

Asian Daily

## Macau Gaming Sector Takeaways from Gaming Corporate Day

- We hosted Gaming Corporate Day on 23 Sep, with 5 operators (Galaxy, MGM, SJM, Suncity and Naga) and an expert on premium mass demand.
- Casino operators: (1) proposed gaming regulation: They see limited impact given the industry is already highly regulated, and are currently seeking more clarifications on certain terms with the government. They believe a license term of 10-20 years should be reasonable. (2) Oct GW: could see pent-up demand if COVID is contained. (3) Recovery outlook: Premium mass will be the focus but is contingent on COVID, HK border reopening and visa relaxation.
- Industry participants: (1) Junkets: are cautious on the new rule of taking deposits, which could wipe out a significant portion of their working capital. They see very limited room for material amendments in the proposals. (2) Premium mass expert: sees no further stepping up on regulatory controls but overall demand (both spending and visit frequency) has been impaired on weaker domestic economy.
- Regional casinos: continue to see local mass market (Russia and Cambodia) as the key support before border reopening. We remain positive on Naga with its casino reopening likely by end-2021.

### Macau casino operators are generally less concerned about the new proposals

**(1) Regulatory impacts:** They see the proposals are not entirely new. 4 key areas: (a) On the introduction of government representatives, they expect limited operational change given the sector is already highly regulated by DICJ. (b) On additional approval for dividend distribution, operators are seeking more clarifications on key metrics including requirement on working capital, business re-investment and liquidity ratio etc. (c) On license, for a better assessment of investment return, the operators believe that a term of 10-20 years should be reasonable. (d) On the increase in local shareholding, the key shareholders of some operators (e.g. Galaxy, SJM & MGM China) are already local Macanese, so it is less of an issue for them.

**(2) October golden week:** The managements believe that there is strong pent-up demand after the outbreaks in August, and expect October golden week to outperform May holiday if the COVID situation is contained.

**(3) Recovery outlook:** Premium mass will be the key driver ahead, but this would be contingent on the COVID situation in China, pace of border reopening with HK and visa relaxation. So far, they don't see irrational competition.

Figure 1: Asia gaming sector valuation

Company	Ticker	Market Cap (US\$m)	Price (L.c.)	CS Rating	TP (L.c.)	P/E (x)			EV/EBITDA (x)			FCF yield (%)			Dividend yield (%)		
						2019A	2022E	2023E	2019A	2022E	2023E	2019A	2022E	2023E	2019A	2022E	2023E
Sands China	1928.HK	16,820	16.2	NEUTRAL	27.2	8.3	15.3	10.6	6.5	10.1	7.9	10.8	5.2	7.8	6.1	3.3	4.7
SJM	0880.HK	4,152	5.7	NEUTRAL	7.1	10.0	31.9	13.1	8.0	12.8	9.0	n/a	6.3	10.9	5.3	1.6	3.8
Galaxy	0027.HK	23,481	42.0	NEUTRAL	52.9	14.0	24.5	19.8	8.3	14.3	12.0	8.1	(0.6)	0.9	2.2	1.2	1.5
Melco Resorts	MLCO.OQ	4,932	10.3	UNDERPERFORM	10.2	13.4	(23.5)	(60.0)	5.2	12.0	10.2	7.7	(3.0)	(0.0)	6.1	1.8	6.5
MGM China	2282.HK	2,899	5.9	UNDERPERFORM	6.4	11.6	(22.1)	118.7	6.4	13.6	10.0	13.3	3.2	8.1	3.0	0.7	3.0
Wynn Macau	1128.HK	4,300	6.4	UNDERPERFORM	7.1	6.6	2,004	30.0	6.1	13.0	10.1	11.3	3.8	7.9	7.0	0.4	1.4
NagaCorp Limited	3918.HK	3,725	6.7	OUTPERFORM	6.7	7.1	32.8	7.6	5.6	16.7	6.8	6.9	1.1	4.6	9.9	1.8	7.9
Summit Ascent	0102.HK	319	0.6	OUTPERFORM	1.2	10.9	25.0	n/a	8.6	12.7	n/a	17.6	(30.7)	(21.2)	-	-	-

Source: Refinitiv Datastream, Credit Suisse estimates

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### Junkets are more cautious on regulatory tightening

Debt collection has been difficult in Mainland China. The new rule of illegal deposit-taking from the players would further reduce the working capital in the system. In general, there are four main types of capital, namely junkets' own capital, casinos' credit, and deposits (from agents and non-agents) with deposits being the key contributor (80% of their capital pool). They are seeking clarification with the government on whether chip deposits instead of cash are allowable. In the worst case, a significant portion of their working capital could be wiped out. They expect very limited room for material amendments in the gaming law proposals.

### Expert sees impaired premium mass demand despite less regulatory risks than VIP

**(1) Regulatory controls remain but no further stepping up.** The expert sees money flow still available though transactions with smaller sums have to be made. Unlike VIP players, premium mass players are less likely to be targeted by the authorities under the new gaming law.

