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# MACAU | PREMIUM MASS THE STANDOUT

NOVEMBER 9, 2016

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# MACAU | CATALYST OF PREMIUM MASS

## 1 EFFECTIVE ROOMS MANAGEMENT DRIVING ACCELERATING MASS REVS...

The Hedgeye Mass Tracker has been predicting positive and accelerating mass revenue growth since we rolled it out in Q2. +4.6% in Q2 to +10.4% in Q3 to +12-16% in October. Length of stay driving length of play driving win per visitor. What happens when avg bet turns positive?

## 2 ...ESPECIALLY PREMIUM MASS – THIS HAS LONGER TERM IMPLICATIONS

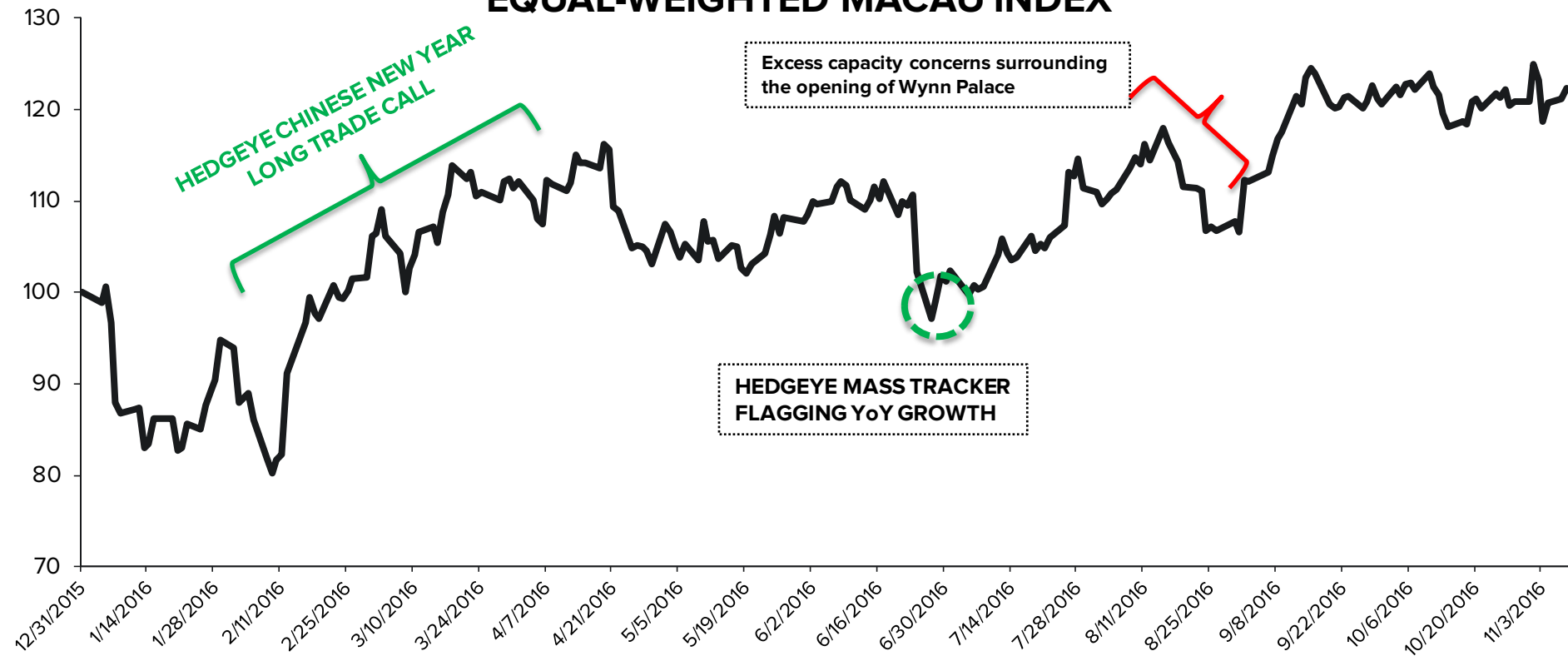
The return to growth is faster and greater than anyone anticipated. Higher consumer confidence/housing prices, cessation of corruption headlines and VIP conversion through the higher margin mass channel all have positive implications going forward for Macau

## 3 LONG LVS + 0027.HK – COULD WYNN BE A SLEEPER?

It's no secret we've been positive on LVS and Galaxy during our long Macau call. WYNN, not so much. However, investors do need to consider that if premium mass is indeed in aggressive recover mode, Wynn Palace could be a prime beneficiary. Stay tuned.

# MACAU | THE STOCKS

## EQUAL-WEIGHTED MACAU INDEX



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

# MACAU MASS | DRIVERS

# MASS DRIVERS | KEY POINTS

1

## **AVG BET AND MASS TABLE PRODUCTIVITY ARE STILL DOWN YOY...**

Yet, mass revenues still grew 10.4% in Q3. While average bets are still down YoY, they are approaching parity with last year. This is a key variable in driving mass revenues

2

## **BUT LOWER RATES AND MORE ROOMS DRIVING LENGTH OF STAY/PLAY AND REV/VISITOR HIGHER**

We think the Cotai management teams have been effective in managing the significant number of new rooms in the market. Lower room rates are driving higher occupancy despite the huge increase in supply which is in turn driving higher length of stay/play and spend/visitor

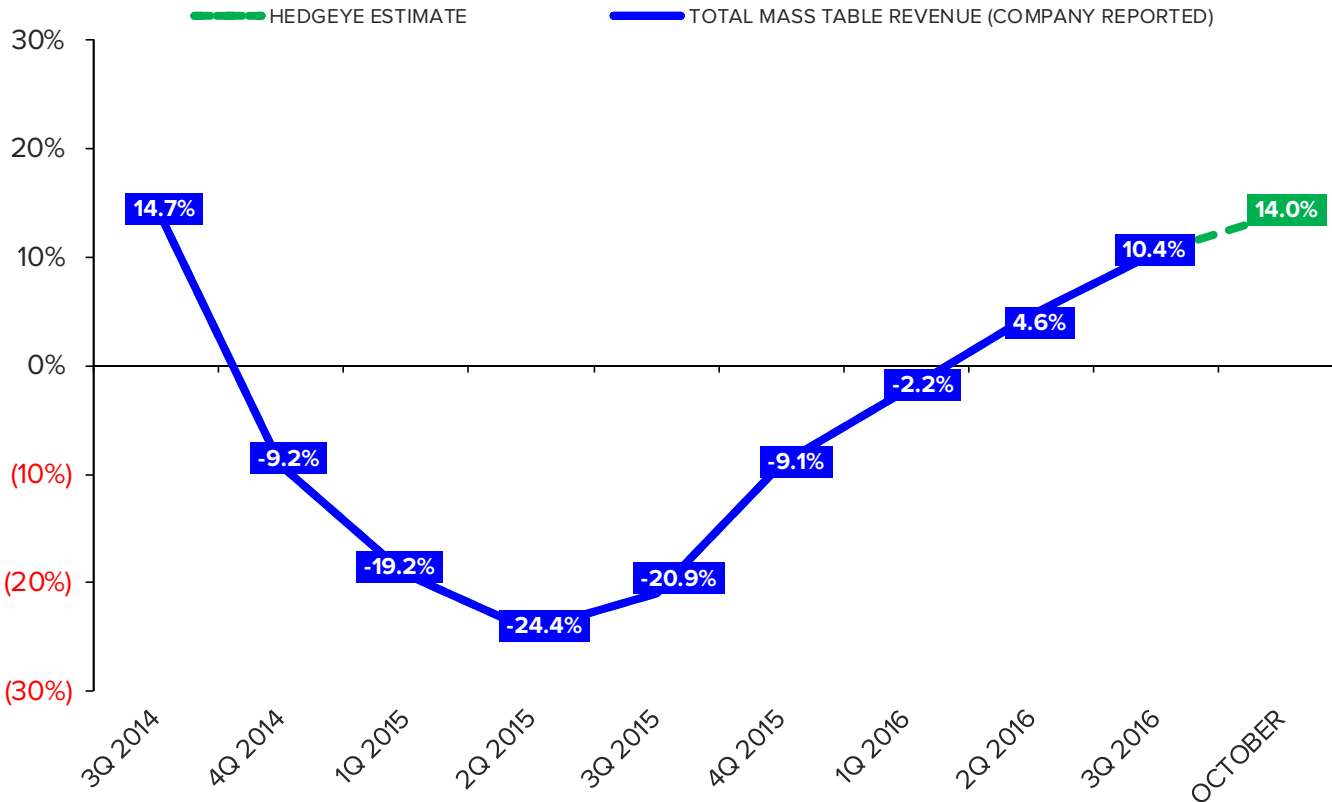
3

## **PREMIUM MASS ALSO CONTRIBUTING TO HIGHER REV PER VISITOR AND MASS GROWTH**

The return to growth is faster and greater than anyone anticipated. Higher consumer confidence/housing prices, cessation of corruption headlines, and VIP conversion through the higher margin mass channel all have positive implications going forward for Macau

# MASS DRIVERS | MASS TRACKER

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

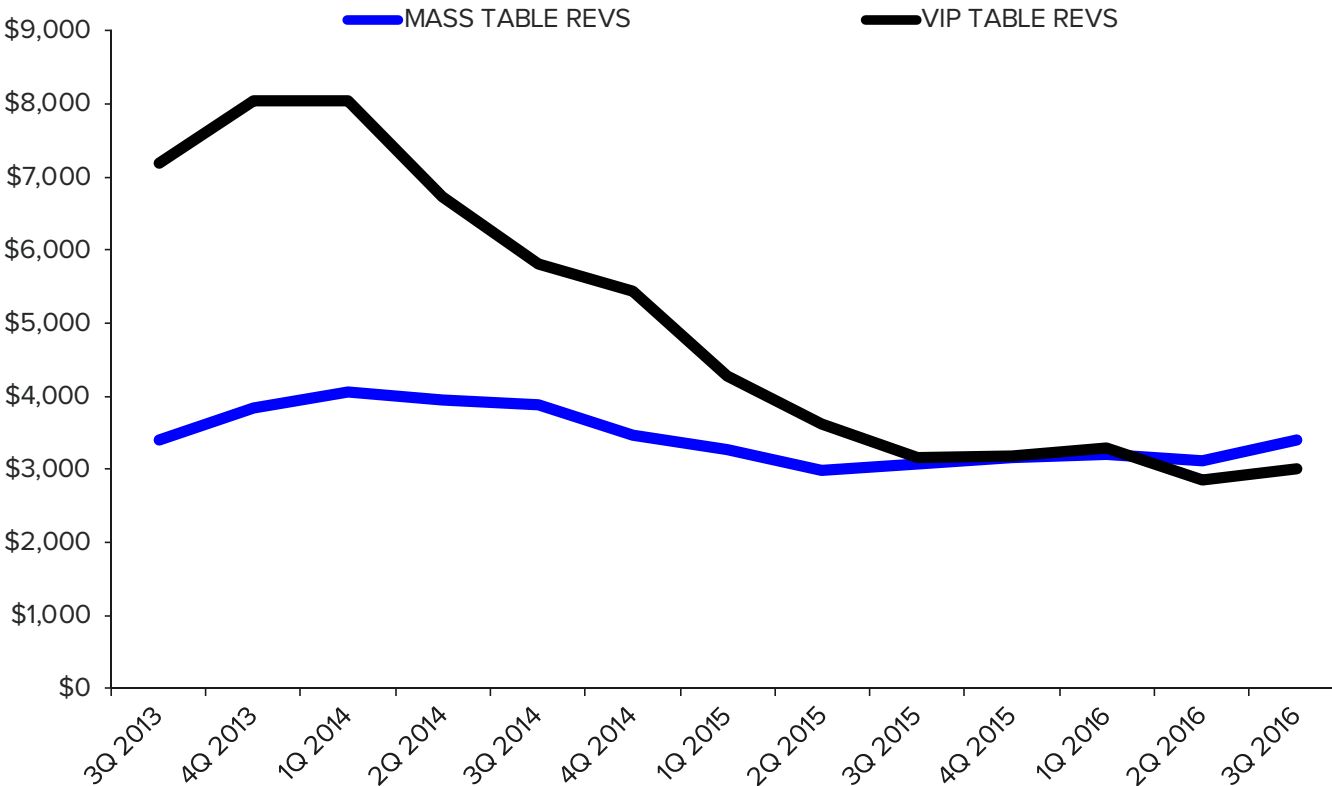


SOURCES: COMPANY FILINGS, HEDGEYE

With MGM China's results in, we can confirm that Macau Q3 2016 mass table revenues **increased 10.4% YoY**, its 1<sup>st</sup> double digit growth quarter since Q3 2014. This was higher than the midpoint of our last forecast of +9-10%.

