

Company Report

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

SJM (880 HK)

4Q15 huge miss; dividends cut; maintain SELL

■ 4Q15 adj. EBITDA of HK\$716mn (-54% YoY, -19% QoQ) missed our/market est. by 39%/38% on operating leverage. 57% DPS payout ratio (HK\$0.25) also worse than that of 70% in FY14

■ We cut FY16E/17E EBITDA by 40%/42%, FY16E EPS/DPS by 59%/59%; our FY16E EBITDA/EPS imply 33%/48% downside from consensus forecast

■ Dividends cut came earlier than expected. Opex uptrend despite weakening GGR. Maintain SELL with TP cut to HK\$2.90, 20% discount to 5-year historical avg. of 18x P/E and 13x EV/EBITDA

Freefall of EBITDA margin to 6.4% in 4Q15

Total revenue of HK\$11,149mn (-35% YoY, -2% QoQ) was in line with our expectation. Rolling chip volume fell 52% YoY and favorable win rate helped VIP GGR to decline at a slower pace at 47% YoY. Mass and slot GGR contracted 19% and 10% YoY. By properties, Grand Lisboa's GGR dropped the most, down 41% YoY with 3.2ppts EBITDA margin contraction. Satellite casinos continued to suffer ahead of suspension of Greek Mythology for renovation.

Other takeaways

1) 4Q15 was negatively impacted by HK\$143mn due to the shortfall in commission sharing with Greek Mythology and advance to promoters. 2) Mgmt maintains its guidance of >50% payout ratio. 3) Renovation of Greek Mythology to be completed by late FY16E might incur capex of HK\$1bn. 4) Lisboa Palace is targeted to be completed in 4Q17E.

One-off items adversely affected, but market is not merciful

Above mentioned one-off items are unlikely to be incurred in coming quarters. However, we believe market will still turn negative on the stock, on 1) lower-than-market expected 70% dividend payout ratio and 2) deterioration of Grand Lisboa is worrisome. SJM is currently trading at 38.9x FY16E P/E and 14.7x EV/EBITDA, which is not justifiable to us given its continued earnings contraction. We expect further drop in SJM's share price as we see 33%/48% downside from market's FY16E EBITDA/EPS estimates. Moreover, dividends are at risk.

Financials

HK\$ mn	FY13	FY14	FY15	FY16E	FY17E
Revenue	87,651	79,934	49,171	43,746	43,336
Net profit	7,706	6,731	2,465	815	(1,161)
Growth (%)	14.2%	-12.7%	-63.4%	-66.9%	-242.5%
EPS (HK\$)	1.39	1.20	0.44	0.14	(0.21)
DPS (HK\$)	1.00	0.84	0.25	0.05	-
P/E (x)	4.0x	4.7x	12.8x	38.9x	-27.3x
EV/EBITDA (x)	2.5x	3.0x	5.7x	14.7x	20.9x
Dividend yield (%)	17.9%	15.0%	4.5%	0.9%	0.0%
ROE (%)	32.9%	27.2%	10.6%	3.5%	-5.3%

Source: Company data, CMS (HK) estimates

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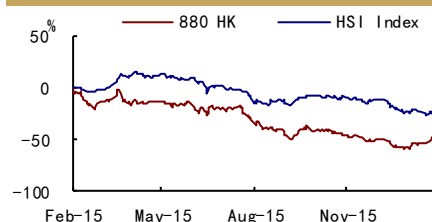
WHAT'S NEW

Cut estimates and target price

SELL

Previous	SELL
Price	HK\$5.60
12-month Target Price (Potential up/downside)	HK\$2.90 (-48%)
Previous	HK\$3.70

Price Performance



Source: Bloomberg

%	1m	6m	12m
880 HK	12.2	(28.8)	(55.6)
HSI	3.3	(18.4)	(5.4)

Industry: Macau Gaming

Hang Seng Index	19,415
HSCEI	8,171

Key Data

52-week range (HK\$)	4.43 / 12.24
Market cap (US\$ mn)	4,087
Avg. daily volume (mn)	11.0
BVPS (HK\$)	4.1

