

Company Report: Wynn Macau (01128 HK)

公司报告: 永利澳门 (01128 HK)

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Major Renovation this Year, Downgrade to "Neutral"

年内进行重大翻新, 下调至“中性”

- **Wynn Macau's 4Q18 adjusted property EBITDA increased 4.8% yoy to US\$394 mn (HK\$3,086 mn), in line with expectations.** The Company's 4Q18 gross gaming revenue was US\$1,556 mn (HK\$12.19 bn), up 1.6% yoy, underperforming the 8.9% yoy growth in Macau's GGR during the quarter.
- **The Wynn Macau property will be undergoing renovation through 4Q19.** Within the Wynn Macau property, the Encore Tower Suites are being refurbished and the redesign and remodeling will be so extensive that the Company expects to essentially launch a new property at the end of this year. We expect that the construction work will disrupt operations this year.
- **We cut the Company's 2019 and 2020 adjusted EBITDA forecasts by 12.1% and 7.1%, respectively.** We forecast 2019-2021 adjusted EBITDA at HK\$11.1 bn, HK\$12.5 bn and HK\$13.6 bn, respectively, representing growth of -10.3%, 12.8% and 9.0%, respectively. We forecast 2019-2021 revenue of HK\$39.0 bn, HK\$43.3 bn and HK\$46.4 bn, respectively, representing growth of -1.6%, 11.1% and 7.3%, respectively. We expect revenue to decline in 2019 due to construction disruption at the Wynn Macau property.
- **We increase Wynn Macau's target price from HK\$19.00 to HK\$21.50 but lower our investment rating from "Accumulate" to "Neutral".** Although we have lowered adjusted EBITDA forecasts, we increase our target price since market sentiment and valuations have improved. However, we downgrade the investment rating since the Company's share price increased 19.2% since our last company report. We see risk that construction at the Wynn Macau property might be more disruptive or take longer than expected.
- **永利澳门 2018 年第 4 季度经调整物业 EBITDA 同比增长 4.8% 至 3.94 亿美元 (30.86 亿港元), 符合预期。** 季度内公司博彩毛收入达 15.56 亿美元 (121.9 亿港元), 同比上涨 1.6%, 差于同期澳门整体博彩毛收入 8.9% 的同比增长。
- **永利澳门物业的施工将持续至 2019 年第 4 季度。** 永利澳门万利大楼的套房正在进行装修, 公司认为翻新的力度将使该物业在年底改头换面。预计施工将对今年的运营造成影响。
- **我们分别下调公司 2019 年和 2020 年经调整 EBITDA 预测 12.1% 和 7.1%。** 我们预计 2019-2021 年经调整 EBITDA 将达到 111 亿、125 亿和 136 亿港元, 分别反映 -10.3%、12.8% 和 9.0% 的增长率。我们预计 2019-2021 年收入将分别达到 390 亿、433 亿和 464 亿港元, 分别对应 -1.6%、11.1% 和 7.3% 的增长率。我们估计永利澳门物业的施工将拖累公司 2019 年的营收。
- **我们将永利澳门的目标价由 19.00 港元上调至 21.50 港元, 但将投资评级由“收集”下调至“中性”。** 尽管我们降低了经调整 EBITDA 的预测, 但我们上调了目标价, 因为市场情绪及估值出现好转。但与此同时, 鉴于公司的股价自我们发表上一篇公司报告以来已经上升了 19.2%, 我们下调了投资评级。此外, 我们还看到了永利澳门物业的施工时间可能长于预期或可能对营业造成更大干扰的风险。

Rating:

Neutral
Downgraded

评级:

中性 (下调)

6-18m TP 目标价:

HK\$21.50

Revised from 原目标价:

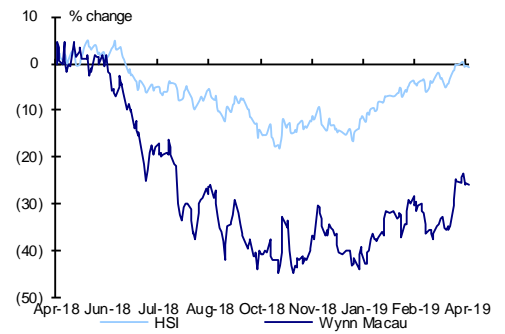
HK\$19.00

Share price 股价:

HK\$21.200

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 %	17.4	24.0	(26.6)
Rel. % to HS Index 相对恒指变动 %	13.6	11.4	(26.8)
Avg. share price (HK\$) 平均股价 (港元)	19.9	19.2	20.7

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	(HKD mn)	(HKD mn)	(HKD)	(Δ %)	(x)	(HKD)	(x)	(HKD)	(%)	(%)
2017A	34,032	3,700	0.714	157.7	28.8	0.578	35.5	0.960	4.7	135.7
2018A	39,592	6,245	1.204	68.6	17.1	0.293	70.2	1.200	5.8	276.4
2019F	38,952	4,915	0.947	(21.4)	21.7	0.336	61.2	0.852	4.1	301.5
2020F	43,272	6,389	1.231	30.0	16.7	0.422	48.7	1.108	5.4	324.8
2021F	46,433	7,563	1.457	18.4	14.1	0.550	37.4	1.311	6.4	299.7

Shares in issue (m) 总股数 (m)	5,361.3	Major shareholder 大股东	Wynn Resorts (WYNN US) 72.2%
Market cap. (HK\$ m) 市值 (HK\$ m)	110,175.5	Free float (%) 自由流通比率 (%)	27.7
3 month average vol. 3 个月平均成交股数 ('000)	12,469.5	FY19 Net gearing (%) FY19 净负债/股东资金 (%)	1,337.2
52 Weeks high/low (HK\$) 52 周高/低	30.645 / 14.840	FY19 Est. NAV (HK\$) FY19 每股估值 (港元)	26.9

Source: the Company, Guotai Junan International.

