

Genting Malaysia (GENM MK)

Two latent catalysts in the United States taking shape

Maintain BUY call and MYR2.77 DCF-TP

Over the last 2 weeks, newswires reported 2 events which are significant to GENM. First, the RFA process for 3 downstate commercial casino licenses in New York State has resumed, which we gather favours GENM. Second, the Mashpee Wampanog tribe, which is indebted to GENM, could be trying to revive construction of its own integrated resort, the FLRC. Under a 'blue sky' scenario, our long term (FY25E) earnings estimates could be lifted by 74% and DCF-TP could be raised by 31% to MYR3.62.

RFA process for 3 full casino licenses in NYC back on

After more than 6 months of silence, the New York State Gaming Commission resumed the RFA process for 3 downstate commercial casino licenses on 30 Aug 2023. We have long viewed GENM's 100%-owned RWNYS to win 1 as it can deploy table games and generate additional tax revenue for New York State quickly, thanks to its existing infrastructure. Our calculations indicate that a downstate commercial casino license can accrete incremental core net profit of c.MYR610m and MYR0.53 to our TP.

MW tribe looking to revive construction of FLRC?

In a 4 Aug 2023 letter, the Mashpee Wampanoag (MW) tribe formally requested a meeting with the Taunton City Council to discuss its First Light Resort & Casino (FLRC) whose construction has been abandoned. Recall that GENM impaired MYR1.8b (MYR0.32/shr) of its MW promissory notes in 3Q18 due to the tribe's legal woes. If the MW promissory notes are written back, our core net profit estimates will be boosted by c.MYR180m p.a. and TP will be raised by MYR0.32.

'Blue sky' TP could be as high as MYR3.62

Should both catalysts materialise under a 'blue sky' scenario, our long term earnings (FY25E) estimates could be lifted by 74% and DCF-TP could be raised by 31% to MYR3.62. The 'blue sky' TP implies attractive upside potential of 40%. Our GENM earnings estimates and MYR2.77 DCF-TP are unchanged for now. With >10% upside potential from existing operations and potentially another >30% upside potential from the 2 aforementioned catalysts, we maintain our BUY call on GENM.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	4,157	8,603	9,718	11,024	11,382
EBITDA	532	2,378	2,816	3,392	3,551
Core net profit	(915)	236	576	949	1,062
Core FDEPS (sen)	(16.2)	4.2	10.2	16.8	18.7
Core FDEPS growth(%)	nm	nm	143.9	64.8	11.8
Net DPS (sen)	9.0	15.0	15.0	15.0	17.0
Core FD P/E (x)	nm	64.6	25.5	15.5	13.8
P/BV (x)	1.2	1.2	1.2	1.2	1.2
Net dividend yield (%)	3.1	5.6	5.8	5.8	6.6
ROAE (%)	(6.6)	(3.9)	4.6	7.6	8.5
ROAA (%)	(3.1)	0.8	2.1	3.4	3.9
EV/EBITDA (x)	44.2	9.6	7.7	6.0	5.4
Net gearing (%) (incl perps)	69.0	82.6	78.4	66.3	55.3
Consensus net profit	-	-	569	954	1,143
MIBG vs. Consensus (%)	-	-	1.3	(0.5)	(7.1)

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BUY

Share Price MYR 2.59
12m Price Target MYR 2.77 (+13%)
Previous Price Target MYR 2.77

Company Description

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

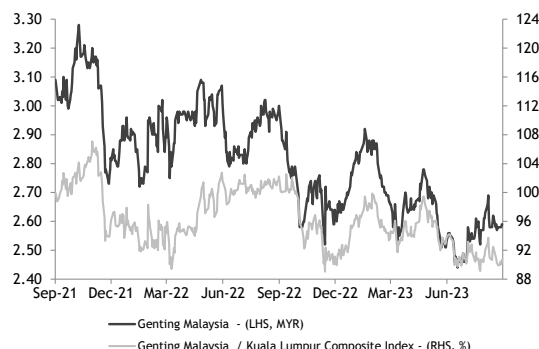
Statistics

52w high/low (MYR) 3.00/2.44
3m avg turnover (USDm) 3.2
Free float (%) 47.3
Issued shares (m) 5,938
Market capitalisation MYR15.4B
USD3.3B

Major shareholders:

Genting Bhd. 47.7%
Genting Malaysia Bhd. 4.6%
The Vanguard Group, Inc. 1.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	3	(13)
Relative to index (%)	1	(3)	(11)

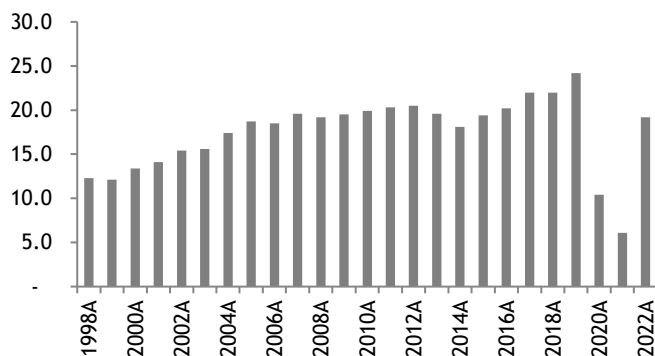
Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

Value Proposition

- Owns and operates Resorts World Genting (RWG), Genting United Kingdom (GENUK), Resorts World New York City (RWNYC) 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 the remaining 24% shareholding in Empire Resorts.

