

Company Report: Sands China (01928 HK)

公司报告: 金沙中国 (01928 HK)

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Weak VIP Performance to Improve

贵宾分部比较弱业绩将改善

- **2Q17 adjusted property EBITDA was 0.4% and 2.1% above Bloomberg consensus and our last forecast, respectively.** Total adjusted property EBITDA increased 23.6% YoY to US\$603 million. Using a "Hold Normalized" win rate of 3.15%, adjusted property EBITDA would have increased by 17.1% YoY to US\$597 million, slightly missing Bloomberg consensus forecast by 0.6%. The Company's total market share increased slightly by 0.6 ppt YoY but actually decreased by 0.4 ppt QoQ to 22.3%; not at all impressive considering that the Company had full-quarter contribution from the Parisian in 2Q17, which was not open a year ago.
- **We increase the Company's 2017-2019 adjusted property EBITDA forecasts by 6.7%, 7.3% and 4.0%, respectively, on higher expected revenue.** The Company is making upgrades to some facilities at the Venetian as well as the Parisian, spending more on promoting the Parisian and is now making more focused efforts on shoring up its lagging VIP sector. We expect these efforts to pay off with higher revenue and EBITDA in the coming quarters.
- **We lift our target price from HK\$36.80 to HK\$42.00 and maintain our "Accumulate" investment rating.** Our target price is equivalent to 18.0x 2017 EV/adjusted EBITDA and 26.5x 2017 PER and is a 19.4% discount to our DCF derived NAV per share of HK\$52.12. Our target price represents 12.1% upside potential, and we also like Sands China's high dividend yield, mass market focus and relatively diversified revenue streams.
- **2017 年 2 季度经调整物业 EBITDA 高于彭博一致预期 0.4%，高于我们之前预期 2.1%。** 本季度经调整物业 EBITDA 同比增长 23.6% 达到 6.03 亿美元。采用标准化调整后的 3.15% 的净赢率计算，经调整物业 EBITDA 同比增长了 17.1% 至 5.97 亿美元，略低于彭博一致预期 0.6%。公司总市场份额同比略提升 0.6 个百分点，但是环比下降 0.4 个百分点至 22.3%，我们认为这个成绩并不精彩，因为今年 2 季度公司的巴黎人物业已经实现整季度全面运营，而一年前还未开业。
- **我们分别上调公司 2017-2019 年的经调整物业 EBITDA 预期 6.7%，7.3% 和 4.0%，基于更高的预期收入。** 公司正在改善澳门威尼斯人和澳门巴黎人里面的一些设备、在花更多的钱推广澳门巴黎人，并且现在更注重改善目前比较弱的贵宾分部业绩。我们认为公司正在付出的努力将在未来几个季度有效提升收入和 EBITDA。
- **我们上调原先 36.80 港元的目标价至 42.00 港元，维持“收集”投资评级。** 我们的目标价相当于 18.0 倍 2017 年经调整后物业 EV/EBITDA 以及 26.5 倍 2017 年市盈率，相比于我们运用折现现金流方法得出的每股估值 52.12 港元有 19.4% 的折让。我们的目标价相较公司股价有 12.1% 的上涨空间，而且我们看好公司的高股息、对中场业务的专注以及相对多元化的收入来源。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

HK\$42.00

Revised from 原目标价:

HK\$36.80

Share price 股价:

HK\$37.450

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	4.8	6.8	13.3
Rel. % to HS Index 相对恒指变动 %	5.4	0.9	(2.6)
Avg. share price (HK\$) 平均股价 (港元)	35.5	35.7	33.9

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(USD m)	(USD m)	(USD)	(Δ %)	(x)	(USD)	(x)	(USD)	(%)	(%)
2015A	6,820	1,459	0.181	(42.7)	26.7	0.724	6.7	0.257	5.4	23.8
2016A	6,653	1,224	0.152	(16.1)	31.8	0.620	7.8	0.257	5.4	22.6
2017F	7,754	1,640	0.203	33.9	23.6	0.585	8.2	0.257	5.4	33.7
2018F	8,820	1,894	0.235	15.4	20.4	0.554	8.6	0.283	5.9	41.2
2019F	9,449	2,090	0.259	10.3	18.5	0.534	9.0	0.297	6.2	47.5
Shares in issue (m) 总股数 (m)	8,072.9				Major shareholder 大股东	Las Vegas Sands (LVS US) 70.2%				
Market cap. (HK\$ m) 市值 (HK\$ m)	302,329.8				Free float (%) 自由流通比率 (%)	29.8				
3 month average vol. 3 个月平均成交股数 ('000)	13,701.8				FY17 Net gearing (%) FY17 净负债/股东资金 (%)	59.3				
52 Weeks high/low (HK\$) 52 周高/低	39.300 / 31.250				FY17 Est. NAV (HK\$) FY17 每股估值 (港元)	52.1				

Source: the Company, Guotai Junan International.

2Q17 RESULTS

Sands China's 2Q17 adjusted property EBITDA was slightly above Bloomberg consensus and our last forecast (0.4% and 2.1%). Total adjusted property EBITDA for the quarter increased 23.6% YoY (decreased 3.4% QoQ) to US\$603 million, with a Company-wide overall VIP win rate of 3.35%, higher than the 2.67% experienced in 2Q16. Using a Hold Normalized win rate of 3.15%, the Company's adjusted property EBITDA would have increased by 17.1% YoY to US\$597 million, just under Bloomberg consensus forecast by 0.6%.

The Company's total VIP turnover increased 7.6% YoY (decreased 10.1% QoQ) to US\$14.8 billion, underperforming the 34.8% YoY and 1.0% QoQ increases in Macau's total VIP GGR for the quarter. The underperformance in VIP segment turnover is disappointing, considering that the Company had full-quarter contribution from the Parisian Macao, which was not open a year ago. The Company's overall VIP win rate was 3.35% for the quarter, compared with 2.67% in 2Q16 and 3.33% in 1Q17. Consequently, total VIP gross win increased by 34.9% YoY but decreased by 9.7% QoQ.

