

Genting Bhd

Time To Take A Breather

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We are downgrading GENTING to MARKET PERFORM as the strong YTD rally in its share prices has reached our fair valuation. The stock is an index outperformer which has risen 34% YTD, narrowing its discount to SoP to merely 23% vs. the 10-year discount average of 30%. However, there is no firm earnings catalyst in the immediate-term. The meaningful impact from the redevelopment of Genting Highlands is only expected in 2018 while the recovery of Macau casino revenue in the past three months, which was from a low-base, is too early to indicate a similar recovery in the Singaporean market. Likewise, the recent recovery in CPO prices is likely to be only a near-term spurt as we expect a weaker 2H2016. All these are not supportive of a valuation re-rating. Our new price target is now RM10.04/share, from RM9.74/share, which is based on unchanged 20% discount to its SoP valuation of RM12.54/share. Risk to our downgrading would be the successful listing of TauRx, which we believe it is still too early, with could add RM3.31/share to its SoP valuation.

A rare top index gainer. GENTING is the top gainer under the FBMKLCI stable with a remarkable YTD gain of 33.51% compared to the key index's gain of only 1.48%. We have not seen such a strong performance from GENTING in a long time since 2009/2010 when *Resorts World Sentosa* commenced operations in Feb 2010. In fact, GENTING was one of the top losers in the past two years that saw its share prices contracting 13.55% and 17.25% in 2014 and 2015, respectively, as against the barometer index's -5.66% and -3.90% over the period. The recent rally in its share prices was in tandem with the rally in Macau gaming stocks, which rose >15% YTD on average on improved casino revenue data. However, the significant factor to GENTING could be highly on account of a potential IPO of its 20.7%-owned TauRx Pharmaceuticals.

Macau gaming stocks rebounded. The world's largest casino market Macau has been gone through a tough time in the past two years due to effects from the Chinese Government crimping down on corruptions and a slowdown in Chinese economy. This resulted in industry gross gaming revenue (GGR) plunging 56.7% from its peak of MOP38.01b in Feb 2014 to the recent low of MOP16.43b in Nov 2015. This led to Macau gaming stocks plunging 69% on average over 2014-2015. However, since then, GGR had registered three months of MoM growth to MOP19.52b in Feb 2016. This has propelled buying interests in the gaming stocks, driving stock prices higher by >15% in the past three months.

Value accretion from the non-gaming venture finally? It was first reported in January that the Singapore-based TauRx is planning an IPO in Nasdaq next year with a potential valuation of USD15b, which could be a major catalyst to GENTING should it materialise. In mid-March, it was quoted in the press that TauRx plans to present results from ongoing final human trials on its experimental Alzheimer's drug LMTX as early as July. So far, there is no drug that can treat Alzheimer and there has been a string of failed experiments from other drug companies. We believe that these two pieces of news are the major catalysts to the recent share price rally.

Time to take a breather; downgrade to MP. GENTING has risen 34% YTD, narrowing the share price discount to its SoP valuation to 23% from c.40% just at the beginning of the year and its 10-year discount average of c.30%. We believe it is time to review the stock valuation which in our opinion is close to its fair valuation. There is no immediate firm earnings catalyst at the moment. The recovery in Macau casino revenue in the past three months, which was from a low-base, may not be a fair indication that a similar recovery will happen in Singapore, which is GENTING's major earnings contributing market. Meanwhile, it is still too early to speculate on the LMTX test and the listing of TauRx. As such, we decided to keep our 20% discount to SoP valuation with a **new price target of RM10.04/share** from RM9.74/share as SoP rose to RM12.54/share from RM12.18/share previously. **We cut the stock to MARKET PERFORM** from OUTPERFORM previously. Risk to our call is the listing of TauRx, which could translate into RM3.31/SoP share should the IPO materialise.

