

20 March 2015

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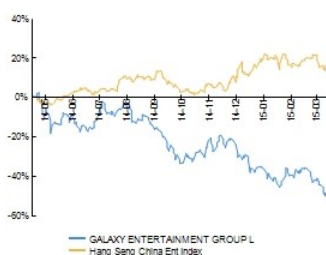
静候新项目开业

银河娱乐(27:HK)

Market Data: Mar,19

Closing Price (HK\$)	35.50
Price Target (HK\$)	32.25
HSCEI	11,838
HSCCI	4,425
52-week High/Low (HK\$)	74.45/33.15
Market Cap (USD Mn)	19,176
Market Cap (HK\$ Mn)	148,818
Shares Outstanding (Mn)	4,252
Exchange Rate (RMB-HK\$)	1.26

Price Performance Chart:



Source: Bloomberg

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"Betting on new projects" Mar 2,2015

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Financial summary and valuation

	2013	2014	2015E	2016E	2017E
Revenue (HK\$m)	66,033	71,752	65,941	69,331	70,936
YoY (%)	16%	9%	-8%	5%	2%
Net income (HK\$m)	10,052	10,340	9,343	10,395	10,862
YoY (%)	36%	3%	-10%	11%	4%
EPS (HK\$)	2.39	2.44	2.20	2.45	2.56
Diluted EPS (HK\$)	2.39	2.44	2.20	2.45	2.56
ROE (%)	30%	27%	22%	21%	19%
Debt/asset (%)	1%	2%	2%	2%	1%
Dividend yield (%)	2%	4%	2%	2%	2%
PE (x)	14.9	14.6	16.2	14.5	13.9
PB (x)	4.5	3.9	3.6	3.0	2.6
EV/Ebitda (x)	11.3	10.9	11.7	10.5	10.2

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

EPS 低于预期主要由于非经常性费用。银河娱乐公布 2014 年 EPS 为 HK\$2.44，低于我们此前的预测 2.6 港币以及市场一致预期 2.62 港币。然而博彩运营情况与预期一致。2014 年娱乐场产生的 EBITDA 为 135 亿港元，同比增长 6.7%，与我们预测的 136 港币基本一致。博彩总收入 678 亿港元，同比增长 10%，余我们预测的 680 亿基本一致。其他费用和公司成本比我们预测的高了 6.5 亿港元，我们预计主要是为筹备银河二期项目而产生的大量开业前成本。

博彩表现继续强于市场。第四季度，银河娱乐 VIP 收入同比下跌 16.9%，全市场下跌 29%。中场收入同比下跌 10.6%，全市场下跌 16%。全年来看，银河实现 VIP 收入同比增长 8%，全市场下跌 11%，为唯一一家实现 VIP 收入增长的博彩运营商。中场收入同比增长 13.3%，与市场保持一致。

员工成本上升初步体现。2014 年全年人工成本同比增长 27%至 56 亿港元。2014 年下半年，人工成本同比涨幅达到 39%，显著高于 2014 年上半年 15%的同比上涨幅度。人工成本大幅上涨部分是因为二期项目在 2014 年底招募的一些员工，尤其是高层管理人员，但是主要原因还是 2014 年中公司宣布的员工激励方案。

新项目按计划进行，VIP 部分将减少。银河二期项目和百老汇项目都按期按预算进行，将于五月二十七日开业。在电话会议中，银河管理层表示，在目前的市场情况下，银河将只跟最高质量的中介人合作，因此整体 VIP 业务的布局占比将很可能少于目前一期的情况。尽管更少的 VIP 厅和赌桌将减少银河博彩总收入，但是可以通过更高的中场业务利润率得到补偿。

下调 2015/16 盈利预测。我们此前下调了对全市场 2015 年博彩收入的增速预测，从 -8.2%下调至 -20.9%。因此，我们下调了银河娱乐 2015 年 EPS18%至 2.2 港币，2016 年 EPS16%至 2.45 港币。2017 年 EPS 预测为 2.56 港币。

