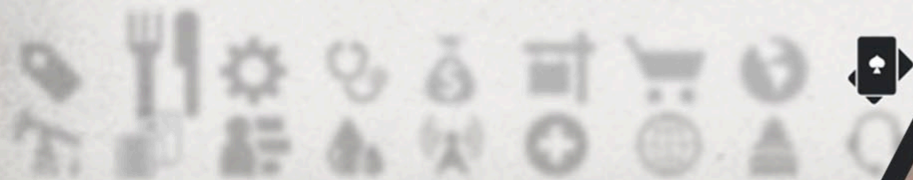


SECTOR SPOTLIGHT

GAMING LODGING
& LEISURE



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HEDGEYE



CASINO STOCKS | MACAU BULL VS. BEAR

FEB 21, 2017

MACAU | BULL VS. BEAR DEBATE

BULL CASE

- Underlying trends continue to improve (visitation, length of stay, occupancy, GGR)
- Supply growth finally slowing
- Long term growth thesis is still very much intact
 - Gaming spend per capita remains very low in China relative to other large gaming hubs
 - Huge population – culturally pro-gaming
- Macau casinos generate a lot of free cash flow

BEAR CASE

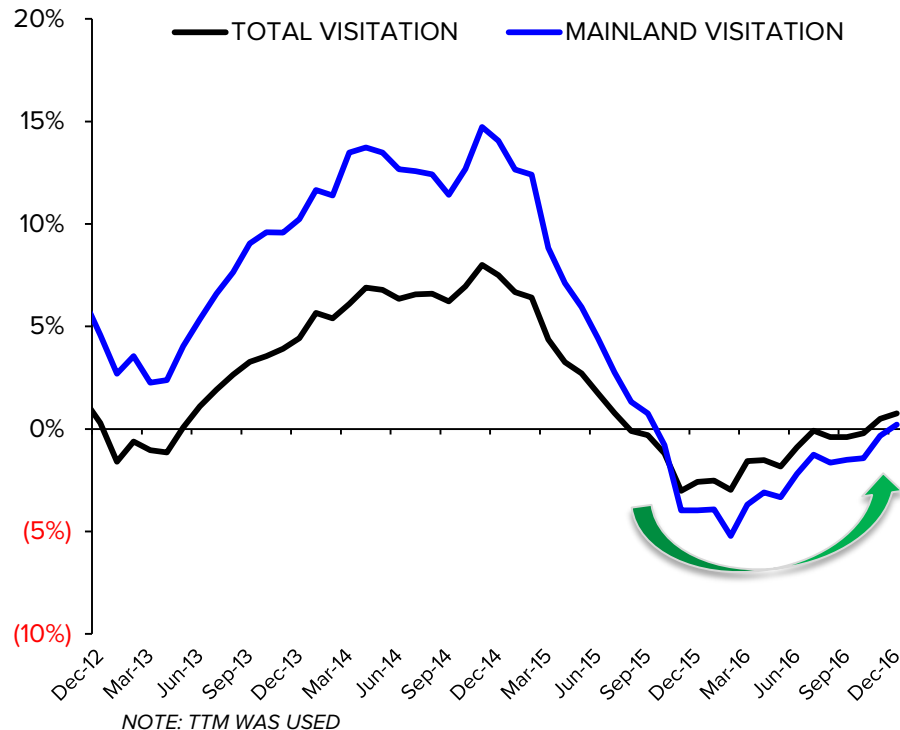
- More risk: China government remains concerned about capital flight – more gov't measures could negatively impact the stocks
- VIP growth may add revenues but junket revenues are low margin but hyper growth could invite more regulatory scrutiny
- High margin mass revenue growth looks like it may decelerate in Q1 versus Q4
- Hedgeye Macro Team more bearish on China economy over the near term
- Valuation at historical averages, which doesn't compensate investors enough for the heightened risk environment



