

Company Report

China Merchants Securities (HK) Co., Ltd.
Hong Kong Equity Research

SJM (880 HK)

Weak 4Q14; concern on market share loss remains

■ Adj. EBITDA of HK\$1,568mn, -34% YoY, -11% QoQ. It is 4% lower than market estimates, due to bigger than expected margin decline.

■ Likely to lose further market share in FY15E when Galaxy Macau 2 and Macau Studio City open. We fine-tune FY15E/16E EPS by -1%/-6%.

■ Final DPS of HK\$0.62 implying 6% yield. But weak fundamentals impose further downside risk to the share price. We maintain our SELL rating with TP of HK\$9.00.

The lowest EBITDA margin since 3Q11

4Q14 EBITDA margin of 9.1% was the worst since 8.6% in 3Q11. 34% YoY drop in EBITDA was due to 1) 28% YoY decline in gaming revenue, 2) operating leverage, and 3) mark-to-market loss from listed securities investment. Margin slippage of 0.8ppt/0.5ppt was the major reason for the miss. Grand Lisboa's gaming revenue/EBITDA were down 5%/13% QoQ, despite the relocation of 10+ gaming tables from VIP to mass area.

Challenges ahead

While industry appears tough nowadays, SJM is suffering more than its peers due to 1) bigger reliance on VIP gaming, 2) relatively old and small casino properties are less attractive to mass market players, and 3) we project new property Lisboa Palace to open in 2H17E, which is too far from now. Moreover, potential restriction on the visit frequency from PRC tourists might hit SJM further, which relies more on daily trippers than other casino operators due to 1) proximity to Zhuhai and 2) insufficient supply of accommodation facilities.

Solid dividend policy unlikely to offset downside risk

Stable dividend policy (70% payout ratio) would be welcomed by market, after the management updated 70% is a regular payout (vs. 50% regular and 20% special in FY13). However, we think SJM will keep underperforming the sector and unlikely to have a margin recovery in foreseeable future. We expect further downside pressure on SJM's share price and maintain our SELL rating. It is trading at FY15E 9.7x P/E, 7.1x EV/EBITDA and 7.2% yield.

Financials

HK\$ mn	FY12	FY13	FY14	FY15E	FY16E
Revenue	79,519	87,651	79,934	69,532	73,118
Net profit	6,745	7,706	6,731	6,439	6,992
Growth (%)	27.1%	14.2%	-12.7%	-4.3%	8.6%
EPS (HK\$)	1.22	1.39	1.20	1.15	1.25
DPS (HK\$)	0.90	1.00	0.84	0.80	0.87
P/E (x)	9.1x	8.0x	9.3x	9.7x	8.9x
EV/EBITDA (x)	7.1x	6.2x	6.9x	7.1x	6.1x
Dividend yield (%)	8.1%	9.0%	7.6%	7.2%	7.8%
ROE (%)	33.9%	32.9%	27.1%	24.3%	24.2%

Source: Company data, CMS (HK) estimates

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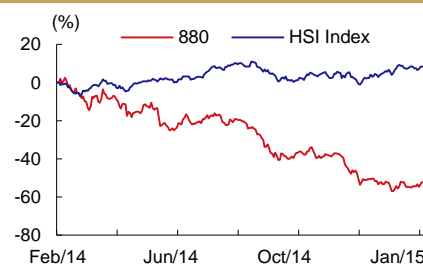
WHAT'S NEW

Estimates changed

SELL

Previous	SELL
Price	HK\$11.12
12-month Target Price (Potential up/downside)	HK\$9.00 (-19%)
Previous	HK\$9.00

Price Performance



Source: Bigdata

%	1m	6m	12m
880 HK	4.0	(40.1)	(48.4)
HSI	(0.3)	(1.5)	11.0

Industry: Macau Gaming

Hang Seng Index	24778
HSCEI	12,065

Key Data

52-week range (HK\$)	10.62 / 25.33
Market cap (US\$ mn)	8,115
Avg. daily volume (mn shares)	9.3
BVPS (HK\$)	4.7

Shareholdings Structure

STDM (54.9%)	3,050mn
Ms. Angela LEONG (7.7%)	428mn
No. of shares outstanding	5,553mn
Free float	37.4%

Related Research

1. Macau Gaming – January review – Warmer than Dec but cold Feb is coming (OVERWEIGHT) 2015/02/03
2. Macau Gaming – 2015: Recovery story with energy booster – new hotels (OVERWEIGHT) 2014/12/16

