



Company Report: Wynn Macau (01128 HK)

公司报告: 永利澳门 (01128 HK)

Noah Hudson
(852) 2509 5441

noah.hudson@gtjas.com.hk.

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3Q2019 Results in Line, Maintain "Neutral"

2019 年第 3 季度业绩符合预期, 维持“中性”

- The Company's normalized 3Q2019 adjusted property EBITDA was US\$323.2 mn, down 16.9% yoy but topping our forecast by 2.4%. 3Q2019 market share decreased as it underperformed in both the VIP and mass segments. Total net revenue decreased 18.1% yoy to US\$1.1 bn. VIP turnover plunged by 37.1% yoy to US\$18.5 bn and VIP win was US\$556.4 mn, down 41.4% yoy, much worse than the Macau sector VIP decline of 22.5%. Mass segment win was US\$691.0 mn, up 8.1% yoy, underperforming the Macau sector mass segment increase of 17.7%.
- We adjust the Company's 2019-2021 adjusted property EBITDA forecasts by -1.3%, 0.1% and 4.4%, respectively. We forecast 2019-2021 adjusted property EBITDA at HK\$10.599 bn, HK\$9.926 bn and HK\$10.999 bn, representing growth of -14.2%, -6.3% and 10.8%, respectively. The Company's adjusted EBITDA margin was 31.2% in 2018, and we forecast it to decline to 29.3% in 2019. Renovation this year at the Wynn Macau property is disrupting normal operations while some operating costs remain constant, thereby putting downward pressure on EBITDA margin. We forecast 2019-2021 EPS of HK\$0.914, HK\$1.006 and HK\$1.198, respectively, representing growth of -24.1%, 10.0% and 19.1%.
- We increase target price for Wynn Macau from HK\$15.70 to HK\$16.60 and maintain "Neutral" investment rating. The management expects that the new casino and fully remodeled Encore towers at the Wynn Macau property will open at the end of 2019 and in early 2020. However, we don't see this as a major catalyst since competitors are rolling out upgrades.
- 永利澳门 2019 年第 3 季度正常化赢率下经调整物业 EBITDA 同比下降 16.9% 至 3.232 亿美元, 高于我们的预期 2.4%。2019 年第 3 季度公司贵宾分部与中场分部业务皆表现不佳, 导致市场份额下降。总净收入同比下降 18.1% 至 11 亿美元。贵宾业务收入同比下跌 37.1% 至 185 亿美元, 贵宾赢率为 5.564 亿美元, 同比下降 41.4%, 远差于澳门博彩业贵宾业务同比下降 22.5% 的表现。中场分部赢率为 6.91 亿美元, 同比上升 8.1%, 仍差于澳门博彩业中场分部上升 17.7% 的表现。
- 我们分别调整公司 2019 至 2021 年经调整物业 EBITDA 预测 -1.3%、0.1% 和 4.4%。我们预计 2019 至 2021 年经调整 EBITDA 将达到 105.99 亿港元、99.26 亿港元和 109.99 亿港元, 分别对应 -14.2%、-6.3% 和 10.8% 的增长率。公司 2018 年的经调整 EBITDA 利润率为 31.2%, 我们预计 EBITDA 利润率将在 2019 年下降至 29.3%。今年永利澳门物业的翻新工程扰乱了正常经营, 同时部分经营支出保持不变, 给 EBITDA 利润率带来下行压力。我们预计 2019 至 2021 年每股收益将分别达到 0.914 港元、1.006 港元和 1.198 港元, 分别对应 -24.1%、10.0% 和 19.1% 的增长率。
- 我们将永利澳门的目标价由 15.70 港元上调至 16.60 港元, 维持“中性”投资评级。管理层预计永利澳门物业的新赌场和完全改建的永利大楼将在 2019 年末和 2020 年初开业。但我们并不认为这将成为公司发展的主要催化剂, 因为公司的竞争对手也推出了升级计划。

Rating:

Neutral

Maintained

评级:

中性 (维持)

6-18m TP 目标价:

HK\$16.60

Revised from 原目标价:

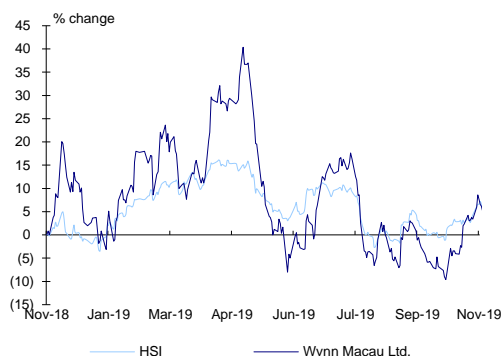
HK\$15.70

Share price 股价:

HK\$17.280

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 %	9.9	4.7	7.2
Rel. % to HS Index 相对恒指变动 %	8.5	1.4	2.3
Avg. share price (HK\$) 平均股价 (港元)	17.0	16.3	17.7

Source: Bloomberg, Guotai Junan International.