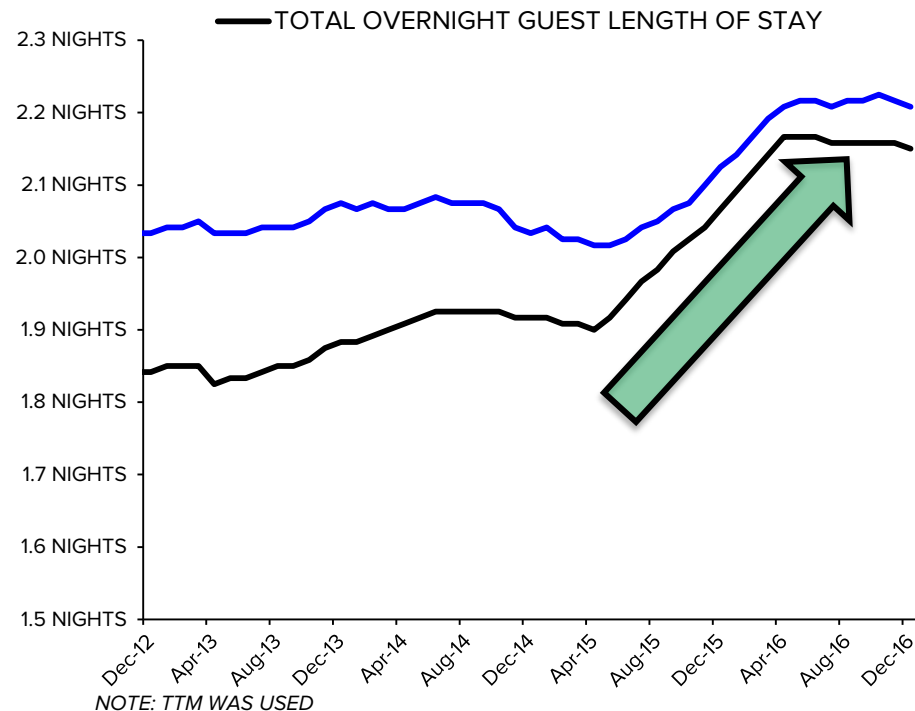
MACAU | BULL CASE

BULL CASE | VISITATION + LENGTH OF STAY

MACAU VISITATION (Y/Y CHANGE)



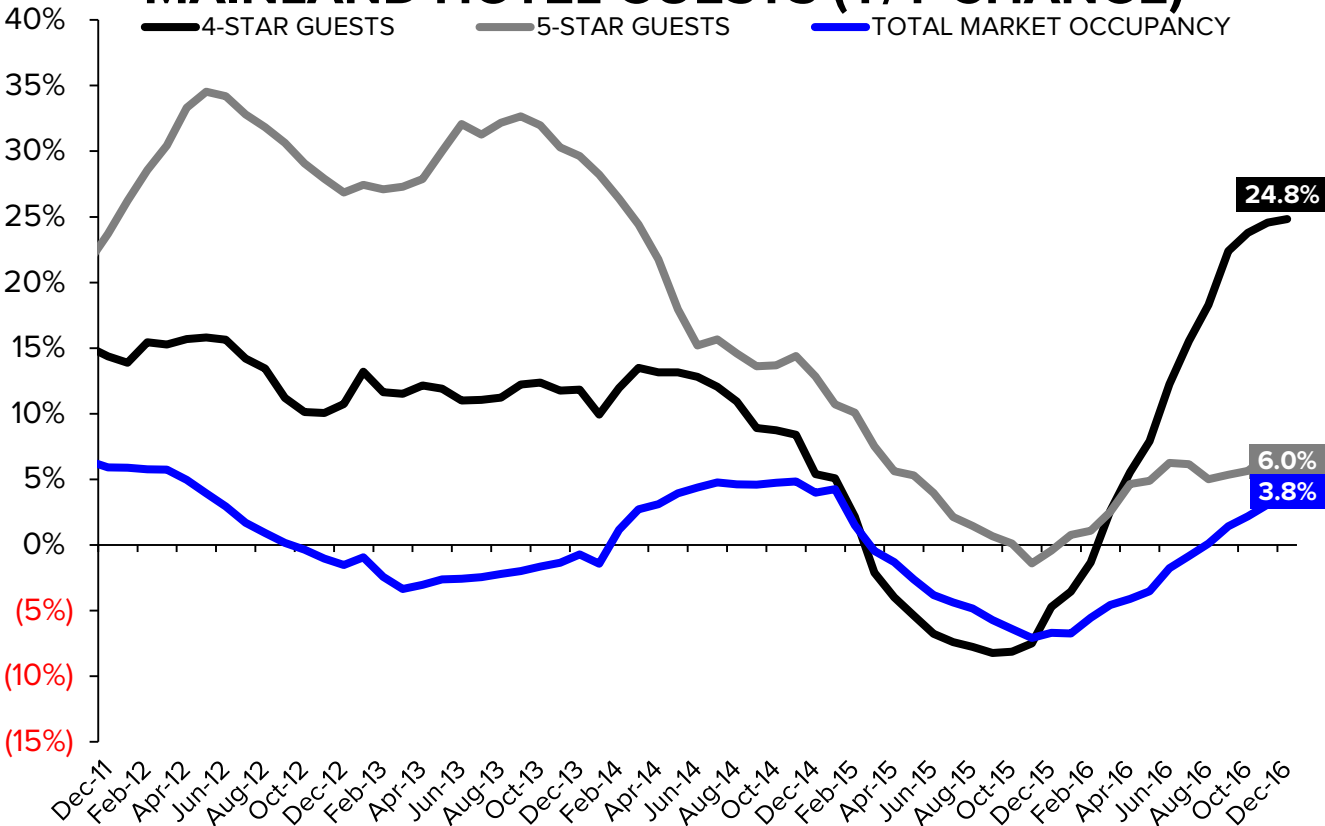
LENGTH OF STAY



Cheaper room rates, driven in part by more hotel supply, has enticed an acceleration in visitation. In turn, Macau guests are now staying longer than they have in the last few years, a net positive for GGR.

