

Galaxy (27.HK): Maintain BUY into New Openings Gaming Sector

19 March 2015

What's New – The Company reported Q4 revenues and Adjusted EBITDA in line with street estimates. Group revenues were HK\$16bn down 15% y/y, and 8% q/q. Mass gaming revenues were slid 11% y/y and VIP fell 17%. Adjusted EBITDA in the quarter was HK\$2.7bn, falling 25% y/y and 19% q/q. EBITDA margins were 16.6%, 2.2ppts lower than a year ago. The company finished 2014 with net cash position of HK\$9.4bn and very little gearing. Management proposed a HK\$0.28/share special dividend. Last year Galaxy paid a HK\$0.70/share dividend.

Highlights from the Call – Starworld revenues fell 27% y/y and property EBITDA dropped 38%. Galaxy Macau Phase I revenues declined 8% while EBITDA declined 19%y/y. Hotel occupancy rate was 96% at Starworld and 97% at Galaxy. The company saw 5 VIP rooms operated by smaller junkets close at the start of the year and Galaxy said they would focus on working with the larger and better capitalized junkets going forward. The company is on schedule to open new properties Broadway and Galaxy Phase II in 69 days on May 27th, 2015. This will increase the company's hotel capacity by 50%. Room bookings have already begun. Our estimates assume 200 gaming tables received at the opening.

Forecasts and Valuation – The outlook remains very weak for gaming in Macau. We're forecasting 24% decline in industry GGR for 2015. GGR levels could approach 2011 values. WE estimate March GGR will drop 37%y/y given the daily run-rates trend through the first half of the month.

Figure 1: Estimate Changes

Month	GGR (MOP m)	YoY%	MoM%
Jan-15	23,748	-17.4%	2.0%
Feb-15	19,542	-48.6%	-17.7%
Mar-15	22,258	-37.2%	13.9%
Apr-15	20,919	-33.2%	-6.0%
May-15	22,350	-30.9%	6.8%
Jun-15	20,612	-24.3%	-7.8%
Jul-15	22,078	-22.3%	7.1%
Aug-15	22,870	-20.8%	3.6%
Sep-15	21,443	-16.1%	-6.2%
Oct-15	25,621	-8.6%	19.5%
Nov-15	22,035	-9.2%	-14.0%
Dec-15	23,371	0.4%	6.1%

Year	GGR (MOP m)	YoY%
2013	360,748	18.6%
2014	351,520	-2.6%
2015	266,847	-24.1%

Sources: DICJ; Sun Hung Kai Financial

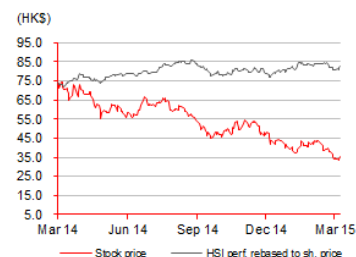
We are lowering our 2015 estimated EPS for Galaxy from HK\$3.43 to HK\$2.26 and our 2016 EPS from HK\$4.07 to HK\$2.56. We are moving away from SOTP valuation methodology, instead rolling the new property results into group results pending an imminent opening of Galaxy Macau Phase 2. Our target EV/EBITDA multiple remains unchanged at 12X FY2016 EBITDA estimates of HK\$13.7bn and net cash of HK\$14.3bn. We are lowering our target price from HK\$62/share to HK\$42/share. Our target price does not include valuation for Phases 3 & 4. Galaxy remains our top pick in the sector. We are maintaining a BUY recommendation on the stock based on undemanding valuations.

Downside Risks – 1) Slower-than-expected growth in gaming revenues; 2) Delays and higher-than-expected costs in completing Galaxy Macau Phase 2; 3) Changes in China visitor policies that could impact visitor growth in Macau. 4) Less than optimal gaming table allocation from the DICJ.

Target Price
12m Rating

HK\$42.00
Buy
(18% upside)

Price Chart



Key Data

Price (HK\$)	35.50
52W high/low (HK\$)	73.60/32.80
Mkt cap – HK\$m (US\$m)	150,944 (19,454)
Shares in issue – millions	4,251.9
Free float – %	54.1
3M avg. t/o – HK\$m (US\$m)	643.3 (82.9)
Major shareholder (%)	
City Lion Profits	30.9

