Still got room to run

After visiting the managements at each of Genting Berhad's (GENT) listed subsidiaries and reviewing our valuations for each, we raise our SOTP-based TP to RM12.06 implying 23% upside potential and reiterate our BUY call. Investment themes on the stock remain the same, and we continue to view the stock as undervalued given the holding-company discount of +1SD above its historical average.

Holding-company discount has narrowed…but still room for upside

Although the holding-company discount has narrowed from 28% in early December to 24% now, it is still at +1SD above its historical average. The smaller discount is due to a fall in volatility in its subsidiaries' share prices, in our view. Assuming the discount continues to trend closer to its historical average of 9%, this would offer c.18% upside from the current share price.

Core assets should trade closer to their long-term averages

We believe that the holding-company discount will trade closer to its long-term average at 9%. As such, we are valuing the core assets at an unchanged 10% discount to their fair value, and 50% for the non-core assets, which leads to 23% upside potential to our new TP for GENT.

Higher dividend payout could lead to more upside

GENT's higher dividend payout in 2016 was mainly due to an increase in payouts at its subsidiaries. We see this as a positive as it could be an indicator of a higher payout in 2017. Subsidiaries GENS and GENM have increased their dividend payouts in 2016, and are likely to continue with that trend going forward. If this were to come through, we would see this as a catalyst for GENT's share price.

New licensing deal is marginally positive

GENT has also recently signed a licensing agreement with Empire Resort to rebrand the Montreign Resort Casino as a Resort World ("Genting") property in return for GENT collecting a low single-digit fee of its revenue. The fee would be an incremental positive to GENT at around a RM10-20m a year contribution to GENT.

Risk to our call

Key downside risks to our call on GENT would be: i) higher-than-expected capex requirements for its Las Vegas project, ii) unfavourable news flow on the Japan casino bill, iii) delay in the opening of its 20th Century Fox theme park and iv) weaker-than-expected results at its listed subsidiaries.

Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Revenue (RMm)	18,100.4	18,365.8	18,479.9	20,125.0	21,300.9
EBITDA (RMm)	5,290.5	5,884.2	6,101.8	6,548.5	7,069.0
Pretax profit (RMm)	3,446.0	5,522.8	4,882.9	5,297.7	5,815.2
Net profit (RMm)	1,388.0	2,146.5	2,000.2	2,245.4	2,415.2
EPS (sen)	37.3	57.7	53.8	60.4	64.9
PER (x)	26.3	17.0	18.3	16.3	15.1
Core net profit (RMm)	1,444.7	1,850.7	2,000.2	2,245.4	2,415.2
Core EPS (sen)	38.6	49.4	53.3	59.9	64.4
Core EPS growth (%)	(3.4)	28.1	8.1	12.3	7.6
Core PER (x)	25.4	19.9	18.4	16.4	15.2
Net DPS (sen)	3.5	12.5	6.0	6.0	6.0
Dividend Yield (%)	0.4	1.3	0.6	0.6	0.6
EV/EBITDA (x)	12.6	11.0	10.5	9.5	8.3
Chg in EPS (%)			6.7	5.7	na
Affin/Consensus (x)			0.94	0.91	0.92

Source: Company, Affin Hwang forecasts, Bloomberg

Company Note

Genting Berhad

GENT MK
Sector: Gaming

RM 9.82 @ 4 May 2017

BUY (maintain)

Upside: 23 %

Price Target: RM 12.06

Previous Target: RM 10.97

Price Performance

	1M	3M	12M
Absolute	3.6%	17.3%	16.5%
Rel to KLCI	2.6%	12.2%	8.8%

Stock Data

Issued shares (m)	3,728
Mkt cap (RMm)/(US$m)	36,538/8,428
Avg daily vol - 6mth (m)	3.6
52-wk range (RM)	7.5-10
Est free float	57.2%
BV per share (RM)	9.35
P/BV (x)	1.05
Net cash/ (debt) (RMm)	13,881
ROE (2017E)	3.2%
Derivatives	Yes
(Warr 12/18, WP RM1.79, EP RM7.96)	
Shariah Compliant	No

