

COMPANY RESULTS

Galaxy Entertainment Group (27 HK)

2Q23: EBITDA Misses; Expect Market Share Gains In 3Q23

Galaxy's 2Q23 adjusted EBITDA was below consensus estimate. However, in 3Q23, we expect the company to gain market share with new property openings, as well as improved operating efficiency with permanent staff cost savings of >10%. Its qtd mass GGR and drop were better than our expectations, +20% vs 2019's level, in which we expect the recovery momentum to continue as inbound visitations rise in the summer peak season. Maintain BUY and revise up target price by 3% to HK\$60.50.

2023 RESULTS

Year to 31 Dec (HK\$m)	2Q19	2Q22	1Q23	2Q23	yoy chg	qoq chg	% of 2Q19
Net revenue	13,174	2,424	7,054	8,661	257.3%	22.8%	65.7%
Adjusted EBITDA	4,332	-384	1,907	2,473	-	29.7%	57.1%
EBITDA margin	32.9%	-15.8%	27.0%	28.6%	44.4pts	1.5pts	-
Gross Gaming Revenue	15,198	1,394	6,065	7,659	449.4%	26.3%	50.4%
VIP Revenue	7,325	153	794	931	508.5%	17.3%	12.7%
Mass Revenue	7,266	1,165	4,934	6,285	439.5%	27.4%	86.5%
Slot Revenue	607	76	337	443	482.9%	31.5%	73.0%
- VIP Rolling Chip Volume	179,666	3,646	21,548	29,054	696.9%	34.8%	16.2%
Win Rate	4.1%	4.2%	3.7%	3.2%	-1.0pts	-0.5pts	-
- Mass Market Chip Drop	30,391	4,610	20,675	26,254	469.5%	27.0%	86.4%
Hold Rate	23.9%	25.3%	23.9%	23.9%	-1.3pts	0.1pts	-

Source: Galaxy Entertainment, UOB Kay Hian

RESULTS

- 2Q23 results below consensus estimate.** Galaxy Entertainment Group (Galaxy) reported adjusted EBITDA of HK\$2,473m in 2Q23, up 30% qoq and represented 57% of 2Q19's, which was 8% below the street's average estimate. On a normalised basis, adjusted EBITDA was HK\$2,469m, 8% below the street's estimate.

Gross gaming revenue (GGR) was HK\$7,659m in 2Q23 (+26% qoq; 449% yoy), recovering to 50% of 2Q19's, of which, VIP/Mass/Slot GGR recovered to 13%/87%/73% 2Q19's level respectively, vs the industry's recovery rate of 35%/88%/71%.

- Strong balance sheet with special dividend declared.** As of end-Jun 23, cash and liquid investments were at HK\$24.4b (vs HK\$28.7b as of end-Mar 23). Net cash position was higher at HK\$22b (vs HK\$21.3b as of end-Mar 23). The Board announced a special dividend of HK\$0.20 per share, payable on 27 Oct 23.

KEY FINANCIALS

Year to 31 Dec (HK\$m)	2021	2022	2023F	2024F	2025F
Net turnover	19,696	11,474	38,737	49,239	54,060
EBITDA	3,537	(553)	11,240	17,112	18,811
Operating profit	253	(3,884)	8,086	14,217	15,735
Net profit (rep./act.)	1,326	(3,434)	8,418	14,032	16,328
Net profit (adj.)	1,326	(3,434)	8,418	14,032	16,328
EPS (sen)	30.4	(78.7)	193.0	321.7	374.3
PE (x)	172.6	n.m.	27.2	16.3	14.0
P/B (x)	3.3	3.6	3.3	2.9	2.5
EV/EBITDA (x)	60.4	n.m.	19.0	12.5	11.4
Dividend yield (%)	0.6	0.0	1.1	1.8	2.1
Net margin (%)	6.7	(29.9)	21.7	28.5	30.2
Net debt/(cash) to equity (%)	(17.5)	(10.2)	(23.3)	(21.2)	(18.2)
ROE (%)	2.0	n.a.	12.6	18.8	19.1
Consensus net profit	-	-	8,085	14,005	16,343
UOBKH/Consensus (x)	-	-	1.04	1.00	1.00

Source: Galaxy Entertainment, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$52.50
Target Price	HK\$60.50
Upside	+15.2%
(Previous TP)	HK\$58.60

COMPANY DESCRIPTION

Galaxy Entertainment Group is one of the six concessions which operate casinos in Macau. It also has a construction division that undertakes construction projects in Greater China.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	27 HK
Shares issued (m):	4,369.6
Market cap (HK\$m):	229,402.6
Market cap (US\$m):	29,303.9
3-mth avg daily t'over (US\$m):	43.9

