

Asian Daily

Summit Ascent (0102.HK)

1H21 EBITDA has improved despite lockdown

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (HK\$): 1.20

Previous target price (HK\$): 1.80

- EBITDA has continued to improve to HK\$17 mn in 1H21, from HK\$7 mn in 2H20 and turned around from a negative HK\$22 mn in 1H20.
- While the VIP business has remained shut down amid the lockdown environment during the current period, the recovery in mass/slot GGR has been solid, from reaching 50%/65% of 2019 pre-pandemic level in 2H20 to a higher 71%/75% level in 1H21. Near-term visibility on border reopening remains uncertain with the Delta variants, but the local demand alone has already generated positive cash flow.
- On a per-share basis, the strong cash balance (HK\$0.14), the SunTrust convertible bond (HK\$0.22) and short-term loan to SunTrust (HK\$0.21) together have already made up a value of HK\$0.57/share (vs market price at HK\$0.6). We see the name is attractively valued with a recovery ahead on the existing operation when the border reopens.
- Post result, we cut our FY21-22E earnings by 82-87% given the ongoing lockdown situation likely until early 2022, and also introduce FY23E. Based on 8x normalised FY23E EBITDA on the casino operation and 1x value of the SunTrust convertible bond, we cut our TP to HK\$1.20 (from HK\$1.80). Maintain OUTPERFORM.

1H21 result saw improvement despite lockdown. EBITDA came in at HK\$17 mn EBITDA, with GGR reaching only 29% of 2019 pre-pandemic level, supported by the Russian demand locally based in Vladivostok. This has seen a turnaround from a negative EBITDA of HK\$22 mn in 1H20 and sequentially improved from an EBITDA of HK\$7 mn in 2H20. Down to the bottom line, the net loss has also narrowed from HK\$47 mn in 1H20 to a breakeven in 1H21, thanks to a HK\$34 mn interest income from the SunTrust convertible bond and loan. This provides an extra cushion to offset the financial impact from the pandemic despite the items being below the EBITDA line. Near-term visibility on border reopening remains uncertain with the Delta variants, but the local demand alone has already generated positive cash flow.

Figure 1: Summit Ascent's 1H21 result summary

Group	1H20	1H21	YoY % chg	2H20	HoH % chg
VIP	50	-	-100%	2	-100%
Mass	34	55	63%	48	13%
Slot	41	68	65%	62	11%
Gross gaming revenue	125	123	-2%	112	10%
Non-gaming revenue	4	7	82%	5	46%
Total revenue	96	129	35%	115	12%
Opex	(118)	(112)	-5%	(108)	4%
EBITDA	(22)	17	178%	7	130%

Source: Company data

Local mass has remained solid; with border reopening as upside. Mass GGR +63% YoY to HK\$55 mn, or 71% of 2019 pre-COVID level in 1H21, with daily volume 7% higher than 2H20. The slot GGR also +65% YoY to HK\$68 mn, or 75% of 2019 pre-COVID level in 1H21, seeing volume 4% higher than 2H20 on a daily basis. While the VIP operation has been shut down after the revamp of the property was completed, the strong customer reach of the Suncity Group should offer a good source of quality players when the Vladivostok border reopens. That said, the ongoing vaccination has not only provided a better ground for resumption of international visitations, but has likely also helped prevent another mandatory shutdown.