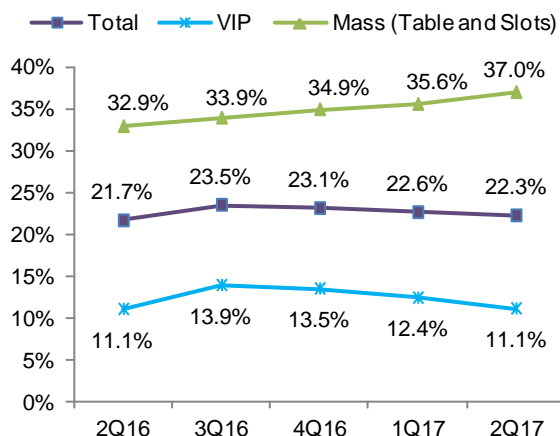
Sands China's total gross win for the mass segment (tables & slots) increased by 20.8% YoY but decreased by 0.2% QoQ, outperforming the 8.1% YoY increase (3.4% QoQ decrease) of Macau's total mass market GGR. The Company's mass segment achieved its highest YoY growth rate since 2Q14 as strong visitation at the Parisian Macao helped drive the entire traffic and business volume of the Company's portfolio of properties on the Cotai strip.

Table-1: Company Results Summary

US\$ Million	2Q16A	3Q16A	4Q16A	1Q17A	2Q17A	QoQ (% or ppt)	YoY (% or ppt)
Total VIP Turnover	13,787	13,856	16,927	16,514	14,839	(10.1%)	7.6%
Overall VIP Win Rate	2.67%	3.61%	3.33%	3.33%	3.35%	0.4%	67.7%
Total VIP Win	368	500	564	550	497	(9.7%)	34.9%
Total Mass Tables Win	903	985	1,045	1,102	1,105	0.3%	22.4%
Total Slots Win	128	135	140	144	139	-3.5%	9.1%
Total Mass Market (tables & slots) Win	1,030	1,120	1,185	1,246	1,245	-0.2%	20.8%
Company VIP Market Share	11.1%	13.9%	13.5%	12.4%	11.1%	(1.3) ppt	0.1 ppt
Company Mass Market Share	32.9%	33.9%	34.9%	35.6%	37.0%	1.4 ppt	4.1 ppt
Company Total Market Share	21.7%	23.5%	23.1%	22.6%	22.3%	(0.4) ppt	0.6 ppt
Total Revenue	1,472	1,714	1,854	1,873	1,825	(2.6%)	24.0%
Total Adjusted Property EBITDA	488	628	610	624	603	(3.4%)	23.6%
Total Adjusted Property EBITDA margin	33.2%	36.7%	32.9%	33.3%	33.0%	(0.3) ppt	(0.1) ppt

Source: the Company, Gaming Inspection and Coordination Bureau Macao SAR, Guotai Junan International.

The Company's total market share increased by 0.6 ppt YoY but decreased by 0.4 ppt QoQ to 22.3% in 2Q17. Sands China's VIP market share increased by 0.1 ppt YoY (decreased by 1.3 ppt QoQ) to 11.1% for 2Q17. Mass market share was up by 4.1 ppt YoY (up by 1.4 ppt QoQ) to 37.0% thanks to contribution from the Parisian Macao.

Figure-1: Sands China Market Share, Quarterly


Source: the Company, Gaming Inspection and Coordination Bureau Macao SAR.

2Q17 Property Level Results

Table-2: Property & Segment Level Results Summary

US\$ Million	2Q16A	3Q16A	4Q16A	1Q17A	2Q17A	QoQ (% or ppt)	YoY (% or ppt)
Property Revenues							
Venetian Macao	665	771	707	742	689	(7.1%)	3.6%
Sands Cotai Central	468	512	444	462	444	(3.9%)	(5.1%)
Sands Macao	183	165	161	179	161	(10.1%)	(11.9%)
Plaza Macao	125	161	163	143	137	(4.2%)	9.9%
Parisian Macao	0	68	341	315	359	14.0%	n.a.
Ferry and others	32	37	38	32	35	9.4%	8.3%
Property VIP Market Shares							
Venetian Macao VIP Market Share	5.6%	7.2%	5.3%	5.5%	4.2%	(1.3) ppt	(1.4) ppt
Sands Cotai Central VIP Market Share	2.3%	3.3%	2.1%	1.9%	1.8%	(0.2) ppt	(0.5) ppt
Sands Macao VIP Market Share	1.9%	0.8%	0.6%	1.1%	0.8%	(0.3) ppt	(1.1) ppt
Plaza Macao VIP Market Share	1.2%	2.1%	1.9%	1.5%	1.1%	(0.4) ppt	(0.1) ppt
Parisian Macao VIP Market Share	n.a.	0.6%	3.6%	2.4%	3.3%	0.9 ppt	n.a.
Property Mass (tables & slots) Market Shares							
Venetian Macao Mass Market Share	14.6%	14.7%	13.7%	13.6%	14.0%	0.4 ppt	(0.5) ppt
Sands Cotai Central Mass Market Share	11.6%	11.1%	9.3%	9.7%	9.9%	0.2 ppt	(1.7) ppt
Sands Macao Mass Market Share	4.5%	4.6%	4.2%	4.1%	4.1%	0.0 ppt	(0.4) ppt
Plaza Macao Mass Market Share	2.3%	2.1%	1.9%	2.1%	2.3%	0.3 ppt	0.1 ppt
Parisian Macao Mass Market Share	n.a.	1.4%	5.9%	6.1%	6.6%	0.5 ppt	n.a.
Adj. Property / Segment EBITDAs							
Venetian Macao	245	315	263	290	257	(11.4%)	4.8%
Sands Cotai Central	144	176	132	142	134	(5.6%)	(6.9%)
Sands Macao	48	46	46	54	39	(27.8%)	(19.4%)
Plaza Macao	44	63	67	51	60	17.6%	37.3%
Parisian Macao	n.a.	19	95	82	106	29.3%	n.a.
Ferry and other operations	6.9	9.5	7.6	5.0	7.0	40.0%	1.5%
Adjusted Property / Segment EBITDA Margins							
Venetian Macao	36.9%	40.9%	37.2%	39.1%	37.3%	(1.8) ppt	0.4 ppt
Sands Cotai Central	30.8%	34.4%	29.7%	30.7%	30.2%	(0.6) ppt	(0.6) ppt
Sands Macao	26.5%	27.6%	28.8%	30.2%	24.2%	(5.9) ppt	(2.3) ppt
Plaza Macao	35.1%	38.9%	40.8%	35.7%	43.8%	8.1 ppt	8.7 ppt
Parisian Macao	n.a.	28.2%	27.8%	26.0%	29.5%	3.5 ppt	n.a.
Ferry and other operations	19.3%	24.4%	17.0%	10.9%	17.5%	6.6 ppt	(1.8) ppt

Source: the Company, Guotai Junan International.

