SECTOR UPDATE

# Gaming – Malaysia

Not The Best Year, But Most Negatives Priced In

**Several factors such as KLCI exclusion for the Genting group, NFOs' flattish ticket sales, and the broad market's impressive returns have caused fund flows to divert away temporarily from the Malaysian gaming sector, due to valuations being de-rated. Nevertheless, the sector's appealing valuations, earnings growth and lush dividend yields still resonate well with our investment foundations. We expect a meaningful turnaround in 1H25. Maintain OVERWEIGHT. Top picks: GENM, RGB.**

## WHAT'S NEW

- **An underwhelming year...** Gaming stocks' share prices have declined 17.2% ytd on average, underperforming the FBMKLCI (+9.6% ytd). The key underperformers were Genting Malaysia (GENM) and Genting Berhad (GENT).
- **...but recovery is imminent in 1H25, off a low base.** Although the sector's share price momentum is lagging the broad market's, we believe the sector's earnings growth, undervalued financial matrixes and lush dividend yields still resonate well with our investment foundations. We expect the sector to deliver sequentially stronger earnings in 4Q24-1H25, anchored by a meaningful influx of international tourists and robust domestic consumption trend. This will allow the sector's share prices to gradually recover in 1H25, albeit at a modest momentum.
- **Tourism consumption trend remains in growth territory.** Malaysia's 3Q24 consumer spending grew 4.9% yoy (1H24: 5.4% yoy), largely supported by the revenue upswing from the tourism industry. Our channel checks also revealed that the business volume for both the casino and number forecast operator (NFO) segments in Oct-Nov 24 remained robust. For the casino segment, several related matrixes such as flight capacities and international footfall visitations charted sequential improvements. As for the NFO segment, ticket sales have improved and steadied at over 90% of the pre-pandemic level. To add on, the setup of EPF Account 3 withdrawals earlier this year may further elevate consumer spending, which will indirectly benefit the gaming sector.
- **Undervalued financial matrixes positioning the sector as potential laggard play.** Note that gaming stocks are now merely trading at -1.5SD to -2.0SD below mean valuations and offer yields of 5-12% for 2024-25. Despite it being difficult for sector valuations to be restored to pre-pandemic levels any time soon due to the political risk premium and fragmented sentiment, the current risk-reward reflects overly bearish scenarios and valuations are in palatable territories for mid- to long-term positioning.

## ACTION

- **Maintain OVERWEIGHT on the gaming sector.** We expect the sector to outperform the FBMKLCI in 1H25, leveraging on foreseeable domestic and external catalysts.
- **Maintain BUY on GENM and GENT** with target prices of RM3.50 and RM6.13 respectively. **Maintain BUY on Magnum and SPTOTO** with target prices of RM1.52 and RM1.82 respectively.
- **Maintain BUY on RGB with a target price of RM0.66** for small-mid cap exposure, which implies 9x 2024F PE (pre-pandemic mean), 4x 2024F ex-cash PE, and 10-12% dividend yield in 2024-25 respectively.

## PEER COMPARISON

| Subsector/Company | Ticker | Rec | Price @ 6 Dec 24 (RM) | Target Price (RM) | Market Cap (RMm) | EV/EBITDA 2025F (x) | Yield 2025F (%) | PE 2025F (x) |
|---|---|---|---|---|---|---|---|---|
| Genting Malaysia | GENM MK | BUY | 2.16 | 2.83 | 12,186 | 6.0 | 9.0 | 9.9 |
| Genting Bhd | GENT MK | BUY | 3.74 | 5.14 | 14,324 | 5.2 | 5.1 | 5.9 |
| RGB International | RGB MK | BUY | 0.395 | 0.66 | 612 | 1.6 | 10.0 | 5.0 |
| Sports Toto Bhd | SPTOTO MK | BUY | 1.43 | 1.78 | 1,957 | 5.9 | 6.7 | 10.3 |
| Magnum Bhd | MAG MK | BUY | 1.18 | 1.56 | 1,696 | 8.6 | 7.8 | 10.3 |

*Source: UOB Kay Hian*

# OVERWEIGHT

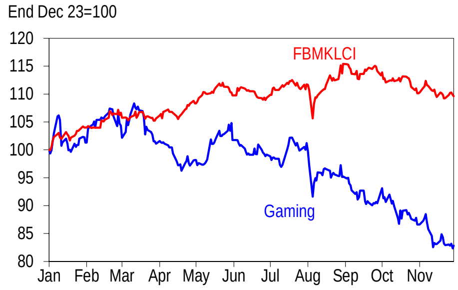
(Maintained)

## SECTOR RECOMMENDATION

| Sub-sectors | Recommendation |
|---|---|
| NFOs | OVERWEIGHT |
| Casino | OVERWEIGHT |

