



August 31, 2021

Nagacorp Ltd, 7.95% 6Jul2024, USD

Cambodian casino company with an ambitious expansion project for the next few years

In our opinion: The risk of an emerging country like Cambodia means that the company has to issue bonds at a very attractive interest for the bondholder.

Key points:

Decreasing cost of financing. In 2019 the company issued Senior Unsecured USD debt in 2021 with a yield of 9.62%, in 2020 it issued at 8.5% in 2024 and in 2021 at 6.625%, also at 202. We believe that this trend could continue in future issues. Because the bond has the option to be repurchased at par, we believe that the bond will not trade much above par at any time. There is an appetite from the bondholders, in the last placement there were more than \$ 580M subscribed, the issuance being only \$ 350M.

Alignment with China. China has decided to bet heavily on the country. Both in real estate and other types of infrastructures. The relationship is getting closer and closer and we think that China will stop any instability that may occur in the country that may undermine its investments. Furthermore, the current government is very stable, strong and increasingly resembling the Chinese government.

Very close relationship between the Government and Nagacorp. Since the beginning of Nagacorp's operations, the relationship between business and government has been fantastic. So much so that the government has chosen Nagacorp to develop a non-gaming resort at its most important monument, Angkor Wat.

\$ 437M of sufficient liquidity to meet the payments. Although its casinos are closed and it is immersed in 2 important projects in progress, the company has enough capital to meet its investments. In addition, the casinos are scheduled to return to operation before the end of the year. In the worst case, the company may delay and reduce its expansion projects or carry out a new bond issue.

Low debt and high cash flow capacity. The company has issued \$ 550M in bonds while its balance sheet assets exceed \$ 1.7B although its actual valuation may be above \$ 5.4B according to appraiser Colliers. It currently has \$ 2.2B of future CAPEX between the construction of the casino in Vladivostok (Russia), Naga3 and Angkor Wat, although the latter is currently on hold by UNESCO. The bond issue is a very small part of all its assets (LTV = 11%) and the normalized Debt / EBITDA ratio is below x0.9 times.

New Vila Equity Research

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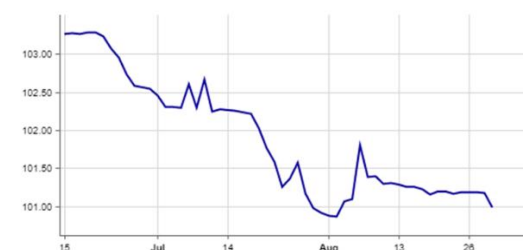
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New Vila Equity Research estimates

FY Dec	2021E	2022E	2023E	2024E	2025E
Sales (M \$)	480	950	1350	1680	1830
EBITDA (M \$)	86	277	443.5	578.5	638.5



This report has been written without any financial incentive and with the aim of participating in a investment thesis contest

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Introduction

Nagacorp is a company that operates 2 casinos in NomPen, capital of Cambodia (Naga1 and Naga2). In addition, it has 3 other projects under development in Cambodia and Russia.



Illustration 1. Nagacorp logo

The company was founded in 1995, the Cambodian government was looking for entrepreneurs to develop the country's infrastructure, as well as tourism. The founder of Nagacorp, Dr Chen, of Malaysian origin, reached an agreement with the government to start operating a small casino moored on the river, in the center of Phnom Penh.

Over the years the business has not stopped growing, as well as the close relationship between the company and the government, being a key element in the development of tourism in the country.

Cambodia

Cambodia is a country located in the Gulf of Siam, with more than 16 million inhabitants. It borders Vietnam, Laos and Thailand. Its capital is Phnom Penh with 2.3 million inhabitants.

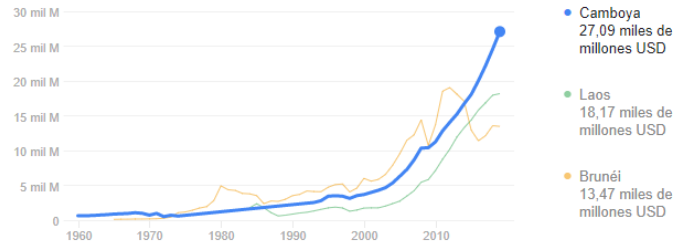


Illustration 2. Map of the Gulf of Siam countries

History

During the last years before COVID-19, the country has obtained GDP growth rates above 7%. This growth has been achieved thanks to the development of the textile industry, construction, agriculture and, in recent years, tourism. [1]

27,09 miles de millones USD (2019)



Entre las fuentes se incluyen: Banco Mundial

Sugerencias

Illustration 3. Historical GDP of Cambodia

Tourism will be one of the main engines for its economy. International tourism is in full growth where many agencies are making Cambodia known to the maturing of tourism in Thailand and Vietnam. The country has multiplied by 3 the number of international tourists in the last 10 years, but much of the tourist infrastructure has yet to be built.

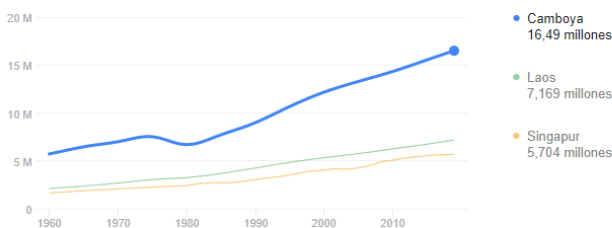
The most common international tourist comes from China. Not only because of its proximity but also because of the amount of investments they have in the Cambodian country. More than 33% of the tourists are Chinese. [2]



Illustration 4. Number of annual tourists received by Cambodia [3]

Cambodia's population reaches 16 million and its GDP per capita reaches \$ 1,600. It is a very poor country behind countries like Vietnam and Laos. Many people still live in rural areas.

