



Company Report: Melco Resorts & Entertainment (MLCO US)

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公司报告: 新濠博亚 (MLCO US)

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3Q2019 Results Beat, Reiterate "Accumulate"

2019 年第 3 季度业绩好于预期, 重申“收集”

- **3Q2019 hold normalized adjusted property EBITDA increased 25% yoy to an all-time record high of US\$439 mn, which was 10.2% above our forecast and 14.4% above Bloomberg consensus estimate.** Gaming revenue increased 18.7% yoy to US\$1.2 bn as all of the Company's Macau properties delivered strong mass tables games revenue growth. 3Q2019 was Melco's 16th consecutive quarter of positive mass table volume growth.
- **Plans remain intact to develop City of Dreams Mediterranean in Cyprus, scheduled to open in 2021 and expected to be the largest premier integrated resort in Europe.** In Macau, Melco aims to open three new villas at Morpheus hotel in time for Chinese New Year 2021, and renovation of luxury Nuwa Hotel at City of Dreams is expected to commence in 2020. Melco's next major project in Macau will be US\$1.35 bn to US\$1.4 bn for further expansion of Studio City.
- **We increase our 2019-2021 adjusted property EBITDA forecasts by 2.4%, 2.8% and 7.2%, respectively.** We forecast 2019-2021 adjusted property EBITDA of US\$1.68 bn, US\$1.71 bn and US\$1.86 bn, representing growth of 13.7%, 2.2% and 8.3%, respectively. We increase our 2019-2021 net revenue forecasts by 3.7%, 7.2% and 9.4%, respectively. We forecast 2019-2021 total net revenue of US\$5.7 bn, US\$6.1 bn and US\$6.5 bn, respectively, representing growth of 11.3%, 5.7% and 7.2%.
- **We increase our target price from US\$22.00 to US\$24.60 and maintain "Accumulate" investment rating.** Our target price is equivalent to 8.3x/ 7.6x 2019/ 2020 EV/adjusted EBITDA which is an 18.8% discount to our DCF derived NAV per share of US\$31.31.
- **2019 年第 3 季度公司标准化赢率下经调整 EBITDA 同比增长 25%至历史新高的 4.39 亿美元, 高于我们的预期 10.2%以及彭博一致预期 14.4%。** 博彩收入同比增长 18.7%至 12 亿美元, 主要由于公司旗下所有澳门物业均录得强劲的中场赌台收入增长。2019 年第 3 季度, 新濠博亚实现连续 16 个季度中场赌台交易额正增长。
- **位于塞浦路斯的地中海新濠天地计划未发生改变, 该物业计划于 2021 年开业并有望成为欧洲最大的高端综合度假村。** 而在澳门, 新濠博亚计划在 2021 年春节前在摩珀斯酒店新开三座别墅, 而新濠天地澳门颐居酒店的翻新工程预计将于 2020 年开始。新濠博亚在澳门的下一个主要项目将是耗资 13.5 亿美元至 14 亿美元的新濠影汇扩张项目。
- **我们分别上调 2019 年至 2021 年经调整物业 EBITDA 预测 2.4%、2.8%和 7.2%。** 我们预测 2019 年至 2021 年经调整物业 EBITDA 分别为 16.8 亿美元、17.1 亿美元和 18.6 亿美元, 分别相当于 13.7%、2.2%和 8.3%的增长率。我们分别上调 2019 年至 2021 年净收入预测 3.7%、7.2%和 9.4%。我们预计 2019 年至 2021 年总净收入分别为 57 亿美元、61 亿美元和 65 亿美元, 分别代表 11.3%、5.7%和 7.2%的增长率。
- **我们将目标价由 22.00 美元上调至 24.60 美元, 并维持“收集”的投资评级。** 我们的目标价相当于 8.3 倍/7.6 倍 2019/2020 年经调整 EV/EBITDA, 并且对我们运用折现现金流方法得出的每股估值 30.31 美元有 18.8%的折让。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

US\$24.60

Revised from 原目标价:

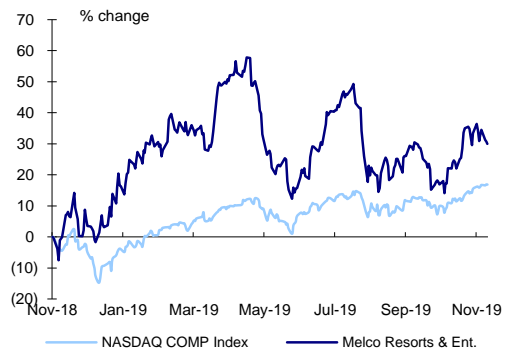
US\$22.00

ADR price ADR 价格:

US\$21.460

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 %	5.7	12.7	30.2
Rel. % to NASDAQ Index 相对纳指变动 %	0.3	3.6	11.4
Avg. ADR price (US\$) 平均 ADR 价 (美元)	21.45	20.66	20.97

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	30.3	5.902	3.6	1.681	7.8	9.7
2018A	5,159	352	0.727	2.5	29.5	4.398	4.9	0.560	2.6	11.6
2019F	5,744	446	0.950	30.6	22.6	5.889	3.6	0.606	2.8	14.2
2020F	6,073	580	1.212	27.6	17.7	6.494	3.3	0.727	3.4	15.2
2021F	6,509	707	1.476	21.8	14.5	7.056	3.0	0.738	3.4	16.5

ADR in issue (m) 总 ADR 数 (m)	485.3	Major shareholder 大股东	Melco Intl. Development Ltd. 51.3%
Market cap. (US\$ m) 市值 (US\$ m)	10,414.3	Free float (%) 自由流通比率 (%)	37.5
3 month average vol. 3 个月平均成交股数 ('000)	1,482.4	FY19 Net gearing (%) FY19 净负债/股东资金 (%)	145.4
52 Weeks high/low (US\$) 52 周高/低 (US\$)	26.970 / 15.400	FY19 Est. NAV (US\$) FY19 每 ADR 估值 (美元)	30.3

Source: the Company, Guotai Junan International.

