



*Sands*

LAS VEGAS SANDS CORP.

MACAU | BLACK MASS

**LVS – BEST IDEA LONG**

AUGUST 30, 2016

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# MACAU | BLACK MASS

1

## MASS REVS INFLECTING TO THE BLACK

The Hedgeye Mass Tracker made the call for us in June – mass revenues were inflecting positive. Now it looks like mass growth is accelerating. The 2 years of red are over – likely for a long time.

2

## BIZ TRANSITION – MASS > VIP

Mass is now officially the largest portion of the GGR pie and ~80% of gaming EBITDA. This transition to a higher margin business bodes well for the operators and the Macau stocks. Hotel guests counts/occupancy, visitation and length of stay are all improving.

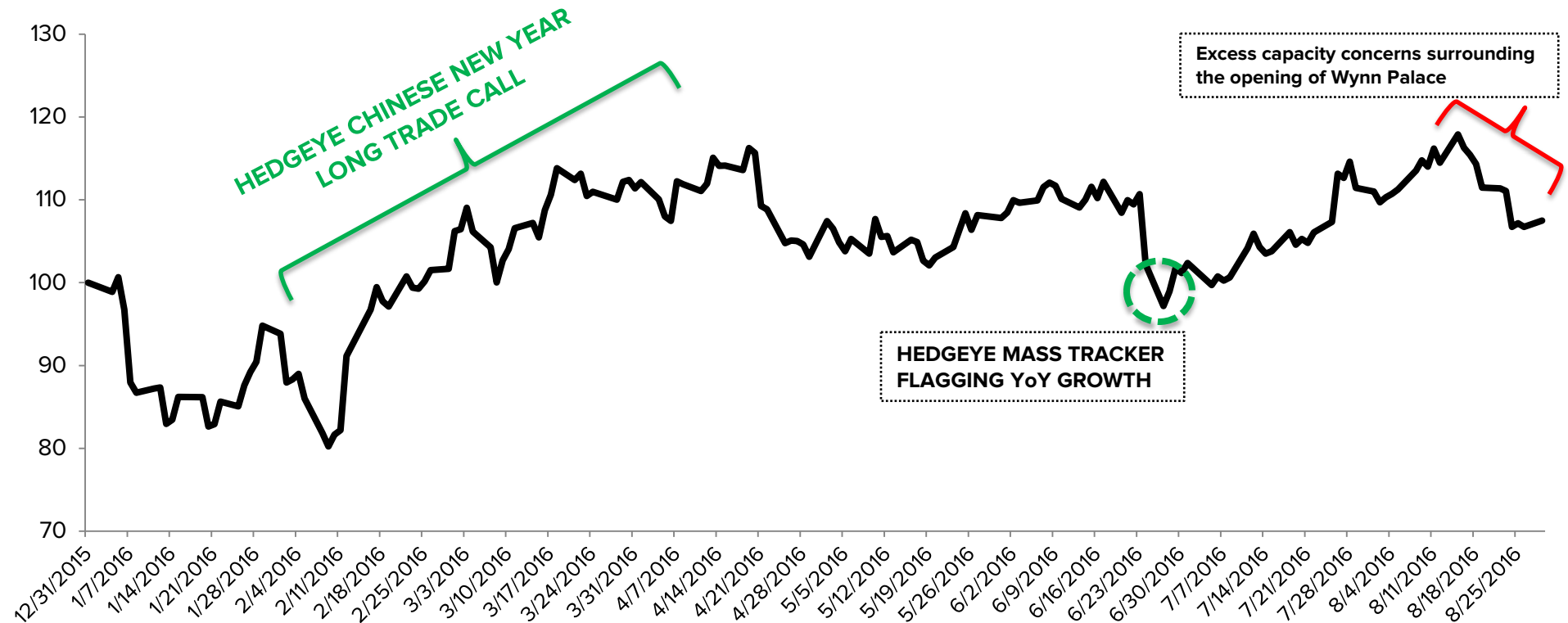
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## LONG LVS – THE MASS PLAY

With less than 10% of its Macau EBITDA generated from junkets, Sands China is the purest mass operator in Macau with the most exposure to high margin base mass. Further bolstering its dominant base mass position, Parisian opens next month which means a big positive reversal in free cash flow generation – and ample support for a big and growing dividend.

# MACAU | THE STOCKS

## EQUAL-WEIGHTED MACAU INDEX



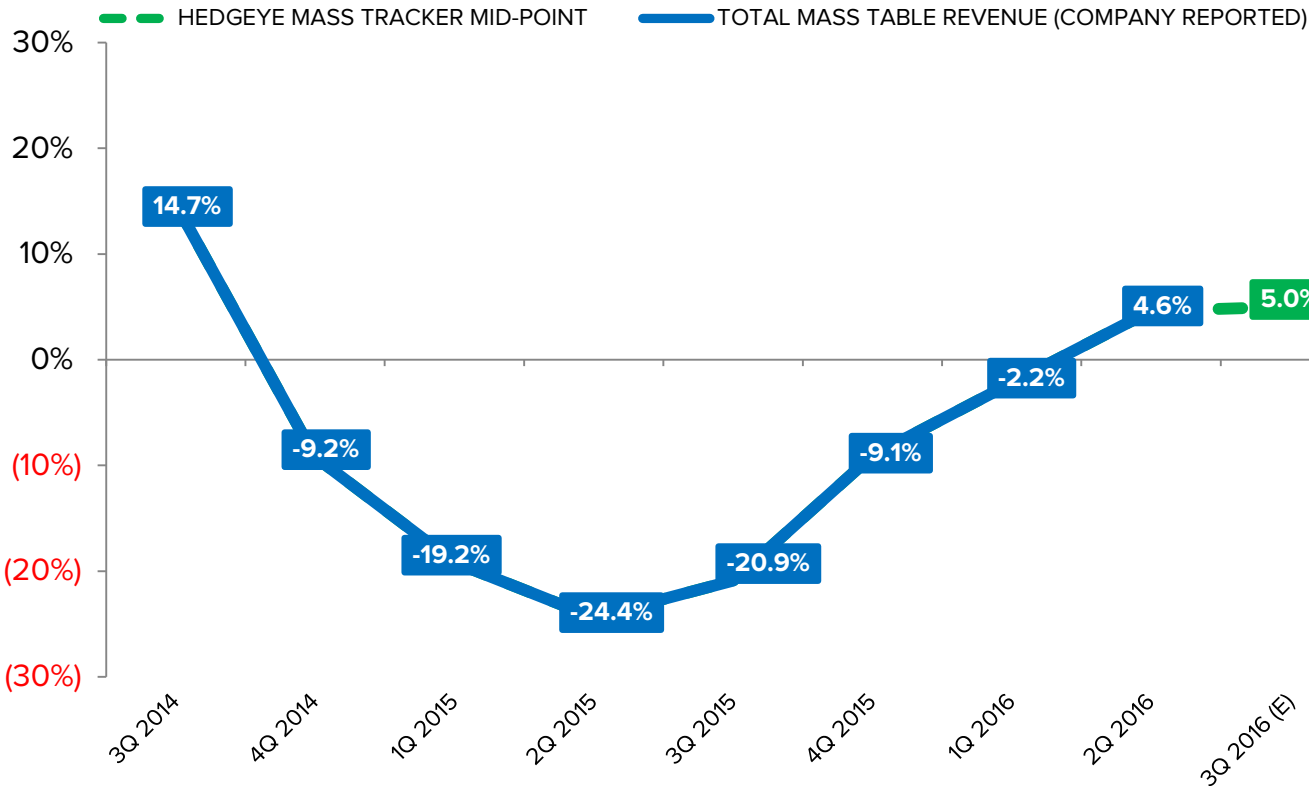
INDEX COMPONENTS: MPEL, LVS, MGM, WYNN  
SOURCE: BLOOMBERG

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# **MACAU | DRIVING MASS INTO THE BLACK**

# MASS GROWTH | MASS TRACKER

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



SOURCES: COMPANY REPORTS, HEDGEYE ESTIMATES

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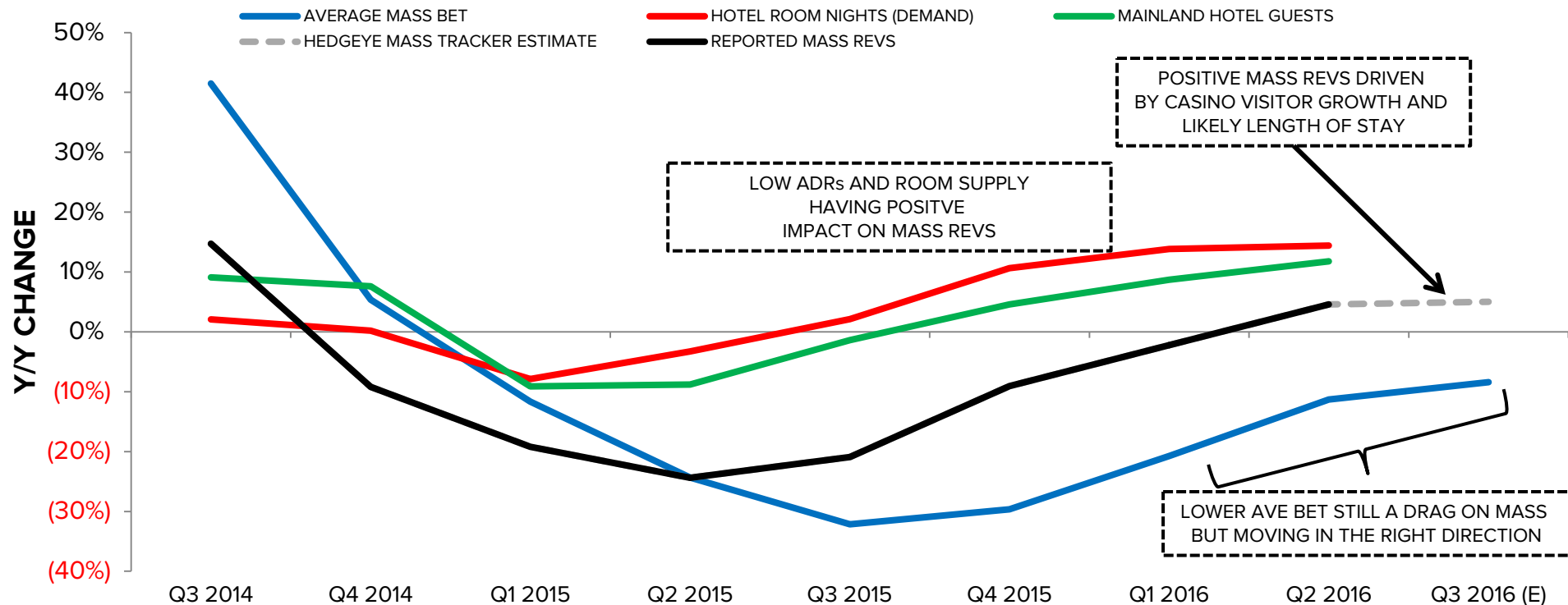
Followed by much skepticism, the Hedgeye Mass Tracker hinted at positive 2Q mass growth back in June and by the end of the quarter, the Tracker conservatively suggested mass growth was +2-4%.

Mass revenues actually grew 4.6% - almost exactly in line with the actual Tracker point forecast.

Based on our July data, the Tracker is predicting a 4-6% growth rate in mass table revenues for the month. August looks even better.

# MASS GROWTH | VOLUME DRIVEN

## MASS REVENUES INFLECTING - GROWTH DRIVERS



MASS REVENUE GROWTH REPRESENTS ACTUAL MASS REVENUES  
AS REPORTED BY THE 6 CONCESSIONAIRES  
SOURCES: COMPANY FILINGS, DSEC, HEDGEYE

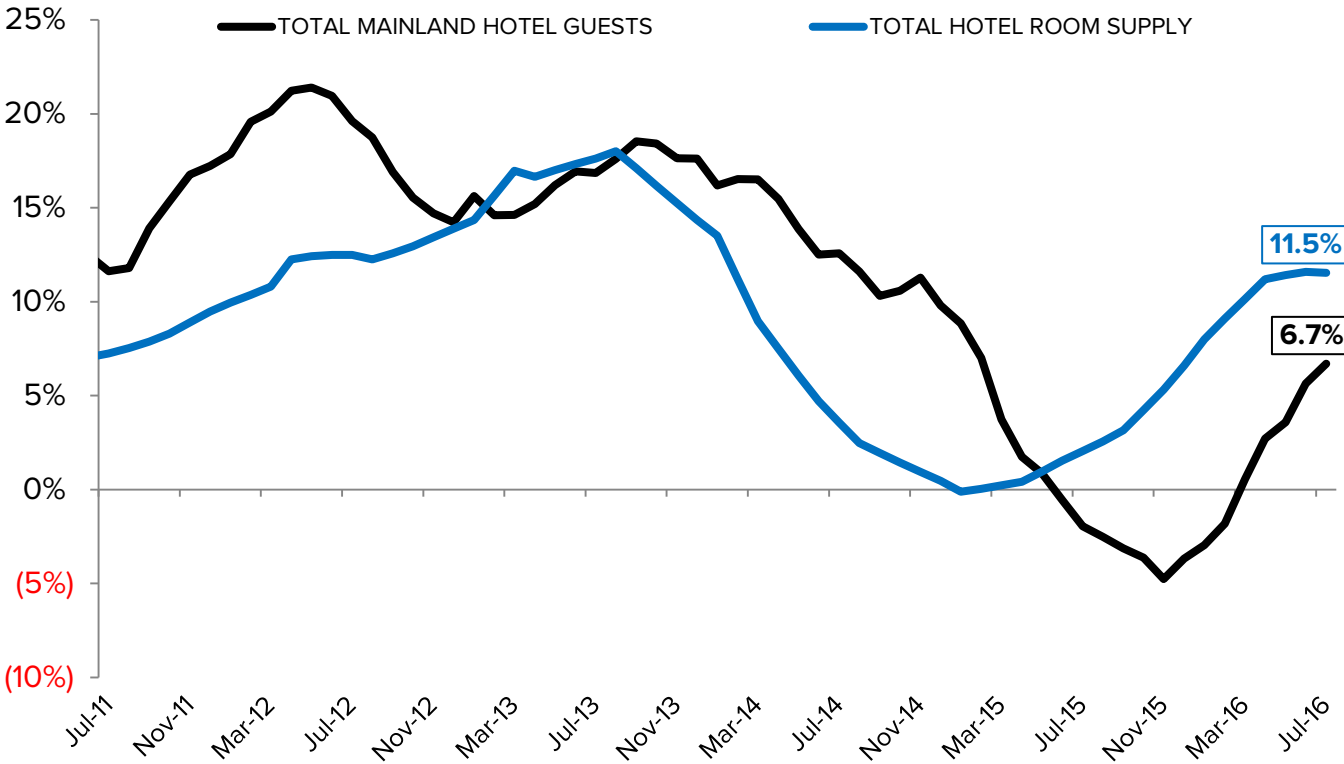
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# MASS DRIVERS | HOTEL STAYS



