

16 March 2015

买入  
维持

# 股价已反映悲观预期

汇彩控股(1180:HK)

## Market Data: Mar,13

Closing Price (HK\$)	2.08
Price Target (HK\$)	2.50
HSCEI	11,417
HSCCI	4,409
52-week High/Low (HK\$)	7.05/1.99
Market Cap (US\$m)	299
Market Cap (HK\$m)	2,122
Shares Outstanding (m)	1,056
Exchange Rate (Rmb-HK\$)	1.26

## Price Performance Chart:



Source: Bloomberg

## Analyst

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## Related Reports

"PARADISE ENTERTAINMENT  
(1180:HK)—Standing pat" Jan  
27,2015

## Financial summary and valuation

	2012	2013	2014E	2015E	2016E
Revenue (HK\$m)	729	1030	1201	1377	1500
YoY (%)	34%	41%	17%	15%	9%
Recurring net income (HK\$m)	139	97	105	164	240
YoY (%)	121%	-31%	8%	56%	47%
EPS (HK\$)	0.04	0.09	0.07	0.15	0.23
Recurring EPS (HK\$)	0.00	0.09	0.10	0.15	0.23
ROE (%)	34%	8%	8%	12%	15%
Debt/asset (%)	33%	21%	16%	15%	13%
Dividend Yield (%)	0%	2%	1%	2%	4%
PE (x)	46.6	22.0	31.7	13.5	9.2
PB (x)	14.5	1.8	1.8	1.6	1.4
EV/Ebitda (x)	27.4	9.4	7.7	4.6	2.8

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised. P/E is calculated as closing price divided by each year's EPS.

**赌场运营：仍保持正增长预期，增速下调。**我们维持 2014 全年公司 GGR 预测，但是将 2015 年 GGR 预测增速从 11% 下调至 4%。增长主要来自于华都·赛马会和葡京赌场从去年的低基数增长至更合理经营水平。我们预期旗舰赌场金碧汇彩实现 3% 增长，主要源自新增的 100 台直播机。我们对于公司 GGR4% 增速的预测与澳门整体低端市场增长大致相似。尽管我们预测 2015 年整体中场的增速为-6.6%，但是低端市场保守估计仍能实现低单位数增长。

**直播机业务：销售量预测趋于谨慎。**我们将直播机全年配置数量预测从 2,250 台下调至 1,850 台，低于公司指引 30%。由于海外销售存在 3-6 个月试用期，2015 全年实际实现销售数量估计在 1,350 台，其中澳门地区销售 900 台。澳门地区的直播机需求主要取决于 1) 赌桌数的供应量及需求；2) 劳动力成本；3) 更新需求。在疲弱的市场需求情况下，赌桌数量不足的问题得到很大的缓解，因为赌场可以将一部分闲置的赌桌迁移至新建赌场，从而减少对直播机的需求。而更新需求同样会被推迟。

**二代机推出时间延后。**公司原计划在年初即推出第二代直播机型，该型号除了销售收入还将带来持续性收入（按天计算的授权费）。然而受行业不景气影响，二代机的销售预计将推迟至下半年。

**下调 2014/2015/16 盈利预测。**我们下调公司 2014 年净利润预测从 8000 万港币至 7000 万港币，经调整净利润从 1.15 亿港币下调至 1.05 亿港币。非经常性损益源自公司提前赎回承兑汇票导致的 3500 万港币亏损。我们同时下调 2015 年盈利预测 27% 至 1.64 亿（同比增长 51%），下调 2016 年盈利预测 32% 至 2.4 亿（同比增长 47%），主要由于下调 GGR 增速预测以及机器销售量预测。

**受市场情绪影响，我们下调估值，维持买入评级。**基于目前市场对整体博彩板块的悲观预期，我们进一步下调了公司的估值水平。最新目标价 2.50 港元对应赌场业务 6.5 倍 2015 年 EV/Ebitda，机器业务 7 倍 EV/Ebit。

