

Analyst: Kelvin Li

## Main Board Listing – Research

NagaCorp Ltd. [Stock Code: 3918] 金界控股有限公司

<b>Sponsor and Arranger</b>	: Anglo Chinese Corporate Finance Ltd.
<b>Joint Lead Managers</b>	: Kim Eng Securities, Anglo Chinese Corporate Finance Ltd.
<b>Co-lead Managers</b>	: Evolution Watterson Securities, China Merchants Securities

**Sector** : Gaming

**Business** : Management and operation of casino

<b>Total share offer:</b> <u>500,000,000</u> shares (25% of the enlarged share capital)  <b>Public Offer:</b> 50,000,000 shares (10%) <b>Placing:</b> 450,000,000 shares (90%) <b>Greenshoe:</b> 75,000,000 shares	<b><u>Business of NagaCorp</u></b>  NagaCorp principally engages in the management and operation of the only licensed casino in Phnom Penh, the capital city of Cambodia. The Group has the exclusive right to operate the casino within Phnom Penh and the area within a radius of 200km of Phnom Penh until the end of 2035.  The Group operates 44 gaming tables offering five major types of table games ( <i>mini baccarat, blackjack, Tai Sai, Caribbean stud poker, and roulette</i> ) and 211 gaming machine stations. The Group's casino operations are located in the new hotel and entertainment complex called NagaWorld. Upon full completion of the NagaWorld, it will be the only entertainment complex with gaming, hotel, and entertainment facilities within the area. It will encompass a total gross floor area of about 80,552 sq. m. with a 14-storey hotel wing and an eight-storey entertainment wing. The Group's gaming operations began in 1995 and have been profitable since 1996.
<b>Price:</b> HK\$1.25 – HK\$1.60 per share <b>Market Cap:</b> HK\$2,500 – HK\$3,200 million <b>FY05 PER:</b> 9.6X – 12.3X <b>Adjusted NTA per share:</b> HK\$0.14 – HK\$0.23 <b>Staffing:</b> 935	
<b>HK Public Offer period:</b> 6 <sup>th</sup> October 06 – 11 <sup>th</sup> October 06 noon  <b>Receiving bank:</b> Standard Chartered Bank (HK)  <b>Share registrar:</b> Computershare Hong Kong Investor Services Limited.  <b>Listing date:</b> 19 <sup>th</sup> October 2006	

### **Major Shareholders after Listing** (Assuming the over-allotment option is not exercised)

Tan Sri Dr Chen (Chief Executive Officer)	61.5%
Cambodia Development Corporation (beneficially owned by Tan Sri Dr Chen)	<u>8.1%</u>
	69.6%
Selvione Limited (beneficially owned by Song Meng Kong, a retired employee of the Group)	3.0%
Others (include several corporate and individual shareholders)	2.4%
	<u>75.0%</u>

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### **Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$546 million. *(Being the lowest end of the offer price range [HK\$1.25 per share] and assuming the over-allotment option is not exercised)*

	HK\$ million
For the development of the NagaWorld	461
For the development of gaming activities such as installation of gaming equipment and tables, and other ancillary equipment	62
For general working capital	23

### **Financial Highlights**

	Year ended 31 <sup>st</sup> December			Five months ended 31 <sup>st</sup> May
	2003	2004	2005	2006
	US\$'000	US\$'000	US\$'000	US\$'000
Turnover	55,175	58,534	64,282	38,007
Gross profit	31,534	30,004	39,728	25,223
Operating profit	20,872	18,857	26,293	18,040
<b>Net profit</b>	<b>16,069</b>	<b>17,654</b>	<b>24,941</b>	<b>17,406</b>
Gross margin	57.2%	51.3%	61.8%	66.4%
Operating margin	37.8%	32.2%	40.9%	47.5%
Net margin	29.1%	30.2%	38.8%	45.8%

### **Strengths/Opportunities**

- ✓ The only licensed casino in Phnom Penh, the capital of Cambodia, with a 70-year casino license and some 41 years of exclusive casino operation rights in designated area. The casino license is valid for 70 years from 2<sup>nd</sup> January 1995.
- ✓ Cambodia has become increasingly popular as a tourist destination showing strong growth trend of visitor arrivals.
- ✓ Strong financial track records. The wage in Cambodian, averaged at about US\$151 per month, compares favourably to staff costs in more developed cities and countries.
- ✓ The historical PER range of 9.6X to 12.3X as indicated by the IPO price range is attractively valued compared to other Hong Kong– listed comparables Melco International (0200.HK), trading at historical PER of 33.2X.

### **Weaknesses/Threats**

- × The Group is subject to the risk of the casino license being revoked. The Group experienced incidents which led to the view that the Cambodian Government was not enforcing the right of exclusivity. The Group applied to the Phnom Penh City Court in 2000 to reaffirm the rights.
- × Competition from casinos in the Asia Pacific region may intensify in the near future. As at the Latest Practicable Date, there were 14 casinos located in major tourist destinations in Cambodia. The Group also faces competition from casinos in Macau, Malaysia, Philippines, and South Korea. There were 21 casinos in Macau as at June 2006 while more casinos are estimated to become operational in the coming 1-2 years.

**Recommendation: Trading Buy**



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