RWG visitor arrivals (m)

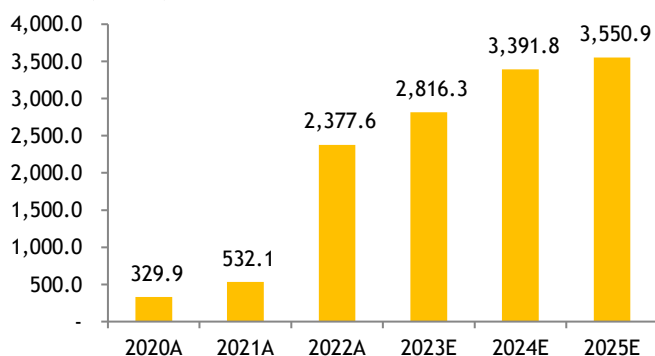


Source: Company

Financial Metrics

- Key financial metric is EBITDA. Most casino operators are valued on EV/EBITDA basis.
- Forecast FY23E EBITDA to grow by 18% YoY as more rooms for gamblers are made available at RWG.
- Forecast FY24E EBITDA to grow by another 20% YoY as the COVID-19 pandemic fully subsides.
- We expect balance sheet to remain in net debt as GENM has been more progressive in paying dividends.

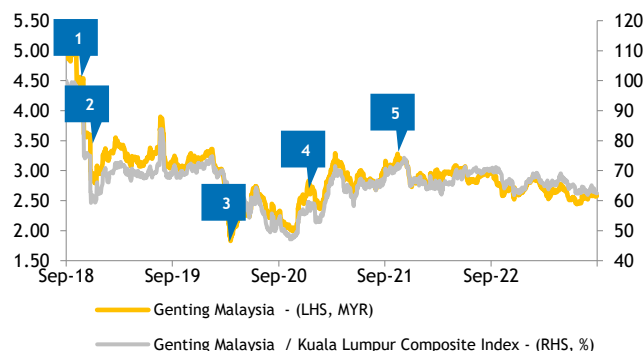
EBITDA (MYRm)



Source: Company (historical), Maybank IBG Research (forecasts)

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

- 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.
- Pfizer and AstraZeneca announced that they developed effective COVID-19 vaccines.
- RWG reopened from the Full Movement Control Order on 30 Sep 2021.

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 15.6% as at end-2Q23 poses downside risk to share price in a weak market.

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Risk Rating & Score ¹	28.9 (Medium)
Score Momentum ²	+1.2
Last Updated	27 Jan 2023
Controversy Score ³ (Updated: 25 Jan 2023)	1- Governance Incidents - Corporate Governance

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.
- GENM also scores average in our proprietary scoring methodology (see page 4) with an overall score of 59/100.

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 3 pumping stations which extract raw water from Sungai CheroK to 6 water treatment plants.
- Consumed more energy and water while generating more greenhouse gas emissions in FY22 (see page 4).
- That said, this was due to all properties operating on a full year basis in FY22. FY22 intensity/customer actually fell.
- 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, Deputy Chairman & Chief Executive, President, Deputy Chief Executive and 8 Independent Non-Executive Directors (INED).
- Tan Sri Lim Kok Thay (TSLKT), Deputy 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, Deputy Chairman & Chief Executive.
- Madam Chong Kwai Ying, INED and Dato' Dr. Lee Bee Phang, INED are women directors.
- Directors still received remuneration of MYR76.6m (+35% YoY) in FY22 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.

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).

Quantitative Parameters (Score: 69)						
	Particulars	Unit	2020	2021	2022	LVS US (2022)
E	Scope 1 emissions	tCO2e	49,080*	40,058*	44,277	58,341
	Scope 2 emissions	tCO2e	218,061*	225,855*	193,124	373,003
	Total	tCO2e	267,141*	265,913*	237,401	431,344
	Scope 3 emissions	tCO2e	N/A	N/A	N/A	642,008
	Total	tCO2e	267,141	265,913	237,401	1,073,352
	Scope 1 & 2 emissions intensity - RWG	kgCO2e/customer	10.0	17.1	6.8	N/A
	Energy consumption intensity - RWG	MJ/customer	74.3	109.9	50.6	N/A
	Water consumption intensity - RWG	m3/customer	0.4	0.6	0.3	N/A
	Recycled waste collection	tonnes	1,583.2*	1,241.1*	1,514.3	N/A
S	% of women in workforce	%	39.0%	39.7%	40.3%	50.5%
	% of local suppliers - RWG	%	90.0%	88.0%	90.0%	79.0%
	Employee attrition rate	%	39.4%	27.4%	31.8%	12.0%
	Road accidents per 10,000 vehicles - RWG	number	0.24*	0.31*	0.22	N/A
G	Board salary as % of reported net profit	%	N/M	N/M	N/M	N/M
	Independent directors on the Board	%	70%	73%	75%	56%
	Female directors on the Board	%	10%	9%	17%	33%
	Distribution to shareholders	% of net profit	N/M	N/M	N/M	0%
	Investment in loss generating related companies	MYRm	724.2	774.2	440.2	N/A

