

Company Report: Melco Resorts & Entertainment (MLCO US)

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公司报告: 新濠博亚 (MLCO US)

28 February 2019

New Entertainment Offerings Introduced, Upgrade to "Buy"

公司揭晓新型娱乐项目，上调评级至“买入”

- **4Q18 adjusted property EBITDA increased 25.1% yoy and 44.0% qoq to US\$425 mn, which was 18.3% above Bloomberg consensus estimate and 14.2% above our forecast.** However, the strong beat was due to favorable VIP win rates which positively affected EBITDA at City of Dreams Macau, Studio City, Altira and City of Dreams Manila. Luck adjusted property EBITDA in 4Q18 amounted to US\$369 mn, down 2% yoy and up 10.8% qoq, and beat Bloomberg consensus estimate by 5.9% and our forecast by 1.1%.
- **Increase 2019 and 2020 adjusted property EBITDA forecasts by 2.9% and 1.4%, respectively on higher expected margin.** We expect that margin growth will be supported by the continued ramp up and higher operating efficiency at the Morpheus hotel. We forecast 2019-2021 adjusted property EBITDA of US\$1.513 bn, US\$1.698 bn and US\$1.756 bn, respectively. We forecast 2019-2021 fully diluted earnings per ADS ("EPADS") of US\$1.282, US\$1.579 and US\$1.860, respectively, equivalent to 37.1% CAGR.
- **The Company's management is adding new entertainment offerings at Studio City to drive continued mass segment growth.** As VIP tables at Studio City are being strategically phased out, more amenities to appeal to the mass market will be added as Studio City will undergo a series of upgrades to refine its entertainment offerings.
- **Raise target price from US\$19.50 to US\$26.50 and upgrade investment rating from "Accumulate" to "Buy".** Our target price is equivalent to 10.0x forward EV/adjusted EBITDA, reflects 16.8% upside potential and is a 20.3% discount to our DCF derived NAV per ADR of US\$33.27.
- **2018 年第 4 季度经调整物业 EBITDA 同比增长 25.1%、环比增长 44.0%至 4.25 亿美元，分别高于彭博一致预期以及我们的预测 18.3%和 14.2%。**但此次业绩大幅超越预期归功于偏高的贵宾赢率，澳门新濠天地、新濠影汇、新濠锋和马尼拉新濠天地皆因高贵宾赢率而获得 EBITDA 的提升。第 4 季度标准化赢率下的物业 EBITDA 则为 3.69 亿美元（同比降 2%、环比升 10.8%），分别高于彭博一致预期和我们的预期 5.9%和 1.1%。
- **基于我们对公司利润率将提升的预期，我们上调 2019 和 2020 年经调整物业 EBITDA 预测 2.9%和 1.4%。**我们预计摩珀斯酒店业务的持续升温及其运营效率的持续提升将会支持公司利润率的增长。我们预计 2019-2021 年经调整物业 EBITDA 分别为 15.13 亿、16.98 亿和 17.56 亿美元。我们预计 2019-2021 年完全稀释后每份 ADS 净利分别为 1.282、1.579 和 1.860 美元，年复合增长率为 37.1%。
- **公司管理层正于新濠影汇引入新的娱乐项目来推动中场博彩业务的持续增长。**随着贵宾赌台在新濠影汇的战略性逐步撤出，更多为吸引中场赌客的娱乐设施将被投放，新濠影汇将经历一系列改变来优化其提供的娱乐项目。
- **我们将目标价由 19.50 美元上调至 26.50 美元，并将投资评级由“收集”上调为“买入”。**我们的目标价相当于 10.0 倍预估经调整 EV/EBITDA，具有 16.8% 的上升空间，并相对我们用折现现金流方法得出的 33.27 美元的每份 ADR 估值有 20.3% 的折让。

Rating:

**Buy**

Upgraded

评级:

买入 (上调)

6-18m TP 目标价:

**US\$26.50**

Revised from 原目标价:

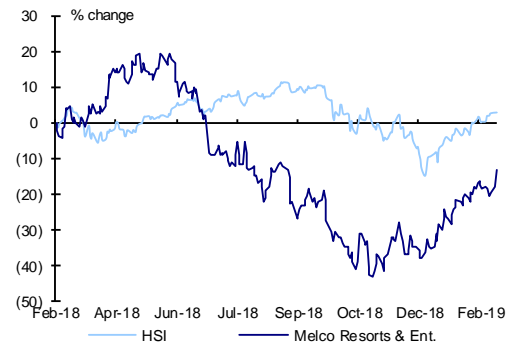
US\$19.50

ADR price ADR 价格:

US\$22.690

Stock performance

股价表现



Change in ADR Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	5.1	25.6	(17.3)
Rel. % to NASDAQ Index 相对纳指变动 %	1.4	22.5	(21.2)
Avg. ADR price (US\$) 平均 ADR 价 (美元)	22.2	20.0	23.6

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	Earnings/ADR	Earnings/ADR	PER	BV/ADR	PBR	DP ADR	Yield	ROE
年结	收入	股东净利	每份 ADR 净利	每份 ADR 净利变动	市盈率	每份 ADR 净资产	市净率	每份 ADR 股	股息率	净资产收益率
12/31	(US\$ m)	(US\$ m)	(US\$)	(Δ %)	(x)	(US\$)	(x)	(US\$)	(%)	(%)
2017A	5,285	347	0.709	103.8	32.0	5.902	3.8	0.405	1.8	9.7
2018A	5,159	352	0.727	2.5	31.2	4.398	5.2	0.580	2.6	11.6
2019F	5,775	600	1.287	77.0	17.6	4.288	5.3	0.666	2.9	21.7
2020F	6,174	739	1.584	23.1	14.3	5.220	4.3	0.608	2.7	23.9
2021F	6,457	870	1.866	17.8	12.2	6.434	3.5	0.616	2.7	23.1

ADR in issue (m) 总 ADR 数 (m)	914.1	Major shareholder 大股东	Melco Intl. Development Ltd. 51.3%
Market cap. (US\$ m) 市值 (US\$ m)	11,216.4	Free float (%) 自由流通比率 (%)	37.5
3 month average vol. 3 个月平均成交股数 ('000)	4,142.1	FY19 Net gearing (%) FY19 净负债/股东资金 (%)	197.6
52 Weeks high/low (US\$) 52 周高/低 (US\$)	51.910 / 25.000	FY19 Est. NAV (US\$) FY19 每 ADR 估值 (美元)	33.3

Source: the Company, Guotai Junan International.

