT), Chairman & Chief Executive and Mr. Lim Keong Hui, Deputy Chief Executive represent Genting Bhd.
- Mr. Lim Keong Hui, Deputy Chief Executive is a son of TSLKT, Chairman & Chief Executive.
- Madam Chong Kwai Ying, INED is the sole woman director.
- Directors still received remuneration of MYR75m (-19% YoY) in FY20 despite GENM incurring losses.
- Only one of the RWG key management personnel is a woman, the Chief Financial Officer.
- PricewaterhouseCoopers LLP is the independent auditor. They have been appointed for >10 years.
- GENM has a history of related party transactions. Last major related party transaction was in 2019.
- Then, GENM acquired 49% of Empire Resorts from Kien Huat Realty III, linked to TSLKT for MYR661.1m.
- Empire Resorts has been generating losses since opening in Feb 2018.
- In 2019, GENM acquired the super yacht, Equanimity from the Malaysian government.
- In 2016, GENM sold 17% of GENHK to Golden Hope, linked to TSLKT for USD415m.
- That said, GENHK was not declaring many dividends and its share price has fallen since the disposal.
- To be sure, GENM had invested >USD750m and impaired >MYR2.0b of its investment in GENHK since 1998.
- In 2010, GENM acquired GENUK from Genting Singapore for GBP340m.
- GENM acquired GENUK at valuation multiples that were higher than its own.
- That said, GENUK EBITDA grew from GBP30.2m in FY09 to a high of GBP50m in FY16.
- In 2008, GENM acquired 10% of Walker Digital Gaming from KH Digital, linked to TSLKT for USD69m. GENM's investment in Walker Digital Gaming has since been partially impaired.

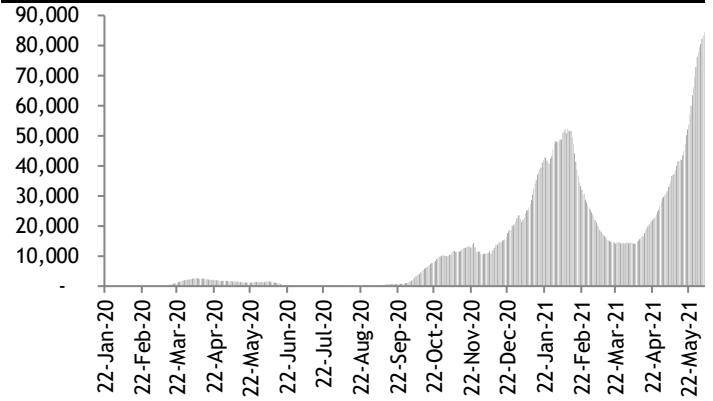
<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**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. <sup>3</sup>**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).