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



TTM WAS USED  
SOURCES: DSEC, HEDGEYE ESTIMATES

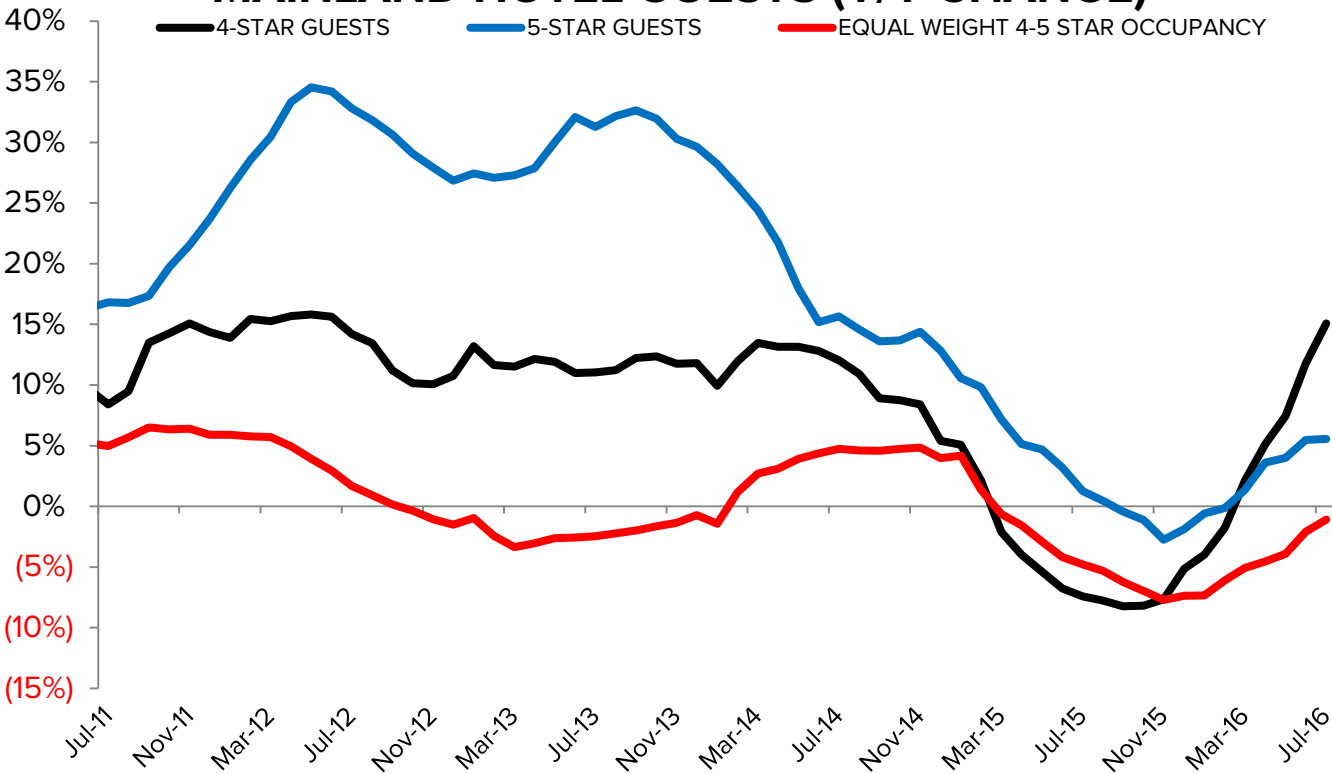
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Big gambling mainland Chinese hotel guests have grown as hotel room supply picks up. This has led to an improvement in occupancy, boosting mass revenues and somewhat offsetting the ADR decline.



# MASS DRIVERS | HOTEL STAYS

## MAINLAND HOTEL GUESTS (Y/Y CHANGE)



TTM WAS USED  
SOURCES: DSEC, HEDGEYE ESTIMATES

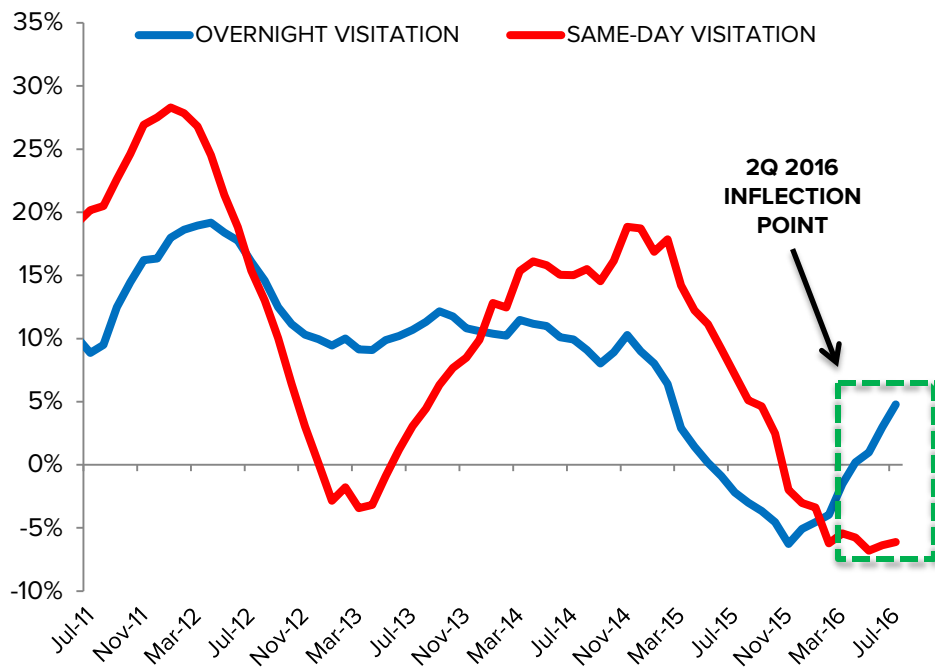
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Growth in Mainland visitation is broad based. Both 4 and 5 Star hotels are slowly benefiting from higher volumes of overnight visitors.

Occupancy growth is already positive in the last 2 months.

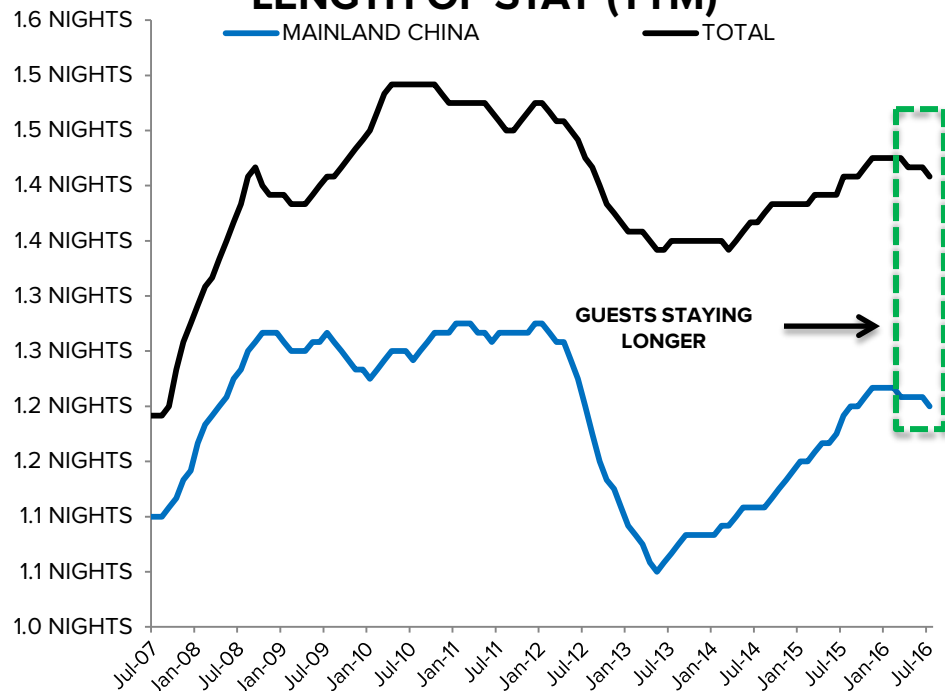
# MASS DRIVERS | VISITATION BY TYPE

## MAINLAND CHINESE VISITATION (BY TYPE)



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## LENGTH OF STAY (TTM)



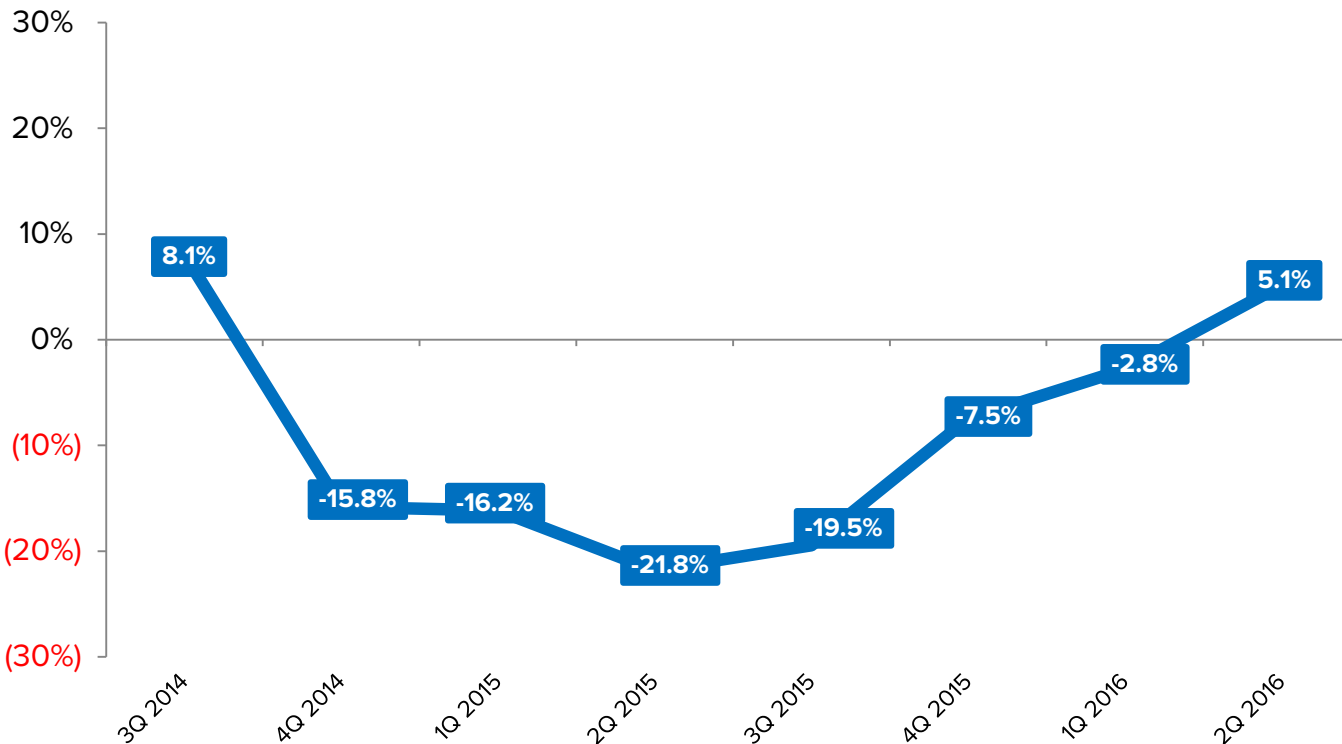
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2Q 2016 marked the first positive quarter of overnight visitation growth since Q1 2015. Overall length of stay remains at elevated levels but still below 2008-2011.

# MASS DRIVERS | WIN PER VISITOR



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



SOURCES: COMPANY REPORTS, DSEC, HEDGEYE ESTIMATES

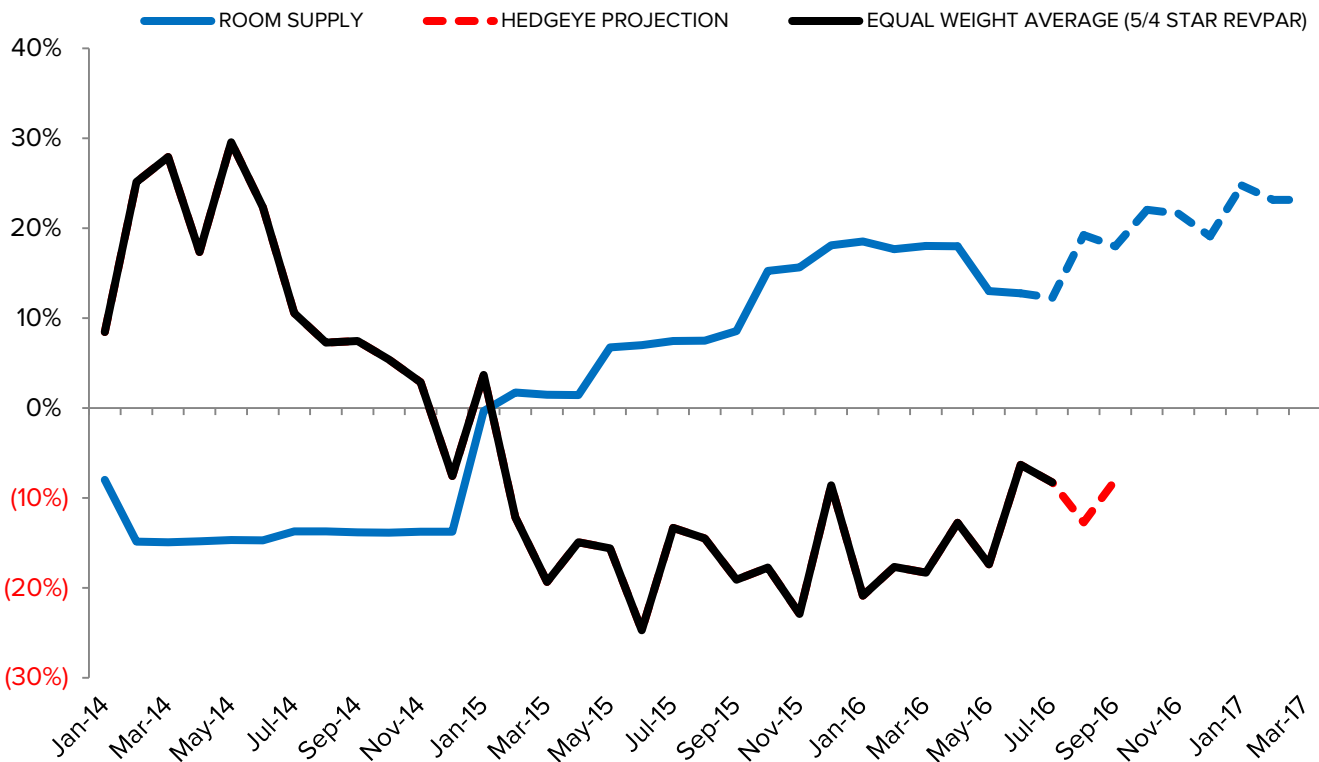
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Mass win per visitor grew in Q2, marking the first month of positive growth since 3Q 2014.