3Q2019 RESULTS

Melco Resorts & Entertainment's ("Melco" or the "Company") 3Q2019 hold normalized adjusted property EBITDA increased 25% yoy to an all-time record high of US\$439 million, which was 10.2% above our forecast and 14.4% above Bloomberg consensus estimate. To exclude the 'luck' factor, the quarterly fluctuations in VIP win rate, Melco reported a hold normalized adjusted property EBITDA using the normalized VIP win rate of 3.00%, which reflects the midpoint of the expected VIP win rate of 2.85% and 3.15%. Adjusted property EBITDA (not hold normalized) increased 38.7% yoy to US\$418.2 million, reflecting an overall VIP win rate of 2.68%, which is below the expected range. Adjusted property EBITDA margin was 29.1%, up 4.7 ppt yoy but down 1.6 ppt qoq. With mass table drop and slot machine handle both reaching all-time record highs, Melco's earnings mix continued to improve, with over 90% of its Macau EBITDA coming from non-VIP business.

Total revenue increased 16.4% yoy to US\$1.4 billion, which was 4.7% above our forecast and 1.6% above Bloomberg consensus forecast. Gaming revenue increased 18.7% yoy to US\$1.2 billion as all of the Company's Macau properties delivered strong mass table games revenue growth. 3Q19 was Melco's 16th consecutive quarter of positive mass table volume growth. City of Dreams Macau continued its significant gain of market share in both the mass and the VIP gaming segments. At Studio City, the Company opened the 50,000 square feet 'Legend Heroes VR Park' in August. Studio City achieved record mass table and slot volumes during 3Q2019.

Shareholders' net income increased 635.7% yoy but decreased 17.1% qoq to US\$83.2 million and earnings per ADS increased 675.5% yoy but decreased 20.3% qoq to US\$0.174. The Company declared quarterly cash dividend of US\$0.165 per ADS.

Table-1: Melco's Financial Results

US\$ mn (unless indicated otherwise)	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	qoq (% or ppt)	yoy (% or ppt)
Gaming revenue	1,047	1,211	1,177	1,266	1,242	(1.9%)	18.7%
Total Net Revenue	1,236	1,396	1,362	1,443	1,439	(0.3%)	16.4%
Shareholders' net income	11	128	117	100	83	(17.1%)	635.7%
Earnings per ADR, basic (US\$)	0.022	0.274	0.255	0.218	0.174	(20.3%)	675.5%
Earnings per ADR, diluted (US\$)	0.022	0.273	0.254	0.216	0.173	(19.9%)	676.1%
Adjusted Property EBITDA*							
City of Dreams	147	230	229	251	233	(7.1%)	58.3%
Altira Macau	(1)	20	15	8	14	65.7%	n.a.
Mocha Clubs	5	5	6	5	6	18.4%	36.4%
City of Dreams Manila	55	68	61	83	50	(39.8%)	(9.7%)
Studio City	89	103	96	95	106	12.3%	19.1%
Cyprus Operation***	6				9		
Total Adjusted Property EBITDA*	301	425	407	448	418	(6.7%)	38.7%
Adjusted Property EBITDA Margin by Property*							
City of Dreams	24.5%	31.7%	32.0%	31.7%	29.6%	(2.1) ppt	5.1 ppt
Altira Macau	(1.1%)	14.7%	11.5%	8.1%	12.3%	4.2 ppt	13.4 ppt
Mocha Clubs	16.1%	17.7%	19.3%	18.3%	21.3%	2.9 ppt	5.1 ppt
City of Dreams Manila	39.0%	43.8%	42.5%	47.0%	38.2%	(8.8) ppt	(0.7) ppt
Studio City	25.9%	30.1%	29.2%	28.8%	31.5%	2.7 ppt	5.6 ppt
Cyprus Operation***	35.6%	n.a.	n.a.	n.a.	32.0%	n.a.	(3.6) ppt
Total Adjusted Property EBITDA Margin*	24.4%	30.4%	29.9%	30.6%	29.1%	(1.6) ppt	4.7 ppt
Hold Normalized Adj. Property EBITDA**	352	383	378	395	439	11%	25%
Hold Normalized Adj. Property EBITDA Margin**	28.5%	27.4%	27.8%	27.4%	30.5%	3.1 ppt	2.1 ppt

Source: the Company, Guotai Junan International.

Note: *Adjusted Property 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.

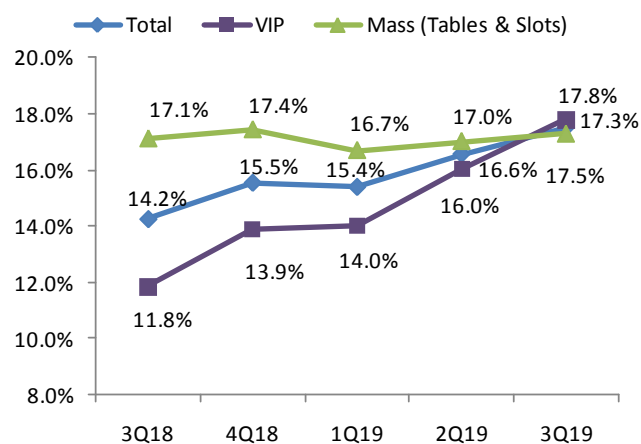
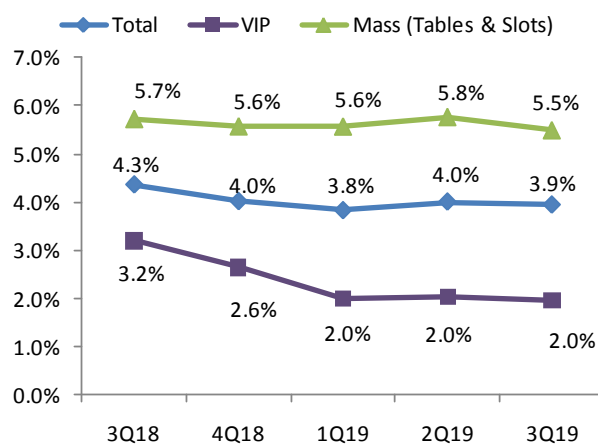
**Hold Normalized Adjusted Property EBITDA is an estimate from the Company. Melco calculates hold normalization using the normalized VIP win rate of 3.00%, which reflects the midpoint of the expected VIP rolling chip win rate of 2.85% and 3.15%.

