

VIP segment feeling the pinch

- VIP liquidity concerns look more significant than the market expects; cutting our 2014E VIP GGR growth to 8% YoY
- Expect robust mass GGR, driven by record-high Mainland tourists; raising our 2014E mass GGR growth to 34% YoY
- Reaffirming Positive sector rating; our top picks now are Sands and Melco

Macau Gaming Sector

- Positive (unchanged)
- Neutral
- Negative



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■ What's new

Our conversations with junket operators and industry participants highlight that VIP liquidity concerns in the short run look more significant than the market has factored in. By contrast, we are upbeat on the mass segment, buoyed by record-high tourist arrivals from the Mainland.

■ What's the impact

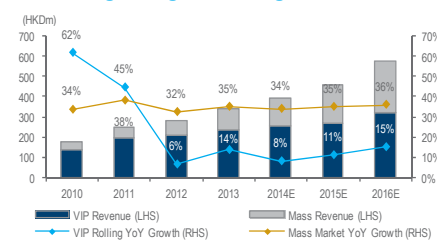
VIP segment. A number of junket affiliates/informal side-betting businesses are feeling the liquidity pinch and facing difficulty meeting credit obligations, and we have heard that a rising number of individuals have not been honouring debt obligations due to the credit squeeze. We expect the VIP credit environment to be tight in the coming months, with junket operators being increasingly cautious and selective in extending credit. As such, we expect VIP gross-gaming-revenue (GGR) growth to be depressed and negative near term.

Mass segment. The mass segment remains robust, with GGR tracking at 38% YoY for 4M14, supported by 16% YoY growth in Mainland tourist arrivals for 4M14. The smoking ban (due in October) and termination of UnionPay cards on casino floors are overhangs, but in the medium term, we think they will have a minimal impact on the mass segment's fundamentals. Operators support the smoking ban on mass gaming floors but await: 1) official regulation on air-flow requirements, and 2) a decision on whether walled-off premium-mass areas may be classified as "private" gaming areas.

■ GGR growth forecasts lowered.

In the coming months, we expect continued pressure on VIP liquidity to result in lacklustre GGR growth. As such, we reduce our 2014 GGR growth forecast slightly to 16% YoY (from 18% YoY), and now forecast GGR growth of 8% YoY for the VIP segment (down 5pp) and 34% YoY for the mass segment (up 2pp).

■ Macau gaming revenue growth



Source: Companies, Daiwa forecasts

■ What we recommend

We remain Positive on the sector and its medium and long-term outlook (infrastructure-driven mass

GGR growth supported by new developments in Cotai), but believe it faces near-term uncertainty with more room for negative surprises than upside ones. We foresee near-term share-price volatility due to the weakening VIP segment.

We lower our SOTP-based 6-month target prices for the 6 stocks we cover, reflecting our new GGR forecasts. Our top picks, both Buys (1), are now **Sands China** (1928 HK, HKD57.05) for its high mass exposure and scope for table optimisation, and **Melco Crown Entertainment** (MPEL US, USD34.66) for its solid premium mass execution. We downgrade to Outperform (2) both **Wynn Macau** (1128 HK, HKD32.3), due to its highest exposure to the VIP segment, and **Galaxy Entertainment Group** (27 HK, HKD61), which has the second-highest VIP exposure. The main risks to our sector call are a macro slowdown in China, tighter VIP credit liquidity, and policy risks.

■ How we differ

Unlike some in the market, we continue to believe the sector's underlying fundamentals are solid.

Key stock calls

	New	Prev.
Sands China (1928 HK)		
Rating	Buy	Buy
Target	66.60	76.00
Upside	▲ 16.7%	
Melco Crown Entertainment (MPEL US)		
Rating	Buy	Buy
Target	40.00	44.80
Upside	▲ 15.4%	

Source: Daiwa forecasts.

Sector stocks: key indicators

Company Name	Stock code	Share Price	Rating		Target price (local curr.)			EPS (local curr.)					
			New	Prev.	New	Prev.	% chg	FY1			FY2		
								New	Prev.	% chg	New	Prev.	% chg
Galaxy Entertainment Group	27 HK	61.00	Outperform	Buy	66.60	83.60	(20.3%)	2.946	2.952	(0.2%)	3.998	4.030	(0.8%)
Melco Crown Entertainment	MPEL US	34.66	Buy	Buy	40.00	44.80	(10.7%)	1.729	1.794	(3.6%)	2.026	2.108	(3.9%)
MGM China Holdings	2282 HK	26.90	Outperform	Outperform	29.50	33.50	(11.9%)	1.721	1.752	(1.8%)	1.770	1.846	(4.1%)
Sands China	1928 HK	57.05	Buy	Buy	66.60	76.00	(12.4%)	0.434	0.425	2.1%	0.518	0.522	(0.8%)
SJM Holdings	880 HK	21.75	Outperform	Outperform	24.70	26.40	(6.4%)	1.476	1.523	(3.0%)	1.616	1.750	(7.7%)
Wynn Macau	1128 HK	32.30	Outperform	Buy	35.80	42.00	(14.8%)	1.704	1.730	(1.5%)	1.863	1.946	(4.3%)

Source: Daiwa forecasts

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VIP segment feeling the pinch

We think the industry's short-term GGR growth potential will be capped by liquidity concerns in the VIP segment but believe strong mass-segment GGR growth will remain robust.

VIP segment: facing challenges

Liquidity concerns are likely to cap short-term GGR potential for this segment. Since the Kimren incident in April this year (as reported by *Macau Daily Times*), whereby a principal of this relatively small junket operator absconded with HKD8-10bn (see our report, [Concerns on VIP look overdone](#) of 29 April 2014), our latest industry research indicates that a contagion impact is being felt by parties within Macau's VIP gaming segment, including junket operators, agents, side-betting affiliates, and other related associates. We have identified the key players and their relationships in the following table and the ensuing 2 charts.

Against the backdrop of the Kimren incident, it is currently difficult for junket operators to ascertain those agents who: 1) are looking for credit to conduct normal gaming business, and 2) are a credit risk, and using new credit to service old debts (so could default on their credit).

This has resulted in: 1) increasing challenges for small and mid-sized junket operators to access liquidity in order to conduct normal business, and 2) stricter guidelines being imposed by the larger junket operators for the gamers and agents that they extend credit to.

The vicious cycle of a declining trend in VIP visitors to Macau's casinos (driven by agents' increasingly limited ability to service them) amidst a tighter credit environment is already being felt by industry participants, based on our industry research.

In our view, the situation will be exacerbated upon credit settlement at the end of May 2014, and could lead to industry-wide consolidation among junkets and agents. As such, we expect the VIP segment to see lacklustre GGR for both June and July given the systemic issues at play.

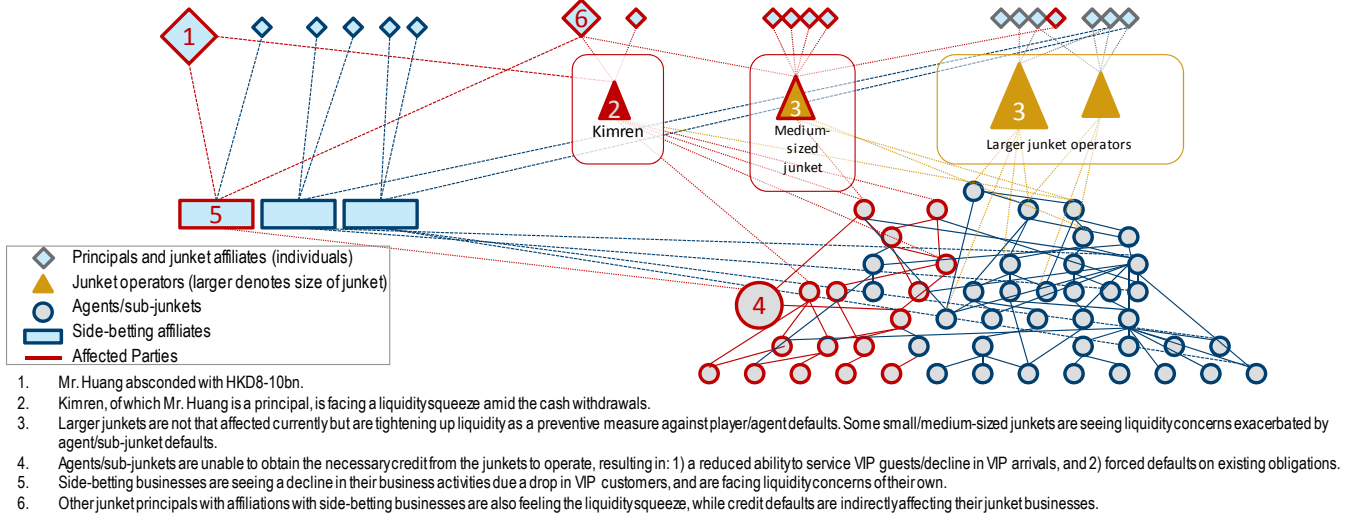
As a result of the above developments and outlook, we are reducing our GGR growth forecasts for the VIP segment to 8% YoY for 2014 (from 12% YoY), 11% YoY for 2015 (from 13% YoY), and 15% YoY for 2016 (from 16% YoY).

■ Participants in Macau's system of junket operators and issues faced currently

	Description	Financial Interests	Issues
Junket operator	VIP room operators; the largest operators include Sun City, Neptune, David Group and Dore. Junket operators commit to a minimum guaranteed rolling volume per gaming table; the larger junket operators usually have a permanent room presence in more than 1 casino.	1) Rolling commission equivalent to ~1.25% of table rolling 2) Profit-sharing arrangement with casino operators, sharing gaming wins as well as the losses	1) Some junket affiliates also have indirect interests in side-betting companies which are feeling the liquidity pinch from the Kimren incident 2) Junkets imposing stricter guidelines on whom they extend credit to 3) Seeing declines in VIP GGR/rolling growth as a result of this
Agent/sub-junkets	They select VIP gamers, and usually attract patrons from the agent's local areas of specialisation in China. The junket operator will typically issue credit for gaming to the VIP, and the agent will be responsible for its collection. Agents work on a 2-week to 1-month debt-collection cycle; older bad gaming debts can be offset by new credit issuance.	1) Commission based on each VIP's rolling volume, typically 0.9-1.2% of rolling volume 2) Profit-sharing arrangement with junket operators	1) Facing difficulty in obtaining sufficient credit for VIP clients 2) Have less incentive to attract VIP gamers without an ability to service them 3) Stricter credit environment is rendering some agents unable to service old gaming debts
Side-betting affiliates	These loose/informal affiliates provide private and illegal gaming arrangements for VIP players, whereby every dollar bet "on the table" represents 1-20x a dollar bet "on the side". Individual companies, some of which have been jointly set up by junket affiliates and third parties, are the ultimate counterparties to these side bets.	A multiple of the VIP player's net losses from gaming activities conducted "on the table"	1) Affiliates and sub-affiliates related to Kimren and other such incidents are unable to provide the necessary liquidity to conduct normal businesses 2) Declining number of VIP clients to Macau is having an adverse impact on core business 3) Junket affiliates with indirect interests in these businesses are also feeling the squeeze

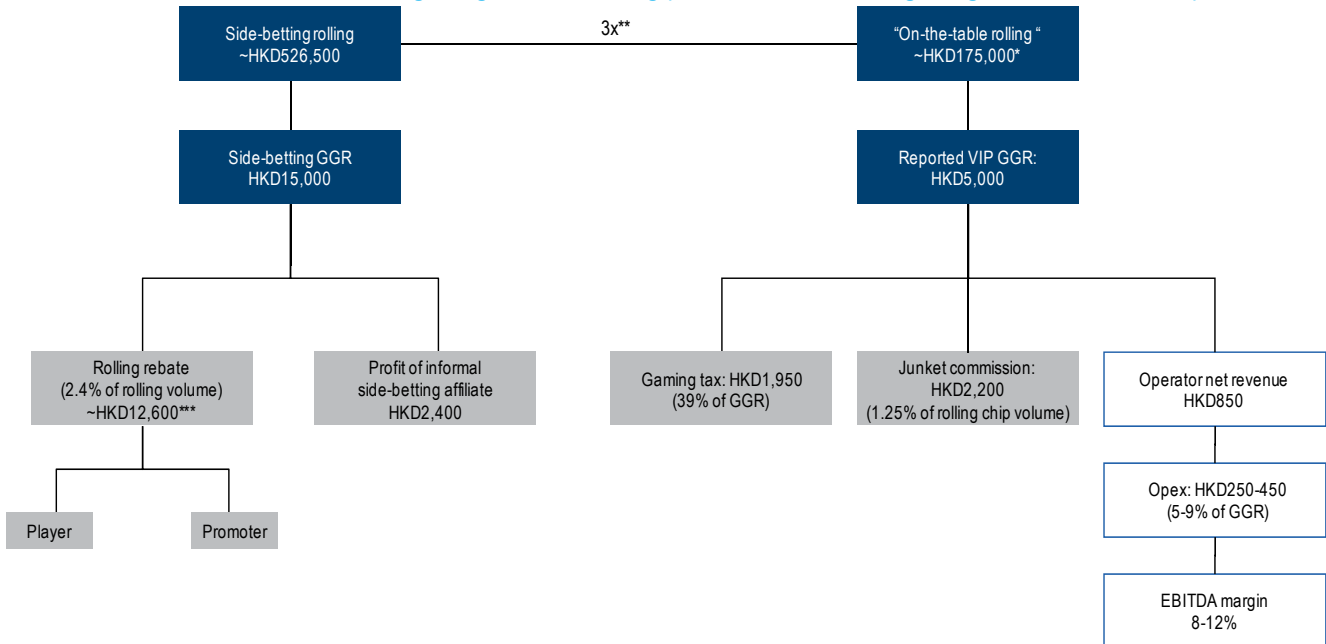
Source: Daiwa

■ Theoretical illustration of Macau's VIP gaming business



Source: Daiwa

■ Theoretical economics of Macau's VIP gaming and side-betting (based on HKD5,000 of gaming revenue on baccarat)



Source: Daiwa

Note: * Based on theoretical baccarat house edge of 2.85%. ** Assumes side-betting is 3x reported VIP GGR, in fact gaming arrangements range between 1-20x. *** Split between player and promoter, negotiated on a case by case basis.