We found this interesting given the lower observed avg bet per table discussed in previous slides. 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.

# MASS DRIVERS | STABILIZING REVPAR

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



SOURCES: MACAU HOTEL ASSOCIATION, HEDGEYE ESTIMATES

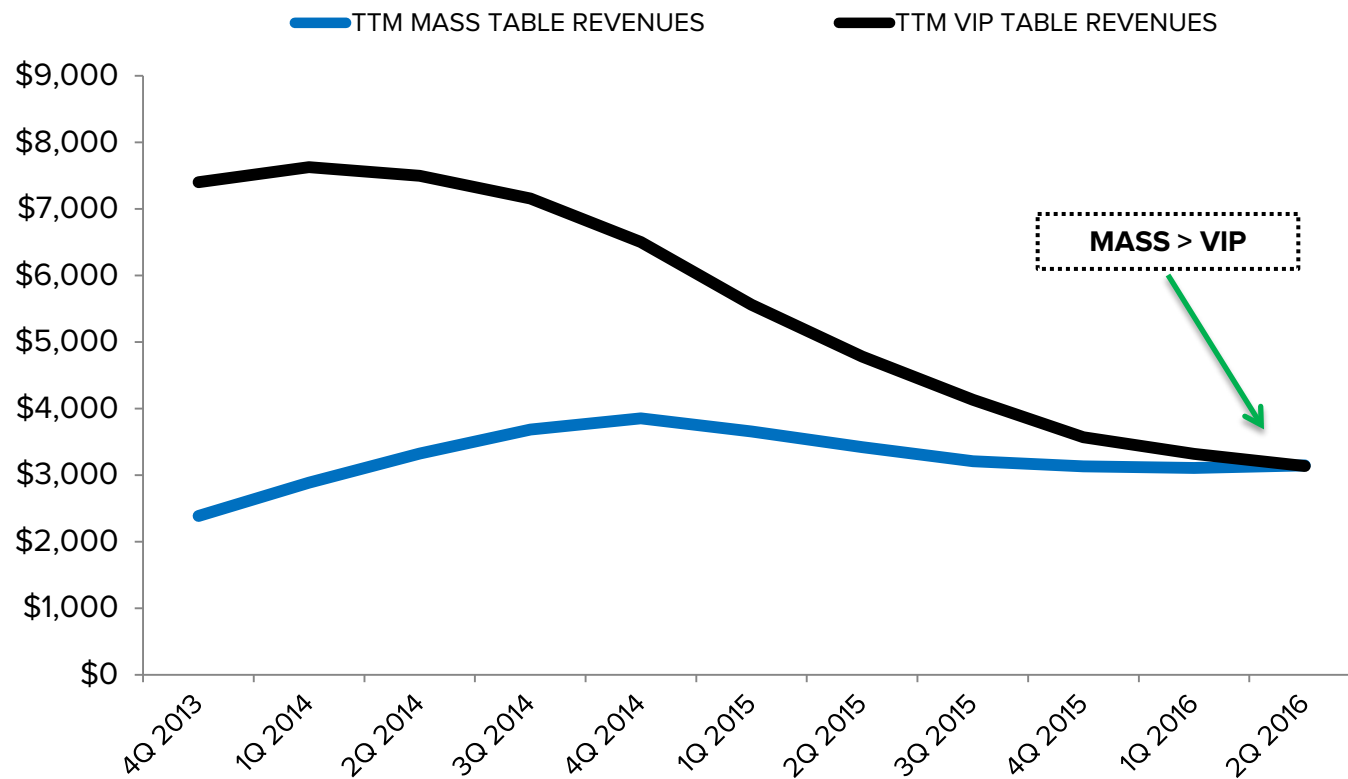
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Despite higher room supply, REVPAR improved somewhat in recent months.

Looking ahead, our rate tracker expects a slight worsening in REVPAR before bouncing back in October (Golden Week).

# MACAU | THE METRICS

# METRICS | MASS OVERTAKING VIP



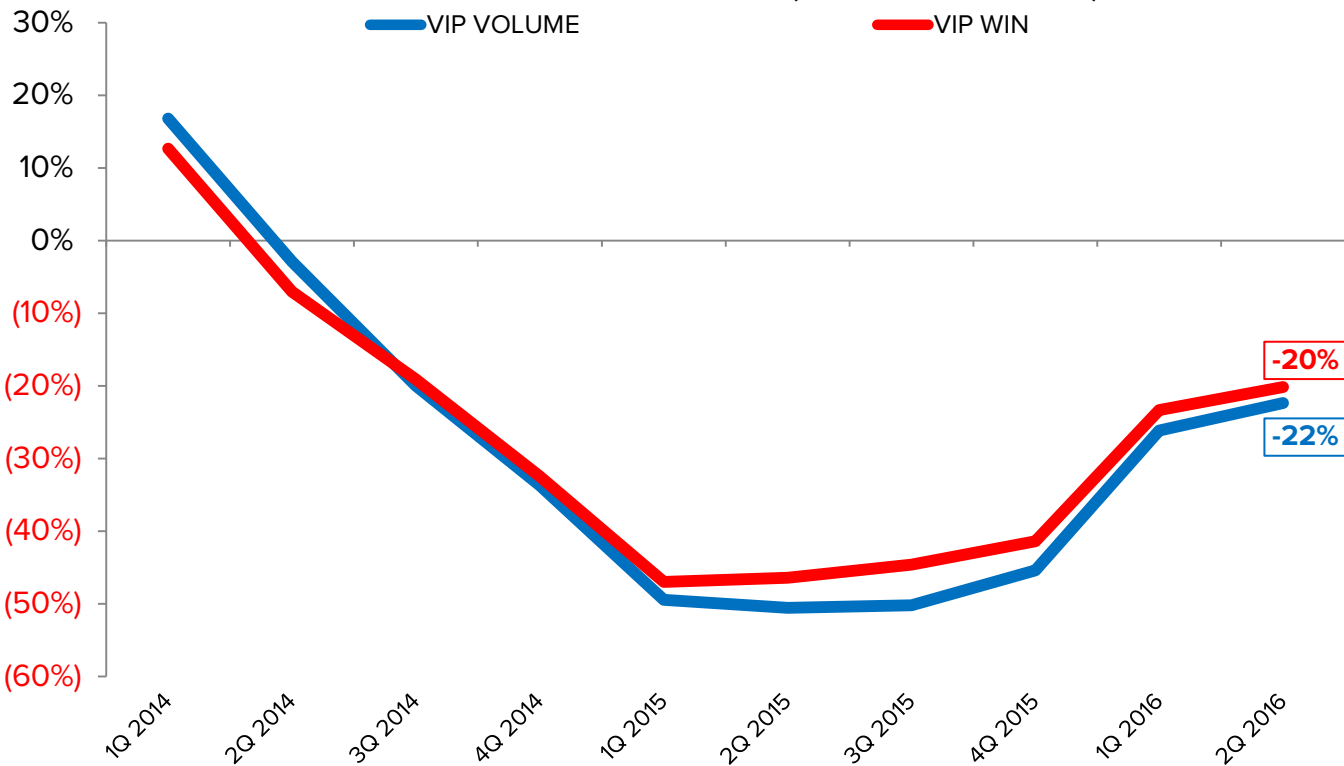
SOURCE: COMPANY REPORTS

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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

# METRICS | VIP BLEED COAGULATING?

## MACAU | VIP SEGMENT (Y/Y CHANGE)



SOURCE: COMPANY REPORTS

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Not much positive going on in the VIP segment other than the rate of YoY decline is improving slightly, despite the elimination of phone proxy betting in Q2.

# METRICS | COMMISSIONS/REBATES

## JUNKET COMMISSION

1H 2014   2H 2014   1H 2015   2H 2015   1H 2016

|             |       |       |       |       |       |
|-------------|-------|-------|-------|-------|-------|
| MGM CHINA   | 0.24% | 0.23% | 0.26% | 0.27% | 0.25% |
| WYNN MACAU  | 0.21% | 0.19% | 0.19% | 0.20% | 0.22% |
| SANDS CHINA | 0.23% | 0.22% | 0.21% | 0.21% | 0.20% |

## GAMING REBATES

1H 2014   2H 2014   1H 2015   2H 2015   1H 2016

|             |       |       |       |       |       |
|-------------|-------|-------|-------|-------|-------|
| MGM CHINA   | 1.07% | 0.96% | 1.13% | 1.20% | 1.12% |
| WYNN MACAU  | 0.87% | 0.82% | 0.86% | 0.85% | 0.94% |
| SANDS CHINA | 1.11% | 1.14% | 1.14% | 1.23% | 1.21% |

SOURCE: COMPANY REPORTS

Not much change in junket commissions.

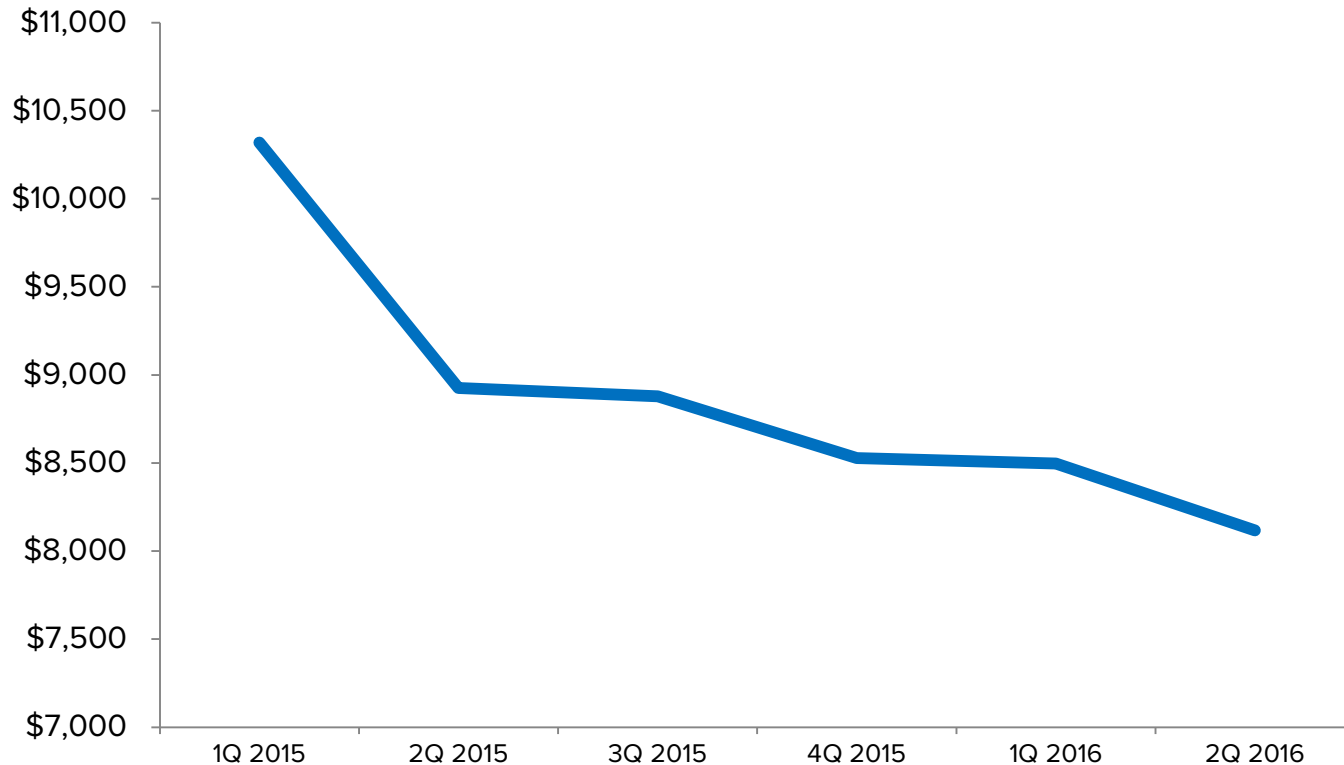
Given its mass-centric nature, Sands China has a high rebate rate; 1H 2016 is relatively unchanged from 2H 2015.

Low rebate player Wynn increased its rebate % in 1H 2016.



# METRICS | MASS TABLE EFFICIENCY

## MACAU | MASS WIN/PER TABLE/PER DAY



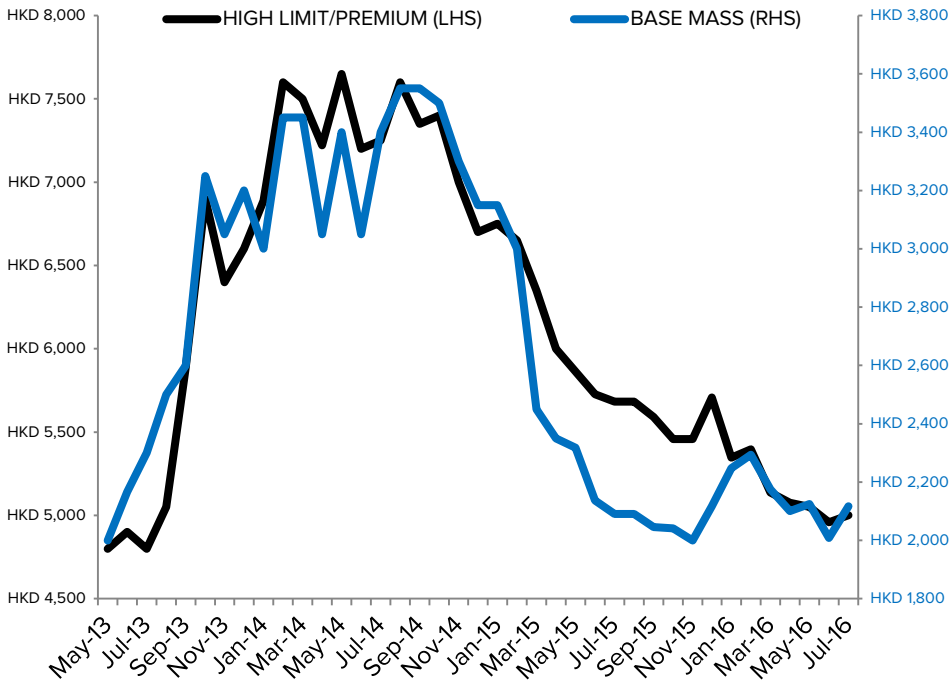
SOURCES: COMPANY REPORTS, HEDGEYE ESTIMATES

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Lower table efficiency is not surprising since our average bet data confirms lower levels per mass table. Importantly, **the rate of decline is improving** and average bet per table should pivot positive sometime in the next several quarters.