Qualitative Parameters (Score: 33)	
a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes. GENM has an ESG policy. It also has a Sustainability Steering Committee and Sustainability Working Committee (in order of hierarchy). The Sustainability Steering Committee reports to the Board Of Directors.</i>
b) is the senior management salary linked to fulfilling ESG targets?	<i>Yes.</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>No.</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>No.</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>Installing LED bulbs, upgrading water pumps, upgrading hot water heating systems (water heater and heat pump), upgrading compressor systems to reduce air leakages, installing rainwater harvesters, replacing single-use toiletry bottles in guest room showers with bigger and pump-topped bottles, installing recycling bins (guests who recycle can collect points that can be redeemed as theme park tickets) and recycle cooking oil.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>No.</i>

Target (Score: 67)		
Particulars	Target	Achieved
Reduce energy consumption by 1% p.a. till 2023 at RWG (2018 as base year)	7%	17%
Install 4 rainwater harvesters at RWG by 2023	4	3
Carbon neutral	N/A	N/A
Impact		
NA		
Overall Score: 59		
As per our ESG matrix, Genting Malaysia (GENM MK) has an overall score of 59.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	69	34
Qualitative	25%	33	8
Target	25%	67	17
Total			59

* denotes annualised figures

As per our ESG assessment, GENM has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in capturing Scope 3 emissions, follow TCFD framework for ESG reporting and adopt a net zero/carbon neutral policy. GENM's overall ESG score is 59, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

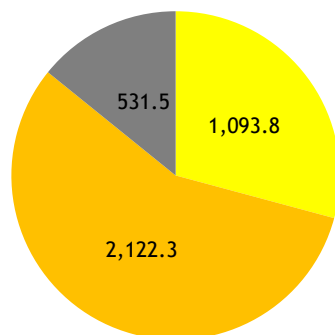
1.0 RFA process for downstate NY commercial casino licenses back on

The New York State Gaming Commission (NYSGS) launched a request for applications (RFA) process for 3 downstate commercial casino licenses in New York State on 3 Jan 2023. After more than 6 months of silence, the NYSGS resumed the RFA process by issuing the first round of Q&As on 30 Aug 2023 ([link](#)). GENM’s 100%-owned Resorts World New York City (RWNYC) is a downstate Video Lottery Terminal (VLT) facility and its 49%-owned Empire Resorts’ (Empire) Resorts World Catskills (RWC) is an upstate commercial casino. VLTs are similar to slot machines. RWNYC is located in New York City but is not allowed to deploy table games. RWC is allowed to deploy table games but is located outside New York City.

A downstate commercial casino will be the ‘ultimate prize’ for RWNYC as it will be allowed to deploy table games and be located in or near New York City. New York State recorded 2019 gross gaming revenue (GGR) of USD3.7b (Fig. 1). We were not able to obtain New York State’s 2022 GGR as Native American casinos are not obliged to report their GGR regularly. Yet, the 5 states with casinos that surround New York State recorded 2022 GGR of another whopping USD14.1b (Fig. 2). Suffice to say, the GGR of New York State and the states surrounding it is more than thrice the pre-COVID-19 GGR of Singapore (2019: USD4.5b).

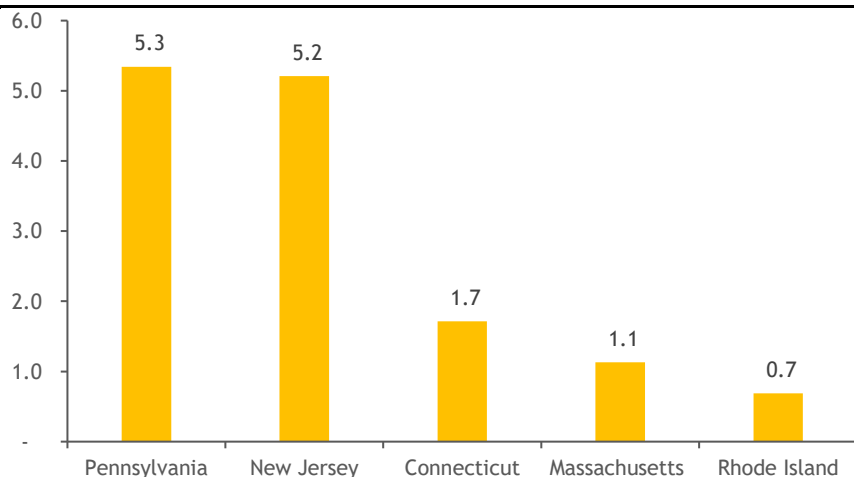
Figure 1: New York State 2019 gross gaming revenue by sector (USDm)

■ Native American casinos ■ Video Lottery Terminal facilities ■ Commercial casinos



Source: New York State Gaming Commission

Figure 2: 2022 gross gaming revenue of states surrounding New York (USDb)



Source: American Gaming Association, Mohegan Sun, Mashantucket Pequot Tribal Nation

In our view, a downstate commercial casino will be in a good position to capture some of the GGR that has been flowing from New York State to its surrounding states. Our channel checks reveal that casinos in Pennsylvania (Bethlehem, Mount Pocono, King Of Prussia, Bensalem, Philadelphia, Chester), New Jersey (Atlantic City) and Connecticut (Mohegan Sun and Foxwoods) in particular are prime beneficiaries of New York City residents crossing inter-state borders to gamble at tables which are still not allowed in New York City. It is this prospect that has also lured Las Vegas Sands (LVS US, CP: USD49.78, Not Rated), Wynn Resorts (WYNN US, CP: USD94.46, Not Rated), Caesar's Entertainment (CZR US, CP: USD53.37, Not Rated), Hard Rock (Not Listed) and Bally's (BALY US, CP: USD16.02, Not Rated) to New York City.

