

Summit Ascent Holdings Limited

1H21 EBITDA of HK\$17mn helped by local mass demand

Reiterate Rating: BUY | PO: 1.64 HKD | Price: 0.600 HKD

1H21 EBITDA of HK\$17mn on local mass demand

Summit Ascent reported 1H21 adjusted EBITDA of HK\$17mn (vs. negative HK\$22mn in 1H20), which was helped by local Mass & EGM (electronic gaming) business at Tigre de Cristal (TDC). Total revenue was up +35% YoY or +13% HoH to HK\$129mn, which was purely driven by mass (up +62% YoY to HK\$55 mn) and EGM (up +66% YoY to HK\$68mn) thanks to local demand. Meanwhile, there was no VIP or premium mass due to lack of foreign tourists as borders remained largely closed.

Key takeaways from conference call

(1) Management still expects positive EBITDA in 2H21. (2) Westside in the Philippines remains a top priority (c. US\$1bn budget) and company is working to maintain the schedule to open in 2023. (3) Management is not too concerned about the regulatory impact in Mainland China. The company also has diversified databases with many members from Korea, Japan, HK, Taiwan, and ASEAN. (4) Biggest constraints remain the government's broader restriction; hopefully the rising vaccination rate can help. (5) Capex budget: TDC phase 2 is US\$200mn, funding will use the existing cash (US\$82mn in 102 HK and EBITDA generate), opex is US\$2.4mn per month; Westside project capex budget at US\$1bn, of which the company raised US\$430mn already. The new CEO David Chua is working with local banks to try to secure financing for the balance.

Cut PO to HK\$1.64; Reiterate Buy

We cut out 2021/2022 EBITDA estimates to HK\$11mn and positive HK\$164mn to reflect the continued impact of the COVID pandemic. Accordingly, we lower our PO to HK\$1.64 from HK\$2.00. In our view, Summit Ascent (SA) is trading at below replacement value, which is undemanding. We reiterate our Buy rating on SA.

Estimates (Dec) (HK\$)	2019A	2020A	2021E	2022E	2023E
Net Income (Adjusted - mn)	107	(48)	(39)	79	423
EPS	0.069	(0.011)	(0.010)	0.017	0.093
EPS Change (YoY)	NM	NM	16.4%	NM	458.2%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	0.111	(0.013)	(0.146)	(0.072)	0.090
Valuation (Dec)					
P/E	8.73x	NM	NM	36.00x	6.45x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	6.27x	34.39x	19.46x	6.60x	2.51x
Free Cash Flow Yield*	6.18%	-2.24%	-24.37%	-11.97%	15.06%

* For full definitions of *IQmethod*SM measures, see page 5.

02 September 2021

Equity

Key Changes

(HK\$)	Previous	Current
Price Obj.	2.00	1.64
2021E Rev (m)	516.2	301.8
2022E Rev (m)	1,152.0	1,144.0
2023E Rev (m)	2,141.1	2,124.0
2021E EPS	0	-0.01
2022E EPS	0.08	0.02
2023E EPS	0.21	0.09

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Stock Data

Price	0.600 HKD
Price Objective	1.64 HKD
Date Established	2-Sep-2021
Investment Opinion	C-1-9
52-Week Range	0.480 HKD-1.24 HKD
Mrkt Val / Shares Out (mn)	348 USD / 4,509.4
Market Value (mn)	2,706 HKD
Average Daily Value (mn)	0.153 USD
Free Float	29.2%
BofA Ticker / Exchange	SMTNF / HKG
Bloomberg / Reuters	102 HK / 0102.HK
ROE (2021E)	-1.1%
Net Dbt to Eqty (Dec-2020A)	-38.1%

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Refer to important disclosures on page 5 to 8. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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Timestamp: 01 September 2021 04:30PM EDT

iQprofileSM Summit Ascent Holdings Limited

Key Income Statement Data (Dec)

(HK\$ Millions)	2019A	2020A	2021E	2022E	2023E
Sales	533	211	302	1,144	2,124
Gross Profit	520	204	294	1,088	2,027
Sell General & Admin Expense	(165)	(128)	(171)	(218)	(447)
Operating Profit	210	(26)	18	212	472
Net Interest & Other Income	(103)	(22)	(57)	(133)	(49)
Associates	0	0	0	0	0
Pretax Income	107	(48)	(39)	79	423
Tax (expense) / Benefit	0	0	0	0	0
Net Income (Adjusted)	107	(48)	(39)	79	423
Average Fully Diluted Shares Outstanding	1,502	4,509	4,509	4,509	4,509