MARKET PERFORM

Price: **RM9.80** ↓
Target Price: **RM10.04** ↑

Share Price Performance



KLCI	1717.58
YTD KLCI chg	1.5%
YTD stock price chg	33.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	GENT MK
Market Cap (RM m)	36,426.4
Issued shares	3,717.0
52-week range (H)	9.90
52-week range (L)	6.51
3-mth avg daily vol:	3,655,131
Free Float	47%
Beta	1.2

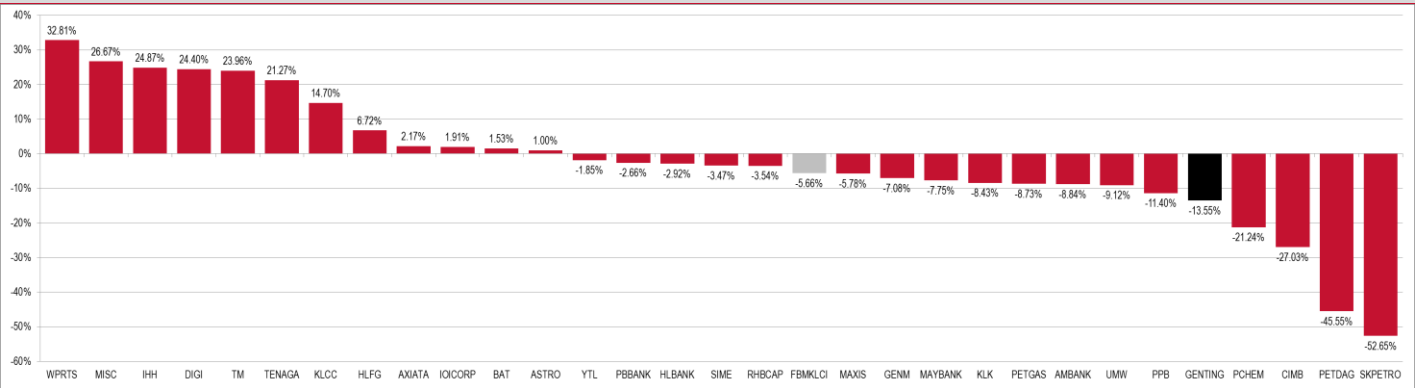
Major Shareholders

KIEN HUAT REALTY SDN	39.8%
MML INVESTORS SERVIC	7.1%
MASSACHUSETTS MUTUAL	6.0%

Summary Earnings Table

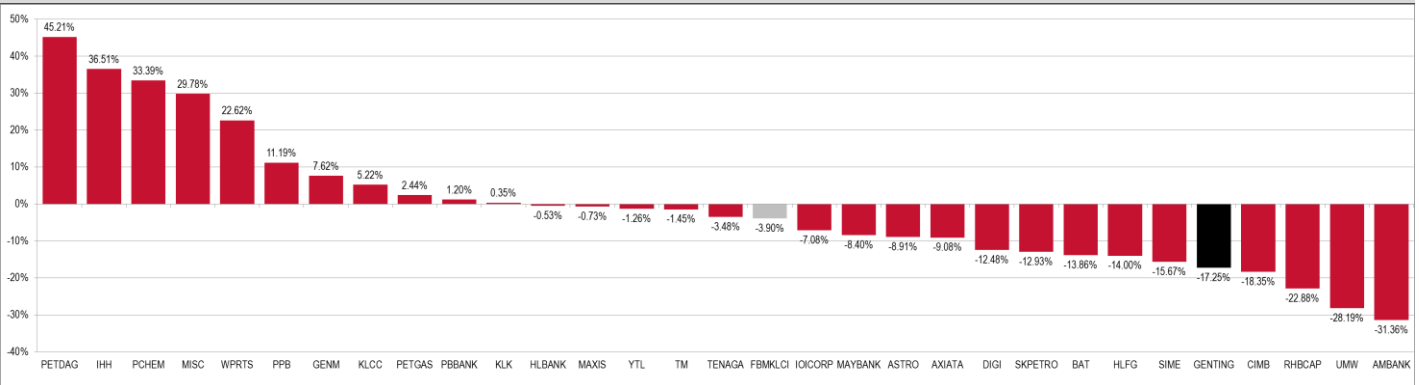
FY Dec (RM m)	2015A	2016E	2017E
Turnover	18100	18140	19441
EBIT	4384	4248	4603
PBT	3446	4395	4781
Net Profit (NP)	1388	1978	2116
Core Net Profit	1893	1978	2116
Consensus (NP)		1834	2170
Earnings Revision (%)		-	-
EPS (sen)	50.6	52.9	56.5
EPS growth (%)	-7.0	4.5	7.0
DPS (sen)	3.5	4.0	4.0
BV/Share (RM)	8.71	8.11	8.63
NTA/Share (RM)	6.93	6.66	7.09
PER (x)	19.4	18.5	17.3
PBV (x)	1.12	1.21	1.14
Price/NTA (x)	1.41	1.47	1.38
Net Gearing (x)	N. Cash	N. Cash	N. Cash
Dividend Yield (%)	0.4	0.4	0.4