BULL CASE | ROOM DEMAND + OCC

MAINLAND HOTEL GUESTS (Y/Y CHANGE)



NOTE: TTM WAS USED

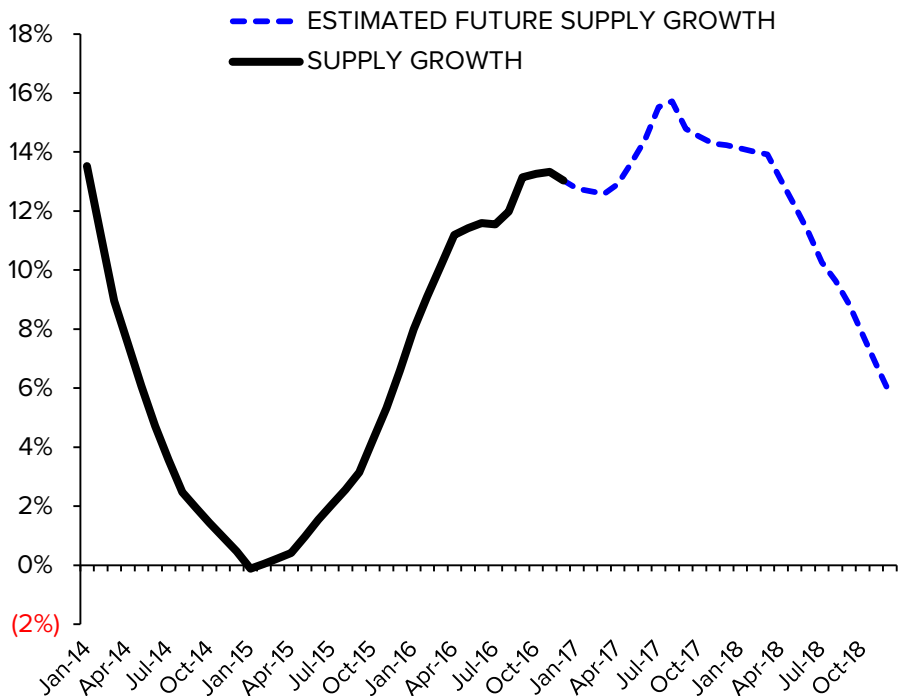
Growth in Mainland visitation is broad based. Both 4 and 5 Star hotels are slowly benefiting from higher volumes of overnight visitors.

Occupancy growth is already positive in the last 6 months, thus, we anticipate the trend will continue to accelerate.

The trade off is in rate, which is still negative, but the net is positive for Macau

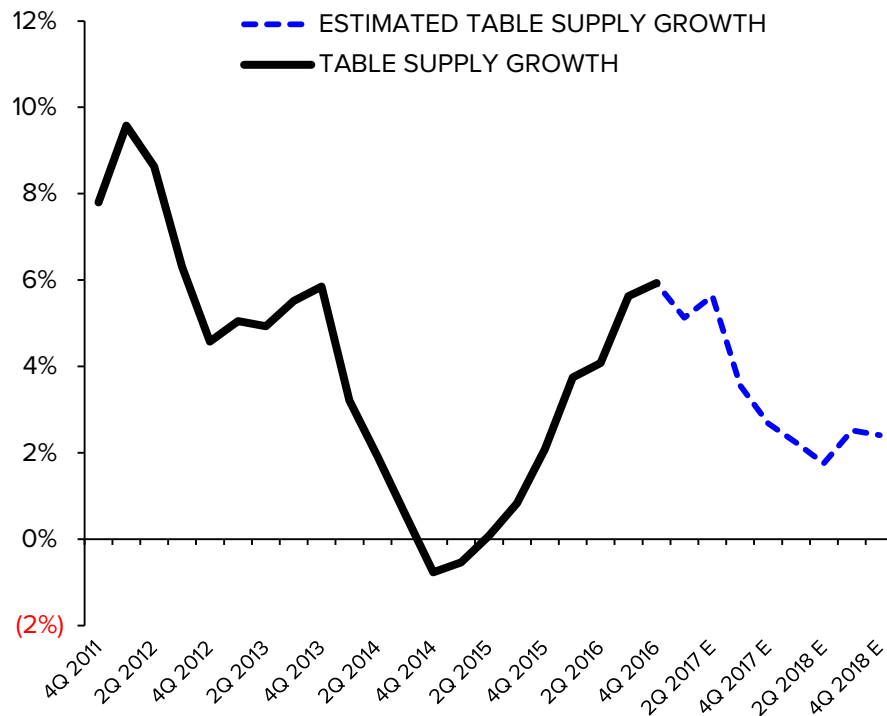
BULL CASE | SLOPE OF NEW SUPPLY

HOTEL ROOM SUPPLY (Y/Y CHANGE)



