

Genting Singapore (GENS SP)

Consumer Cyclical - Gaming

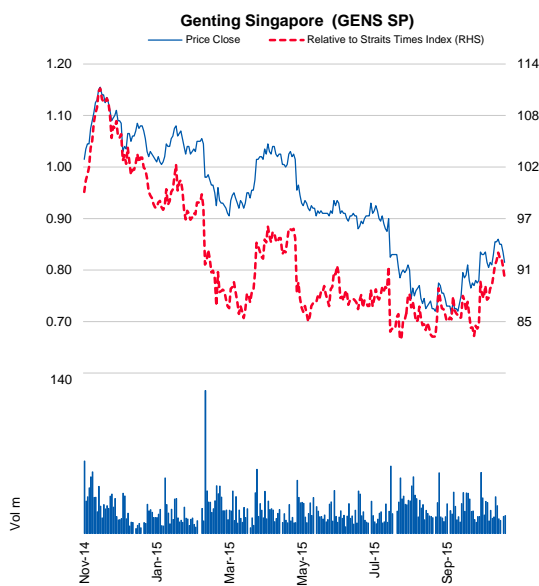
Market Cap: USD6,878m

Trading Buy (Maintained)

 Target Price: **SGD1.00**

 Price: **SGD0.82**

Dragged Down By Bad Debts Provision

 Macro ◆◆
 Risks ◆◆
 Growth ◆◆
 Value ◆◆


Source: Bloomberg

Avg Turnover (SGD/USD)	18.1m/12.9m
Cons. Upside (%)	4.9
Upside (%)	23.1
52-wk Price low/high (SGD)	0.72 - 1.16
Free float (%)	48
Share outstanding (m)	12,085.6
Shareholders (%)	
Genting	51.9

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(24.5)	0.6	1.2	(20.1)	(19.7)
Relative	(13.1)	2.3	3.8	(6.7)	(10.5)

9M15 core profit of SGD293.0m fell short of our expectations, at 64.6% of our full-year forecast as 3Q15 bad debt provisions jumped over 60% QoQ to SGD92.5m. Maintain TRADING BUY with our TP fine-tuned to SGD1.00 (from SGD1.02, 23% upside). Its VIP hold, however, recovered to register at the theoretical level of 2.8% during the quarter.

- ◆ **Results review.** Genting Singapore's 3Q15 revenue slipped 1.3% YoY to SGD636.1m as the decline in its VIP rolling volume of over 50% YoY was mostly offset by improvement in its VIP hold to 2.8% (3Q14: <2.0%). Core profit, however, fell 16.3% YoY to SGD99.0m as the impairment loss on its receivables spiked 132.6% YoY to SGD92.5m. On a sequential basis, numbers are generally higher but core earnings closed flattish due to the resurgence in its bad debt provisions (+63.5% QoQ). All in, 9M15 core profit of SGD293.0m fell short of our but beat consensus expectations at 64.6%/82.5% of full-year forecasts respectively, as 9M15 bad debt provisions came in at SGD225.3m vs our previous full-year forecast of SGD220.0m.
- ◆ **Key highlights.** While we are negatively surprised by the unexpected jump in its 3Q15 bad debt provisions, management expects to see improvements in the quality of its books come 2016, owing to the group's stringent credit control as well as the tightening of its collection procedures over the past 9-12 months. In addressing concerns over the volatile nature of its holdings of derivatives and financial instruments, management indicated that most of its previously-outstanding positions have expired or been settled. Notably, its available-for-sale financial assets closed at SGD495.9m (-53.4% QoQ), while the derivative financial instruments under its current liabilities reduced to SGD54.5m (from SGD276.5m in 2Q15) as of end-Sep 2015.
- ◆ **Forecast revisions.** We cut our FY15F-17F EPS by 2.6-8.5% by tweaking our bad debt provisions to be in line with its latest disclosures.
- ◆ **Maintain TRADING BUY.** While we acknowledge that the operating environment remains challenging, we continue to believe the worst is likely over for Genting Singapore. It is currently trading at 5.9x 2016F EV/EBITDA, which implies an appealing discount of 41%/44% over its historical mean of/Macau gaming peers' 10.0x/10.6x. Maintain TRADING BUY, with our SOP-based TP fine-tuned to SGD1.00 following our earnings revision.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	2,847	2,862	2,598	2,778	2,826
Reported net profit (SGDm)	707	635	415	530	592
Recurring net profit (SGDm)	619	588	415	530	592
Recurring net profit growth (%)	(0.8)	(5.0)	(29.5)	27.7	11.8
Recurring EPS (SGD)	0.05	0.05	0.03	0.04	0.05
DPS (SGD)	0.01	0.01	0.01	0.01	0.01
Recurring P/E (x)	16.0	16.8	23.8	18.6	16.6
P/B (x)	1.34	1.33	1.28	1.22	1.15
P/CF (x)	13.4	12.8	11.3	11.9	10.5
Dividend Yield (%)	1.2	1.2	1.2	1.2	1.2
EV/EBITDA (x)	6.56	6.01	7.16	5.90	5.06
Return on average equity (%)	10.1	8.6	5.5	6.7	7.1
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			16.7	11.1	9.4

