

MACAU | THE SOUND BEYOND THE NOISE

SECTOR SPOTLIGHT

DISCLAIMER

DISCLAIMER

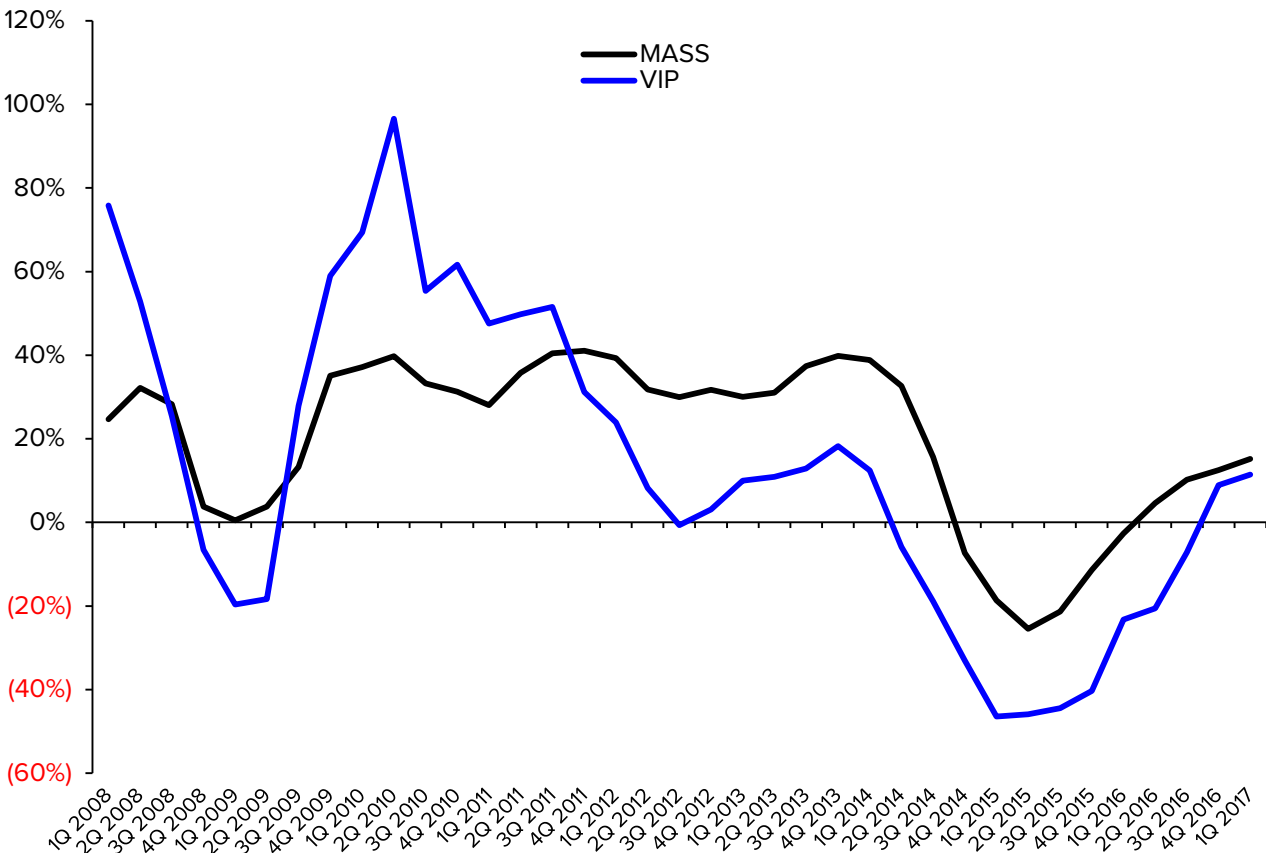
Hedgeye Risk Management is a registered investment advisor, registered with the State of Connecticut. Hedgeye Risk Management is not a broker dealer and does not provide investment advice for individuals. This research does not constitute an offer to sell, or a solicitation of an offer to buy any security. This research is presented without regard to individual investment preferences or risk parameters; it is general information and does not constitute specific investment advice. This presentation is based on information from sources believed to be reliable. Hedgeye Risk Management is not responsible for errors, inaccuracies or omissions of information. The opinions and conclusions contained in this report are those of Hedgeye Risk Management, and are intended solely for the use of Hedgeye Risk Management's clients and subscribers. In reaching these opinions and conclusions, Hedgeye Risk Management and its employees have relied upon research conducted by Hedgeye Risk Management's employees, which is based upon sources considered credible and reliable within the industry. Hedgeye Risk Management is not responsible for the validity or authenticity of the information upon which it has relied.

