

Genting Malaysia (GENM MK)

Another unsavoury RPT but room for more narrowing

Maintain BUY call with higher MYR3.03 DCF-TP (+3%)

To be sure, we do not look kindly on the most recent related party transaction (RPT) involving Empire Resorts (Empire). That said, it does appear to us that room for more RPTs involving Empire is narrowing. We cut our earnings estimates by c.MYR40m p.a., narrow the discount to our DCF-TP to 10% from 15% and raise our DCF-TP to MYR3.03 from MYR2.93. Investors should BUY GENM for its potential to win a downstate commercial casino license that may add MYR0.56 to our DCF-TP ([link](#)).

To inject another USD100m into Empire...

GENM announced that it will subscribe for up to USD100m (MYR465m) of Series M Preferred Stock of Empire. The proceeds will be used for working capital and to fully repay an existing bank facility of USD58m. With this latest equity injection, GENM's effective shareholding in Empire will rise to 90% from 76% and bring its total investment in Empire to USD724.4m. The acquisition is not subject to GENM minority shareholders' approval.

... but lower implied valuation for Empire

The last implied valuation for Empire on 5 Dec 2022 was USD1.0b (GENM raised its effective shareholding by 10% for USD100m). The current implied valuation for Empire is c.USD750m (GENM is raising its effective holding by 13% for USD100m). The lower implied valuation is justified, in our view, as Empire's Resorts World Hudson Valley (RWHV), which opened in Dec 2022, is loss generating. New York State Gaming Commission filings indicate that RWHV operations have not improved much (Fig. 1).

Raise TP as room for more RPTs narrowing

The incremental shareholding of 13% in Empire causes us to cut our GENM earnings estimates by c.MYR40m p.a. We also expand our net debt forecast by MYR465m to reflect the subscription. The above said, we narrow the discount to our DCF-TP to 10% from 15%. Our previous discount of 15% implies that GENM could expend another USD600m-USD650m on Empire; this is now too high after GENM lifts its holdings to 90% of Empire. This raises our DCF-TP by 10sen to MYR3.03.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	4,157	8,603	9,718	10,955	11,287
EBITDA	532	2,378	2,816	3,344	3,485
Core net profit	(915)	236	576	874	973
Core FDEPS (sen)	(16.2)	4.2	10.2	15.4	17.2
Core FDEPS growth(%)	nm	nm	143.9	51.7	11.3
Net DPS (sen)	9.0	15.0	15.0	15.0	17.0
Core FD P/E (x)	nm	64.6	28.0	18.5	16.6
P/BV (x)	1.2	1.2	1.3	1.3	1.3
Net dividend yield (%)	3.1	5.6	5.3	5.3	6.0
ROAE (%)	(6.6)	(3.9)	4.6	7.1	7.8
ROAA (%)	(3.1)	0.8	2.1	3.2	3.6
EV/EBITDA (x)	44.2	9.6	8.2	6.7	6.1
Net gearing (%) (incl perps)	69.0	82.6	78.4	71.1	60.7
Consensus net profit	-	-	534	957	1,153
MIBG vs. Consensus (%)	-	-	7.8	(8.7)	(15.6)

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BUY

Share Price	MYR 2.85
12m Price Target	MYR 3.03 (+12%)
Previous Price Target	MYR 2.93

Company Description

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

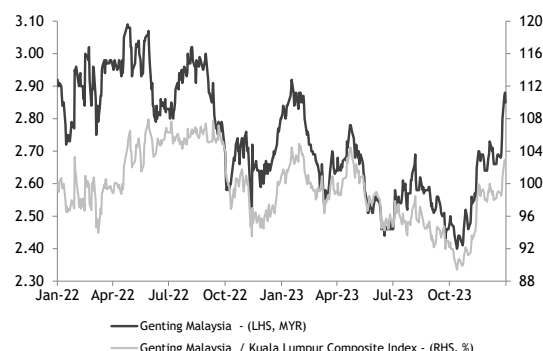
Statistics

52w high/low (MYR)	2.92/2.40
3m avg turnover (USDm)	4.6
Free float (%)	48.1
Issued shares (m)	5,938
Market capitalisation	MYR16.9B
	USD3.6B

Major shareholders:

Genting Bhd.	47.1%
Genting Malaysia Bhd.	4.6%
The Vanguard Group, Inc.	1.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	8	15	2
Relative to index (%)	4	10	1