FBMKLCI Index Stocks Performance - 2014



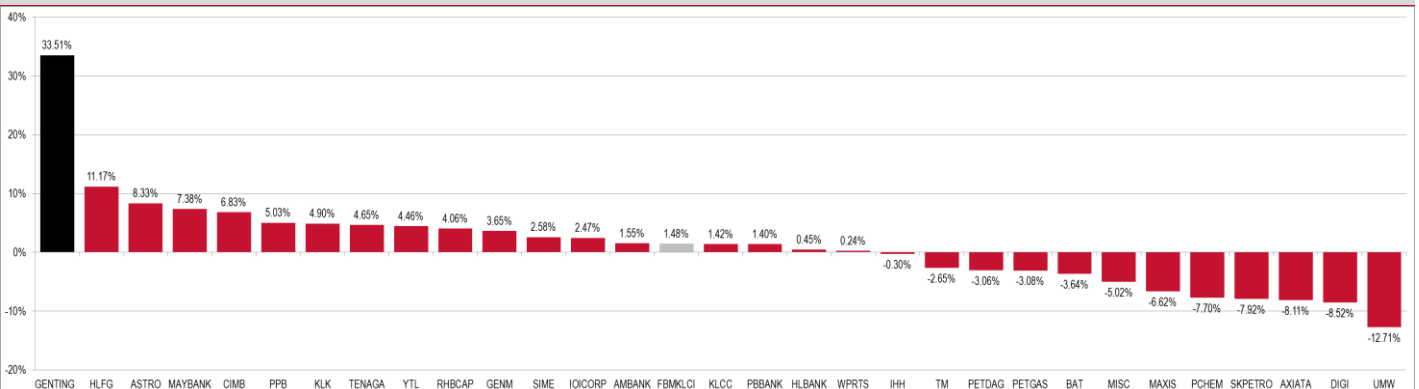
Source: Bloomberg

FBMKLCI Index Stocks Performance - 2015



Source: Bloomberg

FBMKLCI Index Stocks Performance - YTD 2016



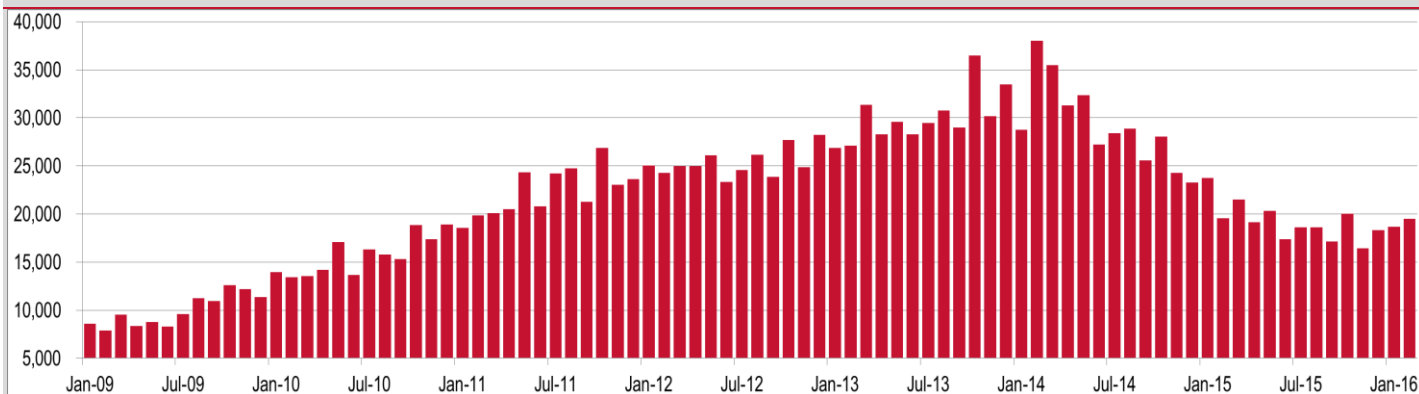
Source: Bloomberg

Selected Gaming Stock Price Performance

		2013		2014		2015		YTD 2016	
		Price	Price	Chg (%)	Price	Chg (%)	Price	Chg (%)	
Genting	MYR	10.26	8.87	-13.55%	7.34	-17.25%	9.80	33.51%	
Genting Malaysia	MYR	4.38	4.07	-7.08%	4.38	7.62%	4.54	3.65%	
Genting Singapore	SGD	1.495	1.08	-27.76%	0.77	-28.70%	0.83	7.79%	
Galaxy	HKD	69.55	43.65	-37.24%	24.45	-43.99%	29.10	19.02%	
Melco Crown	USD	39.22	25.40	-35.24%	16.80	-33.86%	16.95	0.89%	
MGM China	HKD	33.10	19.72	-40.42%	9.70	-50.81%	11.86	22.27%	
SJM	HKD	26.00	12.36	-52.46%	5.53	-55.26%	5.54	0.18%	
Sands China	HKD	63.35	38.15	-39.78%	26.55	-30.41%	31.60	19.02%	
Wynn Macau	HKD	35.15	21.85	-37.84%	9.06	-58.54%	12.00	32.45%	
Simple Average				-32.37%		-34.58%		15.42%	

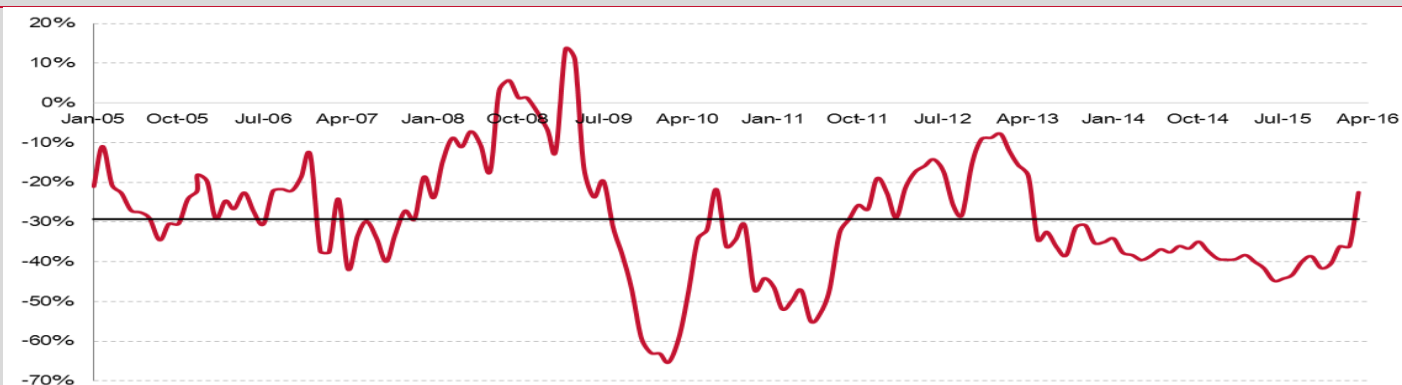
Source: Bloomberg

Macau Casino Revenue (MOP m)



