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Asia Pacific Gaming

Takeaways from our corporate day. Cautious on VIP outlook. Diversify to mass-market and non-Chinese

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In addition to Macau operators (see our Jan 11 report here), we also invited 4 other Asia gaming operators and junkets, including Paradise, Naga Corp, Suncity Group and its 80%-owned subsidiary Summit Ascent, to join our Gaming Corporate Day on Jan 8, 2021. In South Korea, although monthly GGR run-rate showed little improvement amid continued border closure, Paradise said that their business is able to break even on EBITDA at the current GGR run-rate and is hopeful to see resumption of travels in coming months. Naga Corp in Cambodia said its GGR recovery is sustaining the momentum in 3Q20 (i.e., VIP rolling/mass drop/slot handle back to 93%/71%/100% of pre-closure level) and reiterate their commitment to investing in Naga Phase 3 and a US$350mn non-gaming resort in Siem Reap, located 500 meters south of the outer restricted zone surrounding Angkor Wat. In Vladivostok, Tigre de Cristal operated by Summit Ascent saw solid pickup in local gaming demand which helped to turn around its EBITDA in 2H20. Overall, all operators acknowledge that the VIP gaming market could be impacted by tightened capital controls by the Chinese government and are looking for ways to diversify their exposure either to mass-market/non-gaming segments and/or to players from other origins (e.g., Korea, ASEAN). **We maintain our Neutral rating on Naga Corp and Paradise and prefer Kangwon Land within our Korea coverage universe. We also like Macau gaming stocks and Genting Malaysia.**

Paradise Co. (034230.KQ, Neutral)

With the border of South Korea remaining closed and the resurgence of new COVID-19 cases during the winter, Paradise's monthly GGR showed little improvement and one of its properties located in Seoul, Walker Hill casino, experienced a third-round of business suspension in Dec-2020. On a positive note, company guided that at the current GGR run-rate of W20bn per month, it is able to break even on EBITDA. Depending on the virus situation, they are hopeful to see gradual volume increase driven by players from Japan and other markets, while acknowledging that the Chinese government is discouraging players to gamble overseas (see our Oct 5 report). Factoring in the latest GGR trend and ongoing travel restrictions, we revise our FY20-22E adjusted EBITDA forecasts by -26% to 6% and our 12-month target price changes to KRW15,300 (from KRW15,800). Maintain Neutral on less visibility of GGR recovery and heavy reliance on the return of foreign players. Prefer Kangwon Land (Buy) within our Korea gaming coverage universe.

- **EBITDA breakeven at current GGR run-rate helped by additional labor cost savings -** With an average monthly GGR of KRW18bn in 3Q20 (-74% yoy), Paradise was close to EBITDA breakeven and posted a small EBITDA loss of -KRW5bn. Its monthly data show that its 4Q20 GGR has picked up to an average of KRW25bn in 4Q20 (-66% yoy), helped by seasonal strength and better win rate in Dec (KRW41bn, vs. KRW20/8bn in Oct/Nov). At the current run rate, the group said it should be able to achieve EBITDA break even, although we note that additional overhead costs incurred at year-end typically have dragged its 4Q EBITDA performance historically. We model -KWR20bn EBITDA loss in 4Q20, adding up to -KWR12bn EBITDA loss in FY20E. Having reduced its costs over the last 1-2 quarters, the company does not see much scope for incremental cost savings in coming quarters.
- **Further GGR recovery hinges on border reopening. Target more Japanese players to make up for likely shallower Chinese recovery -** Given the recent resurgence of COVID-19 cases in Seoul and correspondingly the closure of Walker Hill casino from Nov 24-29, and Dec 15-Jan 3 (26 days in total), management believes it will take some time for the COVID situation to get controlled and that a full normalization of travel demand may not come through until 2H21. For now, all of its GGR comes from Korea locals with foreign passports, which historically account for ~20% of overall business volume. In addition, as flagged in our prior report (Oct 5), with China's capital control and discouraging players from visiting overseas, they are mindful that Chinese VIP players may not fully recover back to prior level, and hence target to attract more Japanese players to make up for the difference. In the past, 40% of Paradise's VIP GGR came from Japanese players, for example.
- **Close to cash break even. No imminent liquidity issues** - As mentioned above, Paradise expects to achieve EBITDA breakeven at the current monthly run-rate. Given limited interest expenses and maintenance capex, we believe the company is not far from turning cash breakeven either. The company also does not see any liquidity issues, and believes it can tap the debt market when necessary, considering the low current interest rates and its solid AA- credit rating (noting it can borrow up to KRW300bn with its land as collateral).