What excites us is the prospect of converting RWNYC into 1 of the 3 aforesaid downstate commercial casinos. We gather that the NYSGS will give a slight preference to the 2 existing downstate VLT facilities, MGM Resorts International's (MGM US, CP: CP: USD43.40, Not Rated) Empire City Casino at Yonkers Raceway and GENM's RWNYC. The rationale is that the 2 existing properties can deploy table games and generate additional tax revenue for New York State quickly. GENM even informed us that they have already built extra gaming floor area to potentially deploy table games via the new 400-room Hyatt Regency JFK at Resorts World New York hotel (Fig. 3).

Figure 3: Artist impression of the expanded RWNYC



Source: GENM

Successful applicants will:- (i) pay a licensing fee of at least USD500m within 30 days of the award (the tenure of the license will be between 10 and 30 years); (ii) invest at least USD500m over and above the licensing fee (that said, due consideration will be given to past investments made by RWNYC and Empire City Casino at Yonkers Raceway); (iii) pay an annual fee of USD500 or USD750 per slot machine and table game depending on zoning; and (iv) pay at least 25% of slot machines GGR and at least 10% of table games GGR as casino tax. The NYSGS will score applicants based on the following factors:-

- Economic activity and business development factors (70%)
- Local impact siting (10%)
- Workforce enhancement (10%)
- Diversity framework (10%)

TP could be boosted by ≥53sen thanks to a downstate NY commercial casino license

Assessing the potential impact of RWNYC being converted from a VLT facility into a downstate commercial casino, we make the following assumptions:-

- **Incremental GGR** - We assume that just c.10% of the 2022 GGR of Pennsylvania, New Jersey, Connecticut, Massachusetts and Rhode Island will migrate to the 3 downstate commercial casinos amounting to USD1.5b. We then assume that the USD1.5b GGR will be split equally amounting to USD500m per downstate commercial casino. As a sanity check, we divide USD500m GGR p.a. over 250 new tables, the number of tables we gather that RWNYC can accommodate given its current infrastructure, to derive an average win per day of c.USD5,500 which we deem as reasonable given its superior location. Sands Bethlehem casino's tables in Pennsylvania recorded average win per day of USD3,224 in 6M19 before being sold to **Wind Creek Hospitality (Not Listed)**.
- **Operating expenses, staff cost, gaming tax and annual fees** - For operating expenses, we assume that 15% of GGR will be incurred as operating expenses. We note that the historical range is ~10% for **Genting Singapore's (GENS SP, BUY, CP: SGD0.88, TP: SGD1.12)** Resorts World Sentosa and ~20% for GENM's RWG in Malaysia. For staff cost, we assume that RWNYC will hire c.1,100 staff to man 250 tables based on 4 staff per table and 1 pit supervisor per 4 tables and each staff will be paid an average of USD72,000 p.a., which is close to the average income per casino worker estimated by gaming consultancy, **Spectrum Gaming (Not Listed)** at USD74,200 p.a. in 2020. For gaming tax, we assume that the new tables will be taxed at 20% of GGR or double the rate that RWC's tables are taxed at. For annual fees, we assume that they will be levied at USD750 p.a. on RWNYC's 6,548 existing VLTs and 250 new tables as per the preceding page.
- **Licensing fees, depreciation, tax and capex** - For licensing fees, we assume that RWNYC will pay a one-off licensing fee of USD500m as per the preceding page. For depreciation, we assume that the 250 new tables will be housed in the USD400m expanded part of RWNYC and the aforesaid USD400m will be depreciated over 20 years. For corporate tax, we assume that pre-tax profit will be taxed at 34% (United States federal tax: 21%, New York State tax: 5%, New York City tax: 7%, Metropolitan Transportation Authority tax: 1%). For capex, we assume that RWNYC will reinvest 5% of GGR p.a. as maintenance capex. We note that casinos tend to reinvest 3-5% of GGR p.a. as maintenance capex.

All in all, our calculations indicate that RWNYC can deliver an incremental net profit of c.USD145m (c.MYR610m assuming a conservative MYR4.20:USD1.00 exchange rate) p.a. to GENM should it be allowed to be converted from a VLT facility into a downstate commercial casino. Assuming long term growth rate (g) of 1% and discounting future free cash flows at 11.8% which is the weighted average cost of capital (WACC) we employ to discount GENM's existing cash flows, we estimate that the conversion of RWNYC from a VLT facility into a downstate commercial casino will accrete MYR0.53 to our DCF-based TP for GENM (Fig. 4).

Our aforementioned estimates are based on the existing infrastructure at RWNYC. Should RWNYC win a downstate commercial casino license and choose to invest more in order to expand, it will have the capacity to add more tables, slot machines and/or VLTs that will accrete more upside to the aforementioned earnings estimates and DCF-based TP. Thus, we believe that the scenario analysis we posited above is reasonable and is by no means aggressive.

