

COMPANY RESULTS

Galaxy Entertainment Group (27 HK)

4Q23: Market Share Shrank Within Expectations; Expanding Share In 2024

Galaxy's 4Q23 luck-adjusted EBITDA is in line with consensus estimates. Galaxy's mass drop and mass GGR exceeded 20% vs 2019 levels during the CNY holidays. In our view, its market share decline could be reversed as it reconfigured its gaming areas at Galaxy Macau and aims to increase focus on the high-end premium mass customers. We expect to see higher operating leverage from 2Q24 onwards. Maintain BUY with unchanged target price of HK\$56.00.

4Q23/2023 RESULTS

Year to 31 Dec (HK\$m)	3Q23	4Q23	yoy chg (%)	qoq chg (%)	% of			yoy chg (%)	% of
					4Q19	2022	2023		2019
Net revenue	9,650	10,319	253.9	6.9	79.5	11,474	35,684	211.0	68.8
Adjusted EBITDA	2,768	2,807	-	1.4	69.3	-553	9,955	-	60.4
EBITDA margin	28.7	27.2	32.8	-1.5	-	-4.8	27.9	32.7	-
Gross Gaming Revenue	8,746	9,243	406.7	5.7	64.0	7,516	31,713	321.9	53.4
VIP Revenue	813	909	514.2	11.8	14.1	923	3,447	273.5	12.5
Mass Revenue	7,441	7,826	397.5	5.2	106.8	6,188	26,486	328.0	90.5
Slot Revenue	492	508	393.2	3.3	77.1	405	1,780	339.5	70.8
VIP Rolling Chip Volume	32,459	34,599	407.7	6.6	20.9	31,157	117,660	277.6	16.6
Win Rate	2.5	2.6	0.5	0.1	-	3.0	2.9	0.0	-
Mass Market Chip Drop	29,906	30,696	386.4	2.6	100.3	23,685	107,531	354.0	88.2
Hold Rate	24.9	25.5	0.6	0.6	-	26.1	24.6	-1.5	-

Source: Galaxy Entertainment, UOB Kay Hian

RESULTS

- 4Q23 luck-adjusted EBITDA largely in line with consensus expectations.** Galaxy Entertainment Group (Galaxy) reported adjusted EBITDA of HK\$2,807m in 4Q23 (+1.4% qoq; 69% of 4Q19), which was 3% below consensus expectations. On a luck normalised basis, adjusted EBITDA was HK\$2,910m, 1% above consensus estimates.
- Mass GGR grew 5% qoq in 4Q23.** Gross gaming revenue (GGR) was HK\$9,243m in 4Q23 (+6% qoq; 64% of 4Q19), of which VIP/mass/slot GGRs were HK\$909m/HK\$7,826m/HK\$508m (+12% qoq/+5% qoq/+3% qoq; 14%/107%/77% of 4Q19) respectively. By property, mass GGRs of Galaxy Macau/StarWorld were 126%/75% of 4Q19 levels.
- Solid cash position.** As of end-23, cash and liquid investments rose to HK\$25.0b (vs HK\$24.8b as of end-Sep 23). Net cash position was higher at HK\$23.5b (vs HK\$23.3b as of end-Sep 23).

KEY FINANCIALS

Year to 31 Dec (HK\$m)	2022	2023	2024F	2025F	2026F
Net turnover	11,474	35,684	45,871	50,702	55,925
EBITDA	(553)	9,955	15,731	17,339	17,964
Operating profit	(3,884)	6,315	11,472	13,145	13,348
Net profit (rep./act.)	(3,434)	6,828	12,196	14,133	14,594
Net profit (adj.)	(3,434)	6,828	12,196	14,133	14,594
EPS (sen)	(78.7)	156.2	279.0	323.3	333.8
PE (x)	n.m.	26.9	15.1	13.0	12.6
P/B (x)	2.9	2.6	2.3	2.1	n.a.
EV/EBITDA (x)	n.m.	17.4	11.0	10.0	9.7
Dividend yield (%)	0.0	0.0	2.0	2.3	2.4
Net margin (%)	(29.9)	19.1	26.6	27.9	26.1
Net debt/(cash) to equity (%)	(10.2)	(18.4)	(13.6)	(8.1)	n.a.
ROE (%)	n.a.	10.1	16.3	16.8	n.a.
Consensus net profit	-	-	11,506	14,069	14,501
UOBKH/Consensus (x)	-	-	1.06	1.00	1.01

Source: Galaxy Entertainment, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$42.05
Target Price	HK\$56.00
Upside	+33.2%

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):	183,909.3
Market cap (US\$m):	23,496.8
3-mth avg daily t'over (US\$m):	44.1

Price Performance (%)

52-week high/low HK\$58.07/HK\$38.30

1mth	3mth	6mth	1yr	YTD
1.6	(0.6)	(15.9)	(19.1)	(3.9)

