

Genting Malaysia's costly foray into Empire

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The stakes are getting higher for Genting Malaysia Bhd (GenM) following its foray into Empire Resort Inc in the US. The company has invested US\$624.4 million (RM2.74 billion) in its 49%-owned Empire over the last four years.

GenM's latest exercise announced last week will see it invest another US\$100 million in convertible preferred stocks issued by Empire. With the latest investment, its stake in Empire will increase to 76.3% if the convertible instruments are not redeemed. The New York-based gaming company has until 2030 to redeem the convertibles.

GenM's injection of more money into loss-making Empire was generally not well received by analysts.

While it is acceptable that a behemoth such as GenM tends to invest in its own growth prospects, some analysts think the Malaysian company may be too optimistic about the New York gaming market. They feel that GenM may want to replicate its success in New York for geographical diversification, but note that it requires large capital expenditure (capex) and could pressure its credit position.

"It's not wrong to want to replicate the success. However, the intention has to be met with the right market conditions. The competition for gaming business in the US is just too high. Those resources could be better off focused on enhancing its operations in markets where the group actually generates money," says an analyst, adding that the capital injection into its New York City casino could be in vain as Empire's business has yet to make a meaningful contribution to GenM thus far.

"Empire is turning around, but we still doubt if it is worth US\$1 billion as the latest transaction implies," says Maybank Investment Bank gaming analyst Yin Shao Yang in a recent report.

Although the acquisition is not subject to shareholders' approval, GenM does owe them an explanation as to how it sees the investment as being in the best interest of the company and, by extension, in the interest of all shareholders, Minority Shareholders Watch Group (MSWG) CEO Devanesan Evanson tells *The Edge*.

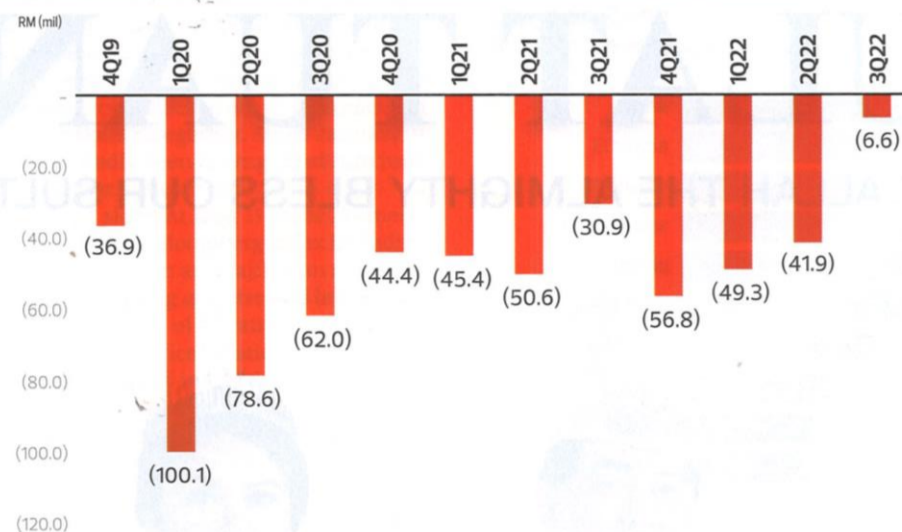
"We are unable to see the investment as value-accretive to minority shareholders. Empire is expected to be loss-making for the next five years. There is no visibility as to when Empire will turn around, or how it will be turned around, sooner than later. In this context, minority shareholders are encouraged to raise pertinent questions to the board of GenM," he adds.

In 2019, Empire's gross gaming revenue (GGR) was about US\$214.8 million and its net revenue was about US\$243.7 million. In 2020, reflecting the limited operations as a result of the Covid-19 pandemic, its GGR fell to US\$87 million while its net revenue stood at about US\$97.9 million. For the six months ended June 30, 2021, its GGR and net revenue came in at about US\$86.2 million and US\$98.1 million respectively.

GenM's latest equity injection into Empire is to refinance its borrowings tied to Kien Huat Realty III.

"Since the US\$100 million will go to Kien Huat Realty III, it stands to reason that Empire itself will not benefit from the transaction. What we are unsure of is whether Empire's implied valuation of US\$1 billion is warranted, given that it is still loss-generating," Yin states in his report.

GenM's share of Empire's losses



SOURCE: COMPANY

Genting Malaysia



Lam Hsien Jin of CGS-CIMB Securities, the investment in Empire is a negative development for GenM because they expect Empire to still be loss-making in the next five years. "This acquisition increases our projected net debt/Ebitda for GenM by end-FY2023 from 2.49 times to 2.63 times," they say in a research note.