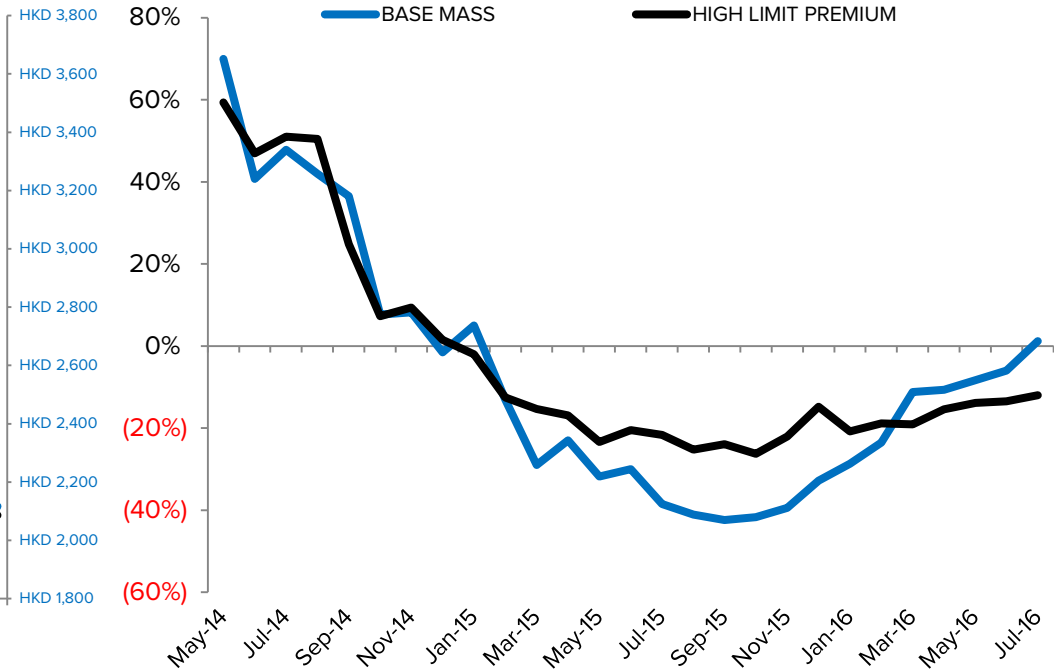
# METRICS | OBSERVED BETS

MACAU | OBSERVED AVERAGE TABLE BETS



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MACAU | OBSERVED AVERAGE TABLE BETS (Y/Y CHANGE)

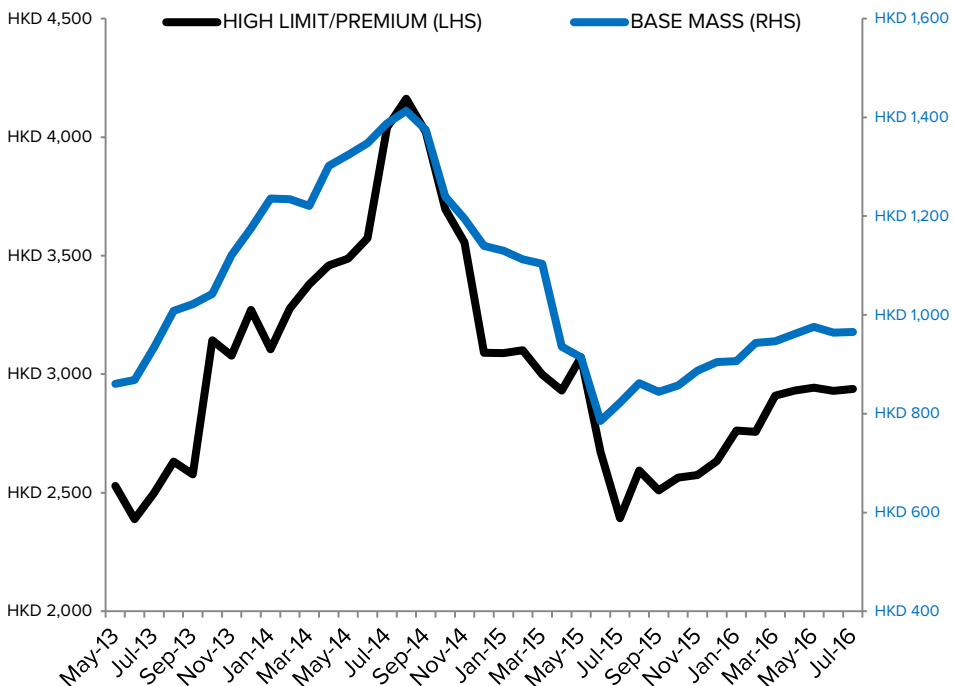


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Observed ave bet continues to fall YoY but is improving. Base mass may have already turned positive. Higher ave bets would be incremental to already positive volume metrics: visitation and room nights.

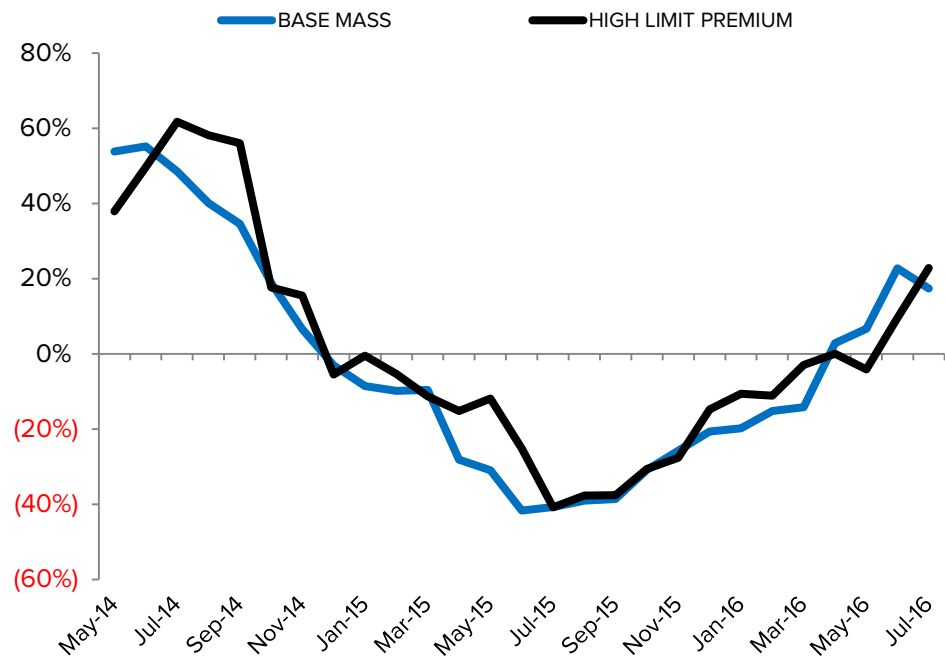
# METRICS | MINIMUM BETS

## MACAU | AVERAGE POSTED TABLE BET MINIMUMS



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

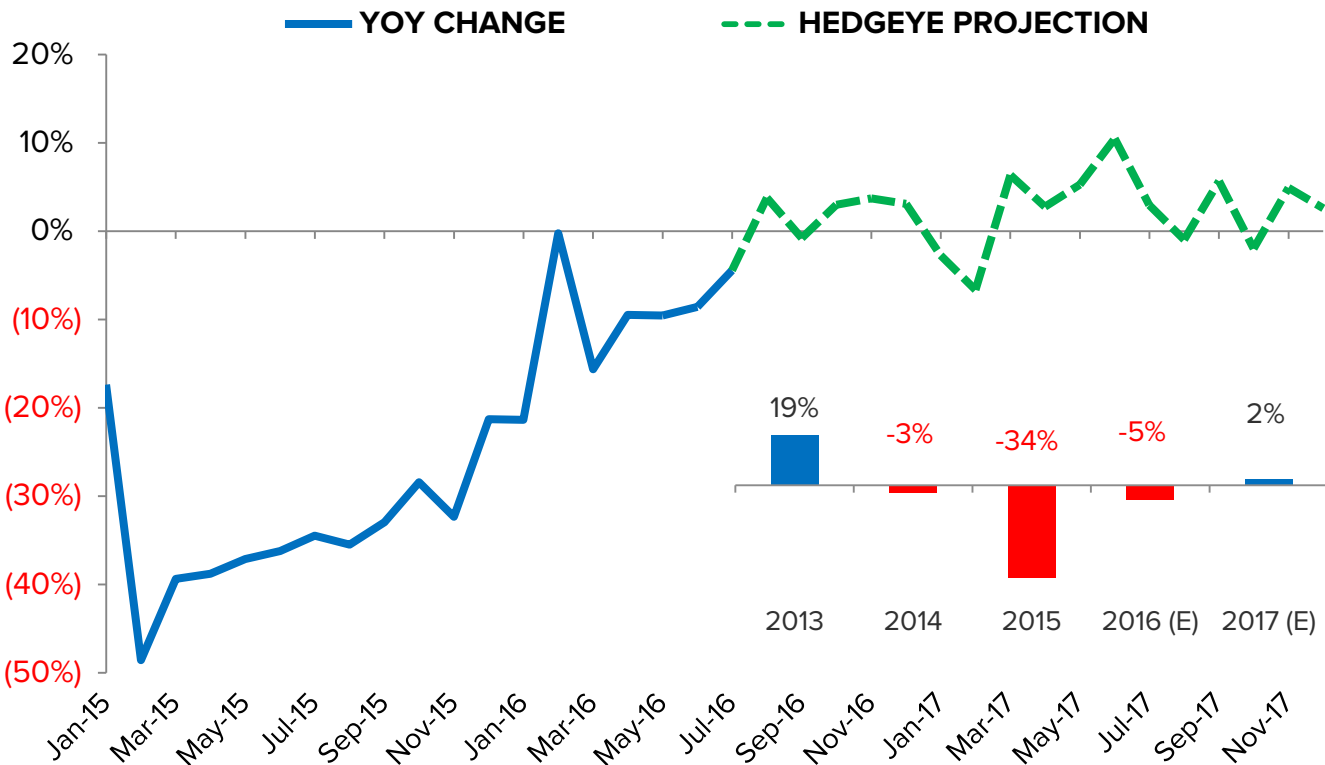


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Potentially signaling optimism, casinos have been raising prices. Posted minimum bet levels on the mass tables have been steadily rising on a sequential and YoY basis.

# METRICS | REVENUE PROJECTIONS

## MACAU GROSS GAMING REVENUES



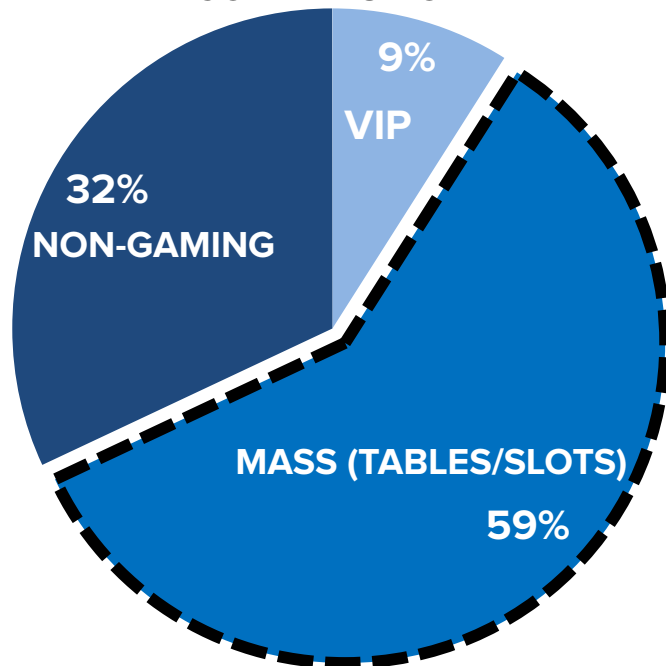
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We're projecting 2016 GGR to fall 5% while we should see a little bit of lift in GGR in 2017. Note that our top down forecasts reconcile with our individual company estimates.

