



Company Report: Sands China (01928 HK)

公司报告: 金沙中国 (01928 HK)

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Slowdown in Premium Mass, Downgrade to "Neutral"

高端中场业务放缓, 下调至“中性”

- Sands China (the "Company")'s 3Q18 adjusted property EBITDA increased 15.8% yoy to US\$754 mn, in line with market expectations.** Company-wide overall VIP win rate was 3.27%, much higher than the 2.90% experienced in 3Q17 but lower than the 3.47% in 2Q18. Assuming a company-wide overall 3.15% VIP win rate, normalized adjusted EBITDA would have increased by 11.5% yoy to US\$745 mn, in line with Bloomberg consensus forecast but less than our previous expectation. The Company's total market share increased by 1.2 ppt yoy and 0.3 ppt qoq in 3Q18.
- We decrease the Company's 2018-2020 total revenue forecasts by 11.0%, 14.3% and 12.0%, respectively.** We forecast 2018-2020 total revenue of US\$8.5 bn, US\$8.9 bn and US\$9.7 bn, respectively, reflecting 8.1% CAGR. We recently downgraded our sector rating from "Outperform" to "Neutral" (please see our 22 Nov. sector report). We decrease the Company's 2018-2020 adjusted property EBITDA forecasts by 9.4%, 14.8% and 10.7%, respectively. We now forecast 2018-2020 adjusted property EBITDA of US\$3.0 bn, US\$3.0 bn and US\$3.3 bn, respectively.
- We decrease our target price from HK\$53.00 to HK\$35.00 and downgrade our investment rating to "Neutral".** While the additional capex for expansion announced by the Company will be good in the long term, we expect at least some level of disruption to operations and revenue during 2019 and 2020 while renovations and construction work will be underway. In addition, we see downside risk, given the Company's exposure to premium mass. Our target price is equivalent to 13.0x/ 13.0x 2018/ 2019 EV/adjusted EBITDA and 18.8x/ 16.8x 2018/ 2019 PER and is a 20.7% discount to our DCF derived NAV per share of HK\$44.12.
- 金沙中国 (以下简称“公司”) 2018 年第 3 季度经调整后物业 EBITDA 同比增长 15.8% 至 7.54 亿美元, 符合市场预期。**公司整体贵宾博彩赢率达 3.27%, 大幅高于去年同期的 2.90%, 但低于上一季度的 3.47%。假设公司整体贵宾博彩赢率为 3.15%, 标准化的经调整后 EBITDA 则同比增长 11.5% 至 7.45 亿美元, 符合市场预期, 但低于我们的预期。公司总体市场份额于 2018 第 3 季度同比上升 1.2 个百分点、环比上升 0.3 个百分点。
- 我们分别下调公司 2018-2020 年营收预测 11.0%、14.3% 和 12.0%。**我们预计 2018-2020 年营收分别为 85 亿、89 亿和 97 亿美元, 年复合增长率为 8.1%。我们近期下调了我们的行业预测, 由“跑赢大市”降至“中性”(请参见我们 11 月 22 日的行业报告)。我们下降了对公司经调整后物业 EBITDA 的预测, 分别在 2018-2020 年下调 9.4%、14.8% 和 10.7%。下降后的 2018-2020 年经调整后物业 EBITDA 分别为 30 亿、30 亿和 33 亿美元。
- 我们将目标价由 53.00 港元降至 35.00 港元, 并下调投资评级至“中性”。**虽然公司宣布投资扩张, 长期利好, 但 2019-2020 的运营和收入或受施工影响。此外, 由于公司依赖高端中场业务, 我们看到了下行风险。我们的目标价相当于 13.0/13.0 倍 2018/2019 年经调整后 EV/EBITDA、18.8/16.8 倍 2018/2019 年市盈率, 并且较我们用折现现金流方法得出的 44.12 港元的每股估值有 20.7% 的折让。

Rating:

Neutral

Downgraded

评级:

中性 (下调)

6-18m TP 目标价:

HK\$35.00

Revised from 原目标价:

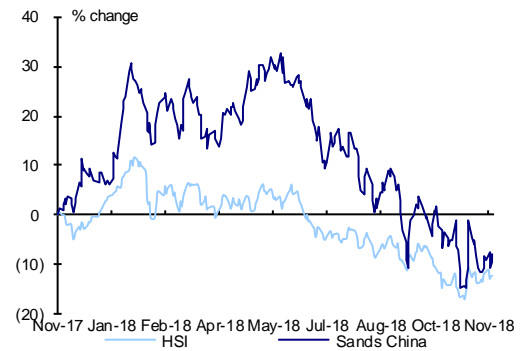
HK\$53.00

Share price 股价:

HK\$32.500

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 %	(2.7)	(13.3)	(12.8)
Rel. % to HS Index 相对恒指变动 %	(4.6)	(6.2)	0.2
Avg. share price (HK\$) 平均股价 (港元)	32.2	34.3	39.8

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	(US\$ m)	(US\$ m)	(US\$)	(Δ %)	(x)	(US\$)	(x)	(US\$)	(%)	(%)
2016A	6,653	1,224	0.152	(16.1)	27.6	0.620	6.8	0.257	6.2	22.6
2017A	7,715	1,603	0.199	30.9	20.9	0.562	7.4	0.257	6.2	33.6
2018F	8,539	1,918	0.238	19.6	17.5	0.541	7.7	0.270	6.5	43.1
2019F	8,945	2,147	0.266	11.9	15.6	0.534	7.8	0.283	6.8	49.5
2020F	9,746	2,416	0.299	12.5	13.9	0.547	7.6	0.298	7.2	55.3

Shares in issue (m) 总股数 (m)	8,055.6	Major shareholder 大股东	Las Vegas Sands (LVS US)	70.2%
Market cap. (HK\$ m) 市值 (HK\$ m)	261,807.9	Free float (%) 自由流通比率 (%)		29.8
3 month average vol. 3 个月平均成交股数 ('000)	16,410.7	FY18 Net gearing (%) FY18 净负债/股东资金 (%)		64.0%
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	49.350 / 29.850	FY18 Est. NAV (HK\$) FY18 每股估值 (港元)		44.1

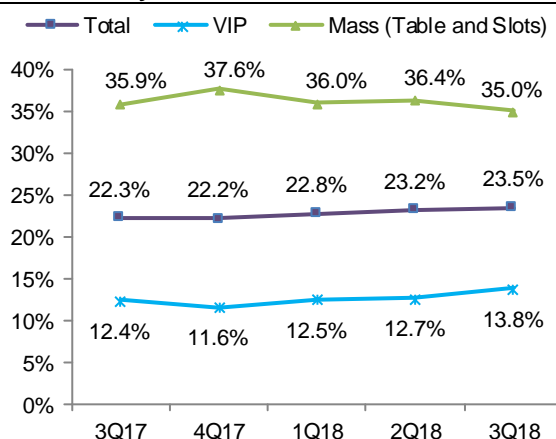
Source: the Company, Guotai Junan International.

