

## Summit Ascent Holdings Limited

## Significant potential upside from recovery and new capacity; initiate at Buy

Initiating Coverage: BUY | PO: 2.00 HKD | Price: 0.850 HKD

**Initiate at Buy PO of HK\$2.0 (135% upside potential )**

We initiate coverage of Summit Ascent (SA) at Buy with a PO of HK\$2, implying 135% upside potential. We believe SA provides a differentiated opportunity in the Asia gaming space, thanks to: (1) significant revenue growth in the next few years, driven by the new capacity; (2) leveraging client resource from Suncity which has the best VIP customer database; (3) net beneficiary of the China belt and road initiatives and trade tension. Admittedly, the recent resurgence of COVID may dampen investor interest in the short term but it should have no impact on our 2022 forecasts. The stock is trading at just 7.5x our 2022e EV/EBITDA while its two new projects which we think have significant value.

**Visible growth driven by recovery and new capacity**

In the short term, we believe its revenue growth could be driven by market recovery. We estimate GGR to be HK\$642mn (+190%YoY) in 2021 and HK\$1,860mn (+190%YoY) in 2022. In the long term, we see huge potential from its new projects. The two upcoming projects are Tigre de Cristal casino phase-2 with target opening in 2022, and Westside City Project opening in 2023 in Entertainment City which is a gaming hub located in the Philippines capital city Manila. We estimate Manila Westside project NPV will be US\$792mn, assuming 2H 2023 opening, and 25% ROIC. We expect Russia project phase-2 NPV to be US\$562mn, assuming end-2022 opening, and 34% ROIC.

**Attractive valuation with multiple catalysts**

SA's valuation is much lower than Macau companies we cover (11x 22E EV/EBITDA ) and in-line with regional peers (7x). We believe the low expectation for the company could be due to: (1) concerns about overseas gaming regulation and cross-border money transfer in mainland China; (2) uncertainty on cross-border travel resumption; (3) worries on potential delay on the new projects. However, we believe there are potential catalysts ahead to drive a rerating, including: (1) more updates on new projects, (2) gradual rollout of vaccination and cross-border travel resumption, (3) gradual recovery of junket business in the region.

**Estimates (Dec)**

(HK\$)	2018A	2019A	2020E	2021E	2022E
Net Income (Adjusted - mn)	4	107	(135)	23	362
EPS	0.005	0.069	(0.031)	0.004	0.079
EPS Change (YoY)	-44.7%	NM	NM	NM	NM
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	0.113	0.111	(0.082)	(0.132)	(0.009)

**Valuation (Dec)**

	2018A	2019A	2020E	2021E	2022E
P/E	165.65x	12.36x	NM	199.50x	10.69x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	10.15x	9.57x	49.58x	10.92x	4.25x
Free Cash Flow Yield*	4.40%	4.36%	-9.62%	-15.58%	-1.06%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 28.

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Refer to important disclosures on page 29 to 31. Analyst Certification on page 26. Price Objective Basis/Risk on page 26.

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21 January 2021

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## Stock Data

Price	0.850 HKD
Price Objective	2.00 HKD
Date Established	21-Jan-2021
Investment Opinion	C-1-9
52-Week Range	0.470 HKD-1.24 HKD
Mrkt Val / Shares Out (mn)	494 USD / 4,509.4
Market Value (mn)	3,833 HKD
Average Daily Value (mn)	1.08 USD
Free Float	89.0%
BofA Ticker / Exchange	SMTNF / HKG
Bloomberg / Reuters	102 HK / 0102.HK
ROE (2020E)	-4.9%
Net Dbt to Eqly (Dec-2019A)	-31.3%

# iQprofile<sup>SM</sup> Summit Ascent Holdings Limited

Key Income Statement Data (Dec)	2018A	2019A	2020E	2021E	2022E
<b>(HK\$ Millions)</b>					
Sales	463	533	197	516	1,152
Gross Profit	450	520	194	503	1,115
Sell General & Admin Expense	(152)	(165)	(142)	(186)	(218)
Operating Profit	176	210	(40)	172	598
Net Interest & Other Income	(172)	(103)	(96)	(149)	(236)
Associates	0	0	0	0	0
Pretax Income	4	107	(135)	23	362
Tax (expense) / Benefit	0	0	0	0	0
Net Income (Adjusted)	4	107	(135)	23	362
Average Fully Diluted Shares Outstanding	1,488	1,502	4,509	4,509	4,509

## Key Cash Flow Statement Data

Net Income	1	103	(139)	19	358
Depreciation & Amortization	116	99	99	99	99
Change in Working Capital	13	(19)	0	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	67	32	(96)	(96)	(96)
Cash Flow from Operations	196	216	(135)	23	362
Capital Expenditure	(27)	(48)	(233)	(620)	(402)
(Acquisition) / Disposal of Investments	1	0	0	0	0
Other Cash Inflow / (Outflow)	(9)	(20)	(950)	(2)	(2)
Cash Flow from Investing	(35)	(68)	(1,183)	(622)	(404)
Shares Issue / (Repurchase)	0	297	1,566	0	0
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	(70)	237	1,566	846	(1)
Free Cash Flow	169	167	(369)	(597)	(41)
Net Debt	(222)	(637)	(871)	(272)	(229)
Change in Net Debt	(148)	(452)	(247)	600	43

## Key Balance Sheet Data

Property, Plant & Equipment	1,461	1,409	1,642	2,262	2,664
Other Non-Current Assets	17	39	981	981	981
Trade Receivables	45	62	62	62	62
Cash & Equivalents	480	861	1,107	1,354	1,311
Other Current Assets	3	3	3	3	3
Total Assets	2,005	2,373	3,794	4,661	5,021
Long-Term Debt	258	0	0	846	846
Other Non-Current Liabilities	45	50	45	45	45
Short-Term Debt	0	223	236	236	236
Other Current Liabilities	76	64	62	62	62
Total Liabilities	379	337	342	1,189	1,189
Total Equity	1,627	2,036	3,452	3,473	3,832
Total Equity & Liabilities	2,005	2,373	3,794	4,661	5,021

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	8.4%	9.3%	-0.9%	3.9%	11.4%
Return On Equity	0.3%	5.8%	-4.9%	0.7%	9.9%
Operating Margin	38.1%	39.5%	-20.0%	33.3%	51.9%
EBITDA Margin	63.0%	58.1%	30.3%	52.6%	60.5%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	45.8x	2.0x	NM	1.0x	1.0x
Asset Replacement Ratio	0.2x	0.5x	2.3x	6.2x	4.1x
Tax Rate (Reported)	NM	0.1%	NM	NM	NM
Net Debt-to-Equity Ratio	-13.6%	-31.3%	-25.2%	-7.8%	-6.0%
Interest Cover	4.8x	6.8x	-1.3x	5.6x	19.3x

## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 28.

## Company Sector

Gaming

## Company Description

Summit Ascent mainly has one existing integrated resort (IR) project and two upcoming IR projects. The existing project is Tigre de Cristal casino phase 1, located in the Primorye Region of the Russian Far East. The two upcoming projects are Tigre de Cristal casino phase 2 with a target opening in 2022, and Westside City Project that will open in 2023 in Entertainment City which is a gaming hub located in the Philippines capital city Manila.

## Investment Rationale

Summit Ascent could deliver significant revenue growth in the next few years, driven by the new capacity, and the client resource from Suncity which would directly help the high-end business. Market expectation for the company is relatively low. We believe there are multiple catalysts ahead which could help drive a re-rating. 1) More updates on new projects, 2) gradual rollout of vaccination, 3) more details on cross-border money transfer and overseas gaming policy implementation in mainland.

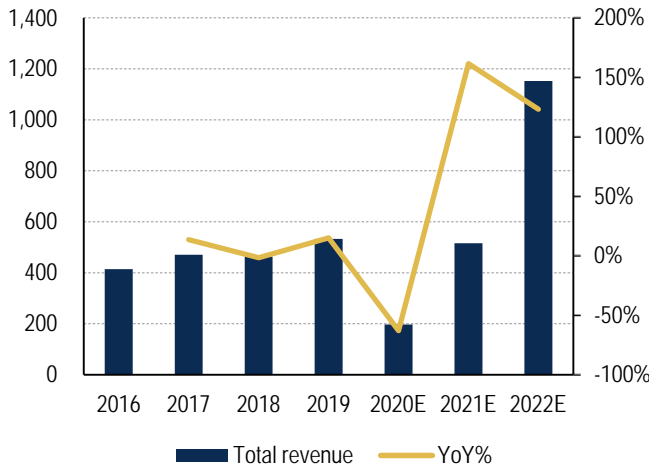
## Stock Data

Price to Book Value 1.1x



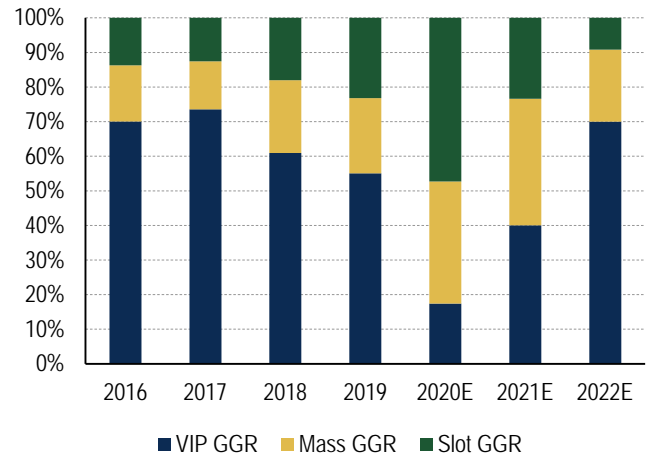
# Key charts

**Chart 1: Total revenue (HKD mn)**



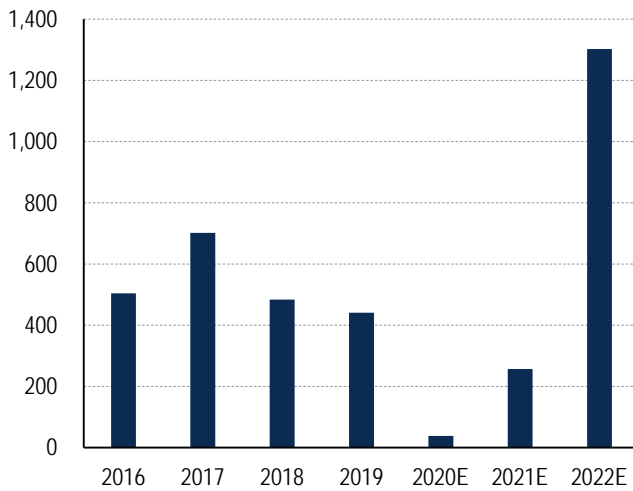
Source: Company, BofA Global Research estimates