***The Company acquired a 75% interest in ICR Cyprus Holding Limited ("ICR Cyprus") from its parent company, Melco International Development Limited (00200 HK), on July 31, 2019. Financial results for 3Q2018 and 3Q2019 have been restated to include the consolidated assets and liabilities and financial results of ICR Cyprus.

Melco's 3Q2019 total VIP turnover increased 2.3% yoy and 9.0% qoq to US\$26.5 billion, helped by the further ramp-up of Morpheus. Excluding the Philippines and Cyprus operations, Melco's total VIP turnover increased 4.9% yoy and 7.2% qoq to US\$24.0 billion, better than the Macau sector VIP gross gaming revenue (GGR) decline of 22.5% yoy and 10.2% qoq. The qoq growth in Melco's total VIP GGR was mainly led by City of Dreams, where VIP turnover increased by 39.8% yoy and 15.4% qoq.

Melco's total mass GGR increased 16.6% yoy and 4.4% qoq to US\$966 million. Excluding the Philippines and Cyprus operations, mass market (tables & slots) GGR was US\$849 million (+19.1% yoy, +4.1% qoq), outperforming Macau's 17.7% yoy growth and 2.5% qoq growth in mass GGR.

Melco's overall market share increased 3.3 ppt yoy and 0.9 ppt qoq to 17.5%. Melco's VIP market share increased by 6.0 ppt yoy and 1.7 ppt qoq to 17.8%. Melco's mass market share increased by 0.2 ppt yoy and 0.3 ppt qoq to 17.3%.

Figure-1: Melco's Market Share, Quarterly

Figure-2: Studio City Market Share, Quarterly


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

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

Studio City

Table-2: Studio City Operating Results

US\$ Mn	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	qoq (% or ppt)	yoy (% or ppt)
Rolling Chip Volume (VIP turnover)	5,100	3,500	2,700	3,100	2,770	(10.6%)	(45.7%)
Rolling Chip Win %	3.10	3.80	3.30	2.80	2.71	(0.09) ppt	(0.39) ppt
VIP Win	158.1	133.0	89.1	86.8	75.1	(13.5%)	(52.5%)
Mass Table Drop	808	825	851	877	881	0.4%	9.0%
Non-Rolling Chip Table Win Rate (%)	27.2	27.0	28.4	29.2	28.4	(0.8) ppt	1.2 ppt
Mass Market Table Win	220	223	242	256	250	(2.3%)	13.8%
Slot Machine Handle	642	642	561	631	711	12.7%	10.8%
Slot Machine Win %	2.9	3.6	3.3	3.2	2.8	(0.4) ppt	(0.1) ppt
Slot Machine Win	19	23	18	20	20	(1.4%)	7.0%
Casino Gross Revenue	396	379	349	363	345	(5.0%)	(13.0%)
Hotel Revenue	20	20	19	19	19	3.4%	(4.3%)
Other Revenue	30	26	32	18	30	65.7%	0.6%
Commissions & Discounts	(101)	(85)	(70)	(71)	(57)	(20.1%)	(44.0%)
Total Property Revenue	345	341	330	329	338	2.7%	(2.2%)
VIP market share	3.2%	2.6%	2.0%	2.0%	2.0%	(0.1) ppt	(0.0) ppt
Mass market share	5.7%	5.6%	5.6%	5.8%	5.5%	(0.3) ppt	(0.2) ppt
Total market share	4.3%	4.0%	3.8%	4.0%	3.9%	(0.1) ppt	(0.4) ppt
Occupancy %	100	100	100	100	100	0.0 ppt	0.0 ppt

Source: the Company, Guotai Junan International.

Studio City's GGR in 3Q2019 decreased 13.0% yoy and 5.0% qoq to US\$345 million, as its VIP segment continued to shrink. Melco plans to relocate all of Studio City's VIP tables by January 2020 to optimize company-wide table yield. The property's VIP turnover plummeted 45.7% yoy and 10.6% qoq to US\$2.8 billion. VIP gross win decreased 52.5% yoy and 13.5% qoq to US\$75.1 million, reflecting a VIP win rate of 2.71% (-0.39 ppt yoy, -0.09 ppt qoq). The property's mass GGR (tables & slots) was US\$270 million, up 13.3% yoy but down 2.3% qoq. Mass table win was US\$250 million (+13.8% yoy, -2.3% qoq), corresponding to a hold of 28.4% (+1.2 ppt yoy, -0.8 ppt qoq). Slot machine win was US\$20 million (+7.0% yoy, -1.4% qoq), reflecting a slot win rate of 2.8% (-0.1 ppt yoy, -0.4 ppt qoq).

City of Dreams Macau

GGR in 3Q2019 increased 36.4% yoy and 3.4% qoq to US\$976 million. GGR benefited from the further ramp-up of Morpheus. VIP turnover increased 39.8% yoy and 15.4% qoq to US\$17.2 billion, compared to Macau sector decline in VIP GGR. VIP win rate was unfavorable at 2.69% (+0.29 ppt yoy, -0.47 ppt qoq), and VIP win was US\$463 million (+56.7% yoy, -1.7% qoq).

The property's Mass segment (tables & slots) GGR increased 22.1% yoy and 8.4% qoq to US\$513 million, outperforming the sector's growth in mass market GGR during the quarter. Mass table drop increased 5.4% yoy and 2.8% qoq to US\$1.4 billion, while mass table hold rate increased to 33.2% (+5.40 ppt yoy, +1.60 ppt qoq). Melco's management pointed out during their earnings call that premium mass continues to do well at City of Dreams as results of the further ramp-up of Morpheus and significant reinvestment into various areas around the property.