12-month TP: KRW15,300 (SOTP-based). Key risks: (1) Prolonged China-Korea geopolitical tensions affecting Chinese visitation; (2) Better-/worse-than-expected ramp-up on Paradise City, first IR in Korea, opened in April 2017; (3) Later-/earlier-than-expected materialization of Japan's gaming market.

Naga Corp Ltd. (3918.HK, Neutral)

After the 3-month casino closure in 2Q20, Naga Corp resumed its operations from July

8, 2020 and have seen solid GGR recovery led by mass-market (i.e. VIP rolling/mass drop/slot handle in 3Q20 back to 93%/71%/100% of pre-closure level). Management is mindful of potential impact from China's ongoing capital controls and places more emphasis on growing its mass-market and non-gaming businesses. In the longer run, other than the scheduled launch of Naga 3 by the end of 2025 (for which the majority of capex will only be incurred in 2024-25), the company has recently secured the approval by the Cambodia government to develop another non-gaming project in Siem Reap, located 500 meters south of the outer restricted zone surrounding Angkor Wat. The site is 75 hectares in size with a 50-year lease term, which aims to better promote the tourism industry of Cambodia and allow the company to cross-sell their casino in town. While we are pleased to see solid recovery of its mass-market volume supported by gaming demand of expatriates, we stay Neutral on valuation and its high exposure to the volatile Chinese VIP segment.

- **GGR recovery sustained into 4Q20. Stable mass-market volume trend -** As mentioned in our previous note (Oct 5), Cambodia and other regional markets have experienced pent-up demand in initial months shortly after reopening. In 3Q20, for example, its mass market drop has recovered back to 93% of pre-closure level, supported by the large expatriate community in Phnom Penh city. For VIP, its pace lags back to 71% of pre-COVID level. We believe further recovery relies on the return of overseas VIP players especially from adjacent Malaysia and Singapore. As the viral situation was somewhat under control in Cambodia (on average less than 10 new cases per day in recent months), management commented its GGR trend continued to recover gradually in 4Q20. More non-gaming space has been converted for gaming use to cope with the social distancing requirements. For example, the Garden Buffet Restaurant at Naga 1 has been refurbished into an Electronic Table Gaming zone.
- **Focus on mass-market and non-gaming segments in light of the VIP challenges** - When asked about the potential impact of China's capital control on the VIP segment, management believes it would be more felt by the junkets and said that they hope to make it up by putting more emphasis on growing the mass-market segment. Its recent announcement to build a US$350mn resort (including hotels, water theme park, MICE facilities etc.) near Angkor, if executed well, should help Naga to beef up its database for cross-selling with its casino properties, although it is questionable whether such investment would be return dilutive vs. its gaming amenities.
- **Naga 3 still targets completion by end-FY25. Only US$200mn budgeted capex for FY21-22E** - In relation to the updated plan on Naga 3, the company commented that the plan remains unchanged and the project has broken ground in 4Q20, with various studies and tests (soil, wind tunnel etc.) ongoing. In terms of capex spending timeline, they said the majority of total budgeted US$3.5bn capex would only be incurred in FY24-25E and guided US$200mn in FY21-22E, well covered by its EBITDA (US$562/648mn in FY21/22E).

12-month TP: HK$10.60 (SOTP-based). Key risks: (1) Faster-/slower-than-expected ramp-up of Naga2; (2) Faster-/slower-than-expected addition of flights from China.

Suncity Group (1383.HK, Not Covered)

With newsflow on China's ongoing tightened capital control and greater scrutiny on Chinese gamblers playing overseas, investors have raised concern that Asia's VIP gaming market will take much time to recover, with some arguing that VIP GGR may never go back to 2019 levels. Suncity acknowledges such challenges and so far have only seen their rolling volume back to ~20% of pre-COVID19 levels in Macau, for example, saying that most of its players find it quite troublesome to return (e.g., suspension of self-serviced kiosk for IVS applications, nucleic test requirements). This said, they have no intention to change their strategies of expanding into overseas markets in the next 2-3 years, i.e., building their own IRs across Asia outside of Macau. They have delayed the grand opening of the Vietnam casino, Hoiana, till 2H21, but continue to operate Tigre de Cristal in Vladivostok and the construction work at Westside casino in Manila.