Mass segment: still seeing robust growth in visitors and GGR

In our sector initiation report ([Aces to go places](#), published on 11 April 2014), we gave an in-depth discussion of the relationship between the development of China's high-speed rail and the consequent impact on visitors from Mainland China to Macau.

We also highlighted that 2014 marks the largest single-year increase so far in new cities in China that are eligible for the Individual Visitor Scheme (IVS) to be connected to Macau via China's high-speed rail. The result of this is already evident, as growth in the number of Mainland visitors to Macau accelerated to 16% YoY in 4M14 (from 6% YoY in 4M13). More telling is the non-Guangdong growth in 4M14, which accelerated to 22% YoY (from 14% in 4M13). Our latest on-the-ground research reaffirms our positive view on Macau's mass gaming segment, with evidence too of robust footfall among the flagship properties of the 6 gaming companies in our coverage universe. For the first 4 months of 2014, mass GGR growth was also higher than we and the market had expected, tracking at 38% YoY.

As such, we are raising our GGR growth forecasts for the mass segment to 34% YoY for 2014 (from 32% YoY), 35% YoY for 2015 (from 33% YoY), and 36% YoY for 2016 (from 35% YoY).

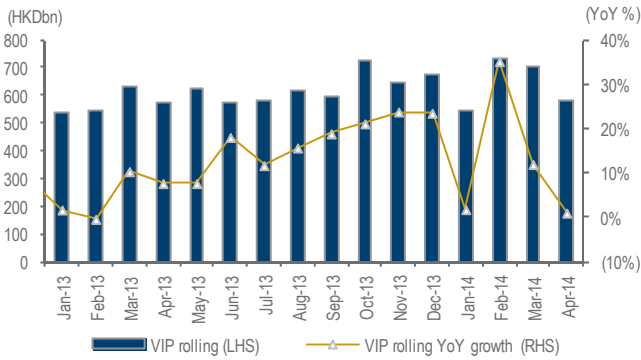
Assessing the upcoming smoking ban. On 15 May this year, the Macau Government announced that all casino mass-gaming floors will have to impose a total smoking ban with effect from 6 October this year. On the mass-gaming floors, however, smoking will be allowed in designated non-gaming airport-style smoking lounges. Casinos that do not set designated smoking rooms by 6 October will see a complete smoking ban on their mass floors (so will not even be allowed designated smoking areas on mass-gaming floors). Private gaming areas such as VIP rooms are not affected by this decision.

Our latest conversations with the casino operators to gauge their reaction to this planned ban highlight the following:

- Casino operators are generally supportive of the decision.
- Implementing the non-smoking ban this October poses a very tight deadline for the operators. This is the case even for most of the operators' newer properties in Cotai, which already have the supporting infrastructure installed for this transition. Some casinos will be unable to install airport-style smoking lounges in time given their lack of a supporting infrastructure.
- The government has yet to release operational details to define what is a VIP room and a mass-gaming floor. According to news flow, the initial definition of a "VIP room" is a private gaming room with a membership mechanism. The casino operators are hopeful that walled-off areas of premium-mass gaming areas will constitute as private gaming areas.
- General guidelines on building requirements for the flow and circulation of air are yet to be decided.

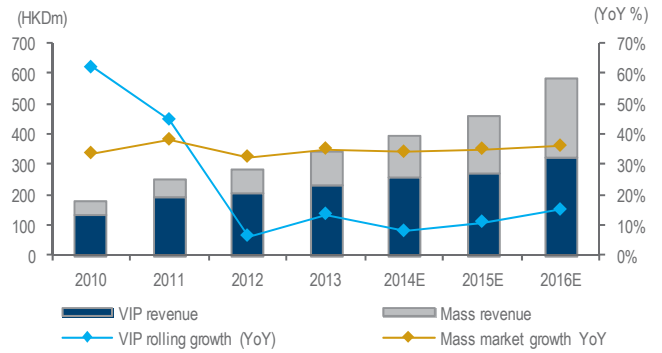
The ban on smoking on mass-gaming floors had a material adverse impact in the US and Australia markets, both of which saw overall gaming revenue decline by an average of 12% in the first year that the ban was implemented. However, the Macau casino operators we spoke to believe the ban in Macau is unlikely to have as much of a material adverse impact on GGR as in the US and Australia, and is unlikely to deter Mainland visitors from gaming.

■ **Macau gaming industry: monthly VIP rolling volume and growth trend**



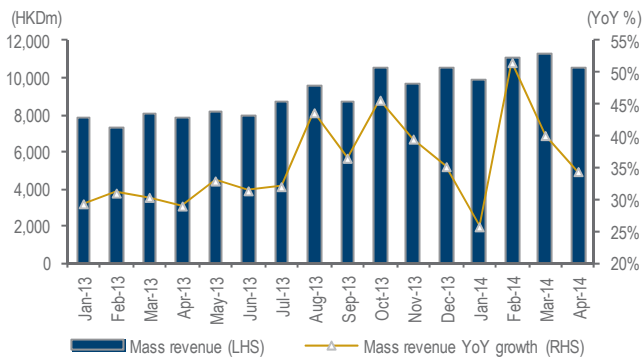
Source: Asia Pacific Gaming Consultancy (APG)

■ **Macau gaming industry: GGR and GGR growth**



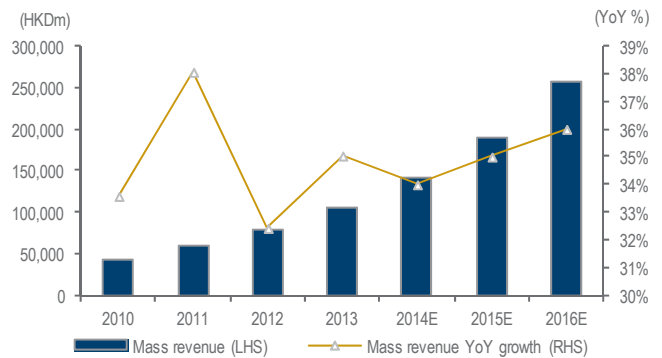
Source: Companies, Daiwa forecasts

■ **Macau gaming industry: monthly mass gaming revenue and growth**



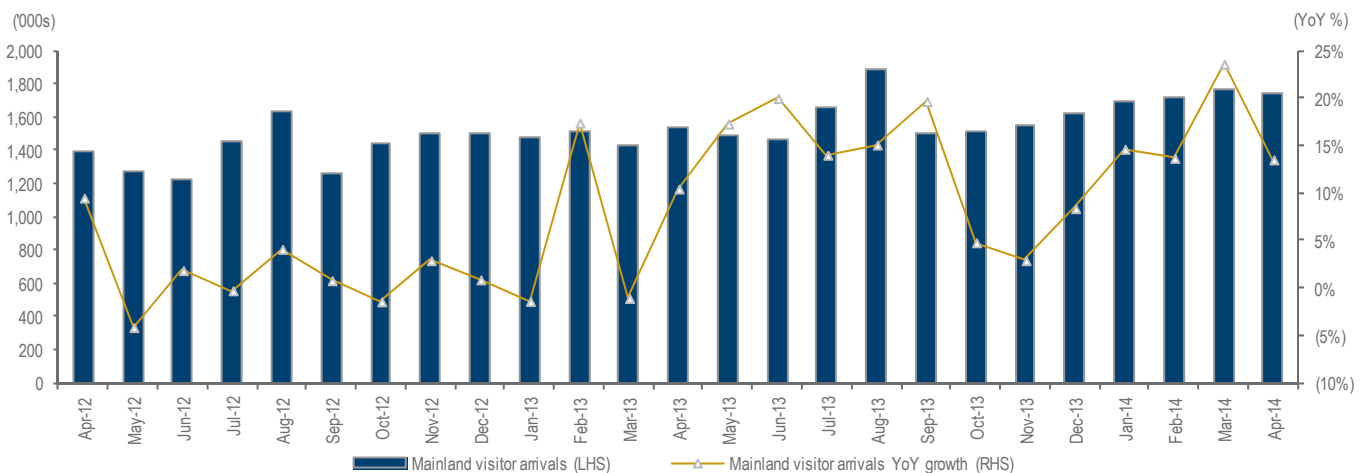
Source: APG

■ **Macau gaming industry: annual mass gaming revenue and growth**



Source: Companies, Daiwa forecasts

■ **Monthly visitors from the Mainland to Macau**



Source: DESC

Other takeaways

Sources of liquidity. In recent weeks, there has been much talk in the market about the overall liquidity situation in Macau's gaming industry. We have identified and analysed Macau's major sources of liquidity (illustrated in the following table).

Other than our analysis of VIP junket liquidity presented earlier in this report, we have also noted considerable talk in the market regarding UnionPay cards providing liquidity for gamers from the Mainland, and the use of illegal UnionPay terminals registered in the Mainland to obtain credit for gaming in Macau.

At the time of writing, however, the Macau Government has not announced its official stance on legal (Macau-registered) UnionPay terminals used to provide gaming liquidity.

Casino operators are privy to the potential new policy to restrict the use of UnionPay card shops on casino floors by 1 July this year. However, the industry participants we talked to do not believe the restriction will have a significant adverse impact on the industry's GGR, as jewellery shops located within casino complexes but

outside gaming floors are still permitted, and jewellery shops often provide cash to gamers through transactions masked as jewellery purchases. (For details, see to our note, [Impact of UnionPay transactions clampdown overstated](#), of 8 May 2014.)

Other sector news.

- The transit visa issue is likely to have an adverse impact on parallel importers and non-gaming visitors than on the typical gamer, given that the average stay per trip is less than a day for an average mass player and 2 days for an average VIP player. (To recap: currently Macau immigration rules permit Mainland passport holders to stay in the territory for up to 7 days if they use Macau as a transit to other destinations, and for another 2 days following a second entry within 30 days; however, only 20% of Mainlanders visiting Macau using a transit visa for overseas trips actually continued their itineraries last year.)
- There is a trend for the more discerning players to move their gaming activities back to the Peninsula from Cotai. We attribute this to smaller establishments being able to offer more tailored services to these players.

■ Macau gaming industry: sources of liquidity

	Cash through border	Unionpay ATM	UnionPay Debit purchases	Underground agents	Alipay	Junket credit	Side-betting
Transaction size	CNY20,000/person	CNY5,000-10,000/card/day	Daily limit of CNY1m/card	Technically no limit on transaction sizes, but larger balances of over HKD1-3m typically require more than 1 day to process	Daily transaction limit of CNY50,000, some banks have imposed an internal cap of CNY5,000-10,000.	n.a.	n.a.
Description/update	The maximum sum Chinese nationals are legally permitted to bring over the border	Cash withdrawal through an ATM terminal	Pawnshops and jewellery shops on the streets and inside casinos provide cash to customers through transactions masked as purchases. We estimate that this provides HKD75-80b of liquidity, or about 10-15% of mass market gaming capital in Macau. Anecdotally, we have heard that some UnionPay cards used to be able to process multiple transactions on the same day at CNY1m/transaction. However, this has been capped to CNY1m/day in the recent months.	Typically these establishments are junket-affiliates and some have small store fronts near the Gongbei customs gate. A player will typically drop cash at the border and is provided non-cash chips at the junket rooms. Liquidity below HKD1m can typically be arranged on the same day. The use of underground agents not-affiliated with specific junkets may take additional time to process.	Alibaba already expressed its intention to enter Macau with its online-based Alipay service but has not provided a definitive timeline for this. If and when implemented, we expect this source of liquidity to mostly serve the mass market given the low daily transaction limit.	Applicable only to the VIP segment, junkets provide the necessary capital for VIP players' credit-based gaming.	Applicable only to the VIP segment, third-party side-betting affiliates enter into private betting arrangements with VIP players; sometimes those unable to obtain the necessary credit from junkets to support their gaming behaviour enter into such arrangements.
Service charge	n.a.	Varies by ATM operator	2-4%	1-3%	n.a.	Generally no cost, but determined on a case-by-case basis; gaming losses incurred subject to interest charges	Generally no cost; gaming losses incurred subject to interest charges
Impact on VIP segment	Immaterial given the nature of VIP gaming	Immaterial given the nature of VIP gaming	Used as a means for lower-quality players to settle gaming debts with junkets	Provides the necessary capital for gaming, average transaction between HKD1-3m for VIP	n.a.	Provides the liquidity for VIP gaming which represents >60% of Macau's GGR	Estimated to be 3-5x reported VIP GGR
Impact on mass segment	Provides the basic capital for mass/premium mass gaming	Provide the basic capital for mass/premium mass gaming	Provides the necessary capital for gaming, average transaction value ranges between HKD100,000-500,000	Provides the necessary capital for gaming, average transaction value ranges from HKD100 to HKD500,000	n.a.	Immaterial	Immaterial

Source: Daiwa

Valuations and stock calls

We continue to use the SOTP approach to value the Macau gaming companies we cover, as we believe pure earnings-based methods (PER, EV/EBITDA) do not adequately capture the value of the casinos that the companies plan to open beyond 2015.

We are lowering our SOTP-derived 6-month target prices for all 6 companies we cover, reflecting changes to our 2015 earnings forecasts (discussed in the company notes within this report) and lower target multiples now assigned to their existing properties (set out in the following table).

