



銀河娛樂集團  
Galaxy Entertainment Group

# MACAU | A GALAXY NEAR AND FAR

**0027.HK – BEST IDEA LONG**

OCTOBER 24, 2016

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# KEY POINTS | (0027.HK) BEST IDEA LONG

1

## **GALAXY NEAR...**

To be clear, our call on Galaxy is not just a near term trade. We like the stock long term. But when Galaxy reports Q3 earnings Wed the results could be out of this world. Both StarWorld and Galaxy Macau likely outperformed in Q3 once again in the high margin mass segment. Kevin Kelley is but one year in as COO but he is delivering at warp speed.

2

## **...AND A GALAXY FAR, FAR AWAY**

Galaxy and LVS are light years ahead of the competition in terms of long term competitive positioning in Macau. Galaxy Macau may be the most desirable casino hotel to Mainland patrons and StarWorld is proving what good management can do. The company maintains a pristine balance sheet, huge free cash flow and potentially high ROI development opportunities

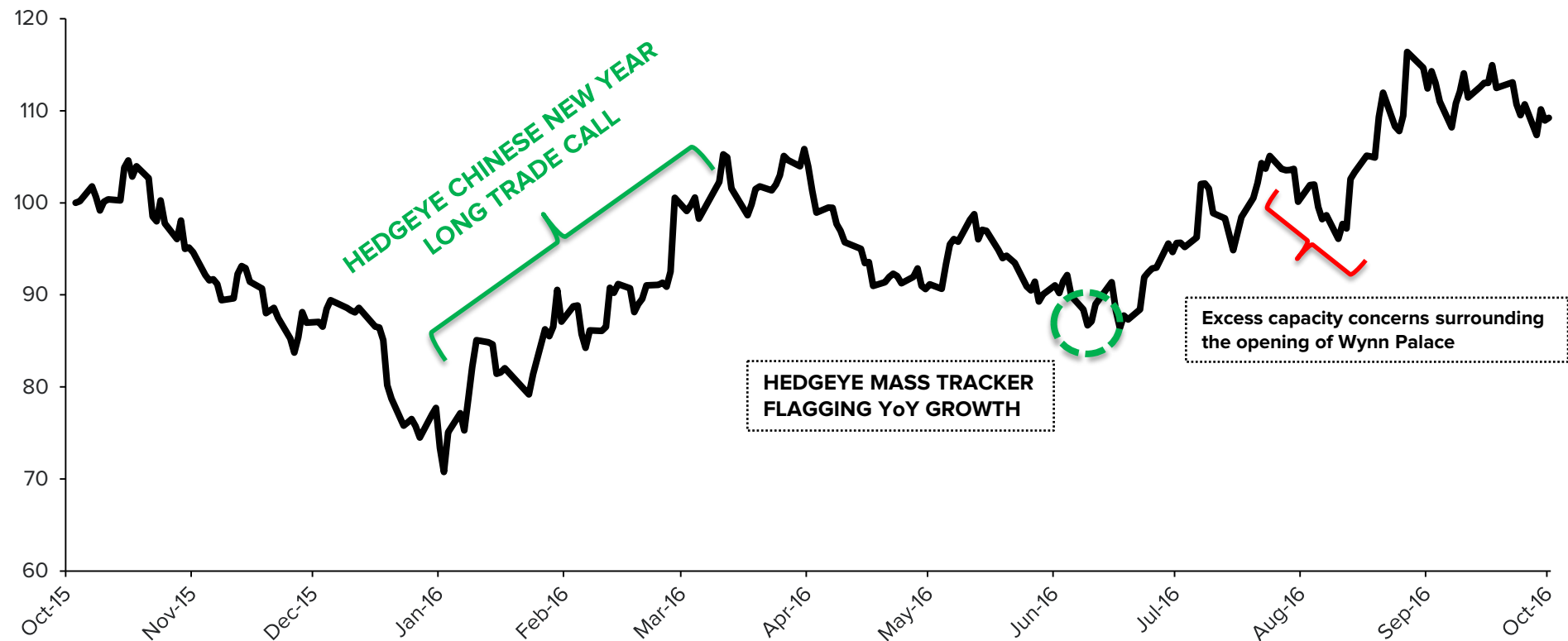
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## **MACAU STOCKS BUT NOT IN THE STRATOSPHERE**

We've heard it a lot over the last several weeks: multiples are too high and earnings season will be lackluster. Sure WYNN could disappoint and maybe LVS too. But if it's shown that Macau mass revs grew 7-8% in Q3 on top of 4.5% in Q2 and the outlook is for further acceleration in Q4, shouldn't we be looking for entry points on the long side? We're sticking with the Tracker.

# MACAU | THE STOCKS

## MACAU – EQUAL WEIGHTED HK INDEX



INDEX COMPONENTS: 0027.HK, 2282.HK, 1928.HK, 1128.HK, 880.HK

SOURCE: BLOOMBERG

# **MACAU | WHY WE'RE STILL POSITIVE**

# MACAU | WHY WE'RE STILL POSITIVE

1

## TRACKER SUGGESTS ACCELERATING MASS GROWTH

We think Q3 mass revenues likely grew at the higher end of the Tracker forecast of +4% to +8%. Q4 should accelerate from that level. Meanwhile, VIP is displaying signs of stability. If we're right, estimates (sans WYNN) are likely heading higher.

2

## LONG TERM BULL THESIS BACK IN PLAY

With mass revenue accelerating, the long term bullish thesis of continued penetration of an underserved and huge potential market is back in play. New properties may not be growing the market enough to offset supply but visitation, hotel occupancy and length of stay statistics are encouraging.

3

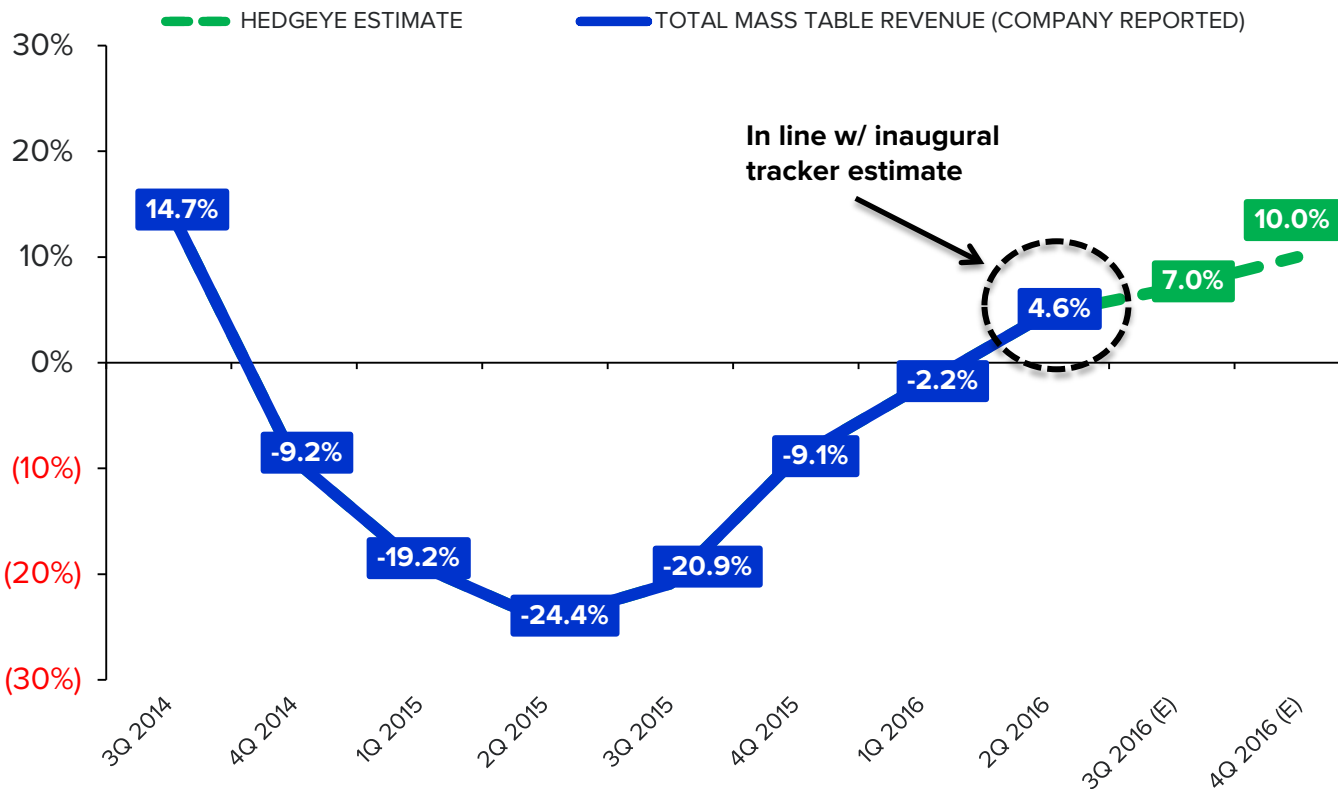
## HIGHER VALUATIONS – MORE SELECTIVE STOCK PICKS

Stocks are up a lot this year and certainly since the surprisingly strong mass performance in Q2. We think Q3 will be a mixed bag which is why we want to focus on the Galaxy – the company that could put up the best earnings report

# MACAU | MASS TRACKER



## MACAU | HEDGEYE MASS TRACKER (Y/Y CHANGE)



SOURCES: COMPANY FILINGS, HEDGEYE

Amid skepticism, the HE Mass Tracker suggested positive 2Q mass growth back in June. Mass revenues actually grew 4.6% - almost exactly in line with the actual Tracker point forecast.

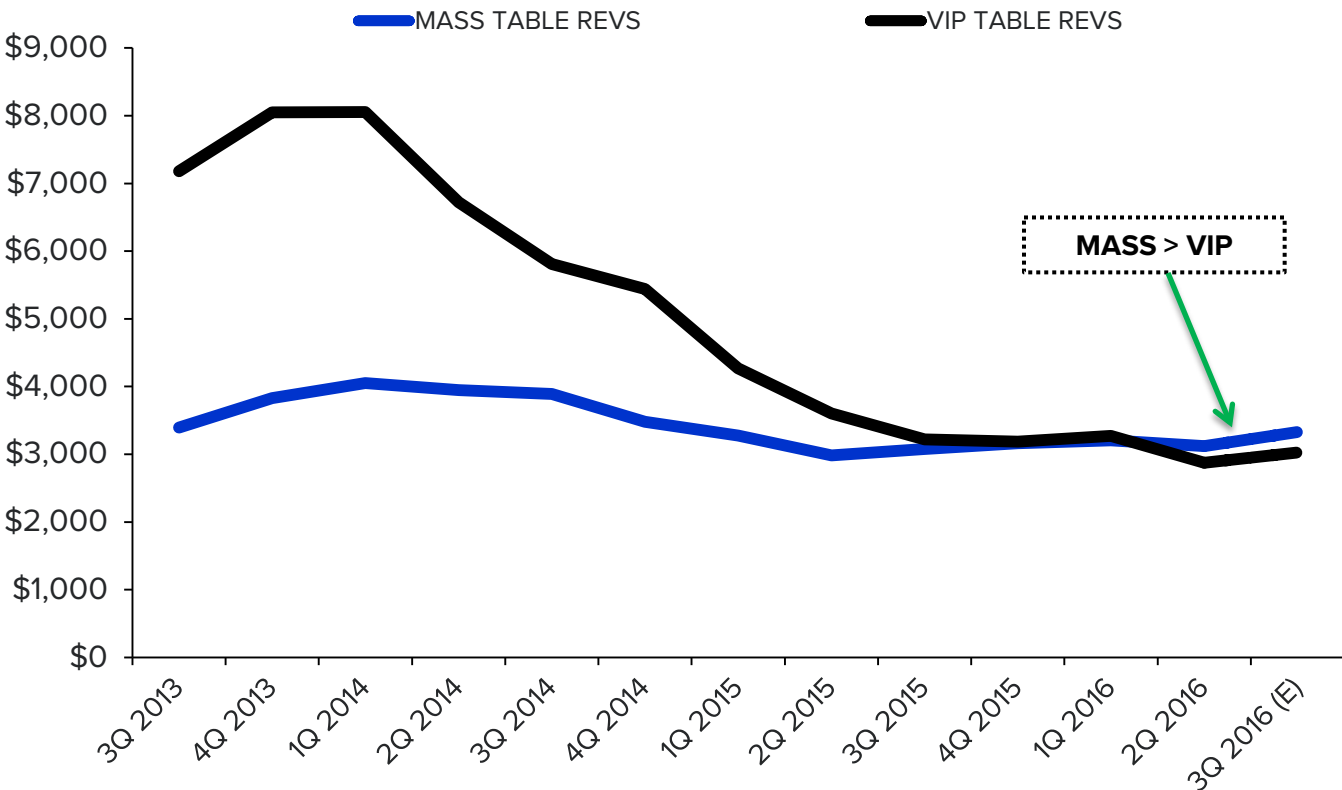
Based on our data, the Tracker is predicting that mass revs grew 4-8% in Q3. Given additional gov't figures, we think actual mass growth will come in at the high end of that range.

Our +10% Q4 growth forecast is based on a moving avg (tied to \$ volumes) aided by new property growth.