## 4Q18 RESULTS

**Melco Resorts & Entertainment ("Melco" or "the Company") surprised the market as its 4Q18 adjusted property EBITDA soared 25.1% yoy and 44.0% qoq to US\$425 mn, which was 18.3% above Bloomberg consensus estimate and 14.2% above our forecast.** However, the strong beat was due to favorable VIP win rates which positively affected EBITDA at City of Dreams Macau, Studio City, Altira and City of Dreams Manila by approximately US\$28 mn, US\$11 mn, US\$10 mn and US\$7 mn, respectively. Luck adjusted property EBITDA in 4Q18 amounted to US\$369 mn, down 2% yoy and up 10.8% qoq, and beat Bloomberg consensus estimate by 5.9% and our forecast by 1.1%.

**The Company saw steady growth in its mass business driven by City of Dreams Macau during 4Q18.** 4Q18 mass segment (tables & slots) gross win amounted to US\$880.8 mn, up 10.4% yoy and 6.3% qoq. The growth was primarily driven by City of Dreams where the positive reception of Morpheus had translated into business improvement in the mass and premium mass segments, which had been the Company's focus throughout 2018. Non-VIP segments contributed more than 90% of the Company's luck adjusted EBITDA in 4Q18.

**VIP turnover plummeted as Studio City reduced the number of its VIP tables during 4Q18 with the aim to close its VIP business by January 2020.** Melco's total 4Q18 VIP turnover declined by 4.4% yoy and 8.1% qoq to US\$23.8 bn. The decline was primarily due to the plunge in Studio City's VIP turnover (down 38.6% yoy and 31.4% qoq), as Melco plans to relocate the VIP tables at Studio City to other properties to enhance overall table yield. Despite the low VIP turnover, favorable company-wide VIP win rate of 3.3% (up 0.6 ppt yoy and 0.4 ppt qoq) resulted in a total VIP win of US\$788 mn, an increase of 9.6% yoy and 18.3% qoq.

**Net income attributable to shareholders increased 57.7% yoy to US\$128 mn in 4Q18 (US\$0.274 per ADR) in 4Q18.** Net revenue increased by 4.8% yoy and 14.4% qoq to US\$1.4 bn. Net income in 4Q18 was negatively affected by bad debt provision of US\$11 mn, as opposed to bad debt reversal of US\$3 mn and US\$11 mn in 3Q18 and 4Q17, respectively.

**Table-1: Company Financial Results**

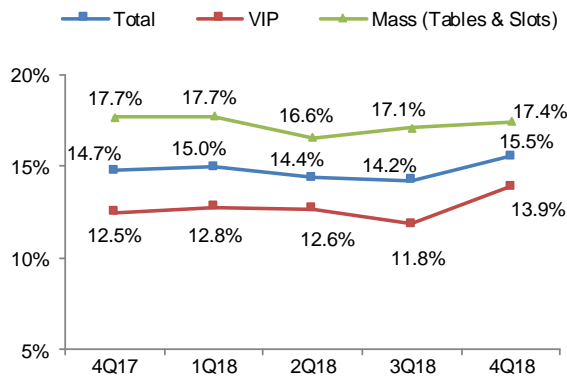
US\$ mn (unless indicated otherwise)	4Q17	1Q18	2Q18	3Q18	4Q18	qoq (% or ppt)	yoy (% or ppt)
Gaming revenue	1,250	1,154	1,070	1,030	1,211	17.5%	(3.1%)
Room revenue	71	68	68	86	90	3.9%	25.8%
Entertainment, retail, F&B & other revenue	95	92	91	104	96	(7.6%)	1.2%
<b>Gross Revenue</b>	<b>1,416</b>	<b>1,313</b>	<b>1,229</b>	<b>1,220</b>	<b>1,396</b>	<b>14.4%</b>	<b>(1.4%)</b>
Commissions, discounts & promotions	(83)	0	0	0	0	n.a.	n.a.
<b>Net Revenue</b>	<b>1,333</b>	<b>1,313</b>	<b>1,229</b>	<b>1,220</b>	<b>1,396</b>	<b>14.4%</b>	<b>4.8%</b>
<b>Shareholders' net income</b>	<b>81</b>	<b>157</b>	<b>57</b>	<b>10</b>	<b>128</b>	<b>1233.1%</b>	<b>57.7%</b>
<b>Earnings per ADR, basic (US\$)</b>	<b>0.166</b>	<b>0.320</b>	<b>0.117</b>	<b>0.020</b>	<b>0.274</b>	<b>1290.0%</b>	<b>65.6%</b>
<b>Earnings per ADR, diluted (US\$)</b>	<b>0.164</b>	<b>0.317</b>	<b>0.115</b>	<b>0.020</b>	<b>0.273</b>	<b>1292.0%</b>	<b>66.4%</b>
<b>Adjusted Property EBITDA</b>							
City of Dreams	170	208	172	147	230	56.1%	35.4%
Altira Macau	17	18	18	(1)	20	n.a.	15.7%
Mocha Clubs	7	7	5	5	5	2.2%	(36.8%)
City of Dreams Manila	54	59	87	55	68	23.0%	26.2%
Studio City	91	110	73	89	103	14.9%	12.3%
<b>Total Adjusted Property EBITDA</b>	<b>340</b>	<b>402</b>	<b>356</b>	<b>295</b>	<b>425</b>	<b>43.9%</b>	<b>25.1%</b>
<b>Adjusted Property EBITDA Margins</b>							
City of Dreams	27.7%	32.5%	29.7%	24.5%	31.7%	7.2 ppt	4.0 ppt
Altira Macau	12.5%	15.0%	14.9%	-1.1%	14.7%	15.7 ppt	2.2 ppt
Mocha Clubs	24.2%	22.8%	18.6%	16.1%	17.7%	1.6 ppt	(6.5) ppt
City of Dreams Manila	32.1%	41.4%	50.2%	39.0%	43.8%	4.8 ppt	11.6 ppt
Studio City	24.8%	29.9%	23.3%	25.9%	30.1%	4.2 ppt	5.4 ppt
<b>Total Adjusted Property EBITDA Margin</b>	<b>25.5%</b>	<b>30.6%</b>	<b>28.9%</b>	<b>24.2%</b>	<b>30.4%</b>	<b>6.2 ppt</b>	<b>4.9 ppt</b>