**催化剂：**公司日前入选恒生小市值指数。我们预计可能于下半年开通的深港通项目将成为股价催化因素。**风险因素：**如果赌场对新机器的采购进一步从二季度延迟至三季度甚至更晚，将对公司上半年收入造成较大影响。

The company does not hold any equities or derivatives of the listed company mentioned in this report ("target"), but then we shall provide financial advisory services subject to the relevant laws and regulations. Any affiliates of the company may hold equities of the target, which may exceed 1 percent of issued shares subject to the relevant laws and regulations. The company may also provide investment banking services to the target. The Company fulfills its duty of disclosure within its sphere of knowledge. The clients may contact compliance@swsresearch.com for relevant disclosure materials or log into www.swsresearch.com under disclosure column for further information. The clients shall have a comprehensive understanding of the disclosure and disclaimer upon the last page.

**Casino operation: slow but positive growth.** We maintain our 2014 GGR forecast and downgrade our 2015 outlook from 11% to 4%. In 2014, we expect growth to derive from the ramp up of Paradise's Waldo, MJC, Lisboa casinos, which have a relatively low base. Meanwhile, its flagship casino, Kampek, is expected to record 3% growth in 2015 on the back of an additional 100 machines which were recently added to the site. We anticipate Macau mass revenue to decline by 6.6% YoY but low-end mass segment to maintain low single digit growth. Our 4% GGR growth forecast is largely in line with our forecast on market growth.

**Machine business: conservative forecast.** We downgrade our 2015 total machine deployment forecast from 2,250 to 1,850 units. Since overseas sales usually require a three-six month trial period, we expect to see 1,350 units of sales in 2015. Among which, Macau sales are expected to reach 900 units. Machine demand is determined by the supply demand dynamics of gaming tables, labour costs and renewal demand. We expect weak demand, particularly among VIP customers, to alleviate issues around regulatory restrictions on the number of tables, allowing casinos to move tables to new venues. Macau-based casinos may also delay their machine replacement scheme to save costs.

**Second generation Live Multi Game (LMG) machine delayed.** Paradise Entertainment's second generation LMG machine was set to be deployed in early-2015 and is expected to generate recurring revenue in addition to one-off sales revenue. However, given weak industry demand, we expect the order to be delayed in 2H15.

**Cut 2014-16E earnings forecast.** We lower our 2014 net profit forecast from HK\$80m to HK\$70m largely due to one-off expense associating with opening of MJC. We also lower our net profit by 27% to HK\$164m in 15E (+51% YoY) and by 32% to HK\$240m in 16E (+47% YoY).

**Lower valuation due to weak market sentiment.** Due to weak market sentiment in the sector, we revise down our valuation multiples. Our target price lower from HK\$3.63 to HK\$2.50 based on 6.5x 15E EV/Ebitda for its casino business and 7x 15E EV/Ebit for its machine business. With 20% upside, we maintain our BUY recommendation.

**Catalyst:** Paradise has been included in the Hang Seng Composite Small Cap Index since 9 March, the potential Shenzhen-Hong Kong stock connect in 2H15 will be a catalyst.

**Risks:** The sale/deployment of machine in Macau and US might be further delayed.

## Casino operating business: slow growth

We maintain our 2014 GGR forecast at HK\$2.1b for Paradise. In 2015, we expect a 4% GGR growth for Paradise and a 3% GGR growth in company's flagship casino, Kampek. Although we are forecasting the total Macau mass GGR will decline by 6.6% in 2015, we believe the grind mass segment which the company is focusing on could still grow at low single digit driven by strong packaged tour visitation growth.

We are more cautious on Waldo because we think the weak market will cost Waldo more time to ramp up as its bit higher.

Lisboa and MJC are expected to benefit from a very low base and increase much faster than Kampek and Waldo.