# MACAU | MASS OVERTOOK VIP

## MACAU | MASS vs. VIP REVENUES

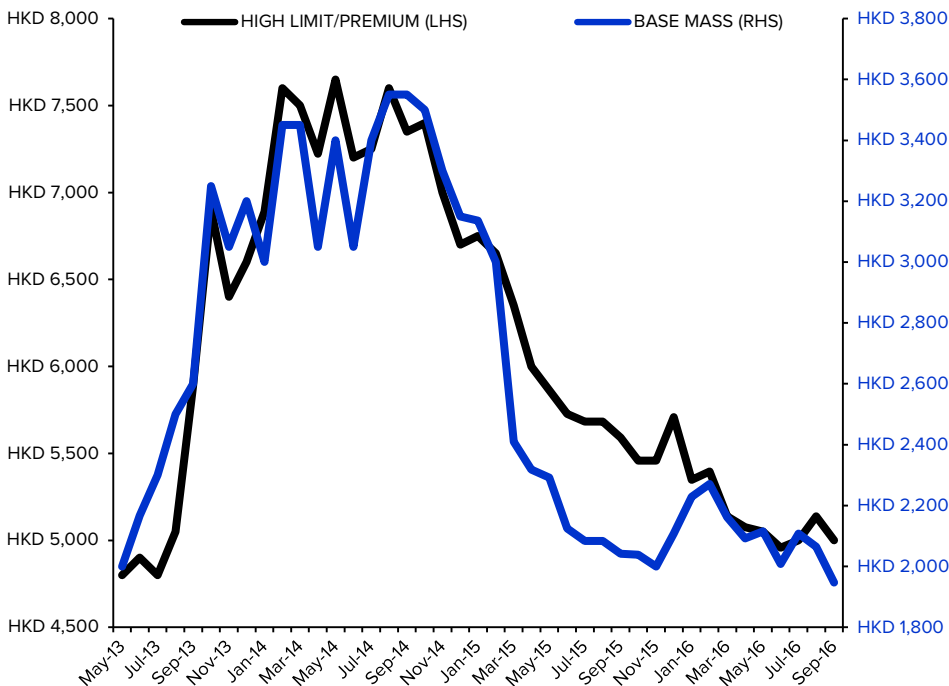


Mass revenues have surpassed VIP revenues. We estimate that EBITDA generated from the mass segment (including slots) now comprises ~80% of total gaming EBITDA in Macau

SOURCE: COMPANY REPORTS, HEDGEYE ESTIMATES

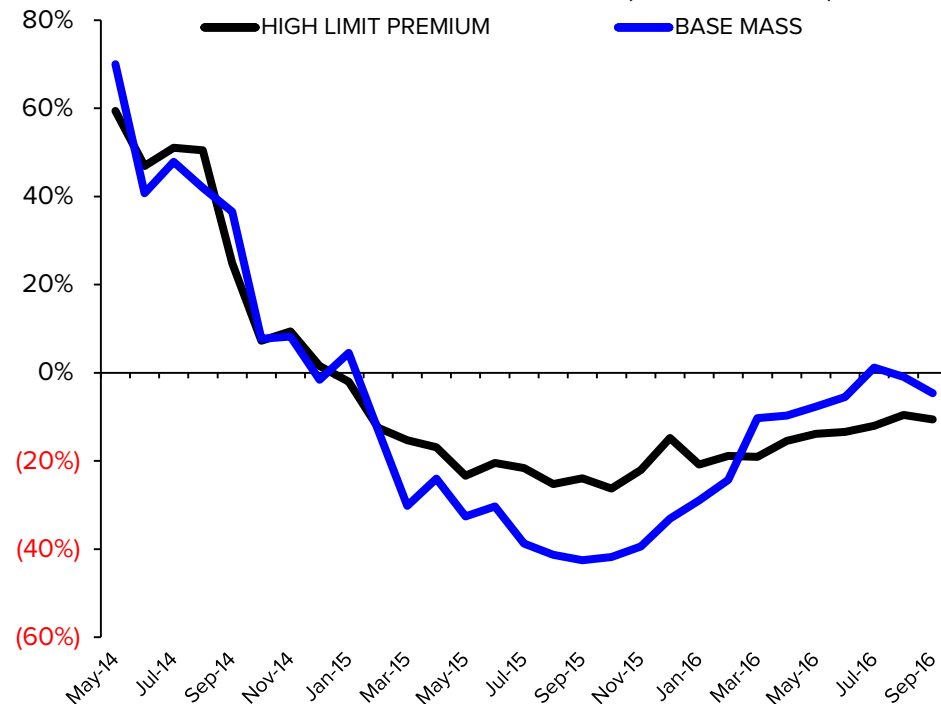
# MACAU | OBSERVED AVG BETS

## MACAU | OBSERVED AVERAGE TABLE BETS



SOURCE: HEDGEYE

## MACAU OBSERVED TABLE BETS (Y/Y CHANGE)

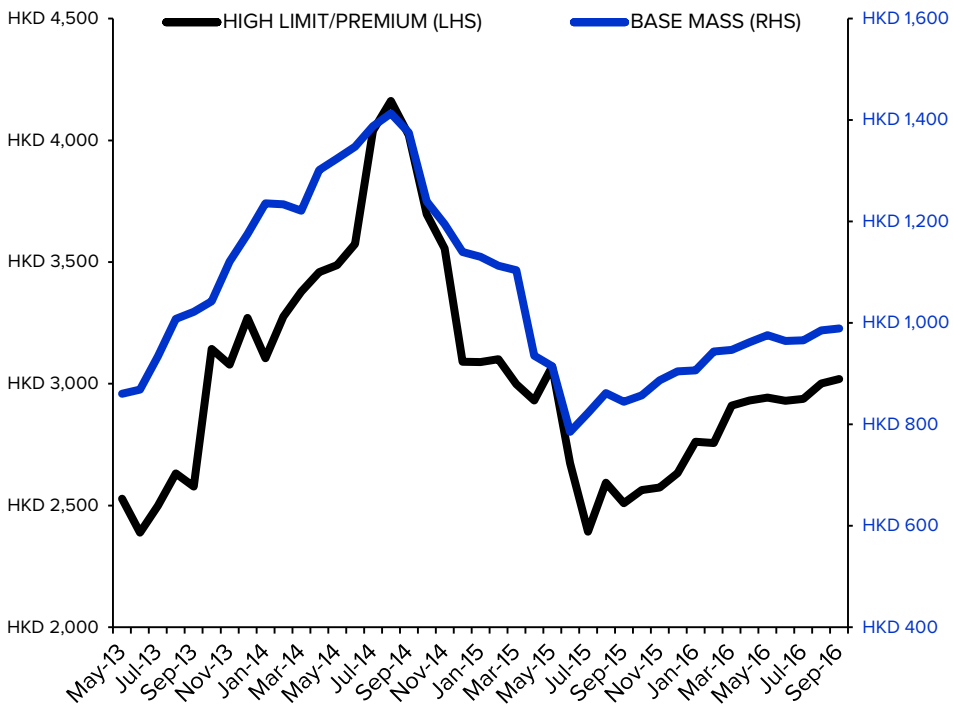


SOURCE: HEDGEYE

Observed avg bets are still down YoY but declining at a lesser rate. Longer playing time, resulting in higher gaming volume, is the offset. Parisian and Wynn Palace is particularly pressuring the base mass avg bet.

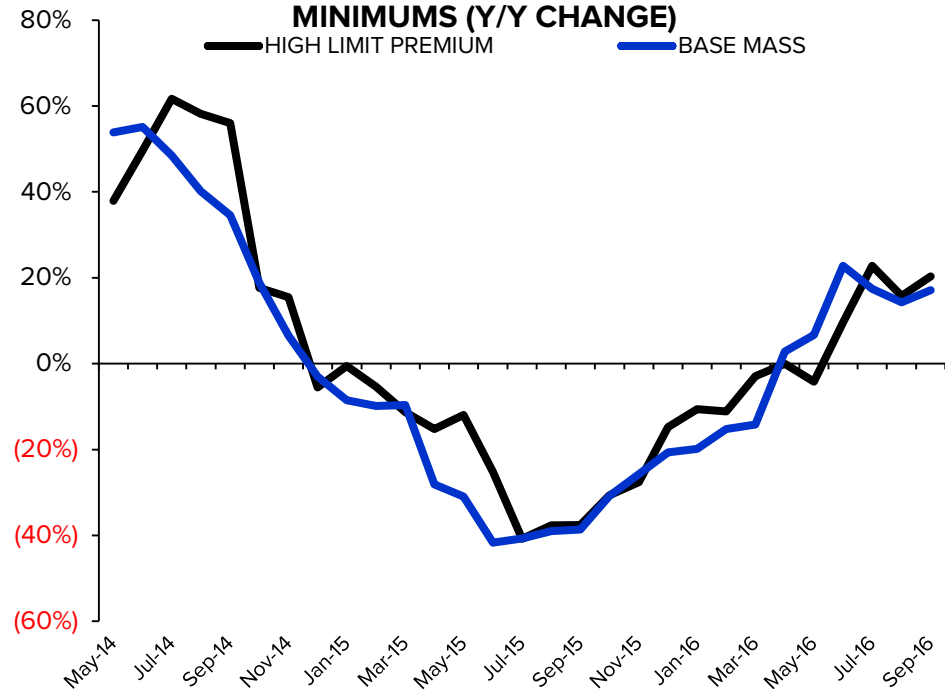
# MACAU | MINIMUM BETS

## MACAU | AVERAGE POSTED TABLE BET MINIMUMS



SOURCE: HEDGEYE

## MACAU | AVERAGE POSTED TABLE BET MINIMUMS (Y/Y CHANGE)



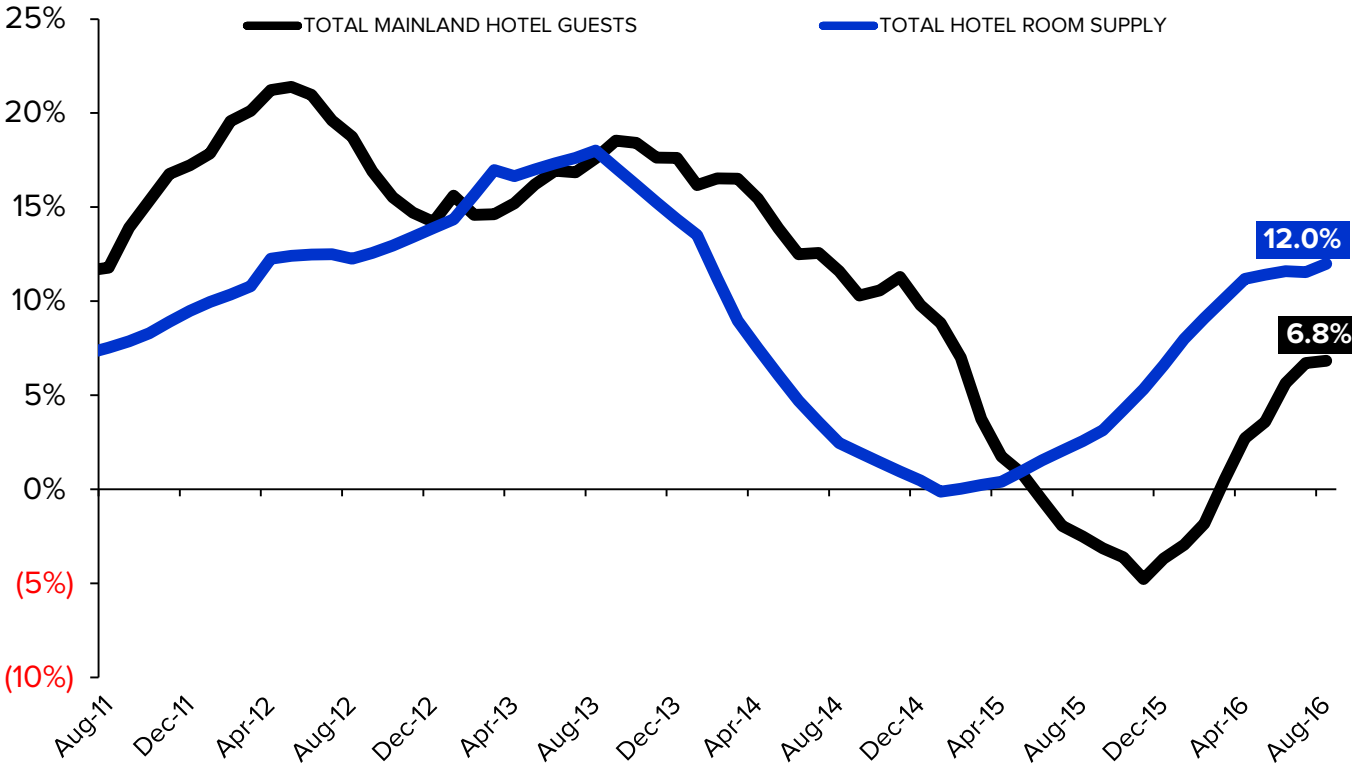
SOURCE: HEDGEYE

Potentially signaling optimism, casinos have been raising prices. Posted minimum bet levels on the mass tables have been steadily rising on a sequential and YoY basis.

# MACAU | HOTEL STAYS



## MAINLAND HOTEL GUESTS vs. ROOM SUPPLY (Y/Y CHANGE)

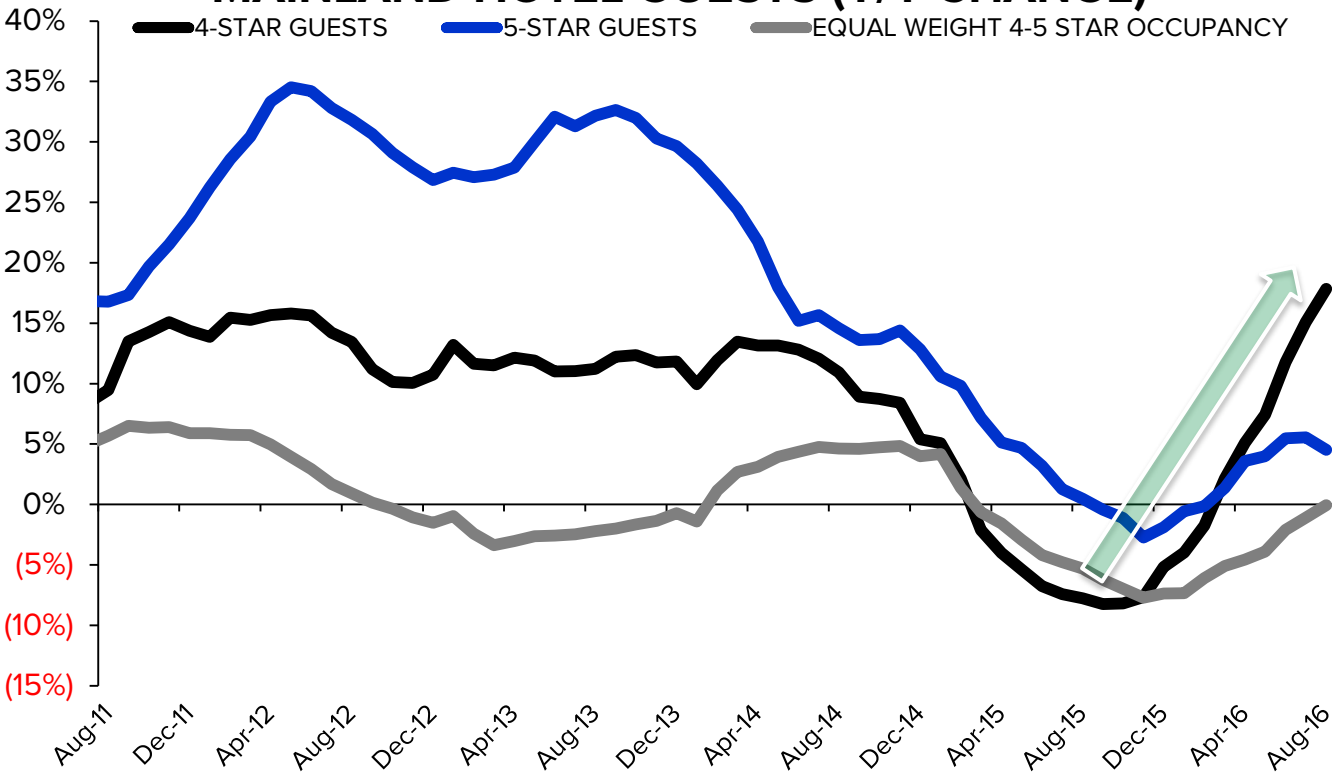


TTM WAS USED  
SOURCE: DSEC, HEDGEYE ESTIMATES

Big gambling mainland Chinese hotel guests have grown as hotel room supply picks up. This has led to an improvement in occupancy, boosting mass revenues and somewhat offsetting the ADR decline.

