

China / Hong Kong Company Update

Galaxy Entertainment

Bloomberg: 27 HK Equity | Reuters: 0027.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19 Aug 2022

BUY

Last Traded Price (18 Aug 2022): HK\$46.25 (HSI : 19,764)
Price Target 12-mth: HK\$52.10 (13% upside) (Prev HK\$54.17)

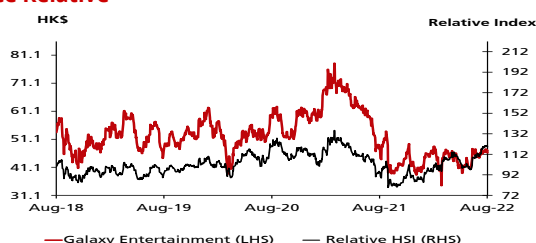
Analyst

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What's New

- **2Q22 below as COVID-19 resurgence in Greater China hit visitations, revenue and cashflow**
- **3Q22 so far has been affected by casino closures and Macau lockdown in Jul 2022. Management anticipates a gradual yet choppy rebound for 2H22**
- **Cotai Phase 3 likely to launch by 2023. Galaxy also stays optimistic in its gaming license re-tender and Macau's medium-term outlook**
- **Maintain BUY with new TP of HK\$52.10**

Price Relative



Forecasts and Valuation

FY Dec (HK\$m)	2021A	2022F	2023F	2024F
Turnover	19,696	13,805	34,984	45,293
EBITDA	3,470	302	8,790	14,580
Pre-tax Profit	1,521	(1,348)	6,911	12,014
Net Profit	1,326	(1,250)	6,638	11,540
Net Profit Gth (Pre-ex) (%)	N/A	N/A	N/A	73.8
EPS (HK\$)	0.31	(0.29)	1.53	2.65
EPS Gth (%)	N/A	N/A	N/A	73.8
Diluted EPS (HK\$)	0.30	(0.29)	1.52	2.65
DPS (HK\$)	0.02	0.00	0.46	0.79
BV Per Share (HK\$)	15.74	15.45	16.52	18.38
PE (X)	151.6	nm	30.3	17.4
P/Cash Flow (X)	nm	127.0	14.9	10.4
P/Free CF (X)	nm	nm	34.1	19.0
EV/EBITDA (X)	54.7	657.5	22.5	13.3
Net Div Yield (%)	0.0	0.0	1.0	1.7
P/Book Value (X)	2.9	3.0	2.8	2.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	1.9	(1.9)	9.2	14.4
Earnings Rev (%)		(127)	(37)	New
Consensus EPS (HK\$)		0.11	2.12	3.12
Other Broker Recs:		B:21	S:1	H:3

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Underlying fundamentals remain appealing

Investment Thesis

Slow pace of recovery pace in near-term. 2Q22 revenue fell by 56% y-o-y to HK\$2.4bn, with adjusted EBITDA reversing to a loss of HK\$384m (2Q21: +HK\$1.1bn), below expectations. 1H22 adjusted EBITDA plunged 90% to HK\$191m and 1H22 net loss reached HK\$850m (1H21: HK\$947m earnings). No interim dividend was declared. Latest gross gaming revenue saw a modest pick-up back to mid-June level, while a choppy recovery is still expected in the near-term. 2Q22 capex was at HK\$1.5bn, and another HK\$3.5-4bn is planned for 2H22 with flexibility on the outlay if the pandemic continues to linger.

Sound foundation. Galaxy sustains the best financials among peers, with a strong net cash position for ongoing investments in Macau. Management has successfully reduced daily opex to US\$2.1m by 2Q22, down c.40% versus US\$3.4m under normal operating conditions. Its decent net interest income also helps. Visitations at 20-30% of pre-pandemic levels (ex-VIPs) should enable EBITDA breakeven, and support a swift bounce back once recovery momentum improves.

New Cotai projects. Construction of Galaxy Macau Phase 3 is already completed and likely to be opened in 1H23 to await better operating conditions. Phase 3 comprises Andaz Hotel of Hyatt Hotels Corp., all-suite Raffles Hotel, Galaxy Arena and Galaxy International Convention Centre that ranks among Asia's most technologically advanced MICE facilities, and should enable market share gains. Together with Galaxy Macau Phase 4 that is currently being built, c.3,000 high-end family rooms & villas from 8 new hotels and full-scale non-gaming amenities should add to a sizeable inventory of c.7,500 hotel rooms for Galaxy, substantially lifting the company to the next level to leverage on mass gaming demand.