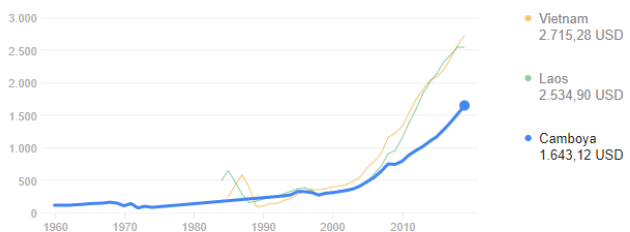
16,49 millones (2019)



Entre las fuentes se incluyen: Banco Mundial

Sugerencias

1.643,12 USD (2019)



Entre las fuentes se incluyen: Banco Mundial

Sugerencias

Illustration 5. Population in Cambodia and GDP per Capita

Economy

FDI Into Cambodia by Industry, 2014-18

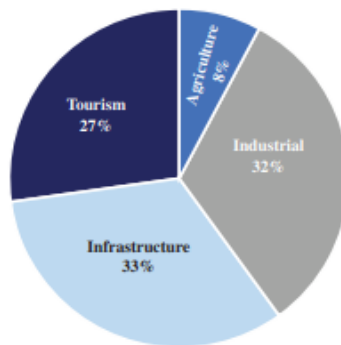


Illustration 6. Foreign direct investment in Cambodia by industry [4]

The Cambodian economy is undergoing a change in recent years. On the one hand, the government and its economy have decided to put aside its relations with the European Union and the United States to prioritize its relationship with China.

In 2019, the Cambodian government outlawed the opposition party, accusing them, like any dictatorship, of wanting to carry out a coup. This was not to the liking of the European Union (EU), which until then had promoted the commercial relationship with Cambodia by taking away their privileges to export Cambodian goods to the EU. The Cambodian textile industry has been a very important part of exports that are largely sold to the European Union.

Since then, the agreements and rapprochement between Cambodia and China have been very important. At the end of 2020, both governments signed a free trade agreement. What's more. The agreements include a \$ 140 million aid package from the Chinese government for infrastructure projects during 2021. Also, China has been a key player in the country's vaccination, providing vaccines and having one of the highest vaccination rates in Asia Pacific.

This change in business relationships was more than expected. The Chinese government has been gaining more and more influence in the country. As a detail: 43% of foreign investment in Cambodia comes from China. And another interesting detail: 50% - 80% of the real estate market in its capital, Phnom Penh, is in the hands of Chinese citizens. This makes Chinese interest in the Cambodian economy very high. We can foresee greater stability in the country than if an approach to Western culture had been chosen and it had motivated the revolts against the totalitarian Cambodian state.

Politics

Cambodia's political system is based, in theory, on monarchy and representative and parliamentary democracy. The king holds the position as head of state and the prime minister as head of government. The prime minister is chosen by the king, with the prior notice and approval of the National Assembly. [5]

In 2004, Norodom Sihamoni, was elected King of Cambodia by the Royal Council after the abdication of his father. The king is currently 68 years old.

Executive power rests with Prime Minister Hun Sen (69), leader of the Cambodian People's Party. His strong repression of the opposition has cost him to lose export privileges to the EU. Ultimately, the Prime Minister and the Cambodian People's Party have full power over the country. A very powerful government similar to the running Chinese government.

COVID in Cambodia

Vaccination in Cambodia has been very rapid compared to neighboring Asia Pacific countries. The country has been helped by the World Health Organization (WHO) and by China, which has donated a large number of vaccines.

In the capital, 99% of adults are vaccinated with both doses. It is in rural areas where the vaccination rate is lower. More than 60% of the population already has at least the first dose.

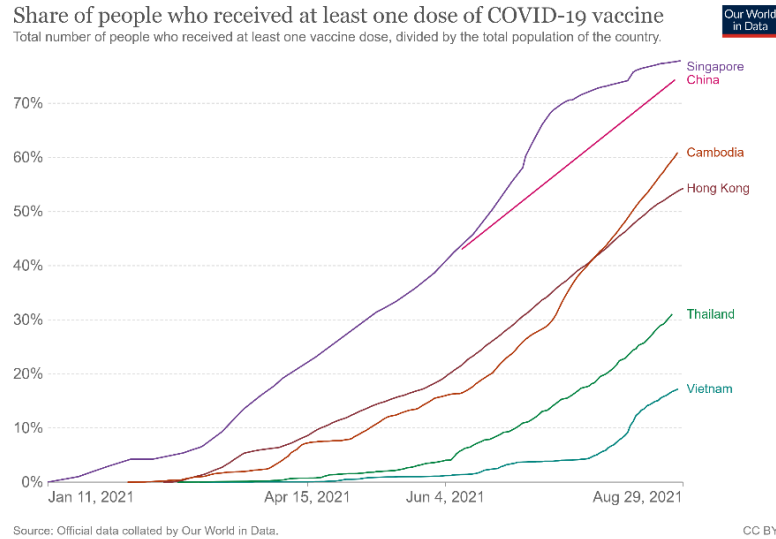


Illustration 7. Number of people with at least one dose administered [6]

The country is gradually returning to normal after having an increase in COVID cases due to the delta variant.



Illustration 8. Number of COVID cases in Cambodia [7]

Business

The company owns two casinos in Phnom Penh, Naga 1 (Open since 2006) and Naga 2 (Open since 2017). In addition, Nagacorp has an exclusive gambling license in the capital and 200km around, being practically a monopoly in Cambodia.

The company is immersed in 3 expansion projects:

- Vladivostok casino in Russia: An investment of \$ 350M that is scheduled to open in 2022. The project has been approved since 2013 and has been postponed a couple of times due to problems during construction. \$ 100M of investment remains to be paid between 2021 and 2022.
- Naga 3: Expanding your casino business in Phnom Penh. An investment of \$ 3.5B to create one of the casinos more large in Asia Pacific. The casino will be finished in 2025 and is the most ambitious project in Cambodia, although it is flexible and its final size will vary according to the expected demand.
- Tourist complex in Angkor Wat: Project not related to gambling and with the aim of being a bridge to attract tourists, in addition to connecting it with the gambling business in the capital. A total investment of \$ 350M. Currently stopped by UNESCO.

