

SECTOR UPDATE

Gaming – Malaysia

Waiting For Its Moment

1Q24 results for gaming companies under our coverage continue to reflect a vibrant consumption trend, accelerating tourist visitations and spending surge. Although share price momentum is lagging the broad market, we believe the sector’s earnings growth, undervalued financial matrixes and lush dividend yields still resonate well with our investment foundations. Maintain OVERWEIGHT. Top picks: GENM, Magnum and RGB.

WHAT’S NEW

- **1Q24 results round-up showed positive notes.** For the casino segment, both Genting Malaysia’s (GENM) and Genting Berhad’s (GENT) 1Q24 results exceeded our expectations, with EBITDA surging 11-14% qoq/31-42% yoy on the back of continuously robust tourism spending and improved foreign visitations. For the NFO segment, both Sports Toto (SPTOTO) and Magnum charted 5-10% qoq revenue growth, but Magnum’s results were slightly underwhelming due to an exceptionally high prize payout. Meanwhile, RGB International (RGB) also reported record-high 1Q24 results within our expectations, with core profit surging 110% yoy.
- **Tourism consumption trend charting progressive growth on multiple tailwinds.** Malaysia’s 1Q24 consumer spending grew 4.7% yoy (4Q23: 4.2% yoy), largely supported by the revenue upswing from the tourism industry. Our channel checks also revealed that the business volume for both the casino and NFO segments in May-June remains sturdy. For the casino segment, several related matrixes such as flight capacities and international footfall visitations charted sequential improvement. As for the NFO segment, ticket sales have improved and steadied at >90% of pre-pandemic’s level. To add on, recent setup of EPF Account 3 withdrawals may further elevate consumer spending which will indirectly benefit the gaming sector.
- **Sector’s undervalued financial matrixes constructing foundation as potential laggard play.** With the exceptions of RGB (+54% ytd), the Malaysian gaming sector underperformed the KLCI (+9% ytd) with only a 3-8% ytd share price return. Nevertheless, current valuations of -1SD to -1.5SD below mean remains attractive as we deem that this is only the beginning phase of a post-pandemic recovery cycle. Furthermore, the sector still offers lush dividend yield of 4.9-10.5%, backed by revenue resilience and steady streams of cashflow in 2024 (off the pandemic period’s low base).

ACTION

- **Maintain OVERWEIGHT on the gaming sector.** We expect the gaming sector to outperform the FBMKLCI in 2H24, leveraging on foreseeable domestic and external catalysts.
- **Maintain BUY on GENM and GENT** with target prices of RM3.50 and RM6.13 respectively.
- **Maintain BUY on both Magnum and SPTOTO** with target prices of RM1.52 and RM1.82 respectively.
- **Maintain BUY on RGB with a target price of RM0.66** for small mid cap exposure, which implies 9x 2024F PE (pre-pandemic’s mean), 4x 2024F ex-cash PE, and 4.5x 2024 EV/EBITDA. We retain our view that RGB will continue to gain prominence under the ASEAN jurisdiction’s booming gaming scene and exponential growth.

PEER COMPARISON

Subsector/Company	Ticker	Rec	Price @ 6 June 24 (RM)	Target Price (RM)	Market Cap (US\$m)	EV/EBITDA 2024F (x)	Yield 2024F (%)	PE 2024F (x)
Genting Malaysia	GENM MK	BUY	2.64	3.50	3,187	7.1	7.4	13.6
Genting Bhd	GENT MK	BUY	4.71	6.13	3,863	6.0	4.6	10.0
RGB Berhad	RGB MK	BUY	0.41	0.66	137	2.5	7.0	5.7
Sports Toto Bhd	SPTOTO MK	BUY	1.59	1.82	457	6.3	8.2	9.0
Magnum Bhd	MAG MK	BUY	1.13	1.52	346	9.2	7.3	11.0