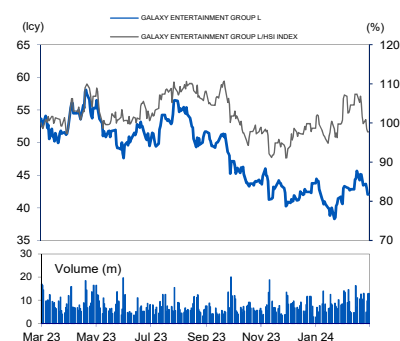
Major Shareholders

	%
City Lion Profits Corp	22.3
Lui Che Woo	9.1

FY24 NAV/Share (US\$) 18.14

FY24 Net Cash/Share (US\$) 2.47

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Increasing focus on high-end premium mass to regain market share.** During the CNY holidays, hotels were fully occupied and management commented that both mass drop and mass GGR were 120% of 2019 levels. The drop in market share to <18% in 4Q23 (vs 18.5% in 3Q23) was not due to a fundamental shift in player preference, but rather due to its own technical issues, per management. Going forward, management intends to hire more salespeople to expand its high-end premium mass customers. These customers command a higher EBITDA margin, vs that of premium direct market (at 20%). Additionally, it expects the relocation of premium mass high-limit gaming area at Galaxy Macau and recovery in base mass visitors in 2024 to help the company regain some market share lost in 4Q23.
- Non-gaming investment to exceed HK\$3b in 2024; new proposal to be approved by mid-24.** The company spent a total capex of HK\$5.5b in 2023, with the majority being expansionary capex, vs <HK\$300m in maintenance capex. It expects to invest about HK\$5.1b of capex in 2024, relating to expansion requirements of Galaxy Macau and StarWorld. In terms of non-gaming commitment, the company spent slightly more than HK\$3b (in both capex and opex) in 2023. The company has gotten approval to spend about HK\$3b in 2024, with two-thirds being opex and one-third capex. However, after the 20% trigger in non-gaming investment requirement, the company will submit a new proposal to increase the investment in Apr 24, subject to approval by the government in mid-24.
- Operating leverage may be realised from 2Q24 onwards.** Although the number of staff was only 93% of 2019 levels, management expects 1Q24 operating expenses to be similar to that in 2019, given the reconfiguration and relocation of gaming floors and new amenities such as F&B offerings. We expect operating leverage to only be realised from 2Q24 onwards, after the reconfiguration and relocation are completed.

EARNINGS REVISION/RISK

- No earnings change.**

VALUATION/RECOMMENDATION

- Maintain BUY with unchanged target price of HK\$56.00,** based on 14.5x 2024F EV/EBITDA. We like Galaxy for its premium mass positioning and strong net cash position.

INDIVIDUAL CASINO PERFORMANCE

(HK\$m)	4Q19	4Q22	3Q23	4Q23	qoq chg (%)	yoy chg (%)	% of 4Q19
GALAXY MACAU							
Net revenue	9,336	1,834	7,628	8,191	7.4	346.6	87.7
Property EBITDA	3,211	58	2,562	2,569	0.3	4329.3	80.0
EBITDA Margin (%)	34.4	3.2	33.6	31.4	-2.2	28.2	-
VIP GGR	4,612	148	778	880	13.1	494.6	19.1
VIP Rolling Chip Volume	114,669	6,815	31,090	33,874	9.0	397.1	29.5
VIP Win Rate (%)	4.0	2.2	2.5	2.6	0.1	0.4	-
Mass GGR	5,221	1,335	6,197	6,570	6.0	392.1	125.8
Mass Drop Volume	18,359	4,916	22,812	23,692	3.9	381.9	129.0
Mass Win Rate (%)	28.4	27.2	27.2	27.7	0.6	0.6	-
Slot GGR	539	81	411	418	1.7	416.0	77.6
Slot Handle	11,872	1,925	10,188	10,650	4.5	453.2	89.7
Slot Win Rate (%)	4.5	4.2	4.0	3.9	-0.1	-0.3	-
STARWORLD MACAU							
Net revenue	2,653	246	1,228	1,255	2.2	410.2	47.3
Property EBITDA	782	(142)	347	353	1.7	-348.6	45.1
EBITDA Margin (%)	29.5	-57.7	28.3	28.1	-0.1	85.9	-
VIP GGR	1,770	0	35	29	-17.1	-	1.6
VIP Rolling Chip Volume	50,539	0	1,369	725	-47.0	-	1.4
VIP Win Rate (%)	3.5	0.0	2.6	4.0	1.4	4.0	-
Mass GGR	1,614	229	1,204	1,217	1.1	431.4	75.4
Mass Drop Volume	9,217	1,320	6,830	6,748	-1.2	411.2	73.2
Mass Win Rate (%)	17.5	17.3	17.6	18.0	0.4	0.7	-
Slot GGR	55	12	62	72	16.1	500.0	130.9
Slot Handle	2,421	522	2,981	4,533	52.1	768.4	187.2
Slot Win Rate (%)	2.3	2.3	2.1	1.6	-0.5	-0.7	-
BROADWAY MACAU							
Net revenue	154	19	24	38	58.3	100.0	24.7
Property EBITDA	16	(10)	(14)	(2)	-85.7	-80.0	-12.5
CITY CLUB							
Net revenue	28	20	57	57	0.0	185.0	203.6
Property EBITDA	28	(14)	5	3	-40.0	-121.4	10.7