Premium mass was the **big surprise** this quarter. Sands China disclosed that premium mass grew 15% YoY in Q3 and Galaxy indicated strength in that segment. MGM China grew its overall mass revenue 22% YoY and that property primarily serves the premium mass segment.

# MASS DRIVERS | OVERTAKING VIP



SOURCE: COMPANY FILINGS, HEDGEYE ESTIMATES

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. For some properties in Macau, mass and non-gaming EBITDA account for >90% of total EBITDA.

# MASS DRIVERS | REV BREAKOUT

## MACAU | MASS TABLE REVENUES

	<u>Q3 2016</u>	<u>Q3 2015</u>	<u>Q3 2016</u> <u>▲ Y/Y</u>	<u>Q2 2016</u> <u>▲ Y/Y</u>	<u>Q1 2016</u> <u>▲ Y/Y</u>
MGM	\$260	\$212	22.4%	-0.5%	-10.9%
LVS	\$985	\$929	6.0%	-7.6%	-7.9%
WYNN	\$257	\$235	9.4%	12.6%	-11.5%
MPEL	\$570	\$448	27.2%	26.5%	18.3%
GALAXY	\$641	\$541	18.5%	29.4%	20.3%
SJM	\$685	\$713	-3.8%	-7.8%	-14.9%
TOTAL	<b>\$3,398</b>	<b>\$3,078</b>	<b>10.4%</b>	<b>4.6%</b>	<b>-2.2%</b>

SOURCE: COMPANY FILINGS, HEDGEYE

Here's how we get to 10.4% Q3 mass revenue growth. We use company data since the government data is not adjusted for the smoking ban related table reclassifications.

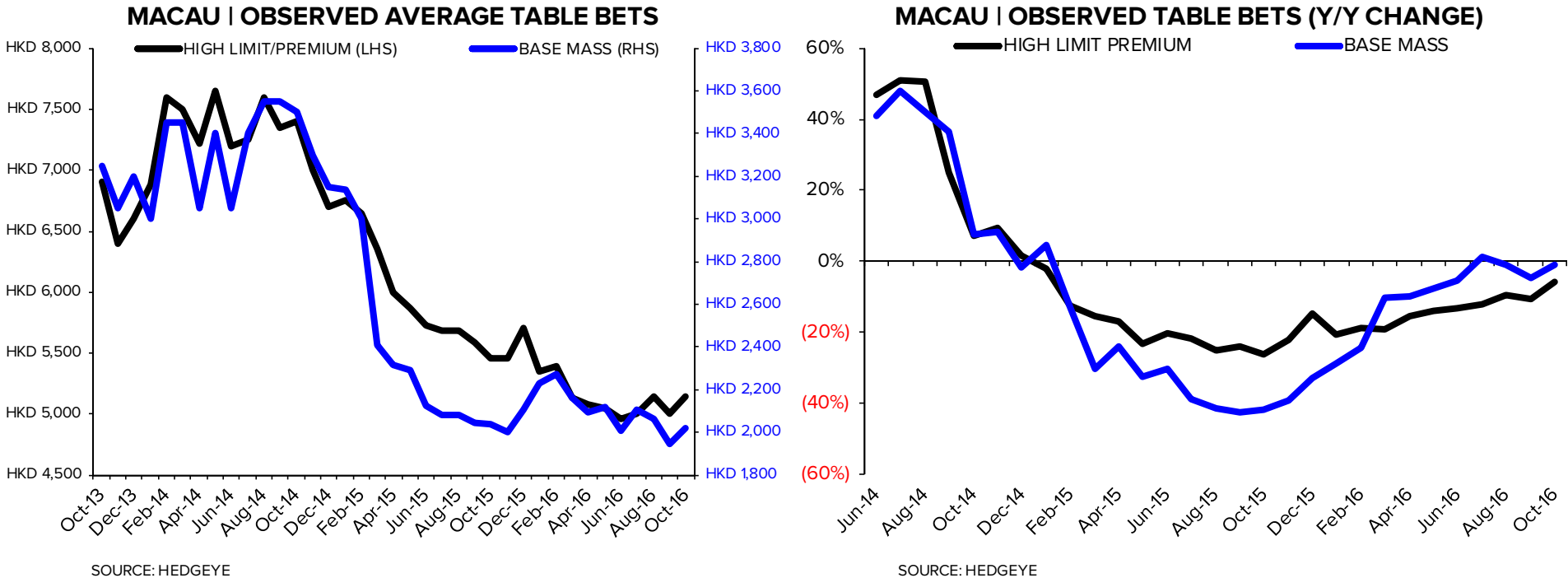
While subject to volatility in the mass hold rate, MPEL, with the inclusion of Studio City, had the highest YoY growth among the concessionaries while MGM surprisingly, had the 2<sup>nd</sup> highest. SJM was the only concessionaire to suffer a YoY downturn.

# MASS DRIVERS | PREMIUM MASS

## *Premium mass probably grew in Q3 in Macau*

- Evidence of growth
  - Sands China disclosed 15% growth in Q3 premium mass
  - Galaxy alluded to Q3 premium mass growth
  - Wynn drove premium mass growth with Wynn Palace
  - MGM grew total mass 22% YoY but the property is primarily premium
- Premium growth earlier and higher than expected – Here is what we heard from our contacts:
  - Higher consumer confidence/home prices in Mainland China
  - Conversion of some VIP players into higher margin mass
  - Premium coming back as corruption headlines wane

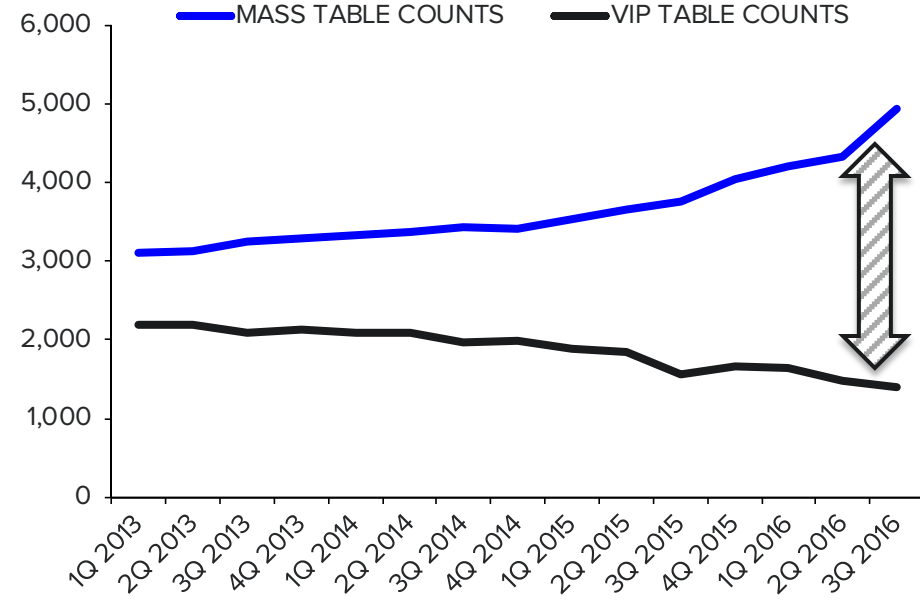
# MASS DRIVERS | OBSERVED AVG BETS



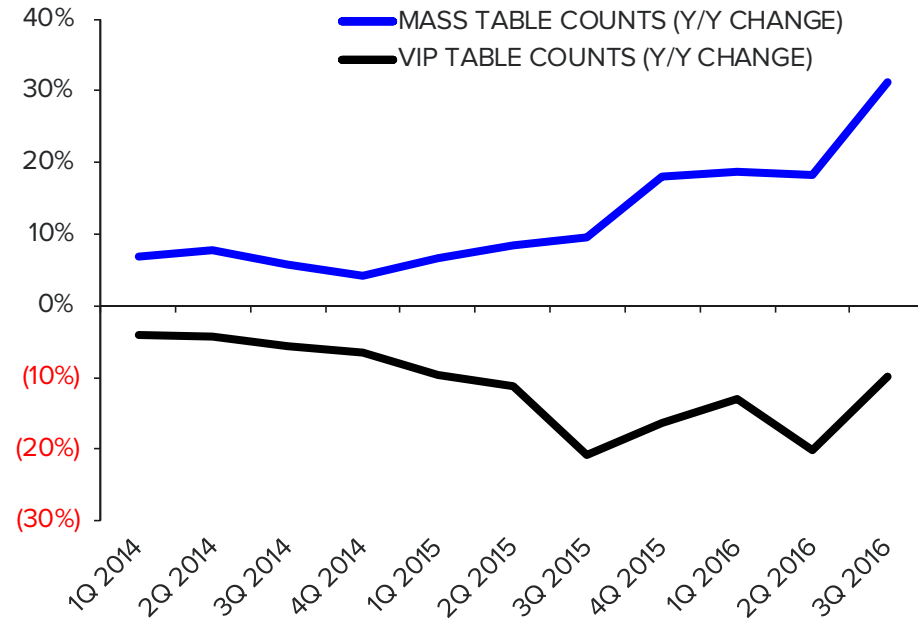
## AVERAGE BETS STILL LOWER AND...

