

SECTOR UPDATE

Gaming – Regional

Wager On A Winning Streak For The Genting Group's ASEAN Listcos

The Genting Group's ASEAN-listed gaming stocks are set for a winning streak with valuations re-rating to price in business normalisation trends, as countries move gradually towards the COVID-19 endemic phase and reopen their borders. All three Genting ASEAN listcos should resume generous dividend payouts by end-22. Meanwhile, Macau stocks have bottomed out with limited upside. We maintain **MARKET WEIGHT** on the regional gaming sector. Top picks: **GENM** and **GENS**.

WHAT'S NEW

- **Gaming stock valuations to re-rate with business normalisation in 2022.** The gaming sector, being a tourism-related sector, is poised to be a key beneficiary of the region's imminent economic and border reopening, as the world gradually treats the Omicron variant as the onset of the endemic phase for COVID-19.
- **Key regional event milestones** (see chart overleaf) include selective border reopening from late-1Q22 and onwards (see RHS chart), more concrete details to Macau's concession renewal terms in mid-22, and Resorts World New York City's RFP submission for a full-fledged gaming concession by 4Q22.
- **ASEAN-listed valuations remain overly depressed.** The ASEAN-listed gaming companies trade well below their five-year mean EV/EBITDA multiples based on our 2023 earnings forecasts, whereas the Macau gaming companies trade close to their respective mean valuations. 2023 forecasts provides a stronger gauge of the upside potential, as 2022 earnings trajectory and forecasts remain subject to the timing of border reopenings.
- **Genting Group's ASEAN gaming listcos well-poised for sharp dividend recoveries by 2023.** Sharp revenue recoveries, combined with low-to-moderate capex requirements relative to balance sheet strength and cash flow generation, suggest that all three Genting companies would be reinstating their generous pre-pandemic dividend policies. By 2023, Genting Malaysia (GENM), Genting Singapore (GENS) and Genting Berhad (GENT) should be matching their respective pre-pandemic dividends which suggest prospective dividend yields of 6.7%, 4.7% and 4.4% respectively.

ACTION

- **Maintain OVERWEIGHT on the Malaysian gaming sector and MARKET WEIGHT on the Singapore and Macau gaming sectors.** The Malaysian gaming sector enjoys a high concentration of re-rating catalysts (ie GENM's opening of SkyWorld's outdoor theme park, Malaysia plan to reopen its borders in Mar 22, bidding for a full-fledged New York downstate gaming concession), and is also less dependent on China VIP gamers.
- **Maintain BUY on GENM, GENT and Sands Macau.** Our top pick is GENM (BUY) which offers compelling and sustainable upside through 2023, followed by GENS (BUY) and Sands China (BUY). Small cap RGB is also set to re-rate. For Macau, Sands China is the least affected by the implosion of mainland Chinese junket business and is well positioned to capitalise on the recovery of the mass market once China loosens movement control.

PEER COMPARISON

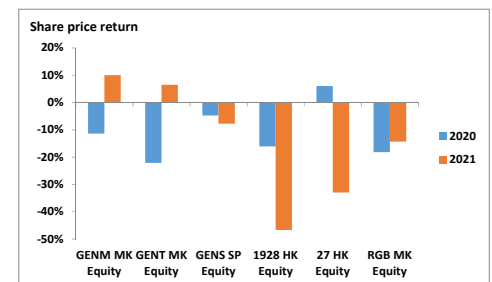
Company	Ticker	Rec	Price @ 18 Feb 22 (local currency)	Target Price	Mkt Cap (US\$m)	EV/EBITDA 2022F (x)	Yield 2023F (%)	PE 2023F (x)	ROE 2023F (%)
Malaysia									
Genting Malaysia	GENM MK	BUY	2.86	4.00	3,917	12.5	6.7	12.9	9.9
Genting Bhd	GENT MK	BUY	4.63	6.92	4,342	6.9	4.7	9.0	5.9
Singapore									
Genting Singapore	GENS SP	BUY	0.78	1.08	7,092	8.4	4.4	13.7	8.6
Macau									
Sands China	1928 HK	BUY	23.65	28.10	24,537	15.2	4.3	8.0	66.2
Galaxy Entertainment	27 HK	BUY	47.85	47.56	26,742	24.0	1.6	18.9	14.6

