

## SECTOR UPDATE

### Gaming – Malaysia

#### Casino Subsector Emerging From Uncertainties

The casino gaming segment is back in vogue, with the formation of a unity government after GE15 jitters (after enduring a hung parliament situation for five days), and GENM's failed bid for a Macau concession (seen as costly). We remain bullish on the casino segment for its earnings resilience, but are neutral on the NFO segment for its lack of mid- to long-term growth momentum. **OVERWEIGHT**. Top picks: Genting Malaysia and Genting Berhad.

#### WHAT'S NEW

- **Newly-formed unity government dispels earlier misgivings on future detrimental policies against the gaming sector.** As hoped, Pakatan Harapan's charman Datuk Seri Anwar Ibrahim (DSAI) has been entrusted to form a unity government, which brings hopes that political stability would prevail over the nation's deep divide. This allay fears that the emergence of Islamic party PAS as the party with most parliamentary seats in GE15 (49 seats) would exert undue influence on the country's governance and lead to implementation of drastic policies targeting the gaming sector.
- **Genting Malaysia's failed bid for Macau concession is a positive.** Last Saturday, the Macau government has announced the provisional award of new 10-year gaming concessions, with the current six concessionaires named and Genting Malaysia (GENM) losing the bid. We deem this positive for GENM as its pursuit for the Macau gaming concession could be difficult with current incumbents having an upper hand. This is due to the existing six concessionaires' deep-rooted presence and track record of more than two decades in the Macau gaming industry. While the capex of winning a Macau bid could reach US\$4b-5b, GENM will now have a healthier gearing ratio and can focus on capital management or dividend payouts.
- **With major uncertainties uprooted, investors will refocus on the sector's cheap valuation and historically high yields.** Gaming stocks trade at -1SD to -1.5SD below mean valuations (see RHS chart) and offer yields of up to 6.7% after the recent sell-down. We believe that the initial concerns over policy changes after the formation of a backdoor government followed by the COVID-19 outbreak may have significant precipitated foreign selloff in Malaysian equities. Foreign ownership in GENM and Genting Berhad (GENT) has fallen to 17.5% and 34.9% respectively.

#### ACTION

- **OVERWEIGHT the casino segment.** The casino segment appeals the most with its high dividend yield, minimal downside policy risk and foreseeable domestic and external catalysts. Our top picks are GENM and GENT, with target prices of RM3.50 and RM5.78 respectively. Maintain HOLD on Magnum and SPTOTO with target prices of RM1.56 and RM1.78 respectively, as they lack growth beyond 2023, which means that their high prospective (7%) dividend yields may not be sufficient to cause a stock re-rating.

#### PEER COMPARISON

Segment/Company	Ticker	Rec	Price @ 28 Nov 22 (RM)	Target Price (RM)	Market Cap (US\$m)	EV/EBITDA 2022F (x)	Yield 2022F (%)	PE 2022F (x)
<b>Gaming – Casino</b>								
Genting Malaysia	GENM MK	BUY	2.64	3.50	3,338	10.1	5.5	15.4
Genting	GENT MK	BUY	4.46	5.78	3,833	7.6	3.5	12.7
RGB	RGB MK	BUY	0.16	0.17	55	9.0	1.1	9.5
<b>Gaming – NFO</b>								
Sports Toto	SPTOTO MK	HOLD	1.68	1.78	506	5.6	6.7	8.7
Magnum	MAG MK	HOLD	1.38	1.56	443	14.4	4.0	9.8

Source: Bloomberg, UOB Kay Hian

## OVERWEIGHT

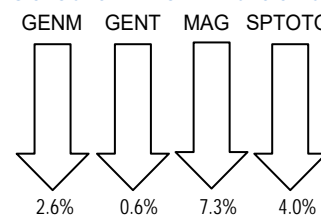
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#### SEGMENT RECOMMENDATION

Segments	Recommendation
NFOs	MARKET WEIGHT
Casino	OVERWEIGHT

Source: UOB Kay Hian

#### GAMING STOCKS PERFORMANCES SINCE GE15



Source: UOB Kay Hian

#### GAMING SECTOR: TROUGH VALUATION

Companies	Assessed Trough (RM)	Valuation Basis
Genting Malaysia	2.00	-2.5SD below 5-years mean EV/EBITDA
Genting Berhad	4.11	50% discount to SOTP
Berjaya Toto	1.52	-2SD below 5-years mean PE
Magnum Bhd	1.26	-2SD below 5-years mean PE

Source: UOB Kay Hian

#### GAMING STOCKS' FOREIGN SHAREHOLDING

Companies	Foreign Shareholdings
Genting Malaysia	17.48% as of 30 Sept
Genting Berhad	34.85% as of 29 July
Berjaya Toto	About 8 % (pre-pandemic: 12%)
Magnum Bhd	24.35% as of 15 June (slightly higher than pre-pandemic)

