

Macau Gaming	Last Close	Target Price	Upside	25 April 2018
	HK\$30.95	HK\$32.30↑	+4.4%	

Wynn Macau (1128 HK)

Strong 1Q18, but already in the price

- Wynn Resort (WYNN US) 1Q18 results highlights:** VIP/Mass net wins were -10%/+12% QoQ (56%/46% of gaming revenue (FY17: 63%/37%)). EBITDA rose 12% QoQ/44% YoY. Estimated EBITDA attributable to Wynn Macau was HK\$2.87bn, +15% QoQ/49% YoY, in line with consensus (+48% YoY). EBITDA margin expanded 3ppts QoQ to 32.8% (28.6% for Wynn Macau).
- 1Q18 strong but in line:** 1Q18 extended the buoyant 4Q17/2M18 (2M18 EBITDA: +48-54% YoY). There was little luck adjustment in the quarter, with higher Mass net wins offsetting the unfavorable odds at VIP. Overall VIP/Mass volume rose 2%/7% QoQ, vs industry average 9%/2%. The slight dip in VIP market share should be well expected by the market given its high base in 4Q17, whereas the competition from MGM Cotai came in milder than our expectation.
- Wynn Palace earnings ramped up:** While we estimate half of the margin expansion came from higher Mass mix, profit of Wynn Palace ramped up, with EBITDA margin climbing to 32.3%, only 3ppts below Wynn Macau's (永利娛樂場), in our estimate. We expect further margin ramp-up, which will contribute 5% growth to EBITDA.
- Management overhang is over:** In addition to the stepdown and share placement of Steven Wynn, the company has settled other litigations. It did not comment on the impact on gaming license renewal, but expects the process to start this year. It remains committed to Macau, with a US\$100m-program to bolster Wynn Macau.
- Maintain Neutral:** While 1Q18 results were in line, we raise FY18/19E EBITDA by 21%/32% on higher sector GGR growth assumption and milder competition. Yet, we estimate shares have priced in 37%/10% YoY 18/19E GGR growth (+21% YoY sector GGR YTD). We expect investors to focus on Mass players following strong Mass GGR in March. Thus, we expect valuation to normalize, and lower target 18E EV/EBITDA to 16x, +1 SD vs 5-year avg (from 18.4x, +2 SD). We lift TP from HK\$30.40 to HK\$32.30, but maintain **Neutral** as we believe current 18E EV/EBITDA of 15.4x (+0.8 SD) has fairly reflected the strong EBITDA growth.

Stock Rating

NEUTRAL

1-year stock performance



Source: Bloomberg

Stock data

52w high (HK\$)	31.35
52w low (HK\$)	15.22
Market cap (HK\$ m)	154.60
Avg daily vol (m)	11.72
YTD change (%)	23.55
200d MA (HK\$)	22.22

Source: Bloomberg

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Financial highlights

Y/E 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (HK\$ m)	26,156	43,106	52,668	56,176	59,446
YoY growth (%)	15.6	66.9	18.4	6.7	5.8
Net profit (HK\$ m)	1,436	3,700	7,735	9,029	10,187
EPS (HK\$)	0.28	0.71	1.49	1.74	1.96
YoY growth (%)	(40.5)	157.8	109.0	16.7	12.8
Previous EPS (HK\$)			1.06	1.07	-
Change (%)			40.4	62.4	-
P/E (x)	112.0	43.5	20.8	17.8	15.8
BVPS (HK\$)	0.47	0.58	0.53	0.98	1.47
P/B (x)	65.6	53.6	58.2	31.5	21.1
Dividend yield (%)	1.4	3.1	3.8	4.5	5.1

Source: Company data, BOCOM Int'l estimates

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Figure 1: Segmental 1Q18 results from Wynn Resort (WYNN US)

(US\$ m)	1Q17	4Q17	1Q18	%/ppt QoQ	%/ppt YoY
Wynn Macau:					
VIP table drop	13,284.8	15,622.9	17,087.5	9.4	28.6
VIP net win	438.9	451.5	445.2	(1.4)	1.4
VIP win rate (%)	3.30	2.89	2.61	-0.28	-0.69
Mass table drop	1,137	1,251	1,323	5.7	16.4
Mass net win	213	230	256	11.5	20.5
Mass win rate (%)	18.7	18.4	19.4	1.0	0.7
Wynn Palace:					
VIP table drop	11,041.7	16,232.7	15,385.8	(5.2)	39.3
VIP net win	334.7	489.6	399.9	(18.3)	19.5
VIP win rate (%)	3.03	3.02	2.60	-0.42	-0.43
Mass table drop	770	1,125	1,217	8.2	58.1
Mass net win	168	264	310	17.3	85.0
Mass win rate (%)	21.8	23.5	25.5	2.0	3.7
- Wynn Macau	181.1	186.0	209.8	12.8	15.9
- Wynn Palace	111.9	190.1	211.9	11.5	89.4
Reported EBITDA	293.0	376.1	421.7	12.1	44.0
Est. attrib. EBITDA*	246.5	318.6	366.7	15.1	48.8
Est. attrib. EBITDA (HK\$ m)*	1,913	2,487	2,867	15.3	49.9
Reported EBITDA margin (%)	29.1	28.7	32.8	4.2	3.7
Est. attrib. EBITDA margin (%)*	24.5	25.6	28.6	3.0	4.0

