Genting Singapore PLC
The Game Changer

Bloomberg | Reuters | POEMS
GENS SP | GENS SI | GIP SG
Industry: Hotels & Motels

Phillip Securities Research Pte Ltd

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Report type: Update

Company Overview
Genting Singapore PLC is best known for its flagship project Resorts World Sentosa, a S$6.6 billion integrated resort in Singapore. The Company develops and manages the resort and operates the casinos.

What is the news?
Casino Regulatory Authority of Singapore (CRA) had approved licenses to 2 Malaysian junkets or International Market Agents (IMAs) as deftly coined by the agency. The validity of these licenses is only 1 year and subjected to renewal.

How do we view this?
a. The development is ground breaking as previously, no one was sure if CRA will allow junket operators in the Republic. Now that licenses have been approved, we believe more will be awarded as long as they clear the onerous checks.

b. It is also a game changer for gaming companies in Singapore. Junkets bring in customers, hence more revenue. At the same time, they help to bear the cost of extending credit to high rollers.

c. However, the IMAs approved are small and from Malaysia. We believe real clout lies with the Macao junkets as they are the ones with excellent relations with the uber rich from China.

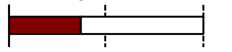
Investment Actions?
We upgrade Genting from Neutral to Accumulate with target price of S$1.89.

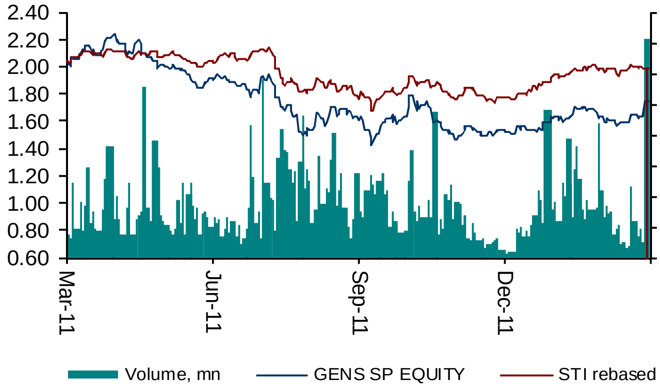
Previously, we said the upside potential will depend on
  a. Junket approvals
  b. Announcements of new projects.

One of the two catalysts is now in motion.

GENS Ltd

Rating	**2**	**Accumulate**
- Previous Rating	*3*	*Neutral*
Target Price (SGD)	**1.89**	
- Previous Target Price (SGD)	*1.59*	
Closing Price (SGD)	1.74	
Expected Capital Gains (%)	8.6%	
Expected Dividend Yield (%)	0.0%	
Expected Total Return (%)	**8.6%**	
Raw Beta (Past 2yrs weekly data)	1.24	
Market Cap. (USD mn / SGD mn)	16857 / 21225	
Enterprise Value (USD mn / SGD mn)	16750 / 21086	
3M Average Daily T/O (mn)	74.8	
52 week range (SGD)	1.42 - 2.26	
Closing Price in 52 week range		





Major Shareholders	**(%)**
1. Genting Berhad	52.00
2. Blackrock Fund	0.82
3. Vanguard Group	0.45

Key Financial Summary

FYE	**FY10**	**FY11**	**EFY12**
Revenue (SGD mn)	2,753	3,239	3,854
Net Profit, adj. (SGD mn)	657	1,012	1,162
EPS, adj. (SGD)	0.05	0.08	0.10
P/E (X),adj.	32.2	21.0	18.3
BVPS (SGD)	0.42	0.50	0.75
P/B (X)	4.1	3.5	2.3
DPS (SGD)	0.00	0.01	0.00
Div. Yield (%)	0.0%	0.6%	0.0%

Source: Bloomberg, PSR est.
*All multiples & yields based on current market price

Valuation Method
13X EV/EBITDA

Analyst
Magdalene Choong
magdalenechoongss@phillip.com.sg
+65 6531 1791

Definition of IMAs

The definition of IMA, as defined by CRA is, "an agent which organizes trips for foreign high rollers to play at the casino in exchange for a commission. IMAs may also extend credit to their patrons. As IMAs transact large sums of money, it is important that they are tightly regulated. In other jurisdictions, they are known as junket promoters. The licensed IMAs will focus on bringing in foreign clientele. They will not be allowed to target locals. As such, the term International Market Agents more accurately describes their role."