We ascribe EV/EBITDA multiples to value the companies' existing properties. We are lowering our multiples ascribed, as presented in the following table. Our revised multiples are based on the properties': 1) exposure to the VIP segment, 2) scale and age, and 3) our expectations for the ability of each property to retain its respective market share.

Macau Gaming Sector universe: revised EV/EBITDA multiples ascribed in SOTP valuations

Casino	Operator	Location	Revised EV/EBITDA multiple	Previous EV/EBITDA multiple
Sands Macao	Sands	Peninsula	10x	11x
Venetian	Sands	Cotai	14x	15.5x
Four Seasons	Sands	Cotai	11x	14x
Sands Cotai Central	Sands	Cotai	13x	15x
StarWorld	Galaxy	Peninsula	10x	12x
Galaxy Macau 1&2	Galaxy	Cotai	12x	15.5x
CityClub	Galaxy	Peninsula	9x	11x
Altira	Melco	Cotai	8x	9x
City of Dreams	Melco	Cotai	11x	13.5x
Mocha Clubs	Melco	Peninsula and Cotai	9x	10x
MGM Macau	MGM	Peninsula	11x	12x
Wynn Macau	Wynn	Peninsula	13x	14.5x
Grand Lisboa	SJM	Peninsula	11x	11x
Self-operated casinos	SJM	Peninsula	10x	10x
Satellite casinos	SJM	Peninsula	9x	9x

Unopened casinos NAV basis (unchanged)

Source: Daiwa forecasts

Note: Sands – Sands China, Galaxy – Galaxy Entertainment Group, Melco – Melco Crown Entertainment, Wynn – Wynn Macau, SJM – SJM Holdings

We continue to value the companies' unopened casinos based on their NAVs. Within our NAV analyses, our 2015E ROIC assumptions are based on a 20% discount to the companies' reported 2013 ROICs. These assumptions remain unchanged.

Sands: SOTP valuation table

Breakdown	Metrics	2015E SOTP (USDm)	Value per share (USD)	% of SOTP
Sands	10x EBITDA	4,888	0.6	7%
Venetian	14x EBITDA	31,865	4.0	46%
Plaza	11x EBITDA	5,797	0.7	8%
SCC	13x EBITDA	19,543	2.4	28%
Corporate expenses	10x EBITDA	(709)	(0.1)	-1%
Ferry and other operations	8x EBITDA	(35)	(0.0)	0%
Parisian	NAV Assuming 30% RoIC, 11x target, 10% discount rate	7,594	0.9	11%
Net Cash		357	0.0	1%
Price Target (HKD)	(8,067m shares)	69,302	8.6 (66.6)	100%

Source: Daiwa forecasts

Melco: SOTP valuation table

Breakdown	Metrics	2015E SOTP (USDm)	Value per share (USD)	% of SOTP
Altira	8x EBITDA	1,497	2.7	7%
CoD Macau	11x EBITDA	17,267	31.4	79%
Mocha	9x EBITDA	348	0.6	2%
Hospitality	9x EBITDA	1,824	3.3	8%
Corporate Expenses	10x EBITDA	(1,183)	(2.2)	-5%
Studio City	NAV Assuming 14% RoIC, 9x target, 10% discount rate	2,505	2.7	7%
Philippines	At MCP market cap	856	1.6	4%
Net Cash		(122)	(0.2)	-1%
Price Target	(550m shares)	22,993	40.0	100%

Source: Daiwa forecasts

SJM: SOTP valuation table

Breakdown	Metrics	2015E SOTP (HKDm)	Value per share (HKD)	% of SOTP
Grand Lisboa	11x EBITDA	65,465	11.4	46%
Self-promoted	10x EBITDA	16,582	2.9	12%
Satellite Casinos	9x EBITDA	18,111	3.1	13%
Hospitality	10x EBITDA	3,505	0.6	2%
Lisboa Palace	NAV Assuming 16% RoIC, 9x target, 10% discount rate	13,675	2.4	10%
Net Cash		24,580	4.3	17%
Price Target	(5,700m shares)	141,919	24.7	100%

Source: Daiwa forecasts

Wynn: SOTP valuation table

Breakdown	Metrics	2015E SOTP (HKDm)	Value per share (HKD)	% of SOTP
Wynn Macau	13x EBITDA	136,802	26.4	74%
Wynn Palace	NAV Assuming 28% RoIC, 10x target, 10% discount rate	58,736	11.2	31%
Net Cash		(9,531)	(1.8)	-5%
Price Target	(5,188m shares)	186,008	35.8	100%

Source: Daiwa forecasts

■ **Galaxy: SOTP valuation table**

Breakdown	Metrics	2015E SOTP (HKDm)	Value per share (HKD)	% of SOTP
StarWorld (net of corp exp)	10x EBITDA	39,540	9.1	14%
CityClubs	9x EBITDA	1,515	0.3	1%
Galaxy Macau	12x EBITDA	172,765	39.8	60%
Corporate expenses	10x EBITDA	(1,818)	(0.4)	-1%
Galaxy Macau 3	NAV Assuming 28% RoIC, 9x target, 10% discount rate	31,020	7.1	11%
Galaxy Macau 4	NAV Assuming 28% RoIC, 9x target, 10% discount rate	28,101	6.5	10%
Net Cash		18,661	4.3	6%
Price Target	(4,344m shares)	289,785	66.6	100%

Source: Daiwa forecasts

■ **MGM: SOTP valuation table**

Breakdown	Metrics	2015E SOTP (HKDm)	Value per share (HKD)	% of SOTP
MGM Macau	11x EBITDA	82,008	21.5	73%
MGM Cotai	NAV Assuming 22% RoIC, 9x target, 10% discount rate	28,670	7.5	26%
Net Cash		1,588	0.4	1%
Target price	(3,800m shares)	112,267	29.5	100%

Source: Daiwa forecasts

Stock calls. We have revised our pecking order. Our stock picks are focused on: 1) property and table optimisation, and 2) relative exposure to the VIP and mass segments as the key themes for growth over the next 6 months. As such, our 2 top picks are now Sands and Melco, with 17% and 15% share-price upside potential, respectively, and we reaffirm our Buy (1) ratings on both stocks.

We downgrade Wynn and Galaxy to Outperform (2) ratings due to their high VIP exposure.

Sector risks

The key risk to our call is policy risk, such as a tightening up of the Individual Visitor Scheme (IVS), which would affect the VIP segment.

Secondary risks include a further tightening of liquidity and a macro slowdown in China, which would impact overall GGR.

Sands China

1928 HK

Mass appeal

- Table optimisation and robust mass tourist arrivals should drive earnings growth; our on-the-ground research supports this
- Sands Cotai Central likely to realise its earnings potential from ramping up this year
- Deserves to be rerated given its attractive valuation and strong earnings-growth outlook; remains one of our top sector picks

Target (HKD): **76.00 → 66.60**
Upside: **16.7%**
28 May price (HKD): **57.05**

- 1 Buy (unchanged)
- 2 Outperform
- 3 Hold
- 4 Underperform
- 5 Sell



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■ **What's new**

Sands China (Sands) remains one of our top picks in the Macau Gaming Sector. We believe Sands has the greatest gross gaming revenue (GGR) growth potential from optimisation over the next 6 months given the lack of new casino openings in Macau in 2014.

■ **What's the impact**

Our view is supported by Sands having the highest flexibility per table and cross-property optimisation. Signs of success are already evident as it continues to capture additional market share. Due to Sands' mass-market focus, we believe it has better earnings predictability as it is less affected by the talk in the market about the

junket liquidity and UnionPay issues.

In Macau's supply-constrained market, Sands stands out as the winner by capitalising on its market-leading position in both directly operated gaming tables and hotel room inventory. We expect it to further its dominance in the mass segment, and hence revise up our mass GGR growth forecasts for 2014-16.

■ **Sands: market share trend**

	1Q13	2Q13	3Q13	4Q13	1Q14	Apr 14
VIP*	16%	15%	16%	16%	15%	13%
Mass	29%	30%	30%	30%	31%	30%
Overall	21%	21%	22%	21%	23%	22%

Source: Company, Daiwa; * Based on VIP Rolling

■ **Sands: GGR growth trend (YoY)**

	1Q13	2Q13	3Q13	4Q13	1Q14	Apr 14
VIP	20%	27%	29%	14%	20%	-4%
Mass	64%	59%	55%	56%	52%	35%
Overall	34%	38%	39%	29%	32%	12%

Source: Company, Daiwa

■ **What we recommend**

We reiterate our Buy (1) rating and lower our 6-month target price to HKD66.6 (still based on 2015E SOTP), to reflect our revised GGR assumptions. The key risks include policy risks, liquidity risks, and a macro slowdown in China.

■ **How we differ**

Our revised sector mass GGR forecasts and earnings forecasts for

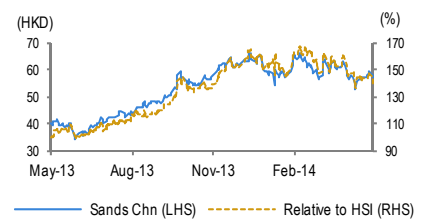
Sands are ahead of consensus, due to the operator's strong mass market positioning.

Forecast revisions (%)

Year to 31 Dec	14E	15E	16E
Revenue change	0.5	(0.2)	0.4
Net profit change	2.1	(0.8)	1.5
Core EPS (FD) change	2.1	(0.8)	1.5

Source: Daiwa forecasts

Share price performance



12-month range	34.75-66.25
Market cap (USDbn)	59.30
3m avg daily turnover (USDm)	150.64
Shares outstanding (m)	8,059
Major shareholder	Las Vegas Sands (70.3%)

Financial summary (USD)

Year to 31 Dec	14E	15E	16E
Revenue (m)	11,744	13,559	16,902
Operating profit (m)	3,659	4,334	5,876
Net profit (m)	3,499	4,180	5,478
Core EPS (fully-diluted)	0.434	0.518	0.679
EPS change (%)	58.0	19.5	31.1
Daiwa vs Cons. EPS (%)	12.7	12.6	29.8
PER (x)	17.0	14.2	10.8
Dividend yield (%)	4.7	5.6	7.4
DPS	0.347	0.415	0.544
PBR (x)	7.7	6.7	5.6
EV/EBITDA (x)	14.2	12.2	8.9
ROE (%)	49.4	50.4	56.5

Source: FactSet, Daiwa forecasts

Financial summary

■ Key assumptions

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Venetian Macao EBITDA (USDm)	552	810	1,023	1,144	1,501	1,988	2,322	3,026
Sands Macao EBITDA (USDm)	243	318	351	350	362	450	499	710
Plaza Macao EBITDA (USDm)	39	114	218	288	305	532	527	471
Sands Cotai Central EBITDA (USDm)	n.a.	n.a.	n.a.	213	738	1,194	1,503	1,912
Parisian EBITDA (USDm)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	286

■ Profit and loss (USDm)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Gaming	2,889	3,664	4,232	5,739	7,905	10,524	12,329	15,561
Non-gaming	413	479	649	773	1,003	1,220	1,231	1,341
Other Revenue	0	0	0	0	0	0	0	0
Total Revenue	3,301	4,142	4,881	6,511	8,908	11,744	13,559	16,902
Other income	0	0	0	0	0	0	0	0
COGS	(1,436)	(1,848)	(2,119)	(2,928)	(3,936)	(5,149)	(5,836)	(6,751)
SG&A	(1,162)	(1,195)	(1,287)	(1,948)	(2,182)	(2,574)	(3,022)	(4,061)
Other op.expenses	(222)	(197)	(172)	(12)	(388)	(363)	(368)	(214)
Operating profit	481	902	1,303	1,624	2,401	3,659	4,334	5,876
Net-interest inc./(exp.)	(154)	(115)	(45)	(42)	(73)	(20)	(7)	(84)
Assoc/forex/extraord./others	(112)	(117)	(123)	(344)	(111)	(138)	(145)	(311)
Pre-tax profit	215	670	1,135	1,238	2,217	3,501	4,182	5,481
Tax	(0)	(4)	(2)	(2)	(2)	(2)	(2)	(3)
Min. int./pref. div./others	0	0	0	0	0	0	0	0
Net profit (reported)	215	666	1,133	1,236	2,215	3,499	4,180	5,478
Net profit (adjusted)	215	666	1,133	1,236	2,215	3,499	4,180	5,478
EPS (reported)(USD)	0.033	0.083	0.141	0.153	0.275	0.434	0.519	0.680
EPS (adjusted)(USD)	0.033	0.083	0.141	0.153	0.275	0.434	0.519	0.680
EPS (adjusted fully-diluted)(USD)	0.033	0.083	0.141	0.153	0.275	0.434	0.518	0.679
DPS (USD)	0.000	0.000	0.149	0.172	0.223	0.347	0.415	0.544
EBIT	481	902	1,303	1,624	2,401	3,659	4,334	5,876
EBITDA	809	1,216	1,576	1,978	2,900	4,160	4,846	6,400

■ Cash flow (USDm)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Profit before tax	215	670	1,135	1,238	2,217	3,501	4,182	5,481
Depreciation and amortisation	370	359	324	390	534	500	512	524
Tax paid	(0)	(0)	(4)	(2)	(2)	(2)	(2)	(3)
Change in working capital	21	133	(174)	48	189	81	(397)	(120)
Other operational CF items	215	200	94	227	141	153	154	226
Cash flow from operations	821	1,363	1,376	1,901	3,079	4,234	4,449	6,109
Capex	(386)	(346)	(781)	(989)	(601)	(1,400)	(1,254)	(200)
Net (acquisitions)/disposals	5	4	2	(11)	(9)	0	0	0
Other investing CF items	108	(756)	782	14	12	29	28	26
Cash flow from investing	(272)	(1,099)	3	(986)	(598)	(1,371)	(1,225)	(174)
Change in debt	(670)	131	356	(140)	0	(630)	(400)	1
Net share issues/(repurchases)	1,701	0	0	0	0	0	0	0
Dividends paid	0	0	0	(1,201)	(1,382)	(2,293)	(3,071)	(3,863)
Other financing CF items	(1,089)	(260)	(289)	(125)	(100)	(50)	(36)	(110)
Cash flow from financing	(58)	(129)	67	(1,467)	(1,481)	(2,973)	(3,507)	(3,972)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	491	136	1,447	(552)	1,000	(109)	(283)	1,962
Free cash flow	436	1,016	595	911	2,478	2,834	3,196	5,909

Source: FactSet, Daiwa forecasts

Financial summary continued ...