The Parisian Macao

The Parisian Macao's mass and VIP market share both increased QoQ. Mass market share for the property increased by 0.5 ppt QoQ to 6.5%. VIP market share improved by 0.9 ppt QoQ to 3.3% mainly due to the recovery of win rate. Revenue and adjusted property EBITDA were US\$359 million and US\$106 million, respectively, reflecting adjusted property EBITDA margin of 29.5%. Rolling Chip volume was up 1.0% QoQ to US\$3.76 billion and VIP win rate rose to 3.89%, up 1.07 ppt QoQ. Mass tables drop decreased by 1.0% QoQ to US\$973 million, with a mass tables win rate of 19.7%, up 1.5 ppt QoQ. Slot handle was US\$935 million with a hold rate of 3.3%. Hotel occupancy was 88.0% with an ADR of US\$138 and RevPAR of US\$122. The Company is in the process of adding suites to the Parisian Macao hotel, expected to arrive by Chinese New Year 2018, and is also adding a restaurant or possibly two restaurants on the gaming floor. We expect that these efforts will help the VIP segment in particular, which has been a weak spot for the Company in recent quarters.

Table-3: The Parisian Macao Operating Results

US\$ Million	2Q16A	3Q16A	4Q16A	1Q17A	2Q17A	QoQ (% or ppt)	YoY (% or ppt)
VIP Turnover	n.a.	748	3,313	3,722	3,760	1.0%	n.a.
VIP Win %	n.a.	3.01	4.52	2.82	3.89	1.07 ppt	n.a.
VIP Gross Win	n.a.	23	150	105	146	39.4%	n.a.
Mass Tables Drop	n.a.	190	895	983	973	(1.0%)	n.a.
Mass Tables Win %	n.a.	19.9	18.3	18.2	19.7	1.5 ppt	n.a.
Mass Tables Win	n.a.	38	164	179	192	7.1%	n.a.
Slot Machine Handle	n.a.	171	803	854	935	9.5%	n.a.
Slot Machine Hold Rate %	n.a.	5.20	4.4	4.0	3.3	(0.7) ppt	n.a.
Slot Machine Win	n.a.	9	35	34	31	(9.7%)	n.a.
Casino Gross Revenue	n.a.	69	349	318	369	16.0%	n.a.
Commissions	n.a.	(11)	(53)	(43)	(49)	13.4%	n.a.
Casino Revenue	n.a.	58	296	275	320	16.4%	n.a.
Hotel Net Revenue	n.a.	3	13	10	8	(23.1%)	n.a.
Other Revenue	n.a.	7	32	30	31	4.4%	n.a.
Total Property Revenue	n.a.	68	341	315	359	14.0%	n.a.
Hotel Occupancy %	n.a.	87.5	91.1	81.9	88.0	6.1 ppt	n.a.
VIP Market Share	n.a.	0.6%	3.6%	2.4%	3.3%	0.9 ppt	n.a.
Mass Market Share	n.a.	0	5.9%	6.1%	6.6%	0.5 ppt	n.a.

Source: the Company, Guotai Junan International.

The Venetian Macao

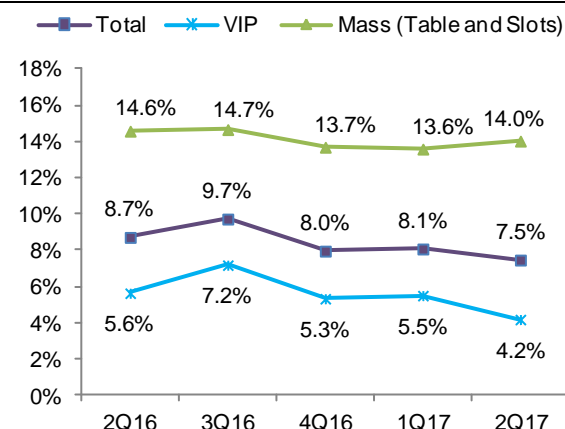
The Venetian Macao's VIP segment turnover underperformed the market both YoY and QoQ. VIP turnover was US\$5.2 billion, a decrease of 24.7% YoY (decreased 15.9% QoQ), worse than the Macau sector's 2Q17 YoY VIP GGR growth of 34.8% YoY and 1.0% QoQ. The VIP win rate was up 0.88 ppt YoY (down 0.36 ppt QoQ) to 3.61%. VIP gross win recorded US\$187 million, down 0.4% YoY and 23.5% QoQ. As a result, the property's 2Q17 VIP market share fell 1.4 ppt YoY and decreased 1.3 ppt QoQ to 4.2%.

The Venetian Macao's mass segment (tables & slots) underperformed the market YoY and outperformed QoQ. The property's mass market share (tables and slots) for the quarter decreased 0.5 ppt YoY (increased 0.4 ppt QoQ) to 14.0%. Mass table games win rate was 25.7%, up 3.6 ppt YoY (up 0.8 ppt QoQ). Mass gaming table win increased 6.0% YoY and decreased 1.1% QoQ to US\$436 million. Slot machine gross win was US\$36 million, down 19.9% YoY (up 2.4% QoQ). In total, the property's mass market gross win (tables & slots) increased 3.4% YoY and decreased 0.9% QoQ, underperforming the 8.1% YoY increase and outperforming 3.4% QoQ decrease of Macau's total mass market GGR.

