

19 November 2014

Galaxy Entertainment (27.HK)

Q3 performance was driven by VIP powerfully

HONG KONG | ENTERTAINMENT | COMPANY RESULTS

Rating: **Accumulate**

The Q3 performance of GEG showed that: the YoY income growth was 6%, reaching HKD17.3 billion. The YoY EBITDA growth adjusted was 1%, reaching 3.3 billion. The Q3 results are basically in line with the market expectations and even higher than that of the same trade or business;

The speed increasing of VIP business is better than that of the same trade or business. The YoY growth of VIP gaming revenue of Galaxy Macau was 11%, reaching 7.2 billion, which is higher than the average growth rate of the industry. While the VIP business income of Star World Hotel declined by 2% to 4.4 billion. Thus, the overall YoY growth of VIP business was 5%, reaching 11.8 billion, which strengthened the relative competitive advantages of GEG. In addition, the growth of the midfield gambling and the slot machine increased by 12% and 6% to reach 4.8bn and 0.5bn respectively, which remains stable;

The second phase of Galaxy Macau will be open in the middle period of 2015. So far, of the total capital expenditure plan of 19.6 billion, 9 billion has been put in. At present, the company holds the cash of HKD11 billion, and is in good condition of assets and liabilities;

The YoY decline of the Macao gaming revenue in October 2014 was 23%, and the decline range exceeded market expectations, which is the worst level in history. We think that apart from the economic factors, the demonstrations in Macao and HK and the high base are also the main causes. We believe the YoY decline will be narrowed in several months this year, improving the confidence of investors.

How we view this

We believe the weakness in Macao gaming market will continue before the middle of 2015. However, we also believe the income decline range is expected to be narrowed gradually. While GEG is the best choice for Macao gaming stocks, both the VIP business and the midfield business are expected to win that of the same trade or business, while the profit rate can remain unchanged.

Investment Action

We believe that the valuation of GEG has a certain attraction, while it is constrained by the weakness of the whole gaming market. We maintain "Accumulate" rating of GEG with 12m TP at HKD56, which is equivalent to 12.8 times of the ratio of EV/EBITDA and 16 times of the prospective P/E ratio of 2015.

Key Financial Summary

FYE	11A	12A	13A	14E	15E
Revenue (HKD mn)	41,186	56,746	64,786	69,820	85,635
Net Profit, adj. (HKD mn)	3,004	7,378	9,883	11,618	14,957
EPS, adj. (HKD)	0.728	1.762	2.387	2.747	3.535
P/E (X), adj.	19.56	17.22	29.14	20.39	15.84
BVPS (HKD)	3.410	5.200	7.690	7.920	9.720
P/B (X)	4.18	5.84	9.04	7.07	5.76
DPS (HKD)	0.000	0.000	0.700	0.000	0.000
Div. Yield (%)	0.00%	0.00%	1.01%	0.00%	0.00%

Source: Bloomberg, GEG

*All multiples & yields based on historical price and current market price

Target Price (HKD)	56.00
Forecast Dividend (HKD)	0.00
Closing Price (HKD)	51.75
Potential Upside	8.21%

Company Description

Galaxy Entertainment Group, one of Asia's leading developers and operators of integrated entertainment and resort facilities and a member of the Hang Seng Index, wholly owns Galaxy Casino S.A., a gaming concessionaire that received a gaming concession from the Macau SAR government in 2002. Authorized to carry out casino games of chance in Macau, GEG marked the entry to Macau's gaming industry in 2004 through the launch of the first of four distinct City Club casinos. Achieving instant success, GEG continued to grow and expand the businesses, and within a few short years, GEG took over Macau's lucrative VIP gaming market, emblazoning the name of GEG on the world's gaming map.