Figure 4: Potential earnings and value accretion from RWNYC being converted into a downstate commercial casino

	Legend	2024	2025	2026	2027	2028	2029	TV
Incremental GGR (A)	A	-	500.0	505.0	510.1	515.2	520.3	
Operating expenses (15% of GGR) (B)	B	-	(75.0)	(75.8)	(76.5)	(77.3)	(78.0)	
Gaming tax (20% of GGR) ©	C	-	(100.0)	(101.0)	(102.0)	(103.0)	(104.1)	
Staff cost (1.1k staff at USD72k p.a.) (D)	D	-	(79.2)	(80.0)	(80.8)	(81.6)	(82.4)	
Annual fees (USD750 on 6,548 slot machines & 250 gaming tables) (E)	E	-	(5.1)	(5.1)	(5.1)	(5.1)	(5.1)	
EBITDA (F=A+B+C+D+E)	F=A+B+C+D+E	-	240.7	243.2	245.6	248.1	250.7	
Depreciation (5% of USD400m expansion) (G)	G	-	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)	
EBIT (H=F+G)	H=F+G	-	220.7	223.2	225.6	228.1	230.7	
Tax (34% combined corporate tax rate) (I)	I=HX-34%	-	(75.1)	(75.9)	(76.8)	(77.6)	(78.5)	
Net profit (J=H+I)	J=H+I	-	145.6	147.2	148.9	150.5	152.2	
Capex (5% of incremental GGR) (K)	K=5%XA	-	(25.0)	(25.3)	(25.5)	(25.8)	(26.0)	
Licensing fee (L)	L	(500.0)	-	-	-	-	-	
FCF (M=F+I+K+L)	M=F+I+K+L	(500.0)	140.6	142.0	143.4	144.8	146.2	1,358.5
DCF (WACC: 11.8%, g: 1.0%)			714.0					(MYR2,998.7m or MYR0.53/shr)

* TV = terminal value. Calculated at 2027 FCF / (11.8% WACC - 1.0% g)

Source: Maybank IBG Research

2.0 Recap on recent history of the Mashpee Wampanoag

The Mashpee Wampanoag (MW) tribe was federally recognised by the United States Department of the Interior (DOI) on 15 Feb 2007. On 18 Sep 2015, the DOI issued a Record-Of-Decisions (ROD) to hold MW reservation land in trust under 'Category 2' of the Indian Reorganization Act - Tribe Living Continuously on an Existing Reservation. On 8 Jan 2016, the MW tribe had their reservation land (170 acres in Mashpee and 151 acres in Taunton) formally held in trust by the DOI.

The MW tribe then made plans for a casino, First Light Resort & Casino (FLRC) in Taunton, under the Indian Gaming Regulatory Act. The initial capex budget for FLRC was set at USD500m and called for a 150,000 sqf casino, 600 hotel rooms, 3,000 slot machines, 150 tables and 40 poker tables and an events centre. The capex budget was then up scaled to USD1.0b to account for an additional 300 hotel rooms. The MW tribe officially broke ground on FLRC on 5 Apr 2016.

Figure 5: Artist impression of First Light Resort & Casino



Source: Mashpee Wampanoag tribe

On 28 Jul 2016, federal district court judge William G. Young ruled in favour of a group of Taunton residents who challenged the ROD. As a result, construction of FLRC ceased. The said judge later ruled that the DOI could instead hold MW reservation land in trust under 'Category 1' of the Indian Reorganization Act - Tribe Federally Recognised before 1934. That said, the MW tribe was only federally recognised on 15 Feb 2007.

The MW tribe were positive as a precedent case had been established when on 3 Apr 2017, the United States Supreme Court let stand a lower court ruling enabling the DOI to hold reservation land in trust under 'Category 1' of the Indian Reorganization Act - Tribe Federally Recognised before 1934 for the Cowlitz tribe which was only federally recognized in 2000. The DOI stated that it would issue a new ROD in relation to the MW reservation land in Jun 2017.

On 27 Jun 2017, the day the DOI was supposed to issue a new ROD on whether it could hold MW reservation land in trust under 'Category 1' of the Indian Reorganization Act - Tribe Federally Recognised before 1934, the MW tribe unexpectedly announced that it will withdraw its request for review under this category. Neither the DOI nor MW tribe stated whether the latter was de facto federally recognised before 1934 or not.

The DOI then reconsidered the MW tribe's request for 'Category 1' of the Indian Reorganization Act - Tribe Federally Recognised before 1934 recognition on grounds that state recognition in 1934 could be considered as a surrogate for federal recognition. On 7 Sep 2018, the DOI did not find in the MW tribe's favour however. Having failed to secure both 'Category 2' and 'Category 1' recognition, the MW tribe sought federal recognition via Congressional hearing.

On 9 Mar 2018, United States Representative William Keating, D-Massachusetts introduced and co-sponsored Bill H.R. 5244 to reaffirm the DOI's 18 Sep 2015 decision to take 321 acres of land in Mashpee and Taunton into trust on behalf of the MW tribe under 'Category 2' of the Indian Reorganization Act - Tribe Living Continuously on an Existing Reservation. On 22 Mar 2018, United States Senator Ed Markey, D-Massachusetts introduced and co-sponsored Bill S. 2628 as a companion bill to H.R. 5244.

Ostensibly, the wording of both bills are similar to an Act known as the Gun Lake Trust Land Reaffirmation Act that dismissed a lawsuit challenging a DOI decision to take land into trust on behalf of the Potawatomi tribe in Michigan. If passed, the bills will allow the DOI to take MW reservation land into trust. The bills also seek to establish statutory safeguards against further litigation on the matter (i.e. any legal action taken against the MW reservation land taken into trust by the DOI will be promptly dismissed).

