



## Company Report: Melco Resorts & Entertainment (MLCO US)

公司报告: 新濠博亚 (MLCO US)

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# Revenue and EBITDA Margin Catalysts Triggered, "Buy"

收入和 EBITDA 利润率催化剂被触发, “买入”

- **We upgrade Melco's investment rating from "Neutral" to "Buy", and raise the target price to US\$18.00, based on 11.5x 2023 EV/EBITDA.** Our target price reflects 57.3% upside potential. We forecast 2023-2025 adjusted property EBITDA of US\$1.209 bn, US\$1.835 bn and US\$2.100 bn, respectively. In our view, Melco's current valuation is excessively low and does not reflect the current recovery and growth trajectory.
- **New capacity and new Melco Residency Concert Series will drive revenue growth.** Melco's new 500-room City of Dreams Mediterranean in Cyprus is set to open in June 2023, and will be Europe's first integrated casino resort. Studio City Phase 2 opens this year, with stage one (indoor water park and 338-suite Epic hotel tower) already opened on 6 April. Stage two, including the 557-room W Macau hotel tower, is set to open in 3Q2023 and will bring Melco's total number of suites and rooms in Macao to 4,885. The "Melco Residency Concert Series" launched on 1 April will drive new traffic to the gaming tables for three years.
- **We forecast adjusted property EBITDA margin to increase to 30.0% in 2024, surpassing Melco's all-time annual high margin of 29.4% reached in 2019.** The management estimates that Melco will have around 2,000 fewer full-time employees compared to 2019 even after Studio City phase 2 opens and ramps up. Cost savings achieved during the pandemic are expected to persist.
- **Risks:** Economic growth may be weaker than expected.
- **我们将新濠博亚的投资评级由“中性”上调至“买入”，并将目标价上调至 18.00 美元，基于 11.5 倍 2024 年 EV/EBITDA。** 目标价有 57.3% 上升空间。我们预测 2023-2025 年经调整物业 EBITDA 分别为 12.09 亿美元、18.35 亿美元及 21.00 亿美元。我们认为，新濠博亚目前的估值过低并未能反映当前的复苏和增长轨迹。
- **新增容量及新濠驻场音乐会系列将推动收入增长。** 新濠博亚位于塞浦路斯的地中海新濠天地拥有 500 间客房，将于 2023 年 6 月开业，并将成为欧洲首个综合赌场度假村。新濠影汇第二期则于今年开幕，首期（室内水上乐园及拥有 338 间套房的 Epic 酒店大楼）已于 4 月 6 日开幕。第二阶段，包括拥有 557 间客房的澳门 W 酒店大楼，将于 2023 年第三季度开幕，使得新濠博亚在澳门的套房和客房总数将达到 4,885 间。4 月 1 日推出的“新濠驻场演唱会系列”将连续三年为博彩牌桌带来新客流量。
- **我们预计经调整物业 EBITDA 利润率将在 2024 年上升至 30.0%，超过新濠博亚在 2019 年达到的 29.4% 的历史最高年度利润率。** 管理层估计，与 2019 年相比，新濠博亚的全职员工将减少约 2,000 人，即使在新濠影汇第二期开幕并扩大运营之后。预计疫情期间实现的成本节约将持续下去。
- **风险：** 经济复苏弱于预期。

Rating:

**Buy**

Upgraded

评级:

买入 (上调)

6-18m TP 目标价:

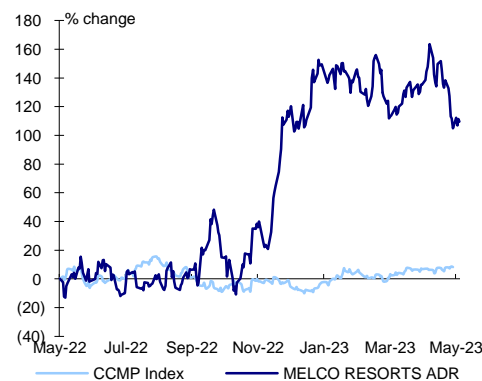
**US\$18.00**

ADR price ADR 价格:

US\$11.440

### 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 %	(14.2)	(9.0)	114.2
Rel. % to NASDAQ Index 相对纳指变动 %	(18.6)	(16.6)	103.1
Avg. ADR price(US\$) 平均股价 (美元)	12.7	12.6	8.9