**(2) Lower per player spend:** Player spend has been impaired given China's weaker macro (especially China property and certain domestic consumption) as their businesses have been hurt by COVID over the past year.

**(3) Fewer visits:** Although the electronic visas have not yet resumed, the expert sees travel restrictions for leisure visitors having gradually normalised, but as gambling activities are discouraged, visitation frequency of premium mass players has dropped by ~30% from pre-COVID. The expert sees rather limited benefits from border reopening with HK (~5% of premium mass from HK based on his estimates).

### Regional casino operators continue to see local mass market as key support

The lockdowns have continued to limit visitation, and the recovery pace still largely depends on the border reopening. Cost cutting remains the key. In Vietnam, Suncity expects the border reopening will likely be after 2Q22. In Russia, there are no VIP operations for now. However, mass GGR alone has helped breakeven at the EBITDA level. Suncity also sees potential from its untapped (junket) database as well as the Japanese/Korean players after the border reopens. In Cambodia, we stay positive on Naga with the strong local demand and improving vaccination rate in Phnom Penh. We see the casino opening by end-2021 as the medium term catalyst.

## Valuation Methodology and Risks

### Target Price and Rating

Valuation Methodology and Risks: (12 months) for NagaCorp Limited (3918.HK)

**Method:** Our target price of HK\$6.7 for NagaCorp is determined by a sum-of-the-parts valuation of a peers' average at 8x on the normalised 2023E EBITDA (earnings before interest, tax, depreciation and amortisation) and adding the net cash balance. We rate the stock **OUTPERFORM** for the positive long-term outlook of Naga, with its monopoly license, mass focused strategy, shareholders' commitment for Naga3 development (scheduled opening in 2025) and undemanding valuation.

**Risk:** Key risks to our target price of HK\$6.7 and **OUTPERFORM** rating for NagaCorp include: (1) slower-than-expected border reopening and (2) further regional crackdown in cross border gambling activities that hurts demand.

### Companies Mentioned (Price as of 23-Sep-2021)

**Galaxy Entertainment Group** (0027.HK, HK\$42.0, NEUTRAL[V], TP HK\$52.9)

**MGM China** (2282.HK, HK\$5.94, UNDERPERFORM, TP HK\$6.4)

**Melco Resorts & Entertainment Limited** (MLCO.OQ, \$10.29, UNDERPERFORM[V], TP \$10.2)

**NagaCorp Limited** (3918.HK, HK\$6.68, OUTPERFORM[V], TP HK\$6.7)

**SJM** (0880.HK, HK\$5.69, NEUTRAL[V], TP HK\$7.1)

**Sands China** (1928.HK, HK\$16.18, NEUTRAL, TP HK\$27.2)

**Summit Ascent** (0102.HK, HK\$0.55, OUTPERFORM[V], TP HK\$1.2)

**Wynn Macau** (1128.HK, HK\$6.43, UNDERPERFORM[V], TP HK\$7.1)

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### 3-Year Price and Rating History for Galaxy Entertainment Group (0027.HK)

0027.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
15-Oct-18	43.32	69.04	O
12-Dec-18	49.01	70.02	
07-Mar-19	51.78	66.19	
11-Apr-19	56.93	66.19	N
08-Jul-19	53.89	71.39	O
13-Aug-19	43.44	73.04	
23-Oct-19	50.28	69.28	
22-Jan-20	57.01	72.25	
05-Feb-20	52.36	59.38	
04-Mar-20	50.58	52.40	N
17-Apr-20	49.95	66.30	O
14-Jul-20	53.95	62.60	
21-Sep-20	55.00	57.40	N
19-Jan-21	59.15	54.00	
26-Feb-21	70.90	68.60	
20-Apr-21	69.55	69.00	
21-Jun-21	63.25	65.40	
12-Jul-21	59.30	65.70	
10-Aug-21	49.15	52.90	

\* Asterisk signifies initiation or assumption of coverage.



### 3-Year Price and Rating History for MGM China (2282.HK)

2282.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
15-Oct-18	12.04	15.50	O
11-Dec-18	13.76	15.40	N
14-Feb-19	15.52	17.60	
11-Apr-19	16.96	18.20	
08-Jul-19	14.00	18.50	O
22-Oct-19	12.32	17.30	
22-Jan-20	13.04	17.80	
05-Feb-20	10.82	13.30	
04-Mar-20	10.06	11.20	N
17-Apr-20	9.45	12.90	O
14-Jul-20	9.96	12.20	
21-Sep-20	10.00	10.60	N
19-Jan-21	11.76	9.70	U
20-Apr-21	12.62	10.00	
21-Jun-21	13.04	9.20	
12-Jul-21	10.48	9.10	
10-Aug-21	8.40	6.40	

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### 3-Year Price and Rating History for Melco Resorts & Entertainment Limited (MLCO.OO)