H.R. 5244 was later reintroduced as H.R. 312. The Democratic-controlled United States House of Representatives passed H.R. 312 by a vote of 275 to 146 on 15 May 2019. That said, the companion bill was not considered by the then Republican-controlled United States Senate after then President Trump weighed in with a tweet urging Republicans to oppose H.R. 312 and its companion bill because they were supported by United States Senator Elizabeth Warren, D-Massachusetts who was a Democratic presidential primary candidate then.

After the MW tribe lost a series of court appeals, they were informed by the DOI on 27 Mar 2020 that their reservation land will be taken out of trust. That would have sealed the fate of FLRC. The MW tribe then sued the then Secretary of the Interior David Bernhardt. On 5 Jun 2020, federal district court judge Paul Friedman found in the MW tribe's favour and ordered the DOI to reconsider taking MW reservation land out of trust.

Then, the MW tribe's 'bad luck' seemed to have turned a corner. In a virtual Indigenous Peoples Day campaign event hosted by then Democratic presidential nominee, Joe Biden, on 12 Oct 2020, now President Biden referenced a lengthy policy plan for tribal relations published by his campaign that mentioned the MW tribe by name. President Biden also stated that he would seek to place more Native American land into federal trust.

On 3 Nov 2020, Joe Biden defeated Donald Trump in the 2020 United States Presidential election to become the 46th president of the United States. President Biden then appointed United States Representative Deb Haaland, D-New Mexico to serve as the first Native American Secretary of the Interior. Ms. Haaland is a member of the Laguna Pueblo tribe of New Mexico and ardently supported the MW tribe in protecting their reservation land from being taken out of trust.

In Dec 2021, in her capacity as Secretary of the Interior, Ms. Haaland upheld the Obama administration's decision to have reservation land (170 acres in Mashpee and 151 acres in Taunton) formally held in trust by the DOI on behalf of the MW tribe. In Feb 2022, another group of Taunton residents filed another lawsuit to challenge the aforementioned decision but federal district court judge Angel Kelley ruled against them on 10 Feb 2023.

TP could be boosted by another 32sen thanks to the MW

Recall that GENM subscribed for MW promissory notes at interest rates of 12% and 18% and was appointed to manage their yet to be built FLRC for 7 years for 30% of EBIT. As a result of the MW's legal woes, GENM impaired MYR1.8b (MYR0.32/shr) of its MW promissory notes in 3Q18 and forewent c.MYR250m in interest income p.a. Yet, the MW tribe's 'bad luck' seems to have turned a corner since President Biden assumed office.

With the MW tribe formally requesting a meeting with the Taunton City Council to discuss the FLRC in a 4 Aug 2023 letter, we gather that the MW intends to resume construction of FLRC. Assuming the MW promissory notes are written back and no interest was accrued since 3Q18, our DCF-based TP will be raised by MYR0.32 and net profit estimates will be boosted by c.MYR180m p.a. (post-combined corporate tax rate of 27%).

The MW do not have sufficient cash to resume construction of FLRC. GENM may not subscribe for more MW promissory notes until there is more clarity. Thus, the MW will have to seek for other sources of financing. Even so, we opine that there is a chance that GENM's MW promissory notes will be written back when there was none before.

3.0 'Blue sky' TP of MYR3.62 if both catalysts materialise

We maintain our GENM earnings estimates and DCF-TP for now (Fig. 6). That said, we postulate that our long term earnings estimates (i.e. FY25E - assumes RWNYC deploys 250 tables games and MW promissory notes are written back on 1 Jan 2025) could be lifted by 74% (Fig. 7) and DCF-TP could be raised by 31% to MYR3.62 (Fig. 8) should both catalysts materialise under a 'blue sky' scenario. The latter implies attractive upside potential of 40%.

Figure 6: Base case GENM DCF-based valuation

	Value MYRm	Value/sh MYR	Comments
Resorts World Genting	19,173.4	3.38	WACC: 11.8%, g: 2%
Resorts World New York City	3,781.3	0.67	40-year DCF @11.8%
Resorts World Bimini	-	-	Nil
Genting UK	947.7	0.17	WACC: 11.8%, g: 0%
Other investment securities	106.7	0.02	Cost
Malaysian property	483.2	0.09	Cost
Miami property	1,945.0	0.34	Cost
Equanimity	428.9	0.08	End-FY23E BVPS
Empire Resorts	-	-	Nil
Net debt ex-finance lease liabilities (15% discount)	(8,405.9) (2,769.0)	(1.48) (0.49)	End-FY23E ex-lease liabilities
Equity value	15,691.2	2.77	

Source: Maybank IBG Research

Figure 7: 'Blue sky' GENM FY25E core net profit

	MYRm	Comments
Base case FY25E core net profit	1,061.7	
Downstate New York commercial casino license	610.0	From Figure 4
Mashpee Wampanoag promissory notes	180.0	From page 10
Blue sky FY25E core net profit	1,851.7	

