

Company Report

China Merchants Securities (HK)
Hong Kong Equity Research

MGM China (2282 HK)

2Q14 review: Relieving quarter meeting street estimates

■ 2Q14 adjusted EBITDA of HK\$1,646mn, up 2.7% YoY, down 12.4% QoQ. Adj. EBITDA excluding licensing fee was HK\$1,758mn, broadly in line with our/street estimates.

■ 1H14 basic EPS of HK\$0.799, up 22.7% YoY. Interim DPS of HK\$0.28: consistent 35% payout ratio and 1.0% yield.

■ Another quarter with satisfactory execution. The biggest mass market share gainer. Maintain our BUY rating and TP at HK\$42.90.

Strong mass offsets weak VIP

2Q14 VIP gross win was down 16.6% YoY to HK\$5,332mn, due to 1) a junket ceased operation during the quarter, 2) weak sentiment on anti-corruption crackdown, and 3) weaker hold rate of 2.7% vs. 2.9% in 2Q13. With continuous improvement in table yield, mass-market gaming revenue jumped 41.1% YoY to HK\$2,508mn, along with the relocation of gaming tables to mass floor area. Overall, margin remained stable by segment, and company EBITDA margin was up 0.9ppt YoY to 25.6%.

MGM Cotai is progressing on schedule

No guidance revision on opening in FY16E, with 1,600 hotel rooms, 500 gaming tables and 2,500 slot machines. There are 1,200 construction workers on site. We currently expect the property to open in 1H16E, and the company is in plan for Cotai Phase 2 with non-gaming facilities.

Small but beautiful

We reckon MGM China's performance is more resilient than its Macau peers which announced results earlier. HK\$0.28 interim dividend (up from HK\$0.23 in 1H13) is also positive, implying 1.0% yield. While its smallest market share used to impose discount to its valuation, we believe it could mean bigger upside from a smaller base and management keeps delivering good track record in protecting market share against new Cotai properties. MGM China currently trades at 16.2x P/E, 13.0x EV/EBITDA and 5.9% yield on our FY14E forecast. It is our top pick in Macau gaming space because 1) it is a good valuation laggard play, and 2) its Cotai expansion will bring the biggest improvement in gaming table/room proportion among Macau casino operators, which is key in driving mass business.

Financials

HK\$ mn	FY12	FY13	FY14E	FY15E	FY16E
Revenue	21,774	25,728	29,544	33,135	45,001
Net profit	4,531	5,334	6,459	7,146	11,174
Growth (%)	38.2%	17.7%	21.1%	10.6%	56.4%
EPS (HK\$)	1.19	1.40	1.70	1.88	2.94
DPS (HK\$)	1.02	1.51	1.61	1.69	2.35
P/E (x)	23.2x	19.7x	16.2x	14.7x	9.5x
EV/EBITDA (x)	19.0x	15.8x	13.0x	11.1x	7.2x
Dividend yield (%)	3.7%	5.5%	5.9%	6.1%	8.4%
ROE (%)	76.6%	82.0%	90.0%	87.7%	89.3%

Source: Company data, CMS (HK) estimates

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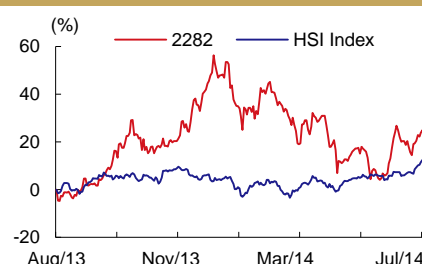
WHAT'S NEW

No changes

BUY

Previous	BUY
Price	HK\$27.55
12-month Target Price (Potential upside)	HK\$42.90 (+56%)
Previous	HK\$42.90