	Naga 1	Naga 2	Naga 1+2	Naga 3
Gaming tables	325	175	500	800+
EGMs	1404	534	1,938	2,500+
Hotel rooms	755	902	1,658	c3,500
Retail space (sqm)	261	3,800	4,061	shopping mall
MICE/Theatre capacity	750	2,200	2,950	TBC
Gross floor area (sqm)	113,307	108,764	222,071	544,801

Illustration 9. Capacity of the casinos in Phnom Penh

Nagacorp's businesses operate in US dollars. In Cambodia they are accepted, although they also have their own currency. The currency risk in this business disappears.

Fundamentals

Company with little cyclicalidad in the generation of cash flow. In 2017, Naga2 starts operating and this is reflected in its results. Before COVID, the company was below 90% of its capacity, with room for growth. For this reason, it is planned to build Naga3.

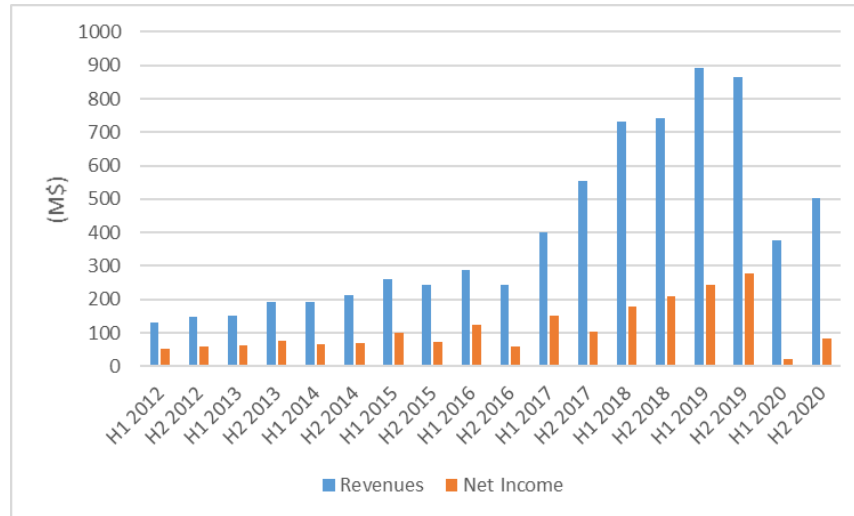


Illustration 10. Nagacorp's Half-Year Sales and Profits [8]

We can consider the business of high quality, with operating margins above 20%, return on equity above 25%, return on assets above 15%.

The value of the company's assets exceeds \$ 5.4B according to appraiser Colliers [9], who advised the company on the financing of Naga3 in 2019.

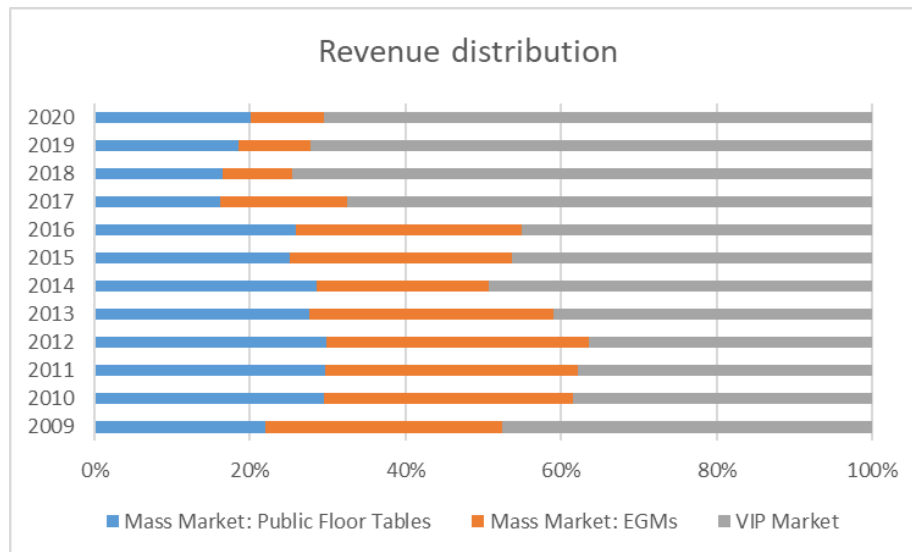


Illustration 11. Nagacorp's Annual Sales Distribution [8]

Sales can be segmented into:

- Mass Market: Public Floor Tables: Includes all casino winnings on table games such as roulette, poker, blackjack, etc.
- Mass Market: EGMs: This segment includes electronic casino machines.
- VIP Market: Includes private games where the client comes from the hand of an agent, called "junket operator" in English, who keeps a commission. As they are lots of money, it is necessary to have certain security in payments, move the money from one country to another, etc. The agent takes care of all these processes, which is usually moving the money from China to Cambodia to be able to play. In addition, financing is also given to players.

In recent years many Macau junket agents have started doing business with Nagacorp because they take more commission than in Macau casinos. In addition, the standards and luxuries of Nagacorp's casinos meet the standards that Macau customers ask for.

One of the great advantages of Nagacorp and Cambodia is the payment of taxes. With the new agreement with the government, Nagacorp will pay 5% of the GGR (Gross Gaming Revenue) while competing countries such as Macao or Singapore pay 3 times more taxes on the game. Furthermore, Nagacorp does not pay corporate tax in Cambodia while in other countries it does.

Gaming Tax Summary for Asian Jurisdictions						
	Proposed Cambodian	Macau	Singapore	Philippines ⁽³⁾	South Korea – Jeju	Malaysia
Gaming Tax Rates	<10% of gaming revenue ⁽¹⁾	Fixed tax 35% of GGR Variable 2%-3% of GGR	5% of Premium GGR 15% of Mass GGR	17% of Premium GGR 27% of Mass GGR	13% of GGR	8% of net gaming revenue
Corporate Tax Rates ⁽²⁾	0.0%	12.0%	17.0%	30.0%	24.2%	24.0%

Illustration 12. Gambling taxes by country [8]

Operation during COVID

In April 2020, it was decided to close all the casinos due to the COVID crisis until July 2020, where they were operational again following the anti-covid measures set for indoors. Due to the Delta strain and the increase in the number of infections in the capital, the company voluntarily decided to close the casinos in March 2021.

