

SECTOR UPDATE

Gaming – Malaysia

Near-term Disruption On CMCO Implementation

The government reimposed the CMCO in various states where COVID-19 cases have again spiked to worrying levels. The disruption to the NFO sub-sector is minor but significant to casinos due to substantially reduced patronage. We maintain **OVERWEIGHT** on the high dividend-yielding gaming sector in anticipation of a COVID-19 vaccine find, led by the NFO sub-sector's near-term resilience. We still expect the gaming sub-sector to regaining its lustre, particularly by 1Q21.

WHAT'S NEW

- Nod to continue operations during CMCO.** With the number of COVID-19 cases rising to unprecedented levels and triggering a second wave, the government has reimposed a partial lockdown from 14 to 26 October (2 weeks) in various states in Malaysia, namely Sabah, Selangor, Kuala Lumpur and Putrajaya. Under the Conditional Movement Control Order (CMCO), entertainment centres such as theme parks, night clubs, and cinemas are closed, while interstate or inter-district travels have been disallowed in these states without a working pass. Nonetheless, unlike during the Movement Control Order (MCO) and CMCO lockdowns earlier this year where gaming companies underwent a three-month closure, Resorts World Genting (RWG) and the number forecast operators (NFO) are allowed to remain open.
- Casino sub-sector: Hit by lower patronage from Kuala Lumpur and Selangor.** RWG's gaming revenues have impressively recovered to around c.60% of its pre-MCO levels since operational resumption after the prolonged lockdown in March-June. However, it will again take a hit from lower patronage due to the CMCO's interstate travel restrictions on neighbouring states such as Selangor and Kuala Lumpur. We also acknowledge the risk of forced closure if the COVID-19 situation escalates, although anecdotal evidence suggests that such a risk is minimal, given the public's good discipline in keeping to physical distancing and hygiene-promoting standards of practice (SOP).
- NFO sub-sector: Moderate impact from CMCO and resilient ticket sales recovery.** Our channel checks revealed that the NFOs' revenue generation has plateaued at 80-85% of pre-MCO levels, and would remain resilient in this two-week CMCO period, as punters have mostly adapted to the SOPs and are more willing to place bets at the physical outlets.
- Big proxy to border reopening and vaccine discovery play.** The gaming sector and the casino sub-sector in particular, would be big beneficiaries of a COVID-19 vaccine discovery. With current valuations at a decade-low, the risk-reward dynamics are highly attractive and we look forward to several key-rerating catalysts: a) declining local COVID-19 cases; b) partial reopening of borders or travel bubbles; c) prospective dividend yield of >7% and most importantly; d) relevant progress in the discovery of COVID-19 vaccine(s) which would allow countries to eventually reopen their borders. In addition, Genting Malaysia Bhd (GENM) and Genting Bhd (GENT) should rerate when sisterco Genting Hong Kong (GENHK) secures equity funding to stay afloat, thereby eliminating concerns of a bailout. However, both stocks are likely to be excluded from the FBMKLCI in the upcoming review in December, which could create modest knee-jerk selling.

ACTION

- Maintain OVERWEIGHT on the gaming sector** as patient investors will be rewarded by sustainable yields of up to 7.7% until clear catalysts emerge. Maintain BUY on GENM, GENT, Magnum and Berjaya Sports Toto (BST).

PEER COMPARISON

Subsector/Company	Ticker	Rec	Price @ 15 Oct 20 (RM)	Target Price (RM)	Market Cap (US\$m)	EV/EBITDA 2021F (x)	Yield 2021F (%)	PE 2021F (x)
Gaming - Casino								
Genting Malaysia	GENM MK	BUY	2.02	3.10	2,749	8.2	9.9	11.9
Genting Bhd	GENT MK	BUY	3.03	5.48	2,809	5.6	7.4	7.4
Gaming - NFO								
Berjaya Sports Toto	BST MK	BUY	2.00	2.46	648	7.6	8.1	9.9
Magnum Bhd	MAG MK	BUY	2.02	2.55	699	9.8	7.4	12.2

Source: UOB Kay Hian

OVERWEIGHT (Maintained)

SECTOR RECOMMENDATION

Sub-sectors	Recommendation
NFOs	OVERWEIGHT
Casino	OVERWEIGHT

Source: UOB Kay Hian

RECENT UPDATES

Government reimposed a two-week CMCO in various states but Genting Highlands and NFO outlets remain open.
Casino sub-sector Genting Hong Kong's (GENHK) shipyard unit received soft financing from the German government, and will resume cruise operations in Singapore (cruise to nowhere). Genting Malaysia's New York operations resumed operations.
NFO sub-sector Government allowed 1 replacement special draw day.

Source: UOB Kay Hian

EVENTS ANTICIPATED IN 4Q20

A COVID-19 vaccine find would significantly lift investor sentiment in particularly the casino sub-sector.
Casino sub-sector Positives include GENHK being able to secure equity investment by private equity investor(s), which will significantly allay minority shareholder concerns of sister companies needing to bail out GENHK. Genting Singapore on track for better recovery with Singapore approaching Phase 3 of reopening and restoration of travel bubbles with countries such as China, Taiwan, Thailand, Australia, Hong Kong, South Korea. However, a major negative is the potential exclusion from FBMKLCI for GENT and GENM
NFO sub-sector Securing a more meaningful number of replacement draws.