Price Performance



Source: Bigdata

%	1m	6m	12m
2282 HK	(2.6)	(5.8)	26.8
HSI	4.5	15.0	10.9

Gaming

Hang Seng Index	24648
HSCEI	11010

Key Data

52-week range (HK\$)	21.08-35.04
Market cap (US\$ mn)	13,508
Avg. daily volume (mn shares)	5.2
BVPS (HK\$)	1.71

Shareholdings Structure

MGM Resorts (51.0%)	1,938mn
Ms. Pansy Ho (27.4%)	1,043mn
No. of shares outstanding	3,800mn
Free float	21.6%

Related Research

1. Macau Gaming – 2Q14 preview – Unexciting results season on the way (Overweight) 2014/07/14
2. Macau Gaming – Upcoming New Capacity to Feed Colossal Demand (Overweight) 2014/06/03

Other takeaways from conference call

- Contribution from mass continues increasing, composed 36%/77% of MGM China's revenue/EBITDA in 2Q14, vs. 30%/70% in 1Q14.
- Regarding recent activities by casino employees in Macau, MGM China has already been paying 14 months to employees from last year, so it expects no dramatic increase in staff cost in near term.
- The crackdown by central government on corruption diverted traffic flow of high rollers, partially to Las Vegas: high-end business in Las Vegas was boosted from May, illustrated by strong growth in baccarat plays, the most popular game among Chinese gamblers.
- Gaming volume from junkets is increasing again, but consolidation among junkets will continue. Strong trend of mass continues, showing good performance in summer season.
- Management expects further table yield improvement through optimizing VIP vs. mass and smoking vs. non-smoking. Cotai project will give MGM China more exposure to mass market from FY16E through more available hotel rooms and other non-gaming facilities: the company currently rents rooms from Mandarin Oriental to accommodate guests.
- Second phase of MGM Cotai will comprise of non-gaming amenities, including 700 additional guest rooms. Detailed budget and schedule will be released later. The company believes it could further enhance earnings given MGM China currently generating the highest EBITDA per room in Macau.

Quarterly Results

HK\$ mn	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	YoY	QoQ
Net revenue	5,796.8	6,480.6	6,273.1	7,177.1	7,304.9	6,419.0	-1.0%	-12.1%
Adjusted EBITDA	1,415.3	1,602.7	1,490.5	1,857.0	1,879.2	1,646.0	2.7%	-12.4%
Adjusted EBITDA margin	24.4%	24.7%	23.8%	25.9%	25.7%	25.6%		
VIP gaming tables	231	232	234	235	234	225	-3.0%	-3.8%
Rolling chip volume	200,347.1	217,470.9	218,984.4	257,790.3	224,714.6	195,269.4	-10.2%	-13.1%
VIP gross win	5,510.9	6,392.9	6,089.2	7,250.8	6,741.6	5,331.6	-16.6%	-20.9%
VIP win rate	2.8%	2.9%	2.8%	2.8%	3.0%	2.7%		
Avg. daily gross win per VIP table	0.2656	0.3029	0.2826	0.3349	0.3204	0.2609	-13.9%	-18.6%
Mass-market gaming tables	193	190	187	185	192	197	3.7%	2.6%
Mass-market gross win	1,615.0	1,777.6	1,844.2	1,881.9	2,334.3	2,508.1	41.1%	7.4%
Avg. daily gross win per mass table	0.0928	0.1030	0.1071	0.1103	0.1354	0.1401	36.0%	3.5%
Slot machines	1,361	1,373	1,374	1,364	1,292	1,205	-12.2%	-6.7%
Slot handle	11,505.0	10,632.4	10,073.6	12,198.9	12,862.2	11,973.0	12.6%	-6.9%
Slot gross win	586.2	575.5	535.5	565.7	613.3	514.9	-10.5%	-16.0%
Slot hold rate	5.1%	5.4%	5.3%	4.6%	4.8%	4.3%		
Average daily win per slot	0.0048	0.0046	0.0042	0.0045	0.0053	0.0047	2.2%	-11.3%
Commission and discounts	(1,998.1)	(2,347.9)	(2,290.5)	(2,617.8)	(2,476.9)	(2,020.3)	-14.0%	-18.4%
Room occupancy rate	97.1%	98.7%	98.5%	98.8%	98.5%	98.7%		
REVPAR (HK\$)	2,079	2,082	2,030	2,120	2,335	2,297	10.3%	-1.6%