- **VIP business remains soft across Asia** - Consistent with our cautious view on the VIP segment (see Oct 5, Sept 6 reports), Suncity commented that the pace of VIP recovery has so far been behind expectation. In response to the soft market conditions, it has decided to close down VIP rooms in Australia, Korea and selective in Macau (i.e., Parisian). VIP GGR in Macau only recovered to c.20% of pre-COVID19 level in December, lagging behind the overall GGR recovery pace of -66% yoy for the market. Pre-booking for the CNY holiday by its VIP customers are also relatively light. Overall, the group is taking the view that the Asia VIP gaming market will take time and only recover gradually.
- **Diversify their junket exposure by investing in their own IRs** - The group already started to contemplate diversifying away from its junket business model during the market downturn in 2014-15. A few years ago, they articulated a strategy to build their own IRs across six Asian countries, where they see attraction and can bring their customers over, leveraging on its established player database. In Vietnam, after the soft launch in Jun 2020, its flagship IR Hoiana is seeing minimum business volume, as the casino is not legally allowed to serve local players and inbound travelers remain muted with various travel restrictions still in place. In Vladivostok, the company budgets to spend US$200mn for Phase III upgrade of Tigre de Cristal. In the Philippines, the Westside City project will cost US$1.2bn and is expected to be completed in 2023. Altogether, the group would operate 680 gaming tables, 4,000+ hotel rooms, and 3,800+ slot machines by 2024 across all properties in Asia.
- **Also diversifying its customer base from China to Korea** - Management believes Koreans' gaming demand is underserved and targets to growing its customer base there, as a way to diversify its exposure from Chinese gamblers. For instance, despite a one-single property 5 hour drive away from the city of Seoul, Kangwon Land contributes over half of Korea's gaming revenue. Given the proximity between Vladivostok and South Korea (~2-hour flight), they believe Tigre de Cristal should be able to capture such underserved Koreans' gambling demand. Indeed, it already has quite a sizeable customer database of ~10k Korean players (vs. 180k players in total). When asked about how to better satisfy the needs of this group of customers, Suncity said Korean players generally prefer more space and a separated table to gamble on their own.

Summit Ascent Holdings (0102.HK, Not Covered)

Summit Ascent, which operates Tigre de Cristal in Vladisotok, is 80% controlled by Suncity Group. Local Russian gaming demand has recovered fairly quickly in recent months and the property managed to achieve positive EBITDA in 2H20 (vs. -US$3mn in 1H20). Once the border is re-opened, the company will focus its marketing efforts to attract more players from China, Korea, Japan and potentially Southeast Asia (targeted to contribute 70% of its GGR) by leveraging Suncity's strong customer database. Based on the existing plan, the property will house 350 hotel rooms, 300 slots, 75 tables (20 direct VIP, 20 junket VIP, 35 mass) when Phase 2 is opened in 2023E. They are hopeful that the property will generate over US$200mn EBITDA.

As opposed to relying on Suncity to bring in VIP players and pay them high junket commission, Summit Ascent will adopt a direct VIP model to approach and extend credits to its players on its own, using Suncity's customer database. While this would allow the company to preserve more profit without having to pay junket commission, it would also mean Summit Ascent has to bear credit risk on its own. Management believes it is manageable given its limited VIP exposure initially. Overall, they believe US$200mn EBITDA is achievable in the longer run.