**Figure 1: GGR forecast (HK\$m)**

	2014E	2015E	2016E	2017E	2018E
Kampek	1,584	1,629	1,662	1,712	1,798
Grand Waldo	461	470	511	555	595
Lisboa	37	47	56	67	74
Jockey club	19	38	42	46	51
<b>Total GGR</b>	<b>2,101</b>	<b>2,184</b>	<b>2,271</b>	<b>2,380</b>	<b>2,517</b>
Kampek	17%	3%	2%	3%	5%
Waldo		2%	9%	9%	7%
Lisboa		25%	20%	20%	10%
Jockey club		105%	10%	10%	10%
<b>Total GGR</b>	<b>24%</b>	<b>4%</b>	<b>4%</b>	<b>5%</b>	<b>6%</b>

Source: SWS Research

## LMG machine business: conservative forecast

Total number of LMG machine in Macau increased from 3,000 to 3,700 by the end of 2014. Considering most of new added machine was placed in Paradise's own casinos, the total net sale is limited in 2014.

Total machine sale in Macau is expected to be 900 units in 2015, lowered from 1,200 in our previous forecast.

Majority of LMG machine sales will come from machine deployment in new casinos. Due to the weak demand, we expect the order from new casino will be less than our previous estimation. Casinos purchase LMG machines for two purposes, one is to address the issue of lack of table quota from government, and the other is to save labor cost. In a booming market, as total number of new gaming table will be limited, casino will use LMG machine to serve more clients, as one table can be transferred to 100 machines according to current practice. When the demand is weak, table will be run at low utilization, and casinos could relocate some idle tables from existing casinos to new casinos to partially address the quota issue. However, due to the large scale of new casinos, the issue of lack of table will still be existing, we lower our forecast for new machine in new casinos and expect 731 units needed for three new casinos.

**Figure 2: Expected Macau LMG machine demand due to new opening (Unit)**

		New project designed capacity	Might be approved by DICJ	Move from existing property	Total table after completion	Deficit	Expected LMG deployed in the project	Expected LMG deployed in existing project
		A	B	C	D	A-D	(A-D)*factor	C*1
2015	GM phase 2	500	230	102	332	168	150	102
	Studio City	500	250	160	410	90	135	160
	Harbourview	150	58	0	58	92	184	0
<b>Subtotal</b>							<b>731</b>	
2016	Parisian	450	280	170	450	0	0	170
	Wynn Palace	500	240	98	338	162	243	98
	Legend Palace	100	30	0	30	70	140	0
<b>Subtotal</b>							<b>651</b>	
2017	MGM Cotai	500	240	111	351	149	224	111
	Lisboa Palace	700	380	139	519	181	272	139
	Legendale	150	50	0	50	100	200	0
<b>Subtotal</b>							<b>945</b>	
2018	GM phase 3	500	150	135	285	215	323	135
<b>Subtotal</b>							<b>458</b>	
2019	GM phase 4	500	200	50	250	250	375	50
<b>Subtotal</b>							<b>425</b>	

Source: DSEC, SWS Research

Another 150 LMG machine sale in Macau will come from the second generation machine. The machine was supposed to be deployed in early 2015 but delayed because of the ongoing negotiation between company and casino operators. We conservatively forecast 100 units for first batch in one casino and 50 units for renewal of existing first generation machine in 2015.

Renewal demand will also be impacted or delayed in a sluggish market when casino operators try to save operating cost.

The trial period will delay the sale of LMG machine overseas. We forecast total 950 units of sale/lease in overseas market in 2015, 700 from US, 200 from Australia and 50 from other region. However, foreign customer usually asks for a 3-6 month trial period before the revenue can be accrued in the financial statement. Therefore, we only forecast 450 units to be sold/leased in overseas market.