Valuation:

We cut earnings by 127%/37% for FY22/FY23 as we defer expectations of China-Macau-HK border reopening to 2Q23. We derive our new TP of HK\$52.10 (previous: HK\$54.17) as we roll over our valuation base to 15x FY24 adjusted EV/EBITDA, equivalent to long-term sector average.

Where we differ:

We believe Galaxy scores the highest chance to win in the gaming license re-tendering that could be finalized by Dec 2022. We are also more positive on its medium-term outlook, given its strong exposure in the mass gaming segment, relatively better liquidity vs. peers, and impending potentials from Cotai Phase 3 that could be rolled out (with 3 months' ramp up for non-gaming staff) once momentum returns.

Key Risks to Our View:

COVID-19 resurgence; rising competition; unfavourable gov't policies.

At A Glance

Issued Capital (m shrs)	4,360
Mkt Cap (HKm/US\$m)	201,650 / 25,706
Major Shareholders (%)	
City Lion Profits Corp.	22.3
Lui (Che Woo)	14.3
Capital Research Global Investors	8.7
Free Float (%)	54.6
3m Avg. Daily Val. (US\$m)	48.78
GICS Industry: Consumer Discretionary / Consumer Services	



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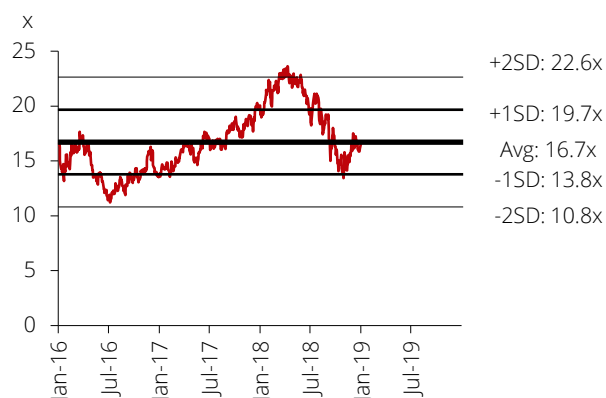
Galaxy Entertainment

Company Background

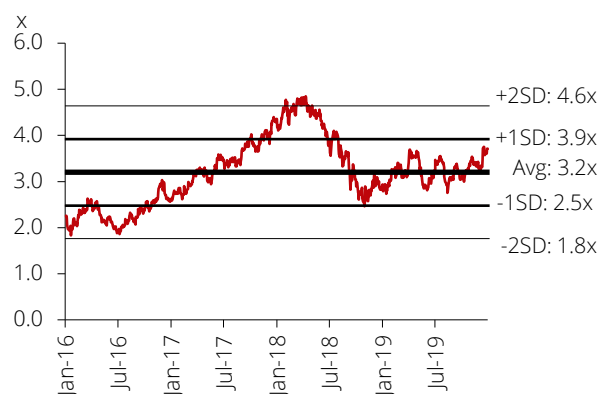
Galaxy Entertainment Group ("Galaxy") is one of the leading resorts, hospitality, and gaming companies in Macau. It is amongst the original concessionaries in Macau offering services that span across integrated resorts, retail, dining, hotel, entertainment and gaming facilities. Galaxy operates three resorts - Galaxy Macau, StarWorld Macau and Broadway Macau. Galaxy Macau (Phases 1 & 2) comprises five top hotels (Banyan Tree, Galaxy, JW Marriott, Okura and Ritz-Carlton) with ~3,600 rooms and hosts approximately 200 luxury and retail brands, while Starworld Macau provides over 500 guestrooms and suites, and Broadway Macau offers ~320 rooms and suites and a ~3000 seat Broadway theatre.