Key Shareholders

Kien Huat Reality Sdn Bhd	39.7%

Source: Affin Hwang, Bloomberg

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A value stock

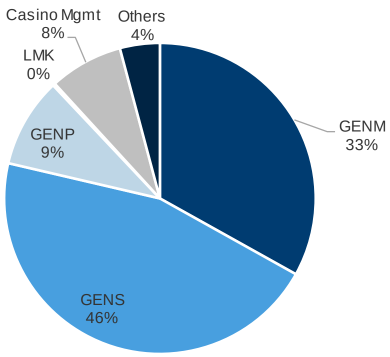
We revise our SOTP-based 12-month TP to RM12.06 (from RM10.97), after revisiting our RNAVs for each of GENT's listed subsidiaries as well as its non-listed operations. In our view, our unchanged 10% holding company discount for the listed subsidiaries (+management fees) is fair, as the average for the past 10 years has been at 9.0%. As our new TP offers 23% upside potential, we are reiterating our BUY call on GENT.

Fig 1: SOTP-based valuation

In RM mn	Mkt Valuation	Our Valuation	Effective Stake	RMm	RM/share	Methodology
Listed co subsidiaries & casino management						
Stake in GENM MK	32,650	33,730	49.3%	16,629	4.43	SOTP: 8-12x 2017E EV/EBITDA (TP: RM6.00)
Stake in GENS SP	40,394	43,241	52.9%	22,875	6.10	DCF (FV: SGD1.16)
Stake in GENP MK	9,200	8,975	52.2%	4,685	1.25	22x 2017E PER (TP: RM11.18)
Stake in LMK MK	394	394	30.3%	119	0.03	Market Value
Casino management	3,840	3,840	100%	3,840	1.02	7.5x 2017E PER
	47,498			48,148	12.84	
After **10%** holding-company discount +management fees				43,333	11.56	**+18% upside**
Non-listed subsidiaries & non-core assets						
RW Las Vegas		987	100%	987	0.26	DCF
Power assets		941	Various stakes	941	0.25	Last transacted value
O&G assets		681	57%	388	0.10	5x 2017E PER
Net Cash		1,430	100%	1,430	0.38	
				3,747	1.00	
After **50%** discount on non-listed & non-core assets				1,759	0.50	
Total RNAV				**45,207**	**12.06**	**+23%**
Number of shares (m)				3,750		

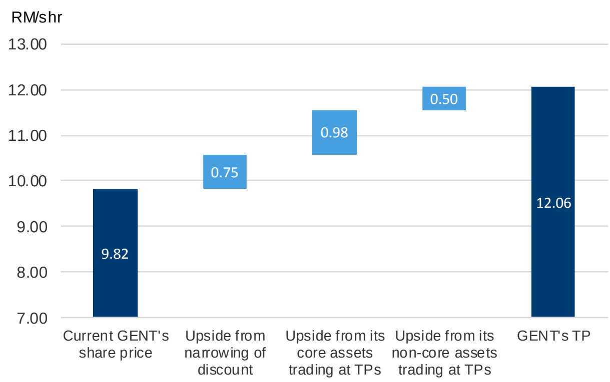
Source: Affin Hwang estimates and forecasts