**Figure 3: LMG machine sale/lease forecast (Unit)**

Unit	2014E	2015E	2016E	2017E	2018E
<u>Lease</u>					
US		150	400	350	350
Australia		50	300	300	300
<u>Sale</u>					
<b>First generation</b>	<b>300</b>	<b>1,000</b>	<b>1,100</b>	<b>1,200</b>	<b>1,200</b>
Macau	300	750	700	800	800
Overseas	0	250	400	400	400
<b>Second generation</b>	<b>0</b>	<b>150</b>	<b>200</b>	<b>300</b>	<b>300</b>
Macau	0	150	200	300	300

Overseas	0	0	0	0	0
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Source: SWS Research

## Valuation lowered on weak market sentiment

We previously assign 8x 2015 EV/Ebitda for its casino operating business, representing 20% discount to its peers and 8.5x EV/Ebit for machine business, similar to its international peers. However, considering the extremely weak market sentiment for the gaming sector, we lower our target multiple to 6.5x and 7x respectively.

Our new target price is HK\$2.50 represents 20% upside.

The company recently is included in Hang Seng SmallCap index. We believe in the potential Shenzhen-HK stock connect program, the stocks in the Hang Seng SmallCap index is likely to be qualified for mainland investors. It will serve as a share price catalyst.

Figure 4: LMG machine sale/lease forecast (Unit)

	HK\$m	HK\$/sh	Notes
<b>Casino/revenue share</b>			
2015E Ebitda	304		
Ebitda multiple	6.5x		5-13x range for the industry
EV of LT Macau	1,977	2.0	
<b>Machine sale/lease</b>			
2015E Ebit	60		
Ebit multiple	7.0x		8x EV/Ebitda for peers
EV of LT Game	421	0.4	
<b>Corporate expense</b>			
2015E Ebitda	-40		
Ebitda multiple	6.5x		
EV of corporate expense	-262	-0.3	
<b>End-2015 EV</b>	<b>2,135</b>	2.1	
Consolidated net cash / (debt)	581	0.5	
Minus: 2015E minority interest	-60		
Total equity value	2,657	2.6	
No of shares outstanding	1,064		Shares outstanding end-14E
<b>Target price (HK\$)</b>	<b>2.50</b>		

Source: SWS Research

## Appendix

**Table 1: Consolidated Income Statement**

HK\$m	2012	2013	2014E	2015E	2016E
<b>Revenue</b>	729.0	1,030.5	1,200.9	1,377.2	1,500.3
LT Macau: Paradise	564.4	662.0	760.9	776.0	791.5
<b>Waldo</b>	0.0	191.6	246.1	249.6	267.2
Lisboa	0.0	0.8	12.3	15.4	18.4
<b>LT Game: Revenue share</b>	72.9	89.3	134.1	149.5	159.9
Machine sale/lease	108.5	95.2	40.7	173.4	248.5
<b>EBITDA</b>	212.0	197.7	244.5	354.7	472.0
LT Macau	139.4	160.1	206.9	229.4	273.2
<b>LT Game</b>	85.4	54.5	71.1	165.6	243.3
Corporate expense	-27.7	-20.7	-33.5	-40.4	-44.5
<b>Depreciation</b>	-28.2	-36.0	-55.3	-63.8	-77.6
Amortization	-12.1	-41.8	-66.9	-66.9	-66.9
<b>EBIT</b>	171.7	119.9	122.3	223.9	327.5
Finance cost	-10.5	-16.1	-8.4	-2.0	-2.0
<b>Other gain/loss</b>	-12.8	0.0	-34.9	0.0	0.0
Profit before tax	148.4	103.8	79.1	221.9	325.4
<b>Income tax expense</b>	-26.2	0.0	0.0	-36.6	-53.7
Minority interests	16.6	7.0	9.2	21.5	31.6
<b>Recurring net profit</b>	139.5	96.7	104.7	163.7	240.1
Net profit	126.7	96.7	69.8	163.7	240.1