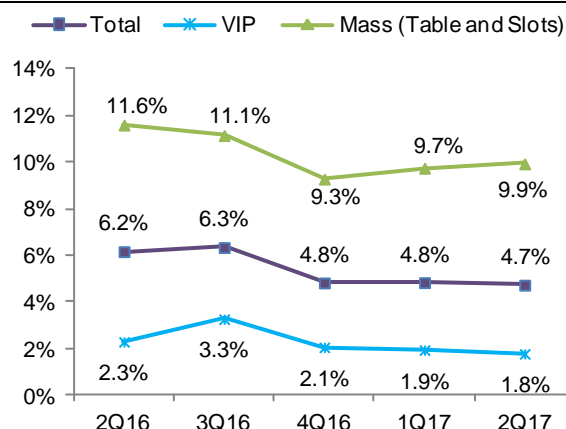
Table-4: Venetian Macao Operating Results

US\$ Million	2Q16A	3Q16A	4Q16A	1Q17A	2Q17A	QoQ (% or ppt)	YoY (% or ppt)
VIP Turnover	6,869	6,868	6,889	6,149	5,172	(15.9%)	(24.7%)
VIP Win %	2.73	3.75	3.23	3.97	3.61	(0.36) ppt	0.88 ppt
VIP Gross Win	188	258	223	244	187	(23.5%)	(0.4%)
Mass Tables Drop	1657	1714	1715	1728	1,695	(1.9%)	2.3%
Mass Tables Win %	24.8	25.6	25.1	25.5	25.7	0.2 ppt	0.9 ppt
Mass Tables Win	411	439	430	441	436	(1.1%)	6.0%
Slot Machine Handle	979	958	783	653	681	4.3%	(30.5%)
Slot Machine Win %	4.6	4.7	4.3	5.4	5.3	(0.1) ppt	0.7 ppt
Slot Machine Win	45	45	34	35	36	2.4%	(19.9%)
Casino Gross Revenue	644	741	687	720	658	(8.6%)	2.3%
Commissions	(75)	(71)	(85)	(79)	(74)	(5.8%)	(7.9%)
Casino Revenue	569	670	602	641	584	(8.9%)	3.8%
Hotel Net Revenue	24	23	22	23	20	(12.0%)	(14.5%)
Other Revenue	73	78	83	78	85	8.7%	8.2%
Total Property Revenue	665	771	707	742	689	(7.1%)	3.6%
Hotel Occupancy %	81.0	93.2	94.2	86.5	93.3	6.8 ppt	12.3 ppt
VIP Market Share	5.6%	7.2%	5.3%	5.5%	4.2%	(1.3) ppt	(1.4) ppt
Mass Market Share	14.6%	14.7%	13.7%	13.6%	14.0%	0.4 ppt	(0.5) ppt

Source: the Company, Guotai Junan International.

Figure-2: The Venetian Macao Market Share, Quarterly


Source: the Company, Gaming Inspection and Coordination Bureau Macao SAR.

Figure-3: Sands Cotai Central Market Share, Quarterly


Source: the Company, Gaming Inspection and Coordination Bureau Macao SAR.

Sands Cotai Central

Sands Cotai Central's VIP segment underperformed the market both YoY and QoQ. In 2Q17, Sands Cotai Central's VIP market share dropped 0.5 ppt YoY (decreased 0.2 ppt QoQ) to 1.8%. Turnover from VIP tables was US\$2.5 billion, down 18.2% YoY (down 13.0% QoQ), worse than Macau's total VIP GGR YoY increase of 34.8% and QoQ increase of 1.0% during the quarter. The property's VIP turnover decreased from US\$15.5 billion in 1Q14 to US\$2.5 billion this quarter, only with a slight upward rebound in 1Q17. VIP win rate was 3.15%, up 0.67 ppt YoY (up 0.18 ppt QoQ). As a result, VIP gross win amounted to US\$79 million, up by 3.9% YoY and down by 7.8% QoQ.

Sands Cotai Central's mass segment underperformed the market YoY and slightly outperformed QoQ in 2Q17. The property's 2Q17 mass market share decreased 1.7 ppt YoY (increased 0.2 ppt QoQ) to 9.9%. Mass market table win was US\$288 million, declined 6.3% YoY and decreased 1.8% QoQ, with non-rolling chip table win rate at 21.1%. Slot machine gross win was US\$46 million, down 17.1% YoY and 4.2% QoQ. In total, the property's mass market gross win (tables & slots) decreased 8.0% YoY and 2.2% QoQ, underperforming the sector YoY growth rate but slightly outperforming QoQ growth in mass market GGR.

Table-5: Sands Cotai Central Operating Results

US\$ Million	2Q16A	3Q16A	4Q16A	1Q17A	2Q17A	QoQ (% or ppt)	YoY (% or ppt)
VIP Turnover	3,082	2,817	2,827	2,900	2,522	(13.0%)	(18.2%)
VIP Win %	2.48	4.16	3.04	2.97	3.15	0.18 ppt	0.67 ppt
VIP Gross Win	76	117	86	86	79	(7.8%)	3.9%
Mass Tables Drop	1,510	1,558	1,421	1,469	1,367	(6.9%)	(9.4%)
Mass Tables Win %	20.4	20.2	19.1	20.0	21.1	1.1 ppt	0.7 ppt
Mass Tables Win	308	315	271	294	288	(1.8%)	(6.3%)
Slot Machine Handle	1,485	1,477	1,273	1,189	1,139	(4.2%)	(23.3%)
Slot Machine Win %	3.7	3.6	3.4	4.0	4.0	0.0 ppt	0.3 ppt
Slot Machine Win	55	53	43	48	46	(4.2%)	(17.1%)
Casino Gross Revenue	439	485	401	427	413	(3.3%)	(5.9%)
Commissions	(41)	(48)	(36)	(43)	(43)	(0.1%)	5.6%
Casino Revenue	398	437	365	384	370	(3.6%)	(7.1%)
Hotel Net Revenue	34	38	37	36	34	(6.4%)	(0.9%)
Other Revenue	35	38	42	42	40	(4.1%)	13.6%
Total Property Revenue	468	512	444	462	444	(3.9%)	(5.1%)
Hotel Occupancy %	76.5	89.2	85.9	79.4	81.4	2.0 ppt	4.9 ppt
VIP Market Share	2.3%	3.3%	2.1%	1.9%	1.8%	(0.2) ppt	(0.5) ppt
Mass Market Share	11.6%	11.1%	9.3%	9.7%	9.9%	0.2 ppt	(1.7) ppt

Source: the Company, Guotai Junan International.

