



Rating  
**Buy**

Asia  
Hong Kong

Consumer  
Hotels / Leisure / Gaming

Company  
**Galaxy**

Reuters 0027.HK    Bloomberg 27 HK    Exchange HSI    Ticker 0027

Date  
12 July 2018

## Company Update

Price at 11 Jul 2018 (HKD)	61.55
Price target - 12mth (HKD)	82.00
52-week range (HKD)	73.20 - 45.35
HANG SENG INDEX	28,682

## Buy 2 get 2 free; lift to Top Pick

### Current share price implies zero value for Phases 3&4

Galaxy's share price has fallen 16% (vs HSI -5%) over the past 3 months on concerns about China macro slowdown and tighter UnionPay rules. At current share price, if we strip out Galaxy's 4.9% stake in Wynn Resorts (US\$870m at market value), Galaxy's core business is attractively trading on only 13x 2018F EV/EBITDA ( [Figure 1](#) ). More importantly, **this prices in zero value for Phases 3&4** which should open in stages from late-2019, and is as big as Phases 1&2 in terms of GFA. In a turbulent market, we like sector leader Galaxy as its strengths across both VIP and mass allow it to defend market share and protect margin. We expect Galaxy to deliver a solid 2Q18 results while most others suffer in this low season impacted by World Cup. Reiterate Buy. **Lift to sector Top Pick.**

### How does Phases 3&4 stack up against Phases 1&2?

In terms of space, Phases 3&4 will have over 10m sf of GFA, same size as Phases 1&2 although gaming areas will be smaller (3% of GFA vs 7% for Phases 1&2). In terms of hotel rooms, Phases 3&4 will have 4,500 rooms, even more than Galaxy Macau's current inventory (3,600 rooms in Phases 1&2). Phase 3 is a MICE-centric property with over 5m sf of convention space and a massive arena with over 16k seats, and Phase 4 will have a tech and entertainment focus. [Figure 2](#)

### Key risk is China's macro conditions

We value Galaxy on SOTP with gaming at HK\$62/shr on 16x 2018F EV/EBITDA, plus HK\$10/shr for Phases 3&4, HK\$6/shr for net cash, HK\$2/shr for the 5% stake in Wynn Resorts & Monaco and HK\$2/shr for construction materials. We see the 16x multiple as fair given Galaxy's market leadership. Downside risks: i) China's macro conditions; ii) VIP smoking ban and iii) low returns for Phases 3&4.

### Valuation & Risks

Karen Tang

Research Analyst

+852-2203 6141

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-6.0	-15.7	32.1
HANG SENG INDEX	-7.7	-7.2	10.8

Source: Deutsche Bank

### Key indicators (FY1)

ROE (%)	22.1
Net debt/equity (%)	-3.0
Book value/share (HKD)	15.10
Price/book (x)	4.1
Net interest cover (x)	105.2
Operating profit margin (%)	18.5

Source: Deutsche Bank

### Forecasts and ratios

Year End Dec 31	2016A	2017A	2018E	2019E
EBITDA (HKDm)	10,348.0	14,147.0	17,271.7	18,730.4
Reported NPAT (HKDm)	6,266.6	10,487.4	13,324.2	14,499.8
DB EPS FD(HKD)	1.48	2.50	3.10	3.38
DB EPS growth (%)	22.7	68.8	24.2	8.9
EV/EBITDA (x)	10.1	13.7	15.3	14.3
DPS (net) (HKD)	0.44	0.74	0.93	1.02
Yield (net) (%)	1.6	1.6	1.5	1.7

Source: Deutsche Bank estimates, company data

Deutsche Bank AG/Hong Kong

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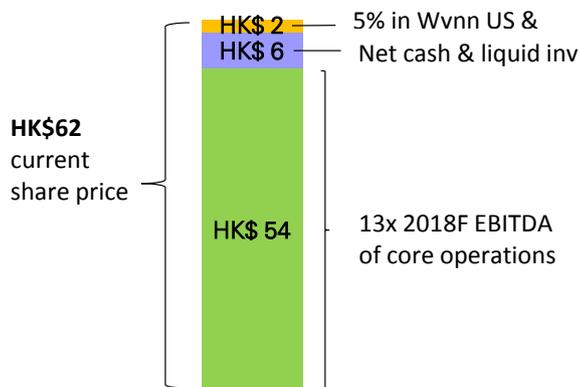
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## Buy Phases 1&2 get Phases 3&4 for free

At current share price, if we strip out Galaxy's 4.9% stake in Wynn Resorts (US \$870m at market value), Galaxy's core business is only trading on 13x 2018F EV/EBITDA, at 10-year historical average and a very attractive valuation. More importantly, **this prices in zero value for Phases 3&4** which should open in stages from late-2019, and is as big as Phases 1&2 in terms of GFA.

Figure 1: Galaxy's current share price implies zero values for Phases 3&4



Source: Deutsche Bank

Figure 2: Galaxy Macau's Phases 3&4 is as big as Phases 1&2

	Galaxy Macau			
	Phase 1	Phase 2	Phases 1&2	Phase 3&4
<b>Opening date</b>	May-2011	May-2015	2011-15	2019-21
Budget (HK\$bn)	16.5	19.6	36.1	45.0
<b>GFA (sf m)</b>	<b>5.9</b>	<b>4.8</b>	<b>10.8</b>	<b>10.8</b>
Gaming space (m sf)	0.42	0.32	0.74	0.32
<b>Gaming as % of GFA</b>	<b>7%</b>	<b>7%</b>	<b>7%</b>	<b>3%</b>
<b>Gaming capacity:</b>				
VIP tables (no.)			215	50
Mass tables (no.)			550	100
<b>Total tables (no.)</b>			<b>765</b>	<b>150</b>
Slots (no.)	1,500	1,000	2,500	3,000
<b>Non-gaming capacity:</b>				
Hotel rooms (no.)	2,260	1,350	3,610	4,500
Retail (m sf)	0.4	0.7	1.1	1.0
Retail shops (no.)	40	160	200	200
MICE (m sf)	N/A	N/A	N/A	4.3
Theatre capacity (seats)	1,100	1,900	3,000	16,000

Source: Company data, Deutsche Bank forecasts

### Cotai Phases 3&4

Construction for Phase 3A, which includes hotel towers up to 40-storey high, has already started in early 2018. Foundation work for Phase 4 has also started. Management targets to complete Phase 3 in stages starting late-2019 and Phase 4, which is larger in size, after 2020.