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	市盈率	每股 ADR	市净率	每股 ADR	股息率	净资产收益率
12/31	(US\$ m)	(US\$ m)	(US\$)	(Δ %)	(x)	(US\$)	(x)	(US\$)	(%)	(%)
2021A	2,012	(812)	(1.698)	n.a.	n.a.	0.512	5.0	0.000	0.0	(120.5)
2022A	1,350	(931)	(2.007)	n.a.	n.a.	(1.834)	22.3	0.000	0.0	n.a.
2023F	4,334	284	0.645	n.a.	17.7	(1.149)	n.a.	0.000	0.0	n.a.
2024F	6,114	960	2.186	238.9	5.2	0.591	n.a.	0.000	0.0	n.a.
2025F	6,644	1,275	2.915	33.3	3.9	3.123	19.4	0.000	0.0	156.8

ADR in issue (m) 总 ADR 数 (m)	477.2	Major shareholder 大股东	Melco Intl. Development Ltd. 53.9%
Market cap. (US\$ m) 市值 (US\$ m)	5,459.2	Free float(%) 自由流通比率(%)	46.1
3 month average vol. 3 个月平均成交股数 ('000)	3,090.3	FY23 Net gearing (%) FY23 净负债/股东资金 (%)	n.a.
52 Weeks high/low (US\$) 52 周高/低 (US\$)	14.455 / 4.610	FY23 Est. NAV (US\$) FY23 每 ADR 估值 (美元)	22.0

Source: the Company, Guotai Junan International.

**Melco Resorts & Entertainment's ("Melco" or the "Company") 1Q2023 results beat expectations as adjusted property EBITDA margin recovered to 26.6%, just 3.3 ppt lower than that in 1Q2019.** Total 1Q2023 revenue increased 50.9% yoy to US\$716.5 million, equivalent to 51.8% of total revenue in 1Q2019. Adjusted property EBITDA increased 240.5% yoy to US\$190.8 million, recovering to 46.1% of the adjusted EBITDA amount in 1Q2019 as margin was higher than expected. Melco's retail operations were operating at less than full capacity in 1Q2023, which helped keep costs down. When we visited Melco's Studio City property on May 15 and 16, we noticed many retail outlets were still under renovation or not yet open after having been put into hibernation during the pandemic. This undoubtedly helped to keep operating costs low. We expect operations to continue ramping up in 2Q2023 in order to meet growing demand.

**Strong momentum continued after 1Q2023.** The management indicated that during the May Golden Week holiday period, mass-market table games drop and revenue amounts exceeded those of the same period in 2019. After having reduced staff during the pandemic, only about 70% of Melco's Macau hotel rooms were available in 1Q2023 as the Company worked to build out its staff. Room availability increased to around 80% by April as the Company increased its staff hiring and training. The management indicated that hotel room inventory availability would be back to 100% by the beginning of June. This will allow the Company to take full advantage of the ongoing Macao recovery.