Table-3: City of Dreams Macau Operating Results

US\$ Mn	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	qoq (% or ppt)	yoy (% or ppt)
Rolling Chip Volume (VIP turnover)	12,300	11,400	10,200	14,900	17,200	15.4%	39.8%
Rolling Chip Win %	2.40	3.20	3.40	3.16	2.69	(0.47) ppt	0.29 ppt
VIP Win	295	365	347	471	463	(1.7%)	56.7%
Mass Table Drop	1,338	1,308	1,318	1,372	1,410	2.8%	5.4%
Non-Rolling Chip Table Win %	27.8	33.0	31.5	31.6	33.2	1.6 ppt	5.4 ppt
Mass Market Table Win	372	432	415	434	468	8.0%	25.9%
Slot Machine Handle	1,122	1,052	980	1,038	1,210	16.6%	7.8%
Slot Machine Win %	4.3	3.7	4.0	3.8	3.7	(0.10) ppt	(0.60) ppt
Slot Machine Win	48	39	39	39	45	13.5%	(7.2%)
Casino Gross Revenue	715	835	801	944	976	3.4%	36.4%
Hotel Revenue	26	27	25	25	26	2.1%	(1.9%)
Other Revenue	73	72	72	73	78	7.2%	8.0%
Commissions & Discounts	(213)	(210)	(184)	(251)	(292)	16.3%	37.1%
Total Property Revenue	601	725	713	791	787	(0.4%)	31.0%
Occupancy %	96	97	97	98	98	0.0 ppt	2.0 ppt
VIP Market Share	6.0%	7.2%	7.8%	11.0%	12.0%	1.0 ppt	6.1 ppt
Mass Market Share	10.1%	10.7%	9.7%	9.9%	10.4%	0.6 ppt	0.4 ppt
Total Market Share	7.8%	8.8%	8.8%	10.4%	11.1%	0.7 ppt	3.3 ppt

Source: the Company, Guotai Junan International

City of Dreams Manila

City of Dreams Manila's 3Q2019 casino revenue decreased 29.4% yoy and 33.4% qoq to US\$139 million. City of Dreams Manila's luck-adjusted EBITDA declined 11% yoy to US\$60 million. VIP turnover at the property was US\$2.4 billion (-18.7% yoy, +28.4% qoq). VIP win was US\$22 million (-73.2% yoy, -78.1% qoq), reflecting a VIP win rate of 0.89% (-1.81 ppt yoy, -4.32 ppt qoq). Mass market (tables & slots) GGR totaled US\$117 million, up 1.2% yoy and 7.0% qoq. Mass table win was US\$63 million (-4.7% yoy, +7.9% qoq), reflecting a hold at 31.3% (-1.10 ppt yoy, 0.90 ppt qoq). Slot machine win was US\$54 million (+9.1% yoy, +5.9% qoq), corresponding to a slot win rate at 5.3% (-0.10 ppt yoy, flat qoq).

Table-4: City of Dreams Manila Operating Results

US\$ Mn	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	qoq (% or ppt)	yoy (% or ppt)
Rolling Chip Volume (VIP turnover)	3,000	2,400	2,300	1,900	2,440	28.4%	(18.7%)
Rolling Chip Win %	2.70	3.70	3.20	5.21	0.89	(4.32) ppt	(1.81) ppt
VIP Win	81	89	74	99	22	(78.1%)	(73.2%)
Mass Table Drop	205	197	184	193	202	4.8%	(1.4%)
Non-Rolling Chip Table Win %	32.4	31.4	30.6	30.4	31.3	0.9 ppt	(1.1) ppt
Mass Market Table Win	66	62	56	59	63	7.9%	(4.7%)
Slot Machine Handle	935	934	908	945	1,020	7.9%	9.1%
Slot Machine Win %	5.3	5.3	5.8	5.4	5.3	(0.1) ppt	0.0 ppt
Slot Machine Win	50	49	53	51	54	5.9%	9.1%
Casino Gross Revenue	197	200	183	209	139	(33.4%)	(29.4%)
Hotel Revenue	13	14	13	15	15	(0.0%)	13.5%
Other Revenue	16	16	15	17	17	3.0%	10.2%
Commissions & Discounts	(84)	(74)	(69)	(64)	(41)	(36.5%)	(51.5%)
Total Property Revenue	142	155	142	176	131	(25.9%)	(7.9%)
Occupancy %	98	98	98	98	98	0.0 ppt	0.0 ppt

Source: the Company, Guotai Junan International.

Figure-3: City of Dreams Market Share, Quarterly

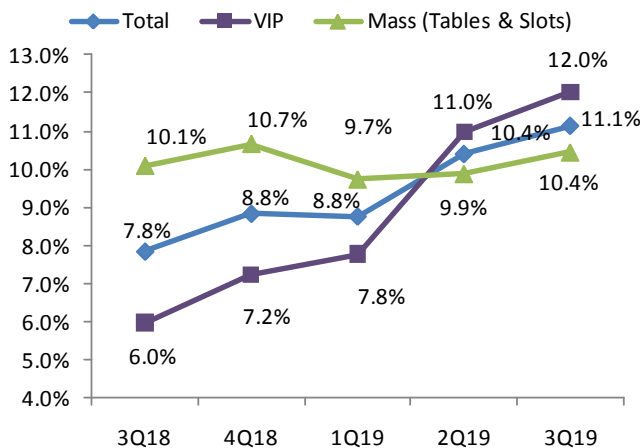
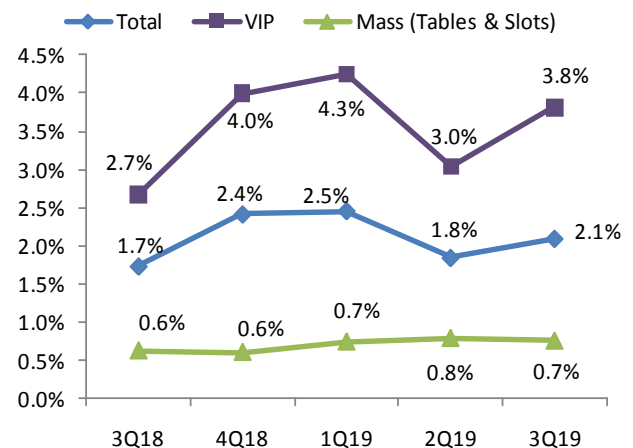