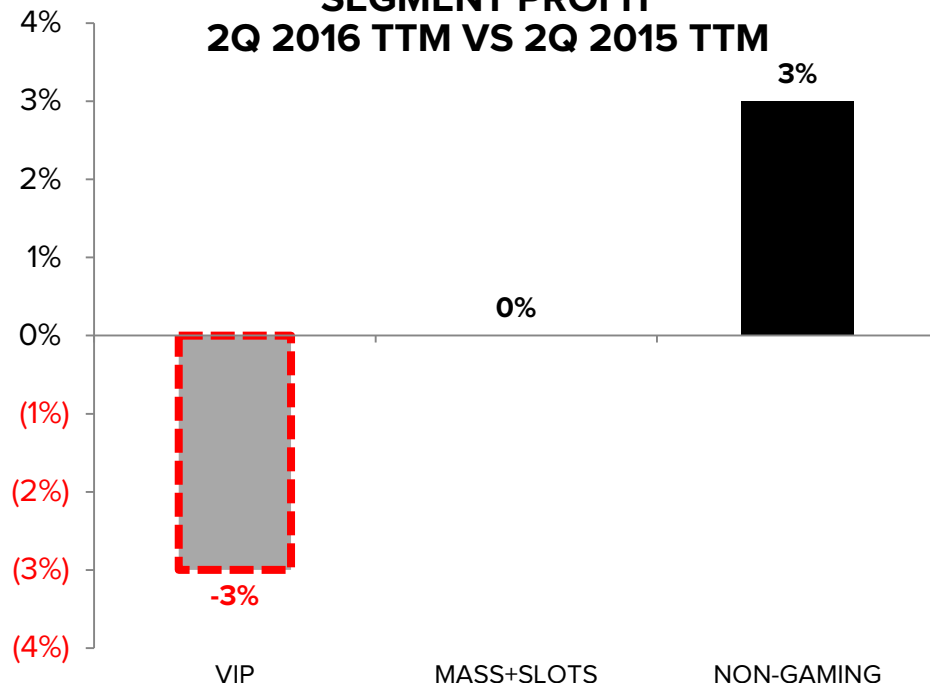
# **LVS | CAPITALIZING ON BLACK MASS**

# LVS | EBITDA DRIVERS

TTM ENDED 6/30/16 PROFIT CONTRIBUTION



SEGMENT PROFIT  
2Q 2016 TTM VS 2Q 2015 TTM



SOURCE: LVS PRESENTATION

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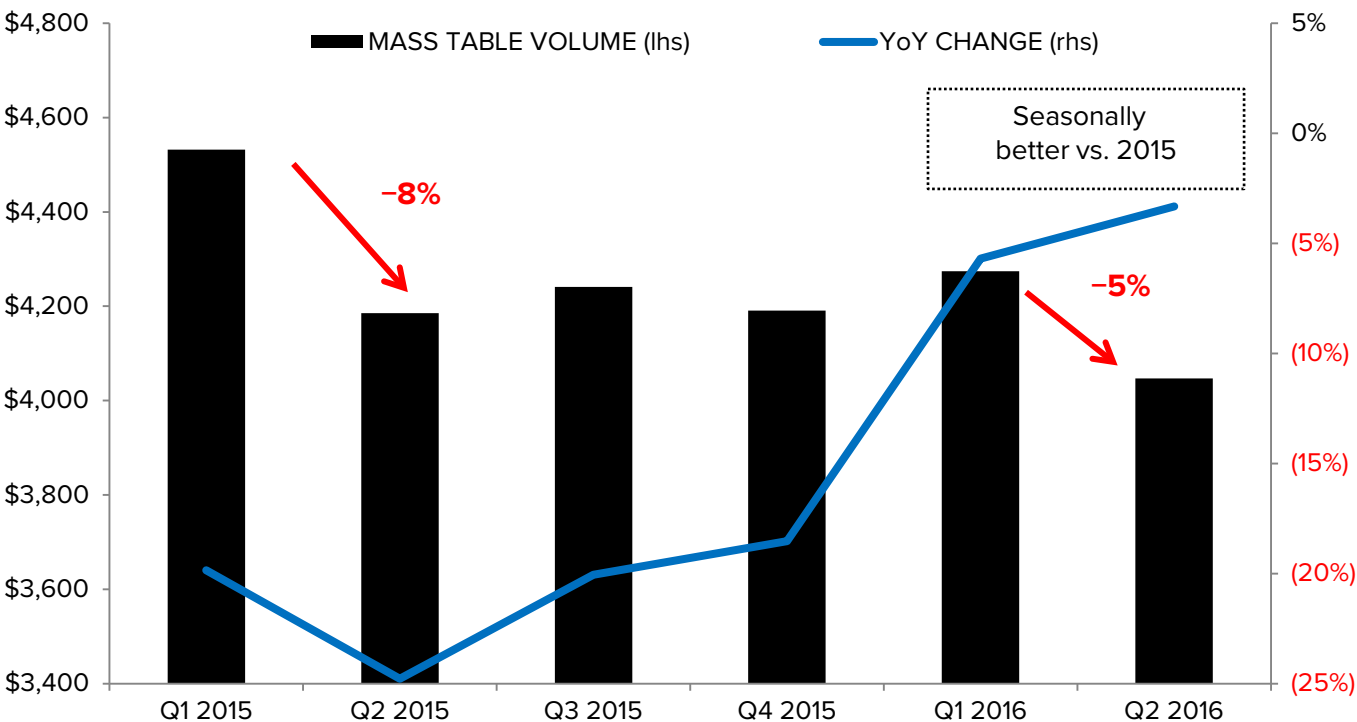
SOURCES: LVS, HEDGEYE ESTIMATES

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Less than 10% of Sands China EBITDA is derived from the VIP segment, and significantly less than that from junkets. With continued market mass growth and the associated high flow through, LVS is well positioned over the near and long term

# LVS | SIGNS OF IMPROVEMENT

## SANDS CHINA MASS TABLE VOLUME



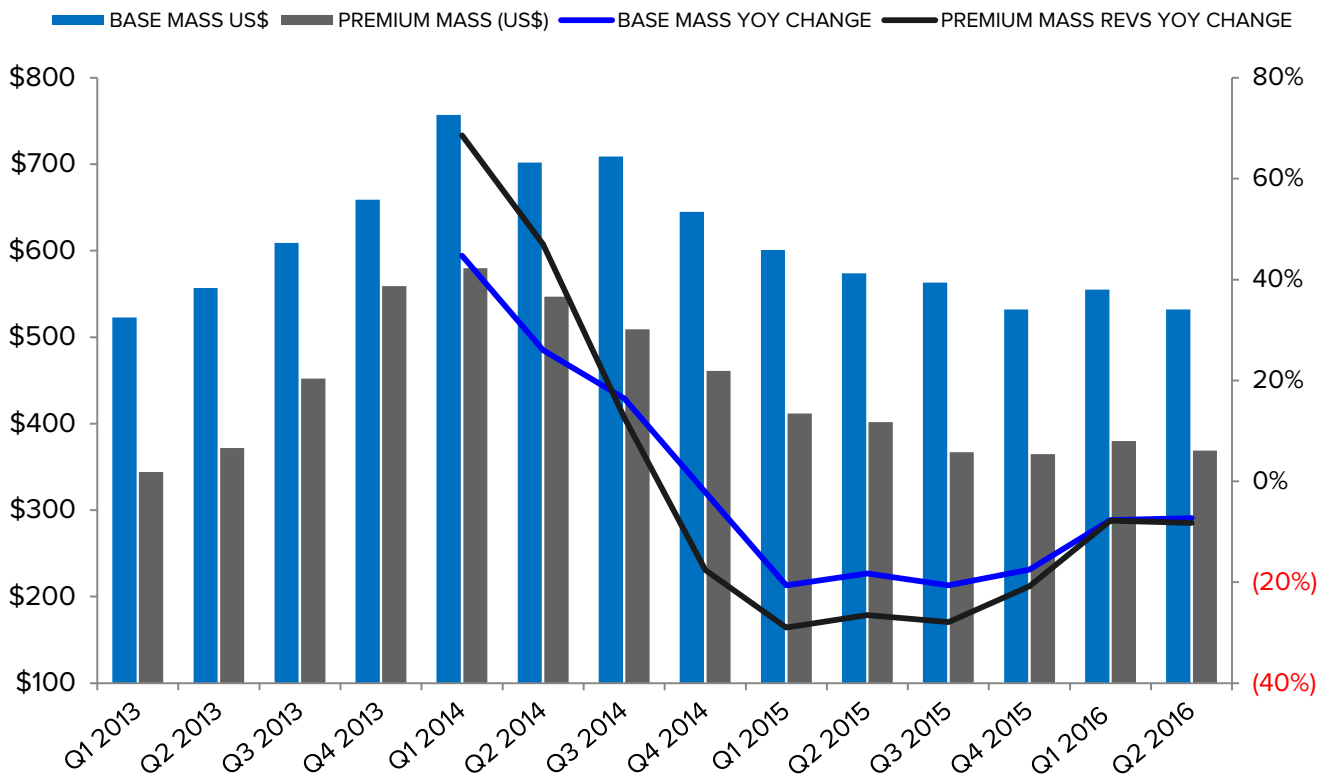
Mass volume rate of change improved in Q2. Volumes were down YoY primarily due to competition from 2 new properties in the market – Galaxy Phase 2 and Macau Studio City

SOURCES: LVS, HEDGEYE ESTIMATES

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# LVS | MASS REVENUE BREAKDOWN

## BASE & PREMIUM MASS REVENUE (Y/Y CHANGE)



SOURCES: LVS, HEDGEYE ESTIMATES

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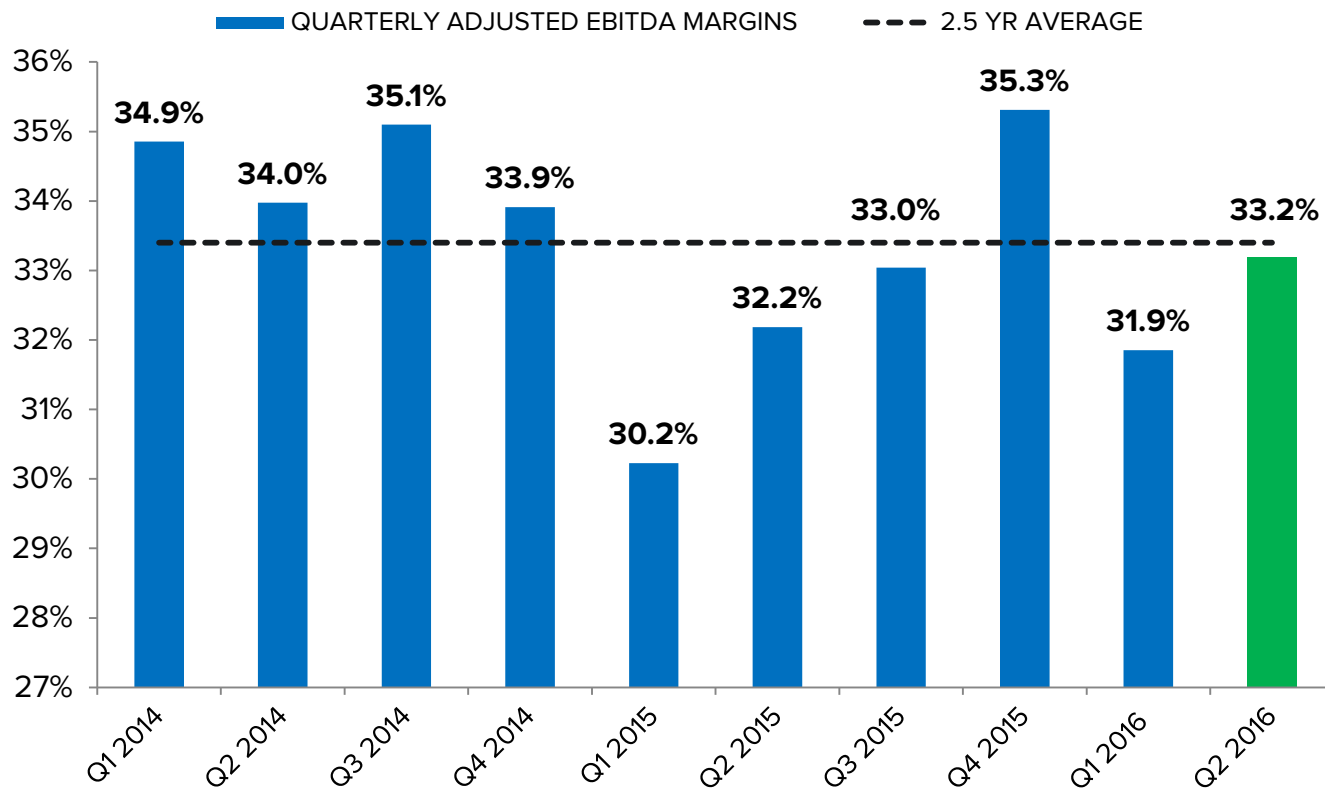
Mass revenues for the base and premium segments didn't change much on a YoY basis, due to lower YoY hold.

However, Sands China generated positive growth in the month of June and we think Q3 growth has accelerated from June.



# LVS | SANDS CHINA MARGINS

## SANDS CHINA ADJUSTED EBITDA MARGINS



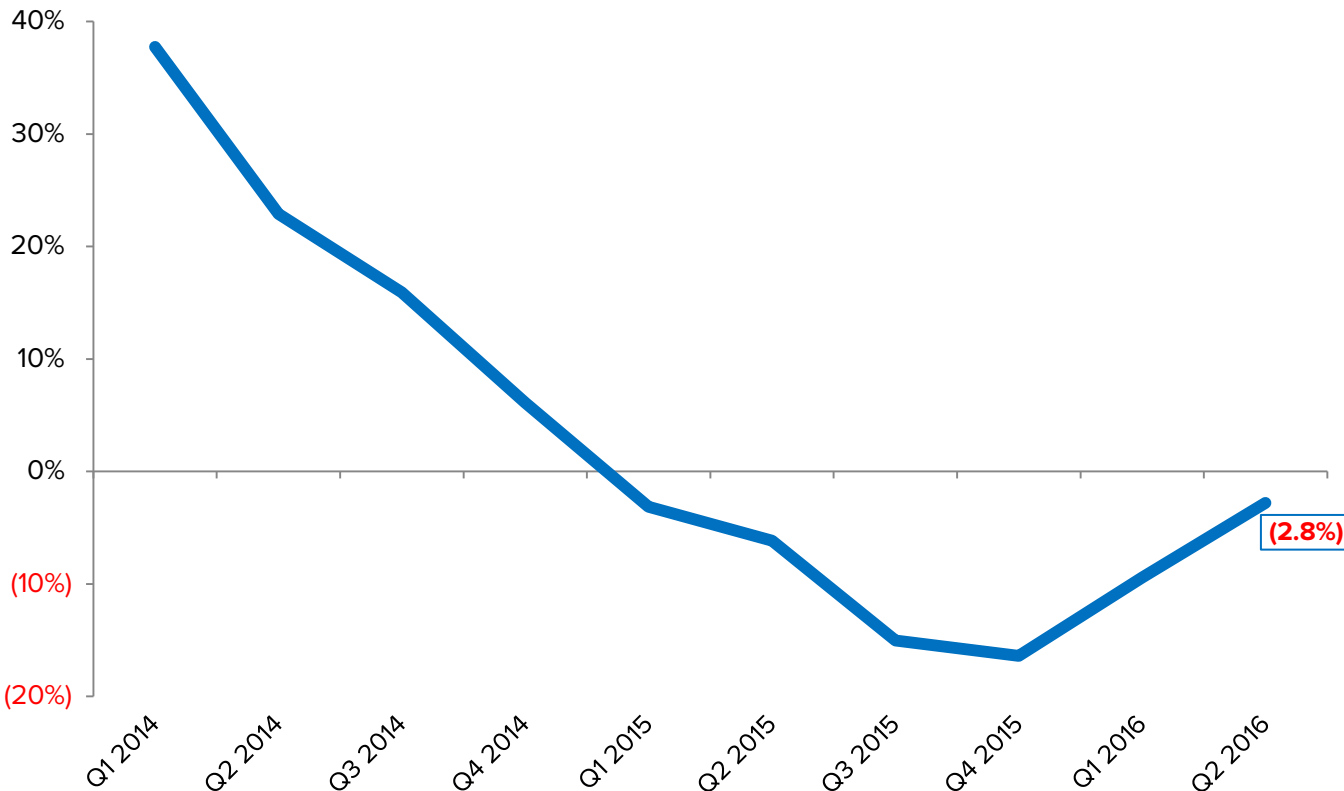
SOURCES: LVS, HEDGEYE ESTIMATES

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- After posting disappointing margins in 1Q 2016, Sands China's margins on a YoY and QoQ basis bounced back in 2Q 2016, mainly due to cost efficiencies.
- A higher mix of mass business also helped margins in the quarter. LVS is on track to meet or exceed its \$60m of cost savings in 2016.
- In addition, they expect to achieve ~\$140m (annualized basis) of cost avoidance associated with the opening of Parisian and the associated labor shift to the new property.