Source: Gaming Inspection & Coordination Bureau Macao SAR

GENTING's Share Price Discount To SoP Valuation



Source: Kenanga Research/Bloomberg

01 April 2016

Valuation - New

(RM m)	RM m	RM/Share	%	Valuation Basic
GENM (47.2%)	11,901.7	3.18	25.4%	TP: RM4.26
GENP (54.6%)	4,599.2	1.23	9.8%	TP: RM11.30
GENS (52.0%)	15,269.3	4.08	32.5%	Market value
Landmarks (30.3%)	136.9	0.04	0.3%	Market value
Management Fee	4,360.7	1.17	9.3%	DCF @ 11.4% WACC, g = 2%
Power	321.3	0.09	0.7%	
Oil & Gas	464.6	0.12	1.0%	12x CY16 PER
Net Cash/(Debt)	9,883.5	2.64	21.1%	
	46,937.3	12.54	100.0%	
No of shares	3,741.8			
SOP value per share	RM12.54			

Source: Kenanga Research

Valuation - Old

(RM m)	RM m	RM/Share	%	Valuation Basic
GENM (47.2%)	11,918.3	3.19	26.2%	TP: RM4.41
GENP (54.6%)	3,825.8	1.02	8.4%	TP: RM11.30
GENS (52.0%)	14,637.6	3.91	32.1%	Market value
Landmarks (30.3%)	153.0	0.04	0.3%	Market value
Management Fee	4,360.7	1.17	9.6%	DCF @ 11.4% WACC, g = 2%
Power	321.3	0.09	0.7%	
Oil & Gas	464.6	0.12	1.0%	12x CY16 PER
Net Cash/(Debt)	9,883.5	2.64	21.7%	
	45,564.9	12.18	100.0%	
No of shares	3,741.8			
SOP value per share	RM12.18			