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

# MASS DRIVERS | TABLE COUNTS



SOURCES: COMPANY FILINGS, HEDGEYE



SOURCES: COMPANY FILINGS, HEDGEYE

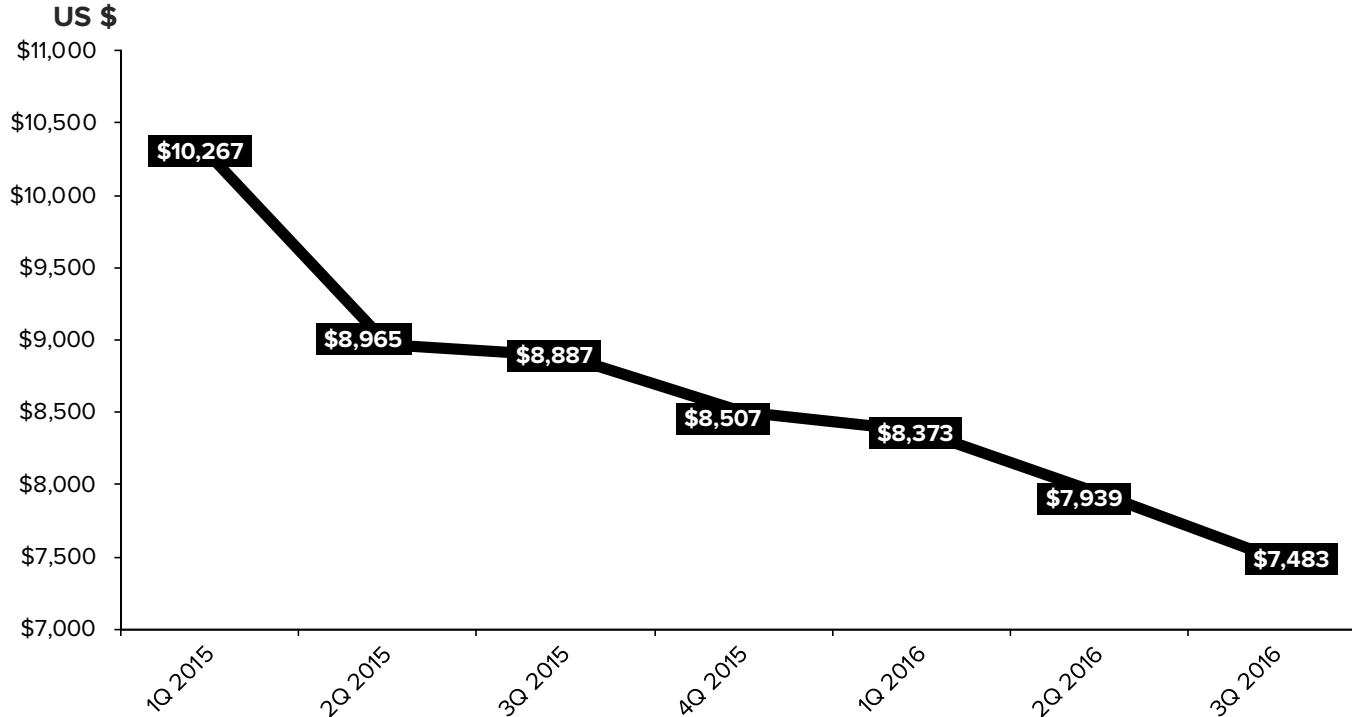
## ...AND TABLE SUPPLY IS UP

New Cotai supply is almost all mass while VIP to mass table conversions continued. Thus, mass table counts are up big YoY and VIP are down. These are our estimates.

# MASS DRIVERS | TABLE PRODUCTIVITY

LEADING TO LOWER TABLE PRODUCTIVITY, BUT...

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

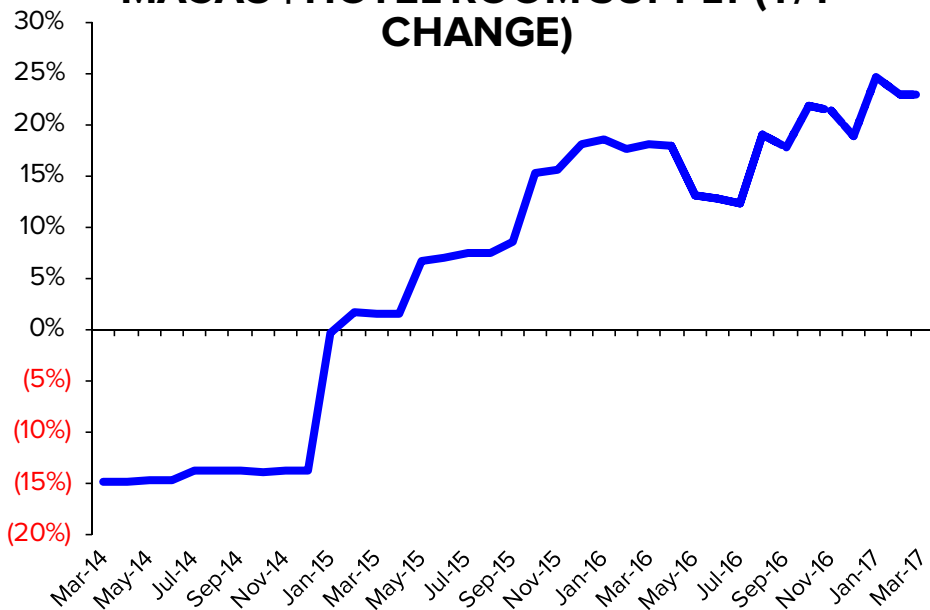


SOURCES: COMPANY FILINGS, HEDGEYE ESTIMATES

With the additional mass table supply from the new Cotai properties and VIP conversions, mass tables are way up and win/table/day continued to decline in Q3.

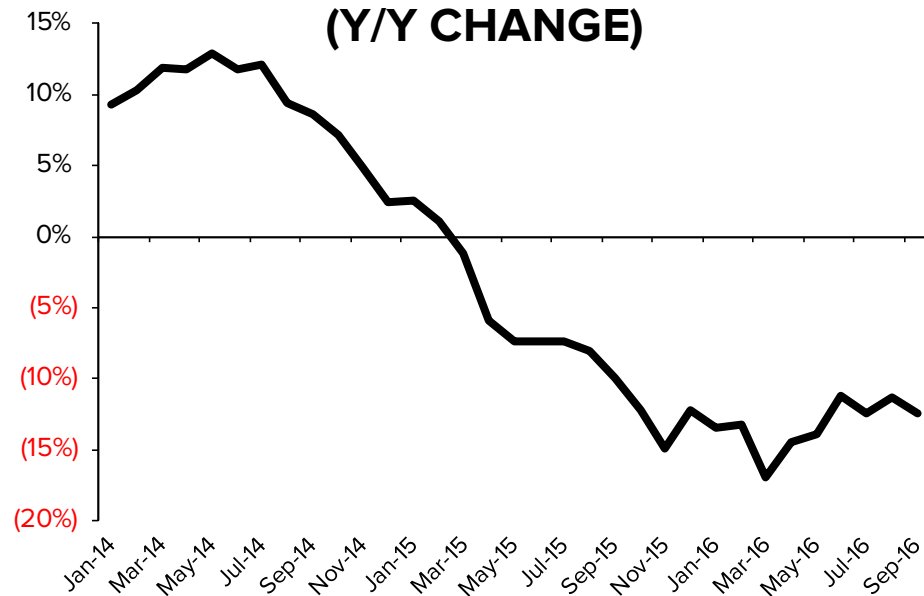
# MASS DRIVERS | ROOM SUPPLY ADRS

## MACAU | HOTEL ROOM SUPPLY (Y/Y CHANGE)



SOURCES: MACAU HOTEL ASSOC., DSEC, HEDGEYE ESTIMATES

## MACAU | HOTEL ROOM RATES (Y/Y CHANGE)



3- MTH MOVING AVERAGE WAS USED

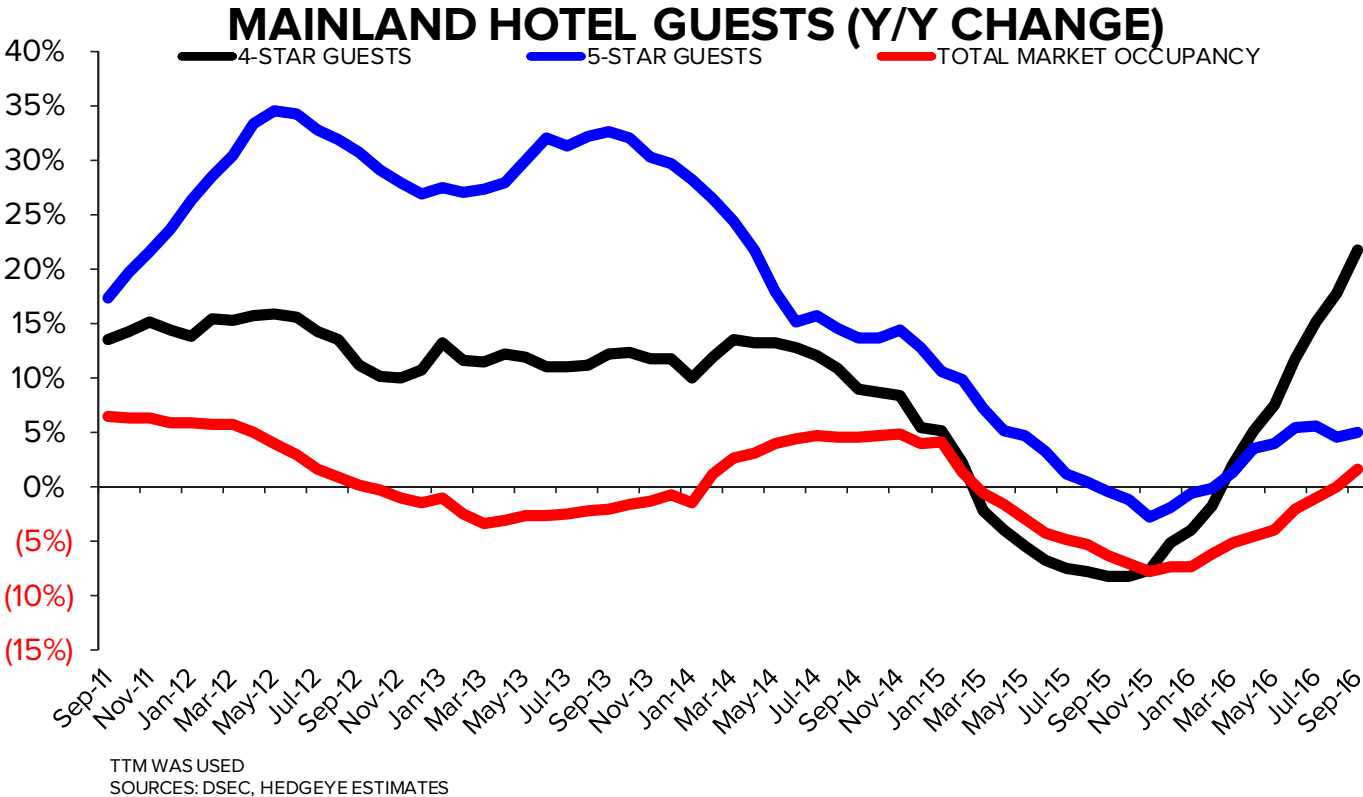
SOURCES: MACAU HOTEL ASSOC., HEDGEYE ESTIMATES

### ...HIGHER ROOM SUPPLY AND LOWER RATES....

More hotel rooms = lower room rates = a pick up in visitation.

# MASS DRIVERS | HOTEL STAYS

...ARE DRIVING HOTEL STAYS + OCC UP AND...