■ **Balance sheet (USDm)**

As at 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Cash & short-term investment	926	1,178	2,495	1,953	2,949	2,840	2,557	4,519
Inventory	10	9	10	15	13	23	18	20
Accounts receivable	295	292	557	785	821	1,200	1,332	1,161
Other current assets	0	0	0	0	0	0	0	0
Total current assets	1,231	1,479	3,063	2,753	3,783	4,062	3,907	5,701
Fixed assets	5,525	5,503	6,250	6,657	6,723	7,622	8,363	8,039
Goodwill & intangibles	41	35	32	16	20	20	20	20
Other non-current assets	831	1,458	784	962	939	939	939	939
Total assets	7,628	8,475	10,128	10,387	11,465	12,644	13,230	14,699
Short-term debt	136	387	80	49	207	100	100	101
Accounts payable	829	960	1,180	1,503	1,724	2,277	2,104	1,908
Other current liabilities	0	4	2	2	2	2	2	2
Total current liabilities	965	1,351	1,262	1,554	1,933	2,379	2,206	2,011
Long-term debt	2,951	2,746	3,329	3,212	3,023	2,500	2,100	2,100
Other non-current liabilities	13	15	21	36	60	60	60	60
Total liabilities	3,929	4,112	4,612	4,801	5,016	4,939	4,366	4,170
Share capital	80	80	80	81	81	81	81	81
Reserves/R.E./others	3,618	4,282	5,435	5,506	6,369	7,625	8,783	10,448
Shareholders' equity	3,699	4,362	5,516	5,586	6,450	7,706	8,864	10,529
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	7,628	8,475	10,128	10,387	11,466	12,644	13,230	14,699
EV	61,463	61,256	60,215	60,608	59,581	59,061	58,944	56,982
Net debt/(cash)	2,162	1,955	914	1,308	281	(240)	(357)	(2,318)
BVPS (USD)	0.575	0.542	0.685	0.694	0.800	0.956	1.100	1.307

■ **Key ratios (%)**

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Sales (YoY)	8.1	25.5	17.8	33.4	36.8	31.8	15.5	24.7
EBITDA (YoY)	17.9	50.3	29.6	25.5	46.7	43.4	16.5	32.1
Operating profit (YoY)	15.1	87.7	44.4	24.6	47.9	52.4	18.4	35.6
Net profit (YoY)	22.4	210.0	70.0	9.1	79.2	58.0	19.5	31.1
Core EPS (fully-diluted) (YoY)	19.4	147.8	69.9	9.0	79.0	58.0	19.5	31.1
Gross-profit margin	56.5	55.4	56.6	55.0	55.8	56.2	57.0	60.1
EBITDA margin	24.5	29.4	32.3	30.4	32.6	35.4	35.7	37.9
Operating-profit margin	14.6	21.8	26.7	24.9	27.0	31.2	32.0	34.8
Net profit margin	6.5	16.1	23.2	19.0	24.9	29.8	30.8	32.4
ROAE	8.7	16.5	22.9	22.3	36.8	49.4	50.4	56.5
ROAA	2.9	8.3	12.2	12.0	20.3	29.0	32.3	39.2
ROCE	8.1	12.6	15.9	18.3	25.9	36.6	40.6	49.4
ROIC	9.3	14.7	20.4	24.3	35.2	51.5	54.2	70.3
Net debt to equity	58.4	44.8	16.6	23.4	4.4	net cash	net cash	net cash
Effective tax rate	0.1	0.6	0.2	0.1	0.1	0.1	0.1	0.0
Accounts receivable (days)	32.2	25.9	31.7	37.6	32.9	31.4	34.1	26.9
Current ratio (x)	1.3	1.1	2.4	1.8	2.0	1.7	1.8	2.8
Net interest cover (x)	3.1	7.8	29.0	38.8	32.7	180.7	592.7	69.6
Net dividend payout	0.0	0.0	106.0	111.8	81.2	80.0	80.0	80.0
Free cash flow yield	0.7	1.7	1.0	1.5	4.2	4.8	5.4	10.0

Source: FactSet, Daiwa forecasts

■ **Company profile**

Sands China is one of the 6 gaming operators in Macau and operates the Sands Macau, The Venetian Macau, Plaza Macau and Sands Cotai Central. Its new Cotai development, The Parisian, which is opposite Sands Cotai Central, is scheduled to open in late-2015.

Melco Crown Entertainment

MPEL US

Should be little affected

- Impact of our lower VIP revenue-growth forecasts should be less than for its peers due to profitability of premium mass
- We still expect the optimisation of business across its properties to drive revenue growth in 2014
- We like the Studio City development, which should help underpin long-term earnings growth; one of our top sector picks

Target (USD): **44.80 → 40.00**

Upside: **15.4%**

27 May price (USD): **34.66**

- 1 Buy (unchanged)
- 2 Outperform
- 3 Hold
- 4 Underperform
- 5 Sell



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■ What's new

Melco should be less affected than its peers by our less bullish view on the VIP segment as: 1) the company has less exposure to this segment, and 2) its mass segment has a higher EBITDA margin due to a well-executed premium-mass strategy.

For 2014, we expect limited upside from the company's ongoing efforts to optimise its properties, as its per-table productivity is among the highest in the industry. This was evidenced in Melco's 1Q14 results, which showed stable sequential EBITDA and margin trends. That said, we see some room for improvement by reallocating tables from Altira to the company's flagship City of Dreams casino.

■ What's the impact

We are cutting our 2014-15 earnings forecasts for the company to reflect our more conservative view on the outlook for VIP revenue growth in Macau over the next 2 years.

■ Melco: market share

	1Q13	2Q13	3Q13	4Q13	1Q14	April 2014
VIP*	15%	14%	12%	12%	12%	12%
Mass	12%	13%	13%	13%	13%	12%
Overall	13%	15%	14%	14%	13%	14%

Source: Company, Daiwa

Note: *Based on VIP rolling

■ Melco: GGR growth (YoY)

	1Q13	2Q13	3Q13	4Q13	1Q14	April 2014
VIP	9%	32%	9%	14%	4%	-16%
Mass	36%	49%	68%	56%	43%	37%
Overall	14%	34%	22%	24%	14%	-4%

Source: Company, Daiwa

■ What we recommend

We believe the operator is relatively insulated at the EBITDA level from the volatility we now expect in the VIP segment over the coming months, given its rich mass margin. We reiterate our Buy (1) rating but lower our 6-month SOTP-based target price to USD40 (from USD44.80). We believe any updates on the opening of Studio City will be share-price catalysts. The main risk to our call would be tightening of junket liquidity.

■ How we differ

Our new 2014-15 EBITDA forecasts are 5-8% below those of the

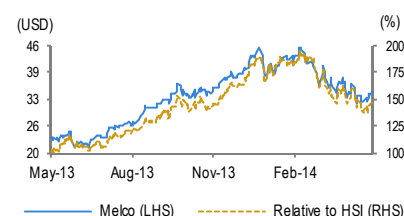
Bloomberg consensus due to our more conservative margin-growth assumptions.

Forecast revisions (%)

Year to 31 Dec	14E	15E	16E
Revenue change	(5.0)	(8.7)	1.5
Net profit change	(3.6)	(3.9)	4.5
Core EPS (FD) change	(3.6)	(3.9)	4.5

Source: Daiwa forecasts

Share price performance



12-month range	21.36-45.16
Market cap (USDbn)	18.80
3m avg daily turnover (USDm)	41.31
Shares outstanding (m)	555
Major shareholder	Melco Leisure (33.7%)

Financial summary (USD)

Year to 31 Dec	14E	15E	16E
Revenue (m)	5,906	7,442	10,173
Operating profit (m)	1,060	1,193	1,731
Net profit (m)	959	1,124	1,534
Core EPS (fully-diluted)	1.729	2.026	2.764
EPS change (%)	50.5	17.1	36.5
Daiwa vs Cons. EPS (%)	(1.6)	(4.3)	4.8
PER (x)	19.6	16.7	12.3
Dividend yield (%)	0.0	0.0	0.0
DPS	0.000	0.000	0.000
PBR (x)	3.6	3.0	2.4
EV/EBITDA (x)	12.7	10.8	6.8
ROE (%)	20.3	19.4	21.5

Source: FactSet, Daiwa forecasts

Financial summary

■ Key assumptions

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
City of Dreams EBITDA (USDm)	32	249	457	660	1,033	1,448	1,644	2,072
Altira EBITDA (USDm)	(5)	118	230	137	127	156	187	199
Studio City EBITDA (USDm)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	91	436
City of Dreams EBITDA margin (%)	10.3	19.9	23.9	27.6	30.6	33.8	33.1	33.6
Altira EBITDA margin (%)	2.1	15.5	21.0	16.0	14.3	17.7	17.6	18.3
Studio City EBITDA margin (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	14.4	20.3

■ Profit and loss (USDm)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Gaming	1,279	2,513	3,628	3,860	4,612	5,551	7,026	9,601
Non-gaming	54	129	203	218	310	355	416	572
Other Revenue	0	0	0	0	165	0	0	0
Total Revenue	1,333	2,642	3,831	4,078	5,087	5,906	7,442	10,173
Other income	0	0	0	0	0	0	0	0
COGS	(737)	(1,362)	(1,949)	(2,025)	(2,480)	(2,838)	(3,224)	(3,721)
SG&A	(80)	(134)	(140)	(142)	(149)	(152)	(158)	(163)
Other op.expenses	(788)	(1,053)	(1,297)	(1,404)	(1,618)	(1,856)	(2,867)	(4,559)
Operating profit	(272)	93	445	507	840	1,060	1,193	1,731
Net-interest inc./(exp.)	(31)	(93)	(110)	(99)	(145)	(104)	(133)	(161)
Assoc/forex/extraord./others	(5)	(9)	(48)	(13)	(114)	(59)	0	(100)
Pre-tax profit	(309)	(10)	287	396	580	897	1,061	1,469
Tax	0	(1)	2	3	(2)	3	4	5
Min. int./pref. div./others	0	0	6	19	59	59	59	59
Net profit (reported)	(308)	(11)	295	417	637	959	1,124	1,534
Net profit (adjusted)	(308)	(11)	295	417	637	959	1,124	1,534
EPS (reported)(USD)	(0.631)	(0.020)	0.551	0.761	1.159	1.744	2.043	2.789
EPS (adjusted)(USD)	(0.631)	(0.020)	0.551	0.761	1.159	1.744	2.043	2.789
EPS (adjusted fully-diluted)(USD)	(0.631)	(0.020)	0.547	0.755	1.149	1.729	2.026	2.764
DPS (USD)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
EBIT	(272)	93	445	507	840	1,060	1,193	1,731
EBITDA	56	430	809	920	1,288	1,532	1,800	2,477

■ Cash flow (USDm)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Profit before tax	(309)	(10)	287	396	580	897	1,061	1,469
Depreciation and amortisation	223	328	367	395	383	394	501	641
Tax paid	0	(1)	2	3	(2)	3	4	5
Change in working capital	(59)	43	16	113	(780)	(321)	(782)	576
Other operational CF items	32	41	72	44	15	20	20	20
Cash flow from operations	(112)	402	745	950	196	994	803	2,711
Capex	(937)	(197)	(90)	(220)	(912)	(1,135)	(726)	(145)
Net (acquisitions)/disposals	4	0	(290)	(5)	0	0	0	0
Other investing CF items	(210)	7	(205)	(1,110)	540	(75)	(90)	(108)
Cash flow from investing	(1,144)	(190)	(585)	(1,336)	(372)	(1,210)	(815)	(253)
Change in debt	271	41	589	865	(661)	267	0	0
Net share issues/(repurchases)	384	0	0	0	238	0	0	0
Dividends paid	0	0	0	0	0	0	0	0
Other financing CF items	(1)	(23)	(32)	69	272	(23)	(27)	(33)
Cash flow from financing	653	18	558	935	(151)	244	(27)	(33)
Forex effect/others	0	0	(1)	2	0	0	0	0
Change in cash	(603)	229	716	551	(327)	27	(39)	2,425
Free cash flow	(1,049)	205	654	730	(716)	(141)	78	2,566

Source: FactSet, Daiwa forecasts

Financial summary continued ...

