

**21 February 2018**
**Asia Research**
**Rating: Buy**
**Price Target: HK\$27.00**

Price	HK\$23.40
52wk Range	HK\$13.58 - HK\$25.50
Shares Outstanding (MM)	3,800.6
Market Capitalization (MM)	HK\$88,933.6
Enterprise Value (MM)	HK\$102,463.4
30D Avg Volume (000s)	11,634.6
Short Interest/Float	0.0%
Dividend Yield	1.2%
YTD % Chg	(5.1)%
YTD % Chg Relative to Index	(7.3)%
Total Implied Return to PT	16.6%
Pricing Date	February 20, 2018



# MGM China Holdings Limited

## Global Gaming Operators

2282-HKG | HKSE | HK\$23.40

Company Update

### Solid 4Q17; very excited about Cotai ramp; maintain Buy (PT goes to \$27)

**4Q17 recap.** MGM China reported 4Q17 revenue of \$4,283mm (+10.5% y/y, +16.4% sequentially). Property-level EBITDA was \$1,295mm (+9.3% y/y and +23.5% sequentially). This was well above consensus of \$995mm. With 4Q17 being the last quarter of peninsula-only operations, we were pleased to see the healthy uptick heading into the recently opened MGM Cotai with all segments improving nicely on a y/y (and sequential) basis.

**Thoughts on Cotai ramp.** With the property open only one week it is far too early to speculate on current property-level trends, although our on-the-ground observations have witnessed strong levels of property visitation, which is rather encouraging. That being said, our above consensus 2019 EBITDA estimate (HK\$7,831mm vs. consensus of HK\$7,425mm) for MGM China highlights our belief that MGM Cotai is under-valued by the street and that its ramp trajectory is not well appreciated. Talking to non-MGM industry insiders on the ground in Macau the feedback we received was quite positive as it relates to the property, its positioning, the gaming floor, the non-gaming elements, etc. All expect it to be very competitive, especially at the higher end of the market (i.e. premium mass and VIP). This is not yet reflected in consensus. Our market-wide model suggests a 2019 GGR share of 9.5% for MGM China (from 7.1% in 2017), or an increase of 34% as MGM Cotai ramps. By way of comparison, Wynn Macau's market share as Wynn Palace ramped went from 10.1% (LTM before opening) to 16.5% (2017), or an increase of 63%. With this in mind, we remain biased to the upside as it relates to the ramp of MGM Cotai.

**Maintain Buy rating.** We are maintaining our Buy rating on shares of MGM China as it is one of the best ways to play the continued strength in Macau, particularly at the high end of the market. We expect the company to capture an outsized share of growth with its Cotai property, which already appears to be capturing solid levels of foot traffic (CNY notwithstanding), and look for momentum to build throughout the year as the VIP component comes fully online. Our PT goes to \$27 (+\$3).

#### 4Q17 gaming metrics:

- VIP volume +23% y/y (+12% sequentially)
- VIP GGR +2% y/y (+12% sequentially)
- Mass GGR +22% y/y (+23% sequentially)
- Slot GGR +17% y/y (+8% sequentially)

#### Analysts

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Year to Dec	Net Revenue	Property EBITDA	Adjusted EBITDA	EPS
2018E	23,158	6,578.2	6,076	1.06
Prior	22,785	6,652.7	6,089	0.83
2019E	28,177	8,481.8	7,830	1.28
Prior	25,210	7,587.6	6,948	0.94

\*Please see analyst certification and required disclosures starting on page 4 of this report.

## New estimates

For the full years 2018 and 2019, we are modeling HK\$6,076mm (from \$6,089mm) and \$7,830mm (from \$6,948mm) in adjusted EBITDA, respectively. We note that our 2019 *property-level* EBITDA forecast of \$8,482mm, includes \$3,336mm (US\$430mm) in contribution from Cotai, or an average of US\$107mm per quarter (up from an average of \$68mm per quarter in 2018).

## Valuation

We are maintaining our Buy rating on shares of MGM China as no company will enjoy as much upside leverage as MGM China as it relates to a portfolio-wide increase in new supply following the recent opening of MGM Cotai. Our new price target is \$27 (+\$3) based on a valuation year of 2019. Our price target is based on a 14x multiple of our forward EBITDA estimate for MGM Macau on the peninsula and a 14x multiple for MGM Cotai. The multiple represents a slight premium to the average market multiple given MGM's superior growth profile and asset quality.