Price Performance (%)

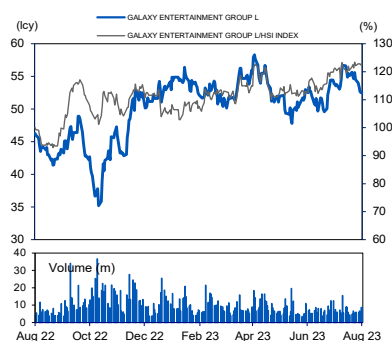
52-week high/low	HK\$58.30/HK\$35.20
1mth	3.6
3mth	2.8
6mth	0.6
1yr	11.1
YTD	1.7

Major Shareholders

City Lion Profits Corp	22.3
Lui Che Woo	9.1

FY23 NAV/Share (US\$)	16.00
FY23 Net Cash/Share (US\$)	3.73

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Mass revenue exceeded pre-pandemic level by 20% qtd.** Though we note that the mass segment of StarWorld in the Peninsula has only recovered to 80% qtd (vs 70% in 2Q23), the group's mass win and drop volume was 120% of 2019's level qtd, improving vastly from 86-87% in 2Q23. Its grind mass revenue was 63% of 2019's level in 2Q23, and we see further upside recovery in 2H23 driven by the market's higher inbound visitation, which had reached 78% of 2019's level in Jul 23 (vs 63% in 2Q23). Currently, management does not see any traffic divergence resulting from the group travel restoration to international markets.
- **New property launches to boost market shares.** Galaxy gained market shares mtd in Aug 23, coinciding with the soft opening of Raffles at Galaxy Macau, which boasts 450 suites with the new Horizon Premium Club catering to the premium mass market. We expect the company to gain shares in 3Q23 with the opening of new properties (such as upcoming 700-room Andaz Macau in Sep 23). This is cemented by the strong hotel booking numbers, with fully-booked hotels during the summer period and high booking response for Sep 23, per management.
- **Confident to deliver higher operational efficiency in 3Q23.** The group's operating expense (opex) grew sequentially in 2Q23 (+20% qoq) and now stands at 80-85% of 2019's level. Management attributes the sequential increase of opex in 2Q23 to: a) the hiring of additional gaming staffs, and b) an increase in PR and marketing costs. We expect the company to achieve opex below 2019's level in 3Q23, despite ramping up cost of Andaz Macau in Sep 23, as it delivers permanent headcount savings of >10% (number of staffs was 82% of 2019's level in 2Q23).

EARNINGS REVISION/RISK

- **Earnings forecasts.** We lift our earnings by 12%/4% for 2023/24.

VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of HK\$60.50.** We like Galaxy for its premium mass positioning and expect the company to gain market share in 3Q23 with the opening of Raffles at Galaxy and Andaz Macau. Our target price is based on 13.8x normalised 2023F EV/EBITDA.

INDIVIDUAL CASINO'S PERFORMANCE

(HK\$m)	2Q19	2Q22	1Q23	2Q23	qoq % chg	yoy % chg	% of 2019
GALAXY MACAU							
Net revenue	9,526	1,435	5,348	6,550	22.5%	356.4%	68.8%
Property EBITDA	3,235	(188)	1,846	2,172	17.7%	-1255.3%	67.1%
EBITDA Margin (%)	34.0%	-13.1%	34.5%	33.2%	-1.4 ppt	46.3 ppt	97.6%
VIP GGR	5,501	153	794	931	17.3%	508.5%	16.9%
VIP Rolling Chip Volume	125,051	3,646	21,548	29,054	34.8%	696.9%	23.2%
VIP Win Rate (%)	4.4%	4.2%	3.7%	3.2%	-0.5 ppt	-1 ppt	-
Mass GGR	4,993	915	3,970	5,038	26.9%	450.6%	100.9%
Mass Drop Volume	18,118	3,317	15,124	19,146	26.6%	477.2%	105.7%
Mass Win Rate (%)	2756%	28%	26%	26%	0.1 ppt	-1.3 ppt	-
Slot GGR	512	54	291	379	30.2%	601.9%	74.0%
Slot Handle	11,235	1,589	6,290	8,414	33.8%	429.5%	74.9%
Slot Win Rate (%)	4.6%	3.4%	4.6%	4.5%	-0.1 ppt	1.1 ppt	-
STARWORLD MACAU							
Net revenue	2,756	220	938	1,223	30.4%	455.9%	44.4%
Property EBITDA	943	(158)	216	362	67.6%	-329.1%	38.4%
EBITDA Margin (%)	34.2%	-71.8%	23.0%	29.6%	6.6 ppt	101.4 ppt	86.5%
Mass GGR	1,730	202	926	1,206	30.2%	497.0%	69.7%
Mass Drop Volume	8,877	982	5,289	6,842	29.4%	596.7%	77.1%
Mass Win Rate (%)	19%	21%	18%	18%	0.1 ppt	-2.9 ppt	-
Slot GGR	40	9	32	48	50.0%	433.3%	120.0%
Slot Handle	1,967	342	1,406	2,250	60.0%	557.9%	114.4%
Slot Win Rate (%)	2.0%	2.6%	2.3%	2.1%	-0.1 ppt	-0.5 ppt	-
BROADWAY MACAU							
Net revenue	147	15	18	23	27.8%	53.3%	15.6%
Property EBITDA	6	(19)	(10)	(10)	0.0%	-47.4%	-166.7%
CITY CLUB							
Net revenue	29	14	52	56	7.7%	300.0%	193.1%
Property EBITDA	29	11	3	4	33.3%	-63.6%	13.8%

