

First Read

Galaxy Entertainment Group

No details on table allocation yet; Q4 slightly below

Q414 results slightly below expectations

Galaxy reported Q414 Group EBITDA of HK\$2.66bn (-25% YoY, -18% QoQ), slightly below our estimate of HK\$2.71bn and consensus estimate of HK\$2.78bn, mostly due to higher opex at Galaxy Macau. Beneficial VIP hold had a slight positive impact to group EBITDA at HK\$45m. Group wide VIP rolling volume dropped 14% QoQ, and mass revenue dropped 13% QoQ, both weaker than industry QoQ trends at -7%/-12% respectively. Galaxy Macau added two new junkets (mid-size junkets) at the Okura Hotel in Nov-14 and Feb-15 respectively, while StarWorld saw two junket closures in Q4, according to management.

No details on GM phase 2 table allocation

Galaxy Macau phase 2 and Broadway Macau (rebranded from Grand Waldo) will open on 27th May. Company commented that they have hired 2500 staff for the expansions to date, and expect to hire up to 8000 in total- although we believe the final number should be much lower depending on the number of incremental live tables. On table allocation, management only stated that they made a formal application to the govt on 18th March. We think market expectations for net new tables have now come down to around ~150, with allocations below that still likely to disappoint.

Special dividends amount to 30% payout, but no commitment to regular

Company announced a special dividend at HK\$0.28/sh. Combined with special dividend during interim results, full year payout amounted to ~30% of EPS, at a similar level to FY13 payout. Despite a healthy balance sheet outlook (end-14 net cash over HK\$8bn, operating cashflow tracking >HK\$10bn annually, phase 2 capex largely done and phase 3&4 capex unlikely until 2016), company decided against committing to a regular dividend at this time.

Valuation:

Our SOTP-derived PT is based on target 12x 2015E EBITDA for existing business (including ph2 contribution); we also value GM phase 3&4 at HK\$2.0/sh.

Equities

Hong Kong
Casinos

12-month rating **Neutral**

12m price target **HK\$39.90**

Price **HK\$34.35**

RIC: 0027.HK **BBG:** 27 HK

Trading data and key metrics

52-wk range HK\$72.85-33.60

Market cap. HK\$147bn/US\$18.8bn

Shares o/s 4,273m (ORD)

Free float 55%

Avg. daily volume ('000) 16,142

Avg. daily value (m) HK\$643.8

Common s/h equity (12/14E) HK\$38.4bn

P/BV (12/14E) 3.8x

Net debt / EBITDA (12/14E) NM

EPS (UBS, diluted) (HK\$)

	UBS	Cons.
12/14E	2.63	2.63
12/15E	2.39	2.50
12/16E	2.74	2.94

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Highlights (HK\$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	41,186	56,746	66,033	71,752	70,991	82,154	80,246	89,199
EBIT (UBS)	4,438	8,009	10,590	11,176	9,896	11,109	11,120	12,592
Net earnings (UBS)	4,211	7,710	10,362	11,270	10,261	11,747	12,076	13,753
EPS (UBS, diluted) (HK\$)	1.00	1.81	2.42	2.63	2.39	2.74	2.82	3.21
DPS (HK\$)	0.00	0.00	0.70	0.73	0.00	0.00	0.00	0.00
Net (debt) / cash	(2,960)	4,947	9,717	8,052	12,504	23,277	29,157	36,504
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	10.8	14.1	16.0	15.6	13.9	13.5	13.9	14.1
ROIC (EBIT) %	31.0	49.9	55.8	43.4	31.6	33.3	30.3	29.8
EV/EBITDA (core) x	11.6	9.4	14.7	10.7	11.1	9.2	8.5	7.0
P/E (UBS, diluted) x	14.5	12.1	18.2	13.1	14.4	12.5	12.2	10.7
Equity FCF (UBS) yield %	3.2	8.8	4.6	1.5	4.8	7.4	4.0	5.5
Net dividend yield %	0.0	0.0	1.6	2.1	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of HK\$34.35 on 18 Mar 2015 22:38 HKT

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Forecast returns

Forecast price appreciation	+26.9%
Forecast dividend yield	0.8%
Forecast stock return	+27.7%
Market return assumption	6.6%
Forecast excess return	+21.1%

Statement of Risk

Risks include: increasing competition: oversupply of gaming tables and hotel rooms in Macau; upward pressure on junket commissions; regulatory and political environment; external events that impact tourism, such as avian flu or terrorism.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	47%	37%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 December 2014.

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UBS AG Hong Kong Branch: Anthony Wong; Angus Chan.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Galaxy Entertainment Group ¹⁶	0027.HK	Neutral	N/A	HK\$34.35	18 Mar 2015

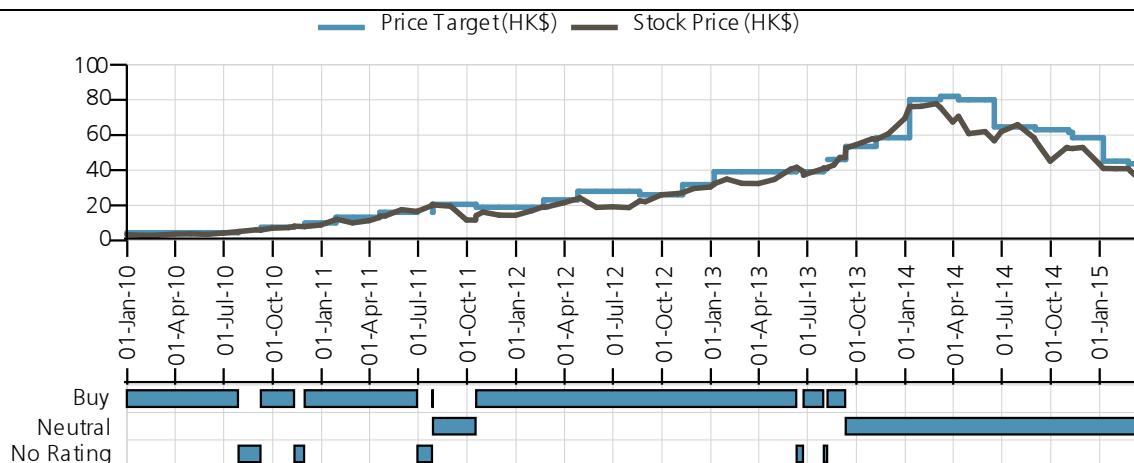
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Galaxy Entertainment Group (HK\$)



Source: UBS; as of 18 Mar 2015

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