TERMS OF USE

This report is intended solely for the use of its recipient. Redistribution or republication of this report and its contents are prohibited. For more details please refer to the appropriate sections of the Hedgeye Services Agreement and the Terms of Use at www.hedgeye.com

MACAU | MASS VS. VIP

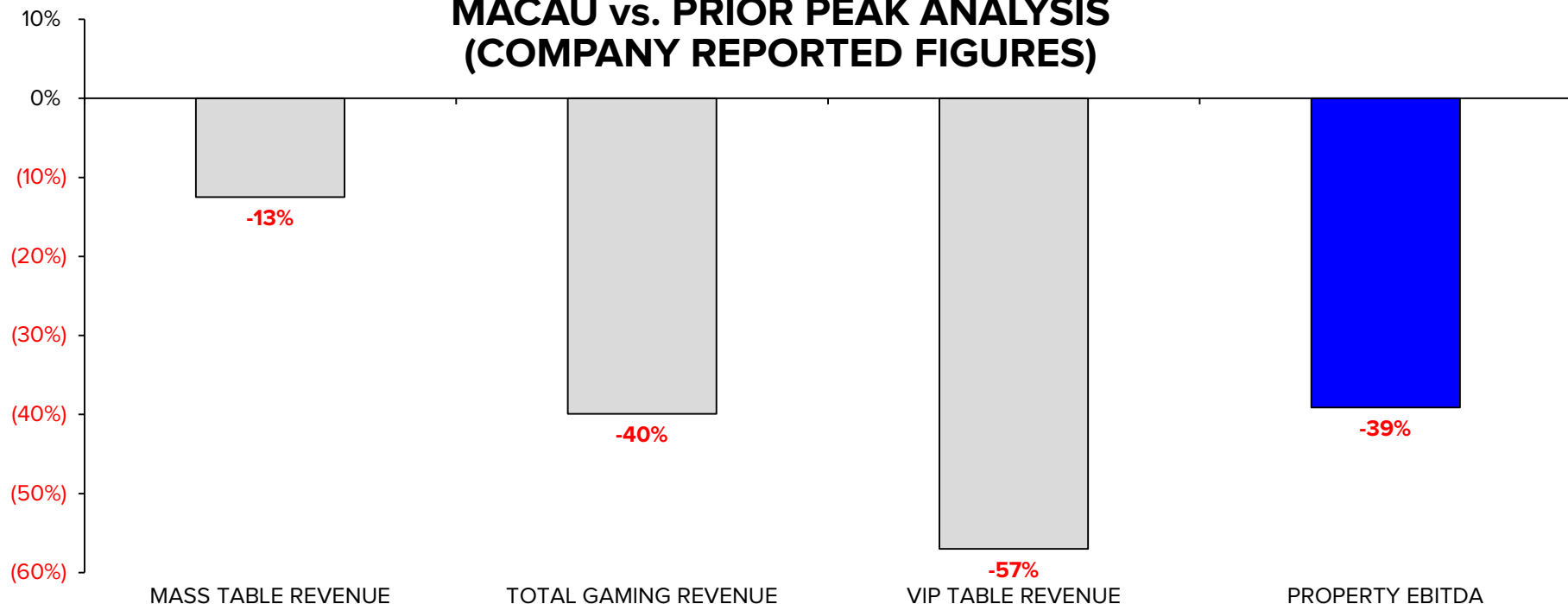
MACAU | TABLE REVENUE BY SEGMENT



- **VIP Table Revenues** (Rolling Chip) - revenues generated from the Casino's private gaming rooms reserved for "high rollers." There are two types of VIP gaming. Direct VIP = high roller that do not use an intermediary and will play with cash or take out a credit line directly with the casino. Junket = high roller that uses an intermediary (Junket) that will organize their trip and provide a line of credit to the player (if wanted/needed).
- **Mass Table Revenues** (Non-Rolling) - revenues that are generated from the Casino's main gaming floor table operations. Base mass = lower minimum bet tables. Premium = higher minimum bet tables