维持“持有”评级，下调目标价至 32.25 港币。基于下调后的 2015 盈利预测，我们将目标价从 41 港币下调至 32.25 港币。我们给予公司赌场项目 2015 年 9 倍的 EV/EBITDA 的估值，该估值水平与公司 2012 年至 2013 年间的平均估值水平一致。

EPS miss due to one-off expense. GEG reported 2014 total gaming revenue of HK\$67.8bn (+10% YoY), in line with our forecast of HK\$68bn, and Ebitda from gaming of HK\$13.56bn (+6.7% YoY), vs our forecast of HK\$13.68bn. However, the company reported EPS of HK\$2.44, missing both our forecast of HK\$2.60 and the consensus forecast of HK\$2.62, with a sharp increase in the other expenses line and net corporate cost (HK\$650m higher than our forecast). We attribute most of this to pre-opening expenses associated with the ongoing *Galaxy Macau Phase II* and *Broadway* projects.

Beating the house. In 4Q14, GEG witnessed a 16.9% YoY decline in its VIP segment (vs the market average of -29% YoY) and -10.6% YoY in its mass and slot segment (vs market average of -16% YoY). On a full-year basis, GEG recorded 8% YoY growth in VIP revenue (sector average: -11% YoY), making it the best-performing VIP operator in the sector. Mass revenue increased 13.3% YoY, in line with the market average.

Significant labour cost increase. Total labour costs rose 27% YoY in 2014 to HK\$5.6bn, with HK\$3bn reported in 2H14 (+39.4% YoY, vs 15% YoY increase in 1H14). This is partially due to a recruitment drive in 2H to staff the *Galaxy Macau Phase II*, but mainly due to the company's employee retention programme.

Project on schedule, fewer VIPs expected. The company stated that both the *Galaxy Macau Phase II* and *Broadway* are on budget, and on schedule to open 27 May 2015. Management indicated that they will only cooperate with top junkets in new projects considering the tough market conditions, therefore the total percentage of VIP rooms and tables may be smaller than in *GM Phase I*. Although we expect total gaming revenue to show negative impact due to the smaller VIP take, we expect part of this to be offset by a higher overall Ebitda margin as the proportion of revenue contributed by the mass segment rises.

Lower earnings, maintain Hold. Earlier this month we revised down our Macau gaming forecasts for 2015 from -8.2% YoY to -20.9% YoY. Accordingly, we lower our EPS forecasts for GEG by 18% from HK\$2.67 to HK\$2.20 (-9.8% YoY) in 15E and by 16% from HK\$2.92 to HK\$2.45 (+0.4% YoY) in 16E; we forecast EPS of HK\$2.56 (+4.5% YoY) in 17E. We lower our target price from HK\$41 to HK\$32.25, representing a cut in forward EV/Ebitda from 10x to 9x, in line with the company's 2012-13 average. With 9.2% downside, maintain Hold.