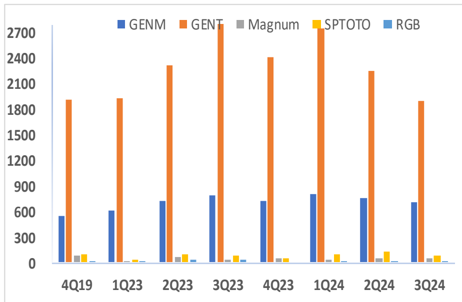
*Source: UOB Kay Hian*

## GAMING SECTOR UNDERPERFORMED FBMKLCI



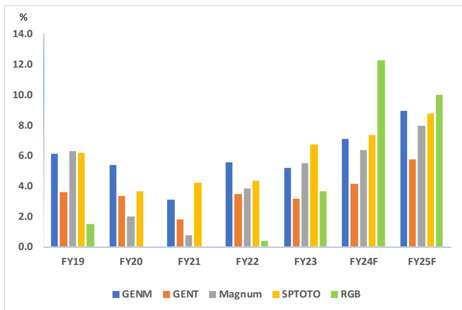

*Source: UOB Kay Hian*

## GAMING STOCKS' QUARTERLY EBITDA




*Source: Respective companies, UOB Kay Hian*

## GAMING STOCKS' YIELD




*Source: Respective companies, UOB Kay Hian*

ANALYST(S)

**Jack Goh**

+603 2147 1943

jackgoh@uobkayhian.com

## ESSENTIALS

- **Anticipating stronger 4Q24 results which will be released in Feb 25.** In tandem with the year-end holiday seasons, overall 4Q24 consumption is being boosted by plenty of festivals such as Deepavali, Christmas and New Year, in addition to the year-end school holidays. For the casino subsector, several related matrixes such as flight capacities and international footfall visitations have charted sequential improvements. For the NFO subsector, ticket sales have improved and steadied at >90% of pre-pandemic levels in 4Q24. We expect the sector to see a meaningful qoq earnings improvement in the upcoming 4Q24 results announcement.

- **Defensive nature and lush prospective dividend yields remain as key investment merits.** With the gaming companies gaining revenue resilience and steady streams of cash flow in 2024-1H25 (off the pandemic period's low base), we expect dividend payouts to be restored to pre-pandemic levels of 5.1-9.0%. We expect GENT and GENM to potentially reinstate their respective 19 sen and 22 sen dividend per share (DPS) from 2025 onwards, supported by healthy cash flow and low-to-moderate capex requirements. The NFO companies have also guided their intention to restore pre-COVID-19 dividend payouts of 80-90%.

## CASINO SUBSECTOR

- **Genting group: Official exclusion from KLCI.** As of the cut-off date for Dec 24's KLCI review (25 Nov 24), GENM and GENT had a market cap of RM12.1b and RM14.6b respectively (placing them as the 34th and 38th largest stocks) in Bursa. Both GENM and GENT have been officially removed from the KLCI index in the recent December review. That said, this headwind is likely priced in, and hence any further share price weaknesses will be limited.

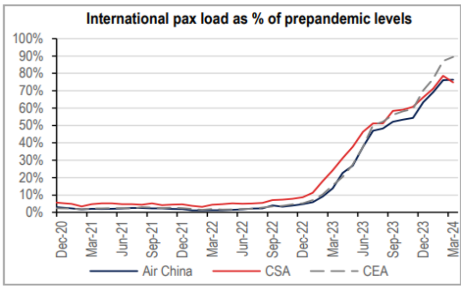
- **GENM: A lacklustre decade, but headwinds mostly priced in.** GENM's share price has retraced significantly over the last few years (after peaking at around RM6 in 2017), mainly due to several notable incidents such as: a) the termination of the 20th Century Fox World outdoor theme park (Nov 18); b) higher gaming duties imposed (Budget 2019); c) related party transaction (RPT) purchase of Empire's stake from Kien Huat Realty (Aug 19); d) COVID-19 (April 20); and e) the potential exclusion from KLCI Index (2H24). In our opinion, most of the negative newsflow has been priced in at its current decade-low share price, and investors' negative sentiment should reverse as they re-divert focus towards GENM's consistent earnings delivery throughout 2025-26.

- **GENM: Profitability exceeded pre-pandemic level consecutively for six quarters.** GENM charted six consecutive quarters of earnings that exceeded those of pre-pandemic levels, with core EBITDA hovering around RM720m-820m. Locally, Resorts World Genting (RWG) continues to chart steady performances, stoked by a fully-restored operating capacity and improved visitations. Meanwhile, US operations, particularly Resorts World New York City, have seen significant growth vs 2019 (revenue: up 33-47%; EBITDA: up 200%), since the opening of Hyatt Regency at JFK Airport in 2021. As for its UK operations, earnings have also been trending above 2019's level.

