



Rating
Hold

Asia
Hong Kong

Consumer
Hotels / Leisure /
Gaming

Company
Galaxy Alert

Reuters 0027.HK	Bloomberg 27 HK	Exchange HSI	Ticker 0027
ADR Ticker GXYEY	ISIN US36318L1044		

Date
25 February 2016

Results

Price at 24 Feb 2016 (HKD)	26.05
Price target - 12mth (HKD)	21.00
52-week range (HKD)	41.05 - 19.70
HANG SENG INDEX	19,192

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4Q small beat; but recent rally already priced in strong results

Best 4Q sequential EBITDA growth among peers on Phase 2 ramp-up

Galaxy just reported at lunch. 4Q EBITDA rose 18% qoq to HK\$2.48bn (-7% yoy), 5% above consensus, the best sequential growth among Macau peers. **However, the stock has already rallied 20% over the past month, which suggests today's good results is somewhat expected by the market already.** Also, 4Q was helped by good luck as VIP win rate was high at 3.61% (3Q at 3.26% with a negative EBITDA impact of HK\$131m). As Phase 2 ramps up, the group's mass share +80bps qoq to 19.7% in 4Q (mass GGR +7% qoq) and non-gaming rev +9% qoq as more shops opened during 2H. As expected, the board declared a special final DPS of HK\$0.15, lifting FY15 DPS to HK\$0.29 (26% payout; 1.6% div yield). Trading at 11x 2016 EV/EBITDA and 21x 2016 PE, we think the stock is fairly valued now given multiple regulatory risks in 2016. Maintain Hold. More details after conf call at 5pm HK time today.

4Q results highlights

- **Cost-saving initiatives on-going:** Achieved roughly HK\$500m of operational cost control savings in FY15 (out of a HK\$800m annual target).
- **Galaxy Macau gained share and benefited from good luck in 4Q:** 4Q property EBITDA +18% qoq to HK\$1.988bn (-3% yoy). Two reasons: (i) mass & VIP share share on Phase 2 ramp-up: mass GGR +7% qoq while VIP GGR +16% qoq; and (ii) better luck in 4Q (VIP win rate high at 3.78% while 3Q negative luck impact of HK\$117m on EBITDA). **What surprised us was that non-gaming rev did not grow sequentially in 4Q** (flat qoq; +81% yoy after Ph2 opened in May), despite net rental rev +14% qoq to HK\$269m as more shops opened in 2H15.
- **StarWorld showed respectable growth:** 4Q EBITDA +8% qoq (-14% yoy) at HK\$557m. Margin up on +ve rev mix shift (mass +12% qoq; VIP -6% qoq).
- **Broadway disappointingly yet to turn EBITDA break-even:** 4Q EBITDA loss of HK\$4m, the 3rd consecutive quarter of EBITDA-loss since opening in May. Despite hotel occ close to 100%, 4Q non-gaming rev fell 30% qoq.
- **Phase 3-4 & Hengqin Island:** For Phase 3-4, site investigation work to start in 2016 though ground-breaking timing still undecided. For Hengqin Island project, mgmt continuing with concept plans for the 2.7sq km site but no timeline when to officially buy the site from the government.
- **Promotional activities on hotel room rates after Chinese New Year:** To boost hotel occupancy after Chinese New Year, Galaxy launched a promotion with hotel rates starting from HK\$972++ (20-30% discount).

Stock data

Market cap (HKDm)	110,510
Market cap (USDm)	14,224
Shares outstanding (m)	4,242.2
Major shareholders	Lui family (52.7%)
Free float (%)	44
Avg daily value traded (USDm)	48.2

Source: Deutsche Bank

Key data

FYE 12/31	2014A	2015E	2016E
Sales (HKDm)	71,752	51,382	48,946
Net Profit (HKDm)	10,339.1	4,537.0	5,096.7
DB EPS (HKD)	2.55	1.34	1.23
PER (x)	23.8	19.5	21.1
Yield (net) (%)	1.2	1.6	1.4

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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