Source: Kenanga Research

Sector Comparisons

Company	Fx	Price	PER (x)			Est. Div. Yld. (%)	His. ROE (%)	His. P/BV (x)	NP Growth (%)		Target Price	Rating
			CY14	CY15	CY16				CY15	CY16		
Malaysian Gaming												
BJTOTO	MYR	3.16	12.2	13.5	12.6	6.2	56.3	0.5	-9.1	7.1	3.42	MP
MAGNUM	MYR	2.47	13.8	15.6	13.5	5.9	10.5	1.7	-11.4	15.4	2.93	OP
GENTING	MYR	9.80	17.9	27.1	17.3	0.4	7.6	8.8	-34.0	56.8	10.04	MP
GENM	MYR	4.54	19.8	32.1	18.2	1.5	8.3	3.4	-38.2	76.6	4.26	UP
Simple Average			15.9	22.1	15.4							
Asian Casino												
Genting	MYR	9.80	17.9	27.1	17.3	0.4	7.6	8.8	-34.0	56.8	10.04	MP
Genting Malaysia	MYR	4.54	19.8	32.1	18.2	1.5	8.3	3.4	-38.2	76.6	4.26	UP
Genting Singapore	SGD	0.83	15.7	51.6	27.3	1.7	1.0	1.4	-69.6	89.3	NR	NR
Galaxy	HKD	29.10	12.0	29.8	21.8	1.6	10.5	3.0	-59.8	36.9	NR	NR
Melco Crown	USD	16.95	15.0	86.3	44.8	0.7	2.5	2.1	-82.6	92.8	NR	NR
MGM China	HKD	11.86	7.9	14.5	19.8	1.6	55.3	9.2	-45.5	-26.9	NR	NR
SJM	HKD	5.54	4.7	12.7	16.3	3.4	10.3	1.3	-63.4	-21.9	NR	NR
Sands China	HKD	31.60	12.9	174.7	24.0	0.7	23.8	5.6	-92.6	628.6	NR	NR
Wynn Macau	HKD	12.00	9.7	24.9	29.4	1.7	79.3	8.9	-61.2	-15.3	NR	NR
Simple Average			12.8	50.4	24.3							

Source: Bloomberg/Kenanga Research

01 April 2016

Income Statement

FY Dec (RM m)	2013	2014	2015	2016F	2017F
Revenue	17709	18216	18100	18140	19441
EBITDA	6389	6623	6289	6314	6752
Depreciation	-1793	-1824	-1905	-2067	-2149
EBIT	4595	4799	4384	4248	4603
Other Income	276	383	581	536	534
Interest Expense	-518	-437	-559	-454	-420
Associate	67	49	95	65	65
Exceptional/FV	44	-540	-1055	0	0
PBT	4464	4255	3446	4395	4781
Taxation	-759	-1109	-848	-1099	-1195
Minority Interest	-1895	-1650	-1210	-1318	-1470
Net Profit	1810	1496	1388	1978	2116
Core Net Profit	1766	2036	1893	1978	2116

Balance Sheet

FY Dec (RM m)	2013	2014	2015	2016F	2017F
Fixed Assets	25233	26536	31886	25783	25330
Intangibles	5330	5414	6667	5391	5778
Other FA	10579	14029	18464	13970	14972
Inventories	385	420	481	421	452
Receivables	3973	4084	3848	4076	4369
Other CA	8033	6418	4474	6389	6846
Cash	17964	16391	23613	20609	20599
Total Assets	71496	73292	89433	76639	78345

Payables	5154	5006	5009	4951	4690
ST Borrowings	2561	1838	1557	1824	1693
Other ST Liability	565	603	401	630	630
LT Borrowings	10824	10715	17017	10635	9872
Other LT Liability	1818	2071	2657	2058	2004
Minority Int.	25259	26228	30173	26211	27151
Net Assets	25314	26831	32618	30330	32305
Share Capital	372	374	374	374	374
Reserves	24942	26457	32243	29956	31930
Shareholders' Equity	25314	26831	32618	30330	32305