Year End 年结	Turnover 收入	Net Profit 股东净利	EPS 每股净利	EPS 每股净利变动	PER 市盈率	BPS 每股净资产	PBR 市净率	DPS 每股股息	Yield 股息率	ROE 净资产收益率
12/31	(HKD mn)	(HKD mn)	(HKD)	(Δ %)	(x)	(HKD)	(x)	(HKD)	(%)	(%)
2017A	34,032	3,700	0.714	157.7	24.3	0.578	30.0	0.960	5.5	135.7
2018A	39,592	6,245	1.204	68.6	14.4	0.293	59.3	1.200	6.9	276.4
2019F	36,208	4,746	0.914	(24.1)	19.0	0.312	55.6	0.911	5.2	302.3
2020F	36,652	5,221	1.006	10.0	17.3	0.349	49.7	1.002	5.8	304.0
2021F	39,194	6,218	1.198	19.1	14.5	0.406	42.8	1.193	6.9	317.3
Shares in issue (m) 总股数 (m)				5,197.0	Major shareholder 大股东		Wynn Resorts (WYNN US) 72.2%			
Market cap. (HK\$ m) 市值 (HK\$ m)				90,219.2	Free float(%) 自由流通比率(%)		27.8			
3 month average vol. 3 个月平均成交股数('000)				9,138.7	FY19 Net gearing(%) FY19 净负债/股东资金(%)		1,305.9			
52 Weeks high/low(HK\$) 52 周高/低				23.400 / 14.740	FY19 Est. NAV (HK\$) FY19 每股估值 (港元)		20.8			

Source: the Company, Guotai Junan International.

3Q2019 Results

Wynn Macau's (the "Company") 3Q2019 market share decreased as it underperformed in both the VIP and mass segments. During 3Q2019, the Company's total net revenue decreased 18.1% yoy to US\$1,072 million, which missed our forecast by 3.6%. Net gaming revenue was US\$906.5 million, down 19.7% yoy, worse than the Macau sector GGR decline of 4.1% yoy. This led to a 3.2 ppt yoy decline in market share to about 14.2%. The Company's VIP segment turnover plunged by 37.1% yoy to US\$18.543 billion, worse than expected. Junket VIP win rate was 3.00%, lower than the Company's 3.22% VIP win rate in 3Q2018. As a result, VIP win was US\$556.4 million, down 41.4% yoy, much worse than the Macau sector VIP GGR decline of 22.5% yoy. Total mass segment (tables and slots) win was US\$691.0 million, up 8.1% yoy, underperforming the Macau sector mass segment GGR increase of 17.7% yoy.

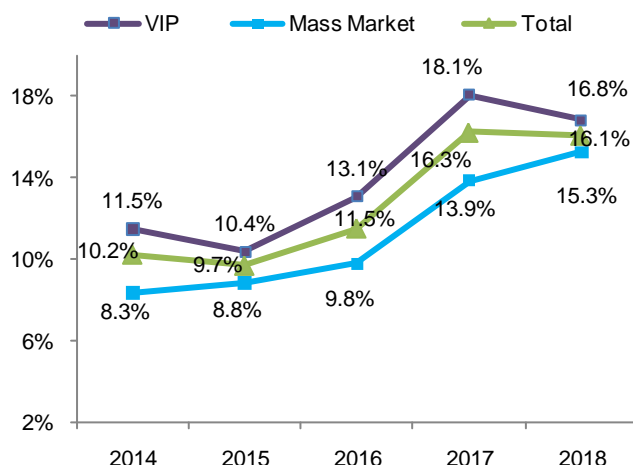
The Company's normalized 3Q2019 adjusted property EBITDA was US\$323.2 million, down 16.9% yoy but topping our forecast by 2.4%. Adjusted property EBITDA was US\$301.2 million, down 26.4% yoy and 4.6% below our forecast. Normalized adjusted EBITDA adjusts for quarterly fluctuations in "luck", i.e., the VIP win rate, if the VIP win rate is outside of the normal range. The Company's overall junket VIP win rate was 3.00%, which is at the high end of the Company's expected win rate range of 2.7% to 3.0%. However, this high win rate in junket VIP business was more than offset by low win rate experienced in the Company's direct VIP business. The direct business VIP win rate was about -1% at the Wynn Palace and about 1.2% at the Wynn Macau property. The high junket VIP win rate and the low direct business VIP win rate had the net effect of decreasing EBITDA by about US\$22 million. At the property level, adjusted property EBITDA was US\$139.0 million, down 24.0% yoy at Wynn Macau as margin decreased 2.3 ppt yoy to 29.3%, and at Wynn Palace was US\$162.2 million, down 28.3% yoy as margin decreased 3.8 ppt yoy to 27.2%.