Source: the Company, Guotai Junan International.

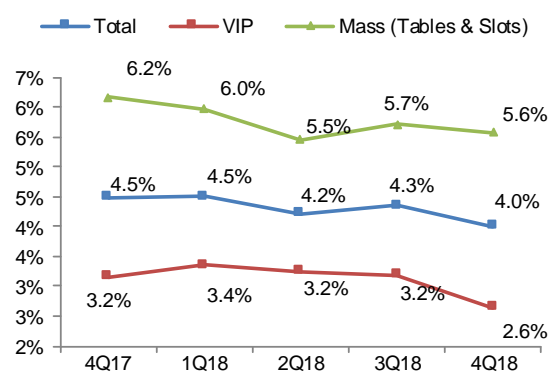
Note: Mass market share includes gaming tables and slot machines.

Adjusted EBITDA is earnings before interest, taxes, depreciation, amortization, pre-opening costs, development costs, property charges and other, share-based compensation, payments to the Philippine parties under the cooperative arrangement (the "Philippine Parties"), land rent to Belle Corporation and other non-operating income and expenses.

In 4Q18, Melco's overall market share improved by 0.8 ppt yoy and 1.3 ppt qoq to 15.5%. VIP market share improved by 1.4 ppt yoy and 2.0 ppt qoq to 13.9% thanks to higher-than-normal VIP win rates. Despite the Company's focus on the mass segment, mass market share declined by 0.3 ppt yoy (increased slightly by 0.3 ppt qoq) to 17.4%, reflecting the intense competition that Melco faced as its competitors' new properties in Cotai were ramping up during the quarter.

**Figure-1: Melco Resorts Market Share, Quarterly**


Source: the Company, Gaming Inspection and Coordination Bureau Macao SAR.

**Figure-2: Studio City Market Share, Quarterly**


Source: the Company, Gaming Inspection and Coordination Bureau Macao SAR.

### Studio City

4Q18 performance at Studio City disappointed as the property's GGR decreased 6.0% yoy and 4.4% qoq to US\$379 mn.

In particular, VIP turnover decreased by 38.6% yoy and 31.4% qoq due to the Company's decision to reduce the number of VIP tables at Studio City to enhance company-wide table yield. The property's mass segment also underperformed the sector, with mass GGR (tables & slots) up by just 1.0% yoy and 3.2% qoq in 4Q18.

**Table-2: Studio City Operating Results**

US\$ Mn	4Q17	1Q18	2Q18	3Q18	4Q18	qoq (% or ppt)	yoy (% or ppt)
Rolling Chip Volume	5,700	6,600	6,100	5,100	3,500	(31.4%)	(38.6%)
Rolling Chip Win %	2.80	2.70	2.70	3.10	3.80	0.7 ppt	1.0 ppt
<b>VIP Win</b>	<b>159.6</b>	<b>178.2</b>	<b>164.7</b>	<b>158.1</b>	<b>133.0</b>	<b>(15.9%)</b>	<b>(16.7%)</b>
Mass Table Drop	848	825	814	808	825	2.2%	(2.7%)
Non-Rolling Chip Table Win Rate (%)	26.1	27.4	24.5	27.2	27.0	(0.2) ppt	0.9 ppt
<b>Mass Market Table Win</b>	<b>221</b>	<b>226</b>	<b>200</b>	<b>220</b>	<b>223</b>	<b>1.4%</b>	<b>0.7%</b>
Slot Machine Handle	539	582	615	642	642	0.0%	19.1%
Slot Machine Win %	4.1	3.7	3.4	2.9	3.6	0.7 ppt	(0.5) ppt
<b>Slot Machine Win</b>	<b>22</b>	<b>22</b>	<b>21</b>	<b>19</b>	<b>23</b>	<b>24.2%</b>	<b>4.6%</b>
<b>Casino Gross Revenue</b>	<b>403</b>	<b>426</b>	<b>385</b>	<b>396</b>	<b>379</b>	<b>(4.4%)</b>	<b>(6.0%)</b>
Hotel Revenue	21	20	19	20	20	(2.1%)	(3.1%)
Other Revenue	32	28	25	30	26	(11.0%)	(16.3%)
Commissions & Discounts	(77)	(86)	(106)	(115)	(101)	(16.5%)	(1.9%)
<b>Total Property Revenue</b>	<b>369</b>	<b>368</b>	<b>314</b>	<b>345</b>	<b>341</b>	<b>(1.3%)</b>	<b>(7.7%)</b>
Occupancy %	99	100	100	100	100	0.0 ppt	1.0 ppt
VIP market share	3.2%	3.4%	3.2%	3.2%	2.6%	(0.6) ppt	(0.5) ppt
Mass market share	6.2%	6.0%	5.5%	5.7%	5.6%	(0.1) ppt	(0.6) ppt
<b>Total market share</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.2%</b>	<b>4.3%</b>	<b>4.0%</b>	<b>(0.3) ppt</b>	<b>(0.5) ppt</b>

Source: the Company, Guotai Junan International.