**Table-1: Melco's 1Q2023 adjusted property EBITDA margin recovered to 26.6%, just 3.3 ppt lower than that in 1Q2019**

US\$ mn (except for earnings per ADR)	1Q2019	1Q2022	4Q2022	1Q2023	vs. 1Q2019 (% or ppt)	qoq (% or ppt)	yoy (% or ppt)
Gaming Net Revenue	1,198	395	267	599	(50.0%)	124.0%	51.6%
Total Net Revenue	1,383	475	337	716	(48.2%)	112.5%	50.9%
Shareholders' Net Income / (loss)	120	(183)	(252)	(81)	n.a.	n.a.	n.a.
Earnings per ADR, basic (US\$)	0.251	(0.387)	(0.566)	(0.184)	n.a.	n.a.	n.a.
Earnings per ADR, diluted (US\$)	0.250	(0.387)	(0.566)	(0.184)	n.a.	n.a.	n.a.
Adjusted Property EBITDA*							
City of Dreams	228.6	44.4	(7.8)	94.9	(58.5%)	n.a.	113.8%
Altira Macau	15.3	(9.4)	(9.5)	(2.0)	n.a.	n.a.	n.a.
Mocha Clubs	6.0	4.4	1.8	7.7	28.0%	324.4%	74.5%
City of Dreams Manila	60.5	33.0	23.6	60.9	0.7%	158.6%	84.6%
Studio City	96.4	(17.3)	(25.3)	20.6	(78.6%)	n.a.	n.a.
Cyprus Operation	6.7	0.9	10.5	8.7	29.6%	(17.3%)	864.7%
<b>Total Adjusted Property EBITDA*</b>	<b>413.5</b>	<b>56.0</b>	<b>(6.8)</b>	<b>190.8</b>	<b>(53.9%)</b>	<b>n.a.</b>	<b>240.5%</b>
<b>Adjusted Property EBITDA Margin</b>	<b>29.9%</b>	<b>11.8%</b>	<b>5.0%</b>	<b>26.6%</b>	<b>(3.3)</b>	<b>21.6</b>	<b>14.8</b>
<b>Hold Normalized Adj. Property EBITDA**</b>	<b>378.0</b>	<b>47.5</b>	<b>(4.0)</b>	<b>197.0</b>	<b>(0.5)</b>	<b>n.a.</b>	<b>3.1</b>
<b>Hold Normalized Adj. Property EBITDA Margin</b>	<b>27.3%</b>	<b>10.0%</b>	<b>(1.2%)</b>	<b>27.5%</b>	<b>0.2</b>	<b>28.7</b>	<b>17.5</b>

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%.

**We upgrade Melco's investment rating from "Neutral" to "Buy" and increase the target price to HK\$18.00, representing 57.3% upside potential.** We forecast 2023-2025 adjusted property EBITDA of US\$1.209 bn, US\$1.835 bn and US\$2.100 bn, respectively, reflecting growth of 51.8% and 14.5% in 2024 and 2025. Our target price is based on 11.5x 2023 EV/adjusted EBITDA, is equivalent to 7.5x 2019 EV/adjusted EBITDA and is an 18.3% discount to our DCF derived NAV of HK\$22.03. Melco's average EV/adjusted EBITDA (trailing 12 months) from 2015-2019 was 12.6x.

**Table-2: : Macao gaming peers traded at 14.1x EV/adjusted EBITDA (trailing 12 months) from 2015-2019**

Company	Stock Code	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2019 Average	2015-2019 Average
Galaxy Entertain	00027 HK	14.9	22.1	13.6	17.1	18.4	11.6	12.6	16.3	16.4	13.4	15.6	14.1
<b>Melco Reso-Adr</b>	<b>MLCO US</b>	<b>34.9</b>	<b>12.1</b>	<b>8.9</b>	<b>14.6</b>	<b>16.4</b>	<b>15.6</b>	<b>13.0</b>	<b>12.0</b>	<b>12.2</b>	<b>10.1</b>	<b>15.0</b>	<b>12.6</b>
Mgm China	02282 HK	n.a.	12.4	9.4	14.4	15.0	10.7	14.1	19.4	19.6	13.6	14.3	15.5
Sands China Ltd	01928 HK	17.0	18.6	19.9	21.7	17.5	12.1	16.4	18.3	16.6	14.2	17.2	15.5
Sjm Holdings Ltd	00880 HK	10.7	12.7	9.7	11.9	10.2	4.9	n.a.	10.9	13.5	12.8	10.8	10.5
Wynn Macao Ltd	01128 HK	17.1	19.6	13.5	16.7	17.7	13.6	17.7	20.2	15.5	11.1	16.3	15.6
<b>Simple Average</b>		<b>18.9</b>	<b>16.3</b>	<b>12.5</b>	<b>16.1</b>	<b>15.9</b>	<b>11.4</b>	<b>14.8</b>	<b>16.2</b>	<b>15.6</b>	<b>12.5</b>	<b>15.0</b>	<b>14.1</b>

Source: Bloomberg, Guotai Junan International.