**Fig 1: New COVID-19 cases - Malaysia**



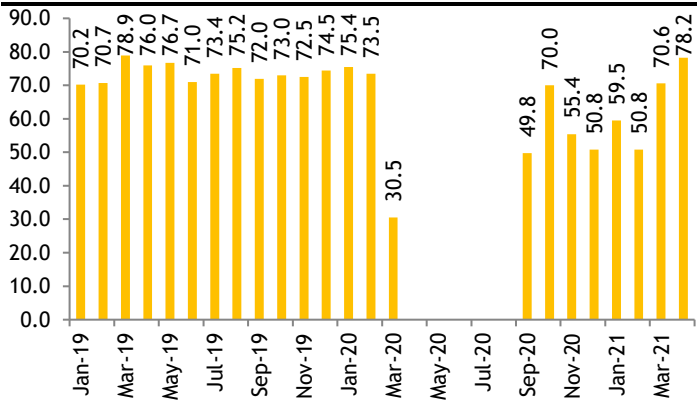
Source: Ministry Of Health Malaysia

**Fig 2: Active COVID-19 cases - Malaysia**



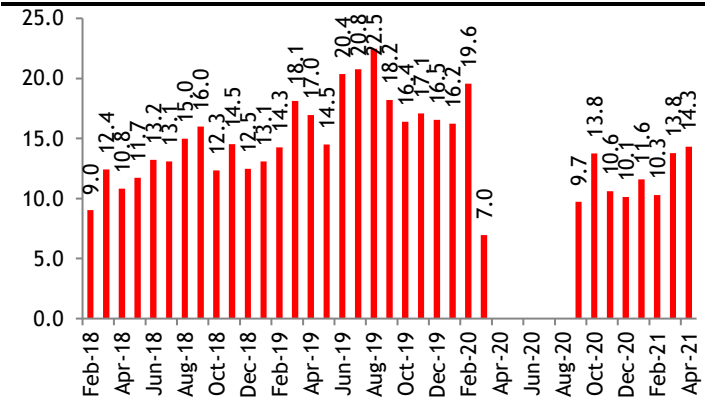
Source: Ministry Of Health Malaysia

**Fig 3: RWNYC gross gaming revenue (USDm)**



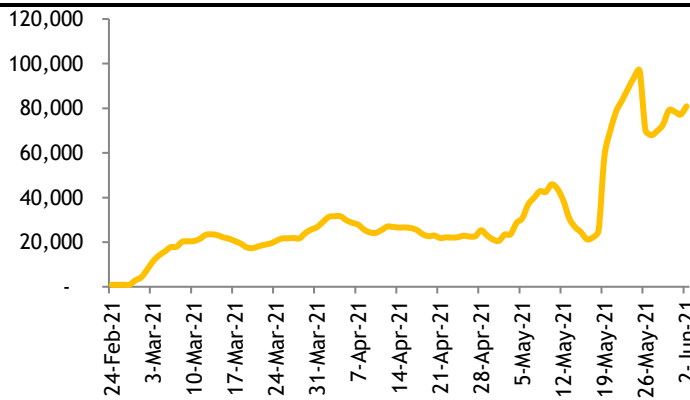
Source: New York State Gaming Commission

**Fig 4: RWC gross gaming revenue (USDm)**



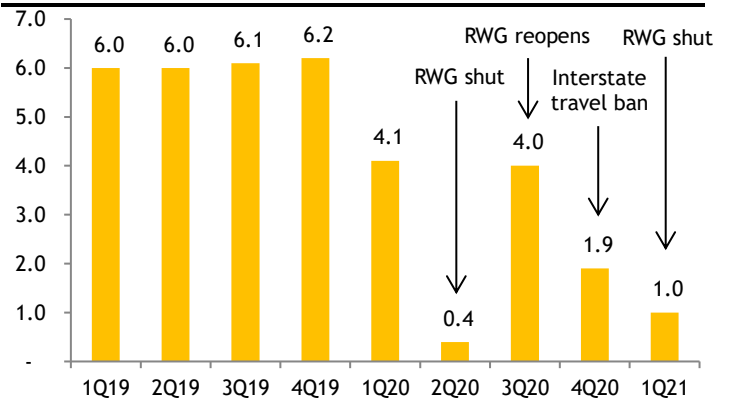
Source: New York State Gaming Commission

**Fig 5: 7 day MA COVID-19 vaccine jabs administered - Malaysia**



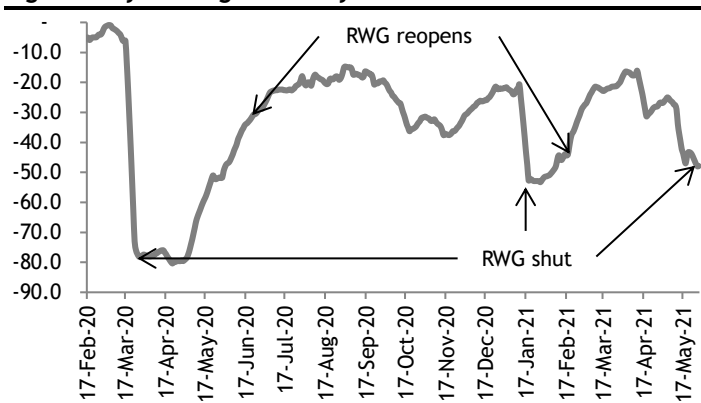
Source: Our World In Data

**Fig 6: Resorts World Genting quarterly visitor arrivals (m)**



Source: Company

Fig 7: Malaysia Google mobility trends - Retail &amp; recreation



Source: Our World In Data

Fig 8: GENM DCF-based TP

	Value MYRm	Value/sh MYR	Comments
Resorts World Genting	20,381.0	3.61	WACC: 11.8%, g: 2%
Resorts World New York City	3,087.0	0.55	40-year DCF @11.8%
Resorts World Bimini	-	-	Nil
Genting UK	789.2	0.14	WACC: 11.8%, g: 0%
Other investment securities	417.9	0.07	Cost
Malaysian property	468.7	0.08	Cost
Miami property	1,856.7	0.33	Cost
Equanimity	449.8	0.08	End-FY22E BVPS
Empire Resorts*	(845.9)	(0.15)	WACC: 11.8%
Net cash	(7,484.7)	(1.32)	End-FY22E ex-lease liabilities
<b>Equity value</b>	<b>19,119.6</b>	<b>3.38</b>	