In May 2021, the shops and duty-free part reopens their doors while the casinos are currently closed, waiting to reopen in the coming months.

Its main client is foreign and mainly Chinese. The casino caters mainly to foreigners. The average Cambodian has neither access nor resources to enter the casino. Therefore, the influx of customers not only depends on Cambodia's conditions regarding infections but also on travel restrictions imposed by countries such as China.

During the second half of 2020, with the country and travel very restricted, the casino performed quite well. We asked the company's investor relations and they told us that many of the casino's clients are expatriate Chinese foreigners and residents of Cambodia. This client lives in Cambodia due to the number of businesses they have in the country and handles a significant amount of money.

Politics with its dividend

Given the history of the company with the dividend and "pay-out rate" we can understand Nagacorp as a REIT. Above all, the company is not willing to reduce the dividend to access better financing and reinvestment of capital. This is something that is probably not optimal for the company, although in the last conversation with investors they have confirmed that they will surely stop paying dividends in the short term to be able to finance all their projects.

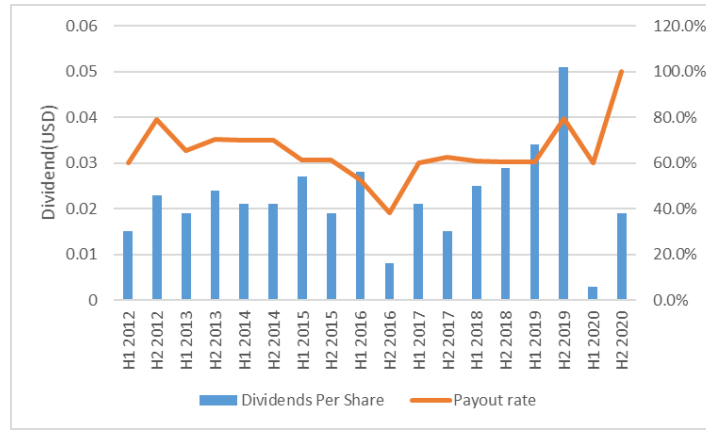


Illustration 13. Dividends per share and payout rate [8]

The owner, Dr Chen, finances new projects for Nagacorp with the dividends he collects and sells them to Nagacorp. This has happened several times in the history of nothing. Starting with a convertible in 2011 to finance Naga2 and through a capital increase that will take place in 2025 to finance Naga3, as we will see later. In other words, the company has a very high dividend payment history. Since Dr. Chen is the largest shareholder in the company, most of the dividends are paid by him. With this, Dr Chen personally finances Nagacorp's business expansion projects, such as Naga2 and Naga3, and sells them to the company in exchange for shares or convertibles.

The historical pay-out rate is around 60% and in the latest results it declared that all the profit for the second half of the year was in dividends. Something that for a bondholder is not favorable.

Chronology

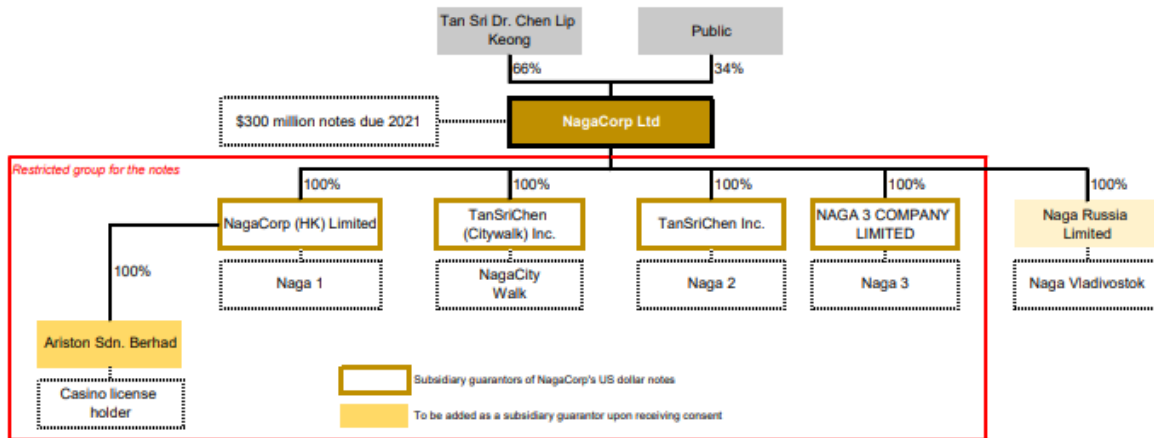
Table 1. Nagacorp Major Events Timeline

Year	Events (edit)
1994	The Cambodian government was seeking investors in tourism-related infrastructure for its country. A contest was held in which the contract was awarded to Ariston Sdn. Bhd., Whose owner was Dr Chen Lip Keing, current maximum shareholder of the company.
nineteen ninety five	The agreement with the government is signed. In the middle of the year, the Naga Resorts Casino starts operating on a small ship on the river of the capital, Phnom Penh.
2003	The casino moves to a building in the capital and two years later the government and the company sign an important agreement where the government gives exclusivity to its casino license within a 200km radius from the capital. except at the borders between countries.
2006	Nagacorp goes public in Hong Kong at a price of HK \$ 1.43, raising HK \$ 822M of capital. Naga1 opens its doors
2011	The company acquired Naga2 for US \$ 369M through a convertible, owned by Dr. Chen.
2013	The company increases capital (US \$ 156M) through shares to expand its business and develop the travel business of game. They announce their investment plan in a casino in Vladivostok, in Russia (US \$ 350M)
2018	They issue US \$ 300M in senior bonds due May 2021. At an interest of 9.375%.
2019	The company announces the construction of Naga3, with a maximum investment of US \$ 3.5B. The project financed 50% by cash flows from the company and the rest by Dr Chen through a capital increase of HK \$ 12. More than 30% premium over the market price. The government increases their exclusivity license from 2035 to 2045, and they confirm the casino license until 2065.
2020	The company issues US \$ 350M in senior bonds due May 2024 at an interest of 7.95% The Cambodian government grants them a 50-year rental license on a 75-hectare plot of land to develop a non-gambling resort.