IMA impact on Gaming scene

The Gaming revenue from the 2 casinos was about S$5.6 billion in 2011. In forecasting our 2012 gaming revenue, we expected an increase of about 10%. With junket operators approved, we raised this revenue forecast by 5%, to 15% growth. It is a very conservative growth as we believe the newly minted IMAs are likely to be cautious in their first year of operation as they learn to navigate the regulatory landmine.

Furthermore, as we mentioned, the real clout is with Macao operators and our estimate (~20%-25%) would have been more aggressive should they be approved.

In terms of market share, RWS lost out to MBS in 2012 with the former garnering just 47% of the market. With IMAs, we estimate RWS to plug the gap with a 50-50 split.

Table 1: Revised market share due to junkets entry

Gaming revenue ($'m)	FY11	Prev-FFY12	FFY12
MBS	2,980	3,245	3,245
RWS	2,693	2,995	3,279
Total Singapore gaming rev	5,673	6,240	6,524
expected growth %		10%	15%
expected mkt share for MBS	53%	52%	50%
expected mkt share for RWS	47%	48%	50%

Source: Phillip Securities Research

Opportune Timing – IMA and Luxurious rooms

The timing is immaculate. Just as RWS rolled out the new rooms to sweeten the deals with high rollers, the IMAs are there to facilitate.

Rooms, if not used as comps, are estimated to increase hotel segment revenue by 85% in 2012. Based on 4Q11 results, ARR was S$322. But the 220 rooms which came on the market are priced from S$800/night for Equarius. The most expensive Beach villa will cost S$12,000/night. At 90% occupancy rate, rooms revenue may increase by S$107 mn to S$233 mn, from S$126 mn in FY11.

Table 2: Potential revenue from new rooms

	No. of rooms	ARR	Occ rate	No. of days	Est. Rev
Equarius rooms	200	$800	90%	366	$52,704,000
Beach villa (most exp	1	$12,000	90%	366	$3,952,800
Beach villas	19	$8,000	90%	366	$50,068,800
Total incr. in rev					**$106,725,600**

Source: Phillip Securities Research

Assuming flat growth in all other segments but the rooms, this increase reflects a 3% growth from Genting's FY11 revenue.

In reality, these rooms are likely used as comps to attract high rollers. Previously, Genting did not have the villas to reward their loyal high rollers but now they do. Hence the expectation is for gaming revenue to increase, promotional allowances to increase in tandem and also for Hotel rooms revenue to increase as there will be clients who will actually pay top dollar to stay in these luxurious rooms.

Finally, the completion of rooms will also allow Genting to have a differentiated marketing strategy from MBS. MBS has space constraint and cannot create villas on sprawling estate filled with scenic greenery thereby possibly limiting their ability to attract high rollers with this sort of preferences.

The Competitor's next move

With licenses dished out for IMAs to operate at RWS, MBS who has been on the sideline watching the developments closely will now actively file applications for junkets too. If they support the same ones operating in RWS, then RWS will not have significant first mover advantage. However, if MBS is supporting a different set of operators, given the time CRA takes to vet the applications, RWS may have a lead time of 1 year. During this period, we expect RWS to gain market share in the VIP segment. Coupled with its luxurious rooms, RWS should also find it easier to defend its VIP turf.

Investors' previous concerns are addressed

We had been concerned over rising trade receivables and bad debts given RWS extension of credit to their customers. Furthermore, there was only so much growth in credit extension the company can undertake on the balance sheet. In time to come, growth would be limited and gaming revenue stagnate. Having junkets eliminate this problem and allow growth to continue without placing too much stress on Genting's financials.

Other developments – Marine Life Park

In our recent visit to RWS, we were told the glass tank for the park was being fitted. Progress is underway in mid-March, RWS held auditions to hire people for the Park. Prices for the park had not been set and earnings unlikely to have significant impact on FY12 results. But if we assume a daily entry of 8,000 people with average spending of S$50, we could be looking at a revenue increase of ~S$150 mn.

Last note – On dividends and Bonds

In our previous report, we said Genting is not expected to hand out any dividends considering their need to conserve funds for new projects. Hence we were surprised when they announced a 1 cent dividend. We question the wisdom of giving dividends AND the issuance of S$1.8bn perpetual bonds. Dividend yield is only 0.63% versus 5.125% on the bonds. We have two gripes. Firstly, the new capital is costly and makes this dividend payout costly too as the amount raised could be lower if company had chose to conserve the cash. Secondly, given the low dividend yield, it will be cheaper to raise funds via equity offering.

