

SECTOR UPDATE

Gaming – Regional

Realising The Full Potential Of China's Border Reopening

With most Asian gaming companies having rallied since 3Q22, Macau gaming stocks should consolidate in the near term, but we still foresee moderate upside to the Genting Group's listcos as Mainland Chinese tourists stream back to ASEAN countries. Besides this, we expect the Genting listcos to dole out generous final quarter dividends. Maintain **OVERWEIGHT** on the ASEAN gaming companies and **MARKET WEIGHT** on Macau gaming companies.

WHAT'S NEW

- **Macau and Singapore gaming stocks have rallied ahead of China's reopening**, having respectively risen 14-39% since 3Q22 (see RHS chart). The Genting Group's Malaysian listcos are conspicuous laggards, held back by Genting Malaysia's ill-timed related-party transaction (in Dec 22) and the lack of foreign interest in Malaysian equities (foreign investors have turned net sellers since Sep 22).
- **Hopes of strong GGR and EBITDA recoveries through 2024**. Naturally, we expect Macau to post the strongest GGR and EBITDA recoveries through 2023-24 compared with its ASEAN peers (see the middle RHS chart for EBITDA forecasts, and overleaf chart for gross gaming revenue (GGR) forecasts).
- **However, Macau gaming stocks' valuations have partially priced in recoveries through 2024**. Following the past months' stock rallies, the EV/EBITDA valuations of the Macau gaming stocks under our coverage have rebounded significantly to above their pre-pandemic levels, as investors partly price in further GGR recoveries in 2024. This suggests near-term consolidation, as the reopening process, jump-starting of visitation in Macau and coming months' GGR recoveries may not necessarily be a smooth upswing. Fundamentally, Macau gaming companies' 2024 valuation should trade below their pre-pandemic mean given the concessionaires' capex commitment for non-gaming facilities, which lowers operating cash flows by 19%. Consequently, companies will likely need time to reinstate their pre-pandemic dividend policies.
- **ASEAN gaming stocks' valuations are still cheap**. Meanwhile, ASEAN peers' 2023 and 2024 EV/EBITDA valuations are still well below their respective mean valuations, and are also significantly below Macau peers' (refer to overleaf RHS chart). We expect ASEAN gaming stocks to further re-rate as Mainland Chinese tourists stream back to the region. Historically, Mainland Chinese tourists made up 10-15% and 19-20% of foreign visitors to Malaysia and Singapore respectively.

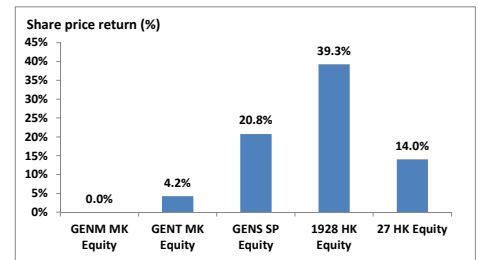
ACTION

- **OVERWEIGHT on Singapore and Malaysian gaming sectors, and MARKET WEIGHT on Macau's gaming sector**. We prefer Singapore gaming to its Malaysian counterpart, partly because GENS has the highest reliance on Mainland China patronage that accounted for an estimated 20% of its pre-pandemic revenue (GENM's Resorts World Genting: 8-10%).
- **Our top sector pick is GENS** for its 2023 earnings recovery and capital management upside (backed by its net cash which is equivalent to 27% of its market cap). We roll forward (raise) our target price for GENS to S\$1.15 from S\$1.08, with our new target conservatively based on 9.3x 2023 EV/EBITDA (-0.5SD to mean). Other picks include GENM, GENT and Sands Macau (BUY on weakness). Besides this, small-cap RGB International (RGB) could still appeal despite its huge run-up from 2022's low (refer to some details overleaf).

OVERWEIGHT

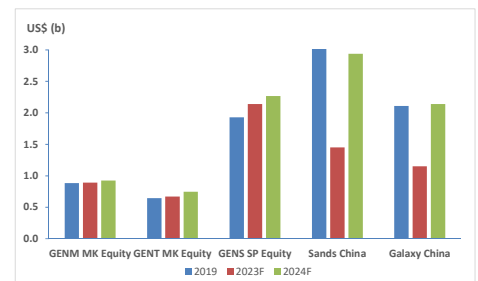
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SHARE PRICE PERFORMANCES SINCE 3Q22



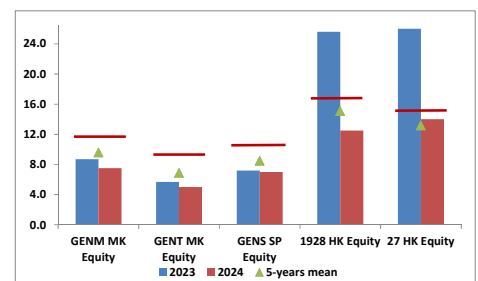
Source: UOB Kay Hian

EBITDA: PRE-PANDEMIC AND FORECASTS



Source: UOB Kay Hian

2023-24 EV/EBITDA VALUATION



Source: UOB Kay Hian

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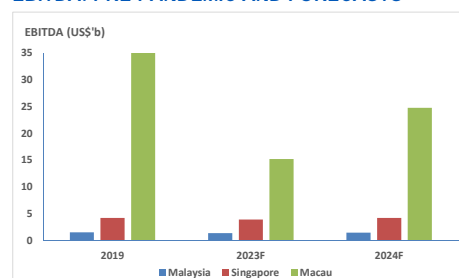
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ESSENTIALS

