Genting Bhd (GENT MK)

Lacks catalysts but still good as a liquid recovery play

Maintain BUY with a lower TP of MYR5.58 (-11%)

2Q21 and 1H21 losses were in-line but nil dividends disappointed us. Resorts World Las Vegas (RWLV) is tracking within our expectations but we still do not expect it to be profitable. We widen our FY21E core net loss by nearly 3x but leave our FY22-FY23E core net profit little changed. With two major catalysts shelved, we cut our SOP-based TP to MYR5.58 from MYR6.26. In our view, GENT is still good as a liquid COVID-19 recovery play but we prefer GENM.

Losses in-line but nil dividend disappointed

2Q21 core net loss of MYR234m brought 1H21 core net loss to MYR493m which was within our expectations. Though the 1H21 core net loss was 5x that of our previous FY21 core net loss estimate of MYR99m, the results were within our expectation as we had expected Resorts World Genting (RWG) to reopen in Sep 2021 (after being closed for 3 months) and drive GENT to profitability in 2H21. That said, no dividends were declared in 2Q21 which came as a negative surprise to us.

RWLV tracking largely within expectations

For the first 6 days of operations, RWLV recorded USD14.9m revenue and USD3.9m EBITDA. Annualising the latter implies c.USD235m EBITDA p.a. Though shy of our forecast of c.USD275m EBITDA p.a. at first glance, it is within our expectations. Jun is an off peak month for Las Vegas. Also, Jul 2021 Las Vegas Strip gross gaming revenue of USD793.7m was a record high. Yet, GENT is wary of the recent surge in COVID-19 cases caused by the Delta variant. Maintain our RWLV net loss forecast of USD100m p.a.

2H21 still difficult but ought to improve by 4Q21

For RWG, we now expect it to remain shut for another 2 months and reopen in Nov 2021 due to the still high number of new COVID-19 cases. The Malaysian government expects to achieve herd immunity by Oct 2021. For Resorts World Sentosa (RWS), we expect its earnings outlook for 3Q21 to be stable QoQ. There may even be upside to 4Q21 earnings as Singapore is scheduled to gradually reopen its borders by then after reaching herd immunity. RWLV also ought to benefit from seasonally higher visitation in the autumn and winter.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	21,617	11,564	14,167	24,643	27,019
EBITDA	7,851	2,903	3,869	8,195	9,560
Core net profit	2,157	(365)	(284)	1,240	1,995
Core EPS (sen)	56.0	(9.5)	(7.4)	32.2	51.8
Core EPS growth (%)	(19.7)	nm	nm	nm	61.0
Net DPS (sen)	22.0	15.0	6.5	20.0	20.0
Core P/E (x)	10.8	nm	nm	15.3	9.5
P/BV (x)	0.7	0.5	0.6	0.6	0.6
Net dividend yield (%)	3.6	3.4	1.3	4.1	4.1
ROAE (%)	5.7	(3.0)	(0.9)	3.8	6.0
ROAA (%)	2.2	(0.4)	(0.3)	1.2	2.0
EV/EBITDA (x)	6.3	17.2	14.7	6.5	5.2
Net gearing (%) (incl perps)	3.6	18.6	28.9	21.2	14.1
Consensus net profit	-	-	277	1,479	1,874
MKE vs. Consensus (%)	-	-	(205.8)	(16.2)	6.5

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BUY

Share Price	MYR 4.93
12m Price Target	MYR 5.58 (+14%)
Previous Price Target	MYR 6.26

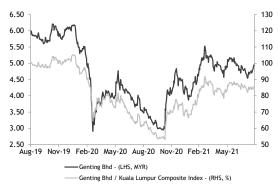
Company Description

Genting Bhd. engages in the leisure and hospitality, oil palm plantations, property development, biotechnology, and oil and gas businesses.

