

# Galaxy Entertainment Group (27.HK)



Phillip Securities (Hong Kong) Ltd  
Phillip Securities Research

Top pick of the gambling sector in Macau

Bloomberg | Reuters | POEMS

27.HK | 27.HK | 27.HK

Sector: gambling

16 Apr, 2014

## Strategic Analysis

Rating : Accumulate Closing Price : 68.70 TP : 78.00

### Summary

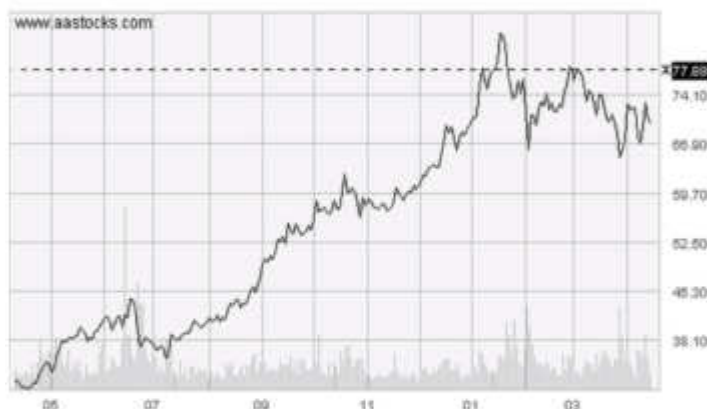
Thanks to the increase in gaming revenues of Galaxy Macao and Star World Macao, the company has earned HKD 66.032 billion in 2013, a 16.4% growth compared with the same period of last year.

For the whole year, the adjusted EBITDA of the company has a 28% growth on a year-on-year basis to HKD 12.58 billion . This is mainly due to the significant rise of 36% in the adjusted EBITDA of Galaxy Macao, which led a steady development of the group. In 2013, the profit attributable to shareholders has increased by 36.2% on a year-on-year basis to HKD 10.05 billion . The company announced to giving a special dividend of 0.7 HKD per share.

Galaxy Macao is located in the Flagship Resort of Cotai region. Its period's earning was HKD 40 billion , a 21% growth year on year, and accounted for 60.6% of the gross revenue. Therein, the gaming revenue of VIP hall has increased to HKD 26.5 billion , a 15% growth year on year; the revenue of center field has soared to HKD 10.46 billion , a 44% growth year on year; and the revenue of the slot machine has added to HKD 1.52 billion , a 25% growth year on year. In addition, the non-gaming revenue of Galaxy Macao has reached HKD1.5 billion , which is basically flat with that of 2012. During the period, the average occupancy rate of three five-star hotels in the resort is 98%.

The annual revenue of Star World Macao—another core project of the company—has increased to HKD 23.5 billion , a 9% growth year on year, which accounted for 35.6% of the total revenue. This mainly resulted from the excellent performance of the center field business. During the period, the gaming revenue of VIP hall has increased by 4% to HKD 19.08 billion ; the center field has soared by 59% year on year to HKD 3.86 billion ; while the slot machine has decreased by 15% year on year to HKD 0.21 billion . Furthermore, during the period, the non-gaming revenue has decreased by 12.5% year on year to HKD 0.364 billion; while the occupancy rate has still maintained at 99%.

GEG		
<b>Rating</b>	<b>2.00</b>	<b>Accumulate</b>
- Previous Rating	n.a.	Not Rated
<b>Target Price (HKD)</b>	<b>78.00</b>	
- Previous Target Price (HKD)	n.a.	
Closing Price (HKD)	68.70	
Expected Capital Gains (%)	13.5%	
Expected Dividend Yield (%)	0.0%	
<b>Expected Total Return (%)</b>	<b>13.5%</b>	
Raw Beta (Past 2yrs weekly data)	1.16	
Market Cap. (HKD mn)	291,174	
Enterprise Value (HKD mn)	282,976	
52 w week range (HKD)	30.7-84.5	
Closing Price in 52 w week range		



### Key Financial Summary

FYE	12A	13A	14E	15E
Revenue (HKD mn)	56,746	64,786	69,820	85,635
Net Profit, adj. (HKD mn)	7,378	9,883	11,618	14,957
EPS, adj. (HKD)	1.762	2.387	2.747	3.535
P/E (X), adj.	17.22	29.14	28.40	22.06
BVPS (HKD)	5.200	7.690	7.920	9.720
P/B (X)	5.84	9.04	9.85	8.02
DPS (HKD)	0.000	0.700	0.000	0.000
Div. Yield (%)	0.00%	1.01%	0.00%	0.00%