Source: Company data, CMS (HK) estimates

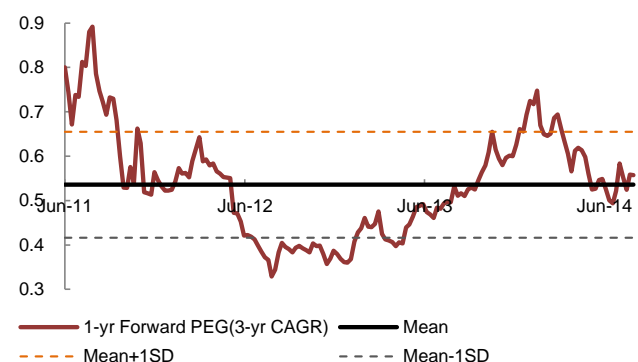
Peer Valuation Table

Company	Ticker	Current Price (HK\$)	Market Cap (US\$ mn)	52-Wk Price (HK\$)	Avg Turnover (US\$ mn)	FY14E PEG/ FY13-16E CAGR(x)	P/E (x)			EV/EBITDA (x)		
							FY13	FY14E	FY15E	FY13	FY14E	FY15E
Galaxy	27 HK	64.00	35,033	40.05 / 83.55	102.7	0.8	26.8	21.6	16.4	20.7	16.9	13.0
SJM	880 HK	20.70	15,106	18.60 / 27.60	23.6	1.3	14.9	13.7	12.1	12.4	11.1	9.8
Wynn Macau	1128 HK	31.85	21,352	20.65 / 38.80	29.7	1.1	21.5	19.3	18.1	18.4	15.7	14.1
Sands China	1928 HK	56.10	58,386	41.34 / 68.00	146.4	0.7	26.3	18.2	15.5	20.2	14.9	12.9
MGM China	2282 HK	27.55	13,508	21.08 / 35.04	21.7	0.6	19.7	16.2	14.7	15.8	13.0	11.1
Melco Crown	6883 HK	84.00	18,064	66.39 / 125.64	0.6	0.7	28.0	20.2	17.5	13.9	11.1	8.3
Simple Avg						0.9	22.9	18.2	15.7	16.9	13.8	11.5
Mkt Cap Avg						0.8	24.4	18.7	15.9	18.3	14.5	12.1

Company	Ticker	P/B (x)			ROE (%)			Dividends Yield (%)			Net Debt/Total Asset (%)		
		FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E
Galaxy	27 HK	8.3	6.7	5.4	31.0	31.1	32.7	1.1	1.4	1.8	NetCash	NetCash	NetCash
SJM	880 HK	4.9	4.5	4.0	32.9	32.7	33.1	4.8	5.5	6.2	NetCash	NetCash	NetCash
Wynn Macau	1128 HK	17.9	13.0	11.7	83.6	67.5	64.7	4.6	4.7	4.7	NetCash	NetCash	4.7
Sands China	1928 HK	9.0	8.4	7.1	34.3	46.2	45.9	4.5	4.4	5.2	2.5	5.4	3.8
MGM China	2282 HK	16.1	14.6	12.9	82.0	90.0	87.7	5.5	5.9	6.1	NetCash	NetCash	12.2
Melco Crown	6883 HK	4.2	3.8	3.3	12.9	16.5	17.0	1.1	1.5	1.7	13.1	7.4	1.9
Simple Avg		10.1	8.5	7.4	46.1	47.3	46.9	3.6	3.9	4.3	7.8	6.4	5.7
Mkt Cap Avg		9.7	8.3	7.1	41.6	44.8	44.6	3.5	3.7	4.2	2.4	2.8	3.2