Company Data

Raw Beta (Past 2yrs weekly data)	1.15
Market Cap. (HKD Mn)	219,608
Ent. Value (HKD Mn)	204,561
52 week range (HKD)	42.95-83.35



Major Shareholders

1. CITY LION PROFITS	30.96%
2. Waddel&Reed Financial	7.05%

Valuation Method

P/E

Analyst

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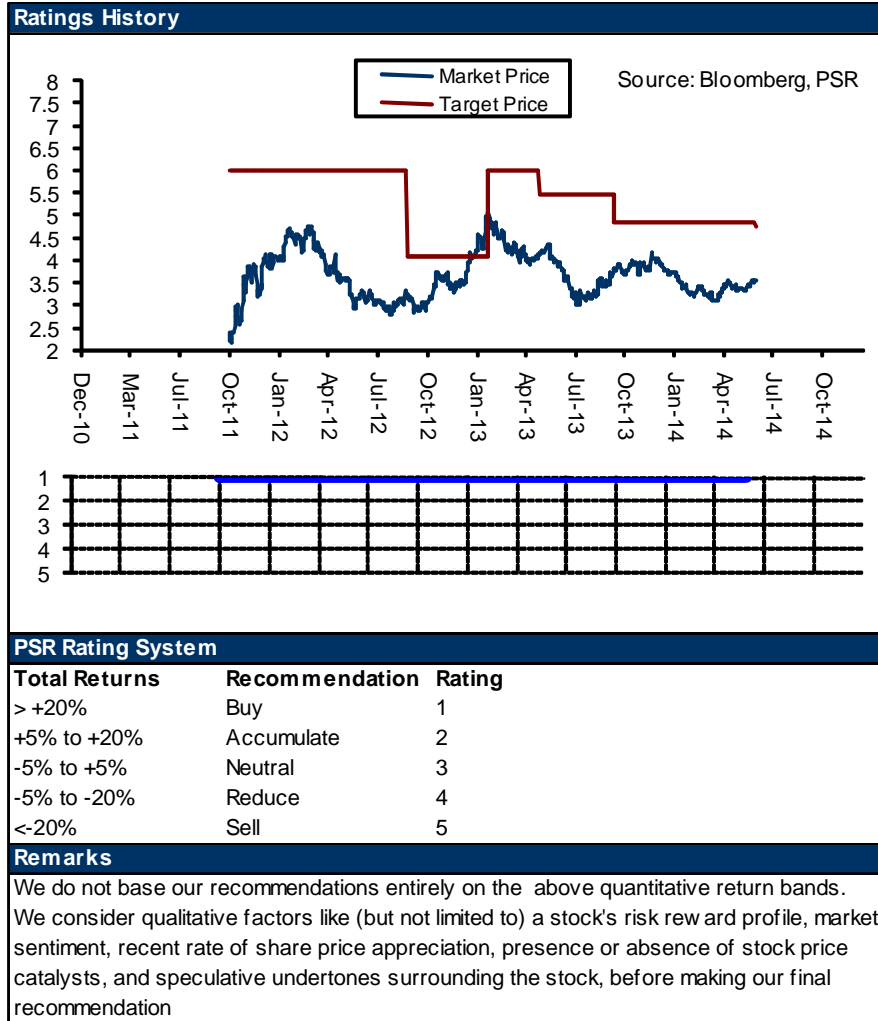
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FYE	FY11	FY12	FY13	FY14F	FY15F
Valuation Ratios					
P/E (X), adj.	19.56	17.22	29.14	20.39	15.84
P/B (X)	4.18	5.84	9.04	7.07	5.76
EV/EBITDA (X), adj.	13.89	13.18	20.02	16.30	12.80
Dividend Yield (%)	0.00%	0.00%	1.01%	0.00%	0.00%
Per share data (HKD)					
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
Growth & Margins (%)					
Growth					
Revenue	113.81%	37.78%	14.17%	7.77%	22.65%
EBTDA	133.87%	105.44%	27.24%	10.84%	27.55%
Net Income, adj.	234.40%	145.61%	33.95%	17.56%	28.74%
Margins					
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%
Key Ratios					
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
Income Statement (HKD mn)					
	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

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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

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