Investors will face a 9% dilution of holdings if the full sum is raised via equity. But now, EBIT will be reduced by ~7% annually (anchored on FY11 EBIT). Perhaps, there could be many arguments for and against the mode of funding but one thing is clear – raising these funds to be on stand-by only erodes shareholders' value as the cash earns paltry returns when not put to work.

Management must also have the confidence that the return on investment is higher than 5.125%, if not, shareholders return will be affected.

Forecasting FY12 Earnings

Table 3: Revenue for each segment

S$'000	FY11	FFY12	% growth
Gaming	2,693,376	3,278,863	22%
USS	290,145	321,585	11%
Hotel	126,686	161,261	27%
MICE, F&B, Retail	90,608	91,897	1%
Total	**3,200,815**	**3,853,607**	**20%**

Source: Phillip Securities Research

We estimate a 20% revenue increase for RWS. However, net profit is estimated to grow by only 14% as pre-opening expenses and higher financing cost eat into bottom line. Financing cost for the perpetual securities works out to be about S$92.5 mn, ~9% of FY11 net income.

We further raise EV/EBITDA multiple from 12x to 13x. The slight increase is merely anchored on Genting's trailing EV/EBITDA for the past 1 year. We have not priced Genting at a premium as the company does not have a superb edge over its competitors.

FYE Dec	FY10	FY11	FY12F
Valuation Ratios			
P/E (X), adj.	32.2	21.0	18.3
P/B (X)	4.1	3.5	2.3
EV/EBITDA (X), adj.	16.0	12.7	10.8
Dividend Yield (%)	0.0%	0.6%	0.0%
Per share data (SGD)			
EPS, reported	0.05	0.08	0.10
EPS, adj.	0.05	0.08	0.10
DPS	0.00	0.01	0.00
BVPS	0.42	0.50	0.75
Growth & Margins (%)			
Growth			
Revenue	460.5%	17.7%	19.0%
EBITDA	-755.7%	26.6%	17.3%
EBIT	-631.9%	24.8%	17.7%
Net Income, adj.	-336.8%	54.1%	14.8%
Margins			
EBITDA margin	47.8%	51.4%	50.7%
EBIT margin	38.7%	41.1%	40.7%
Net Profit Margin	23.9%	31.3%	30.2%
Key Ratios			
ROE (%)	20.2%	18.0%	15.3%
ROA (%)	10.9%	9.8%	9.7%
Net Debt/(Cash)	(174)	(269)	(3,025)
Net Gearing (X)	Net Cash	Net Cash	Net Cash
Income Statement (SGD mn)			
Revenue	**2,753**	**3,239**	**3,854**
EBITDA	**1,315**	**1,665**	**1,953**
Depreciation & Amortisation	(248)	(333)	(386)
EBIT	**1,067**	**1,331**	**1,567**
Net Finance (Expense)/Income	(208)	(96)	(200)
Other items	n/a	n/a	n/a
Associates & JVs	(0)	(2)	0
Profit Before Tax	**858**	**1,234**	**1,367**
Taxation	(201)	(222)	(205)
Profit After Tax	**657**	**1,012**	**1,162**
Non-controlling Interest	0	0	0
Net Income, reported	**657**	**1,012**	**1,162**
Net Income, adj.	**657**	**1,012**	**1,162**