Source: Bloomberg, GEG

\*All multiples & yields based on current market price

### Valuation Method

P/E

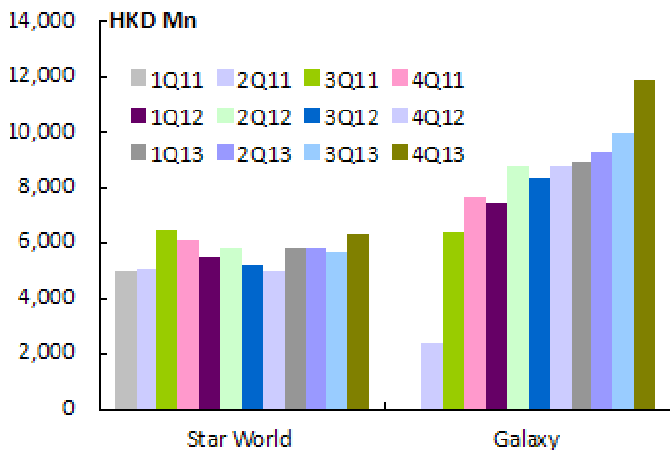
Chen Geng  
[chengeng@phillip.com.cn](mailto:chengeng@phillip.com.cn)  
+8621 63512937-107

Last year, the revenue of the fourth quarter as well as EBITDA increased by 16% and 10% quarter on quarter to 18.9 billion and 3.55 billion respectively, consistent with the market expectation. Overall, the market share of the fourth quarter in 2013 has risen from 0.6% to 19.1%. In the first two months of 2014, the market share has increased further to 20.6%.

The open-up of the second phase of Galaxy Macao will hopefully lead to another torrent of business increasing. However, the growing rate is expected to be slower than that of the first phase because of the industry factor that the growing rate of gaming revenue of Macao will fall back to normal. The third and fourth phase of Galaxy Macao as well as the vacation project of Hengqin Island will become the source of profit-growing in the middle of this year.

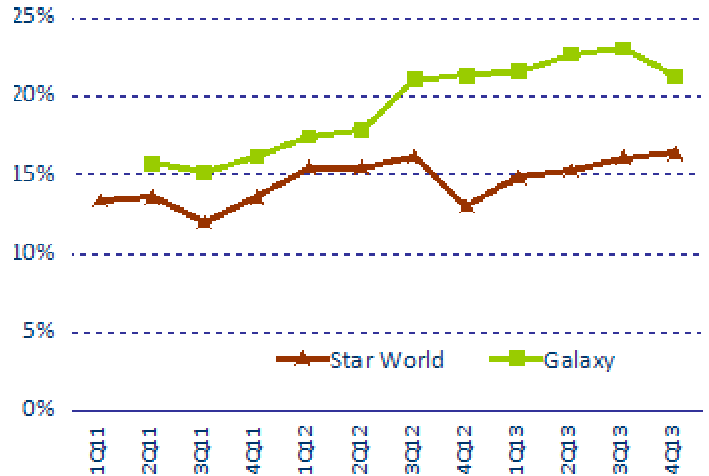
We believe that Galaxy Entertainment Group is the best choice of gaming stock of Macao owing to its excellent power of execution of the management, relatively high asset quality and energetic mid-and-long term profit growing force. On account of its continued positive development, the further decreased liability and our long-term optimistic expectation of the future of the company, we give the group the rank of "Accumulate", and the target price of 78 HKD of 12 months which equals to 24.6 times of the anticipated PE ratio of 2014.