**Chart 2: GGR breakdown**



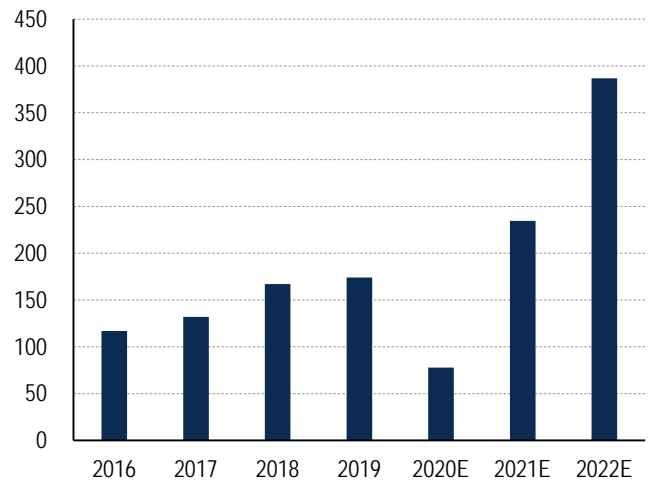
Source: Company, BofA Global Research estimates

**Chart 3: Summit Ascent VIP revenue (HK\$ mn)**



Source: Company, BofA Global Research estimates

**Chart 4: Summit Ascent mass revenue (HK\$ mn)**



Source: Company, BofA Global Research estimates

**Exhibit 1: Tigre de Cristal phase-1 upgrade and phase-2 new offerings**

Phase 1	Phase 1 upgrade:	Phase 1 + Phase 2
[Phase 1 GFA: 35,000 sqm]	Ready soon	[Phase 2 GFA: over 65,000 sqm]
• 5 star hotel	• Add a new Suncity room	• Luxury hotel rooms
• Slot machines	• Add a small hotel with 34 rooms	• Slot machines
• VIP tables	• New hotpot restaurant	• Gaming tables
• Mass tables	• New noodle bar	• Luxury duty free shopping
• Restaurant & Bars	• New Korean BBQ restaurant	• Oriental, Korean, Japanese, Western Restaurants
• Spa		• Beach club
• Fitness Center		• Conference, performance, auditorium and banquet facilities

Source: Company



## Investment thesis

Summit Ascent mainly has one existing integrated resort (IR) project and two upcoming IR projects. The existing project is Tigre de Cristal casino phase 1, located in the Integrated Entertainment Zone (IEZ) of the Primorye Region of the Russian Far East, which is the largest of five designated zones in the Russian Federation where gaming and casino activities are legally permitted. The two upcoming projects are Tigre de Cristal casino phase-2 with a target opening in 2022, and Westside City Project opening in 2023 in Entertainment City which is a gaming hub located in the Philippines capital city Manila.

In our view, Summit Ascent could deliver significant revenue growth in the next few years, driven by the new capacity, as well as the client resource from Suncity which would directly help the high-end business.

### Russia project phase 1: Visible near-term growth helped by Suncity client resource

#### Likely serves as an attractive gaming choice to non-Chinese clients in the region

The VIP GGR in Tigre de Cristal casino was mainly contributed by Chinese players pre-COVID. We believe that besides Chinese clients, Tigre de Cristal is well positioned to attract players from Japan, Korea and other countries in the region.

The simplified visa regime commenced on 8 August 2017. Tourists from China, Japan, North Korea and Singapore can apply for 8-day free e-visa to Vladivostok and Primorye, which only takes four days waiting time to approve. Meanwhile, a single-entry electronic visa valid for the whole Russia will be available from the beginning of 2021, which extends the period of stay in Russia for foreign citizens travelling with an e-visa increasing from 8 to 16 days.

The location is especially convenient for Korean clients. Kangwon Land Casino, the only casino that the Korean nationals are allowed to visit, is located 114 km away from Seoul. It only takes 2-2.5 hours to fly from Seoul / Busan to Vladivostok.

#### Exhibit 2: Weekly flights to/from Vladivostok

City	Country	Flight time	# of Flight (Weekly)	Population
Seoul	South Korea	2:20	36	10,738,269
Busan	South Korea	2:00	10	3,622,140
Tokyo	Japan	2:40	12	13,800,000
Osaka	Japan	2:10	1	2,592,413
Sapporo	Japan	1:30	1	1,940,000
Beijing	China	2:50	7	21,540,000
Harbin	China	1:00	3	10,635,971
Yanji	China	0:40	5	650,000
Hong Kong	China	5:00	3	7,482,500
Shanghai	China	3:00	2	26,320,000
Sanya	China	5:00	2	572,500

Source: Company



### Could leverage the Suncity's client base and operation experience

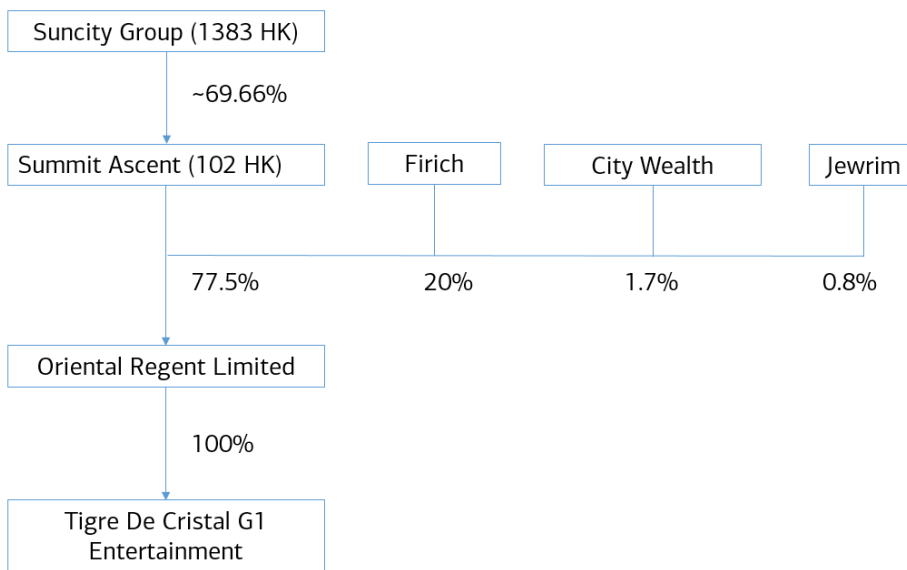
In our view, Tigre de Cristal could leverage the diversified client pool from Suncity (estimated to have around 190,000 members), and attract more clients to the property.

Besides the large amount of Chinese clients, Suncity also has lots of overseas clients, with the top-two segments being Korean and Japanese. We believe there are huge potential from Korea and Japan markets, given the proven strong gambling demand in the Kangwon Land Casino and the large Japanese Pachinko market.

Suncity is motivated to bring clients to gaming destinations with higher commission, to maximize its revenue. With Suncity Group (1383 HK) being Summit Ascent's largest shareholder, Tigre de Cristal may be in an even better position to benefit from the trend.

Further, we believe Summit Ascent could leverage Suncity's experience and know-how in the gaming industry, to make Tigre de Cristal a more attractive property to high-end clients.

#### Exhibit 5: The interest of Summit Ascent aligns with the interest of Suncity



Source: Company

Suncity holds 69.66% shares of Summit Ascent: Suncity Group Holdings Limited (1383 HK) purchased 29.77% of Summit Ascent in April 2019. It is now the single-largest shareholder of Summit Ascent, and controls 69.7% of the company.

#### Summit Ascent controls a majority stake in the Tigre de Cristal casino through ORL:

Summit Ascent has been injecting capital into Oriental Regent Limited (ORL) to facilitate the construction of the Phase-2 project. Summit Ascent proposed capital injection of US\$65mn into ORL on 30 Oct-2020. Two of the shareholders of ORL chose to sell 7.5% stake in ORL to Summit Ascent for a consideration of US\$5.4mn cash and US\$3mn of zero-coupon CB with a conversion price at HK\$3.5, respectively. Then, Summit Ascent proposed acquisition of a further 10% interest in ORL on 16 Nov-2020, by subscribing to 234,755 shares at a cost of US\$53.6mn. Currently, Summit Ascent's share of Tigre de Cristal casino interest (through ORL) is at 77.5%.

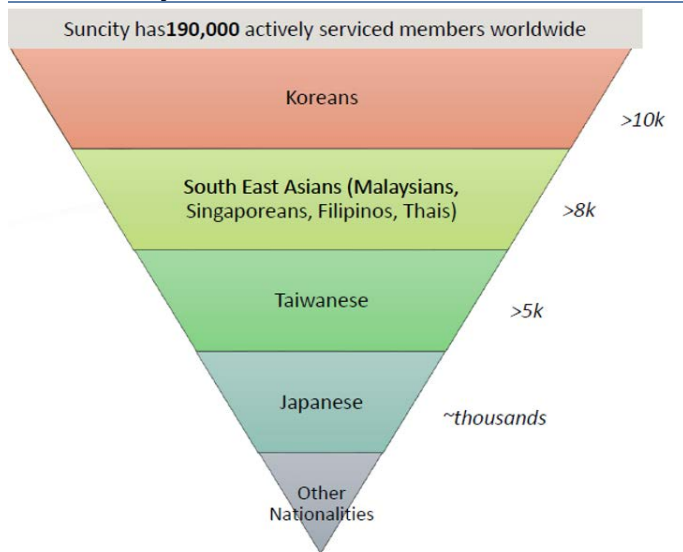
#### Margin expansion potential from lucrative direct VIP & premium mass business

Summit Ascent targets to get put more resources to develop direct VIP and premium mass business. It could help the company to expand its margin. The rebate for direct VIP / premium mass is around 45% / 33% of gaming revenue, much lower than the 70% for junket VIP.



We estimate that 68% of its VIP revenue will be contributed by direct VIP, and 34% of its mass revenue will be from premium mass business in 2023. We believe our expectation is conservative, assuming only HK\$7.4mn direct VIP rolling per table per day (only 74% as of the level in Naga).

**Exhibit 6: Suncity member size**



Source: Company

**Russia project phase 2: target phased opening from end-2022 to drive medium-term growth**

**TDC capacity will be tripled after phase-2 opening**

Tigre de Cristal (TDC) Phase-2 targets opening in late-2022 or early 2023. Phase-2's gross floor area will be over 65,000 sqm and it will triple the number of existing gaming tables and slot machines and increase the number of hotel rooms from 121 to over 450 rooms. Moreover, it will also add new restaurants, bars, retail shops, an indoor beach club and convention space. We believe the new offerings could greatly enhance Tigre de Cristal's ability to attract high-end clients.

We estimate Tigre de Cristal's GGR to grow by 73% in 2023 to HK\$3.2bn, helped by the new capacity, led by 68%/80%/93% growth in VIP/mass/slot GGR growth, respectively.