Sources: Bloomberg and Sun Hung Kai Financial

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Figure 2: Estimate Changes

HK\$m	Old	New	Old	New
	FY2015E	FY2015E	FY2016E	FY2016E
Revenue by Segment				
VIP	59,159	44,759	66,302	48,577
Mass	25,218	18,527	30,142	22,711
Slots	2,513	2,004	3,555	2,398
Non-Gaming	5,054	4,090	5,616	4,493
Total Revenue	91,944	69,380	105,615	78,179
Adjusted EBITDA	17,045	11,865	20,369	13,676
EBITDA Margin	18.5%	17.1%	19.3%	17.5%
Owner's Profit	14,697	9,707	17,447	10,967
EPS (HK\$/share)	3.43	2.26	4.07	2.56

Source: Sun Hung Kai Financial

Figure 3: 1 year forward EV/EBITDA



Sources: Bloomberg and Sun Hung Kai Financial

Figure 4: Peer valuation

Ticker	Company	Mkt Cap (US\$m)	YTD %chg	EV/EBITDA (x)			P/E (x)			P/B (x)		Div. Yld 2015	ROE 2014
				2014	2015	2016	2014	2015	2016	2014	2015		
Macau Concessionaires													
1928 HK	SANDS CHINA LTD	32,444	-18.2	10.2	11.5	10.4	12.7	14.9	13.7	5.0	5.1	6.3	40.4
27 HK	GALAXY ENTERTAIN	19,454	-18.7	10.5	10.5	9.2	13.5	14.3	12.5	3.9	3.3	2.2	30.8
1128 HK	WYNN MACAU LTD	10,768	-21.5	9.7	12.1	9.8	12.2	16.9	13.9	9.2	10.2	5.5	74.9
MPCL US	MELCO CROWN-ADR	11,892	-13.9	12.8	13.2	10.3	17.7	23.5	17.0	2.6	2.5	1.3	14.4
880 HK	SJM HOLDINGS LTD	7,209	-20.0	4.2	5.2	5.3	8.0	10.5	11.1	2.2	2.2	6.8	29.0
2282 HK	MGM CHINA	7,190	-22.1	8.3	10.0	9.1	9.8	12.6	12.4	7.7	8.3	5.1	83.1
Average			-19.1	9.3	10.4	9.0	12.3	15.4	13.4	5.1	5.3	4.5	45.4
International Gamers													
LVS US	LAS VEGAS SANDS	43,758	-5.8	10.3	11.2	10.4	15.9	17.6	16.2	5.3	5.9	4.7	32.6
WYNN US	WYNN RESORTS LTD	12,479	-17.4	10.7	12.3	9.8	15.9	19.9	16.7	23.6	13.8	4.9	387.9
GENS SP	GENTING SINGAPOR	8,162	-13.4	7.9	8.0	7.5	19.1	18.7	16.7	1.2	1.2	1.2	6.8
MGM US	MGM RESORTS INTE	11,064	5.3	11.8	11.6	10.8	47.3	48.3	35.0	2.9	2.6	0.0	5.6
CWN AU	CROWN RESORTS LT	7,388	3.7	15.7	13.7	13.2	15.5	16.3	14.7	2.4	2.3	2.9	16.3
034230 KS	PARADISE CO LTD	1,690	-11.9	10.7	9.0	7.4	15.9	15.7	13.0	2.1	1.9	2.7	14.0
TAH AU	TABCORP HLDGS	3,062	23.9	10.5	9.8	9.4	24.9	22.2	21.3	2.5	2.6	10.3	10.1
CZR US	CAESARS ENTERTAI	1,340	-41.0	12.2	11.0	10.3	na	na	na	na	na	na	49.1
SKC NZ	SKYCITY ENTERTAI	1,797	5.9	10.4	10.0	9.0	19.0	18.3	16.6	2.8	3.1	4.9	15.4
Average			-5.6	11.1	10.7	9.8	21.7	22.1	18.8	5.3	4.2	3.9	59.8

Sources: Bloomberg and Sun Hung Kai Financial

Figure 5: Galaxy Macau Phase 2 construction progress (November 2014 vs. March 2015)