Fig 2: Segmental breakdown of our SOTP



Source: Affin Hwang estimates

Fig 3: Breakdown of the upside to our new TP

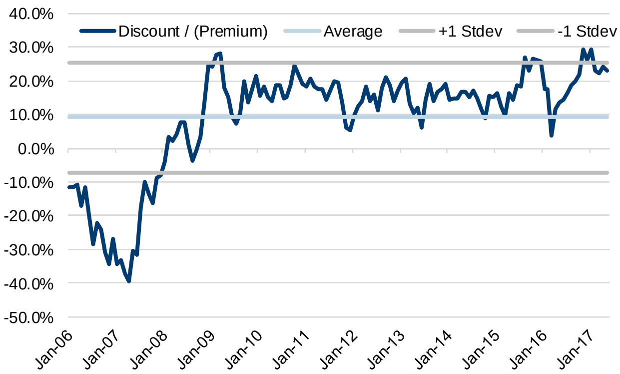


Source: Bloomberg, Affin Hwang estimates

Narrowing of discount provides upside

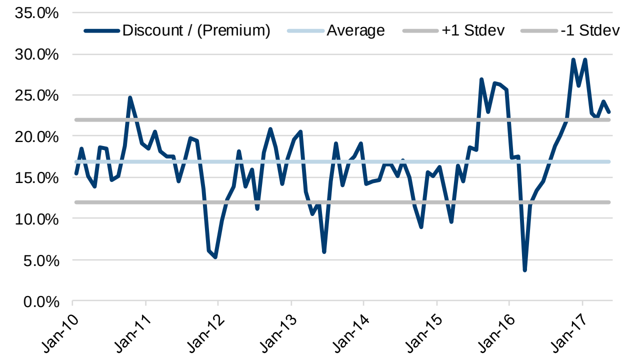
Part of the upside to our TP comes from the narrowing of GENT's holding company discount, which is still over +1SD above its past-11-year average. We believe the discount will revert back to its historical average, as the volatility of the stock price remains stable.

Fig 4: Current discount (including casino management): +1SD above past-11-year mean



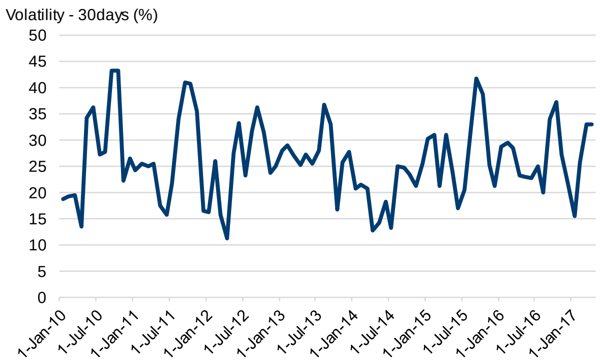
Source: Bloomberg, Affin Hwang forecasts

Fig 5: A similar pattern has existed too… since 2010



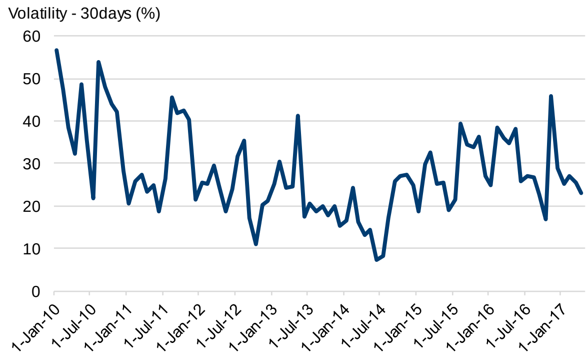
Source: Bloomberg, Affin Hwang forecasts

Fig 6: Genting Malaysia (GENM MK) share-price volatility chart since 2010



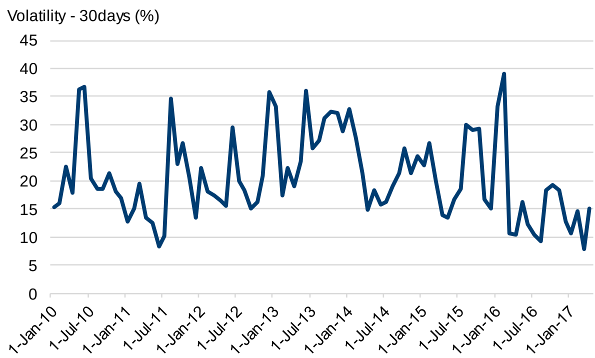
Source: Bloomberg, Affin Hwang

Fig 7: Genting Singapore (GENS SP) share-price (in RM) volatility chart since 2010



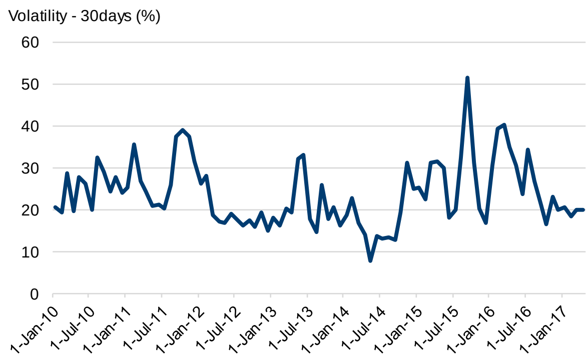
Source: Bloomberg, Affin Hwang

Fig 8: Genting Plantation (GENP MK) share-price volatility chart since 2010



Source: Bloomberg, Affin Hwang

Fig 9: Genting Berhad (GENT MK) share-price volatility chart since 2010



Source: Bloomberg, Affin Hwang

A change in the discount value would also impact our target price.