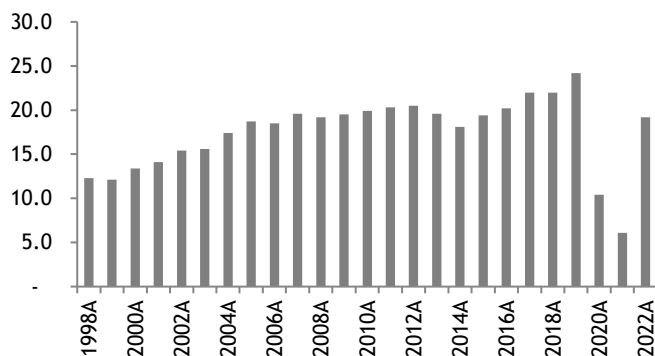
Source: FactSet

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)

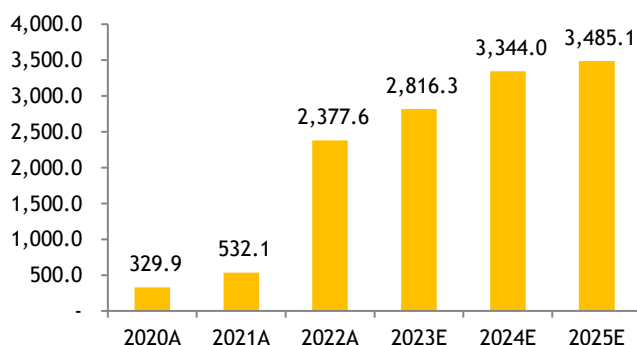


Source: Company

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 19% 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.

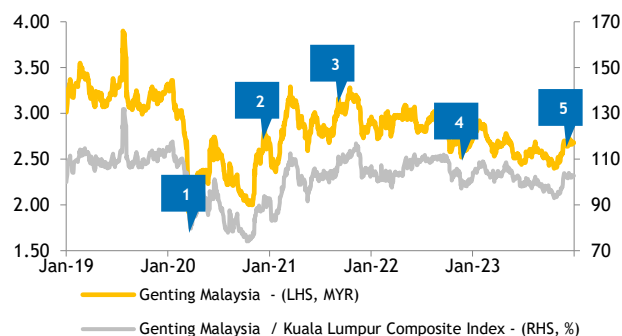
EBITDA (MYRm)



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

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

- COVID-19 pandemic spreads in Malaysia. RWG was shut from 18 Mar 2020 until 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.
- Batang Kali landslide that claimed 31 lives discouraged visits to RWG.
- GENM reported 3Q23 EBITDA that returned to pre-COVID levels.

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.
- Politics - NFO outlets in states controlled by the opposition have been shut. There is no guarantee that RWG will not be shut if the opposition comes to power.

Risk Rating & Score ¹	28.9 (Medium)
Score Momentum ²	+1.2
Last Updated	13 Apr 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	tCO ₂ e	49,080*	40,058*	44,277	58,341
	Scope 2 emissions	tCO ₂ e	218,061*	225,855*	193,124	373,003
	Total	tCO₂e	267,141*	265,913*	237,401	431,344
	Scope 3 emissions	tCO ₂ e	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	kgCO ₂ e/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	m ³ /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>

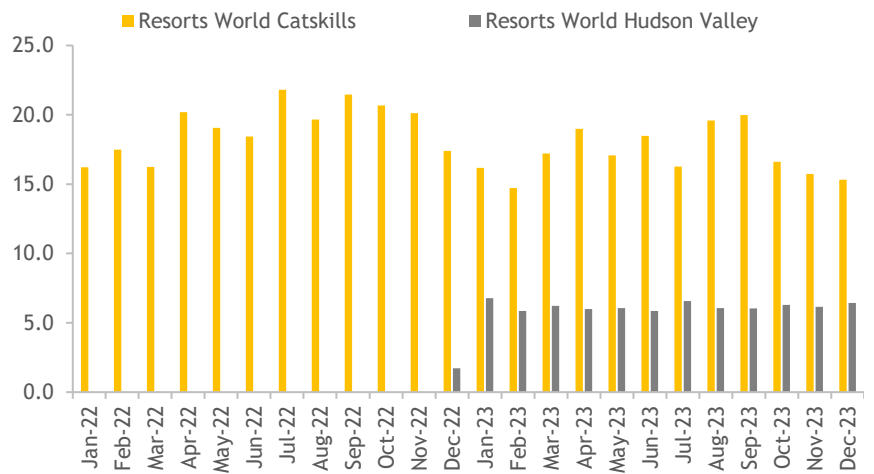
Target (Score: 67)		
Particulars	Target	Achieved
Reduce energy consumption by 1% p.a. till 2023 at RWG (2018 as base year)	7%	17%
Install 4 rainwater harvesters at RWG by 2023	4	3
Carbon neutral	N/A	N/A
Impact		
NA		
Overall Score: 59		
As per our ESG matrix, Genting Malaysia (GENM MK) has an overall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