3Q18 Results

Sands China (the "Company") delivered solid adjusted property EBITDA in 3Q18, 1.7% above Bloomberg consensus forecast but less than we had expected. Total adjusted property EBITDA increased 15.8% yoy (increased 0.5% qoq) to US\$754 million, with company-wide overall VIP win rate of 3.27%, much higher than the 2.90% experienced in 3Q17 but lower than the 3.47% in 2Q18. Assuming a company-wide overall 3.15% VIP win rate, normalized adjusted EBITDA would have increased by 11.5% yoy to US\$745 million, in line with Bloomberg consensus forecast but less than our previous expectation.

The Company's total market share increased by 1.2 ppt yoy and 0.3 ppt qoq in 3Q18. Sands China's VIP market share increased by 1.4 ppt yoy and by 1.1 ppt qoq to 13.8% during 3Q18. The yoy increase in VIP market share was mainly due to a higher VIP win rate (up 0.4 ppt yoy), while the qoq increase was largely attributable to greater VIP turnover (up 13.0% qoq). In the mass market, however, the Company's market share decreased by 0.9 ppt yoy and by 1.4 ppt qoq to 35.0%, experiencing loss of market share to Melco Resorts & Entertainment (MLVO US) as did all other competitors during the quarter.

Figure-1: Sands China Market Share, Quarterly



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

Table-1: Company Results Summary

US\$ Million	3Q17A	4Q17A	1Q18A	2Q18A	3Q18A	qoq (% or ppt)	yoy (% or ppt)
Total VIP Turnover	20,504	17,630	18,823	18,558	20,974	13.0%	2.3%
Overall VIP Win Rate	2.90%	3.33%	3.53%	3.47%	3.27%	(0.2) ppt	0.4 ppt
Total VIP Win	596	588	665	645	687	6.5%	15.3%
Total Mass Tables Win	1,116	1,323	1,344	1,322	1,321	(0.1%)	18.4%
Total Slots Win	146	161	151	147	139	(5.5%)	(4.4%)
Total Mass Market (tables & slots) Win	1,262	1,484	1,495	1,470	1,460	(0.6%)	15.7%
Company VIP Market Share	12.4%	11.6%	12.5%	12.7%	13.8%	1.1 ppt	1.5 ppt
Company Mass Market Share	35.9%	37.6%	36.0%	36.4%	35.0%	(1.4) ppt	(0.9) ppt
Company Total Market Share	22.3%	22.2%	22.8%	23.2%	23.5%	0.3 ppt	1.2 ppt
Total Revenue	1,924	2,104	2,160	2,110	2,150	1.9%	11.7%
Total Adjusted Property EBITDA	651	731	789	750	754	0.5%	15.8%
Total Adjusted Property EBITDA margin	33.8%	34.7%	36.5%	35.5%	35.1%	(0.5) ppt	1.2 ppt

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

During 3Q18, the Company's total VIP turnover was US\$21.0 billion, up 2.3% yoy and 13.0% qoq, outperforming Macau sector VIP gross gaming revenue ("GGR") growth. Macau's total VIP GGR increased by 3.2% yoy but declined by 3.2% qoq during 3Q18. The Company's overall VIP win rate was 3.27% for the quarter, compared with 2.90% in 3Q17 and 3.47% in 2Q18. The significant increase in VIP win rate on a yoy basis and the substantial increase in VIP turnover on a qoq basis resulted in Sands China gaining market share in the VIP segment both yoy and qoq. Accordingly, the Company's total VIP gross win rate for the quarter increased by 15.3% yoy and 6.5% qoq to US\$687 million.

Sands China's total gross win rate for the mass segment (tables & slots) increased by 15.7% yoy and decreased by 0.6% qoq, underperforming the growth rate of 19.2% yoy and 3.3% qoq in Macau's total mass market GGR. The underperformance was largely attributable to the slowdown in the Company's premium mass business, which started its skyrocketing growth in 4Q16 with a compound quarterly growth rate of 38.3% until 2Q18. For 3Q18, premium mass table win rate only grew 23.4% yoy and declined 7.1% qoq to US\$616 million. By comparison, base mass continued to grow steadily, up 14.3% yoy and 7.0% qoq to US\$705 million. In the recent two quarters, while Macau's VIP GGR growth rate has slowed down significantly, the overall mass market GGR has largely continued its strong growth. During 3Q18, Macau's VIP GGR growth slowed to just 3.6% yoy but the mass segment's GGR growth remained strong at 19.2% yoy. Mass market segment provides around 70% of Sands China's total GGR. However, in 3Q18 the Company derived about half of its mass market GGR from premium mass business, which we think suffered slower growth, similar to the VIP segment.

