

Company Report

China Merchants Securities (HK) Co., Ltd
Hong Kong Equity Research

Sands China (1928 HK)

4Q14 falls short of market estimates

■ Adjusted property EBITDA dropped 15% YoY, 12% QoQ to US\$711mn.

■ It was 4% lower than street expectation but lightly better than ours due to better cost control in Sands Cotai Central (SCC).

■ Weak start of the result season might cap the recent rebounding trend of Sands China and its Macau peers.

Slight margin improvement on increased mass business

4Q14 net revenue was US\$2,097mn (-16% YoY, -9% QoQ). Adj. EBITDA margin expanded 0.5ppt to 33.9% in 4Q14, thanks to resilient grind mass business (-2% YoY) with high margin, while premium mass (-18% YoY) and junket VIP (-29% YoY) suffered from political and liquidity problems. Margin improvement from the change in revenue mix was partially offset by disruptions from the business adjustment: 1) junket closures resulting in empty rooms during transition period, and 2) renovation to change floor plan with the implementation of smoking ban since Oct 2014.

Other takeaways

1) Management explained Sands China had enough tables to cater the market and some tables have not been utilized yet. 2) Smoking ban impacts all casinos in the world, but Macau would continue growing in the future because it is the unique gaming destination in China. 3) Opening day of the Parisian Macao has not been confirmed yet, while Sands China maintains its guidance to open in FY16E (CMS estimates to open in 1H16E). When the company finishes the construction of St Regis, Sands China will move some labour for the Parisian Macao construction.

Attractive valuation but catalysts are not in sight yet

Sands China trades at FY15E 15.4x P/E and 12.5x EV/EBITDA, well below its 5-year historic average of 20.5x P/E and 15.5x EV/EBITDA. Although we believe further downside is unlikely given its attractive valuation, market is still waiting for the negative factors to go away: 1) weak 4Q14 results of peers and 2) impact of anti-bribery campaign to diminish with lowering base. As a result, we maintain our stance that 2Q15E would be a good entry point to ride on a sustainable sector rally.

Financials

US\$ mn	FY12	FY13	FY14E	FY15E	FY16E
Revenue	6,511	8,908	9,416	10,341	12,598
Net profit	1,236	2,215	2,376	2,672	3,316
Growth (%)	9.1%	79.2%	7.3%	12.4%	24.1%
EPS (US\$)	0.15	0.27	0.29	0.33	0.41
DPS (US\$)	0.17	0.32	0.24	0.27	0.33
P/E (x)	33.3x	18.6x	17.3x	15.4x	12.4x
EV/EBITDA (x)	22.2x	15.1x	14.0x	12.5x	10.1x
Dividend yield (%)	3.4%	6.3%	4.6%	5.2%	6.4%
ROE (%)	22.1%	34.3%	37.3%	36.9%	39.4%

Source: Company data, CMS (HK) estimates

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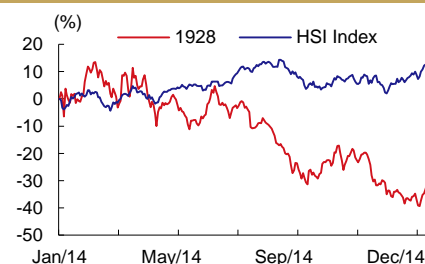
WHAT'S NEW

N/A

BUY

Previous	BUY
Price	HK\$39.65
12-month Target Price (Potential upside)	HK\$45.30 (+14%)
Previous	HK\$45.30

Price Performance



Source: Bigdata

%	1m	6m	12m
1928 HK	10.1	(27.6)	(27.8)
HSI	6.2	2.4	12.9

Macau Gaming

Hang Seng Index	24,862
HSCEI	11,964

Key Data

52-week range (HK\$)	34.50 / 68.00
Market cap (US\$ mn)	41,275
Avg. daily volume (mn shares)	16.9
BVPS (HK\$)	8.2

Shareholdings Structure

Las Vegas Sands (70.2%)	5,658mn
No. of shares outstanding	8,065mn
Free float	29.8%

Related Research

1. Macau Gaming – December GGR review (Overweight) 2015/01/05
2. Macau Gaming – FY15E Outlook: Recovery story with energy booster – new hotels (Overweight) 2014/12/16

Weak Venetian Macao. Lowered occupancy rate might be a concern

4Q14 rolling chip volume dropped 40% YoY, in line with SCC and Sands Macao. Non-rolling chip drop fell 7%YoY. We believe major decline in mass business was caused by weak gaming volume of premium mass business: 1) anti-bribery campaign discouraged high-end gamblers from traveling to Macau and 2) rising competition from other Cotai properties of its peers. As a result, its EBITDA margin declined to 36.5% from 37.7% in 4Q13 and 37.4% in 3Q14. Hotel occupancy rate of Venetian Macao turned weak at 88.3%, vs. 94.4% in 4Q13, and we believe empty rooms were the result of less visits from premium mass players. We expect the occupancy rate to improve with more focus on grind mass, while further deterioration in 1Q15E and 2Q15E might raise concern from the market, questioning its competitiveness against other Cotai properties.