Table-1: Company Results

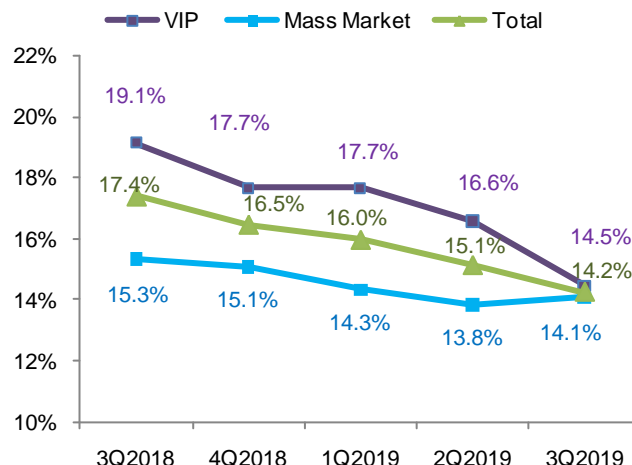
US\$ million	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	qoq (% or ppt)	yoy (% or ppt)
VIP turnover	29,493	28,934	22,821	22,664	18,543	(0.7%)	(37.1%)
VIP gross win	949	891	788	710	556	(9.9%)	(41.4%)
VIP win rate (% of turnover)	3.22%	3.08%	3.46%	3.13%	3.00%	(0.32) ppt	(0.22) ppt
Mass tables & slots win	639	665	669	662	691	(1.0%)	8.1%
Total gross gaming revenue	1,588	1,556	1,458	1,373	1,247	(5.8%)	(21.5%)
Total net gaming revenue	1,129	1,116	1,073	1,010	906	(5.9%)	(19.7%)
Total revenue (net)	1,310	1,294	1,251	1,175	1,072	(6.0%)	(18.1%)
VIP market share	19.1%	17.7%	17.7%	16.6%	14.5%	(1.1) ppt	(4.7) ppt
mass market share	15.3%	15.1%	14.3%	13.8%	14.1%	(0.5) ppt	(1.3) ppt
Total market share	17.4%	16.5%	16.0%	15.1%	14.2%	(0.8) ppt	(3.2) ppt
Adjusted property EBITDA	409	394	386	343	301	(11.2%)	(26.4%)
Adjusted property EBITDA margin	31.2%	30.5%	30.9%	29.2%	28.1%	(1.7) ppt	(3.1) ppt
Normalized adjusted property EBITDA*	389	n.a.	361	335	323	(7.3%)	(16.9%)
Normalized adj. property EBITDA margin*	31.2%	n.a.	30.9%	29.2%	28.1%	26.2%	(3.1) ppt
Net profit	224	186	191	169	144	(11.5%)	(35.5%)
Net profit margin	17.1%	14.4%	15.2%	14.3%	13.4%	(0.9) ppt	(3.6) ppt

Source: the Company, Guotai Junan International.

Note: *Normalized figures adjust for quarterly fluctuations in "luck", i.e., the VIP win rate, if the VIP win rate is outside of the 2.70% to 3.00% normal range.

Figure-1: The Company's Market Share, Annually


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

Figure-2: The Company's Market Share, Quarterly


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

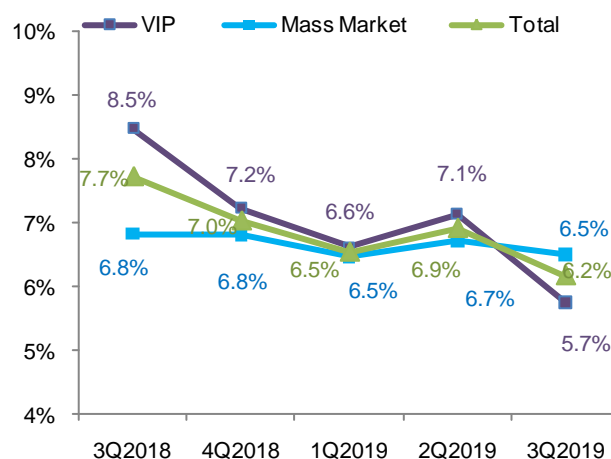
3Q2019 Property Level Results

Wynn Macau Property

The Wynn Macau property's total revenue decreased 18.2% yoy to US\$474.3 million while adjusted property EBITDA decreased 24.0% yoy to US\$139.0 million. Casino revenue decreased 18.8% yoy to US\$408.8 million. The property was negatively impacted by ongoing renovations as about half of the building is behind construction walls. However, the management indicated that they were not seeing large declines in volume and it is difficult to quantify the negative impact of the renovations, expected to be complete around the beginning of 2020.