# MACAU | OCCUPANCY

## MAINLAND HOTEL GUESTS (Y/Y CHANGE)



TTM WAS USED

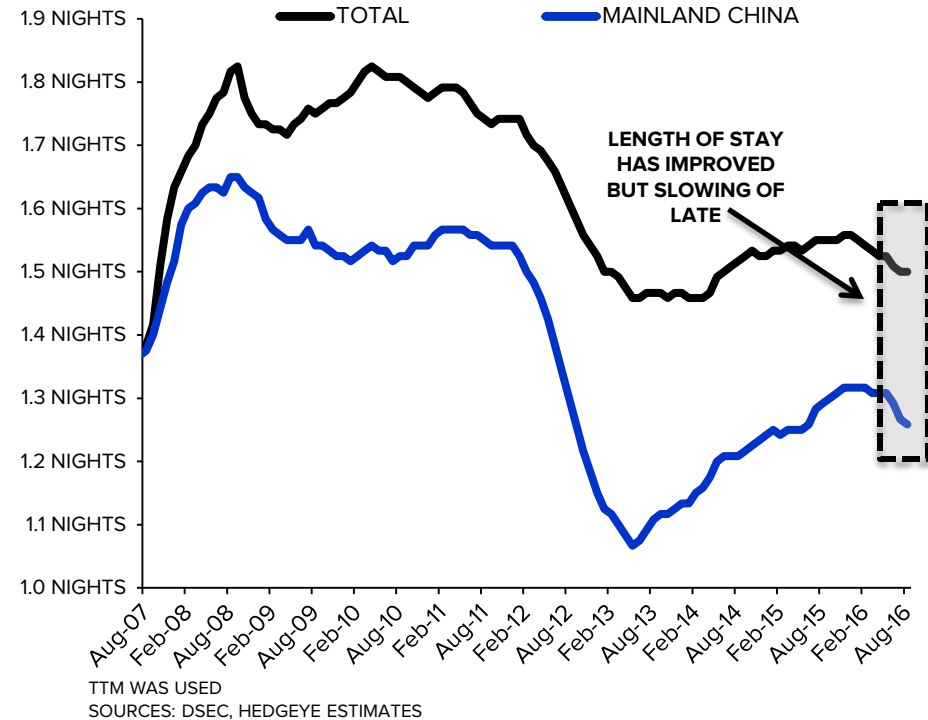
SOURCE: DSEC, HEDGEYE ESTIMATES

Growth in Mainland visitation is broad based. Both 4 and 5 Star hotels are slowly benefiting from higher volumes of overnight visitors.

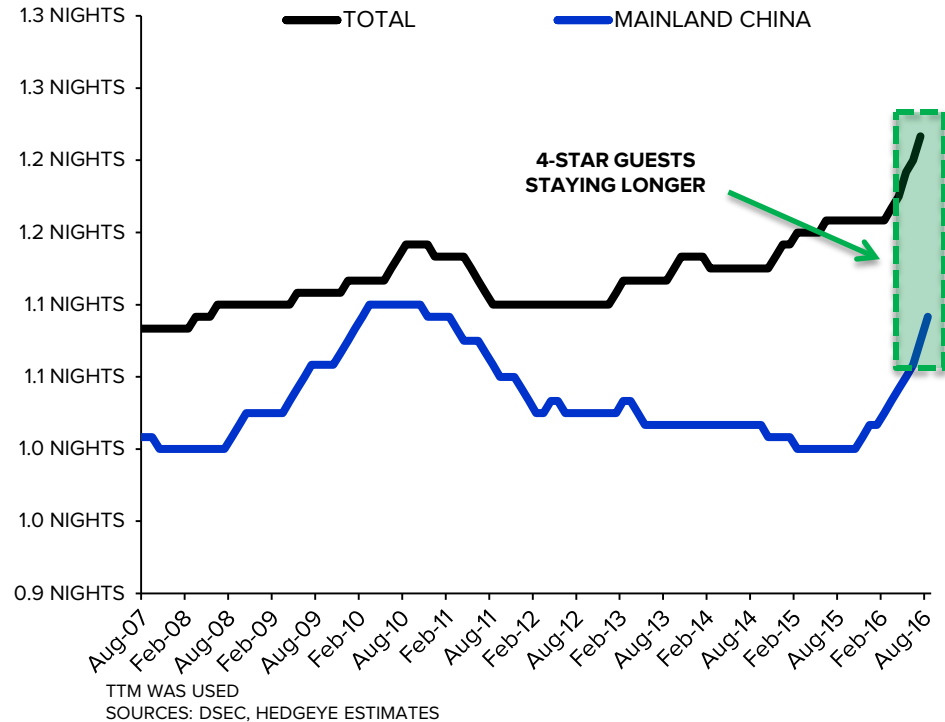
Occupancy growth is already positive in the last 4 months, thus, we anticipate the trend will continue to accelerate.

# MACAU | LENGTH OF STAY

## 5-STAR HOTELS



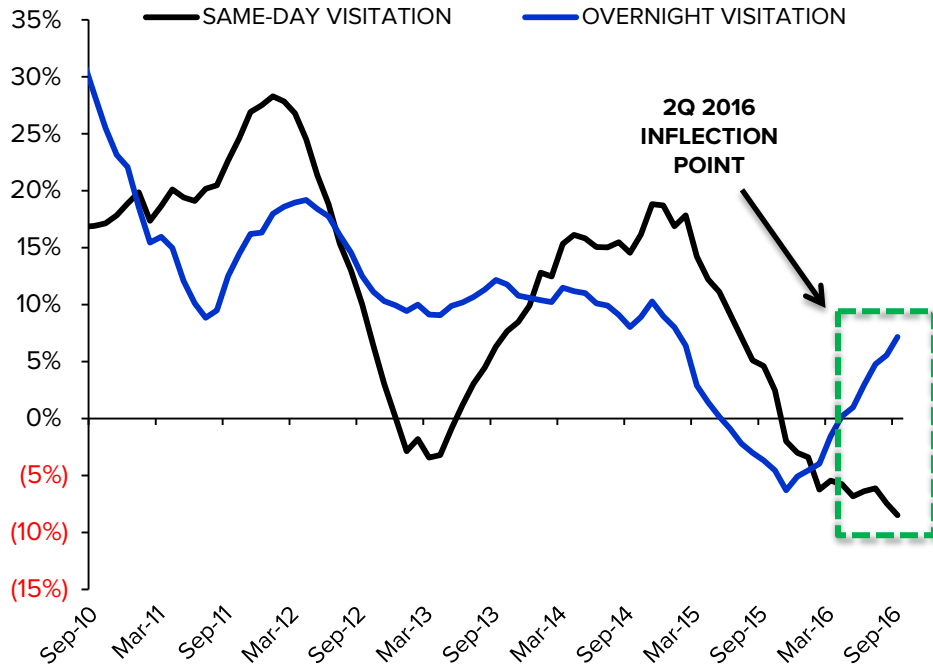
## 4-STAR HOTELS



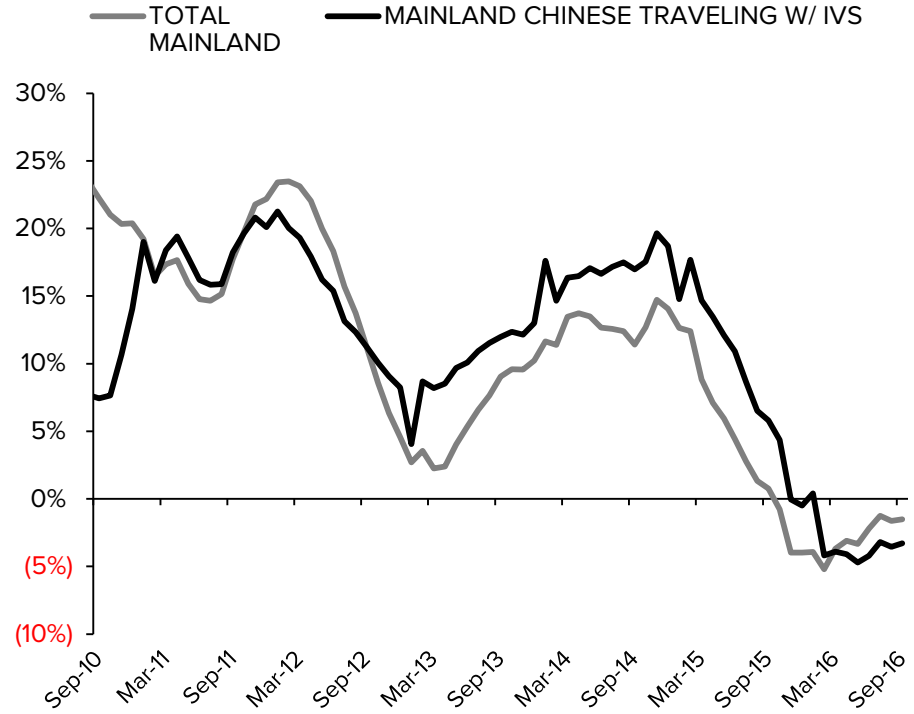
Overall length of stay remains at elevated levels but still below 2008-2011. The trend in 4-Star Hotel guests is noticeably more positive but coming over a lower base.

# MACAU | OVERNIGHT VISITATION

## MAINLAND CHINESE VISITATION (Y/Y CHANGE)



TTM WAS USED  
SOURCES: DSEC, HEDGEYE ESTIMATES

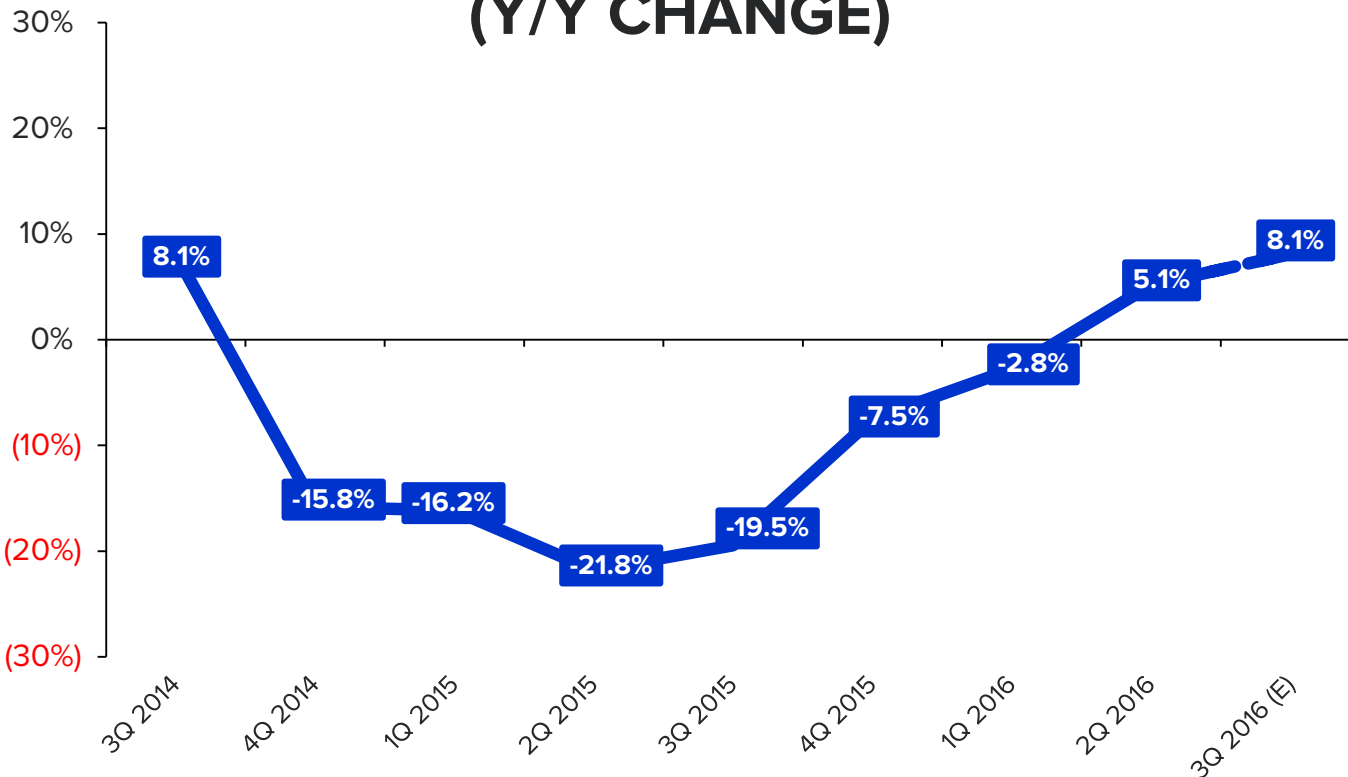


TTM WAS USED  
SOURCES: DSEC, HEDGEYE ESTIMATES

2Q 2016 marked the 1st positive quarter of overnight visitation growth since 1Q 2015, and 3Q continued the momentum. Overall, Chinese visitation is trending higher, but still negative on a TTM basis. We remain confident that Galaxy Macau has helped build overnight stays.

# MACAU | WIN PER VISITOR

## MACAU | MASS WIN PER VISITOR (Y/Y CHANGE)



SOURCES: COMPANY REPORTS, DSEC, HEDGEYE

Mass win per visitor grew again in 3Q, marking consecutive quarterly growth since 3Q 2014.