Shareholdings Structure

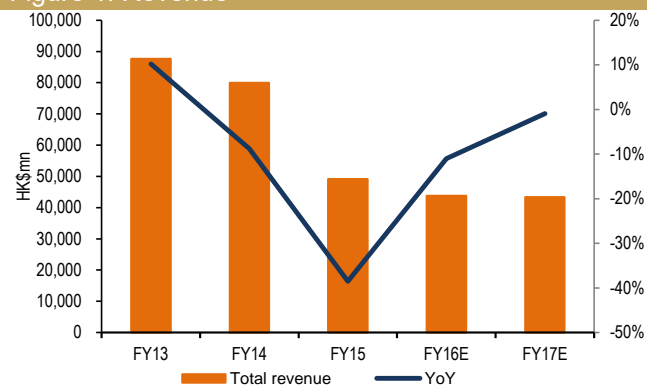
STDM (54%)	3,062mn
Ms. Angela LEONG (9%)	488mn
No. of shares outstanding	5,657mn
Free float	37%

Related Research

1. Macau Gaming – Encouraging CNY visitations; mass is the major beneficiary (NEUTRAL) 2016/02/15
2. Macau Gaming – January review: market-beating GGR on stabilization (NEUTRAL) 2016/02/01

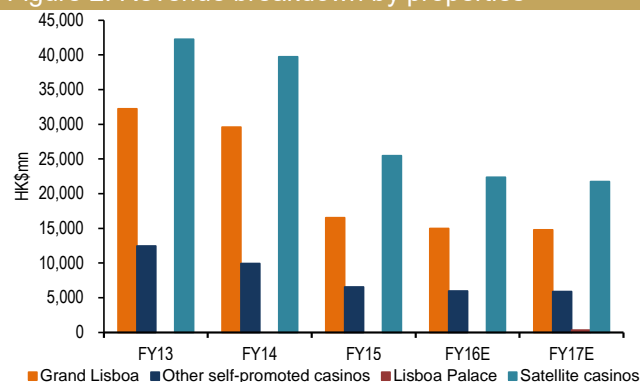
Focus charts

Figure 1: Revenue



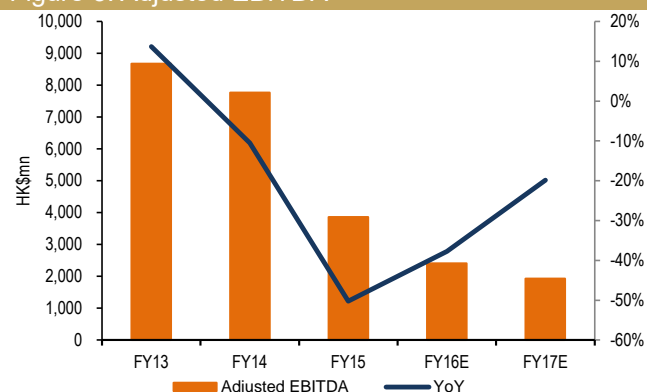
Sources: Company data, CMS (HK) estimates

Figure 2: Revenue breakdown by properties



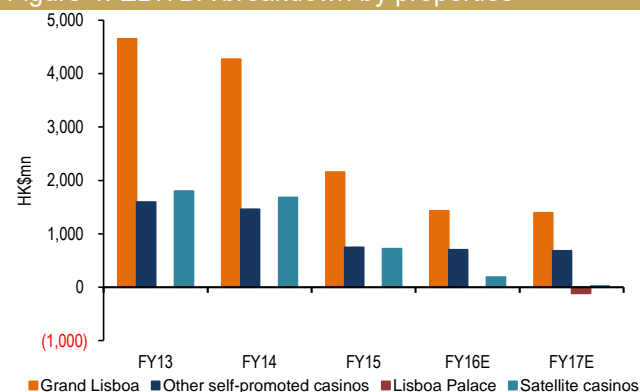
Sources: Company data, CMS (HK) estimates

