

COMPANY RESULTS

Galaxy Entertainment Group (27 HK)

3Q23: Luck-adjusted EBITDA In Line; Expect Higher Opex To Meet Growing Demand

3Q23 luck-adjusted EBITDA is in line with our and consensus estimates. GGR growth outperformed the market in 3Q23, thanks to new property launches and the number of concerts held. Galaxy has gained more market share qtd, with mass GGR exceeding 10-20% vs 2019's level. To better satisfy growing demand in 4Q23, we expect Galaxy to incur a higher opex, as well as to reallocate tables from the Peninsula to Galaxy Macau. Maintain BUY. Trim target price to HK\$57.00 as we lift 2024 opex assumptions.

3Q23 RESULTS

Year to 31 Dec (HK\$m)	3Q19	3Q22	2Q23	3Q23	yoy chg	qoq chg	% of 3Q19
Net revenue	12,710	2,034	8,661	9,650	374.4%	11.4%	75.9%
Adjusted EBITDA	4,112	-581	2,473	2,768	-	11.9%	67.3%
EBITDA margin	32.4%	-28.6%	28.6%	28.7%	57.2pts	0.1pts	-
Gross Gaming Revenue	14,329	918	7,659	8,746	852.7%	14.2%	61.0%
VIP Revenue	6,369	56	931	813	1351.8%	-12.7%	12.8%
Mass Revenue	7,319	798	6,285	7,441	832.5%	18.4%	101.7%
Slot Revenue	641	64	443	492	668.8%	11.1%	76.8%
- VIP Rolling Chip Volume	160,269	2,782	29,054	32,459	1066.8%	11.7%	20.3%
Win Rate	4.0%	2.0%	3.2%	2.5%	0.5pts	-0.7pts	-
- Mass Market Chip Drop	30,424	3,301	26,254	29,906	806.0%	13.9%	98.3%
Hold Rate	24.1%	24.2%	23.9%	24.9%	0.7pts	0.9pts	-

Source: Galaxy Entertainment, UOB Kay Hian

RESULTS

- **3Q23 luck-adjusted EBITDA in line with our expectation.** Galaxy Entertainment Group (Galaxy) reported adjusted EBITDA of HK\$2,768m in 3Q23 (+12% qoq; 67% of 3Q19's), which was 3% below our and consensus' estimates. On a luck normalised basis, adjusted EBITDA was HK\$2,890m, 1% above our and consensus' estimates.
- **Mass GGR sequentially grew 18% qoq in 3Q23.** Gross gaming revenue (GGR) was HK\$8,746m in 3Q23 (+14% qoq; 61% of 3Q19's), of which VIP/Mass/Slot GGR was HK\$813m/HK\$7,441m/HK\$492m (-13% qoq/+18% qoq/+11% qoq; 13%/102%/77% of 3Q19's), respectively. Revenue from mall rental in 3Q23 was HK\$379m (114% of 2019's level).
- **Solid cash position.** As of end-Sep 23, cash and liquid investments stood at HK\$24.8b (vs HK\$24.4b as of end-Jun 23). Net cash position was higher at HK\$23.3b (vs HK\$22b as of end-Jun 23).

KEY FINANCIALS

Year to 31 Dec (HK\$m)	2021	2022	2023F	2024F	2025F
Net turnover	19,696	11,474	39,967	48,814	53,554
EBITDA	3,537	(553)	10,968	15,811	17,471
Operating profit	253	(3,884)	7,815	12,917	14,394
Net profit (rep./act.)	1,326	(3,434)	8,277	12,920	15,031
Net profit (adj.)	1,326	(3,434)	8,277	12,920	15,031
EPS (sen)	30.4	(78.7)	189.7	296.2	344.6
PE (x)	145.0	n.m.	23.2	14.9	12.8
P/B (x)	2.8	3.0	2.8	2.4	2.2
EV/EBITDA (x)	50.1	n.m.	16.2	11.2	10.1
Dividend yield (%)	0.7	0.0	1.3	2.0	2.3
Net margin (%)	6.7	(29.9)	20.7	26.5	28.1
Net debt/(cash) to equity (%)	(17.5)	(10.2)	(23.3)	(19.3)	(15.5)
ROE (%)	2.0	n.a.	12.4	17.4	17.9
Consensus net profit	-	-	8,584	13,113	15,893
UOBKH/Consensus (x)	-	-	0.96	0.99	0.95