# LVS | NON-GAMING BETTER THAN EXPECTED

## SANDS CHINA NON-GAMING REVENUE (Y/Y CHANGE)



SOURCES: LVS, HEDGEYE ESTIMATES

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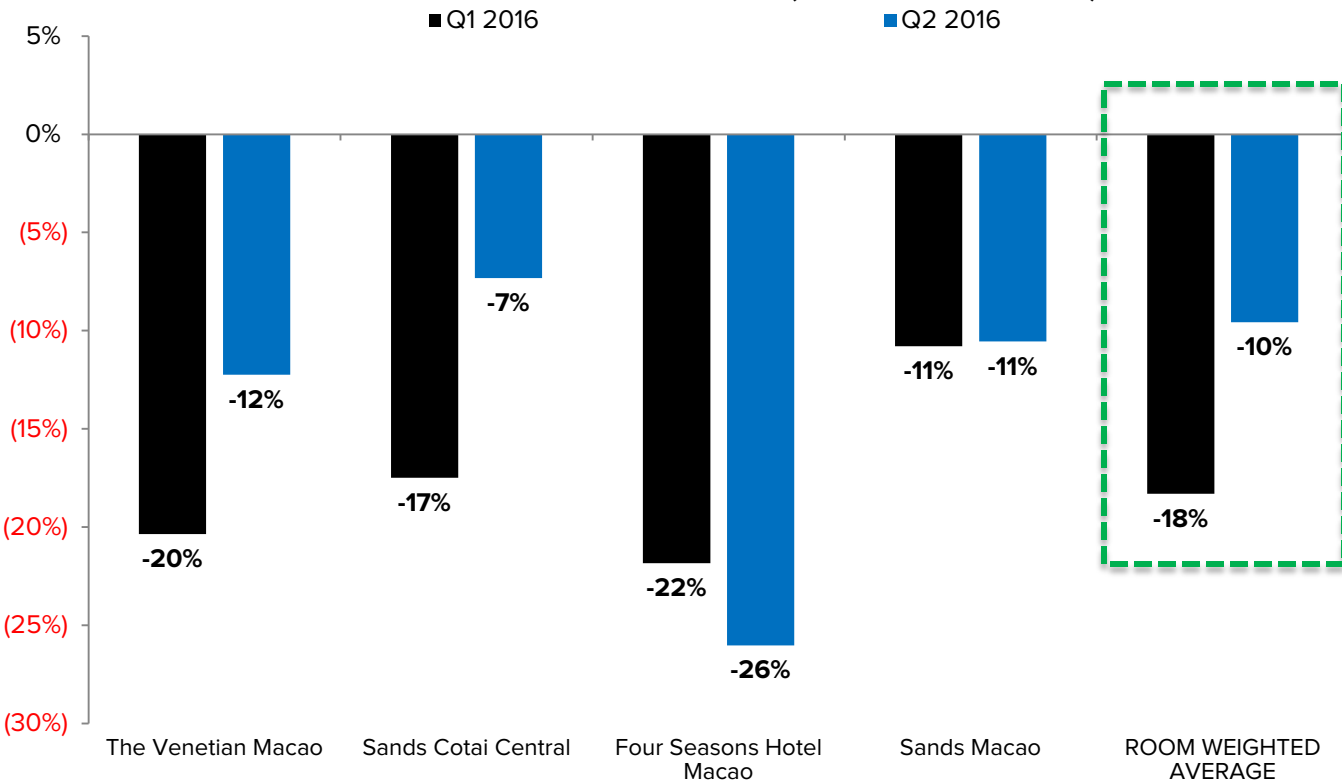
The non-gaming segment plays an important role for Sands China much to the government's delight.

Non-gaming revenues either came in-line or slightly beat our Q2 2016 estimate for each of the Sands China's properties.

Non-gaming revenues accounted for 24% of net revenues in 2Q 2016, its highest ever in terms of contribution %. We estimate non-gaming EBITDA accounted for 33% of Sands China's EBITDA in 2Q, highest in Macau

# LVS | 1Q → 2Q REVPAR IMPROVEMENT

## SANDS CHINA REVPAR (Y/Y CHANGE)

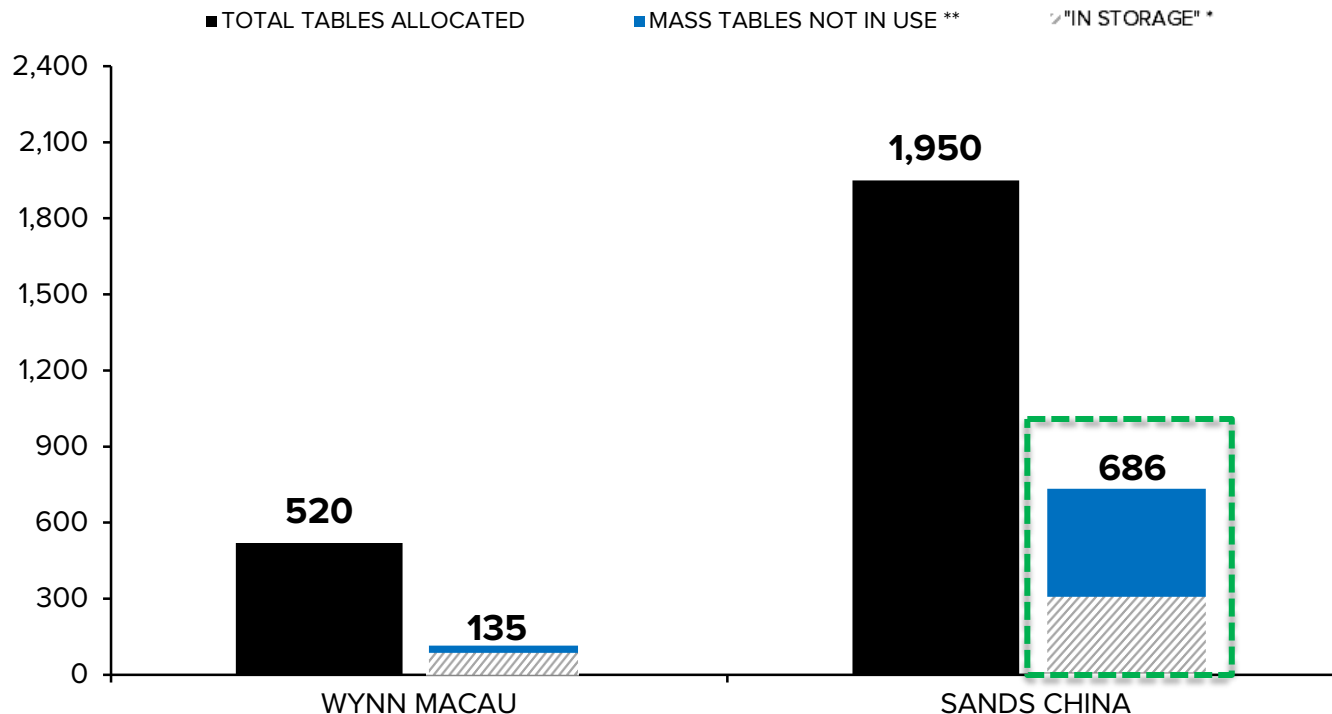


A sequential improvement for Sands Macao REVPAR (on a room weighted basis), is encouraging.

As more rooms are now on a cash basis, REVPAR becomes a more important metric for non-gaming trends.

# LVS | TABLE ALLOCATION FREAK OUT

## TABLE UTILIZATION



\* INDICATES # OF TABLES IN OF STORAGE FOR WYNN PALACE

\*\* MONTHLY AVG # OF TABLES ON MASS GAMING FLOOR WITHOUT A DEALER

SOURCES: COMPANY FILINGS, HEDGEYE ESTIMATES

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Investors punished WYNN following only a 100 initial table allocation from the gov't for Wynn Palace. LVS fell in sympathy ahead of its 9/13/16 Parisian opening.

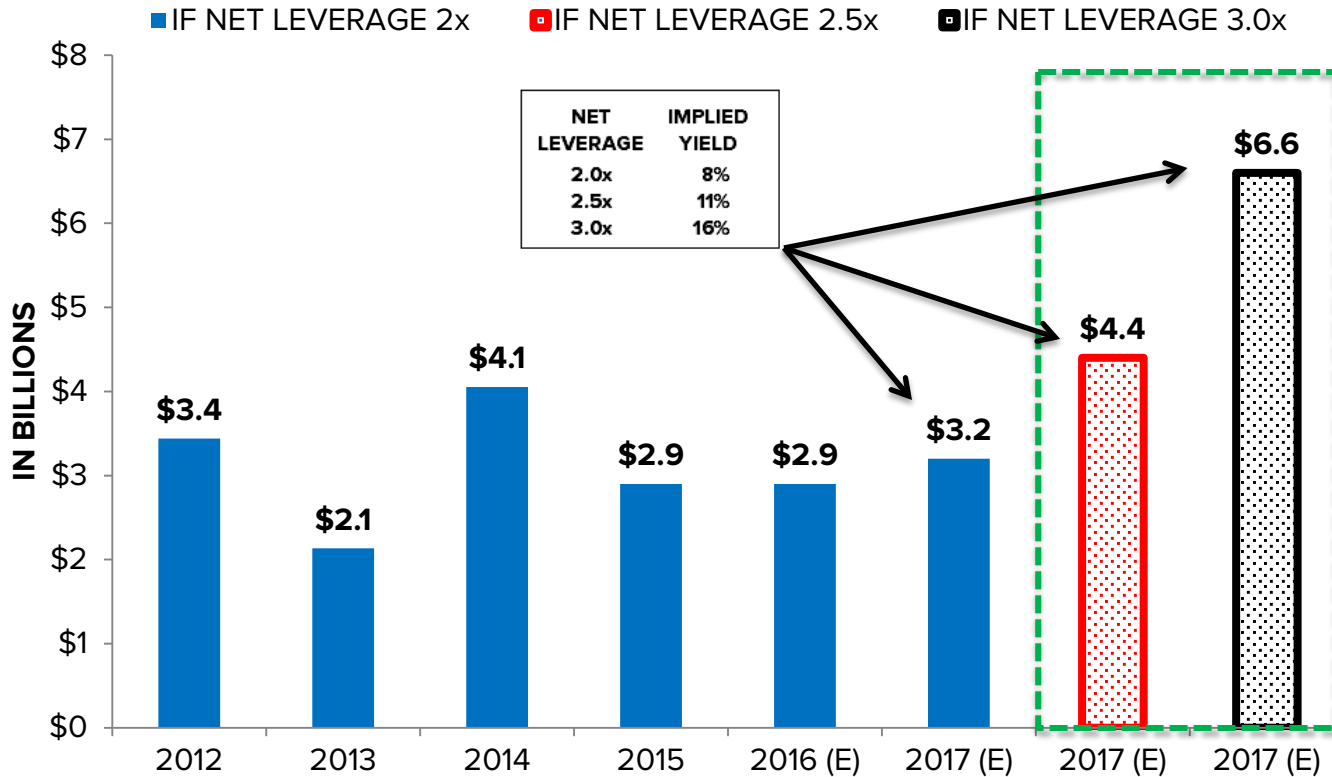
However, LVS is in a better position than Wynn in terms of gov't relations and more flexibility to shift tables particularly on the mass side.

The majority of the idle inventory lies at Venetian Macau and Sands Cotai Central (SCC) – the two properties where Sands China will move tables to Parisian.

Hence, even if Parisian is allocated only 100 tables initially and 50 extra tables staggered over 2 years, table availability will not be an issue.

# LVS | DIVIDEND NOW SUPPORTED BY FCF

## TOTAL DIVIDENDS (IN BILLIONS)



SOURCES: COMPANY FILINGS, HEDGEYE ESTIMATES

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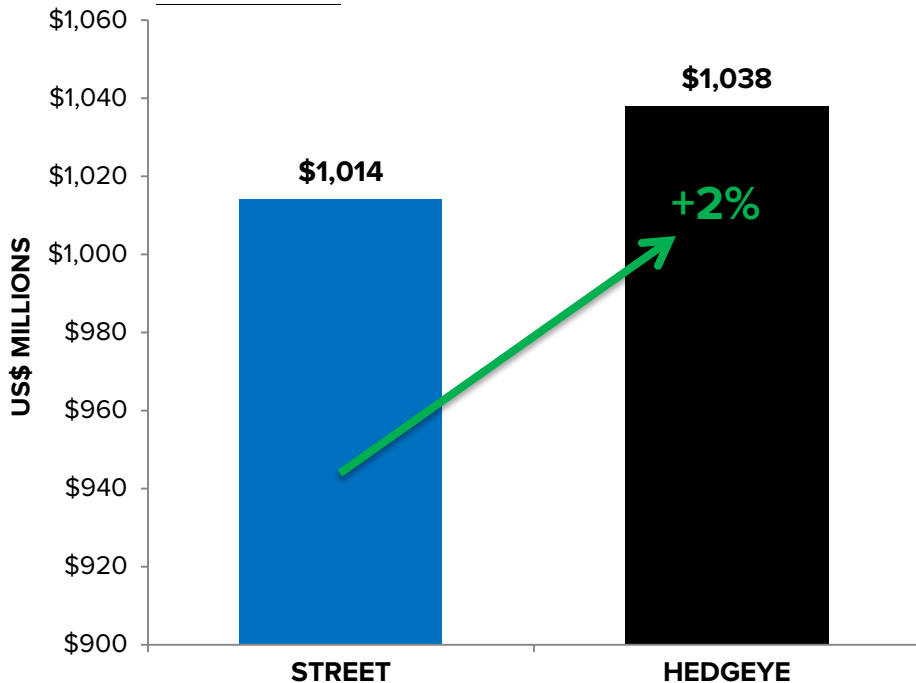
Maintaining and growth LVS's dividends is a key tenet of the bull story.

With net leverage only 2x, LVS has ample room to raise dividends by increasing leverage.

Even without additional leverage, LVS can increase its dividends by 10% in 2017.

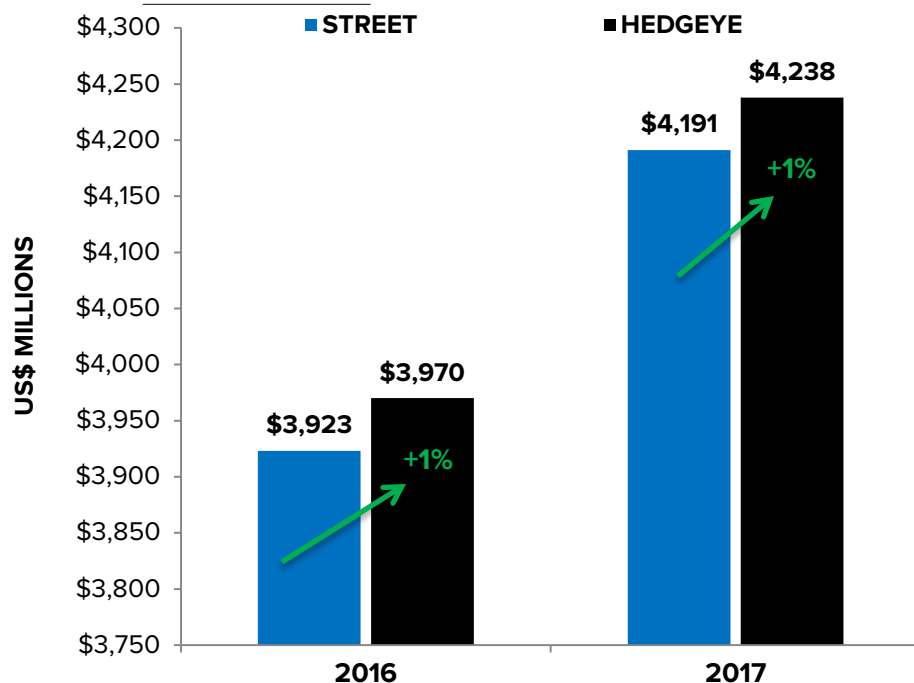
# LVS | HE VS. STREET (PROPERTY EBITDA)

## 3Q 2016 PROPERTY EBITDA



SOURCES: FACTSET, HEDGEYE ESTIMATES

## 2016/2017 PROPERTY EBITDA



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While we're not formally calling for huge estimate beats, we think in line quarters will drive a higher stock price. Moreover, if mass continues to trend higher, our estimates will prove conservative.