MLCO.OO	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
22-Oct-18	17.75		NR
12-Dec-18	18.47	22.60	O
20-Feb-19	23.40	26.00	
07-Mar-19	22.67	27.90	
11-Apr-19	25.33	29.00	
08-May-19	23.58	28.80	
08-Jul-19	23.50	31.50	
25-Jul-19	24.51	32.00	
23-Oct-19	21.35	34.40	
22-Jan-20	22.32	31.60	
05-Feb-20	20.63	25.90	
21-Feb-20	20.36	25.60	
04-Mar-20	17.43	22.20	
17-Apr-20	15.00	26.60	
14-Jul-20	17.00	24.60	
21-Sep-20	16.33	18.70	N
14-Oct-20	14.91	17.80	
19-Jan-21	16.25	14.00	U
20-Apr-21	18.78	15.00	
21-Jun-21	17.42	14.40	
12-Jul-21	16.06	14.30	
10-Aug-21	13.04	10.20	

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### 3-Year Price and Rating History for NagaCorp Limited (3918.HK)

3918.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
23-Jan-19	9.49	11.20	O
14-Feb-19	10.80	11.80	
04-Apr-19	10.46		R
12-Aug-19	11.18		NR
26-Aug-19	10.72	14.00	O
11-Dec-19	13.70	17.20	
12-Feb-20	11.78	15.50	
05-Mar-20	11.00	15.70	
09-Apr-20	9.57	13.00	
22-Jun-20	9.24		R
24-Jun-20	9.50	13.00	O
22-Jul-20	8.83	11.50	
28-Aug-20	9.30	12.50	
05-Oct-20	9.20	12.00	
09-Dec-20	9.81	11.60	
10-Feb-21	9.51	11.00	
09-Mar-21	9.98	12.00	
30-Aug-21	5.81	6.70	

\* Asterisk signifies initiation or assumption of coverage.



### 3-Year Price and Rating History for SJM (0880.HK)

0880.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
15-Oct-18	6.76	10.00	O
12-Dec-18	7.26	9.70	
01-Mar-19	9.17	8.00	N
07-Mar-19	9.07	7.80	U
11-Apr-19	9.50	7.90	
01-May-19	9.47	8.00	
08-Jul-19	9.36	10.00	N
30-Jul-19	8.70	9.50	
23-Oct-19	8.10	9.70	O
22-Jan-20	9.58	11.20	
05-Feb-20	8.69	9.60	N
04-Mar-20	8.69	8.60	
16-Mar-20	7.25	8.20	
17-Apr-20	7.90	9.50	O
14-Jul-20	9.50	9.10	N
21-Sep-20	9.99	9.80	
19-Jan-21	8.63	7.60	U
20-Apr-21	10.22	10.00	N
21-Jun-21	8.85	9.50	
12-Jul-21	8.11	9.40	
10-Aug-21	6.53	7.10	

\* Asterisk signifies initiation or assumption of coverage.



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### 3-Year Price and Rating History for Sands China (1928.HK)

1928.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
15-Oct-18	33.85	48.00	O
12-Dec-18	34.50	49.20	
24-Jan-19	35.55	47.60	
07-Mar-19	38.25	44.10	N
11-Apr-19	42.25	46.00	
18-Apr-19	43.05	48.80	
08-Jul-19	38.90	50.00	O
25-Jul-19	39.80	49.00	
22-Jan-20	41.95	51.70	
30-Jan-20	37.40	51.00	
05-Feb-20	37.70	43.00	
04-Mar-20	35.05	38.50	N
17-Apr-20	31.85	43.30	O
23-Apr-20	31.55	44.00	
14-Jul-20	32.35	41.30	
21-Sep-20	31.55	32.60	N
14-Oct-20	27.35	32.30	
19-Jan-21	30.90	30.00	
20-Apr-21	37.75	36.00	
21-Jun-21	34.75	33.30	
10-Aug-21	26.20	27.20	

\* Asterisk signifies initiation or assumption of coverage.



### 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*
02-Sep-21	0.60	1.20	

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### 3-Year Price and Rating History for Wynn Macau (1128.HK)

1128.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
15-Oct-18	16.78	26.50	O
12-Dec-18	18.00	25.30	
07-Mar-19	18.70	24.00	
11-Apr-19	21.10	25.00	
10-May-19	19.68	24.50	
08-Jul-19	18.98	26.80	
07-Aug-19	15.66	25.70	
23-Oct-19	16.02	25.00	
22-Jan-20	18.72	24.40	
05-Feb-20	16.92	18.90	N
04-Mar-20	15.26	16.40	
17-Apr-20	13.72	18.00	O
14-Jul-20	14.30	16.90	
21-Sep-20	12.90	10.90	U
19-Jan-21	12.34	9.60	
20-Apr-21	15.08	10.00	





1128.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
21-Jun-21	13.14	9.50	
10-Aug-21	9.02	7.10	

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