## City of Dreams Manila

**City of Dreams Manila's 4Q18 GGR increased 4.4% yoy and 1.7% to US\$200 mn.** During 4Q18, VIP win was US\$89 mn, down 1.2% yoy but up 9.6% qoq. VIP win rate for the quarter was 3.7%, compared with 3.1% in 4Q17 and 2.7% in 3Q18, partially offsetting the negative impact from lower 4Q18 VIP turnover, which declined by 17.2% yoy and 20.0% qoq. The property's mass table win increased 6.0% yoy but decreased 6.7% qoq to US\$62 mn. Slot machine win increased 14.0% yoy but decreased 0.1% qoq to US\$49 mn. Mass table hold was 31.4%, up 0.5 ppt yoy but down 1.0 ppt qoq. Slot machine win rate was 5.3%, down 0.3 ppt yoy and flat qoq.

**Table-3: City of Dreams Manila Operating Results**

US\$ Mn	4Q17	1Q18	2Q18	3Q18	4Q18	qoq (% or ppt)	yoy (% or ppt)
Rolling Chip Volume	2,900	2,800	3,000	3,000	2,400	(20.0%)	(17.2%)
Rolling Chip Win %	3.0	2.9	3.7	2.7	3.7	1.0 ppt	0.6 ppt
<b>VIP Win</b>	<b>90</b>	<b>81</b>	<b>111</b>	<b>81</b>	<b>89</b>	<b>9.6%</b>	<b>(1.2%)</b>
Mass Table Drop	189	188	197	205	197	(3.7%)	4.3%
Non-Rolling Chip Table Win %	30.9	33.8	29.4	32.4	31.4	(1.0) ppt	0.5 ppt
<b>Mass Market Table Win</b>	<b>58</b>	<b>64</b>	<b>58</b>	<b>66</b>	<b>62</b>	<b>(6.7%)</b>	<b>6.0%</b>
Slot Machine Handle	793	821	856	935	934	(0.1%)	17.7%
Slot Machine Win %	5.6	5.7	5.9	5.3	5.3	0.0 ppt	(0.3) ppt
<b>Slot Machine Win</b>	<b>43</b>	<b>47</b>	<b>50</b>	<b>50</b>	<b>49</b>	<b>(0.1%)</b>	<b>14.0%</b>
<b>Casino Gross Revenue</b>	<b>192</b>	<b>192</b>	<b>219</b>	<b>197</b>	<b>200</b>	<b>1.7%</b>	<b>4.4%</b>
Hotel Revenue	13	13	13	13	14	2.6%	1.7%
Other Revenue	18	16	16	16	16	1.0%	(12.4%)
Commissions & Discounts	(56)	(79)	(75)	(84)	(74)	(11.5%)	33.7%
<b>Total Property Revenue</b>	<b>168</b>	<b>142</b>	<b>174</b>	<b>142</b>	<b>155</b>	<b>9.5%</b>	<b>(7.3%)</b>
Occupancy %	97	98	98	98	98	0.0 ppt	1.0 ppt

Source: the Company, Guotai Junan International.

## City of Dreams Macau

**City of Dreams Macau was the main driver for the Company's earnings growth in 4Q18.** During 4Q18, the property's net revenue grew 18.3% yoy and 20.6% qoq to US\$725 mn, and its adjusted EBITDA increased 35.4% yoy and 56.1% qoq to US\$230 mn.

**City of Dreams Macau's 4Q18 VIP win increased by 18.5% yoy and 23.6% qoq to US\$365 mn.** The strong growth was due to a higher-than-normal VIP win rate of 3.2%, compared with 2.7% in 4Q18 and 2.4% in 3Q18, more than offsetting the property's below-industry-average growth in its VIP turnover (flat yoy, -7.3% qoq).

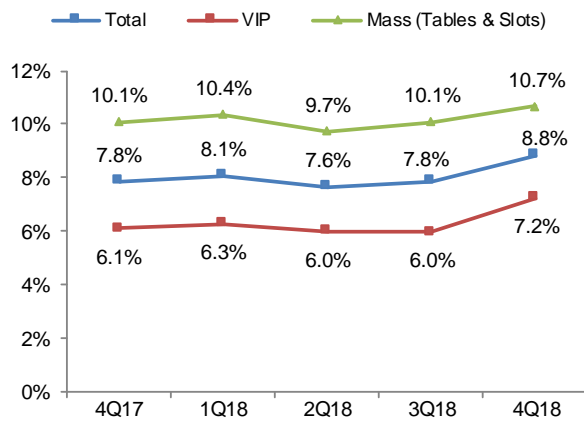
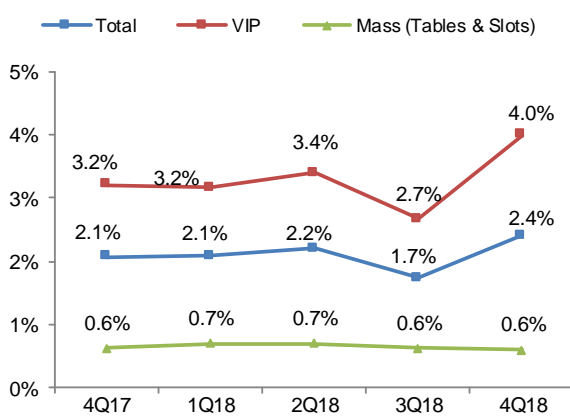
**The property's mass segment (tables & slots) saw significant growth in 4Q18 as the positive reception of Morpheus translated into business improvement in the mass segment.** Mass segment GGR grew 18.3% yoy and 12.0% qoq to US\$471 mn, outperforming the 15.9% yoy increase and 9.0% qoq increase in Macau's mass GGR. 4Q18 Mass table win was US\$432 mn, up 23.1% yoy and 16.1% qoq, with mass table hold of 33.0%, up from 28.6% in 4Q17 and 27.8% in 3Q18. The improved 4Q18 mass table hold of 33%, which the management deemed sustainable, reflected more favorable pricing, length of customer stay and better utilization of mass gaming tables at City of Dreams Macau. Slot machine win, which represents a small portion of the property's GGR, decreased 17.3% yoy and 19.4% qoq to US\$39 mn, as the slot machine win rate declined to 3.7%, compared with 4.2% in 4Q17 and 4.3% in 3Q18.

