

MACAU | LVS | POSITIVE MASS TRACKER RESULTS

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CALL TO ACTION

The Hedgeye Macau Mass Tracker suggests mass gaming revenue increased in the range of 2-4% YoY in Q2. Given the headline GGR disappointment of -9%, positive mass growth may come as a surprise to most. If the Tracker is right – the high R Square suggests it probably is – this would imply better margins in general for the Macau operators' Q2. With a growing mass segment, LVS is the obvious play and it is our favorite, particularly over the long-term. Our only reservations pertain to the very near term – for whatever reason, the sell side has not reduced Q2 expectations despite the softer monthly GGR figures.

Positive mass revenue growth in Q2 would represent the first growth quarter since Q3 2014. Extrapolating estimated Q2 mass revenues portends consistent YoY growth for at least the next 3 quarters, and likely more assuming just some market growth from new properties. This is a very important inflection point for the market and particularly LVS. Importantly, within the mass segment, higher margin bass mass is likely outperforming. Not only is LVS the largest mass player in Macau, it maintains the most exposure to base mass.

THE HEDGEYE MASS TRACKER – THE METHODOLOGY

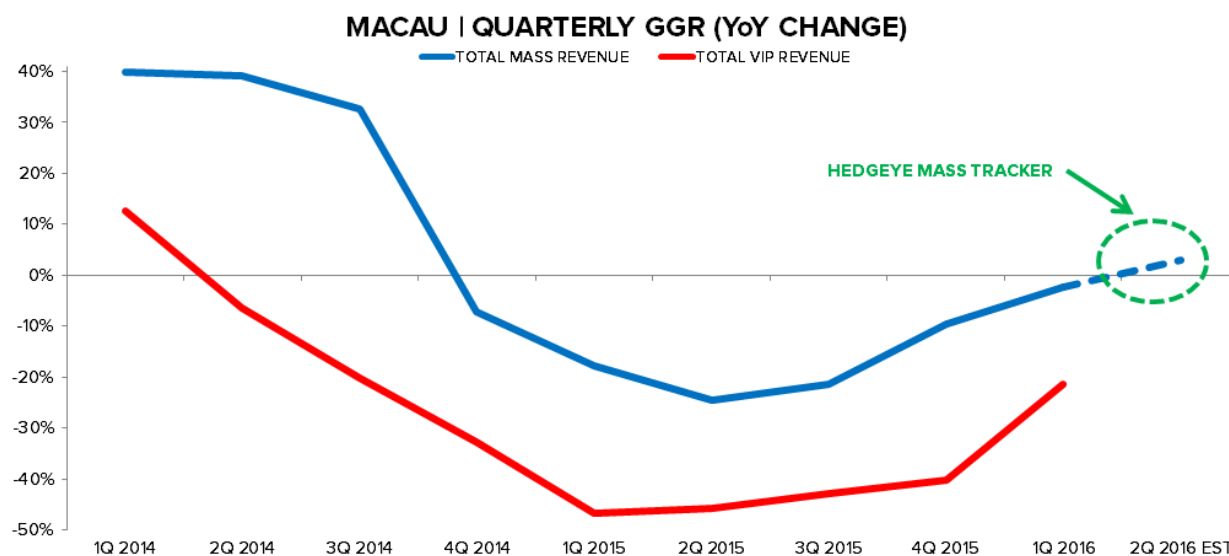
Solely a mass oriented tracker, and that's perfectly ok, given that the mass segment generates over 50% GGR and ~80% gaming EBITDA. The tracker is multi factor, comprised of observational and other data, which we receive on a weekly, monthly, and quarterly basis. Utilizing this data to build a model, we have been able track quarterly Macau mass table revenues with a high degree of accuracy, 0.98 R-Square to be exact going back 2 years. As of now, we have found the tracker most useful for predicting (the more crucial) quarterly mass revenue figure but we will look to provide ongoing monthly guidance.

As you know, the Macau government shut down the leaking of monthly mass and VIP revenues by property. The government still releases one true monthly number: GGR, but this includes barely profitable and shrinking VIP and doesn't break down market share. The government will break out VIP and Mass revenues for Q2 on July 15 but that is not the true mass/VIP breakout since it is not adjusted for the reclassification of premium mass tables. The government includes reclassified tables as VIP but the companies classify them as mass, in line with the true economics.