Other takeaways

- Macau is concerned on hospitality capacity of the city. There was no discussion between SJM and the government about what kind of measures would be taken. In the long term, traffic inside the city will ease when light rail transit (LRT) operates. We believe measures lowering frequency of visits of individual tourists would impact more on SJM than on others, since SJM relies more heavily on daily trippers.
- Staff cost likely to hike 8-9% in FY15E, which is one of the factors causing margin slippage.
- Grand Lisboa
 - Visitation to Grand Lisboa decreased to 36,849 visitors in 4Q14 from 40,104 in 1Q14.
 - 78 live multi-game terminals were installed in 1Q15. It will expand LMG area with additional installation of 42 LMGs in 2H15E.
- Construction updates:
 - Jai Alai: renovation is still under suspension to get final approval. SJM still targets to re-open in late 2015.
 - Lisboa Palace: After groundbreaking in Feb 2014, most of the foundation work was completed and SJM maintained target opening in FY17E. We currently project the opening in 2H17E.
- Occupancy rate at Grand Lisboa (GL) has been running at a relatively low rate since 3Q14 (94.7%/90.5%/91.7% in 2Q14/3Q14/4Q14), because of the refurbishment of hotel rooms (40 rooms on a rolling basis).
- FY15E capex: HK\$7.1bn. HK\$5.4bn for Lisboa Palace
- Market fundamentals remain weak. Doing better than the market now.

Valuation

Our TP of HK\$9.00. Our TP is based on 1.0x FY15E PEG/ FY14-17E EPS CAGR. Our TP implies FY15E 7.8x P/E and 5.5x EV/EBITDA, implying 45% discount to its historic 1-year forward trading average of 15x P/E and 10x EV/EBITDA. It reflects the earnings declining trend due to the competition from newly emerging casinos in Cotai until FY17E.

Key upside risks: 1) smaller than expected competition from Cotai properties, 2) earlier than expected pick-up of VIP gaming, and 3) faster than expected progress of Lisboa Palace.

Quarterly results

HK\$ mn	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	YoY	QoQ
Total Revenue	21,892	20,561	21,236	23,978	22,962	21,484	18,254	17,224	-28.2%	-5.6%
Gaming revenue	21,734	20,395	21,055	23,772	22,789	21,323	18,091	17,066	-28.2%	-5.7%
By segment										
- VIP gaming	15,137	14,086	13,575	15,509	14,511	13,208	10,375	10,151	-34.5%	-2.2%
- Mass market gaming	6,220	5,961	7,141	7,934	7,948	7,777	7,359	6,602	-16.8%	-10.3%
- Slot machines	377	348	339	330	330	338	357	313	-5.0%	-12.3%
By property										
- Casino Grand Lisboa	8,327	7,109	7,728	9,084	8,280	7,928	6,878	6,501	-28.4%	-5.5%
- Other self-promoted	3,340	2,835	3,045	3,230	3,237	2,613	1,960	2,123	-34.3%	8.3%
- Satellite casinos	10,067	10,451	10,281	11,460	11,272	10,782	9,253	8,442	-26.3%	-8.8%
Non-gaming revenue	158	166	181	205	173	161	163	159	-22.7%	-2.7%
Adjusted EBITDA	2,129	2,140	2,043	2,364	2,190	2,254	1,751	1,568	-33.7%	-10.5%
- Casino Grand Lisboa	1,217	1,076	1,067	1,294	1,168	1,257	999	849	-34.4%	-15.0%
- Other self-promoted	386	375	408	429	445	439	310	267	-37.8%	-13.9%
- Satellite casinos	420	444	434	505	494	469	382	308	-39.0%	-19.4%
Adjusted EBITDA margin	9.7%	10.4%	9.6%	9.9%	9.5%	10.5%	9.6%	9.1%		
Net profit	1,915	1,913	1,827	2,051	1,878	2,024	1,528	1,301	-36.6%	-14.9%
VIP gaming tables	653	667	585	575	582	568	564	574		
Mass market gaming tables	1,118	1,110	1,186	1,206	1,195	1,195	1,190	1,196		
Slot machines	3,531	3,507	3,348	2,846	2,971	2,813	2,806	2,834		
Rolling chip volume	459,200	459,808	488,800	555,543	537,200	466,495	360,000	355,860	-35.9%	-1.2%
VIP win rate	3.30%	3.06%	2.75%	2.79%	2.70%	2.83%	2.88%	2.85%		
Occupancy rate (GL)	93.9%	96.1%	97.5%	98.1%	95.8%	94.8%	90.5%	91.7%		
Avg. room rate (GL) (HK\$)	2,236	2,224	2,183	2,297	2,385	2,303	2,261	2,351		