Source: Company data, BOCOM Int'l

* Attributable to Wynn Macau (1128 HK), net of management and license fee

Figure 2: Wynn Macau gaming revenue, 2M18 and March 2018

(US\$ m)	Wynn Macau				Wynn Palace			
	2M18	% YoY	Mar 18	% YoY	2M18	% YoY	Mar 18	% YoY
VIP table drop	11,072.0	39.0	6,015.5	13.1	10,188.7	31.4	5,197.1	58.2
VIP win	310.2	12.1	135.0	(16.8)	248.2	(1.2)	151.7	81.4
Win rate (%)	2.8	-0.7ppt	2.2	-0.8ppt	2.4	-0.8ppt	2.9	0.4ppt
Mass table drop	872.9	19.6	449.9	10.5	786.4	54.4	430.8	65.3
Mass win	167.7	24.0	88.8	14.3	204.8	85.5	105.4	84.1
Win rate (%)	19.2	0.7ppt	19.7	0.6ppt	26.0	4.3ppt	24.5	2.5ppt

Source: Company data, BOCOM Int'l

Figure 3: Wynn Macau earnings revision

	Old	New	% chg
EBITDA 18E (HK\$ m)	9,710	11,735	20.9
EBITDA 19E (HK\$ m)	9,644	12,750	32.2
EBITDA 20E (HK\$ m)	-	13,626	NA
EPS 18E (HK\$)	1.06	1.49	40.4
EPS 19E (HK\$)	1.07	1.74	62.4
EPS 20E (HK\$)	-	1.96	NA
DPS 18E (HK\$)	0.69	1.19	72.6
DPS 19E (HK\$)	0.75	1.39	85.4
DPS 20E (HK\$)	-	1.57	NA

Source: BOCOM Int'l estimates

Financial Statements

Income statement (HK\$ m)					
Y/E 31 Dec	2016	2017	2018E	2019E	2020E
- Gaming	25,111	42,086	50,188	53,646	56,865
- Hotel rooms	247	421	364	371	379
- F&B	330	529	551	562	573
- Retail & others	971	1,459	1,566	1,597	1,629
Gross revenue	26,658	44,495	52,668	56,176	59,446
Gaming taxes and premiums	(10,013)	(16,737)	(20,075)	(21,458)	(22,746)
Commissions	(5,698)	(10,568)	(12,489)	(13,266)	(14,062)
Royalty fee	(846)	(1,405)	(1,659)	(1,770)	(1,873)
Staff costs	(3,830)	(4,501)	(5,088)	(5,537)	(5,977)
Other operating expenses	(1,165)	(2,787)	(1,622)	(1,396)	(1,163)
Adjusted EBITDA	5,105	8,498	11,735	12,750	13,626
Pre-opening cost	(1,004)	-	-	-	-
Amortisation and depreciation	(1,591)	(2,776)	(2,818)	(2,702)	(2,590)
Finance costs	(838)	(1,270)	(1,170)	(1,008)	(836)
Others	(224)	(739)	-	-	-
Tax	(12)	(12)	(12)	(12)	(12)
MI	-	-	-	-	-
Net profit	1,436	3,700	7,735	9,029	10,187

Balance sheet (HK\$ m)					
As of 31 Dec	2016	2017	2018E	2019E	2020E
Cash	2,591	5,240	3,602	4,187	4,749
Restricted cash	12	11	11	11	11
Debtors and prepayments	733	677	754	809	856
Others	631	647	647	647	647
Current assets	3,968	6,574	5,013	5,654	6,263
Casino & other PPE	37,976	35,589	34,124	32,719	31,372
PUD	63	-	-	-	-
Others	938	833	833	833	833
Non-current assets	38,977	36,422	34,957	33,552	32,205
Total assets	42,945	42,996	39,970	39,206	38,468
Gaming tax & other payables	1,176	1,565	1,762	1,897	2,011
Chips issued	2,102	4,840	5,380	5,781	6,127
Commission payable to junkets	37	103	114	123	130
Other creditors and accruals	3,077	4,142	4,613	4,954	5,243
Tax & other payables	1,438	1,226	1,220	1,220	1,220
Current liabilities	7,829	11,876	13,090	13,975	14,731
LT borrowings	32,170	27,674	23,674	19,674	15,674
Deferred tax & others	493	445	445	445	445
Non-current liabilities	32,663	28,119	24,119	20,119	16,119
Share capital	167	273	272	272	272
Retained earnings & others	2,286	2,728	2,489	4,840	7,346
Shareholders' fund	2,453	3,001	2,761	5,113	7,618
Minority interest	-	-	-	-	-
Total equity	2,453	3,001	2,761	5,113	7,618

