



Company Report: Galaxy Entertainment (00027 HK)

公司报告: 银河娱乐 (00027 HK)

Noah Hudson

(852) 2509 5441

noah.hudson@gjtjas.com.hk

10 October 2019

Share Price Hit Our Target Price, Upgrade to "Neutral"

股价达到我们目标价，上调到“中性”

- **We maintain our previous forecasts unchanged.** We forecast 2019-2021 total net revenue of HK\$52.9 bn, HK\$53.1 bn and HK\$55.9 bn, respectively, reflecting growth of -4.2%, 0.3% and 5.3%. We forecast 2019-2021 adjusted EBITDA of HK\$16.4 bn, HK\$16.0 bn and HK\$16.7 bn, respectively, reflecting growth of -1.7%, -0.8% and 5.3%, respectively. We forecast 2019-2021 fully diluted EPS of HK\$3.157, HK\$3.177 and HK\$3.274, respectively, reflecting 1.7% CAGR.
- **We maintain our HK\$48.00 target price but upgrade GEG to "Neutral".** Since our last Company Report on 12 Sep., our outlook remains intact, but GEG's share price has decreased to our target price. Our target price is equivalent to 13.5x/ 12.8x 2019/ 2020 EV/ adjusted EBITDA, and is 16.2x/ 15.7x 2019/ 2020 PER.
- **我们维持上次预期不变。**我们预测 2019 年至 2021 年净收入分别为 529 亿港元、531 亿港元和 559 亿港元，分别对应-4.2%、0.3%和 5.3%的增长率。我们预测 2019 年至 2021 年经调整 EBITDA 分别为 164 亿港元、160 亿港元和 167 亿港元，分别对应-1.7%、-0.8%和 5.3%的增长率。我们预测 2019 年至 2021 年每股摊薄收益分别为 3.157 港元、3.177 港元和 3.274 港元，相当于 1.7%的复合年增长率。
- **我们维持 48.00 港元的目标价，但是上调银河的投资评级至“中性”。**自 9 月 12 日发表上一份公司报告以来，我们的展望维持不变，但是公司股价已经下跌并低于我们目标价。我们的目标价相当于 13.5/12.8 倍 2019/2020 年经调整 EV/EBITDA，以及 16.2/15.7 倍 2019/2020 年市盈率。

Rating:

Neutral

Upgraded

评级:

中性 (上调)

6-18m TP 目标价:

HK\$48.00

Revised from 原目标价:

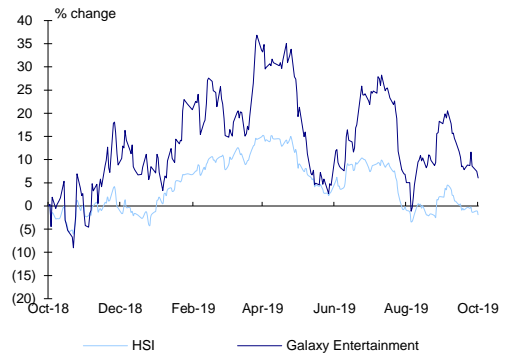
HK\$48.00

Share price 股价:

HK\$47.500

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 %	(9.1)	(12.2)	7.9
Rel. % to HS Index 相对恒指变动 %	(5.4)	(3.5)	9.8
Avg. share price (HK\$) 平均股价 (港元)	50.5	51.2	51.0

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	(HK\$ m)	(HK\$ m)	(HK\$)	(Δ %)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
2017A	48,640	10,504	2.451	66.4	19.4	12.878	3.7	0.589	1.2	20.7
2018A	55,211	13,507	3.128	27.6	15.2	14.400	3.3	0.910	1.9	23.0
2019F	52,880	13,735	3.163	1.1	15.0	16.068	3.0	0.949	2.0	20.8
2020F	53,062	13,842	3.182	0.6	14.9	18.195	2.6	1.115	2.3	18.6
2021F	55,867	14,317	3.278	3.0	14.5	20.387	2.3	1.149	2.4	17.0

Shares in issue (m) 总股数 (m)	4,332.6	Major shareholder 大股东	City Lion Profits 22.5%
Market cap. (HK\$ m) 市值 (HK\$ m)	205,798.1	Free float (%) 自由流通比率 (%)	46.1
3 month average vol. 3 个月平均成交股数 ('000)	9,602.4	FY19 Net gearing (%) FY19 净负债/股东资金 (%)	Net cash
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	61.529 / 39.596	FY19 Est. NAV (HK\$) FY19 每股估值 (港元)	60.4

Source: the Company, Guotai Junan International.