PENETRATION | PEAK ANALYSIS

MACAU vs. PRIOR PEAK ANALYSIS (COMPANY REPORTED FIGURES)

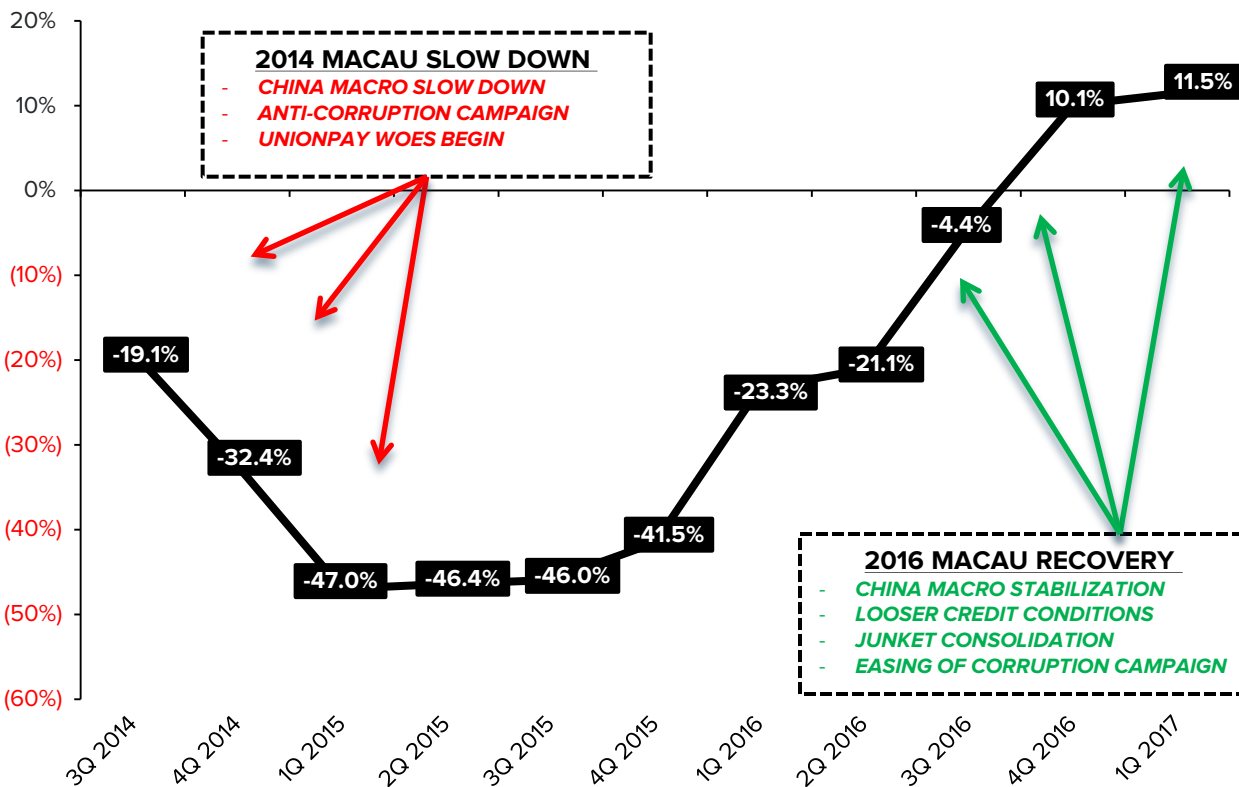


RECENT GROWTH WAS NICE BUT STILL WELL BELOW PEAK METRICS

Before we even get into how underpenetrated Macau is by the population of China, Macau has a long way to go just to get back to peak metrics.