Source: Company data, CMS (HK) estimates

Earnings revision

HK\$m	New FY15E	Old FY15E	% chg	New FY16E	Old FY16E	% chg	
Overall							
Total revenue	69,532	69,060	1%	73,118	72,515	1%	
EBITDA	7,023	7,154	-2%	7,676	7,891	-3%	
Net profit	6,439	6,486	-1%	6,992	7,426	-6%	Adjustment in expenses for Lisboa Palace construction
EPS (HK\$)	1.15	1.17	-1%	1.25	1.34	-6%	
DPS (HK\$)	0.80	0.82	-1%	0.87	0.94	-6%	
Grand Lisboa							
Casino revenue	25,350	25,044	1%	27,185	26,998	1%	
EBITDA	3,877	4,061	-5%	4,307	4,566	-6%	Margin decline remains as a concern
VIP gaming revenue	17,372	17,260	1%	18,327	18,517	-1%	
Mass-market gaming revenue	7,978	7,784	2%	8,858	8,481	4%	
Other self-promoted casinos							
Casino revenue	8,257	8,869	-7%	8,416	9,312	-10%	
EBITDA	1,394	1,221	14%	1,521	1,390	9%	Cost control was better than expected
VIP gaming revenue	3,021	3,752	-19%	3,120	3,940	-21%	We expect weaker performance in Old Lisboa
Mass-market gaming revenue	5,236	5,117	2%	5,296	5,372	-1%	
Satellite casinos							
Casino revenue	35,080	34,309	2%	36,629	35,322	4%	
EBITDA	1,584	1,563	1%	1,671	1,611	4%	
VIP gaming revenue	17,372	16,510	5%	17,547	16,941	4%	
Mass-market gaming revenue	17,708	17,799	-1%	19,082	18,381	4%	
Lisboa Palace							
Net revenue	-	-	n.a.	-	-	n.a.	
EBITDA	-	-	n.a.	-	-	n.a.	
VIP gaming revenue	-	-	n.a.	-	-	n.a.	
Mass-market gaming revenue	-	-	n.a.	-	-	n.a.	

Source: Company data, CMS (HK) estimates

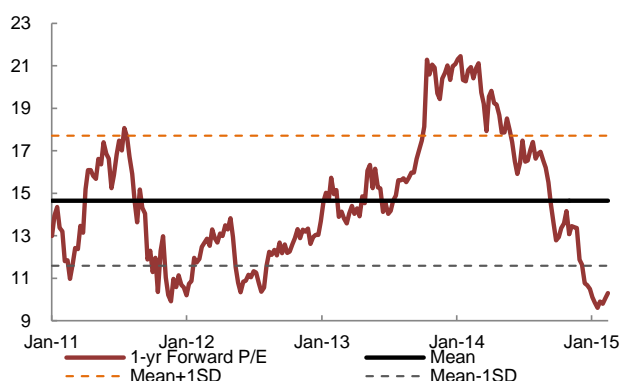
Peer Valuation Table

Company	Ticker	Rating	Target Price	Current Price	Upside/Downside	Mkt Cap (US\$ mn)	52-Wk Price (lcl crncy)	Avg T/O (US\$ mn)	FY15E PEG/ FY14E-17E CAGR (x)	P/E (x)		
			(lcl crncy)	(lcl crncy)						FY14E	FY15E	FY16E
Galaxy	27 HK	BUY	71.60	38.80	85%	21,285	36.70 / 78.84	85.1	0.5	14.8	12.4	9.3
SJM	880 HK	SELL	9.00	11.12	-19%	8,115	10.62 / 25.33	14.5	2.2	9.3	9.7	8.9
Wynn Macau	1128 HK	NETRL	25.00	20.65	21%	13,844	19.82 / 38.80	21.9	0.9	16.9	19.4	13.8
Sands China	1928 HK	BUY	45.30	35.70	27%	37,164	34.50 / 68.00	82.1	0.8	15.6	13.9	11.2
MGM China	2282 HK	BUY	30.00	17.68	70%	8,669	17.10 / 32.90	14.9	0.6	11.8	11.8	9.3
Melco Crown	MPEL US	NETRL	25.30	24.36	4%	13,235	21.04 / 45.31	95.1	1.0	22.0	24.8	14.5
Simple Avg									1.0	15.1	15.3	11.2
Mkt Cap Avg									0.9	15.6	15.2	11.3