Figure 1: 4Q14 results

HK\$m	4Q13	1Q14	2Q14	3Q14	4Q14	QoQ	YoY
Group revenue	18,900	20,200	18,200	17,300	16,052	-7.2%	-15.1%
VIP revenue	13,107	14,600	12,624	11,651	10,896	-6.5%	-16.9%
Mass revenue	4,125	5,100	4,114	4,186	3,668	-12.4%	-11.1%
Adjusted EBITDA	3,548	3,827	3,461	3,271	2,664	-18.6%	-24.9%
EBITDA margin	18.8%	18.9%	19.0%	18.9%	16.6%		
Galaxy Macau	2,518	2,780	2,649	2,397	2,074	-13.5%	-17.6%
StarWorld Macau	1,036	1,087	822	904	687	-24.0%	-33.7%
City Clubs	39	48	44	41	33	-19.5%	-15.4%
Construction Materials	159	73	114	114	164	43.9%	3.1%
Net Corporate Costs	(204)	(161)	(168)	(185)	(294)	58.9%	44.1%
<i>Galaxy Macau</i>							
VIP revenue	8,143	8,697	8,364	7,239	7,369	1.8%	-9.5%
VIP rolling	236,793	252,834	264,340	224,435	200,070	-10.9%	-15.5%
Win %	3.40%	3.40%	3.20%	3.20%	3.70%		
Mass revenue	2,932	3,331	3,020	3,070	2,704	-11.9%	-7.8%
Slot revenue	371	412	384	419	361	-13.8%	-2.7%
Slot handle	7,708	8,918	8,823	9,325	8,515	-8.7%	10.5%
Hold %	4.80%	4.60%	4.40%	4.50%	4.20%		
Non-gaming revenue	404	375	369	386	408	5.7%	1.0%
Occupancy rate	99%	98%	98%	99%	98%		
<i>StarWorld Macau</i>							
VIP revenue	4,964	5,556	4,260	4,412	3,527	-20.1%	-28.9%
VIP rolling	181,548	180,213	168,460	150,452	123,628	-17.8%	-31.9%
Win %	2.70%	3.10%	2.50%	2.90%	2.90%		
Mass revenue	1,193	1,147	1,094	1,116	964	-13.6%	-19.2%
Slot revenue	53	52	48	45	36	-20.0%	-32.1%
Slot handle	781	997	727	682	531	-22.1%	-32.0%
Hold %	6.80%	5.20%	6.60%	6.60%	6.90%		
Non-gaming revenue	92	91	91	96	96	0.0%	4.9%
Occupancy rate	99%	98%	99%	99%	98%		

Source: Company data, SWS Research

Figure 2: Earnings revision

HK\$m	2015E		2016E	
	New	Previous	New	Previous
Revenue	65,941	78,216	69,331	86,011
EBITDA	12,543	14,499	13,440	15,410
Net profit	9,343	11,337	10,395	12,403
EPS	2.20	2.67	2.45	2.92

Source: Company data, SWS Research

Figure 3: SOTP valuation

	HK\$m
Existing business after corporate cost	
2015E EBITDA	10,516
EBITDA multiple	9.0x
EV of gaming	94,645
Construction materials	
2015E EBITDA	420
EBITDA multiple	7.0x
EV of construction	2,938
End-2015 EV of GM phase 2	25,155
End-2015 EV of GM phase 3&4	7,616
Total EV	130,353
Consolidated net cash / (debt)	6,406
Total equity value	136,759
No of shares outstanding	4,241
Price target	32.25

Source: Company data, SWS Research

APPENDIX

Table 1: Consolidated Income Statement

HK\$ mn	2013	2014	2015E	2016E	2017E
Revenue	65,666	71,751	65,941	69,331	70,936
CityClubs revenue	181	166	178	172	166
StarWorld	23,030	22,257	16,269	15,456	14,683
Galaxy Macau	38,220	45,370	44,805	47,841	49,989
Hotel and F&B	1,822	1,921	2,591	3,700	3,871
Construction	2,412	2,037	2,098	2,161	2,226
EBITDA	12,575	13,223	12,543	13,440	13,934
StarWorld	3,692	3,500	2,426	2,181	1,943
Galaxy Macau	8,839	9,900	10,352	11,512	12,271
CityClubs	181	166	178	172	166
Construction	488	465	420	432	445
(corporate cost)	625	808	832	857	891
D&A	1,950	1,884	2,673	3,176	3,180
Exceptional gains (loss)	204	909	700	200	400
Interest income	214	189	224	334	512
EBIT	10,494	10,456	9,252	10,256	10,725
JCE (ex tax)	141	141	141	141	141
Finance Costs	598	33	26	76	76
Profit before tax	10,037	10,564	9,419	10,473	10,942
Income tax expense	18	202	54	55	57
Minority interests	3	23	23	23	23
Profit for the year	10,052	10,340	9,343	10,395	10,862