Cashflow Statement

FY Dec (RM m)	2013	2014	2015	2016F	2017F
Operating CF	4177	4985	5872	3065	3316
Investing CF	-6357	-4667	-783	-2177	-2178
Financing CF	-778	-1337	807	-1184	-1035
Net Change in Cash	-2958	-1019	5897	-296	104
Free Cash Flow	-2180	318	5090	888	1138
Capex	3896	2670	1500	2500	2500

Source: Kenanga Research

Financial Data & Ratios

FY Dec (RM m)	2013	2014	2015	2016F	2017F
Growth (%)					
Revenue	0.5	2.9	-0.6	0.2	7.2
EBITDA	-15.0	3.7	-5.0	0.4	6.9
Operating Income	-20.9	4.4	-8.6	-3.1	8.4
Pre-tax Income	-35.9	-4.7	-19.0	27.5	8.8
Net Income	-54.6	-17.3	-7.2	42.5	7.0
Core Net Income	-32.9	15.3	-7.0	4.5	7.0

Profitability (%)

EBITDA Margin	36.1	36.4	34.7	34.8	34.7
Operating Margin	26.0	26.3	24.2	23.4	23.7
PBT Margin	25.2	23.4	19.0	24.2	24.6
Net Margin	10.2	8.2	7.7	10.9	10.9
Core Net Margin	10.0	11.2	10.5	10.9	10.9
Effective Tax Rate	17.0	26.1	24.6	25.0	25.0
ROE	3.4	2.7	2.4	3.2	3.3
ROA	7.5	7.8	6.4	6.7	6.8

DuPont Analysis

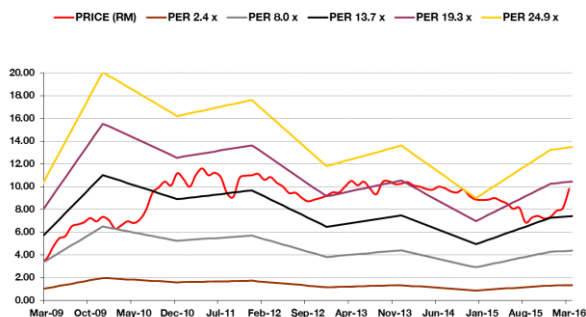
Net margin (%)	10.2	8.2	7.7	10.9	10.9
Assets Turnover (x)	0.25	0.25	0.20	0.24	0.25
Leverage Factor (x)	2.82	2.73	2.74	2.53	2.43
ROE (%)	7.2	5.6	4.3	6.5	6.5

Leverage

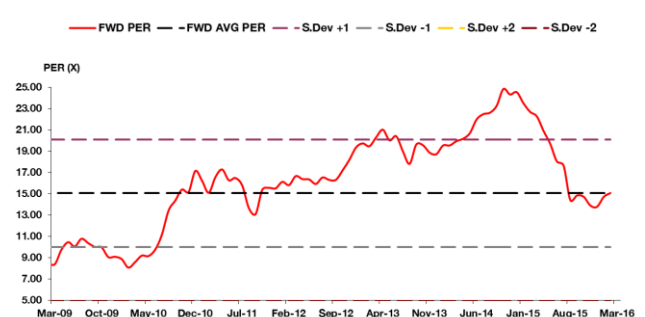
Debt/Asset (x)	0.19	0.17	0.21	0.16	0.15
Debt/Equity (x)	0.53	0.47	0.57	0.41	0.36
Net Debt/(Cash)	7099	5438	7559	9742	10740
Net Debt/Equity (x)	-0.28	-0.20	-0.23	-0.32	-0.33

Valuations

EPS (sen)	47.2	54.4	50.6	52.9	56.5
NDPS (sen)	0.0	4.0	3.5	4.0	4.0
BV/Share (RM)	6.81	7.17	8.71	8.11	8.63
NTA/Share (RM)	5.37	5.72	6.93	6.66	7.09
PER (x)	20.8	18.0	19.4	18.5	17.3
Net Div. Yield (%)	0.0	0.4	0.4	0.4	0.4
PBV (X)	1.44	1.37	1.12	1.21	1.14
P/NTA (x)	1.82	1.71	1.41	1.47	1.38
EV/EBITDA (x)	5.9	4.4	4.3	5.8	5.4

Fwd PER Band

Source: Kenanga Research

Fwd PER Standard Deviation

01 April 2016

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

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

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

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