Sands Macao

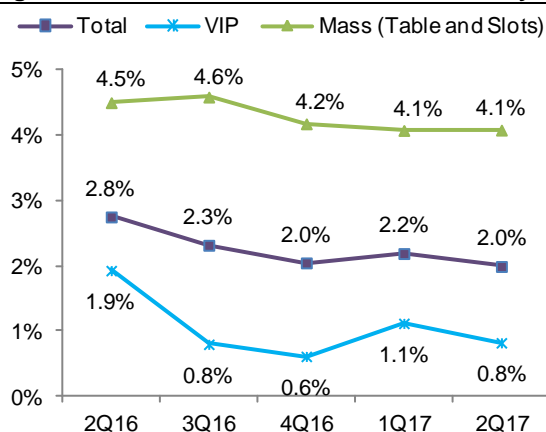
Sands Macao's VIP segment underperformed the sector on a YoY and QoQ basis. Sands Macao's 2Q17 VIP market share was 0.8%, down 1.1 ppt YoY (down 0.3 ppt QoQ). VIP table games turnover plunged 50.5% YoY (decreased 49.4% QoQ) to US\$968 million, compared with Macau's 2Q17 VIP GGR increase of 34.8% YoY (1.0% QoQ). VIP win rate was 3.8%, an increase of 0.51 ppt YoY (increased 1.2 ppt QoQ). VIP gross win amounted to US\$37 million, representing a decline of 42.8% YoY and 26.0% QoQ.

Sands Macao's mass segment also underperformed the market both YoY and QoQ. The property's 2Q17 mass market gross win (tables & slots) decreased 2.6% YoY (down 3.9% QoQ) to US\$138 million. Mass market share (tables & slots) was 4.1%, a decrease of 0.4 ppt YoY and flat QoQ. Mass table games win rate was 18.8%, up 0.5 ppt YoY (down 1.2 ppt QoQ). Mass gaming table win reached US\$118 million in 2Q17, a decrease 1.0% YoY and 4.0% QoQ. Slot machine gross win was US\$20 million, down 10.8% YoY and 3.0% QoQ.

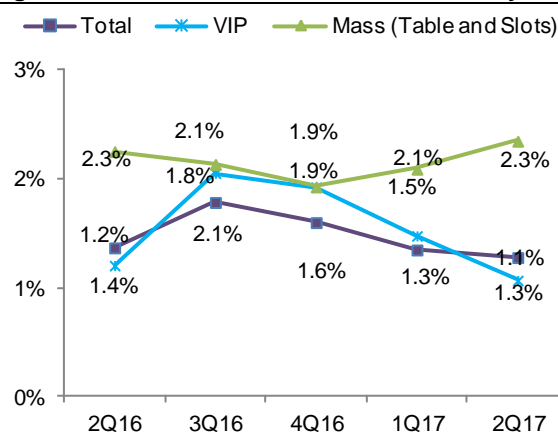
Table-6: Sands Macao Operating Results

US\$ Million	2Q16A	3Q16A	4Q16A	1Q17A	2Q17A	QoQ (% or ppt)	YoY (% or ppt)
VIP Turnover	1,954	1,416	1,404	1,913	968	(49.4%)	(50.5%)
VIP Win %	3.29	2.03	1.83	2.60	3.80	1.20 ppt	0.51 ppt
VIP Gross Win	64	29	26	50	37	(26.0%)	(42.8%)
Mass Tables Drop	650	671	608	613	626	2.1%	(3.7%)
Mass Tables Win %	18.3	19.3	20.0	20.0	18.8	(1.2) ppt	0.5 ppt
Mass Tables Win	119	129	122	123	118	(4.0%)	(1.0%)
Slot Machine Handle	668	665	592	596	614	3.0%	(8.0%)
Slot Machine Win %	3.3	3.3	3.4	3.4	3.2	(0.2) ppt	(0.1) ppt
Slot Machine Win	22	22	20	20	20	(3.0%)	(10.8%)
Casino Gross Revenue	205	180	167	193	174	(9.6%)	(15.2%)
Commissions	(27)	(20)	(12)	(19)	(18)	(2.6%)	(33.9%)
Casino Revenue	178	160	155	174	156	(10.3%)	(12.3%)
Hotel Net Revenue	0	0	0	1	0	(69.4%)	(22.0%)
Other Revenue	4	5	6	4	5	17.3%	4.7%
Total Property Revenue	183	165	161	179	161	(10.1%)	(11.9%)
Hotel Occupancy %	96.0	97.9	98.6	97.9	98.5	0.6 ppt	2.5 ppt
VIP Market Share	1.9%	0.8%	0.6%	1.1%	0.8%	(0.3) ppt	(1.1) ppt
Mass Market Share	4.5%	4.6%	4.2%	4.1%	4.1%	0.0 ppt	(0.4) ppt

Source: the Company, Guotai Junan International.

Figure-4: Sands Macao Market Share, Quarterly


Source: the Company, Gaming Inspection and Coordination Bureau Macao SAR.

Figure-5: Plaza Macao Market Share, Quarterly


Source: the Company, Gaming Inspection and Coordination Bureau Macao SAR.

Plaza Macao

Plaza Macao's VIP segment turnover underperformed the market YoY but outperformed QoQ. The property's VIP market share declined 0.1 ppt YoY and 0.4 ppt QoQ to 1.1% during 2Q17. VIP table games turnover was US\$2.4 billion, increasing 28.4% YoY and 32.1% QoQ, compared to Macau's total VIP GGR increase of 34.8% YoY (1.0% QoQ increase). VIP win rate dropped 0.16 ppt YoY and 1.61 ppt QoQ, respectively. As a result, Plaza Macao's VIP gross win increased 18.7% YoY (decreased 27.3% QoQ) to US\$48 million.

Plaza Macao's mass segment gross win outperformed the market YoY and QoQ. Non-rolling chip drop decreased 2.6% YoY and increased 28.1% QoQ. The property's mass market share increased 0.1 ppt YoY and 0.3 ppt QoQ to 2.3%. Mass market table win amounted to US\$72 million, with an increase of 10.8% YoY and 8.5% QoQ, due to higher win rate and turnover. Slot machine gross win was US\$7 million, increasing 25.9% YoY and 1.4% QoQ.