Price (01-Sep-21, HK\$)	0.60	Est. pot. % chg. to TP	100.0	
Mkt cap (HK\$/US\$ mn)	2,706 / 348	Blue sky scenario (HK\$)	1.5	
Number of shares (mn)	4,509	Grey sky scenario (HK\$)	0.9	
Free float (%)	29.4	Performance	1M 3M 12M	
52-wk range (HK\$)	1.19 - 0.49	Absolute (%)	(7.7) (18.9) 11.1	
ADTO-6M (US\$ mn)	0.6	Relative (%)	(6.9) (8.8) 7.8	
Year	12/20A	12/21E	12/22E 12/23E	
Revenue (HK\$ mn)	211.2	286.1	471.5	1,011.4
EBITDA (HK\$ mn)	(14.7)	50.6	140.2	531.0
EBIT (HK\$ mn)	(96.9)	(33.1)	55.1	410.3
Net profit (HK\$ mn)	10.0	32.6	99.4	407.8
EPS (CS adj.) (HK\$)	0.0	0.01	0.02	0.09
Chg. from prev. EPS (%)	n.a.	(87.4)	(82.0)	n.a.
Consensus EPS (HK\$)	n.a.	0.06	0.12	-
EPS growth (%)	(92.3)	84.2	204.6	310.3
P/E (x)	152.7	82.9	27.2	6.6
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	n.m.	23.2	14.3	4.7
P/B (x)	0.45	0.79	0.77	0.69
ROE (%)	0.4	1.0	2.9	10.9
Net debt/equity (%)	(41.4)	(41.0)	(18.3)	(5.0)

Source: Company data, Refinitiv, Credit Suisse estimates

Figure 2: Summit Ascent's GGR forecast by segment

(HKD'mn)	FY19A	FY20E	1H21A	2H21E	FY21E	FY22E	FY23E
VIP	441	52	0	0	0	239	1,042
YoY chg	-9%	-88%	-100%	-100%	-100%	n/a	337%
% of 2019 level		12%	0%	0%	0%	54%	236%
Mass table	174	82	55	65	120	167	302
YoY chg	4%	-53%	63%	35%	46%	39%	81%
% of 2019 level		47%	71%	67%	69%	96%	173%
Mass electronic gaming	186	103	68	82	151	165	170
YoY chg	30%	-45%	65%	34%	47%	10%	3%
% of 2019 level		55%	75%	87%	81%	89%	92%
Total	801	237	123	147	270	571	1,514
YoY chg	1%	-70%	-2%	32%	14%	111%	165%
% of 2019 level		30%	29%	39%	34%	71%	189%

Source: Company data, Credit Suisse estimates

Stringent cost control. Opex has dropped from US\$3 mn on a per-month basis in 2019 to US\$2.4 mn per month in 1H21, with staff cost dropping 10% YoY.

Project pipeline for long-term growth. In Vladivostok, the premium club has been completed, which should help better positioning of the premium mass demand in the medium term. In the longer run, the phase 2 of Tigre de Cristal is now expected to be ready in 2023 (previously 2022). In the Philippines, the Westside City Project through an investment in Suntrust is also expected to commence operations in 2023. The long-term growth story remains intact.

Free option value on the existing operation in the midst of recovery. Cash balance has remained strong at HK\$635 mn as of June 2021, or translating into HK\$0.14 on a per-share basis. Together with the SunTrust convertible bond (HK\$0.22) and loan to SunTrust (HK\$0.21), this already makes up a value of of HK\$0.57/share, comparing with the current market price of HK\$0.6.

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Valuation Methodology and Risks

Target Price and Rating

Valuation Methodology and Risks: (12 months) for Summit Ascent (0102.HK)

Method: Our end-2021 target price of HK\$1.20 for Summit Ascent is based on a sum-of-the-parts valuation methodology with (1) 8x normalised 2023E EBITDA on 77.5% stake in the Tigre de Cristal Phase I casino, (2) 1x P/B of Suntrust's convertible bond, (3) 8x normalised 2023E management fee income received from the Tigre de Cristal casino, (4) end-2021E net cash, and (5) discounted by a 10% WACC to 2021E. We rate Summit Ascent as OUTPERFORM for its robust growth outlook (off a small base relative to its regional peers); upside option from its Phase II opening and stake in Philippines casino would be re-rating driver.

Risk: Downside risks to our OUTPERFORM rating and HK\$1.20 target price for Summit Ascent include slower than expected tourism recovery into Vladivostok, any delay in new projects and regulatory tightening on cross border gambling activities that hurt the end player demand and per player spend.

Companies Mentioned (Price as of 01-Sep-2021)

Summit Ascent (0102.HK, HK\$0.6, OUTPERFORM[V], TP HK\$1.2)

Disclosure Appendix

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0102.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
17-Nov-20	1.19	1.80	O *



* Asterisk signifies initiation or assumption of coverage.

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