Table-1 : Gaming Sector Peers Comparison

Company	Stock Code	Crncy	Price	M-Cap Billion (HK\$)	PE				EV/ Adjusted EBITDA				PB 19F	ROE 19F (%)
					Hist Avg.				Hist Avg.					
						Fwd*	Fwd*	19F		20F	Fwd*	Fwd*		
Macau Operators														
Galaxy Entertain	00027 HK	HKD	47.500	205.8	19.6	15.4	15.4	14.8	14.1	12.1	12.1	11.2	2.9	19.9
Melco Resorts	MLCO US	USD	18.960	72.2	21.8	17.2	18.8	15.9	9.3	8.5	8.4	7.7	3.7	19.5
Mgm China	02282 HK	HKD	11.940	45.4	26.1	19.4	19.4	15.1	14.8	9.6	9.6	8.2	4.2	23.8
Sands China Ltd	01928 HK	HKD	34.450	278.6	19.8	16.6	16.6	15.0	14.9	12.2	12.2	11.3	7.8	47.9
Sjm Holdings Ltd	00880 HK	HKD	7.380	41.8	19.8	14.2	14.2	16.1	13.4	11.7	11.7	9.7	1.4	10.5
Wynn Macau Ltd	01128 HK	HKD	14.980	77.9	19.0	14.0	14.0	12.5	12.8	9.3	9.3	9.1	65.1	362.9
Simple Average					20.8	16.7	16.9	14.9	12.4	10.0	10.0	9.0	12.4	70.4
Weighted Average					20.2	16.1	16.2	14.8	13.8	11.3	11.3	10.4	11.6	67.4
USA Operators														
Las Vegas Sands	LVS US	USD	53.470	322.9	19.4	17.0	16.3	15.9	11.8	10.0	10.1	9.8	6.9	43.0
Mgm Resorts Inte	MGM US	USD	26.350	107.8	22.0	20.1	28.5	16.9	10.5	9.7	10.0	8.8	1.9	6.7
Penn Natl Gaming	PENN US	USD	18.535	16.8	16.7	9.6	11.8	8.1	6.9	7.6	7.0	6.6	1.1	11.6
Wynn Resorts Ltd	WYNN US	USD	102.570	86.6	20.2	18.3	18.9	14.9	11.4	9.9	10.6	8.8	5.8	25.9
Simple Average					19.6	16.2	18.9	14.0	10.1	9.3	9.4	8.5	3.9	21.8
Weighted Average					19.8	16.8	19.3	15.0	10.6	9.5	9.6	9.0	4.4	26.8
Other Operators														
Bloomerry Res	BLOOM PM	PHP	10.700	17.9	16.1	14.6	14.6	13.4	9.2	8.6	8.6	7.9	2.7	20.0
Belle Corp	BEL PM	PHP	2.050	3.0	11.7	n.a.	n.a.	n.a.	11.9	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average					13.9	14.6	14.6	13.4	10.6	8.6	8.6	7.9	2.7	20.0
Weighted Average					16.1	14.6	14.6	13.4	9.2	8.6	8.6	7.9	2.7	20.0

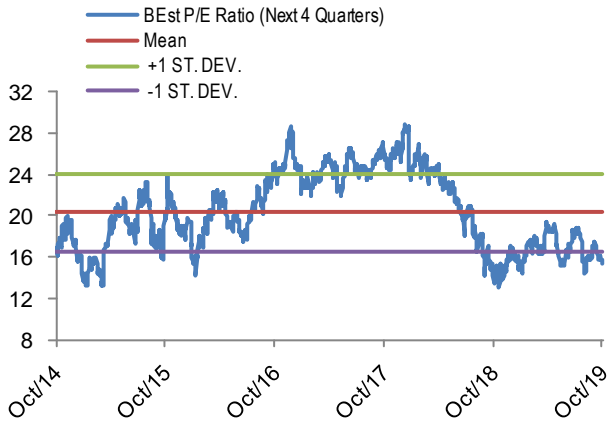
Source: Bloomberg, Guotai Junan International.

Note*: "Fwd" valuations are based on the next four quarters, next two semi-annuals or next fiscal year.