**Exhibit 7: Tigre de Cristal phase-1 upgrade and phase-2 new offerings**

Phase 1	Phase 1 upgrade:	Phase 1 + Phase 2
[Phase 1 GFA: 35,000 sqm]	<i>Ready soon</i>	[Phase 2 GFA: over 65,000 sqm]
<ul style="list-style-type: none"> <li>5 star hotel</li> <li>Slot machines</li> <li>VIP tables</li> <li>Mass tables</li> <li>Restaurant &amp; Bars</li> <li>Spa</li> <li>Fitness Center</li> </ul>	<ul style="list-style-type: none"> <li>Add a new Suncity room</li> <li>Add a small hotel with 34 rooms</li> <li>New hotpot restaurant</li> <li>New noodle bar</li> <li>New Korean BBQ restaurant</li> </ul>	<ul style="list-style-type: none"> <li>Luxury hotel rooms</li> <li>Slot machines</li> <li>Gaming tables</li> <li>Luxury duty free shopping</li> <li>Oriental, Korean, Japanese, Western Restaurants</li> <li>Beach club</li> <li>Conference, performance, auditorium and banquet facilities</li> </ul>
<ul style="list-style-type: none"> <li>121 rooms</li> <li>330 slots</li> <li>30 tables</li> <li>35 tables</li> <li>4</li> <li>1</li> <li>1</li> </ul>		<ul style="list-style-type: none"> <li>Over 450 rooms</li> <li>Over 600 slots</li> <li>Over 120 tables</li> </ul>

Source: Company



## No license renewal risk and lower cost than peers

Summit Ascent holds a gaming license granted by the Russian government for an indefinite period through its subsidiary ORL. Unlike Macau, where gaming license is due for renewal in June 2022, Summit does not have any license renewal-related risk and has a much higher visibility which could help its case for a re-rating.

The company enjoys lower tax as well. The Russian Federation has established a gaming tax regime which is based on a fixed levy on each gaming table and gaming machine deployed in a particular period. The monthly rates per gaming table and per gaming machine are RUB125k (US\$1,700) and RUB7.5k (US\$101), respectively.

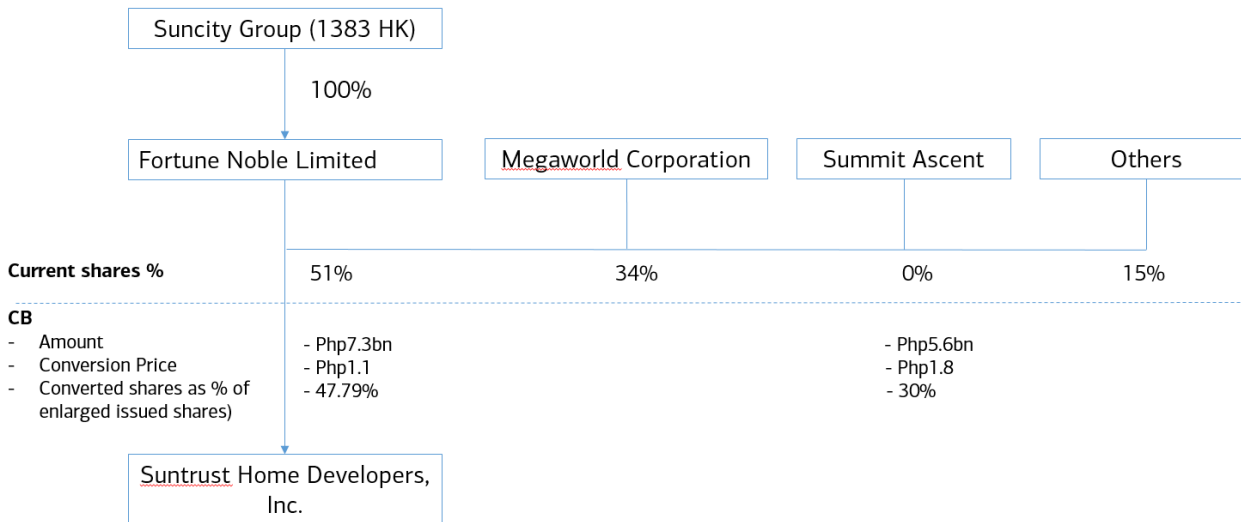
Meanwhile, Tigre de Cristal also enjoys lower operating expenses, which could lead to higher EBITDA margin. The monthly salary for a dealer in Vladivostok is around US\$550, much lower than the US\$3,000 level in Macau and US\$700-800 in Cambodia.

## Manila project: planned opening in 2023 with huge potential

### Joint project with Travellers

On 14 Oct-2020, Suncity Group (1383 HK) announced that it has completed the rights issue of Summit Ascent, by being the underwriter of all the shares of the rights issue. The total amount raised from the rights issue was nearly HK\$1.6bn, half of which will be invested in the Philippines through a subscription of convertible bonds in Suntrust. Summit Ascent also has the option to convert its holdings of the CB into 3.11bn shares of Suntrust, redeemable any time before the five-year maturity date in 2025. Suntrust's Westside City Project is targeted to open in 2023. If no other CB owners convert their shares, then Summit Ascent could exchange for 30% of Suntrust. Summit Ascent management has also indicated its interest to acquire further shares in Suntrust to 51%.

### Exhibit 8: Suntrust holding structure



Source: Company announcements

Suntrust is a listed company in the Philippines Stock Exchange (SUN PS) which owns the Westside City Project. Westside City Project is a co-development project between Suntrust and Westside (Travellers). Westside (Travellers) owns the gaming license, and lease the land to Suntrust. Suncity Group owns 51% of Suntrust, and has been developing and designing the gaming facilities of Westside City Resorts.





Suntrust will be paying an annual fee of US\$10.6mn to Westside (Travellers), as well as a fee equivalent to 1% of VIP GGR and 3% of mass and slots GGR under operating and management agreement after Westside’s casino opens, according to the co-development agreement.

**Exhibit 9: Westside City Resorts**



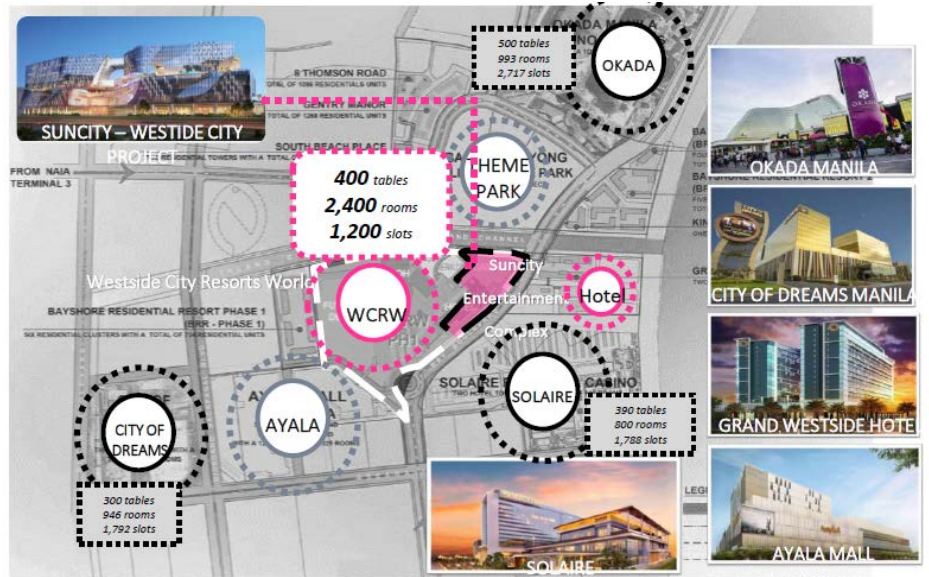
Source: Company

**Visible ramp up helped by strong local markets and good location**

Westside City Project plans to build a casino of 400 tables, 400 rooms for the casino hotel, 1,200 slot machines, combining the additional 2,000 hotel rooms to be built by Westside/Megaworld. We expect the property to open in mid-2023, and could gradually ramp up in the next two years. The ramp up shall be helped by strong local markets and good location.

In 2024, it might be able to generate HK\$9.6bn GGR and HK\$1.9bn (US\$247mn) EBITDA. Our expectation seems conservative, as it is 37% lower than Sloaire’s HK\$390mn EBITDA in 2019, who operates 390 tables, 800 rooms, and nearly 1,800 slot machines.

**Exhibit 10: Westside City Resorts is located in the center of Entertainment City**



Source: Company





## Trading at attractive 7.5x '22E EV/EBITDA

Summit Ascent is trading at 7.5x our 2022E EV/EBITDA, much lower than the 11x for Macau peers and in-line with 7x for regional peers.

In our view, the valuation is attractive as we estimate Summit Ascent will deliver strong 214% EBITDA CAGR in 2021-2023, higher than the 32% CAGR for Macau peers and 20% CAGR for regional peers, helped by the new capacity in Russia and the Philippines.

In our view, the market expectation for the company is relatively low, due to: (1) concerns about overseas gaming regulation in mainland China; (2) uncertainty on the resumption of cross-border travel restriction; (3) concerns about cross-border money transfer; (4) worries on potential delay on the new projects.

However, we believe there are multiple catalysts ahead which could help drive the rerating, including: (1) More updates on new projects; (2) gradual rollout of vaccination and cross-border travel resumption; (3) gradual recovery of junket business in the region which could shed more light into latest details on cross-border money transfer and overseas gaming policy implementation in mainland China.

**Table 1: Global gaming comp**

	Bloomberg Code	Price (LC crncy)	Mkt Cap (US\$bn)	EV/EBITDA (X)		
				2020E	2021E	2022E
<b>Macau gaming stocks</b>						
Galaxy Entertainment	27 HK	60.45	33.9	NA	21.4	11.9
SJM Holdings	880 HK	8.87	6.5	NA	18.5	9.9
Wynn Macau	1128 HK	12.60	8.5	NA	16.7	12.1
Sands China	1928 HK	31.65	33.0	NA	18.9	13.0
Melco Resorts	MLCO US	16.25	7.8	NA	13.4	10.0
MGM China	2282 HK	11.72	5.7	NA	16.8	11.4
<b>Average</b>				<b>NA</b>	<b>16.9</b>	<b>10.8</b>
<b>US gaming stocks</b>						
Las Vegas Sands Corp.	LVS US	54.45	41.6	NM	27.5	14.7
Wynn Resorts Ltd.	WYNN US	107.17	11.6	NM	32.0	15.7
MGM Resorts	MGM US	30.53	15.1			
Boyd Gaming Corp	BYD US	47.70	5.3	18.1	11.3	11.1
<b>Average</b>				<b>18.1</b>	<b>23.6</b>	<b>13.8</b>
<b>Southeast Asian gaming stocks</b>						
Genting Malaysia	GENM MK	2.39	3.3	48.5	13.9	6.9
Genting Singapore	GENS SP	0.87	7.9	14.6	7.8	6.6
Nagacorp	3918 HK	9.48	5.3	22.2	11.6	7.4
<b>Average</b>				<b>28.4</b>	<b>11.1</b>	<b>7.0</b>
<b>Philippines gaming stocks</b>						
Bloomery Resorts	BLOOM PM	8.08	1.8	NA	12.8	7.1
Summit Ascent	102 HK	0.85	0.5	(100.7)	30.1	7.5

Source: BofA Global Research estimates



## Reinstate at Buy with a PO of HK\$2.0

Our PO of HK\$2.0 is based on HK\$465mn 2022E EBITDA and 9x target multiple, implying 135% upside potential.

We believe the 9x EBITDA target multiple is reasonable. It is lower than the 13.5x target multiple for Macau operators on average and 11x target multiple for regional operators on average, though Summit Ascent likely delivers higher EBITDA growth in 2021-2023.

We also conservatively factor in HK\$2,956mn and HK\$1,854mn NPV from Russia project phase-2 and Manila project, respectively.