Not only will we be tracking mass revenues more precisely than the Street, the huge margin disparity between mass and VIP will provide us with a much better quarterly EBITDA projection for the Macau companies. In previous quarters, company and property mass and VIP revenues (and VIP hold %) were generally known ahead of the quarterly announcements. Smart sell side analysts produced fairly accurate EBITDA estimates based on the margin profiles of each revenue segment. Now that the government has shut off the release of the detailed data, even revenues will be a crap shoot to project. Not for us, hopefully, as we'll have a pretty good line in to revenue that drives almost 80% of gaming EBITDA.

THE HEDGEYE MASS TRACKER – Q2 RESULTS

The Tracker suggests that mass revenue in 2Q grew +2-4%. Q2 is likely to generate the first quarter of mass growth since 3Q 2014. (Yes, it's been that long). Official DICJ total GGR numbers indicated that April, May, and June were down 9.5%, 9.6%, and 8.5% respectively, all below expectations (we think). Importantly, excluding the negative calendar shift in May, we think mass trends accelerated through the quarter. The telephone proxy betting crack down likely negatively impacted VIP revenue and GGR in May and June which we believe was an additional ~5% drag on GGR. Despite a VIP drag, the phone betting crack down shouldn't affect mass play. Based on our Q2 mass revenue estimate, we believe VIP revenues fell ~20% YoY, a little better than Q1's.



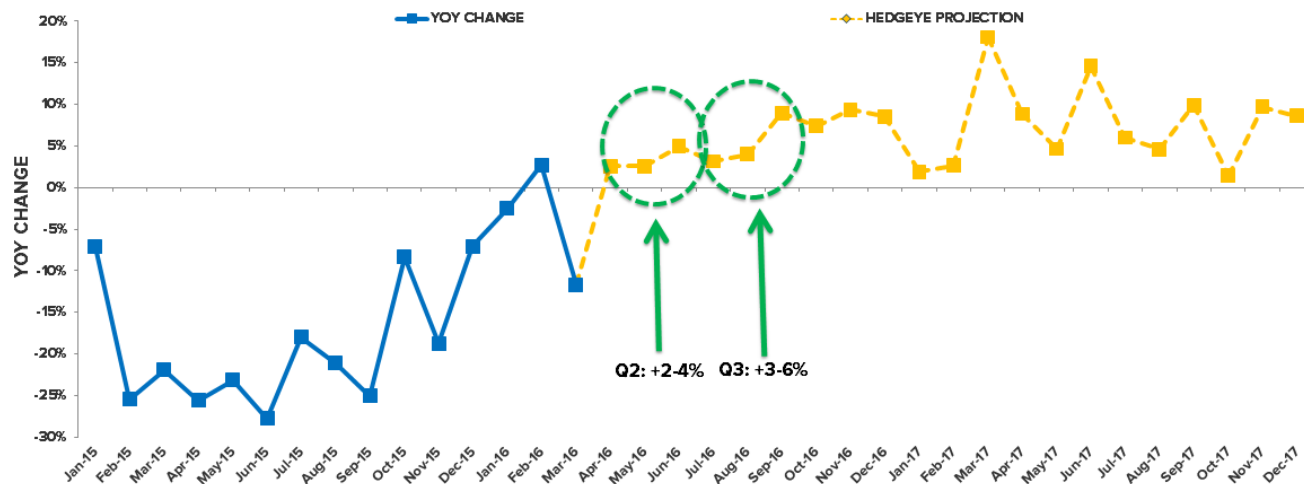
SOURCES: COMPANY FILINGS, HEDGEYE ESTIMATES