Source: UOB Kay Hian

ANALYST(S)

Vincent Khoo, CFA
 +603 2147 1998
 vincentkhoo@uobkayhian.com

Jack Goh
 +603 2147 1983
 jackgoh@uobkayhian.com

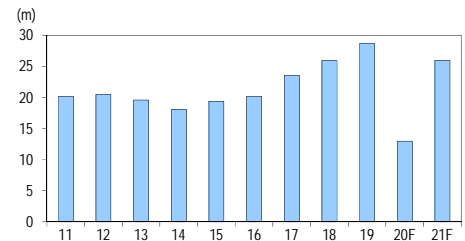
ESSENTIALS

- Gaming stocks appealing with lush prospective dividend yields.** Gaming stocks now feature the highest dividend yield among Bursa-listed companies, with GENM, Magnum and BST offering sustainable yields of >7% from FY21 and onwards.
- Casino sub-sector: Downside priced in.** While streaks of bad luck comprising various events such as political uncertainty, the COVID-19 pandemic and fears of bailing out GENHK have clouded the near-term outlook of GENT and GENM, their share prices have largely priced in the fundamental challenges. With share prices and valuations trading at decade-low valuations, the risk-reward dynamic has turned highly favourable for long-term investment, given the earnings recovery potential when the COVID-19 impact tapers off.
- RWG impacted by CMCO with substantially lower patronage from Kuala Lumpur and Selangor.** The local tourists-dependent RWG (local tourists historically accounted for >50% of RWG's revenue) will naturally be impacted by substantially lower patronage due to the CMCO's interstate travel restrictions on Selangor and Kuala Lumpur (which forms the bulk of domestic gaming revenue). Nevertheless, we understand that VIP patronage could remain relatively robust as many patrons could be staying at RWG during the CMCO period.
- Genting Singapore on track for a better recovery** with Singapore approaching Phase 3 of reopening and restoration of travel bubbles with countries such as China, Taiwan, Thailand, Australia, Hong Kong and South Korea.
- Genting Group: All eyes on SkyWorlds and RWLV openings.** GENM's Genting SkyWorlds (SkyWorlds) outdoor theme park opening was brought forward to 2Q21 from the initially guided end-21, while GENT's Resorts World Las Vegas' (RWLV) opening is still guided to be in the summer of 2021. The payback periods may not be exciting for both projects, considering SkyWorlds' estimated annual EBITDA of RM256.2m (12-13 years' payback period), and RWLV's hefty establishment price tag of US\$4.3b in the already intensely competitive Las Vegas, US. Nevertheless, these projects positively elevate Genting Group's efforts in building an inspirational brand and entrenching its standing as a world-class integrated resorts operator. SkyWorlds, which features potentially award-winning rides, should also help lift RWG's casino patronage.
- NFO sub-sector: Looming catalysts such as potential replacement draws will excite punters.** While NFOs have lost a total of 40 draw days due the 90-day lockdown earlier this year, we understand that the government has allowed one extra replacement special draw day. Furthermore, we expect the government to allow for more replacement draw days in 4Q20 to bridge the shortfall, and possibly approve more special draw days in 2021, to help shore up badly-needed revenues for the government. Special draw days had previously been cut down to 8 days from 22 days in the past two budgets. Should the replacement and added special draws materialise, the incremental profits to the NFO operators would not be significant, but it would nevertheless validate the NFO operators' existence and importance to government revenues.
- Rooting for moderate recovery in share prices, pricing in defensive business nature.** With the NFO sub-sector's revenue plateauing at 80-85% of pre-MCO levels, investors would be increasingly attracted to the sub-sector's earnings resilience and high dividend yield. Subsequent quarters' sales should significantly improve and sustain close to pre-MCO levels.

SECTOR CATALYSTS

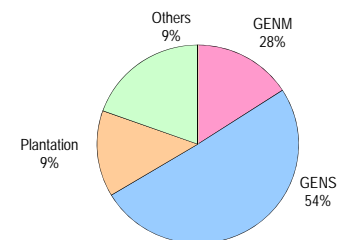
- Discovery of COVID-19 vaccines which allow steep visitation improvement to Genting's premises.
- NFO's Gaming Act amendments.

GENM – GENTING HIGHLANDS' VISITOR ARRIVALS TREND



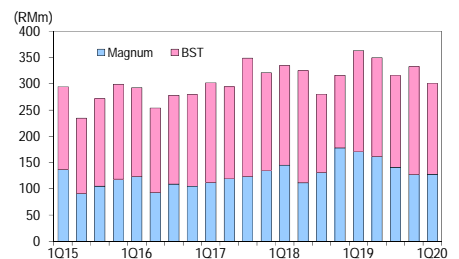
Source: GENM, UOB Kay Hian

GENT – 2020F EBITDA BY SEGMENT



Source: XXXXX

NFO BIG 2 JACKPOT TICKET SALES



Source: BST, Magnum, UOB Kay Hian

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2020, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W