- **GENT: TauRx remains a potential wild card.** To recall, GENT's 20.33%-owned associate TauRx reported convincing 24-month Phase 3 clinical trial data for its Alzheimer's HMTM drug earlier in March. While the group has initiated regulatory engagement in the UK and the US for the approval and commercialisation of the HMTM product, we acknowledge that the procedure for HTMTM securing approval and commercial rollout may be lengthy with unclear timelines. That said, TauRx's potential valuation of US$15b may translate into RM3.54/share for GENT's 20.3% stake, which is over 73% of its current market cap.

- **China's rising number of outbound tourists adding to growth equation.** The international flight capacity of China's top three airlines recovered further to 90-95% of pre-pandemic levels as of Oct 24 (Jun 24: 74-76%), reflecting a resolution of the earlier issue of a lack of affordable flights and protracted waiting times for travel visas to go abroad. To recap, Chinese visitors made up 19-20% and 11-12% of Singapore's and Malaysia's respective pre-pandemic tourist arrivals in 2018-19. Moving forward, we expect China's international flight capacity and frequencies to ramp up further in 4Q24-2025, which will elevate RWG's and Resorts World Sentosa's (RWS) footfall and earnings inflow from Chinese tourists.

### CHINA BIG 3 AIRLINES' INTERNATIONAL PAX CAPACITY RECOVERY



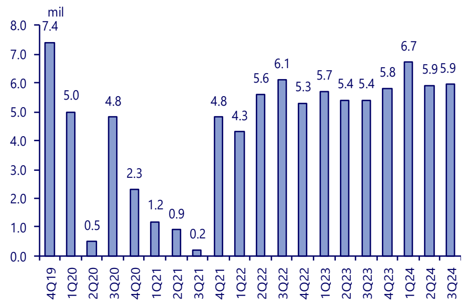

*Source: Respective companies, UOB Kay Hian*

### GENTING HIGHLANDS 3Q24 HIGHLIGHTS

- RWG
  a) GGR volume back to about c.97% of 2019 levels
  b) Total GGR wins up 4% YoY, VIP:mass GGR mix of 56:44
  c) VIP win rate within theoretical levels
  d) 3Q24 total visitors to RWG hilltop about 5.9m (+10% yoy). Foreign visitor arrival +13% yoy, mainly from SG and China.
  e) 3Q24 hotel rooms available daily about 10000, occupancy rate 99%, Revpar RM230 (+5% yoy).
  f) Genting SkyWorlds Outdoor theme park average ticket sales about 2600/day (2Q24: c.3000/day).

*Source: GENM*

### GENTING HIGHLANDS' VISITORS ARRIVAL




*Source: GENM, UOB Kay Hian*

### GENT – EV/EBITDA


*Source: UOB Kay Hian*

### GENM – EV/EBITDA


*Source: UOB Kay Hian*

## NFO SUBSECTOR

- **Ticket sales almost back to pre-pandemic level.** We reckon that NFOs' sales will recover to 90-95% of pre-pandemic levels in 4Q24-1H25 (3Q23: 85-90%) and sustain throughout 2024. While the NFOs are still facing market share challenges from illegal operators, there has been a gradual shift in punters' habits away from previously executing bets through illegal bookies as authorities have accelerated clampdown efforts. Potential tailwinds may also emerge for the NFOs if the government allows the legal operators to enable online operations.

- **Meaningful upside potential if overly pessimistic valuations reverse; lush dividend yields.** Both Magnum and SPTOTO should gain more attention as they start to deliver lush prospective yields of 7-8% for 2024-25 in tranches upon earnings recovery. In the last four years, both Magnum and SPTOTO have been heavily punished by the pandemic and political uncertainties. In our opinion, current valuations have more than priced in these downsides, especially when earnings are on course for sequential recovery in the upcoming quarters.

- **Magnum: Potential monetisation of stake in U-Mobile in 2025 is a key re-rating catalyst.** Based on media reports, U-Mobile may be listed via an IPO in 2025 with a potential valuation of RM10b. Upon monetisation, Magnum has the potential to fetch RM630m or RM0.44/share (around 36% of its current market cap). We do not rule out the possibility that Magnum may dole out special dividends or shares in specie upon potential monetisation, which may translate to a yield of up to 36%. Alternatively, the group may pare down borrowings significantly with the proceeds. To note, Magnum currently has RM739m in borrowings and RM182m in cash. This may reduce finance cost by RM37m-40m/year, and adds RM26m-28m (up 11-12%) to our 2025-26 net profit forecasts.