Source: Galaxy Entertainment, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	HK\$44.10
Target Price	HK\$57.00
Upside	+29.3%
(Previous TP)	HK\$60.50

COMPANY DESCRIPTION

Galaxy Entertainment Group is one of the six concessions which operate casinos in Macau. The company also manufactures, sells, and distributes construction materials.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	27 HK
Shares issued (m):	4,373.6
Market cap (HK\$m):	192,875.2
Market cap (US\$m):	24,701.0
3-mth avg daily t'over (US\$m):	40.4
Price Performance (%)	

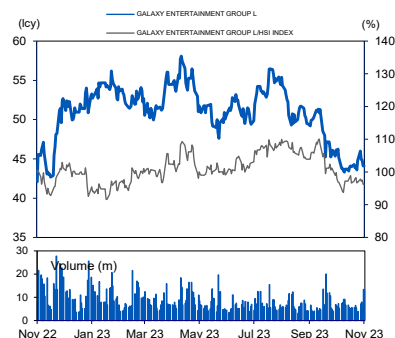
52-week high/low HK\$58.07/HK\$42.09

1mth	3mth	6mth	1yr	YTD
(2.8)	(19.0)	(13.5)	3.0	(14.2)

Major Shareholders

	%
City Lion Profits Corp	22.3
Lui Che Woo	9.1
FY23 NAV/Share (US\$)	15.98
FY23 Net Cash/Share (US\$)	3.73

PRICE CHART



Source: Bloomberg

ANALYST(S)

- Ng Jo Yee**
+603 2147 1984
joyee@uobkayhian.com
- Stella Guo Yichen**
+852 2236 6798
stella.guo@uobkayhian.com.hk
- Shirley Wang**
+8621 54047225*804
shirleywang@uobkayhian.com

STOCK IMPACT

- **Galaxy gained market share qtd (vs 18.5% in 3Q23)**, with mass GGR reaching 110-120% of 2019's level (vs 102% in 3Q23), which we attribute it to the launch of Raffles (Aug 23) and Andaz (mid-Sep 23), as well as concerts being held. The casino performance in Raffles has logged in the highest rolling drop and hold rates among all premium mass areas, according to management. The company intends to expand the casino areas next to Raffles in the coming few quarters, likely at the expense of StarWorld's table inventory (-54 tables as of end-3Q23).
- **Planning to reposition StarWorld.** The company explained that StarWorld has undergone casino floor layout changes during mid-Aug 23 to end-Sep 23, which resulted in slower EBITDA ramp-up in 3Q23 (-4.1% qoq). We expect a better performance in 4Q23 as operations have normalised in Oct 23. The company also sees unique opportunities to reposition its StarWorld property in Peninsula, which will take about one year to complete.
- **Expect higher opex run rate in 4Q23.** The daily opex run rate (c.US\$3.1m) is currently at 90% of pre-pandemic level, which we expect it to rise alongside higher frontline headcounts. Andaz has only ramped up to c.43% of full room capacity (700 rooms), and management expects rooms to be in full operation by Chinese New Year in 2024. Nevertheless, management expects >1,000 headcounts would be saved, vs pre-pandemic times, after the full opening of hotels and amenities.

EARNINGS REVISION/RISK

- **Changes to earnings forecasts.** We lower our EBITDA estimates for 2024 and 2025 by 8% and 7% respectively as we increase our opex assumptions. We keep earnings for 2023 unchanged.