**Table-3: : Macao gaming peers are trading at 11.4x 2024 EV/Adjusted EBITDA (based on consensus forecasts)**

Company	Stock Code	Crncy	Price	M-Cap HK\$ Bn	PE			EV/Adjusted EBITDA			ROE%	PBR%	Yield%
					19A	23F	24F	22A	23F	24F	23F	23F	23F
<b>Macao</b>													
Galaxy Entertain	00027 HK	HKD	51.90	226.8	17.2	28.9	17.8	15.4	21.1	12.9	11.9	3.2	0.9
Melco Reso-Adr	MLCO US	USD	11.44	38.8	14.7	n.a.	12.4	10.7	12.3	8.0	n.a.	n.a.	0.0
Mgm China	02282 HK	HKD	8.64	32.8	17.0	26.1	12.2	11.2	10.6	8.3	n.a.	n.a.	0.0
Sands China Ltd	01928 HK	HKD	26.60	215.3	13.5	32.1	14.7	15.7	17.2	11.1	n.a.	n.a.	0.3
Sjm Holdings Ltd	00880 HK	HKD	3.44	24.4	6.5	n.a.	39.1	12.6	29.7	11.0	(12.2)	1.6	0.0
Wynn Macao Ltd	01128 HK	HKD	7.13	37.4	7.3	n.a.	20.2	13.4	14.3	10.2	n.a.	n.a.	0.0
Simple Avg.					12.7	29.0	19.4	13.2	17.5	10.3	(0.2)	2.4	0.2
Weighted Avg.					14.6	30.2	17.0	14.7	18.4	11.4	9.5	3.1	0.5
<b>USA</b>													
Boyd Gaming	BYD US	USD	67.57	53.4	48.6	10.2	10.0	8.5	7.2	7.2	38.2	n.a.	0.9
Caesars Entertai	CZR US	USD	44.81	75.5	43.1	126.9	22.9	12.5	5.2	4.7	4.1	n.a.	n.a.
Las Vegas Sands	LVS US	USD	60.64	362.7	17.3	31.9	18.9	12.8	15.5	10.8	38.8	n.a.	0.1
Mgm Resorts Inte	MGM US	USD	42.94	122.3	11.0	19.1	19.8	6.5	4.0	3.7	17.3	n.a.	0.0
Penn Natl Gaming	PENN US	USD	25.02	30.2	65.8	6.3	14.1	13.7	2.7	2.6	16.8	n.a.	n.a.
Wynn Resorts Ltd	WYNN US	USD	110.3	98.2	95.9	50.5	22.6	14.9	11.4	8.7	3.3	n.a.	0.5
Simple Avg.					47.0	40.8	18.1	11.5	7.7	6.3	19.8	n.a.	0.4
Weighted Avg.					33.5	39.3	19.1	11.7	10.9	8.2	26.1	n.a.	0.2
<b>Other</b>													
Bloomberly Res	BLOOM PM	PHP	11.08	16.9	12.3	14.1	11.6	7.8	9.8	8.3	22.9	n.a.	0.7
Belle Corp	BEL PM	PHP	1.20	1.6	4.4	n.a.	n.a.	5.4	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Avg.					8.3	14.1	11.6	6.6	9.8	8.3	22.9	n.a.	0.7
Weighted Avg.					11.6	14.1	10.6	7.5	9.8	8.3	22.9	n.a.	0.7

Source: Bloomberg, Guotai Junan International.

Note: Valuations are based on Bloomberg consensus forecasts.

**Table-4: : Our Melco target price of US\$18.00 is equivalent to 11.5x 2023 EV/adjusted EBITDA**

	2019A	2022A	2023F	2024F
<b>Target Price</b>	<b>HK\$17.00</b>			
Shares Outstanding, Period End, Fully Diluted (mn)	481	464	443	442
TP Based Market Cap (HK\$ mn)	8,661	8,347	7,972	7,948
+ Period End Minority Interest (HK\$ mn)	704	536	508	540
+ Period End Borrowings (HK\$ mn)	4,729	8,413	7,282	6,194
- Period End Cash & Equivalents (HK\$ mn)	1,395	1,813	1,853	1,850
Year End Enterprise Value (HK\$ mn)	12,699	15,483	13,909	12,832
Adjusted EBITDA (HK\$ mn)	1,689	1	1,209	1,835
<b>TP Based EV/Adjusted EBITDA</b>	<b>7.5</b>	<b>27,210</b>	<b>11.5</b>	<b>7.0</b>

Source: the Company, Guotai Junan International.

Note: Valuations are based on Guotai Junan International forecasts.