Source: UOB Kay Hian

OVERWEIGHT

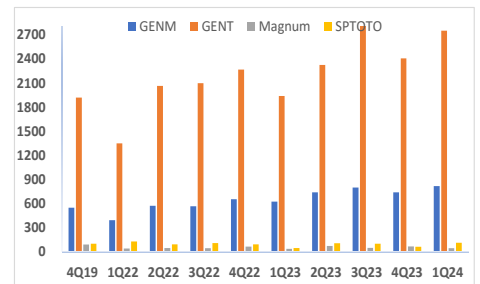
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SECTOR RECOMMENDATION

Sub-sectors	Recommendation
NFOs	OVERWEIGHT
Casino	OVERWEIGHT

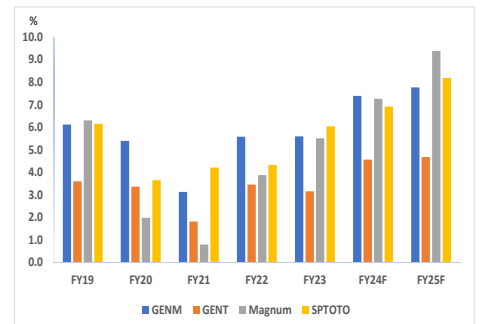
Source: UOB Kay Hian

GAMING STOCKS' QUARTERLY EBITDA



Source: Respective companies, UOB Kay Hian

GAMING STOCKS' YIELD



Source: Respective companies, UOB Kay Hian

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ESSENTIALS

- Tourism Malaysia anticipating international tourist arrivals to surpass 2019's level.** Tourism Malaysia announced that it is confident of achieving 27.3m foreign tourist arrivals target in 2024 on the back of the government's charter flight matching grant incentive, visa liberalisation programme and increase in tourism promotional activities abroad. Among our sector coverage, the casino segment will be a direct beneficiary of higher inbound patronage. We remain upbeat that tourism-related investment ideas including the gaming sector will continue to be on investors' radar this year.
- Defensive nature and lush prospective dividend yield remain as key investment merits.** With the gaming companies gaining revenue resilience and steady streams of cashflow in 2024 (off the pandemic period's low base), we anticipate a restoration of pre-pandemic's generous dividend payout of 4.6-8.2%. We expect GENT and GENM to potentially reinstate 19 sen and 22 sen DPS from 2024 onwards, supported by healthy cashflow and low-to-moderate capex requirements. NFO companies have also guided their intention to restore pre-COVID-19 dividend payouts of 80-90%.

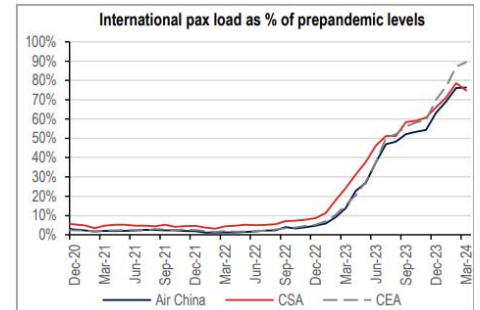
CASINO SUBSECTOR

- GENM: Prominent prospects ahead as RWG poised to recoup pre-pandemic profitability momentum.** RWG is on course to chart sequential EBITDA growth in 2024, stoked by fully restored operating capacity and improved footfall to its attractions following a ramp-up of intraregional flight capacities. To note, we understand that: a) available hotel rooms in RWG have been restored to about 10,000 rooms, b) EBITDA margin expanded on higher gaming contributions and average spending (2023: 32.2% vs pre-COVID-19's 26-31%), and c) there are better non-gaming earnings on accelerating foreign visitations.
- GENT: TauRx remains a potential wild card.** To recall, GENT's 20.33%-owned associate - TauRx reported convincing 24-month Phase 3 clinical trial data for its Alzheimer's HMTM drug earlier in March. While the group initiated regulatory engagement in the UK and the US for the approval and commercialisation of the HMTM product, we acknowledge that the procedure for HTMTM securing approval and commercial rollout may be lengthy with unclear timelines. That said, TauRx's potential valuation of US\$15b may be translated into around RM3.54/share for GENT's 20.3% stake, which is over 73% of its current market cap.
- China's rising outbound tourist adding to growth equation.** Within China's top three airlines, China Eastern Airlines is leading the recovery with international pax load reaching 89% of pre-pandemic's level in Mar 24, compared with China Southern Airlines and Air China's 74-76% recovery. To note, this is a significant uplift from Dec 23's 64-71%. With a further ramp-up of China's international flight capacity and frequencies, we expect both RWG and RWS to see better footfall and earnings inflow from China tourists throughout 2024. We also understand that China tourist visitations to RWG recovered to around 50% of 2019's level, with progressive upside anticipated in coming quarters.