CURRENT | VIP'S IMPRESSIVE COMEBACK

VIP TABLE REVENUES (Y/Y CHANGE)



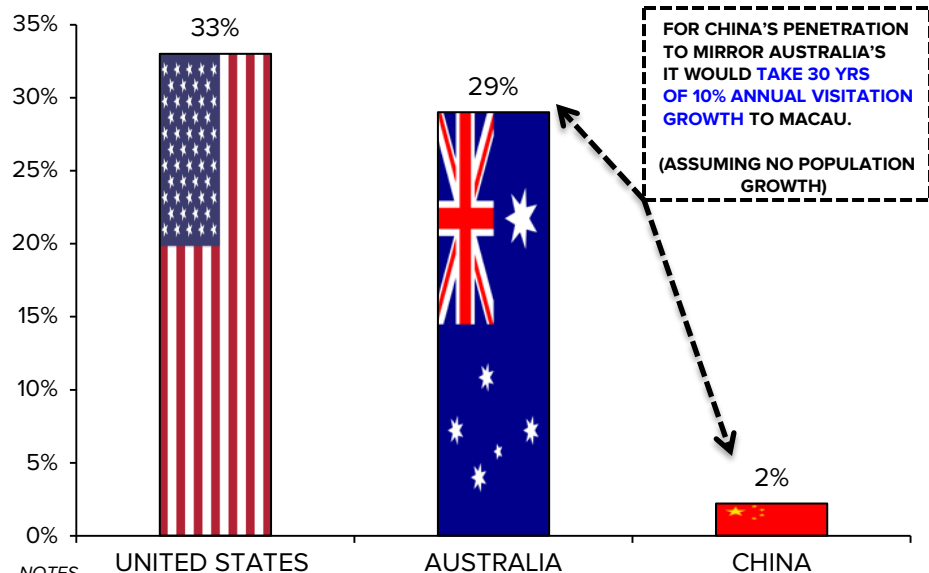
Helped by very easy comps stemming from the aggressive anti-corruption crackdown in 2014-2016, VIP is growing again but remains well below peak.

Credit conditions and liquidity are getting better and several operators have reported a reversal in their bad debt provisions.

We do worry somewhat about the late 2017 impact of the early 2017 tightening by the China central bank, but this relationship has decoupled somewhat in recent years.

PENETRATION | MATURE MARKET COMPARISON

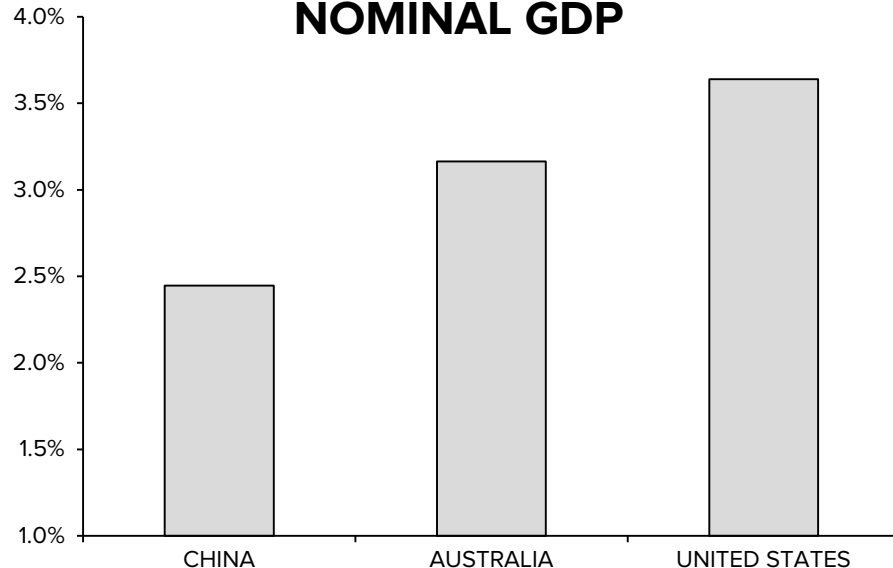
CASINO GAMING PENETRATION *



NOTES

- (1) CHINA ESTIMATE IS BASED OFF THE MOST RECENT VISITATION STATISTICS AS A % OF ADULT POPULATION
- (2) UNITED STATES ESTIMATE IS BASED OFF AN A.G.A. STUDY CONDUCTED IN 2014
- (3) USING A SIMILAR METHODOLOGY AS THE CHINA PENETRATION STUDY, THE US WOULD BE FULLY PENETRATED
- (4) AUSTRALIA PENETRATION IS ESTIMATED via A COMPILATION OF 4 STATE LEVEL SURVEYS FROM 2012-2014