\* DCF USD250m of equity injection from end-FY22E to end-FY26E

Source: GENM, New York State Gaming Commission

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Metrics</b>					
P/E (reported) (x)	13.1	nm	nm	15.7	12.7
Core P/E (x)	14.3	nm	nm	15.7	12.7
Core FD P/E (x)	14.3	nm	nm	15.7	12.8
P/BV (x)	1.0	1.0	1.2	1.2	1.2
P/NTA (x)	1.3	1.4	1.8	1.7	1.7
Net dividend yield (%)	6.1	5.4	5.1	5.1	7.0
FCF yield (%)	0.3	nm	nm	19.2	17.2
EV/EBITDA (x)	7.8	62.5	24.3	6.9	6.2
EV/EBIT (x)	13.1	nm	nm	12.2	10.4
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	10,406.9	4,528.8	5,232.9	10,445.9	11,041.9
EBITDA	2,636.7	329.9	977.1	3,229.6	3,465.0
Depreciation	(1,070.6)	(1,118.7)	(1,193.7)	(1,402.2)	(1,402.2)
EBIT	1,566.1	(788.8)	(216.6)	1,827.4	2,062.8
Net interest income / (exp)	(139.8)	(248.4)	(294.7)	(328.7)	(282.0)
Associates & JV	(31.6)	(285.1)	(217.5)	(202.1)	(151.7)
Exceptionals	94.7	(815.2)	0.0	0.0	0.0
Pretax profit	1,489.4	(2,137.5)	(728.8)	1,296.6	1,629.1
Income tax	(157.2)	(224.0)	17.2	(271.8)	(308.2)
Minorities	63.1	97.7	36.0	11.0	(44.0)
Reported net profit	1,395.3	(2,263.8)	(675.6)	1,035.8	1,276.8
Core net profit	1,302.8	(1,444.6)	(675.6)	1,035.8	1,276.8
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	6,528.8	2,482.1	4,281.0	4,305.1	3,720.9
Accounts receivable	632.1	563.5	484.5	634.5	670.7
Inventory	123.3	121.4	101.1	123.8	130.8
Property, Plant & Equip (net)	16,620.9	16,052.4	15,990.8	15,028.5	14,087.3
Intangible assets	4,472.8	4,247.7	4,247.7	4,247.7	4,247.7
Investment in Associates & JVs	629.5	1,052.2	1,464.8	1,787.8	2,056.1
Other assets	4,305.3	3,767.8	3,361.1	3,361.1	3,361.1
<b>Total assets</b>	<b>33,312.7</b>	<b>28,287.1</b>	<b>29,931.0</b>	<b>29,488.4</b>	<b>28,274.6</b>
ST interest bearing debt	1,614.6	463.4	1,422.8	1,549.9	149.9
Accounts payable	2,978.4	2,437.2	2,050.8	2,766.1	2,904.3
LT interest bearing debt	9,262.6	9,775.0	12,401.0	10,851.1	10,701.1
Other liabilities	1,287.0	1,111.0	1,087.0	1,147.0	1,155.0
<b>Total Liabilities</b>	<b>15,142.7</b>	<b>13,786.5</b>	<b>16,961.7</b>	<b>16,314.0</b>	<b>14,910.0</b>
Shareholders Equity	18,497.6	14,911.8	13,416.5	13,632.6	13,778.7
Minority Interest	(327.6)	(411.2)	(447.2)	(458.2)	(414.2)
<b>Total shareholder equity</b>	<b>18,170.0</b>	<b>14,500.6</b>	<b>12,969.3</b>	<b>13,174.4</b>	<b>13,364.6</b>
<b>Total liabilities and equity</b>	<b>33,312.7</b>	<b>28,287.1</b>	<b>29,931.0</b>	<b>29,488.4</b>	<b>28,274.6</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	1,489.4	(2,137.5)	(728.8)	1,296.6	1,629.1
Depreciation & amortisation	1,070.6	1,118.7	1,193.7	1,402.2	1,402.2
Adj net interest (income)/exp	119.3	230.7	294.7	328.7	282.0
Change in working capital	147.6	(468.1)	(287.1)	542.7	95.0
Cash taxes paid	(164.3)	(81.8)	(5.4)	(212.0)	(300.6)
Other operating cash flow	(85.4)	856.8	217.5	202.1	151.7
Cash flow from operations	2,577.2	(481.2)	684.6	3,560.3	3,259.4
Capex	(2,517.9)	(1,070.5)	(1,132.1)	(439.9)	(461.0)
Free cash flow	59.3	(1,551.7)	(447.5)	3,120.4	2,798.4
Dividends paid	(1,073.7)	(1,130.0)	(819.7)	(819.7)	(1,130.6)
Equity raised / (purchased)	(40.1)	(30.1)	0.0	0.0	0.0
Change in Debt	125.6	(617.9)	3,585.4	(1,422.8)	(1,549.9)
Other invest/financing cash flow	(577.3)	(678.1)	(519.3)	(853.8)	(702.0)
Effect of exch rate changes	(17.1)	(15.7)	0.0	0.0	0.0
Net cash flow	(1,523.3)	(4,023.5)	1,798.9	24.1	(584.2)