Corporate structure

The corporate structure is as follows:

Exhibit 3
NagaCorp's simplified corporate structure
Shareholding as of 15 April 2019



Source: Company data

Illustration 14. Nagacorp's corporate structure [10]

Projects

Project in Vladivostok

In 2013, the company announced an expansion of its casino business outside of Cambodia, exactly in Vladivostok, Russia. An area near the Northeast of China and Korea. In it, there are other casinos that operate in the city. The casino will pay very low taxes of less than 4%.



Illustration 15. Construction of the casino in Vladivostok during 2021 [9]

This gaming zone in North Asia Pacific is very interesting as it allows the company to be exposed to the North China zone and diversify geography.

Naga3 Project

In 2019, Nagacorp announces the expansion of its business with the construction of Naga3, expanding the casino in Phnom Penh. The project budget is variable, having a maximum value of \$ 3.5B. The macro-project has the objective of considerably increasing the capacity of the casinos.



Illustration 16. Naga3 design in Phnom Penh [10]

Due to the difficulty of financing, the company decides to finance the project 50% through cash flows and 50% through the main shareholder of the company at a price per share of HK \$ 12, 36% premium over the market price of the last 240 days.

Table 2. Cost of casinos in Asia Pacific [11]

Property	Year Completed / Projected completion Date	CAPEX (US\$ million)	number of rooms / bays	Cost per room / bay (US\$ million)
Wynn Palace Macau ¹	2016	4,400	1,706	2.58
The Parisian Macau ²	2016	2,700	3,000	0.90
MGM Cotai Macau ³	2018	3,432	1,427	2.41
Grand Lisboa Palace Macau ⁴	2019	4,645	2,000	2.32
Marina Bay Sands Singapore ⁵	2010	5,714	2,560	2.23
Marina Bay Sands Phase II ⁶	tbc	3,300	1,000	3.30
Resorts World Sentosa Singapore ⁷	2010	6,590	1,840	3.58
Resorts World Sentosa Phase II ⁸	tbc	3,300	1,100	3.30
City of Dreams Manila, Philippines ⁹	2014	1,200	981	1.22
Solaire Resort & Casino Manila, Philippines ¹⁰	2013	1,200	800	1.50
Corona Resort and Casino Phu Quoc, Vietnam ¹¹	2019	2,100	2,000	1.05
Ho Tram Resort Casino, Ho Tram, Vietnam ¹²	2021 (est.)	4,200	2,085	2.01
Naga 2, Phnom Penh, Kingdom of Cambodia ¹³	2017	700 ⁽¹⁾	902	0.78
Naga 3, Phnom Penh, Kingdom of Cambodia ¹⁴	Tbc	3,515	4,720	0.74

The Naga 3 project is very ambitious, having a budget and capacity 5 times greater than Naga2 (\$ 700M). The project includes 4,720 rooms, becoming one of the largest APAC casinos. In addition, the price per room is estimated to be much lower than in other neighboring or nearby countries such as Macao or Vietnam. Naga3 plans to be completed before 2025.

The type of financing seems the most appropriate for the minority investor. A market dilution would have meant a very large dilution for minorities and surely at a 20-30% discount. In addition, taking into account the bond the issuance of the bond in 2018 of \$ 300 Ma at an interest of 9.375% in dollars, we can understand that the company does not have access to more capital via debt. In fact, if the Naga3 project had been financed by issuing bonds, it would have been the largest issue by a company in Cambodia.

The company contemplated financing the operation by issuing \$ 1.76B in bonds, at an interest that could be around 7-8% but it rejected it, giving the high interest that would be for the company and the increased risk of default. The company also considered issuing a convertible but ultimately dismissed it as well.

A very important point of the financing set with Dr Chen is that, if the project has extra costs, Dr Chen will take care of them and it will not affect the company while, if the costs are lower, it will have a positive impact only on the company and not in Dr Chen.

The project is scheduled to conclude in 2025, most of the CAPEX will come in the last two years of execution. This project can be postponed at any time or reduced.

Project at Angkor Wat

In November 2020, Nagacorp announces an agreement with the Cambodian government for the promotion of a tourist complex in the most famous place in the country, Angkor Wat. The government gives a land concession to Nagacorp for 50 years. The project includes a theme park, 2 hotels and various non-gaming entertainment areas. One of the objectives is to connect this complex and its tourists with the capital and indirectly with the casino.



Illustration 17. Monument of Angkor Wat [12]

Many of the tourist trips that include Cambodia as a destination, but do not go through the capital, but go directly to Angkor Wat. The government intends to encourage tourism in the capital and has chosen Nagacorp as a partner.

Nagacorp's total investment would be around \$ 350M and the initial phase will be completed in 2025. Currently the project is going to be redesigned as UNESCO has not accepted the project and they are waiting to redesign it. The main problem comes from the excessive proximity of the complex to the temple.

This agreement reflects the importance and closeness that Nagacorp has with the Cambodian government.

Financing

The company over the years has had expansion opportunities to Cyprus, South Korea, dismissing them.