NOTE: TTM WAS USED

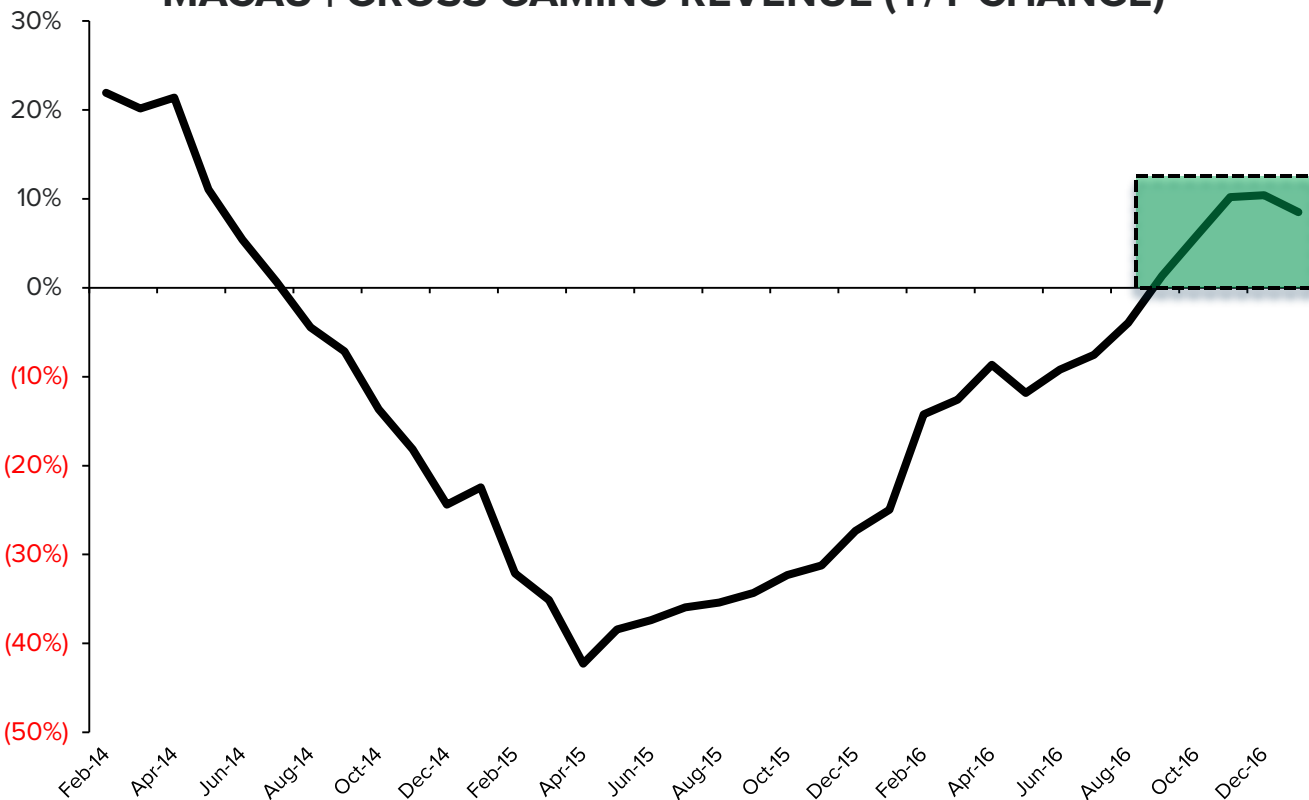
GAMING TABLE SUPPLY (Y/Y CHANGE)



2015 and 2016 experienced a massive acceleration in new room and table supply. Growth should normalize over the next 12-18 months, which bodes well for future same-store revenue and EBITDA growth.

BULL CASE | GGR HAS BEEN EXPANDING

MACAU | GROSS GAMING REVENUE (Y/Y CHANGE)



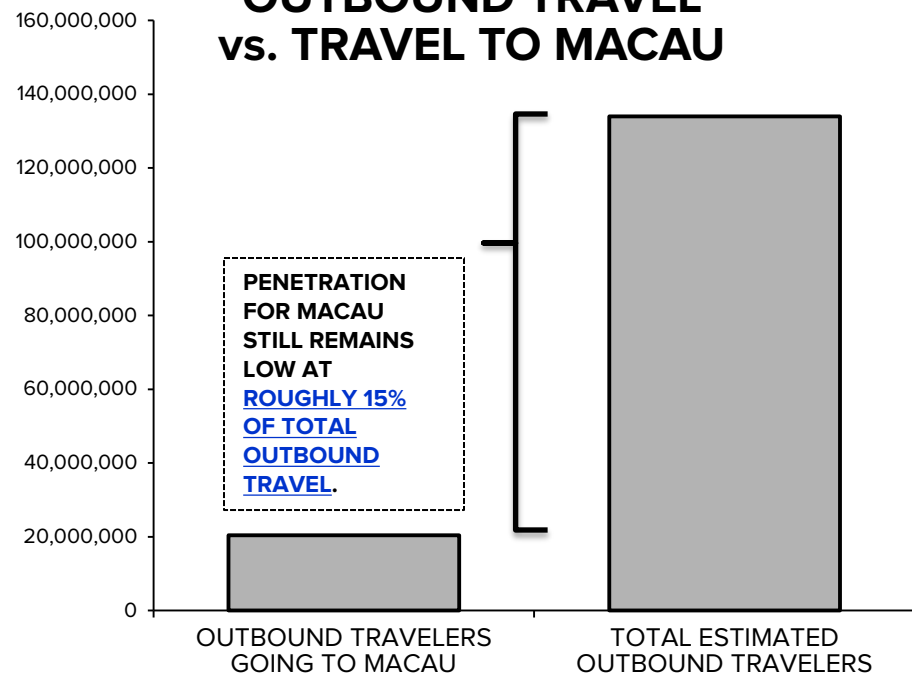
NOTE: TRAILING 3-MTH MOVING AVERAGE

Despite the deceleration in early January due to the shift in the Chinese calendar, GGR growth has been impressive ever since going positive in August 2016.

We are estimating GGR growth of 7% for 2017, which is roughly in line with the Street.