Company	Ticker	EV/EBITDA (x)			ROE (%)			Dividends Yield (%)			Net Debt/Total Asset (%)		
		FY14E	FY15E	FY16E	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E
Galaxy	27 HK	10.9	9.3	7.4	27.9	26.8	28.1	2.0	2.4	3.2	NetCash	NetCash	NetCash
SJM	880 HK	7.0	7.1	6.1	27.1	24.3	24.2	7.6	7.2	7.8	NetCash	NetCash	NetCash
Wynn Macau	1128 HK	13.1	12.9	10.1	60.7	53.8	58.1	5.3	4.4	5.1	2.4	26.0	28.4
Sands China	1928 HK	12.6	11.3	9.1	37.3	36.9	39.4	5.1	5.8	7.2	11.9	13.2	3.8
MGM China	2282 HK	10.1	10.1	8.1	90.0	81.3	72.4	7.6	5.9	7.5	NetCash	34.3	30.7
Melco Crown	MPEL US	13.3	12.5	8.5	12.1	9.9	15.0	1.4	1.2	2.1	22.1	25.7	23.3
Simple Avg		11.2	10.5	8.2	42.5	38.8	39.5	4.8	4.5	5.5			
Mkt Cap Avg		11.8	10.8	8.5	38.9	36.4	38.0	4.4	4.4	5.5			

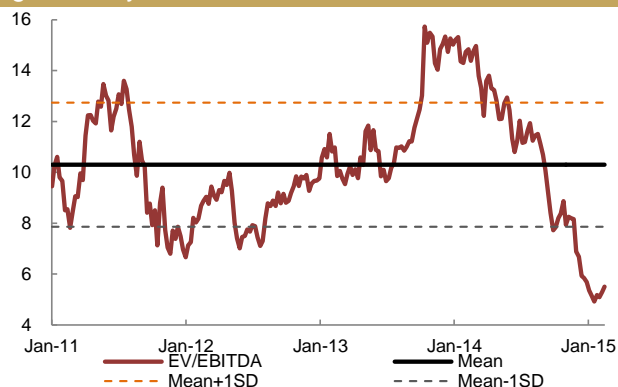
Source: Company data, Bloomberg, CMS (HK) estimates

Figure 1: 1-year forward P/E



Source: Bloomberg, CMS (HK) estimates

Figure 2: 1-year forward EV/EBITDA



Source: Bloomberg, CMS (HK) estimates

Financial Summary

Statement of financial position

HK\$ mn	2012	2013	2014	2015E	2016E
Current Assets	25,283	27,826	26,128	21,385	18,181
Cash and cash equivalents	11,932	11,145	9,547	5,059	1,757
Account receivables	1,707	1,510	2,094	1,821	1,915
Other receivables	-	-	-	-	-
Inventories	64	62	63	80	84
Other current assets	11,581	15,109	14,424	14,424	14,424
Non-current assets	12,011	14,543	16,087	20,480	26,699
Property and Equipment	8,131	8,325	11,431	15,981	22,342
Land use rights	740	2,771	2,729	2,579	2,437
Intangible assets	27	21	14	8	8
Other non-current assets	3,113	3,426	1,913	1,913	1,913
Total assets	37,294	42,369	42,215	41,865	44,880
Current liabilities	14,908	16,022	15,033	13,054	13,651
ST borrowings	238	318	258	258	258
Account payables	14,559	15,319	14,383	12,405	13,002
Other current liabilities	112	385	391	391	391
Non-current liabilities	2,472	2,891	2,320	2,320	2,320
LT borrowings	1,491	1,191	733	733	733
Other non-current liabilities	981	1,700	1,587	1,587	1,587
Total liabilities	17,380	18,913	17,353	15,375	15,971
Common stock - par value	5,548	5,554	11,232	11,232	11,232
Reserves	14,330	17,850	13,532	15,112	17,481
Minority interest	36	52	98	147	196
Shareholders' equity	19,914	23,455	24,862	26,491	28,909
Total equity and liabilities	37,294	42,369	42,215	41,865	44,880