See the last page for disclaimer

4Q18 Results

Wynn Macau's (the "Company") 4Q18 adjusted property EBITDA increased 4.8% yoy (decreased 3.6% qoq) to US\$394 million, in line with expectations. The Company's 4Q18 adjusted property EBITDA topped Bloomberg consensus by 4.1% and was 1.2% above our forecast. The Company's adjusted property EBITDA margin was 30.5%, up 0.1 ppt yoy (down 0.8 ppt qoq). Adjusted property EBITDA margins at the Wynn Macau property and the Wynn Palace property were 30.3% and 30.6%, respectively.

The Company's 4Q18 gross gaming revenue ("GGR") was US\$1,556 million, up 1.6% yoy (down 2.0% qoq), underperforming the 8.9% yoy/ 6.7% qoq growth in Macau's GGR during the quarter. Although the Company's mass segment was a particular standout (up 12.7% yoy in gross win), a considerable decline in VIP turnover, notably at the Wynn Macau property (down 18.2% yoy), almost wiped out the incremental gain brought by the mass segment during the quarter.

Table-1: Company Results

US\$ million	4Q17	1Q18	2Q18	3Q18	4Q18	qoq (% or ppt)	yoy (% or ppt)
Company VIP turnover	31,856	32,473	27,958	29,493	28,934	(1.9%)	(9.2%)
Company VIP gross win	941	845	777	949	891	(6.2%)	(5.4%)
Company VIP win rate (% of turnover)	2.95%	2.60%	2.78%	3.22%	3.08%	(0.14) ppt	0.12 ppt
Company mass tables & slots win	590	664	617	639	665	4.1%	12.7%
Company total gross win	1,532	1,509	1,395	1,588	1,556	(2.0%)	1.6%
Wynn Macau property revenue	584	618	543	580	553	(4.5%)	(5.2%)
Wynn Palace property revenue	657	666	621	731	741	1.4%	12.8%
Total operating revenue (Net)	1,240	1,284	1,164	1,310	1,294	(1.2%)	4.3%
Wynn Macau property VIP market share	8.9%	8.4%	7.0%	8.5%	7.2%	(1.3) ppt	(1.7) ppt
Wynn Palace VIP market share	9.7%	7.5%	8.3%	10.7%	10.4%	(0.2) ppt	0.7 ppt
Company VIP market share	18.6%	15.9%	15.3%	19.1%	17.7%	(1.5) ppt	(1.0) ppt
Wynn Macau property mass market share	6.9%	7.2%	7.2%	6.8%	6.8%	(0.0) ppt	(0.1) ppt
Wynn Palace mass market share	8.1%	8.8%	8.0%	8.5%	8.3%	(0.2) ppt	0.2 ppt
Company mass market share	15.0%	16.0%	15.3%	15.3%	15.1%	(0.2) ppt	0.1 ppt
Company total market share	17.0%	15.9%	15.3%	17.4%	16.5%	(0.9) ppt	(0.6) ppt
Operating profit	235	277	205	258	242	(6.3%)	3.0%
Operating profit margin	18.9%	21.6%	17.6%	19.7%	18.7%	(1.0) ppt	(0.2) ppt
Adjusted property EBITDA	376	422	352	409	394	(3.6%)	4.8%
Adjusted property EBITDA margin	30.3%	32.8%	30.3%	31.2%	30.5%	(0.8) ppt	0.1 ppt
Net profit (loss)	179	227	160	224	186	(16.6%)	4.0%
Net profit margin	14.5%	17.7%	13.8%	17.1%	14.4%	(2.7) ppt	0.0 ppt

Source: the Company, Guotai Junan International.

The Company's 4Q18 VIP turnover decreased 9.2% yoy and 1.9% qoq to US\$28.93 billion, underperforming the 3.4% yoy and 4.8% qoq growth in Macau's VIP GGR during the quarter. The decline in VIP turnover was largely attributable to the Wynn Macau property, where there was ongoing renovation disrupting the property's mid-tier junket operations. Overall VIP win rate was 3.08%, up 0.12 ppt yoy but down 0.14 ppt qoq, and VIP gross win was US\$891 million, down 5.4% yoy and 6.2% qoq.