NFO SUBSECTOR

- Ticket sales almost back to pre-COVID-19 level.** We reckon that NFOs' sales will recover to 90-95% of the pre-pandemic level in 4Q23 (3Q23: 85-90%) and continue throughout 2024. While the NFOs are still facing market share challenges from illegal operators, there's a gradual shift in punters' habits that were previously executing bets through illegal bookies as authorities accelerated clampdown efforts. Potential tailwinds may also emerge for the NFOs if the government allows legal operators to enable online operations.
- Meaningful upside potential if overly pessimistic valuations reverse; lush dividend yields.** Both Magnum and SPTOTO should gain more attention as they start to deliver lush prospective yield of 7-8% for 2024 in tranches upon earnings recovery. In the last four years, both Magnum and SPTOTO were heavily punished by the pandemic and political uncertainties. In our opinion, current valuations have more than priced in these downsides, especially when earnings are on course for sequential recovery in upcoming quarters.

CHINA BIG 3 AIRLINES' INTERNATIONAL PAX CAPACITY RECOVERY



Source: Respective companies, UOB Kay Hian

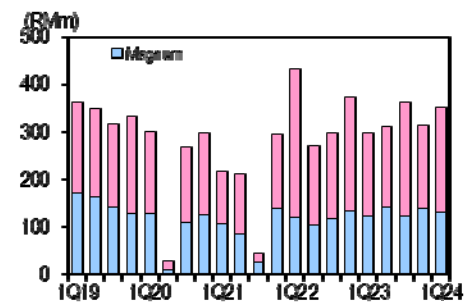
GENTING HIGHLANDS 1Q24 HIGHLIGHTS

RWG

- VIP: Mass volume mix at 57:43 vs 4Q23's 54:46
- VIP win rate close to theoretical levels
- 1Q24 total visitors to RWG hilltop about 6.7m (4Q23:5.8m), 73% are day trippers.
- China hotel guests was 81,000 in 1Q24 vs 51,000 in 4Q23. Currently at around 50% of pre-pandemic's level.
- 1Q24 hotel rooms available daily about 10000, occupancy rate 99%, Revpar RM231 vs 1Q23 occupancy rate 95%; Revpar RM207.
- Genting SkyWorlds Outdoor theme park average ticket sales about 2200/day (1Q23: c.2000/day)