**The property's hotel RevPAR increased 6.2% yoy and 3.3% qoq to US\$222, benefiting from the ramping up at Morpheus.** Hotel occupancy rate stayed flat yoy but increased by 1 ppt qoq to 97%.

**Table-4: City of Dreams Macau Operating Results**

US\$ Mn	4Q17	1Q18	2Q18	3Q18	4Q18	qoq (% or ppt)	yoy (% or ppt)
Rolling Chip Volume	11,400	11,100	10,500	12,300	11,400	(7.3%)	0.0%
Rolling Chip Win %	2.70	3.00	2.90	2.40	3.20	0.8 ppt	0.5 ppt
<b>VIP Win</b>	<b>308</b>	<b>333</b>	<b>305</b>	<b>295</b>	<b>365</b>	<b>23.6%</b>	<b>18.5%</b>
Mass Table Drop	1,226	1,182	1,182	1,338	1,308	(2.2%)	6.7%
Non-Rolling Chip Table Win %	28.6	32.1	28.4	27.8	33.0	5.2 ppt	4.4 ppt
<b>Mass Market Table Win</b>	<b>351</b>	<b>379</b>	<b>336</b>	<b>372</b>	<b>432</b>	<b>16.1%</b>	<b>23.1%</b>
Slot Machine Handle	1,122	1,001	1,117	1,122	1,052	(6.3%)	(6.3%)
Slot Machine Win %	4.2	5.0	5.1	4.3	3.7	(0.6) ppt	(0.5) ppt
<b>Slot Machine Win</b>	<b>47</b>	<b>50</b>	<b>57</b>	<b>48</b>	<b>39</b>	<b>(19.4%)</b>	<b>(17.3%)</b>
<b>Casino Gross Revenue</b>	<b>705</b>	<b>763</b>	<b>697</b>	<b>715</b>	<b>835</b>	<b>16.8%</b>	<b>18.4%</b>
Hotel Revenue	25	25	24	26	27	3.8%	8.1%
Other Revenue	47	48	53	73	72	(0.7%)	54.5%
Commissions & Discounts	(165)	(195)	(196)	(213)	(210)	(1.4%)	27.6%
<b>Total Property Revenue</b>	<b>613</b>	<b>641</b>	<b>578</b>	<b>601</b>	<b>725</b>	<b>20.6%</b>	<b>18.3%</b>
Occupancy %	97	98	97	96	97	1.0 ppt	0.0 ppt
VIP Market Share	6.1%	6.3%	6.0%	6.0%	7.2%	1.3 ppt	1.1 ppt
Mass Market Share	10.1%	10.4%	9.7%	10.1%	10.7%	0.6 ppt	0.6 ppt
<b>Total Market Share</b>	<b>7.8%</b>	<b>8.1%</b>	<b>7.6%</b>	<b>7.8%</b>	<b>8.8%</b>	<b>1.0 ppt</b>	<b>1.0 ppt</b>

Source: the Company, Guotai Junan International.

**Figure-3: City of Dreams Market Share, Quarterly**

**Figure-4: Altira Macau Market Share, Quarterly**


Source: the Company, Gaming Inspection and Coordination Bureau Macao SAR. Source: the Company, Gaming Inspection and Coordination Bureau Macao SAR.

### Altira Macau

**Altira continued to deliver strong GGR growth during 4Q18.** The property's 4Q18 GGR was US\$228 mn, up 22.5% yoy and 44.5% qoq. 4Q18 VIP rolling chip volume amounted to US\$6.5 bn, up 32.7% yoy and 18.2% qoq, outperforming Macau's VIP GGR growth of 3.4% yoy and 4.8% qoq. With a VIP win rate of 3.1% (down 0.2 ppt yoy, up 0.7 ppt qoq), VIP win was US\$202 mn, up 24.6% yoy and 52.7% qoq.

**Altira's 4Q18 mass market GGR (tables & slots) grew 8.5% yoy and 2.4% qoq to US\$26 mn, underperforming the 15.9% yoy increase and 9.0% qoq increase in Macau's mass GGR.** 4Q18 mass table win was US\$25, up 8.7% yoy and 5.2% qoq, with a mass table hold of 19.7%, up from 18.4% in 4Q17 and 18.2% in 3Q18. 4Q18 slot machine win was US\$1.3 mn, up 4.3% yoy but down 32.3% qoq, with slot machine win rate of 4.3%, down from 6.0% in 4Q17 and 5.6% in 3Q18.

**Table-5: Altira Macau Operating Results**

US\$ Mn	4Q17	1Q18	2Q18	3Q18	4Q18	qoq (% or ppt)	yoy (% or ppt)
Rolling Chip Volume	4,900	5,600	4,800	5,500	6,500	18.2%	32.7%
Rolling Chip Win %	3.30	3.00	3.60	2.40	3.10	0.7 ppt	(0.2) ppt
<b>VIP Win</b>	<b>162</b>	<b>168</b>	<b>173</b>	<b>132</b>	<b>202</b>	<b>52.7%</b>	<b>24.6%</b>
Mass Table Drop	125	139	132	131	127	(2.8%)	1.5%
Non-Rolling Chip Table Win %	18.4	19.4	19.7	18.2	19.7	1.5 ppt	1.3 ppt
<b>Mass Market Table Win</b>	<b>23</b>	<b>27</b>	<b>26</b>	<b>24</b>	<b>25</b>	<b>5.2%</b>	<b>8.7%</b>
Slot Machine Handle	21	26	30	34	30	(11.3%)	45.1%
Slot Machine Win %	6.0	5.4	6.3	5.6	4.3	(1.3) ppt	(1.7) ppt
<b>Slot Machine Win</b>	<b>1.2</b>	<b>1.4</b>	<b>1.9</b>	<b>1.9</b>	<b>1.3</b>	<b>(32.3%)</b>	<b>4.3%</b>
<b>Casino Gross Revenue</b>	<b>186</b>	<b>196</b>	<b>201</b>	<b>158</b>	<b>228</b>	<b>44.5%</b>	<b>22.5%</b>
Hotel Revenue	4	4	4	4	4	1.1%	(8.2%)
Other Revenue	3	3	3	3	3	5.2%	16.2%
Commissions & Discounts	(53)	(83)	(84)	(74)	(97)	30.8%	84.4%
<b>Total Property Revenue</b>	<b>140</b>	<b>120</b>	<b>123</b>	<b>90</b>	<b>138</b>	<b>52.5%</b>	<b>(1.9%)</b>
Occupancy %	99	99	99	99	100	1.0 ppt	1.0 ppt
VIP Market Share	3.2%	3.2%	3.4%	2.7%	4.0%	1.3 ppt	0.8 ppt
Mass Market Share	0.6%	0.7%	0.7%	0.6%	0.6%	0.0 ppt	0.0 ppt
Total market share	2.1%	2.1%	2.2%	1.7%	2.4%	0.7 ppt	0.3 ppt

