

01 April 2020

Gaming

Playing the Odds

By Teh Kian Yeong | tehky@kenanga.com.my

OVERWEIGHT



We upgrade the Gaming Sector to OVERWEIGHT from NEUTRAL as values are emerging as the intense market sell-down has pushed shares to deeply oversold positions and beyond fundamentals as well. Gaming sector is one of the biggest casualties of the COVID-19-driven market meltdown. Players' share prices were thumped down by between 17%-41% YTD, hitting 52-week low and edged closer to -2SD PBV 5-year mean for NFOs and -3SD PBV 5-year mean for casino operators. As the hit on earnings is expected to be severe especially for casino with a worldwide quarantine restricting travel, attempting earnings estimates at this point are both challenging and dicey. Hence, we switch our valuation method to PBV from the earnings-based SoP and DCF methodologies. We placed a fair value for NFO players at -1SD PBV 5-year mean and ideal entry price set at -2SD while a notch lower for casino players given higher earnings risk. Nonetheless, GENTING is our preferred pick for its deep valuation while for dividend yield seekers, NFOs offer average yield of >6%.



The hardest hit sector. The sector players saw their share prices plunging 12%-30% in three weeks since the beginning of March as the COVID-19 turned uncontrollable with rapid rise of infected cases around the world. Lockdowns in cities and countries globally, including our domestic the first 2-week Movement Control Order (MCO), added selling pressure especially to casino stocks namely **GENTING (OP; TP: RM4.90)** and **GENM (OP; TP: RM2.50)** which saw their share prices plunging to multi-year low of -3SD below their 5-year PBV mean. The severe decline of casino stocks started in end-January when Wuhan was locked down while other part of China imposed travelling curbs after the virus turned deadly. This bearish sentiment was compounded further by several lockdowns outside China last month as the deadly virus spread rapidly across the world. Likewise, the 4-week MCO forced NFOs such as **BJTOTO (MP; TP: RM2.25)** and **MAGNUM (OP; TP: RM1.95)** cancelling 12

draws resulting in the share prices of these once-defensive sub-sector diving to -1.5 to -2.0SD below their 5-year PBV mean.

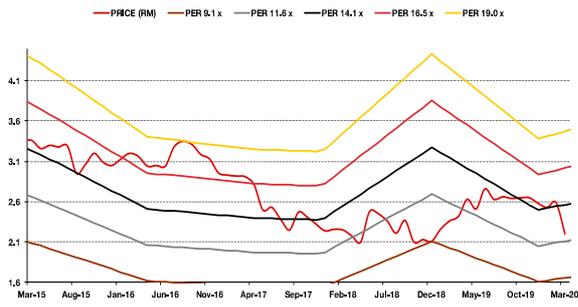
Casinos: lockdown of cities and countries virtually halted operations. In merely three months, this once exciting casino sector turned chaotic as it got bashed down heavily as the restriction of travelling virtually stopped casino patronages while GENM announced that *Resorts World Genting* is closed for four weeks under the MCO while *Resorts World Casino New York* and *Resorts World Catskill* are also temporarily closed until further notice. During the results conference call in mid-February, the CEO of **GENS (Not Rated)** guided for a pessimistic view on 1HCY20 and we have had not experienced such a downbeat view from the management as the deadly virus is already disrupting businesses especially with Singapore being a services-driven economy. Meanwhile, GENS may not spend more A&P at such a difficult time but will refurbish 200-300 hotel rooms. This round of market rout saw share prices of GENTING, GENM and GENS plunging 38%-43% YTD to their 11-year lows since March, February and April in 2009, at the height of global financial crisis, respectively.