VALUATION/RECOMMENDATION

- **Maintain BUY and lower target price to HK\$57.00.** We like Galaxy for its premium mass positioning and strong net cash position. Moreover, its strong presence in premium non-gaming amenities is poised to attract visitation in the coming quarters. Our target price is now based on 14.5x 2024F EV/EBITDA.

INDIVIDUAL CASINO PERFORMANCE

(HK\$m)	3Q19	3Q22	2Q23	3Q23	qoq % chg	yoy % chg	% of 3Q19
GALAXY MACAU							
Net revenue	9,315	1,072	6,550	7,628	16.5%	611.6%	81.9%
Property EBITDA	3,172	(299)	2,172	2,562	18.0%	-	80.8%
EBITDA Margin (%)	34.1%	-27.9%	33.2%	33.6%	0.4 ppt	-	98.6%
VIP GGR	4,805	56	931	778	-16.4%	1289.3%	16.2%
VIP Rolling Chip Volume	110,279	2,782	29,054	31,090	7.0%	1017.5%	28.2%
VIP Win Rate (%)	4.4%	2.0%	3.2%	2.5%	-0.7 ppt	0.5 ppt	-
Mass GGR	5,129	641	5,038	6,197	23.0%	866.8%	120.8%
Mass Drop Volume	18,403	2,422	19,146	22,812	19.1%	841.9%	124.0%
Mass Win Rate (%)	2787%	26%	26%	27%	0.9 ppt	0.7 ppt	-
Slot GGR	523	52	379	411	8.4%	690.4%	78.6%
Slot Handle	11,359	1,021	8,414	10,188	21.1%	897.8%	89.7%
Slot Win Rate (%)	4.6%	5.1%	4.5%	4.0%	-0.5 ppt	-1.1 ppt	-
STARWORLD MACAU							
Net revenue	2,521	158	1,223	1,228	0.4%	677.2%	48.7%
Property EBITDA	828	(169)	362	347	-4.1%	-	41.9%
EBITDA Margin (%)	32.8%	-107.0%	29.6%	28.3%	-1.3 ppt	-	86.0%
VIP GGR	1,394	0	0	35	-	-	2.5%
VIP Rolling Chip Volume	49,990	0	0	1,369	-	-	2.7%
VIP Win Rate (%)	2.8%	-	-	2.6%	-	-	-
Mass GGR	1,694	144	1,206	1,204	-0.2%	736.1%	71.1%
Mass Drop Volume	8,915	795	6,842	6,830	-0.2%	759.1%	76.6%
Mass Win Rate (%)	19%	18%	18%	18%	0 ppt	-0.5 ppt	-
Slot GGR	55	6	48	62	29.2%	933.3%	112.7%
Slot Handle	2,226	228	2,250	2,981	32.5%	1207.5%	133.9%
Slot Win Rate (%)	2.5%	2.6%	2.1%	2.1%	-0.1 ppt	-0.6 ppt	-
BROADWAY MACAU							
Net revenue	141	10	23	24	4.3%	140.0%	17.0%
Property EBITDA	2	(16)	(10)	(14)	-	-	-
CITY CLUB							
Net revenue	33	19	56	57	1.8%	200.0%	172.7%
Property EBITDA	33	(26)	4	5	25.0%	-	15.2%

Source: Galaxy, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (HK\$m)	2022	2023F	2024F	2025F
Net turnover	11,473.8	39,966.7	48,813.7	53,553.6
EBITDA	(552.8)	10,968.3	15,811.2	17,470.6
Deprec. & amort.	3,331.0	3,153.8	2,894.3	3,076.5
EBIT	(3,883.8)	7,814.5	12,916.8	14,394.1
Associate contributions	(89.6)	(91.4)	(94.2)	(97.0)
Net interest income/(expense)	621.1	662.3	818.7	993.3
Pre-tax profit	(3,352.3)	8,385.4	13,641.3	15,290.4
Tax	(95.9)	(83.9)	(682.1)	(183.5)
Minorities	14.4	(24.9)	(38.9)	(75.5)
Net profit	(3,433.8)	8,276.6	12,920.4	15,031.4
Net profit (adj.)	(3,433.8)	8,276.6	12,920.4	15,031.4