Historical PE and PB band (Pre-pandemic Period)

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

Galaxy Entertainment

Segmental Breakdown (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenues (HK\$ m)					
Star world	2,838	4,000	1,501	3,541	4,532
Galaxy Macau	9,620	15,340	11,033	29,724	40,139
Broadway	99	58	63	94	141
Others	319	298	1,209	1,625	481
Total	12,876	19,696	13,805	34,984	45,293
Adjusted EBITDA (HK\$ m)					
Star world	(275)	374	(300)	1,098	1,464
Galaxy Macau	(900)	2,905	463	7,431	12,845
Broadway	(162)	(84)	(31)	11	21
Others	317	342	170	250	250
Total	(1,020)	3,537	302	8,790	14,580
Adjusted EBITDA Margins (%)					
Star world	(9.7)	9.4	(20.0)	31.0	32.3
Galaxy Macau	(9.4)	18.9	4.2	25.0	32.0
Broadway	(163.6)	(144.8)	(50.0)	12.0	15.0
Others	99.6	114.7	14.1	15.4	52.0
Total	(7.9)	18.0	2.2	25.1	32.2

Source: Company, DBS HK

Galaxy Entertainment

Income Statement (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	12,876	19,696	13,805	34,984	45,293
Cost of Goods Sold	(5,657)	(8,231)	(5,798)	(14,588)	(18,887)
Gross Profit	7,220	11,464	8,007	20,395	26,406
Other Opng (Exp)/Inc	(11,397)	(10,258)	(9,578)	(13,908)	(14,932)
Operating Profit	(4,177)	1,206	(1,571)	6,488	11,474
Other Non Opng (Exp)/Inc	453	383	306	500	600
Associates & JV Inc	0	0	0	0	0
Interest Exp	(38)	(68)	(83)	(77)	(60)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	(3,763)	1,521	(1,348)	6,911	12,014
Tax	(151)	(89)	79	(242)	(421)
Minority Interest	(60)	(106)	19	(31)	(54)
Preference Dividend	0	0	0	0	0
Net Profit	(3,973)	1,326	(1,250)	6,638	11,540
Net Profit before Except.	(3,973)	1,326	(1,250)	6,638	11,540
EBITDA	(1,361)	3,470	302	8,790	14,580
Growth					
Revenue Gth (%)	(75.2)	53.0	(29.9)	153.4	29.5
EBITDA Gth (%)	N/A	N/A	(91.3)	2,811.5	65.9
Opg Profit Gth (%)	(132.4)	(128.9)	(230.2)	(513.0)	76.9
Net Profit Gth (%)	N/A	N/A	N/A	N/A	73.8
Margins & Ratio					
Gross Margins (%)	56.1	58.2	58.0	58.3	58.3
Opg Profit Margin (%)	(32.4)	6.1	(11.4)	18.5	25.3
Net Profit Margin (%)	(30.9)	6.7	(9.1)	19.0	25.5
ROAE (%)	(5.9)	1.9	(1.9)	9.2	14.4
ROA (%)	(4.3)	1.6	(1.5)	7.0	10.8
ROCE (%)	(5.1)	1.6	(1.8)	8.3	13.4
Div Payout Ratio (%)	N/A	5.9	N/A	29.9	29.9
Net Interest Cover (x)	(109.8)	17.8	(18.9)	84.8	192.4

Source: Company, DBS HK

Interim Income Statement (HK\$ m)

FY Dec	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	6,223	6,653	10,661	9,035	6,524
Cost of Goods Sold	(2,816)	(2,840)	(4,510)	(3,721)	(2,552)
Gross Profit	3,406	3,813	6,151	5,314	3,972
Other Oper. (Exp)/Inc	(6,321)	(5,076)	(5,304)	(4,954)	(4,783)
Operating Profit	(2,915)	(1,263)	847	359	(812)
Other Non Opng (Exp)/Inc	200	253	192	191	52
Associates & JV Inc	0	0	0	0	0
Interest Exp	(16)	(22)	(29)	(39)	(42)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	(2,731)	(1,032)	1,010	511	(802)
Tax	(72)	(79)	(50)	(39)	(43)
Minority Interest	(54)	(6)	(13)	(93)	(5)
Net Profit	(2,856)	(1,117)	947	379	(850)
Net profit bef Except.	(2,856)	(1,117)	947	379	(850)
Growth					
Revenue Gth (%)	(76.3)	(74.1)	71.3	35.8	(38.8)
Opg Profit Gth (%)	(144.1)	(120.1)	(129.1)	(128.5)	(195.9)
Net Profit Gth (%)	N/A	N/A	N/A	N/A	N/A
Margins					
Gross Margins (%)	54.7	57.3	57.7	58.8	60.9
Opg Profit Margins (%)	(46.8)	(19.0)	7.9	4.0	(12.4)
Net Profit Margins (%)	(45.9)	(16.8)	8.9	4.2	(13.0)