Source: the Company, Guotai Junan International.

### Mocha Clubs

During 4Q18, Mocha Clubs' mass GGR underperformed the market both yoy and qoq. Slot machine win, the property's only gaming revenue, decreased 13.7% yoy and 7.0% qoq to US\$27 mn, with a slot machine win rate of 4.5%, down from 4.8% in 4Q17 and 4.7% in 3Q18.

**Table-6: Mocha Clubs Operating Results**

US\$ Mn	4Q17	1Q18	2Q18	3Q18	4Q18	qoq (% or ppt)	yoy (% or ppt)
Slot machine handle	623	655	619	617	594	(3.7%)	(4.6%)
Slot machine win %	4.8	4.6	4.5	4.7	4.5	(0.20) ppt	(0.30) ppt
<b>Slot Machine Win</b>	<b>31</b>	<b>30</b>	<b>28</b>	<b>29</b>	<b>27</b>	<b>(7.0%)</b>	<b>(13.7%)</b>
<b>Adjusted EBITDA</b>	<b>7.4</b>	<b>6.9</b>	<b>5.2</b>	<b>4.6</b>	<b>4.7</b>	<b>2.2%</b>	<b>(36.5%)</b>
<b>Mass market share</b>	<b>0.8%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.6%</b>	<b>(0.1) ppt</b>	<b>(0.2) ppt</b>

Source: the Company, Guotai Junan International.

## OUTLOOK

**The Company's management is adding various entertainment offerings at Studio City to drive continued growth in its mass business.** While the Company management is strategically phasing out VIP tables at Studio City, it will be adding more amenities to appeal to the mass market. The Studio City property will undergo a series of upgrades to refine the entertainment offerings, including the recent launch of the world's first all-electric indoor theatrical stunt show, Elekron. In the next few months, a trampoline park as well as a 50,000 sq. ft. virtual reality park will be introduced at Studio City. As for more long-term expansion, Studio City phase II is expected to include two hotel towers, a water park, a cinema and more gaming space, although no development timeline has yet been given by the Company.

**Renovation of the VIP area on the second floor at City of Dreams was completed just before the Chinese New Year this year.** The Company will also soon commence the rolling refurbishment of its Nüwa hotel, with the renovated hotel rooms expected to be rolled out in phases over the next 18 months. Sometime in the second half of 2019, the Countdown hotel at City of Dreams will be redeveloped into a new, luxurious, "ultra-cool" hotel, the "Libertine". We also expect the property to grow market share as its Morpheus hotel continues to ramp up.

## Forecast Revisions

**We increase our forecasts for Melco's 2019 and 2020 adjusted property EBITDA by 2.9% and 1.4%, respectively.** We slightly adjust down our revenue forecasts as the Company's 4Q18 revenue came in somewhat less than we had expected. We increase slightly our EBITDA forecasts on higher expected margin, which will be supported by the continued ramp up and higher operating efficiency at the Morpheus hotel. We forecast 2019-2021 total net revenue of US\$5.775 bn, US\$6.174 bn and US\$6.457 bn, respectively, representing growth of 12.0%, 6.9% and 4.6%. We forecast 2019-2021 adjusted property EBITDA of US\$1.513 bn, US\$1.698 bn and US\$1.756 bn, respectively, representing growth of 2.4%, 12.2% and 3.4%, respectively. We forecast 2019-2021 net income of US\$600 mn, US\$739 mn and US\$871 mn, respectively, equivalent to 35.3% CAGR. We forecast 2019-2021 fully diluted earnings per ADS ("EPADS") of US\$1.282, US\$1.579 and US\$1.860, respectively, equivalent to 37.1% CAGR.

**Table-7: Melco Resorts & Entertainment Forecast Revisions**

US\$ mn (Except EPS)	Old			New			% Change		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
<b>Total Net Revenue</b>	<b>5,858</b>	<b>6,248</b>	<b>n.a.</b>	<b>5,775</b>	<b>6,174</b>	<b>6,457</b>	<b>(1.4%)</b>	<b>(1.2%)</b>	<b>n.a.</b>
<b>Operating Profit</b>	769	934	n.a.	872	952	1,035	13.5%	1.9%	n.a.
<i>Operating Profit Margin</i>	13.1%	14.9%	n.a.	15.1%	15.4%	16.0%	2.0 ppt	0.5 ppt	n.a.
<b>Adjusted Property EBITDA</b>	1,470	1,674	n.a.	1,513	1,698	1,756	2.9%	1.4%	n.a.
<i>Adj. Property EBITDA Margin</i>	25.1%	26.8%	n.a.	26.2%	27.5%	27.2%	1.1 ppt	0.7 ppt	n.a.
<b>Net Profit</b>	542	754	n.a.	600	739	871	10.7%	(2.0%)	n.a.
<i>Net Profit Margin</i>	9.30%	12.10%	n.a.	10.4%	12.0%	13.5%	1.1 ppt	(0.1) ppt	n.a.
EPADS, Basic (US\$)	1.114	1.551	n.a.	1.287	1.584	1.867	15.5%	2.1%	n.a.
EPADS, Diluted (US\$)	1.109	1.543	n.a.	1.282	1.579	1.860	15.6%	2.3%	n.a.