Statistics

52w high/low (MYR)	5.53/2.95
3m avg turnover (USDm)	6.4
Free float (%)	54.8
Issued shares (m)	3,877
Market capitalisation	MYR19.1B
	USD4.6B
Major shareholders:	
LIM FAMILY	42.7%
Great Eastern Life Assurance Co. Ltd.	3.2%
Orbis Investment Management Ltd.	2.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	2	39
Relative to index (%)	(3)	2	36
Source: FactSet			

Other stocks mentioned in this report:

Genting Malaysia (GENM MK, BUY, CP: MYR2.92, TP: MYR3.40)

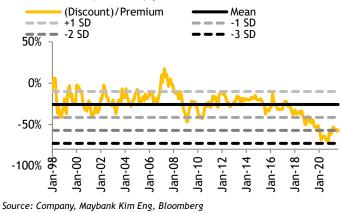
Genting Singapore (GENS SP, HOLD, CP: SGD0.79, TP: SGD0.86)

Genting Plantations (GENP MK, BUY, CP: MYR7.59, TP: MYR9.50)

Value Proposition

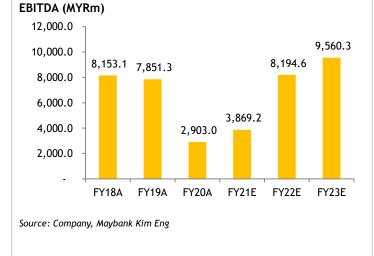
- Largest casino conglomerate in South East Asia with interests in power, plantations, property and oil & gas.
- Via 49%-owned Genting Malaysia (GENM) and 53%-owned Genting Singapore (GENS), operates Resorts World Genting (RWG) and Resorts World Sentosa (RWS).
- ROEs have fallen from >10% pre FY12 to <10% in FY18 due to RWS being pressured by the weak Chinese economy.
- Requires better performance from major subsidiaries to drive reversion to mean discount to SOP/sh.
- GENM expanding RWG via Genting Integrated Tourism Plan (GITP). RWG is Malaysian centric and especially resilient.

GENT historical (discount)/premium to SOP/shr valuation



Financial Metrics

- Key financial metric is EBITDA. Most casino operators are valued on EV/EBITDA basis.
- Forecast FY21E EBITDA to rebound 33% YoY as the COVID- 19's impact on RWS moderates and RWLV opens.
- Forecast FY22E EBITDA to grow 112% YoY as RWG's Genting SkyWorlds and RWLV ramps up.
- Forecast FY23E EBITDA to grow by a more gradual 17% YoY as we hope RWS and RWG operations will normalise by then.



Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

- 1. 21%-owned TauRX fails studies for Alzheimer's disease and behavioural variant fronto temporal dementia.
- 2. GENS reported better 3Q16 results due to less direct VIP rebates and bad debts.
- 3. National Budget 2019 in Nov 2018 proposed for RWG casino duty rate to be hiked by 10ppts from 1 Jan 2019.
- 4. Fox withdrew RWG's right to Fox-brand its outdoor theme park.
- 5. COVID-19 outbreak. To date, there are 1,662,913 cases in Malaysia and 66,928 cases in Singapore.

Swing Factors

Upside

- VIP volume and win rate these tend to be volatile and can greatly influence earnings.
- VIP/mass market mix tilt towards mass market will expand margins due to less commissions and rebates.
- Higher visitor arrivals to RWG as the purpose of the GITP is to attract more high margin mass market gamblers.

Downside

- Bad debts Chinese account for most of GENS and GENUK VIPs but gambling debts are not enforceable in China.
- CPO and oil prices plantations and oil & gas contribute <10% to EBITDA but CPO and oil prices can impact GENT group earnings nonetheless.
- Regional expansion new jurisdictions often require high capex commitments without guaranteeing returns.