**Table 2: PO calculation**

HKD mn, except per share data	2022E EBITDA		Target multiple		Firm value
TDC Phase 1	465	x	9.0 x	=	4,181
Add: 2021E net cash					25
Equity value					4,206
Add: NPV of TDC Phase 2					2,956
Add: NPV of Westside project					1,854
Adjusted Equity value					9,017
Shares outstanding					4,509
<b>12-month Price Objective based on 2022E EBITDA</b>					<b>2.00</b>

Source: Bank of America Global Research Estimates

**Table 3: Tigre de Cristal phase 2 NPV**

Phase 2 potential	Index	USD mn
Capital investment	(a)	200
Assumed EBITDA return	(b)	34%
Estimate opening		2023
PV of cash flow	(c) = (a)*(b)	68
Target multiple	(d)	9.0 x
Equals: PV of cash inflow as at 2023	(e) = (c)*(d)	612
Unspent capex in 2023 and beyond	(f)	50
Net value of the project	(z) = (e) - (f)	562
Years to discount back	(g)	1
Discount rate	(h)	15.0%
Discounted value	(i) = (f) / ((1+(g))^(h))	489
Shares outstanding	(j)	4,509
Equity value per share (HKD) - assume 77.5% owned by SA	(k) = (i)*7.8/(j)	0.66

Source: Bank of America Global Research estimates

**Table 4: Westside City NPV**

Westcity potential	Index	USD mn
Capital investment	(a)	1200
Assumed EBITDA return	(b)	25%
Estimate opening		2023
PV of cash flow (normalized earning in 2024)	(c) = (a)*(b)	300
Target multiple	(d)	8.0 x
Equals: PV of cash inflow as at 2024	(e) = (c)*(d)	2,400
Years to discount back	(g)	2
Discount rate	(h)	15.0%
Discounted value	(i) = (f) / ((1+(g))^(h))	1,815
Capex	(f)	1,022
Net value of the project	(z) = (e) - (f)	792
Shares outstanding	(j)	4,509
Equity value per share (HKD) - assume 30% owned by SA	(k) = (i)*7.8/(j)	0.94

Source: Westside City NPV



**Cross-check with DCF**

We apply DCF as a supplementary valuation method by assuming WACC of 15% and terminal growth rate of 3%, and arrive at a valuation of HK\$2.01, which is similar to the number calculated using the EV/EBITDA method.

**Table 5: Cross validate with DCF**

HKD mn, except per share data	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Adj. EBITDA - TDC	124	(32)	126	465	886	1,075	1,001	1,031	1,062	1,094	1,127	1,160
Adj. EBITDA - Westside city					441	577	570	587	605	623	641	661
<b>EBITDA</b>	<b>124</b>	<b>(32)</b>	<b>126</b>	<b>465</b>	<b>1,327</b>	<b>1,653</b>	<b>1,571</b>	<b>1,618</b>	<b>1,667</b>	<b>1,717</b>	<b>1,768</b>	<b>1,821</b>
EBITDA growth	20%	-126%	-497%	268%	186%	25%	-5%	3%	3%	3%	3%	3%
Taxes	-	-	-	-	-	-	-	-	-	-	-	-
Effective tax rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
NOPAT	124	(32)	126	465	1,327	1,653	1,571	1,618	1,667	1,717	1,768	1,821
NOPAT growth	20%	-126%	-497%	268%	186%	25%	-5%	3%	3%	3%	3%	3%
Funds from operation	124	(32)	126	465	1,327	1,653	1,571	1,618	1,667	1,717	1,768	1,821
Change in net working capital	(19)	-	0	0	0	0	0	0	0	0	0	0
Cash flow from operation	105	(32)	126	465	1,327	1,653	1,571	1,618	1,667	1,717	1,768	1,821
Capex	(48)	(233)	(620)	(402)	(16)	(94)	(94)	(94)	(94)	(94)	(94)	(94)
Free cash flow from operation	57	(265)	(494)	62	1,311	1,559	1,477	1,524	1,573	1,623	1,674	1,727
FCF growth	-37%	-567%	86%	-113%	2011%	19%	-5%	3%	3%	3%	3%	3%
FCF discount rate			15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Discounting period			1	2	3	4	5	6	7	8	9	10
Discounting factor			0.87	0.76	0.66	0.57	0.50	0.43	0.38	0.33	0.28	0.25
PV of FCF			(429)	47	862	891	734	659	591	531	476	427
Beta	1.2											
Market premium	7.5											
Risk free rate	6.0											
WACC	15.0											
<b>WACC</b>	<b>15.0%</b>											
<b>Terminal growth</b>	<b>3.00%</b>											
Cumulative PV of FCF stream	4,790											
Terminal value	3,665											
<b>Enterprise value</b>	<b>8,455</b>											
2020 net cash	625											
<b>Equity value</b>	<b>9,079</b>											
Outstanding shares	4,509											
<b>Value per share in HK\$</b>	<b>2.01</b>											

Source: BofA Global Research estimates



## Investment risks

### Delay and higher capex of new projects

If the Manila project and/or Russia project phase-2 were to cost more than the budget, there would be downside risk to our free cash flow estimates. If projects completion and handover are later than the expected time, there could be downside risk to our estimated NPV due to potentially higher project cost and delayed EBTIDA contribution.

### Potential issue of new shares

There would be pressure on the share price if the company issues new shares to help fund the new projects. Currently, we assume the company would be able to raise fund through debt financing and internal cash flow. We have factored in the company will raise about HK\$850mn debt financing and then they will be able to finish the US\$200mn Tigre de Cristal phase 2 while maintaining the cash balance over HK\$1.2bn. If operating cash flow is significantly below expected or the company fails to borrow money, there could be risk that they have to issue new shares for the shortfall.

Separately, we do not assume the company need to further contribute to the Westside City Resort project as Summit Accent is a minority stake holder and we believe the project should be able to raise debt at the project level.

### Concerns from players and junkets due to tightened policy on outbound gaming in China

There could be some negative impact on the business if there is further tightening on outbound gaming in China. Since the summer of 2020, the Chinese government has tightened up its rule and enforcement against overseas gambling activities. China's Ministry of Culture and Tourism and relevant departments had jointly established a blacklist system for cross-border gambling tourist destinations on 26 Aug-2020. According to the latest version of an amendment to China's criminal law published on 21 Oct on National People's Congress website, any person who either organizes or solicits mainland residents to participate in overseas gambling should be punishable by a prison term of more than five years, and up to 10 years.

Meanwhile, China's Ministry of Public Security had identified nearly US\$150bn related to cross-border gambling activities in the first nine months of 2020. A total of 8,800 cases had been investigated, and over 60,000 suspects arrested. We believe most of the US\$150bn should be associated with online gaming activities. Hence, in our view, the campaign mostly targeted online gaming initially. However, since the agents and the underground banking channel used for the online gaming and other jurisdictions could have some overlapping, the Philippines could be affected as well.

Admittedly, there would be collateral damage on Macau VIP business as well. The tightened measures may make it more difficult to transfer money outbound, and it may discourage the high-end and frequent gamblers to visit overseas gaming destinations and play. Finally, it could also weaken junkets' balance sheet and capability to expand the client pool.

But the risk is manageable, in our view, due to: (1) Diversified client base of Summit Ascent from not only mainland China, but also Japan, Korea and other countries in the region. (2) The rules are likely targeting the online gaming activities more.

### Slower-than-expected Chinese outbound visitation recovery

Chinese outbound visitation has been growing rapidly in the past decade, while it declined sharply post the COVID outbreak till now. If the overseas travel is interrupted much longer than expected, or the willingness to travel lowered significantly even after



travel restrictions are removed, that could have some impact to the business in Russia and the Philippines casino projects.

If China economy slows down significantly, or the visa policy becomes less favorable, then the negative impact on Chinese visitation growth and the willingness to spend on gaming would be a risk.

### **China capital outflow policy tightening**

If the money outflow tightening measures are escalated significantly in China, it may negatively impact Summit Ascent's GGR growth. On one hand, it would hurt Chinese clients' overseas spending capacity. On the other hand, it may hurt Macau junkets' liquidity, which may lead to tightened credit for VIP clients.

### **Regional competition**

New capacity coming online in the next few years within the region may lead to cannibalization to the ramp up of Summit Ascent's new projects. For eg, in Singapore (new capacity from Genting Singapore /Marina Bay Sands in 2024/25) and in Cambodia (Naga phase-3 to come online in 2025-2026). We see the risk as manageable due to Summit Ascent's competitive property and service quality.

### **CNY depreciation**

Significant CNY depreciation may discourage Chinese visitors to travel abroad and spend as well. It may also lead to China money outflow measures tightening under certain conditions, thus leading to higher negative impact. In our view, the impact would be manageable as CNY depreciation will weigh on the junket business as a whole, and junkets may tend to bring more business to high-commission destinations to maximize their gains. Summit Ascent offers very competitive commission in the region.

### **Regional or domestic economy slowdown**

Majority of Summit Ascent's business is contributed by domestic clients as well as players from the region. If there is a slowdown in domestic and regional economy, then the willingness and capacity of clients to spend on gaming will be negatively impacted.

### **Local currency depreciation risk**

If local currencies in Russia and the Philippines depreciate significantly, it may hurt FDI and business travel, and negatively impact the company. In our view, the risk is very limited as US dollar is widely used all over the country. Summit Ascent has little revenue from local currency as well, as evidenced by very limited FX gain/loss recognized in the past few years.

### **Highly dependent on Suncity junket business**

Suncity is the biggest shareholder of the company, and Summit Ascent shares the same Chairman with Suncity Group. Suncity's client base is important for further growth in premium mass and junket/direct VIP business as well. The company's high reliance on Suncity may be a potential risk, if Suncity's junket business in Macau is under pressure.

### **Data accuracy risk**

It would be difficult to cross-validate the gaming operational data in Russia. Unlike in Macau and the Philippines, there is no data from regulatory agencies or competitors which could help shed some light on the overall business trend. The risk is limited, in our view, given the company has a strong track record in the past few years, and operational data are largely in line with those suggested by the visitation and regional macro data.



**Political risk**

Any political uncertainty in Russia or the Philippines may create social instability and hurt tourism.

**Other external risks**

The outbreak of diseases like COVID, SARS, bird flu, natural disasters, and/or terrorism could severely impact tourism.





## Operation summary

Summit Ascent has one operating property (Tigre de Cristal phase-1 in Russia Primorye Integrated Entertainment Zone), and another two in the pipeline (Tigre de Cristal phase-2, and Westside in the Philippines Manila Entertainment City).

Tigre de Cristal phase-1 has 30 VIP tables, and 35 mass tables, 333 slot machines, and 121 hotel rooms in operation. Tigre de Cristal phase-2 targets completion by late-2022, making overall gaming tables at 120, slot machines at 6000, and hotel rooms at 450, which should triple Tigre de Cristal's capacity.

Westside targets completion by 2023, with 400 tables, 1200 slot machines, and 2400 hotel rooms.

### VIP business

Majority of Summit Ascent's VIP revenue was contributed by foreign players, mainly Chinese clients. Currently, VIP revenue is mainly contributed by junkets.