SCC suffered from weak VIP business

Mass market gaming continued its ramp-up in 4Q14 with 11% YoY growth in non-rolling chip drop, despite the weak performance of newly opened premium mass lounge. However, rolling chip volume had a tough time with 52% YoY drop, continuing 32% YoY decline in 3Q14. While we have been expecting a decline in EBITDA margin due to operating deleverage, it turned out to be expanded by 1.1ppt YoY to 31.2%. It was a major reason for beating our 4Q14 estimate.

Plaza Macao at Four Seasons delivered solid margin

4Q14 rolling chip volume (-36% YoY) and non-rolling chip drop (-10% YoY) was in line with the Macau industry's trend. However, its EBITDA margin stayed stable at 38.0%, vs. 32.3% in 4Q13 and 38.1% in 3Q14. Stable QoQ was a positive surprise, since 3Q14 was an extremely lucky quarter for the property, setting a high base for QoQ comparison.

Sands Macao in line with expectation

4Q14 rolling chip volume (-43% YoY) and non-rolling chip drop (-14% YoY) was in line with our expectation. Its EBITDA margin was stable at 28.6%.

Valuation

Our TP of HK\$45.30 is based on 1.0x FY15E PEG/FY14E-17E EPS CAGR. Our TP implies 17.6x/14.2x P/E for FY15E/16E and 14.2x/11.5x EV/EBITDA for FY15E/16E, implying discounted valuation for FY15E compared to its historic average of 1-year forward P/E. It reflects the slowed growth trend due to the high base.

Key downside risks: 1) further slowdown in mass market, 2) bigger than expected competition in premium mass, and 3) delay in pick-up of VIP gaming.

Quarterly Results

US\$ mn	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	YoY	QoQ
Net Revenues	1,993	2,048	2,307	2,505	2,696	2,359	2,305	2,097	-16%	-9%
Venetian Macao	872	895	935	1,149	1,185	1,033	943	880	-23%	-7%
Four seasons and Plaza	223	274	330	238	370	229	265	244	2%	-8%
Sands Cotai Central	587	584	737	791	828	785	817	705	-11%	-14%
Sands Macao	310	295	305	327	314	313	280	268	-18%	-4%
Adj. Property EBITDA	630	657	784	836	940	801	809	711	-15%	-12%
Venetian Macao	349	361	357	433	470	402	353	321	-26%	-9%
Four seasons and Plaza	54	62	113	77	113	68	101	93	21%	-8%
Sands Cotai Central	132	146	224	238	265	249	267	220	-7%	-17%
Sands Macao	97	88	90	88	91	82	88	77	-13%	-13%
EBITDA Margin (as of net revenues)	31.6%	32.1%	34.0%	33.4%	34.9%	34.0%	35.1%	33.9%		
Venetian Macao	40.0%	40.3%	38.2%	37.7%	39.7%	38.9%	37.4%	36.5%		
Four seasons and Plaza	24.0%	22.5%	34.2%	32.3%	30.5%	29.8%	38.1%	38.0%		
Sands Cotai Central	22.4%	25.0%	30.5%	30.1%	32.0%	31.7%	32.7%	31.2%		
Sands Macao	31.1%	30.0%	29.4%	26.9%	29.1%	26.3%	31.5%	28.6%		

