Asia Credit Research

# Genting Singapore PLC: Credit Update

**Friday, 26 February 2016**

## Starting On a Clean Slate

- **Housekeeping done**: 4Q2015 results showed revenue declining 14.2% y/y to SGD547.4mn and full year revenue declining 16.3% y/y to SGD2.4bn. With non-gaming revenue growth flattish for the year, the declines were driven by GENS's gaming segment. Management has indicated that the fall in gaming revenue was driven by lower VIP gaming revenue, resulting from GENS tightening its credit policies. Specifically, management indicated "quality over quantity" when extending credit, and that credit collection has started to improve. In addition, they stated that the mass market segment remains stable, particularly for electronic games, and that the growth focus will remain in mass market and premium mass (they de-emphasized VIP gaming earlier on in 2015). The shift away from VIP gaming seems to have paid off, with impairments on the casino credit improving q/q from SGD92.5mn (3Q2015) to SGD45.3mn (4Q2015). The amount of working capital set aside for the provision of casino credit has reduced as well, with total trade receivables shrinking from SGD1190.9mn (end-2014) to SGD894.9mn (end-2015). Management has indicated that they are comfortable with the current ratio of EBITDA to trade receivables.

- **Core business intact**: For 2015, GENS generated a theoretical normalized hold (based on the statistical house advantage that GENS has) adjusted EBITDA (excludes FX impacts as well as fair value and realized gains / losses on portfolio investments) of SGD1091mn (~45% margin). For 2014, the equivalent number generated was SGD1350mn (~47% margin). We believe that this reflects the relative robustness of the firm's performance. Based on adjusted EBITDA margins though, 4Q2015's margin of 33.1% was weaker than 2015 full year's margin of 38.1%. This looks to be related to higher bad debt provision during 2H2015.

- **2015 headwinds to diminish:** 4Q2015 reported SGD22.0mn in net profit, a 81.5% y/y slump. Net of SGD29.7mn in distributions payable to perpetual securities, common shareholders of GENS would have faced a loss of SGD7.8mn for the quarter. For the full year, GENS saw a 69.7% y/y decline in net profit to SGD193.1mn. 2015 performance was largely affected by two factors: provisions on bad debt and portfolio investment losses. GENS took SGD270.7mn in impairments on casino credit receivables for the year. Going forward, as mentioned earlier, given management's shift away from the VIP gaming segment, we believe that bad debt provisions should decline through 2016. As for portfolio investment losses, we have discussed this previously[1]. These investments have generated significant losses during 2015, with GENS recognizing ~SGD390mn worth of fair value, realized and impairment losses on financial assets. Management has disclosed that they have disposed substantially most of GENS's remaining portfolio investments. We believe that going forward, GENS will be more cautious in its portfolio investments, reducing the risk of such losses.


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[1] OCBC Asia Credit - Genting Singapore - Credit Update - 140815

- **Non-gaming performing in-line:** Despite flattish Singapore tourism figures in 2015, GENS's theme parks and hospitality assets did well. Universal Studios achieved a record quarterly attendance of 1.2mn visitors. Theme park attendance was up 8%, while yield per visitor was not affected (due to events such as Halloween Horror Nights and Santa's All Star Christmas). 4Q2015 hotel occupancy in Sentosa showed some softness though, with occupancy at 87% (compared to 93% in 4Q2014). The new Jurong hotel's occupancy is even lower, though management expects occupancy to improve with time given the lack of competition in the west side of Singapore. In aggregate, non-gaming revenue was SGD650.3mn in 2015 (flat relative to 2014). Due to the slump in gaming revenue, non-gaming revenue is now 27% of total 2015 revenue (for 4Q2015, it is even higher at 32%).