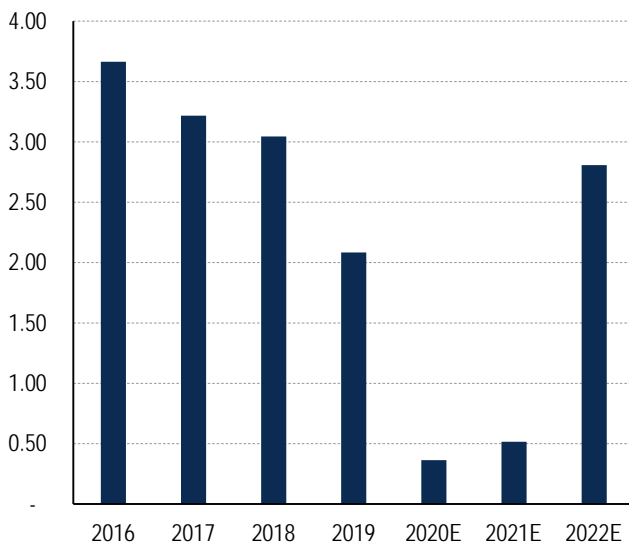
In the next few years, we expect more revenue to be contributed by direct VIP business, as the company will be able to leverage Suncity's client pool to attractive high-end clients and become less dependent on junket and mass visitation.

The junket commission rate is 70% of revenue (around 2% of rolling) in Summit Ascent on average, which is higher than 1.6-2% in Naga, 1.1-1.2% in Macau, 1.5% in the Philippines, and 1.5-2.0% in Vietnam.

For direct VIP, the rebate is 45% of revenue, also higher than the numbers in Macau, the Philippines, and Vietnam, but significantly lower than the junket commission rate.

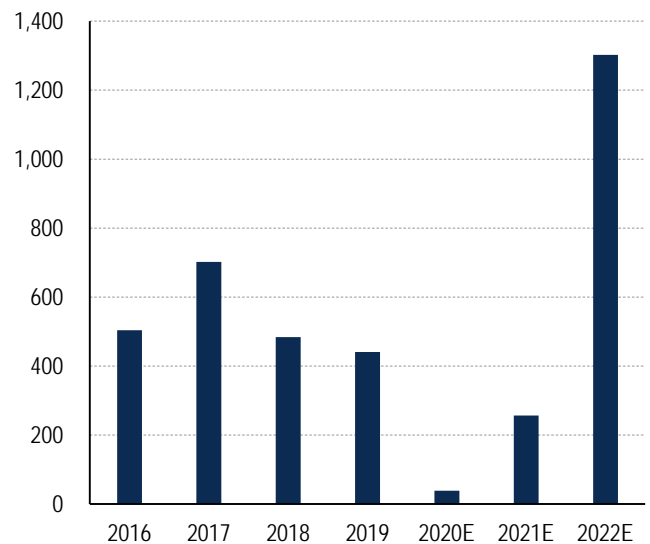
Summit Ascent's average VIP rolling /table / day came in at HK\$2mn in 2019, which was only 21% compared with the numbers in Naga and only 1% vs. the average numbers in Macau. We expect its average VIP rolling /table / day to reach HK\$4mn by 2022.

**Chart 5: Average win per VIP table per day (HK\$ mn)**



Source: Company, BofA Global Research estimates

**Chart 6: Summit Ascent VIP revenue (HK\$ mn)**



Source: Company, BofA Global Research estimates



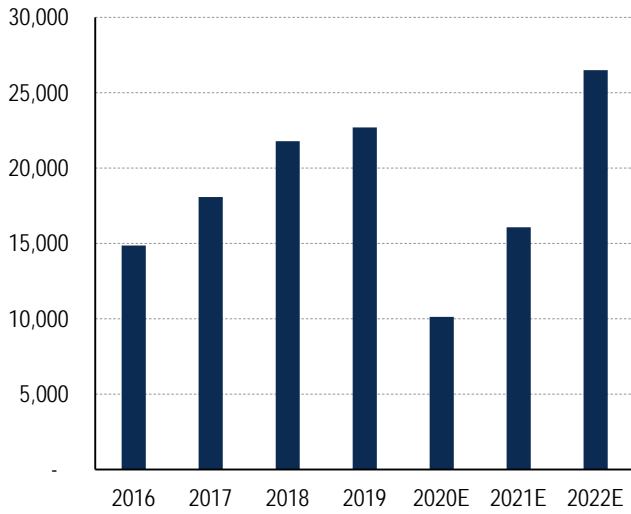
## Mass and EGM business

The mass revenue was mainly from local grind mass clients in the past.

In the next few years, we expect more revenue to be contributed by premium mass business, since the company will be able to leverage Suncity’s client pool to attractive high-end clients.

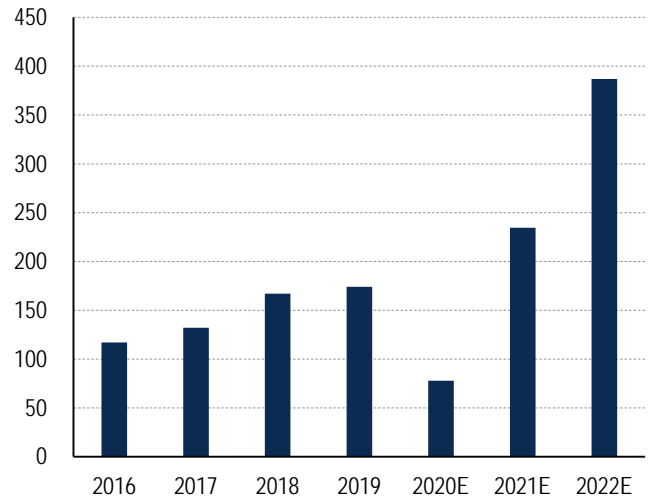
Summit Ascent’s average win /table / day came in at HK\$22.7k for mass in 2019, which was 76% lower than the average numbers in Macau, and 51% lower than the average numbers in Naga. We expect its average mass win /table / day to be HK\$26.5k in 2022, due to increased mass table supply and stable mass GGR growth.

**Chart 7: Average win per mass table per day (HK\$)**



Source: Company, BofA Global Research estimates

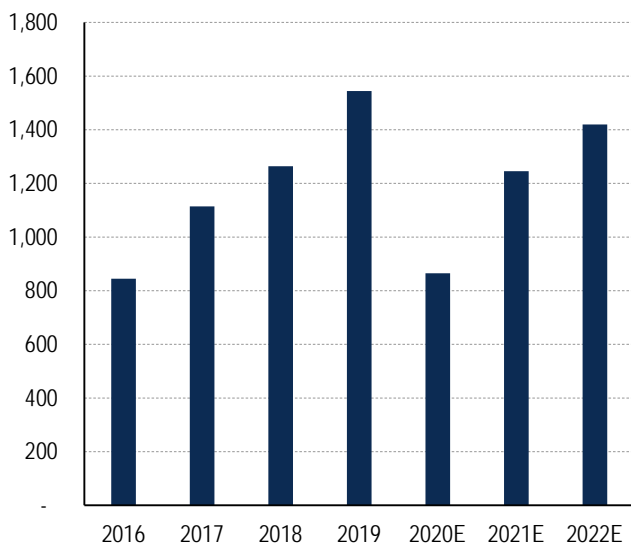
**Chart 8: Summit Ascent mass revenue (HK\$ mn)**



Source: Company, BofA Global Research estimates

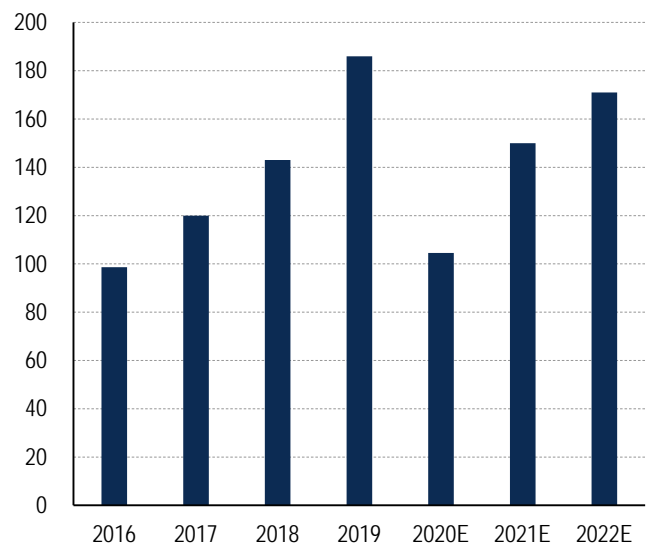
Its average win / slot machine / day came in at HK\$1,544 in 2019. We expect its average slot win /machine / day to be HK\$1,420 by 2022, due to increased mass table supply and stable mass GGR growth.

**Chart 9: Average win per slot machine per day (HK\$)**



Source: Company, BofA Global Research estimates

**Chart 10: Summit Ascent slot revenue (HK\$ mn)**



Source: Company, BofA Global Research estimates

## Non-gaming business



Summit Ascent has 121 hotel rooms as of end-1H20, from Tigre de Cristal phase 1, with room rate around HK\$1200, and average occupancy at 70% by end-2019, but it declined to around 30% in 1H20. Tigre de Cristal phase 2 and Westside target to bring total room numbers to 450. Tigre de Cristal phase 1 has three F&B offerings. Tigre de Cristal phase-2 targets to have four F&B offerings.

## Financial analysis

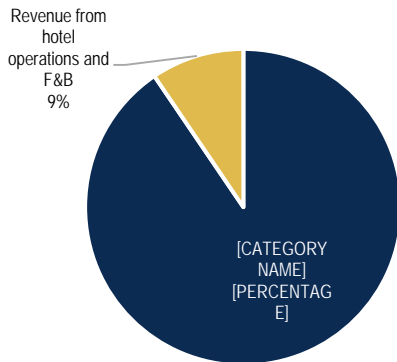
### Key assumptions

- GGR growth:** We estimate GGR will grow by 190% and 190% in 2021 and 2022, driven by 567% and 407% VIP GGR growth, 201% and 65% mass GGR growth, 44% and 14% EGM volume growth, respectively. We assume normalized win rate for VIP, mass, and EGM at 2.85%, 23%, and 5%, respectively.
- EBITDA margin:** We estimate EBITDA margin will be 19% and 24% in 2021 and 2022, respectively. In our view, the EBITDA margin looks reasonable, helped by more contribution from higher margin business.

### Income statement

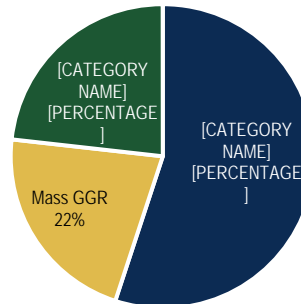
**Topline:** 91% of the revenue came from gaming in FY19. 55%, 22%, and 23% of GGR came from VIP, mass and slot, respectively. Over the past four years, gaming has been the majority revenue contributor of the company.