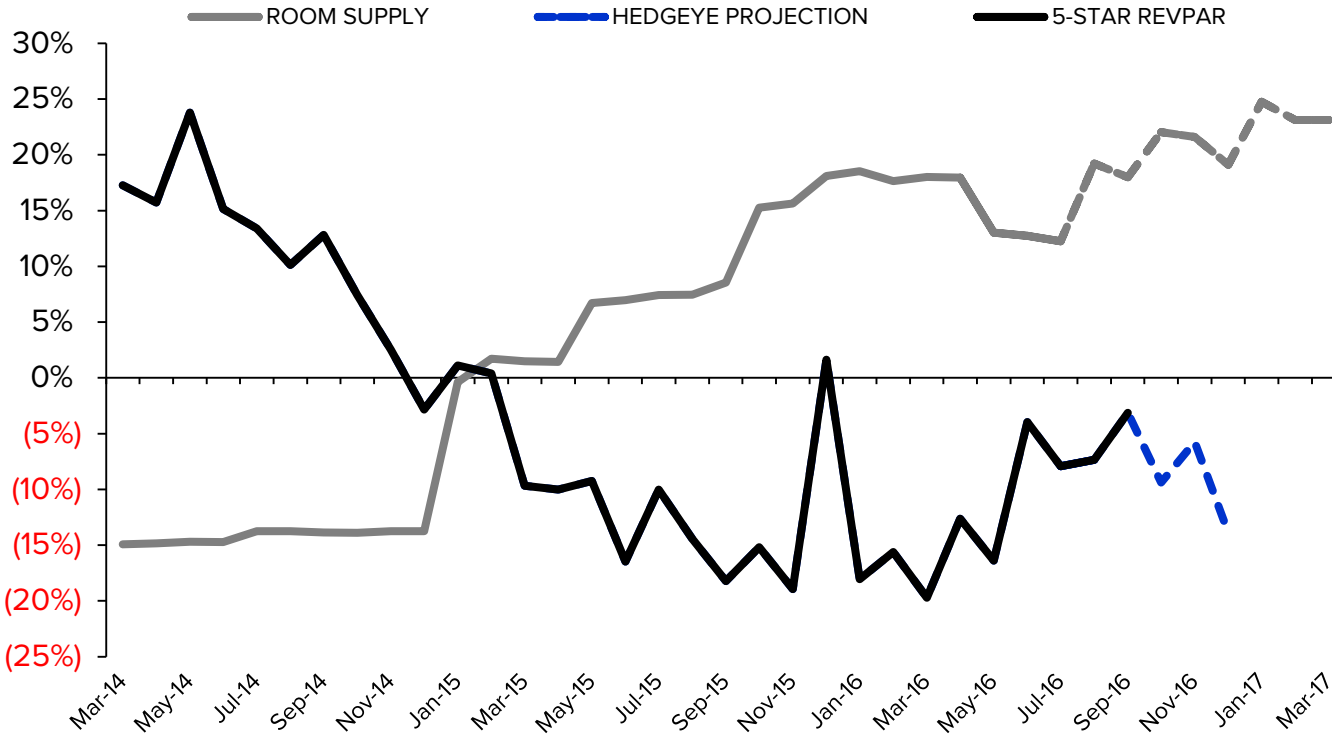
The lower observed avg bet per table we have been seeing suggests players are playing longer.

We've shown that length of stay has increased meaning customers are playing longer but not at the same rate per hand. It's also possible that some former VIP players have moved into the mass channel.



# MACAU | STABILIZING REVPAR

## MACAU REVPAR vs. ROOM SUPPLY (Y/Y CHANGE)



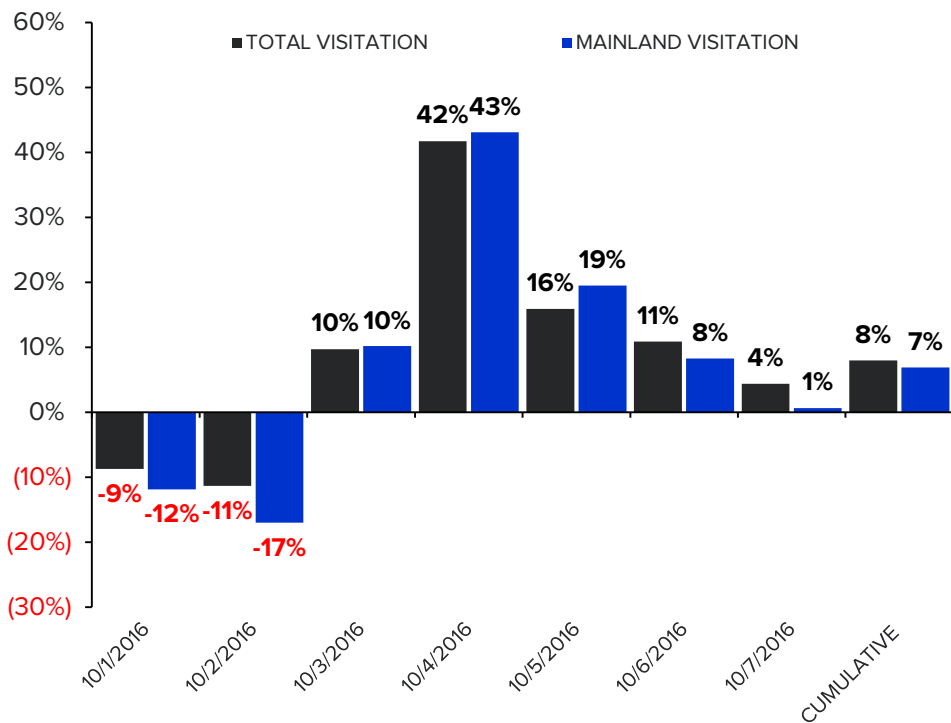
SOURCE: MACAU HOTEL ASSOCIATION, HEDGEYE ESTIMATES

Despite higher room supply, RevPAR improved somewhat in recent months.

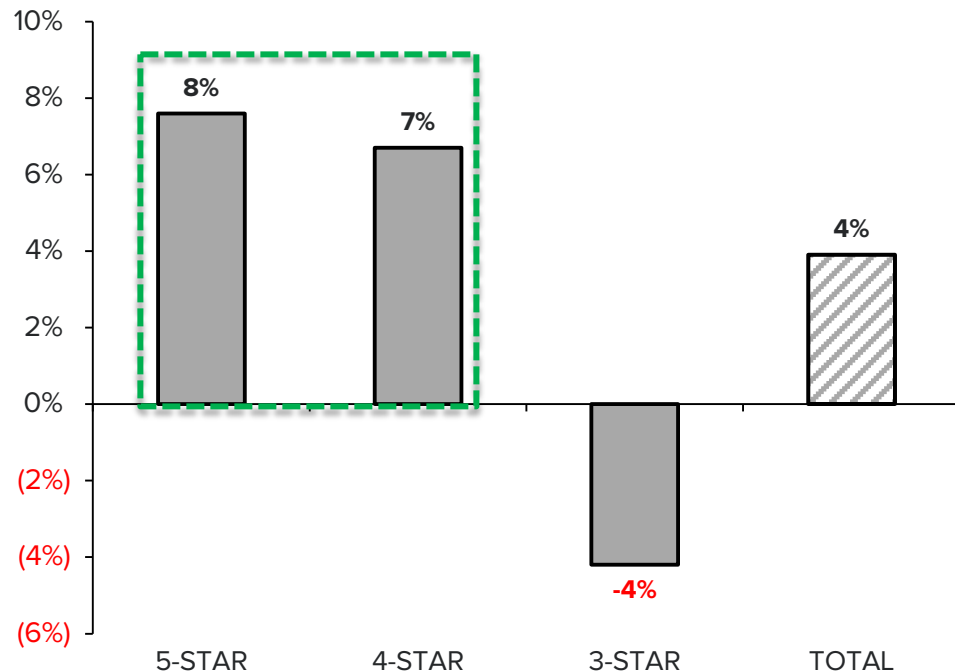
Looking ahead, our rate tracker is forecasting high single digit – low double digit declines in 5-Star RevPAR for the 4Q 2016. Of late, lower room rates have been a draw and created incremental visitation growth.

# MACAU | GOLDEN WEEK

MACAU | GOLDEN WEEK VISITATION (Y/Y CHANGE)



MACAU | GOLDEN WEEK REVPAR (Y/Y CHANGE)

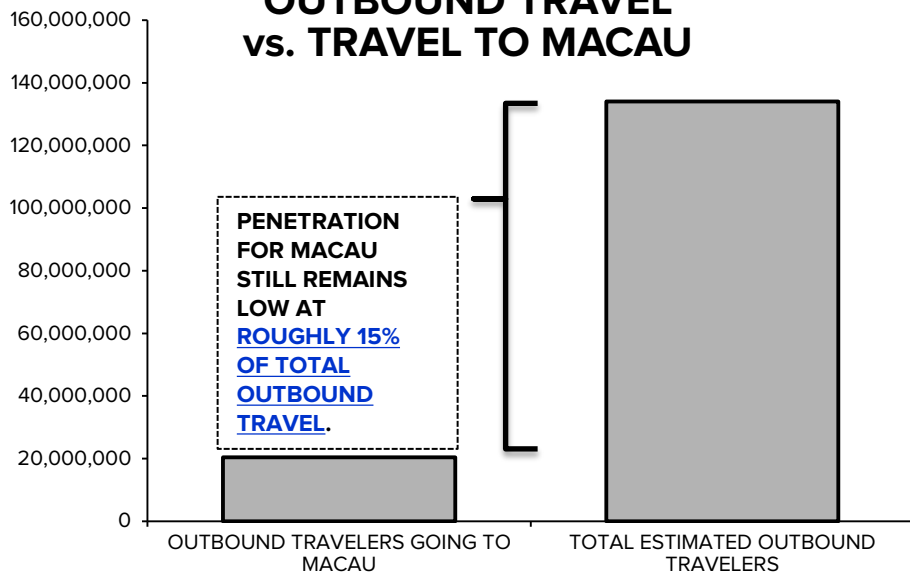


SOURCE: MACAU HOTEL ASSOCIATION, HEDGEYE ESTIMATES

Visitation was very strong for Golden Week which led to room rate increases for 4-5 Star hotels, at +2.1% and +2.8% YoY, respectively. Occupancy also expanded YoY. Note, government reported official tourism visitation was **+19% YoY for total visitation, and +17% YoY for Mainland Chinese visitation**. We think gross gaming revenues were up sharply through Golden Week

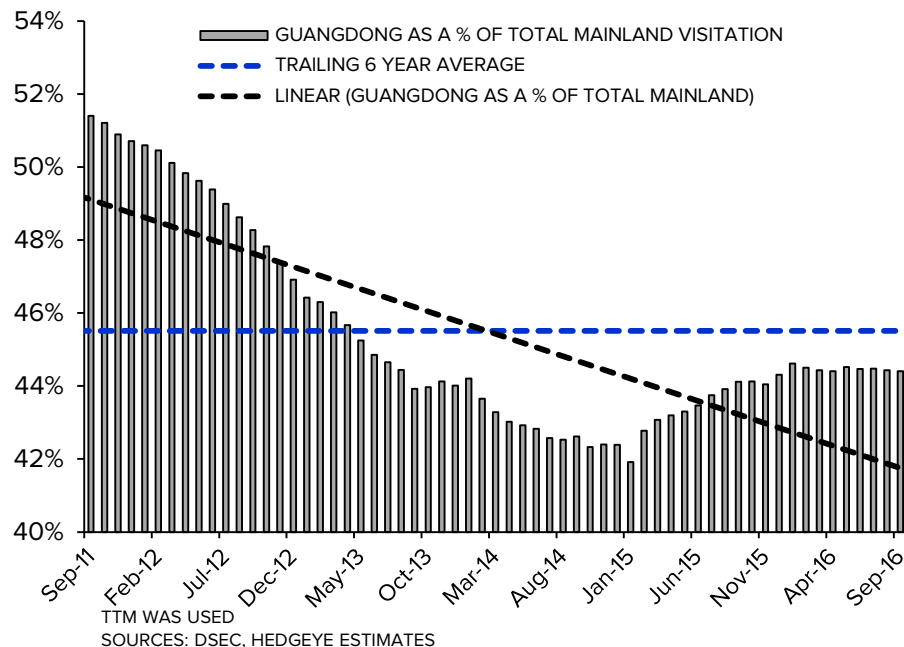
# MACAU | LONG TERM BULL THESIS INTACT

## 2015 MAINLAND CHINESE OUTBOUND TRAVEL vs. TRAVEL TO MACAU



SOURCES: COTRI, CNTA, DSEC, HEDGEYE ESTIMATES

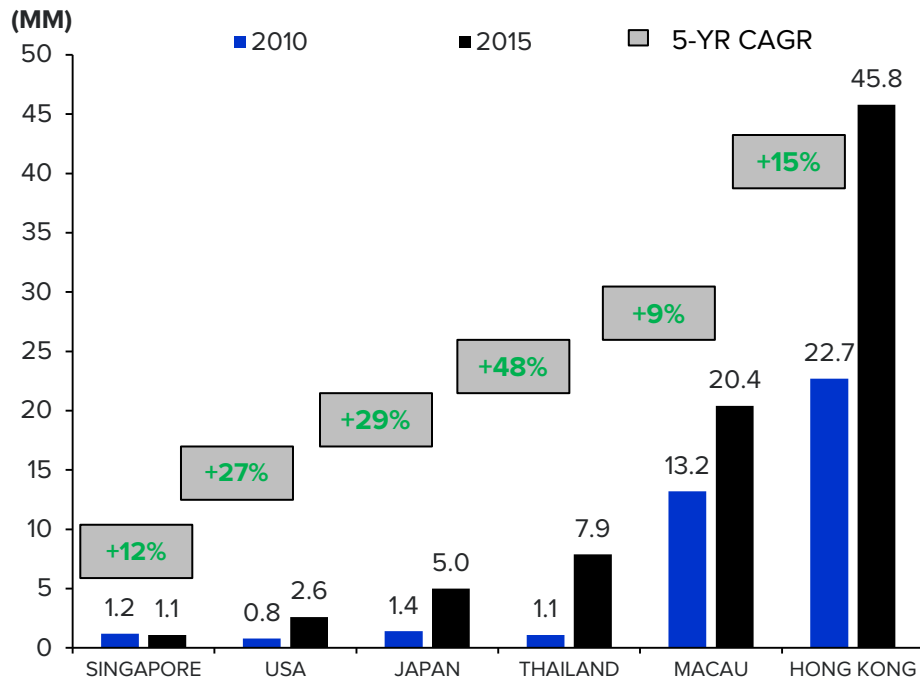
## RELIANCE ON GUANGDONG FADING ?



Total Mainland outbound traveler numbers indicate that nearly 135 million people took an outbound trip in 2015. Macau, HK, and Taiwan are among the destinations most frequently visited, but even still, Macau only makes up about 15% of outbound trips on an annual basis - down from 18% in 2014. We'd argue that given the close proximity, new non-gaming offerings, and improving infrastructure, Macau could be regain its lost share in the years to come. Additionally, Guangdong is slowly becoming a smaller portion of overall Chinese visitation, which could be a sign that the Macau product is resonating with more Mainlanders.