- Total capex of Phases 3&4 is likely to total HK\$45bn
- Total GFA: about 10.8m sqft, as big as the total of Phases 1 & 2 (10.8m sqft)
- Hotel rooms: Phase 3 to have 1,500 rooms and Phase 4 may have 3,000 rooms
- Phase 3 will be a MICE-centric property with meeting facilities catering to over 16k people and near 50k sq m of convention space

### Other potential projects

- **Hengqin project in China** - Galaxy is looking to develop a non-gaming resort for RMB10bn on a 2.7km land area along the southern coast of the Hengqin Island in Zhuhai, China. The project is still at the planning stage and Galaxy has not purchased any land yet.
- **Boracay casino in the Philippine** - Galaxy and its local partner, Leisure and Resorts World, is looking to develop a US\$500m small-scale integrated resort on this Philippine Island. The local partner has acquired



23 hectares of land on the Boracay Island although PAGCOR, the gaming regulator has yet to issue a gaming license for this project.

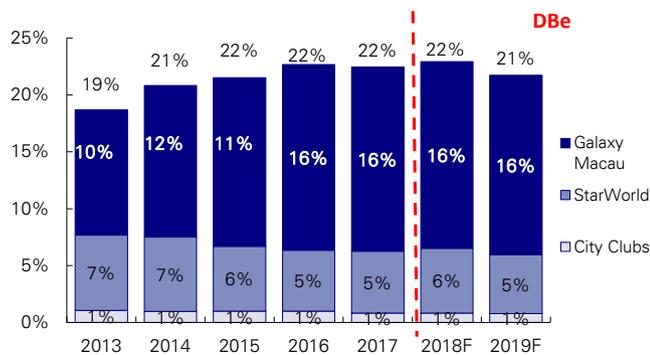
- Japan** - Japan is looking to legalize casino gaming this year, potentially looking to award gaming licenses to 2019-21. Galaxy and its Monaco-based partner Societe des Bains de Mer (SBM) (BAIN.PA, non-rated) will likely jointly look for Japanese joint-venture partners to form a consortium to bid for the new integrated resorts. Galaxy intends to capitalize on the Monte-Carlo brand
- Cotai Phase 5: Broadway re-development** - Management noted that, over the long term, it may eventually re-develop the Broadway property. Hotel room capacity can potentially increase from currently 320 rooms to 4,000 rooms there.

## 2Q18 preview: Solid quarter while peers suffering

During 2Q18, Macau market's GGR declined by 3.7% qoq, implying a slowdown in growth from 21% yoy in 1Q18 to 17% yoy. In particular, the FIFA World Cup which started in mid-June had a big impact on VIP GGR in the last 2-3 weeks of the quarter as many junket agents and VIP players diverted their attention towards football betting.

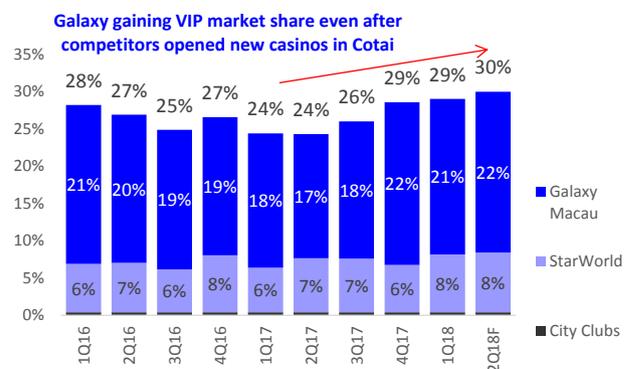
Against tough market conditions, channel checks have suggested to us that Galaxy had fared better than peers as it has a broader VIP customer base. As such, we estimate that Galaxy had slightly gained VIP market share from 29% in 1Q18 to 30% in 2Q18 even though it had temporarily moved the VIP rooms of its key junket operators, including those for Suncity and Tak Chun, for renovation ahead of next year's VIP smoking ban.

Figure 3: Galaxy maintains GGR share despite newer properties in the market



Source: Deutsche bank forecast, company report

Figure 4: Galaxy's VIP market share continues to rise despite newer casinos

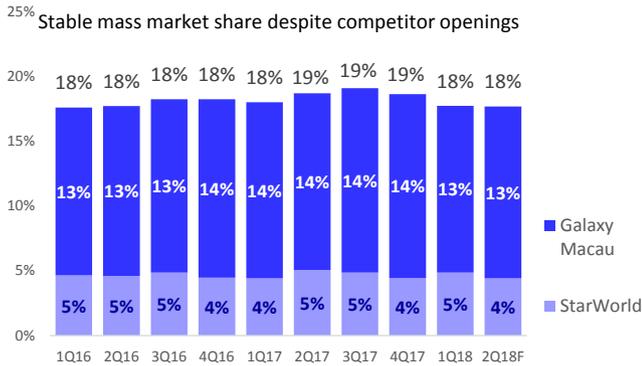


Source: Deutsche bank forecast, company report

For the mass market, we like Galaxy Macau's new mass gaming floor layout, and we believe Galaxy had successfully defended its mass market share in 2Q18 even after MGM Cotai opened in February. We believe Galaxy's broad offerings in hotels and entertainments allow it to cater to a very wide spectrum of mass customers, from grind-mass to premium-mass, and from day-trippers to multi-day visitors.

