

Singapore Company Update

Genting Singapore

Bloomberg: GENS SP | Reuters: GENS.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Aug 2022

BUY

Last Traded Price (12 Aug 2022): S\$0.825 (STI : 3,269.27)
Price Target 12-mth: S\$1.00 (21% upside)

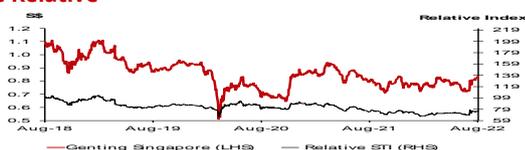
Analyst

Jason SUM, CFA +65 66823711 jasonsum@dbs.com

What's New

- 2QFY22 adjusted EBITDA in-line; hold-normalised EBITDA would have surpassed expectations
- Interim dividend of 1.05cts per share declared
- Earnings momentum remains strong on reopening tailwind
- Maintain BUY with unchanged TP of S\$1.00

Price Relative



Forecasts and Valuation

| FY Dec (\$m) | 2020A | 2021A | 2022F | 2023F |
|--------------------------|--------|-------|-------|-------|
| Revenue | 1,064 | 1,067 | 1,581 | 2,088 |
| EBITDA | 427 | 448 | 665 | 932 |
| Pre-tax Profit | 113 | 226 | 374 | 612 |
| Net Profit | 69.2 | 183 | 303 | 496 |
| Net Pft (Pre Ex.) | 69.2 | 183 | 303 | 496 |
| Net Pft Gth (Pre-ex) (%) | (90.1) | 164.8 | 65.0 | 63.8 |
| EPS (S cts) | 0.57 | 1.51 | 2.50 | 4.09 |
| EPS Pre Ex. (S cts) | 0.57 | 1.51 | 2.50 | 4.09 |
| EPS Gth Pre Ex (%) | (90) | 165 | 65 | 64 |
| Diluted EPS (S cts) | 0.57 | 1.51 | 2.50 | 4.09 |
| Net DPS (S cts) | 1.00 | 1.00 | 2.00 | 3.00 |
| BV Per Share (S cts) | 65.0 | 65.5 | 66.0 | 67.2 |
| PE (X) | 144.3 | 54.5 | 33.0 | 20.2 |
| PE Pre Ex. (X) | 144.3 | 54.5 | 33.0 | 20.2 |
| P/Cash Flow (X) | 40.5 | 26.4 | 15.3 | 10.3 |
| EV/EBITDA (X) | 14.7 | 15.4 | 10.6 | 8.0 |
| Net Div Yield (%) | 1.2 | 1.2 | 2.4 | 3.6 |
| P/Book Value (X) | 1.3 | 1.3 | 1.3 | 1.2 |
| Net Debt/Equity (X) | CASH | CASH | CASH | CASH |
| ROAE (%) | 0.9 | 2.3 | 3.8 | 6.2 |
| Earnings Rev (%) | | | (1) | (7) |
| Consensus EPS (S cts): | | | 2.9 | 4.6 |
| Other Broker Recs: | | B: 11 | S: 0 | H: 8 |

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Placing our bets on the house

Investment Thesis:

Well positioned to recover with Singapore's new Vaccinated Travel Framework and the synchronised reopening of borders in the region. The imminent return of foreign tourists, which accounted for 75-80% of total attendance prior to the pandemic and higher average spending per visitor (due to pent-up travel demand) will give a significant boost to GENS's earnings over the next two years.

Robust balance sheet and strong operating cash flows to enhance shareholder returns. GENS had a net cash position of S\$3.1bn as of end June-22 (30-35% of current market capitalisation). We believe there may be upside to our dividend-per-share projections as the management has signaled that they will be more generous going forward to reward shareholders.

Valuation is undemanding vs peers. GENS is currently trading at around 7.5x FY23F EV/EBITDA (0.5 standard deviation below its five-year average), cheap, considering its promising EBITDA recovery trajectory. Furthermore, GENS is priced at a steep discount to the regional sector average of 16.0x.

Valuation:

Our target price (TP) of S\$1.00 is based on a blended valuation framework of (i) forward EV/EBITDA of 10.0x on blended FY22/23F estimates, +1sd above its five-year average and (ii) discounted cash flow (DCF), assuming 8.0% WACC, 9.0x terminal EV/EBITDA multiple.