ESTIMATED GGR AS A % OF NOMINAL GDP



NOTES

- (1) 2015 NOMINAL GDP AND 2015 GGR WAS USED DUE TO A LACK OF UPDATED DATA FROM AUSTRALIA

NOT EVEN CLOSE TO MATURE MARKET LEVELS OF PENETRATION OF USA AND AUSTRALIA

Even on the more conservative GDP penetration methodology (right chart), China appears way underpenetrated. But even this understates the potential because China's economy is growing so much faster. In terms of penetration of the adult population, it would take Macau 10 years of 10% CAGR growth to reach Australia's levels.

INFRASTRUCTURE | BOON FOR MACAU

WHERE TO FROM HERE ?

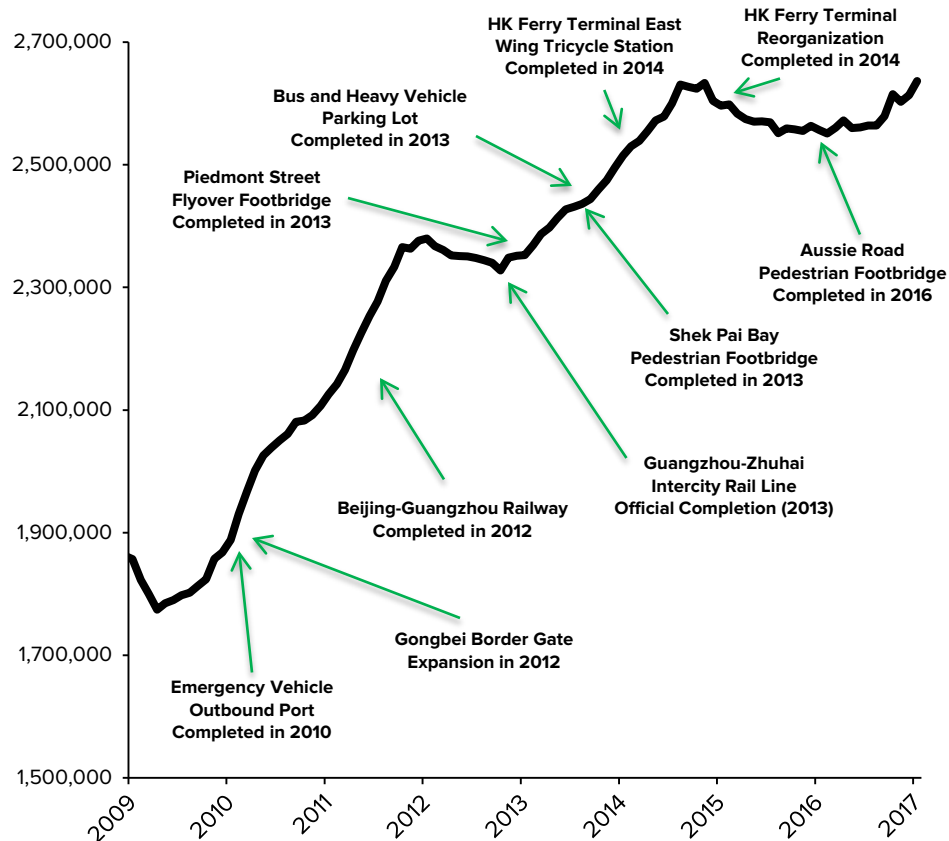
Macau Specific Projects

- ❑ **Macau – HK – Zhuhai Bridge - 2018**
 - ❑ *Department of Building and Real Estate of the Hong Kong Polytechnic University claimed that by 2020 the HKZMB is expected to be accountable for the transportation of 38-54 million passengers per annum with a flow of 43,000 to 59,000 vehicles per day.*
- ❑ **Airport Expansion - TBD on timing**
 - ❑ *Opening of the Passenger Terminal Building – North Extension this year. The extension will constitute a four-story building with a floor area of 14,000 square meters, enabling the airport to handle an annual passenger volume of around 7.5 to 7.8 million vs. the current run rate of 6.6 million.*
- ❑ **Macau Light Rail - 2019**
 - ❑ *Expected to operate 19 hours a day, with a total capacity of up to 15,600 passengers per hour, accommodating almost 300,000 passengers daily.*