Table-7: Plaza Macao Operating Results

US\$ Million	2Q16A	3Q16A	4Q16A	1Q17A	2Q17A	QoQ (% or ppt)	YoY (% or ppt)
VIP Turnover	1,883	2,007	2,494	1,830	2,417	32.1%	28.4%
VIP Win %	2.13	3.67	3.22	3.58	1.97	(1.61) ppt	(0.16) ppt
VIP Gross Win	40	74	80	66	48	(27.3%)	18.7%
Mass Tables Drop	230	270	313	303	295	(2.6%)	28.1%
Mass Tables Win %	28.1	23.8	18.4	21.8	24.3	2.5 ppt	(3.8) ppt
Mass Tables Win	65	64	58	66	72	8.5%	10.8%
Slot Machine Handle	103	113	108	97	97	0.0%	(6.0%)
Slot Machine Win %	5.6	5.5	7.2	7.4	7.5	0.1 ppt	1.9 ppt
Slot Machine Win	6	6	8	7	7	1.4%	25.9%
Casino Gross Revenue	111	144	146	139	127	(8.8%)	14.5%
Commissions	(22)	(21)	(25)	(32)	(27)	(16.3%)	19.2%
Casino Revenue	88	123	121	107	100	(6.5%)	13.3%
Hotel Net Revenue	2	3	3	2	2	19.6%	(0.8%)
Other Revenue	34	35	39	34	35	1.8%	1.9%
Total Property Revenue	125	161	163	143	137	(4.2%)	9.9%
Hotel Occupancy %	69.2	80.8	82.8	79.0	81.3	2.3 ppt	12.1 ppt
VIP Market Share	1.2%	2.1%	1.9%	1.5%	1.1%	(0.4) ppt	(0.1) ppt
Mass Market Share	2.3%	2.1%	1.9%	2.1%	2.3%	0.3 ppt	0.1 ppt

Source: the Company, Guotai Junan International.

Outlook

Macau's 2Q17 GGR increased by 21.9% YoY, the highest quarterly YoY increase since 1Q14. Macau's VIP GGR increased 34.8% YoY in 2Q17, outperforming the 8.1% YoY increase in mass market GGR. Sector GGR increased by 29.2% YoY in Jul., marking the twelfth consecutive month of positive YoY growth, and the third month with 20%+ YoY increase. Year to date through Aug. GGR has increased by 19.1% YoY. So far, the increased capacity from the newly added property since 2015 has been absorbed by the market efficiently, and the expanding visitations from the mainland and other countries to Macau has resulted in more consumption and hotel demand. We maintain our 16.5% 2017 GGR growth forecast that we made in our last sector report dated 14 July 2017. We expect Macau's GGR revenue to continue to recover during 2017, and the seemingly high growth for 2017 is mostly the result of having very low comparable amounts in 2016.

We expect Sands China's GGR YoY growth rate to slow down in 3Q17 compared to 2Q17. In 2Q17, Sands China's GGR increased by 24.5% YoY, with 20.8% YoY growth in mass GGR, 34.9% YoY growth in VIP win and nearly 40% YoY growth in the premium mass segment. However, the increase was largely due to contribution from the Parisian Macao, which was not open in 2Q16. Sands China's GGR growth rate in 3Q17, and especially in 4Q17, will be much lower than in 2Q17 considering that the Parisian Macao opened in 3Q16 and was ramping up in 4Q16. So far this year, Even with the incremental contribution from the Parisian Macao, the Company's VIP turnover growth has underperformed the market. However, we expect Sands China's VIP business to improve in the coming quarters as the Company has already started making a concerted effort in its junket business and is moving more resources to shore up its VIP business. Further growth will come as the Company this year is also spending aggressively on promotion and marketing efforts, especially for the Parisian Macao, where it will be rolling out some new features and facilities in early 2018, which will make the Parisian more competitive. The Company is also re-investing in the Venetian including the addition of 500 more hotel after having had added 500 rooms last year.

FORECAST UPDATES

We increase the Company's 2017-2019 total revenue forecasts by 3.8%, 13.3% and 11.3%, respectively, on higher expected gaming revenue and non gaming revenue. We revise up gaming revenue forecasts as we expect better performance in the mass segment as the Company invests in further promoting and enhancing facilities at its properties, especially at the Parisian and the Venetian. We also expect better VIP segment results as Sands China is now focusing more on bringing up lagging performance in this segment.

We revise up the Company's 2017-2019 adjusted property EBITDA forecasts by 6.7%, 7.3% and 4.0%, respectively. We forecast 2017-2019 adjusted property EBITDA of US\$2.6 billion, US\$2.8 billion and US\$3.0 billion, respectively, representing growth of 14.3%, 11.0% and 6.1%, respectively. Our adjusted EBITDA forecasts reflect relatively stable margins of 33.1%, 32.3% and 32.0% for 2017-2019, respectively. We forecast 2017-2019 EPS of US\$0.203, US\$0.235 and US\$0.259, respectively, representing growth of 33.9%, 15.4% and 10.3%, and reflecting net profit margin of 21.2%, 21.5% and 22.1%, respectively.