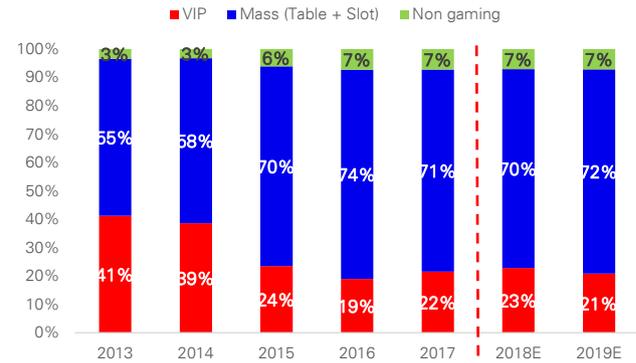


Figure 5: Galaxy's mass market share staying very stable despite new competitor openings



Source: Deutsche bank forecast, company report

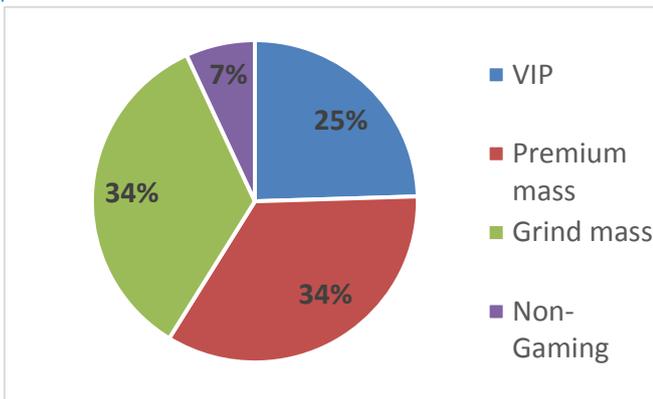
Figure 6: Galaxy's EBITDA mix by segment



Source: Deutsche bank forecast, company report

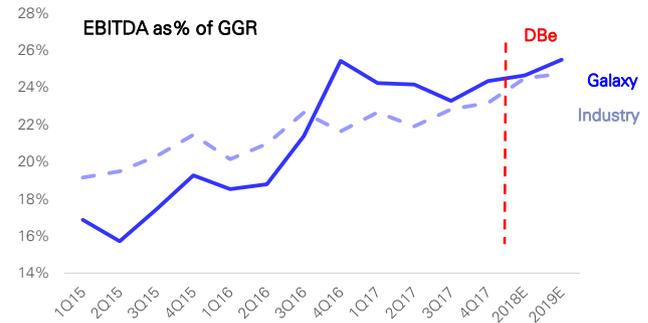
Starting from April, Galaxy raised the staff's salaries by c.3% on average. We believe this has limited impact on Galaxy's margin. Overall, we estimate that Galaxy's EBITDA, including construction material business, has only slipped 2% qoq to HK\$4.22bn in 2Q18, implying a 28% yoy growth. See [Figure 18](#).

Figure 7: Galaxy's EBITDA by segments (2018F)



Source: Deutsche Bank forecasts

Figure 8: Galaxy's EBITDA margin higher than industry, and improving



Source: Deutsche bank forecast, company report

## Reiterate Buy; lift to sector Top Pick

We value Galaxy on an SOTP basis, including i) current gaming operations valued at 16x 2018E EV/EBITDA, ii) NPV of Phase 3, iii) land value of Phase 4, vi) construction material business at book value and v) 5% stake in Wynn Resorts and Monaco casino at market value.

Industry risks include: (i) faster-than-expected slowdown in Macau's GGR momentum; (ii) sharp depreciation of Rmb impacting outbound Chinese travellers' willingness to spend; regulatory risks and license renewal risks.



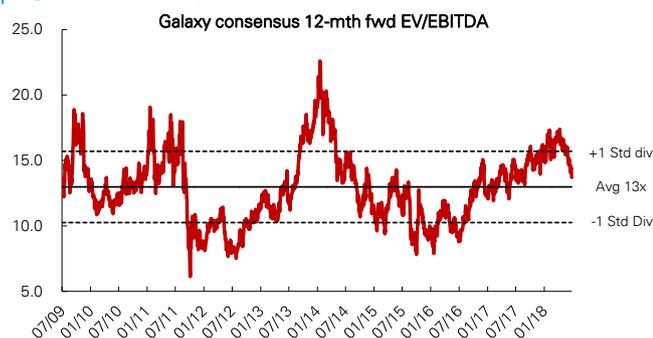
Company-specific risks to our target price include i) more intense competition from competitors newly-opened properties; ii) VIP room smoking ban in 2019; iii) lower-than expected returns for Phases 3-4.

Figure 9: Galaxy SOTP-based TP

HK\$m	2018F			Valuation	
	EBITDA			HK\$m	HK\$/shr
Galaxy Macau (Ph1&2)	13,345	x	16 =	217,519	50.5
StarWorld	3,690	x	16 =	60,143	14.0
Broadway Macau	32	x	16 =	521	0.1
City Clubs	123	x	16 =	2,009	0.5
Construction materials	892	x	8 =	7,136	1.7
Corporate net expenses	(810)	x	16 =	(13,203)	(3.1)
<b>Core operations</b>	<b>17,272</b>		<b>16</b>	<b>274,125</b>	<b>63.6</b>
	16x 2020F EBITDA of US\$380m less capex				
Galaxy Macau Phase 3 (open 2019)				25,829	6.0
Galaxy Phase 4 landbank	6m sf of GFA @ HK\$3000psf land va			18,000	4.2
4.9% stake in Wynn Resorts	At market value			7,441	1.7
5% stake Monaco casino (SBM)	Acquisition cost			362	0.1
Boracay project	At cost assuming 50% ownership			1,938	0.4
Net cash			End-2018	25,655	6.0
<b>Target price</b>				<b>353,350</b>	<b>82.0</b>
No. of shares outstanding (m)					4,308