Figure 1: Summary Results Table

FY Dec (MYR m)	2Q21	2Q20	% YoY	1Q21	% QoQ	6M21	6M20	% YoY
Turnover	2,936.7	1,107.9	165.1	2,253.1	30.3	5,189.8	5,217.2	(0.5)
Operating expenses	(1,984.5)	(1,703.1)	16.5	(1,723.2)	15.2	(3,707.7)	(4,597.2)	(19.3)
EBITDA	952.2	(595.2)	NM	529.9	79.7	1,482.1	619.9	139.1
Depreciation & amortisation	(638.1)	(589.1)	8.3	(578.0)	10.4	(1,216.1)	(1,264.1)	(3.8)
EBIT	314.1	(1,184.3)	NM	(48.1)	N/M	266.0	(644.2)	NM
Interest expense	(214.0)	(211.0)	1.4	(200.7)	6.6	(414.7)	(326.9)	26.9
Associates	(52.2)	(11.9)	338.7	(25.9)	101.5	(78.1)	(119.9)	(34.9)
Exceptional items	(554.9)*	(253.0)	119.3	(212.2)	161.5	(767.1)	(787.4)	(2.6)
Pre-tax profit	(507.0)	(1,660.2)	(69.5)	(486.9)	4.1	(993.9)	(1,878.4)	(47.1)
Tax	(91.9)	195.0	NM	(47.5)	93.7	(139.4)	70.3	NM
Minority interest	35.4	679.1	(94.8)	202.6	(82.5)	238.1	889.7	(73.2)
Net profit	(563.5)	(786.1)	(28.3)	(331.8)	69.9	(895.3)	(918.4)	(2.5)
Net profit Ex El	(233.6)	(576.0)	(59.4)	(263.4)	(11.3)	(493.3)	(423.4)	16.5
	2Q21	2Q20	% YoY	1Q21	% QoQ	6M21	6M20	% YoY
EBITDA margin (%)	32.4	(53.7)	86.1	23.5	8.9	28.6	11.9	16.7
Tax rate (%)	(18.1)	11.7	(29.9)	(9.8)	(8.4)	(14.0)	3.7	(17.8)
Segmental Results Table								
FY Dec (MYR m)	2Q21	2Q20	% YoY	1Q21	% QoQ	6M21	6M20	% YoY
Turnover	2,936.7	1,107.9	165.1	2,253.1	30.3	5,189.8	5,217.2	(0.5)
Leisure & hospitality	1,691.8	160.3	N/M	1,440.2	17.5	3,132.0	3,301.7	(5.1)
- Malaysia	236.0	80.8	192.1	297.2	(20.6)	533.2	1,304.1	(59.1)
- Singapore	856.5	78.0	N/M	846.5	1.2	1,703.0	1,304.6	30.5
- UK & Egypt	185.3	33.2	458.1	40.2	360.9	225.5	404.4	(44.2)
- USA & Bahamas	414.0	(31.7)	N/M	256.3	61.5	670.3	288.6	132.3
Power	311.5	237.1	31.4	155.4	100.5	466.9	495.5	(5.8)
Plantation	762.8	543.4	40.4	513.0	48.7	1,275.8	1,091.4	16.9
Property	48.2	19.0	153.7	40.3	19.6	88.5	66.0	34.1
Oil & Gas	85.1	69.3	22.8	82.0	3.8	167.1	156.5	6.8
Investments & others	37.3	78.9	(52.7)	22.2	68.0	59.5	106.1	(43.9)
EBITDA	952.2	(595.2)	NM	529.9	79.7	1,482.1	619.9	139.1
Leisure & hospitality	504.1	(841.4)	NM	332.5	51.6	836.6	109.1	N/M
- Malaysia	(102.9)	(310.6)	(66.9)	(88.4)	16.4	(191.3)	125.6	NM
- Singapore	475.7	(239.2)	NM	406.9	16.9	882.6	237.6	271.5
- UK & Egypt	9.7	(114.8)	NM	(52.5)	(118.5)	(42.8)	(92.0)	(53.5)
- USA & Bahamas	121.6	(176.8)	NM	66.5	82.9	188.1	(162.1)	NM
Power	131.0	101.4	29.2	31.6	314.6	162.6	204.2	(20.4)
Plantation	254.2	100.7	152.4	148.8	70.8	403.0	234.3	72.0
Property	29.7	13.4	121.6	(22.3)	(233.2)	7.4	28.9	(74.4)
Oil & Gas	61.4	53.1	15.6	66.0	(7.0)	127.4	123.6	3.1
Investments & others	(28.3)	(22.4)	26.3	(26.7)	6.0	(55.0)	(80.2)	(31.4)