Figure 3: Adjusted EBITDA



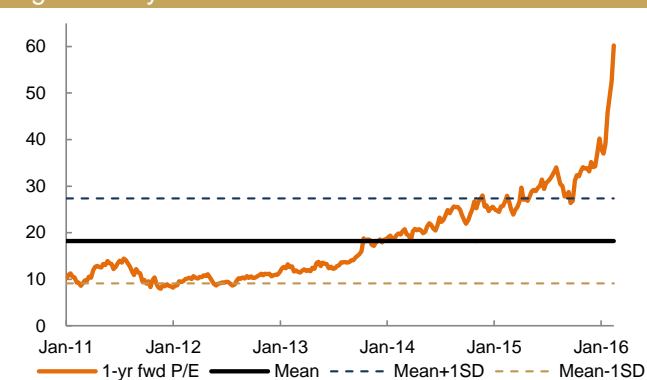
Sources: Company data, CMS (HK) estimates

Figure 4: EBITDA breakdown by properties



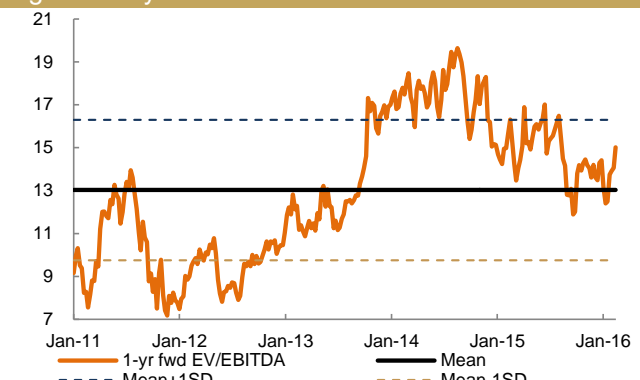
Sources: Company data, CMS (HK) estimates

Figure 5: 1-year forward P/E



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

Figure 6: 1-year forward EV/EBITDA



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

Quarterly results

HK\$ mn	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	YoY	QoQ
Total Revenue	22,962	21,484	18,254	17,224	14,439	12,172	11,381	11,149	-35.3%	-2.0%
Gaming revenue	22,789	21,323	18,091	17,066	14,281	12,038	11,243	11,027	-35.4%	-1.9%
By segment										
- VIP gaming	14,511	13,208	10,375	10,151	7,922	6,304	5,442	5,396	-46.8%	-0.8%
- Mass market gaming	7,948	7,777	7,359	6,602	6,048	5,460	5,529	5,349	-19.0%	-3.3%
- Slot machines	330	338	357	313	311	274	272	283	-9.7%	4.0%
By property										
- Casino Grand Lisboa	8,280	7,928	6,878	6,501	5,198	3,963	3,540	3,835	-41.0%	8.3%
- Other self-promoted	3,237	2,613	1,960	2,123	1,725	1,756	1,652	1,430	-32.6%	-13.4%
- Satellite casinos	11,272	10,782	9,253	8,442	7,358	6,319	6,051	5,763	-31.7%	-4.8%
Non-gaming revenue	173	161	163	159	158	134	138	121	-23.6%	-12.2%
Adjusted EBITDA	2,190	2,254	1,751	1,568	1,241	1,021	884	716	-54.3%	-19.0%
- Casino Grand Lisboa	1,168	1,257	999	849	671	552	507	427	-49.7%	-15.8%
- Other self-promoted	445	439	310	267	251	219	144	135	-49.4%	-6.3%
- Satellite casinos	494	469	382	338	277	211	193	41	-87.9%	-78.8%
Adjusted EBITDA margin	9.5%	10.5%	9.6%	9.1%	8.6%	8.4%	7.8%	6.4%		
Net profit	1,878	2,024	1,528	1,301	1,004	787	285	389	-70.1%	36.5%
VIP gaming tables	582	568	564	574	530	492	458	428		
Mass market gaming tables	1,195	1,195	1,190	1,196	1,209	1,235	1,263	1,265		
Slot machines	2,971	2,813	2,806	2,834	2,793	2,711	2,737	2,603		
Rolling chip volume	537,200	466,495	360,000	355,860	247,200	195,508	160,000	170,737	-52.0%	6.7%
VIP win rate	2.70%	2.83%	2.88%	2.85%	3.18%	3.22%	3.36%	3.16%		
Occupancy rate (GL)	95.8%	94.8%	90.5%	91.7%	81.4%	78.8%	85.0%	86.8%		
Avg. room rate (GL) (HK\$)	2,385	2,303	2,261	2,351	2,509	2,289	1,743	1,579		