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

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).

* denotes annualised figures

Figure 1: Empire Resorts gross gaming revenue by property (USDm)



Source: New York State Gaming Commission

Valuation and recommendation

Our previous discount of 15% to DCF implies that GENM could expend another USD600m-USD650m on Empire which we believe is too high now, after GENM raises its holding to 90% of Empire. Our new discount of 10% implies that GENM could expend another USD400m-USD450m on Empire to acquire the remaining 10% effective shareholding and other unexpected related party transactions; this new discount is more reasonable, in our view.

Figure 2: GENM DCF-based valuation

	Value MYRm	Value/sh MYR	Comments
Resorts World Genting	19,048.8	3.36	WACC: 11.8%, g: 2%
Resorts World New York City	3,802.6	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	407.9	0.07	End-FY24E BVPS
Empire Resorts	-	-	Nil
Net debt ex-finance lease liabilities	(7,665.2)	(1.35)	End-FY24E ex-lease liabilities
(10% discount)	(1,907.7)	(0.34)	
Equity value	17,169.0	3.03	

Source: Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	nm	nm	28.0	18.5	16.6
Core P/E (x)	nm	64.6	28.0	18.5	16.6
Core FD P/E (x)	nm	64.6	28.0	18.5	16.6
P/BV (x)	1.2	1.2	1.3	1.3	1.3
P/NTA (x)	1.7	1.8	2.0	1.9	1.9
Net dividend yield (%)	3.1	5.6	5.3	5.3	6.0
FCF yield (%)	nm	10.1	13.0	16.2	15.8
EV/EBITDA (x)	44.2	9.6	8.2	6.7	6.1
EV/EBIT (x)	nm	20.1	14.7	10.6	9.5
INCOME STATEMENT (MYR m)					
Revenue	4,156.7	8,603.0	9,717.9	10,955.1	11,286.9
EBITDA	532.1	2,377.6	2,816.3	3,344.0	3,485.1
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	2,092.7	2,233.8
Net interest income / (exp)	(357.6)	(563.0)	(505.1)	(476.5)	(427.4)
Associates & JV	(183.7)	(153.3)	(252.9)	(263.2)	(263.2)
Exceptionals	(32.2)	(764.7)	0.0	0.0	0.0
Pretax profit	(1,147.7)	(342.2)	807.0	1,353.0	1,543.3
Income tax	96.7	(325.2)	(271.3)	(460.3)	(492.9)
Minorities	104.2	147.4	40.3	(18.7)	(77.7)
Reported net profit	(946.8)	(520.0)	576.0	874.0	972.7
Core net profit	(915.1)	235.9	576.0	874.0	972.7
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	4,641.4	3,044.3	2,817.2	3,557.9	2,841.9
Accounts receivable	717.4	542.1	590.2	665.4	685.6
Inventory	126.6	150.6	115.1	129.8	133.7
Property, Plant & Equip (net)	16,007.9	15,380.8	14,575.5	13,816.8	13,068.6
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	2,053.9	1,790.7
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	27,631.9	25,928.6
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	2,917.4	2,990.5
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	1,212.0	1,218.0
Total Liabilities	17,157.7	16,702.0	15,743.4	15,974.0	14,183.6
Shareholders Equity	13,783.8	12,635.9	12,362.1	12,386.4	12,395.9
Minority Interest	(531.2)	(706.9)	(747.2)	(728.5)	(650.9)
Total shareholder equity	13,252.6	11,929.0	11,614.9	11,657.8	11,745.1
Total liabilities and equity	30,410.3	28,631.0	27,358.4	27,631.9	25,928.6
CASH FLOW (MYR m)					
Pretax profit	(1,147.7)	(342.2)	807.0	1,353.0	1,543.3
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)	182.2	49.0
Cash taxes paid	2.3	(65.4)	(234.9)	(420.5)	(486.1)
Other operating cash flow	189.4	637.0	252.9	263.2	263.2
Cash flow from operations	471.0	2,362.9	2,547.6	3,105.7	3,048.1
Capex	(864.8)	(831.6)	(446.0)	(492.6)	(503.1)
Free cash flow	(393.8)	1,531.3	2,101.6	2,613.1	2,545.0
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)	(941.5)	(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)	740.6	(715.9)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(8.2)	107.0	13.0	12.7	3.0
EBITDA growth	61.3	346.8	18.5	18.7	4.2
EBIT growth	nm	nm	37.4	33.7	6.7
Pretax growth	nm	nm	nm	67.7	14.1
Reported net profit growth	nm	nm	nm	51.7	11.3
Core net profit growth	nm	nm	144.2	51.7	11.3
Profitability ratios (%)					
EBITDA margin	12.8	27.6	29.0	30.5	30.9
EBIT margin	nm	13.2	16.1	19.1	19.8
Pretax profit margin	nm	nm	8.3	12.3	13.7
Payout ratio	nm	nm	147.5	97.2	99.0
DuPont analysis					
Net profit margin (%)	nm	nm	5.9	8.0	8.6
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	7.1	7.8
ROAA (%)	(3.1)	0.8	2.1	3.2	3.6
Liquidity & Efficiency					
Cash conversion cycle	(176.6)	(114.5)	(110.6)	(105.1)	(108.7)
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	131.6	136.3
Dividend cover (x)	(1.9)	(0.6)	0.7	1.0	1.0
Current ratio (x)	1.8	1.0	1.2	0.9	0.7
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	71.1	60.7
Net gearing (%) (excl. perps)	69.0	82.6	78.4	71.1	60.7
Net interest cover (x)	na	2.0	3.1	4.4	5.2
Debt/EBITDA (x)	nm	5.4	4.2	3.5	2.9
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	8,287.1	7,132.6