Source: Guotai Junan International.

**VALUATION**

We increase our target price from US\$19.50 to US\$26.50 and upgrade our investment rating from "Accumulate" to "Buy". Over the last five years, Melco on average has traded at 10.0x forward (next four quarters) EV/adjusted EBITDA. Our new target price is equivalent to 10.0x forward EV/adjusted EBITDA and reflects 16.8% upside potential. Our target price is equivalent to 10.0x/ 8.5x 2019/ 2020 EV/adjusted EBITDA and 20.7x/ 16.8x 2019/ 2020 PER and is a 20.3% discount to our DCF derived NAV per share of US\$33.27.

**Table-8: Gaming Sector Peers Comparison**

Company	Stock Code	Currency	Price	M-Cap Billion (HK\$)	PE				EV/ Adjusted EBITDA				PB 19F	ROE 19F (%)
					Hist Avg.	Fwd*			Hist Avg.	Fwd*				
						Fwd*	19F	20F		Fwd*	19F	20F		
<b>Macau Operators</b>														
Galaxy Entertain	00027 HK	HKD	55.350	239.6	21.6	18.2	17.2	15.3	15.5	13.6	13.0	11.3	3.2	19.1
Melco Reso-Adr	MLCO US	USD	22.690	88.0	23.2	26.8	24.0	19.6	10.0	9.6	9.6	8.7	4.0	14.8
Mgm China	02282 HK	HKD	16.180	61.5	22.6	31.1	23.5	16.6	17.0	17.9	13.5	11.5	5.6	26.8
Sands China Ltd	01928 HK	HKD	39.000	315.1	20.3	18.4	18.4	16.5	15.8	14.0	14.0	12.6	8.9	48.1
Sjm Holdings Ltd	00880 HK	HKD	8.810	49.9	20.5	18.5	20.9	17.9	14.8	13.3	14.8	10.1	1.8	8.1
Wynn Macau Ltd	01128 HK	HKD	19.580	101.8	21.9	15.7	16.1	15.0	12.1	11.8	11.8	11.2	47.9	323.3
Simple Average					21.5	22.5	19.9	16.2	13.3	12.7	12.0	10.1	10.4	63.9
Weighted Average					21.3	19.8	18.9	16.4	14.7	13.4	13.0	11.4	10.8	65.4
<b>USA Operators</b>														
Las Vegas Sands	LVS US	USD	61.430	373.7	19.8	19.1	18.9	17.4	12.4	11.3	11.2	10.6	7.4	39.6
Mgm Resorts Inte	MGM US	USD	27.160	114.5	22.5	20.8	20.9	15.5	10.9	10.2	10.0	8.9	2.2	8.3
Penn Natl Gaming	PENN US	USD	25.380	23.7	19.9	15.8	15.8	11.4	7.1	7.5	7.5	6.9	11.5	87.5
Wynn Resorts Ltd	WYNN US	USD	127.710	109.0	22.1	21.1	20.1	15.4	12.3	11.1	11.3	9.5	6.8	47.5
Simple Average					21.1	19.2	18.9	14.9	10.7	10.0	10.0	9.0	7.0	45.7
Weighted Average					20.7	19.6	19.4	16.5	11.9	10.9	10.8	9.9	6.5	37.0
<b>Other Operators</b>														
Genting Singapor	GENS SP	SGD	1.030	72.2	18.2	10.2	16.1	15.6	9.9	7.1	7.1	6.6	1.5	9.7
Genting Malaysia	GENM MK	MYR	3.490	38.0	17.5	17.5	16.6	15.1	10.5	8.7	8.7	7.5	1.0	6.1
Bloomerry Res	BLOOM PM	PHP	12.340	20.6	17.9	14.9	18.3	15.7	9.5	11.8	9.8	8.7	3.1	19.6
Belle Corp	BEL PM	PHP	2.550	3.8	16.8	n.a.	n.a.	n.a.	16.8	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average					17.6	14.2	17.0	15.5	11.7	9.2	8.5	7.6	1.9	11.8
Weighted Average					17.9	12.7	16.6	15.5	10.2	8.3	8.0	7.2	1.6	10.2

Source: Bloomberg, Guotai Junan International.

Note\*: "Fwd" valuations are based on the next forward 12 months earnings forecasts, which is compiled by using the most frequent available periodicity, which for Companies under our coverage in this report is the next four quarters; for companies not under our coverage, the Bloomberg forward valuations are based on next four quarters, next two semi-annuals or next fiscal year.

**Table-9: Melco Resorts & Entertainment DCF Valuation**

Risk Free Rate	2.31%	Sum of PV FCFF (US\$ mn)	13,824
Market Return	13.25%	+ PV Terminal Value (US\$ mn)	5,205
Market Risk Premium	10.94%	Enterprise Value (US\$ mn)	19,030
Adj. Beta	1.2	- Net Debt/(cash) (US\$ mn)	2,734
Equity Discount Rate	15.44%	Total NAV (US\$ mn)	16,296
		ADS Outstanding (mn)	489.8
After Tax Cost of Debt	6.4%	NAV per ADS (US\$)	33.27
D/(D+E)	60.0%		
E/(D+E)	40.0%		
WACC	10.0%		
Long term growth rate	3.0%		

Source: Bloomberg, the Company, Guotai Junan International.