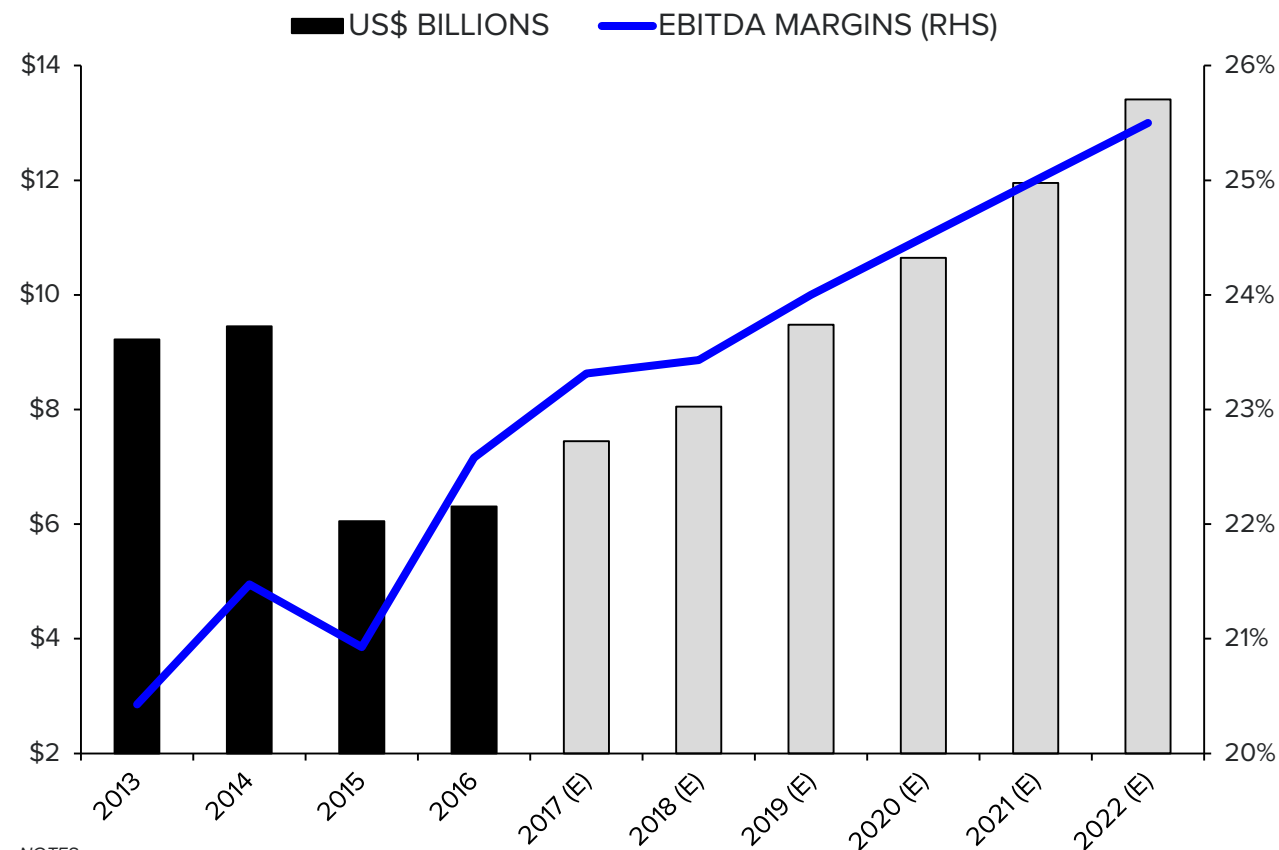
China / Regional Infrastructure Projects

- ❑ **China Five Year Plan calls for \$2T in infrastructure spend**
 - ❑ *The China State Council has plans to spend \$500B on railways, \$1.1T on roads, \$94B on Civil Aviation, and \$70B on water transportation.*
- ❑ **Hong Kong High Speed Rail Link**
 - ❑ *Scheduled to be completed in 3Q 2018*
 - ❑ *Railway will link to Guangzhou and Shenzhen*
- ❑ **Pearl River City Delta Mega City**
 - ❑ *China plans to spend \$300-\$500B in the merging of nine cities in the Pearl River Delta region. This is a massive attempt to urbanize the population and modernize the surrounding infrastructure.*

MACAU MONTHLY VISITATION (TTM)



PROJECTIONS | ANNUAL EBITDA FORECASTS 2017-2022



We expect EBITDA margins to continue to improve, particularly driven by strong mass growth, which is bolstered by the completion of important infrastructure projects.