VIP turnover decreased 42.5% yoy to US\$8.03 billion. VIP table games win as a percentage of turnover was 2.76%, in line with the expected range of 2.7% to 3.0% and below the 3.01% experienced in 3Q2018. As a result, VIP gross win from the Wynn Macau property decreased 47.5% yoy to US\$221.1 million.

Table games win in mass market operations increased 8.9% yoy to US\$272.5 million. Table drop in mass market operations was US\$1.32 billion, up 11.5% yoy. Table games win percentage in mass market operations was 20.7%, lower than the 21.1% experienced in 3Q2018. Slot machine handle increased 11.7% yoy to US\$1,000.0 million while slot machine win increased 35.1% yoy to US\$47.0 million.

Figure-3: Wynn Macau Property Market Share


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

Table-2: Wynn Macau Property Operating Results

US\$ million	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	qoq (% or ppt)	yoy (% or ppt)
VIP turnover	13,967	12,777	10,194	9,276	8,025	(9.0%)	(42.5%)
VIP gross win	421	365	295	306	221	3.6%	(47.5%)
VIP win rate (% of turnover)	3.01%	2.86%	2.90%	3.30%	2.76%	0.40 ppt	(0.25) ppt
Mass tables drop	1,184	1,259	1,352	1,347	1,319	(0.3%)	11.5%
Mass tables gross win	250	256	265	279	273	5.5%	8.9%
Mass market win rate (% of table drop)	21.1%	20.3%	19.6%	20.7%	20.7%	1.1 ppt	(0.4) ppt
Slot machine handle	895	878	794	926	1,000	16.5%	11.7%
Slot machine gross win	35	44	38	43	47	13.0%	35.1%
Slots win rate (% of slot handle)	3.9%	5.1%	4.8%	4.6%	4.7%	(0.1) ppt	0.8 ppt
Mass tables & slots total GGR	285	300	302	322	319	6.4%	12.1%
Casino revenue (Net)	504	479	450	481	409	6.9%	(18.8%)
Non-casino revenue	76	74	74	65	65	(11.3%)	(13.9%)
Property total revenue	580	553	524	547	474	4.3%	(18.2%)
Adjusted property EBITDA	183	168	164	176	139	7.3%	(24.0%)
Adjusted property EBITDA margin	31.6%	30.3%	31.3%	32.2%	29.3%	0.9 ppt	(2.3) ppt
VIP market share	8.5%	7.2%	6.6%	7.1%	5.7%	0.5 ppt	(2.7) ppt
Mass market share	6.8%	6.8%	6.5%	6.7%	6.5%	0.2 ppt	(0.3) ppt
Total market share	7.7%	7.0%	6.5%	6.9%	6.2%	0.4 ppt	(1.6) ppt
Average occupancy rate	99.0%	99.3%	99.3%	98.9%	99.4%	(0.4) ppt	0.4 ppt
Adjusted ADR (US\$)	276	294	290	281	283	(3.1%)	2.5%
Adjusted RevPAR (US\$)	273	292	288	278	281	(3.5%)	2.9%

Source: the Company, Guotai Junan International.

Wynn Palace

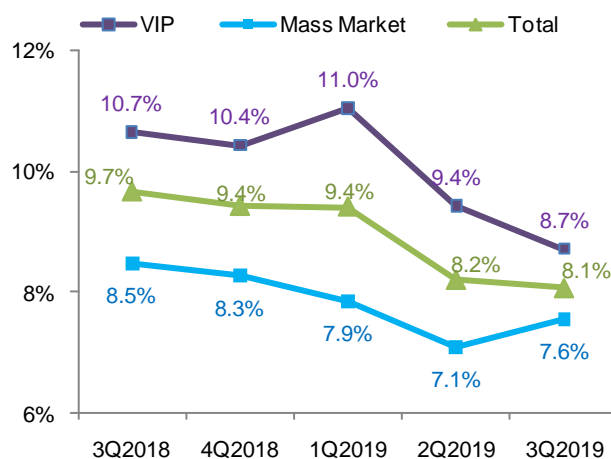
Total revenue from Wynn Palace decreased 18.1% yoy to US\$598.2 million and adjusted property EBITDA decreased 28.3% yoy to US\$162.2 million. Casino revenue decreased 20.5% yoy to US\$497.7 million. VIP turnover decreased 32.3% yoy to US\$10.52 billion. VIP table games win as a percentage of turnover was 3.19%, above the expected range of 2.7% to 3.0% but lower than the 3.40% experienced in the 3Q2018. Mass segment table drop increased 9.2% yoy to US\$1.30 billion and mass table games win was US\$324.4 million, up 5.2% yoy as win percentage was 25.0%, below the 25.9% experienced 3Q2018. Slot machine handle was US\$973.7 million, a 5.5% increase yoy while slot machine win increased 2.7% yoy to US\$47.3 million, compared to US\$46.0 million for 3Q2018.