BULL CASE | LONG TERM OPPORTUNITY

2015 MAINLAND CHINESE OUTBOUND TRAVEL vs. TRAVEL TO MACAU



| PROVINCE | POPULATION (MM) | 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% |
| SUBTOTAL (EX. GUANGDONG) | 1,261 | 0.9% |
| TOTAL CHINA | 1,368 | 1.5% |

NOTES:

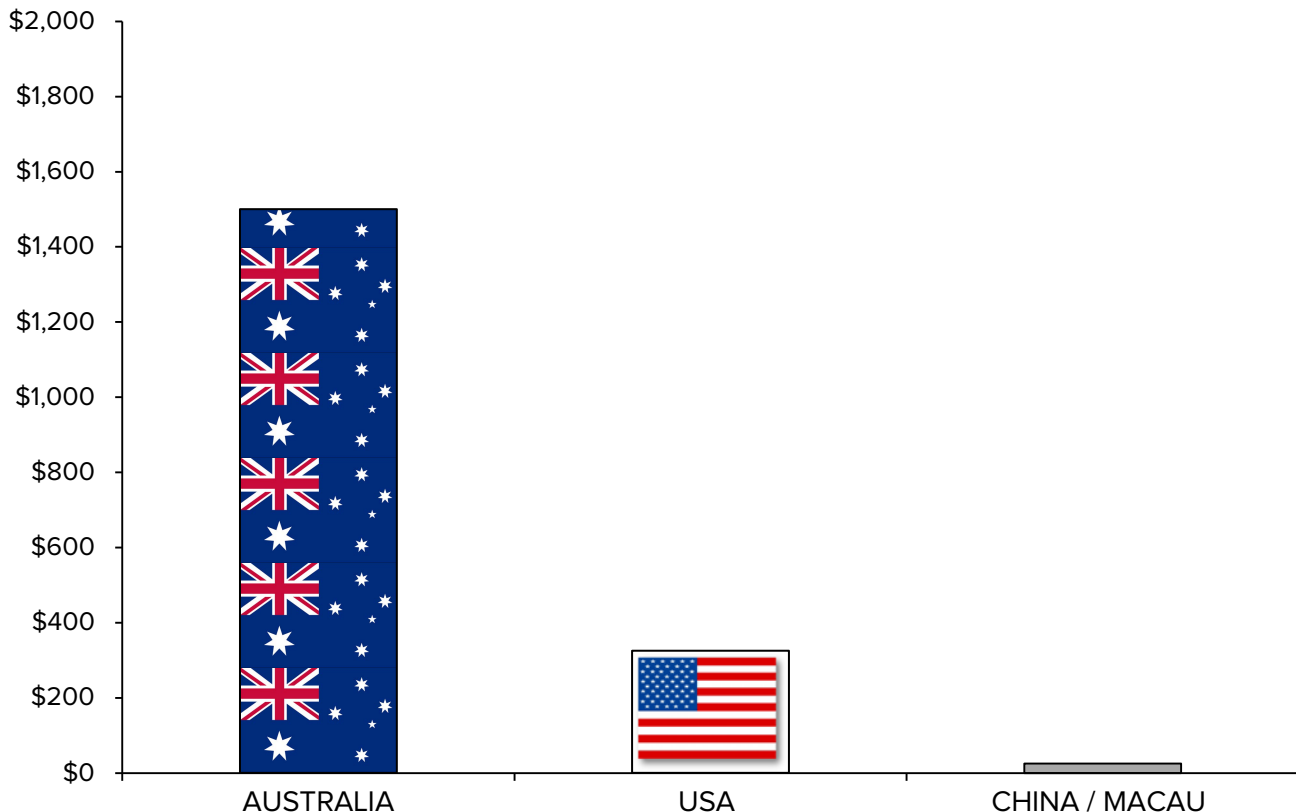
* PENETRATION RATE ASSUMES EACH VISITOR TO MACAU IS A UNIQUE VISITOR

* STUDY LOOKED AT THE 12 MONTHS ENDING IN MARCH 2016

Visitation to Macau represented only 1.5% of the population. Since many visitors made more than one visit, the actual penetration rate is lower.

BULL CASE | LONG TERM OPPORTUNITY CONT.