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

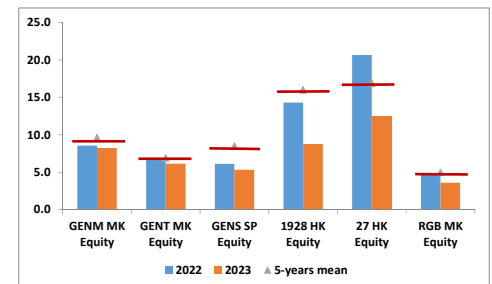
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2020-2021 SHARE PRICE PERFORMANCES



Source: UOB Kay Hian

EV/EBITDA VALUATION (2022-2023)



Source: UOB Kay Hian

REGION'S BORDER REOPENING STATUS

Country	Border Reopening Status
Malaysia	Borders reopening most likely in early-2022.
Singapore	Reinstated VTLs with >20 countries, allowing fully vaccinated visitors.
Philippines	Opened to vaccinated travellers holding valid visas (no quarantine) since 10 Feb 22.
Cambodia	Fully open to vaccinated travellers (no quarantine).
Thailand	Fully open for travel without quarantine for vaccinated guests.
Indonesia	Open for tourism but with 7-day quarantine.
China	Borders remain closed to other countries except Hong Kong and Macau.
Hong Kong	Open only to travellers who have been in Mainland China, Taiwan or Macau for > 14 days.
Macau	Macau is not open for non-essential travel other than Mainland China, Hong Kong and Taiwan.
Japan	Borders remain closed.
Australia	Reopened its borders to all vaccinated visa holders.

Source: Media reports

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ESSENTIALS

- OVERWEIGHT on gaming companies with relatively good prospective dividends...** We recommend buying casino jurisdictions which are able to reinstate their dividend policies. We expect the Genting Group's Asean listcos to reinstate their generous and progressively improved dividend policies before the COVID-19 pandemic, given that: a) GENM and GENT have gone ex-capex (after respectively launching Genting SkyWorlds theme park and Resorts World Las Vegas) from 2022 onwards; and b) while GENS' capex commitment is fairly high through 2025, it needs to capital manage its lazy balance sheet (net cash at above one-third of market cap) while being able to generate sufficient cash flows to fund the capex from 2023 onwards. GENS has declared a modest final DPS of 1 S cent/share, and we expect GENM and GENT to also declare modest dividends in their upcoming results announcements.
- ...and reliance on local mass market.** Both GENM and GENS have demonstrated that they can sustain respectable baseline gaming revenues at around 60-70% of pre-pandemic levels, even with country borders being essentially shut. Pre-pandemic, both GENM and GENS have respectively low and moderate dependency on China VIP gamers, and are hence fairly insulated from the implosion of this segment due to China's regulations. In addition, the Genting Group's US operations are also thriving from the domestic market.
- Meanwhile, however, Macau gaming companies may not be able** to fully restore their dividend policies, and will be well short of recovering to their respective peak EBITDA. Our assessment reflects the concessionaires' need to first strengthen balance sheet and need for policy recalibration to the upcoming capital requirements of the upcoming gaming bill amendment, and the latter assessment reflects the Chinese government's harsh actions in curbing junket activities (which account for the bulk of Macau's VIP gaming revenue).
- Malaysia gaming sector: OVERWEIGHT.** Malaysia's gaming sector is poised to be a major market outperformer 2022, leveraging on the eventual earnings recovery (GGR to grow 100-110%), minimal impact from Malaysia's one-off Prosperity tax, and various other exciting event catalysts. While the timing of border reopening remains uncertain, GENM can sustain 70% of its pre-pandemic EBITDA to allow considerable resumption of dividend payments, thanks to pent-up demand from domestic clientele (>70% of Resorts World Genting's (RWG) visitorship), and RWG's recently opened Genting Skyworlds outdoor theme park. The Group should also get some uplift from the US gaming market, where gaming revenue has surpassed pre-pandemic levels, and with GENM vying for a full gaming concession in downstate New York. Both GENM and GENT trade well below their respective mean EV/EBITDA valuations (see overleaf for historical EV/EBITDA).
- Singapore gaming sector: OVERWEIGHT.** The most promising of all gaming jurisdictions on border re-opening, Singapore has transitioned to its COVID-19 Resilience Phase since Nov 21, relaxed some of its cumbersome standard operating procedures (SOP), and piloted quarantine-free vaccinated travel lanes (VTL) with >20 countries. We expect Singapore's GGR to grow 45-50% in 2022 to recover to about 70-75% of the pre-pandemic GGR level. We expect cash-flushed GENS to focus on capital management, after abandoning its bid for the elusive Japanese gaming concession. The company does not have any new gaming jurisdictions to pursue. GENS' depressed valuation – trading at -1.2SD to its mean EV/EBITDA – underrates its ability to significantly capital manage. Our target price for GENS implies 8.5x 2023F EV/EBITDA (-0.5SD below mean) valuations.
- Macau Gaming sector: MARKET WEIGHT.** The recovery timing on Macau's GGR remain uncertain given China's insistence on "dynamic clearing" approach to COVID-19. However, market has been gradually pricing in recovery beyond 2022 and the previous overhang on the gaming concession renewal was largely removed. We expect industry overall GGR to recover to 34/50% of pre-pandemic levels in 2022/23, with mass market GGR and VIP segment's GGR recovering to 55/80% and 10/15% of pre-pandemic levels respectively. While the gaming law amendment progress is underway, we expect any hint of border relaxation to be a key catalyst for the sector. Top pick is Sands China (target price: HK\$28.10, based on 11.3x 2023F adjusted EV/EBITDA or -2SD to 10-year mean). Our recommendation for Galaxy is pending review after the release of its 4Q21 results.