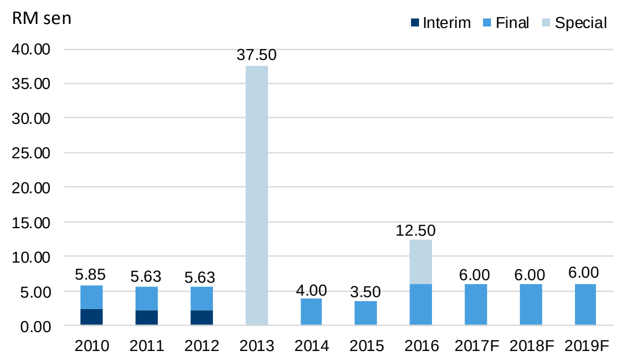
Fig 10: Sensitivity analysis of our RNAV, for both the holding company discount rate on the core and non-core assets

		Discount rate on core-assets					
		0%	5%	10%	15%	20%	25%
Discount rate on non-core assets	20%	13.64	13.00	12.35	11.71	11.07	10.43
	30%	13.54	12.90	12.25	11.61	10.97	10.33
	40%	13.44	12.80	12.16	11.51	10.87	10.23
	50%	13.34	12.70	12.06	11.41	10.77	10.13
	60%	13.24	12.60	11.96	11.31	10.67	10.03
	70%	13.14	12.50	11.86	11.21	10.57	9.93
	80%	13.04	12.40	11.76	11.11	10.47	9.83

Source: Affin Hwang estimates and forecasts

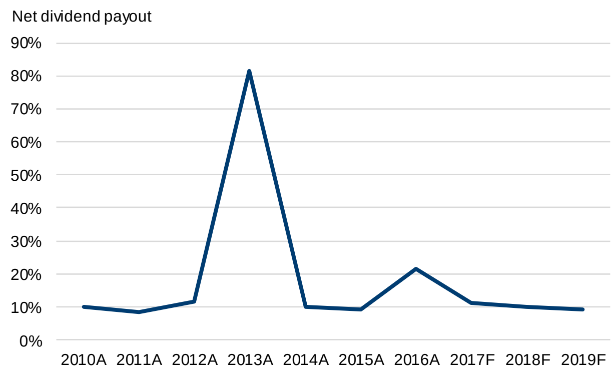
We also believe that management will maintain the absolute dividend payout at 6.0 sen for 2017-19F, similar to the final DPS for 2016, due to it receiving a higher payout from three of GENT's listed subsidiaries: Genting Malaysia (GENM MK), Genting Singapore (GENS SP) and Genting Plantation (GENP MK). The higher payout is inline with its historical trend at 10% of net profit, and if its subsidiaries were to increase their payouts, we could also see a higher payout at GENT, which would be a positive catalyst for the share price.

Fig 11: GENT has increased its absolute payout in 2016, and we expect it to keep the absolute payout at 6.00sen similar to the final DPS in 2016



Source: Company, Affin Hwang forecasts

Fig 12: The higher payout does not differ from its historical average at 10% (excluding special DPS)



Source: Company, Affin Hwang forecasts

Snapshot of subsidiary performances

Genting Malaysia (GENM MK, RM6.00, HOLD)

For Genting Malaysia (GENM), in which GENT has a 49.3% effective stake, we recently lifted our SOTP-based 12-month TP to RM6.00 (from RM5.60). Despite our higher TP, we downgraded GENM to HOLD (from BUY), as we see the stock as fairly valued, given limited upside potential to our TP. Although GENM's prospects remain robust, we believe any significant upside will only materialise in 2H18 as the 20th Century Fox theme park in Genting Highland should only be operational by end-2017.