# LVS | CONCLUSION

1

## **MASS INFLECTION A HUGE POSITIVE FOR MACAU AND ESPECIALLY LVS**

The premier mass and base mass player in Macau and is best positioned over the near and long term to capitalize on what should be a sustained period of mass growth that began in Q2 2016

2

## **PARISIAN A POSITIVE CATALYST FOR BASE MASS AND CASH FLOW**

Unlike the premium focused Wynn Palace (and MGM Cotai), Parisian is directed at base mass customer where there is more growth and less promotional pressure. Parisian should generate positive cash flow and mark the cessation of significant capital outlays.

3

## **BUY LVS: BIG AND SUSTAINABLE DIVIDEND**

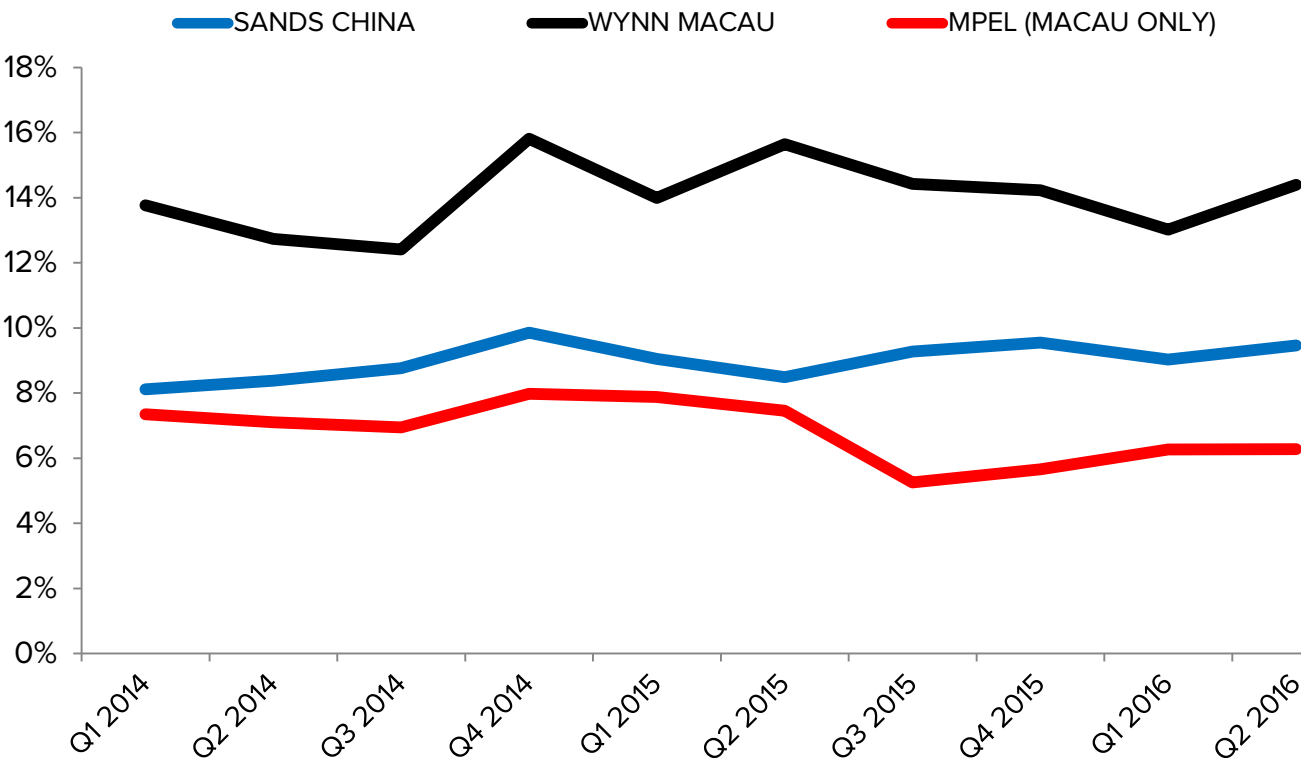
LVS's big dividend yield of 6% finally matters – mass is growing again, supporting estimates and EBITDA growth, and Parisian is about to turn into a net cash generator. Alone, LVS's EV/EBITDA valuation is reasonable but looks cheap when considering that the 6% dividend yield is now FCF funded and the balance sheet is underleveraged.

# RISKS



# RISKS | PROMOTIONAL EXPENSE

## PROMOTIONAL EXPENSE AS A % OF MASS REVENUES



SOURCES: COMPANY FILINGS, HEDGEYE ESTIMATES

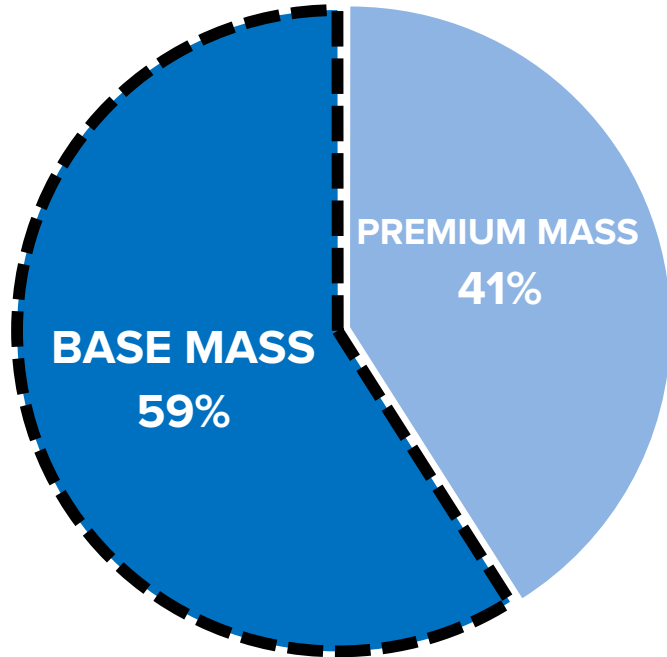
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While not yet an issue, we remain concerned that the opening of Wynn Palace could spark a price war in the premium mass segment. However, as primarily a base mass operator, Sands China has a lower exposure to premium mass than the market average.

Promos as a % of mass revenues increased for both Sands China and Wynn Macau in 2Q. MPEL's promos was steady but management noted on its 2Q conference call that marketing spend had picked up at MSC.

# RISKS | LVS LESS EXPOSED TO PREMIUM

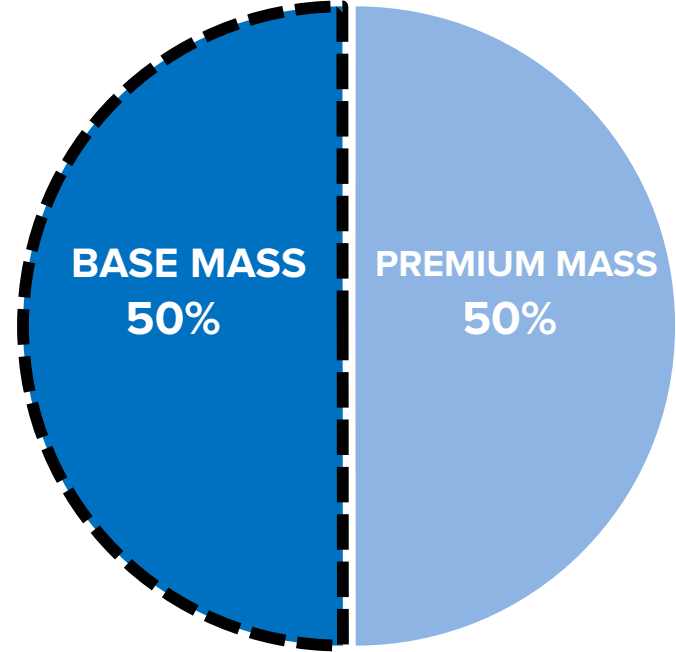
2Q 2016 SANDS CHINA MASS REVENUE  
BREAKOUT



SOURCES: LVS

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2Q 2016 MACAU MASS RVENUE  
BREAKOUT



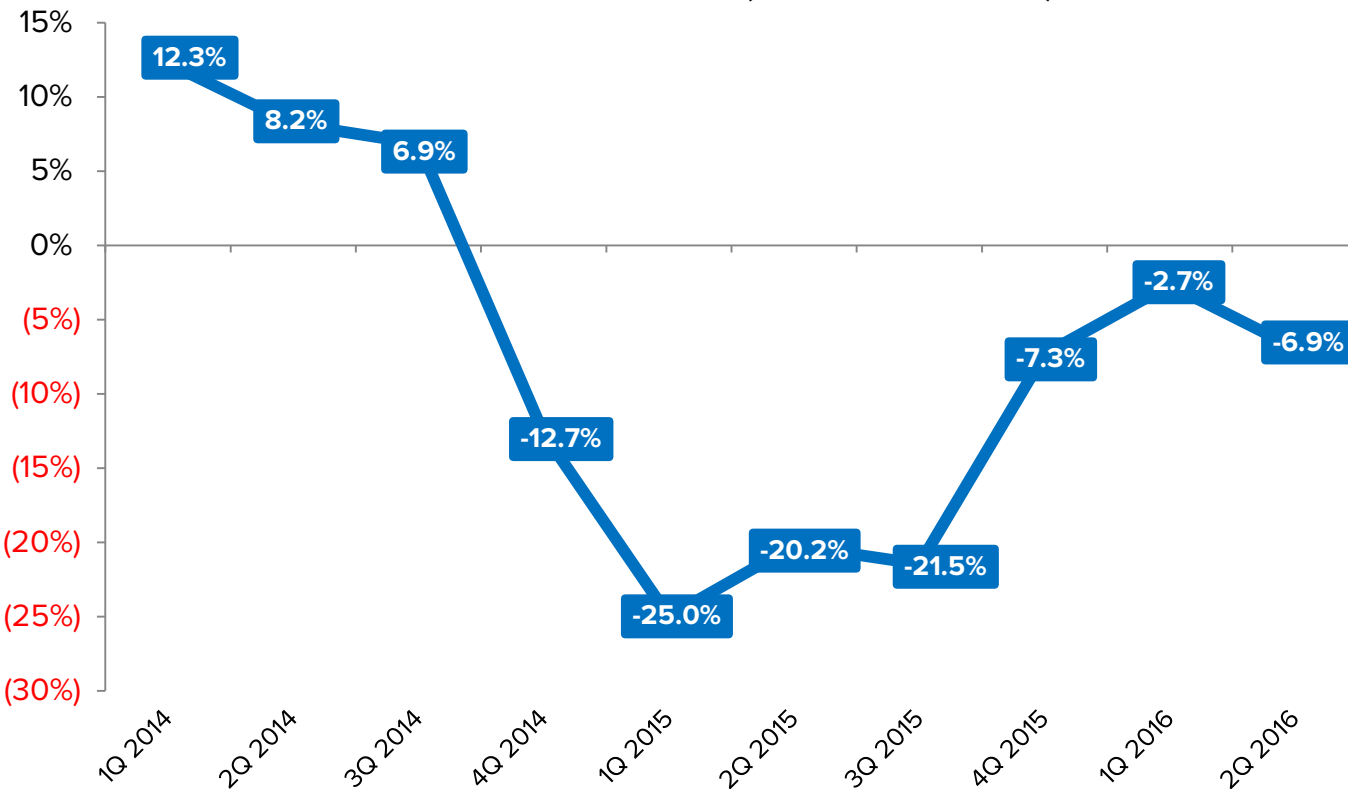
SOURCES: COMPANY REPORTS, HEDGEYE

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If there is a promotional war, premium mass will likely be the battleground. Sands China's exposure to the premium mass segment is probably the smallest in the market and will shrink further with the Parisian opening.

# RISKS | SLOTS DOWN AGAIN

## MACAU | SLOT WIN (Y/Y CHANGE)



SOURCES: COMPANY REPORTS, HEDGEYE ESTIMATES

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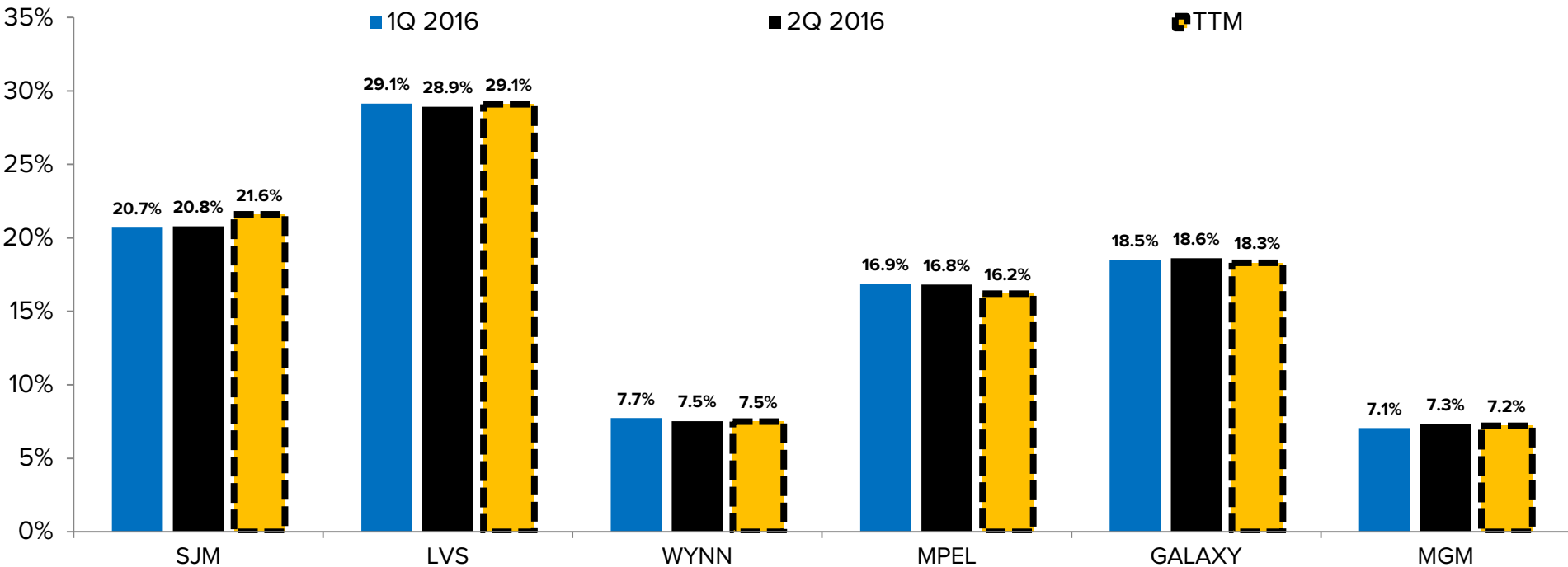
Macau industrywide slot win fell 11% in 2Q 2016 while operator win (win for the 6 largest operators) fell 7% in YoY. This was disappointing considering the mass player recovery.

