SECTOR UPDATE

Gaming – Malaysia

Casino Segment's Turn To Shine

Stronger consumer sentiment amid zero-rated GST and casino capacity expansion point to an earnings growth/recovery for the gaming segment. Decent dividend yields and potential positive newsflow support our OVERWEIGHT call, although there is still impairment risk for the casino segment and licensing renewal risk for BST's Philippines operation. We expect the casino segment to shine following the NFO segment's 1H18 outperformance. Top picks are GENM and Magnum.

WHAT'S NEW

- **Gaming sector outperformed due to its defensiveness post GE.** The gaming sector outperformed the KLCI index (gaming sector: +4%, KLCI Index: -4%) post Malaysia's 14 General Election (GE14) that was held on 9 May, due to the sector's defensive nature amid the uncertain market environment. Specifically, the long-time depressed Number Forecasting Operators (NFO) segment generated a return of 25% post GE14, outshining casino segment's 2% for the same period.

- **High foreign shareholding not a concern.** The casino segment's relative underperformance in the sector could partly reflect concerns of foreign shareholders exiting the Malaysia bourse, in view of the ringgit softening amid uncertainties to new government policies, and the country's debt and deficit. However, we understand that there was little change in foreign shareholding pre- and post- election. Genting Malaysia's (GENM) foreign shareholding was 38.7% (-0.5ppt mom) while Genting Berhad's (GENT) was largely unchanged at 45% as at 30 May. Meanwhile, the foreign shareholdings for Berjaya Sports Toto (BST) and Magnum were largely stable at 12% and 26%, respectively. This observation, plus the hitherto resilience of the ringgit, has made us conclude that foreign shareholding in the gaming sector would not be swayed by the new political landscape.

ACTION

- **Maintain OVERWEIGHT; prefer casino over NFO.** The sector should benefit from the stronger consumer sentiment, earnings enhancement due to zero-rating GST (from 6% previously) and continue to outperform the broader market in 2H18. We prefer the casino over the NFO segment, as the casino segment would benefit from both earnings and newsflow (opening of Fox theme park). The NFO segment's upside should be more gradual after May's spectacular rally, although the long-speculated potential listing of Magnum's 6%-owned U-Mobile could provide further uplift to Magnum.

- **Key picks are Genting Malaysia and Magnum.** Our preference remains on exposure towards GENM (BUY; Target: RM6.28) within the Genting Group as it directly benefits from the Genting Integrated Tourism Plan (GITP) project. For NFOs, we prefer Magnum for its potential upside from newsflow standpoint (listing of U-Mobile and cancellation of IRB penalty) and potential upside on dividend yield.

ASSUMPTION CHANGES

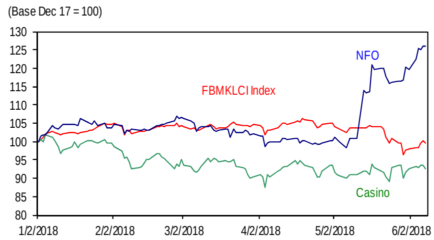
- We increase our net profit forecasts for BST by 10-12% for FY19-20 to reflect the zero-rating GST from Jun 18 (note that we have reflected zero-rating GST in the earnings forecasts for the other three gaming companies). BST's target price is only marginally increased to RM2.86 (from RM2.80) following the earnings adjustment but we now impute a 5% discount to our RNAV given the potential risk on licensing renewal in its Philippines operations.

- We also revise Magnum's target price to RM2.50 (from RM2.26) as we reduce the DCF discount from 20% to 10%, given the lower risk of paying RM476m IRB penalty now. Maintain BUY on BST and Magnum.