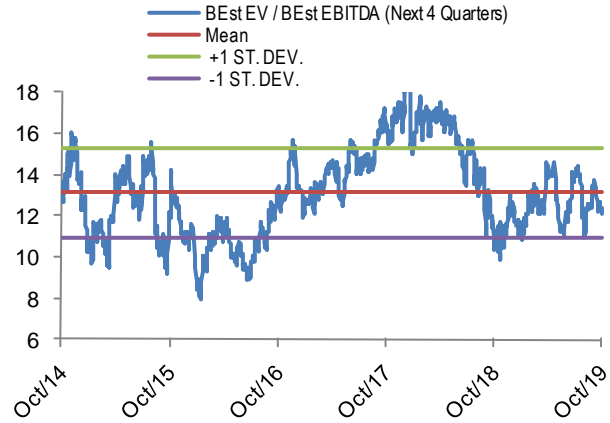
Table-2 : Galaxy Entertainment Target Price Based on Valuation and Multiples

	FY18A	FY19F	Next 4 Quarters	FY20F	FY21F
Target Price	HK\$48.00				
Shares Outstanding, Period End, Fully Diluted (mn)	4,298	4,311	4,346	4,339	4,353
TP Based Market Cap (HK\$ mn)	206,309	206,935	208,595	208,251	208,939
+ Period End Minority Interest (HK\$ mn)	534	551	559	568	585
+ Period End Borrowings (HK\$ mn)	9,944	9,055	9,409	9,512	9,307
- Period End Cash & Equivalents (HK\$ mn)	17,600	14,505	15,976	14,782	17,170
Year End Enterprise Value (HK\$ mn)	199,187	202,036	202,588	203,549	201,661
Adjusted EBITDA (HK\$ mn)	14,147	16,857	16,140	16,373	16,025
TP Based EV/Adjusted EBITDA	14.1	12.0	12.6	12.4	12.6
EPS (HK\$), Diluted	2.44	3.11	3.167	3.16	3.18
Target Price Based PER	19.7	15.4	15.2	15.2	15.1

Source: Bloomberg, Guotai Junan International.

Figure-1: GEG Historical Forward PE


Source: Bloomberg, Guotai Junan International.

Figure-2: GEG Historical Forward EV/Adjusted EBITDA


Source: Bloomberg, Guotai Junan International.

Table-3 : GEG DCF Valuation

Risk free rate	1.81%	Sum of PV FCFF (HK\$ mn)	111,739
Market return	11.15%	+ PV terminal value (HK\$ mn)	119,889
Market risk premium	9.34%	Enterprise value (HK\$ mn)	231,628
Adj. beta	1.1	- Net debt/(cash) (HK\$ mn)	-31,344
Equity discount rate	12.1%	Equity value (HK\$ mn)	262,972
		Shares outstanding (mn)	4,353
After tax cost of debt	1.1%	NAV per share (HK\$)	60.41
D/(D+E)	13.6%		
E/(D+E)	86.4%		
WACC	10.6%		
Long-term growth rate	3.0%		