Are slots losing its luster among the mass?

The good news is that slots still comprise only ~6% of Macau GGR and ~8% of Sands China EBITDA TTM

# **MACAU | Q2 2016 RECAP**

# Q2 2016 RECAP | MASS MARKET SHARE

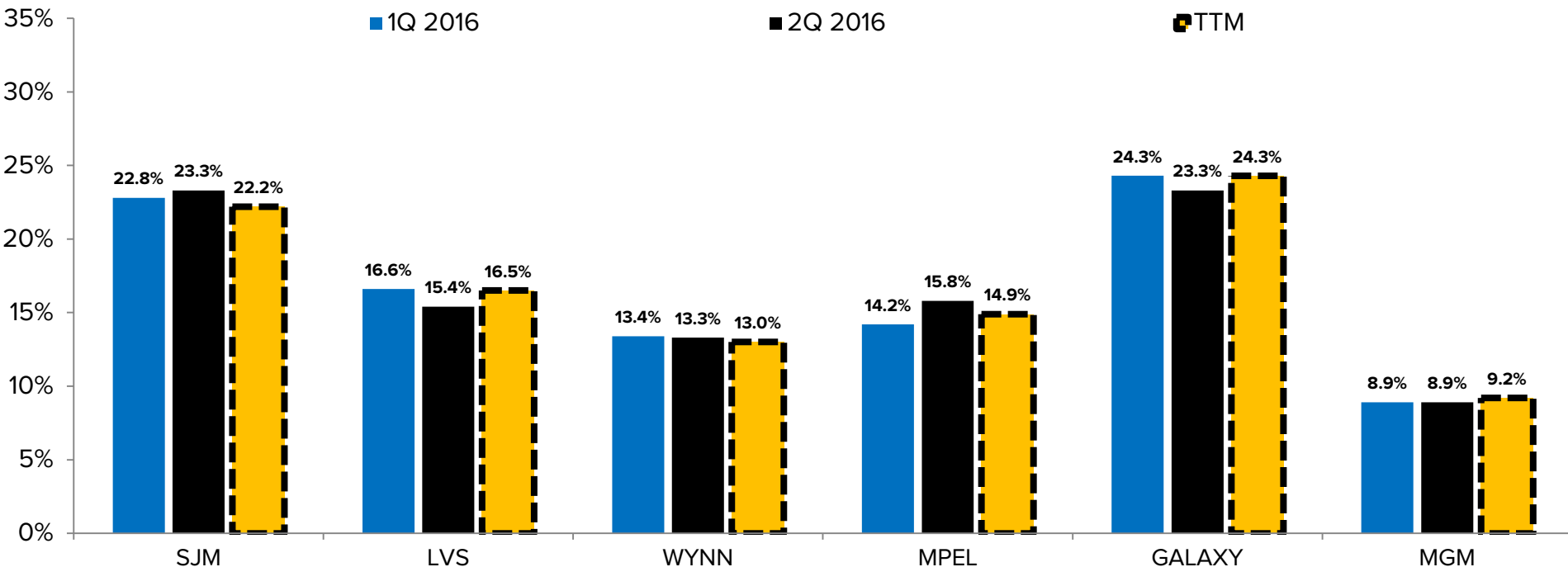


SOURCES: COMPANY REPORTS, HEDGEYE ESTIMATES

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Very little market share shift in the mass segment from 1Q 2016 to 2Q 2016. MPEL's Studio City incremental contribution (underwhelming but still positive) was offset by weakness at City of Dreams, leading to no share gains in mass share.

# Q2 2016 RECAP | VIP VOLUME SHARE

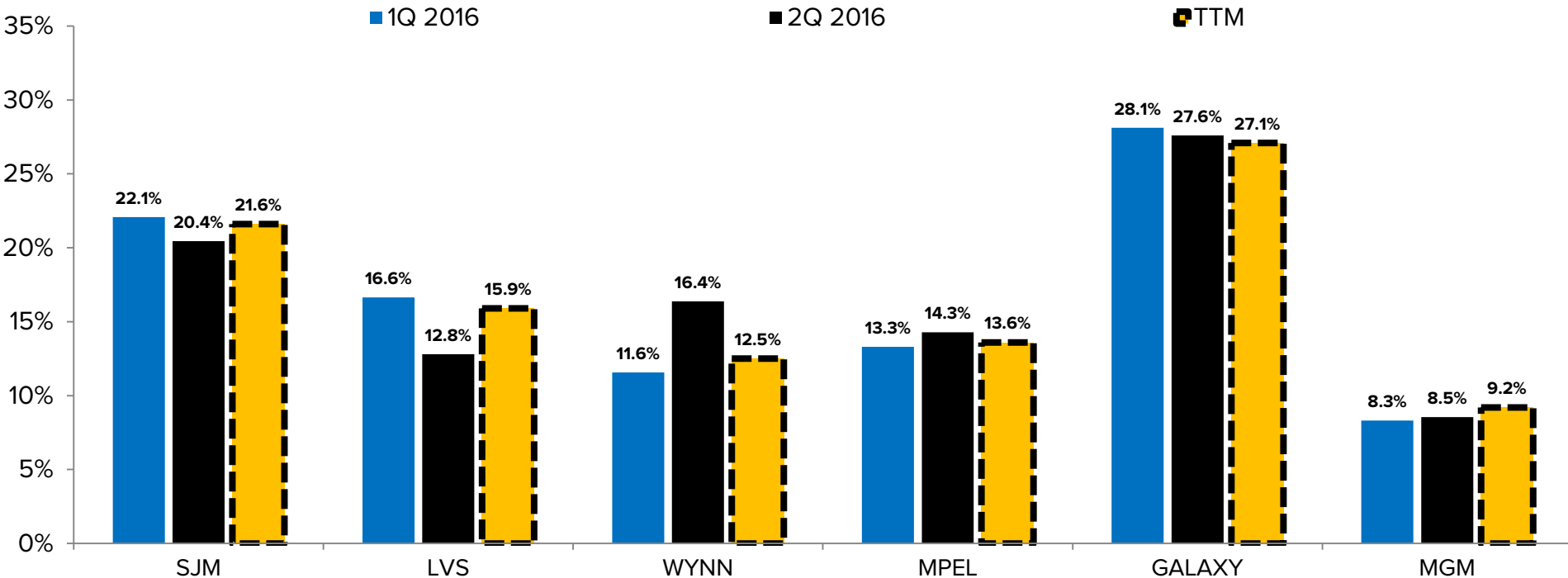


SOURCES: COMPANY REPORTS, HEDGEYE ESTIMATES

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In terms of market share, Sands China (LVS) and Galaxy lost the most VIP volume share in 2Q 2016 while SJM and MPEL both gained VIP volume share quarter-over-quarter. Thankfully, the VIP segment only accounts for less than 10% of Sands China's EBITDA.

# Q2 2016 RECAP | VIP REVENUE SHARE

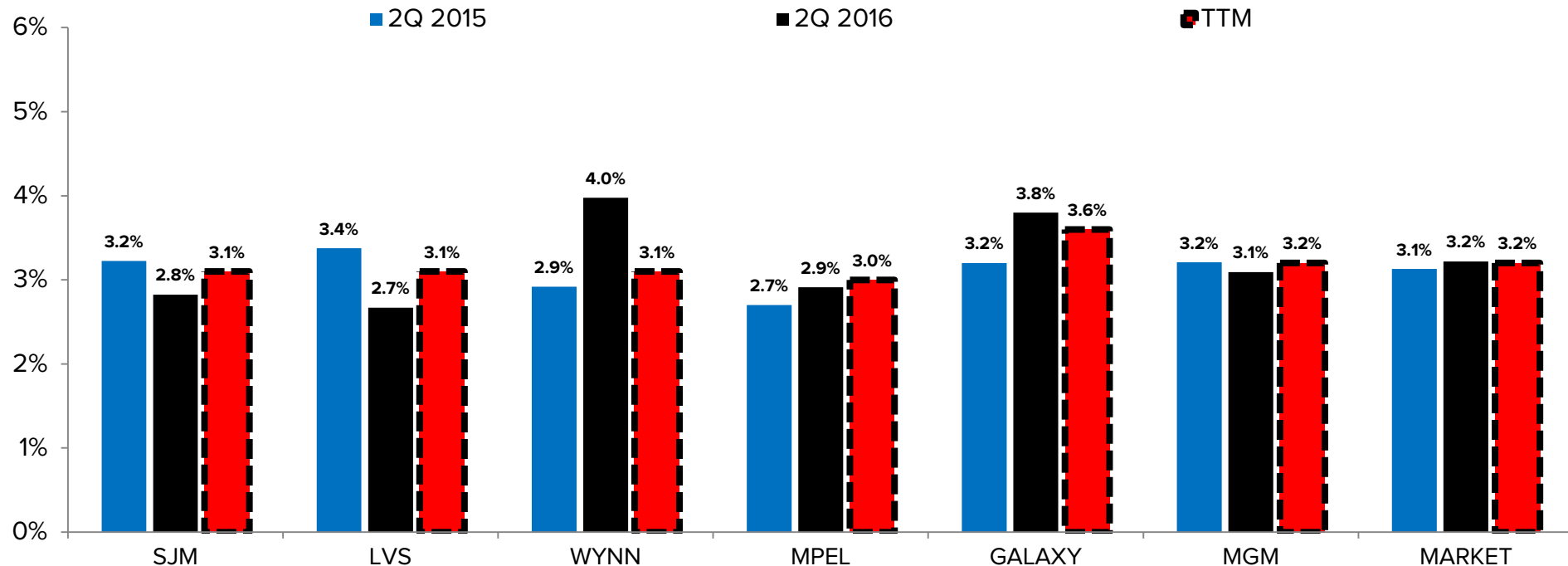


SOURCES: COMPANY REPORTS, HEDGEYE ESTIMATES

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Wynn Macau (WYNN) gained 480bps of VIP revenue share due to high hold.

# Q2 2016 RECAP | VIP HOLD %



SOURCES: COMPANY REPORTS, HEDGEYE ESTIMATES

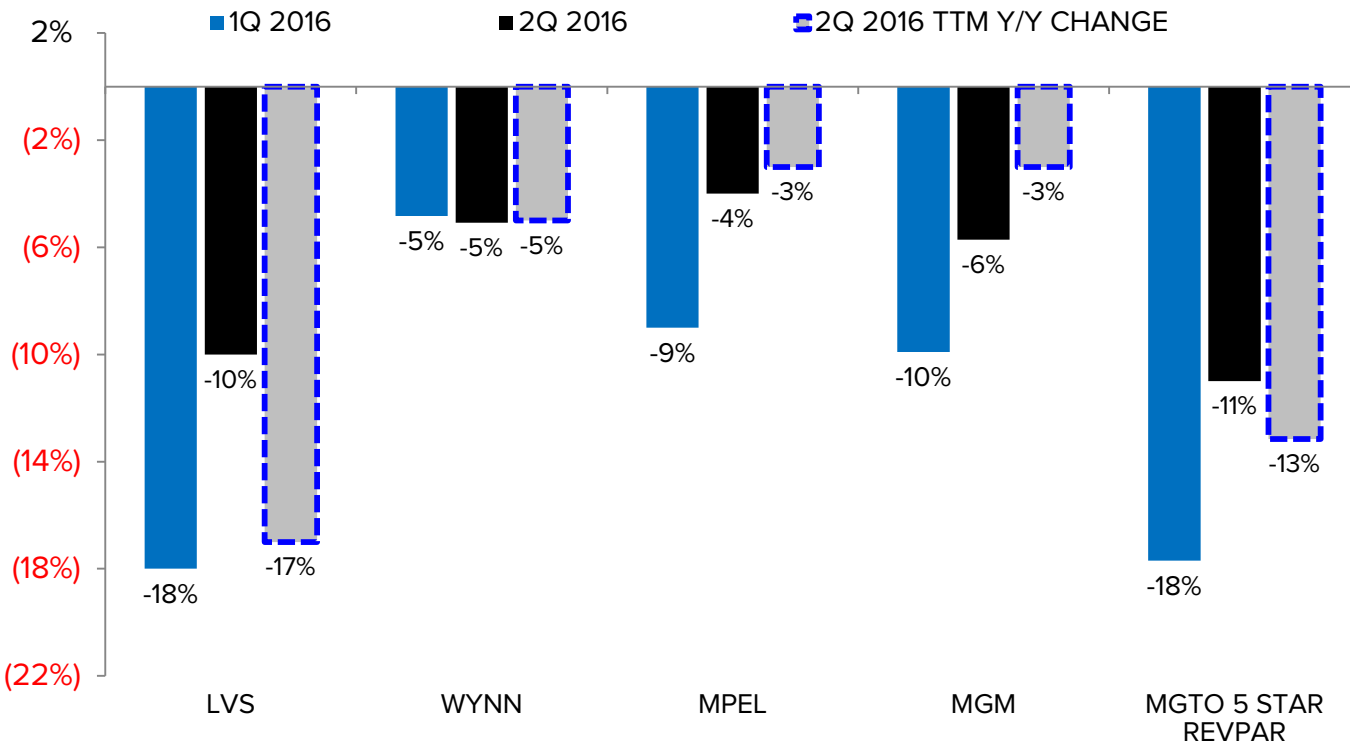
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Macau market VIP hold was 3.2% in 2Q 2016 vs 3.3% in 1Q 2016 and 3.1% in 2Q 2015. On a TTM basis, VIP hold has been 3.2%. Wynn and Galaxy were the lucky players in Q2, while LVS suffered from low hold % relative to last year and to its average



# Q2 2016 RECAP | REVPAR PERFORMANCE

## MACAU | QUARTERLY REVPAR (Y/Y CHANGE)



SOURCES: COMPANY REPORTS, HEDGEYE ESTIMATES

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2Q REVPAR declines lessened for all the operators QoQ.

The room promotional environment remains highly elevated particularly with new Cotai openings (Palace, Parisian (opening Sept 13)) but it's encouraging to see that 2Q results didn't worsen.

PLEASE SUBMIT QUESTIONS\* TO

**QA@HEDGEYE.COM**

*\*ANSWERED AT THE END OF THE CALL*