- **Cash generation sustained:** GENS generated SGD285.9mn in operating cash flow (net of interest expense and perpetual distribution) and SGD270.2mn in free cash flow during 4Q2015. Cash flow was partly boosted by the liquidation of SGD85.3mn in trade receivables (as GENS is reducing its casino credit exposure). For the year, GENS generated SGD1.1bn in operating cash flow (net of interest expense and perpetual distribution), or SGD927.5mn in free cash flow. Coupled with the liquidation of its portfolio investments, the firm's cash balance jumped SGD1.3bn to SGD5.0bn (end-2015). Management has indicated that its share of Jeju resort capex for 2016 is about USD250mn. We expect that GENS will be able to continue to generate between SGD200mn – SGD250mn in free cash flow each quarter for 2016. Management has hiked dividends 50% to SGD0.015 per share. This would bring annual dividend needs to ~SGD180mn.

- **Net cash net of perpetual securities**: As mentioned in previous reports, GENS is able to pay down its SGD1.63bn in gross borrowings, as well as redeem its SGD2.3bn in perpetual securities and still have cash left over (~SGD1.1bn worth as at end-2015). The firm currently only has SGD166.8mn in borrowings due over the next 12 months. It should be noted that management has indicated that they are holding the huge amounts of cash for a couple of projects that they are considering (including potentially building an integrated resort in Japan). However, any potential projects are likely to be initiated much further in the future (the gaming legislation in Japan has yet to be passed).

- **Recommendation**: We remain **Overweight** GENS's issuer rating, and remain **Overweight** the GENSSP'49cs. The perpetual security trades at an offer of ~97.5c, or YTW of 5.6% (spread of 317bps above swaps). On a current yield basis, it is trading at 5.3%, offering good carry.

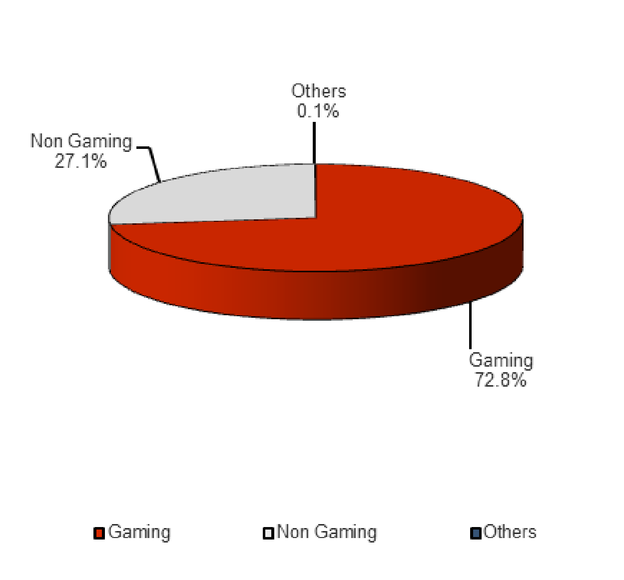
# Genting Singapore Plc

**Table 1: Summary financials**

| Year ended 31st December | FY2013 | FY2014 | FY2015 |
|---|---|---|---|
| **Income statement (SGD'mn)** | | | |
| Revenue | 2,847.3 | 2,862.5 | 2,400.9 |
| EBITDA | 1,086.2 | 1,120.9 | 887.6 |
| EBIT | 663.8 | 701.4 | 543.5 |
| Gross interest expense | 54.0 | 42.1 | 54.5 |
| Profit Before Tax | 845.5 | 804.8 | 279.3 |
| Net profit | 707.3 | 635.2 | 193.1 |
| **Balance Sheet (SGD'mn)** | | | |
| Cash and bank deposits | 3,761.4 | 3,836.8 | 5,115.3 |
| Total assets | 13,074.1 | 12,672.2 | 12,026.8 |
| Gross debt | 2,225.3 | 1,703.2 | 1,630.6 |
| Net debt | -1,536.1 | -2,133.5 | -3,484.7 |
| Shareholders' equity | 9,647.2 | 9,703.3 | 9,625.8 |
| Total capitalization | 11,872.5 | 11,406.6 | 11,256.4 |
| Net capitalization | 8,111.1 | 7,569.8 | 6,141.1 |
| **Cash Flow (SGD'mn)** | | | |
| Funds from operations (FFO) | 1,129.7 | 1,054.7 | 537.2 |
| CFO | 820.5 | 955.6 | 1,219.6 |
| Capex | 448.8 | 195.1 | 176.4 |
| Acquisitions | 0.0 | 97.9 | 0.0 |
| Disposals | 70.1 | 1.1 | 1.1 |
| Dividends | 240.1 | 240.3 | 238.7 |
| Free Cash Flow (FCF) | 371.7 | 760.5 | 1,043.2 |
| Adjusted FCF* | 201.6 | 423.4 | 805.5 |
| **Key Ratios** | | | |
| EBITDA margin (%) | 38.1 | 39.2 | 37.0 |
| Net margin (%) | 24.8 | 22.2 | 8.0 |
| Gross debt/EBITDA (x) | 2.0 | 1.5 | 1.8 |
| Net debt/EBITDA (x) | -1.4 | -1.9 | -3.9 |
| Gross debt/equity (x) | 0.23 | 0.18 | 0.17 |
| Net debt/equity (x) | -0.16 | -0.22 | -0.4 |
| Gross debt/total capitalization (%) | 18.7 | 14.9 | 14.5 |
| Net debt/net capitalization (%) | -18.9 | -28.2 | -56.7 |
| Cash/current borrowings (x) | 7.20 | 7.40 | 30.7 |
| EBITDA/gross interest (x) | 20.1 | 26.6 | 16.3 |