GROSS GAMING REVENUE / POPULATION



NOTE: STUDIES WERE CONDUCTED BASED OFF 2010 AND 2011 DATA

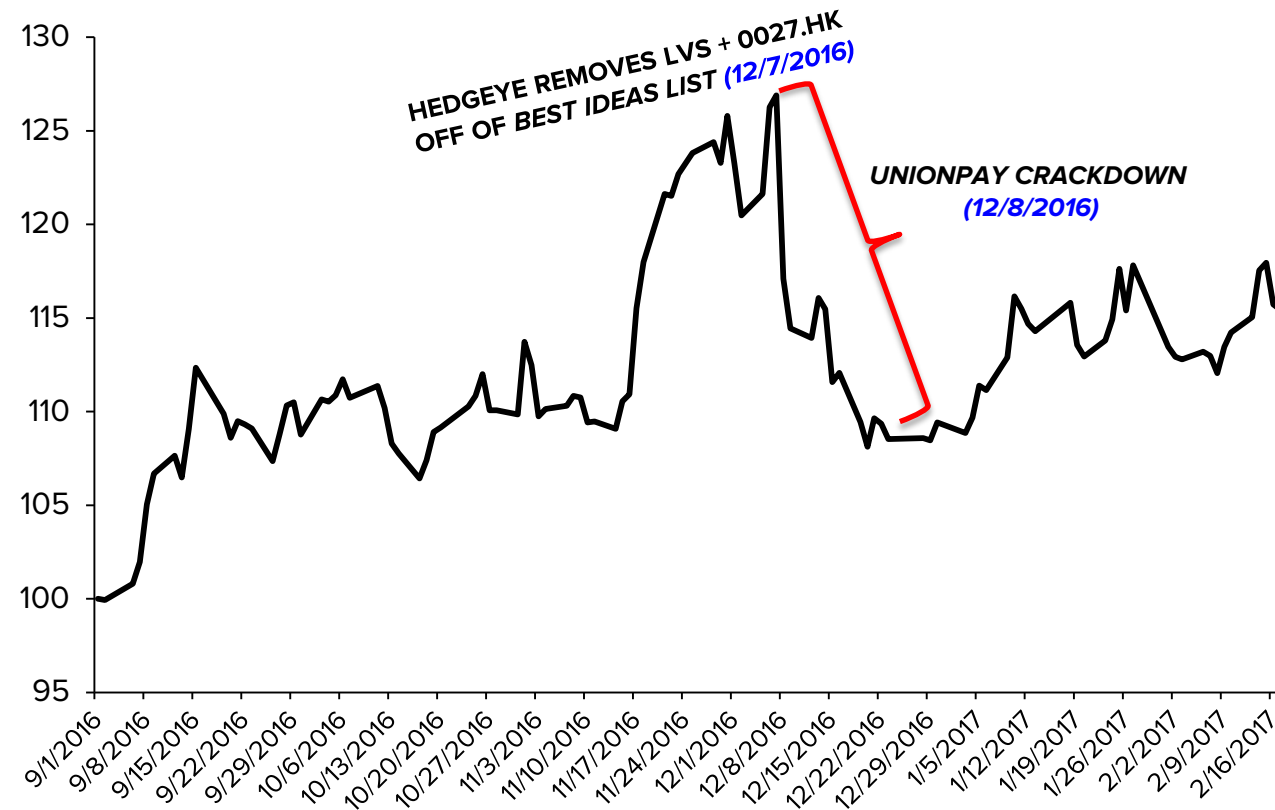
China GGR / Population remains significantly underpenetrated vs. its major gaming market peers.



MACAU | BEAR CASE

BEAR CASE | ELEVATED RISK PROFILE

MACAU EQUAL WEIGHT STOCK INDEX



INDEX COMPONENTS: LVS, 0027.HK, 0880.HK, MPEL, WYNN

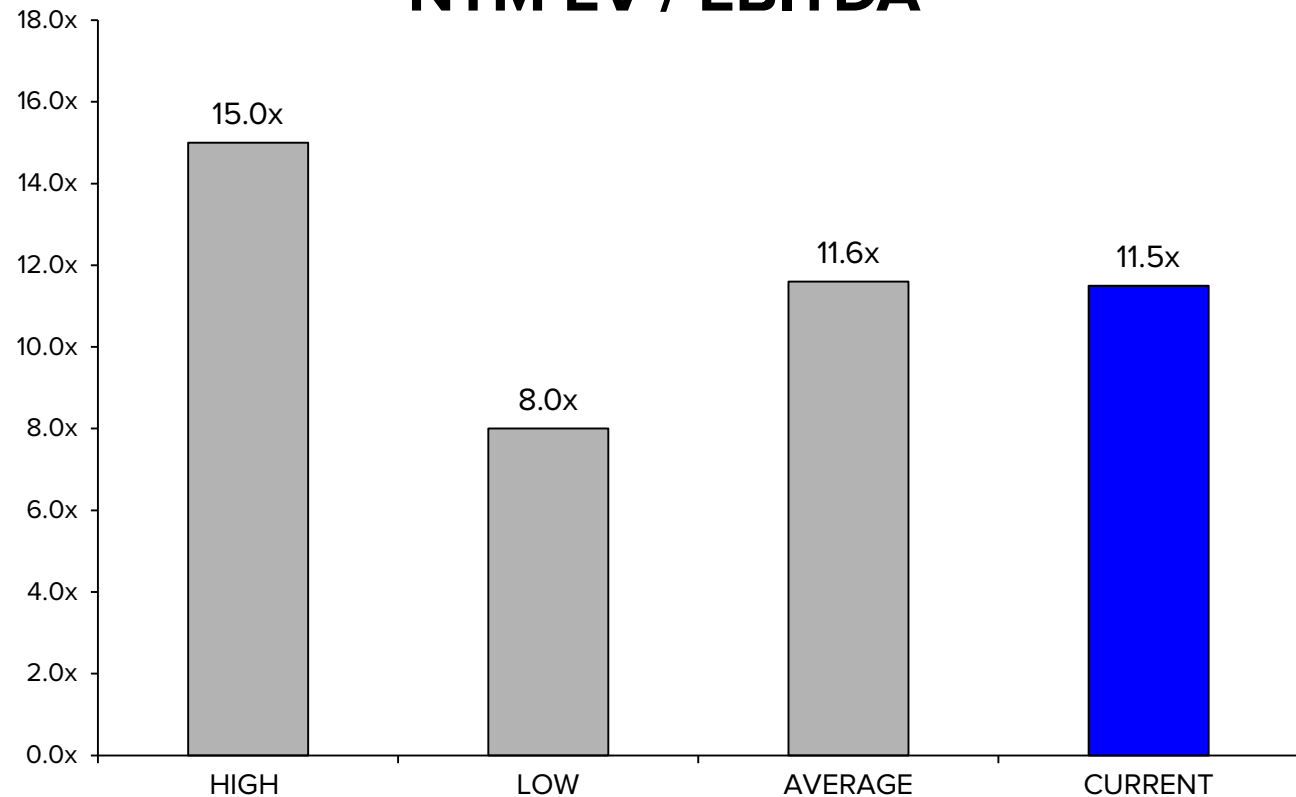
The major issue keeping us on the sidelines despite stronger fundamentals is the heightened risk environment. The China government remains concerned with capital flight and further measures to contain such outflows could materially adversely impact Macau.

