

## MONEY TALK

### RGB International (RGB MK)

#### A Proxy To The Booming ASEAN Gaming Industry

A proxy to the mushrooming gaming establishments in ASEAN, slot machine distributor and operator RGB recorded 38% net profit CAGR in 2012-17, driven by cessation of unprofitable operations while nurturing the profitable markets. We see ample chances for future growth, driven by the region's greenfield casinos and RGB's strategy of growing presence in underserved markets via concessions. RGB trades at 4.8x 2017 EV/EBITDA and 12.7x 2017 PE. Prospective PE is attractive at 10-11x.

#### INVESTMENT HIGHLIGHTS

- **Capitalising on the growing liberalisation of the regional gaming industry.** RGB is well positioned to capitalise on the mushrooming casinos and gaming clubs, particularly in the Philippines, Indochina, Nepal and Timor Leste, as various governments seek to increase tax receipts and tourism dollars via the gaming industry. Its concession-based technical support and management division's (TSM) installed base of gaming machines is expected to grow by 10-15% p.a. in 2018-20 on new concessions and organic growth in existing outlets. This division is crucial in providing recurring cash flow for RGB. Meanwhile, the sales and marketing (SSM) division is expected to deliver strong unit sales growth of 20-25% p.a. in 2018-19 due to the opening of new casinos.
- **5-year net profit CAGR of 38% in 2012-17.** RGB had been suffering years of losses principally due to the setback of its Cambodia operations, before a successful turnaround in 2012. Subsequently, RGB delivered a 5-year net profit CAGR growth of 38% in 2012-17 as PBT margin improved from 2012's 3.3% to 2017's 16.0%. While the past five years' net profit growth was more so driven by margin improvement, we see ample opportunities for RGB to deliver earnings enhancement via top-line growth over the next three years.
- **Strong balance sheet to support expansion.** RGB's lush net cash (RM71m or 18% of market cap) position supports its ambitious growth targets for the TSM division's installed base of gaming machines.
- **Valuation.** RGB currently trades at 4.5x 2017 EV/EBITDA and 12.5x 2017 PE. Prospective valuation is expected to drop to 10x-11x prospective PE, given the strong projects pipeline in 2H18-2019. Prospective yield is decent at 2.5-3.0%.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2013	2014	2015	2016	2017
Net Turnover	140	215	233	254	252
EBITDA	49	54	58	62	66
Operating Profit	14	27	30	32	41
Net Profit (Reported/Actual)	6	19	21	26	31
Net Profit (Adjusted)	6	19	21	26	31
EPS (Adjusted) (sen)	0.57	1.59	1.73	1.96	2.33
PE (Adjusted) (x)	50.6	18.2	16.8	14.8	12.5
P/B (x)	3.8	2.8	1.9	1.7	1.7
EV/EBITDA (x)	8.0	6.8	5.9	5.5	4.8
Dividend Yield (%)	0.2	0.9	1.7	1.0	3.4
Net Margin (Adjusted) (%)	10.0	12.4	12.8	12.8	16.2
Net Debt/(Cash) to Equity (%)	49.3	6.0	(28.3)	(34.8)	(48.0)
Interest Cover (x)	1.7	3.8	6.4	23.8	84.8
ROE (%)	7.4	15.4	11.1	11.4	13.6
Consensus Net Profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: RGB, Bloomberg, UOB Kay Hian

### NOT RATED

Share Price	RM0.295
Target Price	n.a.
Upside	n.a.

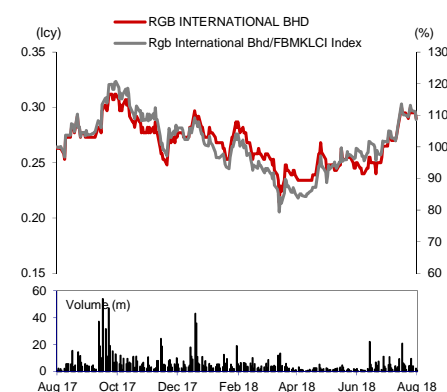
#### COMPANY DESCRIPTION

RGB manufactures and distributes slot machines in Asia. It also manages slot machine concessions in the Philippines, Indochina, Timor Leste and Nepal.

#### STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker	RGB MK
Shares issued (m)	1346.0
Market cap (RMm)	390.3
Market cap (US\$m)	95.2
3-mth avg turnover (US\$m)	0.2

#### PRICE CHART



Source: Bloomberg

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## INVESTMENT HIGHLIGHTS

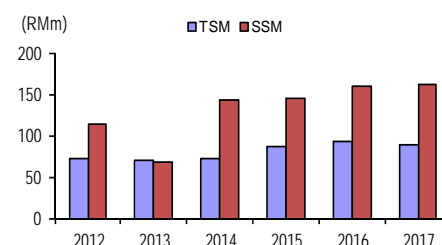
- 5-year net profit CAGR of 38% in 2012-17...** RGB had been suffering years of losses principally due to the setback in its Cambodia operations, before a successful operational and financial restructuring turned around the company in 2012. The restructuring allowed RGB to record a 5-year net profit CAGR growth of 38% in 2012-17, principally led by PBT margin expansion from 2012's 3.3% to 2017's 16.0%. The company's revamp strategies which led to significant margin improvement include: a) asset mobilisation plan by moving idle machines in Cambodia to other markets in ASEAN, b) exiting the high cost and loss-making Macau market, c) aggressively paring down its debt which resulted in its finance cost dropping from 2012's RM9.4m to 2017's RM0.5m, d) decent sales growth from both existing and new markets, and e) beneficiary of ringgit weakness. While the past five years' net profit growth was more so driven by margin improvement, we see ample opportunities for RGB to grow its top-line over the next three years.
- ...led by both margin improvement and revenue growth.** RGB delivered a 6% revenue CAGR in 2012-17, mainly driven by the TSM division, which forms JVs with casino operators and gaming club owners whereby TSM provides the machines and management expertise in exchange for a share of gaming revenues. Over the past three years, RGB's total installed machines base (see sidebar) has not grown as the company relocated slot machines from underperforming outlets to higher yield locations and new markets ie Nepal and Timor Leste. Meanwhile, its trading SSM (Sales And Marketing) division benefitted from the increasing liberalisation and growing gaming industry in ASEAN.
- TSM: Ample growth greenfield and brownfield opportunities in the emerging ASEAN countries, with attractive EBITDA payback of 2.5-3.0 years.** The TSM division is well positioned to capitalise on the mushrooming gaming clubs and casinos, particularly in the Philippines and Indochina. RGB is targeting to achieve 7,000 units of installed machines by end-18 (2017: 6,080) and targets for another 1,000 new installations in 2019. Key growth areas include Cambodia's DNA Star Vegas Casino, Nepal's Casino Royale, the Philippines' PACGOR-owned casinos and Sunvalley Group casinos among others. We assess that RGB's slot investment has a quick EBITDA payback of 2.5-3.0 years. We note that RGB's depreciation policy for slot machines is conservative at five years.
- SSM: New casinos to lead slot machines sales.** Regional demand for slot machines remains robust, driven by thriving growths in many of Asia's emerging countries' gaming jurisdictions, coupled by gaming liberalisation as various governments seek to enhance tax receipts and tourism dollars. In particular, the Philippines' gaming industry has emerged as a key casino destination in Asia, after Macau and Singapore. In the Philippines, there are 38 casinos, with the prime casinos being the four privately-owned integrated casino resorts (of which three are located at Entertainment City, the key gaming hub in Manila). Besides the Philippines, Vietnam and Cambodia represent two exciting markets for RGB (see sidebar for the existing and upcoming casinos). As a regional player, RGB is well positioned to capture the latest wave of expansion by virtue of it carrying various reputable international gaming equipment. Importantly, RGB is the exclusive distributor in most of the countries that it is involved in.
- TSM division's growth resuming after taking a break in 2017.** TSM's EBIT recorded consecutive yoy growths from 2012's RM7.7m to 2016's 27.9m. However, 2017 (-12% yoy) was impacted by a combination factors of new policy of smoking ban in public areas in the Philippines, upgrading of new games software and management system for TSM outlets. With steps being taken to overcome the smoking ban (such as creating smoking rooms and outdoor smoking zones) and better yield recorded across the region, TSM's EBIT grew 33% yoy and 131% qoq in 1Q18. We expect TSM to deliver 15-20% growth in 2018, underpinned by larger installation base as well as better yields from existing machines.