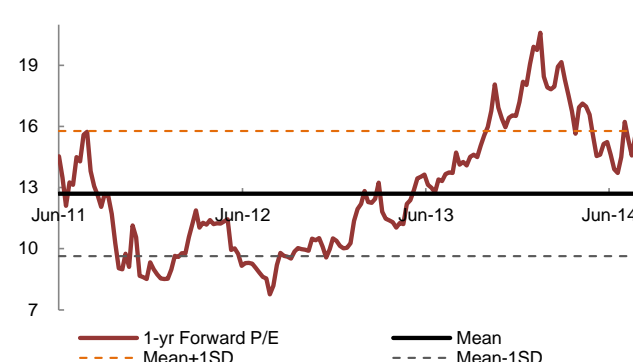
Source: Company data, Bloomberg, CMS (HK) estimates

Figure 1: PEG



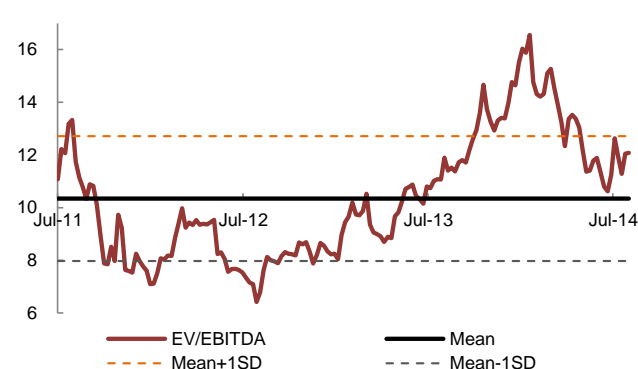
Source: Bloomberg, CMS (HK) estimates

Figure 2: P/E



Source: Bloomberg, CMS (HK) estimates

Figure 3: EV/EBITDA



Source: Bloomberg, CMS (HK) estimates

Financial Summary

Statement of financial position

HK\$ mn	2012	2013	2014E	2015E	2016E
Current Assets	8,004	8,700	6,730	3,255	9,411
Cash and cash equivalents	7,381	7,885	5,803	2,233	7,602
Account receivables	479	577	663	743	1,010
Other receivables	-	-	-	-	-
Inventories	86	99	125	140	660
Other current assets	57	139	139	139	139
Non-current assets	6,777	9,388	13,670	19,819	20,798
Property and equipment	5,066	6,714	11,192	17,538	18,713
Sub-concession premium	920	793	666	539	412
Land use right premium	332	1,469	1,399	1,330	1,261
Other non-current assets	459	412	412	412	412
Total assets	14,781	18,087	20,399	23,075	30,209
Current liabilities	4,886	6,973	7,821	8,722	11,174
ST borrowings	-	-	-	-	-
Account payables	4,475	6,366	7,213	8,115	10,567
Other current liabilities	411	608	608	608	608
Non-current liabilities	3,983	4,611	5,401	6,209	6,525
LT borrowings	3,983	4,049	4,549	5,049	5,049
Other non-current liabilities	-	561	852	1,159	1,476
Total liabilities	8,869	11,584	13,221	14,931	17,699
Common stock - par value	3,800	3,800	3,800	3,800	3,800
Reserves	2,111	2,703	3,378	4,344	8,710
Minority interest	-	-	-	-	-
Shareholders' equity	5,911	6,503	7,178	8,144	12,510
Total equity and liabilities	14,781	18,087	20,399	23,075	30,209