# MACAU | LONG TERM BULL THESIS INTACT

## CHINA OUTBOUND TO SELECT MARKETS



SOURCES: COTRI, CNTA, DSEC, HEDGEYE ESTIMATES, LVS PRESENTATION

PROVINCE	POPULATION (MM)	MACAU PENETRATION RATE *
GUANGDONG	107	8.4%
FUJIAN	38	2.2%
HUNAN	67	1.2%
HUBEI	58	1.1%
ZHEJIANG	55	1.0%
GUANGXI	48	1.1%
JIANGSU	48	0.6%
SHANGHAI	80	2.0%
JAINGXI	45	1.0%
BEIJING	22	1.5%
<b>SUBTOTAL (EX. GUANGDONG)</b>	<b>1,261</b>	<b>0.9%</b>
<b>TOTAL CHINA</b>	<b>1,368</b>	<b>1.5%</b>

\* PENETRATION RATE ASSUMES EACH VISITOR TO MACAU IS A UNIQUE VISITOR

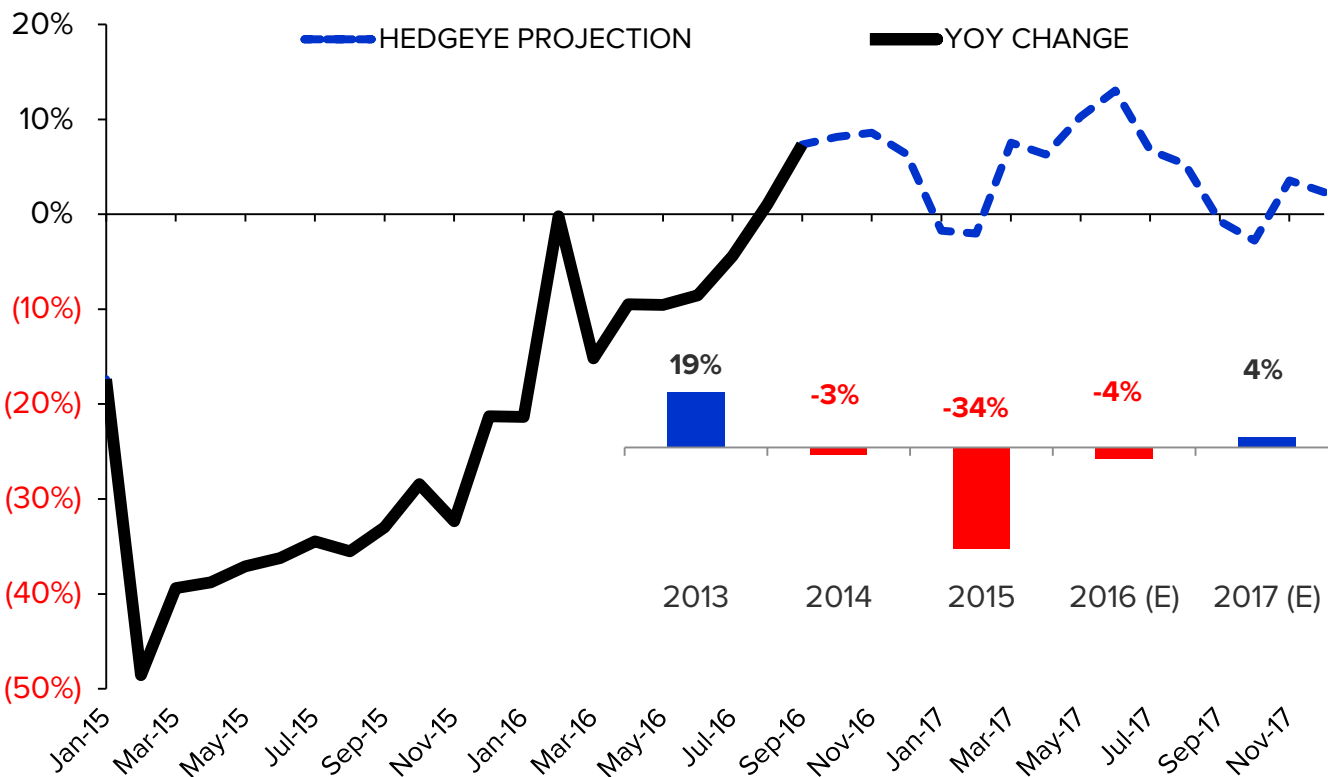
\* STUDY LOOKED AT THE 12 MONTHS ENDING IN MARCH 2016

SOURCES: DSEC, NATIONAL BUREAU OF STATISTICS CHINA, LVS PRESENTATION

Comparing the total penetration rate (visitors/population) Macau is underpenetrated, which bodes well for future growth.

# MACAU | REVENUE PROJECTIONS

## MACAU GROSS GAMING REVENUES



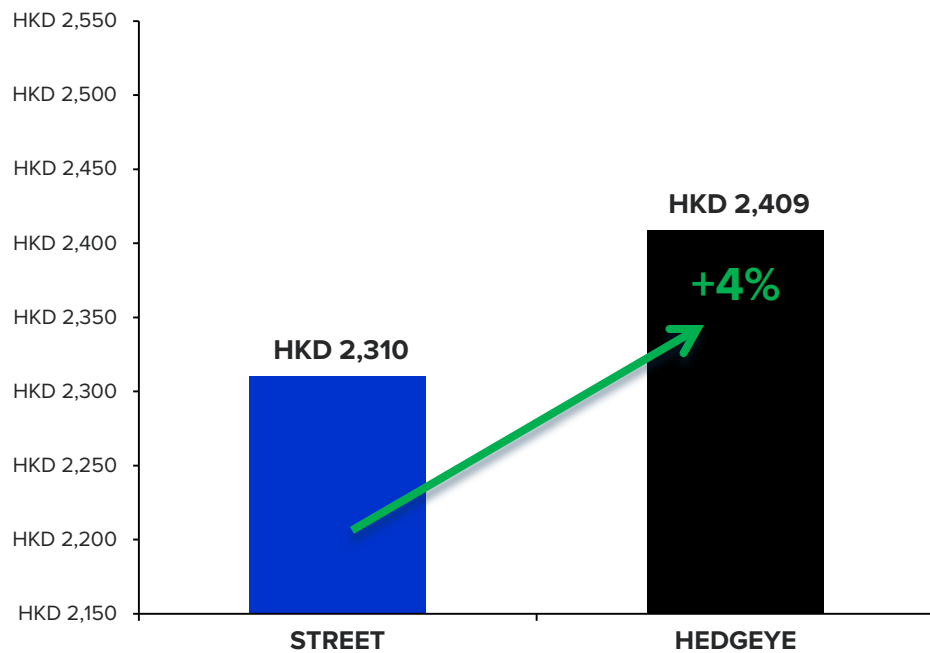
We're projecting 2016 GGR to fall 4% while we should see roughly 4% growth in 2017, according to our projections.

Note that our top down forecasts reconcile with our individual company estimates.

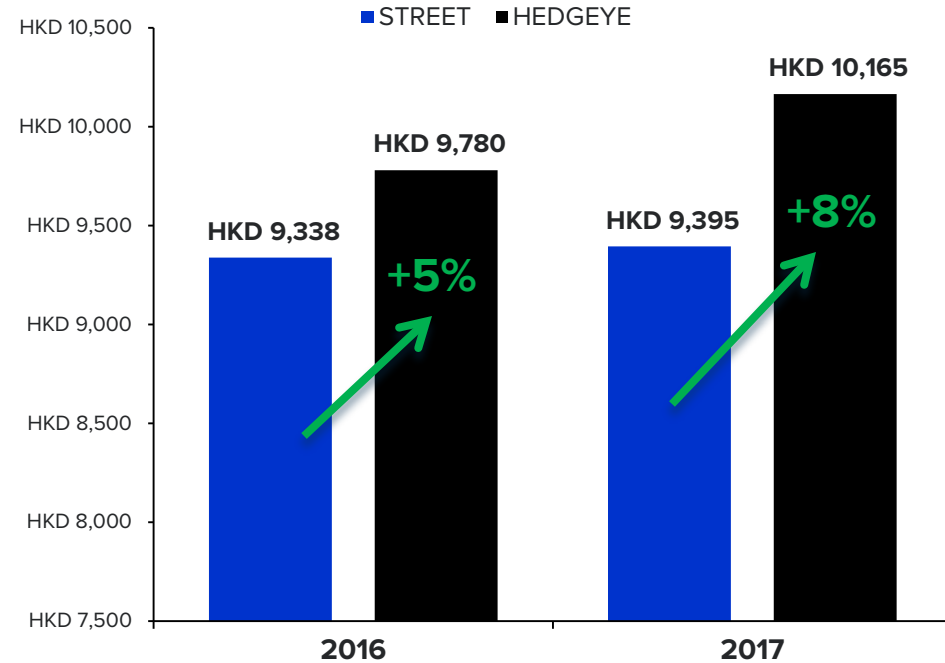
**GALAXY (0027.HK) | BEST IDEA LONG**

# GALAXY | HEDGEYE VS STREET

## 3Q 2016 EBITDA (in HKD MILLIONS)



## 2016/2017 EBITDA (IN HKD MILLIONS)

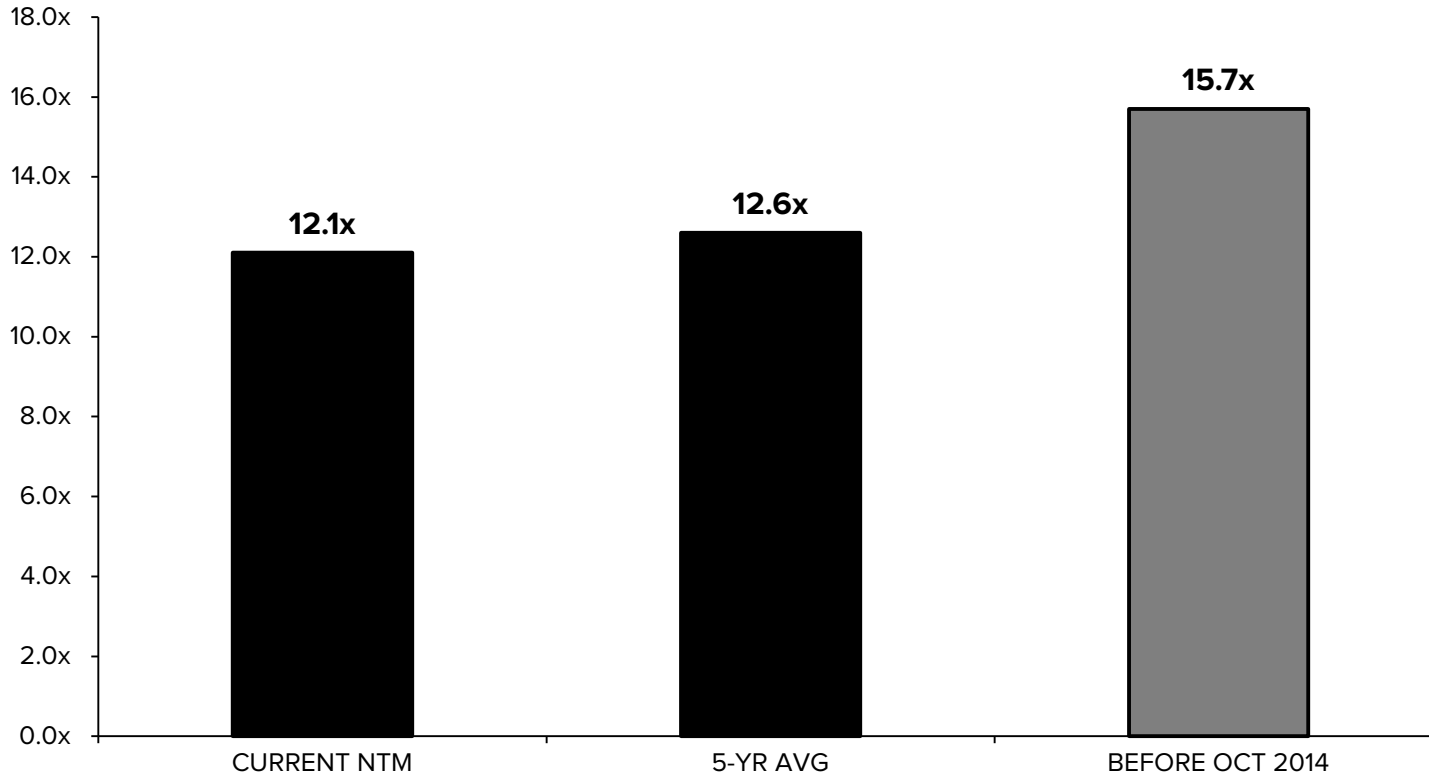


SOURCE: HEDGEYE, FACTSET, BLOOMBERG

Street estimates have risen lately but we remain above for 2016 and 2017.

# GALAXY | VALUATION

## GALAXY | EV/EBITDA MULTIPLES



SOURCE: FACTSET

Valuation is near its 5-yr avg. But if mass accelerates, EBITDA growth will accelerate as well and 16x is not too far-fetched.