## SELECTED CASINOS IN THE EXPANSION MODE AND UPCOMING CASINOS

Country	Casino
Cambodia	Naga 2 Casino, Phnom Penh
	Donaco Star Vegas International Resort & Casino, Poipet
	Empire World Casino, Bavet (to open in end-19)
Philippines	Okada Manila, Entertainment City, Metro Manila
	The Emerald Resort Hotel and Casino, Cebu (to open in 2020)
	Millennium Casino, Cebu (to open in 2020)
	Westside City Resorts World, Entertainment city, Metro Manila (to open in 2021)
	Filinvest Mimosa Casino IR, Clark (opening year unknown)
Vietnam	Solaire Quezon City casino (to open in 2022)
	Nam Hoi An Resort/Hoiana, Chu Lai (to open in 2019)
	Corona Resort and Casino, Phu Quoc (open in 2018)
	Sun Groups Van Don Casino - Van Don, Quang Ninh (to open in 2019)

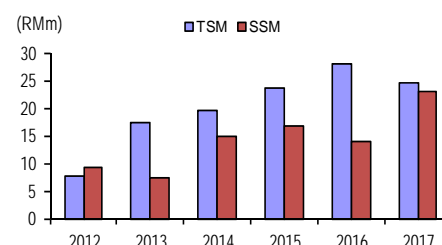
Source: Various Medias

## REVENUE BREAKDOWN BY SEGMENT



Source: RGB, UOB Kay Hian

## EBIT BREAKDOWN BY SEGMENT



Source: RGB, UOB Kay Hian

- **SSM: Not forgetting the replacement markets.** RGB also benefits from rising replacement demand as casinos and clubs typically replace a certain percentage of their machines annually (based on 3-5 year replacement cycle) as they shift out low-yielding machines and obsolete products with outdated technology. Typically, RGB sells 1,000-1,200 machines p.a. for the replacement markets.
- **SSM division's promising outlook in 2018-19.** SSM's earnings have been volatile, given that sales are highly dependent on gaming operators' capex on slot machines as well as the availability of new casino projects. In 2018-19, sales outlook is promising due to the opening of new casinos as mentioned above. We estimate the volume sold could be in the range of 1,400-1,500 in 2018, vs 2017's about 1,240 units.
- **Strong balance sheet to support expansion.** RGB's net cash position of RM71m allows it to ramp up investment in slot machines to spur its TSM division's growth. However, given the average price of RM120,000 per slot machine, we do not discount the possibility that RGB would need to raise funds via borrowings or equity to achieve its ambitious target.

#### COMPANY BACKGROUND

- Incorporated in 1986 through its wholly-owned subsidiary RGB Sdn Bhd, RGB was the pioneer in the ASEAN slot industry. It has three major operating segments, namely: a) technical support and management (TSM) which provides technical support and runs multiple machine concessions in the ASEAN region, b) sales and marketing (SSM), which is primarily the distribution of in-house and third-party gaming machines, and c) engineering services which provides repair & maintenance services, machines turnkey installation, as well as preventive maintenance services. The company's major shareholder is Datuk Chuah Kim Seah, who owns about 29% stake of RGB.
- **Broad spectrum of client base.** RGB's clients comprise a broad spectrum ranging from major casinos in the ASEAN region to operators of VIP slot clubs in Asian countries. RGB has dedicated sales teams in all the gaming capitals throughout Asia to serve its clients.
- **A successful turnaround in 2012.** RGB ran into major turmoil in 2009 after the Cambodian government imposed a sudden ban on sports betting and electronic gaming machines in entertainment clubs in Phnom Penh and Siem Reap. The decision took a toll on RGB's operations as it had more than 3,000 machines in Cambodia. To turn things around, management initiated and executed an asset mobilisation plan by moving idle machines to other markets in ASEAN. The move proved to be fruitful as RGB returned to the black in 2012.

#### Technical Support And Management (TSM)

- **Recurring cash flow from TSM concessions.** The TSM division contributed to 60% of group PBT in 2017. As of 1Q18, RGB had 38 concessions with some 6,300 machines operating in the Asian region. Generally, RGB signs a 5-year concession with the hall operator with a renewal option of five years, thus providing consistent and recurring cash flow to the group. Historically, there have been no problems with renewal and RGB had only opted out of unprofitable halls.
- **Defensive business model.** Unlike casinos which are exposed to the volatile VIP segment, RGB's TSM business is relatively more resilient due to: a) gamblers' high stickiness of slot machines, supporting by smaller bet sizes required at slot machines than at gaming tables, and b) more consistent win rate as compared with gaming tables.

#### Sales And Marketing (SSM)

- **Manufactures and distributes gaming machines.** The SSM division is primarily involved in sales and marketing of its proprietary electronic gaming machines and being an authorised distributor of gaming products. Besides slot machines, RGB also distributes casino accessories and equipment.