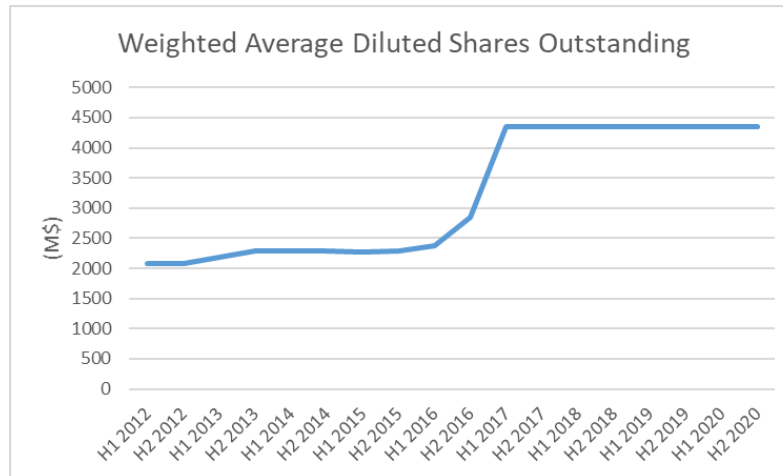


Illustration 18. Number of dilutive shares of Nagacorp [8]

The company has been issuing some capital increase through shares and, above all, the conversion of the convertible bond to shares in the Naga2 transaction, which was very dilutive for the minority shareholder.

2021 voucher

In 2018 the company issued a bond with the following characteristics:

Table 3. Details of the issuance of the Bond to 2021 of Nagacorp

Nagacorp 2021 Bond Issue	
Emitted quantity	\$ 300M
Currency	USD
Bonus Type	Senior Unsecured
ISIN Reg	USG6382MAA74
Date of issue	May 14, 2018
Expiration date	May 21, 2021
Interest	9.375%
Issue price	99.363% of the nominal
Payment	Semiannual
Payback option	Yes, at a price 100% over the nominal in standard situation, 109.375% in case of capital increase (Up to 35% of the issue)
Reason for financing	Finance growth, as well as reform Naga1.

In 2018, after placing at a Yield-To-Maturity of 9.62%, Dr Chen buys shares in the market worth more than HK \$ 120M (\$ 15.5M). In 2021 the company repurchases the bonds with the 2024 bond.

The bond is referenced in US dollars so the currency risk disappears.

Most of the issuance financed the reform of Naga1.

Investment Thesis: Nagacorp 2024 Bond

Table 4. Details of the issuance of the Nagacorp Bond 202

Nagacorp 2024 Bond Issue	
Emitted quantity	\$ 350M
Currency	USD
Bonus Type	Senior Unsecured
ISIN Reg	XS2197693265
Date of issue	24 June 2020
Expiration date	July 6, 2024
Interest	7.95%
Issue price	98.167% of the nominal
Payment	Semiannual
Payback option	Yes, at a price 100% above the nominal price in standard situation, 107.95% in case of capital increase (Up to 35% of the issue)
Reason for financing	Earn liquidity, repay 2018 bond
Warranty	The bond is guaranteed by NagaCorp (HK) Limited, NAGAWORLD LIMITED, NagaCity Walk Limited (TanSriChen Inc.), Naga 2 Land Limited (TanSriChen Inc.) and Naga 3 Company Limited.
Covenants	<ul style="list-style-type: none"> - Additional indebtedness - Make specific payments - Buy / Sell shares <ul style="list-style-type: none"> - Sell assets - Mergers - Transactions with shareholders - Pay dividends in subsidiaries

The issuance has served to pay the 2021 bond as well as a way to finance all the CAPEX that comes in the coming years. An interesting fact is that Dr Chen buys \$ 45M in the first placement of the bond.

In June 2021, the company announced the issuance of another \$ 200M in bonds with the same conditions mentioned above to gain liquidity and face CAPEX futures since the casino is currently closed until the COVID situation improves in the country. In total, the company has issued \$ 550M in debt.

The only difference in the second placement with respect to the second is that it was 103.608% over the nominal, giving a Yield-To-Maturity of 6.625% compared to 8.5% of the placement in 2020. The subscription of the issue reached a sum above \$ 580M and the company believes that the success of this transaction reflects investors' appetite for this bond. Despite the bondholders' appetite, the bond cannot trade much higher than premium since it is redeemable at par. Given the current market situation, we believe the company is in a position to be able to issue more bonds if necessary.

The bond is secured by the company's assets, which could be worth more than \$ 5.4B according to estimates from the property appraiser, Colliers. This would give a Loan-to-Value of less than 11%. The bond has been classified as Senior Unsecured. With no more bonds and an additional debt covenant, the bond is highly protected. We believe that the risk of "default" is minimal.

The bond as of August 31, 2021 is trading at \$ 101, giving a Yield-To-Maturity of 7.7%. A very interesting return given the quality of its assets, the good long-term prospects and protection against default.



Illustration 19. Price of the Nagacorp 2024 bond [13]

Comparable bonds

Casino competitors in Macau, such as Wynn Macay Ltd, have bonuses with characteristics of the Nagacorp Bonus of 2024, however the interest they pay is much lower. Furthermore, Wynn Macay Ltd has a normalized Debt / EBITDA ratio of more than 5 times.

Wynn Macau Ltd.'s 2024 bond at 4.875% is currently trading around par, being a much more leveraged company than Nagacorp.



Illustration 20. Wynn Macay Bono 2024 Stock Price [14]

This makes us think that the reason why Nagacorp has a higher cost on its debt is due to the country factor. However, we do not see a risk as high as the interest on the bond reflects. We will explain this at the end of the report, in the analysis section.



Future CAPEX

We think that the project in Vladivostok will be finished according to plans, as well as Naga3. Naga3 is in the early development phase, where the CAPEX required for the next two years is low compared to the size of the project. This gives Nagacorp a lot of air, in the worst case it could execute a smaller project than the initial one if the current crisis is prolonged and the casino is still closed.

Base scenario

Given how vaccination is going in Asia Pacific and the restrictions taken by countries like China, the most likely is a slow recovery of Nagacorp's business.

In this baseline scenario, 2021 results are expected to be worse than 2020, as casinos are currently closed and China has further restricted travel to other countries.

Starting in 2022, we can reach 2017 levels and experience a slow business recovery reaching Pre-COVID levels in 2025. Fixed expenses similar to previous years have been taken into account, although this may surely be a conservative assumption.