Table-2: Property & Segment Level Results Summary

US\$ Million	3Q17A	4Q17A	1Q18A	2Q18A	3Q18A	qoq (% or ppt)	yoy (% or ppt)
Property Revenues							
Venetian Macao	702	844	868	830	857	3.3%	22.1%
Sands Cotai Central	467	557	549	509	537	5.5%	15.0%
Sands Macao	142	154	154	180	160	(11.1%)	12.7%
Plaza Macao	140	180	191	186	167	(10.2%)	19.3%
Parisian Macao	411	332	359	371	389	4.9%	(5.4%)
Ferry and others	34	37	32	35	34	(2.9%)	0.0%
Property VIP Market Shares							
Venetian Macao VIP Market Share	4.7%	4.3%	6.2%	4.6%	5.6%	1.1 ppt	0.9 ppt
Sands Cotai Central VIP Market Share	1.6%	1.7%	1.6%	1.7%	2.0%	0.4 ppt	0.5 ppt
Sands Macao VIP Market Share	0.2%	0.5%	0.5%	1.2%	1.0%	(0.2) ppt	0.8 ppt
Plaza Macao VIP Market Share	1.5%	1.5%	1.9%	2.0%	2.0%	0.0 ppt	0.5 ppt
Parisian Macao VIP Market Share	4.5%	2.1%	2.4%	3.3%	3.2%	(0.1) ppt	(1.3) ppt
Property Mass (tables & slots) Market Shares							
Venetian Macao Mass Market Share	13.3%	15.3%	13.8%	14.9%	13.8%	(1.1) ppt	0.5 ppt
Sands Cotai Central Mass Market Share	9.8%	10.6%	10.3%	9.7%	9.4%	(0.3) ppt	(0.4) ppt
Sands Macao Mass Market Share	3.8%	3.4%	3.4%	3.6%	3.2%	(0.4) ppt	(0.6) ppt
Plaza Macao Mass Market Share	2.2%	2.4%	2.5%	2.4%	2.1%	(0.2) ppt	(0.0) ppt
Parisian Macao Mass Market Share	6.8%	5.8%	6.0%	5.8%	6.4%	0.6 ppt	(0.4) ppt
Adjusted Property / Segment EBITDAs							
Venetian Macao	264	326	348	331	344	3.9%	30.3%
Sands Cotai Central	154	203	201	176	188	6.8%	22.1%
Sands Macao	41	40	47	52	41	(21.2%)	0.0%
Plaza Macao	51	71	73	72	53	(26.4%)	3.9%
Parisian Macao	136	88	116	114	122	7.0%	(10.3%)
Ferry and other operations	5.0	5.0	4.0	5.0	6.0	20.0%	20.0%
Adjusted Property / Segment EBITDA Margins							
Venetian Macao	37.6%	38.6%	40.1%	39.9%	40.1%	0.3 ppt	2.5 ppt
Sands Cotai Central	33.0%	36.4%	36.6%	34.6%	35.0%	0.4 ppt	2.0 ppt
Sands Macao	28.9%	26.0%	30.5%	28.9%	25.6%	(3.3) ppt	(3.2) ppt
Plaza Macao	36.4%	39.4%	38.2%	38.7%	31.7%	(7.0) ppt	(4.7) ppt
Parisian Macao	33.1%	26.5%	32.3%	30.7%	31.4%	0.6 ppt	(1.7) ppt
Ferry and other operations	11.6%	11.6%	8.9%	12.5%	14.0%	1.5 ppt	2.3 ppt

Source: the Company, Guotai Junan International.

The Parisian Macao

The Parisian Macao's VIP segment turnover underperformed the market yoy but outperformed qoq. VIP turnover was US\$5.2 billion, down 25.8% yoy but up 15.1% qoq, compared with Macau's VIP GGR growth of 3.3% yoy and -2.3% qoq in 3Q18. The VIP win rate was down 0.01 ppt yoy and 0.66 ppt qoq to 3.10%. VIP gross win recorded US\$160 million, down 26.0% yoy and 5.1% qoq. As a result, the property's 3Q18 VIP market share dropped 1.3 ppt yoy and 0.1 ppt qoq to 3.2%.

The Parisian Macao's mass segment (tables & slots) underperformed the market yoy but outperformed qoq. The property's mass market share (tables and slots) for the quarter dropped 0.4 ppt yoy (increased 0.6 ppt qoq) to 6.4%. Mass table games win rate was 21.6%, up 0.7 ppt yoy and 2.0 ppt qoq. Mass gaming table win increased 8.0% yoy and 9.1% qoq to US\$226 million. Slot machine gross win was US\$42 million, up 44.7% yoy and 47.7% qoq. In total, the property's mass market gross win (tables & slots) increased 12.4% yoy and 13.7% qoq, below Macau total mass market GGR yoy increase of 19.2% but above its qoq increase of 3.3%.

Table-3: The Parisian Macao Operating Results

US\$ Million	3Q17A	4Q17A	1Q18A	2Q18A	3Q18A	qoq (% or ppt)	yoy (% or ppt)
VIP Turnover	6,948	3,845	4,598	4,479	5,155	15.1%	(25.8%)
VIP Win %	3.11	2.75	2.77	3.76	3.10	(0.7) ppt	(0.0) ppt
VIP Gross Win	216	106	127	168	160	(5.1%)	(26.0%)
Mass Tables Drop	1,001	1,016	1,086	1,057	1,046	(1.0%)	4.5%
Mass Tables Win %	20.9	19.8	20.2	19.6	21.6	2.0 ppt	0.7 ppt
Mass Tables Win	209	201	219	207	226	9.1%	8.0%
Slot Machine Handle	927	1,014	1,044	1,173	1,386	18.2%	49.5%
Slot Machine Hold Rate %	3.1	2.9	2.7	2.4	3.0	0.6 ppt	(0.1) ppt
Slot Machine Win	29	29	28	28	42	47.7%	44.7%
Casino Gross Revenue	454	336	375	404	427	5.8%	(5.9%)
Commissions	(113)	(46)	(84)	(96)	(106)	11.1%	(5.9%)
Casino Revenue	341	290	291	308	321	4.2%	(5.9%)
Hotel Net Revenue	34	35	33	28	30	7.1%	(11.8%)
Other Revenue	36	7	35	35	35	0.0%	(2.8%)
Total Property Revenue	411	332	359	371	389	4.9%	(5.4%)
Hotel Occupancy %	94.1	98.4	94.5	96.4	97.7	1.3 ppt	3.6 ppt
VIP Market Share	4.5%	2.1%	2.4%	3.3%	3.2%	(0.1) ppt	(1.3) ppt
Mass Market Share	6.8%	5.8%	6.0%	5.8%	6.4%	0.6 ppt	(0.4) ppt

Source: the Company, Guotai Junan International.

The Venetian Macao

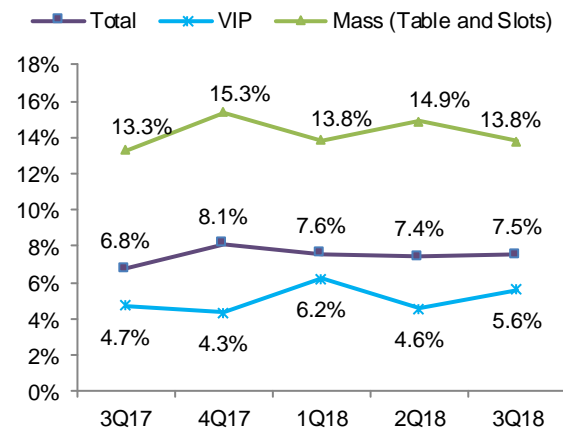
The Venetian Macao's VIP segment turnover outperformed the market yoy, with win further benefitting from good luck. VIP turnover was US\$7.4 billion, up 7.6% yoy but down 0.5% qoq, better than the Macau sector's 3Q18 yoy VIP GGR growth performance of 3.6% yoy and -2.3% qoq. VIP win rate was up 0.47 ppt yoy and 0.65 ppt qoq to 3.75%. VIP gross win recorded US\$278 million, up 23.1% yoy and 20.3% qoq. As a result, the property's 3Q18 VIP market share increased 0.9 ppt yoy and 1.0 ppt qoq to 5.6%.