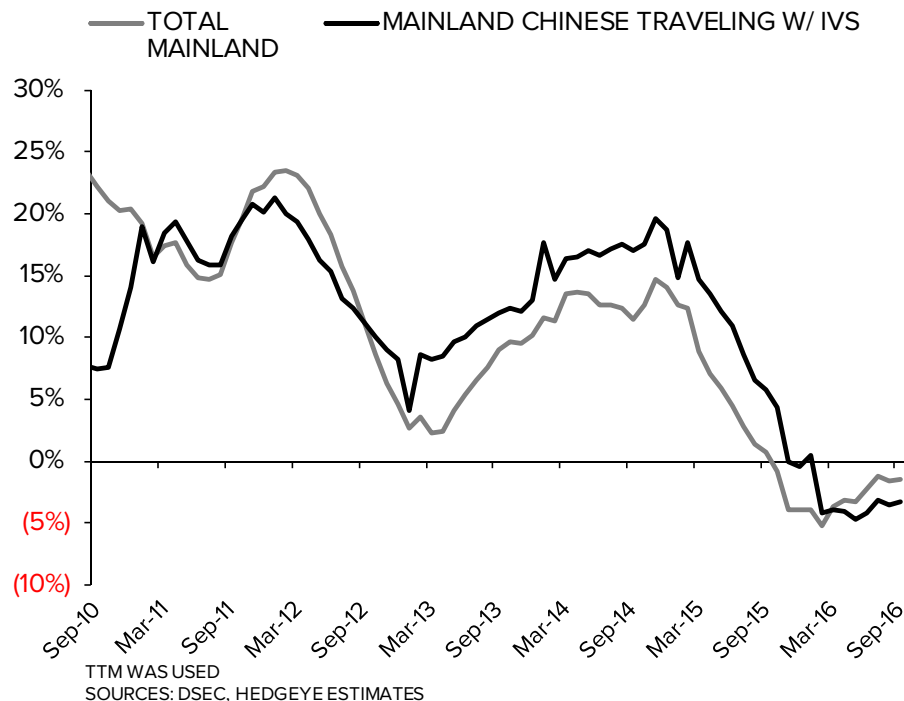
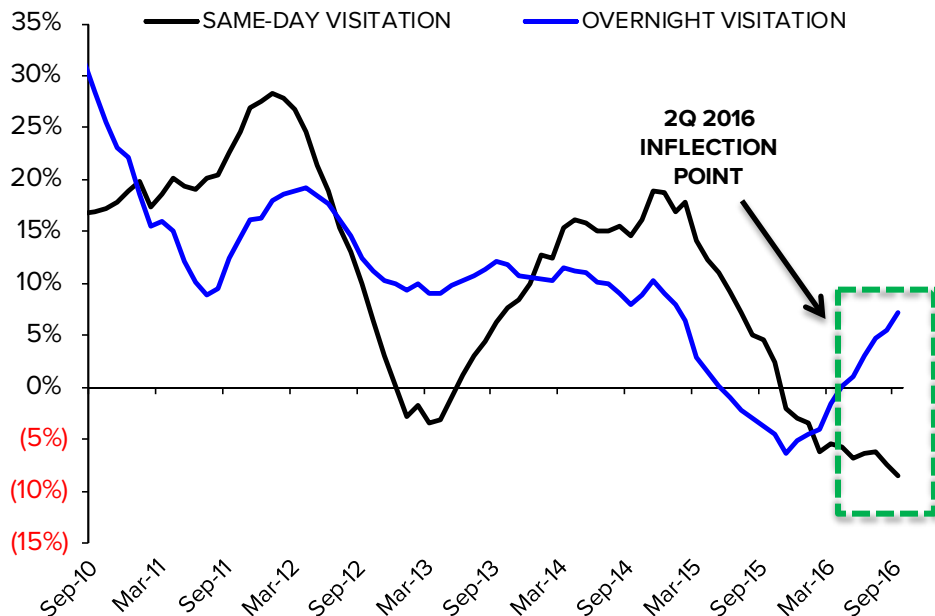


Growth in Mainland visitation is broad based. Both 4 and 5 Star hotels are slowly benefiting from higher volumes of overnight visitors.

TTM OCC is now positive for the first time since February 2015.

# MASS DRIVERS | OVERNIGHT VISITATION

## MAINLAND CHINESE VISITATION (Y/Y CHANGE)

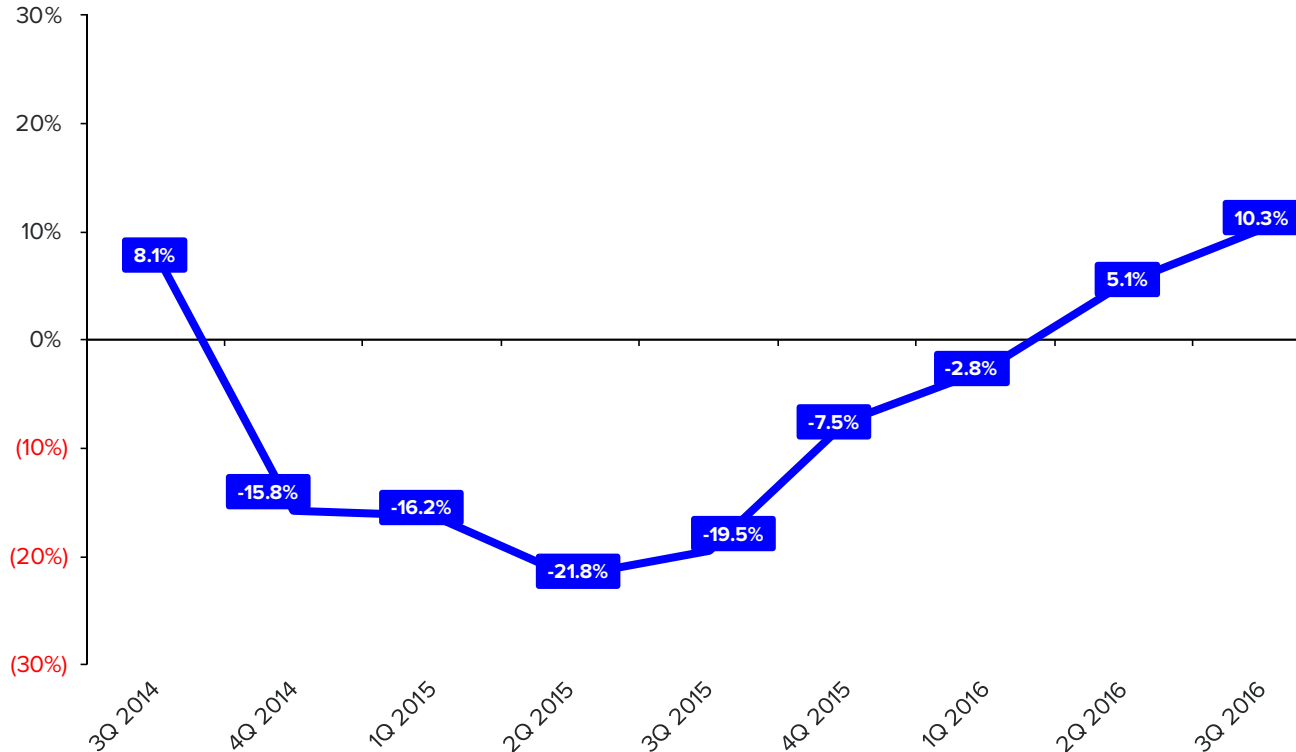


## ...OVERNIGHT VISITATION HIGHER

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.

# MASS DRIVERS | SPEND PER VISITOR

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



SOURCES: COMPANY REPORTS, DSEC, HEDGEYE

Effective hotel management of additional rooms driving visitation and length of stay higher. So despite lower average bets and lower table productivity, mass win per visitor is climbing and driving overall mass revenue growth

# MACAU | 3Q MARKET ANALYSIS

# MKT ANALYSIS | EBITDA GROWTH

MACAU MKT Q3 2016 EBITDA	Q3 2016	Q3 2015	▲ Y/Y	HEDGEYE	STREET	ACTUAL vs. STREET
Sands Macau	\$46	\$51	-11%	\$50	\$44	\$2
Venetian Macau	\$315	\$256	23%	\$258	\$260	\$55
Four Seasons	\$63	\$59	6%	\$57	\$51	\$12
Sands Cotai Central	\$177	\$171	4%	\$155	\$157	\$20
Parisian	\$19	N/A	N/A	\$8	\$2	\$17
Other Asia (Cotai Ferries)	\$10	\$8	15%	\$7	\$7	\$3
<b>SANDS CHINA MACAU TOTAL</b>	<b>\$629</b>	<b>\$545</b>	<b>15%</b>	<b>\$534</b>	<b>\$521</b>	<b>\$108</b>
Wynn Macau	\$151	\$163	-7%	\$168	\$169	-\$18
Wynn Palace	\$26	\$0		\$18	\$27	-\$1
<b>WYNN MACAU TOTAL</b>	<b>\$177</b>	<b>\$163</b>	<b>8%</b>	<b>\$186</b>	<b>\$196</b>	<b>-\$19</b>
<b>MGM MACAU TOTAL</b>	<b>\$150</b>	<b>\$128</b>	<b>17%</b>	<b>\$118</b>	<b>\$109</b>	<b>\$41</b>
Galaxy Macau	\$2,206	\$1,683	31%	\$1,984		
Starworld	\$536	\$514	4%	\$540		
Broadway	\$7	(\$1)	NM	\$9		
City Clubs	\$26	\$26	0%	\$28		
Construction Materials	\$104	\$94	11%	\$85		
<b>GALAXY ENTERTAINMENT TOTAL (1)</b>	<b>\$2,879</b>	<b>\$2,316</b>	<b>24%</b>	<b>\$2,646</b>	<b>\$2,532</b>	<b>\$347</b>
Altira	\$14	\$13	6%	\$3	\$4	\$10
City of Dreams	\$170	\$191	-11%	\$187	\$187	-\$17
Mocha Slots	\$7	\$9	-17%	\$6	\$5	\$2
Studio City	\$53	(\$0)	NM	\$35	\$31	\$21
<b>MELCO CROWN ENTERTAINMENT TOTAL</b>	<b>\$244</b>	<b>\$213</b>	<b>15%</b>	<b>\$230</b>	<b>\$228</b>	<b>\$16</b>
<b>TOTAL MARKET EBITDA (2)</b>	<b>\$1,570</b>	<b>\$1,348</b>	<b>17%</b>	<b>\$1,409</b>	<b>\$1,381</b>	<b>\$190</b>