Source: Maybank IBG Research

Figure 8: 'Blue sky' GENM DCF-based valuation

	Value MYRm	Value/sh MYR	Comments
Resorts World Genting	19,173.4	3.38	WACC: 11.8%, g: 2%
Resorts World New York City	3,781.3	0.67	40-year DCF @11.8%
Resorts World Bimini	-	-	Nil
Genting UK	947.7	0.17	WACC: 11.8%, g: 0%
Other investment securities	106.7	0.02	Cost
Malaysian property	483.2	0.09	Cost
Miami property	1,945.0	0.34	Cost
Equanimity	428.9	0.08	End-FY23E BVPS
Empire Resorts	-	-	Nil
Net debt ex-finance lease liabilities (15% discount)	(8,405.9) (2,769.0)	(1.48) (0.49)	End-FY23E ex-lease liabilities
Base case	15,691.2	2.77	
Downstate New York commercial casino license	2,998.7	0.53	From Figure 4
Mashpee Wampanoag promissory notes	1,834.3	0.32	From page 10
Blue sky	20,524.2	3.62	

Source: Maybank IBG Research

We are cognisant that many investors are increasingly impatient that RWG earnings, while recovering, have been a lot slower to recover than its regional peers. Yet, we maintain our BUY call on GENM for the upside potential that could be created from RWNYS securing a downstate New York commercial casino license and having its Mashpee Wampanoag promissory notes written back.

The impact on GENM's net gearing (0.83x end-FY02, comprising gross debt of MYR12.9b and cash balance of MYR3.0b), is manageable if RWNYS secures a downstate New York commercial casino license - we estimate 1.02x net gearing assuming one-off licensing fee of USD500m. Yet, GENM's net gearing may not rise at all if it manages to sell its Miami land for the reported USD1.2b ([link](#)). The proceeds will cover the licensing fee of USD500m and leave GENM with change to expand RWNYS's existing facilities to accommodate more than 250 new tables.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	nm	nm	25.5	15.5	13.8
Core P/E (x)	nm	64.6	25.5	15.5	13.8
Core FD P/E (x)	nm	64.6	25.5	15.5	13.8
P/BV (x)	1.2	1.2	1.2	1.2	1.2
P/NTA (x)	1.7	1.8	1.8	1.8	1.7
Net dividend yield (%)	3.1	5.6	5.8	5.8	6.6
FCF yield (%)	nm	10.1	14.3	18.1	17.7
EV/EBITDA (x)	44.2	9.6	7.7	6.0	5.4
EV/EBIT (x)	nm	20.1	13.8	9.5	8.3

INCOME STATEMENT (MYR m)

Revenue	4,156.7	8,603.0	9,717.9	11,024.5	11,382.3
EBITDA	532.1	2,377.6	2,816.3	3,391.8	3,550.9
Depreciation	(1,106.3)	(1,238.8)	(1,251.3)	(1,251.3)	(1,251.3)
EBIT	(574.2)	1,138.8	1,565.0	2,140.5	2,299.6
Net interest income / (exp)	(357.6)	(563.0)	(505.1)	(476.5)	(427.4)
Associates & JV	(183.7)	(153.3)	(252.9)	(224.1)	(224.1)
Exceptionals	(32.2)	(764.7)	0.0	0.0	0.0
Pretax profit	(1,147.7)	(342.2)	807.0	1,439.9	1,648.1
Income tax	96.7	(325.2)	(271.3)	(471.8)	(508.7)
Minorities	104.2	147.4	40.3	(18.7)	(77.7)
Reported net profit	(946.8)	(520.0)	576.0	949.4	1,061.7
Core net profit	(915.1)	235.9	576.0	949.4	1,061.7

BALANCE SHEET (MYR m)

Cash & Short Term Investments	4,641.4	3,044.3	2,817.2	4,062.1	3,394.5
Accounts receivable	717.4	542.1	590.2	669.6	691.3
Inventory	126.6	150.6	115.1	130.6	134.9
Property, Plant & Equip (net)	16,007.9	15,380.8	14,575.5	13,819.5	13,075.2
Intangible assets	4,183.4	4,083.6	4,083.6	4,083.6	4,083.6
Investment in Associates & JVs	1,728.4	2,105.0	1,852.1	1,627.9	1,403.8
Other assets	3,005.2	3,324.6	3,324.6	3,324.6	3,324.6
Total assets	30,410.3	28,631.0	27,358.4	27,718.0	26,107.8
ST interest bearing debt	489.7	973.8	81.2	1,870.4	1,870.4
Accounts payable	2,483.0	2,666.5	2,645.4	2,925.7	3,001.9
LT interest bearing debt	13,296.7	11,926.2	11,845.0	9,974.6	8,104.1
Other liabilities	888.0	1,136.0	1,172.0	1,214.0	1,222.0
Total Liabilities	17,157.7	16,702.0	15,743.4	15,984.7	14,198.2
Shareholders Equity	13,783.8	12,635.9	12,362.1	12,461.8	12,560.4
Minority Interest	(531.2)	(706.9)	(747.2)	(728.5)	(650.9)
Total shareholder equity	13,252.6	11,929.0	11,614.9	11,733.3	11,909.6
Total liabilities and equity	30,410.3	28,631.0	27,358.4	27,718.0	26,107.8

CASH FLOW (MYR m)