**Figure1, Quarterly revenue of the two main hotels**



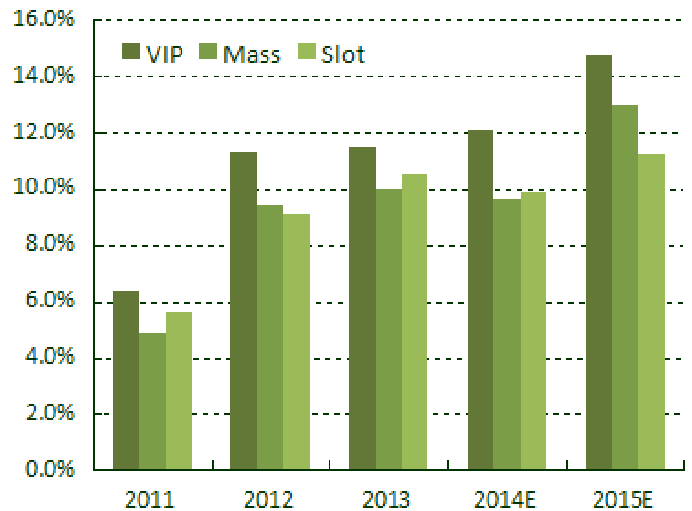
Source, Company Report

**Figure2, EBITDA rate of the two main hotels**



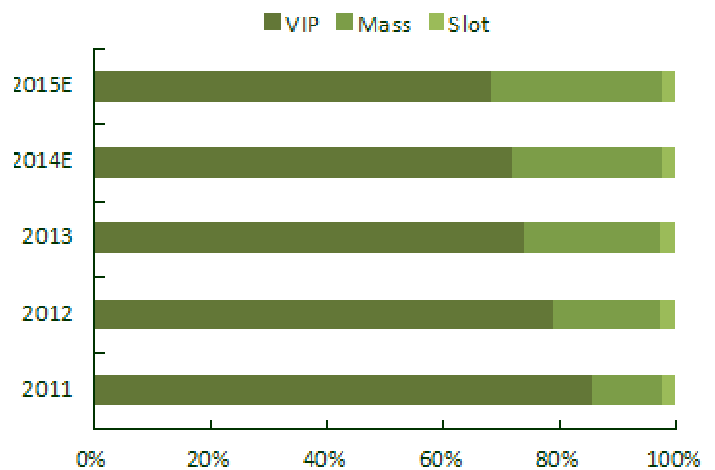
Source, Company Report

**Figure3, Market shares of the three segments**



Source, Company Report

**Figure4, The percentages of Mass will rise obviously**



Source, Company Report

FYE	FY11	FY12	FY13	FY14F	FY15F
<b>Valuation Ratios</b>					
P/E (X), adj.	19.56	17.22	29.14	28.40	22.06
P/B (X)	4.18	5.84	9.04	9.85	8.02
EV/EBITDA (X), adj.	13.89	13.18	20.02	20.76	20.62
Dividend Yield (%)	0.00%	0.00%	1.01%	0.00%	0.00%
<b>Per share data (HKD)</b>					
EPS, reported	0.728	1.762	2.387	2.747	3.535
EPS, adj.	0.728	1.762	2.387	2.747	3.535
DPS	0.000	0.000	0.700	0.000	0.000
BVPS	3.410	5.200	7.690	7.920	9.720
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	113.81%	37.78%	14.17%	7.77%	22.65%
EBITDA	133.87%	105.44%	27.24%	10.84%	27.55%
Net Income, adj.	234.40%	145.61%	33.95%	17.56%	28.74%
<b>Margins</b>					
EBITDA margin	11.42%	17.03%	18.98%	19.52%	20.30%
Net profit margin	7.29%	13.00%	15.25%	16.64%	17.47%
<b>Key Ratios</b>					
ROE (%)	21.35%	33.88%	31.04%	34.68%	36.37%
ROA (%)	9.86%	18.41%	22.18%	19.27%	21.10%
Net Debt/(Cash)	4,421	net cash	net cash	net cash	net cash
Net Gearing (X)	31.10%	net cash	net cash	net cash	net cash
<b>Income Statement (HKD mn)</b>					
	FY11	FY12	FY13	FY14F	FY15F
Revenue	41,186	56,746	64,786	69,820	85,635
EBITDA	4,704	9,664	12,296	13,629	17,384
EBIT	3,456	7,829	10,263	11,939	15,414
EBT	3,061	7,426	10,003	11,781	15,209
Tax	(32)	(45)	(100)	(141)	(222)
Tax rate	1.05%	0.61%	1.00%	1.20%	1.46%
Profit for the year	3,029	7,381	9,903	11,640	14,987
Minority interests	(26)	(3)	(20)	(22)	(30)
Net profit	3,004	7,378	9,883	11,618	14,957

Source: BLOOMBERG, GEG and Phillip Securities

### PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

#### GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

#### Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

#### Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

**Contact Information (Regional Member Companies)**

---

**SINGAPORE**

**Phillip Securities Pte Ltd**  
Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel : (65) 6533 6001  
Fax : (65) 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

**HONG KONG**

**Phillip Securities (HK) Ltd**  
Exchange Participant of the Stock Exchange of Hong Kong  
11/F United Centre 95 Queensway  
Hong Kong  
Tel (852) 22776600  
Fax (852) 28685307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**INDONESIA**

**PT Phillip Securities Indonesia**  
ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel (62-21) 57900800  
Fax (62-21) 57900809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**THAILAND**

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel (66-2) 6351700 / 22680999  
Fax (66-2) 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

**UNITED KINGDOM**

**King & Shaxson Capital Limited**  
6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel (44-20) 7426 5950  
Fax (44-20) 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA**

**PhillipCapital Australia**  
Level 12, 15 William Street,  
Melbourne, Victoria 3000, Australia  
Tel (613) 96188238  
Fax (613) 92002272  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**MALAYSIA**

**Phillip Capital Management Sdn Bhd**  
B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel (603) 21628841  
Fax (603) 21665099  
Website: [www.poems.com.my](http://www.poems.com.my)

**JAPAN**

**PhillipCapital Japan K.K.**  
Nagata-cho Bldg.,  
8F, 2-4-3 Nagata-cho,  
Chiyoda-ku, Tokyo 100-0014  
Tel (81-3) 35953631  
Fax (81-3) 35953630  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**CHINA**

**Phillip Financial Advisory (Shanghai) Co. Ltd**  
No 436 Heng Feng Rd,  
Greentech Tower Unit 604, Shanghai  
Postal code 200070  
Tel (86-21) 51699400  
Fax (86-21) 63532643  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**FRANCE**

**King & Shaxson Capital Limited**  
3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel (33-1) 45633100  
Fax (33-1) 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**UNITED STATES**

**Phillip Futures Inc**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1.312.356.9000  
Fax +1.312.356.9005