Source: Company Presentations



Figure 6: Financial Model

P&L (HK\$m)	1H13	2H13	1H14	2H14	2013	2014E	2015E	2016E			
Gaming By Revenue											
VIP	21,487	24,080	26,877	22,547	45,567	49,424	44,759	48,577			
Mass	6,457	7,867	8,592	7,854	14,324	16,446	18,527	22,711			
Slots	854	870	896	829	1,724	1,725	2,004	2,398			
Gaming Revenues	28,798	32,817	36,365	31,230	61,615	67,627	65,290	73,686			
Revenues By Segment											
StarWorld	11,566	11,952	12,341	10,293	23,518	22,634	18,323	18,877			
Galaxy Macau	18,140	21,781	24,955	21,960	39,921	46,915	42,271	44,714			
Construction Materials	1,013	1,399	1,019	1,018	2,412	2,037	1,935	1,993			
City Clubs	94	87	92	74	181	166	171	176			
Total Revenues	30,813	35,220	38,407	33,346	66,033	71,752	69,380	78,179			
%yoy	8.8%	23.9%	24.6%	-5.3%	16.4%	8.7%	-3.3%	12.7%			
Gaming Tax	(11,320)	(12,892)	(14,278)	(12,287)	(24,212)	(26,565)	(25,647)	(28,945)			
Junket Commissions	(9,531)	(10,873)	(12,143)	(10,071)	(20,404)	(22,214)	(19,847)	(21,425)			
Consumables	(473)	(749)	(528)	(457)	(1,223)	(985)	(968)	(997)			
Employee Benefits & Other	(3,913)	(4,194)	(4,533)	(5,473)	(8,106)	(10,006)	(11,053)	(13,135)			
DepN & AmortN	(938)	(1,011)	(970)	(915)	(1,950)	(1,884)	(2,579)	(3,213)			
OpEx	(26,174)	(29,720)	(32,450)	(29,204)	(55,894)	(61,654)	(60,094)	(67,715)			
OpEx/Sales	-84.9%	-84.4%	-84.5%	-87.6%	-84.6%	-85.9%	-86.6%	-86.6%			
Adjusted EBITDA	5,788	6,787	7,288	5,935	12,575	13,223	11,865	13,676			
%yoy	22.8%	32.2%	25.9%	-12.6%	27.7%	5.1%	-10.3%	15.3%			
EBITDA Margins	18.8%	19.3%	19.0%	17.8%	19.0%	18.4%	17.1%	17.5%			
Net Profit to Owners	4,646	5,406	5,971	4,369	10,052	10,340	9,707	10,967			
Adj. EPS (HK\$/Share)	1.09	1.26	1.39	1.02	2.35	2.41	2.26	2.56			
%yoy	34.0%	36.6%	28.2%	-19.1%	35.4%	2.7%	-6.1%	13.0%			
HK\$m	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	HK\$m	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
Cash Flow	2012	2013	2014E	2015E	2016E	Balance Sheet	2012	2013	2014E	2015E	2016E
Operating	10,056	13,322	11,931	12,112	15,267	PPE	22,737	28,422	35,662	39,257	45,544
Investing	(7,516)	(2,481)	(9,200)	(6,000)	(9,381)	Intangibles	1,104	1,715	1,516	1,342	1,224
Financing	(426)	(10,736)	(2,526)	(1,598)	(2,033)	Total non-current assets	25,566	32,027	39,012	42,433	48,601
Net Cash	2,115	105	204	4,513	3,853	Inventories	139	134	143	133	149
FX + Other	6,701	1,348	-	-	-	A/R	1,971	1,975	1,982	1,913	2,156
End Cash	16,300	11,752	10,355	14,869	18,722	Cash & Equivalents	16,300	11,752	10,355	14,869	18,722
						Total current assets	18,823	14,230	12,827	17,261	21,373
						Total Assets	44,389	46,257	51,839	59,694	69,974
Ratios	2012	2013	2014	2015E	2016E	A/P	10,327	11,412	11,112	10,837	12,159
Revenue Growth	37.8%	16.4%	8.7%	-3.3%	12.7%	ST Debt	4,966	406	412	-	-
Adj. EBITDA Growth	71.3%	27.7%	5.1%	-10.3%	15.3%	Total current liabilities	15,334	11,874	11,583	10,897	12,219
NP Growth	145.6%	36.2%	2.9%	-6.1%	13.0%	LT Debt	6,291	237	576	576	-
EBITDA Margin	17.4%	19.0%	18.4%	17.1%	17.5%	Total non-current liabilities	6,760	1,328	1,266	1,266	690
NPM	13.0%	15.2%	14.4%	14.0%	14.1%	Total liabilities	22,094	13,203	12,850	12,163	12,909
Net Debt (Net Cash)	(5,042)	(11,109)	(9,367)	(14,292)	(18,722)	Owner's Equity	21,853	32,441	38,369	46,890	56,400
D/E	51.5%	2.0%	2.6%	1.2%	0.0%	Total Equity	22,294	33,054	38,989	47,531	57,066
ROA	18.4%	22.2%	21.1%	17.4%	17.0%						
ROE	40.9%	37.0%	29.2%	22.8%	21.2%						

Sources: The Company and Sun Hung Kai Financial

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