## SMALL MID CAP HIGHLIGHTS

- **RGB still well-positioned to capitalise on ASEAN jurisdiction's booming gaming scene and exponential growth.** While the ASEAN gaming scene, especially in the Philippines, remains highly charged with aggressive gaming capacity expansion and post-pandemic replacement cycle, RGB is poised to largely benefit from this trend. Key growth drivers will come from the Philippines' mushrooming new IRs, friendly legislation such as higher slots capacity quotas, and supportive remote gaming policies.

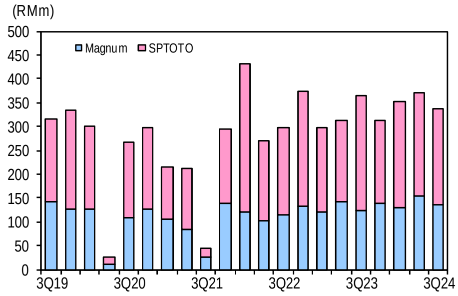
- **SSM sales on track to hit our 2024 forecasts; TSM operations closing back towards 2019 levels.** In 9M24, RGB's sales and marketing (SSM) segment sold 2,260 slot machines (achieving 58% of our 2024 forecasts). Such strong sales were mainly attributed to the robust orderbook from the Philippines' flourishing gaming scene which supercharged demand for both new and replacement slot machines. Meanwhile, the technical support and management (TSM) segment's revenue of RM29.8m posted a comeback to around 95% of pre-pandemic levels, reaffirming our view that the segment is embarking on a restructuring and recovery pathway.

- **Massive SSM orderbook from PACGOR fully delivered in 4Q24.** Recall that in May, RGB revealed that the group had secured a RM383m (US$81.3m) contract from the Philippine Amusement and Gaming Corporation (PAGCOR) to supply 1,968 electronic gaming machines and accessories. We understand that these orderbooks will be fulfilled in 4Q24, which are expected to meaningfully elevate 4Q24 earnings.

- **Record-high 1.8 sen dividend declared in 3Q24, implying a sizeable 46% payout.** Positively, RGB declared a special dividend of 1.2 sen and an interim dividend of 0.6 sen (totalling 1.8 sen), bringing 9M24 dividend to 3 sen. This implies a dividend yield of 7.6% and payout ratio of 73%. With an abundance of cash and better cash flow trajectory in 2024, we believe management may exercise better capital management and pay out higher quarterly dividends moving forward. Our 2024 DPS forecast of 4.8 sen is based on a 50% payout ratio. If this special dividend were included, it implies a lush dividend yield of 12% for 2024.

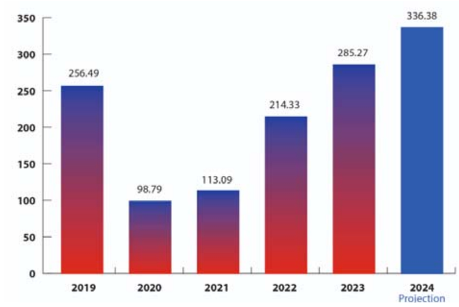
- **Bargain financial matrixes still supporting our investment thesis.** RGB's current bargain valuation of 5.4x 2024F PE (4x ex-cash PE) still offers palatable potential capital upside. More importantly, RGB's current net cash of RM156m (about 25% of market cap) is more than sufficient to support our 50% dividend payout forecast and lush yields of 10-12% in 2024-25.

NFO BIG 2'S TICKET SALES



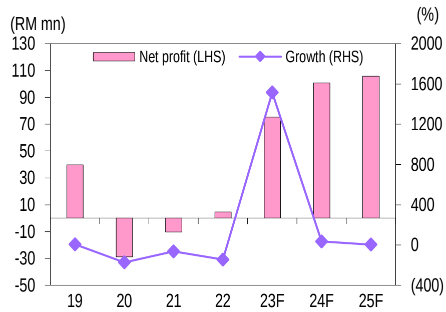

*Source: UOB Kay Hian*

PHILLIPINES' GAMING INDUSTRY GGR (BILLION PESOS)



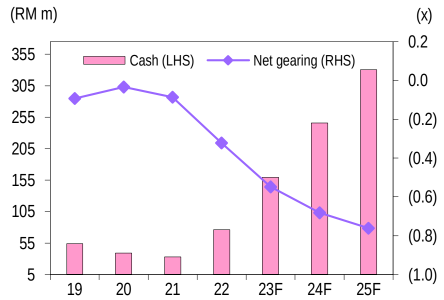

*Source: PACGOR, UOB Kay Hian*

RGB NET PROFIT AND GROWTH TREND




*Source: RGB, UOB Kay Hian*

RGB CASH POSITION AND NET GEARING TREND




*Source: RGB, 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 or jurisdictions 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:<br>(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<br>(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:<br>(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<br>(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. |



http://research.uobkayhian.com

RCB Regn. No. 197000447W