OVERWEIGHT

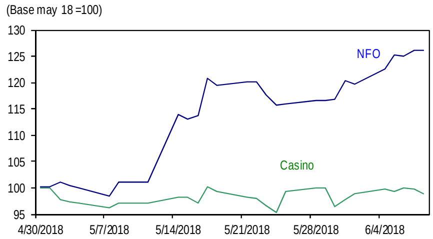
(Maintained)

YTD RETURN PERFORMANCE FOR KLCI INDEX, NFO AND CASINO SUBSEGMENTS



Source: Bloomberg, UOB Kay Hian

RETURN PERFORMANCE FOR NFO AND CASINO SUBSEGMENTS SINCE MAY-2018



Source: Bloomberg, UOB Kay Hian

ANALYST(S)

Vincent Khoo, CFA
+603 2147 1998
vincentkhoo@uobkayhian.com

Yeoh Bit Kun
+603 2147 1988
bitkun@uobkayhian.com

PEER COMPARISON

Company	Ticker	Rec	Price @ 8 Jun 18 (RM)	Target Price (RM)	Mkt Cap (US$m)	EV/EBITDA 2019F (x)	Yield 2018F (%)	Yield 2019F (%)	PE 2019F (x)	P/NTA 2019F (x)	ROE 2018F (%)	Net Gearing 2019F (%)
Casino												
Genting Malaysia	GENM MK	BUY	5.11	6.28	7,250	8.8	3.4	4.1	12.3	1.3	11.2	12.1
Genting Bhd	GENT MK	BUY	8.78	10.86	8,435	6.1	2.4	2.6	11.5	0.9	7.8	n.a.
NFO												
Berjaya Sports Toto	BST MK	BUY	2.61	2.86	881	8.0	6.1	7.5	11.4	3.7	33.9	58.8
Magnum	MAG MK	BUY	2.28	2.50	813	8.9	5.1	5.4	12.9	1.2	9.8	13.9

Source: UOB Kay Hian

ESSENTIALS

- **Zero-rating GST could boost sector earnings by 10-12% on a full-year basis…** The new government's zero-rating of the 6% Goods and Services Tax (GST) effective 1 Jun 18 is estimated to boost NFOs' net profit by 10-12% and GENM's adjusted EBITDA by 11%, on a full-year basis. Prior to Jun 18, both casino and NFO operators will fully absorb the 6% GST.
- **...but still too early to tell if there will be other forms of tax replacement.** While gaming companies are a clear beneficiary of zero-rated GST, it is still too early to confirm if the government will: a) increase the gaming tax/ betting duty, and/or b) introduce another form of tax to minimise the loss of revenue from the gaming sector.
- **Sector to benefit from strong consumer sentiment and higher disposable income…** With the reduction of GST rate to 0% and the reintroduction of petrol subsidy to address the higher cost of living, the gaming sector is expected to benefit from recovery in consumers' sentiment (particularly in June-Aug period whereby purchases will not be subject to both GST and SST) and higher disposable income over the long run.
- **…but there could be a short-term impact from 2018 FIFA World Cup.** We believe that there could be mild negative revenue impact from 2018 FIFA World Cup, which is slated to start on 14 June. Quarterly ticket sales per draw drop 3.0-3.5% yoy during the 2014 FIFA World Cup.
- **Casino: Good earnings visibility.** The casino segment should benefit from good earnings visibility through to 2019, led by further improvement in visitor arrivals post the opening of 20th Century Fox Theme Park (targeted at end-18), higher gaming volumes and absence of GITP-related start-up costs in 2019. To recap, GENM's Genting Highlands has recorded impressive visitor arrivals growth (+26% yoy) with both VIP and mass market GGR recording double-digit growth in 1Q18, thanks to the new attractions (Sky Casino, Sky Avenue retail mall and Theme Park Hotel as well as Genting Premium Outlet at the mid-hill). All in all, we expect GENM to deliver a two-year EBITDA CAGR of 26% through to 2019.
- **Casino: Attractive valuations.** GENM's and GENT's current share prices are attractive, ahead of eventful catalysts emerging towards the year-end. Essentially, GENM is trading at 11.4x/8.8x 2018/19 EV/EBITDA (below mean) while parent company, GENT, is trading at 6.6x/6.1x 2018/19 EV/EBITDA (below -1SD mean), significant EV/EBITDA discount to its subsidiaries (Genting Singapore's 2018/19 EV/EBITDA at 9.2x/8.7x). GENT will indirectly benefit from its subsidiaries' various event catalysts, including GENS' earnings recovery and good long-term prospects in clinching an IR concession in Japan. However, this could be offset by investors' concern in impairment risk, such as its various investments in life science companies.
- **NFO: Stabilised ticket sales and compelling dividend yields.** The NFO industry has seen sales stabilisation in the past two quarters after years of decline in ticket sales. We expect the industry to see positive ticket sales growth in 2018, although it could only be mild at low single digit. NFO yields are still compelling at 5.4-7.0%, despite the NFO segment's share price performance rally >20% in the past one month. For Magnum, we conservatively assume 70% earnings payout (2017A: 77%) in 2018-20, while pending the final outcome on its IRB penalty court case. Prospective yields would be 6.6-7.0% should the payout ratio increase to 90%.
- **NFO: Newsflow-driven catalyst still on the cards.** We expect the next meaningful share price growth leg to be newsflow driven, such as legalisation of online betting, more rigorous measures to counter illegal gambling by the new government as well as Magnum's company specific newsflow. To recap, Prime Minister, Dr Mahathir Mohamad has earlier said that the government will investigate whether certain businesses were harassed by the IRB into paying more taxes than what was due. This may imply a lower chance of Magnum having to pay the RM476m IRB penalty. Meanwhile, the potential IPO listing of Magnum's 6.3%-owned U-Mobile would allow Magnum to eventually cash out from its investment (book value of RM260m, or RM0.18/share), which in turn allows Magnum to significantly enhance its well-established capital management practice.