- Singapore gaming sector: OVERWEIGHT.** We expect Singapore to stage a noteworthy GGR recovery to >70% of pre-pandemic's level in 2023. This will be boosted by continuously resilient local patronage, as well as better international visitations following China's borders reopening. To note, China visitors historically made up about 19-20% of Singapore's pre-pandemic tourist arrivals in 2018-19 and we forecast that China tourists contributed to about 20% of Singapore's GGR. We believe that market should sustain its positive sentiments towards Singapore's gaming sector which includes GENS in 2023, anchored on the sector's meaningful core profitability recovery which promises defensiveness amid current market volatility. Meanwhile, we also remain optimistic that GENS' sharp earnings recovery which will allow meaningful capital gain and restoration of lush dividend yields following better capital management efforts.
- Malaysia gaming sector: OVERWEIGHT.** The Malaysian gaming sector appeals as a laggard to its Macau and Singaporean peers, with the stagnant share price performance of the casino stocks since 3Q22 providing good buying opportunities. The sector remains a major direct proxy for the post-pandemic-peak tourism boom and will deliver sequentially stronger earnings in 1H23, anchored by a meaningful influx of international tourists and robust domestic consumption trend. Gaming stocks' expected outperformance for 1H23 reflects earnings momentum, cash flow resilience to a domestic consumption slowdown, generous dividend yields and external catalysts (GENM's good chances of winning a full-fledged casino licence in downstate New York, further development in GENT's investment in TauRx Pharmaceuticals (TauRx) potential. We prefer GENM to GENT for its lush dividend yield of >6.5% in 2023.
- Besides the Genting Group, small-cap slot machine operator and distributor RGB will stage a strong earnings turnaround in 2023.** RGB's earnings will continue to gain prominence with the gradual reopening of emerging gaming jurisdictions which were thriving prior to the lockdowns. We expect RGB's net earnings to recover to the pre-pandemic's level of about RM40m by 2023, backed by strong backlog orders for slot machines, implying 8.4x 2023F PE (-1SD to historical mean).
- Macau gaming sector: MARKET WEIGHT.** Near-term valuations have moderately stretched following the 16.2-97.3% share price rally since 30 Nov 22, when China signalled an end to the zero-COVID policy. With the sector's valuation pricing in a full mass market GGR recovery in 4Q23 and further recovery in 2024, we see sector consolidation in the interim period and advocate investors to accumulate on potential share price weakness. The sector's valuation upside is capped by the concession renewal commitments to heavily invest in non-gaming facilities, which we calculate would reduce the industry's operating cash flow by 19%. This implies slower restoration of dividend payout and lower sustained ROE for the sector. Top pick: Sands China.

EBITDA: PRE-PANDEMIC AND FORECASTS



Source: UOB Kay Hian

GGR, MIX AND GROWTH OUTLOOK

Countries	2023F	2024F
Malaysia		
GGR(USD)	1.4b	1.4-1.5b
GGR Growth Forecast (%)	30-40	5-10
VIP: Mass Revenue Mix (%)	45:55	45:55
Singapore		
GGR(USD)	3.9-4.0b	4.2-4.5b
GGR Growth Forecast (%)	35-45	5-10
VIP: Mass Revenue Mix (%)	40:60	40:60
Macau		
GGR(USD)	15-16b	23-24b
GGR Growth Forecast (%)	190-200	50-55
VIP: Mass Revenue Mix (%)	13 : 87	16:84

Source: UOB Kay Hian

PEER COMPARISON

Company	Ticker	Rec	Price @ 5 Jan 23 (local currency)	Target Price	Mkt Cap (US\$m)	EV/EBITDA 2023F (x)	Yield 2023F (%)	PE 2023F (x)	ROE 2023F (%)
Malaysia									
Genting Malaysia	GENM MK	BUY	2.77	3.50	3,576	8.5	7.0	16.1	7.7
Genting Bhd	GENT MK	BUY	4.68	5.78	4,106	5.8	4.7	13.3	4.3
Singapore									
Genting Singapore	GENS SP	BUY	0.96	1.15	8,651	7.4	3.6	17.1	8.4
Macau									
Galaxy Entertainment	27 HK	HOLD	52.90	49.10	29,599	25.4	0.8	38.8	8.7
Sands China	1928 HK	BUY	27.80	31.50	28,815	25.4	0.0	102.2	n.a.

Source: Bloomberg, UOB Kay Hian

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