Table-8: Forecast Revisions

US\$ Million (Except VIP Turnover & EPS)	Old			New			% Change		
	2017F	2018F	2019F	2017F	2018F	2019F	2017F	2018F	2019F
VIP Turnover (US\$ Bn)	65,564	68,443	74,637	64,716	72,428	77,661	(1.3%)	5.8%	4.1%
Win Rate (% of Turnover)	3.20%	3.15%	3.15%	3.24%	3.15%	3.15%	0.05	(0.00)	0.00
VIP Gross Win	2,096	2,156	2,351	2,098	2,281	2,446	0.1%	5.8%	4.1%
Mass Tables Gross Win	4,474	4,685	5,113	4,706	5,434	5,821	5.2%	16.0%	13.8%
Slot Machine Gross Win	574	600	654	598	683	732	4.2%	13.7%	11.8%
Gross Gaming Revenue	7,143	7,441	8,119	7,402	8,398	8,999	3.6%	12.9%	10.8%
Commissions	(854)	(889)	(970)	(903)	(1,034)	(1,108)	5.7%	16.2%	14.2%
Net Gaming Revenue	6,289	6,552	7,148	6,499	7,364	7,890	3.3%	12.4%	10.4%
Room & Other Revenue	1,055	1,105	1,206	1,109	1,281	1,372	5.1%	16.0%	13.8%
Total Properties' Revenue	7,345	7,656	8,354	7,607	8,645	9,262	3.6%	12.9%	10.9%
Ferry Segment & Other Revenue	123	125	137	147	175	187	19.7%	39.7%	36.6%
Total Net Revenues	7,467	7,781	8,491	7,754	8,820	9,449	3.8%	13.3%	11.3%
Operating Profit	1,777	1,874	2,101	1,765	2,017	2,211	(0.7%)	7.6%	5.2%
Operating Profit Margin	23.8%	24.1%	24.7%	22.8%	22.9%	23.4%	(1.0)	(1.2)	(1.3)
Adjusted Property EBITDA	2,405	2,631	3,008	2,566	2,849	3,024	6.7%	8.3%	0.5%
Adjusted Property EBITDA Margin	32.2%	33.8%	35.4%	33.1%	32.3%	32.0%	0.9	(1.5)	(3.4)
Net Profit	1,634	1,724	1,941	1,640	1,894	2,090	0.4%	9.9%	7.7%
Net Profit Margin	21.9%	22.2%	22.9%	21.2%	21.5%	22.1%	(0.7)	(0.7)	(0.7)
EPS, Basic (US\$)	0.202	0.214	0.240	0.203	0.235	0.259	0.3%	9.8%	7.6%
EPS, Diluted (US\$)	0.202	0.214	0.240	0.203	0.234	0.258	0.3%	9.7%	7.4%

Source: Guotai Junan International.

VALUATION

We lift our target price from HK\$36.80 to HK\$42.00 and maintain our "Accumulate" investment rating. Our target price is equivalent to 18.0x 2017 EV/Adjusted EBITDA and 26.5x 2017 PER and is a 19.4% discount to our DCF derived NAV per share of HK\$52.12. Our target price represents 12.1% upside potential and so we maintain our "Accumulate" investment rating. We also like Sands China's high dividend yield, mass market focus and relatively diversified revenue streams.

Table-9: Gaming Sector Peers Comparison

Company	Stock Code	Currency	Price	M-Cap Billion (HK\$)	PE				EV/ Adjusted EBITDA				PB 17F	ROE 17F (%)	
					Hist Avg.				Hist Avg.						
						Fwd*	Fwd*	17F		18F	Fwd*	Fwd*			17F
Macau Operators															
Galaxy Entertain	00027 HK	HKD	51.350	219.8	21.8	25.4	25.4	23.0	12.2	15.9	15.9	14.5	4.3	17.3	
Melco Intl Dev	00200 HK	HKD	18.960	29.0	30.6	23.3	23.3	18.8	241.1	9.2	9.2	7.3	1.3	5.9	
Melco Reso-Adr	MLCO US	USD	22.660	87.2	33.9	20.2	29.9	23.5	12.9	11.2	11.2	9.8	3.7	11.1	
Mgm China	02282 HK	HKD	17.260	65.6	19.9	27.9	27.9	20.8	15.7	19.0	19.0	12.8	7.9	30.7	
Sands China Ltd	01928 HK	HKD	37.450	302.3	21.0	24.9	23.6	20.4	16.0	15.3	16.2	14.5	8.2	33.7	
Sjm Holdings Ltd	00880 HK	HKD	7.260	41.1	16.4	22.5	22.5	25.2	9.2	14.2	14.2	12.9	1.6	7.3	
Wynn Macau Ltd	01128 HK	HKD	19.740	102.6	24.6	28.4	28.4	22.4	15.8	16.9	16.9	14.7	35.4	128.7	
Simple Average					23.9	24.0	25.4	22.0	51.2	14.1	14.3	12.0	5.9	23.4	
Weighted Average					23.0	25.0	25.6	21.9	22.0	15.2	15.6	13.6	9.4	36.2	
USA Operators															
Las Vegas Sands	LVS US	USD	63.260	391.4	19.9	23.2	23.4	22.5	12.4	13.2	13.2	12.9	8.3	32.3	
Mgm Resorts Inte	MGM US	USD	33.770	151.9	27.9	23.7	26.4	20.8	11.3	11.4	12.1	10.3	2.8	9.9	
Penn Natl Gaming	PENN US	USD	22.500	16.1	18.6	19.0	36.1	19.0	6.8	7.4	7.8	7.3	(4.3)	(11.8)	
Pinnacle Enterta	PNK US	USD	19.090	8.6	33.0	18.8	21.5	18.2	6.8	6.9	7.0	6.6	(3.4)	(14.2)	
Wynn Resorts Ltd	WYNN US	USD	143.380	115.0	24.3	26.6	29.3	23.4	13.1	13.6	13.8	12.8	29.3	168.5	
Simple Average					24.7	22.2	27.4	20.8	10.1	10.5	10.8	10.0	6.5	36.9	
Weighted Average					20.1	23.1	23.4	22.4	12.2	13.1	13.1	12.7	8.0	31.3	
Other Operators															
Genting Singapor	GENS SP	SGD	1.150	80.3	21.6	23.5	23.0	20.9	10.4	12.0	12.0	11.7	1.8	7.5	
Genting Malaysia	GENM MK	MYR	5.910	62.1	18.5	22.7	22.7	17.5	10.4	12.9	12.9	10.0	1.6	7.3	
Bloomberry Res	BLOOM PM	PHP	11.720	19.8	36.9	16.8	22.6	18.9	8.9	11.4	11.4	9.6	4.4	20.6	
Belle Corp	BEL PM	PHP	3.830	6.2	15.2	13.7	13.7	11.3	12.8	12.9	12.9	8.8	1.5	11.4	
Simple Average					23.1	19.2	20.5	17.1	10.6	12.3	12.3	10.0	2.3	11.7	
Weighted Average					36.9	16.8	22.6	18.9	8.9	11.4	11.4	9.6	4.4	20.6	

Source: Bloomberg, Guotai Junan International.

Note*: "Fwd" valuations are based on the next forward 12 months earnings forecasts, which is compiled by using the most frequent available periodicity, which for Companies under our coverage in this report is the next four quarters; for companies not under our coverage, the Bloomberg forward valuations are based on next four quarters, next two semi-annuals or next fiscal year.

Table-10: DCF Valuation

Risk Free Rate	1.50%	Sum of PV FCFF (US\$ mn)	21,431
Market Return	11.39%	+ PV Terminal Value (US\$ mn)	35,443
Market Risk Premium	9.89%	Enterprise Value (US\$ mn)	56,874
Adj. Beta	1.0	- Net Debt/(cash) (US\$ mn)	3,080
Equity Discount Rate	11.39%	Equity Value (US\$ mn)	53,794
After Tax Cost of Debt	4.8%	Shares Outstanding (mn)	8,071.7
D/(D+E)	46.6%	NAV per Share (US\$)	6.66
E/(D+E)	53.4%	Exchange Rate	7.82
WACC	8.3%	NAV per Share (HK\$)	52.12
Long term growth rate	3.0%		

Source: Bloomberg, the Company, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (USD m)	2015A	2016A	2017F	2018F	2019F	Year end 31 Dec (USD m)	2015A	2016A	2017F	2018F	2019F
Total Revenue	6,820	6,653	7,754	8,820	9,449	Property, plant and equipment	7,588	8,111	7,801	7,509	7,245
Gaming Tax	(2,642)	(2,527)	(2,929)	(3,323)	(3,560)	Investment Properties	1,278	1,322	1,297	1,310	1,323
Employee Benefit Expenses	(1,085)	(1,121)	(1,335)	(1,588)	(1,701)	Others	104	90	98	114	121
Depreciation And Amortization	(535)	(611)	(557)	(543)	(531)	Total Non-current Assets	8,971	9,523	9,196	8,933	8,689
Gaming Promoter/Agency Commissions	(154)	(122)	(147)	(171)	(183)	Cash & Cash Equivalents	1,283	1,284	1,378	1,272	1,392
Inventories Consumed	(81)	(83)	(97)	(111)	(119)	Inventories	12	14	16	19	20
Other Expenses	(805)	(837)	(925)	(1,067)	(1,143)	Trade & Other Receivables & Prepayments, Net	498	352	310	353	378
Operating Profit	1,519	1,352	1,765	2,017	2,211	Restricted Cash	8	10	10	12	14
Interest Income	12	3	3	3	3	Total Current Assets	1,801	1,660	1,714	1,656	1,803
Interest Expense, Net Of Amounts Capitalized	(60)	(86)	(96)	(91)	(86)	Total Assets	10,772	11,183	10,910	10,588	10,492
Loss On Modification Or Early Retirement Of Debt	0	(1)	0	0	0	Trade And Other Payables	1,429	1,622	1,706	1,940	2,079
Profit Before Tax	1,471	1,268	1,672	1,929	2,129	Current Income Tax Liabilities	5	6	5	6	7
Income Tax	(11)	(44)	(32)	(35)	(38)	Borrowings	6	26	33	33	30
profit After Tax	1,459	1,224	1,640	1,894	2,090	Total Current Liabilities	1,441	1,654	1,744	1,979	2,116
Non-controlling Interest	0	0	0	0	0	Long-term debts	3,379	4,348	4,236	3,885	3,782
Shareholders' Profit / Loss	1,459	1,224	1,640	1,894	2,090	Others	113	174	210	247	278
Basic EPS	0.181	0.152	0.203	0.235	0.259	Total Non-current Liabilities	3,492	4,522	4,446	4,132	4,060
Diluted EPS	0.181	0.152	0.203	0.234	0.258	Total Liabilities	4,933	6,176	6,191	6,111	6,175
						Total Shareholders' Equity	5,839	5,007	4,719	4,478	4,317
						Minority Interest	0	0	0	0	0
						Total Equity	5,839	5,007	4,719	4,478	4,317
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (USD m)	2015A	2016A	2017F	2018F	2019F		2015A	2016A	2017F	2018F	2019F
Net Income	1,459	1,224	1,640	1,894	2,090	Margins					
DD&A	535	611	557	543	531	Effective Gaming Tax Rate	39.6%	39.6%	39.6%	39.6%	39.6%
Other Non-Cash Adjustments	6	131	14	17	19	Operating Margin	22.3%	20.3%	22.8%	22.9%	23.4%
Changes in Working Capital	(33)	380	141	197	117	Net Profit Margin	21.4%	18.4%	21.2%	21.5%	22.1%
Cash from Operating Activities	1,968	2,346	2,353	2,652	2,758	Adj. EBITDA Margin	32.6%	33.7%	33.1%	32.3%	32.0%
Purchases of property and investment	(1,109)	(1,033)	(246)	(250)	(266)	Return Ratios					
Addition to Investment Properties	(142)	(100)	25	(13)	(13)	ROA	13.2%	11.2%	14.8%	17.6%	19.8%
Others	(1)	(16)	(3)	(3)	(0)	ROE	23.8%	22.6%	33.7%	41.2%	47.5%
Cash from Investing Activities	(1,252)	(1,149)	(224)	(266)	(279)	Return on Capital Invested	19.4%	15.3%	20.9%	25.8%	30.2%
Dividends Paid	(2,071)	(2,070)	(2,075)	(2,284)	(2,399)	Liquidity & Leverage					
Change in Borrowings	185	989	(105)	(352)	(106)	Leverage (i.e., Gearing)	55.2%	80.7%	87.8%	85.2%	86.7%
Others	(82)	(114)	145	145	146	Net Gearing	34.1%	56.8%	59.3%	57.3%	54.7%
Cash from Financing Activities	(1,968)	(1,195)	(2,034)	(2,490)	(2,358)	Interest Coverage Ratio	31.5 x	16.3 x	19.0 x	23.0 x	26.8 x
Net Changes in Cash	(1,253)	2	95	(104)	120	Current Ratio	125.0%	100.4%	98.3%	83.7%	85.2%
Cash at Beg of Year	2,535	1,283	1,284	1,378	1,272						
Cash at End of Year	1,283	1,284	1,378	1,272	1,392						

Source: the Company, Guotai Junan International.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

DISCLOSURE OF INTERESTS

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