Source: Company; Maybank IBG Research

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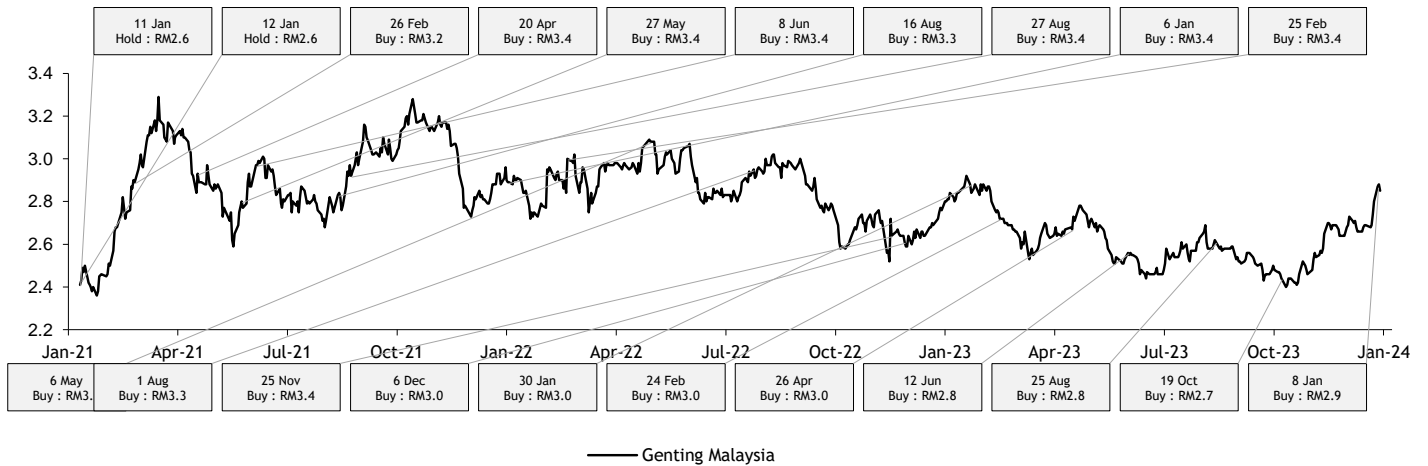
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