GGR, MIX and GROWTH OUTLOOK

Countries	2022F	2023F
<u>Malaysia</u>		
GGR(USD)	1.1b	1.4b
GGR Growth Forecast (%)	100-110	30-40
VIP: Mass Revenue Mix (%)	35:65	45:55
<u>Singapore</u>		
GGR(USD)	2.3-2.4b	3.9-4.0b
GGR Growth Forecast (%)	45-50	63-74
VIP: Mass Revenue Mix (%)	30:70	40:60
<u>Macau</u>		
GGR(USD)	12.4b	18.1b
GGR Growth Forecast (%)	15.1	46.1
VIP: Mass Revenue Mix (%)	13:87	14:86

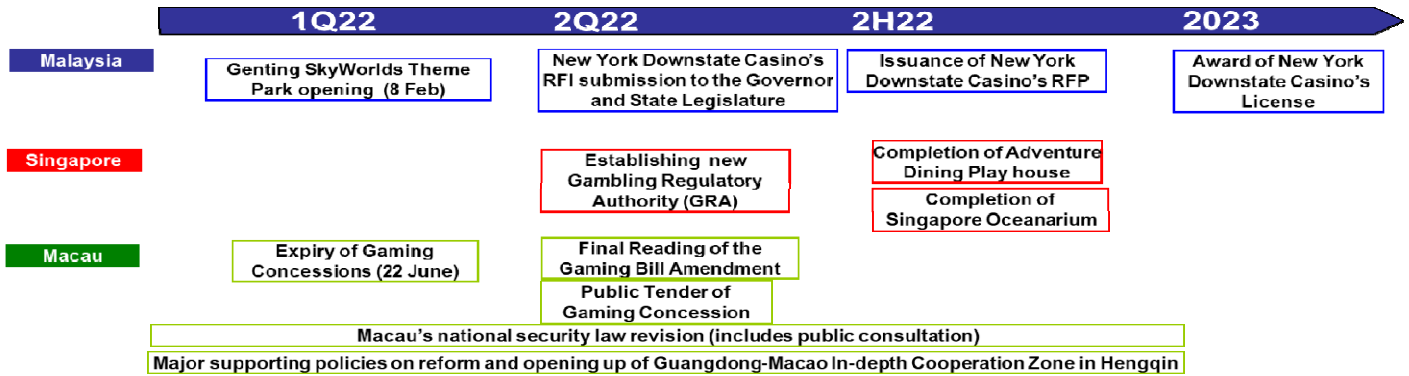
Source: UOB Kay Hian

2019 DEPENDENCY ON CHINA VIP GAMERS

Countries	GGR Dependency (%)
Malaysia	5-10
Singapore	12-18
Macau	35-40

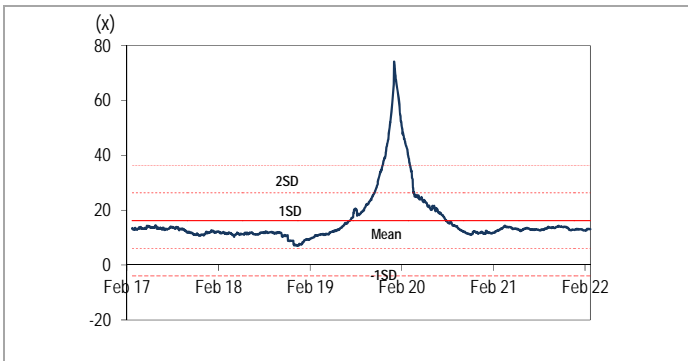