#### TSM: INSTALLED SLOT MACHINE (IN UNITS) BY COUNTRIES

Country	2015	2016	2017	2018F*
Cambodia	2,970	2,860	2,350	2,360
Philippines	2,740	2,600	3,030	3,400
Vietnam	-	-	60	70
Laos	610	510	490	610
Nepal	70	70	70	250
Timor Leste	80	80	80	130
<b>Total</b>	<b>6,470</b>	<b>6,120</b>	<b>6,080</b>	<b>6,820</b>

*Note: Targeting for 7,000 units by end-2018 with 6,820 units having been confirmed.*

*Source: RGB*

#### SSM: MACHINES SOLD BY COUNTRIES

Country	2015	2016	2017	2018F
Cambodia	20	-	10	50
Philippines	950	1,000	940	500
Vietnam	160	190	130	800
Others	100	50	160	150
<b>Total</b>	<b>1,230</b>	<b>1,240</b>	<b>1,240</b>	<b>1,500</b>

*Source: RGB*

#### THIRD PARTY BRANDS THAT RGB REPRESENTS



*Source: RGB*

- **Numerous international brands under its portfolio.** Besides in-house brand (RGBGames), the company also represents some of the world's most reputable brands in slot machines and other related products, which include R. Franco, Scientific Games (Bally, Shuffle Master & WMS), Aristocrat and Suzo Happ. Due to its strong relationships with key players, RGB enjoys exclusivity for many brands in the region. These agreements effectively increase RGB's competitiveness in the industry with little risk of direct dealing with manufacturers.

#### Engineering Services (Engineering)

- **On-site technical support to customers.** As the first line of contact with customers, RGB's engineering division consists of engineers to perform technical support. The engineering division offers: a) on-site technical and system installation, support, upgrade and conversion, b) on-site technical and system training solution, c) remote system support resources, d) consultancy on electronic gaming machines layouts, technical requirements, machines and systems matters, and e) preventive maintenance services and repairing of parts and components.
- **A new division; 200 technicians globally.** The engineering division was started in 2017 and contribution is still marginal, making up less than 2% of operating profit. RGB has 200 technicians stationed at clients' casino sites to provide engineering support. The key client for this division is Genting Malaysia, which outsources maintenance works of about 6,000 slot machines to RGB for two years.

#### VALUATION

- **Valuation.** RGB is currently trading at 4.8x 2017 EV/EBITDA and 12.7x 2017 PE. Prospective valuation is expected to drop to 10x-11x prospective PE, given the strong projects pipeline in 2H18-2019. Prospective yield is decent at 2.5%-3.0%, assuming 30% earnings payout.
- **Peer comparison.** RGB's direct peers are Hong Kong-listed Success Dragon (1182 HK) and Paradise Entertainment (1180 HK), which both are loss making in 2017. Consensus forecasts that Paradise could turn profitable in FY18 with PE of 85.0x/28.3x in 2018/19. Another of RGB's peer is Melco International Development (Melco), which acquired Entertainment Gaming Asia (runs a revenue-share gaming machines model in Cambodia and Philippines) last year. Entertainment Gaming Asia was a loss-making company prior to being acquired by Melco. Melco is trading at 18.6x/13.2x 2018/19 PE. Lastly, RGB's US-listed gaming machine suppliers, Aristocrat Leisure and Scientific Games Corp are currently trading at 21-42x 2019 PE.

#### RISK FACTORS

- a) Unfavourable changes in regulatory policies, b) non-renewal of slot concessions (minimal in our view), and c) ability to maintain distributorship of key brands.

#### PEER COMPARISON

Company	Ticker	Rec	Share Price 27 Aug 18 (local currency)	Market Cap (US\$m)	PE (x)			EV/EBITDA (x)			Dividend Yield (%)
					FY17	FY18F	FY19F	FY17	FY18	FY19	
Success Dragon	1182 HK	NOT RATED	HK\$0.255	67	n.m.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Paradise Entertainment	1180 HK	NOT RATED	HK\$0.84	114	n.m.	84.0	14.0	n.a.	n.a.	n.a.	n.a.
Melco International Development	200 HK	NOT RATED	HK\$21.70	4,181	69.0	18.5	13.1	7.8	6.9	6.5	0.8
Scientific Games Corp	SGMS US	NOT RATED	US\$30.35	2,802	n.m.	n.m.	42.1	8.6	8.2	7.8	n.a.
Aristocrat Leisure	ALL AU	NOT RATED	AUD\$1.60	14,764	40.6	26.2	22.0	16.8	14.3	13.2	1.9
RGB International	RGB MK	NOT RATED	RM0.295	95	12.7	n.a.	n.a.	4.8	n.a.	n.a.	n.a.