Where we differ:

Our FY22F and FY23F EBITDA estimates are slightly below consensus, as we expect mass travel to take longer to normalise with slight margin pressure.

Key Risks to Our View:

The COVID-19 pandemic situation being prolonged beyond our expectations or travel activity in the region taking longer than anticipated to normalise which could occur if countries delay or push back reopening plans.

At A Glance

| | |
|---|---------------|
| Issued Capital (m shrs) | 12,072 |
| Mkt. Cap (S\$m/US\$m) | 9,959 / 7,261 |
| Major Shareholders (%) | |
| Genting Bhd | 52.6 |
| Free Float (%) | 47.4 |
| 3m Avg. Daily Val (US\$m) | 11.1 |
| GIC Industry : Consumer Discretionary / Consumer Services | |



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WHAT'S NEW

In line quarter despite bad luck; resumption of interim dividend

Results highlights

- **2QFY22 results would have topped expectations if not for bad luck.** 2QFY22 adjusted EBITDA came in at S\$147.1m (-0.6% y-o-y, +20.9% q-o-q), bringing 1HFY22 adjusted EBITDA to S\$268.7m, accounting for 40.4% of our full-year estimate. However, on a hold-normalised basis (VIP win rate of 1.5% in 2QFY22 vs normal range of 2.9-3.2%), EBITDA would have amounted to S\$182.2m in 2QFY22; 1HFY22 hold-normalised EBITDA of S\$289.0m accounted for 43.5% of our full-year estimate and is slightly above expectations given that we anticipate a more pronounced recovery in 2HFY22. Adjusted EBITDA would also have been higher as GENS ceded some market share due to a lack of manpower as well.
- **On the surface, GENS's performance may look disappointing relative to MBS...** MBS had a stellar 2QFY22, with adjusted EBITDA growing by 184.8% y-o-y and 163.6% y-o-y to US\$319m. Operationally, MBS saw an increase in overall gross gaming market share to 65% from 55-60% previously, with mass gaming and rolling volumes hitting 91% and 75% of 2QFY19's level respectively.
- **But GENS's hold-normalised EBITDA was on-par with MBS.** MBS booked hold-normalised EBITDA of US\$278m in 2QFY22, representing 80.3% of 2019's level. Similarly, GENS's hold-normalised EBITDA reached 79.2% of 2019's level in 2QFY22.
- **EBITDA margin strengthened despite inflationary pressures and rise in gaming tax.** GENS achieved an EBITDA margin of 42.2% in 2QFY22, up sequentially from 38.7% in 1QFY22. This was despite a 3% increase in Singapore's gaming tax in both the premium and non-premium segments, steep increase in utility tariffs, and lower degree of government grants during the period.
- **Resumption of interim dividend.** GENS declared an interim dividend of 1.0Scts per share (vs 1.5Scts per share in 1HFY19), which was in-line with our expectations.

Other highlights

- **Manpower is a major challenge.** Management highlighted that underlying demand was robust, but they were unable to fully capture demand due to capacity issues during the period. GENS currently has about 5,000 employees, as compared to 7,000-8,000 prior to the pandemic, and is targeting to hire 1,600 new employees by end-2022 to meet an imminent rebound in demand. Although the local job market is incredibly tight, the government has been providing support by facilitating the employment of foreigners.
- **Operating margins could take longer to normalise because of inflation.** Management highlighted that there may be some margin deterioration in the coming quarters as GENS due to fierce competition for manpower and sticky inflationary pressures.
- **Upbeat on near-term prospects; increase in dividends on the cards.** Despite the abovementioned challenges, there was a positive shift in the management's tone on GENS's near-term outlook, with the management expressing their confidence in delivering solid results over the short and medium-term on the back of a robust pipeline of MICE events in 2HFY22 and sustained rebound in inbound tourists. Additionally, the management also shared that investors can expect GENS's dividend payout to be more generous moving forward.

Earnings revision and recommendation

- **FY22/23F revenue and EBITDA estimates largely unchanged.** Although we are tweaking up our revenue estimates slightly after factoring in a quicker turnaround in gaming/non-gaming revenue, our EBITDA projections are unaffected as we pencil in slower margin improvement owing to the abovementioned cost headwinds. Our dividend per share projections remain unchanged at 2.0/3.0Scts per share in FY22/23F respectively, though there may be some upside to our estimates.