Figure-4: Altira Macau Market Share, Quarterly



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

Altira Macau

Altira Macau's GGR in 3Q2019 was US\$183 million, up 16.2% yoy and 9.6% qoq, outperforming Macau's GGR decline during the quarter (-0.5% yoy, -3.7% qoq). VIP turnover was US\$4.1 billion (-26.4% yoy, -8.0% qoq) and VIP win rate was favorable at 3.62% (+1.22 ppt yoy, +0.67 ppt qoq). Mass market (tables & slots) GGR totaled US\$37 million, an increase of 42.5% yoy but decrease of 2.1% qoq, reflecting a mass table hold at 21.6% (+3.40 ppt yoy, -0.90 ppt qoq). Slot Machine win was US\$3.3 million (+75.6% yoy, -9.5% qoq), corresponding to a slot win rate at 4.2% (-1.40 ppt yoy, -0.20 ppt qoq).

Table-5: Altira Macau Operating Results

US\$ Mn	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	qoq (% or ppt)	yoy (% or ppt)
Rolling Chip Volume (VIP turnover)	5,500	6,500	5,000	4,400	4,050	(8.0%)	(26.4%)
Rolling Chip Win %	2.40	3.10	3.80	2.95	3.62	0.67 ppt	1.22 ppt
VIP Win	132	202	190	130	147	13.0%	11.1%
Mass Table Drop	131	127	139	150	154	2.8%	17.9%
Non-Rolling Chip Table Win %	18.2	19.7	22.4	22.5	21.6	(0.9) ppt	3.4 ppt
Mass Market Table Win	24	25	31	34	33	(1.3%)	39.9%
Slot Machine Handle	34	30	61	84	79	(4.9%)	135.6%
Slot Machine Win %	5.6	4.3	5.1	4.4	4.2	(0.2) ppt	(1.4) ppt
Slot Machine Win	1.9	1.3	3.1	3.7	3.3	(9.5%)	75.6%
Casino Gross Revenue	158	228	224	167	183	9.6%	16.2%
Hotel Revenue	4	4	4	4	4	(0.6%)	(7.0%)
Other Revenue	3	3	3	3	3	7.4%	5.6%
Commissions & Discounts	(74)	(97)	(98)	(70)	(76)	9.5%	2.3%
Total Property Revenue	90	138	133	104	114	9.2%	26.3%
Occupancy %	99	100	99	99	99	0.0 ppt	0.0 ppt
VIP Market Share	2.7%	4.0%	4.3%	3.0%	3.8%	0.8 ppt	1.1 ppt
Mass Market Share	0.6%	0.6%	0.7%	0.8%	0.7%	(0.0) ppt	0.1 ppt
Total market share	1.7%	2.4%	2.5%	1.8%	2.1%	0.2 ppt	0.4 ppt

Source: the Company, Guotai Junan International.

Mocha Clubs

Mocha Clubs' 3Q2019 mass GGR increased 3.5% yoy and 2.1% qoq to US\$30 million. Slot machine win, the properties' only gaming revenue, increased 3.5% yoy and 2.1% qoq to US\$30 million. Slot machine win rate was 4.7%, compared with 4.7% in 3Q2018 and 4.8% in 2Q2019.

Table-6: Mocha Clubs Operating Results

US\$ Mn	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	qoq (% or ppt)	yoy (% or ppt)
Slot machine handle	617	594	664	609	664	8.9%	7.6%
Slot machine win %	4.7	4.5	4.7	4.8	4.7	(0.10) ppt	0.00 ppt
Slot Machine Win	29	27	31	29	30	2.1%	3.5%
Adjusted EBITDA	4.6	4.7	6.0	5.3	6.3	18.4%	36.4%
Mass market share	0.7%	0.6%	0.7%	0.6%	0.6%	(0.0) ppt	(0.1) ppt

Source: the Company, Guotai Junan International.

Cyprus Operations

The Company is currently operating a temporary casino, the first casino in the Republic of Cyprus, and three satellite casinos with a fourth satellite casino scheduled to open in the coming months ("Cyprus Casinos"). As previously reported, the Company acquired a 75% interest in ICR Cyprus Holding Limited ("ICR Cyprus") from its parent company, Melco International Development (00200 HK), on July 31, 2019. Upon the opening of City of Dreams Mediterranean in 2021, the Company will also continue to operate the four satellite casinos while operation of the temporary casino will cease. Cyprus Casinos' 3Q2019 total operating revenues was US\$26.7 million compared to US\$16.9 million in 3Q2018. Cyprus Casinos generated adjusted EBITDA of US\$8.5 million in 3Q2019 compared with adjusted EBITDA of US\$6.0 million in 3Q2018.

Cyprus Casinos' GGR in 3Q2019 was US\$26.9 million, compared with US\$16.9 million in 3Q2018. Cyprus Casinos' 3Q2019 rolling chip volume totaled US\$38.9 million and the rolling chip win rate was favorable at 8.66% in 3Q2019. Mass market table games drop aggregated US\$36.2 million versus US\$37.9 million in 3Q2018, reflecting a mass table hold at 21.9%. Slot Machine handle was US\$311.5 million, compared with US\$ 158.8 million in 3Q2018, corresponding to a slot win rate at 5.0%.