US\$ mn	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	YoY	QoQ
Rolling Chip Volume	41,152	41,936	45,387	49,542	45,395	35,034	31,250	27,790	-44%	-11%
Venetian Macao	11,671	11,838	14,152	16,759	15,315	12,330	10,128	10,099	-40%	0%
Four seasons and Plaza	9,480	9,944	10,452	9,404	9,194	5,648	6,237	5,994	-36%	-4%
Sands Cotai Central	13,622	14,335	15,550	17,566	15,505	12,404	10,567	8,384	-52%	-21%
Sands Macao	6,379	5,818	5,233	5,813	5,381	4,652	4,319	3,313	-43%	-23%
Rolling Chip Win Rate										
Venetian Macao	3.6%	3.4%	3.0%	3.3%	3.5%	3.5%	3.1%			
Four seasons and Plaza	2.2%	2.9%	2.9%	1.8%	3.6%	3.1%	3.5%			
Sands Cotai Central	3.1%	2.4%	2.7%	2.5%	2.8%	3.0%	3.5%			
Sands Macao	2.8%	2.6%	2.9%	2.8%	2.6%	3.2%	2.8%			
Non-Rolling Chip Drop	3,243	3,831	4,584	5,305	5,655	5,565	5,304	5,144	-3%	-3%
Venetian Macao	1,334	1,594	2,005	2,268	2,410	2,235	2,208	2,108	-7%	-5%
Four seasons and Plaza	111	186	272	331	352	367	320	297	-10%	-7%
Sands Cotai Central	1,035	1,228	1,429	1,681	1,801	1,882	1,891	1,859	11%	-2%
Sands Macao	763	823	877	1,025	1,092	1,081	885	880	-14%	-1%
Non-Rolling Chip Win Rate										
Venetian Macao	32.1%	28.2%	23.9%	25.2%	26.1%	25.7%	24.7%			
Four seasons and Plaza	48.6%	22.5%	28.3%	22.5%	28.4%	21.9%	25.2%			
Sands Cotai Central	21.6%	22.1%	23.4%	22.7%	28.4%	21.5%	22.4%			
Sands Macao	21.1%	20.3%	19.6%	18.5%	18.0%	17.5%	19.1%			
Slot Handle	3,311	3,219	3,528	4,011	4,367	4,315	4,514	4,065	1%	-10%
Venetian Macao	1,192	1,150	1,144	1,296	1,452	1,346	1,441	1,325	2%	-8%
Four seasons and Plaza	184	182	263	271	290	170	215	155	-43%	-28%
Sands Cotai Central	1,229	1,250	1,460	1,749	1,821	1,967	2,025	1,817	4%	-10%
Sands Macao	707	637	660	695	803	832	833	767	10%	-8%
Slot Hold Rate										
Venetian Macao	5.5%	4.1%	3.9%	3.8%	3.8%	3.7%	3.6%	3.6%		
Four seasons and Plaza	5.0%	6.2%	5.6%	5.3%	4.3%	6.5%	4.6%	5.8%		
Sands Cotai Central	3.9%	3.8%	4.1%	3.8%	3.7%	3.5%	3.4%	3.5%		
Sands Macao	3.7%	4.1%	3.9%	3.8%	3.8%	3.7%	3.6%	3.6%		
Hotel Occupancy Rate										
Venetian Macao	91.6%	87.4%	91.8%	94.4%	94.4%	89.1%	93.3%	88.3%		
Four seasons and Plaza	81.2%	80.7%	88.2%	90.8%	87.1%	85.8%	88.3%	86.7%		
Sands Cotai Central	70.8%	67.5%	84.8%	89.1%	88.8%	84.9%	89.5%	90.9%		
Sands Macao	94.9%	95.0%	96.9%	97.4%	96.7%	98.5%	99.4%	99.9%		

