



## Rating Sell

### Asia

Hong Kong

### Consumer

Hotels / Leisure /  
Gaming

## Company Galaxy Alert

Reuters  
0027.HK

Bloomberg  
27 HK

Exchange  
HKG

Ticker  
0027

ADR Ticker  
GXYEY

ISIN  
US36318L1044

### Date

19 March 2015

## Results

Price at 18 Mar 2015 (HKD)	34.35
Price target - 12mth (HKD)	30.00
52-week range (HKD)	72.85 - 33.60
HANG SENG INDEX	24,120

### Karen Tang

Research Analyst  
(+852) 2203 6141  
karen.tang@db.com

### Stock data

Market cap (HKDm)	145,721
Market cap (USDm)	18,783
Shares outstanding (m)	4,242.2
Major shareholders	Lui family (52.7%)
Free float (%)	44
Avg daily value traded (USDm)	85.9

Source: Deutsche Bank

### Key data

FYE 12/31	2013A	2014E	2015E
Sales (HKDm)	66,033	73,239	61,690
Net Profit (HKDm)	10,051.8	10,767.6	6,671.4
DB EPS (HKD)	2.42	2.66	1.79
PER (x)	18.2	12.9	19.2
Yield (net) (%)	1.6	2.4	1.6

Source: Deutsche Bank

## 4Q in-line; Short-term bounce into opening on May 27th an upside risk

### Phase 2 on schedule to open May 27th

Galaxy just reported at lunch. 4Q EBITDA fell 19% qoq to HK\$2.66bn (-25% yoy), at low end of consensus range (HK\$2.6bn-3.3bn). While top-line decline is expected, EBITDA margin decline from 18.9% in 3Q to 16.6% is structurally worrying. Key reasons were higher staff and mktg cost, although -ve rev mix shift was also a drag on margins (mass rev -13% qoq vs. VIP rev -7% qoq). Special DPS of HK\$0.28 is announced today, bringing FY14 DPS to H\$0.73, (+4% yoy, 2.1% div yield). **Consensus still believes "Supply drives Demand", so the stock may see a short-term bounce into Ph2 opening on May 27.** In early 2011, the stock jumped 46% in the 3 months leading to Ph1 opening. If Macau's GGR does not recover as the market expects after Galaxy's Ph2 opening, the sector will likely see a structural de-rating. More comments after mgmt conf call at 5.00pm HKT.

### Tide started to turn on Galaxy's dominance on junket VIP play

In 1Q-3Q14, Galaxy won significant VIP roll shr (3Q14 24.7% vs. 4Q13 19.7%) as Galaxy's junket partners gained shares from smaller junkets. **But this tide turned in 4Q14 when Suncity junket opened new VIP rooms opened at MPEL, thereby diverting some VIP traffic away from Galaxy.** Hence, Galaxy lost VIP roll shr in 4Q14 (-1.8ppt to 22.9%). On Mass market share, Galaxy also lost Mass shr (-0.4ppt to 15.2%) in 4Q as smoking ban impacted Galaxy more.

### 4Q results highlights and project updates:

- **Cost pressures:** Staff cost rose 36% yoy (22% hoh) reflecting the additional staff retention measures announced in early August (stocks awards equal to three months salary). That said, junket commissions as % of VIP GGR was broadly stable hoh (1H 44.2% v. 2H 44.0%).
- **Galaxy Macau:** 4Q EBITDA fell 15% qoq (-19% yoy) to HK\$2.04bn on i) VIP roll -11% qoq (vs industry -7% qoq); ii) mass rev -12% qoq (on par with industry -12% qoq); iii) 4Q EBITDA margins -270 bps qoq (-250bps yoy) to 18.9%. VIP hold was higher at 3.7% in 4Q (3Q 3.2%).
- **StarWorld:** 4Q EBITDA fell 29% qoq (-38% yoy) to HK\$0.64bn on i) VIP roll -18% qoq (vs industry -7% qoq) as four VIP rooms closed in early 4Q; ii) mass table rev -14% qoq (vs industry -12% qoq); iii) EBITDA margin -210bps qoq (-250bps yoy) to 13.9%. VIP hold stable qoq at 2.9%
- **Galaxy Macau Phase 2 and Broadway Macau:** on schedule to complete by the recently announced date of 27 May.
- **Ph 3 & 4 site investigation works** likely to start during 2015
- **Hengqin** plans for a non-gaming resort on 2.7sq km site moving forward

Deutsche Bank AG/Hong Kong

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