The Company's mass segment (tables & slots) gross win in 4Q18 increased 12.7% yoy and 4.1% qoq to US\$665 million, underperforming the 15.9% yoy and 9.0% qoq growth in Macau's mass market GGR during the quarter. Total mass table drop amounted to US\$2.6 billion, up 7.8% yoy and 7.7% qoq, respectively. Total slot machine handle increased 4.0% yoy and 1.7% qoq to US\$1.9 billion. Both the Wynn Macau and Wynn Palace properties experienced growth in their mass segments.

Operating margin declined by 0.2 ppt yoy and by 1.0 ppt qoq to 18.7% in 4Q18. The yoy margin decline was due to a 0.5 ppt yoy increase in other operating expenses (including advertising and promotion, utilities and fuel, maintenance, etc.) as a percentage of total net revenue, while the qoq margin decline was due to a 0.7 ppt qoq rise in staff cost as a percentage of total net revenue. In 4Q18, loss from FX was US\$6.5 million, compared with the US\$1.9 million loss from FX in 4Q17 and the US\$11.2 million gain from FX in 3Q18. Accordingly, net profit during the quarter was up 4.0% yoy but down 16.6% to US\$186 million.

The Company's total market share in 4Q18 declined by 0.6 ppt yoy and 0.9 ppt qoq to 16.5%. Its VIP market share decreased by 1.0 ppt yoy and 1.5 ppt qoq to 17.7%, and its mass market share increased by 0.1 ppt yoy but decreased by 0.2 ppt to 15.1%.

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

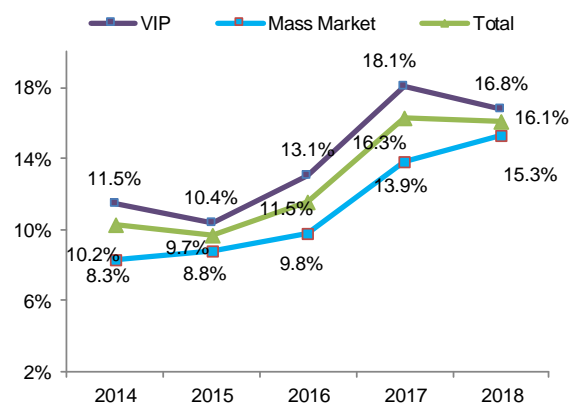
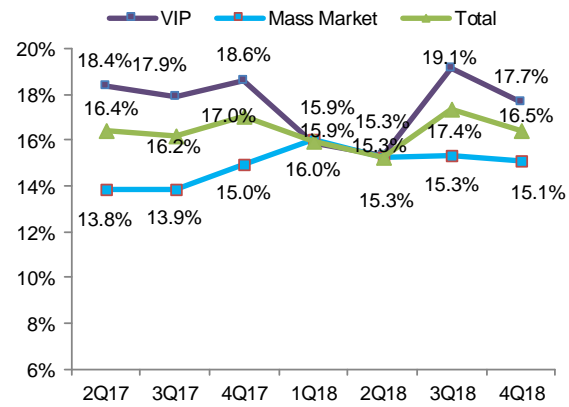


Figure-2: The Company's Market Share, Quarterly



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

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

4Q18 Property Level Results

Wynn Macau Property

The Wynn Macau property's 4Q18 VIP turnover was US\$12.8 billion, down 18.2% yoy and 8.5% qoq, underperforming Macau VIP GGR growth during the quarter. VIP win rate was 2.86%, down by 0.03 ppt yoy and 0.15 ppt qoq. VIP Gross win was US\$365 million, down 19.2% yoy and 13.3% qoq. The average number of VIP tables at the Wynn Macau property was 69 during 4Q18, compared with 153 in 3Q18 and 69 in 4Q17. In the first half of 2018, the property had generated a significant proportion of revenue from its mid-tier junket operations, which in the second half saw faster decline than other operations. As a result, the property has started renovation since July 2018 to convert its mid-tier junket areas into mass premium zones, where the Company has a higher margin and more growth potential. The renovation inevitably caused certain disruption to the property's VIP business during 4Q18. Yet, according to management, the property's major high-end junket operations remained healthy during the quarter.

The property's 4Q18 mass market (tables and slots) gross gaming revenue was US\$300 million, up 10.8% yoy and 5.3% qoq, underperforming Macau mass market GGR's growth during the quarter. The property achieved decent growth in its mass segment, compared with its competitors' properties in the Macau Peninsula. Mass market table games win per unit per day increased 9.6% yoy but decreased 0.5% qoq (due to lower qoq win rate) to US\$13,554. Slot machine handle decreased 6.3% yoy and 1.9% qoq to US\$878 million, as the average number of slot machines went down 13.8% yoy and 4.7% qoq. Slot machine gross win increased 8.8% yoy and 27.8% qoq to US\$44 million, reflecting a higher win rate of 5.1% compared with the 4.4% in 3Q17 and 3.9% last quarter.