Source: GENM

NFO BIG 2'S TICKET SALES

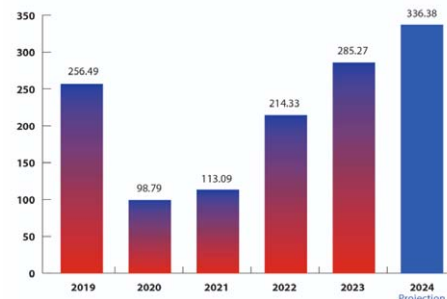


Source: UOB Kay Hian

SMALL MID CAP HIGHLIGHTS

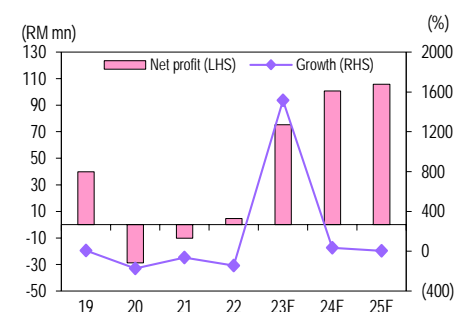
- RGB still well-positioned to capitalise on ASEAN jurisdiction's booming gaming scene and exponential growth.** While the ASEAN gaming scene, especially in the Philippines, remains highly charged with aggressive gaming capacity expansion and post-pandemic replacement cycle, RGB is poised to largely benefit from this trend. Key growth drivers arise from the Philippines' mushrooming new IRs, friendly legislation such as higher slots capacity quotas and supportive remote gaming policies.
- SSM sales on track to hit our 2024 forecasts; TSM operations closing back towards 2019's levels.** In 1Q24, RGB's sales and marketing segment (SSM) sold 1,200 slot machines (achieving 27% of our 2024 forecasts). Such strong sales were mainly attributed to robust orderbook from the Philippines' flourishing gaming scene which supercharged both new and replacement slot machines' demand. Meanwhile, the technical support and management (TSM) segment's profit before tax of RM5.2m posted a comeback to around 88% of pre-pandemic's level, reaffirming our view that the segment is embarking on a restructuring and recovery pathway.
- Secured massive SSM orderbook from PACGOR.** In a separate announcement in end-May, RGB also revealed that the group secured a RM383m (US\$81.3m) contract from Philippine Amusement and Gaming Corporation (PACGOR) to supply 1,968 electronic gaming machines and accessories. We believe this is to support PACGOR's modernisation programme that includes revamping the gaming floor and rolling out new slot machines ahead of the privatisation of its casino operations. We expect these orderbooks to be fulfilled and translated into RGB's earnings within 2Q-3Q24, which pave the way for RGB to deliver meaningful qoq earnings growth in upcoming quarters.
- The Philippines growing into a colossal gaming hub, potentially lifting slot machine demand for years.** RGB is a beneficiary of the Indochina's gaming boom, particularly the Philippines' exploding gaming scene. Several visible catalysts, such as the Philippine Amusement and Gaming Corporation's modernisation programme, underpenetrated industry landscape, development of new integrated resorts – at least six in 2024-26, and higher capacity quotas for remote gaming (+25%), are beginning to lift the industry's potential slot machine demand to >8,000 units/year in 2024-26. RGB is the exclusive or largest distributor of a broad spectrum of international brands. It also commands 60-70% of the region's slot machine market share and is set to achieve record-high sales growth in the coming years.
- Deep-in-value financial matrixes reaffirming our investment thesis.** Despite a 60% ytd share price rally, RGB's bargain valuations of 5.7x 2024F PE (4x ex-cash PE) still offer palatable potential capital upside. More importantly, RGB's current net cash of about RM185m (29% of market cap) is more than sufficient to support our 40% dividend payout forecasts and lush yields of 7-8% in 2024-25. Should management raise the dividend payout ratio to 50%, prospective yields will likely be 9-10%.

PHILIPPINES' GAMING INDUSTRY GGR (BILLION PESOS)



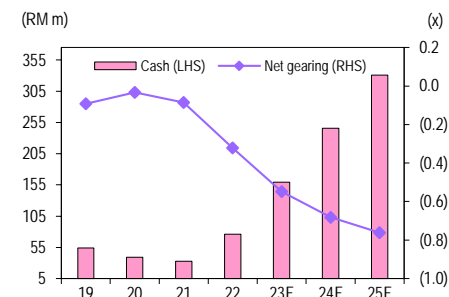
Source: PACGOR, UOB Kay Hian

RGB NET PROFIT AND GROWTH TREND



Source: RGB, UOB Kay Hian

RGB CASH POSITION AND NET GEARING TREND



Source: RGB, UOB Kay Hian

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