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Updates on Korea. On its proposed Resorts World Jeju, soil works are currently nearing completion – with construction works on track to commence by early 2016. We expect the soft opening of the casino to take place earliest by end-2017.

Further delays in Japan's gaming bill. On a side note, local media in Japan reported that the ruling Liberal Democratic Party has decided against holding an extraordinary Diet session during the autumn. This, if it materialises, will mark the first time in a decade that Japan has put off its fall session and may spell further delays in pushing through the nation's gaming bill.

Figure 1: Quarterly results review

FYE Dec (SGDm)	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	9M14	9M15	YoY (%)	Comments
Revenue	644.8	578.1	636.1	10.0	(1.3)	2224.6	1853.5	(16.7)	
EBITDA	267.7	208.5	224.5	7.7	(16.2)	1005.3	675.1	(32.8)	Profitability margins were affected by both lower VIP volume and an unusually low VIP hold rate of 2.5% in 9M15
EBITDA margin (%)	41.5	36.1	35.3			45.2	36.4		
Depreciation	(102.4)	(73.2)	(77.6)	5.9	(24.2)	(315.7)	(258.9)	(18.0)	Improved YoY due to revision in estimated useful lives of its fixed assets
EBIT	165.3	135.2	146.9	8.6	(11.2)	689.6	416.2	(39.7)	
EBIT margin (%)	25.6	23.4	23.1			31.0	22.5		
Interest expense	(9.7)	(14.2)	(14.5)	2.3	49.1	(32.4)	(40.0)	23.4	
Interest income	0.0	0.0	0.0	Nm	Nm	0.0	0.0	Nm	
Associates	(3.3)	(2.0)	(2.3)	14.9	(29.8)	12.2	(3.2)	(126.1)	
EI/Others	8.8	(85.9)	(32.1)	(62.6)	(464.1)	(19.3)	(121.9)	530.4	Distorted by recognition of property tax refund of SGD102.7m and forex gain of SGD153.3m, offset by SGD337.8m of fair value loss on derivatives and financial assets
Pretax profit	161.1	33.2	97.9	195.0	(39.2)	650.1	251.0	(61.4)	
Pretax margin (%)	25.0	5.7	15.4			29.2	13.5		
Tax	(34.0)	(20.7)	(31.0)	49.6	(8.8)	(133.7)	(79.9)	(40.2)	
Effective tax rate (%)	21.1	62.4	31.7			20.6	31.8		
Minority Interest	0.0	0.0	0.0	Nm	Nm	0.0	0.0	Nm	
Net profit	127.1	12.5	66.9	436.9	(47.4)	516.3	171.1	(66.9)	
Core profit	118.3	98.3	99.0	0.7	(16.3)	535.7	293.0	(45.3)	Missed expectations as 3Q15 bad debt provision jumped over 60% QoQ; no dividend was declared
Net margin (%)	18.3	17.0	15.6			24.1	15.8		