Figure 1: MGM China financial model

\$ in millions. FYE December.	2016	2017	1Q18E	2Q18E	3Q18E	4Q18E	2018E	2019E
<b>REVENUE</b>								
<b>MGM Macau</b>								
Rolling chip win	8,631.1	8,566.6	2,290.4	2,004.3	2,048.5	2,304.0	8,647.1	9,252.4
Mass market table win	7,688.8	8,138.8	2,049.5	1,787.7	1,749.4	2,112.6	7,699.1	8,310.1
Slot win	1,257.3	1,406.6	323.1	299.2	306.5	351.9	1,280.6	1,383.1
<b>Gross gaming revenue</b>	<b>\$17,577.2</b>	<b>\$18,112.0</b>	<b>\$4,662.9</b>	<b>\$4,091.2</b>	<b>\$4,104.4</b>	<b>\$4,768.4</b>	<b>\$17,626.9</b>	<b>\$18,945.6</b>
Comissions	(2,971.2)	(3,058.4)	(839.8)	(673.5)	(682.8)	(893.3)	(3,089.5)	(3,305.7)
<b>Net casino revenue</b>	<b>\$14,606.1</b>	<b>\$15,053.6</b>	<b>\$3,823.1</b>	<b>\$3,417.7</b>	<b>\$3,421.6</b>	<b>\$3,875.1</b>	<b>\$14,537.4</b>	<b>\$15,639.9</b>
Non-gaming revenue, net of promotions	301.4	0.0	(81.4)	(99.2)	(102.6)	(78.8)	362.0	340.6
<b>MGM Macau total net revenue</b>	<b>\$14,907.5</b>	<b>\$15,053.6</b>	<b>\$3,904.5</b>	<b>\$3,516.9</b>	<b>\$3,524.1</b>	<b>\$3,953.9</b>	<b>\$14,899.4</b>	<b>\$15,980.4</b>
YoY % Change	(13.2%)	1.0%	0.1%	0.6%	(4.2%)	(0.7%)	(1.0%)	7.3%
<b>MGM Cotai</b>								
Rolling chip win			150.0	450.0	810.0	1,050.0	2,460.0	5,385.3
Mass market table win			800.0	1,186.4	1,300.0	1,402.3	4,688.6	6,373.6
Slot win			110.0	150.0	160.0	170.0	590.0	773.5
<b>Gross gaming revenue</b>			<b>1,060.0</b>	<b>1,786.4</b>	<b>2,270.0</b>	<b>2,622.3</b>	<b>7,738.6</b>	<b>12,532.4</b>
Comissions			-	(165.0)	(297.0)	(350.0)	(812.0)	(1,795.1)
<b>Net casino revenue</b>			<b>1,060.0</b>	<b>1,621.4</b>	<b>1,973.0</b>	<b>2,272.3</b>	<b>6,926.6</b>	<b>10,737.3</b>
Non-gaming revenue, net of promotions			194.6	350.0	385.3	401.7	1,331.5	1,459.1
<b>MGM Cotai total net revenue</b>			<b>1,254.6</b>	<b>1,971.4</b>	<b>2,358.3</b>	<b>2,673.9</b>	<b>8,258.2</b>	<b>12,196.4</b>
YoY % Change								47.7%
<b>TOTAL NET REVENUE</b>	<b>\$14,907.5</b>	<b>\$15,053.6</b>	<b>\$5,159.1</b>	<b>\$5,488.2</b>	<b>\$5,882.4</b>	<b>\$6,627.8</b>	<b>\$23,157.6</b>	<b>\$28,176.8</b>
YoY % Change	(13.2%)	1.0%	32.3%	57.1%	59.9%	66.5%	53.8%	21.7%
<b>EBITDA</b>								
MGM Macau	4,491.8	4,587.4	1,130.2	1,092.0	1,127.6	1,240.0	4,589.9	5,146.0
MGM Cotai	0.0	0.0	235.5	429.1	601.6	722.2	1,988.4	3,335.8
<b>Property level EBITDA</b>	<b>\$4,491.8</b>	<b>\$4,587.4</b>	<b>\$1,365.7</b>	<b>\$1,521.1</b>	<b>\$1,729.2</b>	<b>\$1,962.2</b>	<b>\$6,578.2</b>	<b>\$8,481.8</b>
Income (loss) from unconsolidated affiliates								
MGM parent branding and license fee	(442.0)	(414.4)	(117.3)	(141.8)	(138.0)	(104.6)	(501.8)	(651.3)
<b>Cash EBITDA</b>	<b>\$4,049.8</b>	<b>\$4,173.1</b>	<b>\$1,248.5</b>	<b>\$1,379.3</b>	<b>\$1,591.2</b>	<b>\$1,857.6</b>	<b>\$6,076.5</b>	<b>\$7,830.5</b>
MGM Macau, y/y change	(3.8%)	2.1%	(7.7%)	7.2%	7.4%	(4.2%)	0.1%	12.1%
MGM Cotai, y/y change								67.8%
Total Property EBITDA, y/y change	(3.8%)	2.1%	11.5%	49.3%	64.8%	51.5%	43.4%	28.9%
Total Cash EBITDA, y/y change	(6.6%)	3.0%	12.7%	52.7%	68.5%	52.6%	45.6%	28.9%