(1) IN HKD

(2) ASSUMES CONVERSION OF GALAXY EBITDA INTO USD

SOURCE: HEDGEYE, FACTSET

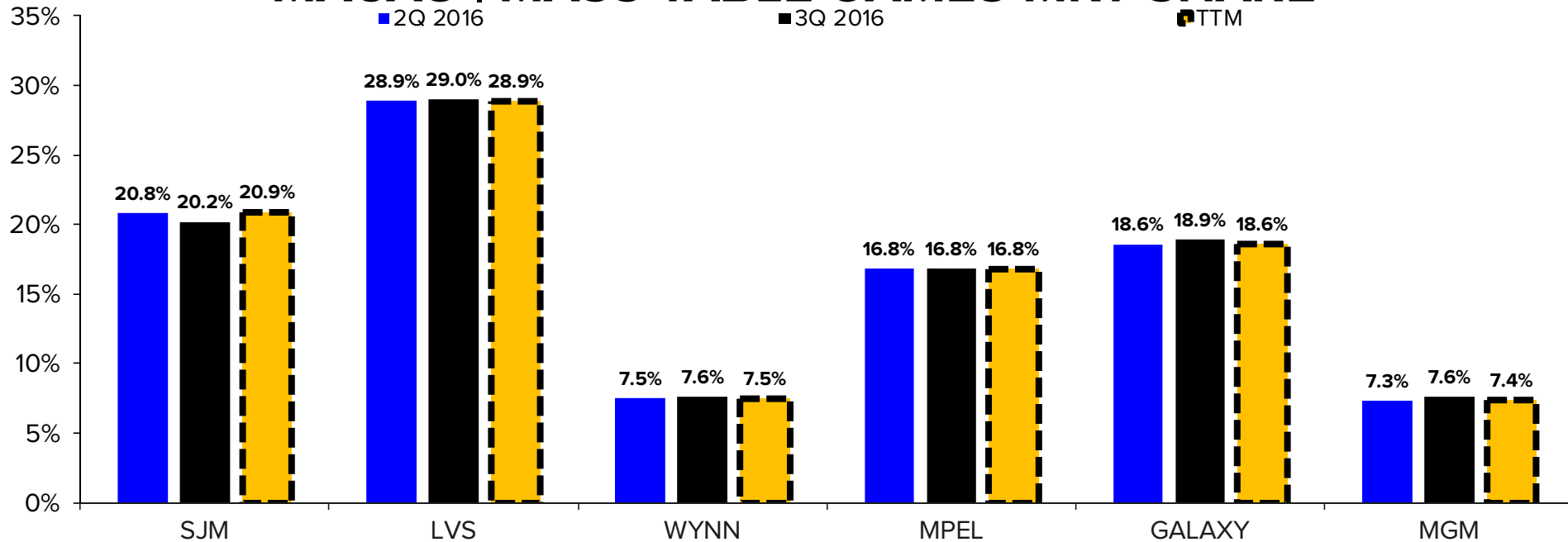
Overall, Wynn had the most noticeable miss in 3Q.

Galaxy and LVS both had comfortable beats while MPEL reported a mixed quarter.

Overall Macau EBITDA beat the street by \$190 million.

# MKT ANALYSIS | MASS REV SHARE

## MACAU | MASS TABLE GAMES MKT SHARE

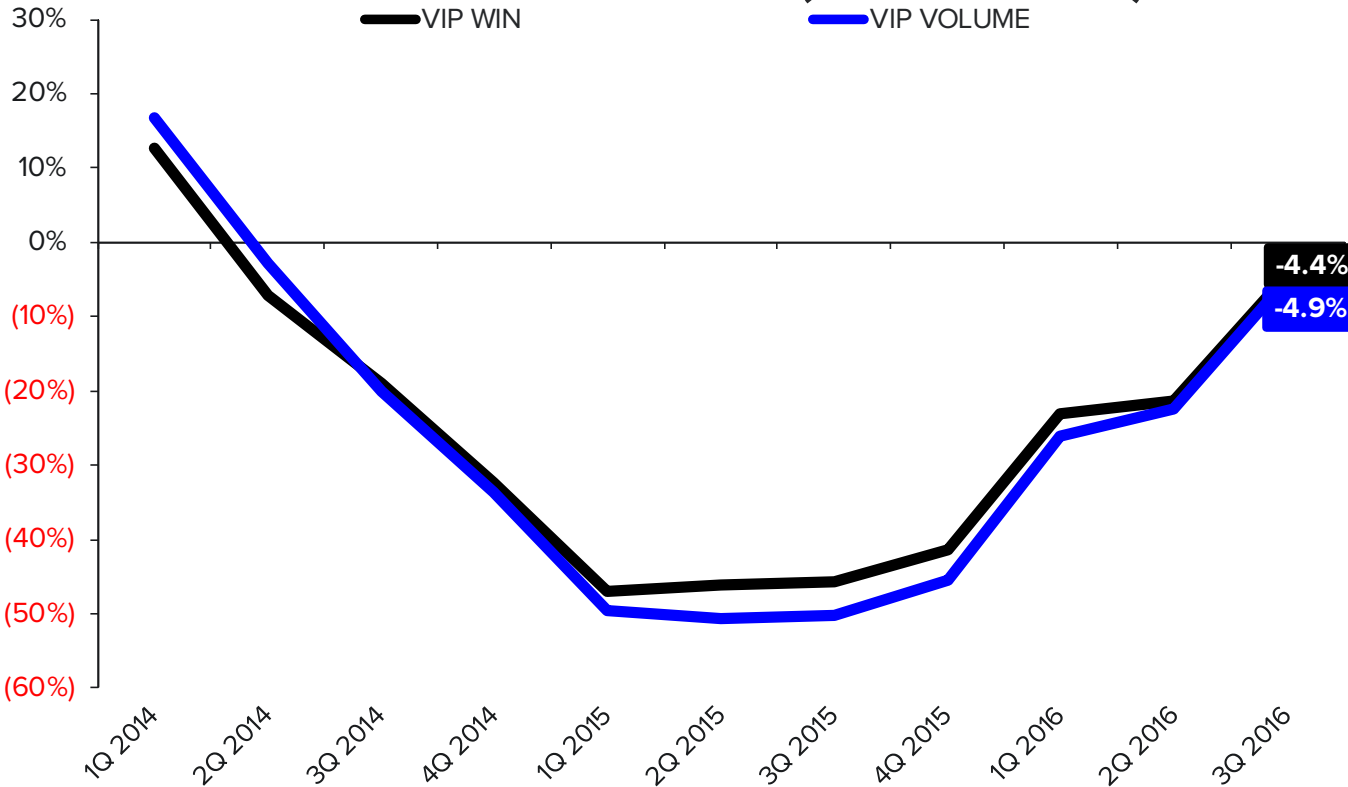


SOURCES: COMPANY FILINGS, HEDGEYE

YoY market shares changed little in Q3. However, on a sequential basis it looks like Galaxy and MGM took share from SJM in Q3. Market shares for WYNN and LVS were little changed despite the opening of Wynn Palace and Parisian during Q3.

# MKT ANALYSIS | VIP STABILIZING?

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

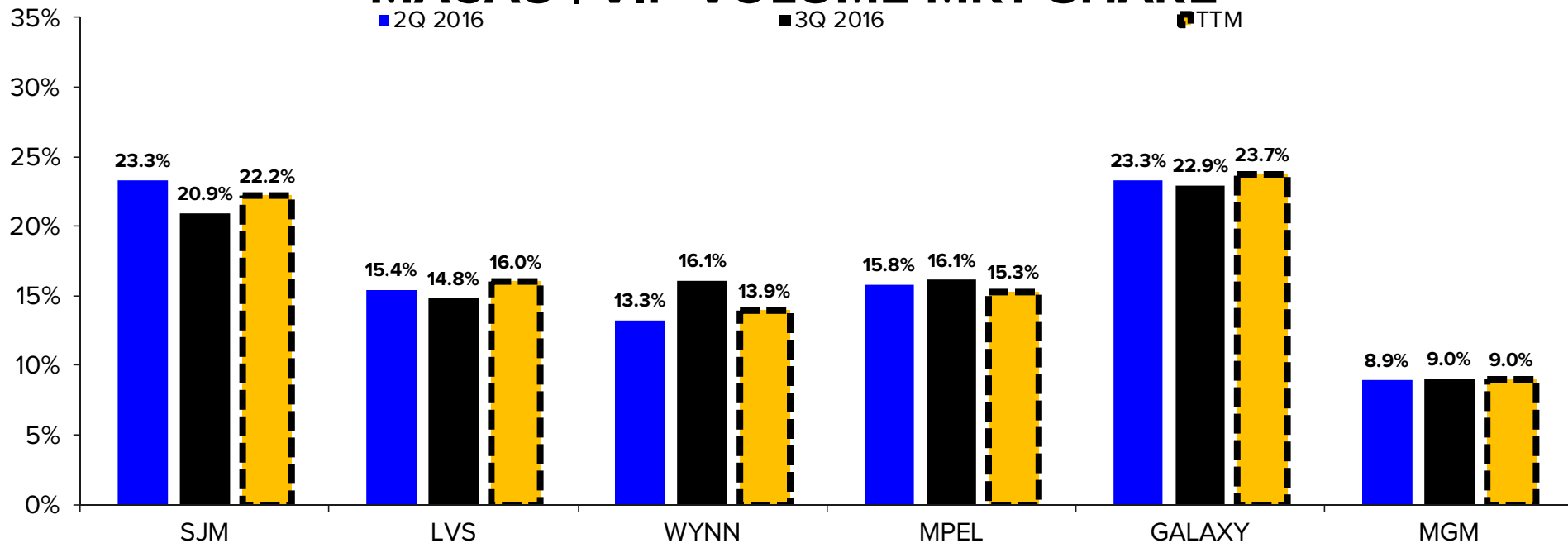


SOURCE: COMPANY FILINGS

VIP volume and win continue to march their way to the black. The 2<sup>nd</sup> derivative improved for the 5<sup>th</sup> consecutive quarter. Macau VIP volume and win fell 5% and 4% YoY, respectively in Q3 2016.

# MKT ANALYSIS | VIP VOLUME SHARE

## MACAU | VIP VOLUME MKT SHARE

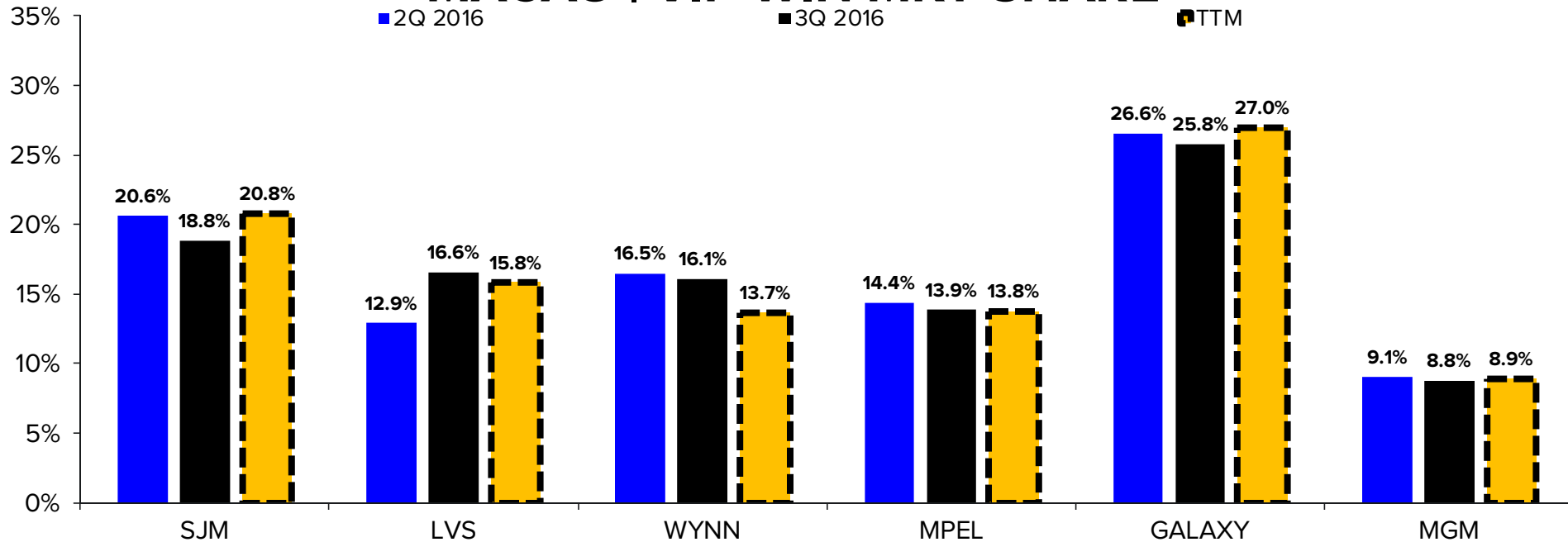


SOURCES: COMPANY FILINGS, HEDGEYE

In terms of VIP volume market share, Wynn Macau (WYNN) gained the most, taking share from LVS and SJM QoQ. Wynn had the best YoY performance at +24% due to the contribution from Wynn Palace.