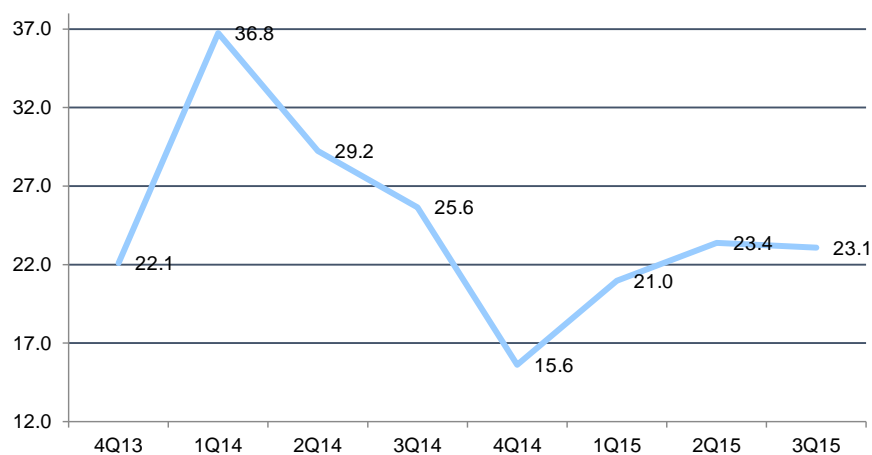
Source: Company data, RHB

Figure 2: Quarterly comparison

FYE Dec (SGDm)	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15
Revenue	692.9	828.8	751.0	644.8	637.9	639.2	578.1	636.1
Growth QoQ (%)		19.6	-9.4	-14.1	-1.1	0.2	-9.6	10.0
Growth YoY					-7.9	-22.9	-23.0	-1.3
COGS	(482.6)	(472.8)	(482.4)	(426.9)	(486.6)	(456.9)	(403.1)	(448.5)
Gross profit	210.3	356.0	268.6	217.9	151.2	182.3	175.1	187.6
GPM (%)	30.3	43.0	35.8	33.8	23.7	28.5	30.3	29.5
EBITDA	261.1	406.2	320.3	267.7	203.3	241.9	208.5	224.5
<i>EBITDA margin (%)</i>	<i>37.7</i>	<i>49.0</i>	<i>42.6</i>	<i>41.5</i>	<i>31.9</i>	<i>37.8</i>	<i>36.1</i>	<i>35.3</i>
Depreciation	(108.1)	(101.5)	(100.6)	(102.4)	(103.8)	(107.8)	(73.2)	(77.6)
EBIT	153.1	304.6	219.6	165.3	99.6	134.1	135.2	146.9
<i>EBIT margin (%)</i>	<i>22.1</i>	<i>36.8</i>	<i>29.2</i>	<i>25.6</i>	<i>15.6</i>	<i>21.0</i>	<i>23.4</i>	<i>23.1</i>
Interest expense	(12.4)	(11.6)	(11.1)	(9.7)	(9.7)	(11.3)	(14.2)	(14.5)
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Associates	1.5	10.9	4.7	(3.3)	(1.6)	1.2	(2.0)	(2.3)
El/Others	48.2	15.2	(43.4)	8.8	66.5	(4.0)	(85.9)	(32.1)
Pretax profit	190.3	319.1	169.9	161.1	154.7	119.9	33.2	97.9
<i>Pretax margin (%)</i>	<i>27.5</i>	<i>38.5</i>	<i>22.6</i>	<i>25.0</i>	<i>24.3</i>	<i>18.8</i>	<i>5.7</i>	<i>15.4</i>
Tax	(20.3)	(61.5)	(38.2)	(34.0)	(35.8)	(28.2)	(20.7)	(31.0)
<i>Effective tax rate (%)</i>	<i>10.7</i>	<i>19.3</i>	<i>22.5</i>	<i>21.1</i>	<i>23.2</i>	<i>23.5</i>	<i>62.4</i>	<i>31.7</i>
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	170.0	257.6	131.7	127.1	118.9	91.7	12.5	66.9
Core profit	121.8	242.4	175.0	118.3	52.4	95.7	98.3	99.0
<i>Net margin (%)</i>	<i>17.6</i>	<i>29.2</i>	<i>23.3</i>	<i>18.3</i>	<i>8.2</i>	<i>15.0</i>	<i>17.0</i>	<i>15.6</i>

Source: Company data, RHB

Figure 3: Quarterly EBIT margins (%)



Source: Company data, RHB

Figure 4: SOP valuation

Component	EBITDA (SGDm)	EV/EBITDA (x)	Value (SGDm)
FY16F EBITDA	1,081.4	8.5	9,192.1
Net cash as of Sept 2015			2,934.3
Equity Value			12,126.4
No of shares			12,085.6
Equity value/share (SGD)			1.00

Source: RHB

Financial Exhibits

Profit & Loss (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	2,847	2,862	2,598	2,778	2,826
Cost of sales	(1,845)	(1,869)	(1,789)	(1,796)	(1,779)
Gross profit	1,002	994	808	982	1,047
Gen & admin expenses	(274)	(236)	(221)	(236)	(226)
Selling expenses	(65)	(57)	(51)	(55)	(54)
Other operating costs	55	68	4	3	3
Operating profit	719	769	540	694	771
Operating EBITDA	1,142	1,188	933	1,081	1,160
Depreciation of fixed assets	(401)	(399)	(378)	(373)	(374)
Amortisation of intangible assets	(21)	(20)	(15)	(15)	(15)
Operating EBIT	719	769	540	694	771
Net income from investments	37	11	20	20	20
Interest income	39	50	38	41	42
Interest expense	(54)	(42)	(60)	(67)	(63)
Exceptional income - net	105	17	-	-	-
Pre-tax profit	846	805	539	688	769
Taxation	(138)	(170)	(124)	(158)	(177)
Minority interests	(0)	-	-	-	-
Profit after tax & minorities	707	635	415	530	592
Reported net profit	707	635	415	530	592
Recurring net profit	619	588	415	530	592