Source: UOB Kay Hian

KEY EVENTS IN THE REGION



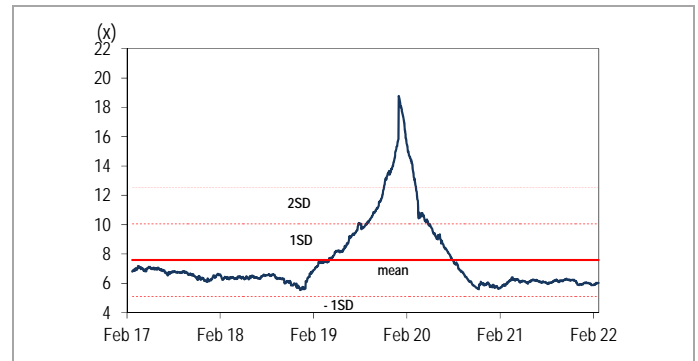
Source: various media, UOB Kay Hian

GENM'S FIVE-YEAR EV/EBITDA



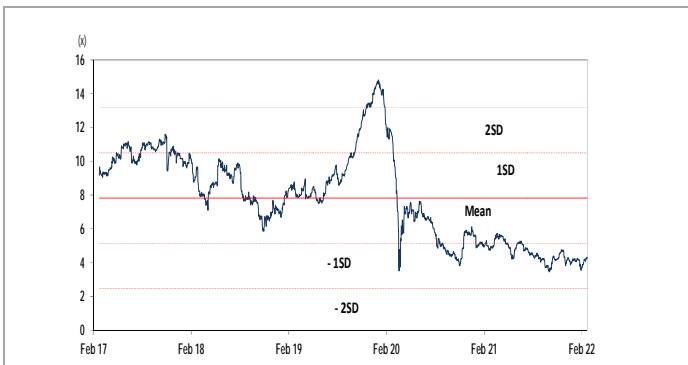
Source: UOB Kay Hian

GENT'S FIVE-YEAR EV/EBITDA



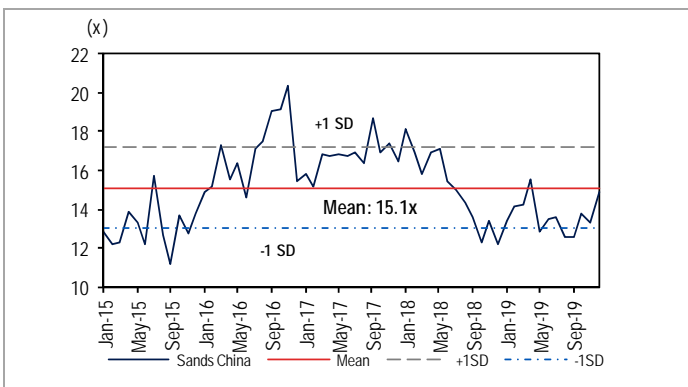
Source: UOB Kay Hian

GENS' FIVE-YEAR EV/EBITDA



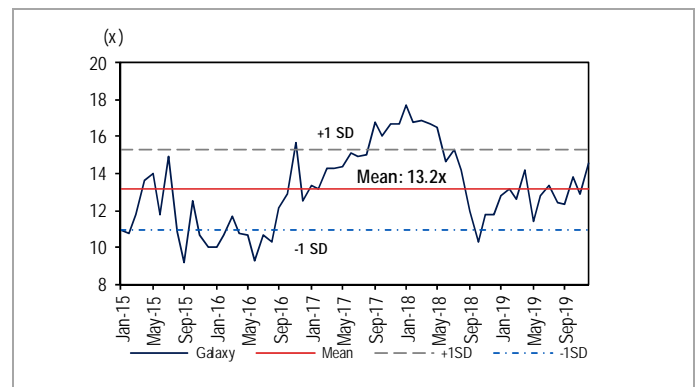
Source: UOB Kay Hian

SANDS CHINA'S FIVE-YEAR EV/EBITDA



Source: UOB Kay Hian

GALAXY'S FIVE-YEAR EV/EBITDA



Source: UOB Kay Hian

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