# MKT ANALYSIS | VIP WIN SHARE

## MACAU | VIP WIN MKT SHARE

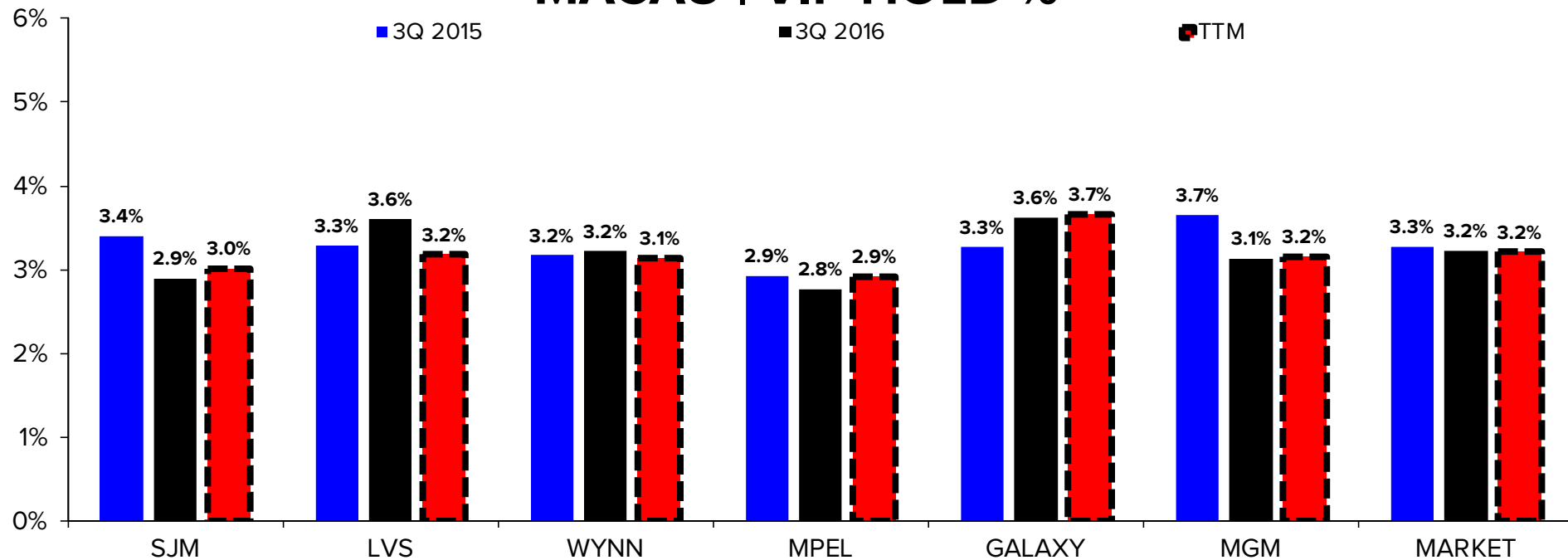


SOURCES: COMPANY FILINGS, HEDGEYE

Due to low hold at Palace, WYNN actually lost VIP revenue share QoQ. LVS gained the most VIP revenue share thanks to a high VIP hold of 3.6%.

# MKT ANALYSIS | VIP HOLD %

## MACAU | VIP HOLD %

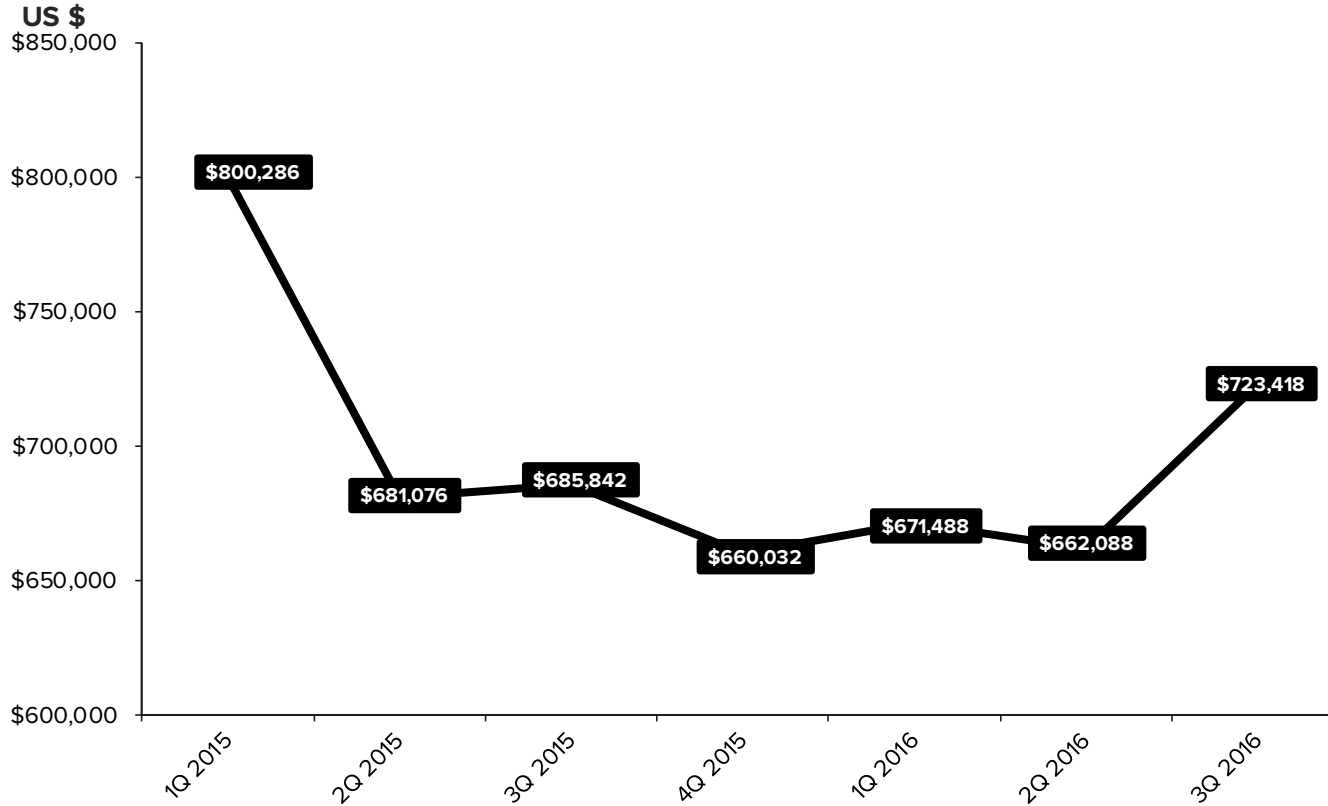


SOURCES: COMPANY FILINGS, HEDGEYE

YoY market shares changed little in Q3. However, on a sequential basis it looks like Galaxy and MGM took share from SJM in Q3. Market shares for WYNN and LVS were little changed despite the opening of Wynn Palace and Parisian during Q3.

# MKT ANALYSIS | VIP TABLE EFFICIENCY

## MACAU | VIP ROLLING CHIP/PER TABLE/PER DAY

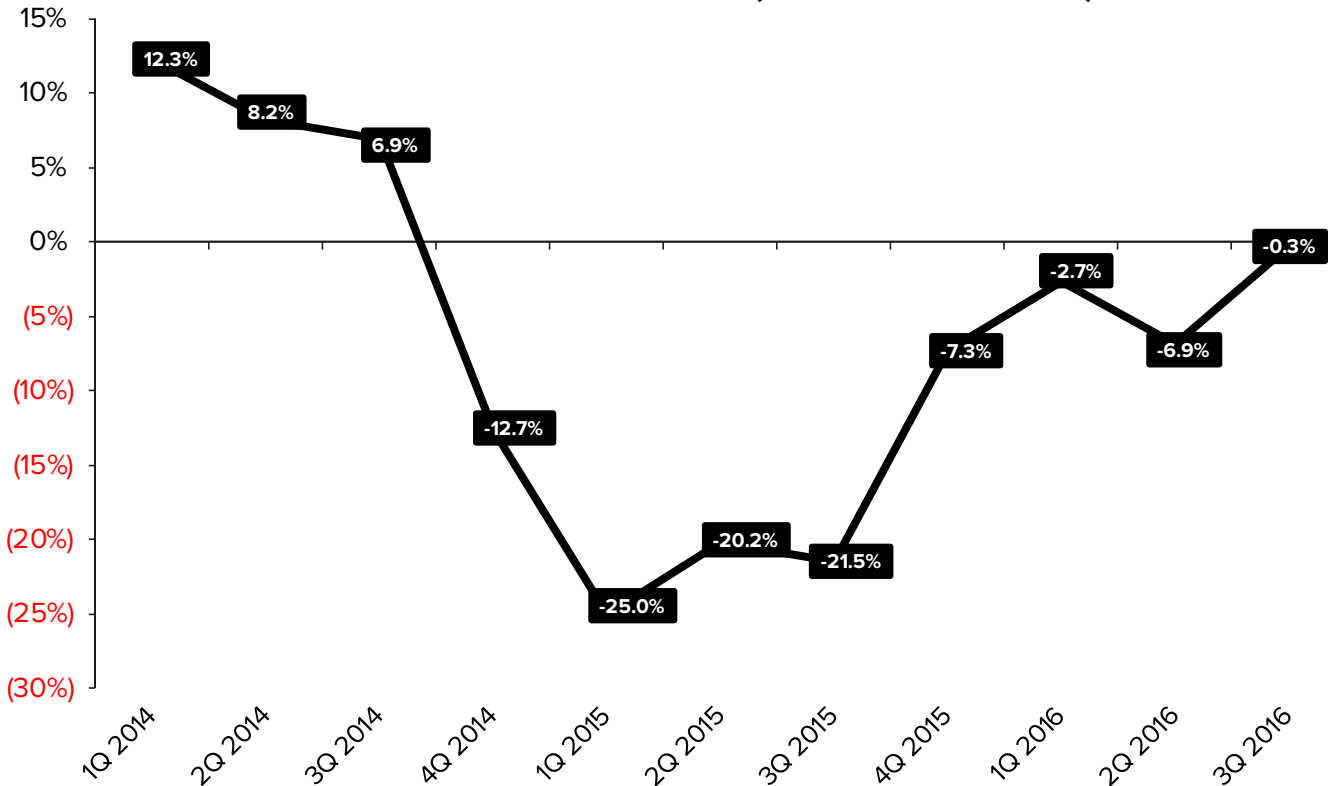


SOURCES: COMPANY FILINGS

In the VIP segment, efficiency improved in Q3, likely helped by the push forward of VIPs gambling in September rather than October to avoid being seen by Premier Li in mid-October.