We value the gaming assets at 8-12x 2017E EV/EBITDA and its non-core assets at book. For our detailed analysis on Genting Malaysia, please refer to our report, ***Rising star, but looks fairly valued for now***, 3 May 2017. The key upside risk to our Hold call would be the passage of a gaming law in the US state of Florida, while the key downside risk would be any unforeseen delays to the 20th Century Fox theme park.

Fig 13: GENM: SOTP-based 12-month TP – RM6.00

	Equity stake	EBITDA 2017E	Valuation Method	Value (RMm)	Per share (RM)
Malaysia operations	100.0%	2,036	12x EV/EBITDA	24,544	4.33
Resort World New York (RWNY)	100.0%	426	8x EV/EBITDA	3,407	0.60
UK	100.0%	289	8x EV/EBITDA	2,313	0.41
Miami Property	100.0%		Book Value	2,945	0.52
First Light Resort and Casino promissory note	100.0%		Book Value	1,403	0.25
Total enterprise value				**34,611**	**6.11**
Less: (net borrowings)/cash				(639)	(0.11)
Equity value / Price Target				**33,972**	**6.00**
No of shares (m)				5,668	

Source: Affin Hwang estimates and forecasts

Genting Singapore (GENS SP, not rated)

We now value GENS (in which GENT has a 52.9% effective stake) using a DCF methodology at SGD1.16 (from SGD1.03), for an implied valuation of ~16x 2017E EV/EBITDA, on the back of a better-than-expected earnings recovery in 2016, driven by better volumes from the VIP market. Despite the improvement in the recent quarter, we believe the gaming outlook for Singapore remains challenging; hence, we are forecasting a slight fall in 2017 gaming revenue of 3%, before seeing a modest recovery in 2018.

We derive our fair value for GENS using DCF methodology. We expect GENS to keep its DPS payout at SGD 3.0sen for the next 3 years, and it is unlikely to change, as management would want to conserve its capital for the upcoming Integrated Resort (IR) bid in Japan. Upside risk would be driven by news flow from Japan regarding the IR bid, while the biggest downside risk would be swings in win rates for its VIP segment.

Fig 14: GENS: DCF methodology yields fair value of SGD1.16/share

(in SGDm)	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	Terminal value
EBITDA	869	887	913	978	1,027	1,079	1,132	1,189	1,249	1,311	1,376	
-) Change in WC	(69)	6	6	6	7	7	7	8	8	9	9	
-) Capex	(108)	(113)	(116)	(125)	(131)	(137)	(144)	(151)	(159)	(167)	(175)	
-) Tax	(210)	(220)	(230)	(240)	(240)	(240)	(264)	(264)	(264)	(290)	(290)	
FCF	**482**	**560**	**573**	**620**	**663**	**708**	**732**	**782**	**834**	**862**	**920**	**16,122**
DCF	482	519	493	495	491	486	466	461	457	438	433	7,042

Sum of DCF	**12,263**
+) Net cash	**1,690**
NPV	**13,953**
NPV/share (SGD)	**1.16**

Terminal Growth	**2.00%**
WACC	**7.80%**

Source: Affin Hwang estimates and forecasts

Fig 15: Sensitivity analysis of our GENS NPV: terminal growth & WACC

		Terminal growth rate					
	(in SGD)	**0.0%**	**1.0%**	**1.5%**	**2.0%**	**2.5%**	**3.0%**
	6.5%	1.19	1.30	1.38	1.47	1.58	1.73
	7.0%	1.11	1.20	1.26	1.33	1.42	1.53
	7.5%	1.04	1.12	1.16	1.22	1.29	1.37
WACC	7.8%	1.00	1.07	1.11	1.16	1.22	1.29
	8.0%	0.98	1.04	1.08	1.13	1.18	1.25
	8.5%	0.93	0.98	1.01	1.05	1.09	1.14
	9.0%	0.88	0.93	0.95	0.98	1.02	1.06

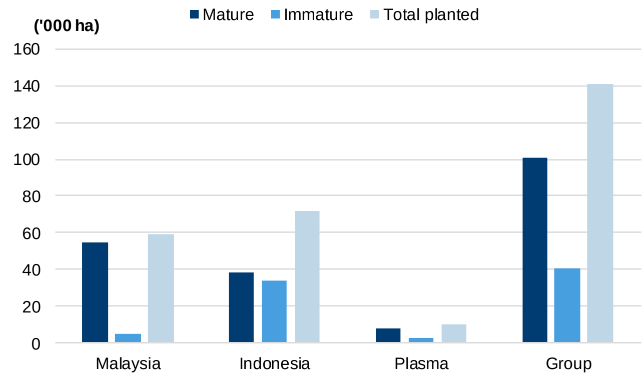
Source: Affin Hwang estimates and forecasts