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LOOKING AHEAD

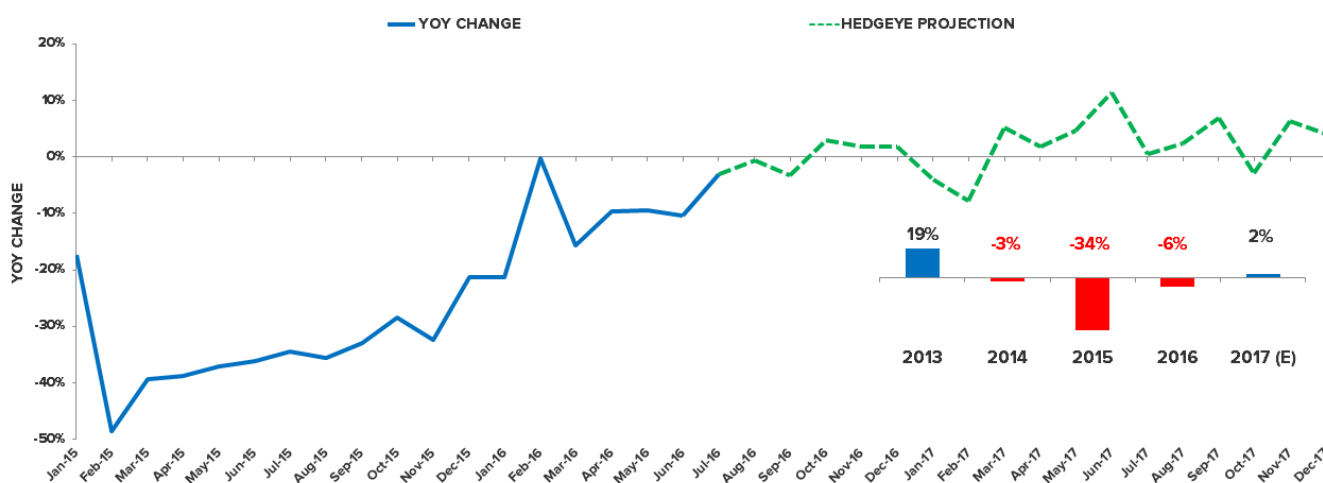
In the rear view mirror, Q2 should stand out as an inflection point. We predict positive quarterly mass revenue growth here on out. Mass growth remains positive through Q1 2017 just assuming Q2 revenues are carried forward (seasonally adjusted). However, we believe the new properties will grow the market on an absolute basis and absent a significant demand shock, mass revenues should consistently improve for a long time. VIP revenues may continue to fall but at a slower rate in 2H 2016 and potentially turning positive in 2017.

MACAU | ADJUSTED MASS REVENUE



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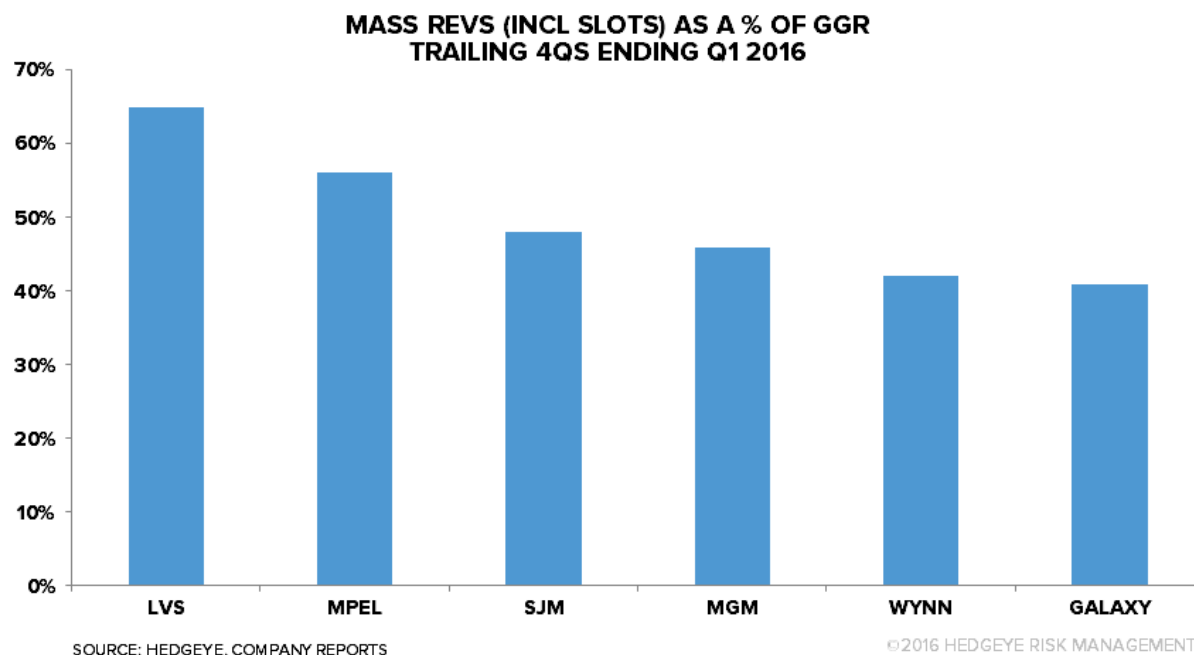
MACAU GROSS GAMING REVENUES