Table 2: Consolidated Cash Flow Statement

HK\$ mn	2013	2014	2015E	2016E	2017E
Net profit	10,055	10,363	9,365	10,417	10,884
Plus: Depr. and amortisation	1,950	1,884	2,673	3,176	3,180
Finance cost	-	-	-	-	-
Tax paid	148	97	94	44	44
Change in working capital	-	-	-	-	-
Others	57	202	54	55	57
CF from operating activities	1,340	617	1,330	21	13
Others	183	93	113	162	160
CF from operating activities	13,322	11,425	13,107	13,311	13,790
CAPEX	-	-	-	-	-
Other CF from investing activities	5,189	10,689	8,039	5,939	10,939
CF from investing activities	2,708	553	650	-	-
Equity financing	-	-	-	-	-
Net change in liabilities	2,481	10,136	8,689	5,939	10,939
Dividend and interest paid	135	-	-	-	-
Other CF from financing activities	-	-	-	-	-
CF from financing activities	10,211	538	-	-	-
Net cash flow	-	2,954	6,064	2,803	3,326
FCFF	660	193	-	-	-
FCFE	-	-	-	-	-
FCFF	10,736	2,609	6,064	2,803	3,326
FCFE	105	1,320	1,647	4,569	475
FCFF	8,576	1,236	5,270	7,527	3,010
FCFE	-	-	-	-	-
FCFE	1,486	1,871	5,364	7,572	3,054

Table 3: Consolidated Balance Sheet

HK\$ mn	2013	2014	2015E	2016E	2017E
Current Assets	14,230	12,529	10,574	15,090	14,598
Bank balances and cash	10,360	9,040	7,394	11,963	11,488
Trade and other receivables	3,718	3,623	3,015	2,954	2,934
Inventories	134	143	158	166	170
Other current assets	19	278	6	6	6
Long-term investment	6,569	6,691	6,753	6,815	6,876
PP&E	23,226	30,422	36,126	39,228	47,325
Intangible and other assets	2,231	1,899	1,760	1,621	1,482
Total Assets	46,257	51,541	55,213	62,754	70,282
Current Liabilities	11,874	11,552	11,639	11,565	11,536
Trade and other payables	11,604	11,552	11,639	11,565	11,536
Other current liabilities	-	-	-	-	-

	271	-	-	-	-
Long-term liabilities	1,328	1,000	1,284	1,284	1,284
Total Liabilities	13,203	12,552	12,923	12,849	12,820
Minority Interests	613	620	643	665	688
Shareholder Equity	32,441	38,369	41,647	49,239	56,775
Share Capital	422	19,775	19,775	19,775	19,775
Reserves	32,019	18,594	21,873	29,464	37,000
Total Equity	33,054	38,989	42,290	49,905	57,463
Total Liabilities and equity	46,257	51,541	55,213	62,754	70,282

Table 4: Key Financial Ratios

	2013	2014	2015E	2016E	2017E
Ratios per share (HK\$)					
Earnings per share	2.39	2.44	2.20	2.45	2.56
Diluted EPS	2.35	2.42	2.16	2.38	2.46
Operating CF per share	3.27	2.77	3.13	3.16	3.28
Dividend per share	0.70	1.43	0.66	0.78	0.85
Net assets per share	7.85	9.20	9.97	11.77	13.55
Key Operating Ratios(%)					
ROIC	42.6	33.2	25.9	26.6	23.0
ROE	30.4	26.6	22.1	20.9	18.9
Gross profit margin					
EBITDA Margin	18.8	18.2	18.8	19.2	19.4
EBIT Margin	15.9	14.6	14.0	14.8	15.1
Growth rate of Revenue(YoY)	16.4	8.7	-8.1	5.1	2.3
Growth rate of Profit(YoY)	35.5	2.2	-9.7	11.3	4.5
Debt-to-asset ratio	1.4	1.9	1.8	1.6	1.4
Turnover rate of net assets	238.6	199.2	162.3	150.4	132.1
Turnover rate of total assets	285.5	278.4	238.9	221.0	201.9
Effective tax rate (%)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	2.0	4.0	1.9	2.2	2.4
Valuation Ratios (X)					
P/E	14.9	14.6	16.2	14.5	13.9
P/B	4.5	3.9	3.6	3.0	2.6
EV/Sale	2.1	2.0	2.2	2.0	2.0
EV/EBITDA	11.3	10.9	11.7	10.5	10.2

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