Pretax profit	(1,147.7)	(342.2)	807.0	1,439.9	1,648.1
Depreciation & amortisation	1,106.3	1,238.8	1,251.3	1,251.3	1,251.3
Adj net interest (income)/exp	348.7	562.8	505.1	476.5	427.4
Change in working capital	(28.0)	331.9	(33.8)	185.4	50.2
Cash taxes paid	2.3	(65.4)	(234.9)	(429.5)	(501.0)
Other operating cash flow	189.4	637.0	252.9	224.1	224.1
Cash flow from operations	471.0	2,362.9	2,547.6	3,147.7	3,100.2
Capex	(864.8)	(831.6)	(446.0)	(495.3)	(506.9)
Free cash flow	(393.8)	1,531.3	2,101.6	2,652.3	2,593.3
Dividends paid	(480.3)	(848.7)	(849.8)	(849.8)	(963.1)
Equity raised / (purchased)	(21.3)	0.0	0.0	0.0	0.0
Change in Debt	3,248.9	(1,478.3)	(973.8)	(81.2)	(1,870.4)
Other invest/financing cash flow	(204.4)	(837.2)	(505.1)	(476.5)	(427.4)
Effect of exch rate changes	39.0	35.6	0.0	0.0	0.0
Net cash flow	2,188.1	(1,597.3)	(227.1)	1,244.8	(667.6)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(8.2)	107.0	13.0	13.4	3.2
EBITDA growth	61.3	346.8	18.5	20.4	4.7
EBIT growth	nm	nm	37.4	36.8	7.4
Pretax growth	nm	nm	nm	78.4	14.5
Reported net profit growth	nm	nm	nm	64.8	11.8
Core net profit growth	nm	nm	144.2	64.8	11.8
Profitability ratios (%)					
EBITDA margin	12.8	27.6	29.0	30.8	31.2
EBIT margin	nm	13.2	16.1	19.4	20.2
Pretax profit margin	nm	nm	8.3	13.1	14.5
Payout ratio	nm	nm	147.5	89.5	90.7
DuPont analysis					
Net profit margin (%)	nm	nm	5.9	8.6	9.3
Revenue/Assets (x)	0.1	0.3	0.4	0.4	0.4
Assets/Equity (x)	2.2	2.3	2.2	2.2	2.1
ROAE (%)	(6.6)	(3.9)	4.6	7.6	8.5
ROAA (%)	(3.1)	0.8	2.1	3.4	3.9
Liquidity & Efficiency					
Cash conversion cycle	(176.6)	(114.5)	(110.6)	(105.0)	(108.6)
Days receivable outstanding	55.5	26.4	21.0	20.6	21.5
Days inventory outstanding	12.3	8.0	6.9	5.8	6.1
Days payables outstanding	244.3	148.9	138.5	131.4	136.2
Dividend cover (x)	(1.9)	(0.6)	0.7	1.1	1.1
Current ratio (x)	1.8	1.0	1.2	1.0	0.8
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.7	1.7	1.7	1.8
Net gearing (%) (incl perps)	69.0	82.6	78.4	66.3	55.3
Net gearing (%) (excl. perps)	69.0	82.6	78.4	66.3	55.3
Net interest cover (x)	na	2.0	3.1	4.5	5.4
Debt/EBITDA (x)	nm	5.4	4.2	3.5	2.8
Capex/revenue (%)	20.8	9.7	4.6	4.5	4.5
Net debt/ (net cash)	9,145.0	9,855.7	9,109.0	7,782.9	6,580.1

Source: Company; Maybank IBG Research

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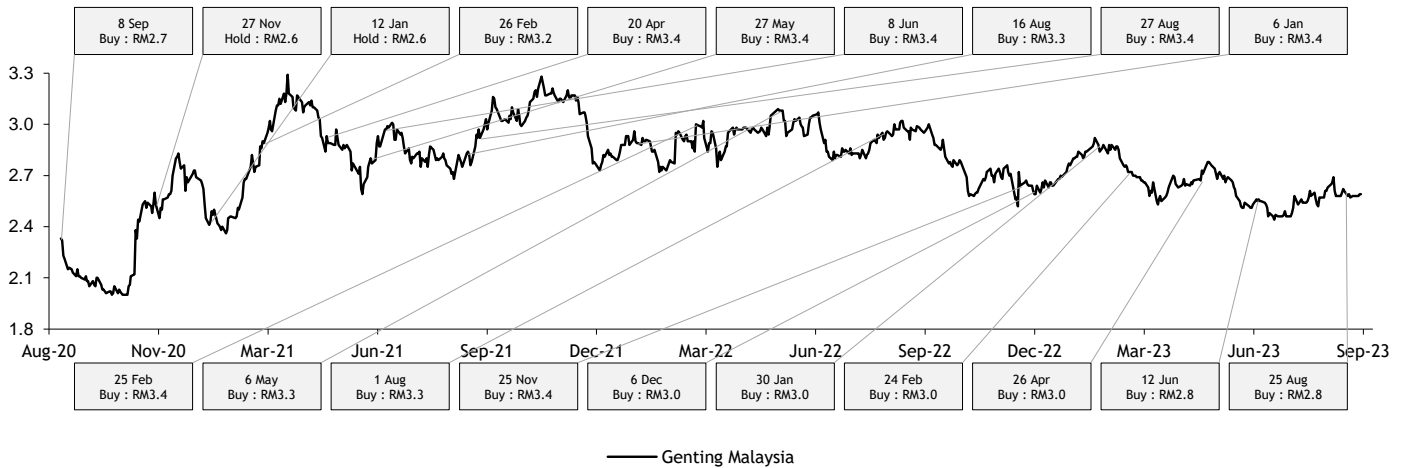
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