* largely relates to impairment loss of MYR230m from Kasuri block operations in Indonesia Source: Company

Results analysis

GENT swung from 2Q20 LBITDA of MYR595.2m to 2Q21 EBITDA of MYR952.2m largely due to:-

- GENM In 2Q20, all of GENM's casinos were closed for 2.5-3 months due to the COVID-19 pandemic. In 2Q21, Resorts World Genting was closed for a shorter 1 month, Genting UK was closed for a shorter 1.5 months but Resorts World New York and Resorts World Bimini were open throughout;
- (ii) GENS In 2Q20, Resorts World Sentosa was shut from 6 Apr until 30 Jun 2020. In 2Q21 Resorts World Sentosa was open throughout albeit with operating capacity limits; and
- (iii) GENP CPO average selling price surged 40% YoY while FFB production grew 7% YoY.

GENT 2Q21 EBITDA of MYR952.2m was up 80% QoQ largely due to:-

- GENM In 1Q21, Genting UK was closed for nearly 3 months and Resorts World New York was operating at capacity limits of 25%. In 2Q21, Genting UK was closed for a shorter 1.5 months and Resorts World New York was operating at higher capacity limits of 50% from 19 May 2021 onwards;
- (ii) Power The Banten independent power plant was shut for more than a month in 1Q21 for a scheduled shutdown whereas it was not in 2Q21; and
- (iii) GENP CPO average selling price was up 12% QoQ while FFB production grew 21% QoQ.

Widen FY21E loss; FY22E/FY23E profit little changed

Following our wider GENM FY21E core net loss revision (<u>link</u>), we widen our GENT FY21E core net loss to MYR284m from MYR99m. That said, our FY22E and FY23E core net profits are little changed (+<1%). Our FY22E and FY23E core net profits are based on FY22E/FY23E RWG visitor arrivals of 24.2m/26.2m (FY21E: 5.0m). In short, we expect some sort of normalcy resembling pre-COVID-19 levels to return in FY22E after Malaysia reaches herd immunity in Oct 2021. That said, we cut our FY21E DPS to 6.5sen from 15.0sen

Cut SOP-based TP to MYR5.58 from MYR6.26

Utilising our revised TPs for GENM (MYR3.40 vs. MYR3.38) (<u>link</u>), GENS (SGD0.86 vs. SGD1.16) (<u>link</u>) and GENP (MYR9.50 vs. MYR8.96) (<u>link</u>) and ascribing a wider 55% discount to GENT SOP/shr (50% previously), we cut our TP for GENT to MYR5.58 from MYR6.26 (Fig. 2). We ascribe a wider 55% discount to SOP/shr (-2SD to long term mean) because the catalysts that could have benefitted GENT (i.e. Yokohama IR license via GENS and downstate commercial casino license for GENM's Resorts World New York) have been cancelled and delayed respectively.

Figure 2: SOP-based valuation

	Forex	TP/Shr px	Shares	Stake %	Value	Value/sh
	Α	MYR B	m C	» D	MYRm E=AXBXCXD	MYR
Genting Malaysia	1.00	3.40	5,653.2	49.5%	9,514.4	2.47
Genting Singapore	3.00	0.86	12,064.8	52.7%	16,404.0	4.26
Genting Plantations	1.00	9.50	897.2	55.4%	4,722.0	1.23
Landmarks	1.00	0.37	668.7	21.8%	53.9	0.01
Licensing & manageme	nt fees		DCF at	10.5%	7,073.6	1.84
Oil & Gas			End-FY2	21E BV	3,269.9	0.85
Power			EV/MW of	USD0.5m	3,632.9	0.94
PT Lestari Banten			Capitalis	ed cost	1,612.8	0.42
Net cash/(debt) at GEN	IT level		End-F	Y21E	(16,733.6)	(4.35)
Resorts World Las Vega	s		Capitalis	ed cost	18,181.4	4.72
SOP					47,731.2	12.40
(55% discount)						(6.82)
ТР						5.58