Exhibit 1: Summary of Paradise financials

Profit model (W bn)	12/19	12/20E	12/21E	12/22E
Total revenue	979.4	474.8	729.4	983.0
Cost of goods sold	(839.8)	0.0	0.0	0.0
SG&A	(87.7)	0.0	--	--
R&D	--	--	--	--
Other operating profit/(expense)	--	--	--	--
EBITDA	162.9	(11.5)	107.2	211.8
Depreciation & amortization	(110.9)	(107.4)	(109.1)	(105.6)
EBIT	52.0	(118.9)	(1.9)	106.3
Interest income	4.2	6.5	8.8	9.9
Interest expense	(52.5)	(50.3)	(52.5)	(50.1)
Income/(loss) from uncons. subs.	--	--	--	--
Others	11.5	8.0	8.0	8.0
Pretax profits	15.2	(154.8)	(37.6)	74.1
Income tax	(8.8)	34.0	8.3	(16.3)
Minorities	8.5	55.1	9.9	(14.0)
Net income pre-preferred dividends	15.0	(65.6)	(19.4)	43.8
Preferred dividends	--	--	--	--
Net income (pre-exceptionals)	15.0	(65.6)	(19.4)	43.8
Post-tax exceptionals	--	--	--	--
Net income	15.0	(65.6)	(19.4)	43.8
EPS (basic, pre-except) (W)	176	(770)	(228)	515
EPS (basic, post-except) (W)	176	(770)	(228)	515
EPS (diluted, post-except) (W)	176	(770)	(228)	515
DPS (W)	100	0	106	106
Dividend payout ratio (%)	56.9	0.0	(46.4)	20.5
Free cash flow yield (%)	3.9	8.8	8.5	13.6

Balance sheet (W bn)	12/19	12/20E	12/21E	12/22E
Cash & equivalents	221.6	373.5	451.2	612.4
Accounts receivable	37.6	15.0	15.0	15.0
Inventory	6.2	3.3	5.1	6.9
Other current assets	233.2	216.8	216.8	216.8
Total current assets	498.6	608.6	688.1	851.1
Net PP&E	2,435.4	2,378.6	2,320.0	2,265.0
Net intangibles	29.5	18.9	8.4	(2.2)
Total investments	0.0	0.0	0.0	0.0
Other long-term assets	506.9	408.2	309.5	210.9
Total assets	3,470.4	3,414.3	3,326.0	3,324.8
Accounts payable	53.9	118.6	118.6	118.6
Short-term debt	292.1	292.1	292.1	292.1
Other current liabilities	286.4	286.4	286.4	286.4
Total current liabilities	632.4	697.1	697.1	697.1
Long-term debt	826.2	826.2	776.2	726.2
Other long-term liabilities	407.6	407.6	407.6	407.6
Total long-term liabilities	1,233.7	1,233.7	1,183.7	1,133.7
Total liabilities	1,866.2	1,930.8	1,880.8	1,830.8
Preferred shares	--	--	--	--
Total common equity	1,266.3	1,200.7	1,172.2	1,207.1
Minority interest	337.9	282.8	272.9	286.9
Total liabilities & equity	3,470.4	3,414.3	3,326.0	3,324.8
BVPS (W)	14,865	14,095	13,761	14,170

Growth & margins (%)	12/19	12/20E	12/21E	12/22E
Sales growth	24.4	(51.5)	53.6	34.8
EBITDA growth	118.6	(107.1)	1,028.8	97.6
EBIT growth	NM	(328.8)	98.4	NM
Net income growth	171.1	(538.4)	70.4	325.8
EPS growth	171.1	(538.4)	70.4	325.8
Gross margin	14.3	100.0	100.0	100.0
EBITDA margin	16.6	(2.4)	14.7	21.5
EBIT margin	5.3	(25.0)	(0.3)	10.8

Ratios	12/19	12/20E	12/21E	12/22E
CROCI (%)	8.3	4.3	7.7	10.5
ROE (%)	1.2	(5.3)	(1.6)	3.7
ROA (%)	0.5	(1.9)	(0.6)	1.3
ROACE (%)	1.1	(3.7)	0.2	4.5
Inventory days	2.8	NM	NM	NM
Receivables days	12.4	20.2	7.5	5.6
Payable days	37.7	NM	NM	NM
Net debt/equity (%)	55.9	50.2	42.7	27.2
Interest cover - EBIT (X)	1.1	NM	NM	2.6