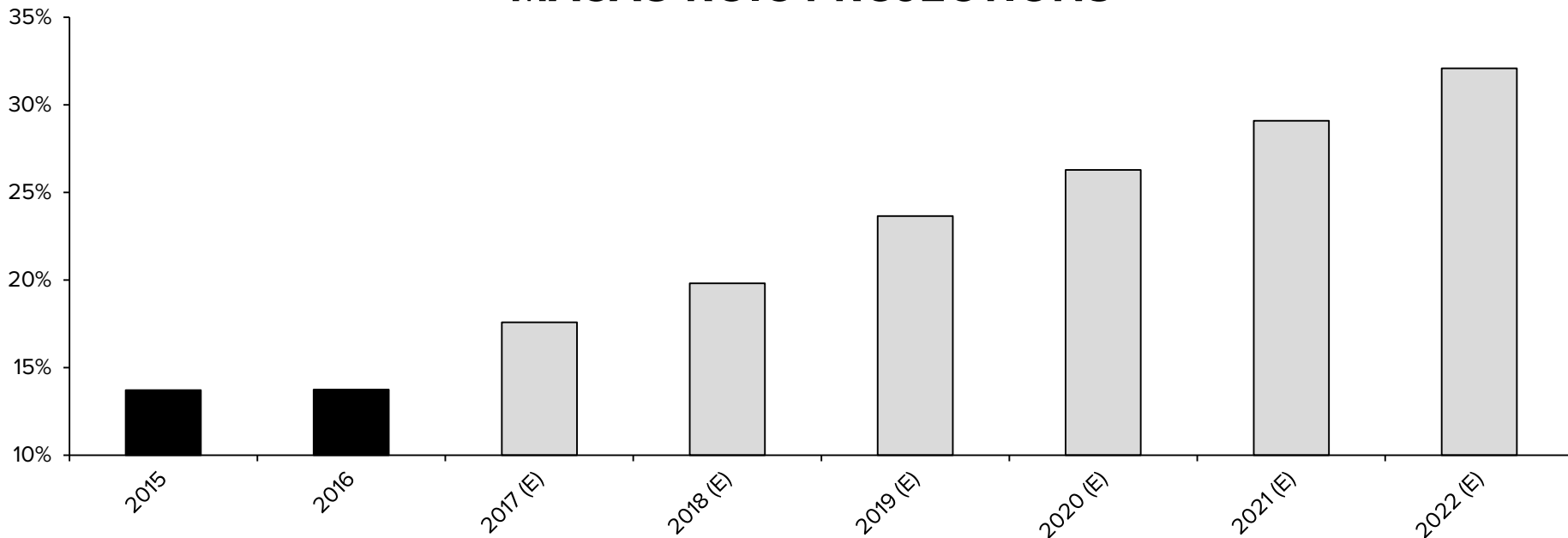
A 10% gain in GGR equates to ~15% increase in EBITDA assuming gaming mix of 55% mass, 39% VIP and 6% slot.