Source: Galaxy, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (HK\$m)	2023	2024F	2025F	2026F
Net turnover	35,684.3	45,871.2	50,701.9	55,924.6
EBITDA	9,954.6	15,731.2	17,339.4	17,964.4
Deprec. & amort.	3,639.6	4,259.4	4,194.5	4,616.0
EBIT	6,315.0	11,471.8	13,145.0	13,348.4
Associate contributions	(84.9)	(87.5)	(90.1)	(92.8)
Net interest income/(expense)	746.8	1,098.5	1,321.7	1,589.6
Pre-tax profit	6,976.9	12,482.8	14,376.6	14,845.2
Tax	(102.9)	(249.7)	(172.5)	(178.1)
Minorities	(46.0)	(36.7)	(71.0)	(73.3)
Net profit	6,828.0	12,196.5	14,133.0	14,593.8
Net profit (adj.)	6,828.0	12,196.5	14,133.0	14,593.8

BALANCE SHEET

Year to 31 Dec (HK\$m)	2023	2024F	2025F	2026F
Fixed assets	54,130.3	67,590.6	82,617.3	97,151.7
Other LT assets	13,877.9	13,487.7	13,094.9	12,699.4
Cash/ST investment	14,511.8	12,264.0	8,664.0	5,962.5
Other current assets	4,695.5	5,185.0	5,425.5	5,693.8
Total assets	87,215.5	98,527.3	109,801.8	121,507.3
ST debt	1,477.5	1,453.0	1,453.0	1,453.0
Other current liabilities	11,055.4	13,817.6	15,127.8	16,544.4
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	3,465.5	3,465.5	3,465.5	3,465.5
Shareholders' equity	70,759.2	79,296.7	89,189.8	99,405.4
Minority interest	457.9	494.6	565.6	639.0
Total liabilities & equity	87,215.5	98,527.3	109,801.8	121,507.3

CASH FLOW

Year to 31 Dec (HK\$m)	2023	2024F	2025F	2026F
Operating	10,929.1	18,159.4	18,953.6	19,990.1
Pre-tax profit	6,976.9	13,599.0	15,716.0	16,452.6
Tax	(123.3)	(249.7)	(172.5)	(178.1)
Deprec. & amort.	2,835.7	3,566.0	3,589.5	4,081.8
Associates	(85.0)	87.6	90.2	92.9
Working capital changes	2,254.9	2,272.7	1,069.7	1,148.4
Non-cash items	(930.2)	(1,116.2)	(1,339.4)	(1,607.3)
Other operating cashflows	0.0	0.0	0.0	0.0
Investing	(4,523.3)	(16,748.3)	(18,313.6)	(18,313.6)
Capex (growth)	(12,052.5)	(16,748.3)	(18,313.6)	(18,313.6)
Investments	2,350.7	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	5,178.5	0.0	0.0	0.0
Financing	(5,916.7)	(3,658.9)	(4,239.9)	(4,378.1)
Dividend payments	0.0	(3,658.9)	(4,239.9)	(4,378.1)
Issue of shares	135.6	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(6,052.3)	0.0	0.0	0.0
Others/interest paid	0.0	0.0	0.0	0.0
Net cash inflow (outflow)	489.0	(2,247.8)	(3,599.9)	(2,701.6)
Beginning cash & cash equivalent	13,495.8	13,984.8	11,737.0	8,137.1
Changes due to forex impact	527.0	527.0	527.0	527.0
Ending cash & cash equivalent	14,511.8	12,264.0	8,664.0	5,962.5

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	27.9	34.3	34.2	32.1
Pre-tax margin	19.6	27.2	28.4	26.5
Net margin	19.1	26.6	27.9	26.1
ROA	8.1	13.1	13.6	12.6
ROE	10.1	16.3	16.8	15.5
Growth				
Turnover	211.0	28.5	10.5	10.3
EBITDA	n.a.	58.0	10.2	3.6
Pre-tax profit	n.a.	78.9	15.2	3.3
Net profit	n.a.	78.6	15.9	3.3
Net profit (adj.)	n.a.	78.6	15.9	3.3
EPS	n.a.	78.6	15.9	3.3
Leverage				
Debt to total capital	2.0	1.8	1.6	1.4
Debt to equity	2.1	1.8	1.6	1.5
Net debt/(cash) to equity	(18.4)	(13.6)	(8.1)	(4.5)
Interest cover (x)	27.9	34.3	34.2	32.1

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