Genting Plantations (GENP MK, RM 11.88, HOLD)

For Genting Plantation (GENP), our plantation analyst Nadia Aquidah expects higher FFB and CPO production to drive profit growth in 2017-19E given the rising matured estates and average palm-tree age profile of 10 years old for the Group (average palm-tree age profile for Malaysia is 16 years old, vs. 6 in Indonesia). Nadia expects GENP's FFB production to rise by 8-10% in 2017-19E (2016 FFB production: -6.5% yoy to 1,614,137 MT). She maintains her 2017-19E CPO ASP assumption at RM2,600/MT.

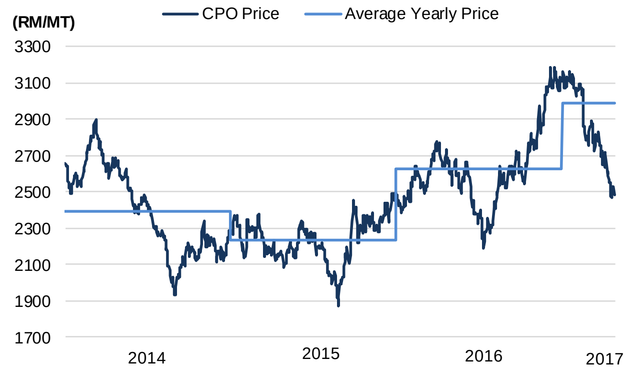
She makes no change to her 2017-19E core EPS for GENP. With 4.6% upside to our 12-month target price of RM11.88, based on a 2017E PER of 22x, she maintain our HOLD rating. Upside risks for GENP: 1) stronger -than-expected recovery in the global economy and 2) higher vegetable oil and crude oil prices. Downside risk: 1) weaker-than-expected FFB and CPO production; and 4) adverse changes in policies.

Fig 16: GENP's planted areas



Source: GENP

Fig 17: CPO price



Source: Bloomberg

Genting Berhad - FINANCIAL SUMMARY

Profit & Loss Statement

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Revenue	18,100	18,366	18,480	20,125	21,301
Operating expenses	(12,810)	(12,396)	(12,378)	(13,577)	(14,232)
EBITDA	5,290	5,970	6,102	6,548	7,069
Depreciation	(1,905)	(1,923)	(1,290)	(1,357)	(1,404)
EBIT	3,386	4,047	4,812	5,192	5,665
Net int inc/(exp)	22	346	188	222	267
Associates' contribution	95	(116)	(116)	(116)	(116)
Exceptional items	(718)	1,247	0	0	0
Pretax profit	2,785	5,523	4,883	5,298	5,815
Tax	(848)	(991)	(834)	(900)	(1,157)
Minority interest	(1,210)	(2,019)	(1,684)	(1,796)	(1,887)
Net profit	**1,388**	**2,512**	**2,365**	**2,601**	**2,771**

Balance Sheet Statement

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Fixed assets	31,139	32,668	35,568	37,404	38,714
Other long term assets	25,877	27,633	27,516	27,400	27,283
Total non-curr assets	**57,017**	**60,300**	**63,084**	**64,803**	**65,997**
Cash and equivalents	23,613	25,319	25,595	27,859	30,861
Stocks	481	583	587	639	676
Debtors	3,752	2,345	2,772	3,019	3,195
Other current assets	4,571	3,999	3,999	3,999	3,999
Total current assets	**32,416**	**32,246**	**32,953**	**35,516**	**38,731**
Creditors	5,009	5,194	5,226	5,692	6,024
Short term borrowings	1,487	2,220	2,220	2,220	2,220
Other current liabilities	470	554	554	554	554
Total current liab	**6,967**	**7,968**	**8,000**	**8,465**	**8,798**
Long term borrowings	17,017	15,745	15,745	15,745	15,745
Other long term liabilities	2,657	3,080	3,080	3,080	3,080
Total long term liab	**19,674**	**18,825**	**18,825**	**18,825**	**18,825**
Shareholders' Funds + M	**62,791**	**65,753**	**69,212**	**73,029**	**77,106**