■ **Balance sheet (USDm)**

As at 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Cash & short-term investment	449	609	1,158	2,382	2,779	2,806	2,767	5,192
Inventory	9	15	15	17	18	29	30	51
Accounts receivable	262	260	307	321	288	588	1,482	1,002
Other current assets	17	17	26	29	63	63	63	63
Total current assets	737	900	1,506	2,749	3,148	3,487	4,343	6,309
Fixed assets	3,234	3,100	3,598	3,674	4,261	5,059	5,340	4,901
Goodwill & intangibles	800	743	686	628	571	514	457	399
Other non-current assets	91	141	480	896	834	1,000	1,200	1,440
Total assets	4,863	4,884	6,270	7,947	8,814	10,060	11,340	13,050
Short-term debt	45	203	0	855	263	300	300	300
Accounts payable	9	9	12	14	10	18	17	30
Other current liabilities	468	464	591	853	966	1,018	1,214	1,416
Total current liabilities	522	676	603	1,722	1,238	1,335	1,531	1,747
Long-term debt	1,754	1,637	2,326	2,340	2,271	2,500	2,500	2,500
Other non-current liabilities	78	49	153	145	380	380	380	380
Total liabilities	2,354	2,361	3,082	4,207	3,889	4,215	4,411	4,626
Share capital	16	16	16	16	11	11	11	11
Reserves/R.E./others	2,493	2,507	2,940	3,369	4,236	5,215	6,359	7,912
Shareholders' equity	2,509	2,523	2,956	3,386	4,247	5,226	6,370	7,923
Minority interests	0	0	231	355	678	619	560	500
Total equity & liabilities	4,863	4,884	6,270	7,947	8,814	10,060	11,340	13,050
EV	20,150	20,031	20,199	19,967	19,233	19,413	19,392	16,908
Net debt/(cash)	1,350	1,231	1,168	813	(246)	(6)	33	(2,392)
BVPS (USD)	4.717	4.714	5.365	6.126	7.655	9.421	11.482	14.283

■ **Key ratios (%)**

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Sales (YoY)	(5.9)	98.2	45.0	6.5	24.7	16.1	26.0	36.7
EBITDA (YoY)	(64.5)	671.9	88.1	13.7	39.9	19.0	17.4	37.7
Operating profit (YoY)	n.a.	n.a.	381.1	13.9	65.6	26.2	12.6	45.0
Net profit (YoY)	n.a.	n.a.	n.a.	41.6	52.8	50.5	17.1	36.5
Core EPS (fully-diluted) (YoY)	n.a.	n.a.	n.a.	38.1	52.2	50.5	17.1	36.5
Gross-profit margin	44.7	48.4	49.1	50.4	51.3	51.9	56.7	63.4
EBITDA margin	4.2	16.3	21.1	22.6	25.3	25.9	24.2	24.3
Operating-profit margin	n.a.	3.5	11.6	12.4	16.5	17.9	16.0	17.0
Net profit margin	(23.1)	(0.4)	7.7	10.2	12.5	16.2	15.1	15.1
ROAE	n.a.	n.a.	10.8	13.2	16.7	20.3	19.4	21.5
ROAA	n.a.	n.a.	5.3	5.9	7.6	10.2	10.5	12.6
ROCE	n.a.	2.1	9.0	8.1	11.7	13.2	13.0	16.5
ROIC	(7.9)	2.4	11.0	11.4	18.1	20.2	18.6	26.6
Net debt to equity	53.8	48.8	39.5	24.0	net cash	net cash	0.5	net cash
Effective tax rate	n.a.	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.
Accounts receivable (days)	45.5	36.0	27.0	28.1	21.8	27.1	50.8	44.6
Current ratio (x)	1.4	1.3	2.5	1.6	2.5	2.6	2.8	3.6
Net interest cover (x)	n.a.	1.0	4.1	5.1	5.8	10.2	9.0	10.7
Net dividend payout	n.a.	n.a.	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow yield	n.a.	1.1	3.5	3.9	n.a.	n.a.	0.4	13.6

Source: FactSet, Daiwa forecasts

■ **Company profile**

Melco Crown Entertainment Limited is an owner and developer of casino gaming and entertainment resort facilities. It holds 1 of the 6 granted concessions or sub-concessions to operate casinos in Macau. It currently operates the City of Dreams and Altira casinos, and Mocha Clubs, which is a non-casino based operations of electronic gaming machines. It owns a 60% controlling interest in Studio City in Cotai, which is targeted to open in 2015.

SJM Holdings

880 HK

VIP risk partially offset by mass expansion

- High exposure to VIP segment is a risk: we expect VIP rolling to fall YoY in the coming months
- However, we saw robust mass footfall at Grand Lisboa, while further table allocation to mass should partially offset VIP risk
- Limited share-price downside from near-term sector headwinds; already trading at low valuations vs. peers

Target (HKD): **26.40** → **24.70**

Upside: **13.6%**

28 May price (HKD): **21.75**

- 1 Buy
- 2 Outperform (unchanged)
- 3 Hold
- 4 Underperform
- 5 Sell



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What's new

SJM has relatively high exposure to the VIP business, which we expect to face challenges in the coming months. Meanwhile, the company's flagship property, Grand Lisboa, has continued to outperform its sister properties in terms of EBITDA. Our on-the-ground research suggests the property is continuing to see robust footfall on the mass gaming floor. We expect this to yield margin improvements over 2014-15; although the operator faces a continued risk of market-share loss to newer Cotai properties.

What's the impact

We are cutting our 2014-15 earnings forecasts by 3-8% to reflect our more conservative view on the outlook for

VIP revenue growth in Macau over the next 2 years.

SJM: market share

	1Q13	2Q13	3Q13	4Q13	1Q14	April 2014
VIP*	28%	27%	28%	28%	28%	29%
Mass	28%	26%	27%	27%	25%	26%
Overall	27%	25%	25%	25%	24%	25%

Source: Company, Daiwa; Note: *Based on VIP rolling

SJM: GGR growth (YoY)

	1Q13	2Q13	3Q13	4Q13	1Q14	April 2014
VIP	13%	7%	9%	8%	-5%	-7%
Mass	5%	3%	18%	25%	28%	36%
Overall	10%	6%	11%	13%	5%	5%

Source: Company, Daiwa

However, we believe this will be offset partially by the space and table reallocations to the mass segment. We forecast Grand Lisboa to see a 33% increase in premium-mass table count over the course of this year, reallocated from the VIP segment.

What we recommend

The stock is trading currently at a 32% discount to the average EV/EBITDA multiple of its Macau peers. At this level, we believe downside is limited and that SJM's high dividend yield provides share-price support. We reaffirm our Outperform (2) rating but lower our 6-month SOTP-based target price to HKD24.7 (from HKD26.40). The main risk to our call would be greater tightening of junket credit than we expect.

How we differ

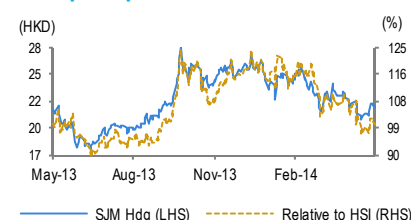
Compared with the market, we are less bullish on the GGR outlook in the VIP segment over 2014-16.

Forecast revisions (%)

Year to 31 Dec	14E	15E	16E
Revenue change	(2.4)	(2.4)	(3.2)
Net profit change	(3.0)	(7.7)	(10.3)
Core EPS (FD) change	(3.0)	(7.7)	(10.3)

Source: Daiwa forecasts

Share price performance



12-month range	17.54-27.40
Market cap (USDbn)	15.57
3m avg daily turnover (USDm)	22.69
Shares outstanding (m)	5,550
Major shareholder	STDM (55.0%)

Financial summary (HKD)

Year to 31 Dec	14E	15E	16E
Revenue (m)	95,319	104,984	116,680
Operating profit (m)	8,344	9,124	9,351
Net profit (m)	8,275	9,057	9,272
Core EPS (fully-diluted)	1.476	1.616	1.654
EPS change (%)	7.2	9.4	2.4
Daiwa vs Cons. EPS (%)	(4.5)	(5.7)	(8.3)
PER (x)	14.7	13.5	13.1
Dividend yield (%)	4.9	5.4	5.5
DPS	1.071	1.173	1.201
PBR (x)	4.7	4.2	3.9
EV/EBITDA (x)	10.0	8.9	8.6
ROE (%)	33.6	33.3	31.2

Source: FactSet, Daiwa forecasts

Financial summary

■ Key assumptions

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Grand Lisboa EBITDA (HKDm)	1,654	2,562	3,756	4,481	4,654	5,386	6,488	7,264
Self-promoted casinos EBITDA (HKDm)	1,288	895	1,228	1,189	1,811	1,800	1,746	1,764
Satellite casinos EBITDA (HKDm)	246	1,176	1,661	1,590	1,803	1,961	2,131	2,376
Hotel Lisboa EBITDA (HKDm)	71	131	203	205	244	248	253	258

■ Profit and loss (HKDm)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Gaming	34,066	57,195	75,514	78,884	86,956	94,613	104,264	115,946
Non-gaming	287	458	578	635	695	706	720	734
Other Revenue	0	0	0	0	0	0	0	0
Total Revenue	34,353	57,653	76,092	79,519	87,651	95,319	104,984	116,680
Other income	87	74	41	69	252	274	302	335
COGS	(13,220)	(22,090)	(29,071)	(30,354)	(33,425)	(36,926)	(40,690)	(45,246)
SG&A	(18,965)	(30,587)	(40,366)	(41,242)	(45,457)	(50,049)	(55,171)	(62,083)
Other op. expenses	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Operating profit	974	3,674	5,298	6,588	7,560	8,344	9,124	9,351
Net-interest inc./exp.)	(162)	(142)	47	238	215	(16)	(12)	(24)
Assoc/forex/extraord./others	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pre-tax profit	812	3,532	5,346	6,827	7,775	8,328	9,111	9,328
Tax	(18)	(18)	(35)	(75)	(53)	(53)	(54)	(55)
Min. int./pref. div./others	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net profit (reported)	795	3,515	5,311	6,752	7,722	8,275	9,057	9,272
Net profit (adjusted)	795	3,515	5,311	6,752	7,722	8,275	9,057	9,272
EPS (reported)(HKD)	0.159	0.683	0.965	1.219	1.391	1.491	1.632	1.671
EPS (adjusted)(HKD)	0.159	0.683	0.965	1.219	1.391	1.491	1.632	1.671
EPS (adjusted fully-diluted)(HKD)	0.158	0.640	0.954	1.210	1.378	1.476	1.616	1.654
DPS (HKD)	0.091	0.372	0.735	0.900	1.000	1.071	1.173	1.201
EBIT	974	3,674	5,298	6,588	7,560	8,344	9,124	9,351
EBITDA	2,269	4,858	6,928	7,631	8,676	9,599	10,821	11,865

■ Cash flow (HKDm)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Profit before tax	812	3,532	5,346	6,827	7,775	8,328	9,111	9,328
Depreciation and amortisation	1,115	1,177	1,121	1,125	1,180	1,312	1,754	2,470
Tax paid	(17)	(18)	(20)	(18)	(74)	(53)	(54)	(55)
Change in working capital	1,795	3,333	1,311	2,824	1,727	(991)	3,728	(1,394)
Other operational CF items	356	241	650	(208)	(276)	24	21	32
Cash flow from operations	4,063	8,266	8,408	10,551	10,332	8,620	14,559	10,381
Capex	(1,344)	(812)	(421)	(383)	(508)	(2,308)	(9,231)	(9,231)
Net (acquisitions)/disposals	(27)	(31)	(133)	(1,089)	0	0	0	0
Other investing CF items	(1,492)	(3,859)	(257)	(5,795)	(3,358)	(83)	(79)	(91)
Cash flow from investing	(2,862)	(4,702)	(811)	(7,267)	(3,866)	(2,390)	(9,310)	(9,322)
Change in debt	(702)	(1,030)	(1,040)	(1,344)	92	0	0	0
Net share issues/(repurchases)	0	347	100	83	0	0	0	0
Dividends paid	(300)	(716)	(2,095)	(4,158)	(3,879)	(5,749)	(6,228)	(6,587)
Other financing CF items	1,891	37	(140)	(493)	(3,465)	(150)	(150)	(150)
Cash flow from financing	889	(1,362)	(3,175)	(5,912)	(7,252)	(5,899)	(6,378)	(6,737)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	2,090	2,202	4,422	(2,628)	(786)	331	(1,129)	(5,677)
Free cash flow	2,719	7,455	7,987	10,168	9,824	6,313	5,329	1,150

Source: FactSet, Daiwa forecasts

Financial summary continued ...