**Table-5: Our US\$18.00 target price is an 18.3% discount to our DCF derived NAV of HK\$22.03**

Risk Free Rate	3.52%	Sum of PV FCFF (US\$ mn)	9,546
Market Return	10.48%	+ PV terminal value (US\$ mn)	5,553
Market Risk Premium	6.96%	Enterprise value (US\$ mn)	15,098
Adj. Beta	1.0	- Net debt/(cash) (US\$ mn)	5,378
Equity Discount Rate	10.48%	Total NAV (US\$ mn)	9,720
		ADS outstanding (mn)	441
After Tax Cost of Debt	6.46%	NAV per ADR (US\$)	22.03
D/(D+E)	60.0%		
E/(D+E)	40.0%		
WACC	8.1%		
Long term growth rate	3.0%		

Source: Bloomberg, Guotai Junan International.

**We expect that Melco’s EBITDA margin will continue to increase, making new highs in 2024.** The Company has achieved significant cost savings over the last few years, and the management estimates that Melco will have approximately 2,000 fewer full-time employees compared to 2019 once fully ramped up, including the new full-time employees needed for the opening of Studio City phase two (Epic hotel, the W hotel and the indoor water park. The management estimates that it expects to retain at least 20% to 25% on of the savings achieved during the pandemic period as permanent savings. We forecast adjusted property EBITDA margin to reach 30.0% in 2024, surpassing Melco’s all-time annual high margin of 29.4% reached in 2019.

**New capacity (City of Dreams Mediterranean and Studio City Phase 2) and the new Melco Residency Concert Series will drive revenue growth.**

**City of Dreams Mediterranean in Cyprus is expected to be the largest and premier integrated resort in Europe when it opens in mid-June 2023.** With over 500 luxury rooms, City of Dreams Mediterranean will be Europe’s first integrated casino resort. Melco has been operating a temporary casino, the first authorized casino in the Republic of Cyprus, and is licensed to operate four satellite casinos. Upon the opening of City of Dreams Mediterranean, Melco will continue operating the four satellite casinos but will cease operations at the temporary casino. Melco’s results in Cyprus were strong in 1Q2023, when Cyprus gaming revenue and adjusted property EBITDA both exceeding 1Q2019 levels. With proven demand, we expect City of Dreams Mediterranean to drive incremental profitability starting from 3Q2023.

**Figure-1: COD Mediterranean will be Europe’s first integrated casino resort when it opens this June**



**Figure-2: City of Dreams Mediterranean has over 500 luxury rooms**



Source: the Company, cityofdreamsmed.com.cy.

Source: the Company, cityofdreamsmed.com.cy.

**Melco’s US\$1.2 bn Phase 2 of Studio City includes an indoor water park and two new hotel towers, Epic and W Macau.** Stage one of Studio City Phase two opened on 6 April and includes the Epic hotel tower and a new indoor water park. Epic tower is Studio City’s high end hotel tower with a total of 338 suites. The indoor water park expands the already existing outdoor one and the two combined cover about 26,000 sq.m., making it Macao’s largest water park. The second stage of Studio City’s Phase two is planned to open in 3Q2023, and will include the W Macau hotel tower, with 557 rooms, including 127 suites and a spa, a gymnasium, indoor swimming pool and 1,100 sq.m of meeting and event space. The opening of Epic and W Macau will bring Melco’s total number of suites and rooms in Macao from around 3,990 to 4,885.



**Figure-3: Studio City’s new indoor water park combines with the outdoor park, making it the largest in Macao**



Source: the Company, [studiocity-macau.com](http://studiocity-macau.com).

**Figure-4: Studio City’s two new hotel towers (left) across the street (south) from The Parisian (right)**



Source: Guotai Junan International.

**Melco Residency Concert Series at Studio City will drive incremental traffic to Studio City’s casino.** The "Melco Residency Concert Series", a series of residency shows at Studio City, launched on 1 April. The Melco Residency Concert Series is planned to have a total of 90 shows spread out over a three-year period at Studio City. The series, the first of its kind in Asia, launched with Joey Yung, with a new uniquely designed show that was custom-made for Studio City. The management indicated that since early April, thanks to the combination of the start of a series of concert residencies at Studio City, along with the opening of the Epic Tower and an indoor water park, gaming volume has already increased considerably.

**Figure-5: Studio City’s Event Center has capacity of up to 5,000 plush seats**



Source: the Company, [studiocity-macau.com](http://studiocity-macau.com).



### 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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