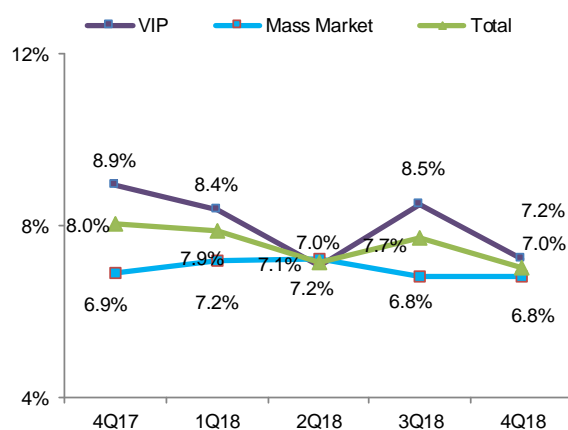
Non-gaming revenue decreased 0.5% yoy and 2.1% qoq to US\$74 million, attributable to a small decline in revenue from food and beverage. The property's hotel occupancy rate for 4Q18 was 99.3%, down 0.1 ppt yoy but up 0.3 ppt qoq. The Wynn Macau hotel average daily rate ("ADR") increased 16.2% yoy and 1.5% qoq to US\$294. Revenue per available room ("RevPAR") increased 16.3% yoy and 7.0% qoq to US\$292.

Table-2: Wynn Macau Property Operating Results

US\$ million	4Q17	1Q18	2Q18	3Q18	4Q18	qoq (% or ppt)	yoy (% or ppt)
VIP turnover	15,623	17,087	13,928	13,967	12,777	(8.5%)	(18.2%)
VIP gross win	451	445	357	421	365	(13.3%)	(19.2%)
VIP win rate (% of turnover)	2.89%	2.61%	2.56%	3.01%	2.86%	(0.15) ppt	(0.03) ppt
Mass tables drop	1,251	1,323	1,293	1,184	1,259	6.3%	0.6%
Mass tables gross win	230	256	252	250	256	2.2%	11.2%
Mass market win rate (% of table drop)	18.4%	19.4%	19.5%	21.1%	20.3%	(0.8) ppt	1.9 ppt
Slot machine handle	938	1,003	964	895	878	(1.9%)	(6.3%)
Slot machine gross win	41	42	40	35	44	27.8%	8.8%
Slots win rate (% of slot handle)	4.4%	4.2%	4.2%	3.9%	5.1%	1.2 ppt	0.7 ppt
Mass tables & slots total GGR	271	298	292	285	300	5.3%	10.8%
Casino revenue (Net)	509	539	473	504	479	(4.9%)	(5.9%)
Non-casino revenue	75	79	70	76	74	(2.1%)	(0.5%)
Property total revenue	584	618	543	580	553	(4.5%)	(5.2%)
Adjusted property EBITDA	186	210	173	183	168	(8.4%)	(9.9%)
Adjusted property EBITDA margin	31.9%	33.9%	31.8%	31.6%	30.3%	(1.3) ppt	(1.6) ppt
VIP market share	8.9%	8.4%	7.0%	8.5%	7.2%	(1.3) ppt	(1.7) ppt
Mass market share	6.9%	7.2%	7.2%	6.8%	6.8%	(0.0) ppt	(0.1) ppt
Total market share	8.0%	7.9%	7.1%	7.7%	7.0%	(0.7) ppt	(1.0) ppt
Average occupancy rate	99.4%	99.0%	99.4%	99.0%	99.3%	0.3 ppt	(0.1) ppt
Adjusted ADR (US\$)	253	291	272	276	294	6.5%	16.2%
Adjusted RevPAR (US\$)	231	257	288	271	273	7.0%	16.3%

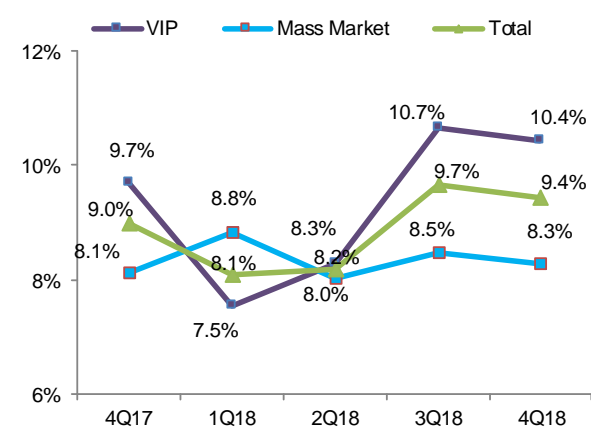
Source: the Company, Guotai Junan International.

Figure-3: Wynn Macau Property Market Share



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

Figure-4: Wynn Palace Property Market Share



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

Wynn Palace

Wynn Palace's 4Q18 VIP turnover was US\$16.2 billion, down 0.5% yoy but up 4.1% qoq, underperforming Macau VIP GGR's growth during the quarter. VIP win rate was 3.25%, up 0.2 ppt yoy but down 0.2 ppt qoq. Consequently, VIP gross win showed a different yoy and qoq story compared with that for VIP turnover. During 4Q18, VIP gross win increased 7.4% yoy but decreased 0.4% qoq to US\$526 million.