■ Balance sheet (HKDm)

As at 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Cash & short-term investment	8,603	15,202	20,597	23,428	26,099	26,430	25,301	19,625
Inventory	52	56	69	64	62	66	65	68
Accounts receivable	1,233	1,258	1,318	1,707	1,510	1,878	1,746	2,165
Other current assets	375	883	295	85	155	155	155	155
Total current assets	10,263	17,399	22,279	25,283	27,826	28,529	27,268	22,013
Fixed assets	10,985	10,291	9,552	8,871	11,096	12,057	19,499	26,225
Goodwill & intangibles	46	40	33	27	28	28	28	28
Other non-current assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total assets	23,367	28,889	33,020	37,294	42,368	44,033	50,213	51,684
Short-term debt	1,040	1,040	3,072	238	318	100	100	101
Accounts payable	6,895	10,021	11,339	14,559	15,319	14,700	18,296	17,324
Other current liabilities	85	310	388	112	385	385	385	385
Total current liabilities	8,020	11,371	14,799	14,908	16,022	15,185	18,780	17,809
Long-term debt	4,102	3,072	0	1,491	1,191	1,191	1,191	1,191
Other non-current liabilities	2,725	1,271	974	981	1,700	1,700	1,700	1,700
Total liabilities	14,847	15,714	15,773	17,380	18,913	18,076	21,672	20,701
Share capital	5,000	5,455	5,522	5,548	5,554	5,554	5,554	5,554
Reserves/R.E./others	3,455	7,683	11,686	14,330	17,850	20,351	22,936	25,378
Shareholders' equity	8,455	13,138	17,208	19,878	23,403	25,904	28,490	30,931
Minority interests	65	38	39	36	52	52	52	52
Total equity & liabilities	23,367	28,889	33,020	37,294	42,369	44,033	50,214	51,684
EV	117,326	109,670	103,235	99,058	96,184	95,634	96,763	102,441
Net debt/(cash)	(3,461)	(11,090)	(17,525)	(21,699)	(24,590)	(25,139)	(24,010)	(18,332)
BVPS (HKD)	1.691	2.553	3.126	3.589	4.216	4.667	5.133	5.573

■ Key ratios (%)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Sales (YoY)	n.a.	67.8	32.0	4.5	10.2	8.7	10.1	11.1
EBITDA (YoY)	n.a.	114.1	42.6	10.1	13.7	10.6	12.7	9.7
Operating profit (YoY)	n.a.	277.2	44.2	24.3	14.7	10.4	9.3	2.5
Net profit (YoY)	n.a.	342.2	51.1	27.1	14.4	7.2	9.4	2.4
Core EPS (fully-diluted) (YoY)	n.a.	304.0	49.1	26.9	13.8	7.2	9.4	2.4
Gross-profit margin	61.5	61.7	61.8	61.8	61.9	61.3	61.2	61.2
EBITDA margin	6.6	8.4	9.1	9.6	9.9	10.1	10.3	10.2
Operating-profit margin	2.8	6.4	7.0	8.3	8.6	8.8	8.7	8.0
Net profit margin	2.3	6.1	7.0	8.5	8.8	8.7	8.6	7.9
ROAE	18.8	32.6	35.0	36.4	35.7	33.6	33.3	31.2
ROAA	6.8	13.5	17.2	19.2	19.4	19.2	19.2	18.2
ROCE	14.3	23.7	28.2	31.4	32.4	32.0	32.0	30.1
ROIC	14.1	77.8	381.9	(1,141.7)	(788.4)	663.9	107.4	52.2
Net debt to equity	net cash	net cash	net cash	net cash	net cash	net cash	net cash	net cash
Effective tax rate	2.2	0.5	0.7	1.1	0.7	0.6	0.6	0.6
Accounts receivable (days)	6.6	7.9	6.2	6.9	6.7	6.5	6.3	6.1
Current ratio (x)	1.3	1.5	1.5	1.7	1.7	1.9	1.5	1.2
Net interest cover (x)	6.0	25.9	n.a.	n.a.	n.a.	532.9	739.0	395.6
Net dividend payout	57.1	54.5	76.2	73.8	71.9	71.9	71.9	71.9
Free cash flow yield	2.3	6.2	6.6	8.4	8.1	5.2	4.4	1.0

Source: FactSet, Daiwa forecasts

■ Company profile

SJM Holdings Limited is the holding company of Sociedade de Jogos de Macau S.A., one of the six concession holders approved by the Macau government. It previously had the monopoly over Macau gaming until the government opened the industry up in 2002 and issued 5 more concession and sub-concession licenses. SJM currently operates numerous casinos in both the Macau Peninsula and Taipa Island, it is notably known for Grand Lisboa. SJM is currently developing Lisboa Palace in Cotai, expected to open in 2017.

Wynn Macau

1128 HK

Slower VIP growth likely to be a drag on turnaround story

- We believe Wynn is seeing a fundamental business turnaround amid low expectations within the market
- However, the benefits are likely to be partly offset by slower industry VIP growth, given its high exposure to VIP business
- Revising down earnings forecasts for 2014-16 and target price to HKD35.8; downgrading rating to Outperform (2)

Target (HKD): **42.00 → 35.80**

Upside: **10.8%**

28 May price (HKD): **32.30**

- 1 Buy
- 2 Outperform (from Buy)
- 3 Hold
- 4 Underperform
- 5 Sell



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■ What's new

Wynn has been regaining market share and expanding its revenue in both the VIP and mass segments, and we continue to believe the company has the ingredients to be the turnaround story in Macau gaming in 2014. However, Wynn is the most exposed of the operators to the VIP segment, which we expect to face challenges in the coming months due to a weakening of junket liquidity.

■ What's the impact

To reflect our more conservative outlook for Macau gaming VIP revenue growth in 2014-15, we revise down our forecasts of Wynn's core EPS by 1.5% for 2014, 4.3% for 2015, and 1.4% for 2016.

■ Wynn: market-share trend

	1Q13	2Q13	3Q13	4Q13	1Q14	Apr 2014
VIP*	12%	12%	12%	12%	13%	12%
Mass	8%	7%	7%	8%	7%	9%
Overall	11%	10%	11%	11%	11%	11%

Source: Company, Daiwa

* Based on VIP rolling

■ Wynn: GGR growth trend (YoY)

	1Q13	2Q13	3Q13	4Q13	1Q14	Apr 2014
VIP	5%	2%	8%	23%	10%	19%
Mass	14%	6%	15%	37%	23%	52%
Overall	5%	2%	9%	26%	13%	25%

Source: Company, Daiwa

■ What we recommend

Our revised SOTP target price is HKD35.8 (formerly HKD42), and we downgrade our rating on Wynn to Outperform (2), from Buy (1).

While we are bullish on the prospect of Wynn being a turnaround story this year, its high exposure to the VIP segment — and the volatility that we expect in the segment in the coming months — is likely to be a share-price overhang. Indeed, we expect upside potential in Wynn's EBITDA, driven by its ability to gain market share, to be partly offset by its exposure to slower VIP growth. The main risk to our call on Wynn would be junket liquidity tightening more than we currently expect.

■ How we differ

Our 2014/15 EBITDA forecasts are respectively 3% and 6% above those of the Bloomberg consensus. We believe the consensus numbers are

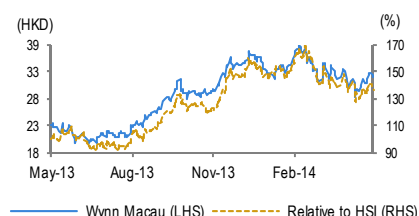
low given Wynn's lacklustre performance compared with its peers in 2013.

Forecast revisions (%)

Year to 31 Dec	14E	15E	16E
Revenue change	1.2	(0.4)	5.6
Net profit change	(1.5)	(4.3)	(1.4)
Core EPS (FD) change	(1.5)	(4.3)	(1.4)

Source: Daiwa forecasts

Share price performance



12-month range	19.92-38.35
Market cap (USDbn)	21.61
3m avg daily turnover (USDm)	31.45
Shares outstanding (m)	5,188
Major shareholder	Wynn Resorts (72.3%)

Financial summary (HKD)

Year to 31 Dec	14E	15E	16E
Revenue (m)	36,436	40,770	54,725
Operating profit (m)	9,309	10,484	12,646
Net profit (m)	8,842	9,663	10,585
Core EPS (fully-diluted)	1.704	1.863	2.040
EPS change (%)	14.8	9.3	9.5
Daiwa vs Cons. EPS (%)	3.4	4.7	4.4
PER (x)	19.0	17.3	15.8
Dividend yield (%)	4.2	4.6	5.1
DPS	1.364	1.490	1.632
PBR (x)	15.3	13.0	11.1
EV/EBITDA (x)	16.7	15.4	12.2
ROE (%)	87.7	81.0	81.5

Source: FactSet, Daiwa forecasts

Financial summary

■ Key assumptions

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Wynn Macau EBITDA (HKDm)	3,932	6,938	9,312	9,073	10,323	11,986	13,333	14,379
Wynn Macau EBITDA margin (%)	27.9	30.9	31.6	31.9	33.0	32.9	32.7	33.7
Wynn Macau ROI (%)	28.8	50.8	68.2	66.5	75.7	87.8	97.7	105.3
Wynn Macau normalized ROI (%)	28.4	48.4	66.6	66.6	72.4	86.2	97.7	105.3

■ Profit and loss (HKDm)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Gaming	13,186	21,058	27,756	26,707	29,536	34,558	38,918	51,563
Non-gaming	891	1,381	1,742	1,746	1,805	1,878	1,852	3,162
Other Revenue	0	0	0	0	0	0	0	0
Total Revenue	14,077	22,439	29,498	28,452	31,341	36,436	40,770	54,725
Other income	0	0	0	0	0	0	0	0
COGS	(6,742)	(10,811)	(14,364)	(13,763)	(15,144)	(17,353)	(19,379)	(25,794)
SG&A	(4,092)	(5,752)	(7,182)	(6,951)	(7,331)	(8,756)	(9,886)	(13,818)
Other op.expenses	(752)	(1,031)	(1,054)	(967)	(984)	(1,017)	(1,022)	(2,468)
Operating profit	2,490	4,845	6,897	6,771	7,882	9,309	10,484	12,646
Net-interest inc./(exp.)	(312)	(253)	(210)	(211)	(236)	(535)	(778)	(1,143)
Assoc/forex/extraord./others	(105)	(126)	(793)	(105)	70	90	(20)	(899)
Pre-tax profit	2,074	4,466	5,894	6,455	7,716	8,864	9,686	10,604
Tax	(6)	(44)	27	(15)	(15)	(23)	(22)	(19)
Min. int./pref. div./others	0	0	0	0	0	0	0	0
Net profit (reported)	2,069	4,422	5,921	6,440	7,701	8,842	9,663	10,585
Net profit (adjusted)	2,069	4,422	5,921	6,440	7,701	8,842	9,663	10,585
EPS (reported)(HKD)	0.410	0.852	1.141	1.241	1.484	1.704	1.863	2.040
EPS (adjusted)(HKD)	0.410	0.852	1.141	1.241	1.484	1.704	1.863	2.040
EPS (adjusted fully-diluted)(HKD)	0.410	0.852	1.141	1.241	1.484	1.704	1.863	2.040
DPS (HKD)	0.195	0.760	1.200	1.240	1.480	1.364	1.490	1.632
EBIT	2,490	4,845	6,897	6,771	7,882	9,309	10,484	12,646
EBITDA	3,209	5,835	7,914	7,690	8,801	10,277	11,456	15,064

■ Cash flow (HKDm)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Profit before tax	2,074	4,466	5,894	6,455	7,716	8,864	9,686	10,604
Depreciation and amortisation	718	990	1,016	919	923	967	972	2,418
Tax paid	(21)	(7)	(16)	(15)	(15)	(23)	(22)	(19)
Change in working capital	1,330	1,004	1,608	(587)	2,286	(1,458)	1,928	675
Other operational CF items	416	425	914	310	(402)	(437)	(688)	(761)
Cash flow from operations	4,517	6,878	9,417	7,082	10,508	7,914	11,874	12,917
Capex	(12,561)	(963)	(445)	(1,099)	(4,022)	(9,067)	(10,200)	(13,035)
Net (acquisitions)/disposals	(2,246)	(21)	(623)	108	1,605	2	2	2
Other investing CF items	(151)	(31)	(438)	(1,087)	(1,109)	(400)	(217)	(93)
Cash flow from investing	(14,958)	(1,016)	(1,506)	(2,079)	(3,526)	(9,465)	(10,415)	(13,126)
Change in debt	0	(3,117)	(187)	964	4,084	2,000	4,000	8,000
Net share issues/(repurchases)	14,490	0	1	0	0	0	0	0
Dividends paid	(1,009)	(3,943)	(6,225)	0	(7,678)	(7,073)	(7,731)	(8,468)
Other financing CF items	(355)	(213)	(196)	(665)	267	708	886	1,236
Cash flow from financing	13,126	(7,272)	(6,608)	299	(3,327)	(4,365)	(2,845)	768
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	2,685	(1,410)	1,304	5,302	3,654	(5,916)	(1,385)	559
Free cash flow	(8,044)	5,915	8,972	5,983	6,485	(1,153)	1,675	(118)

Source: FactSet, Daiwa forecasts

Financial summary continued ...

■ Balance sheet (HKDm)

As at 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Cash & short-term investment	5,229	3,819	5,261	11,630	15,719	9,825	8,440	8,999
Inventory	203	174	180	167	197	240	249	408
Accounts receivable	325	485	750	583	556	802	610	1,199
Other current assets	161	431	111	341	565	565	565	565
Total current assets	5,918	4,910	6,302	12,720	17,037	11,432	9,864	11,171
Fixed assets	8,528	8,352	7,693	7,999	11,159	19,290	28,549	38,938
Goodwill & intangibles	398	398	398	398	398	398	398	398
Other non-current assets	747	688	2,967	2,498	2,315	2,163	2,092	2,020
Total assets	15,592	14,348	17,360	23,616	30,909	33,284	40,903	52,528
Short-term debt	0	0	2,303	0	0	0	0	0
Accounts payable	727	1,018	1,050	969	1,810	813	2,122	1,818
Other current liabilities	2,826	3,963	5,972	5,387	7,139	7,112	7,656	9,526
Total current liabilities	3,553	4,981	9,325	6,355	8,949	7,925	9,779	11,344
Long-term debt	8,017	4,950	2,501	5,494	11,683	13,683	17,683	25,683
Other non-current liabilities	251	121	1,505	1,266	1,064	730	541	461
Total liabilities	11,821	10,051	13,332	13,115	21,696	22,338	28,003	37,488
Share capital	1,929	158	159	159	159	159	159	159
Reserves/R.E./others	1,842	4,139	3,870	10,342	9,054	10,787	12,742	14,881
Shareholders' equity	3,771	4,297	4,028	10,501	9,213	10,946	12,901	15,040
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	15,592	14,348	17,360	23,616	30,909	33,284	40,903	52,528
EV	170,346	168,688	167,101	161,422	163,523	171,416	176,801	184,242
Net debt/(cash)	2,788	1,131	(457)	(6,136)	(4,035)	3,858	9,243	16,684
BVPS (HKD)	0.727	0.828	0.777	2.024	1.776	2.110	2.487	2.899

■ Key ratios (%)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Sales (YoY)	(4.3)	59.4	31.5	(3.5)	10.2	16.3	11.9	50.2
EBITDA (YoY)	2.2	81.8	35.6	(2.8)	14.4	16.8	11.5	46.6
Operating profit (YoY)	2.0	94.6	42.4	(1.8)	16.4	18.1	12.6	35.8
Net profit (YoY)	1.4	113.8	33.9	8.8	19.6	14.8	9.3	19.7
Core EPS (fully-diluted) (YoY)	0.6	107.7	33.9	8.8	19.6	14.8	9.3	19.7
Gross-profit margin	52.1	51.8	51.3	51.6	51.7	52.4	52.5	52.9
EBITDA margin	22.8	26.0	26.8	27.0	28.1	28.2	28.1	27.5
Operating-profit margin	17.7	21.6	23.4	23.8	25.1	25.5	25.7	23.1
Net profit margin	14.7	19.7	20.1	22.6	24.6	24.3	23.7	19.3
ROAE	91.8	109.6	142.2	88.6	78.1	87.7	81.0	81.5
ROAA	15.5	29.5	37.3	31.4	28.2	27.5	26.1	24.7
ROCE	24.3	46.1	76.3	54.5	42.7	40.9	38.0	38.7
ROIC	39.0	80.0	153.3	170.2	164.9	92.9	56.6	55.1
Net debt to equity	73.9	26.3	net cash	net cash	net cash	35.2	71.6	110.9
Effective tax rate	0.3	1.0	n.a.	0.2	0.2	0.3	0.2	0.2
Accounts receivable (days)	6.9	6.6	7.6	8.5	6.6	6.8	6.3	6.7
Current ratio (x)	1.7	1.0	0.7	2.0	1.9	1.4	1.0	1.0
Net interest cover (x)	8.0	19.1	32.8	32.2	33.4	17.4	13.5	11.1
Net dividend payout	47.4	89.2	105.1	99.9	99.7	80.0	80.0	80.0
Free cash flow yield	n.a.	3.5	5.4	3.6	3.9	n.a.	1.0	n.a.