NFOs: cancellation of 12 draws on MCO. The sell-down on NFOs, which fell 3%-6% for BJTOTO and MAGNUM in the first two months of the year, is less severe than casino operators which plummeted 12%-18% for GENM and GNETING over the same period, as the COVID-19 outbreak did not limited punters from frequenting NFO outlets then. However, sell-down started to kick-in when the MCO took place that sent NFOs' share prices lower by 12%-22% in three weeks as opposed to 29%-31% decline for casino stocks, as the restriction order forces non-essential business to close business for two weeks. In these four weeks, both NFO players have to cancel 12 draws. In fact, these two stocks are currently trading at their two-year low which was at the bottom of ticket sales downtrend 1.5 years ago. To recall, the NFOs' ticket sales were on a 5-year downtrend before bottoming in mid-2018 as the authority enforcement started to clamp down on illegal operators in September 2018. Prior to new lows in 2018, the last time BJTOTO saw its share price at current level was in June 2001, and July 2010 for MAGNUM.

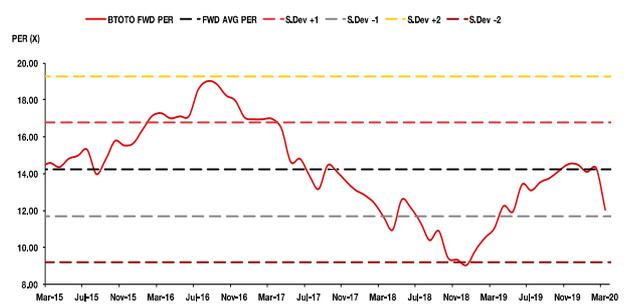
1QCY20 is not a usual peak CNY-quarter. Given the depressed market condition, earnings prospect is challenging as well as dicey to forecast for the near term. We believe PBV valuation methodology is more appropriate to apply under this current market condition. Last week, after the extension of MCO to 14th April, we cut FY20 earnings estimates for GENM, GENTING, BJTOTO and MAGNUM by 39%, 13%, 8% and 8% to reflect the business closures, and also economic impact cascading to reduction in FY21E earnings forecasts by 11%, 7%, 1% and 2%, respectively. For the upcoming 1QCY29 quarterly results, 1QY20 would not be a usual peak CNY-quarter as the virus-driven lockdown will take a toll on earnings.

Oversold; Upgrade the sector to OVERWEIGHT. We are cognizant that earnings are expected to be severely hit especially for casino operators due to the 4-week closure of casinos. However, we believe the aggressive market sell-down has overshot fundamentals as casino stocks were thumped to as low as -3.0SD PBV 5-year mean while NFOs plunged to near -2.0SD PBV 5-year mean. In view of this, we are upgrading the sector to OVERWEIGHT from NEUTRAL. GENTING is our preferred pick for the sector given its deep valuation, trading at 63% discount to its SoP valuation while our target price of RM4.90 is fairly conservative which implies a 10% premium to its combined equity stake values in GENS and GENM based on current prices, not forgetting its equity stakes in GENP and other non-core businesses. Meanwhile, NFOs offer above average >6% dividend yields.