An example was on 12/8/16 when the China government set a transactional ATM (UnionPay) withdrawal limit. The impact to GGR was immaterial but the stocks were hit.

The other area of regulatory risk is in the VIP segment (mostly junket) which is a less opaque business. In fact, 2 days before the UnionPay announcement, Hedgeye removed LVS and Galaxy from the Best Ideas list due to elevated valuations and heightened VIP risk.

BEAR CASE | VALUATION ABOVE HISTORICAL RANGE

NTM EV / EBITDA



SAMPLE COMPONENTS: LVS, MPEL, WYNN
HISTORICAL DATA BASED OFF TRAILING 5 YEARS

Stocks are cheaper, but not cheap enough to fully compensate for the heightened risk environment.

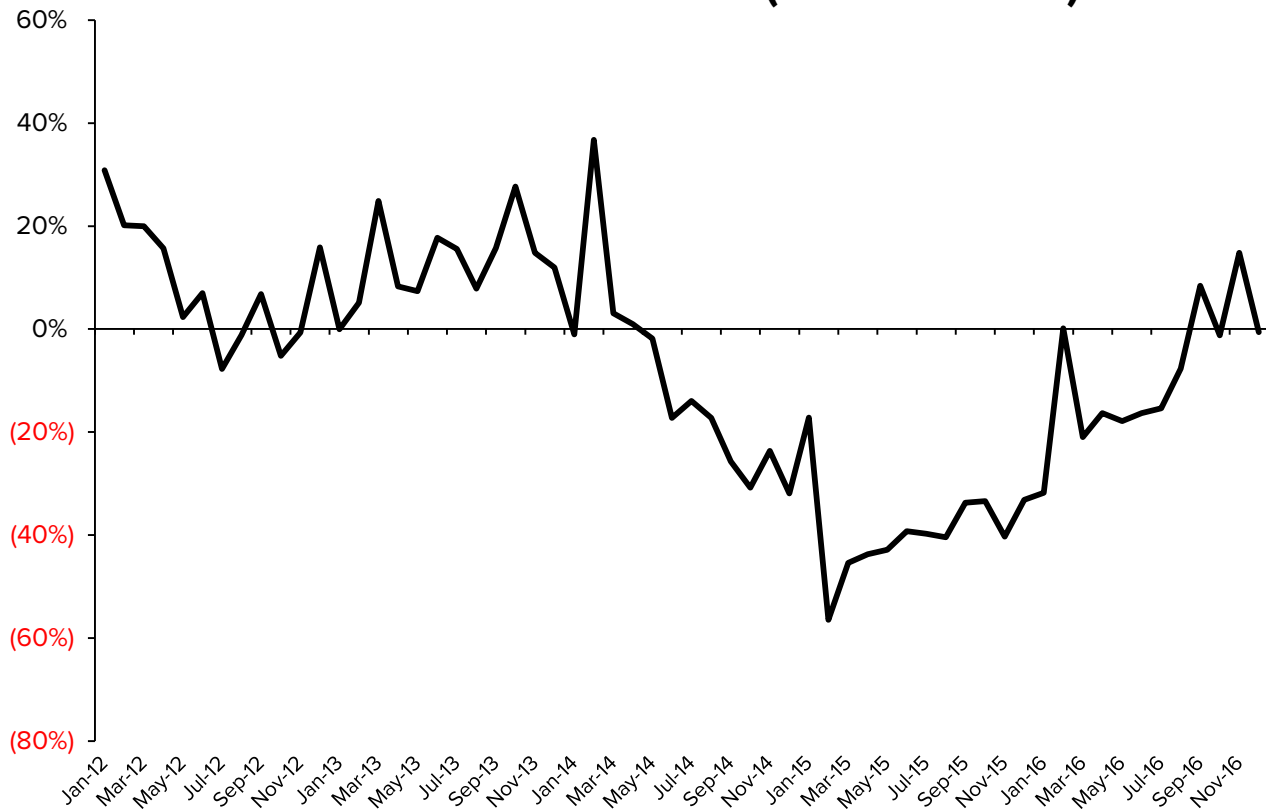
BEAR CASE | CHINA MACRO ENVIRONMENT IS SLOWING

HEDGEYE MACRO TEAM HAS BECOME INCREMENTALLY MORE BEARISH ON THE NTM OUTLOOK FOR CHINA. OUR TEAM SEES THE FOLLOWING:

- Home price appreciation should slow in 2017, as it comps against a massive acceleration in from 2015-2016
- CNY devaluation headline risk remains so long as the USD continues to appreciate, which we think will happen
- The PBoC has stalled open market operations on the margin, in an effort to curtail capital outflow pressures, meaning less liquidity in the system
- Tighter money = slower growth. 3-MTH SHIBOR Fixing has exploded higher, and is at 52-wk highs
- Deposit and Credit growth have slowed, causing overall growth to stall out

BEAR CASE | CHINA MACRO WOES HAS IMPLICATIONS...