# GALAXY | DEVELOPMENT PLANS

## LARGEST PIPELINE ON MACAU

### COTAI PHASE 3 (2017)

- COMMENCE SITE PREP IN 2017
- WILL ALLOCATE MORE AREA TO M.I.C.E.
- ALSO WILL ADD MORE NON-GAMING FACILITIES

### COTAI PHASE 4 ( ? )

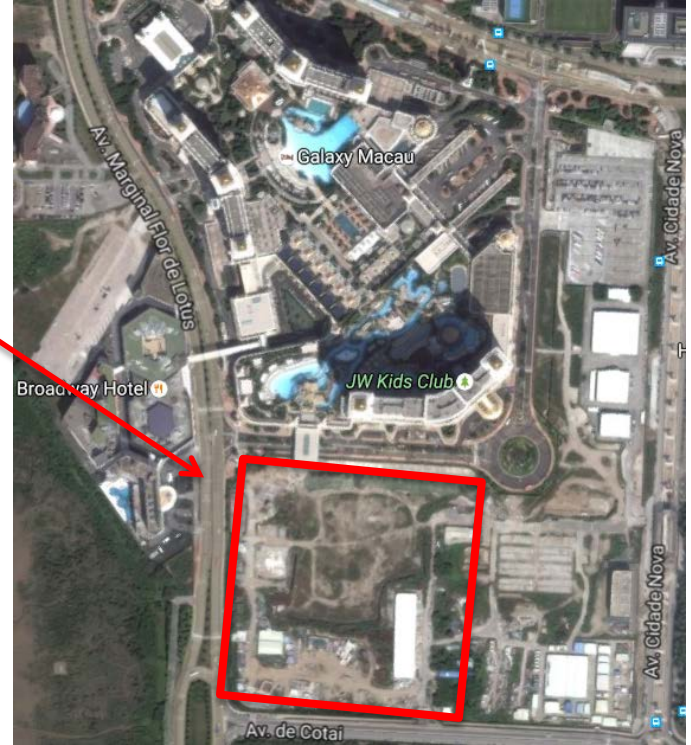
- NO PUBLISHED PLANS

### HENGQIN ISLAND

- 2.7 SQ KM LAND PARCEL
- PLANS FOR INTEGRATED RESORT
- NO GAMING OFFERINGS

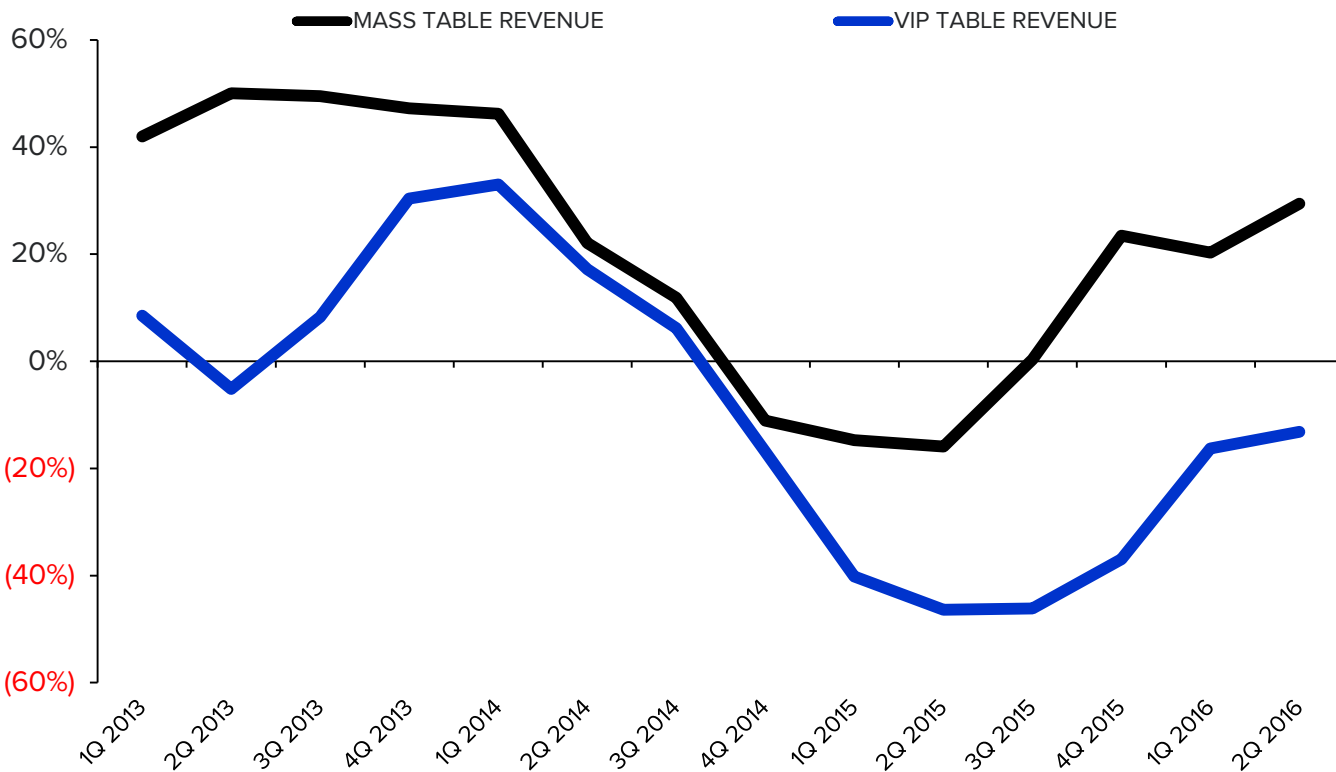
### HEDGEYE'S TAKE

- Galaxy has more unused land than any other concessionaire
- Continued market mass growth suggests development could be high ROI
- “Master planned development” allows for better development timing and control of capex



# GALAXY | MASS GROWTH ACCELERATING

## GALAXY | QUARTERLY MASS + VIP (Y/Y CHANGE)



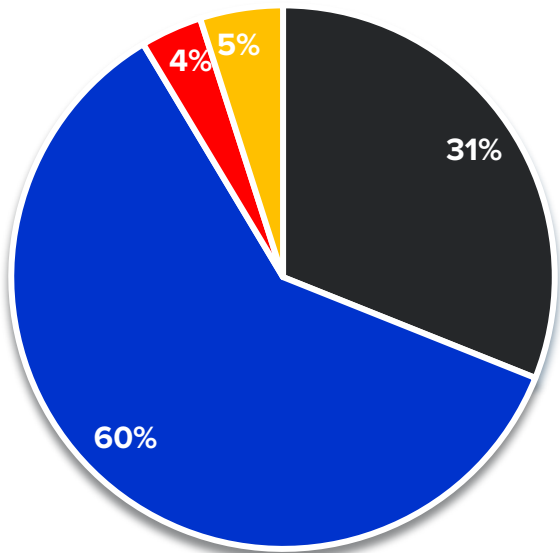
SOURCE: COMPANY REPORTS

Mass revenue growth continues to accelerate higher, meanwhile, VIP appears to trending in the right direction as well.

# GALAXY | MASS CONTRIBUTION HIGHER

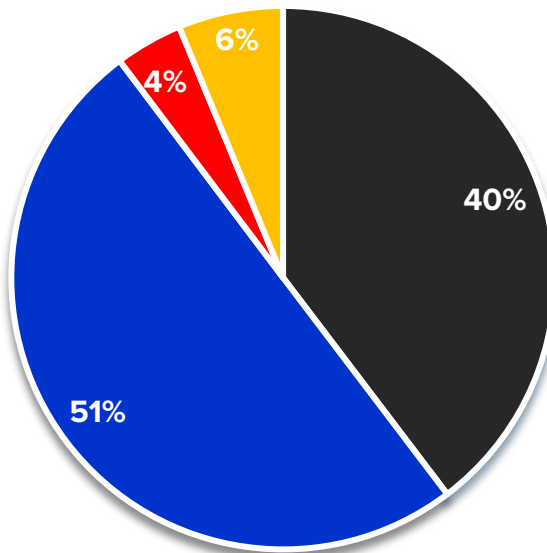
**GALAXY | 2Q 2015  
REVENUE BREAKOUT**

■ MASS ■ VIP ■ SLOT ■ NON-GAMING



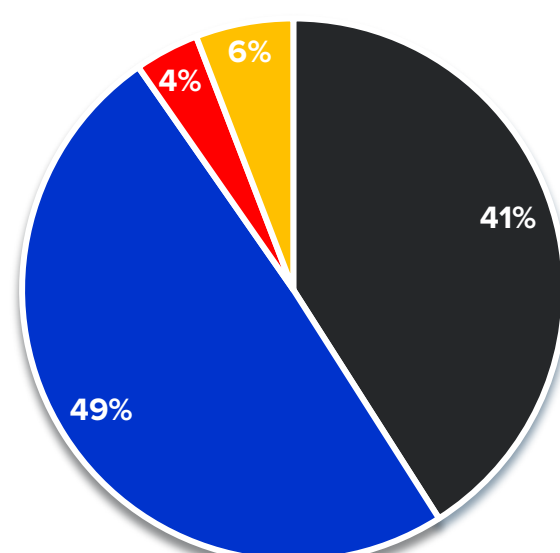
**GALAXY | 2Q 2016  
REVENUE BREAKOUT**

■ MASS ■ VIP ■ SLOT ■ NON-GAMING



**GALAXY | 2017E  
REVENUE BREAKOUT**

■ MASS ■ VIP ■ SLOT ■ NON-GAMING



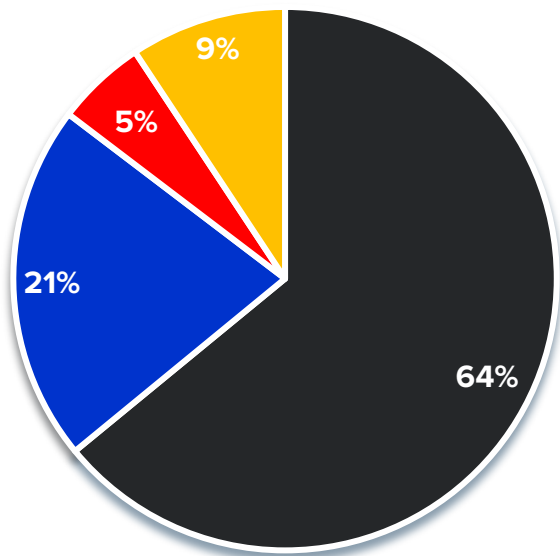
SOURCE: COMPANY REPORTS, HEDGEYE ESTIMATES

Mass contribution as a % of GGR is increasing at Galaxy Entertainment.

# GALAXY | MASS CONTRIBUTION HIGHER

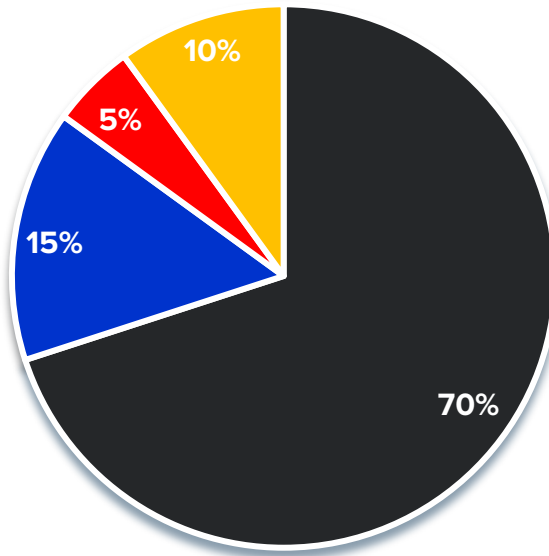
**GALAXY | 2Q 2015 EBITDA  
BREAKOUT**

• MASS • VIP • SLOTS • NON-GAMING



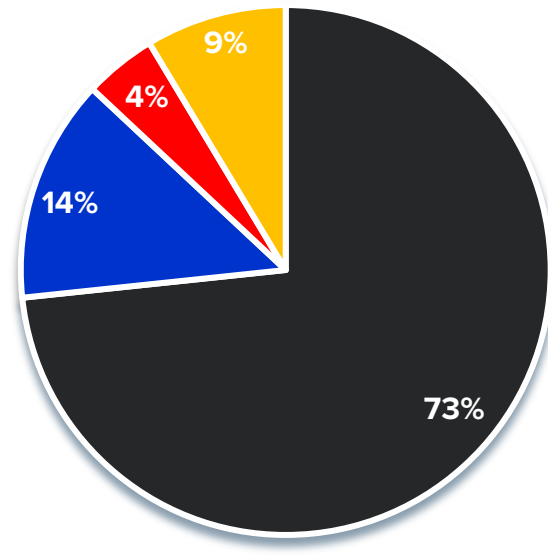
**GALAXY | 2Q 2016 EBITDA  
BREAKOUT**

• MASS • VIP • SLOTS • NON-GAMING



**GALAXY | 2017E EBITDA  
BREAKOUT**

• MASS • VIP • SLOTS • NON-GAMING

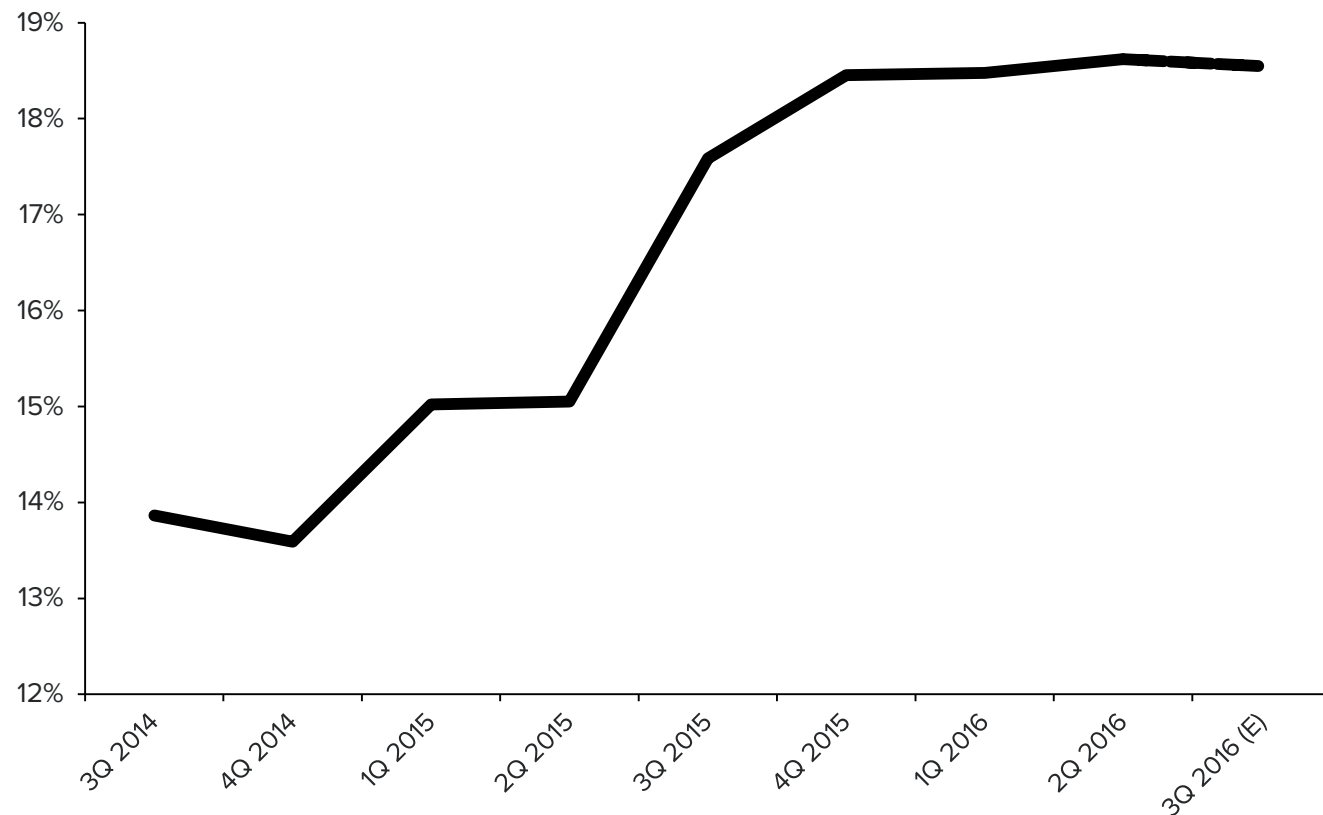


SOURCE: COMPANY REPORTS, HEDGEYE ESTIMATES

We think Mass EBITDA contribution is also going higher. Management said on its 2Q conference call that mass (including slots) + non-gaming account for well over 80% of the company's EBITDA.