The Venetian Macao's mass segment (tables & slots) slightly outperformed the market yoy but slightly underperformed qoq. The property's mass market share (tables and slots) for the quarter increased 0.5 ppt yoy (dropped 1.1 ppt qoq) to 13.8%. Mass table games win rate was 25.1%, up 2.3 ppt yoy (flat qoq). Mass gaming table win increased 26.6% yoy and declined 3.1% qoq to US\$546 million. Slot machine gross win was US\$30 million, down 18.5% yoy and 19.0% qoq. In total, the property's mass market gross win (tables & slots) increased 23.0% yoy and decreased 4.1% qoq, outpacing 19.2% yoy growth (but underperforming the 3.3% qoq growth) in Macau mass market GGR in 3Q18.

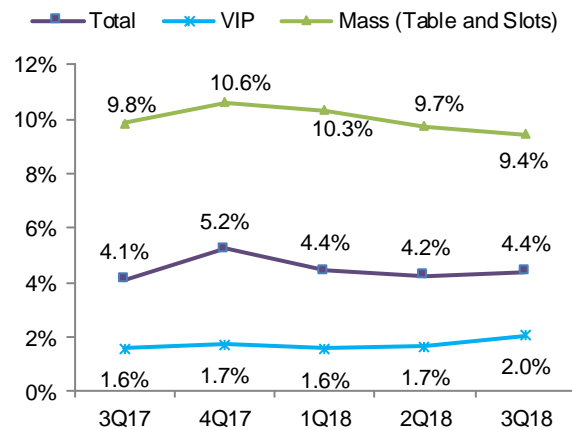
Table-4: Venetian Macao Operating Results

US\$ Million	3Q17A	4Q17A	1Q18A	2Q18A	3Q18A	qoq (% or ppt)	yoy (% or ppt)
VIP Turnover	6,898	8,021	7,866	7,464	7,425	(0.5%)	7.6%
VIP Win %	3.28	2.73	4.20	3.10	3.75	0.7 ppt	0.5 ppt
VIP Gross Win	226	219	330	231	278	20.3%	23.1%
Mass Tables Drop	1,892	2,084	2,244	2,245	2,175	(3.1%)	15.0%
Mass Tables Win %	22.8	26.8	23.7	25.1	25.1	0.0 ppt	2.3 ppt
Mass Tables Win	431	559	532	563	546	(3.1%)	26.6%
Slot Machine Handle	718	877	837	819	807	(1.5%)	12.4%
Slot Machine Win %	5.1	5.3	5.1	4.5	3.7	(0.8) ppt	(1.4) ppt
Slot Machine Win	37	46	43	37	30	(19.0%)	(18.5%)
Casino Gross Revenue	694	824	905	832	854	2.7%	23.0%
Commissions	(130)	(96)	(189)	(155)	(165)	6.8%	26.9%
Casino Revenue	564	728	716	677	689	1.8%	22.2%
Hotel Net Revenue	23	28	57	52	58	11.5%	152.2%
Other Revenue	115	88	95	101	110	8.9%	(4.3%)
Total Property Revenue	702	844	868	830	857	3.3%	22.1%
Hotel Occupancy %	90.7	95.5	95.9	95.6	95.7	0.1 ppt	5.0 ppt
VIP Market Share	4.7%	4.3%	6.2%	4.6%	5.6%	1.1 ppt	0.9 ppt
Mass Market Share	13.3%	15.3%	13.8%	14.9%	13.8%	(1.1) ppt	0.5 ppt

Source: the Company, Guotai Junan International.

Figure-2: The Venetian Macao Market Share, Quarterly


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

Figure-3: Sands Cotai Central Market Share, Quarterly


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

Sands Cotai Central

Sands Cotai Central's VIP segment turnover underperformed the market yoy, but outperformed in terms of win rate due to good luck. In 4Q17, Sands Cotai Central's VIP market share increased 0.4 ppt yoy (increased 0.3 ppt qoq) to 2.0%. Turnover from VIP tables was US\$2.6 billion, down 9.9% yoy (down 1.1% qoq), worse than Macau VIP GGR yoy increase of 3.2% during the quarter. VIP win rate was 3.95%, up 1.3 ppt yoy (up 0.7 ppt qoq). As a result, VIP gross win amounted to US\$101 million, up 33.8% yoy and 20.6% qoq.

Sands Cotai Central's mass segment underperformed the market yoy and qoq. The property's 3Q18 mass market share decreased 0.4 ppt yoy (decreased 0.3 ppt qoq) to 9.4%. Mass market table win was US\$355 million, an increase of 20.6% yoy and increase of 3.3% qoq, with non-rolling chip table win rate at 21.5%. Slot machine gross win was US\$40 million, down 23.7% yoy and 21.7% qoq. In total, the property's mass market gross win (tables & slots) increased 13.9% yoy and 0.1% qoq, underperforming the sector yoy and qoq growth rate in mass market GGR.

Table-5: Sands Cotai Central Operating Results

US\$ Million	3Q17A	4Q17A	1Q18A	2Q18A	3Q18A	qoq (% or ppt)	yoy (% or ppt)
VIP Turnover	2,846	2,354	2,407	2,592	2,564	(1.1%)	(9.9%)
VIP Win %	2.66	3.68	3.43	3.24	3.95	0.71 ppt	1.29 ppt
VIP Gross Win	76	87	83	84	101	20.6%	33.8%
Mass Tables Drop	1,442	1,718	1,760	1,635	1,650	0.9%	14.4%
Mass Tables Win %	20.4	21.2	21.4	21.0	21.5	0.50 ppt	1.10 ppt
Mass Tables Win	294	364	377	343	355	3.3%	20.6%
Slot Machine Handle	1,182	1,293	1,276	1,236	1,134	(8.3%)	(4.1%)
Slot Machine Win %	4.4	4.2	4.0	4.1	3.5	(0.60) ppt	(0.90) ppt
Slot Machine Win	52	54	51	51	40	(21.7%)	(23.7%)
Casino Gross Revenue	422	505	510	478	496	3.7%	17.5%
Commissions	(81)	(36)	(92)	(92)	(96)	4.0%	18.3%
Casino Revenue	341	469	418	386	400	3.6%	17.3%
Hotel Net Revenue	45	49	82	78	85	9.0%	88.9%
Other Revenue	81	39	49	45	52	15.6%	(35.8%)
Total Property Revenue	467	557	549	509	537	5.5%	15.0%
Hotel Occupancy %	93.0	92.3	93.5	93.0	96.1	3.1 ppt	3.1 ppt
VIP Market Share	1.6%	1.7%	1.6%	1.7%	2.0%	0.4 ppt	0.5 ppt
Mass Market Share	9.8%	10.6%	10.3%	9.7%	9.4%	(0.3) ppt	(0.4) ppt

Source: the Company, Guotai Junan International.

Sands Macao

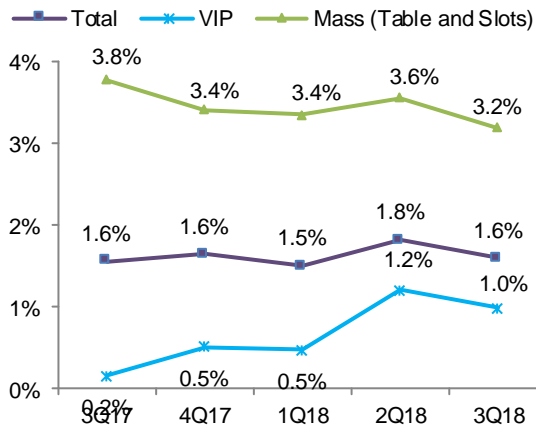
Sands Macao's VIP segment outperformed the sector yoy. Sands Macao's 3Q18 VIP market share was 1.0%, up 0.8 ppt yoy (down 0.2 ppt qoq). VIP table games turnover soared 164.6% yoy (up 30.9% qoq) to US\$1.8 billion, compared with Macau's 3Q18 VIP GGR growth of 3.2% yoy (-2.3% qoq). VIP win rate was 2.72%, an increase of 1.59 ppt yoy and decrease of 1.76 ppt qoq. VIP gross win amounted to US\$49 million, representing an increase of 536.8% yoy and decrease of 39.3% qoq.

Sands Macao's mass segment underperformed the market both yoy and qoq. Mass market share (tables & slots) was 3.2%, a decrease of 0.6 ppt yoy and 0.4 ppt qoq. Mass table games win rate was 18.3%, down 0.4 ppt yoy (down 0.3 ppt qoq). Mass gaming table win reached US\$113 million in 3Q18, an increase of 0.5% yoy and a decline of 7.6% qoq. Slot machine gross win was US\$20 million, down 20.5% yoy and 5.3% qoq. Overall, the property's 3Q18 mass market gross win (tables & slots) increased 0.1% yoy (down 7.3% qoq) to US\$133 million, underperforming the sector on both yoy and qoq basis.

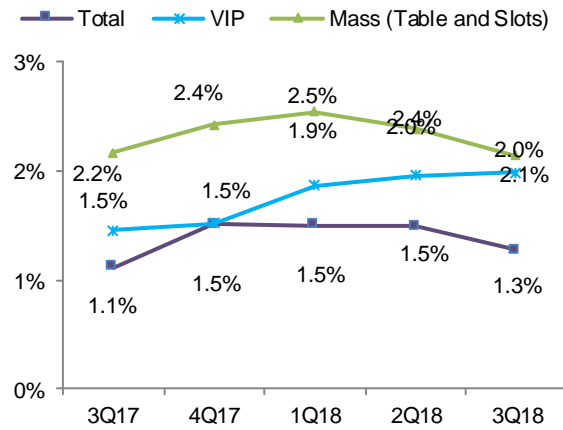
Table-6: Sands Macao Operating Results

US\$ Million	3Q17A	4Q17A	1Q18A	2Q18A	3Q18A	qoq (% or ppt)	yoy (% or ppt)
VIP Turnover	680	748	897	1,374	1,799	30.9%	164.6%
VIP Win %	1.13	3.48	2.78	4.48	2.72	(1.76) ppt	1.59 ppt
VIP Gross Win	8	26	25	62	49	(20.5%)	536.8%
Mass Tables Drop	603	615	657	659	619	(6.1%)	2.7%
Mass Tables Win %	18.7	18.5	18.2	18.6	18.3	(0.30) ppt	(0.40) ppt
Mass Tables Win	113	114	120	123	113	(7.6%)	0.5%
Slot Machine Handle	602	609	640	641	646	0.8%	7.3%
Slot Machine Win %	3.4	3.4	3.1	3.3	3.1	(0.20) ppt	(0.30) ppt
Slot Machine Win	20	21	20	21	20	(5.3%)	(2.2%)
Casino Gross Revenue	141	161	164	205	182	(11.2%)	29.3%
Commissions	(11)	(13)	(22)	(39)	(36)	(7.8%)	232.0%
Casino Revenue	130	148	142	166	146	(12.0%)	12.3%
Hotel Net Revenue	1	1	4	4	4	0.0%	300.0%
Other Revenue	11	5	8	10	10	0.0%	(9.1%)
Total Property Revenue	142	154	154	180	160	(11.1%)	12.7%
Hotel Occupancy %	95.7	98.5	98.8	99.0	97.5	(1.5) ppt	1.8 ppt
VIP Market Share	0.2%	0.5%	0.5%	1.2%	1.0%	(0.2) ppt	0.8 ppt
Mass Market Share	3.8%	3.4%	3.4%	3.6%	3.2%	(0.4) ppt	(0.6) ppt

Source: the Company, Guotai Junan International.

Figure-4: Sands Macao Market Share, Quarterly


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

Figure-5: Plaza Macao Market Share, Quarterly


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

Plaza Macao

Plaza Macao's VIP segment turnover significantly outperformed the market yoy and qoq. The property's VIP market share increased 0.5 ppt yoy (stayed flat qoq) to 2.0% during 3Q18. VIP table games turnover was US\$4.0 billion, rose 28.7% yoy and 52.2% qoq, compared to Macau's total VIP GGR increase of 3.2% yoy and decline of 2.3% qoq. VIP win rate increased 0.21 ppt yoy but dropped 1.31 ppt qoq to 2.44%. As a result, Plaza Macao's VIP gross win climbed 40.8% yoy but dropped 1.0% qoq to US\$98 million.

Plaza Macao's mass segment outperformed the market yoy and qoq. Non-rolling chip drop plunged 10.1% yoy and 3.7% qoq to US\$286 million. The property's mass market share decreased 0.1 ppt yoy and 0.3 ppt qoq to 2.1%. Mass market table win amounted to US\$81 million, with an increase of 18.4% yoy and a decrease of 5.4% qoq. Slot machine gross win was US\$8 million, increasing 4.1% yoy and declining 23.7% qoq. Total mass market gross win (tables & slots) increased 16.9% yoy but decreased 7.4% qoq, underperforming the sector's yoy and qoq growth rate in mass market GGR.

Table-7: Plaza Macao Operating Results

US\$ Million	3Q17A	4Q17A	1Q18A	2Q18A	3Q18A	qoq (% or ppt)	yoy (% or ppt)
VIP Turnover	3,132	2,662	3,055	2,649	4,031	52.2%	28.7%
VIP Win %	2.23	2.88	3.25	3.75	2.44	(1.3) ppt	0.2 ppt
VIP Gross Win	70	77	99	99	98	(1.0%)	40.8%
Mass Tables Drop	297	389	416	318	286	(10.1%)	(3.7%)
Mass Tables Win %	23.1	21.9	23.2	27.0	28.4	1.4 ppt	5.3 ppt
Mass Tables Win	69	85	97	86	81	(5.4%)	18.4%
Slot Machine Handle	117	125	135	135	141	4.4%	20.5%
Slot Machine Win %	6.6	8.2	6.7	7.8	5.7	(2.1) ppt	(0.9) ppt
Slot Machine Win	8	10	9	11	8	(23.7%)	4.1%
Casino Gross Revenue	146	172	205	196	188	(4.1%)	28.4%
Commissions	(53)	(36)	(63)	(60)	(72)	19.9%	34.7%
Casino Revenue	93	136	142	136	116	(14.7%)	24.7%
Hotel Net Revenue	3	4	9	10	10	0.0%	233.3%
Other Revenue	44	40	40	40	41	2.5%	(6.8%)
Total Property Revenue	140	180	191	186	167	(10.2%)	19.3%
Hotel Occupancy %	80.8	86.2	88.7	86.8	89.0	2.2 ppt	8.2 ppt
VIP Market Share	1.5%	1.5%	1.9%	2.0%	2.0%	0.0 ppt	0.5 ppt
Mass Market Share	2.2%	2.4%	2.5%	2.4%	2.1%	(0.2) ppt	(0.0) ppt

Source: the Company, Guotai Junan International.

Outlook

The Londoner is now expected to be completed in 2021 instead of 2020. As previously announced, the Company will be renovating and rebranding its Sands Cotai Central property into The Londoner Macao with estimated spend of US\$1.35 bn. The work will start in 2019 rather than in late 2018 as previously announced and with completion in phases throughout 2020 and 2021, later than the previously announced 2020 completion target. The conversion of Sands Cotai Central into the Londoner Macao should start after the Chinese New Year in February 2019. The rebranding, when completed, will include an additional 1.7 million sq. ft. of space and will accommodate more overnight guests than the Venetian and the Parisian combined.

The Company is allocating US\$850 for expansion of the St Regis Tower Suites and the Four Seasons Tower Suites. The Company is now planning to spend US\$400 mn on the St Regis Tower Suites Macao, with approximately 370 new luxury suites ranging in size from 1,400 square feet (130 sq metres) to 3,100 square feet. Further, they are planning to use another US\$450 mn to expand the Four Seasons Tower Suites Macao inventory with approximately 290 new luxury suites, ranging in size from 2,000 sq feet to 4,700 sq feet. The Company's management indicated that work is progressing with both of these expansions with anticipated completion in 1Q20.

Forecast Updates

We decrease the Company's 2018-2020 total revenue forecasts by 11.0%, 14.3% and 12.0%, respectively. We forecast 2018-2020 total net revenue of US\$8.5 billion, US\$8.9 billion and US\$9.7 billion, respectively, representing growth of 10.7%, 4.8% and 9.0%, respectively. We have downgraded our sector rating from "Outperform" to "Neutral" (please see our 22 Nov. sector report "Downgrade to "Neutral" on Signs of Slowdown"). With signs that China's economy is slowing while macro risks are increasing, we are now less certain on the sustainability of the Macau gaming sector's continued fast pace of growth and outperformance going forward. We are also starting to see signs of weakness in the gaming sector, namely, a slowdown in GGR growth as well as a decline in GGR per visitor. In addition, we think that Macau's new smoking ban will have a negative impact on GGR growth. Starting from 1 Jan. 2019, smoking will be prohibited not only in mass gaming areas, as is the current situation, but also in all VIP rooms in all Macau casinos. Smoking in casinos will only be allowed in new government approved high standard smoking lounges. More specifically to Sands China, while the additional capex for expansion announced by the Company will be good in the long term, we expect at least some level of disruption to operations and revenue during 2019 and 2020 during renovations and construction.

We revise down the Company's 2018-2020 adjusted property EBITDA forecasts by 9.4%, 14.8% and 10.7%, respectively. We forecast 2018-2020 adjusted property EBITDA of US\$2.985 billion, US\$3.018 billion and US\$3.333 billion, respectively, representing growth of 14.3%, 1.1% and 10.4%, respectively. Our adjusted EBITDA forecasts reflect margins of 35.0%, 33.7% and 34.2% for 2018-2020, respectively. We forecast 2018-2020 EPS of US\$0.238, US\$0.266 and US\$0.299, respectively, representing growth of 19.6%, 11.9% and 12.5%, and reflecting net profit margin of 22.5%, 24.0% and 24.8%, respectively.

Table-8: Forecast Revisions

US\$ Million (Except VIP Turnover & EPS)	Old			New			% Change		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
VIP Turnover (US\$ Bn)	78,550	85,362	89,559	79,349	88,599	95,242	1.0%	3.8%	6.3%
Win Rate (% of Turnover)	3.15%	3.15%	3.15%	3.35%	3.15%	3.15%	0.20	0.00	0.00
VIP Gross Win	2,474	2,689	2,821	2,657	2,791	3,000	7.4%	3.8%	6.3%
Mass Tables Gross Win	5,922	6,438	6,839	5,307	5,572	6,083	(10.4%)	(13.4%)	(11.1%)
Slot Machine Gross Win	720	782	839	577	589	646	(19.9%)	(24.8%)	(22.9%)
Gross Gaming Revenue	9,116	9,909	10,499	8,542	8,952	9,730	(6.3%)	(9.7%)	(7.3%)
Commissions	(1,013)	(1,101)	(1,157)	(1,842)	(2,006)	(2,176)	81.9%	82.3%	88.0%
Net Gaming Revenue	8,104	8,808	9,342	6,699	6,946	7,554	(17.3%)	(21.1%)	(19.1%)
Room & Other Revenue	1,326	1,442	1,534	1,687	1,834	2,012	27.2%	27.2%	31.1%
Total Properties' Revenue	9,430	10,250	10,876	8,387	8,780	9,566	(11.1%)	(14.3%)	(12.0%)

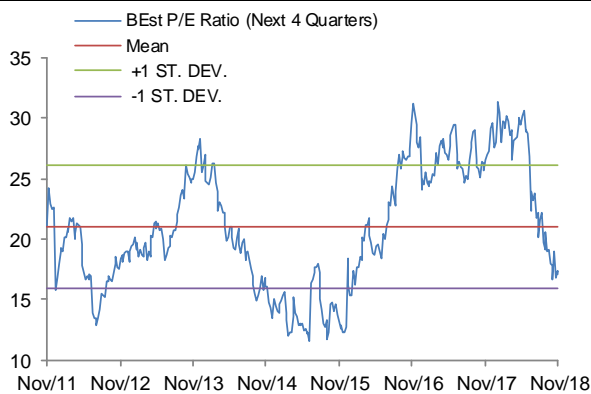
Ferry Segment & Other Revenue	170	185	195	152	165	180	(10.5%)	(10.6%)	(7.7%)
Total Net Revenues	9,600	10,435	11,071	8,539	8,945	9,746	(11.0%)	(14.3%)	(12.0%)
Operating Profit	2,556	2,716	2,899	2,194	2,345	2,639	(14.2%)	(13.7%)	(9.0%)
Operating Profit Margin	26.6%	26.0%	26.2%	25.7%	26.2%	27.1%	(0.9)	0.2	0.9
Adjusted Property EBITDA	3,294	3,540	3,731	2,985	3,018	3,333	(9.4%)	(14.8%)	(10.7%)
Adjusted Property EBITDA Margin	34.3%	33.9%	33.7%	35.0%	33.7%	34.2%	0.6	(0.2)	0.5
Net Profit	2,377	2,525	2,705	1,918	2,147	2,416	(19.3%)	(15.0%)	(10.7%)
Net Profit Margin	24.8%	24.2%	24.4%	22.5%	24.0%	24.8%	(2.3)	(0.2)	0.4
EPS, Basic (US\$)	0.294	0.313	0.335	0.238	0.266	0.299	(19.3%)	(15.0%)	(10.7%)
EPS, Diluted (US\$)	0.294	0.312	0.334	0.237	0.265	0.298	(19.3%)	(15.0%)	(10.7%)

Source: Guotai Junan International.

Valuation

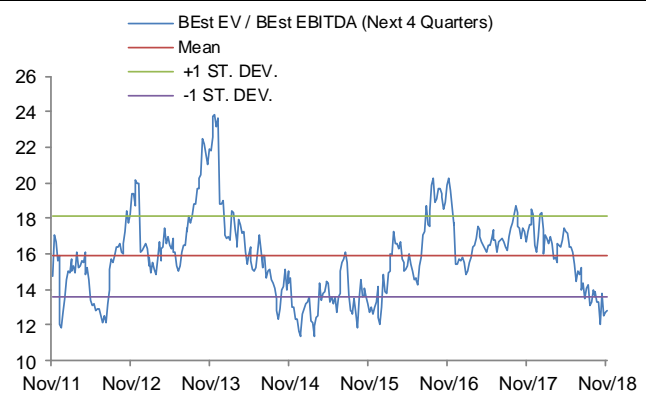
We decrease our target price from HK\$53.00 to HK\$35.00 and downgrade our investment rating to "Neutral". While the additional capex for expansion announced by the Company will be good in the long term, we expect at least some level of disruption to operations and revenue during 2019 and 2020 while renovations and construction will be underway. In addition, we see downside risk, given the Company's exposure to premium mass. About half of the Company's mass market gaming revenue was from premium mass business during 3Q18; while this benefitted the Company in the first half of the year, we think it now exposes the Company to more downside risk as we expect premium mass growth to slow along with that of the VIP segment. On the positive side, we like Sands China's high dividend yield and highly diversified revenue streams. Our target price is equivalent to 13.0x/ 13.0x 2018/ 2019 EV/adjusted EBITDA and 18.8x/ 16.8x 2018/ 2019 PER and is a 20.7% discount to our DCF derived NAV per share of HK\$44.12.

Figure-6: Sands China, Historical Forward PE



Source: Bloomberg, Guotai Junan International.

Figure-7: Sands China, Historical Forward EV/Adjusted EBITDA



Source: Bloomberg, Guotai Junan International.

Table-9: Gaming Sector Peers Comparison

Company	Stock Code	Currency	Price	M-Cap Billion (HK\$)	PE				EV/ Adjusted EBITDA				PB 18F	ROE 18F (%)
					Hist Avg.	Fwd*			Hist Avg.	Fwd*				
						Fwd*	18F	19F		Fwd*	18F	19F		
Macau Operators														
Galaxy Entertain	00027 HK	HKD	46.900	202.7	22.6	15.2	15.2	14.3	14.8	11.7	11.7	10.9	3.1	21.9
Melco Reso-Adr	MLCO US	USD	16.800	65.0	26.0	16.4	21.5	15.8	10.4	6.6	7.9	6.6	2.7	13.2
Mgm China	02282 HK	HKD	12.320	46.8	27.5	28.1	28.1	15.2	17.3	13.2	13.2	9.9	5.0	18.7
Sands China Ltd	01928 HK	HKD	32.500	262.6	21.4	15.9	15.9	14.6	16.2	13.0	13.0	12.0	7.3	46.3
Sjm Holdings Ltd	00880 HK	HKD	6.750	38.2	20.8	14.8	14.8	16.7	13.2	10.6	10.6	11.0	1.4	9.5
Wynn Macau Ltd	01128 HK	HKD	16.560	86.1	22.5	13.4	13.4	12.2	12.5	10.5	10.5	9.8	28.6	225.4
Simple Average					22.8	17.3	18.0	14.5	13.2	10.3	10.5	9.3	7.0	48.6
Weighted Average					22.7	16.2	16.7	14.5	14.7	11.6	11.7	10.7	7.8	54.3
USA Operators														
Las Vegas Sands	LVS US	USD	51.960	318.7	20.4	15.5	14.9	15.1	12.7	9.6	9.6	9.5	6.0	47.2
Mgm Resorts Inte	MGM US	USD	26.060	107.5	22.6	20.9	25.3	18.8	11.0	9.8	10.9	9.4	2.1	6.6
Penn Natl Gaming	PENN US	USD	21.050	19.6	20.1	22.6	22.4	12.9	7.1	7.4	9.4	7.0	30.1	73.5
Pinnacle Enterta	PNK US	USD	32.550	15.0	22.6	25.6	23.3	24.0	7.3	7.7	7.7	7.2	(5.7)	(30.6)
Wynn Resorts Ltd	WYNN US	USD	105.730	90.0	22.8	17.6	15.8	17.0	12.6	10.2	10.3	10.1	5.8	35.5
Simple Average					21.7	20.5	20.3	17.6	10.1	9.0	9.6	8.6	7.6	26.4
Weighted Average					20.5	16.0	15.3	15.5	12.5	9.6	9.5	9.4	5.5	43.7
Other Operators														
Genting Singapor	GENS SP	SGD	0.935	64.2	19.5	12.6	14.4	14.2	10.5	6.5	6.5	6.1	1.4	10.2
Genting Malaysia	GENM MK	MYR	3.590	37.9	18.2	12.5	12.5	13.9	10.9	7.6	7.6	7.6	1.0	8.1
Bloomberry Res	BLOOM PM	PHP	7.630	12.5	21.3	13.8	12.1	11.5	9.5	8.1	8.1	6.7	2.3	20.7
Belle Corp	BEL PM	PHP	2.160	3.1	14.7	6.8	6.8	6.0	14.3	7.7	7.7	5.9	0.7	11.6
Simple Average					18.4	11.4	11.4	11.4	11.3	7.5	7.5	6.6	1.4	12.7
Weighted Average					21.3	13.8	12.1	11.5	9.5	8.1	8.1	6.7	2.3	20.7

Source: Bloomberg, Guotai Junan International.

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

Table-10: DCF Valuation

Risk Free Rate	2.04%	Sum of PV FCFF (US\$ mn)	21,082
Market Return	14.27%	+ PV Terminal Value (US\$ mn)	27,252
Market Risk Premium	12.23%	Enterprise Value (US\$ mn)	48,334
Adj. Beta	1.0	- Net Debt/(cash) (US\$ mn)	2,850
Equity Discount Rate	14.27%	Equity Value (US\$ mn)	45,484
After Tax Cost of Debt	4.8%	Shares Outstanding (mn)	8,081.8
D/(D+E)	46.6%	NAV per Share (US\$)	5.63
E/(D+E)	53.4%	Exchange Rate	7.84
WACC	9.9%	NAV per Share (HK\$)	44.12
Long term growth rate	3.0%		

Source: Bloomberg, the Company, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (USD m)	2016A	2017A	2018F	2019F	2020F	Year end 31 Dec (USD m)	2016A	2017A	2018F	2019F	2020F
Total revenue	6,653	7,715	8,539	8,945	9,746	Property, plant and equipment	8,111	7,687	7,727	7,995	8,252
Gaming tax	(2,527)	(2,925)	(3,366)	(3,539)	(3,847)	Investment properties	1,322	1,311	1,324	1,337	1,351
Employee benefit expenses	(1,121)	(1,193)	(1,194)	(1,263)	(1,376)	Others	90	91	104	111	119
Depreciation and amortisation	(611)	(676)	(661)	(673)	(694)	Total non-current assets	9,523	9,089	9,156	9,444	9,723
Gaming promoter/agency commissions	(122)	(135)	(101)	(125)	(135)	Cash & cash equivalents	1,284	1,239	1,777	2,645	2,959
Inventories consumed	(83)	(98)	(94)	(111)	(120)	Inventories	14	15	17	17	19
Other expenses	(837)	(915)	(930)	(889)	(936)	Trade & other receivables & prepayments, net	352	293	324	340	370
Operating profit	1,352	1,773	2,194	2,345	2,639	Restricted cash	10	11	13	15	16
Interest income	3	5	6	9	11	Total current assets	1,660	1,558	2,131	3,017	3,365
Interest expense, net of amounts Capitalised	(86)	(153)	(158)	(181)	(206)	Total assets	11,183	10,647	11,287	12,461	13,087
Loss on modification or early retirement of debt	(1)	0	0	0	0	Trade and other payables	1,622	1,537	2,049	2,147	2,339
Profit before tax	1,268	1,625	2,043	2,173	2,444	Current income tax liabilities	6	6	8	9	10
Income tax	(44)	(22)	(124)	(26)	(29)	Borrowings	26	54	54	57	71
Profit after tax	1,224	1,603	1,918	2,147	2,416	Total current liabilities	1,654	1,597	2,112	2,213	2,420
Non-controlling interest	0	0	0	0	0	Long-term debts	4,348	4,358	4,586	5,693	5,984
Shareholders' profit / loss	1,224	1,603	1,918	2,147	2,416	Others	174	154	223	240	264
Basic EPS	0.152	0.199	0.238	0.266	0.299	Total non-current liabilities	4,522	4,512	4,809	5,933	6,248
Diluted EPS	0.152	0.199	0.237	0.265	0.298	Total liabilities	6,176	6,109	6,921	8,146	8,668
						Total shareholders' equity	5,007	4,538	4,365	4,314	4,419
						Minority interest	0	0	0	0	0
						Total equity	5,007	4,538	4,365	4,314	4,419

Cash Flow Statement					
Year end 31 Dec (USD m)	2016A	2017A	2018F	2019F	2020F
Net income	1,224	1,603	1,918	2,147	2,416
DD&A	611	676	661	673	694
Other non-cash adjustments	131	410	62	13	15
Changes in working capital	380	(63)	478	80	165
Cash from operating activities	2,346	2,626	3,119	2,913	3,289
Purchases of property and investment	(1,033)	(423)	(701)	(942)	(952)
Addition to investment properties	(100)	(45)	(13)	(13)	(13)
Others	(16)	7	2	7	8
Cash from investing activities	(1,149)	(461)	(712)	(948)	(958)
Dividends paid	(2,070)	(2,067)	(2,179)	(2,289)	(2,404)
Change in borrowings	989	38	228	1,110	305
Others	(114)	(178)	85	85	85
Cash from financing activities	(1,195)	(2,207)	(1,866)	(1,094)	(2,014)
Net changes in cash	2	(42)	541	871	317
Cash at beg of year	1,283	1,284	1,239	1,777	2,645
Effect of exchange rate	(1)	(3)	(3)	(3)	(3)
Cash at end of year	1,284	1,239	1,777	2,645	2,959

Financial Ratios					
	2016A	2017A	2018F	2019F	2020F
Margins					
Effective gaming tax rate	39.6%	39.6%	39.4%	39.5%	39.5%
Operating margin	20.3%	23.0%	25.7%	26.2%	27.1%
Net profit margin	18.4%	20.8%	22.5%	24.0%	24.8%
Adj. EBITDA margin	33.7%	33.8%	35.0%	33.7%	34.2%
Return ratios					
ROA	11.2%	14.7%	17.5%	18.1%	18.9%
ROE	22.6%	33.6%	43.1%	49.5%	55.3%
Return on capital invested	15.3%	20.3%	25.7%	29.4%	32.4%
Liquidity & leverage					
Leverage (i.e., gearing)	80.7%	92.4%	104.2%	132.5%	138.6%
Net gearing	56.8%	66.3%	64.0%	71.2%	70.5%
Interest coverage ratio (x)	16.3	12.0	14.5	13.6	13.6
Current ratio (x)	1.0	1.0	1.0	1.4	1.4

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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