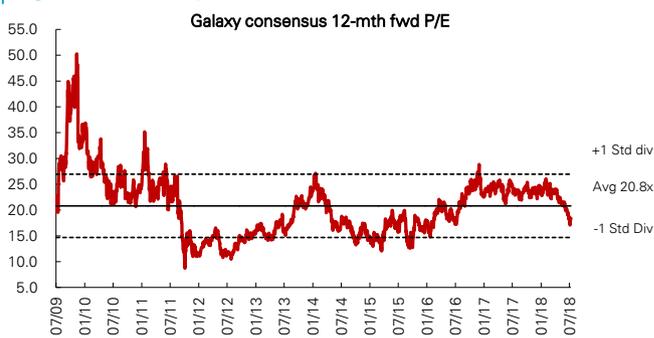
Source: Deutsche Bank estimates

Figure 10: Galaxy 12-month forward EV/EBITDA



Source: Deutsche Bank, Bloomberg Finance LP

Figure 11: Galaxy 12-month forward P/E



Source: Deutsche Bank, Bloomberg Finance LP

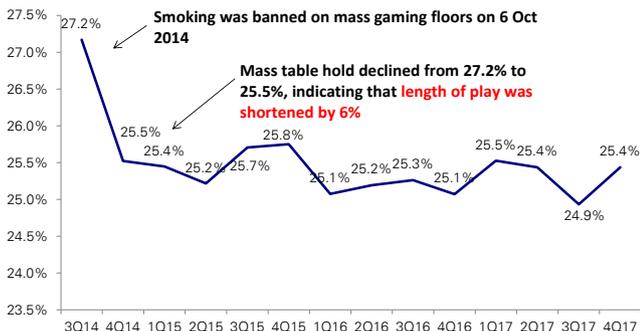
## Risk factor: VIP smoking ban effective 2019

Effective January 2019, Macau will ban smoking on all gaming tables. At the moment, some casinos, including Galaxy Macau and StarWorld, still allow smoking in their VIP rooms and in certain premium mass gaming areas. To isolate the effect of smoking ban's impact on length of play, we focus on the decline in the mass table hold percentage. Mass table hold percentage is a function of (i) luck and (ii) the length of play. In 4Q14, when the government banned smoking on mass gaming floors, mass market hold percentages in almost all casinos in Macau came down by 1-5 ppt because game play was interrupted as players took breaks to light up. For the market as a whole, mass table hold percentage fell from 27.2% in 3Q14 to 25.5% in 4Q14, suggesting that length of play was shortened by 6%.



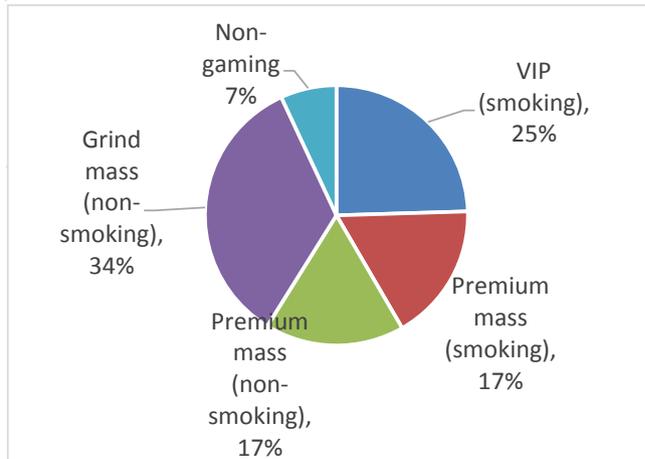
Assuming that smoking tables account for all of Galaxy's VIP revenue and half of Galaxy's premium mass revenues, we estimate that 42% of Galaxy's 2018F EBITDA come from smoking tables. If the smoking ban has 10% impact on these tables, then Galaxy's EBITDA maybe impacted by 4% in 2019 after the smoking ban gets implemented.

Figure 12: Macau's overall mass table hold declined by 6% in 4Q14



Source: Company data

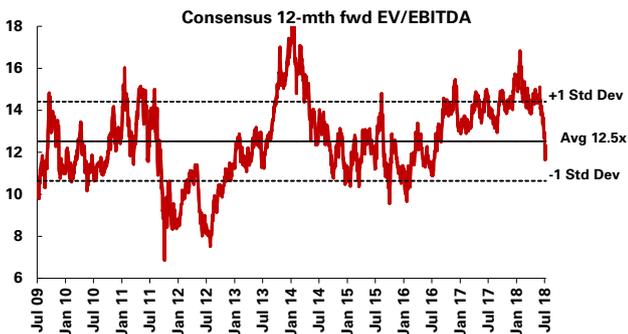
Figure 13: Galaxy's EBITDA breakdown by smoking vs non-gaming (2018F)



Source: Deutsche Bank forecasts

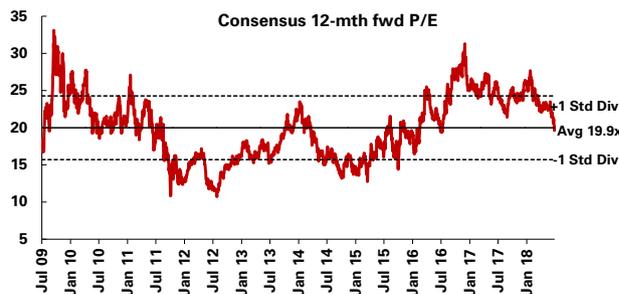
## Sector valuation

Figure 14: Sector consensus 12-month forward EV/ EBITDA



Source: Factset, Bloomberg Finance LP

Figure 15: Sector consensus 12-month forward P/E



Source: Factset, Bloomberg Finance LP



Figure 16: Absolute share price performances

9-Jul-18	Ticker	Mkt Cap US\$m	local cur	Absolute perf			2015	2016	2017	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	% from L3M	% from hi 3M	% from low	L3M US\$m	
				YTD	2w	3m													TD						
<b>Macau</b>																									
Galaxy	0027.HK	33,181	60.45	-4%	-1%	-16%	-44%	38%	86%	19%	-21%	27%	16%	26%	11%	16%	14%	14%	-15%	0%	-17%	8%	97.7		
MGM China	2282.HK	7,989	16.50	-30%	-19%	-20%	-51%	66%	47%	22%	-15%	34%	19%	1%	7%	8%	26%	-14%	-10%	-9%	-29%	2%	20.8		
Sands China	1928.HK	42,211	41.05	2%	-3%	-2%	-30%	27%	20%	19%	-18%	30%	0%	7%	-1%	14%	-1%	5%	-1%	-2%	-15%	5%	65.9		
SJM	0880.HK	6,798	9.43	35%	-4%	39%	-55%	10%	15%	0%	-15%	21%	7%	4%	30%	-13%	-2%	-3%	43%	-3%	-16%	39%	25.2		
Wynn Macau	1128.HK	15,159	23.95	-3%	-6%	-14%	-59%	36%	101%	32%	-7%	15%	-4%	28%	15%	15%	18%	15%	-11%	-5%	-23%	8%	40.8		
<b>Macau Average</b>				<b>-2%</b>	<b>-7%</b>	<b>-4%</b>	<b>-46%</b>	<b>29%</b>	<b>61%</b>	<b>14%</b>	<b>-17%</b>	<b>26%</b>	<b>6%</b>	<b>15%</b>	<b>14%</b>	<b>8%</b>	<b>13%</b>	<b>3%</b>	<b>1%</b>	<b>-5%</b>	<b>-20%</b>	<b>11%</b>	<b>54.9</b>		
<b>MSCI HK</b>																									
			16,437	-5%	-3%	-4%	-3%	-1%	33%	-1%	-1%	11%	-9%	13%	6%	4%	6%	-1%	-4%		-9%	0%			