# GALAXY | MASS CONTRIBUTION HIGHER

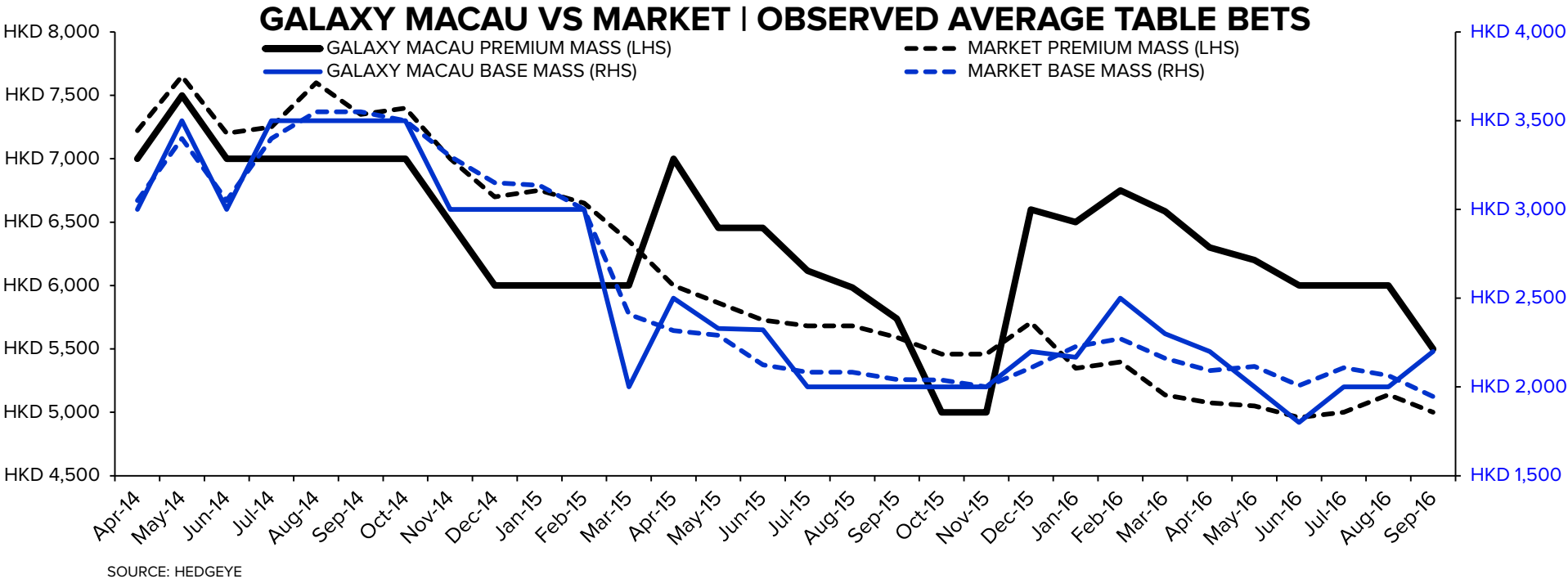
## GALAXY MASS REVENUE MARKET SHARE



SOURCE: COMPANY REPORTS, HEDGEYE ESTIMATES

Galaxy's mass market share has risen in the past 2 years. We don't think the new competition will affect its share by much.

# GALAXY VS. MACAU | OBSERVED BETS



Although falling recently, observed bets at Galaxy Macau are still higher than the market average in the premium mass segment. Observed bets on Base mass at Galaxy Macau, however, are rising recently. (We do not have enough observational data at StarWorld)

# GALAXY VS. MACAU | MINIMUM BETS

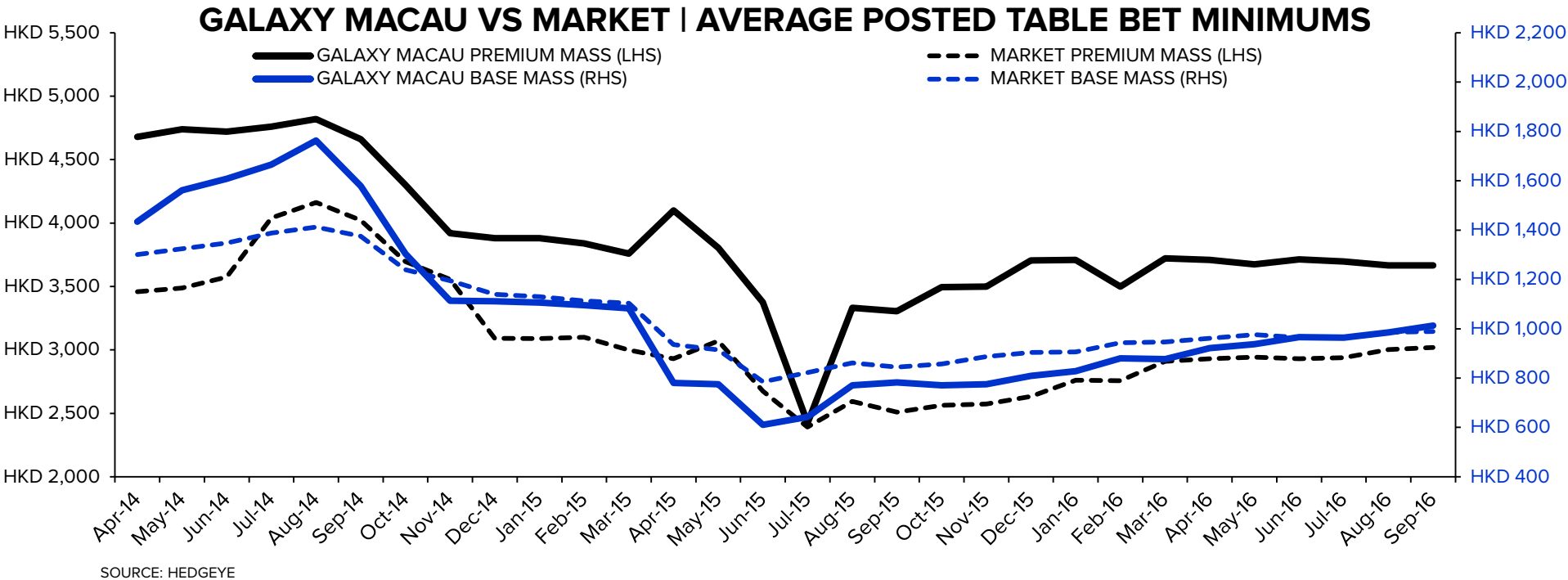
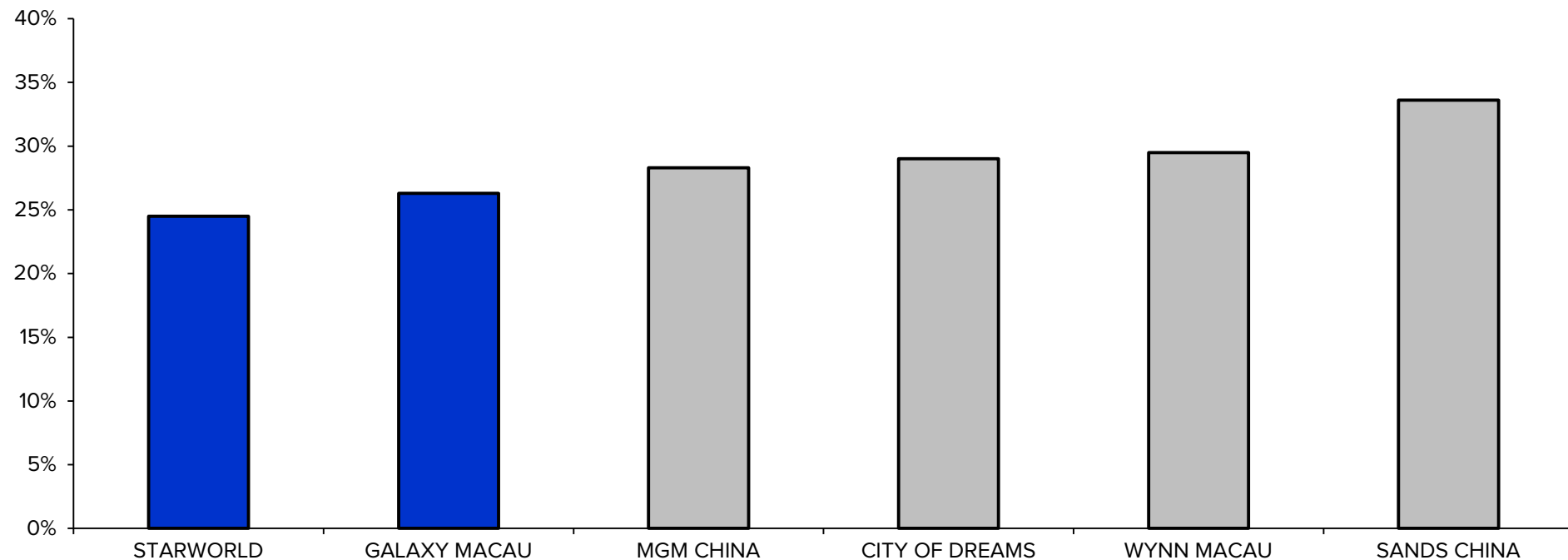


Table bet minimums at Galaxy Macau are increasing on the base mass side and stable (at a premium vs the market) on the premium mass side. (We do not have enough observational data at StarWorld)

# GALAXY | OPPORTUNITY FOR MARGIN IMPROVEMENT

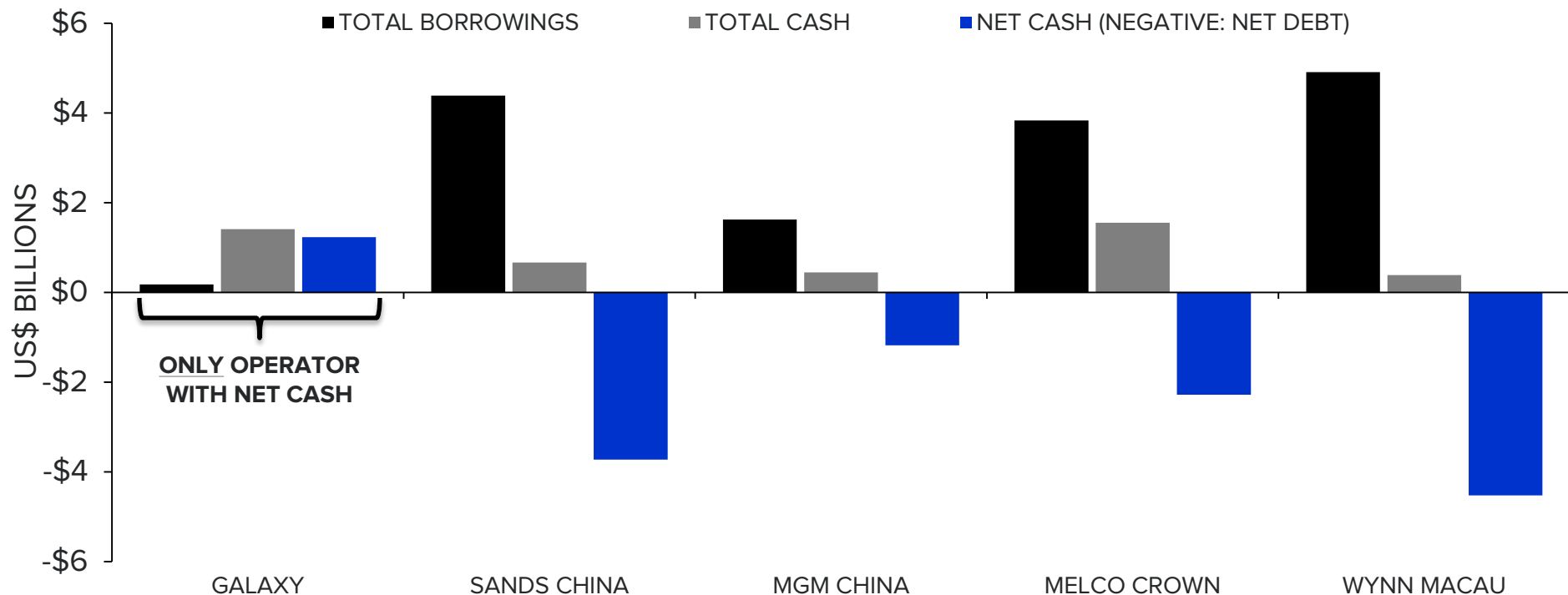
## ADJUSTED EBITDA MARGINS ROLLING 4Q AVG (US GAAP)



Somewhat influenced by its high VIP exposure, Galaxy margins have lagged. But with a new operations team, we see room for improvement in margins beginning with the incremental \$300m that management has identified for 2H 2016.