Source: Galaxy, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (HK\$m)	2022	2023F	2024F	2025F
Net turnover	11,473.8	38,737.0	49,238.5	54,060.1
EBITDA	(552.8)	11,240.0	17,111.8	18,811.5
Deprec. & amort.	3,331.0	3,153.8	2,894.3	3,076.5
EBIT	(3,883.8)	8,086.2	14,217.4	15,735.0
Associate contributions	(89.6)	(91.4)	(94.2)	(97.0)
Net interest income/(expense)	621.1	651.4	797.0	971.6
Pre-tax profit	(3,352.3)	8,646.2	14,920.2	16,609.6
Tax	(95.9)	(172.9)	(746.0)	(199.3)
Minorities	14.4	(55.7)	(141.7)	(82.1)
Net profit	(3,433.8)	8,417.6	14,032.5	16,328.2
Net profit (adj.)	(3,433.8)	8,417.6	14,032.5	16,328.2

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	23,755.8	24,382.1	24,087.7
Other current assets	3,889.4	7,109.2	8,319.1	8,918.9
Total assets	80,961.3	104,089.3	120,630.5	135,303.2
ST debt	7,511.5	7,505.2	7,505.2	7,505.2
Other current liabilities	7,787.5	24,973.7	31,550.4	34,711.3
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	69,806.2	79,629.0	91,058.7
Minority interest	551.4	607.1	748.9	830.9
Total liabilities & equity	80,961.3	104,089.3	120,630.5	135,303.2

CASH FLOW

Year to 31 Dec (HK\$m)	2022	2023F	2024F	2025F
Operating	(3,091.9)	24,548.6	21,584.3	21,352.4
Pre-tax profit	(3,352.3)	9,373.8	15,793.3	17,657.3
Tax	(96.5)	(172.9)	(746.0)	(199.3)
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)	13,966.4	5,366.8	2,561.1
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)	(2,525.3)	(4,209.7)	(4,898.5)
Dividend payments	(1,351.4)	(2,525.3)	(4,209.7)	(4,898.5)
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)	0.0	0.0	0.0
Others/interest paid	(86.8)	0.0	0.0	0.0
Net cash inflow (outflow)	(99.9)	9,733.1	626.3	(294.4)
Beginning cash & cash equivalent	13,606.7	13,495.8	23,228.9	23,855.1
Changes due to forex impact	515.9	527.0	527.0	527.0
Ending cash & cash equivalent	14,022.7	23,755.8	24,382.1	24,087.7

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	(4.8)	29.0	34.8	34.8
Pre-tax margin	(29.2)	22.3	30.3	30.7
Net margin	(29.9)	21.7	28.5	30.2
ROA	n.a.	9.1	12.5	12.8
ROE	n.a.	12.6	18.8	19.1
Growth				
Turnover	(41.7)	237.6	27.1	9.8
EBITDA	(115.6)	n.a.	52.2	9.9
Pre-tax profit	(320.4)	n.a.	72.6	11.3
Net profit	(358.9)	n.a.	66.7	16.4
Net profit (adj.)	(358.9)	n.a.	66.7	16.4
EPS	(358.9)	n.a.	66.7	16.4
Leverage				
Debt to total capital	10.4	9.6	8.5	7.6
Debt to equity	11.8	10.8	9.4	8.2
Net debt/(cash) to equity	(10.2)	(23.3)	(21.2)	(18.2)
Interest cover (x)	(4.8)	29.0	34.8	34.8

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