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- **Maintain BUY with unchanged TP of S\$1.00.** Our TP remains unchanged even though we are rolling forward our EV/EBITDA peg to 10x blended FY22/23F EBITDA (from 11x FY22F previously) as we raise our cost of capital assumption in our discounted cash flow valuation to 8.0% from 7.5% previously. We continue to like the stock as sustained momentum on the reopening front in Asia and globally will continue

to benefit GENS, and the company's valuation remains attractive at 8.2x EV/forward EBITDA.

Company Background

Genting Singapore (GENS) operates Resorts World Singapore (RWS), which is one of the largest fully integrated resorts in Southeast Asia (SEA). RWS consists of convention facilities, hotels, food & beverage and retail outlets, Universal Studios Singapore, and a casino.

Peer comparison table

| Company | Bloomberg Ticker | Market cap (US\$m) | P/E ratio (x) | | | EV-to-EBITDA (x) | | | Net Debt- Dividend to-Equity yield (%) (x) | | YTD Performance | 1-year performance |
|---------------------|------------------|--------------------|---------------|--------|--------|------------------|-------|-------|--|------------|-----------------|--------------------|
| | | | 21CY | 22CY | 23CY | 21CY | 22CY | 23CY | 22CY | Current | | |
| Sands China Galaxy | 1928 HK EQUITY | 18,378 | nm | nm | 43.7x | nm | nm | 17.5x | 0.0% | 8.2x | -2% | -29% |
| Entertainment | 27 HK EQUITY | 26,520 | nm | 201.9x | 21.6x | nm | 48.0x | 17.1x | 0.3% | Net cash | 19% | -2% |
| Wynn Macau | 1128 HK EQUITY | 3,222 | nm | nm | nm | nm | nm | 16.0x | 0.0% | -ve equity | -24% | -43% |
| SJM Holdings | 880 HK EQUITY | 2,102 | nm | nm | 580.0x | nm | nm | 17.0x | 0.0% | 1.0x | -45% | -54% |
| Melco International | 200 HK EQUITY | 1,022 | nm | nm | nm | nm | 62.3x | 13.3x | 0.0% | 2.1x | -44% | -55% |
| MGM China | 2282 HK EQUITY | 1,988 | nm | nm | nm | nm | nm | 12.5x | 0.0% | 6.2x | -13% | -50% |
| NagaCorp | 3918 HK EQUITY | 3,904 | nm | 25.7x | 10.3x | 25.2x | 13.2x | 7.1x | 0.0% | 0.3x | 4% | 21% |
| Genting Singapore | GENS SP EQUITY | 7,262 | 55.4x | 28.4x | 17.9x | 11.9x | 9.8x | 7.5x | 2.8% | Net cash | 8% | 4% |

Source: Bloomberg Finance L.P., DBS Bank

Valuation table

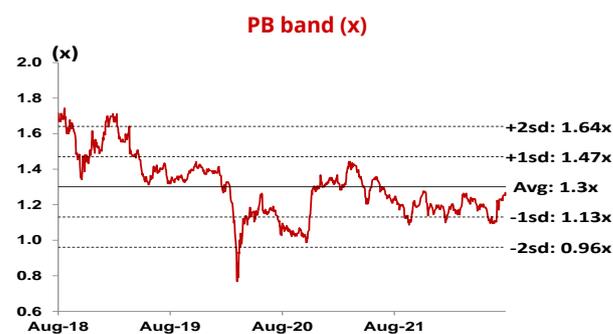
| Valuation Methodology | Basis | Parameters | Price per share (S\$) |
|-----------------------|------------------------------|--|-----------------------|
| DCF | - | 8.0% WACC, Terminal EV/EBITDA multiple of 9x | 1.12 |
| EV/EBITDA | S\$804.2m (blended FY22/23F) | 10.0x (+1 sd above 5-year average) | 0.92 |
| Average | | | 1.00 |

Source: DBS Bank

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

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Segmental Breakdown

| FY Dec | 2019A | 2020A | 2021A | 2022F | 2023F |
|-----------------------|--------------|--------------|--------------|--------------|--------------|
| Revenues (\$m) | | | | | |
| Net gaming revenue | 1,620 | 701 | 803 | 1,139 | 1,399 |
| Hotel rooms | 205 | 113 | 110 | 149 | 186 |
| Attractions | 471 | 105 | 74.1 | 181 | 363 |
| Other non-gaming | 156 | 67 | 61 | 107 | 139 |
| Others | 28 | 78 | 19 | 5 | 1 |
| Total | 2,480 | 1,064 | 1,067 | 1,581 | 2,089 |