Source: Maybank Kim Eng

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	12.4	nm	nm	15.3	9.5
Core P/E (x)	10.8	nm	nm	15.3	9.5
P/BV (x)	0.7	0.5	0.6	0.6	0.6
P/NTA (x)	0.8	0.6	0.7	0.7	0.7
Net dividend yield (%)	3.6	3.4	1.3	4.1	4.1
FCF yield (%)	nm	nm	nm	39.4	38.6
EV/EBITDA (x)	6.3	17.2	14.7	6.5	5.2
EV/EBIT (x)	9.5	104.5	54.2	11.1	8.2
INCOME STATEMENT (MYR m)					
Revenue	21,616.5	11,564.1	14,167.1	24,642.7	27,019.4
EBITDA	7,851.3	2,903.0	3,869.2	8,194.6	9,560.3
Depreciation	(2,631.9)	(2,426.1)	(2,820.4)	(3,396.9)	(3,403.9)
EBIT	5,219.4	476.9	1,048.8	4,797.7	6,156.4
Net interest income / (exp)	(376.5)	(680.3)	(1,085.1)	(1,387.3)	(1,204.9)
Associates & JV	89.3	(89.3)	(62.0)	(46.5)	3.9
Exceptionals	(349.6)	(1,233.8)	(17.0)	0.0	0.0
Pretax profit	4,582.6	(1,526.5)	(115.3)	3,363.9	4,955.3
Income tax	(901.5)	(547.5)	(259.9)	(877.1)	(1,134.4)
Minorities	(1,685.3)	1,049.8	81.8	(1,247.2)	(1,825.5)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,995.8	(1,024.2)	(293.4)	1,239.6	1,995.4
Core net profit	2,156.6	(365.0)	(284.0)	1,239.6	1,995.4
BALANCE SHEET (MYR m)			05 0 /7 5		
Cash & Short Term Investments	30,944.8	26,619.9	25,347.5	25,892.2	24,784.7
Accounts receivable	2,313.8	2,014.3	1,992.1	2,637.7	2,892.1
Inventory	675.6	580.5	577.9	770.6	844.1
Property, Plant & Equip (net)	41,303.9	45,084.3	49,141.6	47,044.5	45,050.2
Intangible assets	5,739.6	5,188.6	5,188.6	5,188.6	5,188.6
Investment in Associates & JVs	2,657.4	3,365.3	3,933.4	4,412.0	4,835.9
Other assets	18,381.3	16,788.1	16,381.4	16,381.4	16,381.4
Total assets	102,016.4	99,641.0	102,562.5	102,327.1	99,977.1
ST interest bearing debt	2,851.2	1,624.3	3,412.3	4,695.8	4,695.8
Accounts payable	5,747.3	4,952.0	5,093.7	6,867.5	7,289.6
LT interest bearing debt	30,208.2	35,143.1	37,401.6	32,705.8	28,010.1
Other liabilities	3,936.0	3,395.0	3,187.0	3,708.0	3,921.0
Total Liabilities	42,742.4	45,114.6	49,094.2	47,977.0	43,916.7
Shareholders Equity	35,332.2	32,965.4	32,421.7	32,891.2	34,116.5
Minority Interest	23,941.8	21,561.0	21,046.7	21,458.9	21,944.0
Total shareholder equity	59,274.0	54,526.4	53,468.4	54,350.1	56,060.4
Total liabilities and equity	102,016.4	99,641.0	102,562.5	102,327.1	99,977.1
CASH FLOW (MYR m)					
Pretax profit	4,582.6	(1,526.5)	(115.3)	3,363.9	4,955.3
Depreciation & amortisation	2,631.9	2,426.1	2,820.4	3,396.9	3,403.9
Adj net interest (income)/exp	376.5	680.3	1,085.1	1,387.3	1,204.9
Change in working capital	(42.6)	(562.8)	166.5	935.4	94.2
Cash taxes paid		(779.4)	(467.4)	(355.8)	
	(1,123.8)				(921.1)
Other operating cash flow	367.8	823.1	62.0	46.5	(3.9)
Cash flow from operations	6,792.4	1,060.8	3,551.4	8,774.3	8,733.4
Capex	(7,330.1)	(7,084.9)	(6,877.7)	(1,299.8)	(1,409.5)
Free cash flow	(537.7)	(6,024.1)	(3,326.3)	7,474.5	7,323.8
Dividends paid	(750.8)	(847.1)	(250.3)	(770.1)	(770.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	2,905.8	4,396.3	4,046.5	(3,412.3)	(4,695.8)
Other invest/financing cash flow	(2,300.8)	(1,127.9)	(1,742.3)	(2,747.3)	(2,965.4)
Effect of exch rate changes	(22.2)	(705.1)	0.0	0.0	0.0
Net cash flow	(705.7)	(4,307.9)	(1,272.4)	544.7	(1,107.5)