Statement of cash flows

HK\$ mn	2012	2013	2014E	2015E	2016E
CF from OA	6,135	7,528	8,493	9,854	15,583
Net income	4,531	5,334	6,459	7,146	11,174
D&A	784	755	1,056	1,629	2,441
Finance costs	356	214	243	273	303
Changes of WC	896	1,287	736	806	1,665
Others	(433)	(62)	-	-	-
CF from IA	(1,081)	(2,052)	(5,290)	(7,744)	(3,407)
Capital expenditure	(732)	(3,100)	(5,371)	(7,834)	(3,508)
Investment income	38	25	47	35	13
Other investments	(387)	1,024	34	56	88
CF from FA	(3,262)	(4,972)	(5,284)	(5,680)	(6,807)
Borrowings	-	-	500	500	-
Share capital and reserves	-	(26)	-	-	-
Dividends	(3,101)	(4,750)	(5,784)	(6,180)	(6,807)
Others	(162)	(197)	-	-	-
Forex adjustment	-	-	-	-	-
Net cash flow	1,791	503	(2,082)	(3,570)	5,369

Source: Company data, CMS (HK) estimates

Income statement

HK\$ mn	2012	2013	2014E	2015E	2016E
Total net revenue	21,774	25,728	29,544	33,135	45,001
Gaming tax	(11,549)	(13,654)	(15,617)	(17,500)	(23,560)
Labor expenses	(1,518)	(1,696)	(2,009)	(2,286)	(3,060)
D&A	(794)	(768)	(1,056)	(1,629)	(2,441)
Other OP expenses	(3,481)	(4,066)	(4,188)	(4,314)	(4,443)
Adj. EBITDA	5,310	6,366	7,784	9,089	13,992
Op Profit	4,432	5,544	6,674	7,405	11,497
Fin. costs	(356)	(214)	(243)	(273)	(303)
Inv income	38	25	47	35	13
Other non-OP items	7	(6)	-	-	-
Pre-tax Profit	4,121	5,348	6,478	7,167	11,207
Taxes	410	(15)	(19)	(22)	(34)
After-tax Profit	4,531	5,334	6,459	7,146	11,174
NCI	-	-	-	-	-
NP to Parents	4,531	5,334	6,459	7,146	11,174
EPS (US\$)	1.19	1.40	1.70	1.88	2.94
DPS (US\$)	1.02	1.51	1.61	1.69	2.35

Financial ratios

	2012	2013	2014E	2015E	2016E
YoY growth rate					
Total revenue	7.3%	18.2%	14.8%	12.2%	35.8%
Adj. EBITDA	7.7%	19.9%	22.3%	16.8%	54.0%
Op profit	11.7%	25.1%	20.4%	11.0%	55.2%
Net profit	38.2%	17.7%	21.1%	10.6%	56.4%
Profitability					
EBITDA margin	24.4%	24.7%	26.3%	27.4%	31.1%
OP margin	20.4%	21.5%	22.6%	22.3%	25.5%
NP margin	20.8%	20.7%	21.9%	21.6%	24.8%
ROE	76.6%	82.0%	90.0%	87.7%	89.3%
ROIC	69.9%	57.8%	47.9%	36.7%	52.2%
Liquidity					
D/A	26.9%	22.4%	22.3%	21.9%	16.7%
ND/A	NetCash	NetCash	NetCash	12.2%	NetCash
Current ratio	1.6x	1.2x	.9x	.4x	.8x
Quick ratio	1.6x	1.2x	.8x	.3x	.8x
Operating efficiency					
Asset turnover	1.5x	1.4x	1.4x	1.4x	1.5x
Valuation ratios					
P/E	23.2x	19.7x	16.2x	14.7x	9.5x
P/B	17.7x	16.1x	14.6x	12.9x	8.3x
EV/EBITDA	19.0x	15.8x	13.0x	11.1x	7.2x
Dividend yield	3.7%	5.5%	5.9%	6.1%	8.4%

Investment Ratings

Rating	Definition
BUY	Expected to outperform the market index by >10% over the next 12 months
NEUTRAL	Expected to outperform or underperform the market index by 10% or less over the next 12 months
SELL	Expected to underperform the market index by >10% over the next 12 months

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