BJTOTO - Fwd PER Band

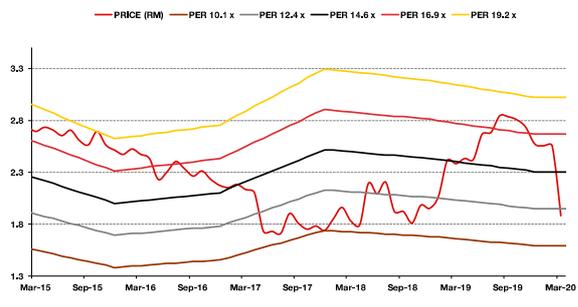


BJTOTO - Fwd PER Standard Deviation

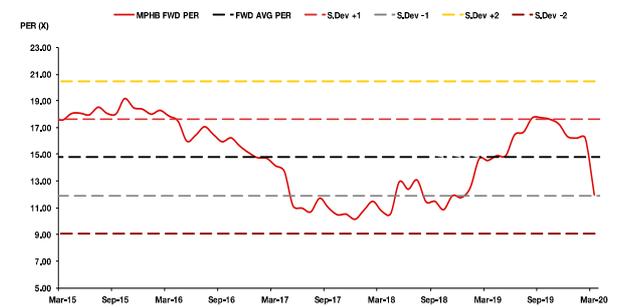


Source: Bloomberg, Kenanga Research

MAGNUM - Fwd PER Band

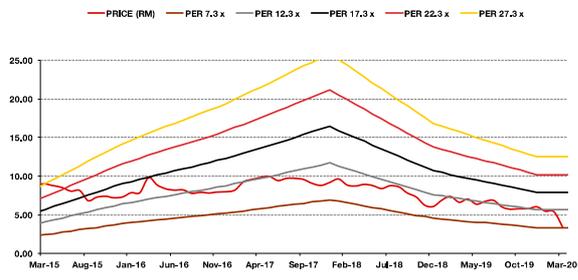


MAGNUM - Fwd PER Standard Deviation

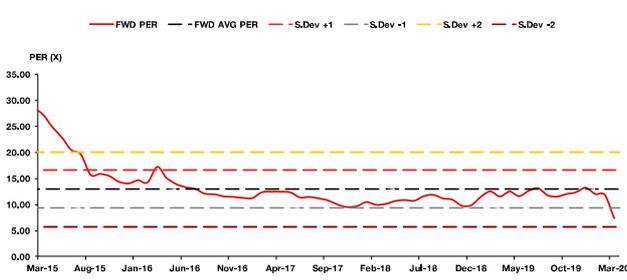


Source: Bloomberg, Kenanga Research

GENTING - Fwd PER Band

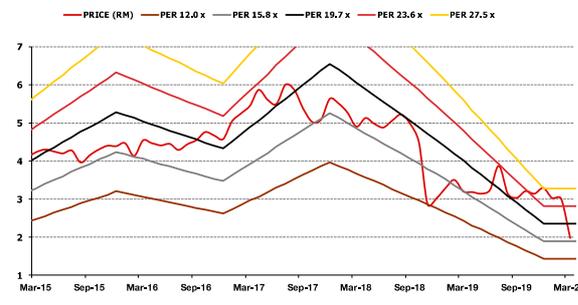


GENTING - Fwd PER Standard Deviation

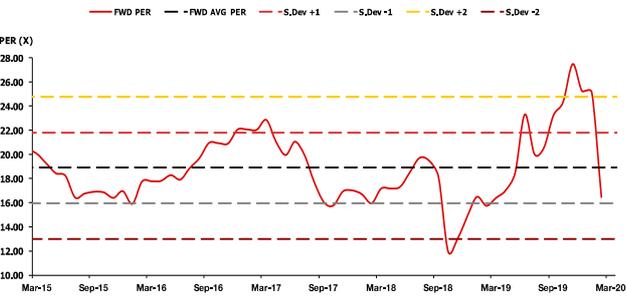


Source: Bloomberg, Kenanga Research

GENM - Fwd PER Band



GENM - Fwd PER Standard Deviation



Source: Bloomberg, Kenanga Research

01 April 2020

Peer Comparison

Name	Price @ 20 Mar 2020 (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
BERJAYA SPORTS TOTO BHD	2.20	2,942.7	N	06/2019	-11.6%	7.4%	-23.6%	10.5%	9.5	12.4	11.3	4.1	4.0	32.5%	6.5%	2.25	MP
GENTING BHD	3.36	12,937.9	N	12/2020	-11.3%	9.9%	-25.7%	25.3%	5.3	7.1	5.7	0.4	0.3	4.9%	4.5%	4.90	OP
GENTING MALAYSIA BHD	1.97	11,114.0	N	12/2020	-14.4%	17.2%	-48.1%	63.1%	8.9	17.2	10.6	0.6	0.6	3.7%	6.1%	2.50	OP
MAGNUM BHD	1.88	2,675.2	N	12/2020	-6.0%	9.9%	-5.0%	9.7%	11.3	11.9	10.9	1.1	1.1	9.1%	6.7%	1.95	OP
Simple Average					-10.8%	11.1%	-25.6%	27.1%	8.8	12.2	9.6	1.5	1.5	12.5%	5.9%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