CASH FLOW

Year to 31 Dec (HK\$m)	2022	2023F	2024F	2025F
Operating	(3,091.9)	24,526.1	19,585.9	19,870.3
Pre-tax profit	(3,352.3)	9,112.9	14,514.4	16,338.1
Tax	(96.5)	(83.9)	(682.1)	(183.5)
Deprec. & amort.	2,088.3	2,017.3	1,948.9	2,283.9
Associates	89.6	91.6	94.4	97.2
Working capital changes	(1,579.6)	14,115.6	4,583.3	2,382.3
Non-cash items	(627.8)	(727.6)	(873.1)	(1,047.7)
Other operating cashflows	386.4	0.0	0.0	0.0
Investing	3,035.4	(12,290.3)	(16,748.3)	(16,748.3)
Capex (growth)	(5,062.7)	(12,052.5)	(16,748.3)	(16,748.3)
Investments	(14.5)	0.0	0.0	0.0
Proceeds from sale of assets	62.0	0.0	0.0	0.0
Others	8,050.7	(237.7)	0.0	0.0
Financing	(43.4)	(4,734.6)	(3,876.1)	(4,509.4)
Dividend payments	(1,351.4)	(2,483.0)	(3,876.1)	(4,509.4)
Issue of shares	256.2	0.0	0.0	0.0
Proceeds from borrowings	11,077.1	0.0	0.0	0.0
Loan repayment	(9,938.6)	(2,251.6)	0.0	0.0
Others/interest paid	(86.8)	0.0	0.0	0.0
Net cash inflow (outflow)	(99.9)	7,501.2	(1,038.6)	(1,387.4)
Beginning cash & cash	13,606.7	13,495.8	20,997.0	19,958.5
Changes due to forex impact	515.9	527.0	527.0	527.0
Ending cash & cash equivalent	14,022.7	21,524.0	20,485.4	19,098.0

BALANCE SHEET

Year to 31 Dec (HK\$m)	2022	2023F	2024F	2025F
Fixed assets	50,330.1	60,719.7	75,641.9	90,229.2
Other LT assets	12,719.0	12,504.6	12,287.4	12,067.3
Cash/ST investment	14,022.7	21,524.0	20,485.4	19,098.0
Other current assets	3,889.4	7,731.7	8,768.5	9,324.9
Total assets	80,961.3	102,479.9	117,183.2	130,719.5
ST debt	7,511.5	5,253.7	5,253.7	5,253.7
Other current liabilities	7,787.5	25,745.4	31,365.5	34,304.2
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	1,197.0	1,197.0	1,197.0	1,197.0
Shareholders' equity	63,913.9	69,707.6	78,751.8	89,273.8
Minority interest	551.4	576.3	615.2	690.7
Total liabilities & equity	80,961.3	102,479.9	117,183.2	130,719.5

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	(4.8)	27.4	32.4	32.6
Pre-tax margin	(29.2)	21.0	27.9	28.6
Net margin	(29.9)	20.7	26.5	28.1
ROA	n.a.	9.0	11.8	12.1
ROE	n.a.	12.4	17.4	17.9
Growth				
Turnover	(41.7)	248.3	22.1	9.7
EBITDA	(115.6)	n.a.	44.2	10.5
Pre-tax profit	(320.4)	n.a.	62.7	12.1
Net profit	(358.9)	n.a.	56.1	16.3
Net profit (adj.)	(358.9)	n.a.	56.1	16.3
EPS	(358.9)	n.a.	56.1	16.3
Leverage				
Debt to total capital	10.4	7.0	6.2	5.5
Debt to equity	11.8	7.5	6.7	5.9
Net debt/(cash) to equity	(10.2)	(23.3)	(19.3)	(15.5)
Interest cover (x)	(4.8)	27.4	32.4	32.6