**Table-10: Melco Resorts & Entertainment Valuation and Target Price Based Multiples**

	FY18A	Next 4 Quarters	FY19F	FY20F	FY21F
<b>Target Price Based EV / Adjusted Property EBITDA</b>					
Target Price (US\$)	<b>26.50</b>				
Shares Outstanding, Period End, Fully Diluted (mn)	487	468	468	468	468
TP Based Market Cap (US\$ mn)	12,905	12,404	12,404	12,404	12,404
+ Period End Minority Interest (US\$ mn)	0	0	0	0	0
+ Period End Borrowings (US\$ mn)	4,349	4,231	4,231	3,417	2,547
- Period End Cash & Equivalents (US\$ mn)	1,437	1,445	1,445	1,409	1,461
Year End Enterprise Value (US\$ mn)	15,817	15,190	15,190	14,411	13,490
Adjusted Property EBITDA (US\$ mn)	1,478	1,513	1,513	1,698	1,756
<b>TP Based EV/Adjusted Property EBITDA</b>	<b>10.7</b>	<b>10.0</b>	<b>10.0</b>	<b>8.5</b>	<b>7.7</b>
<b>Target Price Based PER &amp; PEG</b>					
EPS (US\$), Diluted	0.721	1.282	1.282	1.578	1.860
<b>Target Price Based PER</b>	<b>36.8</b>	<b>20.7</b>	<b>20.7</b>	<b>16.8</b>	<b>14.2</b>

Source: the Company, Guotai Junan International.

**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end 31 Dec (USD m)	2017A	2018A	2019F	2020F	2021F	Year end 31 Dec (USD m)	2017A	2018A	2019F	2020F	2021F
Total revenue	5,285	5,159	5,775	6,174	6,457	Property, plant and equipment	5,731	5,662	5,720	5,630	5,497
Casino expenses	(3,374)	(2,985)	(3,207)	(3,520)	(3,668)	Total intangible assets	874	871	869	866	863
Rooms expenses	(33)	(78)	(79)	(93)	(102)	Prepaid expense	190	187	183	180	177
Food & beverage expenses	(58)	(161)	(184)	(200)	(213)	Others	256	201	188	175	163
Entertainment, retail & other expenses	(88)	(92)	(104)	(111)	(116)	Total non-current assets	7,050	6,920	6,960	6,852	6,701
General and administrative	(467)	(501)	(564)	(543)	(568)	Cash & cash equivalents	1,408	1,437	1,447	1,411	1,462
Depreciation and amortisation	(461)	(485)	(530)	(514)	(509)	Investment Securities	90	92	93	95	97
Others	(197)	(230)	(235)	(241)	(246)	Bank deposits & restricted cash	55	48	51	53	56
Operating profit	608	627	872	952	1,035	Accounts receivable	177	242	271	290	303
Interest income	4	5	6	6	6	Inventories	35	41	46	49	51
Interest expenses, net of capitalised interest	(230)	(265)	(257)	(216)	(165)	Prepaid expense & other	80	98	117	135	154
Other expenses	(66)	(14)	(13)	8	8	Total current assets	1,845	1,957	2,024	2,033	2,123
Profit before tax	315	353	609	750	884	Total assets	8,895	8,877	8,984	8,885	8,824
Income tax	0	0	1	2	2	Payables & accruals	1,583	1,688	1,890	2,021	2,113
Profit after tax	315	354	610	751	886	ST debt	84	430	133	138	138
Non-controlling interest	32	(2)	(10)	(13)	(16)	Other ST liabilities	17	11	6	1	(4)
Shareholders' profit / loss	347	352	600	739	870	Total current liabilities	1,684	2,130	2,029	2,159	2,246
Basic EPS	0.709	0.727	1.287	1.584	1.866	LT borrowings	3,507	3,665	3,845	3,026	2,156
Diluted EPS	0.704	0.721	1.282	1.578	1.860	Others	369	336	321	306	291
						Total non-current liabilities	3,875	4,002	4,166	3,332	2,447
						Total liabilities	5,559	6,132	6,195	5,491	4,694
						Total shareholders' equity	2,888	2,127	2,000	2,435	3,001
						Minority interest	448	618	789	959	1,129
						Total equity	3,336	2,746	2,789	3,394	4,130
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (USD m)	2017A	2018F	2019F	2020F	2020F		2017A	2018A	2019F	2020F	2020F
Net income	315	352	600	739	870	Margins					
D&A	541	485	530	514	509	Operating margin	11.5%	12.2%	15.1%	15.4%	16.0%
Other non-cash adjustments	132	135	139	143	146	Net profit margin	6.6%	6.8%	10.4%	12.0%	13.5%
Changes in working capital	175	31	165	106	74	Adj. EBITDA margin	24.3%	26.5%	24.1%	25.4%	25.1%
Cash from operating activities	1,163	1,003	1,434	1,502	1,600	Return Ratios					
Capex	(559)	(412)	(586)	(422)	(374)	ROA	3.8%	4.0%	6.7%	8.3%	9.8%
Other investing	149	(10)	(10)	(10)	(10)	ROE	9.7%	11.6%	21.7%	23.9%	23.1%
Cash from investing activities	(410)	(423)	(596)	(432)	(384)	Return on capital invested	-3.7%	6.1%	10.1%	12.3%	14.2%
Dividends paid	(821)	(281)	(311)	(283)	(287)	Liquidity & leverage					
Cash from (repayment) debt	(194)	492	(118)	(814)	(870)	Leverage (i.e., gearing)	215.5%	286.1%	305.8%	221.1%	135.4%
Issuance (buyback) of equity	4	(126)	(392)	0	0	Net gearing	133.7%	188.4%	197.6%	126.3%	54.7%
Other financing activities	(35)	(638)	(7)	(8)	(8)	Interest coverage ratio (x)	2.4	2.4	3.5	4.5	6.4
Cash from financing activities	(1,046)	(552)	(828)	(1,105)	(1,165)	Current ratio (x)	1.1	0.9	1.0	0.9	0.9
Cash at beg of year	1,702	1,408	1,437	1,447	1,411						
Net changes in cash	(294)	28	10	(35)	51						
Effect of foreign exchanges	(0)	0	0	0	0						
Cash at end of year	1,408	1,437	1,447	1,411	1,462						

Source: the Company, Guotai Junan International.

### Company Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
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