Source: Company data, RHB

Cash flow (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	719	769	540	694	771
Depreciation & amortisation	422	419	393	388	389
Change in working capital	(262)	(358)	81	(70)	(25)
Other operating cash flow	80	73			
Operating cash flow	960	903	1,015	1,011	1,135
Interest received	39	50	38	41	42
Interest paid	(43)	(33)	(60)	(67)	(63)
Tax paid	(215)	(153)	(124)	(158)	(177)
Cash flow from operations	741	768	869	827	937
Capex	(392)	(195)	(300)	(400)	(300)
Other investing cash flow	(408)	265	-	-	-
Cash flow from investing activities	(800)	70	(300)	(400)	(300)
Dividends paid	(122)	(122)	(121)	(121)	(121)
Increase in debt	(453)	(523)	(200)	(200)	(200)
Other financing cash flow	(124)	(302)	-	-	-
Cash flow from financing activities	(699)	(947)	(321)	(321)	(321)
Cash at beginning of period	4,384	3,630	3,697	3,945	4,051
Total cash generated	(758)	(110)	248	106	316
Forex effects	4	24	-	-	-
Implied cash at end of period	3,630	3,544	3,945	4,051	4,367

Source: Company data, RHB

Financial Exhibits

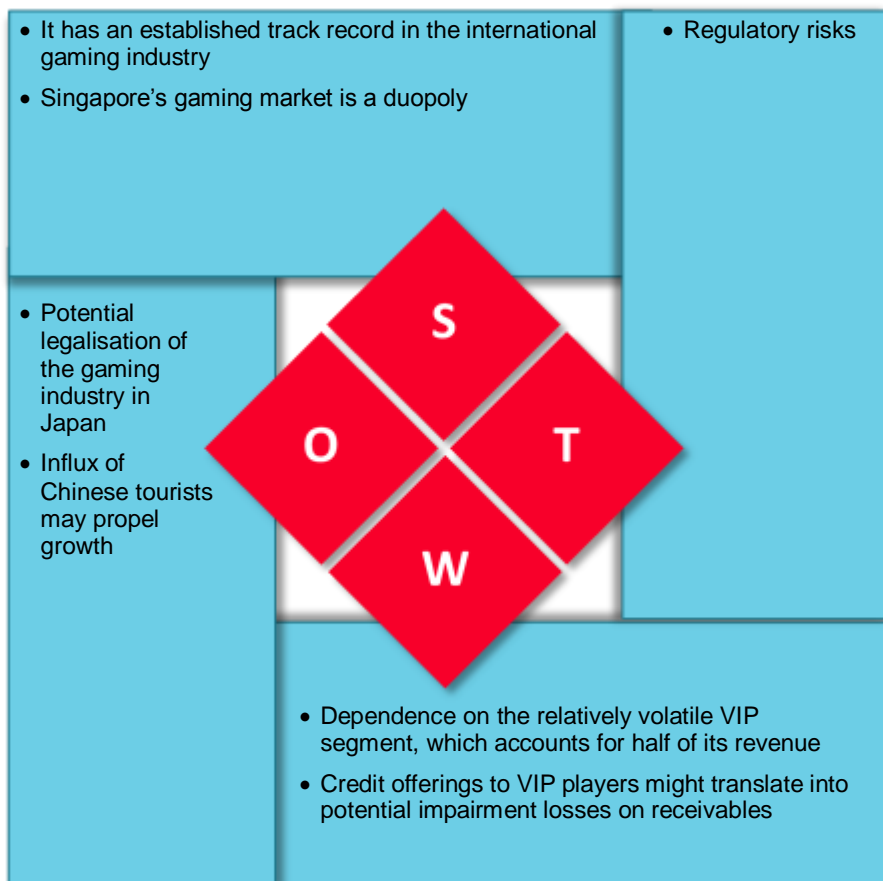
Balance Sheet (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	3,761	3,837	4,085	4,191	4,507
Inventories	56	54	49	52	53
Accounts receivable	1,116	1,101	999	1,068	1,087
Other current assets	1,265	1,314	1,314	1,314	1,314
Total current assets	6,199	6,305	6,446	6,625	6,960
Total investments	641	439	459	479	499
Tangible fixed assets	6,095	5,809	5,732	5,759	5,685
Intangible assets	139	119	104	89	74
Total non-current assets	6,875	6,367	6,295	6,327	6,258
Total assets	13,074	12,672	12,741	12,952	13,218
Short-term debt	516	518	518	518	518
Accounts payable	758	596	570	572	567
Other current liabilities	173	428	428	428	428
Total current liabilities	1,447	1,542	1,517	1,519	1,513
Total long-term debt	1,702	1,184	984	784	584
Other liabilities	278	243	243	243	243
Total non-current liabilities	1,980	1,427	1,227	1,027	827
Total liabilities	3,427	2,969	2,744	2,546	2,340
Share capital	5,731	5,573	5,573	5,573	5,573
Retained earnings reserve	1,306	1,708	2,002	2,411	2,882
Other reserves	302	114	114	114	114
Shareholders' equity	7,339	7,395	7,689	8,098	8,569
Minority interests	0	0	0	0	0
Other equity	2,308	2,308	2,308	2,308	2,308
Total equity	9,647	9,703	9,997	10,406	10,878
Total liabilities & equity	13,074	12,672	12,741	12,952	13,218

