

SJM Holdings

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DBS Group Research . Equity

30 Sep 2019

BUY (Initiating coverage)

Last Traded Price (27 Sep 2019):HK\$7.51(HSI : 25,955)

Price Target 12-mth:HK\$8.78 (16.9% upside)

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (HK\$m)	2018A	2019F	2020F	2021F
Turnover	34,410	34,990	38,336	45,668
EBITDA	4,114	4,224	4,591	5,693
Pre-tax Profit	2,940	3,132	2,742	3,562
Net Profit	2,850	2,981	2,607	3,386
Net Profit Gth (%)	45.2	4.6	(12.6)	29.9
EPS (HK\$)	0.50	0.53	0.46	0.60
EPS Gth (%)	45.1	4.5	(12.6)	29.9
Diluted EPS (HK\$)	0.50	0.53	0.46	0.60
DPS (HK\$)	0.23	0.31	0.27	0.35
BV Per Share (HK\$)	4.87	5.09	5.28	5.53
PE (X)	14.9	14.3	16.3	12.6
P/Cash Flow (X)	10.5	6.3	7.4	5.3
P/Free CF (X)	nm	nm	nm	nm
EV/EBITDA (X)	9.6	9.7	9.6	8.1
Net Div Yield (%)	3.1	4.1	3.6	4.6
P/Book Value (X)	1.5	1.5	1.4	1.4
Net Debt/Equity (X)	CASH	CASH	0.0	0.1
ROAE(%)	10.3	10.3	8.7	10.8

Earnings Rev (%):		New	New	New.
Consensus EPS (HK\$)		0.52	0.47	0.60
Other Broker Recs:		B:11	S:1	H:10

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

All eyes on Cotai

- Near-term performance affected by a softer Chinese economy, weaker RMB and HK demonstrations that dampened visitations. 3Q19 gross gaming revenue likely down by high single digit given declines of 3.5% in July and 8.6% in August.
- Key catalyst being the Cotai project, Grand Lisboa Palace ("GLP"), which should commence operations by 2H20 to give a boost to its higher-margin mass market segment
- Initiating coverage with a BUY with 12-month TP of HK\$8.78

Industry dynamics. The emergence of more rivalry across Asia Pacific, impacts of Sino-US trade war that affected China's economic growth, and the latest HK demonstrations have all laid pressure on the Macau gaming sector. Like all operators, SJM is expected to face similar challenges in the near-term. A more favourable revenue-mix along with rising contribution from the mass market segment should help to cushion the impact, which should be achievable once its new GLP completes constructions towards the end of 2019 and commences operations by 2H20.

GLP to strengthen growth and earnings stability. We expect SJM to dedicate a majority of GLP's floor space to non-gaming facilities. This should help to attract more visitors from the (premium) mass segment and improve revenue-mix. Its continued focus on cost control measures would also improve profitability and enhance operating efficiency in the medium-term. While there could be slight cannibalisation upon the opening of GLP, SJM should benefit in the medium-term given its stronger positioning in the industry.

Valuation:

Our 12-month TP of HK\$8.78 is based on DCF valuation (8.4% WACC; 0.5% perpetual growth), implying ~15x FY21 PE.

Key Risks to Our View:

Further delays in the completion of Cotai project; decrease in the number of visitors from Mainland China amid economic slowdown; rising competition amongst Macau casino operators.

At A Glance

Issued Capital (m shrs)	5,664
Mkt Cap (HK\$m/US\$m)	42,537 / 5,426
Major Shareholders (%)	
Sociedade de Turismo e Diversões de Macau, S.A.	54.1
Free Float (%)	45.9
3m Avg. Daily Val. (US\$m)	10.82
GICS Industry: Consumer Discretionary / Consumer Services	

Bloomberg ESG Disclosure Score (2017)[^] 26
- Environmental / Social / Governance 12 / 33 / 52

[^] refer to back page for more information



Live more, Bank less

SJM Holdings

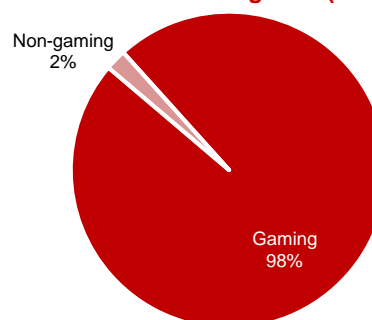
Growth Prospects

Growth in visitations. Macau's gaming market has expanded significantly over the years, with growth in visitor numbers from Hong Kong and Mainland China being the primary drivers of gaming revenue. Rapid development of infrastructures in Macau, coupled with improvement in transportation facilities such as the opening of the HK-Zhuhai-Macau bridge and high-speed train connectivity have propelled visitation growth. Going into 2020, the expected improvement in economic conditions could drive discretionary spending and gaming revenue from a lower base.