Outlook

As previously announced, plans remain intact to develop City of Dreams Mediterranean in Cyprus, scheduled to open in 2021. The Company acquired a 75% interest in ICR Cyprus Holding ("ICR Cyprus") from its parent company, Melco International Development Limited (00200 HK), on July 31, 2019. ICR Cyprus is developing City of Dreams Mediterranean and is Cyprus' exclusive gaming license holder through 2032. This integrated destination resort in Cyprus is currently under development and scheduled to open in 2021, upon which it is expected to be the largest premier integrated destination resort in Europe. A groundbreaking ceremony took place in 2018 and piling work on the main structure of has already been completed. Upon completion, City of Dreams Mediterranean is currently expected to have a 7,500 sq.m gaming area comprising over 100 tables and over 1,000 slot machines, a five-star hotel with about 500 rooms, world-class international restaurants and cafeterias, an outdoor amphitheater and MICE and other facilities.

Figure-5: City of Dreams Mediterranean



Source: the Company.

Figure-6: Altira Macau Market Share, Quarterly



Source: the Company.

Melco opened a new premium mass gaming area at City of Dreams Macau in October. Additional upgrade works are currently ongoing at City of Dreams Macau to further expand premium mass gaming spaces, which we expect to help the Company remain competitive and defend market share as competitors also roll out upgrades and new facilities.

The Company aims to open three new villas at Morpheus hotel in time for Chinese New Year 2021. The work on the villas, as well as two additional suites, is currently only at the design phase. The Company is hoping to build it out probably towards the end of 2020, and hopes to have it open in time for Chinese New Year 2021.

Renovation of luxury Nuwa Hotel at City of Dreams Macau is expected to commence in 2020. Melco's management indicated that the renovation of Nuwa should take about 15 months to complete, once started right after Chinese New Year

2020. The intention is to make sure it Nuwa appeals to Melco's very best VIP players and high end premium mass players.

Melco's next major project in Macau will be US\$1.35 billion to US\$1.4 billion for further expansion of Studio City. Melco's management indicated that they hope to commence construction of Studio City Phase 2 before the end of this year. Once completed, the expanded area is expected to have two hotel towers, a cineplex, one of the world's largest indoor water parks and additional gaming space. No timeline has been given yet for the expected completion date.

Forecast Revisions

We increase our 2019-2021 net revenue forecasts by 3.7%, 7.2% and 9.4%, respectively. We forecast 2019-2021 total net revenue of US\$5.7 billion, US\$6.1 billion and US\$6.5 billion, respectively, representing growth of 11.3%, 5.7% and 7.2%. Even with an unlucky overall VIP win rate of 2.85%, Melco's net revenue in 3Q2019 was 4.7% above our last forecast. Using the normalized VIP win rate of 3.00%, Melco's 3Q2019 net revenue would have been 10.8% above our last forecast as the Company outperformed in both the VIP and mass market segments. During the Company's earnings call, Chairman and CEO Lawrence Ho indicated that in his view, the VIP market has started to stabilize in the beginning of 4Q2019, and that hopefully the sector the decline in VIP business will start to moderate. However, with the trade war tension and macro risks still looming, we remain cautious on our view of a rebound in Macau GGR growth, and so we only moderately raise Melco's revenue forecasts.

We increase our 2019-2021 adjusted property EBITDA forecasts by 2.4%, 2.8% and 7.2%, respectively. We forecast 2019-2021 adjusted property EBITDA of US\$1.68 billion, US\$1.71 billion and US\$1.86 billion, representing growth of 13.7%, 2.2% and 8.3%, respectively. Melco's 3Q2019 hold normalized adjusted property EBITDA reached an all-time record high and was 10.2% above our last forecast. Melco's casino expenses were significantly lower than we had expected in 3Q2019, equivalent to 66.3% of casino net revenue, down from 69.9% in 3Q2018, attributable to a higher proportion of revenue coming from the higher margin mass and premium mass segments. During 3H2019, Melco's growth in the mass gaming segment significantly outpaced that of VIP, with Melco's earning mix continuing to improve, with over 90% of its Macau EBITDA coming from the non-VIP segments. Melco's

We forecast 2019-2021 net profit of US\$446.0 million, US\$580.2 million and US\$707.0 million, respectively, equivalent to 26.2% CAGR. We forecast 2019-2021 fully diluted earnings per ADS (EPADS) of US\$0.945, US\$1.207 and US\$1.470, respectively, equivalent to 26.8% CAGR.

Table-7: Melco Resorts & Entertainment Forecast Revisions

US\$ mn (Except EPS)	Old			New			% Change		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Total Net Revenue	5,538	5,665	5,948	5,744	6,073	6,509	3.7%	7.2%	9.4%
Operating Profit	788	839	911	792	860	965	0.5%	2.4%	5.9%
<i>Operating Profit Margin</i>	14.2%	14.8%	15.3%	13.8%	14.2%	14.8%	(0.4) ppt	(0.7) ppt	(0.5) ppt
Adjusted Property EBITDA	1,642	1,671	1,737	1,681	1,719	1,862	2.4%	2.8%	7.2%
<i>Adj. Property EBITDA Margin</i>	29.6%	29.5%	29.2%	29.3%	28.3%	28.6%	(0.4) ppt	(1.2) ppt	(0.6) ppt
Net Profit	432	495	603	446	580	707	3.2%	17.2%	17.3%
<i>Net Profit Margin</i>	7.8%	8.7%	10.1%	7.8%	9.6%	10.9%	(0.0) ppt	0.8 ppt	0.7 ppt
EPADS, Basic (US\$)	0.933	1.061	1.291	0.950	1.212	1.476	1.8%	14.2%	14.3%
EPADS, Diluted (US\$)	0.927	1.055	1.284	0.945	1.207	1.470	1.9%	14.4%	14.5%

Source: Guotai Junan International.

Valuation

We increase our target price from US\$22.00 to US\$24.60 and maintain "Accumulate" investment rating. When we published our last Melco Company Report on 28 Aug., the Macau gaming sector was trading at market-cap weighted average forward EV/adjusted EBITDA of 11.5 compared with 12.4x currently. Our target price is equivalent to 8.3x/ 7.6x 2019/ 2020 EV/adjusted EBITDA and 26.0x/ 20.4x 2019/ 2020 PER and is an 18.8% discount to our DCF derived NAV per share of US\$30.31.