Key Cash Flow Statement Data

Net Income	103	(51)	(43)	75	420
Depreciation & Amortization	99	82	82	82	300
Change in Working Capital	(19)	(6)	0	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	32	(60)	(79)	(79)	(296)
Cash Flow from Operations	216	(35)	(39)	79	423
Capital Expenditure	(48)	(25)	(620)	(402)	(16)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	(20)	(903)	0	0	0
Cash Flow from Investing	(68)	(929)	(620)	(402)	(16)
Shares Issue / (Repurchase)	297	1,618	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	237	1,616	846	(1)	(1)
Free Cash Flow	167	(61)	(659)	(324)	407
Net Debt	(637)	(1,424)	(763)	(439)	(846)
Change in Net Debt	(452)	(655)	660	324	(407)

Key Balance Sheet Data

Property, Plant & Equipment	1,409	1,372	1,992	2,395	2,410
Other Non-Current Assets	39	1,012	1,012	1,012	1,012
Trade Receivables	62	23	23	23	23
Cash & Equivalents	861	1,562	1,748	1,424	1,831
Other Current Assets	3	9	9	9	9
Total Assets	2,373	3,978	4,784	4,862	5,285
Long-Term Debt	0	139	985	985	985
Other Non-Current Liabilities	50	41	36	36	36
Short-Term Debt	223	0	0	0	0
Other Current Liabilities	64	44	43	43	43
Total Liabilities	337	224	1,064	1,064	1,064
Total Equity	2,036	3,737	3,720	3,799	4,221
Total Equity & Liabilities	2,373	3,961	4,784	4,862	5,285

iQ^{method} SM - Bus Performance*

Return On Capital Employed	9.3%	-0.5%	0.6%	4.2%	8.6%
Return On Equity	5.8%	-1.7%	-1.1%	2.1%	10.6%
Operating Margin	39.5%	-12.2%	5.8%	18.5%	22.2%
EBITDA Margin	58.1%	26.7%	33.1%	25.7%	36.4%

iQ^{method} SM - Quality of Earnings*

Cash Realization Ratio	2.0x	NM	NM	1.0x	1.0x
Asset Replacement Ratio	0.5x	0.3x	7.5x	4.9x	0.1x
Tax Rate (Reported)	0.1%	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-31.3%	-38.1%	-20.5%	-11.6%	-20.0%
Interest Cover	6.8x	-1.0x	1.8x	21.2x	47.2x

Key Metrics

* For full definitions of iQ^{method} SM measures, see page 5.

Company Sector

Gaming

Company Description

Summit Ascent mainly has one existing integrated resort (IR) project and two upcoming IR projects. The existing project is Tigre de Cristal casino phase 1, located in the Primorye Region of the Russian Far East. The two upcoming projects are Tigre de Cristal casino phase 2 with a target opening in 2022, and Westside City Project that will open in 2023 in Entertainment City which is a gaming hub located in the Philippines capital city Manila.

Investment Rationale

Summit Ascent could deliver significant revenue growth in the next few years, driven by the new capacity, and the client resource from Suncity which would directly help the high-end business. Market expectation for the company is relatively low. We believe there are multiple catalysts ahead which could help drive a rerating, 1) More updates on new projects, 2) gradual rollout of vaccination, 3) more details on cross-border money transfer and overseas gaming policy implementation in mainland.

Stock Data

Price to Book Value

0.7x



Price objective basis & risk

Summit Ascent Holdings Limited (SMTNF)

Our PO of HK\$1.64 is based on HK\$164mn 2022E EBITDA and 10x target multiple. We believe the 10x EBITDA target multiple is reasonable. It is lower than the 13.5x target multiple for Macau operators on average and 11x target multiple for regional operators on average, though Summit Ascent is likely to deliver higher EBITDA growth in 2021-2023. We also conservatively factor in HK\$2,956mn and HK\$1,854mn NPV from Russia project phase 2 and Manila project, respectively.

Downside risks are: 1) sovereign and geopolitical risk in Russia and the Philippines, 2) macro slowdown, 3) potential share placements, 4) regulatory changes, 5) increased local and regional competition, 6) project risk and 7) worse-than-expected further COVID outbreak.

Analyst Certification

I, Billy Ng, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.