Source: Bloomberg, the Company, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (HKD m)	2017A	2018A	2019F	2020F	2021F	Year end 31 Dec (HKD m)	2017A	2018A	2019F	2020F	2021F
Total revenue	48,640	55,211	52,880	53,062	55,867	PP&E	31,802	31,359	37,485	43,066	48,151
Special gaming taxes	(21,999)	(25,620)	(22,826)	(22,160)	(23,291)	Leasehold land use rights	5,013	4,921	4,829	4,737	4,645
Raw materials & consumable used	(1,262)	(1,199)	(996)	(1,000)	(1,052)	Intangible assets	921	722	524	325	126
Amortisation & depreciation	(3,349)	(3,316)	(3,507)	(4,045)	(4,534)	Joint ventures	1,518	1,631	1,744	1,856	1,969
Employee benefit expense	(7,369)	(7,785)	(8,355)	(8,384)	(8,827)	Held-to-maturity financial assets	23,688	25,779	27,869	29,960	32,050
Other operating expenses	(4,811)	(5,073)	(4,888)	(4,904)	(5,164)	Others	771	4,658	4,685	4,711	4,737
Operating profit	9,850	12,219	12,308	12,569	12,999	Total non-current assets	63,713	69,071	77,135	84,654	91,678
Other income/gains, net	598	1,146	1,166	857	746	Cash & cash equivalents	15,702	13,778	16,053	18,142	22,282
Finance costs	(64)	(139)	(136)	(137)	(137)	Inventories	171	190	159	159	168
Joint ventures	244	388	550	713	875	Debtors and prepayments	1,962	1,860	1,782	1,788	1,883
Associated companies	(0)	0	(0)	(0)	(0)	Amounts due from joint ventures	205	179	153	127	101
Profit before tax	10,628	13,614	13,888	14,001	14,483	Others	2,061	2,306	(471)	(565)	(902)
Income tax	(113)	(43)	(146)	(147)	(152)	Total current assets	20,101	18,313	17,675	19,651	23,532
Profit after tax	10,516	13,570	13,742	13,854	14,330	Total assets	83,815	87,384	94,810	104,305	115,209
Non-controlling interest	(11)	(63)	(7)	(12)	(13)	Creditors & accruals	17,237	14,828	14,202	14,250	15,004
Shareholders' profit / loss	10,504	13,507	13,735	13,842	14,317	Borrowings & short-term bank loans	9,685	8,804	9,244	9,024	9,134
Basic EPS	2.451	3.128	3.163	3.182	3.278	Others	113	107	109	114	121
Diluted EPS	2.437	3.113	3.157	3.177	3.274	Total current liabilities	27,035	23,739	23,555	23,388	24,259
						Borrowings	259	251	267	283	299
						Deferred taxation liabilities	268	195	199	200	207
						Other non-current payable	236	368	456	544	635
						Total non-current liabilities	764	814	922	1,028	1,142
						Total liabilities	27,799	24,553	24,478	24,416	25,401
						Total shareholders' equity	55,482	62,280	69,765	79,305	89,206
						Minority interest	534	551	568	585	602
						Total equity	56,016	62,831	70,333	79,890	89,808
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (HKD m)	2017A	2018A	2019F	2020F	2021F		2017A	2018A	2019F	2020F	2021F
Profit before tax	10,628	13,614	13,888	14,001	14,483	Margins					
Finance costs	64	139	136	137	137	Effective gaming tax rate	39.4%	39.4%	39.4%	39.4%	39.4%
Depreciation & amortisation	3,349	3,316	3,507	4,045	4,534	Operating margin	20.3%	22.1%	23.3%	23.7%	23.3%
Changes in working capital	5,066	(1,769)	(493)	68	679	Net profit margin	21.6%	24.5%	26.0%	26.1%	25.6%
Total taxes paid	(94)	(128)	(138)	(141)	(141)	Adj. EBITDA margin	29.1%	30.5%	31.0%	30.2%	29.9%
Others	(493)	(1,388)	(269)	(283)	(1)	Return ratios					
Cash from operating activities	18,520	13,784	16,631	17,827	19,691	ROA	14.0%	15.9%	15.1%	13.9%	13.1%
Purchase of PP&E	(2,008)	(3,009)	(9,633)	(9,626)	(9,619)	ROE	20.7%	23.0%	20.8%	18.6%	17.0%
Decrease/(increase) in pledged & bank deposits	11,277	1,156	(61)	(61)	(61)	Return on capital invested	16.7%	17.9%	16.3%	15.0%	13.9%
Others	(20,385)	(9,385)	(1,871)	(1,859)	(1,830)	Liquidity & leverage					
Cash from investing activities	(11,117)	(11,238)	(11,565)	(11,546)	(11,510)	Leverage (i.e., gearing)	19.5%	15.4%	14.4%	12.5%	11.2%
Issue of new shares	348	382	898	898	898	Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash
Change in bank loans, net	3,715	(864)	457	(204)	126	Interest coverage ratio (x)	14.3	10.8	45.7	44.4	41.7
Dividends paid to shareholders	(2,526)	(3,930)	(4,123)	(4,849)	(5,016)	Current ratio (x)	0.7	0.8	0.8	0.8	1.0
Others	(57)	(50)	(15)	(29)	(41)						
Cash from financing activities	1,480	(4,462)	(2,783)	(4,185)	(4,033)						
Cash at beg of year	6,803	15,702	13,778	16,053	18,142						
Net changes in cash	8,884	(1,916)	2,283	2,097	4,148						
Effect of foreign exchanges	15	(8)	(8)	(8)	(8)						
Cash at end of year	15,702	13,778	16,053	18,142	22,282						

Source: the Company, Guotai Junan International.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

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

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

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

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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