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	4.8	(56.5)	15.5	99.6	5.7
EBITDA growth	(7.5)	(87.5)	196.2	230.5	7.3
EBIT growth	(17.3)	nm	nm	nm	12.9
Pretax growth	nm	nm	nm	nm	25.6
Reported net profit growth	nm	nm	nm	nm	23.3
Core net profit growth	(35.6)	nm	nm	nm	23.3
<b>Profitability ratios (%)</b>					
EBITDA margin	25.3	7.3	18.7	30.9	31.4
EBIT margin	15.0	nm	nm	17.5	18.7
Pretax profit margin	14.3	nm	nm	12.4	14.8
Payout ratio	81.0	nm	nm	79.1	88.6
<b>DuPont analysis</b>					
Net profit margin (%)	13.4	nm	nm	9.9	11.6
Revenue/Assets (x)	0.3	0.2	0.2	0.4	0.4
Assets/Equity (x)	1.8	1.9	2.2	2.2	2.1
ROAE (%)	7.6	(13.6)	(4.8)	7.7	9.3
ROAA (%)	4.0	(4.7)	(2.3)	3.5	4.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(104.7)	(174.1)	(144.4)	(95.3)	(107.4)
Days receivable outstanding	22.3	47.5	36.0	19.3	21.3
Days inventory outstanding	5.4	10.5	9.4	5.6	6.0
Days payables outstanding	132.4	232.2	189.8	120.1	134.7
Dividend cover (x)	1.2	(2.8)	(0.8)	1.3	1.1
Current ratio (x)	1.7	1.3	1.5	1.2	1.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.2	2.1	1.8	1.8	1.9
Net gearing (%) (incl perps)	23.9	53.5	73.6	61.5	53.4
Net gearing (%) (excl. perps)	23.9	53.5	73.6	61.5	53.4
Net interest cover (x)	11.2	na	na	5.6	7.3
Debt/EBITDA (x)	4.1	nm	14.1	3.8	3.1
Capex/revenue (%)	24.2	23.6	21.6	4.2	4.2
Net debt/ (net cash)	4,348.4	7,756.3	9,542.8	8,095.9	7,130.2

Source: Company; Maybank

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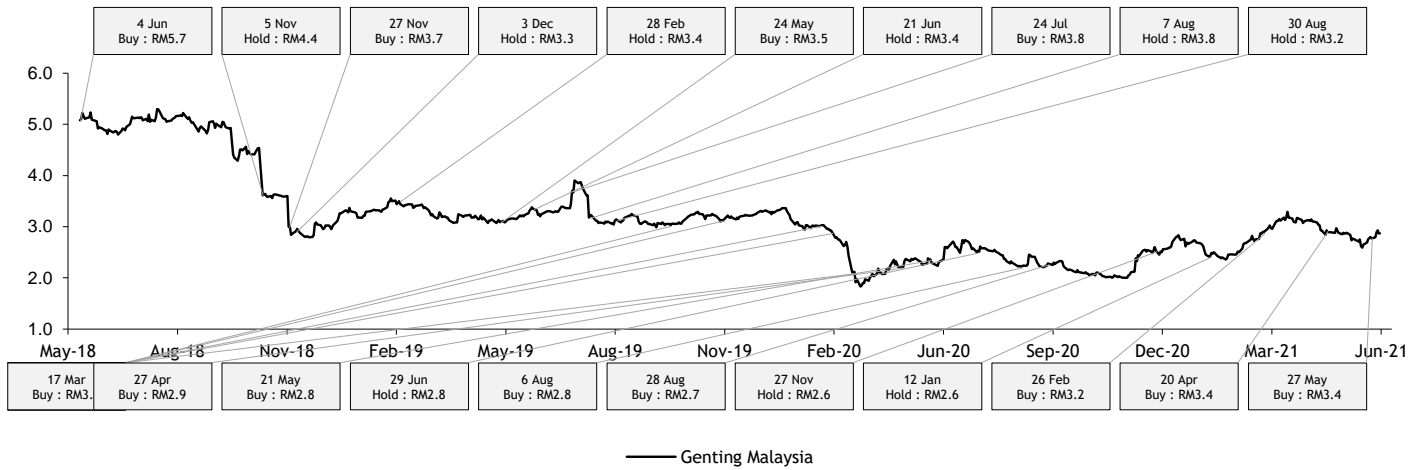
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