The scenario also assumes that the company complies with CAPEX in its different projects and without reducing their size. It does not take into account Angkor Wat, which is currently paralyzed.

9 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	2020 \$'000	2019 \$'000
(a) Staff costs (including directors' remuneration):		
Salaries, wages and other benefits	105,228	125,168
Contributions to defined contribution retirement scheme [#]	47	45
Total staff costs*	105,275	125,213

Illustration 22. 2020 and 2019 salary costs

Most of the fixed expenses come for the personnel, in 2020 the expense was \$ 106M. We think that this expense can be reduced, although we have not taken it into account in this scenario.

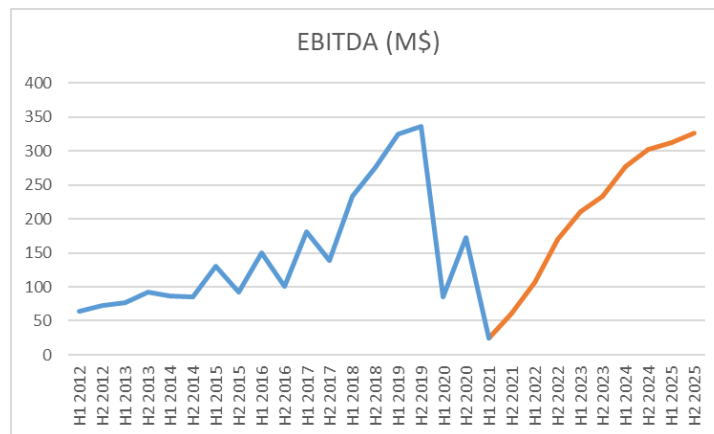


Illustration 23. Semester EBITDA Forecast in Base Scenario

Table 5. Summary of EBITDA calculation for Base Scenario

(M \$)	H1 2021	H2 2021	H1 2022	H2 2022	H1 2023	H2 2023	H1 2024	H2 2024	H1 2025	H2 2025
Revenues	200.0	280.0	400.0	550.0	650.0	700.0	810.0	870.0	900.0	930.0
Cost of Sales	- 110.0	- 154.0	- 220.0	- 302.5	- 357.5	- 385.0	- 445.5	- 478.5	- 495.0	- 511.5
Gross margin	90.0	126.0	180.0	247.5	292.5	315.0	364.5	391.5	405.0	418.5
Manage expenses	- 25.0	- 25.0	- 28.0	- 30.0	- 32.0	- 32.0	- 35.0	- 35.0	- 35.0	- 35.0
Other Expenses	- 90.0	- 90.0	- 95.0	- 105.0	- 107.5	- 107.5	- 110.0	- 112.5	- 115.0	- 115.0
Profit for Operations	- 25.0	11.0	57.0	112.5	153.0	175.5	219.5	244.0	255.0	268.5
GIVES	50.0	50.0	50.0	57.5	57.5	57.5	57.5	57.5	57.5	57.5
EBITDA	25.0	61.0	107.0	170.0	210.5	233.0	277.0	301.5	312.5	326.0

Table 6. Nagacorp liquidity forecast until 2025

(M \$)	H1 2021	H2 2021	H1 2022	H2 2022	H1 2023	H2 2023	H1 2024	H2 2024	H1 2025	H2 2025
Cash and Equiv	437.0	261.1	203.3	151.6	162.9	229.7	318.9	- 297.8	- 296.3	- 283.8
Notes 2021	- 300.0									
Notes 2021 coupon	- 28.1									
Issuance of Notes 2024	200.0						- 550.0			
Coupon Notes 2024	- 27.8	- 43.7	- 43.7	- 43.7	- 43.7	- 43.7	- 43.7			
Vladivostok Capex	- 25.0	- 25.0	- 25.0	- 25.0						
Naga3 capex	- 20.0	- 50.0	- 90.0	- 90.0	- 100.0	- 100.0	- 300.0	- 300.0	- 300.0	- 400.0
EBITDA	25.0	61.0	107.0	170.0	210.5	233.0	277.0	301.5	312.5	326.0
End Cash and Equivalents	261.1	203.3	151.6	162.9	229.7	318.9	- 297.8	- 296.3	- 283.8	- 357.8

With these estimates, we can see that, after repaying the debt, the company will need to finance a minimum of \$ 357.8M up to 2025. This refinancing of the \$ 550M in bonds would occur in late 2023 or early 2024. It does not seem at all difficult that the company will not be able to access it if the casino reopens.

In this scenario, the company would go from \$ 437M in cash to \$ 152M in the first half of 2022. A sufficient liquidity cushion. In the worst case, the company could postpone some of Naga3's 2022 payments.

Pessimistic scenario

We believe that the base scenario is very conservative, even so, in order to analyze the exposure of default to the bondholder, we have decided to model an even more pessimistic scenario, which would be taking into account that the casinos continue to be closed until the second half of 2022. The company has confirmed us. that each month that the casinos are closed they burn around \$ 6M per month. This is \$ 72M every year.

Table 7. Summary of EBITDA calculation for Pessimistic Scenario

(M \$)	H1 2021	H2 2021	H1 2022	H2 2022	H1 2023	H2 2023	H1 2024	H2 2024	H1 2025	H2 2025
Revenues	200.0	0.0	0.0	550.0	650.0	700.0	810.0	870.0	900.0	930.0
Cost of Sales	- 110.0	0.0	0.0	- 302.5	- 357.5	- 385.0	- 445.5	- 478.5	- 495.0	- 511.5
Gross margin	90.0	0.0	0.0	247.5	292.5	315.0	364.5	391.5	405.0	418.5
Manage expenses	- 25.0	- 36.0	- 36.0	- 30.0	- 32.0	- 32.0	- 35.0	- 35.0	- 35.0	- 35.0
Other Expenses	- 90.0	- 50.0	- 50.0	- 105.0	- 107.5	- 107.5	- 110.0	- 112.5	- 115.0	- 115.0
Profit for Operations	- 25.0	- 86.0	- 86.0	112.5	153.0	175.5	219.5	244.0	255.0	268.5
GIVES	50.0	50.0	50.0	57.5	57.5	57.5	57.5	57.5	57.5	57.5
EBITDA	25.0	- 36.0	- 36.0	170.0	210.5	233.0	277.0	301.5	312.5	326.0