Source: Company, DBS HK

Balance Sheet (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	36,210	41,781	46,121	51,428	57,041
Invts in Associates & JVs	1,956	1,996	1,996	1,996	1,996
Other LT Assets	34,101	17,903	22,403	26,903	31,403
Cash & ST Invts	15,840	18,375	9,126	8,635	11,121
Inventory	202	204	144	200	103
Debtors	1,741	1,691	1,186	2,396	1,861
Other Current Assets	2,677	3,293	3,293	3,293	3,293
Total Assets	92,727	85,243	84,268	94,851	106,819
ST Debt	9,233	6,386	5,886	4,586	3,286
Creditors	14,542	8,350	9,531	15,987	20,698
Other Current Liab	112	131	131	131	131
LT Debt	0	0	0	0	0
Other LT Liabilities	802	1,301	914	1,656	2,070
Shareholder's Equity	67,424	68,425	67,174	71,828	79,917
Minority Interests	613	651	632	663	717
Total Cap. & Liab.	92,727	85,243	84,268	94,851	106,819
Non-Cash Wkg. Capital	(10,035)	(3,292)	(5,040)	(10,229)	(15,572)
Net Cash/(Debt)	6,607	11,989	3,240	4,049	7,835
Debtors Turn (avg days)	49.3	31.3	31.3	25.0	15.0
Creditors Turn (avg days)	1,869.1	510.7	886.3	475.0	478.7
Inventory Turn (avg days)	25.9	12.5	13.4	5.9	2.4
Asset Turnover (x)	0.1	0.2	0.2	0.4	0.4
Current Ratio (x)	0.9	1.6	0.9	0.7	0.7
Quick Ratio (x)	0.7	1.3	0.7	0.5	0.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	62.5	108.1	105.5	165.9	265.3
Z-Score (X)	8.5	8.6	8.6	8.6	NA

Source: Company, DBS HK

Cash Flow Statement (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	(3,763)	1,521	(1,348)	6,911	12,014
Dep. & Amort.	2,817	2,264	1,873	2,302	3,106
Tax Paid	(151)	(89)	79	(242)	(421)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(5,364)	(6,235)	1,748	5,189	5,343
Other Operating CF	(1,171)	(948)	(767)	(661)	(751)
Net Operating CF	(7,631)	(3,487)	1,584	13,500	19,291
Capital Exp.(net)	(5,771)	(6,903)	(6,212)	(7,609)	(8,719)
Other Invts.(net)	0	0	0	0	0
Invts in Assoc. & JV	27	0	0	0	0
Div from Assoc & JV	461	377	0	0	0
Other Investing CF	14,785	11,110	(3,733)	(3,839)	(3,749)
Net Investing CF	9,502	4,585	(9,945)	(11,448)	(12,468)
Div Paid	(2,004)	(78)	0	(1,985)	(3,451)
Chg in Gross Debt	8,639	(2,819)	(500)	(1,300)	(1,300)
Capital Issues	187	548	0	0	0
Other Financing CF	(52)	(61)	(387)	742	414
Net Financing CF	6,769	(2,410)	(887)	(2,543)	(4,337)
Currency Adjustments	0	0	0	0	0
Chg in Cash	8,639	(1,313)	(9,248)	(491)	2,486
Opg CFPS (HK\$)	(0.52)	0.63	(0.04)	1.91	3.21
Free CFPS (HK\$)	(3.09)	(2.39)	(1.06)	1.35	2.43

Source: Company, DBS HK

Galaxy Entertainment

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	28-Oct-21	HK\$42.55	HK\$63.36	Buy
2:	9-Feb-22	HK\$46.40	HK\$54.17	Buy

Source: DBS HK

Analyst: Mavis Hui

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS HK unless otherwise specified.

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