The property's 4Q18 mass market (tables and slots) gross gaming revenue was US\$365 million, up 14.2% yoy and 3.0% qoq, underperforming Macau mass market GGR's growth during the quarter. The property saw significant improvement in its mass operations, but the management disclosed that the improvement solely came from December when mass play increased by 40% yoy. The property's 4Q18 mass table drop increased 15.6% yoy and 9.3% qoq to US\$1,300 million. Mass table win rate was 23.6%, up 0.1 ppt yoy but down 2.3 ppt qoq. 4Q18 slot machine handle was US\$1,011 million, up 9.9% yoy and 9.6% qoq, with the average number of slot machines increased 9.3% yoy and 1.7% qoq to 1,074 during the quarter. Slot machine gross win was up 4.6% yoy and 25.0% qoq to US\$58 million, with a win rate of 5.7% (down 0.3 ppt yoy but up 0.7 ppt qoq).

During 4Q18, Wynn Palace's adjusted property EBITDA increased 19.2% yoy and 0.2% qoq to US\$227 million, a record high since the property's opening in 3Q16. EBITDA margin at the Wynn Palace property surpassed that of the Wynn Macau property for the first time. Wynn Palace's EBITDA margin reached 30.6%, up 1.6 ppt yoy but down 0.3 ppt qoq, compared with the 30.3% at the Wynn Macau property. Wynn Palace's non-casino revenue increased 15.9% yoy but was down 1.2% qoq to US\$104 million. The property's average room occupancy rate also reached a record high of 97.2%, compared with the 96.2% in 4Q17 and the 96.0% in 3Q18. In 4Q18, ADR was US\$277 (up 28.8% yoy and 0.7% qoq), and RevPAR was US\$277 (up 28.8% yoy and 4.9% qoq)

Table-3: Wynn Palace Operating Results

US\$ million	4Q17	1Q18	2Q18	3Q18	4Q18	qoq (% or ppt)	yoy (% or ppt)
VIP turnover	16,233	15,386	14,029	15,526	16,157	4.1%	(0.5%)
VIP gross win	490	400	420	528	526	(0.4%)	7.4%
VIP win rate (% of turnover)	3.02%	2.60%	3.00%	3.40%	3.25%	(0.2) ppt	0.2 ppt
Mass market drop	1,125	1,217	1,219	1,190	1,300	9.3%	15.6%
Mass market gross win	264	310	281	308	307	(0.3%)	16.2%
Mass market win rate (% of table drop)	23.5%	25.5%	23.0%	25.9%	23.6%	(2.3) ppt	0.1 ppt
Slot machine handle	921	1,058	941	923	1,011	9.6%	9.9%
Slot machine gross win	55	56	44	46	58	25.0%	4.6%
Slots win rate (% of slot handle)	6.0%	5.3%	4.7%	5.0%	5.7%	0.7 ppt	(0.3) ppt
Mass tables & slots total GGR	320	366	325	354	365	3.0%	14.2%
Casino revenue (Net)	567	569	525	626	637	1.8%	12.3%
Non-casino revenue	90	97	96	105	104	(1.2%)	15.9%
Property total revenue	657	666	621	731	741	1.4%	12.8%
Adjusted property EBITDA	190	212	179	226	227	0.2%	19.2%
Adjusted property EBITDA margin	29.0%	31.8%	28.9%	31.0%	30.6%	(0.4) ppt	1.6 ppt
Average occupancy rate	96.8%	96.8%	96.2%	96.0%	97.2%	1.2 ppt	0.4 ppt
Adjusted ADR (US\$)	215	252	254	275	277	0.7%	28.8%
Adjusted RevPAR (US\$)	215	244	245	264	277	4.9%	28.8%

Source: the Company, Guotai Junan International.

Outlook

The Wynn Macau property will be undergoing renovation through 4Q19. With the intent on reducing reliance on VIP junkets and instead shifting focus to the premium mass segment, the Company began remodeling its Wynn Macau property in July 2018. Within the Wynn Macau property, the Encore Tower Suites are being refurbished and will have an entirely newly designed and renovated premium-mass casino that will be open to the water, three new restaurants and 10,000 square feet of additional retail. The redesign and remodeling will be so extensive that the Company will be essentially launching a new property at the end of this year. In the meantime however, we expect that the construction work will have a significant negative impact on operations. The Company's management indicated that the construction work will last for over 12 months and that there is disruption to normal business and it will increase over the next several months. Some areas of the Wynn Macau property will be inaccessible, there will be a reduction in certain table play and customers will be affected. There is also risk that the construction work will not be finished by the end of 2019 as currently planned but instead may extend into 2020.

The Company's management maintains its plans for Wynn Palace, to increase from 1,700 hotel rooms currently to over 3,000 some time after 2020. The Company's management is planning its 11.0 acre (4.45 hectares) plot of land adjacent to the north and south of the existing Wynn Palace property. The Company is planning seven 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 would have lots of non-gaming features. Attractions being planned include a 60-foot gong fire hanging in the center of the venue with acrobats on cables going up and down lightly playing the gongs. The pavilion would have a theater 600 foot high with a fully immersive theater with 45-minute shows playing throughout the day. 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 decrease the Company's 2019 and 2020 total revenue forecasts by 6.3% and 7.8%, respectively. We forecast 2019-2021 net revenue of HK\$39.0 billion, HK\$43.3 billion and HK\$46.4 billion, respectively, representing growth of -1.6%, 11.1% and 7.3%, respectively. 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. However, we expect revenue growth to recover in 2020 by which time the newly redesigned and remodeled Encore Tower Suites at the Wynn Macau property will be reopened and operational.