Source: Bloomberg, UOB Kay Hian

## FINANCIAL STATEMENTS

### PROFIT & LOSS

Year to 31 Dec (RMm)	2014	2015	2016	2017
<b>Net Turnover</b>	<b>215</b>	<b>233</b>	<b>254</b>	<b>252</b>
EBITDA	54	58	62	66
Depreciation & Amortisation	(27)	(28)	(30)	(25)
EBIT	27	30	32	41
Associate Contributions	0	0	0	0
Net Interest Income/(Expense)	(7)	(5)	(1)	(0)
<b>Pre-tax Profit</b>	<b>20</b>	<b>25</b>	<b>31</b>	<b>40</b>
Tax	(2)	(4)	(6)	(10)
Minorities	(0)	(0)	(1)	(1)
Net Profit	18	21	25	31
<b>Net Profit (Adjusted)</b>	<b>18</b>	<b>21</b>	<b>25</b>	<b>31</b>

### CASH FLOW

Year to 31 Dec (RMm)	2014	2015	2016	2017
<b>Operating</b>	<b>49</b>	<b>51</b>	<b>39</b>	<b>80</b>
Pre-tax Profit	20	25	31	40
Tax	(2)	(4)	(6)	(10)
Depreciation & Amortisation	27	28	30	25
Working Capital Changes	(11)	(6)	(15)	7
Other Operating Cashflows	7	7	(2)	17
<b>Investing</b>	<b>(22)</b>	<b>(20)</b>	<b>(12)</b>	<b>33</b>
Capex (Growth)	(15)	(24)	(16)	(34)
Investments	0	0	0	0
Proceeds from Sale of Assets	(15)	(24)	(16)	(34)
Others	(8)	2	4	67
<b>Financing</b>	<b>(11)</b>	<b>(16)</b>	<b>(33)</b>	<b>(2)</b>
Dividend Payments	(1)	(3)	(7)	(8)
Issue of Shares	2	19	2	1
Proceeds from Borrowings	0	0	0	0
Loan Repayment	(0)	(33)	(28)	3
Others/Interest Paid	0	1	(0)	2
<b>Net Cash Inflow (Outflow)</b>	<b>15</b>	<b>16</b>	<b>(5)</b>	<b>46</b>
<b>Beginning Cash &amp; Cash Equivalent</b>	<b>24</b>	<b>44</b>	<b>69</b>	<b>68</b>
Changes Due to Forex Impact	6	12	4	(9)
<b>Ending Cash &amp; Cash Equivalent</b>	<b>44</b>	<b>73</b>	<b>68</b>	<b>104</b>

### BALANCE SHEET

Year to 31 Dec (RMm)	2014	2015	2016	2017
Fixed Assets	108	119	108	105
Other LT Assets	10	13	5	13
Cash/ST Investment	61	85	79	114
Other Current Assets	89	85	106	154
<b>Total Assets</b>	<b>268</b>	<b>302</b>	<b>298</b>	<b>386</b>
ST Debt	28	19	4	6
Other Current Liabilities	78	66	63	142
LT Debt	39	17	4	7
Other LT Liabilities	2	4	1	0
Shareholders' Equity	105	175	203	210
Minority Interest	16	21	23	21
<b>Total Liabilities &amp; Equity</b>	<b>268</b>	<b>302</b>	<b>298</b>	<b>386</b>

### KEY METRICS

Year to 31 Dec (%)	2014	2015	2016	2017
<b>Profitability</b>				
EBITDA Margin	25.1	24.9	24.5	26.3
Pre-tax Margin	9.2	10.8	12.2	16.0
Net Margin	8.5	9.1	10.0	12.2
ROA	6.9	7.2	8.7	8.1
ROE	15.4	11.1	11.4	13.6
<b>Growth</b>				
Turnover	53.7	8.6	8.8	(0.5)
EBITDA	9.9	7.8	6.8	6.9
Pre-tax Profit	201.6	27.5	23.4	30.3
Net Profit	204.3	17.3	18.8	21.3
Net Profit (Adjusted)	204.3	17.3	18.8	21.3
EPS	177.7	(99.9)	13.3	19.7
<b>Leverage</b>				
Debt to Total Capital	56.8	27.2	5.9	9.5
Debt to Equity	63.9	20.3	3.9	6.1
Net Debt/(Cash) to Equity	(6.0)	28.3	34.8	48.0
Interest Cover (x)	(3.8)	(6.4)	(23.8)	(84.8)



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