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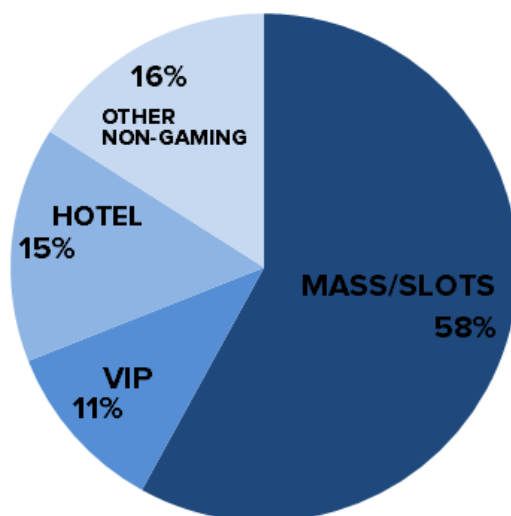
LVS IS THE PLAY

While we do still harbor concerns about Cotai new capacity and its relatively high exposure to room supply growth (lower cash room rates), LVS maintains the highest exposure to the mass segment overall and base mass and that will be a good thing longer term.

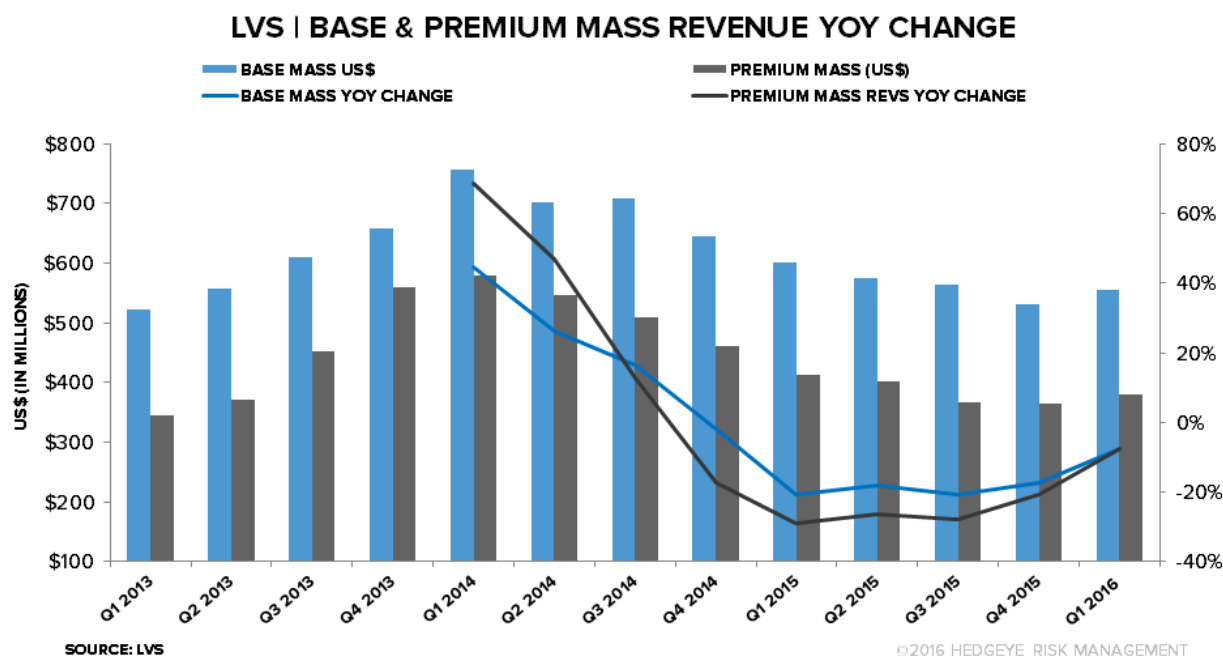


In terms of profitability, Sands China (LVS) generates almost 60% of its departmental profits from the mass segment (including slots), the highest in Macau.

LVS | 1Q 2016 TTM EBITDA CONTRIBUTION



Moreover, Sands China is most exposed to the most profitable mass segment – base mass. Base mass comprises the majority of mass revenues and the recent performance in that sub-segment has been better.