# GALAXY | NET CASH OPERATOR

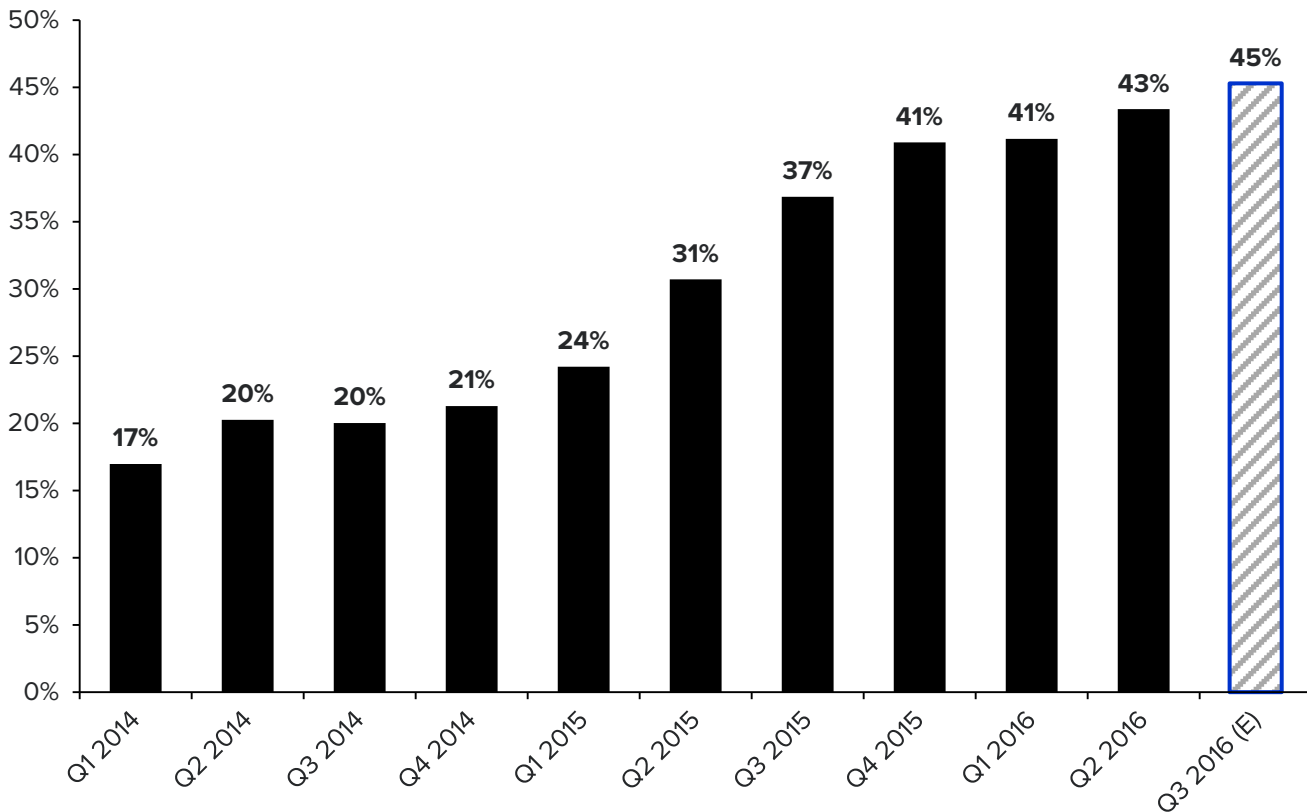


Galaxy is the only operator that is in a net cash position. Its pristine balance sheet offers the company a lot of flexibility.

**GALAXY | STARWORLD PROVES MGMT MATTERS**

# STARWORLD | MASS GGR CONTRIBUTION

## STARWORLD | MASS AS A % OF GGR



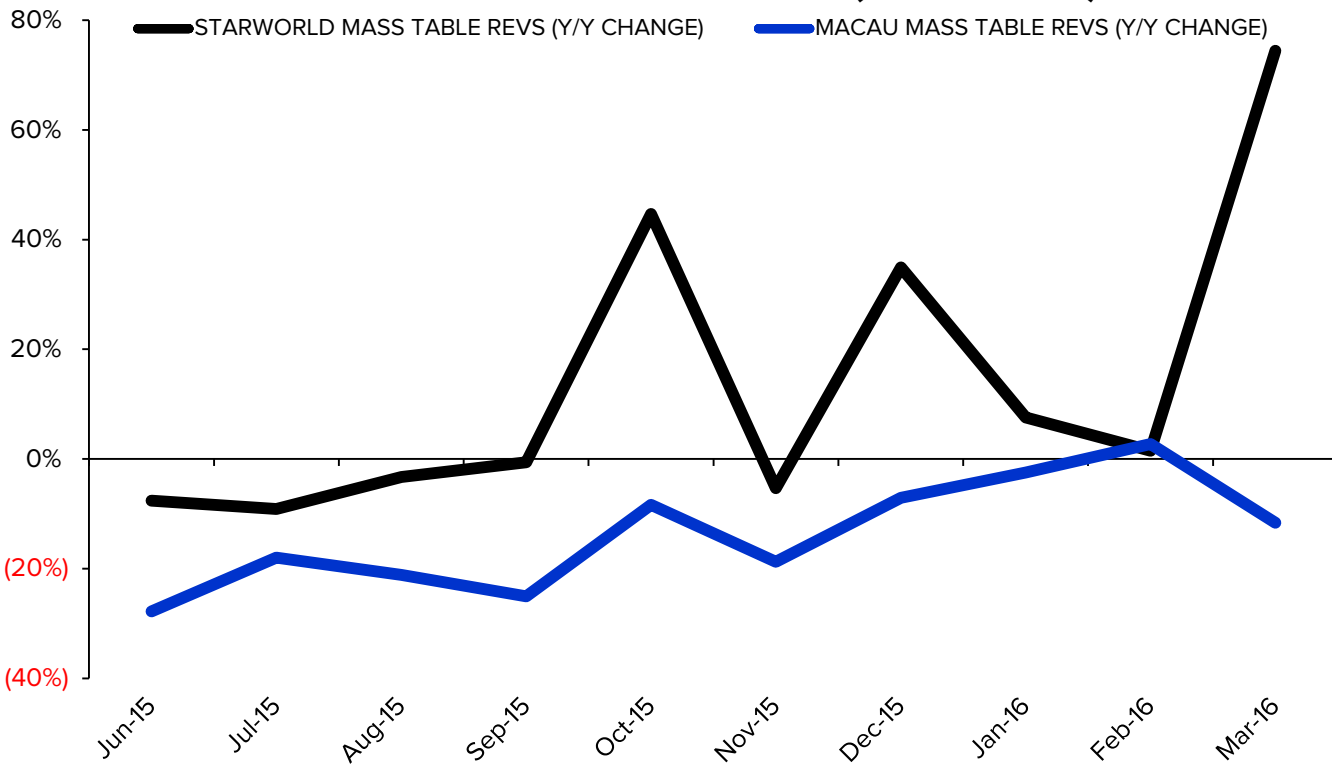
StarWorld has shifted to a more mass-oriented property.

Traditionally a VIP property, but today we estimate that mass tables account for more than half of its total table count.

Thus, isn't not surprising that Mass table revenues account for 40-45% of the property's GGR.

# STARWORLD | OUTPERFORMING THE MKT

## STARWORLD MASS | OUTPERFORMANCE POST GALAXY MACAU PHASE 2 (MAY 2015)

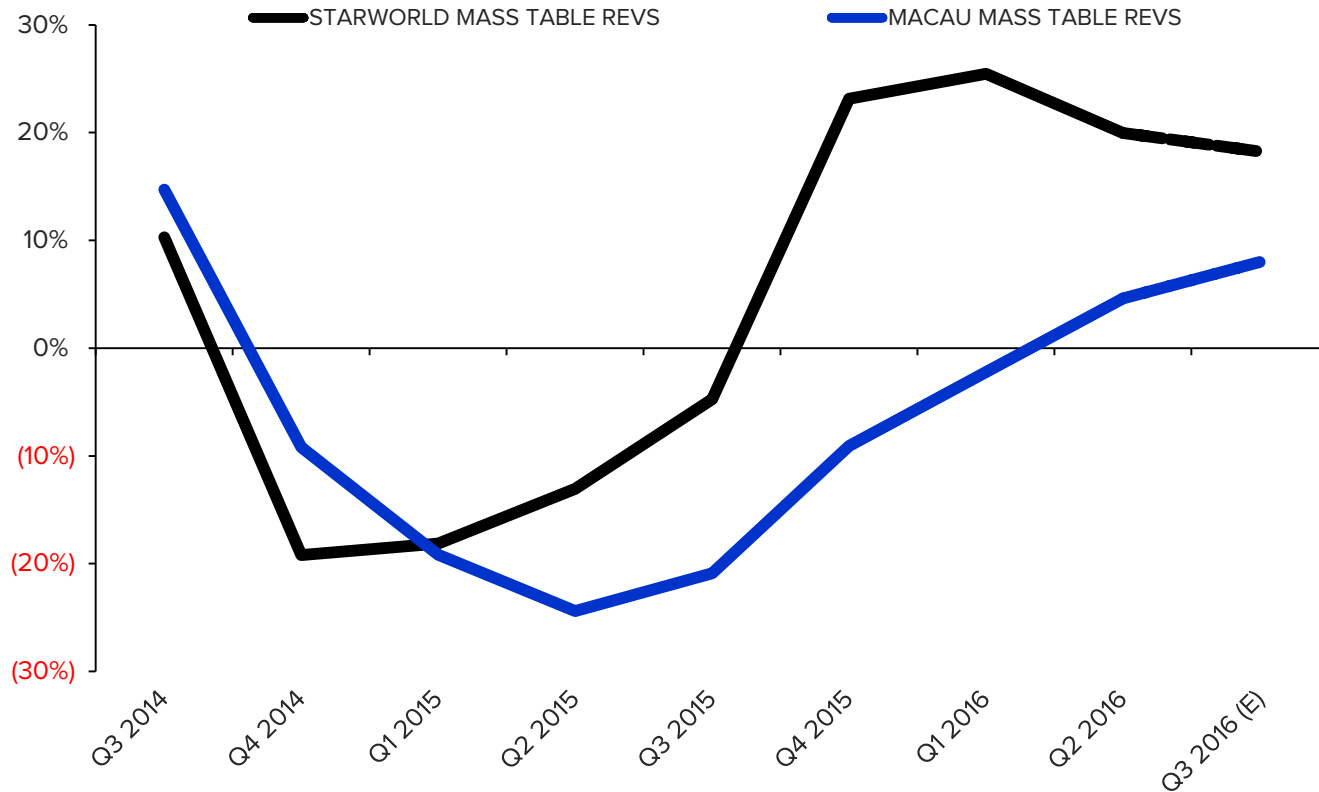


While volatile, StarWorld's mass results continued to outperform the market well after Galaxy Macau's Phase 2 opening in May 2015.

There has been no discernable cannibalization impact from Galaxy Phase 2 on StarWorld.

# STARWORLD | OUTPERFORMING THE MKT

## STARWORLD VS MACAU MASS



SOURCE: COMPANY REPORTS, HEDGEYE ESTIMATES

And the outperformance continued into present day.

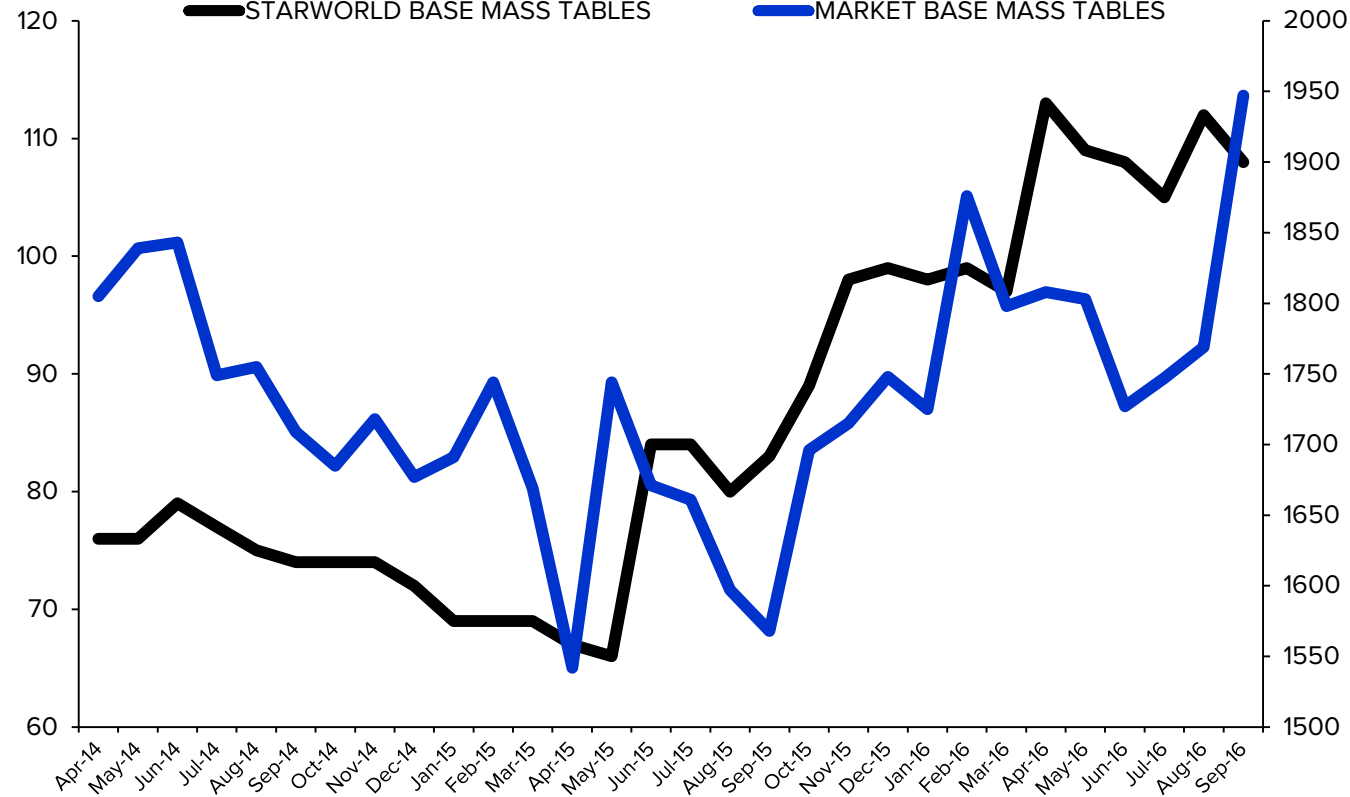
We believe its market share losses due to the opening of Wynn Palace and Parisian will be limited.

# STARWORLD | BASE TABLE UTILIZATION

## STARWORLD | # OF BASE TABLES UTILIZED

— STARWORLD BASE MASS TABLES

— MARKET BASE MASS TABLES



SOURCE: HEDGEYE

The trend has been higher for the # of base tables utilized at StarWorld.

Higher utilization bodes well for mass revenue growth.

# **GALAXY | CONCLUSION**

**1**

**POTENTIAL EARNINGS BEAT, ACCELERATING MASS GROWTH, AND RELATIVELY LOW VALUATION COULD DRIVE NEAR TERM STOCK APPRECIATION**

**2**

**PREMIUM HARDWARE AND MANAGEMENT HAS GALAXY WELL POSITIONED FOR LONG TERM ORGANIC GROWTH**

**3**

**PRISTINE BALANCE SHEET AND LONG TERM DEVELOPMENT OPPORTUNITIES SHOULD LEAD TO HIGH ROIC**

PLEASE SUBMIT QUESTIONS\* TO

**QA@HEDGEYE.COM**

*\*ANSWERED AT THE END OF THE CALL*