Chart 11: FY19 revenue breakdown



Source: Company

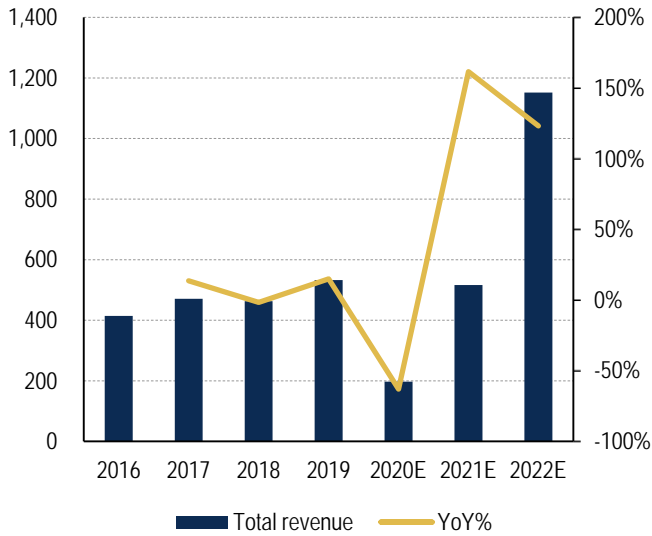
Chart 12: FY19 GGR breakdown



Source: Company

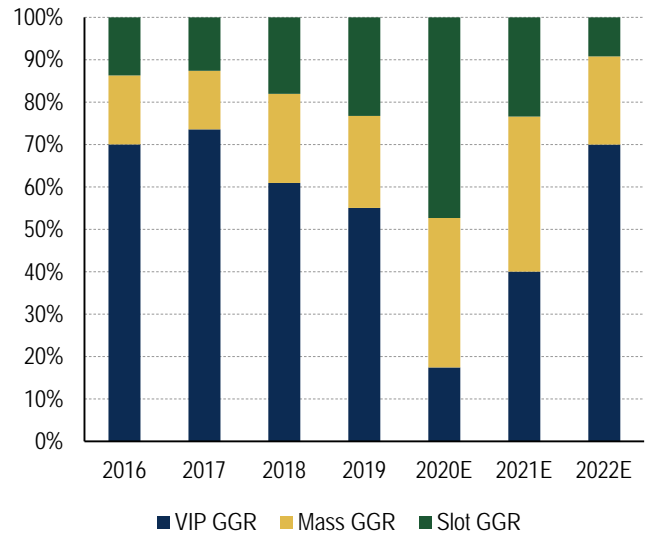


**Chart 13: Total revenue (HKD mn)**



Source: Company, BofA Global Research estimates

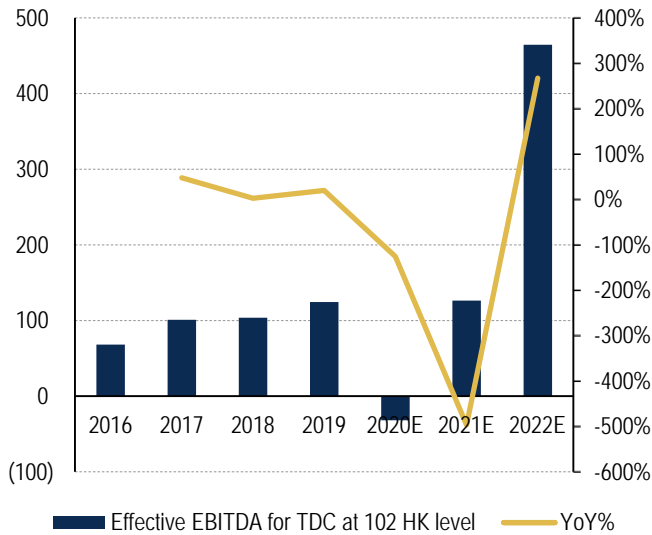
**Chart 14: GGR breakdown**



Source: Company, BofA Global Research estimates

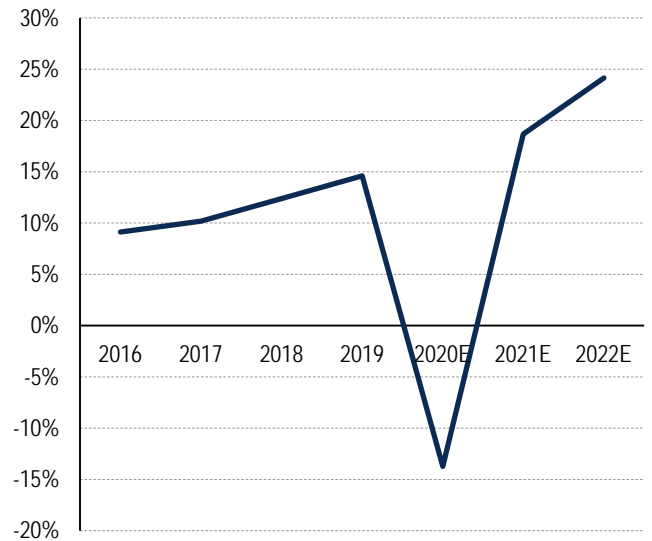
**Bottom line:** Above gross profit (GP) line costs are mainly cost of sales, including commissions and rebates. The costs between GP line and EBITDA line are operating and administrative expenses, including staff costs, maintenance expenses, and others. We estimate EBITDA margin will be lower in 2020 due to the negative impact from COVID-19 and operating leverage, while it gets higher from 2021, due to more contribution from higher margin direct VIP and premium mass business.

**Chart 15: EBITDA trend (HKD mn)**



Source: Company, BofA Global Research estimates

**Chart 16: EBITDA margin trend**



Source: Company, BofA Global Research estimates



**Table 6: P&L forecast**

HKD mn	2016	2017	2018	2019	2020E	2021E	2022E
<b>Tigre de Cristal</b>							
GGR from rolling chip business	504	689	484	441	39	257	1,302
GGR from mass table business	117	132	167	174	78	235	387
GGR from slots business	99	120	143	186	105	150	171
Rebates and commissions	(334)	(521)	(375)	(319)	(35)	(161)	(772)
<b>Net revenue from gaming operations</b>	<b>386</b>	<b>421</b>	<b>419</b>	<b>482</b>	<b>186</b>	<b>481</b>	<b>1,088</b>
Revenue from hotel operations and F&B	29	50	44	51	11	36	64
<b>Total revenue</b>	<b>414</b>	<b>471</b>	<b>463</b>	<b>533</b>	<b>197</b>	<b>516</b>	<b>1,152</b>
YoY%		14%	-2%	15%	-63%	162%	123%
Other income	2	1	2	1	1	1	1
Other gains and losses	(2)	(0)	(0)	(5)	(2)	(4)	(10)
Gaming tax	(14)	(14)	(13)	(14)	(6)	(14)	(14)
Inventories consumed	(11)	(12)	(13)	(13)	(4)	(13)	(37)
Marketing and promotion expenses	(22)	(19)	(16)	(18)	(5)	(30)	(50)
Employee benefits expenses	(138)	(146)	(136)	(148)	(137)	(156)	(168)
Other expenses	(98)	(106)	(105)	(121)	(80)	(97)	(282)
<b>Adjusted property EBITDA of Tigre de Cristal</b>	<b>132</b>	<b>174</b>	<b>181</b>	<b>215</b>	<b>(34)</b>	<b>203</b>	<b>592</b>
YoY%		32%	4%	18%	-116%	-693%	192%
EBITDA margin as % of gross revenue	18%	18%	22%	25%	-15%	29.9%	30.8%
Adj. property EBITDA of TDC attributable to 102 HK	<b>79</b>	<b>104</b>	<b>109</b>	<b>129</b>	<b>(26)</b>	<b>157</b>	<b>459</b>
Share of TDC owned by 102 HK	60%	60%	60%	60%	78%	78%	78%
Management fee payable to the company	12	13	13	15	7	19	56
As % of GGR	2%	1%	2%	2%	3%	3%	3%
Company corporate expenses	(22)	(16)	(18)	(20)	(12)	(50)	(50)
YoY%					-36%	444%	10%
<b>Effective EBITDA for TDC at 102 HK level</b>	<b>68</b>	<b>101</b>	<b>104</b>	<b>124</b>	<b>(32)</b>	<b>126</b>	<b>465</b>
YoY%		48%	3%	20%	-126%	-497%	268%
EBITDA margin as % of gross revenue	9%	10%	12%	15%	-14%	19%	24%
<b>102 HK EBITDA</b>	<b>68</b>	<b>101</b>	<b>104</b>	<b>124</b>	<b>(32)</b>	<b>126</b>	<b>465</b>
Bank interest income	1	2	4	8	8	8	8
Interest on obligations under finance leases	(1)	(1)	(0)	(1)	(1)	(1)	(1)
Income tax expenses	(1)	(0)	(0)	(0)	(0)	(0)	(0)
<b>Other non-cash items:</b>							
Imputed interest income from loans to a joint venture	13	0	0	0	0	0	1
Net exchange gains	8	8	6	19	19	19	19
Depreciation and amortization	(102)	(134)	(116)	(99)	(99)	(99)	(99)
Imputed interest expenses	(44)	(43)	(36)	(31)	(31)	(31)	(31)
Loss on deemed disposal of interest in a joint venture	23	0	(1)	0	0	0	0
Share of losses of a joint venture	(0)	(0)	(0)	0	0	0	0
Notional share-based compensation benefits	(15)	(3)	(29)	0	0	0	0
Gain on disposal of interest in subsidiaries	0	0	0	0	0	0	0
Non-recurring write-off relating to goodwill	0	(9)	0	0	0	0	0
Non-recurring write-offs relating to construction	(2)	(0)	(0)	0	0	0	0
<b>Profit before taxation</b>	<b>(8)</b>	<b>(10)</b>	<b>4</b>	<b>107</b>	<b>(135.5)</b>	<b>22.8</b>	<b>362.0</b>
Income tax expense	0	(0)	0	(0)	0	0	0
Loss for the year from continuing operations	(8)	(10)	4	107	(135)	23	362
Profit for the year from discontinued operations	3	0	0	0	0	0	0
Other items	342	0	0	0	0	0	0



**Table 6: P&L forecast**

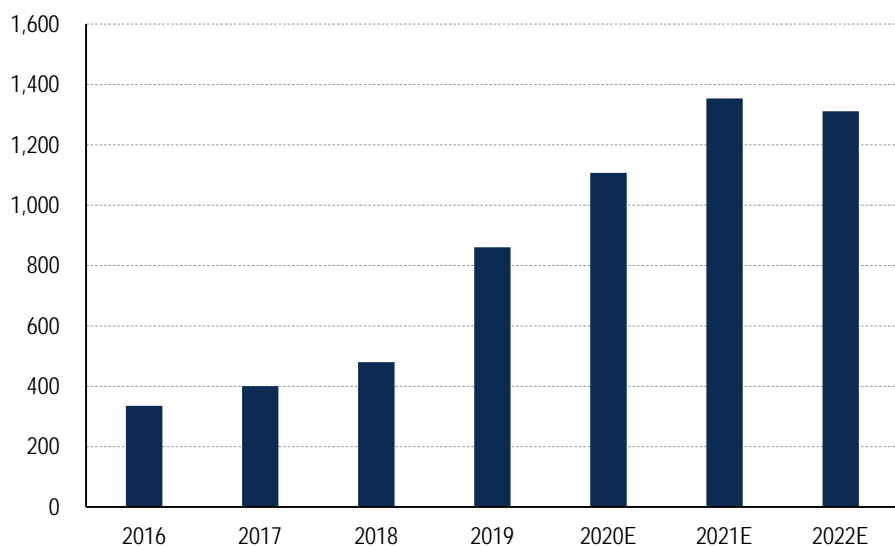
HKD mn	2016	2017	2018	2019	2020E	2021E	2022E
Profit and total comprehensive income for the year	337	(10.0)	4.3	106.9	(135.5)	22.8	362.0
Profit attributable to owners of the Company	343	13.8	7.6	82.0	(104.5)	12.4	283.5
Profit attributable to non-controlling interests	(6)	(23.7)	(3.6)	24.9	(31.0)	10.3	78.4

Source: Company, BofA Global Research estimates

## Balance sheet

**Healthy cash balance:** Summit Ascent has HK\$861mn cash as of end-2019, and HK\$816.7mn by end-2Q 2020. The company has raised HK\$1.6 bn through right issues (2.7bn shares at HK\$0.6 per share) in 2H20. Even after using HK\$847mn to subscribe the CB for Suntrust, it will still have HK\$601mn for Tigre de Cristal Phase II and HK\$170mn for working capital.