Income Statement (\$m)

| FY Dec | 2019A | 2020A | 2021A | 2022F | 2023F |
|-----------------------------|--------------|-------------|------------|------------|------------|
| Revenue | 2,480 | 1,064 | 1,067 | 1,581 | 2,088 |
| Cost of Goods Sold | (1,420) | (832) | (740) | (984) | (1,237) |
| Gross Profit | 1,060 | 232 | 327 | 597 | 852 |
| Other Opng (Exp)/Inc | (260) | (107) | (150) | (216) | (254) |
| Operating Profit | 800 | 125 | 176 | 382 | 598 |
| Other Non Opg (Exp)/Inc | (7.6) | (54.4) | 33.9 | (33.3) | (15.0) |
| Associates & JV Inc | 3.99 | 1.24 | 1.85 | 3.00 | 3.00 |
| Net Interest (Exp)/Inc | 59.6 | 41.5 | 14.2 | 22.3 | 25.9 |
| Exceptional Gain/(Loss) | (8.9) | 0.0 | 0.0 | 0.0 | 0.0 |
| Pre-tax Profit | 847 | 113 | 226 | 374 | 612 |
| Tax | (158) | (43.7) | (43.0) | (71.0) | (116) |
| Minority Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Preference Dividend | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Profit | 689 | 69.2 | 183 | 303 | 496 |
| Net Profit before Except. | 697 | 69.2 | 183 | 303 | 496 |
| EBITDA | 1,190 | 427 | 448 | 665 | 932 |
| Growth | | | | | |
| Revenue Gth (%) | (1.4) | (57.1) | 0.3 | 48.2 | 32.0 |
| EBITDA Gth (%) | (3.3) | (64.1) | 4.9 | 48.4 | 40.2 |
| Opg Profit Gth (%) | (12.5) | (84.4) | 41.6 | 116.2 | 56.8 |
| Net Profit Gth (Pre-ex) (%) | (8.0) | (90.1) | 164.8 | 65.0 | 63.8 |
| Margins & Ratio | | | | | |
| Gross Margins (%) | 42.7 | 21.8 | 30.6 | 37.8 | 40.8 |
| Opg Profit Margin (%) | 32.2 | 11.7 | 16.5 | 24.1 | 28.6 |
| Net Profit Margin (%) | 27.8 | 6.5 | 17.2 | 19.1 | 23.7 |
| ROAE (%) | 8.7 | 0.9 | 2.3 | 3.8 | 6.2 |
| ROA (%) | 7.2 | 0.8 | 2.1 | 3.4 | 5.4 |
| ROCE (%) | 7.4 | 0.9 | 1.7 | 3.7 | 5.7 |
| Div Payout Ratio (%) | 70.0 | 174.0 | 65.7 | 79.6 | 72.9 |
| Net Interest Cover (x) | NM | NM | NM | NM | NM |

Source: Company, DBS Bank

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Balance Sheet (\$\$m)