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*	Fwd*	19F	20F	Hist Avg. Fwd*	Fwd*	19F	20F		
Macau Operators														
Galaxy Entertain	00027 HK	HKD	52.800	230.9	18.7	17.3	17.1	16.5	13.9	13.5	13.6	12.6	3.2	19.9
Melco Reso-Adr	MLCO US	USD	21.460	81.6	20.7	17.9	21.7	17.1	9.1	8.4	9.1	8.3	4.2	19.1
Mgm China	02282 HK	HKD	11.860	44.8	25.2	18.7	18.8	14.8	14.2	9.4	9.4	8.1	4.2	23.3
Sands China Ltd	01928 HK	HKD	38.200	312.6	18.5	18.9	18.7	16.9	14.7	13.8	13.8	12.6	8.7	47.8
Sjm Holdings Ltd	00880 HK	HKD	8.220	46.8	18.8	15.8	15.7	17.4	13.3	12.3	12.3	11.0	1.6	10.6
Wynn Macau Ltd	01128 HK	HKD	16.880	88.8	17.0	16.4	16.2	14.3	12.5	11.2	11.2	10.3	85.7	365.5
Simple Average					19.7	18.2	18.6	16.0	12.1	10.8	10.9	9.8	15.6	70.7
Weighted Average					19.0	17.9	18.1	16.4	13.6	12.6	12.6	11.6	14.5	68.4
USA Operators														
Las Vegas Sands	LVS US	USD	62.390	375.1	18.3	19.2	19.9	18.6	11.7	11.4	11.6	11.3	9.0	41.4
Mgm Resorts Inte	MGM US	USD	31.100	125.4	21.5	21.9	47.3	20.8	10.4	9.6	10.5	9.5	2.2	6.0
Penn Natl Gaming	PENN US	USD	21.720	19.7	16.2	11.1	14.2	10.4	6.9	7.3	7.3	6.8	1.1	11.5
Wynn Resorts Ltd	WYNN US	USD	118.680	99.7	19.3	22.8	26.6	19.6	11.2	10.8	12.0	10.1	6.9	21.3
Simple Average					18.8	18.7	27.0	17.4	10.1	9.8	10.3	9.4	4.8	20.0
Weighted Average					19.0	18.8	27.4	18.0	10.6	10.2	10.6	10.0	5.7	25.6
Other Operators														
Bloomberg Res	BLOOM PM	PHP	11.300	19.2	15.8	15.2	15.2	13.8	9.2	8.8	8.8	8.0	2.8	20.9
Belle Corp	BEL PM	PHP	2.020	3.0	9.6	7.1	7.1	6.0	11.0	6.7	6.7	5.5	0.6	n.a.
Simple Average					12.7	11.1	11.1	9.9	10.1	7.8	7.8	6.8	1.7	20.9
Weighted Average					15.8	15.2	15.2	13.8	9.2	8.8	8.8	8.0	2.8	20.9

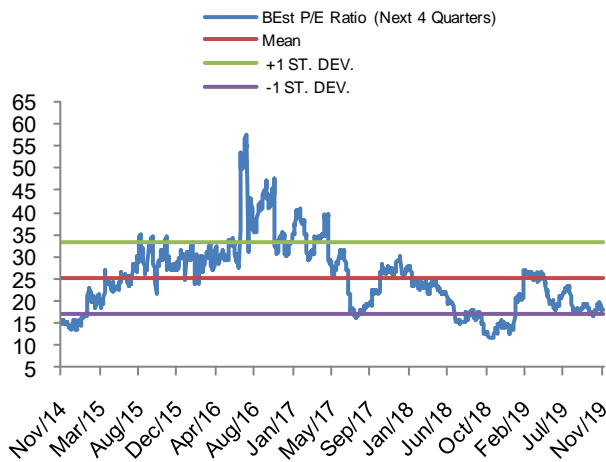
Source: Bloomberg, Guotai Junan International.

Note*: Forward ("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.

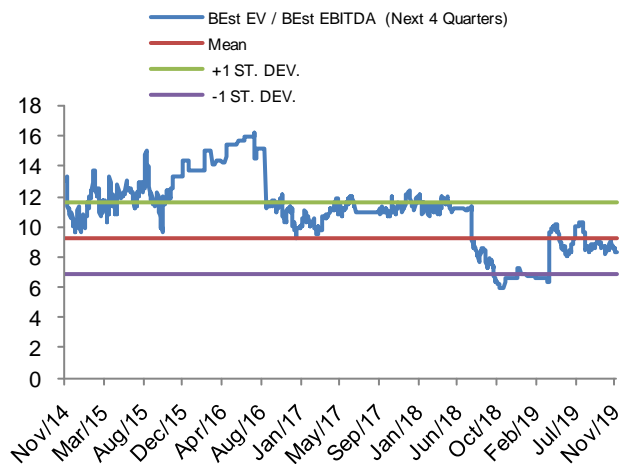
Table-9: Melco Resorts & Entertainment DCF Valuation

Risk Free Rate	1.81%	Sum of PV FCFF (US\$ mn)	11,571
Market Return	11.15%	+ PV Terminal Value (US\$ mn)	5,564
Market Risk Premium	9.34%	Enterprise Value (US\$ mn)	17,135
Adj. Beta	1.2	- Net Debt/(cash) (US\$ mn)	2,290
Equity Discount Rate	13.02%	Total NAV (US\$ mn)	14,845
		ADR Outstanding (mn)	489.8
After Tax Cost of Debt	6.5%	NAV per ADR (US\$)	30.31
D/(D+E)	60.0%		
E/(D+E)	40.0%		
WACC	9.1%		
Long term growth rate	3.0%		

Source: Bloomberg, the Company, Guotai Junan International.

Figure-7: Melco's Historical Forward PE


Source: Bloomberg, Guotai Junan International.