Limited upside in Empire

The prospect of gaming in the Catskills region has piqued the interest of operators for decades due to its geographical proximity to New York. Hence, it is easy to fathom why GenM ventured into Empire.

Empire owns and operates Resorts World Catskills and Monticello Raceway. It is located in the Catskill Mountains, about 80 miles northwest of New York City.

Resorts World Catskills has a 95,000 sq ft casino, comprising over 1,600 cashless slot machines, 152 available live table games, a VIP/high limit area located on the main gaming floor and a sportsbook 360 betting lounge.

According to Empire, there has been a resurgence in the popularity of the Catskills region as a tourist destination and it is poised for continued growth as a vacation destination. Additionally, the soon-to-be-opened Resorts World Hudson Valley could play in favour of the company.

"There could be further upside to Empire from Resorts World Hudson Valley, a 90,000 sq ft facility with over 1,200 video lottery terminals, which will open in December 2022," Yin says in the report.

The new facility, which is in Newburgh Mall in upstate New York, will feature about 1,200 video lottery terminals and electronic table games, as well as a sports bar.

Nonetheless, competition in the area is equally high, an analyst points out.

"The gaming industry in the northeastern US is highly competitive, dominated by multinational corporations with decades of casino operations experience and strong gaming portfolio. They also come with substantially greater financial resources," says the analyst.

Among the big boys are MGM Yonkers, Jake's 58 Hotel & Casino, Mount Airy Casino, Wind Creek Bethlehem Casino and Parx Casino.

"There are also other forms of gambling and online betting at the other casinos operating around the area where Empire is established. Some competition, to a smaller extent, might come from areas like Pennsylvania and New Jersey," says the analyst.

There is also the risk that Empire's business may get dwarfed amid the rapid expansion of other state-licensed casino operators, says the analyst with a local research firm.

Macau not completely out of reach

Macau is not exactly the best place to invest at the moment. It lost its shine as the world's most lucrative gambling centre at the height of the pandemic. Even with the global reopening, it has been hit by China's zero-Covid policy.

But that did not stop Genting Malaysia (GenM) from throwing its hat in the ring by bidding for one of the six licences that were up for grabs. The licences come with a 10-year gaming concession.

As expected, the Macau government awarded the new concessions to the six existing players, and GenM's bid was unsuccessful. However, GenM may still get a chance to participate in the Macau gaming scene through investments in satellite casinos, according to analysts.

Morningstar's senior equity analyst Jennifer Song, for one, thinks that taking over satellite casinos is an option for GenM, as some of them may want to quit.

"However, given that the size of the satellite casino is relatively small, it would not be meaningful for Genting," Song tells *The Edge*.

Of the 40 casinos in Macau, 18 are satellite casinos, of which 14 are owned by SJM Holdings, while the remaining four are linked to Galaxy Entertainment Group and Melco Resorts and Entertainment Ltd.

Under Macau's draft Gaming Bill, independent satellite casino operators have to be acquired by any of the six concessionaires or be permanently closed. However, the draft bill was amended in May 2022 to enable satellite casinos to operate for longer than the original

three-year transition period.

Had GenM won the 10-year gaming concession in Macau, it would have needed a huge investment, including US\$620 million (RM2.73 billion) in cash as a deposit and potentially US\$4 billion to US\$5 billion in capital expenditure for a new property.

This might hurt the group's liquidity, said Bloomberg Intelligence Credit analyst Cecilia Chan in a recent report. "Genting Bhd's net leverage might exceed four times by 2023, triggering S&P's rating downgrade threshold, which in turn would pressure GenM's ratings, given its direct link to the parent.

"Also, GenM would have to rush to take over an already built property or one under construction so that it can start operation as soon as possible. But this does not align with Macau's interest and the conflict will likely result in the new bidder's economic loss.

"Parcels 7 and 8 in Cotai are the only available land approved for casino development but the 10-year licence duration is insufficient to recoup the investment," she says.

Chan also observes that the return on investment from Macau's integrated resorts had been deteriorating even before the pandemic. Thus, she thinks GenM's dominant position as the exclusive gaming rights holder in Malaysia offers better potential.

Also, she says overseas expansion stokes risks of diminishing returns due to tough competition and a dearth of visitors. GenM has a presence in the US, the Bahamas and the UK.

To recap, in November 2019, Empire was delisted from the Nasdaq and taken private. The company was held by Kien Huat (51%) and GenM (49%).

Kien Huat is an investment holding company and an affiliate of Kien Huat Realty Sdn Bhd, which is controlled by the family of the late Tan Sri Lim Goh Tong. Kien Huat Realty is the major shareholder of Genting Bhd, where Tan Sri Lim Kok Thay is president and CEO.

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