

Asian Daily

Summit Ascent (0102.HK)

FY20 in line; solid local demand with full potentials yet to be unleashed

Maintain **OUTPERFORM**

Previous Rating: **OUTPERFORM**

Target price (HK\$): **1.80**

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- FY20 LBITDA at HK\$15 mn (CSe EBITDA HK\$43 mn), 2H20 saw EBITDA at HK\$7 mn, a turnaround from HK\$22 mn loss in 1H after operations resumed in July.
- Key highlights: (1) Mass is the bright spot, with 4Q20 table drop recovering back to 81% of 1Q20 pre-pandemic level and slot volume at 90% level. (2) Management sees regulatory control as a risk, citing impacts on visa application, money flow and junket system, but a diversified player base and leisure tourism should be supportive. (3) Into 1Q21, EBITDA stays positive on solid local market.
- (4) Opex was reduced from US\$2.7 mn per month in 2019 to US\$2.0 mn in Dec 2020 on cost controls and staffing. Below the EBITDA line, the company also receives cash interest that helps cover the opex. (5) Cash balance remains strong at HK\$1.6 bn, with no borrowings and limited capex for phase 2 and funding for Suntrust.
- Post result, we cut our FY21E earnings by 14% on prolonged lockdowns but keep FY22E largely unchanged. We continue to see strong growth potential off a small base beyond pandemic and competitive advantages over its regional peers. Valuation is undemanding, trading at 4x 2022 EBITDA, compared with the 14x of its Macau peers. Keep TP and maintain **OUTPERFORM**.

Key highlights post result earnings call

Local market solid. FY20 LBITDA was reported at HK\$15 mn, with 2H recovering to HK\$7 mn from a HK\$22 mn LBITDA in 1H after the casino temporarily closed from 28 March to 13 April and 22 April to 15 July due to the pandemic. While there has been very limited visitation due to travel restrictions and border closure, the local demand has been solid after the resumption of operations on 16 July, and generating positive EBITDA in 2H. Despite the social distancing measures in place, in 4Q20, Summit Accent saw its GGR back to 45% of 1Q20 pre-pandemic level on a daily basis. Mass market was the bright spot. Mass table GGR reached 77% of pre-pandemic level (3Q20 at 72%) while table drop was higher at 81% of pre-pandemic level (3Q20 at 87%). Slots GGR also remained solid, reaching 73% of pre-pandemic level (3Q20 at 93%) and volume to 90% of pre-pandemic level (3Q20 96%).

Into 1Q21, while the border has remained closed at Vladivostok, and continues to limit the visitation during the period (with 3% of hotel rooms being occupied), management has seen EBITDA staying positive as supported by the local market. Looking ahead, with the rollout of vaccine, we see room for a strong recovery as the border reopens.

Regulatory control is a risk but leisure tourism will be supportive. In 4Q20, on a daily basis, VIP rolling volume remained low at 5% of pre-pandemic level given the border closure. Looking ahead, management believes that the intensified regulatory controls from China on cross-border gaming activities and the newly amended criminal law taking effective from 1 March should structurally hurt the VIP business in the region. Taking Macau as an example, it cited that the visa application has been strict, higher transactional costs for money flow, and junket system being impaired. But that said, the junket group has a diversified player base across the region and the leisure tourist visitation should be supportive after the resumption of flight connectivity. After all, the high junket commission at Vladivostok should help gain volume too.

Cost structure remains competitive against regional peers. Opex down

Price (30-Mar-21, HK\$)	0.82	Est. pot. % chg. to TP	119.5	
Mkt cap (HK\$/US\$ mn)	3,698 / 476	Blue sky scenario (HK\$)	2.1	
Number of shares (mn)	4,509	Grey sky scenario (HK\$)	1.3	
Free float (%)	29.4	Performance	1M 3M 12M	
52-wk range (HK\$)	1.19 - 0.47	Absolute (%)	(1.2) 9.3 32.3	
ADTO-6M (US\$ mn)	1.6	Relative (%)	0.2 4.1 8.9	
Year	12/19A	12/20A	12/21E	12/22E
Revenue (HK\$ mn)	532.8	211.2	771.6	1,368.9
EBITDA (HK\$ mn)	214.8	(14.7)	372.1	783.0
EBIT (HK\$ mn)	115.6	(96.9)	278.2	648.7
Net profit (HK\$ mn)	82.0	10.0	258.1	551.5
EPS (CS adj.) (HK\$)	0.05	0.0	0.06	0.12
Chg. from prev. EPS (%)	n.a.	n.a.	(14.2)	(0.8)
Consensus EPS (HK\$)	n.a.	n.a.	0.03	0.12
EPS growth (%)	891.3	(92.3)	1,356.9	113.7
P/E (x)	16.2	208.7	14.3	6.7
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	14.2	n.m.	7.0	3.8
P/B (x)	0.9	0.62	1.01	0.88
ROE (%)	5.7	0.4	7.3	14.0
Net debt/equity (%)	(31.3)	(41.4)	(26.7)	(14.6)