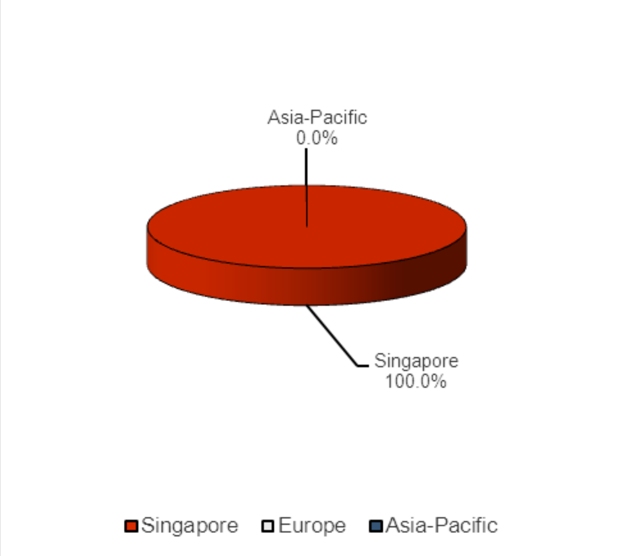
*Source: Company, OCBC estimates*
**Adjusted FCF = FCF –Acquisitions – Dividends + Disposals*

**Figure 1: Revenue breakdown by operations – FY2015**




*Source: Company*

**Figure 2: Revenue breakdown by geography – FY2015**



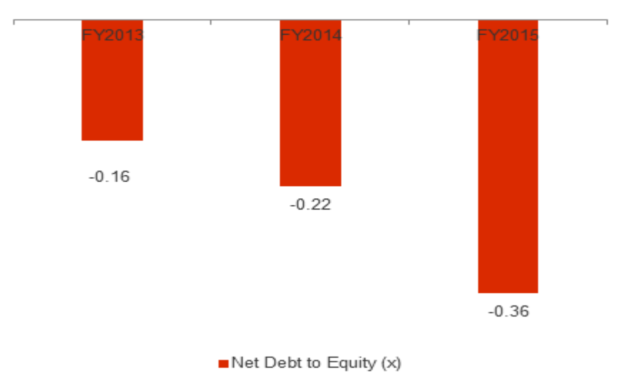

*Source: Company*

**Figure 3: Debt maturity profile**

| Amounts in SGD mn | As at 31/12/2015 | % of debt |
|---|---|---|
| **Amount repayable** | | |
| One year or less, or on demand | 166.8 | 10.2% |
| After one year | 1,463.8 | 89.8% |
| **Total** | **1630.6** | **100.0%** |

*Source: Company*

**Figure 4: Net gearing**




*Source: Company, OCBC estimates*