Source: Company data, CMS (HK) estimates

Earnings revision

HK\$ mn	Reported FY15A	Old FY15E	% chg	New FY15E	Old FY15E	% chg	New FY16E	Old FY16E	% chg	
Overall										
Total revenue	49,171	49,349	0%	43,746	43,922	0%	43,336	43,519	0%	
EBITDA	3,723	4,105	-9%	2,261	3,793	-40%	1,776	3,040	-42%	
EBITDA margin	8%	8%	-1ppt	5%	9%	-3ppts	4%	7%	-3ppts	
Net profit	2,465	3,135	-21%	815	1,975	-59%	(1,161)	(318)	n.a.	
EPS (HK\$)	0.44	0.56	-22%	0.14	0.35	-59%	(0.21)	(0.06)	n.a.	
DPS (HK\$)	0.25	0.39	-36%	0.05	0.12	-59%	-	-	-	Payout ratio at 35% vs. 50% guidance
Grand Lisboa										
Casino revenue	16,536	16,234	2%	14,977	13,557	10%	14,783	13,384	10%	
EBITDA	2,157	2,257	-4%	1,433	2,062	-30%	1,394	1,920	-27%	Cost hike at surprise
EBITDA margin	13%	14%	-1ppt	10%	15%	-6ppts	9%	14%	-5ppts	
VIP GGR	10,943	10,406	5%	9,540	7,813	22%	9,417	7,713	22%	
Mass GGR	5,593	5,828	-4%	5,437	5,744	-5%	5,367	5,671	-5%	Mass worse than expected
Other self-promoted casinos										
Casino revenue	6,563	6,770	-3%	5,964	6,450	-8%	5,887	6,368	-8%	
EBITDA	749	760	-1%	703	658	7%	685	579	18%	Earnings stabilizing on "shift to mass"
EBITDA margin	11%	11%	0ppt	12%	10%	2ppts	12%	9%	3ppts	
VIP GGR	2,476	3,186	-22%	2,120	2,805	-24%	2,093	2,769	-24%	
Mass GGR	4,087	3,584	14%	3,844	3,645	5%	3,795	3,599	5%	
Satellite casinos										
Casino revenue	25,491	25,821	-1%	22,383	23,542	-5%	21,767	22,903	-5%	
EBITDA	722	940	-23%	193	964	-80%	27	454	-94%	No margin recovery after sharp fall in 4Q15
EBITDA margin	3%	4%	-1ppt	1%	4%	-3ppts	0%	2%	-2ppts	
VIP GGR	11,645	11,426	2%	9,540	9,415	1%	9,311	9,194	1%	
Mass GGR	13,846	14,395	-4%	12,843	14,127	-9%	12,456	13,709	-9%	
Lisboa Palace										
Net revenue	-	-	-	-	-	-	326	339	-	
EBITDA	-	-	-	-	-	-	(117)	(65)	-	
EBITDA margin	-	-	-	-	-	-	-36%	-19%	-	
VIP GGR	-	-	-	-	-	-	106	101	-	
Mass GGR	-	-	-	-	-	-	220	238	-	

Source: Company data, CMS (HK) estimates

Valuation

Our TP of HK\$2.90 is based on the average of 14x FY16E P/E and 10x EV/EBITDA, which are at a 20% discount to their five-year average of historical trading level, reflecting its continuous earnings decline until FY17E. Our TP implies FY16E/17E 20.1x/-14.1x P/E, and 8.4x/13.0x EV/EBITDA. Profitability deterioration of SJM is more severe than expected, and dividends payment is under risk given that the company is in need to finance its Lisboa Palace project from banks. We maintain SELL rating on SJM.

Risks: Potential re-rating catalysts are 1) effective market share protection from Cotai players and 2) reverse of margin declining trend with effective cost control. Downside risks to our forecasts are: 1) worse-than-expected cost control strategy, and 2) potential cut in dividend payout ratio.