APR - Gaming & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Bloomerry Resorts	BBRRF	BLOOM PM	Billy Ng, CFA
	BTG Hotels	XYGTF	600258 CH	Ronald Leung, CFA
	Central Plaza Hotel	XWTFD	CEN TEL TB	Charti Phrawphraikul
	China Tourism Group Duty Free	XCTVF	601888 CH	Billy Ng, CFA
	China Travel International	CTVIF	308 HK	Ronald Leung, CFA
	Fosun International	FOSUF	656 HK	Ronald Leung, CFA
	Galaxy Entertainment	GXYEF	27 HK	Billy Ng, CFA
	Greentree Hospitality	GHG	GHG US	Billy Ng, CFA
	Hotel Shilla	HSLLF	008770 KS	Jeremy Kim
	Huazhu Group Limited	HTHT	HTHT US	Billy Ng, CFA
	Huazhu Group Limited	XHUAF	1179 HK	Billy Ng, CFA
	Melco International	MDEVF	200 HK	Ronald Leung, CFA
	Melco Resorts & Entertainment Limited	MLCO	MLCO US	Billy Ng, CFA
	Minor International	MINOF	MINT TB	Charti Phrawphraikul
	NagaCorp Ltd.	NGCRF	3918 HK	Billy Ng, CFA
	Paradise	PDCLF	034230 KS	Susie Lee
	PointsBet Holding Ltd	PBTHF	PB AU	Melinda Baxter
	Sands China Ltd.	SCHYF	1928 HK	Billy Ng, CFA
	Shanghai Jin jiang Capital	SJIF	2006 HK	Ronald Leung, CFA
	Shangri-La Asia	SHALF	69 HK	Billy Ng, CFA
	Shun Tak Holdings	SHTGF	242 HK	Ronald Leung, CFA
	SJM Holdings Limited	SJMHF	880 HK	Billy Ng, CFA
	Songcheng Performance	XMUGF	300144 CH	Billy Ng, CFA
	Summit Ascent Holdings Limited	SMTNF	102 HK	Billy Ng, CFA
	The Erawan Group	XCZVF	ERW TB	Charti Phrawphraikul
	Wangfujing Group	BJNGF	600859 CH	Ronald Leung, CFA
NEUTRAL				
	Aristocrat Leisure Limited	ARLUF	ALL AU	Melinda Baxter
	Chow Tai Fook Jewellery	CJWF	1929 HK	Ronald Leung, CFA
	Genting Singapore	GIGNF	GENS SP	Billy Ng, CFA
	Grand Korea Leisure	XFAIF	114090 KS	Susie Lee
	MGM China Holdings	MCHVF	2282 HK	Billy Ng, CFA
	Shanghai Jin Jiang Intl Hotels Dev Co.	XGCQF	600754 CH	Billy Ng, CFA
UNDERPERFORM				
	China CYTS Tours Holding	XCMWF	600138 CH	Ronald Leung, CFA
	Genting Malaysia	GMALF	GENM MK	Billy Ng, CFA
	Hong Kong and Shanghai Hotels	HKSHF	45 HK	Ronald Leung, CFA
	Kangwon Land	KGWNF	035250 KS	Susie Lee
	TABCORP Holdings Limited	TABCF	TAH AU	Melinda Baxter
	Wynn Macau, Limited	WYNMF	1128 HK	Billy Ng, CFA
RSTR				
	Crown Resorts Limited	CWLDF	CWN AU	Melinda Baxter
	The Star Entertainment Group Limited	EHGRF	SGRAU	Melinda Baxter



iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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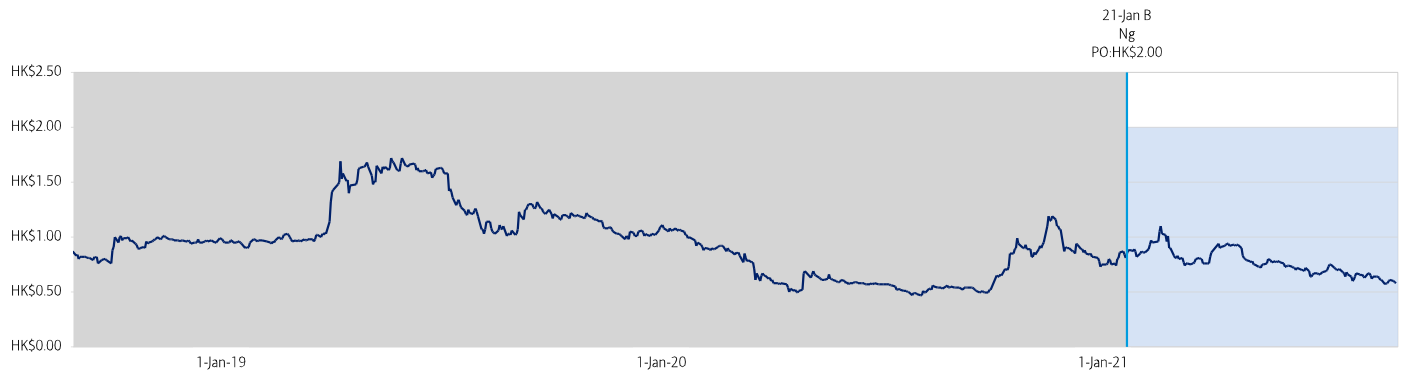
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Summit Ascent (SMTNF) Price Chart



SMTNF — No Coverage Review PO
 B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Gaming Group (as of 30 Jun 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	24	63.16%	Buy	10	41.67%
Hold	11	28.95%	Hold	7	63.64%
Sell	3	7.89%	Sell	2	66.67%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1947	60.07%	Buy	1252	64.30%
Hold	637	19.65%	Hold	395	62.01%
Sell	657	20.27%	Sell	340	51.75%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BoFA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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