Statement of cash flows

HK\$ mn	2012	2013	2014E	2015E	2016E
CF from OA	10,551	9,560	6,030	5,745	9,111
Net income	6,745	7,706	6,731	6,439	6,992
D&A	1,167	1,185	1,141	1,300	1,740
Finance costs	116	90	73	45	45
Changes of WC	2,821	982	(1,521)	(1,723)	498
Others	(298)	(403)	(394)	(315)	(164)
CF from IA	(7,267)	(4,431)	(1,827)	(5,374)	(7,790)
Capital expenditure	(1,475)	(1,333)	(4,213)	(5,716)	(7,991)
Investment income	354	305	372	319	169
Other investments	(6,146)	(3,403)	2,014	23	32
CF from FA	(5,912)	(5,916)	(5,802)	(4,859)	(4,623)
Borrowings	(1,720)	(304)	(519)	-	-
Share capital and reserves	83	46	-	-	-
Dividends	(4,158)	(5,551)	(5,769)	(4,859)	(4,623)
Others	(117)	(107)	486	-	-
Forex adjustment	-	-	-	-	-
Net cash flow	(2,628)	(786)	(1,599)	(4,488)	(3,302)

Source: Company data, CMS (HK) estimates

Income statement

HK\$ mn	2012	2013	2014	2015E	2016E
Total net revenue	79,519	87,651	79,934	69,532	73,118
Gaming tax	(30,354)	(33,425)	(30,496)	(26,474)	(27,820)
Marketing expenses	(34,757)	(38,459)	(33,789)	(29,261)	(30,625)
Inventory consumed	(277)	(293)	(266)	(338)	(355)
Other OP expenses	(7,534)	(7,927)	(8,846)	(7,228)	(7,378)
Adj. EBITDA	7,631	8,676	7,763	7,625	8,783
Op Profit	6,597	7,548	6,537	6,231	6,940
Fin. costs	(116)	(90)	(73)	(45)	(45)
Inv income	354	305	372	319	169
Other non-OP items	(9)	12	33	34	35
Pre-tax Profit	6,827	7,775	6,870	6,539	7,099
Taxes	(75)	(53)	(88)	(52)	(57)
After-tax Profit	6,752	7,723	6,781	6,487	7,042
NCI	(6)	(16)	(51)	(48)	(50)
Net Profit	6,745	7,706	6,731	6,439	6,992
EPS (HK\$)	1.22	1.39	1.20	1.15	1.25
DPS (HK\$)	0.90	1.00	0.84	0.80	0.87

Financial ratios

	2012	2013	2014	2015E	2016E
YoY growth rate					
Total revenue	4.5%	10.2%	-8.8%	-13.0%	5.2%
Adj. EBITDA	10.1%	13.7%	-10.5%	-1.8%	15.2%
Op profit	23.6%	14.4%	-13.4%	-4.7%	11.4%
Net profit	27.1%	14.2%	-12.7%	-4.3%	8.6%
Profitability					
EBITDA margin	9.6%	9.9%	9.7%	11.0%	12.0%
OP margin	8.3%	8.6%	8.2%	9.0%	9.5%
NP margin	8.5%	8.8%	8.4%	9.3%	9.6%
ROE	33.9%	32.9%	27.1%	24.3%	24.2%
ROIC	27.2%	25.3%	21.1%	17.8%	16.5%
Liquidity					
D/A	4.6%	3.6%	2.3%	2.4%	2.2%
ND/A	NetCash	NetCash	NetCash	NetCash	NetCash
Current ratio	1.7x	1.7x	1.7x	1.6x	1.3x
Quick ratio	0.9x	0.8x	0.8x	0.5x	0.3x
Operating efficiency					
Asset turnover	2.1x	2.1x	1.9x	1.7x	1.6x
Valuation ratios					
P/E	9.1x	8.0x	9.3x	9.7x	8.9x
P/B	3.1x	2.6x	2.5x	2.4x	2.2x
EV/EBITDA	7.1x	6.2x	6.9x	7.1x	6.1x
Dividend yield	8.1%	9.0%	7.6%	7.2%	7.8%

Investment Ratings

Rating	Definition
BUY	Expected to outperform the market index by >10% over the next 12 months
NEUTRAL	Expected to outperform or underperform the market index by 10% or less over the next 12 months
SELL	Expected to underperform the market index by >10% over the next 12 months

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