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	3.7	(46.5)	22.5	73.9	9.6
EBITDA growth	(3.7)	(63.0)	33.3	111.8	16.7
EBIT growth	(12.0)	(90.9)	119.9	357.4	28.3
Pretax growth	34.1	nm	nm	nm	47.3
Reported net profit growth	46.1	nm	nm	nm	61.0
Core net profit growth	(19.5)	nm	nm	nm	61.0
Profitability ratios (%)					
EBITDA margin	36.3	25.1	27.3	33.3	35.4
EBIT margin	24.1	4.1	7.4	19.5	22.8
Pretax profit margin	21.2	nm	nm	13.7	18.3
Payout ratio	42.4	nm	nm	62.1	38.6
DuPont analysis					
Net profit margin (%)	9.2	nm	nm	5.0	7.4
Revenue/Assets (x)	0.2	0.1	0.1	0.2	0.3
Assets/Equity (x)	2.9	3.0	3.2	3.1	2.9
ROAE (%)	5.7	(3.0)	(0.9)	3.8	6.0
ROAA (%)	2.2	(0.4)	(0.3)	1.2	2.0
Liquidity & Efficiency					
Cash conversion cycle	(88.3)	(128.9)	(104.4)	(82.3)	(92.5)
Days receivable outstanding	37.6	67.4	50.9	33.8	36.8
Days inventory outstanding	17.8	26.1	20.2	14.8	16.6
Days payables outstanding	143.8	222.4	175.6	130.9	146.0
Dividend cover (x)	2.4	(1.8)	(1.2)	1.6	2.6
Current ratio (x)	3.8	4.4	3.4	2.5	2.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.2	2.1	2.1	2.3
Net gearing (%) (incl perps)	3.6	18.6	28.9	21.2	14.1
Net gearing (%) (excl. perps)	3.6	18.6	28.9	21.2	14.1
Net interest cover (x)	13.9	0.7	1.0	3.5	5.1
Debt/EBITDA (x)	4.2	12.7	10.5	4.6	3.4
Capex/revenue (%)	33.9	61.3	48.5	5.3	5.2
Net debt/ (net cash)	2,114.6	10,147.5	15,466.4	11,509.4	7,921.1

Source: Company; Maybank

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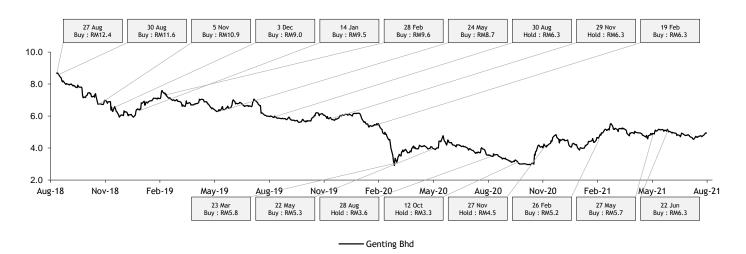
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