# MKT ANALYSIS | SLOT WIN

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

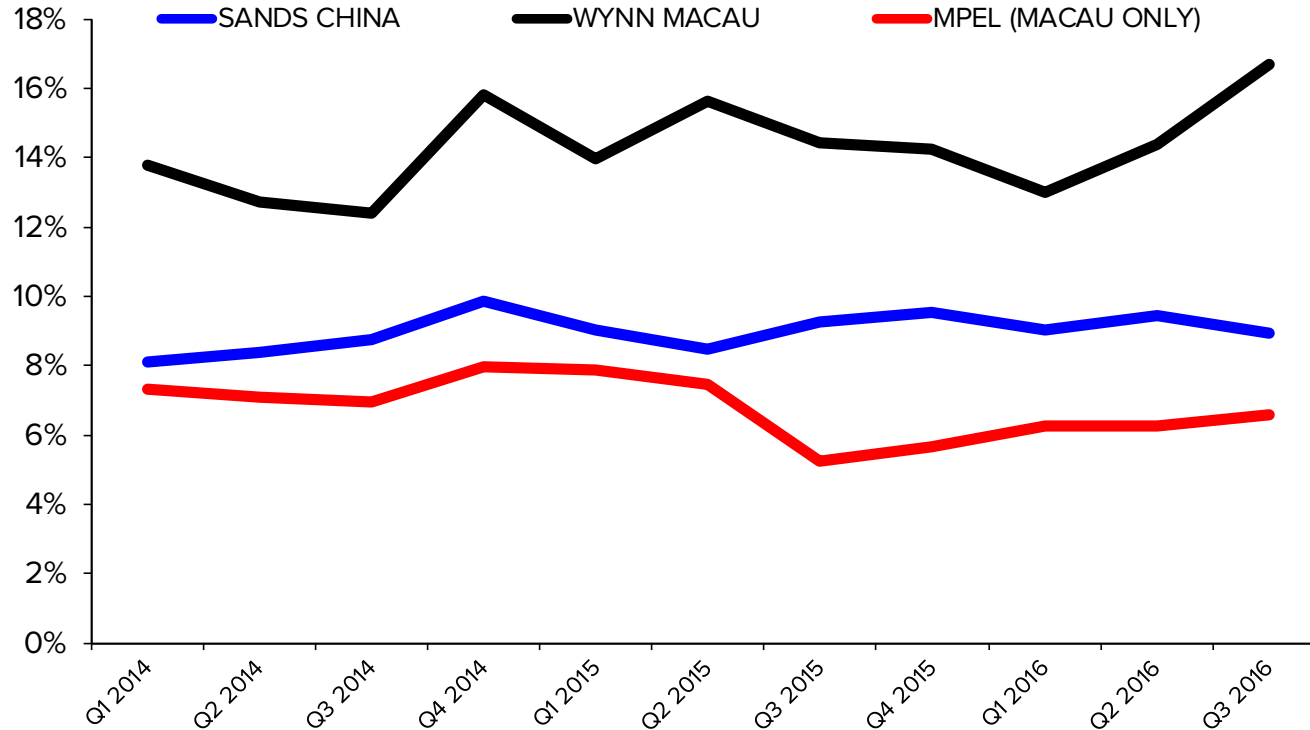


SOURCES: COMPANY FILINGS

Macau slot win was flat in Q3 2016, its best quarterly performance since Q3 2014. In terms of YoY performance, MPEL lead with 16% growth while MGM lagged behind with a 22% YoY decline.

# MKT ANALYSIS | PROMOS

## PROMOTIONAL EXPENSE AS A % OF MASS + SLOT REVENUES



SOURCE: COMPANY FILINGS, HEDGEYE ESTIMATES

Wynn has definitely been the aggressor in mass promos given out in Q3 given the Palace opening. Sands China's promo rate actually fell relative to its mass revenues generated in Q3.

# MKT ANALYSIS | MARGINS

## PROPERTY EBITDA MARGINS

	<u>3Q 2015</u>	<u>4Q 2015</u>	<u>1Q 2016</u>	<u>2Q 2016</u>	<u>3Q 2016</u>	<u>3Q VS 2Q</u>
<b>SANDS CHINA</b>	33.0%	35.3%	31.9%	33.2%	36.7%	3.5%
<b>WYNN MACAU (EX PALACE)</b>	27.8%	28.8%	31.4%	29.8%	29.1%	(0.6%)
<b>MGM CHINA</b>	27.0%	29.3%	27.5%	29.3%	32.9%	3.6%
<b>MPCL (MACAU)</b>	25.3%	22.9%	22.1%	22.2%	24.1%	1.9%
<b>GALAXY</b>	18.8%	20.5%	20.0%	20.6%	22.4%	1.8%
<b>SJM*</b>			7.5%	8.0%	8.0%	0.0%

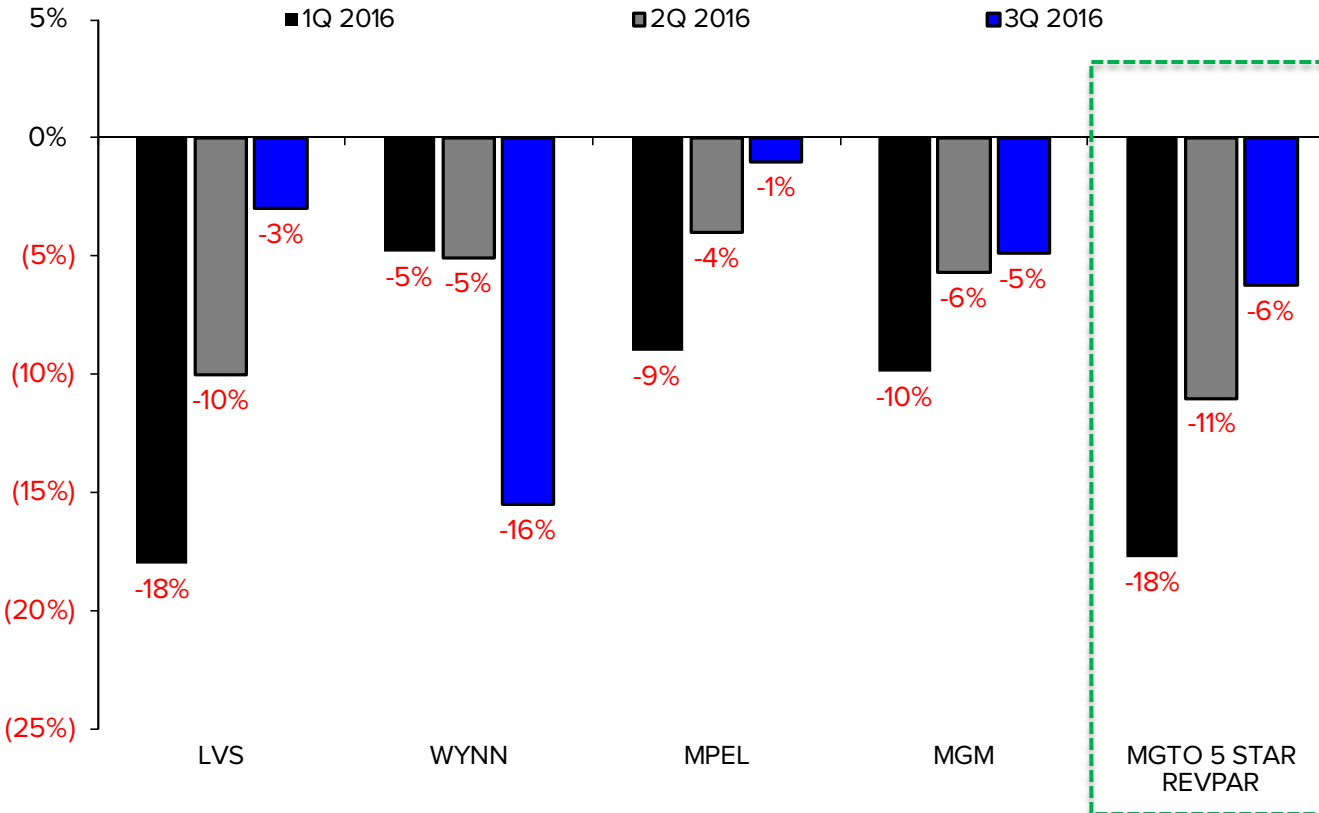
\* ADJUSTED EBITDA

SOURCES: COMPANY FILINGS

Quarter-over-quarter, margins improved for every operator except Wynn Macau. We believe a mix of good cost controls, higher mix of mass tables and high hold contributed to the improvement.

# MKT ANALYSIS | REVPAR BETTER Q/Q

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

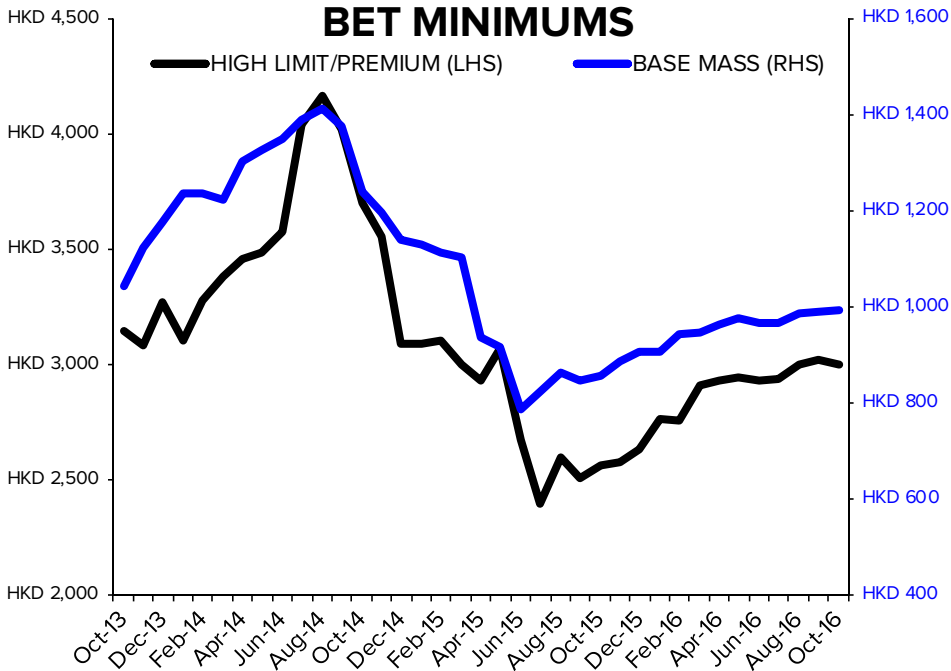


SOURCE: MGTO, COMPANY REPORTS, HEDGEYE

Most operators reported another quarterly improvement in REVPAR. The exception was Wynn Macau. Many operators noted the highly promotional environment in Q3 will continue into Q4.