Table 8. Nagacorp liquidity forecast until 2025

(M \$)	H1 2021	H2 2021	H1 2022	H2 2022	H1 2023	H2 2023	H1 2024	H2 2024	H1 2025	H2 2025
Cash and Equiv	437.0	261.1	106.3	- 88.4	- 77.1	- 10.4	78.9	- 537.8	- 536.3	- 523.8
Notes 2021	- 300.0									
Notes 2021 coupon	- 28.1									
Issuance of Notes 2024	200.0						- 550.0			
Coupon Notes 2024	- 27.8	- 43.7	- 43.7	- 43.7	- 43.7	- 43.7	- 43.7			
Vladivostok Capex	- 25.0	- 25.0	- 25.0	- 25.0						
Naga3 capex	- 20.0	- 50.0	- 90.0	- 90.0	- 100.0	- 100.0	- 300.0	- 300.0	- 300.0	- 400.0
EBITDA	25.0	- 36.0	- 36.0	170.0	210.5	233.0	277.0	301.5	312.5	326.0
End Cash and Equivalents	261.1	106.3	- 88.4	- 77.1	- 10.4	78.9	- 537.8	- 536.3	- 523.8	- 597.8

The company would have problems to complete the CAPEX commitments in 2021 and 2022. Naga2 could be postponed or financing could be sought through another bond issue of around \$ 200M, reaching a debt of \$ 750M, reaching a ratio Normalized Debt / EBITDA of x1 and LTV less than 20%.

Risks

Non-payment Dr Chen

One of the most important legs is the financing provided by Dr Chen, which is 50% of Naga 3 in exchange for a dilution of shares at HK \$ 12. If this funding does not occur (\$ 1.75B) the project could be canceled. In this case, the costs would be borne by Dr Chen. With which the minority investor and bondholder would be covered.

Dr Chen is the ninth richest Malaysian in the country. His assets include Nagacorp (66.44% of the company, 2883.3M shares), a position currently valued at \$ 2.32B and 3 other Malaysian companies of much lower value. In addition, Dr Chen usually charges a fairly high bonus, in 2020 of \$ 26M (it has been deferred to the company) and in 2019 of \$ 30M. A bonus, in our opinion, high.

Dr Chen has entered \$ 63.4M, \$ 245.1M and \$ 155.7M in dividends respectively for 2020, 2019 and 2018. Surely, the dividends he collects finance his obligation to pay 50% of Naga3. It seems to us from the point of view of the investor in shares of the company a policy that rewards Dr Chen and hurts the retail investor.

Dr Chen's ability to meet the \$ 1.7B payment on Naga 3 is unknown and difficult to investigate.

Regulation, license and monopoly change

A change in regulation, in the casino license and the exclusivity of the business would seriously undermine the business. The company relies heavily on its relationship with the Cambodian government. At present, we believe that the relationship on both sides is very good.

The assets have a high enough value in the real estate market to pay the bondholders. The worst-case scenario for a bondholder would be for the government to repossess the company without compensation.

Delay in reopening of casinos

The delay in the reopening of the casinos would mean a loss of value for the shareholders, but thanks to the fact that the bond is guaranteed by the assets of the company, it seems very difficult for us to see a "default" in the bonds for this reason. Additionally, CAPEX can be postponed or canceled if necessary.

Civil War in Cambodia

A very negative scenario for the bondholder would be the outbreak of a civil war in the country, causing tourists and casino customers to prefer to go to another country. This scenario can occur and, on many occasions, it is difficult to predict. For this reason, the Nagacorp bond, no matter how insured it may be, should be required to have a higher interest than in more developed countries.

The project in Russia is valued at \$ 350M and the debt issuance is around \$ 550M. As the asset in Russia is outside the guarantees of the issue, it could not count as debt repayment.

Analysis

In our opinion, the debt market is not understanding the company's situation. At New Vila we think that the cost of capital is too high given its good financial health, quality of business and assets.

The company is poorly leveraged (LTV = 11%) and the value of the assets covers this debt in the worst case, the cash flows of the business are quite stable and the ability to generate profit is very high, with few fixed expenses beyond debt. Lastly, the quality of the assets is very high.

The trend is clear, in 2019 they placed the bond at 9.62% Yield, in 2020 at 8.5% and in 2021 at 6.625%. We believe that this trend should continue in future issues. Since the bond has the option to be repurchased at par, we believe that the bond will not trade much above par at any time and the investment should be until maturity of the bond. There is an appetite for bondholders, in the last placement there were more than \$ 580M that were subscribed, the issuance being only \$ 350M.

This last placement occurs while the casinos are closed. Following discussions with the company's investor relations, we think the casinos could reopen very soon, possibly in this quarter or next. Cambodia's Ministry of Tourism has announced its intention to open the country to tourists by the end of the year and we believe the casinos will open sooner.

The biggest risk we see is a possible political instability in the coming years that will make the country unattractive, such as a civil war. We believe that this is far from happening, furthermore, China's position in the country is very relevant and will not allow instability to have an impact on its investments in the country. Another inherent risk is Nagacorp's reliance on funding from Dr Chen. In the event that this funding, for some reason, does not arrive, the projects will be paralyzed. In any case, Dr Chen could sell part of his shares in the company, currently valued at \$ 2.32B, to fulfill the contract.

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About me and New Vila Equity Research

My name is Rodrigo Villanueva, I am the founder of New Vila Equity Research.

I created the firm to show my analytical skills, passion for investing and the way I analyze / invest in companies. I am looking for an opportunity in the asset management sector, open to discuss investment and working / collaborate with investment institutions. If you are interested, please contact me through email, rvillanueva@newvilaresearch.com.

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