NOTES

(1) ROIC CALCULATION IS FOR ALL 6 CONCESSIONAIRES: SANDS CHINA, WYNN MACAU, SANDS CHINA, MELCO, GALAXY, AND SJM

PROJECTIONS | ROIC – LIFT OFF

MACAU ROIC PROJECTIONS



NOTES

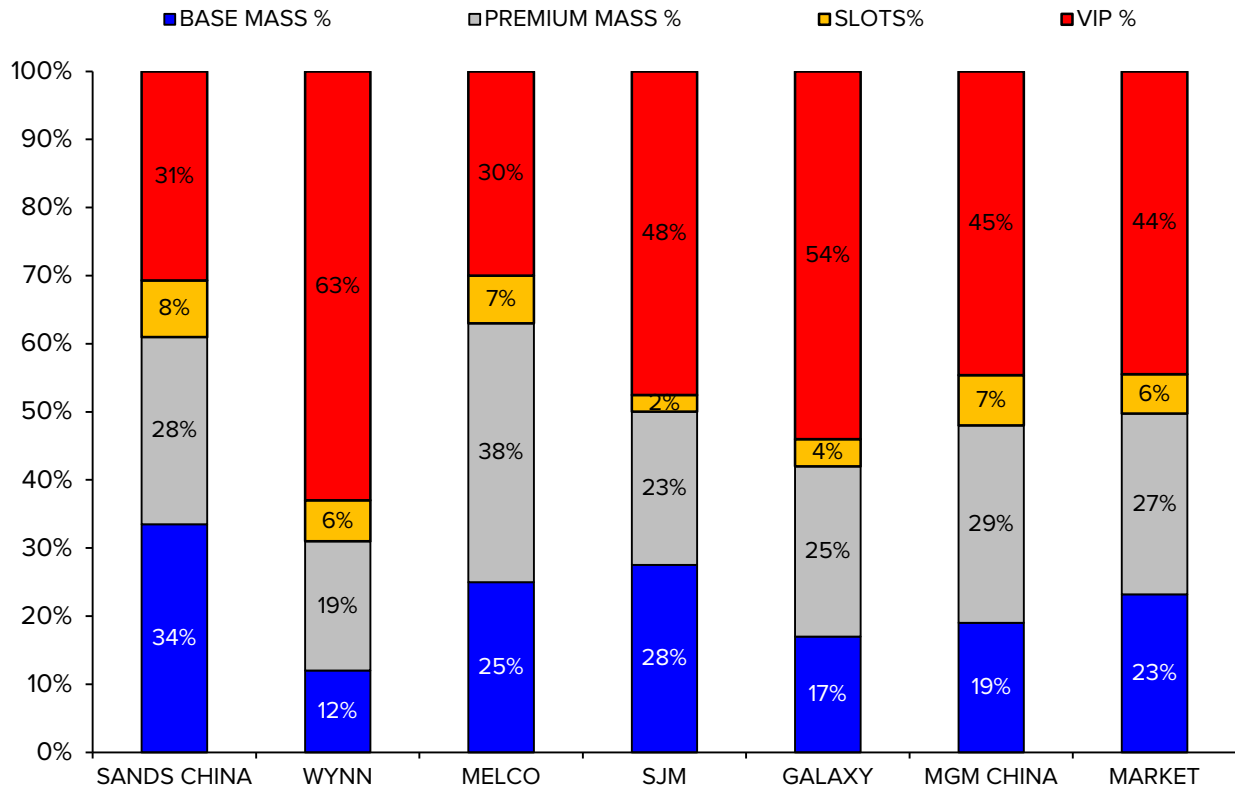
(1) ROIC CALCULATION IS FOR ALL 6 CONCESSIONAIRES: SANDS CHINA, WYNN MACAU, SANDS CHINA, MELCO, GALAXY, AND SJM

EXPLODING ROIC

We see ROIC rising in the face of long-term growth of 10% in GGR and 15% growth in EBITDA, mostly same store.

MACAU | GGR BREAKOUT BY OPERATOR

MARKET SEGMENTATION – AS A % OF GGR



We estimate Sands China generates the highest GGR contribution from base mass. MLCO maintains the most exposure to premium mass. Finally, WYNN continues to drive the highest revenue contribution from VIP.

MACAU | STOCK PICKS FOR THE LONG HAUL

- ❑ **WYNN + Galaxy (0027.HK)** - should continue to outperform, near term, from a fundamental perspective given their respective exposures to VIP and premium mass which are the two best performing segments in that order.
- ❑ **MLCO** - the cheapest Macau operator and now that the Philippines pressure is absorbed, looks attractive. Near term earnings visibility remains high with the continued ramp in Macau Studio City, and the company's high exposure to premium mass.
- ❑ **LVS** - Our favorite long term name as that company maintains the highest exposure to base mass, which is the segment that should benefit most from the China under penetration and infrastructure improvements. While we're the most favorably disposed toward base mass over the long term, that segment is underperforming, due in part to the toughest comparisons, and LVS' market share being under pressure. More tactical oriented investors may wait for a better entry point