Source: Company data, Refinitiv, Credit Suisse estimates

from US\$2.7 mn per month in 2019 to US\$2.0 mn in Dec 2020 on cost controls and staffing. Management expects opex to gradually increase when GGR recovers, but labour cost and tax are relatively low at Vladivostok compared with regional peers. As the local market GGR has already generated positive EBITDA, we believe that the incremental GGR will be margin accretive. In fact, despite not being included in EBITDA, the company also receives cash interest amounting to US\$12 mn for 2021, effectively covering the opex for 6 months.

New upgrades as longer term growth driver. The construction of Tiger de Cristal phase 2 is underway despite minor delays causing by the lockdowns. The opening of 350 additional hotel rooms will be prioritised aiming to remove the key capacity bottleneck. Total capex at US\$200 mn over the next two years. In Manila, Westside City Project has completed its main design and piling work. Opening is expected in 1Q23. The project is already funded by US\$460 mn over a total US\$1 bn budget. The balance sheet remains strong with HK\$1.6 bn cash on hand and no borrowings by year end. This should help weather the impacts from the down cycle and support project development for future growth.

Figure 1: Summit Ascent FY20 result summary

Group	1H20	2H20	HoH % chg	FY19	FY20	YoY % chg
VIP table turnover	1,192	163	-86%	15,215	1,355	-91%
Win rate	4.2%	1.3%	-2.9%	2.9%	3.9%	1.0%
VIP GGR	50	2	-96%	441	52	-88%
Mass table drop	141	221	57%	751	362	-52%
Mass hold raate	24.1%	21.9%	-2.2%	23.2%	22.7%	-0.5%
Mass GGR	34	48	44%	174	82	-53%
Slot handle	810	1,407	74%	3,404	2,217	-35%
Win rate	5%	4%	-0.7%	5%	5%	-0.8%
Slot GGR	41	62	49%	186	103	-45%
Gross gaming revenue	125	112	-10%	801	237	-70%
Rebates	(32)	(1)		(319)	(34)	-89%
Non gaming revenue	4	5	25%	51	8	-84%
Total revenue	96	115	20%	533	211	-60%
Property EBITDA (HK\$ mn)	(22)	7		215	(15)	
Property EBITDA margin (%)	-17.8%	6.7%		26.8%	-6.2%	

Source: Company data

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Valuation Methodology and Risks

Target Price and Rating

Valuation Methodology and Risks: (12 months) for Summit Ascent (0102.HK)

Method: Our end-2021 target price of HK\$1.80 for Summit Ascent is based on a sum-of-the-parts valuation methodology with (1) 9x normalised 2022E EBITDA on 67.5% stake in the Tigre de Cristal Phase I casino, (2) 1.5x P/B on capex spent on Tigre de Cristal Phase II project, (3) 25% stake towards Suntrust's investment in Philippines, (4) 9x normalised 2022E management fee income received from the Tigre de Cristal casino, (5) end-2021E net cash, and (6) discounted by a 10% WACC to 2021E. We rate Summit Ascent as OUTPERFORM for its robust growth outlook (off a small base relative to its regional peers); upside option from its Phase II opening and stake in Philippines casino would be re-rating driver.

Risk: Downside risks to our OUTPERFORM rating and HK\$1.80 target price for Summit Ascent include slower than expected tourism recovery into Vladivostok, any delay in new projects and regulatory tightening on cross border gambling activities that hurt the end player demand and per player spend.

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3-Year Price and Rating History for Summit Ascent (0102.HK)

0102.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
17-Nov-20	1.19	1.80	O *



* Asterisk signifies initiation or assumption of coverage.

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Rating	Versus universe (%)	Of which banking clients (%)
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