



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 19 Mar 2015 (HKD)	35.50
Price target - 12mth (HKD)	30.00
52-week range (HKD)	72.85 - 33.60
HANG SENG INDEX	24,120

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Conf call takeaways: Can supply drive demand?

Junket sign-ups fewer than expected

Galaxy reported 4Q EBITDA of HK\$2.66bn (-19% qoq, -25% yoy), at low-end of consensus range. From the call, we had two negative takeaways: **(1) Luck-adj EBITDA below consensus:** Mgmt disclosed that luck benefited Galaxy Macau EBITDA by HK\$40m but hurt StarWorld by HK\$5m in 4Q. Hence, 4Q luck-adj EBITDA of HK\$2.63bn is actually 5% below consensus. **(2) Junket sign-ups slower than expected:** When asked about junket sign-ups for Phase 2, mgmt said the no. of junkets already signed up was probably fewer than analyst expectations as there were not many good-quality junkets left in Macau after the recent round of consolidation. Mgmt cited the fact that StarWorld ceased operations with 5 small junkets during 2014. Many investors believe junkets will inject liquidity to boost VIP demand after Galaxy's opening. If the no. of junkets is fewer than expected, the market's expectation for a VIP recovery or stabilization in 2H15 may not materialize. **Near-term, the stock may see a bounce into Ph2 opening on May 27.** But if Macau's GGR does not recover in 2H15, the sector may see a structural de-rating into 2016.

Other conf call highlights:

- **Phase 2 table quota still in discussion stage:** Yesterday, mgmt officially submitted to the govt its request for table allocation for Phase 2. Mgmt said they would sit down with the govt to discuss this soon. We expect Phase 2 to get 250 table quota (Ph1 has c.450 tables). Mgmt has already hired 2,500 out of the 8,000 staff needed for Ph2. The three new hotels (Ritz-Carlton, JW Marriott & Broadway) started accepting room reservations this week.
- **Phase 3&4 and Hengqin:** Site investigation work for Phase 3 & 4 to start in 2015 with target opening unchanged at 2018. Plans on the non-gaming resort on a 2.7sq km site at Hengqin Island are moving forward. Despite near-term cyclical challenges, mgmt said that they would not change their long-term business strategy on Macau.
- **Labour cost pressures:** In 2H14, staff cost rose 36% yoy (22% hoh) reflecting the additional staff retention measures announced in early August (stock awards equal to 3 months of salary). Mgmt said they would review staff compensation mid-year to determine this year's appropriate pay rise. Mgmt planned to improve efficiencies to control cost inflation.
- **View on further restrictive policies:** Mgmt highlighted that Macau is currently facing very strong headwinds, and so any restrictive policies need to be carefully considered. Mgmt is working with the govt on matters such as VIP-room smoking ban and hoped the govt would take a pragmatic approach when drafting new laws.

Key changes

Sales (FYE)	61,690 to 62,267	↑	0.9%
Op prof margin (FYE)	12.5 to 12.3	↓	-1.7%
Net profit (FYE)	6,671.4 to 6,692.6	↑	0.3%

Source: Deutsche Bank

Stock data

Market cap (HKDm)	150,599
Market cap (USDm)	19,412
Shares outstanding (m)	4,242.2
Major shareholders	Lui family (52.7%)
Free float (%)	44
Avg daily value traded (USDm)	82.9

Source: Deutsche Bank

Key data

FYE 12/31	2014A	2015E	2016E
Sales (HKDm)	71,752	62,267	63,797
Net Profit (HKDm)	10,339.1	6,692.6	7,235.5
DB EPS (HKD)	2.55	1.80	1.72
PER (x)	23.8	19.7	20.6
Yield (net) (%)	1.2	1.5	1.4

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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