Peer valuation table

Company	Ticker	Rating	Target Px (lcl crncy)	Current Px (lcl crncy)	+/- side	Mkt Cap (US\$ mn)	52-Wk Price (lcl crncy)	Avg T/O (US\$mn)	P/E (x)		
									FY14	FY15E	FY16E
Galaxy	27 HK	BUY	29.60	26.40	12%	14,514	19.02 / 43.01	48.5	10.8	22.7	18.6
SJM	880 HK	SELL	2.90	5.60	-48%	4,087	4.43 / 12.24	7.4	4.7	12.8	38.9
Wynn Macau	1128 HK	NEUTRAL	8.90	8.88	0%	5,953	6.84 / 22.70	15.1	7.1	19.2	23.2
Sands China	1928 HK	BUY	28.20	27.05	4%	28,164	20.75 / 39.85	56.3	11.0	19.2	19.8
MGM China	2282 HK	SELL	8.00	8.91	-10%	4,369	7.83 / 18.74	7.9	5.9	10.9	16.6
Melco Crown	MPEL US	BUY	20.80	16.32	27%	8,887	12.05 / 27.39	49.0	14.7	83.2	47.0
Simple Avg									9.1	28.0	27.3
Mkt Cap Avg									10.4	27.6	24.5

Company	Ticker	EV/EBITDA (x)			ROE (%)			Dividends Yield (%)			Net Debt/Equity (%)		
		FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E
Galaxy	27 HK	7.8	13.1	11.0	27.4	12.3	13.7	2.8	2.1	1.9	(24.8)	(7.9)	(19.5)
SJM	880 HK	3.0	5.7	14.7	27.2	10.6	3.5	15.0	4.5	0.9	(34.5)	(41.4)	15.6
Wynn Macau	1128 HK	6.4	14.1	12.9	91.5	60.1	41.1	19.7	2.5	2.2	110.9	493.7	403.1
Sands China	1928 HK	9.0	14.1	14.9	39.6	25.2	27.5	7.4	7.4	7.4	10.3	35.8	66.6
MGM China	2282 HK	5.1	9.4	12.1	90.0	63.3	32.6	15.1	2.8	1.8	(1.8)	128.4	169.0
Melco Crown	MPEL US	10.3	14.4	11.0	14.2	2.4	4.5	2.0	4.3	0.6	53.8	54.2	59.5
Simple Avg		6.9	11.8	12.8	48.3	29.0	20.5	10.3	3.9	2.5			
Mkt Cap Avg		8.0	13.1	13.2	40.8	24.1	21.4	7.7	4.9	4.0			

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

Financial Summary

Statement of financial position

HK\$ mn	2013	2014	2015	2016E	2017E
Current Assets	27,826	26,128	18,677	17,216	17,315
Cash and cash equivalents	11,145	9,547	10,372	9,111	9,207
Account receivables	1,510	2,094	1,658	1,475	1,461
Other receivables	-	-	-	-	-
Inventories	62	63	63	46	62
Other current assets	15,109	14,424	6,584	6,584	6,584
Non-current assets	14,543	16,087	18,178	30,593	34,396
Property and Equipment	8,325	11,431	14,054	26,621	30,561
Land use rights	2,771	2,729	2,635	2,490	2,353
Intangible assets	21	14	8	2	2
Other non-current assets	3,426	1,913	1,481	1,481	1,481
Total assets	42,369	42,215	36,855	47,809	51,711
Current liabilities	16,022	15,033	11,297	10,441	10,660
ST borrowings	318	258	158	158	158
Account payables	15,319	14,383	10,730	9,874	10,093
Other current liabilities	385	391	409	409	409
Non-current liabilities	2,891	2,320	2,078	14,078	19,078
LT borrowings	1,191	733	554	12,554	17,554
Other non-current liabilities	1,700	1,587	1,524	1,524	1,524
Total liabilities	18,913	17,353	13,375	24,519	29,738
Common stock - par value	5,554	11,232	11,236	11,236	11,236
Reserves	17,850	13,532	12,090	11,914	10,610
Minority interest	52	98	154	140	126
Shareholders' equity	23,455	24,862	23,479	23,290	21,972
Total equity and liabilities	42,369	42,215	36,855	47,809	51,711