Source: FactSet, Daiwa forecasts

■ Company profile

Wynn Macau is owned by Wynn Resorts and is located in the Macau Peninsula. In April 2010, Wynn Macau has expanded its property with a second tower, Encore Macau. It is currently undergoing its Cotai development, named Wynn Palace, which is expected to be completed construction by Lunar New Year 2016. Wynn announced in October 2013 that a new resort facility named Wynn Diamond, next to Wynn Palace would be built and will include mainly non-gaming facilities.

MGM China Holdings

2282 HK

Less exposed to VIP

- Earnings less affected than those of its peers by our revised VIP growth forecasts, given its profitability in premium mass
- Our on-the-ground checks point to robust footfall and high betting volumes on MGM's mass floor
- Revising down our earnings forecasts for 2014-15 and target price; reiterating Outperform (2)

Target (HKD): **33.50** → **29.50**

Upside: **9.7%**

28 May price (HKD): **26.90**

- 1 Buy
- 2 Outperform (unchanged)
- 3 Hold
- 4 Underperform
- 5 Sell



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■ What's new

MGM continued to surprise the market positively with its business performance in 1Q14, which resulted in it: 1) maintaining its market share YoY, and 2) achieving EBITDA-margin improvement through a well-executed strategy targeting the premium-mass market segment. Our on-the-ground property checks indicate robust footfall and high betting volumes on MGM's mass and premium mass gaming floors, which we expect to be sustainable.

■ What's the impact

To reflect our more conservative outlook for Macau gaming VIP revenue growth in 2014-15, we revise down our core EPS forecasts for 2014-15 by 1.8-4.1%.

■ MGM: market-share trend

	1Q13	2Q13	3Q13	4Q13	1Q14	Apr 2014
VIP*	11%	11%	11%	12%	10%	10%
Mass	7%	8%	7%	6%	7%	8%
Overall	9%	10%	10%	10%	10%	9%

Source: Company, Daiwa

* Based on VIP rolling

■ MGM: GGR growth trend (YoY)

	1Q13	2Q13	3Q13	4Q13	1Q14	Apr 2014
VIP	0%	21%	21%	28%	22%	8%
Mass	29%	34%	29%	19%	44%	47%
Overall	6%	21%	21%	25%	25%	17%

Source: Company, Daiwa

■ What we recommend

We reiterate our Buy (1) rating on MGM, with a revised SOTP target price of HKD29.5 (formerly HKD33.50). In our view, MGM is less sensitive than its peers to our more conservative view on the VIP segment due to its: 1) lower-than-peers' exposure to the VIP segment, and 2) established high-margin mass business, backed by its well-executed premium mass offering.

The main risk to our view on MGM is its "single-property" risk (as it currently only operates 1 casino) on the Macau Peninsula, where we believe the industry overall faces GGR market-share losses to Cotai.

■ How we differ

After incorporating our revised outlook for the VIP segment, our EBITDA forecasts for 2014 and 2015 are respectively 2% higher and 6%

lower than the Bloomberg-consensus forecasts.

Forecast revisions (%)

Year to 31 Dec	14E	15E	16E
Revenue change	(1.0)	1.1	(1.4)
Net profit change	(1.8)	(4.1)	5.1
Core EPS (FD) change	(1.8)	(4.1)	5.1

Source: Daiwa forecasts

Share price performance



12-month range	18.36-35.80
Market cap (USDbn)	13.19
3m avg daily turnover (USDm)	20.47
Shares outstanding (m)	3,800
Major shareholder	MGM Resorts (51.0%)

Financial summary (HKD)

Year to 31 Dec	14E	15E	16E
Revenue (m)	29,324	30,314	45,020
Operating profit (m)	6,681	6,875	11,536
Net profit (m)	6,540	6,728	11,383
Core EPS (fully-diluted)	1.721	1.770	2.996
EPS change (%)	22.6	2.9	69.2
Daiwa vs Cons. EPS (%)	2.6	(5.7)	42.6
PER (x)	15.6	15.2	9.0
Dividend yield (%)	2.2	2.3	3.9
DPS	0.602	0.620	1.048
PBR (x)	9.4	6.7	4.5
EV/EBITDA (x)	13.0	12.8	7.8
ROE (%)	75.2	51.3	59.7

Source: FactSet, Daiwa forecasts

Financial summary

■ Key assumptions

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
MGM Macau EBITDA (HKDm)	1,179	2,831	5,046	5,543	6,645	8,010	8,290	9,088
MGM Cotai EBITDA (HKDm)	0	0	0	0	0	0	0	3,882
MGM Macau EBITDA Margin (%)	15.3	22.8	24.9	25.5	25.8	27.8	27.4	27.9
MGM Cotai EBITDA Margin (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	29.9

■ Profit and loss (HKDm)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Gaming	7,456	12,127	19,975	21,454	25,412	29,151	30,153	42,732
Non-gaming	271	308	319	319	315	172	161	2,287
Other Revenue	0	0	0	0	0	0	0	0
Total Revenue	7,727	12,435	20,294	21,774	25,728	29,324	30,314	45,020
Other income	0	0	0	0	0	0	0	0
COGS	(4,029)	(6,480)	(10,817)	(11,549)	(13,654)	(15,071)	(15,617)	(21,764)
SG&A	(2,125)	(2,692)	(3,968)	(4,215)	(4,937)	(5,343)	(5,425)	(6,510)
Other op.expenses	(1,209)	(1,242)	(1,542)	(1,578)	(1,592)	(2,228)	(2,397)	(5,210)
Operating profit	364	2,021	3,967	4,432	5,544	6,681	6,875	11,536
Net-interest inc./(exp.)	(531)	(449)	(228)	(318)	(189)	(141)	(147)	(153)
Assoc/forex/extraord./others	1	(5)	(1)	7	(6)	0	0	0
Pre-tax profit	(166)	1,566	3,738	4,121	5,348	6,540	6,728	11,383
Tax	(1)	(0)	(459)	410	(15)	0	0	0
Min. int./pref. div./others	0	0	0	0	0	0	0	0
Net profit (reported)	(167)	1,566	3,279	4,531	5,334	6,540	6,728	11,383
Net profit (adjusted)	(167)	1,566	3,279	4,531	5,334	6,540	6,728	11,383
EPS (reported)(HKD)	(0.861)	8.065	0.863	1.192	1.404	1.721	1.770	2.996
EPS (adjusted)(HKD)	(0.861)	8.065	0.863	1.192	1.404	1.721	1.770	2.996
EPS (adjusted fully-diluted)(HKD)	(0.861)	8.065	0.863	1.192	1.404	1.721	1.770	2.996
DPS (HKD)	0.000	0.000	0.000	0.000	0.490	0.602	0.620	1.048
EBIT	364	2,021	3,967	4,432	5,544	6,681	6,875	11,536
EBITDA	1,179	2,831	4,933	5,310	6,366	7,673	7,885	12,566

■ Cash flow (HKDm)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Profit before tax	(166)	1,566	3,738	4,121	5,348	6,540	6,728	11,383
Depreciation and amortisation	793	778	747	794	768	892	911	930
Tax paid	(0)	(0)	(0)	(34)	(15)	0	0	0
Change in working capital	(248)	432	1,373	1,072	2,451	136	267	874
Other operational CF items	634	584	498	493	323	350	341	379
Cash flow from operations	1,013	3,360	6,356	6,445	8,876	7,918	8,246	13,566
Capex	(128)	(171)	(147)	(878)	(2,000)	(6,450)	(6,450)	(6,450)
Net (acquisitions)/disposals	(114)	(75)	(148)	(190)	(191)	(240)	(240)	(240)
Other investing CF items	(1)	(9)	(8)	(13)	47	0	0	0
Cash flow from investing	(243)	(255)	(303)	(1,081)	(2,144)	(6,690)	(6,690)	(6,690)
Change in debt	254	(2,667)	(1,800)	0	66	(49)	0	0
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	0	0	(476)	(3,101)	(5,738)	(2,289)	(2,355)	(3,984)
Other financing CF items	(496)	(491)	(110)	(472)	(556)	(188)	(187)	(187)
Cash flow from financing	(242)	(3,157)	(2,385)	(3,573)	(6,228)	(2,526)	(2,541)	(4,171)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	527	(53)	3,668	1,791	503	(1,299)	(985)	2,706
Free cash flow	885	3,188	6,209	5,567	6,876	1,468	1,796	7,116

Source: FactSet, Daiwa forecasts

Financial summary continued ...

■ Balance sheet (HKDm)

As at 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Cash & short-term investment	1,976	1,923	5,590	7,381	7,885	6,586	5,601	8,307
Inventory	44	64	79	86	99	136	107	254
Accounts receivable	841	1,137	549	479	577	595	452	783
Other current assets	95	169	66	57	139	139	139	139
Total current assets	2,956	3,293	6,285	8,004	8,700	7,456	6,299	9,482
Fixed assets	5,815	5,380	4,996	5,066	6,714	12,690	18,647	24,584
Goodwill & intangibles	0	0	0	0	0	0	0	0
Other non-current assets	1,697	1,551	1,409	1,711	2,674	2,525	2,327	2,130
Total assets	10,468	10,224	12,689	14,781	18,088	22,671	27,273	36,196
Short-term debt	1,063	0	207	0	0	0	0	0
Accounts payable	1,735	2,706	3,466	4,475	6,366	6,619	6,767	8,212
Other current liabilities	210	150	214	411	608	608	608	608
Total current liabilities	3,008	2,857	3,887	4,886	6,973	7,226	7,375	8,820
Long-term debt	5,659	5,887	3,929	3,983	4,049	4,000	4,000	4,000
Other non-current liabilities	1,550	0	459	0	561	561	561	561
Total liabilities	10,216	8,743	8,275	8,869	11,584	11,788	11,937	13,381
Share capital	194	194	3,800	3,800	3,800	3,800	3,800	3,800
Reserves/R.E./others	57	1,287	614	2,111	2,703	7,083	11,536	19,015
Shareholders' equity	251	1,481	4,414	5,911	6,503	10,883	15,336	22,815
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	10,468	10,224	12,689	14,781	18,087	22,671	27,273	36,196
EV	106,966	106,184	100,766	98,822	98,384	99,634	100,619	97,913
Net debt/(cash)	4,746	3,964	(1,454)	(3,398)	(3,836)	(2,586)	(1,601)	(4,307)
BVPS (HKD)	1.294	7.626	1.162	1.556	1.711	2.864	4.036	6.004

■ Key ratios (%)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Sales (YoY)	11.7	60.9	63.2	7.3	18.2	14.0	3.4	48.5
EBITDA (YoY)	25.3	140.0	74.3	7.7	19.9	20.5	2.8	59.4
Operating profit (YoY)	216.0	454.7	96.4	11.7	25.1	20.5	2.9	67.8
Net profit (YoY)	n.a.	n.a.	109.4	38.2	17.7	22.6	2.9	69.2
Core EPS (fully-diluted) (YoY)	n.a.	n.a.	(89.3)	38.2	17.7	22.6	2.9	69.2
Gross-profit margin	47.9	47.9	46.7	47.0	46.9	48.6	48.5	51.7
EBITDA margin	15.3	22.8	24.3	24.4	24.7	26.2	26.0	27.9
Operating-profit margin	4.7	16.2	19.6	20.4	21.5	22.8	22.7	25.6
Net profit margin	(2.2)	12.6	16.2	20.8	20.7	22.3	22.2	25.3
ROAE	n.a.	180.8	111.3	87.8	85.9	75.2	51.3	59.7
ROAA	n.a.	15.1	28.6	33.0	32.5	32.1	26.9	35.9
ROCE	5.3	28.2	49.8	48.1	54.2	52.5	40.2	50.0
ROIC	7.0	38.7	82.8	162.0	213.4	121.9	62.4	71.6
Net debt to equity	1,888.1	267.7	net cash	net cash	net cash	net cash	net cash	net cash
Effective tax rate	n.a.	0.0	12.3	n.a.	0.3	0.0	0.0	0.0
Accounts receivable (days)	28.3	29.0	15.2	8.6	7.5	7.3	6.3	5.0
Current ratio (x)	1.0	1.2	1.6	1.6	1.2	1.0	0.9	1.1
Net interest cover (x)	0.7	4.5	17.4	13.9	29.3	47.4	46.8	75.6
Net dividend payout	n.a.	0.0	0.0	0.0	34.9	35.0	35.0	35.0
Free cash flow yield	0.9	3.1	6.1	5.4	6.7	1.4	1.8	7.0

Source: FactSet, Daiwa forecasts

■ Company profile

MGM China is one of the six gaming operators in Macau. It is a joint venture, which is 51% owned by MGM Resorts and 27.4% by Pansy Ho, and is one of the leading casino gaming resort developers, owners and operators in Macau. MGM Macau is located in the Macau Peninsula and has about 420 gaming tables. MGM is currently building its Cotai development, MGM Cotai, which is expected to be completed in 2016.

