SECTOR UPDATE

Gaming – Malaysia

Remains A Good Shelter, Value Deliverer

The gaming sector remains both a good shelter amid the current bearish sentiment, and a deliverer of capital gains as earnings recover strongly through 2023. We favour the casino subsector for its sharp earnings recovery, capacity restoration and external opportunities (eg GENM's bid for a downstate New York concession). Nevertheless, the NFO subsector's sharp pullback provides an excellent entry point for yield-hungry investors. Maintain OVERWEIGHT.

WHAT'S NEW

- **Proven defensiveness, while expected to deliver good gains.** We continue to expect the gaming sector's defensive fundamentals to be largely shielded from ongoing market volatilities amid the tightening global monetary policies. To note, the gaming sector mostly outperformed the FMBKLCI index during market selldowns (refer to RHS chart) over the past three decades. Furthermore, both the casino and NFOs subsectors are poised to chart meaningful earnings recovery from 2020-21's low base which were disrupted by the COVID-19 pandemic-induced restrictions.

- **Casino subsector: Earnings recovery to maintain steady upward slope.** With the post-pandemic-peak's progressive hotel and gaming capacity restoration, the Genting Group's earnings will rebound sharply in 2H22 through to 2023. To note, Malaysian authorities have abolished most of the COVID-19 curbs since 2Q22 and recently removed the indoor mask mandate, allowing Genting Malaysia's (GENM) Resorts World Genting (RWG) to operate at full capacity. Meanwhile, RWG also further ramped up its hotel capacity to >7,600 rooms (2Q22: 6,000 rooms) to cater to the strong demand.

- **Genting Group could benefit from many potential event catalysts,** most prominently GENM's bid for a downstate New York gaming concession (RFP submission expected to be in Oct 22). Other events worth monitoring include GENT's investee TauRx Pharmaceutical's clinical trial progress update and GENM's surprise bid for Macau gaming concession.

- **NFO subsector:** Earnings recovery lagging market expectations. Disappointingly, both Magnum and Sports Toto (SPTOTO) are having difficulties restoring their pre-pandemic earnings dynamic. Ticket sales have been stuck at about 80-85% of pre-pandemic levels in the past few quarters despite the governments' gradual easing of various pandemic-related social distancing constraints, which we attribute to the NFOs' progressive market share losses to illegal operators amid a shift in punters' habits towards executing bets through these illegal bookies.

ACTION

- **Maintain OVERWEIGHT with a preference for the casino subsector.** We continue to bet on sharp earnings recoveries for the Genting Group, and do not foresee any duty hikes for sin stocks in the upcoming Budget 2023. Our top picks are GENM and GENT, with target prices of RM4.00 and RM6.92. For the NFO subsector, maintain BUY on Magnum and SPTOTO with lowered target prices of RM2.00 and RM2.19 respectively as we reduced our 2023 earnings assumptions to factor in the slower-than-expected recovery.

PEER COMPARISON

Segment/Company	Ticker	Rec	Price @ 3 Oct 22 (RM)	Target Price (RM)	Market Cap (US$m)	EV/EBITDA 2022F (x)	Yield 2022F (%)	PE 2022F (x)
Gaming – Casino								
Genting Malaysia	GENM MK	BUY	2.76	4.00	3,365	11.4	5.3	23.5
Genting	GENT MK	BUY	4.43	6.92	3,671	7.3	3.5	22.1
RGB	RGB MK	BUY	0.13	0.15	43	7.5	1.5	11.2
Gaming – NFO								
Sports Toto	SPTOTO MK	BUY	1.71	2.19	497	5.7	7.0	9.0
Magnum	MAG MK	BUY	1.41	2.00	436	12.4	4.7	17.2

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

(Maintained)

SEGMENT RECOMMENDATION

Segments	Recommendation
NFOs	OVERWEIGHT
Casino	OVERWEIGHT

Source: UOB Kay Hian

GAMING COMPANIES' RELATIVE PERFORMANCE TO FBMKLCI

Peak	Trough	Sector Average	KLCI Index	Sector vs KLCI
1-Aug-90	28-Sep-90	-28.6%	-27.2%	-1.4%
29-May-91	19-Aug-91	-2.7%	-12.1%	9.4%
25-Feb-97	1-Sep-98	-73.0%	-70.6%	-2.4%
18-Feb-00	9-Apr-01	-58.7%	-34.1%	-24.6%
11-Jan-08	29-Oct-08	-33.8%	-40.2%	6.4%
8-Jul-11	26-Sep-11	-11.2%	-12.2%	1.0%
21-Apr-15	24-Aug-15	-9.9%	-11.3%	1.4%
19-Apr-18	6-Jul-18	7.1%	-12.0%	19.1%
30-Dec-19	19-Mar-20	-26.9%	-25.0%	-1.9%
3-Mar-22	now	-3.7%	-8.9%	5.2%

Source: Bloomberg

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ESSENTIALS

- **Industry is unlikely to suffer from gaming duty hikes.** The government is unlikely to impose gaming duty hikes on both the casino and NFO subsectors as both subsectors have been financially wounded in the past two years due to the lockdowns. Imposing gaming duty hikes would likely also backfire on the government's need to raise revenue as duty hikes would further concede the NFO industry's market share to the illegal operators.

