

Gamble pays off

Asia Gaming

NagaCorp (3918 HK, HK\$2.19)

STRONG BUY (unchanged)

Target price: HK\$3.49 (+66.2%)

Beating consensus. NagaCorp, the only casino operator in Cambodia's capital Phnom Penh, said its FY12/07A net profit surged 53.9% YoY to US\$50.2m, 20.7% ahead of our projection and 19.5% above consensus estimates. EPS for the period was US\$0.024, representing an annualized increment of 14.3%.

Generous payout policy. The group proposed a final dividend of US\$16.0m, or US\$0.008/share (HK\$0.06/share). Together with the interim dividend of US\$14.0m, or US\$0.007/share (HK\$0.05/share), the group paid out 60.0% of its earnings to shareholders. As of the end of FY12/07A, the group was in a net cash position of US\$56.2m.

Result highlights. Casino operations accounted for 97.8% of total revenue, up 68.6% to US\$144.0m. The share of revenue from the public gaming hall increased to 52.3% from 34.4% in FY12/06A while the share of STG revenue (special tour group, like V.I.P in Macau) dropped to 45.4% from 61.6% of the total. Revenue generated from gaming machine stations accounted for 2.2% of total gaming revenue. Although the group's gross profit increased 53.4% YoY to US\$78.1m, its blended margin narrowed 5.4pcp to 54.2%, mainly due to higher commission charges paid to STG operators and freebies provided to STG customers. The group's EBIT increased 49.4% YoY to US\$56.9m, though the EBIT margin shrunk 5.1pcp to 39.5% due to higher SG&A expenses.

Strong public gaming hall. Revenue generated by the public gaming floor surged 156.5% in FY12/07A to US\$75.4m thanks to a 122.8% YoY increase in the total buy-in amount to US\$265.1m, from US\$68.0m in 1H FY12/07A (up 190.0% HoH) and US\$54.3m in 2H FY12/06A (up 263.0% YoY). The win rate rose 3.0pcp to 27.7%. We attribute the surge in buy-in amounts to the introduction of the Premium Players Program, targeted at Cambodians with foreign passports, which generated about 81.0% of the public floor division's revenue. The group has also launched other programs to attract visitors (Vietnam Ground Junket Program and Travel Agent Junket Program). Like the STG division, the public gaming floor segment still has to pay commission to the junkets calculated as 1.6% on rollings. Thus, the division's COGS, which consisted mainly of commission income, increased along with a rise in the buy-in amount. As a result, the division's gross margin narrowed 32.0pcp to 63.6%.

Decent growth in STG division. Revenue increased 24.3% YoY to US\$65.4m, on a 36.1% rise in check-in amounts to US\$409.4m and 0.3pcp increase in the win rate to 3.3%. Total rollings increased 13.0% to US\$1,984.0m, equivalent to about 5.0x of the check-in amount. The total number of STG players increased 37.5% to 18,032, implying the average check-in amount of US\$22,704.1 per player, down 0.1% YoY. The division's gross margin widened 4.2pcp to 41.3% in FY12/07A.

Table 1: Financial summary

Year to Dec	Net profit US\$m	EPS US\$	EPS Δ %	P/E x	P/B x	EV/EBITDA x	Yield %	ROE %	ROCE %	N. Gearing %
06A	32.6	0.021	10.4	13.2	2.5	16.0	6.2	25.4	25.4	Cash
07A	50.2	0.024	14.3	11.7	2.2	10.2	5.1	20.1	20.1	Cash
08F	70.2	0.034	9.3	8.0	1.8	7.2	7.5	24.5	24.5	Cash
09F	93.4	0.045	33.1	6.0	1.6	5.5	10.0	28.7	28.7	Cash
10F	108.9	0.052	16.6	5.1	1.4	4.8	11.7	29.4	29.4	Cash

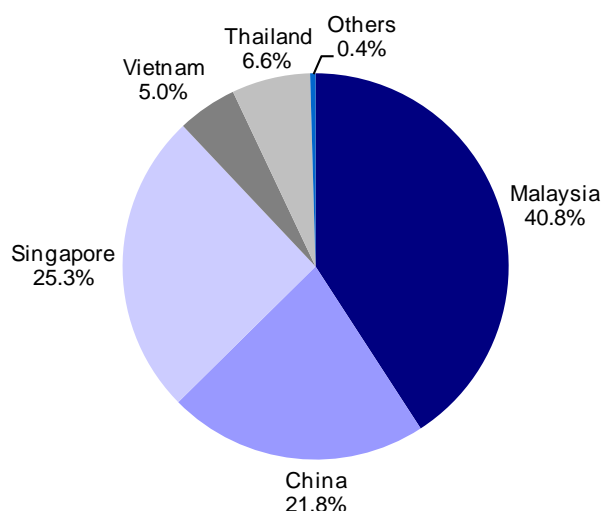
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Chart 1: STG players by countries



Source: Company

Flat gaming station division. The group has rented some space in NagaWorld to Best Merit Assets Ltd, which operates gaming machine stations, for a fixed income payment and profit share option. In FY12/07A, it received US\$3.1m, the same as in FY12/06A.