| FY Dec | 2019A | 2020A | 2021A | 2022F | 2023F |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net Fixed Assets | 4,667 | 4,453 | 5,136 | 5,422 | 6,154 |
| Invts in Associates & JVs | 62.2 | 63.5 | 65.3 | 68.3 | 71.3 |
| Other LT Assets | 387 | 177 | 149 | 129 | 113 |
| Cash & ST Invts | 3,947 | 3,994 | 3,338 | 3,199 | 2,757 |
| Inventory | 48.7 | 43.8 | 43.2 | 55.3 | 62.6 |
| Debtors | 137 | 56.1 | 60.9 | 94.9 | 115 |
| Other Current Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Assets | 9,250 | 8,788 | 8,792 | 8,969 | 9,273 |
| ST Debt | 3.99 | 3.98 | 242 | 242 | 242 |
| Creditor | 489 | 343 | 354 | 474 | 626 |
| Other Current Liab | 210 | 116 | 78.4 | 78.4 | 78.4 |
| LT Debt | 257 | 263 | 5.52 | 5.52 | 5.52 |
| Other LT Liabilities | 232 | 226 | 217 | 217 | 217 |
| Shareholder's Equity | 8,058 | 7,836 | 7,895 | 7,951 | 8,103 |
| Minority Interests | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Cap. & Liab. | 9,250 | 8,788 | 8,792 | 8,969 | 9,273 |
| Non-Cash Wkg. Capital | (513) | (359) | (328) | (403) | (527) |
| Net Cash/(Debt) | 3,687 | 3,727 | 3,090 | 2,952 | 2,509 |
| Debtors Turn (avg days) | 20.7 | 33.2 | 20.0 | 18.0 | 18.3 |
| Creditors Turn (avg days) | 167.2 | 287.0 | 271.2 | 215.7 | 222.6 |
| Inventory Turn (avg days) | 17.3 | 31.9 | 33.9 | 25.7 | 23.9 |
| Asset Turnover (x) | 0.3 | 0.1 | 0.1 | 0.2 | 0.2 |
| Current Ratio (x) | 5.9 | 8.8 | 5.1 | 4.2 | 3.1 |
| Quick Ratio (x) | 5.8 | 8.7 | 5.0 | 4.1 | 3.0 |
| Net Debt/Equity (X) | CASH | CASH | CASH | CASH | CASH |
| Net Debt/Equity ex MI (X) | CASH | CASH | CASH | CASH | CASH |
| Capex to Debt (%) | 65.8 | 33.1 | 380.3 | 222.1 | 424.0 |
| Z-Score (X) | 5.6 | 5.6 | 5.0 | 3.1 | 2.4 |

Source: Company, DBS Bank

Cash Flow Statement (\$\$m)

| FY Dec | 2019A | 2020A | 2021A | 2022F | 2023F |
|-------------------------|----------------|--------------|--------------|--------------|----------------|
| Pre-Tax Profit | 847 | 113 | 226 | 374 | 612 |
| Dep. & Amort. | 390 | 302 | 272 | 283 | 334 |
| Tax Paid | (207) | (143) | (96.9) | (71.0) | (116) |
| Assoc. & JV Inc/(loss) | (4.0) | (1.2) | (1.9) | (3.0) | (3.0) |
| Chg in Wkg.Cap. | 41.2 | (60.1) | 6.37 | 74.6 | 125 |
| Other Operating CF | 866 | 149 | 198 | 368 | 630 |
| Net Operating CF | 1,086 | 247 | 378 | 652 | 970 |
| Capital Exp.(net) | (172) | (88.3) | (942) | (550) | (1,050) |
| Other Invts.(net) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Invts in Assoc. & JV | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Div from Assoc & JV | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Investing CF | (74.9) | 203 | 21.0 | 0.0 | 0.0 |
| Net Investing CF | (246) | 114 | (921) | (550) | (1,050) |
| Div Paid | (422) | (302) | (121) | (241) | (362) |
| Chg in Gross Debt | (785) | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital Issues | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Financing CF | 102 | (7.9) | (7.1) | 0.0 | 0.0 |
| Net Financing CF | (1,105) | (310) | (128) | (241) | (362) |
| Currency Adjustments | (1.0) | (4.4) | 2.55 | 0.0 | 0.0 |
| Chg in Cash | (267) | 46.8 | (669) | (139) | (442) |
| Opg CFPS (S cts) | 8.66 | 2.53 | 3.07 | 4.77 | 6.98 |
| Free CFPS (S cts) | 7.58 | 1.31 | (4.7) | 0.85 | (0.7) |

Source: Company, DBS Bank

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Target Price & Ratings History



| S.No. | Date of Report | Closing Price | 12-mth Target Price | Rating |
|-------|----------------|---------------|---------------------|--------|
| 1: | 13 Aug 21 | 0.80 | 1.00 | BUY |
| 2: | 10 Nov 21 | 0.82 | 1.00 | BUY |
| 3: | 18 Feb 22 | 0.79 | 1.00 | BUY |

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Jason SUM, CFA

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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DBS Regional Research Offices

HONG KONG

DBS (Hong Kong) Ltd

Contact: Dennis Lam
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

SINGAPORE

DBS Bank Ltd

Contact: Paul Yong
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
e-mail: groupresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: indonesiaresearch@dbs.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
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