Source: Deutsche Bank forecasts, Bloomberg Finance LP

Figure 17: Macau sector valuation

Shr price as:	Ticker	Rec	Price	Mkt cap	EV/EBITDA			P/E			EBITDA growth			EPS growth			Div Yield		FCF Yield		
9-Jul-18			local cur	cap US\$m	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2018F	2019F	
<b>Macau</b>																					
Galaxy	0027.HK	Buy	57.50	31,562	14.3	13.4	11.0	18.5	17.0	15.3	22%	8%	16%	24%	9%	11%	1.6%	1.8%	6.7%	7.2%	
MGM China	2282.HK	Buy	16.12	7,805	14.6	10.5	9.3	24.5	15.2	12.2	21%	34%	8%	9%	61%	25%	1.9%	4.1%	6.2%	8.6%	
Sands China	1928.HK	Buy	39.35	40,463	13.3	11.7	11.0	17.8	15.3	14.5	25%	13%	4%	40%	16%	6%	5.6%	5.6%	6.6%	7.5%	
SJM	0880.HK	Hold	8.60	6,200	12.2	12.4	7.7	16.4	20.0	14.2	36%	4%	50%	40%	-18%	42%	2.3%	2.3%	5.1%	3.2%	
Wynn Macau	1128.HK	Buy	22.90	15,159	11.4	9.8	9.1	15.7	12.9	11.7	43%	14%	6%	84%	22%	10%	6.6%	8.2%	8.0%	9.4%	
<b>Average</b>					<b>11.6</b>	<b>10.1</b>	<b>8.6</b>	<b>19.7</b>	<b>16.9</b>	<b>14.0</b>	<b>25%</b>	<b>11%</b>	<b>10%</b>	<b>81%</b>	<b>19%</b>	<b>22%</b>	<b>2.8%</b>	<b>4.4%</b>	<b>6.5%</b>	<b>7.2%</b>	