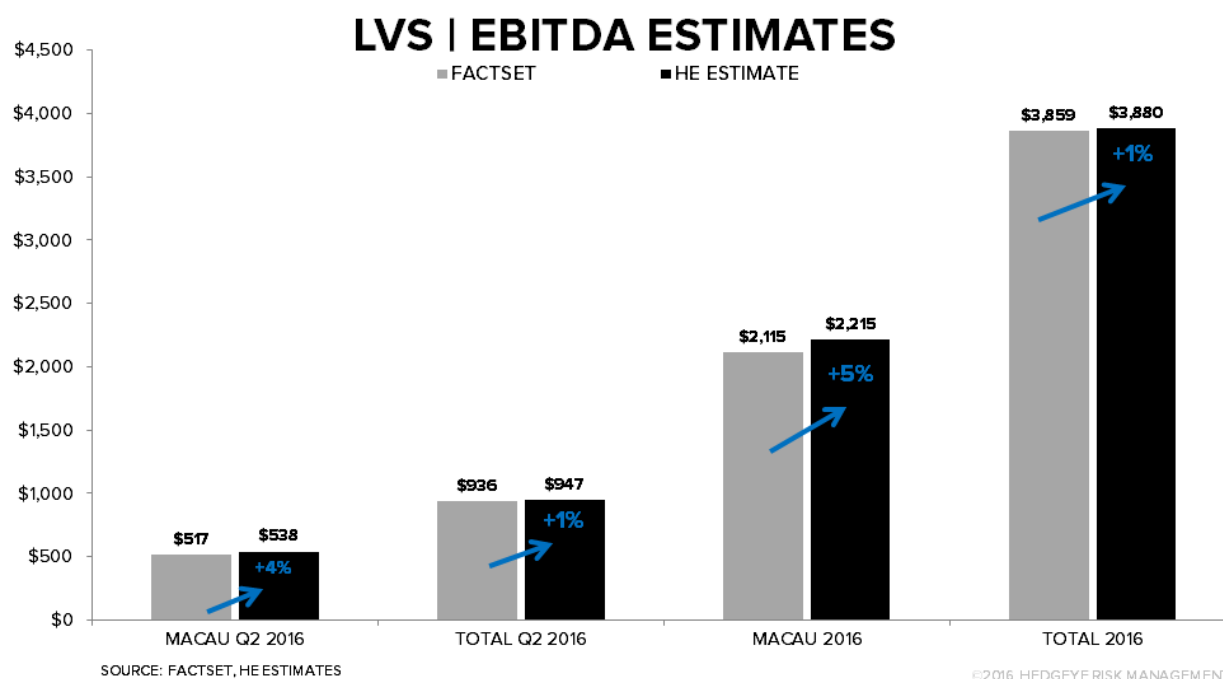
Q2: SHOULD BEAT IN MACAU BUT POSITIVE MASS METRICS/COMMENTARY THE LASTING TAKEAWAY

Surprisingly, the sell side has yet to reduce Q2 projections for the Macau operators and LVS despite the GGR headline disappointments. Maybe everyone is on vacation but we suspect the dearth of property/mass/VIP data available in previous quarters has shattered confidence. Most analysts have not changed Q2 projections since the Q1 earnings release.

There is still time, which worries us a little as we head into earnings season. Sentiment could worsen ahead of earnings. We anticipate the next few weeks of table revenue data for July will disappoint relative to the first 10 days – also a potential sentiment damper.

So could there be a better entry point? Certainly, the trader in us wants to wait until closer to earnings. But at the end of the day if Q2 mass was as strong as we think, the implications for future mass revenue growth and profitability will have a more profound impact on earnings and multiples that quarreling about whether \$46 or \$44 was the right entry point won't matter.

For Q2, we're above the Street in Macau but only slightly higher overall – more conservative for Las Vegas and Singapore. However, the Macau mass performance and commentary should drive sentiment and we suspect the reviews will be favorable. For the full year of 2016, our estimates also exceed the Street.



CONCLUSION

In late January, we identified a potentially better than expected Chinese New Year as a positive catalyst for the Macau stocks, and we now we see sustained mass revenue growth as an even more convincing and longer duration catalyst. Positive mass revenue growth in 2Q portends favorable trading for all the Macau operator stocks, but particularly LVS. The company maintains the most exposure to mass and especially base mass which seems to be performing better than premium mass. A growing mass environment bodes well for LVS's base mass oriented Parisian, scheduled to open in September. While we acknowledge the potential for choppy trading ahead of Q2 earnings – softer overall weekly table revenues for the rest of July and the potential for estimate cuts – the mass details and commentary in the Q2 earnings release/conference call should revive sentiment and set the stage for a sustained mass recovery in Macau.

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