Statement of cash flows

HK\$ mn	2013	2014	2015E	2016E	2017E
CF from OA	9,560	6,252	4,515	1,426	1,599
Net income	7,706	6,731	2,465	815	(1,161)
D&A	1,185	1,142	1,143	1,557	2,799
Finance costs	90	73	52	37	666
Changes of WC	982	(1,691)	(3,217)	(656)	217
Others	(403)	(3)	4,072	(327)	(922)
CF from IA	(4,431)	(2,621)	(1,783)	(13,696)	(6,359)
Capital expenditure	(3,440)	(4,260)	(3,750)	(14,000)	(6,655)
Investment income	305	372	254	276	242
Other investments	(1,296)	1,268	1,713	28	53
CF from FA	(5,916)	(5,230)	(1,908)	11,009	4,857
Borrowings	(235)	(517)	(278)	12,000	5,000
Share capital and reserves	46	1,267	-	-	-
Dividends	(5,551)	(5,769)	(4,073)	(991)	(143)
Others	(176)	(212)	2,443	-	-
Forex adjustment	-	-	-	-	-
Net cash flow	(786)	(1,599)	825	(1,261)	96

Source: Company data, CMS (HK) estimates

Income statement

HK\$ mn	2013	2014	2015	2016E	2017E
Total net revenue	87,651	79,934	49,171	43,746	43,336
Gaming tax	(33,425)	(30,496)	(18,820)	(16,815)	(16,647)
Marketing expenses	(38,459)	(33,789)	(18,455)	(16,455)	(17,098)
Inventory consumed	(293)	(266)	(249)	(181)	(245)
Other OP expenses	(7,927)	(8,846)	(9,431)	(9,799)	(10,181)
Adj. EBITDA	8,676	7,763	3,862	2,404	1,926
Op Profit	7,548	6,537	2,216	497	(834)
Fin. costs	(90)	(73)	(52)	(37)	(666)
Inv income	305	372	254	276	242
Other non-OP items	12	33	72	72	73
Pre-tax Profit	7,775	6,870	2,490	808	(1,184)
Taxes	(53)	(88)	(38)	(6)	9
After-tax Profit	7,723	6,781	2,452	801	(1,175)
NCI	(16)	(51)	13	13	14
Net Profit	7,706	6,731	2,465	815	(1,161)
EPS (HK\$)	1.39	1.20	0.44	0.14	(0.21)
DPS (HK\$)	1.00	0.84	0.25	0.05	-

Financial ratios

	2013	2014	2015	2016E	2017E
YoY growth rate					
Total revenue	10.2%	-8.8%	-38.5%	-11.0%	-0.9%
Adj. EBITDA	13.7%	-10.5%	-50.3%	-37.8%	-19.9%
Op profit	14.4%	-13.4%	-66.1%	-77.6%	-267.9%
Net profit	14.2%	-12.7%	-63.4%	-66.9%	-242.5%
Profitability					
EBITDA margin	9.9%	9.7%	7.9%	5.5%	4.4%
OP margin	8.6%	8.2%	4.5%	1.1%	-1.9%
NP margin	8.8%	8.4%	5.0%	1.9%	-2.7%
ROE	32.9%	27.2%	10.6%	3.5%	-5.3%
ROIC	25.3%	21.2%	9.6%	2.2%	-1.2%
Liquidity					
Debt / equity	6.5%	4.0%	3.1%	54.9%	81.1%
Net debt / equity	-41.2%	-34.5%	-41.4%	15.6%	38.9%
Current ratio	1.7x	1.7x	1.7x	1.6x	1.6x
Quick ratio	0.8x	0.8x	1.1x	1.0x	1.0x
Operating efficiency					
Asset turnover	2.1x	1.9x	1.3x	0.9x	0.8x
Valuation ratios					
P/E	4.0x	4.7x	12.8x	38.9x	-27.3x
P/B	1.3x	1.3x	1.4x	1.4x	1.5x
EV/EBITDA	2.5x	3.0x	5.7x	14.7x	20.9x
Dividend yield	17.9%	15.0%	4.5%	0.9%	0.0%

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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