Table-3: Wynn Palace Operating Results

US\$ million	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	qoq (% or ppt)	yoy (% or ppt)
VIP turnover	15,526	16,157	12,627	13,389	10,518	6.0%	(32.3%)
VIP gross win	528	526	493	404	335	(18.0%)	(36.5%)
VIP win rate (% of turnover)	3.40%	3.25%	3.91%	3.02%	3.19%	(0.89) ppt	(0.21) ppt
Mass market drop	1,190	1,300	1,304	1,267	1,299	(2.8%)	9.2%
Mass market gross win	308	307	315	297	324	(5.9%)	5.2%
Mass market win rate (% of table drop)	25.9%	23.6%	24.2%	23.4%	25.0%	(0.8) ppt	(0.9) ppt
Slot machine handle	923	1,011	975	938	974	(3.8%)	5.5%
Slot machine gross win	46	58	51	44	47	(15.2%)	2.7%
Slots win rate (% of slot handle)	5.0%	5.7%	5.3%	4.6%	4.9%	(0.6) ppt	(0.1) ppt
Mass tables & slots total GGR	354	365	367	340	371	(7.2%)	4.9%
Casino revenue (Net)	626	637	623	529	498	(15.2%)	(20.5%)
Non-casino revenue	105	104	103	100	101	(2.9%)	(4.3%)
Property total revenue	731	741	727	629	598	(13.4%)	(18.1%)
Adjusted property EBITDA	226	227	223	167	162	(24.9%)	(28.3%)
Adjusted property EBITDA margin	31.0%	30.6%	30.6%	26.6%	27.1%	(4.1) ppt	(3.8) ppt
Average occupancy rate	96.0%	97.2%	97.2%	97.4%	97.2%	0.2 ppt	1.2 ppt
Adjusted ADR (US\$)	275	277	271	265	273	(2.2%)	(0.7%)
Adjusted RevPAR (US\$)	264	277	264	258	265	(2.3%)	0.4%

Source: the Company, Guotai Junan International.

Figure-4: Wynn Palace Property Market Share



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

Outlook

The management expects that the new casino and fully remodeled Encore towers at the Wynn Macau property will open at the end of 2019 and in early 2020. As previously announced, the Company began remodeling its Wynn Macau property in July 2018 with intent on reducing reliance on VIP junkets and instead shifting focus to direct business and the premium mass segment. The property will have 7,000 square feet of new retail, two new restaurants, a new premium-mass casino that will be open to the water and fully remodeled Encore towers. The redesign and remodeling will be so extensive that the Company will be essentially launching a new property, according to the management.

The Company's management maintains its plans for Wynn Palace, to increase from 1,700 hotel rooms currently to over 3,000 sometime after 2020. The Company's management is planning its 11.0 acre (4.45 hectares) plot land adjacent to the north and south of the existing Wynn Palace property. The Company is planning 7 acres of the parcel to build a 1.5 million square foot facility next to Wynn Palace. The facility is planned to house the "Crystal Pavilion", a large glass structure that will have lots of non-gaming features. For the other four acres, connected to the Crystal Pavilion, the Company is designing a 671 room all-suite hotel with a bridge that would connect into the north side of Wynn Palace, which would increase that property from 1,700 hotel rooms to over 3,000. The Company's management hopes to finalize the design and begin construction in 2020.

Forecast Updates

We adjust the Company's 2019-2021 total revenue forecasts by -1.5%, -1.4% and 2.7%, respectively. We forecast 2019-2021 net revenue of HK\$36.2 billion, HK\$36.7 billion and HK\$39.2 billion, respectively, representing growth of -8.5%, 1.2% and 6.9%, respectively. The Company's 3Q2019 total net revenue was 3.6% below our previous forecast. We expect the Company's revenue to decline in 2019 as business will be disrupted at the Wynn Macau property, which will be undergoing renovation at least through 4Q19 and possibly longer.

We adjust the Company's 2019-2021 adjusted property EBITDA forecasts by -1.3%, 0.1% and 4.4%, respectively. We forecast the Company's 2019-2021 adjusted property EBITDA at HK\$10.599 billion, HK\$9.926 billion and HK\$10.999 billion, respectively, representing growth of -14.2%, -6.3% and 10.8%, respectively. The Company's normalized 3Q2019 adjusted property EBITDA was in line with our previous forecast, topping our forecast by just 2.4%. The Company's adjusted EBITDA margin was 31.2% in 2018, and we forecast it to decline to 29.3% in 2019. Renovation this year at the Wynn Macau property is disrupting normal operations to some extent while some operating costs remain constant, thereby putting downward pressure on EBITDA margin. Moreover, in 2020, the Company will be competing with Sands China (01928 HK) which is using around US\$450 million for renovation of its "Four Seasons Tower Suites Macao" with anticipated completion in 1H2020. We forecast 2019-2021 EPS of HK\$0.914, HK\$1.006 and HK\$1.198, respectively, representing growth of -24.1%, 10.0% and 19.1%.