Source: Company data, CMS (HK) estimates

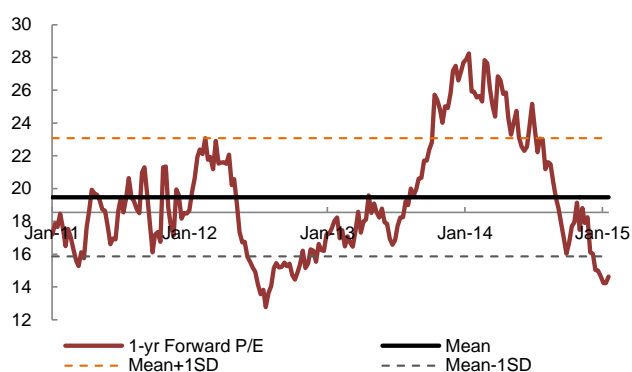
Peer Valuation Table

Company	Ticker	Rating	Target Price (lcl crncy)	Current Price (lcl crncy)	Upside/ Downside	Mkt Cap (US\$ mn)	52-Wk Price (lcl crncy)	Avg T/O (US\$ mn)	FY15E PEG/ FY14E-17E CAGR(x)	P/E (x)		
										FY14E	FY15E	FY16E
Galaxy	27 HK	BUY	71.60	43.20	66%	23,662	36.70 / 78.84	92.8	0.6	16.5	13.8	10.4
SJM	880 HK	SELL	9.00	11.86	-24%	8,655	10.62 / 25.33	15.9	1.4	10.1	10.1	8.9
Wynn Macau	1128 HK	NETRL	26.90	22.60	19%	15,151	19.82 / 38.80	20.1	0.9	17.2	18.5	13.9
Sands China	1928 HK	BUY	45.30	39.65	14%	41,275	34.50 / 68.00	91.4	0.9	17.3	15.4	12.4
MGM China	2282 HK	BUY	31.90	19.52	63%	9,571	17.10 / 32.90	15.6	0.6	13.3	12.2	9.8
Melco Crown	MPEL US	NETRL	24.60	24.93	-1%	13,545	21.04 / 45.31	97.2	1.0	22.5	24.3	17.2
Simple Avg									0.9	16.2	15.7	12.1
Mkt Cap Avg									0.9	16.9	15.9	12.3

Company	Ticker	EV/EBITDA (x)			ROE (%)			Dividends Yield (%)			Net Debt/Total Asset (%)		
		FY14E	FY15E	FY16E	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E
Galaxy	27 HK	12.3	10.4	8.3	27.9	26.8	28.1	1.8	2.2	2.9	NetCash	NetCash	NetCash
SJM	880 HK	7.5	7.4	6.1	26.8	24.9	25.8	6.9	6.9	7.9	NetCash	NetCash	NetCash
Wynn Macau	1128 HK	13.4	13.1	9.7	62.3	56.8	59.4	5.2	4.6	5.0	0.4	17.9	18.7
Sands China	1928 HK	14.0	12.5	10.1	37.3	36.9	39.4	4.6	5.2	6.4	11.9	13.2	3.8
MGM China	2282 HK	10.7	9.9	8.1	85.8	77.6	72.7	6.4	6.5	7.7	NetCash	NetCash	NetCash
Melco Crown	MPEL US	12.5	10.4	8.4	11.8	10.3	13.3	1.3	1.2	1.7	11.2	10.1	7.6
Simple Avg		11.7	10.6	8.4	42.0	38.9	39.8	4.4	4.4	5.3	7.8	13.7	10.0
Mkt Cap Avg		12.6	11.3	9.0	39.0	36.8	38.3	4.0	4.2	5.1	5.8	8.5	4.9

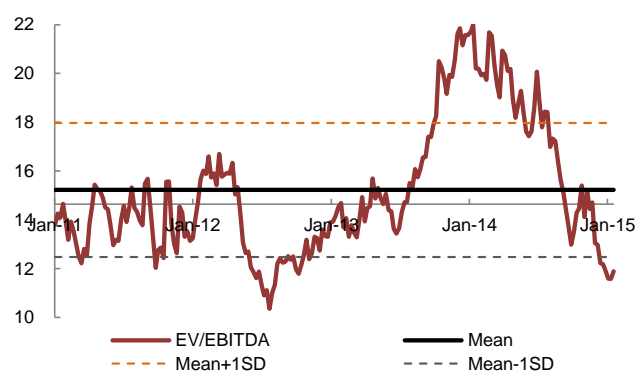
Source: Company data, Bloomberg, CMS (HK) estimates

Figure 1: 1-year forward P/E



Source: Bloomberg, CMS (HK) estimates

Figure 2: 1-year forward EV/EBITDA



Source: Bloomberg, CMS (HK) estimates

Financial Summary

Statement of financial position

US\$ mn	2012	2013	2014E	2015E	2016E
Current Assets	2,753	3,783	4,920	6,372	8,061
Cash and cash equivalents	1,948	2,943	4,028	5,395	6,869
Account receivables	785	821	868	953	1,161
Other receivables	-	-	-	-	-
Inventories	15	13	19	19	25
Other current assets	4	6	6	6	6
Non-current assets	7,635	7,682	9,007	10,519	10,372
Investment properties	913	891	1,089	1,330	1,269
Property and equipment	6,657	6,723	7,851	9,122	9,038
Intangible assets	16	20	19	18	17
Other non-current assets	49	48	48	48	48
Total assets	10,387	11,466	13,928	16,891	18,433
Current liabilities	1,554	1,933	2,025	2,173	2,582
ST borrowings	49	207	207	207	207
Account payables	1,503	1,724	1,816	1,965	2,374
Other current liabilities	2	2	2	2	2
Non-current liabilities	3,247	3,083	5,532	7,480	7,427
LT borrowings	3,212	3,023	5,473	7,421	7,367
Other non-current liabilities	36	60	60	60	60
Total liabilities	4,801	5,016	7,557	9,654	10,010
Common stock - par value	81	81	81	81	81
Reserves	5,506	6,369	6,290	7,157	8,343
Minority interest	-	-	-	-	-
Shareholders' equity	5,586	6,450	6,371	7,237	8,423
Total equity and liabilities	10,387	11,466	13,928	16,891	18,433