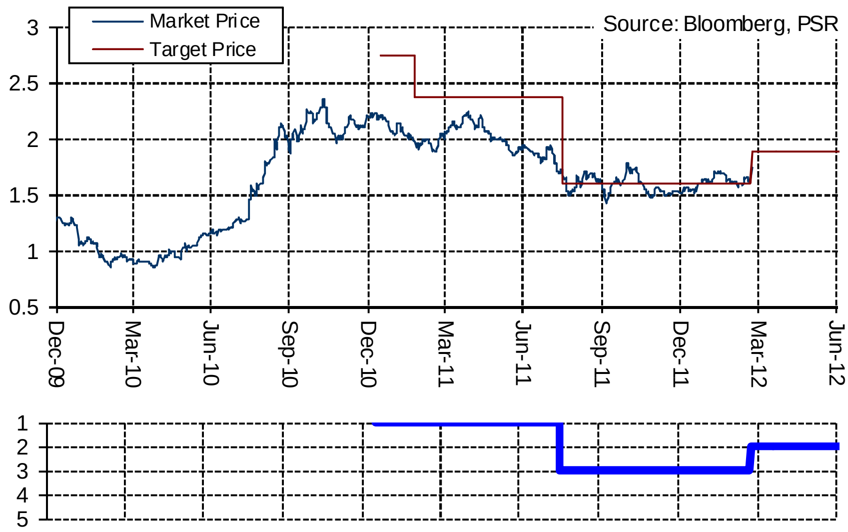
Source: PSR

FYE Dec	FY10	FY11	FY12F
Balance Sheet (SGD mn)			
PPE	5,333	6,230	6,425
Intangibles	133	119	107
Associates & JVs	53	67	67
Investments	6	3	3
Others	15	13	13
Total non-current assets	**5,541**	**6,432**	**6,615**
Inventories	53	46	51
Accounts Receivables	594	722	642
Investments	114	0	0
Cash	3,687	3,421	6,074
Others	0	0	0
Total current assets	**4,447**	**4,189**	**6,768**
Total Assets	**9,988**	**10,621**	**13,383**
Short term loans	274	446	438
Accounts Payables	1,144	896	799
Others	8	57	57
Total current liabilities	**1,426**	**1,401**	**1,296**
Long term loans	3,239	2,707	2,612
Others	216	377	377
Total non-current liabilities	**3,454**	**3,084**	**2,989**
Non-controlling interest	0	2	2
Shareholder Equity	**5,108**	**6,136**	**9,098**

Cashflow Statements (SGD mn)			
CFO			
PAT	38	1,012	1,162
Adjustments	1,466	585	791
Cash from ops before WC changes	1,504	1,598	1,953
WC changes	(97)	(204)	(22)
Cash generated from ops	1,407	1,393	1,931
Taxes paid, net	(6)	(185)	(205)
Cashflow from ops	**1,412**	**1,444**	**1,726**
CFI			
CAPEX, net	(1,305)	(1,325)	(569)
Dividends from associates & JVs	2	0	0
Dividends/Interest from Investments	0	2	0
Purchase/sale of investments	0	130	0
Investments in subs & associates	(1)	2	0
Others	645	1	0
Cashflow from investments	**(658)**	**(1,190)**	**(569)**
CFF			
Share issuance	3	1	0
Purchase of treasury shares	0	0	0
Loans, net of repayments	334	(384)	(103)
Dividends to minority interests	0	0	0
Dividends to shareholders & capital reduction	0	0	0
Interest paid	(164)	(67)	(200)
Others	(71)	(127)	1,800
Cashflow from financing	**102**	**(578)**	**1,497**
Net change in cash	**856**	**(324)**	**2,653**
Effects of exchange rates	(2)	(4)	0
CCE, end	**3,621**	**3,294**	**5,947**

Source: PSR

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.

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Contact Information (Singapore Research Team)

Chan Wai Chee
CEO, Research
Special Opportunities
+65 6531 1231
yebo@phillip.com.sg

Lee Kok Joo, CFA
Head of Research
S-Chips, Strategy
+65 6531 1685
leekj@phillip.com.sg

Joshua Tan
Strategist
+65 6531 1249
joshuatan@phillip.com.sg

Magdalene Choong
Investment Analyst
SG, US Gaming
+65 6531 1791
magdalenechoongss@phillip.com.sg

Go Choon Koay, Bryan
Investment Analyst
Property
+65 6531 1792
gock@phillip.com.sg

Derrick Heng
Investment Analyst
Transportation, Telecom.
+65 6531 1221
derrickhengch@phillip.com.sg

Ken Ang
Investment Analyst
Financials
+65 6531 1793
kenangwy@phillip.com.sg

Travis Seah
Investment Analyst
REITS
+65 6531 1229
travisseahhk@phillip.com.sg

Peter Lee
Research Assistant
General Enquiries
+65 6531 1240 (Phone)
+65 6336 7607 (Fax)
research@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE
Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

MALAYSIA
Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

HONG KONG
Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

JAPAN
PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website:www.phillip.co.jp

INDONESIA
PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel (86-21) 51699200
Fax (86-21) 63512940
Website: www.phillip.com.cn

THAILAND
Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website www.phillip.co.th

FRANCE
King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM
King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

UNITED STATES
Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005

AUSTRALIA
PhillipCapital Australia
Level 37, 530 Collins Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96298380
Fax (613) 96148309
Website: www.phillipcapital.com.au