Table-4: Wynn Macau Forecast Revisions

HK\$ million (Except EPS & RevPAR)	Old			New			Change (% or ppt)		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
VIP turnover	739,196	787,499	751,150	654,829	644,877	719,324	(11.4%)	(18.1%)	(4.2%)
VIP Win rate (% of turnover)	2.97%	2.85%	2.85%	2.98%	2.96%	2.96%	0.0 ppt	0.1 ppt	0.1 ppt
VIP gross win	22,654	22,444	21,408	20,965	20,474	22,837	(7.5%)	(8.8%)	6.7%
Mass tables gross win	18,508	19,941	20,934	18,565	20,056	21,055	0.3%	0.6%	0.6%
Slot machine handle	60,145	64,955	68,189	61,140	66,812	70,138	1.7%	2.9%	2.9%
Slots win rate (% of handle)	4.63%	4.58%	4.58%	4.72%	4.79%	4.79%	0.1 ppt	0.2 ppt	0.2 ppt
Slot machine gross win	2,788	2,978	3,126	2,886	3,199	3,358	3.5%	7.4%	7.4%
Commissions & discounts	(11,975)	(12,591)	(12,010)	(11,072)	(10,721)	(11,959)	(7.5%)	(14.8%)	(0.4%)
Casino revenue (net)	31,974	32,771	33,458	31,343	33,007	35,291	(2.0%)	0.7%	5.5%
Non-casino rev. (net)	4,795	4,418	4,712	4,864	3,645	3,903	1.4%	(17.5%)	(17.2%)
Total revenues (net)	36,770	37,189	38,169	36,208	36,652	39,194	(1.5%)	(1.4%)	2.7%
Operating profit	6,287	6,336	6,827	6,148	6,372	7,243	(2.2%)	0.6%	6.1%
Operating profit margin	17.1%	17.0%	17.9%	17.0%	17.4%	18.5%	(0.1) ppt	0.3 ppt	0.6 ppt
Adjusted property EBITDA	10,740	9,913	10,539	10,599	9,926	10,999	(1.3%)	0.1%	4.4%
Adj. property EBITDA margin	29.2%	26.7%	27.6%	29.3%	27.1%	28.1%	0.1 ppt	0.4 ppt	0.5 ppt
Net profit	4,979	5,180	5,802	4,746	5,221	6,218	(4.7%)	0.8%	7.2%
Net profit margin	13.5%	13.9%	15.2%	13.1%	14.2%	15.9%	(0.4) ppt	0.3 ppt	0.7 ppt
EPS, basic (HK\$)	0.959	0.998	1.118	0.914	1.006	1.198	(4.7%)	0.8%	7.2%
EPS, diluted (HK\$)	0.958	0.996	1.116	0.913	1.004	1.196	(4.7%)	0.8%	7.2%

Source: the Company, Guotai Junan International.

Valuation

We increase Wynn Macau's target price from HK\$15.70 to HK\$16.60 and maintain "Neutral" investment rating. The current sector valuation is 12.6x forward EV/adjusted EBITDA, higher than the 12.0x forward EV/adjusted EBITDA when we published our last Wynn Macau Company Report on 6 Sep. Our new target price is equivalent to 10.1x 2019 EV/adjusted EBITDA and is a 20.3% discount to our DCF derived NAV per share of HK\$20.84. The renovations at the Wynn Macau property are expected to be completed by the end of this year and early 2020. However, we don't see this as a major catalyst for the Company, since the Wynn Macau property is located on the Macau Peninsula, while all of the newer casinos are in Cotai. And although the Company also has expansion plans for its Wynn Palace property in Cotai, construction isn't expected to start until 2020 at the earliest. In the meantime, we expect the Company will lose market share to Sands China (01928 HK) which is using around US\$450 million for renovation of its "Four Seasons Tower Suites Macao" with anticipated completion in 1H20.