Source: Company data, BOCOM Int'l estimates

Cash flow statement (HK\$ m)					
Y/E 31 Dec	2016	2017	2018E	2019E	2020E
EBITDA	5,105	8,498	11,735	12,750	13,626
Pre-opening expenses	(1,004)	-	-	-	-
Change in working capital	1,851	4,346	79	819	700
Interest paid	(686)	(1,079)	(1,170)	(1,008)	(836)
Tax paid	(15)	(12)	(19)	(12)	(12)
Others	(95)	(163)	-	-	-
CFO	5,157	11,588	10,625	12,549	13,477
Interest & dividend	27	15	10	10	10
Capex	(6,790)	(1,261)	(1,352)	(1,297)	(1,243)
Disposal	6	6	-	-	-
Others	-	78	-	-	-
CFI	(6,757)	(1,162)	(1,343)	(1,287)	(1,234)
New shares	-	5	-	-	-
New borrowings	3,865	11,555	-	-	-
Repayment	(3,110)	(16,069)	(4,000)	(4,000)	(4,000)
Dividend to shareholders	(3,109)	(3,272)	(6,919)	(6,677)	(7,681)
Others	(183)	(3)	-	-	-
CFF	(2,537)	(7,784)	(10,919)	(10,677)	(11,681)
Change in cash	(4,137)	2,642	(1,638)	585	562
FX	3	1	-	-	-
Others	(6)	5	-	-	-
Ending cash	2,591	5,240	3,602	4,187	4,749

Financial ratios					
Y/E 31 Dec	2016	2017	2018E	2019E	2020E
Revenue growth (% YoY)	15.6	66.9	18.4	6.7	5.8
EBITDA growth (% YoY)	9.1	66.4	38.1	8.7	6.9
Core profit growth (% YoY)	(40.4)	157.8	109.0	16.7	12.8
EBITDA margin (%)	19.2	19.1	22.3	22.7	22.9
Core net margin (%)	5.4	8.3	14.7	16.1	17.1
ROE (%)	43.8	135.7	268.5	229.3	160.0
ROA (%)	69.4	182.3	309.1	254.9	173.2
Core EPS (HK\$)	0.276	0.712	1.489	1.738	1.961
BVPS (HK\$)	0.47	0.58	0.53	0.98	1.47
DPS (HK\$)	0.42	0.96	1.19	1.39	1.57
Payout ratio (%)	152.0	134.8	80.0	80.0	80.0
EV / EBITDA (x)	37.3	21.6	15.4	13.8	12.6
Core P/E (x)	112.0	43.5	20.8	17.8	15.8
P/B (x)	65.6	53.6	58.2	31.5	21.1
Yield (%)	1.4	3.1	3.8	4.5	5.1
Net gearing/(cash) (%)	1,205.3	747.3	726.5	302.7	143.3
NOSH (million)	5,196	5,196	5,196	5,196	5,196

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Buy: The stock's total return is expected to **exceed** that of the corresponding industry over the next 12 months.

Neutral: The stock's total return is expected to be **in line with** that of the corresponding industry over the next 12 months.

Sell: The stock's total return is expected to be **below** that of the corresponding industry over the next 12 months.

Not-Rated: The analyst **does not have conviction** regarding the outlook of the stock's total return relative to that of the corresponding industry over the next 12 months.

Analyst Industry Views:

Outperform: The analyst expects the industry coverage universe to be **attractive** relative to the relevant broad market benchmark over the next 12 months.

Market perform: The analyst expects the industry coverage universe to be **in line with** the relevant broad market benchmark over the next 12 months.

Underperform: The analyst expects the industry coverage universe to be **unattractive** relative to the relevant broad market benchmark over the next 12 months.

Broad market benchmark for Hong Kong is **the Hang Seng Composite Index**, for China A-shares is the **MSCI China A Index**, for US-listed Chinese companies is **S&P US Listed China 50 (USD) Index**.

25 April 2018

Wynn Macau (1128 HK)



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