We cut the Company's 2019 and 2020 adjusted EBITDA forecasts by 12.1% and 7.1%, respectively. We forecast the Company's 2019-2021 adjusted EBITDA at HK\$11.1 billion, HK\$12.5 billion and HK\$13.6 billion, respectively, representing growth of -10.3%, 12.8% and 9.0%, respectively. The Company's adjusted EBITDA margin was 31.2% in 2018, and we forecast it to decline to 28.4% in 2019 and then to recover to 28.9% and 29.3% in 2020 and 2021, respectively. We expect that the renovation this year at the Wynn Macau property will disrupt normal operations to some extent while some operating costs remain constant, thereby putting downward pressure on EBITDA margin this year. However, we expect EBITDA margin to start to increase again in 2020 after the renovation work is completed; we think the increase will be limited as by then the Company will be competing with SJM Holdings (00880 HK)'s Lisboa Palace, which is expected to open toward the end of 2019. We forecast 2019-2021 EPS of HK\$0.947, HK\$1.231 and HK\$1.457, respectively, representing growth of -21.2%, 30.1% and 18.3%.

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	1,037,262	1,167,200	n.a.	921,002	1,020,253	1,091,256	(11.2%)	(12.6%)	n.a.
VIP Win rate (% of turnover)	2.85%	2.85%	n.a.	2.85%	2.85%	2.85%	0.0 ppt	0.0 ppt	n.a.
VIP gross win	29,562	33,265	n.a.	26,249	29,077	31,101	(11.2%)	(12.6%)	n.a.
Mass tables gross win	19,359	22,031	n.a.	18,035	20,155	21,687	(6.8%)	(8.5%)	n.a.
Slot machine handle	70,740	81,085	n.a.	70,877	79,850	86,386	10.2%	(1.5%)	n.a.
Slots win rate (% of handle)	3.88%	3.88%	n.a.	4.33%	4.33%	4.33%	0.4 ppt	0.4 ppt	n.a.
Slot machine gross win	2,747	3,149	n.a.	3,066	3,454	3,736	11.6%	9.7%	n.a.
Commissions & discounts	(16,179)	(18,219)	n.a.	(14,001)	(15,515)	(16,599)	(13.5%)	(14.8%)	n.a.
Casino revenue (net)	35,489	40,227	n.a.	33,349	37,171	39,926	(6.0%)	(7.6%)	n.a.
Non-casino rev. (net)	6,072	6,689	n.a.	5,604	6,101	6,506	(7.7%)	(8.8%)	n.a.
Total revenues (net)	41,561	46,916	n.a.	38,952	43,272	46,433	(6.3%)	(7.8%)	n.a.
Operating profit	8,018	8,728	n.a.	6,308	7,593	8,630	(21.3%)	(13.0%)	n.a.
Operating profit margin	19.3%	18.6%	n.a.	16.2%	17.5%	18.6%	(3.1) ppt	(1.1) ppt	n.a.
Adjusted property EBITDA	12,600	13,451	n.a.	11,081	12,495	13,620	(12.1%)	(7.1%)	n.a.
Adj. property EBITDA margin	30.3%	28.7%	n.a.	28.4%	28.9%	29.3%	(1.9) ppt	0.2 ppt	n.a.
Net profit	6,599	7,485	n.a.	4,915	6,389	7,563	(25.5%)	(14.7%)	n.a.
Net profit margin	15.9%	16.0%	n.a.	12.6%	14.8%	16.3%	(3.3) ppt	(1.2) ppt	n.a.
EPS, basic (HK\$)	1.272	1.442	n.a.	0.947	1.231	1.457	(25.5%)	(14.7%)	n.a.
EPS, diluted (HK\$)	1.266	1.435	n.a.	0.946	1.229	1.455	(25.3%)	(14.3%)	n.a.

Source: the Company, Guotai Junan International.

VALUATION

We increase Wynn Macau's target price from HK\$19.00 to HK\$21.50 but lower our investment rating from "Accumulate" to "Neutral". Although we have lowered Wynn Macau's adjusted EBITDA forecasts, we are increasing our target price since sector sentiment and valuations have improved since our last company report. However, we downgrade the Company's investment rating since the Company's current share price of HK\$21.20 has increased 19.2% since our last company report and has exceeded our previous target price of HK\$19.00 when we had an "Accumulate" investment rating. We also see downside risks being that the remodeling and reconstruction at the Wynn Macau property might be more disruptive or take longer than expected. Our new target price is equivalent to 12.0x 2019 EV/adjusted EBITDA, which is also the Company's average EV/adjusted EBITDA during the last five years. Our target price is also a 19.7% discount to our DCF derived NAV per share of HK\$26.89.