CASINO SEGMENT

- **GENM: Sunnier days ahead for the Malaysian operations.** We expect RWG's earnings to correlate well with rising hotel capacity (currently <80%) and operating table count as RGB expects to substantially address its foreign labour shortage by end-22.

- **Resilient US portfolio and strong contender for a New York City concession.** Following Resorts World Catskills' GGR recovering to pre-pandemic levels, associate Empire Resorts is also expected to deliver healthy EBITDA growth in 2022, and does not envision requiring any more capital injection. Meanwhile, Resorts World New York City (RWNYC), by far GENM's largest earnings contributor in the US, will fully benefit from the opening of Hyatt Regency JFK (in Aug 21) and is a strong contender for a full-fledged gaming licence in downstate New York (RFP submission expected in Oct 22). We reckon that RWNYC could eventually lift GENM's EBITDA by US$200m-250m should it clinch a downstate casino licence, and could pave the way for a potential US listing for the Genting Group's US assets.

- **Bidding for a Macau gaming concession.** While we assign a small winning change for GENM's surprise tender for a Macau gaming concession, clinching one of the six concessions due for renewal would be uplifting to the stock's valuations.

- **GENT: GENS draws M&A interests.** Genting Group's Lim family was recently approached by MGM to discuss a takeover or investment into Genting Singapore (GENS) but the offer was rejected. We believe that MGM is trying to expand its Asian portfolio but Genting Group is not keen to part with GENS. With the world eventually fully unwinding COVID-19 curbs, we expect Genting Singapore's EBITDA to claw back to pre-pandemic level of S$1.2b in FY23 as the worst is likely over. GENS is expected to be a lot more aggressive on the capital management trail. Meanwhile, TauRx is hosting a briefing to share its top-line data (12-month time point) from their Phase 3 trial of its Alzheimer's drug.

NFO SUBSECTOR

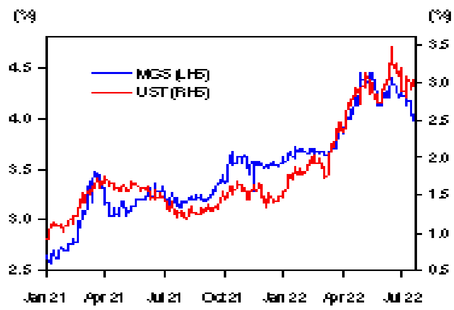
- **NFO subsector: Sub-optimal recovery.** We reckon that the NFOs' sales would recover to around 90% of the pre-pandemic level in 2023 (currently 80-85%), in view of the various challenges (the illegal operators' stronger network/product offerings and punters being more accustomed to rely on these operators since the pandemic).

- **Facing challenges from illegal operators.** The illegal operators have gained market share and leveraged on the COVID-19 pandemic's various restrictions. To note, the illegal operators are said to be at least 1.5-2.0x larger than the legal operators and are also offering online betting based on 4D games drawn in other countries such as Singapore and Cambodia. We think that this structural headwind will continue to persist for the NFOs until the government allows the legal NFOs to enable online operations.

- **Rooting for moderate recovery in share prices, pricing in the defensive business nature.** With the NFO subsector's revenue plateauing at 80-85% of pre-MCO levels, investors would be increasingly attracted to the subsector's earnings resilience and high dividend yield (rising to about 7% in 2023).

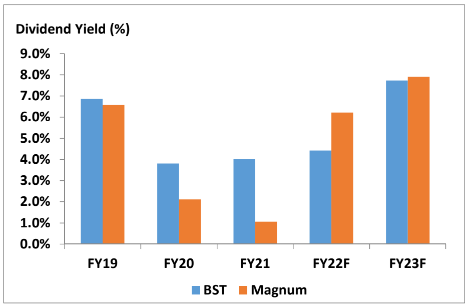
- **Dividends' restoration to jump-start the pandemic-low valuations.** The NFO subsector still surprisingly trades close to the lows seen during the pandemic despite fundamentally being an ideal shelter amid a risk-off market mode, given the low beta, steady cashflow streams and lush dividend yields. However, Magnum's pullback also reflects the company lowering down its dividend payout to about 80% from the pre-pandemic's >95%, to pare down debt.

MGS AND UST YIELDS



Source: Bloomberg, UOB Kay Hian

NFO SEGMENT'S YIELD



Source: Magnum, Sports Toto, UOB Kay Hian

GGR, MIX AND GROWTH OUTLOOK

Countries	2022F	2023F
Malaysia		
GGR(USD)	1.1b	1.4b
GGR Growth Forecast (%)	100-110	30-40
VIP: Mass Revenue Mix (%)	35:65	45:55

Source: UOB Kay Hian

2019 DEPENDENCY ON CHINA VIP GAMERS

Countries	GGR Dependency (%)
Malaysia	5-10

Source: UOB Kay Hian

GENT'S SOTP VALUATION

Asset	Stake	Basis	(RMm)
Genting Singapore	52.8%	TP	20,909
Genting Malaysia	49.3%	TP	11,714
Genting Plantations	50.7%	TP	2,863
Management fees		DCF	5,969
Power		EV/MW	4,245
O&G		PE	927
RWLV		DCF	9,300
Other investments and net cash			(11,252)
RNAV			44,676
Holding co discount (%)			40%
Discounted RNAV			26,806
Fully-diluted shares (m)			3,876
Target price (RM)			6.92

Source: UOB Kay Hian

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