**Low leverage:** The company does not have debt, as of end-3Q 2020. However, it may need to borrow from the bank in the next few years to facilitate the capex spending of the new projects.

**Chart 17: Cash trend (HKD mn)**

Source: Company, BofA Global Research estimates

**Table 7: Balance sheet forecast**

HKD mn	2016	2017	2018	2019	2020E	2021E	2022E
<b>Current assets</b>							
Inventories	4.5	3.5	2.8	3.0	3.0	3.0	3.0
Trade and other receivables	28.0	37.9	45.3	61.7	61.7	61.7	61.7
Amount due from JV	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	335.1	400.2	479.8	860.7	1,107.2	1,353.9	1,311.1
<b>Total current assets</b>	<b>367.6</b>	<b>441.5</b>	<b>527.9</b>	<b>925.4</b>	<b>1,171.9</b>	<b>1,418.6</b>	<b>1,375.8</b>
<b>Non-current assets</b>							
Property, plant and equipment	1,658.4	1,549.0	1,460.6	1,408.5	1,641.7	2,261.8	2,664.3
Long-term prepayments	13.5	13.5	16.7	31.8	31.8	31.8	31.8
Goodwill	8.5	0.0	0.0	0.0	0.0	0.0	0.0
Intangible assets	0.2	0.2	0.1	0.4	0.4	0.4	0.4
Loan to joint venture	1.6	1.8	0.0	0.0	948.6	948.6	948.6
Right-of-use assets				6.8			
Interest in joint ventures	0.6	0.3	0.0	0.0	0.0	0.0	0.0
<b>Total non-current assets</b>	<b>1,682.8</b>	<b>1,564.8</b>	<b>1,477.4</b>	<b>1,447.6</b>	<b>2,622.6</b>	<b>3,242.7</b>	<b>3,645.2</b>

### Current liabilities





**Table 7: Balance sheet forecast**

HKD mn	2016	2017	2018	2019	2020E	2021E	2022E
Trade and other payables	71.8	56.8	76.3	61.6	61.6	61.6	61.6
Provisions			0.0	0.0	0.0	0.0	0.0
Lease liabilities				2.0			
Loans from non-controlling shareholders of a subsidiary				223.2	236.1	236.1	236.1
Obligations under finance leases	1.5	1.0					
Amount due to related parties	4.2	1.3	0.0	0.0	0.0	0.0	0.0
<b>Total current liabilities</b>	<b>77.5</b>	<b>59.1</b>	<b>76.3</b>	<b>286.7</b>	<b>297.6</b>	<b>297.6</b>	<b>297.6</b>
<b>Non-current liabilities</b>							
Loans from non-controlling shareholders of a subsidiary	286.2	281.5	257.9	-	-	-	-
Provision for value-added tax arrangements	54.9	57.8	44.5	44.6	44.6	44.6	44.6
Obligations under finance leases - due after one year	0.8	-		5.1			
Bank loan						846.3	846.3
<b>Total non-current liabilities</b>	<b>342.0</b>	<b>339.4</b>	<b>302.4</b>	<b>49.8</b>	<b>44.6</b>	<b>890.9</b>	<b>890.9</b>
<b>Equity</b>							
Share capital	37.2	37.2	37.2	45.1	45.1	45.1	45.1
Reserves	1,158.9	1,176.7	1,213.5	1,599.3	3,154.1	3,155.4	3,156.7
Equity attributable to owners of the company	1,196.1	1,213.9	1,250.7	1,644.4	3,199.2	3,200.5	3,201.8
Accumulated profits	434.8	394.0	375.9	392.0	253.0	272.2	630.6
<b>Shareholders' funds</b>	<b>1,630.9</b>	<b>1,607.9</b>	<b>1,626.6</b>	<b>2,036.4</b>	<b>3,452.2</b>	<b>3,472.7</b>	<b>3,832.4</b>

Source: Company, BofA Global Research estimates

## Cash flow statement

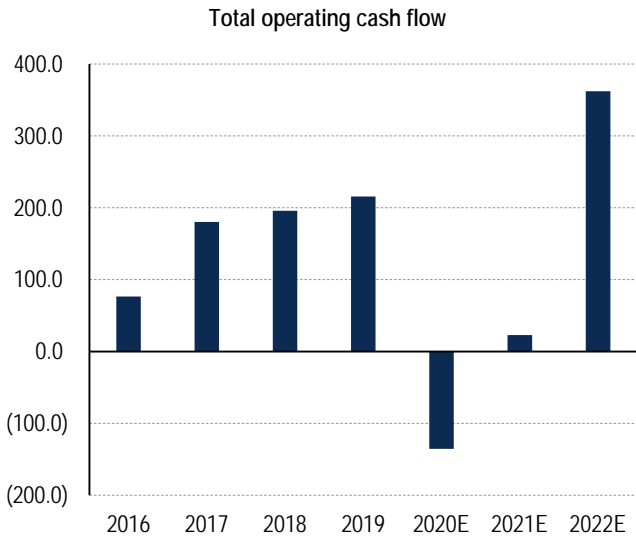
### Healthy operating cash flow

Summit Ascent saw stable operating cash flow in the past few years, and we expect the cash flow to rise to HK\$352mn in 2022, assuming business recovery from mid-2021.

It will incur higher capex from 2020 to 2023 on new projects. We estimate the company will remain in a net cash position, and it has the capability to refinance, if needed. The maintenance capex for current capacity is estimated at US\$2mn per year in 2020-2023. The expansion capex will be mainly for its Russia and the Philippines projects, which target completion in 2023. We estimate Russia project phase-2 and Manila project will cost US\$200mn and US\$1,200mn, respectively.

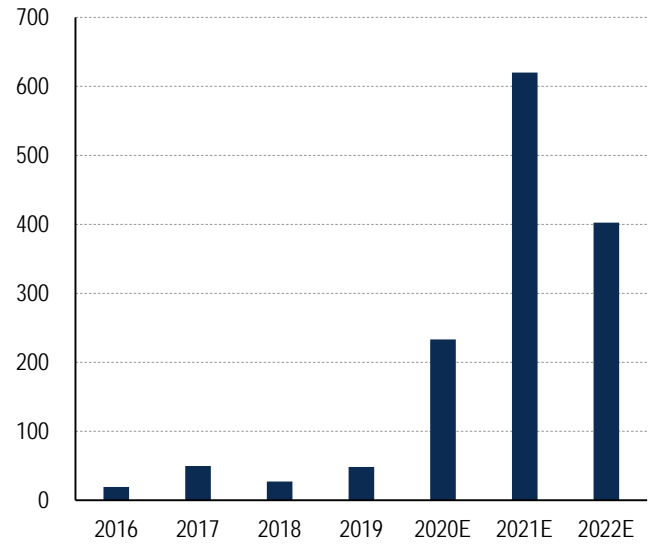


**Chart 18: Total operating cash flow**



Source: Company, BofA Global Research estimates

**Chart 19: Capex spending**



Source: Company, BofA Global Research estimates



**Table 8: Cash flow forecast**

HKD mn	2016	2017	2018	2019	2020E	2021E	2022E
<b>Profit/ (loss) before income tax</b>	(5.4)	(9.9)	4.2	107.0	(135)	23	362
Adjustments for:							
Depreciation and amortization	86.9	133.7	115.5	99.3	99	99	99
Finance costs	32.5	44.0	36.5	31.7	32	32	31
Impairment loss recognised on goodwill	0.0	8.5	29.2	0.0	0	0	0
Share-based payments expenses	14.8	3.1	0.7	0.0	0	0	0
Share of losses of a joint venture	17.1	0.3	0.4	0.0	0	0	0
Loss on disposal of property, operating right and equipment	1.7	0.3	0.1	6.2	0	0	0
Bank Interest income	(0.9)	(1.6)	(3.9)	(8.4)	(8)	(8)	(8)
Imputed interest income from loan to a joint venture	(12.8)	(0.2)	(0.1)	0.0	0	0	(1)
Impairment losses recognised on other receivables, deposits and prepayments	1.9	0.0	0.4	(0.6)	0	0	0
Gain on deemed disposal of interest in a joint venture	(20.2)	0.0	0.0	0.0	0	0	0
Gain on disposal of subsidiaries	(2.6)	0.0	0.0	0.0	0	0	0
Changes in working capital							
Decrease/ (increase) in inventories	0.4	1.0	0.7	(0.2)	0	0	0
Decrease/ (increase) in trade and other receivables	24.3	(10.3)	(7.0)	(16.6)	0	0	0
Increase/ (Decrease) in trade and other payables	(61.2)	10.0	20.5	(2.6)	0	0	0
(Decrease)/increase in amount due to a non-controlling shareholder of a subsidiary	0.0	1.3	(1.3)	0.0	0	0	0
<b>Cash generated from operations</b>	<b>(42)</b>	<b>(8)</b>	<b>17</b>	<b>88</b>	<b>(135)</b>	<b>23</b>	<b>362</b>
Tax paid	-	(0.1)	(0.1)	(0.1)	0	0	0
Net cash (used in) generated from operating activities (continuing operations)	(42)	(8)	17	87	(135)	23	362
Net cash used in operating activities (discontinued operations)	-	-	-	-	0	0	0
<b>Total operating cash flow</b>	<b>76.5</b>	<b>180.1</b>	<b>195.8</b>	<b>215.7</b>	<b>(135)</b>	<b>23</b>	<b>362</b>
<b>Cash flows from investing activities</b>							
Payment for property, operating right and equipment	(19)	(50)	(27)	(48)	(233)	(620)	(402)
Return of VAT refunded under VAT arrangements	0	(11)	(10)	(10)	(10)	(10)	(10)
Deposit for purchase of property, operating right and equipment	0	0	(3)	(18)	0	0	-
Purchase for intangible assets	(0)	(0)	(0)	(0)	0	0	-
Interest received	1	2	4	8	8	8	8
Net cash inflow arising from acquisition of a subsidiary	82	0	1	0	0	0	-
VAT refunded under VAT arrangements	45	0	1	1			
Proceeds from disposal/written-off of property, operating right and equipment	1	1	-		0	0	-
Others	17				(949)	-	-
<b>Net cash generated from investing activities (continuing operations)</b>	<b>127</b>	<b>(58)</b>	<b>(35)</b>	<b>(68)</b>	<b>(1,183)</b>	<b>(622)</b>	<b>(404)</b>
Net cash used in investing activities (discontinued operations)							
<b>Cash flow from financing activities</b>							
Repayment of loans from non controlling shareholders of a subsidiary	0	(53)	(68)	(72)	0	0	0
Repayment of obligations under finance leases	(0)	(1)	(1)	(2)	0	0	0
Interest paid	(1)	(1)	(0)	(1)	(1)	(1)	(1)
Repayment to a related party	0	(4)	0		0	0	0
Proceeds from issue of ordinary shares				303	1,600	0	0
Proceeds from bank loan						846	0
Transaction costs attributable to issue of new shares				(6)	(34)	0	0
Proceeds from exercise of share options	0	1	0	15	0	0	0
<b>Net cash used in Financing activities (continuing operations)</b>	<b>(1)</b>	<b>(58)</b>	<b>(70)</b>	<b>237</b>	<b>1,566</b>	<b>846</b>	<b>(1)</b>
Net decrease in cash and cash equivalents	203	63	91	385	247	247	(43)
FX effect	2	2	(12)	(5)	0	0	0
Cash and cash equivalents at the beginning of the year	130	335	400	480	860	1,107	1,354
<b>Cash and cash equivalents at the end of the year</b>	<b>335</b>	<b>400</b>	<b>480</b>	<b>860</b>	<b>1,107</b>	<b>1,354</b>	<b>1,311</b>