Cash Flow Statement

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
EBIT	3,386	4,047	4,812	5,192	5,665
Depreciation & amortisation	1,905	1,923	1,290	1,357	1,404
Working capital changes	934	1,489	(398)	166	119
Cash tax paid	(848)	(991)	(834)	(900)	(1,157)
Others	(633)	(190)	188	222	267
Cashflow frm operation	**4,744**	**6,277**	**5,057**	**6,037**	**6,298**
Capex	(3,468)	(3,782)	(4,190)	(3,192)	(2,715)
Disposal/(purchases)	0	0	0	0	1
Others	522	803	0	0	(1)
Cash flow frm investing	**(2,947)**	**(2,980)**	**(4,190)**	**(3,192)**	**(2,715)**
Debt raised/(repaid)	5,952	(540)	(0)	(0)	(0)
Equity raised/(repaid)	0	1	0	0	0
Net int inc/(exp)	0	0	0	0	1
Dividends paid	(130)	(465)	(225)	(225)	(225)
Others	(3,280)	(1,050)	(365)	(356)	(357)
Cash flow from financing	**2,543**	**(2,055)**	**(590)**	**(581)**	**(581)**
Free Cash Flow	**1,275**	**2,495**	**867**	**2,845**	**3,583**

Source: Company, Affin Hwang forecasts

Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Growth					
Revenue (%)	(0.6)	1.5	0.6	8.9	5.8
EBITDA (%)	(7.3)	0.3	2.2	7.3	7.9
Core net profit (%)	(3.6)	43.6	(5.9)	10.0	6.5
Profitability					
EBITDA margin (%)	29.2	32.5	33.0	32.5	33.2
PBT margin (%)	15.4	30.1	26.4	26.3	27.3
Net profit margin (%)	7.7	13.7	12.8	12.9	13.0
Effective tax rate (%)	30.5	18.0	17.1	17.0	19.9
ROA (%)	2.4	1.0	2.1	2.2	2.3
Core ROE (%)	3.8	1.5	3.2	3.4	3.5
ROCE (%)	2.5	1.0	2.2	2.4	2.5
Dividend payout ratio (%)	9.4	21.7	11.2	10.0	9.3
Liquidity					
Current ratio (x)	4.7	4.0	4.1	4.2	4.4
Op. cash flow (RMm)	5,290	5,970	6,102	6,548	7,069
Free cashflow (RMm)	1,275	2,495	867	2,845	3,583
FCF/share (sen)	34.1	66.5	23.1	75.9	95.5
Asset management					
Debtors turnover (days)	1,761.1	2,858.8	2,433.3	2,433.3	2,433.3
Stock turnover (days)	9.7	11.6	11.6	11.6	11.6
Creditors turnover (days)	141.1	152.1	152.1	152.1	152.1
Capital structure					
Net gearing (%)	CASH	CASH	CASH	CASH	CASH
Interest cover (x)	7.2	6.0	7.2	7.8	8.5

Quarterly Profit & Loss

FYE 31 Dec (RMm)	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16
Revenue	4,919	4,704	4,225	4,684	4,753
Operating expenses	(3,794)	(3,436)	(3,097)	(2,881)	(3,068)
EBITDA	1,125	1,268	1,128	1,803	1,685
Depreciation	(508)	(483)	(456)	(460)	(524)
EBIT	617	785	672	1,343	1,161
Int expense	28	53	81	106	107
Associates' contribution	82	(14)	(10)	(41)	(51)
Exceptional items	0	(281)	14	44	1,556
Pretax profit	727	543	756	1,452	2,772
Tax	(114)	(238)	(143)	(251)	(359)
Minority interest	(274)	(174)	(319)	(624)	(1,269)
Net profit	339	131	295	577	1,144
Core net profit	339	412	281	533	1,144
Margins (%)					
EBITDA	23	27	27	38	35
PBT	15	12	18	31	58
Core net profit	7	9	7	11	24

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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