RISKS

- Earnings downside should there be tax regime change in the future.
- For the NFO segment, BST's 88%-owned subsidiary, Berjaya Philippines (BP) is having legal proceedings with PCSO (Philippine Charity Sweepstakes Office). Arbitral Tribunal had ruled that BP has no exclusive right to supply lottery systems for Luzon territory and BP is appealing the arbitral tribunal's decision. BP's licence remains valid through to 21 Aug 18. Should BP fail in renewing its license, we estimate there will be 10-12% downside risk to BST's earnings in FY19/20.
- For the casino segment, there are impairment risks for GENM's RM1.6b interest-bearing promissory notes investment in the US Mashpee Wampanoag Tribe's (IR) and GENT's investment in pharmaceutical R&D company TauRx.

GENM: SOTP VALUATION

	(RMm)
Genting Highlands	33,949
UK	1,800
US Racino	2,455
Net Cash & Others	(904)
RNAV	37,265.7
Shares (m)	5,938.0
RNAV/share (RM)	6.28

Source: UOB Kay Hian

GENT: SOTP VALUATION

Asset	Stake	Basis	(RMm)
Genting Singapore	52.8%	TP	24,490
Genting Malaysia	49.3%	TP	18,392
Genting Plantations	50.7%	TP	4,065
Management fees		DCF	6,898
Power		EV/MW	2,675
O&G		PE	791
RWLV		DCF	1,989
Other investments and net cash			(1,856)
RNAV			57,444
Holding co discount (%)			25%
Discounted RNAV			43,083
Proceeds from warrants			5,645
Total RNAV			48,728
Fully-diluted shares (m)			4,489
Target price (RM)			10.86

Source: UOB Kay Hian

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Securities (M) Sdn. Bhd. ("UOBKHM") which is a licensed corporation providing investment advisory services in Malaysia.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKHM. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKHM may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKHM and its associated persons (as defined in the Capital Market Services Act 2007) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report (“Information”) has been obtained or derived from sources believed by UOBKHM to be reliable. However, UOBKHM makes no representation as to the accuracy or completeness of such sources or the Information and UOBKHM accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKHM and its associate may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKHM and its connected persons are subject to change without notice. UOBKHM reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKHM, its associated persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKHM, its associated persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKHM may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the “Subject Business”); and (4) UOBKHM may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report is prepared by UOBKHM, a company authorized, as noted above, to engage in investment advisory in Malaysia. UOBKHM is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKHM (whether directly or through its US registered broker dealer affiliate named below) to “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). All US persons that receive this document by way of distribution from or which they regard as being from UOBKHM by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc (“UOBKHUS”), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKHM.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority (“FINRA”) and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKHM who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKHM or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKHM's total revenues, a portion of which are generated from UOBKHM's business of investment advisory.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia. Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ("U.S.")	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

http://www.utrade.com.my