Table-5: Target Price Based Valuation and Multiples

	FY18A	Next 4 Quarters	FY19F	FY20F	FY21F
Target price	HK\$21.50				
Shares outstanding, period end, fully diluted (mn)	5,193	5,197	5,197	5,198	5,198
TP based market cap (HK\$ mn)	111,656	111,738	111,738	111,751	111,765
+ Period end minority interest (HK\$ mn)	0	0	0	0	0
+ Period end borrowings (HK\$ mn)	33,078	26,157	26,157	24,163	20,180
- Period end cash & equivalents (HK\$ mn)	9,533	4,387	4,387	4,452	2,907
Year end enterprise value (HK\$ mn)	135,201	133,508	133,508	131,462	129,037
Adjusted property EBITDA (HK\$ mn)	12,347	11,081	11,081.1	12,495	13,620
TP Based EV/Adjusted Property EBITDA	11.0	12.0	12.0	10.5	9.5
EPS (HK\$), diluted	1.20	0.95	0.95	1.23	1.45
Target Price Based PER	17.9	22.7	22.7	17.5	14.8

Source: the Company, Guotai Junan International.

Table-6: DCF Valuation

Risk free rate	1.80%	Sum of PV FCFF (HK\$ mn)	92,554
Market return	11.86%	+ PV Terminal value (HK\$ mn)	67,203
Market risk premium	10.06%	Enterprise value (HK\$ mn)	159,756
Adj. Beta	1.1	- Net debt/(cash) (HK\$ mn)	20,199
Equity discount rate	12.87%	Equity value (HK\$ mn)	139,557
		Shares outstanding (mn)	5,190
After tax cost of debt	3.2%	NAV per share (HK\$)	26.89
D/(D+E)	50.0%		
E/(D+E)	50.0%		
WACC	8.0%		
Long-term growth rate	3.0%		

Source: Bloomberg, the Company, Guotai Junan International.

Table-7: 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	Fwd	19F		
Macau Operators														
Galaxy Entertain	00027 HK	HKD	59.000	255.6	17.0	17.5	18.4	16.7	15.4	14.0	14.0	12.5	3.6	19.6
Melco Crown-Adr	MPEL US	USD	25.910	94.9	22.6	28.1	18.4	22.0	9.6	10.3	9.8	8.9	5.1	16.8
Mgm China	02282 HK	HKD	16.440	62.5	26.5	24.9	23.7	17.8	16.7	12.7	12.7	10.8	5.8	25.2
Sands China Ltd	01928 HK	HKD	43.400	350.8	20.2	20.9	20.9	18.8	15.6	15.4	15.4	13.9	9.9	48.0
Sjm Holdings Ltd	00880 HK	HKD	9.660	54.7	18.7	21.5	23.1	20.6	15.1	16.1	16.1	11.6	2.0	8.5
Wynn Macau Ltd	01128 HK	HKD	21.200	110.2	21.1	16.7	17.7	16.1	12.0	12.5	12.6	11.7	67.7	407.7
Simple Average					20.9	21.5	20.5	18.3	13.2	12.6	12.6	10.9	13.7	76.1
Weighted Average					20.0	20.5	19.9	18.3	14.6	14.0	14.0	12.4	13.8	75.8
USA Operators														
Las Vegas Sands	LVS US	USD	68.160	413.3	19.5	21.0	21.0	19.5	12.3	12.3	12.2	11.7	9.2	41.9
Mgm Resorts Inte	MGM US	USD	27.440	115.6	22.3	22.4	22.2	16.2	10.8	10.4	10.1	9.0	2.3	8.2
Penn Natl Gaming	PENN US	USD	21.140	19.4	18.9	14.0	14.0	10.1	7.1	7.4	7.2	6.7	2.9	63.2
Wynn Resorts Ltd	WYNN US	USD	144.720	122.2	21.6	22.8	22.6	18.2	12.1	11.9	11.9	10.1	6.8	32.6
Simple Average					20.6	20.0	20.0	16.0	10.6	10.5	10.4	9.4	5.3	36.5
Weighted Average					20.4	21.4	21.3	18.4	11.9	11.7	11.6	10.8	7.4	35.0
Other Operators														
Genting Singapor	GENS SP	SGD	0.965	67.5	17.3	10.8	15.6	15.3	9.6	6.7	6.7	6.3	1.4	9.2
Genting Malaysia	GENM MK	MYR	3.090	33.1	16.7	12.9	15.0	13.0	10.3	7.7	7.7	6.8	0.9	6.2
Bloomberry Res	BLOOM PM	PHP	12.600	21.0	16.6	19.1	18.1	15.4	9.5	10.0	10.0	8.8	3.2	19.2
Belle Corp	BEL PM	PHP	2.490	3.7	14.8	7.5	7.5	6.6	15.2	8.4	8.4	6.3	0.9	11.8
Simple Average					16.4	12.6	14.1	12.6	11.2	8.2	8.2	7.1	1.6	11.6
Weighted Average					17.0	12.7	15.6	14.5	9.9	7.6	7.6	6.9	1.6	10.2