Source: Company data, RHB

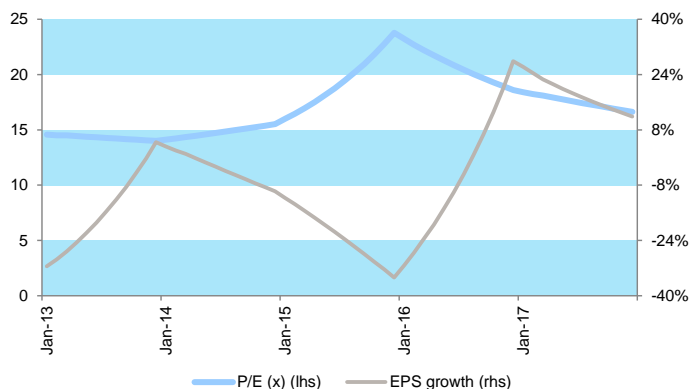
Key Ratios (SGD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	(3.4)	0.5	(9.2)	6.9	1.7
Operating profit growth (%)	(12.5)	6.9	(29.7)	28.4	11.1
Net profit growth (%)	4.0	(10.2)	(34.7)	27.7	11.8
EPS growth (%)	4.5	(9.8)	(34.7)	27.8	11.8
BVPS growth (%)	11.9	0.6	4.2	5.3	5.8
Operating margin (%)	25.3	26.9	20.8	25.0	27.3
Net profit margin (%)	24.8	22.2	16.0	19.1	21.0
Return on average assets (%)	5.4	4.9	3.3	4.1	4.5
Return on average equity (%)	10.1	8.6	5.5	6.7	7.1
Net debt to equity (%)	(16.0)	(22.0)	(25.8)	(27.8)	(31.3)
DPS	0.01	0.01	0.01	0.01	0.01
Recurrent cash flow per share	0.06	0.06	0.07	0.07	0.08

Source: Company data, RHB

SWOT Analysis

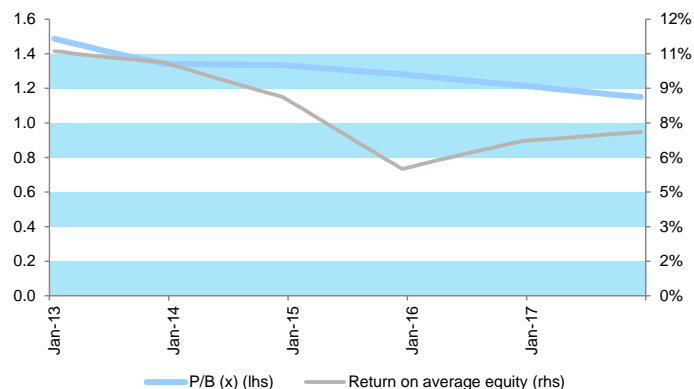


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Genting Singapore owns and operates Resorts World Sentosa (RWS). RWS is Singapore's first integrated resort costing over SGD6.5bn and sits on a 49ha site on Sentosa island.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-08-14	Trading Buy	1.02	0.80
2015-05-14	Neutral	1.03	1.02
2015-02-24	Neutral	1.06	1.05
2014-11-12	Neutral	1.14	1.02
2014-08-15	Neutral	1.39	1.26
2014-05-06	Neutral	1.43	1.35
2014-02-21	Neutral	1.44	1.36
2014-02-10	Neutral	1.49	1.42
2013-11-05	Neutral	1.52	1.53
2013-08-07	Neutral	1.38	1.37

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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