Table-5: Gaming Sector Peers Comparison

Company	Stock Code	Crncy	Price	M-Cap Billion (HK\$)	PE				EV/ Adjusted EBITDA				PB 19F	ROE 19F (%)	
					Hist Avg. Fwd	Current			Hist Avg. Fwd	Current					
						Fwd	19F	20F		Fwd	19F	20F			
Macau Operators															
Galaxy Entertain	00027 HK	HKD	52.900	225.5	19.0	16.9	17.1	16.5	13.9	13.2	13.2	12.3	3.2	19.9	
Melco Crown-Adr	MPEL US	USD	21.700	82.5	21.2	18.1	22.0	17.3	9.1	8.4	9.2	8.4	4.1	18.8	
Mgm China	02282 HK	HKD	12.000	44.5	25.4	18.5	19.0	14.9	14.1	9.4	9.4	8.1	4.2	23.3	
Sands China Ltd	01928 HK	HKD	38.200	303.7	19.4	18.4	18.7	16.9	14.6	13.4	13.4	12.3	8.7	47.7	
Sjm Holdings Ltd	00880 HK	HKD	8.320	45.5	19.5	15.4	15.9	17.7	13.3	11.9	11.9	10.7	1.6	10.6	
Wynn Macau Ltd	01128 HK	HKD	17.280	87.1	18.1	16.1	16.6	14.6	12.5	11.1	11.1	10.2	88.2	419.6	
Simple Average					20.3	17.9	18.8	16.3	12.1	10.6	10.7	9.7	16.0	78.3	
Weighted Average					19.7	17.5	18.2	16.5	13.5	12.3	12.4	11.3	14.8	74.3	
USA Operators															
Las Vegas Sands	LVS US	USD	60.690	364.9	19.2	18.7	19.4	18.1	11.7	11.2	11.3	11.1	8.7	41.5	
Mgm Resorts Inte	MGM US	USD	31.820	128.3	21.9	22.4	48.4	21.2	10.4	9.7	10.6	9.6	2.3	6.0	
Penn Natl Gaming	PENN US	USD	21.920	19.9	16.1	11.2	14.4	10.5	6.9	7.1	7.3	6.8	1.1	11.5	
Wynn Resorts Ltd	WYNN US	USD	117.550	98.8	20.0	23.4	27.3	19.7	11.2	10.9	12.0	10.0	7.0	20.9	
Simple Average					19.3	18.9	27.3	17.4	10.0	9.7	10.3	9.4	4.8	20.0	
Weighted Average					19.6	18.7	27.5	17.9	10.5	10.1	10.5	9.9	5.6	25.6	

Source: Bloomberg, Guotai Junan International.

Table-6: Target Price Based Valuation and Multiples

	FY18A	FY19F	Next 4 Quarters	FY20F	FY21F
Target price	HK\$16.60				
Shares outstanding, period end, fully diluted (million)	5,193	5,198	5,198	5,198	5,199
TP based market cap (HK\$ million)	86,209	86,280	86,291	86,291	86,303
+ Period end minority interest (HK\$ million)	0	0	0	0	0
+ Period end borrowings (HK\$ million)	33,078	26,157	24,163	24,163	20,180
- Period end cash & equivalents (HK\$ million)	9,533	5,686	5,601	5,601	3,624
Year end enterprise value (HK\$ million)	109,754	106,751	104,853	104,853	102,859
Adjusted property EBITDA (HK\$ million)	12,347	10,599	9,805	9,926	10,999
TP Based EV/Adjusted Property EBITDA	8.9	10.1	10.7	10.6	9.4
EPS (HK\$), diluted	1.20	0.91	1.00	1.00	1.20
Target Price Based PER	13.8	18.2	16.5	16.5	13.9

Source: the Company, Guotai Junan International.

Table-7: DCF Valuation

Risk free rate	1.81%	Sum of PV FCFF (HK\$ million)	83,448
Market return	11.15%	+ PV Terminal value (HK\$ million)	45,191
Market risk premium	9.34%	Enterprise value (HK\$ million)	128,640
Adj. Beta	1.1	- Net debt/(cash) (HK\$ million)	20,502
Equity discount rate	12.08%	Equity value (HK\$ million)	108,138
		Shares outstanding (million)	5,190
After tax cost of debt	3.2%	NAV per share (HK\$)	20.84
D/(D+E)	50.0%		
E/(D+E)	50.0%		
WACC	7.6%		
Long-term growth rate	2.0%		