Source: Deutsche Bank forecasts, Bloomberg Finance LP



Figure 18: Galaxy financial summary

Summary Financials												
HK\$m	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18F	3Q18F	4Q18F	2018F	2019F	2020F
<b>Market share</b>												
<b>Group</b>	<b>21%</b>	<b>21%</b>	<b>22%</b>	<b>23%</b>	<b>22%</b>	<b>23%</b>	<b>23%</b>	<b>22%</b>	<b>21%</b>	<b>22%</b>	<b>21%</b>	<b>23%</b>
- StarWorld	5%	6%	6%	5%	5%	6%	6%	6%	5%	6%	5%	5%
- Galaxy Macau	16%	15%	16%	18%	16%	17%	17%	16%	16%	17%	16%	15%
- Broadway Macau	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
- City Clubs	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
<b>Operating Statistics</b>												
<b>VIP rolling</b>	<b>194,821</b>	<b>195,587</b>	<b>231,767</b>	<b>277,916</b>	<b>900,091</b>	<b>287,231</b>	<b>282,511</b>	<b>282,511</b>	<b>284,124</b>	<b>1,136,377</b>	<b>1,176,904</b>	<b>1,325,146</b>
yoy	3%	21%	39%	48%	28%	47%	44%	22%	2%	26%	4%	13%
qoq	4%	0%	18%	20%		3%	-2%	0%	1%			
- StarWorld	63,066	62,698	66,891	85,921	278,576	82,293	80,647	80,647	82,260	325,847	325,847	325,847
- Galaxy Macau	131,755	132,889	164,876	191,995	621,515	204,938	201,864	201,864	201,864	810,530	851,056	842,546
<b>VIP hold</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.3%</b>	<b>3.5%</b>	<b>3.4%</b>	<b>3.4%</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.5%</b>
<b>Mass market drop*</b>												
<b>Mass market drop*</b>	<b>12,606</b>	<b>12,722</b>	<b>13,372</b>	<b>14,077</b>	<b>52,777</b>	<b>14,371</b>	<b>14,158</b>	<b>14,394</b>	<b>14,635</b>	<b>57,558</b>	<b>62,570</b>	<b>76,176</b>
yoy	11%	12%	14%	17%	13%	14%	11%	8%	4%	9%	9%	22%
qoq	4%	1%	5%	5%		2%	-1%	2%	2%			
- StarWorld	3,442	3,501	3,569	3,694	14,206	3,691	3,691	3,728	3,765	14,875	15,619	15,619
- Galaxy Macau	8,839	8,930	9,619	10,121	37,509	10,423	10,215	10,419	10,627	41,684	45,852	45,393
- Broadway Macau	325	291	184	262	1,062	257	252	247	243	999	1,099	1,176
<b>Mass hold</b>	<b>42%</b>	<b>42%</b>	<b>42%</b>	<b>44%</b>	<b>43%</b>	<b>44%</b>	<b>43%</b>	<b>43%</b>	<b>43%</b>	<b>43%</b>	<b>43%</b>	<b>42%</b>
Slot handle*	13,180	13,163	13,461	13,749	53,553	15,709	15,464	15,890	16,330	63,393	67,737	84,425
Slot hold	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
<b>No. of tables (avg)*</b>												
- VIP tables	283	279	265	300	282	290	290	290	290	290	290	340
- Mass tables	730	735	735	740	735	740	740	740	740	740	740	840
No. of slots	3,903	3,903	3,903	3,145	3,714	3,145	3,145	3,145	3,145	3,145	3,145	4,145
No. of hotel rooms	4,379	4,379	4,379	4,379	4,379	4,379	4,379	4,379	4,379	4,379	4,379	6,129
<b>Table win (US\$/table/day)*</b>												
- Blended VIP & mass	17,780	17,728	20,004	21,618	18,708	23,117	22,338	22,533	22,773	22,021	23,128	23,416
- VIP tables	34,530	35,230	43,113	43,848	39,238	48,563	47,243	47,700	47,953	47,863	49,612	47,772
- Mass tables	10,476	10,292	10,766	11,796	10,839	12,217	11,675	11,745	11,946	11,894	12,750	13,557
Slot win (US\$/slot/day)	182	175	190	228	192	256	249	253	261	255	289	276
RevPAR (US\$)	171	171	189	193	183	185	182	193	193	189	189	163
<b>Revenues by segment</b>												
- VIP gross revenues	6,816	6,932	8,146	9,379	31,273	9,823	9,662	9,863	9,915	39,264	40,698	45,946
- Mass revenues	5,334	5,335	5,642	6,224	22,535	6,306	6,093	6,197	6,303	24,898	26,689	32,214
- Slot revenues	496	483	529	511	2,019	562	552	568	584	2,267	2,572	3,238
<b>Gross gaming revenues</b>	<b>12,646</b>	<b>12,750</b>	<b>14,317</b>	<b>16,114</b>	<b>55,827</b>	<b>16,691</b>	<b>16,308</b>	<b>16,628</b>	<b>16,802</b>	<b>66,429</b>	<b>69,959</b>	<b>81,398</b>
yoy	0%	11%	19%	21%	18%	32%	28%	16%	4%	19%	5%	16%
qoq	-5%	1%	12%	13%		17%	-2%	2%	1%			
<b>Revenues by property</b>												
- StarWorld	3,080	3,614	3,810	3,679	14,183	4,476	4,233	4,250	4,318	17,276	17,443	17,756
- Galaxy Macau	10,244	9,827	11,281	13,225	44,577	12,994	12,849	13,169	13,293	52,302	56,114	55,529
- Broadway Macau	135	127	105	147	514	142	133	132	130	530	519	547
- City Clubs	525	501	566	571	2,163	600	627	656	686	2,568	2,707	2,892
- Construction materials	614	852	680	530	2,676	844	844	844	844	2,676	2,676	2,676
<b>Gross revenues</b>	<b>14,598</b>	<b>14,920</b>	<b>16,442</b>	<b>18,152</b>	<b>64,113</b>	<b>19,055</b>	<b>18,686</b>	<b>19,050</b>	<b>19,271</b>	<b>75,352</b>	<b>79,459</b>	<b>79,399</b>
yoy	5%	17%	22%	22%	17%	31%	25%	16%	6%	18%	5%	16%
qoq	-2%	2%	10%	10%		16%	-2%	2%	1%			
<b>EBITDA by property</b>												
- City Clubs	24	25	29	29	107	26	30	31	33	123	130	139
- StarWorld	649	767	799	751	2,966	1,003	877	899	911	3,690	3,893	4,091
- Galaxy Macau	2,583	2,480	2,710	3,357	11,130	3,262	3,279	3,374	3,429	13,345	14,590	14,558
- Broadway Macau	6	1	-4	7	10	13	11	11	11	32	35	38
- Construction materials	115	206	188	235	744	223	223	223	223	892	892	892
- Corporate inc & exp	(197)	(193)	(200)	(220)	(810)	(208)	(203)	(203)	(203)	(810)	(810)	(810)
<b>Group EBITDA</b>	<b>3,180</b>	<b>3,286</b>	<b>3,522</b>	<b>4,159</b>	<b>14,147</b>	<b>4,319</b>	<b>4,217</b>	<b>4,335</b>	<b>4,404</b>	<b>17,272</b>	<b>18,730</b>	<b>18,907</b>
yoy	31%	45%	31%	40%	37%	36%	28%	23%	6%	22%	8%	16%
qoq	7%	3%	7%	18%		4%	-2%	3%	2%			
<b>EBITDA as % of GGR</b>	<b>24.2%</b>	<b>24.2%</b>	<b>23.3%</b>	<b>24.4%</b>	<b>25.3%</b>	<b>24.5%</b>	<b>24.5%</b>	<b>24.7%</b>	<b>24.9%</b>	<b>24.7%</b>	<b>25.5%</b>	<b>25.6%</b>
Headline net profit					10,504					13,347	14,555	16,281
Exceptionals					(277)					(120)	(140)	(140)
<b>DB Net Profit</b>					<b>10,781</b>					<b>13,467</b>	<b>14,695</b>	<b>16,421</b>
Headline EPS (HK\$)					2.45					3.10	3.38	3.78
yoy					66%					26%	9%	12%
<b>DB EPS (HK\$)</b>					<b>2.50</b>					<b>3.11</b>	<b>3.39</b>	<b>3.79</b>
yoy					69%					24%	9%	12%
DPS (HK\$)					0.74					0.94	1.02	1.14

\*Note: Show data on StarWorld and Galaxy Macau only

Source: Company data, Deutsche Bank forecasts



Figure 19: Macau Map



Source: Deutsche Bank graphics based on Macau Tourism Office with permission to use



Figure 20: Macau & Hengqin Map



Source: Deutsche Bank graphics based on Macau Tourism Office with permission to use



Model updated: 25 June 2018

Running the numbers

Asia

Hong Kong

Hotels / Leisure / Gaming

Galaxy

Reuters: 0027.HK

Bloomberg: 27 HK

Buy

Price (11 Jul 18) HKD 61.55

Target Price HKD 82.00

52 Week range HKD 45.35 - 73.20

Market cap (m) HKDm 265,166  
USDm 33,787

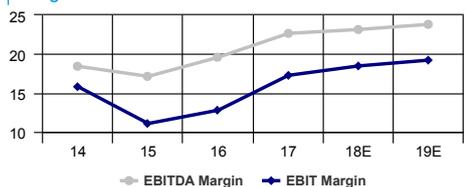
Company Profile

Galaxy is one of the six gaming license holders in Macau. It has two flagship casinos, Galaxy Macau and StarWorld, and three smaller City Clubs casinos. Galaxy Macau, the company's key property in Cotai, operates over 700 gaming tables and has more than 3,000 rooms. The company is also planning to develop Galaxy Macau Phase 3 and 4, with Phase 3 to be completed by 2019 and phase 4 post 2020. The company also