Figure-8: Melco's Historical Forward EV/Adjusted EBITDA


Source: Bloomberg, Guotai Junan International.

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

	FY18A	FY19F	Next 4 Quarters	FY20F	FY21F
Target Price Based EV / Adjusted Property EBITDA					
Target Price (US\$)	24.60				
Shares Outstanding, Period End, Fully Diluted (mn)	487	472	479	481	481
TP Based Market Cap (US\$ mn)	11,979	11,607	11,776	11,833	11,833
+ Period End Minority Interest (US\$ mn)	0	0	0	0	0
+ Period End Borrowings (US\$ mn)	4,349	4,045	3,242	2,975	2,738
- Period End Cash & Equivalents (US\$ mn)	1,437	1,689	1,741	1,759	2,667
Year End Enterprise Value (US\$ mn)	14,892	13,963	13,277	13,049	11,904
Adjusted Property EBITDA (US\$ mn)	1,478	1,681	1,694	1,719	1,862
TP Based EV/Adjusted Property EBITDA	10.1	8.3	7.8	7.6	6.4
Target Price Based PER & PEG					
EPS (US\$), Diluted	0.721	0.945	1.141	1.207	1.470
Target Price Based PER	34.1	26.0	21.6	20.4	16.7

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	5,744	6,073	6,509	Property, plant and equipment	5,731	5,662	5,781	5,957	6,081
Casino expenses	(3,374)	(2,985)	(3,245)	(3,409)	(3,659)	Total intangible assets	874	871	169	(532)	(1,234)
Rooms expenses	(33)	(78)	(87)	(81)	(85)	Prepaid expense	190	187	183	180	177
Food & beverage expenses	(58)	(161)	(184)	(205)	(217)	Others	256	201	202	190	177
Entertainment, retail & other expenses	(88)	(92)	(99)	(105)	(112)	Total non-current assets	7,050	6,920	7,205	6,662	6,066
General and administrative	(467)	(501)	(557)	(575)	(616)	Cash & cash equivalents	1,408	1,437	1,689	1,759	2,667
Depreciation and amortisation	(461)	(485)	(564)	(581)	(592)	Restricted Cash	45	48	66	84	102
Others	(197)	(230)	(217)	(257)	(263)	Investment Securities	90	92	73	55	36
Operating profit	608	627	792	860	965	Accounts receivable	177	242	322	340	365
Interest income	4	5	11	16	21	Inventories	35	41	45	48	52
Interest expenses, net	(230)	(265)	(290)	(216)	(180)	Prepaid expense & other	90	98	102	110	121
Other expenses	(66)	(14)	(44)	(35)	(42)	Total current assets	1,845	1,957	2,297	2,396	3,342
Profit before tax	315	353	469	625	763	Total assets	8,895	8,877	9,502	9,058	9,408
Income tax	0	0	(6)	(1)	(1)	Payables & accruals	1,583	1,688	1,880	1,988	2,130
Profit after tax	315	354	462	624	762	ST debt	84	430	920	485	359
Non-controlling interest	32	(2)	(16)	(44)	(55)	Other ST liabilities	17	11	6	1	(4)
Shareholders' profit / loss	347	352	446	580	707	Total current liabilities	1,684	2,130	2,806	2,473	2,485
Basic EPS	0.709	0.727	0.950	1.212	1.476	LT borrowings	3,507	3,665	3,000	2,365	2,254
Diluted EPS	0.704	0.721	0.945	1.207	1.470	Others	369	336	142	150	161
						Total non-current liabilities	3,875	4,002	3,142	2,515	2,415
						Total liabilities	5,559	6,132	5,948	4,988	4,900
						Total shareholders' equity	2,888	2,127	2,765	3,110	3,379
						Minority interest	448	618	789	959	1,129
						Total equity	3,336	2,746	3,554	4,069	4,509
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (USD m)	2017A	2018A	2019F	2020F	2021F		2017A	2018A	2019F	2020F	2021F
Net income	315	353	446	580	707	Margins					
D&A	541	564	564	581	592	Operating margin	11.5%	12.2%	13.8%	14.2%	14.8%
Other non-cash adjustments	132	60	63	67	70	Net profit margin	6.6%	6.8%	7.8%	9.6%	10.9%
Changes in working capital	175	80	120	99	128	Adj. EBITDA margin	0.0%	0.0%	0.0%	0.0%	0.0%
Cash from operating activities	1,163	1,057	1,193	1,328	1,497	Return Ratios					
Capex	(559)	(495)	18	(56)	(14)	ROA	3.8%	4.0%	4.9%	6.3%	7.7%
Other investing	155	(115)	5	0	(3)	ROE	9.7%	11.6%	14.2%	15.2%	16.5%
Cash from investing activities	(404)	(610)	23	(56)	(17)	Return on capital invested	-3.7%	6.3%	8.9%	9.3%	12.6%
Dividends paid	(821)	(272)	(285)	(348)	(354)	Liquidity & leverage					
Repurchase of shares	0	(656)	0	0	0	Leverage (i.e., gearing)	215.5%	286.1%	256.8%	156.1%	127.7%
Cash from (repayment) debt	(194)	503	(304)	(1,070)	(237)	Net gearing	133.7%	188.4%	145.4%	59.4%	Net
Issuance (buyback) of equity	4	5	(303)	201	0						Cash
Other financing activities	(35)	14	(73)	15	18	Interest coverage ratio (x)	2.4	2.4	2.8	4.2	5.6
Cash from financing activities	(1,046)	(405)	(964)	(1,202)	(572)	Current ratio (x)	1.1	0.9	0.8	1.0	1.3
Cash at beg of year	1,702	1,408	1,437	1,689	1,759						
Net changes in cash	(288)	42	252	70	908						
Effect of foreign exchanges	(0)	(11)	0	0	0						
Changes in restricted cash	(6)	(3)	0	0	0						
Cash at end of year	1,408	1,437	1,689	1,759	2,667						

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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