Source: Bloomberg, the Company, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (HKD m)	2017A	2018A	2019F	2020F	2021F	Year end 31 Dec (HKD m)	2017A	2018A	2019F	2020F	2021F
Total revenue	34,032	39,592	36,208	36,652	39,194	Property and equipment and construction in progress	33,504	31,943	29,161	27,518	25,815
Gaming taxes and premiums	(16,737)	(18,928)	(17,217)	(18,302)	(19,568)	Leasehold interest in land	1,686	1,590	1,498	1,403	1,308
Staff costs	(4,612)	(4,987)	(4,990)	(4,508)	(4,821)	Goodwill	398	398	398	398	398
Other operating expenses	(4,404)	(5,098)	(4,909)	(4,773)	(5,017)	Others	833	749	691	698	742
Depreciation and amortisation	(2,776)	(2,726)	(2,888)	(2,638)	(2,482)	Total non-current assets	36,422	34,681	31,748	30,018	28,263
Property charges and other	(133)	(154)	(56)	(59)	(63)	Cash & cash equivalents	5,240	9,526	5,655	5,546	3,545
Operating profit	5,370	7,698	6,148	6,372	7,243	Inventories	332	313	286	289	309
Finance revenues	15	103	80	75	61	Trade and other receivables	677	1,135	1,038	1,051	1,124
Finance costs	(1,270)	(1,496)	(1,440)	(1,213)	(1,069)	Prepayments and other current assets	134	136	129	122	115
Others	(402)	(48)	(30)	0	0	Others	192	290	289	317	359
Profit before tax	3,713	6,258	4,758	5,235	6,235	Total current assets	6,574	11,401	7,399	7,326	5,453
Income Tax	(12)	(12)	(13)	(14)	(17)	Total assets	42,996	46,082	39,147	37,344	33,717
Profit after tax	3,700	6,245	4,746	5,221	6,218	Accounts payable	1,137	1,160	1,061	1,074	1,149
Non-controlling interest	0	0	0	0	0	Other payables and accruals	9,969	9,704	9,710	9,716	9,722
Shareholders' profit / loss	3,700	6,245	4,746	5,221	6,218	Others	770	201	207	217	227
Basic EPS	0.714	1.204	0.914	1.006	1.198	Total current liabilities	11,876	11,065	10,978	11,007	11,098
Diluted EPS	0.713	1.203	0.913	1.004	1.196	Interest-bearing borrowings	27,674	33,078	26,152	24,153	20,165
						Construction retention payable	2	1	0	0	0
						Other payables and accruals	266	204	142	80	18
						Others	177	215	253	291	330
						Total non-current liabilities	28,119	33,498	26,547	24,524	20,513
						Total liabilities	39,995	44,563	37,526	35,531	31,611
						Total shareholders' equity	3,001	1,518	1,621	1,813	2,106
						Minority interest	0	0	0	0	0
						Total equity	3,001	1,518	1,621	1,813	2,106
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (HKD m)	2017A	2018A	2019F	2020F	2021F		2017A	2018F	2019F	2020F	2021F
Profit before tax	3,713	6,258	4,758	5,235	6,235	Margins					
Depreciation of property and equipment	2,681	2,631	2,792	2,543	2,387	Effective gaming tax rate	56.7%	55.5%	54.9%	55.4%	55.4%
Amortisation of leasehold interest in land	95	95	95	95	95	Operating margin	15.8%	19.4%	17.0%	17.4%	18.5%
Provision for doubtful accounts	(56)	23	(8)	(14)	0	Net profit margin	10.9%	15.8%	13.1%	14.2%	15.9%
Share-based payment expense	111	106	105	98	108	Adj. property EBITDA margin	29.5%	31.2%	29.3%	27.1%	28.1%
Finance costs	1,270	1,496	1,440	1,213	1,069	Return Ratios					
Working capital adjustments	4,333	(993)	42	14	(1)	ROA	8.6%	14.0%	11.1%	13.7%	17.5%
Others	520	99	(79)	(74)	(58)	ROE	135.7%	276.4%	302.3%	304.0%	317.3%
Cash from operating activities	12,667	9,716	9,145	9,109	9,835	Return on capital employed	16.3%	23.4%	19.7%	23.7%	30.0%
Increase in restricted cash and cash equivalents	5	(1)	(24)	(24)	(24)	Return on invested capital	1.4%	5.8%	6.0%	5.5%	5.4%
Purchase of property and equipment, net of construction retention pay	(1,261)	(1,189)	(105)	(995)	(779)	Liquidity & leverage					
Others	99	99	227	163	114	Leverage (ie., gearing)	1031.3%	1463.9%	1666.1%	1407.0%	1029.8%
Cash from investing activities	(1,157)	(1,091)	97	(856)	(689)	Net gearing	839.2%	1042.3%	1305.9%	1084.1%	848.9%
Proceeds from borrowings	11,951	4,889	0	0	0	Interest coverage ratio (x)	4.3	5.5	4.5	5.6	7.2
Repayment of borrowings	(16,069)	0	(6,926)	(1,999)	(3,988)	Current ratio (x)	0.6	1.0	0.7	0.7	0.5
Interest paid	(1,079)	(1,328)	(1,440)	(1,213)	(1,069)						
Special/interim dividends paid	(3,272)	(7,790)	(4,728)	(5,201)	(6,196)						
Others	(394)	(104)	11	51	104						
Cash from financing activities	(8,864)	(4,333)	(13,084)	(8,362)	(11,148)						
Cash at beg of year	2,591	5,240	9,526	5,655	5,546						
Net changes in cash	2,647	4,291	(3,841)	(109)	(2,001)						
Effect of foreign exchanges	1	(5)	(30)	0	0						
Cash at end of year	5,240	9,526	5,655	5,546	3,545						

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	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	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	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk