



Company Report: Wynn Macau (01128 HK)

公司报告: 永利澳门 (01128 HK)

Noah Hudson

(86755) 2397 6684

noah.hudson@gtjas.com

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Weak Start to 4Q18, Downgrade to "Accumulate"

2018 第 4 季度开头疲软, 下调至“收集”

- **The Company has seen a slowdown in business during the start of 4Q18.** During the 3Q18 earnings call, the management indicated that although they had strong performance during the National Day holiday Golden Week during the first week of Oct., the outlook had turned "murky" since then, with a slowdown in business. We also expect the Company to lose market share during 4Q18 and in 2019 as it competes for VIP and premium mass business from MGM Cotai, which opened in Feb. this year and is still in its ramping up phase.
- **We decrease the Company's 2018-2020 total revenue forecasts by 5.2%, 10.4% and 9.0%, respectively.** We forecast 2018-2020 net revenue of HK\$40.4 bn, HK\$41.6 bn and HK\$46.9 bn, respectively, representing 9.2% CAGR. We expect that the Macau Light Rail station just west of Wynn Palace likely won't open until 2020 at the earliest (compared to previous hopes of opening by 2019), thereby delaying a likely catalyst for the property. We revise down the Company's 2018-2020 adjusted property EBITDA forecasts by 3.3%, 7.2% and 6.4%, respectively. We forecast the Company's 2018-2020 adjusted property EBITDA at HK\$12.3 bn, HK\$12.6 bn and HK\$13.5 bn, respectively, representing 10.3% CAGR.
- **We lower Wynn Macau's target price from HK\$35.70 to HK\$19.00 and downgrade investment rating from "Buy" to "Accumulate".** We think that consensus earnings forecasts as well as the sector valuation will come down in the coming months as the slowdown in Macau's GGR growth rate becomes more apparent. Our target price is equivalent to 9.9x/ 9.6x 2018/ 2019 EV/ adjusted EBITDA and 15.7x/ 15.0x 2018/ 2019 PER.
- **公司业务在 2018 年第 4 季度开头出现疲软。**在 2018 年第 3 季度的财报电话会议中, 管理层指出尽管公司在国庆黄金周期间业绩表现出色, 之后的业绩便出现了下滑, 未来展望不容乐观。美狮美高梅于今年 2 月在路氹开张, 并逐渐受到市场青睐。我们预计随着公司与美狮美高梅在高端中场业务的竞争日趋激烈, 公司将在 2018 年第 4 季度至 2019 年期间丢失市场份额。
- **我们分别下调公司 2018-2020 年营收预测 5.2%, 10.4% 和 9.0%。**我们预计 2018-2020 年净营收分别为 404 亿, 416 亿和 469 亿港元, 年复合增长率为 9.2%。我们预计永利皇宫西侧的澳门轻轨站将最早于 2020 年完工 (之前预计 2019 年完工), 因此其带给永利皇宫的潜在收益将被推迟。我们分别下调公司 2018-2020 年经调整后物业 EBITDA 预测 3.3%, 7.2% 和 6.4% 至 123 亿, 126 亿和 135 亿港元, 年复合增长率为 10.3%。
- **我们将永利澳门目标价由 35.70 港元下调至 19.00 港元, 并将投资评级由“买入”下调至“收集”。**我们预计随着澳门博彩毛收入增速放缓, 市场对公司盈利的一致预期及行业估值将在未来几个月被下调。我们的目标价相当于 2018/ 2019 年经调整后 EV/EBITDA 的 9.9/ 9.6 倍, 相当于 2018/ 2019 年市盈率的 15.7/ 15.0 倍。

Rating:

Accumulate

Downgraded

评级:

收集 (下调)

6-18m TP 目标价:

HK\$19.00

Revised from 原目标价:

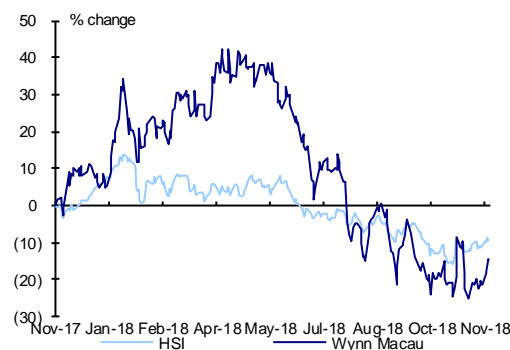
HK\$35.70

Share price 股价:

HK\$17.780

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	(16.8)	(16.4)
Rel. % to HS Index 相对恒指变动 %	3.8	(11.8)	(7.2)
Avg. share price (HK\$) 平均股价 (港元)	17.1	17.6	22.9

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)	(%)	(%)
2016A	22,099	1,436	0.277	(40.4)	63.5	0.473	37.2	0.420	2.4	43.8
2017A	36,041	3,700	0.714	157.7	24.6	0.578	30.4	0.960	5.5	135.7
2018F	39,441	6,286	1.211	69.6	14.5	0.114	154.1	1.070	6.1	349.8
2019F	41,561	6,599	1.272	5.0	13.8	0.203	86.8	1.144	6.5	802.5
2020F	46,916	7,485	1.442	13.4	12.2	0.323	54.5	1.298	7.4	549.0
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)					92,401.9	Free float (%) 自由流通比率 (%)		27.7		
3 month average vol. 3 个月平均成交股数 ('000)					16,321.1	FY18 Net gearing (%) FY18 净负债/股东资金 (%)		1,320.3		
52 Weeks high/low (HK\$) 52 周高/低					30.645 / 14.840	FY18 Est. NAV (HK\$) FY18 每股估值 (港元)		24.1		

Source: the Company, Guotai Junan International.

See the last page for disclaimer

3Q18 Results

Wynn Macau (the "Company")'s 3Q18 adjusted property EBITDA increased by 27.3% yoy (increased 16.1% qoq) to US\$409 million, beating Bloomberg consensus by 12.1% and topping our forecast by 10.5%. The Company's adjusted property EBITDA margin was 31.2%, up by 3.3 ppt yoy (up 1.0 ppt qoq). Adjusted property EBITDA margins at Wynn Macau property and Wynn Palace were at a healthy level of 31.6% and 31.0%, respectively. However, on a win rate normalized basis, (the Company played lucky in the reported quarter), adjusted EBITDA would be about US\$390 mn. Net profit attributable to shareholders was US\$223.501 mn, up 148.3% yoy, benefitting from a US\$11.22 mn gain on foreign exchange in the reported quarter compared to a loss of US\$1.888 mn in the same quarter last year.

Total gross gaming revenue was US\$1,588 million, up 17.7% yoy (up 13.9% qoq), while Macau's gross gaming revenue ("GGR") was up 18.4% yoy (up 3.1% qoq) in 3Q18. The Company's 3Q18 growth in gross gaming revenue was largely contributable to Wynn Palace, which started operations in late 2016 and kept ramping up in the current and previous quarters.

Operating margin grew 6.8 ppt yoy and 2.1 ppt qoq to 19.7% in 3Q18. The operating margin improvement was mainly due to much lower other operating expenses, staff costs and depreciation and amortisation as a percentage of total revenue. In particular, other operating expenses, which include cost of sales, repairs and maintenance, advertising and promotions, utilities and fuel, etc., dropped 5.4 ppt yoy to 13.0% as a percentage of revenue during the quarter. Accordingly, net profit increased 148.3% yoy and 39.5% qoq to US\$223.5 million with net profit margin having increased by 9.3 ppt yoy and 3.3 ppt qoq to 17.1%.

Table-1: Company Results

US\$ million	3Q17	4Q17	1Q18	2Q18	3Q18	qoq (% or ppt)	yoy (% or ppt)
Company VIP turnover	27,067	31,856	32,473	27,958	29,493	5.5%	9.0%
Company VIP gross win	861	941	845	777	949	22.1%	10.3%
Company VIP win rate (% of turnover)	3.18%	2.95%	2.60%	2.78%	3.22%	0.44 ppt	0.04 ppt
Company mass tables & slots win	488	590	664	617	639	3.6%	30.9%
Company total gross win	1,349	1,532	1,509	1,395	1,588	13.9%	17.7%
Wynn Macau property revenue	562	619	618	543	580	6.7%	3.1%
Wynn Palace property revenue	525	693	666	621	731	17.7%	39.2%
Total operating revenue (Net)	1,153	1,312	1,284	1,164	1,310	12.6%	13.7%
Wynn Macau VIP market share	9.4%	8.9%	8.4%	7.0%	8.5%	1.5 ppt	(0.9) ppt
Wynn Palace VIP market share	8.5%	9.7%	7.5%	8.3%	10.7%	2.4 ppt	2.2 ppt
Company VIP market share	17.9%	18.6%	15.9%	15.3%	19.2%	3.9 ppt	1.3 ppt
Wynn Macau mass market share	7.2%	6.9%	7.2%	7.2%	6.8%	(0.4) ppt	(0.3) ppt
Wynn Palace mass market share	6.7%	8.1%	8.8%	8.0%	8.5%	0.5 ppt	1.8 ppt
Company mass market share	13.9%	15.0%	16.0%	15.3%	15.3%	0.1 ppt	1.5 ppt
Company total market share	16.2%	17.0%	15.9%	15.3%	17.4%	2.1 ppt	1.2 ppt
Operating profit	149	235	277	205	258	26.3%	73.9%
Operating profit margin	12.9%	17.9%	21.6%	17.6%	19.7%	2.1 ppt	6.8 ppt
Adjusted property EBITDA	321	376	422	352	409	16.1%	27.3%
Adjusted property EBITDA margin	27.9%	28.7%	32.8%	30.3%	31.2%	1.0 ppt	3.3 ppt
Net profit (loss)	90	179	227	160	224	39.4%	148.3%
Net profit margin	7.8%	13.7%	17.7%	13.8%	17.1%	3.3 ppt	9.3 ppt

Source: the Company, Guotai Junan International.

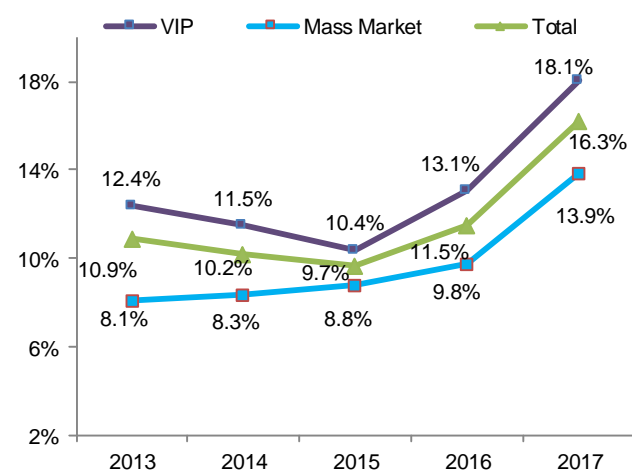
Total VIP turnover increased 9.0% yoy and 5.5% qoq to US\$29.5 billion, outperforming the 2.9% yoy and -2.5% qoq growth in Macau's sector VIP GGR during 3Q18. The increase in the Company's VIP turnover was primarily attributable to the new property, Wynn Palace, of which VIP turnover increased 13.4% yoy and 10.7% qoq. Performance of the original

property, Wynn Macau, remained stable as its VIP turnover increased by 4.4% yoy and 0.3% qoq. Overall VIP win rate increased by 0.04 ppt yoy and 0.44 ppt qoq to 3.22%. Subsequently, total VIP gross win was up 10.3% yoy and 22.1% qoq to US\$949 million.

Mass segment (tables & slots) gross win increased by 30.9% yoy and 3.6% qoq to US\$639 million, outperforming the 18.4% yoy and 3.1% qoq increase in Macau's mass market GGR during 3Q18. Total mass table drop amounted to US\$2.4 billion, up 22.6% yoy but down 5.5% qoq, respectively. Total slot machine handle increased 8.1% yoy but dropped 4.6% qoq to US\$18.2 billion.

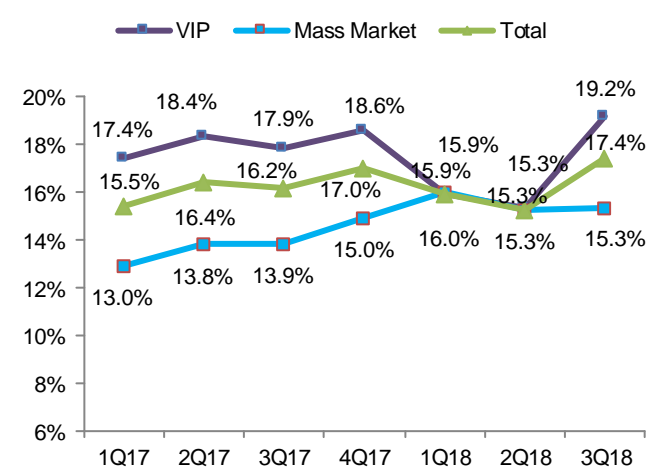
The Company's 3Q18 total market share increased 1.2 ppt yoy and 2.1 ppt qoq to 17.4%. As a result of the large contribution from Wynn Palace, partially offset by the decline in the Wynn Macau property's market share, the Company's VIP market share increased 1.3 ppt yoy and 3.9 ppt qoq to 19.2%, and mass market share increased by 1.4 ppt yoy and stayed flat qoq at 15.3%.

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



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.

3Q18 Property Level Results

Wynn Macau Property

The Wynn Macau property's 3Q18 VIP turnover was US\$14.0 billion, up 4.4% yoy and 0.3% qoq, outperforming Macau's 2.9% yoy increase and 2.5% qoq decline in VIP GGR during the same period. The average number of VIP tables at the Wynn Macau property was 109 in 3Q18, up from 96 tables in 3Q17 but down from 112 tables in 2Q18. The win rate was at 3.01% in 3Q18 compared with the VIP win rate of 3.37% in 3Q17 and 2.56% in 2Q18.

VIP gross win at the Wynn Macau property declined by 6.7% yoy but increased by 17.8% qoq to US\$421 million due to a yoy decrease in win rate but a qoq increase in win rate. The VIP win rate for the quarter was 3.01%, which was 0.36 ppt lower than the win rate in 3Q17 but 0.45 ppt higher than the win rate in 2Q18. As a result, VIP win market share dropped 0.9 ppt yoy but increased 1.5 ppt to 8.5% in 3Q18.

The property's 3Q18 mass market (tables and slots) gross gaming revenue was US\$285 million, up 13.1% yoy but down 2.6% qoq, underperforming Macau mass GGR yoy growth of 18.4% and qoq growth of 3.1% during the quarter. The average number of mass tables at the Wynn Macau property was 200 in 3Q19, down from 206 tables in 3Q18 and 204 tables in 2Q18. Mass market table games win per unit per day increased 19.4% yoy (increased 0.36% qoq) to US\$13,625. The property's 3Q18 mass market table games gross win was US\$250 million, up 15.6% yoy but down 0.7% qoq.

Slot machine handle increased 3.6% yoy (decreased 7.1% qoq) to US\$895 million, with the number of slot machines

down 8.4% yoy (down 8.0% qoq). Slot machine gross win declined 2.1% yoy and 14.0% qoq to US\$34.8 million, reflecting a lower win rate of 3.9% compared with 4.1% in 3Q17 and 4.2% last quarter.

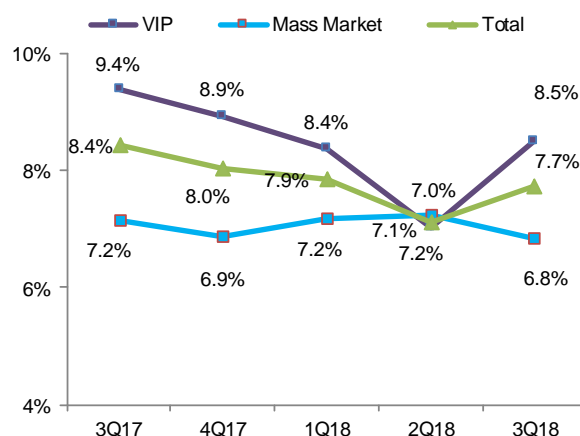
Non-gaming revenue increased 20.3% yoy and 8.5% qoq to US\$76 million, reflecting higher revenue in all non-gaming segments. The property's hotel occupancy rate for 3Q18 was 99.0%, up 1.7 ppt yoy but down 0.4 ppt qoq. The Wynn Macau hotel average daily rate ("ADR") decreased by 16.0% yoy and 1.5% qoq to US\$276. Consequently, revenue per available room ("RevPAR") increased 18.2% yoy and 0.7% qoq to US\$273.

Table-2: Wynn Macau Property Operating Results

US\$ million	3Q17	4Q17	1Q18	2Q18	3Q18	qoq (% or ppt)	yoy (% or ppt)
VIP turnover	13,373	15,623	17,087	13,928	13,967	0.3%	4.4%
VIP gross win	451	451	445	357	421	17.8%	(6.7%)
VIP win rate (% of turnover)	3.37%	2.89%	2.61%	2.56%	3.01%	0.45 ppt	(0.36) ppt
Mass tables drop	1,070	1,251	1,323	1,293	1,184	(8.5%)	10.6%
Mass tables gross win	216	230	256	252	250	(0.7%)	15.6%
Mass market win rate (% of table drop)	20.2%	18.4%	19.4%	19.5%	21.1%	1.6 ppt	0.9 ppt
Slot machine handle	865	938	1,003	964	895	(7.1%)	3.6%
Slot machine gross win	36	41	42	40	35	(14.0%)	(2.1%)
Slots win rate (% of slot handle)	4.1%	4.4%	4.2%	4.2%	3.9%	(0.3) ppt	(0.2) ppt
Mass tables & slots total GGR	252	271	298	292	285	(2.6%)	13.1%
Casino revenue (Net)	499	583	539	473	504	6.4%	1.0%
Non-casino revenue	63	36	79	70	76	8.5%	20.3%
Property total revenue	562	619	618	543	580	6.7%	3.1%
Adjusted property EBITDA	183	186	210	173	183	5.8%	(0.2%)
Adjusted property EBITDA margin	32.6%	30.1%	33.9%	31.8%	31.6%	(0.3) ppt	(1.0) ppt
VIP market share	9.4%	8.9%	8.4%	7.0%	8.5%	1.5 ppt	(0.9) ppt
Mass market share	7.2%	6.9%	7.2%	7.2%	6.8%	(0.4) ppt	(0.3) ppt
Total market share	8.4%	8.0%	7.9%	7.1%	7.7%	0.6 ppt	(0.7) ppt
Average occupancy rate	97.3%	99.4%	99.0%	99.4%	99.0%	(0.4) ppt	1.7 ppt
Adjusted ADR (US\$)	238	258	291	272	276	1.5%	16.0%
Adjusted RevPAR (US\$)	231	257	288	271	273	0.7%	18.2%

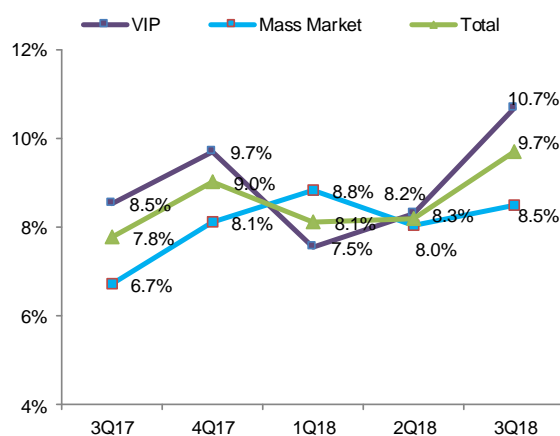
Source: the Company, Guotai Junan International.

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 continued to enjoy strong growth in 3Q18. Casino revenue from Wynn Palace increased 39.9% yoy and 19.2% qoq to US\$626 million, and total net revenue for the property grew 39.2% yoy and 17.7% qoq to US\$731 million. Non-casino revenue from Wynn Palace was US\$105 million, up 34.8% yoy and 9.9% qoq. Room revenue soared 704.8% yoy and 6.9% qoq to US\$70 million, with RevPAR having increased by 37.5% yoy and 7.8% qoq to US\$264.

In VIP operations, table games turnover increased 13.4% yoy and 10.7% qoq to US\$15.5 billion. VIP win rate (calculated before commission) was 3.40 %, up 0.41 ppt yoy and 0.40 ppt qoq. Consequently, VIP gross win was up 28.9% yoy and 25.7% qoq to US\$528.2 million and VIP market share grew by 2.2 ppt yoy and 2.4 ppt qoq to 10.7% in 3Q18.

In mass market operations, table drop increased 37.3% yoy but decreased 2.4% qoq to US\$1.2 billion. Mass market win rate was 25.9%, up 3.1% ppt yoy and 2.9 ppt qoq. Slot machine handle was US\$923 million, up 12.8% yoy but down 2.0% qoq, with win rate down 0.1 ppt yoy but up 0.3 ppt qoq. During the quarter, Wynn Palace recorded a mass (tables & slots) market share of 8.5%, an increase of 1.8 ppt yoy and 0.5 ppt qoq.

Wynn Palace achieved its highest EBITDA amount since opening in 3Q16. Adjusted property EBITDA from Wynn Palace was US\$226 million, up 63.6% yoy and 26.1% qoq, mainly due to much higher operating income. Adjusted EBITDA margin increased by 4.7 ppt yoy and 2.1 ppt qoq to 31.0%, which almost reached the same level as the more mature Wynn Macau property.

Table-3: Wynn Palace Operating Results

US\$ million	3Q17	4Q17	1Q18	2Q18	3Q18	qoq (% or ppt)	yoy (% or ppt)
VIP turnover	13,694	16,233	15,386	14,029	15,526	10.7%	13.4%
VIP gross win	410	490	400	420	528	25.7%	28.9%
VIP win rate (% of turnover)	2.99%	3.02%	2.60%	3.00%	3.40%	0.4 ppt	0.4 ppt
Mass market drop	867	1,125	1,217	1,219	1,190	(2.4%)	37.3%
Mass market gross win	194	264	310	281	308	9.8%	58.6%
Mass market win rate (% of table drop)	22.4%	23.5%	25.5%	23.0%	25.9%	2.9 ppt	3.5 ppt
Slot machine handle	818	921	1,058	941	923	(2.0%)	12.8%
Slot machine gross win	42	55	56	44	46	4.3%	9.7%
Slots win rate (% of slot handle)	5.1%	6.0%	5.3%	4.7%	5.0%	0.3 ppt	(0.1) ppt
Casino revenue (Net)	447	649	569	525	626	19.2%	39.9%
Non-casino revenue	78	45	97	96	105	9.9%	34.8%
Property total revenue	525	693	666	621	731	17.7%	39.2%
Adjusted property EBITDA	138	190	212	179	226	26.1%	63.6%
Adjusted property EBITDA margin	26.3%	27.4%	31.8%	28.9%	31.0%	2.1 ppt	4.6 ppt
Average occupancy rate	96.1%	96.8%	96.8%	96.2%	96.0%	(0.2) ppt	(0.1) ppt
Adjusted ADR (US\$)	199	236	252	254	275	8.3%	38.2%
Adjusted RevPAR (US\$)	192	228	244	245	264	7.8%	37.5%

Source: the Company, Guotai Junan International.

Outlook

Wynn Palace is planned to increase from 1,700 hotel rooms currently to over 3,000 some time after 2020. The Company's management is in the early stages of 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 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 contemplating and 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.

The Company's management indicated that they have so far seen a slowdown in the current quarter. During the 3Q18 earnings call, the management indicated that although they had strong performance during the National Day holiday Golden Week during the first week of Oct., the outlook had turned "murky" since then, with a slowdown in business. We also expect the Company to lose market share during 4Q18 and in 2019 as it competes for VIP and premium mass business from MGM Cotai, which opened in Feb. this year and is still in its ramping up phase.

Forecast Updates

We decrease the Company's 2018-2020 total revenue forecasts by 5.2%, 10.4% and 9.0%, respectively. We forecast 2018-2020 net revenue of HK\$40.4 billion, HK\$41.6 billion and HK\$46.9 billion, respectively, representing growth of 9.4%, 5.4% and 12.9%, respectively. We downgraded our sector rating from "Outperform" to "Neutral" in our 22 Nov. sector report, "Downgrade to 'Neutral' on Signs of Slowdown"). With signs that China's economy is slowing down 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. Besides the general macroeconomic concerns, we are starting to see signs of weakness in the gaming sector, namely, a slowdown in gross gaming revenue ("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. For the Company in particular, we expect that the Macau Light Rail station just west of Wynn Palace likely won't open until 2020 at the earliest (compared to previous hopes of opening by 2019), thereby delaying a likely catalyst for the property.

We revise down the Company's 2018-2020 adjusted property EBITDA forecasts by 3.3%, 7.2% and 6.4%, respectively. We expect growth for the Company to be limited in 2019 as it competes with MGM Cotai, which opened in Feb. 2018 and will be ramping up and fighting for market share in 2019. We forecast the Company's 2018-2020 adjusted property EBITDA at HK\$12.3 billion, HK\$12.6 billion and HK\$13.5 billion, respectively, representing growth of 22.8%, 2.3% and 6.8%, respectively. Our adjusted EBITDA forecasts reflect margins of 31.2%, 30.3% and 28.7% for 2018-2020, respectively. We forecast 2018-2020 EPS of HK\$1.211, HK\$1.272 and HK\$1.442, respectively, representing growth of 69.6%, 5.0% and 13.4%.

Table-4: Wynn Macau Forecast Revisions

HK\$ million (Except EPS & RevPAR)	Old			New			Change (% or ppt)		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
VIP turnover	1,049,750	1,129,097	1,196,574	955,186	1,037,262	1,167,200	(9.0%)	(8.1%)	(2.5%)
VIP Win rate (% of turnover)	2.79%	2.85%	2.85%	2.75%	2.85%	2.85%	(0.0) ppt	(0.0) ppt	(0.0) ppt
VIP gross win	29,067	32,179	34,102	27,292	29,562	33,265	(6.1%)	(8.1%)	(2.5%)
Mass tables gross win	17,428	18,589	19,724	17,630	19,359	22,031	1.2%	4.1%	11.7%
Slot machine handle	49,091	43,790	46,250	67,304	70,740	81,085	37.1%	61.5%	75.3%
Slots win rate (% of handle)	4.16%	4.16%	4.16%	4.04%	3.88%	3.88%	(0.1) ppt	(0.3) ppt	(0.3) ppt
Slot machine gross win	2,045	1,824	1,926	2,717	2,747	3,149	32.9%	50.6%	63.5%
Commissions & discounts	(12,992)	(13,977)	(14,817)	(13,761)	(16,179)	(18,219)	5.9%	15.8%	23.0%
Casino revenue (net)	35,665	38,615	40,936	33,878	35,489	40,227	(5.0%)	(8.1%)	(1.7%)
Non-casino rev. (net)	5,933	7,757	10,641	5,563	6,072	6,689	(6.2%)	(21.7%)	(37.1%)
Total revenues (net)	41,598	46,372	51,577	39,441	41,561	46,916	(5.2%)	(10.4%)	(9.0%)
Operating profit	8,591	9,975	10,965	7,681	8,018	8,728	(10.6%)	(19.6%)	(20.4%)
Operating profit margin	20.7%	21.5%	21.3%	19.5%	19.3%	18.6%	(1.2) ppt	(2.2) ppt	(2.7) ppt
Adjusted property EBITDA	12,741	13,353	14,367	12,319	12,600	13,451	(3.3%)	(5.6%)	(6.4%)
Adj. property EBITDA margin	30.6%	28.8%	27.9%	31.2%	30.3%	28.7%	0.6 ppt	1.5 ppt	0.8 ppt
Net profit	7,081	8,647	9,521	6,286	6,599	7,484	(11.2%)	(23.7%)	(21.4%)
Net profit margin	17.0%	18.6%	18.5%	15.9%	15.9%	16.0%	(1.1) ppt	(2.8) ppt	(2.5) ppt
EPS, basic (HK\$)	1.365	1.666	1.835	1.211	1.272	1.442	(11.2%)	(23.7%)	(21.4%)
EPS, diluted (HK\$)	1.361	1.660	1.825	1.208	1.267	1.434	(11.2%)	(23.7%)	(21.4%)

Source: the Company, Guotai Junan International.

VALUATION

We lower Wynn Macau's target price from HK\$35.70 to HK\$19.00 and cut investment rating from "Buy" to "Accumulate". Macau gaming stocks are currently trading at market-cap weighted average forward (next four quarters) EV/adjusted EBITDA of 12.1x, which is an 17.7% discount to their historical average forward EV/Adjusted EBITDA of 14.7x. We think that consensus earnings forecasts as well as the sector valuation will come down in the coming months as the slowdown in Macau's GGR growth rate becomes more apparent. Our target price is equivalent to 9.9x/ 9.6x 2018/ 2019 EV/adjusted EBITDA and 15.7x/ 15.0x 2018/ 2019 PER; it is a 21.1% discount to our DCF derived NAV per share of HK\$24.09 and represents 8.0% upside potential.

Table-5: DCF Valuation

Risk free rate	2.31%	Sum of PV FCFF (HK\$ mn)	93,553
Market return	13.25%	+ PV Terminal value (HK\$ mn)	55,196
Market risk premium	10.94%	Enterprise value (HK\$ mn)	148,750
Adj. Beta	1.1	- Net debt/(cash) (HK\$ mn)	23,723
Equity discount rate	14.34%	Equity value (HK\$ mn)	125,027
		Shares outstanding (mn)	5,189
After tax cost of debt	3.2%	NAV per share (HK\$)	24.09
D/(D+E)	50.0%		
E/(D+E)	50.0%		
WACC	8.8%		
Long-term growth rate	3.0%		

Source: Bloomberg, the Company, Guotai Junan International.

Table-6: Gaming Sector Peers Comparison

Company	Stock Code	Crncy	Price	M-Cap Billion (HK\$)	PE				EV/ Adjusted EBITDA				PB 18F	ROE 18F (%)
					Hist Avg.	Current			Hist Avg.	Current				
						Fwd	Fwd	18F		19F	Fwd	Fwd	18F	
Macau Operators														
Galaxy Entertain	00027 HK	HKD	48.050	207.8	22.5	15.6	15.6	14.6	14.7	11.9	11.9	11.1	3.2	21.9
Melco Crown-Adr	MPEL US	USD	18.120	70.1	25.8	17.7	22.8	17.0	10.4	7.0	8.4	7.1	3.0	12.9
Mgm China	02282 HK	HKD	13.360	50.8	27.6	30.5	30.5	16.5	17.2	14.1	14.1	10.6	5.4	18.5
Sands China Ltd	01928 HK	HKD	33.850	273.5	21.3	16.6	16.7	15.3	16.2	13.4	13.4	12.3	7.7	46.1
Sjm Holdings Ltd	00880 HK	HKD	7.050	39.9	20.8	15.5	15.5	17.5	13.3	11.0	11.0	11.3	1.5	9.5
Wynn Macau Ltd	01128 HK	HKD	17.780	92.4	22.3	14.4	14.4	13.1	12.4	11.0	11.0	10.4	30.7	225.2
Simple Average					22.8	18.4	19.1	15.3	13.1	10.7	10.9	9.7	7.5	48.5
Weighted Average					22.6	17.1	17.6	15.2	14.7	12.0	12.1	11.1	8.4	54.7
USA Operators														
Las Vegas Sands	LVS US	USD	54.470	333.8	20.4	16.3	15.6	15.8	12.7	10.0	9.9	9.7	6.3	47.2
Mgm Resorts Inte	MGM US	USD	27.320	112.7	22.6	21.9	26.6	19.7	11.0	10.0	11.2	9.6	2.2	6.6
Penn Natl Gaming	PENN US	USD	22.380	20.8	20.2	24.1	23.8	13.7	7.1	7.5	9.6	7.1	32.0	73.5
Simple Average			108.120	92.0	22.7	18.0	16.1	17.4	12.6	10.4	10.4	10.1	5.9	35.5
Weighted Average					21.5	20.1	20.5	16.7	10.8	9.5	10.2	9.1	11.6	40.7
					20.4	16.3	15.6	15.8	12.7	10.0	9.9	9.7	6.3	47.2
Other Operators														
Genting Singapor	GENS SP	SGD												
Genting Malaysia	GENM MK	MYR	0.965	66.0	19.3	12.9	14.8	14.6	10.5	6.8	6.8	6.3	1.5	10.3
Bloomberry Res	BLOOM PM	PHP	2.880	30.4	18.1	10.1	10.1	11.9	10.8	6.3	6.3	6.8	0.8	8.1
Belle Corp	BEL PM	PHP	8.340	13.7	21.0	15.1	13.2	12.6	9.5	8.6	8.6	7.2	2.5	20.7
Simple Average			2.220	3.2	14.6	6.9	6.9	6.2	14.2	7.8	7.8	6.1	0.8	11.6
Weighted Average					18.3	11.2	11.3	11.3	11.3	7.4	7.4	6.6	1.4	12.6

Source: Bloomberg, Guotai Junan International.

Table-7: Target Price Based Valuation and Multiples

	FY17A	FY18F	Next 4 Quarters	FY19F	FY20F
Target price	HK\$19.00				
Shares outstanding, period end, fully diluted (mn)	5,189	5,203	5,209	5,210	5,218
TP based market cap (HK\$ mn)	98,594	98,861	98,963	98,997	99,134
+ Period end minority interest (HK\$ mn)	0	0	0	0	0
+ Period end borrowings (HK\$ mn)	28,123	32,954	28,197	26,611	24,617
- Period end cash & equivalents (HK\$ mn)	5,251	9,280	5,922	4,803	4,573
Year end enterprise value (HK\$ mn)	121,466	122,535	121,238	120,805	119,179
Adjusted property EBITDA (HK\$ mn)	10,031	12,319	12,479	12,600	13,451
TP Based EV/Adjusted Property EBITDA	12.1	9.9	9.7	9.6	8.9
EPS (HK\$), diluted	0.71	1.21	1.25	1.27	1.43
Target Price Based PER	26.6	15.7	15.2	15.0	13.2

Source: the Company, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (HKD m)	2016A	2017A	2018F	2019F	2020F	Year end 31 Dec (HKD m)	2016A	2017A	2018F	2019F	2020F
Total revenue	22,099	36,041	39,441	41,561	46,916	Property and equipment and construction in progress	35,858	33,504	31,881	30,489	29,292
Gaming taxes and premiums	(10,013)	(16,737)	(18,844)	(19,994)	(22,865)	Leasehold interest in land	1,783	1,686	1,594	1,498	1,403
Staff costs	(3,948)	(4,612)	(5,004)	(5,403)	(6,099)	Goodwill	398	398	398	398	398
Other operating expenses	(4,258)	(6,413)	(5,054)	(5,403)	(6,568)	Others	938	833	908	954	1,072
Depreciation and amortisation	(1,591)	(2,776)	(2,720)	(2,566)	(2,461)	Total non-current assets	38,977	36,422	34,780	33,340	32,166
Property charges and other	(25)	(133)	(137)	(176)	(195)	Cash and cash equivalents	2,591	5,240	9,231	4,730	4,476
Operating profit	2,265	5,370	7,681	8,018	8,728	Inventories	338	332	363	382	432
Finance revenues	24	15	118	111	79	Trade and other receivables	733	677	741	780	881
Finance costs	(838)	(1,270)	(1,504)	(1,508)	(1,297)	Prepayments and other current assets	129	134	127	120	113
Others	(3)	(402)	12	0	0	Others	177	192	247	282	333
Profit before tax	1,448	3,713	6,307	6,621	7,511	Total current assets	3,968	6,574	10,709	6,295	6,234
Income Tax	(12)	(12)	(21)	(22)	(25)	Total assets	42,945	42,996	45,489	39,634	38,400
Profit after tax	1,436	3,700	6,286	6,599	7,485	Accounts payable	1,693	1,137	1,245	1,312	1,481
Non-controlling interest	0	0	0	0	0	Other payables and accruals	5,866	9,969	9,975	9,981	9,987
Shareholders' profit / loss	1,436	3,700	6,286	6,599	7,485	Others	270	770	783	795	811
Basic EPS	0.277	0.714	1.211	1.272	1.442	Total current liabilities	7,829	11,876	12,003	12,088	12,279
Diluted EPS	0.277	0.713	1.208	1.266	1.435	Interest-bearing borrowings	32,170	27,674	32,500	26,152	24,153
						Construction retention payable	1	2	0	0	0
						Other payables and accruals	325	266	207	148	89
						Others	167	177	186	196	206
						Total non-current liabilities	32,663	28,119	32,893	26,496	24,448
						Total liabilities	40,492	39,995	44,896	38,584	36,726
						Total shareholders' equity	2,453	3,001	592	1,051	1,674
						Minority interest	0	0	0	0	0
						Total equity	2,453	3,001	592	1,051	1,674
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (HKD m)	2016A	2017A	2018F	2019F	2020F		2016A	2017A	2018F	2019F	2020F
Profit before tax	1,448	3,713	6,307	6,621	7,511	Margins					
Depreciation of property and equipment	1,496	2,681	2,628	2,471	2,365	Effective gaming tax rate	48.7%	49.8%	55.6%	56.3%	56.8%
Amortisation of leasehold interest in land	95	95	95	95	95	Operating margin	10.2%	14.9%	19.5%	19.3%	18.6%
Provision for doubtful accounts	8	(56)	5	(14)	(22)	Net profit margin	6.5%	10.3%	15.9%	15.9%	16.0%
Share-based payment expense	118	111	161	165	176	Adj. property EBITDA margin	27.5%	27.8%	31.2%	30.3%	28.7%
Finance costs	838	1,270	1,504	1,508	1,297	Return Ratios					
Working capital adjustments	1,836	4,333	29	25	36	ROA	3.4%	8.6%	14.2%	15.5%	19.2%
Others	3	520	(118)	(110)	(78)	ROE	43.8%	135.7%	349.9%	803.2%	549.5%
Cash from operating activities	5,843	12,667	10,612	10,761	11,380	Return on capital employed	6.5%	16.3%	23.8%	26.2%	32.4%
						Return on invested capital	0.3%	1.4%	-3.1%	8.8%	8.9%
Increase in restricted cash and cash equivalents	(6)	5	(38)	(24)	(24)	Liquidity & leverage					
Purchase of property and equipment, net of construction retention pay	(6,790)	(1,261)	(1,100)	(1,175)	(1,264)	Leverage (ie., gearing)	981.5%	1031.3%	1834.3%	3238.9%	1807.1%
Others	33	99	139	162	63	Net gearing	902.4%	839.2%	1320.5%	2663.2%	1478.5%
Cash from investing activities	(6,763)	(1,157)	(999)	(1,037)	(1,225)	Interest coverage ratio (x)	2.8	4.3	5.5	5.7	7.2
Proceeds from borrowings	3,883	11,951	0	0	0	Current ratio (x)	0.5	0.6	0.9	0.5	0.5
Repayment of borrowings	(3,110)	(16,069)	4,826	(6,348)	(1,999)						
Interest paid	(686)	(1,079)	(1,504)	(1,508)	(1,297)						
Special/interim dividends paid	(3,109)	(3,272)	(8,449)	(5,939)	(6,737)						
Others	(201)	(394)	(506)	(430)	(377)						
Cash from financing activities	(3,223)	(8,864)	(5,633)	(14,225)	(10,410)						
Cash at beg of year	6,731	2,591	5,240	9,231	4,730						
Net changes in cash	(4,143)	2,647	3,980	(4,501)	(254)						
Effect of foreign exchanges	3	1	12	0	0						
Cash at end of year	2,591	5,240	9,231	4,730	4,476						

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