Source: Company, BofA Global Research estimates



# Scenario analysis – overall risks are skewed to the upside

We present a sensitivity analysis on two-three factors to determine the risks to our valuation for Summit Ascent. Overall, the implied valuation under bear / bull case would be HK\$1.1 / HK\$2.9, respectively. The BofA Global Research Scenario Analysis suggests the risks for Summit Ascent are skewed to the upside.

## 1) GGR growth

**Base case:** We estimate overall GGR to be HK\$1,786mn in 2021 and HK\$1,974mn in 2022, assuming VIP/mass/slot GGR being HK\$1,369mn/ HK\$265mn/ HK\$153mn in 2021 and HK\$1,494mn/ HK\$297mn/ HK\$183mn in 2022. We assume normalized win rate for VIP, mass, and EGM at 2.85%, 23%, and 5%, respectively.

**Bear case:** We estimate overall GGR to be HK\$1,628mn in 2021 and HK\$1,800mn in 2022, assuming VIP/mass/slot GGR being HK\$1232mn/ HK\$251mn/ HK\$145mn in 2021 and HK\$1,344mn/ HK\$282mn/ HK\$174mn in 2022. We also assume normalized win rate for VIP, mass, and EGM at 2.85%, 23%, and 5%, respectively.

**Bull case:** We estimate overall GGR to be HK\$2,025mn in 2021 and HK\$2,236mn in 2022, assuming VIP/mass/slot GGR being HK\$1,575mn/ HK\$286mn/ HK\$165mn in 2021 and HK\$1,718mn/ HK\$321mn/ HK\$198mn in 2022. We also assume normalized win rate for VIP, mass, and EGM at 2.85%, 23%, and 5%, respectively.

## 2) Manila Westside project NPV

**Base case:** We estimate Manila Westside project NPV to be US\$1,107mn, assuming 2H 2023 opening, and 25% ROIC.

**Bear case:** We estimate Manila Westside project NPV to be US\$560mn, assuming late-2023 opening, and 12.5% ROIC.

**Bull case:** We estimate Manila Westside project NPV to be US\$2,187mn, assuming early 2023 opening, and 40% ROIC.

## 3) Russia project phase-2 NPV

**Base case:** We estimate Russia project phase 2 NPV to be US\$371mn, assuming end-2022 opening, and 34% ROIC.

**Bear case:** We estimate Russia project phase 2 NPV to be US\$190mn, assuming mid-2023 opening, and 17% ROIC.

**Bull case:** We estimate Russia project phase 2 NPV to be US\$687mn, assuming end-2022 opening, and 60% ROIC.



# Holding structure and management

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## **Chairman and Non-executive Director (Mr. Chau Cheok Wa)**

Mr. Chau has been the Chairman and a Non-executive Director of the company since 1 June 2019. He is currently the chairman, executive director and controlling shareholder of Suncity Group Holdings Limited (stock code: 1383), and the substantial shareholder of the company. Mr. Chau is also the founder and chairman of the Suncity Group.

## **Deputy Chairman and Executive Director (Mr. Lo Kai Bong)**

Mr. Lo had been a Non-executive Director of the company since December 2018 until he was re-designated as an Executive Director of the company and appointed as the Deputy Chairman of the Board of the company on 26 April 2019. He is a director of a subsidiary of the company. He has obtained a Bachelor of Arts degree from the University of Winnipeg in Canada. Mr. Lo is currently an executive director of Suncity, a company listed on Hong Kong Stock Exchange and the substantial shareholder of the company. Mr. Lo is also the chief investment officer of the Suncity Group. Mr. Lo has been involved in business development of the Suncity Group's overseas businesses. Mr. Lo is also responsible for the corporate management, mergers and acquisitions of Suncity and the Suncity Group and is experienced in the gaming industry. Mr. Lo was an executive director of Sun International, a company listed on the GEM of the Hong Kong Stock Exchange, from August 2013 to February 2015. Mr. Lo is a brother-in-law of Mr. Chiu King Yan, Executive Director of the company.

## **Executive Director (Mr. Chiu King Yan)**

Mr. Chiu has been an Executive Director of the company since 26 April 2019. He is the chief financial officer of Suncity, the substantial shareholder of the company. Mr. Chiu is a director of subsidiaries of the company since 23 March 2020. Mr. Chiu has over 19 years of experience in audit, accounting, private equity investment and corporate finance, obtained from his previous working experience in international accounting firms and various listed companies in Hong Kong. Mr. Chiu was an executive director of Wanjia Group Holdings Limited (401 HK), from March 2017 to February 2018. He was the group chief financial officer of AID Partners Capital Holdings Limited (8088 HK) (now known as AID Life Science Holdings Limited), from April 2014 to July 2016, responsible for financial reporting, investment management and mergers and acquisitions.

Mr. Chiu holds a master's degree in financial analysis from The Hong Kong University of Science and Technology and a bachelor's degree in business administration in Accountancy from The City University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. Mr. Chiu is a brother-in-law of Mr. Lo Kai Bong, Executive Director and Deputy Chairman of the company.



## Price objective basis & risk

### Summit Ascent Holdings Limited (SMTNF)

Our PO of HK\$2.0 is based on HK\$465mn 2022E EBITDA and 9x target multiple. We believe the 9x EBITDA target multiple is reasonable. It is lower than the 13.5x target multiple for Macau operators on average and 11x target multiple for regional operators on average, though Summit Ascent is likely to deliver higher EBITDA growth in 2021-2023. We also conservatively factor in HK\$2,956mn and HK\$1,854mn NPV from Russia project phase 2 and Manila project, respectively.

Downside risks are: 1) sovereign and geopolitical risk in Russia and the Philippines, 2) macro slowdown, 3) potential share placements, 4) regulatory changes, 5) increased local and regional competition, 6) project risk and 7) worse-than-expected further COVID outbreak.

## Analyst Certification

I, Billy Ng, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.





**APR - Gaming & Leisure Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Bloomberry Resorts	BBRRF	BLOOM PM	Billy Ng, CFA
	BTG Hotels	XYGTF	600258 CH	Ronald Leung, CFA
	Central Plaza Hotel	XWTFD	CENDEL TB	Charti Phrawphraikul
	China Tourism Group Duty Free	XCTVF	601888 CH	Billy Ng, CFA
	China Travel International	CTVIF	308 HK	Ronald Leung, CFA
	Chow Tai Fook Jewellery	CJEFW	1929 HK	Ronald Leung, CFA
	Fosun International	FOSUF	656 HK	Ronald Leung, CFA
	Galaxy Entertainment	GXYEF	27 HK	Billy Ng, CFA
	Greentree Hospitality	GHG	GHG US	Billy Ng, CFA
	Huazhu Group Limited	HTHT	HTHT US	Billy Ng, CFA
	Huazhu Group Limited	XHGUF	1179 HK	Billy Ng, CFA
	Melco International	MDEVF	200 HK	Ronald Leung, CFA
	Melco Resorts & Entertainment Limited	MLCO	MLCO US	Billy Ng, CFA
	Minor International	MINOF	MINT TB	Charti Phrawphraikul
	NagaCorp Ltd.	NGCRF	3918 HK	Billy Ng, CFA
	Paradise	PDCLF	034230 KS	Susie Lee
	Sands China Ltd.	SCHYF	1928 HK	Billy Ng, CFA
	Shanghai Jin Jiang Intl Hotels (Group)	SJJIF	2006 HK	Ronald Leung, CFA
	Shanghai Jin Jiang Intl Hotels Dev Co.	XGCOF	600754 CH	Billy Ng, CFA
	Shangri-La Asia	SHALF	69 HK	Billy Ng, CFA
	Shun Tak Holdings	SHTGF	242 HK	Ronald Leung, CFA
	SJM Holdings Limited	SJMHF	880 HK	Billy Ng, CFA
	Songcheng Performance	XMUGF	300144 CH	Billy Ng, CFA
	Summit Ascent Holdings Limited	SMTNF	102 HK	Billy Ng, CFA
	The Erawan Group	XCZVF	ERW TB	Charti Phrawphraikul
	The Star Entertainment Group Limited	EHGRF	SGR AU	Melinda Baxter
	Wangfujing Group	BJNGF	600859 CH	Ronald Leung, CFA
	Wynn Macau, Limited	WYNMF	1128 HK	Billy Ng, CFA
<b>NEUTRAL</b>				
	Aristocrat Leisure Limited	ARLUF	ALL AU	Melinda Baxter
	Crown Resorts Limited	CWLDF	CWN AU	Melinda Baxter
	Genting Singapore	GIGNF	GENS SP	Billy Ng, CFA
	Grand Korea Leisure	XFAIF	114090 KS	Susie Lee
	Hotel Shilla	HSLLF	008770 KS	Susie Lee
	MGM China Holdings	MCHVF	2282 HK	Billy Ng, CFA
<b>UNDERPERFORM</b>				
	China CYTS Tours Holding	XCMWF	600138 CH	Ronald Leung, CFA
	Genting Malaysia	GMALF	GENM MK	Billy Ng, CFA
	Hong Kong and Shanghai Hotels	HKSHF	45 HK	Ronald Leung, CFA
	Kangwon Land	KGWNF	035250 KS	Susie Lee
	TABCORP Holdings Limited	TABCF	TAH AU	Melinda Baxter



**iQ<sub>method</sub><sup>SM</sup> Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

**iQ<sub>method</sub><sup>SM</sup>** is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of **iQ<sub>method</sub>** are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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# Disclosures

## Important Disclosures

### Equity Investment Rating Distribution: Gaming Group (as of 31 Dec 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	25	65.79%	Buy	13	52.00%
Hold	9	23.68%	Hold	6	66.67%
Sell	4	10.53%	Sell	2	50.00%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1863	56.90%	Buy	1185	63.61%
Hold	686	20.95%	Hold	426	62.10%
Sell	725	22.14%	Sell	358	49.38%

\* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

**FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).**

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

\* Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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