MACAU | VIP REVENUES (Y/Y CHANGE)



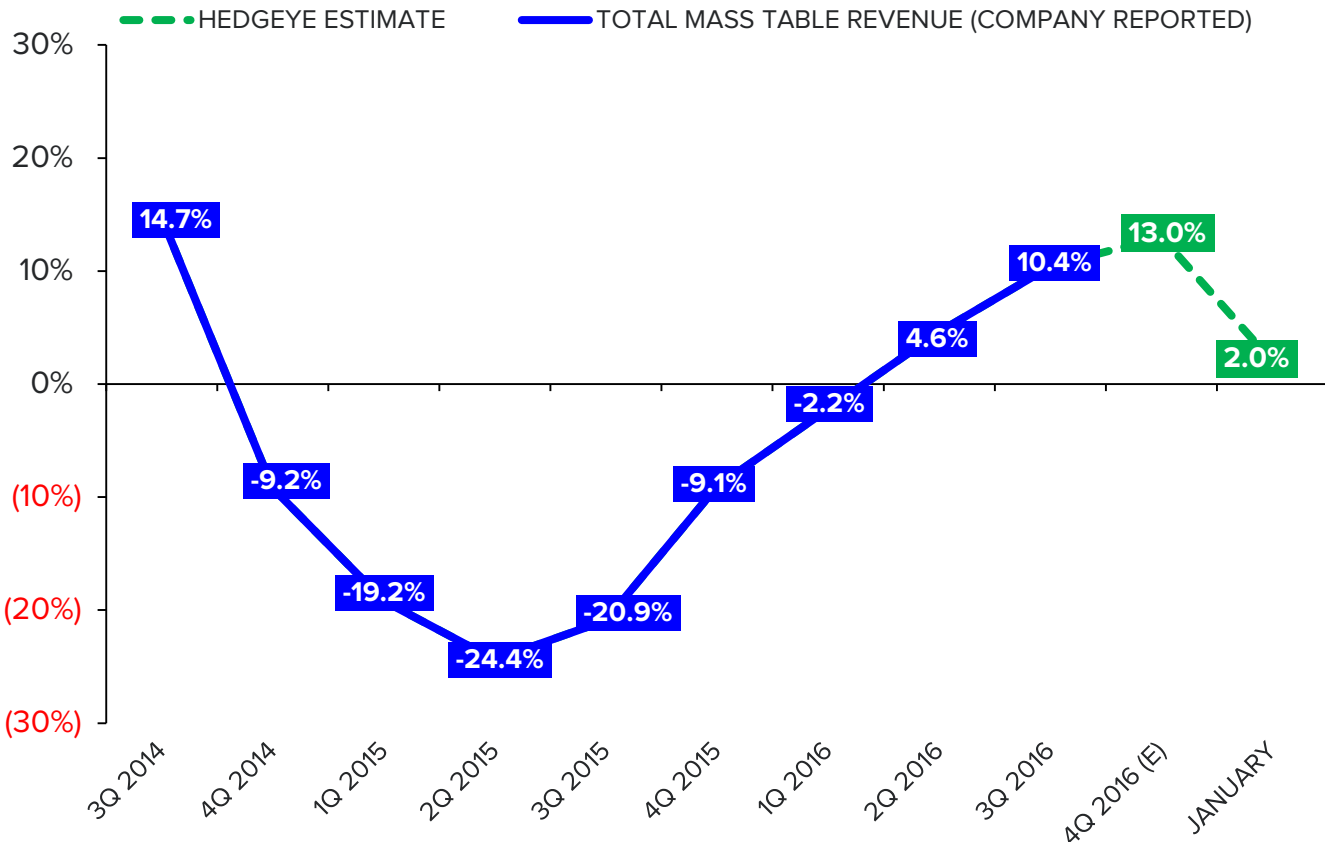
VIP growth has been strong following a 2 year, precipitous slide.

Unfortunately, last year's central bank easing in China may have been a major driver.

We've historically found that similar easing has had a big positive impact on the VIP segment. With recent tightening, we think the VIP segment turnaround may be short lived.

BEAR CASE | MASS GROWTH DECELERATING IN NEAR TERM

MACAU | HEDGEYE MASS TRACKER (Y/Y CHANGE)



Based on our proprietary datasets and regression model, 1Q 2017 could show a deceleration in high margin mass revenues. The mass inflection was the key driver in our positive Macau thesis for most of 2016/

We do expect February GGR and, more importantly, mass revenue growth to accelerate from January due to the CNY calendar shift but the quarterly deceleration potential remains a concern.

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