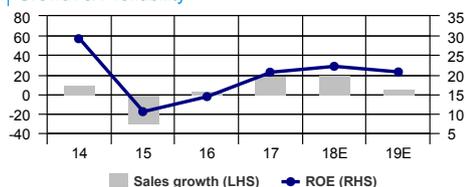
Price Performance



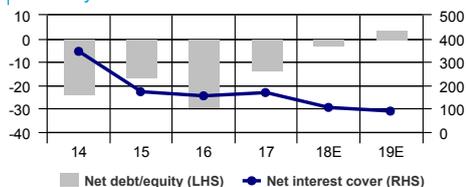
Margin Trends



Growth & Profitability



Solvency



Karen Tang

+852 2203 6141

karen.tang@db.com

Fiscal year end 31-Dec

Financial Summary

	2014	2015	2016	2017	2018E	2019E
DB EPS (HKD)	2.57	1.21	1.48	2.50	3.10	3.38
Reported EPS (HKD)	2.41	0.97	1.46	2.43	3.07	3.35
DPS (HKD)	0.73	0.29	0.44	0.74	0.93	1.02
BVPS (HKD)	9.0	9.6	10.8	12.9	15.1	17.5
Weighted average shares (m)	4,239	4,256	4,266	4,285	4,308	4,308
Average market cap (HKDm)	258,084	137,949	117,941	200,320	265,166	265,166
Enterprise value (HKDm)	249,337	131,510	104,638	193,198	263,745	268,585

Valuation Metrics

P/E (DB) (x)	23.7	26.9	18.7	18.7	19.8	18.2
P/E (Reported) (x)	25.3	33.4	19.0	19.2	20.0	18.4
P/BV (x)	4.83	2.53	3.12	4.87	4.08	3.52
FCF Yield (%)	1.0	nm	9.0	8.2	2.0	nm
Dividend Yield (%)	1.2	0.9	1.6	1.6	1.5	1.7
EV/Sales (x)	3.5	2.6	2.0	3.1	3.5	3.4
EV/EBITDA (x)	18.9	15.1	10.1	13.7	15.3	14.3
EV/EBIT (x)	22.0	23.3	15.5	17.9	19.1	17.8

Income Statement (HKDm)

Sales revenue	71,752	50,991	52,826	62,450	74,608	78,658
Gross profit	13,222	8,736	10,348	14,147	17,272	18,730
EBITDA	13,222	8,736	10,348	14,147	17,272	18,730
Depreciation	1,565	2,766	3,252	3,029	3,154	3,278
Amortisation	320	321	336	336	336	336
EBIT	11,338	5,649	6,759	10,782	13,782	15,115
Net interest income/(expense)	-33	-33	-44	-64	-131	-169
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	-663	-1,015	-92	-277	-120	-140
Other pre-tax income/(expense)	-220	-393	-292	170	-60	-160
Profit before tax	10,422	4,209	6,331	10,611	13,471	14,646
Income tax expense	59	82	77	113	135	135
Minorities	23	-35	-12	11	11	11
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	10,340	4,161	6,267	10,487	13,324	14,500
DB adjustments (including dilution)	663	1,015	92	277	120	140
DB Net profit	11,003	5,176	6,359	10,764	13,444	14,640

Cash Flow (HKDm)

Cash flow from operations	12,020	6,626	12,732	18,520	17,813	19,014
Net Capex	-9,413	-7,161	-2,103	-2,012	-12,450	-19,590
Free cash flow	2,606	-536	10,628	16,507	5,363	-576
Equity raised/(bought back)	256	125	109	330	0	0
Dividends paid	-4,879	-1,788	-1,408	-2,526	-3,772	-4,252
Net inc/(dec) in borrowings	345	402	4,800	3,699	0	0
Other investing/financing cash flows	277	-148	-2,614	-9,127	-7,281	0
Net cash flow	-1,394	-1,944	11,514	8,884	-5,690	-4,829
Change in working capital	-204	66	1,888	4,344	1,000	800

Balance Sheet (HKDm)

Cash and other liquid assets	10,355	8,441	19,956	17,600	11,911	7,082
Tangible fixed assets	35,662	40,854	38,600	36,815	46,443	62,883
Goodwill/intangible assets	1,516	1,341	1,138	921	726	172
Associates/investments	1,457	1,325	1,265	1,658	1,198	1,198
Other assets	2,849	3,393	5,302	26,820	34,101	34,301
Total assets	51,839	55,354	66,261	83,815	94,379	105,636
Interest bearing debt	988	1,390	6,135	9,944	9,944	9,944
Other liabilities	11,862	12,251	13,263	17,855	18,855	19,855
Total liabilities	12,850	13,641	19,398	27,799	28,799	29,799
Shareholders' equity	38,989	41,713	46,863	56,016	65,579	75,838
Minorities	620	612	518	534	545	556
Total shareholders' equity	38,989	41,713	46,863	56,016	65,579	75,838
Net debt	-9,367	-7,051	-13,821	-7,656	-1,966	2,862

Key Company Metrics

Sales growth (%)	8.7	-28.9	3.6	18.2	19.5	5.4
DB EPS growth (%)	5.8	-53.0	22.7	68.8	24.2	8.9
EBITDA Margin (%)	18.4	17.1	19.6	22.7	23.1	23.8
EBIT Margin (%)	15.8	11.1	12.8	17.3	18.5	19.2
Payout ratio (%)	29.9	29.7	29.9	30.1	30.2	30.2
ROE (%)	29.2	10.5	14.3	20.6	22.1	20.7
Capex/sales (%)	13.3	14.2	4.0	3.2	16.7	24.9
Capex/depreciation (x)	5.0	2.3	0.6	0.6	3.6	5.4
Net debt/equity (%)	-24.0	-16.9	-29.5	-13.7	-3.0	3.8
Net interest cover (x)	345.1	172.4	154.8	168.7	105.2	89.3

Source: Company data, Deutsche Bank estimates



# Appendix 1

## Important Disclosures

\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Galaxy	0027.HK	61.55 (HKD) 11 Jul 2018	1, 7

\*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <https://research.db.com/Research/Disclosures/CompanySearch>. Aside from within this report, important risk and conflict disclosures can also be found at <https://research.db.com/Research/Topics/Equities?topicId=RB0002>. Investors are strongly encouraged to review this information before investing.