**Table 2: Consolidated Cash Flow Statement**

HK\$m	2012	2013	2014E	2015E	2016E
<b>Net profit</b>	127	97	70	164	240
Plus : Depr. and amortisation	40	78	122	131	145
Finance cost	-10	-16	-8	-2	-2
Tax paid	-26	0	0	-37	-54
Change in working capital	-26	-88	-8	-7	-9
Others	91	37	61	62	89
<b>CF from operating activities</b>	195	107	237	311	409
CAPEX	-32	-127	-48	-46	-41
Other CF from investing activities	-2	0	0	0	0
<b>CF from investing activities</b>	-35	-127	-48	-46	-41
Equity financing	0	95	0	0	0
Net change in liabilities	-85	0	-63	0	0
Dividend and interest paid	-7	-5	-60	-25	-56
Other CF from financing activities	1	0	0	0	0
<b>CF from financing activities</b>	-91	90	-122	-25	-56
<b>Net cash flow</b>	70	70	66	240	312
FCFF	-3	-153	58	112	146
FCFE	-77	-137	4	114	148

Source : SWS Research

Table 3: Consolidated Balance Sheet

HK\$m	2012	2013	2014E	2015E	2016E
Current Assets	307	529	602	848	1,168
Bank balances and cash	196	267	333	573	885
Trade and other receivables	106	249	257	264	273
Inventories	5	15	15	15	15
Other current assets	0	-1	-2	-3	-4
Long-term investment	0	1	2	3	4
PP&E	152	183	175	158	121
Intangible and other assets	154	769	703	636	569
<b>Total Assets</b>	<b>613</b>	<b>1,482</b>	<b>1,482</b>	<b>1,644</b>	<b>1,862</b>
Current Liabilities	104	169	169	169	169
Trade and other payables	84	153	153	153	153
Other current liabilities	20	16	16	16	16
Long-term liabilities	100	138	76	76	76
<b>Total Liabilities</b>	<b>204</b>	<b>307</b>	<b>244</b>	<b>244</b>	<b>244</b>
Minority Interests	20	28	37	58	90
Shareholder Equity	388	1,148	1,201	1,342	1,528
Share Capital	284	1	1	1	1
Reserves	104	1,147	1,200	1,341	1,527
Total Equity	409	1,175	1,238	1,400	1,618
<b>Total Liabilities and equity</b>	<b>613</b>	<b>1,482</b>	<b>1,482</b>	<b>1,644</b>	<b>1,862</b>

Source: SWS Research

Table 4: Key Financial Ratios

	2012	2013	2014E	2015E	2016E
<b>Ratios per share (HK\$)</b>					
EPS	0.04	0.09	0.07	0.15	0.23
Recurring EPS	0.00	0.09	0.10	0.15	0.23
Operating CF per share	0.07	0.10	0.22	0.29	0.38
Dividend per share	0.00	0.05	0.02	0.05	0.07
Net assets per share	0.14	1.15	1.16	1.32	1.52
<b>Key Operating Ratios(%)</b>					
ROIC	28%	7%	8%	11%	14%
ROE	34%	8%	8%	12%	15%
EBITDA Margin	29%	19%	20%	26%	31%
EBIT Margin	24%	12%	10%	16%	22%
Growth rate of Revenue(YoY)	34%	41%	17%	15%	9%
Growth rate of Profit(YoY)	121%	-31%	8%	56%	47%
Debt-to-asset ratio	33%	21%	16%	15%	13%
Turnover rate of net assets	216%	130%	100%	104%	99%
Turnover rate of total assets	131%	98%	81%	88%	86%
Effective tax rate (%)	18%	0%	0%	17%	17%
Dividend yield (%)	0.0%	2.4%	1.0%	2.4%	3.6%
<b>Valuation Ratios (X)</b>					
P/E	46.6	22.0	31.7	13.5	9.2
P/B	14.5	1.8	1.8	1.6	1.4
EV/Sale	8.0	1.8	1.6	1.2	0.9
EV/EBITDA	27.4	9.4	7.7	4.6	2.8



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