Driver 1: capacity expansion. The company plans to have 176 gaming tables by end-1H 2008, from 101 at end-FY12/07A. Another 124 tables will be added by the end of FY12/09F, bringing the total to 300. It also plans to increase the number of its hotel rooms to 508 by end-1H FY12/08F, from 219 at end-FY12/07A. We expect it to have 700 rooms by end-FY12/09F.

Driver 2: sub-concession income. In Dec 2007, the group signed a 10-year agreement to allow Poibos, a KOSDAQ-listed Korean entertainment company, operate gaming tables on a floor area of about 1,100.0 sqm in NagaWorld. Poibos will pay management fees of US\$25.2m per annum in the first five year of operation and US\$31.2m per annum in the second five years. We expect this sub-concession to commence in April.

Driver 3: gaming stations. Revenue from the gaming station is expected to increase 283.9% YoY to US\$11.9m in FY12/08F, as we expect the group to rent out more space in NagaWorld to third parties for gaming stations.

Change in our model. We have revised up the company's public floor buy-in amounts for FY12/08F and FY12/09F on the stronger-than-expected growth in its public floor division. We have also lowered our buy-in amount estimates for the STG division in FY12/08F and FY12/09F. Based on FY12/07A operating figures, we have revised up the win rate of the gaming concourse in NagaWorld for FY12/08F and FY12/09F and have cut the win rate of the STG division. Revenue estimates of the public floor division have been lifted on higher buy-in amounts and win rate assumptions. Revenue forecast of the STG division has been cut on lower buy-in amounts and win rate assumptions. We have also included sub-concession income from Poibos in our model, from FY12/08F onwards.

Table 2: Change in key assumption

Year to Dec	Actual 2007A	Previous 2008F	New 2008F	Previous 2009F	New 2009F
Buy-in amounts					
Public floors (US\$m)	265.1	178.5	331.4	219.3	414.2
STG (US\$m)	409.4	530.0	461.4	593.3	553.7
Win rate					
Public floors (%)	27.7	24.9	27.7	24.9	27.7
STG (%)	3.3	3.5	3.3	3.5	3.3
Revenue					
Public floors (US\$m)	75.4	44.5	91.8	54.6	114.7
STG (US\$m)	65.4	92.7	73.8	103.8	88.5
Consolidated net profit (US\$m)	50.2	50.2	70.2	61.5	93.4

Source: Company, SBI E2-Capital

Earnings forecast up. We have revised up our net profit forecasts by 39.8% to US\$70.2m for FY12/08F and 51.8% to US\$93.4m for FY12/09F. We also introduce our earnings forecast for FY12/10F at US\$108.9m. At a FY12/08F P/E of 8.0x, the group is trading at a substantial discount to its global peers' average one-year forward P/E of 36.0x. Further, the group's prospective dividend yield is projected at 7.5% for FY12/08F and 10.0% for FY12/09F. We maintain our target price of HK\$3.49, representing a potential upside of 59.4%. **STRONG BUY** call reiterated.

Table 3: Peer group comparison

Company name	Ticker	Year End	Currency	Price	Market Cap (US\$m)	P/E (x)	
						1-yr forward	2-yr forward
Melco International Development	200 HK	Dec	HKD	11.3	1,787.0	50.4	50.0
Ameristar Casinos Inc	ASCA US	Dec	USD	20.3	1,156.9	15.5	13.4
Boyd Gaming Corp	BYD US	Dec	USD	24.3	2,130.4	13.8	13.4
Century Casinos Inc	CNTY US	Dec	USD	5.0	118.0	20.8	16.0
Las Vegas Sands Corp	LVS US	Dec	USD	89.4	31,732.5	48.5	35.0
MGM Mirage	MGM US	Dec	USD	66.0	19,397.6	29.0	25.2
Riviera Holdings Corp	RIV US	Dec	USD	23.5	292.9	27.6	14.4
Wynn Resorts Ltd	WYNN US	Dec	USD	105.6	11,930.6	34.9	32.6
Resorts World Bhd	RNB MK	Dec	MYR	3.9	7,052.2	19.5	17.2
Gold Reef Resorts Ltd	GDF SJ	Dec	ZAr	2,650.0	1,012.2	18.7	14.8
Sun International Ltd	SUI SJ	Jun	ZAr	12,500.0	1,725.0	15.9	12.3
Sky City Entertainment Group Ltd	SKC NZ	Jun	NZD	3.9	1,460.1	17.1	15.0
<i>Average</i>						<i>36.0</i>	<i>28.9</i>

Source: Bloomberg