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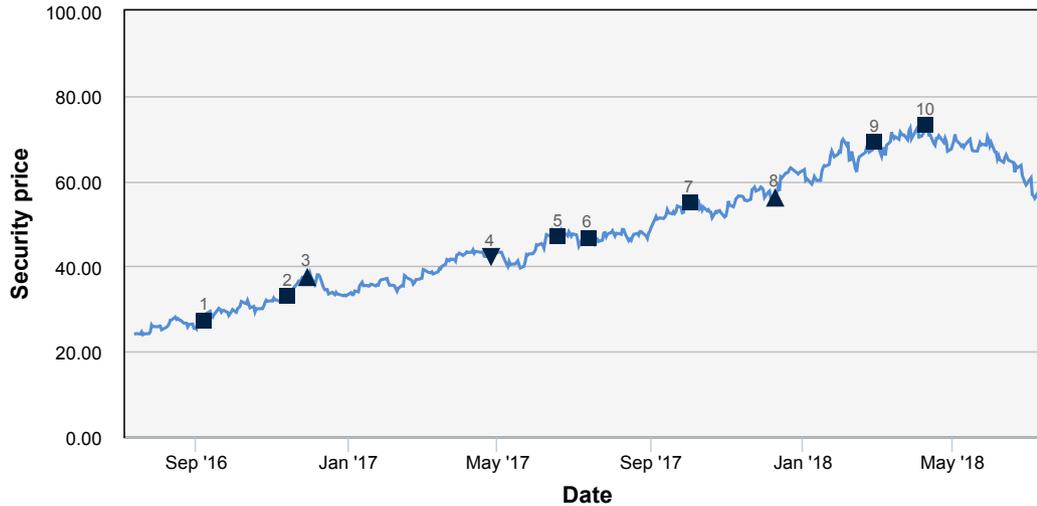
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Historical recommendations and target price. Galaxy (0027.HK)

(as of 07/11/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*\* Analyst is no longer at Deutsche Bank

1.	09/08/2016	Hold, Target Price Change HKD 33.00 Karen Tang	6.	07/13/2017	Hold, Target Price Change HKD 53.20 Karen Tang
2.	11/14/2016	Hold, Target Price Change HKD 34.00 Karen Tang	7.	10/03/2017	Hold, Target Price Change HKD 58.60 Karen Tang
3.	11/29/2016	Upgraded to Buy, Target Price Change HKD 46.50 Karen Tang	8.	12/10/2017	Upgraded to Buy, Target Price Change HKD 70.00 Karen Tang
4.	04/26/2017	Downgraded to Hold, Target Price Change HKD 46.50 Karen Tang	9.	02/28/2018	Buy, Target Price Change HKD 73.00 Karen Tang
5.	06/19/2017	Hold, Target Price Change HKD 52.00 Karen Tang	10.	04/10/2018	Buy, Target Price Change HKD 82.00 Karen Tang

Equity Rating Key

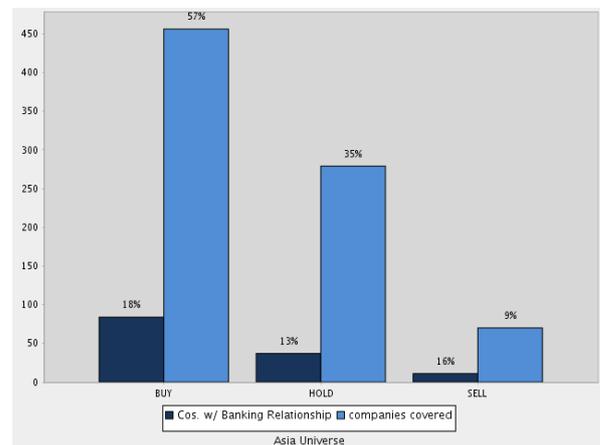
**Buy:** Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield ), we recommend that investors buy the stock.

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**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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Equity rating dispersion and banking relationships





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Group Chief Economist and Global Head of Research

Raj Hindocha  
Global Chief Operating Officer  
Research

Michael Spencer  
Head of APAC Research  
Global Head of Economics

Steve Pollard  
Head of Americas Research  
Global Head of Equity Research

Anthony Klarman  
Global Head of  
Debt Research

Paul Reynolds  
Head of EMEA  
Equity Research

Dave Clark  
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Equity Research

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Global Head of  
Equity Derivatives Research

Andreas Neubauer  
Head of Research - Germany

Spyros Mesomeris  
Global Head of Quantitative  
and QIS Research

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### International Production Locations

#### Deutsche Bank AG

Deutsche Bank Place  
Level 16  
Corner of Hunter & Phillip Streets  
Sydney, NSW 2000  
Australia  
Tel: (61) 2 8258 1234

#### Deutsche Bank AG

Mainzer Landstrasse 11-17  
60329 Frankfurt am Main  
Germany  
Tel: (49) 69 910 00

#### Deutsche Bank AG

Filiale Hongkong  
International Commerce Centre,  
1 Austin Road West, Kowloon,  
Hong Kong  
Tel: (852) 2203 8888

#### Deutsche Securities Inc.

2-11-1 Nagatacho  
Sanno Park Tower  
Chiyoda-ku, Tokyo 100-6171  
Japan  
Tel: (81) 3 5156 6770

#### Deutsche Bank AG London

1 Great Winchester Street  
London EC2N 2EQ  
United Kingdom  
Tel: (44) 20 7545 8000

#### Deutsche Bank Securities Inc.

60 Wall Street  
New York, NY 10005  
United States of America  
Tel: (1) 212 250 2500

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