Cash flow statement (W bn)	12/19	12/20E	12/21E	12/22E
Net income pre-preferred dividends	15.0	(65.6)	(19.4)	43.8
D&A add-back	110.9	107.4	109.1	105.6
Minorities interests add-back	(8.5)	(55.1)	(9.9)	14.0
Net (inc)/dec working capital	(56.5)	96.6	(1.8)	(1.8)
Other operating cash flow	95.9	98.7	98.7	98.7
Cash flow from operations	156.8	181.9	176.6	260.3
Capital expenditures	(84.9)	(40.0)	(40.0)	(40.0)
Acquisitions	--	--	--	--
Divestitures	--	--	--	--
Others	(137.6)	--	--	--
Cash flow from investments	(222.5)	(40.0)	(40.0)	(40.0)
Dividends paid (common & pref)	(8.5)	0.0	(9.0)	(9.0)
Inc/(dec) in debt	107.4	0.0	(50.0)	(50.0)
Common stock issuance (repurchase)	--	--	--	--
Other financing cash flows	(18.7)	0.0	--	--
Cash flow from financing	80.2	0.0	(59.0)	(59.0)
Total cash flow	14.5	151.9	77.6	161.3

Valuation	12/19	12/20E	12/21E	12/22E
P/E (analyst) (X)	101.3	NM	NM	30.3
P/B (X)	1.2	1.1	1.1	1.1
EV/EBITDA (X)	16.9	NM	20.7	9.5
EV/GCI (X)	1.0	0.9	0.8	0.7
Dividend yield (%)	0.6	0.0	0.7	0.7

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Source: Company data, Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

For a more detailed description of how we calculate the GS Factor Profile, please contact your GS representative.

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Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

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Rating and pricing information

Kangwon Land (Buy, W24,000), Nagacorp Ltd. (Neutral, HK$9.92) and Paradise Co. (Neutral, W15,600)

The rating(s) for Nagacorp Ltd. and Paradise Co. is/are relative to the other companies in its/their coverage universe:

Bloomberry Resorts Corp., China Tourism Group Duty Free, Galaxy Entertainment Group, Genting Berhad, Genting Malaysia Bhd, Genting Singapore Ltd., Grand Korea Leisure Co., Kangwon Land, MGM China, Melco International Development, Melco Resorts & Entertainment Ltd., Nagacorp Ltd., Paradise Co., SJM Holdings, Sands China, Songcheng Performance, Wynn Macau

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Goldman Sachs Investment Research global Equity coverage universe

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Global	49%	35%	16%	64%	57%	54%

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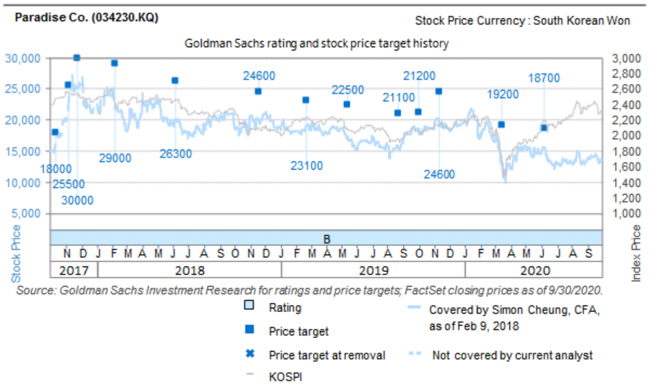
Price target and rating history chart(s)



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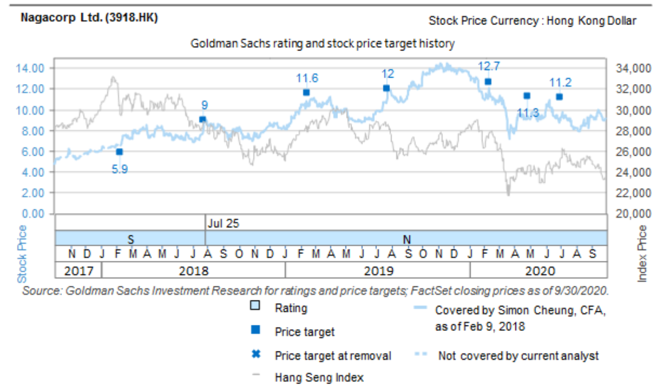

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Target price history table(s)

Paradise Co. (034230.KQ)

Date of report	Target price (W)
04-Oct-20	15,800
07-Jun-20	18,700
16-Mar-20	19,200
12-Nov-19	24,600
04-Oct-19	21,200
24-Aug-19	21,100
15-May-19	22,500
21-Feb-19	23,100

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