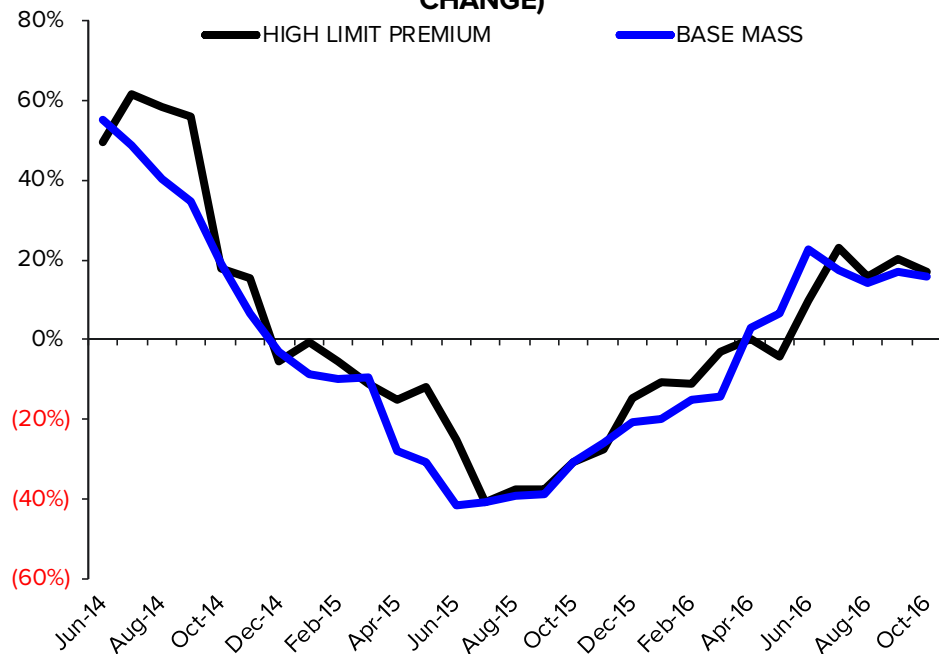
# MKT ANALYSIS | POSTED BETS HIGHER

## MACAU | AVERAGE POSTED TABLE BET MINIMUMS



SOURCE: HEDGEYE

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



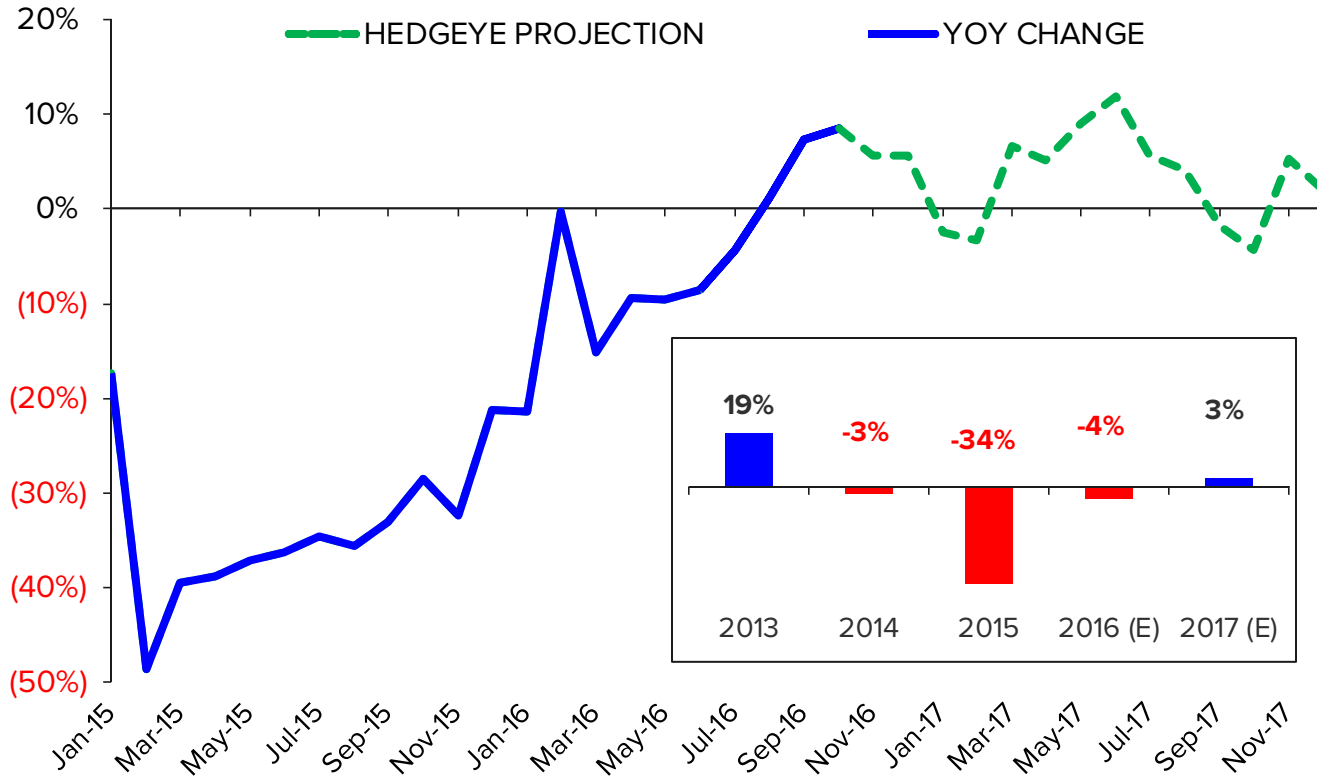
SOURCE: HEDGEYE

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

# **MARKET PROJECTIONS/ESTIMATES**

# REVENUE PROJECTIONS

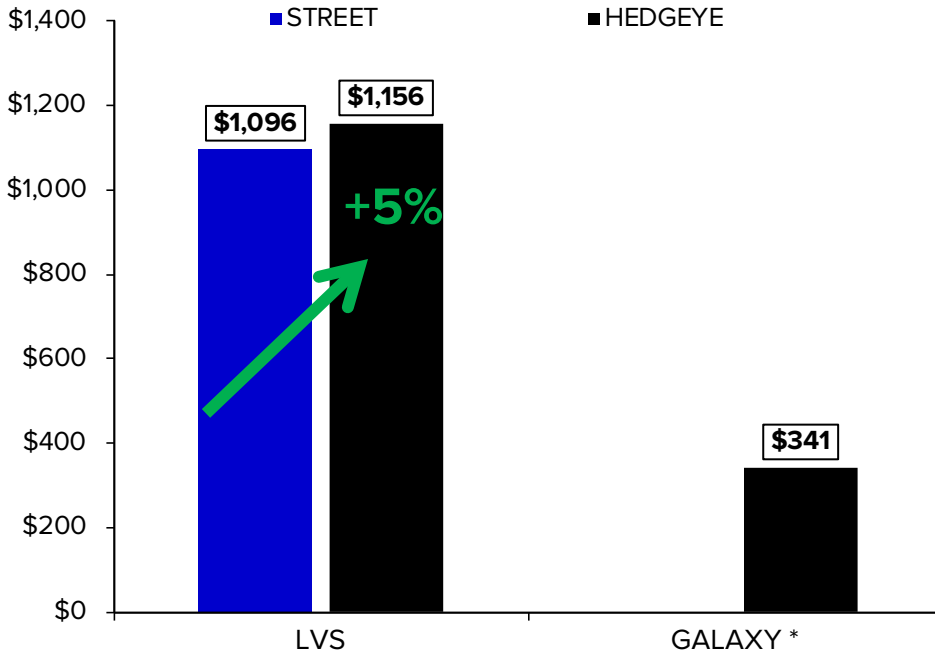
## MACAU GROSS GAMING REVENUES



We're projecting 2016 GGR to fall 4% 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.

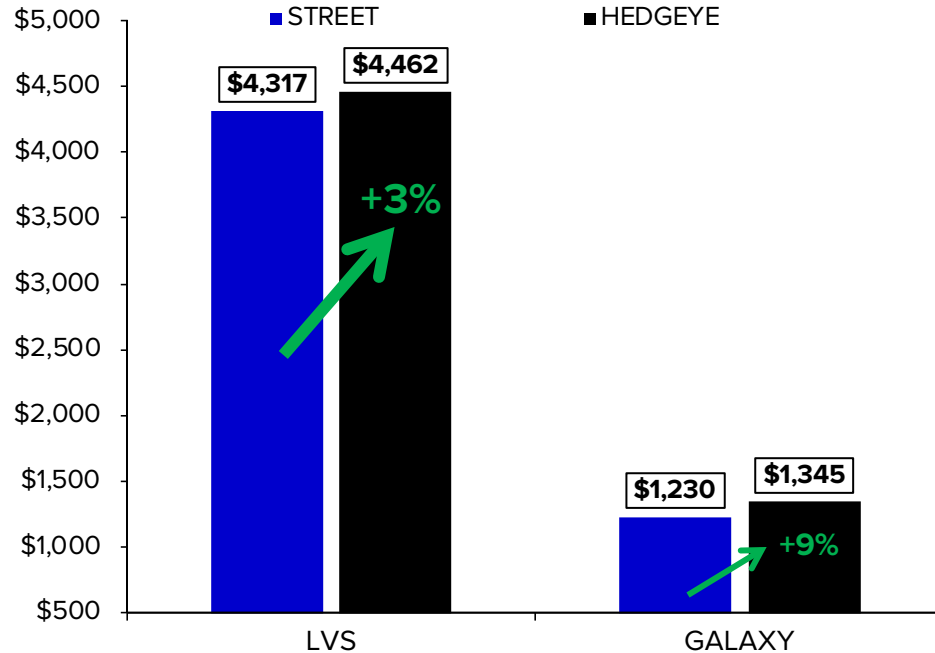
# OUTLOOK | HE VS STREET

## Q4 2016 ADJUSTED EBITDA



\* NOT ENOUGH ESTIMATES FOR GALAXY  
SOURCES: HEDGEYE, FACTSET

## 2017 ADJUSTED EBITDA



SOURCES: HEDGEYE, FACTSET

We remain above the Street for our two favorite names in the space.

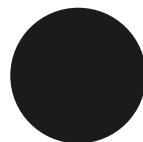
# CONCLUSIONS

# CONCLUSIONS | WHY WE'RE STILL POSITIVE



## **AVG BET GETTING CLOSE TO TURNING POSITIVE**

We've seen strong mass revenue growth with negative win per table and average bet size owing to greater revenue per visitor and overall visitation growth. However, average bet size may cease to be a tailwind as soon as Q4.



## **BASE MASS STILL THE LONG TERM HORSE**

China remains underpenetrated in our opinion and we expect to see visitation growth for years to come. Base mass is the highest margin segment.



## **DRIVERS OF SURPRISINGLY STRONG PREMIUM MASS INTACT TO BOOST 2017**

VIP conversion to the higher margin mass channel seems to be happening. Moreover, previous premium mass players seem to be coming back to the market as the government clampdown on corruption wanes. These factors could drive another surprise in premium mass in 2017.

PLEASE SUBMIT QUESTIONS\* TO

**QA@HEDGEYE.COM**

*\*ANSWERED AT THE END OF THE CALL*