Galaxy Entertainment Group

27 HK

High VIP exposure a drag

- Company's high exposure to VIP segment likely an overhang, as VIP rolling should decline YoY over the coming months
- However, management has strong execution skills; a strong contender to have the dominant market share over 2015-18
- Looking ahead, structural story appears intact with new Cotai properties likely to drive market-share gains

Target (HKD): **83.60 → 66.60**

Upside: **9.2%**

28 May price (HKD): **61.00**

- 1 Buy
- 2 Outperform (from Buy)
- 3 Hold
- 4 Underperform
- 5 Sell



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more conservative view on the outlook for VIP revenue growth in Macau over the next 2 years.

Galaxy: market share

	1Q13	2Q13	3Q13	4Q13	1Q14	April 2014
VIP*	19%	20%	21%	21%	22%	25%
Mass	16%	17%	16%	16%	16%	15%
Overall	19%	19%	19%	19%	21%	19%

Source: Company, Daiwa

Note: *Based on VIP rolling

Galaxy: GGR growth (YoY)

	1Q13	2Q13	3Q13	4Q13	1Q14	April 2014
VIP	7%	-6%	8%	31%	32%	21%
Mass	44%	46%	42%	40%	37%	16%
Overall	15%	4%	15%	32%	32%	18%

Source: Company, Daiwa

How we differ

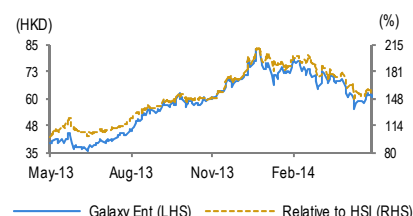
Compared with the market, we are less bullish on the GGR outlook in the VIP segment over 2014-16.

Forecast revisions (%)

Year to 31 Dec	14E	15E	16E
Revenue change	(2.2)	(1.9)	(2.0)
Net profit change	(0.2)	(0.8)	(6.0)
Core EPS (FD) change	(0.2)	(0.8)	(6.0)

Source: Daiwa forecasts

Share price performance



12-month range	35.55-83.20
Market cap (USDbn)	34.18
3m avg daily turnover (USDm)	131.13
Shares outstanding (m)	4,344
Major shareholder	Lui Family (50.5%)

Financial summary (HKD)

Year to 31 Dec	14E	15E	16E
Revenue (m)	73,610	91,054	125,669
Operating profit (m)	12,670	16,660	21,477
Net profit (m)	12,795	17,365	22,071
Core EPS (fully-diluted)	2.946	3.998	5.081
EPS change (%)	27.3	35.7	27.1
Daiwa vs Cons. EPS (%)	(5.7)	(0.4)	5.1
PER (x)	20.7	15.3	12.0
Dividend yield (%)	0.0	0.0	0.0
DPS	0.000	0.000	0.000
PBR (x)	5.8	4.2	3.1
EV/EBITDA (x)	16.2	12.2	8.9
ROE (%)	32.9	32.0	29.8

Source: FactSet, Daiwa forecasts

What's new

As table yields at all of Galaxy's properties are already among the highest in the industry and the opening of Galaxy Macau Phase I has resulted in the company's share of total Macau GGR almost doubling to 20% over the past 3 years, we now see limited upside to overall per-table productivity in 2014.

Galaxy also has the second highest exposure in the sector to the VIP segment, behind Wynn (1128 HK, HKD32.30, Outperform [2]), which we expect to face challenges in the coming months.

What's the impact

We are cutting our 2014-15 net-profit forecasts slightly to reflect our

What we recommend

We believe the 2014-15 Bloomberg-consensus earnings forecasts for the operator are high and some of the main positives appear already to be factored into the share price.

While we are bullish on Galaxy's prospects over the mid-to-long term, the company's high exposure to the volatility we now expect in the VIP segment over the coming months is likely to be a share-price overhang.

We are downgrading our rating to Outperform (2) from Buy (1) and lowering our SOTP-based 6-month target price to HKD66.60 (from HKD83.60). The main risk to our view would be junket liquidity tightening more than we currently expect.

Financial summary

■ Key assumptions

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
StarWorld EBITDA (HKDm)	983	2,040	3,000	3,200	3,700	4,179	4,668	5,921
Galaxy Macau ph 1 & 2 EBITDA (HKDm)	0	0	2,600	6,500	8,800	11,011	15,252	20,143
StarWorld EBITDA margin (%)	17.4	21.8	23.6	25.4	25.8	26.7	28.7	30.9
Galaxy Macau ph 1 & 2 EBITDA margin (%)	0.0	0.0	24.1	28.9	31.7	33.0	32.3	31.6

■ Profit and loss (HKDm)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Gaming and entertainment	10,690	17,714	38,569	52,817	61,799	69,273	86,667	119,782
Non-gaming	1,542	1,548	2,617	3,929	4,234	4,337	4,387	5,887
Other Revenue	0	0	0	0	0	0	0	0
Total Revenue	12,232	19,262	41,186	56,746	66,033	73,610	91,054	125,669
Other income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
COGS	(9,230)	(15,162)	(30,861)	(40,151)	(45,838)	(49,005)	(58,724)	(78,502)
SG&A	(1,189)	(1,342)	(3,276)	(4,072)	(4,467)	(4,769)	(5,092)	(5,436)
Other op. expenses	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Operating profit	346	1,271	3,325	7,583	10,139	12,670	16,660	21,477
Net-interest inc./(exp.)	(121)	(49)	(339)	(360)	(598)	(214)	175	143
Assoc/forex/extraord./others	1,008	(263)	75	203	497	403	594	515
Pre-tax profit	1,233	960	3,061	7,426	10,037	12,859	17,429	22,135
Tax	(76)	(45)	(32)	(45)	18	(44)	(44)	(44)
Min. int./pref. div./others	(9)	(16)	(26)	(3)	(3)	(20)	(20)	(20)
Net profit (reported)	1,149	899	3,004	7,378	10,052	12,795	17,365	22,071
Net profit (adjusted)	1,149	899	3,004	7,378	10,052	12,795	17,365	22,071
EPS (reported)(HKD)	0.292	0.228	0.728	1.762	2.387	2.946	3.998	5.081
EPS (adjusted)(HKD)	0.292	0.228	0.728	1.762	2.387	2.946	3.998	5.081
EPS (adjusted fully-diluted)(HKD)	0.291	0.226	0.714	1.726	2.314	2.946	3.998	5.081
DPS (HKD)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
EBIT	346	1,271	3,325	7,583	10,139	12,670	16,660	21,477
EBITDA	1,119	2,231	5,749	9,847	12,575	15,246	19,955	26,076

■ Cash flow (HKDm)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Profit before tax	1,233	960	3,061	7,426	10,037	12,859	17,429	22,135
Depreciation and amortisation	541	511	1,248	1,835	1,950	1,943	1,960	1,976
Tax paid	(21)	(29)	(103)	(28)	18	(44)	(44)	(44)
Change in working capital	962	514	1,555	835	1,151	(1,103)	(939)	1,267
Other operational CF items	(1,151)	151	(63)	(12)	(292)	(153)	(554)	(507)
Cash flow from operations	1,565	2,106	5,698	10,056	12,863	13,503	17,850	24,827
Capex	(2,359)	(4,545)	(4,510)	(2,225)	(6,450)	(8,200)	(15,846)	(12,700)
Net (acquisitions)/disposals	27	(43)	(69)	(8)	0	0	0	0
Other investing CF items	82	(154)	(334)	(5,283)	355	153	364	394
Cash flow from investing	(2,250)	(4,742)	(4,913)	(7,516)	(6,095)	(8,047)	(15,482)	(12,306)
Change in debt	(536)	5,282	3,499	(140)	(10,614)	9,357	0	0
Net share issues/(repurchases)	2	38	162	104	2	0	0	0
Dividends paid	0	0	0	0	0	0	0	0
Other financing CF items	(1,307)	(1,833)	(2,045)	(390)	0	0	0	0
Cash flow from financing	(1,841)	3,487	1,616	(426)	(10,612)	9,357	0	0
Forex effect/others	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Change in cash	(2,527)	851	2,401	2,115	(3,844)	14,812	2,368	12,522
Free cash flow	(795)	(2,439)	1,188	7,832	6,413	5,303	2,005	12,127

Source: FactSet, Daiwa forecasts

Financial summary continued ...

■ Balance sheet (HKDm)

As at 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Cash & short-term investment	3,552	4,451	7,260	16,308	11,760	27,977	30,345	42,867
Inventory	85	87	138	139	134	156	205	204
Accounts receivable	895	853	1,579	1,971	1,975	2,274	3,201	3,283
Other current assets	94	145	307	405	361	361	361	361
Total current assets	4,626	5,536	9,283	18,823	14,230	30,768	34,112	46,715
Fixed assets	7,175	12,394	17,469	18,264	23,226	29,668	43,739	54,648
Goodwill & intangibles	5,739	5,650	5,715	5,495	6,822	5,125	4,939	4,754
Other non-current assets	1,423	1,605	3,297	1,807	1,978	2,178	2,569	2,881
Total assets	18,963	25,186	35,764	44,389	46,257	67,738	85,359	108,998
Short-term debt	1,383	2,283	1,142	4,966	406	2,000	2,000	2,000
Accounts payable	4,116	5,244	8,829	10,327	11,412	10,630	10,666	12,014
Other current liabilities	66	481	22	41	56	56	56	56
Total current liabilities	5,565	8,008	9,993	15,334	11,874	12,686	12,723	14,071
Long-term debt	4,460	7,144	10,531	6,291	237	8,000	8,000	8,000
Other non-current liabilities	503	460	597	469	1,091	441	441	441
Total liabilities	10,528	15,612	21,121	22,094	13,203	21,127	21,164	22,512
Share capital	394	395	417	420	422	422	422	422
Reserves/R.E./others	7,774	8,801	13,805	21,433	32,019	45,014	62,579	84,850
Shareholders' equity	8,169	9,197	14,222	21,853	32,441	45,436	63,001	85,272
Minority interests	267	378	421	441	613	1,175	1,195	1,215
Total equity & liabilities	18,963	25,186	35,764	44,389	46,257	67,738	85,359	108,998
EV	266,521	269,278	268,632	259,006	253,089	246,592	243,852	231,038
Net debt/(cash)	2,291	4,975	4,413	(5,050)	(11,117)	(17,977)	(20,345)	(32,867)
BVPS (HKD)	2.072	2.326	3.407	5.204	7.469	10.460	14.504	19.631

■ Key ratios (%)

Year to 31 Dec	2009	2010	2011	2012	2013	2014E	2015E	2016E
Sales (YoY)	16.3	57.5	113.8	37.8	16.4	11.5	23.7	38.0
EBITDA (YoY)	105.8	99.3	157.7	71.3	27.7	21.2	30.9	30.7
Operating profit (YoY)	n.a.	267.3	161.5	128.0	33.7	25.0	31.5	28.9
Net profit (YoY)	n.a.	(21.8)	234.2	145.6	36.2	27.3	35.7	27.1
Core EPS (fully-diluted) (YoY)	n.a.	(22.5)	216.3	141.8	34.1	27.3	35.7	27.1
Gross-profit margin	24.5	21.3	25.1	29.2	30.6	33.4	35.5	37.5
EBITDA margin	9.2	11.6	14.0	17.4	19.0	20.7	21.9	20.8
Operating-profit margin	2.8	6.6	8.1	13.4	15.4	17.2	18.3	17.1
Net profit margin	9.4	4.7	7.3	13.0	15.2	17.4	19.1	17.6
ROAE	15.1	10.4	25.7	40.9	37.0	32.9	32.0	29.8
ROAA	6.1	4.1	9.9	18.4	22.2	22.4	22.7	22.7
ROCE	2.4	7.6	14.7	25.3	30.2	28.1	25.5	25.2
ROIC	3.5	9.6	19.6	41.5	51.8	49.9	45.9	44.0
Net debt to equity	28.0	54.1	31.0	net cash	net cash	net cash	net cash	net cash
Effective tax rate	6.1	4.7	1.0	0.6	n.a.	0.3	0.3	0.2
Accounts receivable (days)	37.3	16.6	10.8	11.4	10.9	10.5	11.0	9.4
Current ratio (x)	0.8	0.7	0.9	1.2	1.2	2.4	2.7	3.3
Net interest cover (x)	2.9	25.8	9.8	21.1	16.9	59.3	n.a.	n.a.
Net dividend payout	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow yield	n.a.	n.a.	0.4	3.0	2.4	2.0	0.8	4.6

Source: FactSet, Daiwa forecasts

■ Company profile

Galaxy Entertainment Group (Galaxy) is one of the 6 gaming operators in Macau. The company operates StarWorld on the Macau Peninsula and the Galaxy Macau in Cotai. Originally named KWah Construction, it started out manufacturing construction materials. In 2005, the controlling Lui family injected a casino concession into the company and subsequently changed its name. The company opened its flagship integrated resort, Galaxy Macau Phase I, in May 2011. Along with its sister properties of StarWorld and Cityclubs casinos, Galaxy had captured 19% of the Macau market share for 2013.

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