Source: Union Gaming, company data

**Figure 2: MGM China SOTP valuation**

<i>MGM China SOTP</i>	FY19E		Value
	EBITDA	Multiple	
<b>MGM Macau (Peninsula)</b>	<b>\$4,675</b>	<b>14.0x</b>	<b>\$65,446</b>
<b>MGM Cotai</b>	<b>3,156</b>	<b>14.0x</b>	<b>44,180</b>
Less: debt			(14,529)
Plus: cash			7,707
Implied equity value			102,804
<b>Implied value per share (HK\$)</b>			<b>\$26.99</b>

<b>EQUITY VALUATION: SHARE PRICE COMPOSITION</b>	<b>FY19E</b>
MGM China (Peninsula)	\$17.18
MGM Cotai	11.60
Debt	(3.81)
Cash	2.02
<b>Implied value per share (US\$)</b>	<b>\$26.99</b>
Diluted shares outstanding	3,809

Source: Union Gaming, company data

## Important Disclosure

### Analyst Certification

The analyst, Grant Govertsen, primarily responsible for the preparation of this research report attests to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

### Ratings Definitions

#### Current Ratings Definition

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**Buy** – the total forecasted return is expected to be greater than 15% within the next 12 months

**Hold** – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 15%

**Sell** – whose shares exhibit downside potential of at least 15% within the next 12 months

**Suspended** – the company rating, target price and earnings estimates have been temporarily suspended.

### Valuation and Risks

#### Valuation

**Valuation Methodology for Price Target:** Enterprise Value-to-EBITDA, Sum-of-the-Parts Analysis, Price-to-Earnings Ratio, Discounted Cash Flow Analysis, Price-to-AFFO, Net Asset Value.

#### Risks

**Investment Risks:** Union Gaming Securities' equity research team covers the casino, gambling, gaming, lottery and related sectors. The companies operating within these sectors generally have a global presence or significant exposure to China and Las Vegas, among other markets. In addition, the markets that companies in these sectors operate are highly regulated by local and federal governments. Risks across or specific to one or more of these sectors include regulatory or legislative impacts related to licensing, tourism or the competitive landscape. Licenses to operate gaming facilities or supply gaming equipment or lottery services are often governed by regulatory authorities. Additional Risks for investing in these sectors include volatility in consumer discretionary spending and consumer confidence, currency, interest rates, unemployment rates, access to capital, the cost of capital, commodity costs, geopolitical uncertainty, and unfavorable government regulations. Companies operating within our covered sectors rely in part on tourism, and business trends could be impacted by changes or influences to tourism in a given market or markets, including visa policy, transit policies and security, transportation infrastructure, weather and natural disasters.

### Ratings Distribution (as of 02/21/2018)

#### Coverage Universe

Ratings	Count	Pct.
BUY	16	64%
HOLD	9	36%
SELL	0	0%

#### Investment Banking Services / Past 12 Months

Rating	Count	Pct.
BUY	7	44%
HOLD	1	11%
SELL	0	0%

### MGM China Holdings Limited Rating History as of 02/19/2018

powered by: BlueMatrix



## General Disclosures

**Additional information is available upon request.**

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