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
	2017A	2018A	2019F	2020F	2021F		2017A	2018A	2019F	2020F	2021F
Year end 31 Dec (HKD m)						Year end 31 Dec (HKD m)					
Total revenue	34,032	39,592	38,952	43,272	46,433	Property and equipment and construction in progress	33,504	31,943	30,496	28,841	27,056
Gaming taxes and premiums	(16,737)	(18,928)	(18,514)	(20,636)	(22,165)	Leasehold interest in land	1,686	1,590	1,498	1,403	1,308
Staff costs	(4,612)	(4,987)	(5,486)	(6,043)	(6,268)	Goodwill	398	398	398	398	398
Other operating expenses	(4,404)	(5,098)	(5,582)	(5,992)	(6,408)	Others	833	749	738	813	868
Depreciation and amortisation	(2,776)	(2,726)	(2,813)	(2,733)	(2,655)	Total non-current assets	36,422	34,681	33,131	31,456	29,630
Property charges and other	(133)	(154)	(249)	(276)	(305)	Cash & cash equivalents	5,240	9,526	4,356	4,397	2,829
Operating profit	5,370	7,698	6,308	7,593	8,630	Inventories	332	313	308	342	367
Finance revenues	15	103	75	47	39	Trade and other receivables	677	1,135	1,117	1,241	1,332
Finance costs	(1,270)	(1,496)	(1,459)	(1,239)	(1,091)	Prepayments and other current assets	134	136	129	122	115
Others	(402)	(48)	0	0	0	Others	192	290	309	364	411
Profit before tax	3,713	6,258	4,925	6,401	7,578	Total current assets	6,574	11,401	6,220	6,466	5,053
Income Tax	(12)	(12)	(10)	(13)	(15)	Total assets	42,996	46,082	39,350	37,922	34,683
Profit after tax	3,700	6,245	4,915	6,389	7,563	Accounts payable	1,137	1,160	1,142	1,268	1,361
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	4,915	6,389	7,563	Others	770	201	209	221	233
Basic EPS	0.714	1.204	0.947	1.231	1.457	Total current liabilities	11,876	11,065	11,061	11,205	11,315
Diluted EPS	0.713	1.203	0.946	1.229	1.455	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	37,608	35,730	31,828
						Total shareholders' equity	3,001	1,518	1,742	2,192	2,855
						Minority interest	0	0	0	0	0
						Total equity	3,001	1,518	1,742	2,192	2,855
Cash Flow Statement						Financial Ratios					
	2017A	2018F	2019F	2020F	2021F		2017A	2018A	2019F	2020F	2021F
Year end 31 Dec (HKD m)						Margins					
Profit before tax	3,713	6,258	4,925	6,401	7,578	Effective gaming tax rate	56.7%	55.5%	55.5%	55.5%	55.5%
Depreciation of property and equipment	2,681	2,628	2,718	2,638	2,560	Operating margin	15.8%	19.4%	16.2%	17.5%	18.6%
Amortisation of leasehold interest in land	95	95	95	95	95	Net profit margin	10.9%	15.8%	12.6%	14.8%	16.3%
Provision for doubtful accounts	(56)	5	(14)	(22)	(10)	Adj. property EBITDA margin	29.5%	31.2%	28.4%	28.9%	29.3%
Share-based payment expense	111	106	109	123	134	Return Ratios					
Finance costs	1,270	1,496	1,459	1,239	1,091	ROA	8.6%	14.0%	11.5%	16.5%	20.8%
Working capital adjustments	4,333	(786)	22	(14)	(6)	ROE	135.7%	276.4%	301.5%	324.8%	299.7%
Others	520	(103)	(74)	(46)	(36)	Return on capital employed	16.3%	23.4%	20.2%	28.0%	34.9%
Cash from operating activities	12,667	9,700	9,239	10,414	11,407	Return on invested capital	1.4%	5.8%	7.8%	8.1%	8.7%
Increase in restricted cash and cash equivalents	5	4	(24)	(24)	(24)	Liquidity & leverage					
Purchase of property and equipment, net of construction retention pay	(1,261)	(1,162)	(1,366)	(1,078)	(870)	Leverage (ie., gearing)	1031.3%	1463.9%	1604.3%	1228.3%	799.7%
Others	99	103	176	71	82	Net gearing	839.2%	1042.3%	1337.2%	1004.8%	687.6%
Cash from investing activities	(1,157)	(1,056)	(1,213)	(1,032)	(812)	Interest coverage ratio (x)	4.3	5.5	4.6	6.4	8.2
Proceeds from borrowings	11,951	0	0	0	0	Current ratio (x)	0.6	1.0	0.6	0.6	0.4
Repayment of borrowings	(16,069)	5,404	(6,926)	(1,999)	(3,988)						
Interest paid	(1,079)	(1,496)	(1,459)	(1,239)	(1,091)						
Special/interim dividends paid	(3,272)	(6,223)	(4,423)	(5,750)	(6,807)						
Others	(394)	(2,003)	(388)	(354)	(277)						
Cash from financing activities	(8,864)	(4,317)	(13,196)	(9,341)	(12,163)						
Cash at beg of year	2,591	5,240	9,526	4,356	4,397						
Net changes in cash	2,647	4,327	(5,170)	40	(1,568)						
Effect of foreign exchanges	1	(40)	0	0	0						
Cash at end of year	5,240	9,526	4,356	4,397	2,829						

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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