Source: Bloomberg

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## ESSENTIALS

- **Even with a unity government, there is lingering political risk premium on the NFO segment in particular.** The stability of the Datuk Seri Anwar Ibrahim (DSAI)-led unity government would be constantly tested by opposition coalition Perikatan Nasional Party (PN) starting with the scheduled confidence vote for DSAI as prime minister in parliament on 19 Dec 22 (although we expect DSAI to garner a comfortable majority).
- **PAS risk factor is well mitigated for now.** PAS has gained considerable political strength since GE15 and has power over its PN coalition partner Parti Bersatu. Hence, during the hung parliament period when PN had a shot of becoming the ruling coalition, PAS could have in theory filled the majority of the prime minister's cabinet. Nevertheless, PAS could still have been pragmatic in the nationwide policy adoption towards the gaming sector - recall that when PAS was part of the UMNO-led governing coalition in the early 1970s, the federal government maintained relatively liberal policies on the sin segments. While the pragmatism is supported by the strong narrative of the casino and brewery segments' significant contributions to the federal government coffers and the country's tourism sector, the investment community would still demand a risk premium for the gaming sector should PAS be part of the ruling government.
- **NFO segment suffers from highly political risk premium; affected in several PAS-controlled states.** Until the country attains reasonable political stability, the NFO segment would likely be commanding a "sub-optimal" valuation. The Islamic party PAS won the Perlis state in GE15, adding to its northern/coastal states portfolio (Kelantan, Kedah, Terengganu). To recall, PAS-led states in Malaysia including Kelantan and Terengganu have banned lottery sales, with the PAS-led government declaring this year that Kedah's 4D lottery shops would not be able to renew their business licences from the local councils in 2023. While the overall ticket sales contributions from Kedah and Perlis accounts for <5% of the industry's total sales, there are longer-term concerns of PAS making further inroads into other states (it has garnered about five of Pahang's 14 state assembly seats in GE15).
- **No further gaming duty hikes expected under the new government.** The government is unlikely to impose gaming duty hikes on gaming companies, which have been financially wounded in the past two years due to COVID-19 lockdowns.

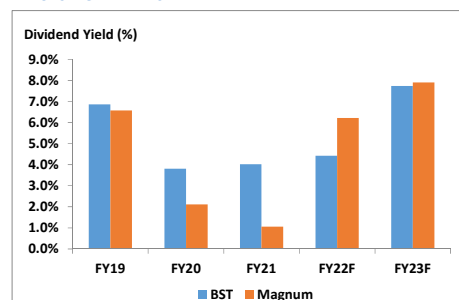
## CASINO SEGMENT

- **Recent hike in gaming tax in 2018.** As gaming taxes were revised upwards in 2018 after 20 years since 1998, the government is highly unlikely to further increase taxes in the near term. In 2018, the Ministry of Finance (MOF) raised casino duties to 35% from 25% on gross gaming income, and gaming machine duties to 30% from 20% on gross collection. On top of that, the MOF also increased the annual casino licence fees by RM30m to RM150m, and machine dealers' licence fees to RM50,000 a year from RM10,000 a year.
- **Various potential event catalysts in the pipeline for Genting Group.** The most prominent is GENM's bid for a downstate New York gaming concession (RFP submission expected to be in 4Q22-1Q23). Other events worth monitoring include GENT's investee TauRx Pharmaceutical's clinical trial progress update, and GENS' re-emphasis on capital management following its withdrawal from Japan's integrated resort bids.

## NFO SEGMENT

- **Soured sentiment due to PAS' momentum in GE15 results.** In the recent GE15, Islamic party PAS' emergence as the single largest party and rising influence in the north have created major investor jitters against NFO stocks, including SPTOTO. In the worst-case scenario where PAS-controlled states (or states where it commands more state assembly seat representations eg Kedah, Perak, Perlis and Pahang) forbid the renewal of NFO licences in 2023, the impact on gaming revenues would be <10%.
- **Structural headwinds from illegal operators to persist.** Despite the government's gradual easing of various pandemic-related social distancing constraints, NFOs have been facing progressive market share losses to illegal operators since the pandemic started amid a shift in punters' habits in channelling their bets through these illegal bookies. Note that the illegal bookie market is said to be at least 1.5-2x larger than the NFO segment and we expect this structural headwind to persist until the government allows legal NFOs to enable online operations.

## NFO SEGMENT'S YIELD



Source: Magnum, Sports Toto, UOB Kay Hian

## GAMING SECTOR: FOREIGN SHAREHOLDINGS

Companies	Foreign shareholding (%)
Genting Malaysia	26.8
Genting Berhad	33.7
Sports Toto Berhad	13.0
Magnum Bhd	29.0

Source: UOB Kay Hian

## GAMING SECTOR: TAX CONTRIBUTION TO GOVERNMENT

Sub-sectors	Tax Contribution
NFOs	C. RM3b pre-pandemic
Casino	RM4-5b pre-pandemic

Source: 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

## GENT'S SOTP VALUATION

Asset	Stake	Basis	(RMm)
Genting Singapore	52.8%	TP	20,909
Genting Malaysia	49.3%	TP	10,250
Genting Plantations	50.7%	TP	2,363
Management fees		DCF	5,969
Power		EV/MW	4,245
O&G		PE	927
RWLV		DCF	7,103
Other investments and net cash			(11,031)
<b>RNAV</b>			<b>40,735</b>
Holding co discount (%)			45%
<b>Discounted RNAV</b>			<b>22,404</b>
Fully-diluted shares (m)			3,876
<b>Target price (RM)</b>			<b>5.78</b>

Source: UOB Kay Hian

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