Statement of cash flows

US\$ mn	2012	2013	2014E	2015E	2016E
CF from OA	1,901	3,079	2,963	3,294	4,182
Net income	1,236	2,215	2,376	2,672	3,316
D&A	354	499	568	587	709
Finance costs	57	87	86	151	203
Changes of WC	62	189	39	64	195
Others	192	88	(107)	(180)	(241)
CF from IA	(986)	(598)	(1,873)	(2,070)	(525)
Capital expenditure	(1,039)	(570)	(1,716)	(1,879)	(654)
Investment income	16	14	21	28	38
Other investments	38	(41)	(177)	(219)	91
CF from FA	(1,467)	(1,481)	(5)	143	(2,183)
Borrowings	(186)	(49)	2,450	1,948	(53)
Share capital and reserves	12	19	-	-	-
Dividends	(1,201)	(1,382)	(2,455)	(1,805)	(2,130)
Others	(90)	(70)	-	-	-
Forex adjustment	9	(5)	-	-	-
Net cash flow	(543)	995	1,084	1,367	1,474

Source: Company data, CMS (HK) estimates

Income statement

US\$ mn	2012	2013	2014E	2015E	2016E
Total net revenue	6,511	8,908	9,416	10,341	12,598
Gaming tax	(2,859)	(3,846)	(3,908)	(4,367)	(5,255)
Labor expenses	(762)	(911)	(1,036)	(1,086)	(1,512)
D&A	(354)	(499)	(568)	(587)	(709)
Promoter commission	(330)	(374)	(374)	(410)	(492)
Other OP expenses	(925)	(988)	(1,083)	(1,091)	(1,142)
Adj. EBITDA	1,925	2,833	3,067	3,433	4,243
Op Profit	1,281	2,290	2,446	2,800	3,488
Fin. costs	(57)	(87)	(86)	(151)	(203)
Inv income	16	14	21	28	38
Other non-OP items	(2)	-	-	-	-
Pre-tax Profit	1,238	2,217	2,381	2,677	3,322
Taxes	(2)	(2)	(5)	(5)	(7)
After-tax Profit	1,236	2,215	2,376	2,672	3,316
NCI	-	-	-	-	-
Net Profit	1,236	2,215	2,376	2,672	3,316
EPS (US\$)	0.15	0.27	0.29	0.33	0.41
DPS (US\$)	0.17	0.32	0.24	0.27	0.33

Financial ratios

	2012	2013	2014E	2015E	2016E
YoY growth rate					
Total net revenue	33.4%	36.8%	5.7%	9.8%	21.8%
Adj. EBITDA	24.7%	47.1%	8.3%	11.9%	23.6%
Op profit	6.6%	78.7%	6.8%	14.5%	24.6%
Net profit	9.1%	79.2%	7.3%	12.4%	24.1%
Profitability					
EBITDA margin	29.6%	31.8%	32.6%	33.2%	33.7%
OP margin	19.7%	25.7%	26.0%	27.1%	27.7%
NP margin	19.0%	24.9%	25.2%	25.8%	26.3%
ROE	22.1%	34.3%	37.3%	36.9%	39.4%
ROIC	15.3%	27.0%	24.9%	24.6%	30.4%
Liquidity					
D/A	31.4%	28.2%	40.8%	45.2%	41.1%
ND/A	12.6%	2.5%	11.9%	13.2%	3.8%
Current ratio	1.8x	2.0x	2.4x	2.9x	3.1x
Quick ratio	1.8x	1.9x	2.4x	2.9x	3.1x
Operating efficiency					
Asset turnover	0.6x	0.8x	0.7x	0.6x	0.7x
Valuation ratios					
P/E	33.3x	18.6x	17.3x	15.4x	12.4x
P/B	7.4x	6.4x	6.5x	5.7x	4.9x
EV/EBITDA	22.2x	15.1x	14.0x	12.5x	10.1x
Dividend yield	3.4%	6.3%	4.6%	5.2%	6.4%

Investment Ratings

Rating	Definition
BUY	Expected to outperform the market index by >10% over the next 12 months
NEUTRAL	Expected to outperform or underperform the market index by 10% or less over the next 12 months
SELL	Expected to underperform the market index by >10% over the next 12 months

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