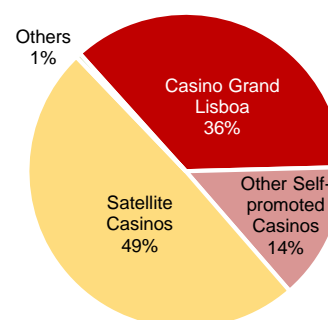
Fundamentals and growth prospects. There are 2 primary segments in the Macau gaming market: mass market and VIP segment. Over-reliance on VIP gaming is a risky proposition, of which the Macau government has been addressing by promoting non-gaming investments. This would benefit the mass market segment more and helps expanding EBITDA margins of the company. The GLP project in Cotai is a major step in the right direction. Over the years, Macau's gross gaming revenue has been benefitted from the growth in China's economy. We expect per capita income in China to increase, which should lead to more willingness for Mainland Chinese to spend and, in turn, benefit the casino & integrated resort operators in Macau.

New Cotai resort to fuel growth. SJM has made substantial progress on the construction of GLP in Cotai, Macau and expects project completion by the end of FY19. The new resort will increase hotel room capacity by almost five-fold and provides the best-in-category shopping, dining, and entertainment & events facilities. The company has recently signed a binding agreement with the China Duty Free Group (CDFG) to open a CDFG outlet at GLP for more offerings to shoppers. All these could result in a solid diversification and expansion of the company's tourism and hospitality businesses. SJM's mass market segment is expected to get a further boost, as visitors of such category usually opt to stay in the Cotai area as opposed to the Macau peninsula.

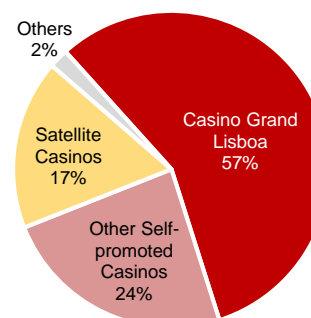
Sales breakdown – categories (2018)



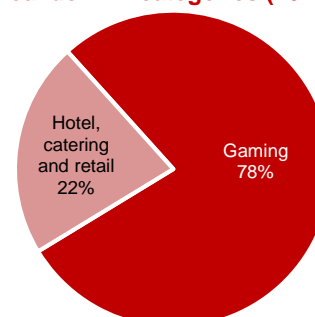
Sales breakdown – segments (2018)



EBITDA breakdown – Segments (2018)



Asset breakdown – categories (2018)



Source: Company, DBS HK

SJM Holdings

Balance Sheet:

SJM has increased its debt levels primarily to fund the construction of GLP. The project's cost has risen by a high single-digit rate from the company's earlier estimate, partly due to some construction delays. The inauguration of GLP by 2H20 should help to gradually reduce its gearing over the medium run.

Share Price Drivers:

We expect the opening of the GLP in Cotai to be the imminent key catalyst for SJM. Potentials for growth in visitation and spending in Macau, infrastructural developments to improve access to Macau, coupled with the company's strategically located network of casinos could continue to drive its medium-term growth prospects.

Key Risks:

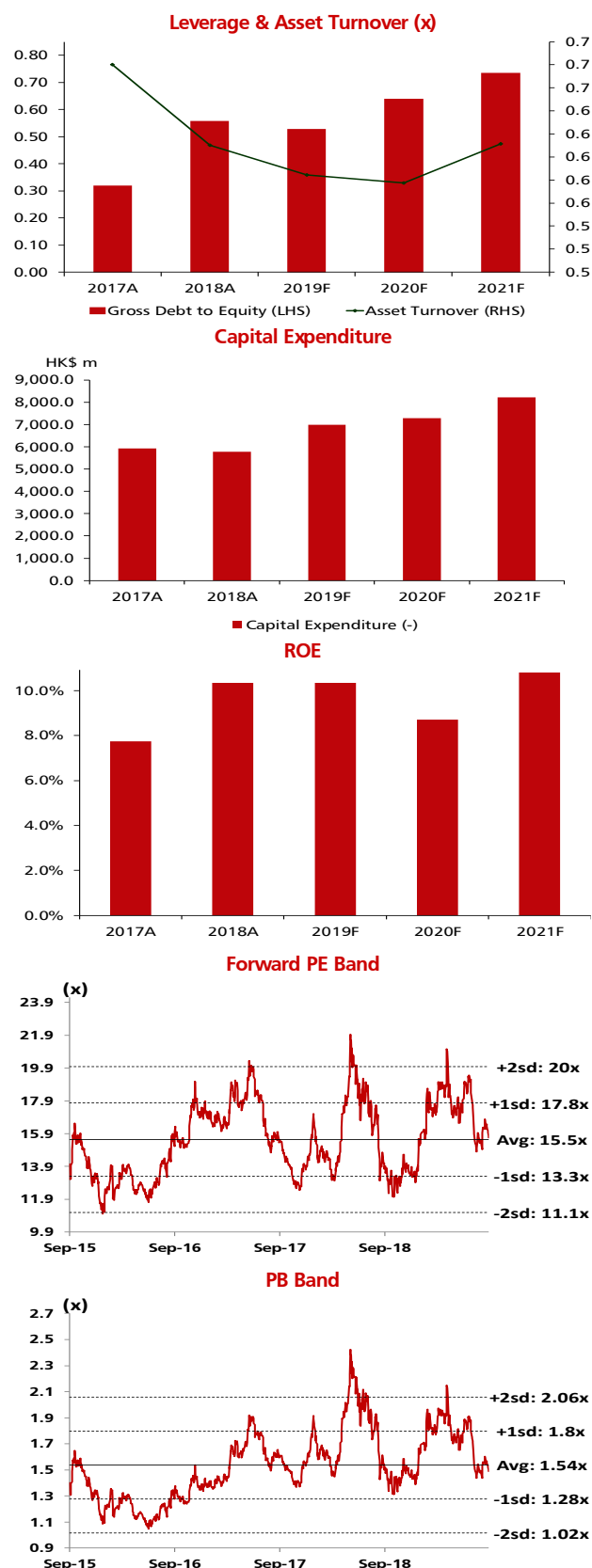
Slowing economic growth in Mainland China remains a near-term concern as it contributes the bulk of gamblers in Macau. The escalating China-US trade war has also deterred VIP spenders. Ongoing demonstrations in Hong Kong has affected Chinese visitors' travelling to Macau. Intensifying competition in the region and any changes in the Macau gaming concessions law could also potentially affect SJM's operations.

Environment, Social, Governance:

The company's overall ESG score improved from 17.36 in 2014 to 26.0 in 2017. SJM has established a strong environmental management system for overseeing the overall environmental performance of the company. It is committed to promoting environmental protection, social responsibility and effective corporate governance. The company has implemented several initiatives regarding waste management, energy usage, and improvement in air quality. It has also developed work processes to uphold professional and ethical labour practices.

Company Background

Founded in 1962, SJM Holdings Limited is the holding company of Sociedade de Jogos de Macau, S.A., one of the six companies authorised to operate casinos in Macau. The company's major operations are in the areas of gaming, hotels and other tourism-related facilities in Macau. SJM also has an integrated resort under construction in Cotai - The Grand Lisboa Palace. The resort will feature ~1.9k hotel rooms and suites, facilities for meetings and conferences, shopping, dining, entertainment and casino operations. SJM currently runs 20 casinos, consisting of over 1.7k gaming tables and 2.5k slot machines.



Source: Company, DBS HK

SJM Holdings

Segmental Breakdown (HK\$ m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Revenues (HK\$ m)					
Casino Grand Lisboa	14,866	15,663	13,568	14,163	16,287
Other Self-promoted Casinos	6,214	6,265	6,126	6,419	7,397
Satellite Casinos	20,209	21,972	22,079	25,249	29,733
Commissions and Incentives	(10,393)	(10,223)	(7,519)	(8,250)	(8,547)
Non Gaming Operations	585	733	737	754	797
Total	31,481	34,410	34,990	38,336	45,668
Adjusted EBITDA (HK\$ m)					
Casino Grand Lisboa	1,756	2,114	2,129	2,374	3,053
Other Self-promoted Casinos	618	890	1,183	1,252	1,442
Satellite Casinos	675	647	693	884	1,100
Others	25	73	74	81	97
Total	3,074	3,724	4,079	4,591	5,693
Adjusted EBITDA Margins (%)					
Casino Grand Lisboa	11.8	13.5	15.7	16.8	18.7
Other Self-promoted Casinos	9.9	14.2	19.3	19.5	19.5
Satellite Casinos	3.3	2.9	3.1	3.5	3.7
Total	9.8	10.8	11.7	12.0	12.5

Source: Company, DBS HK

SJM Holdings

Income Statement (HK\$ m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Revenue	31,482	34,410	34,990	38,336	45,668
Cost of Goods Sold	(16,372)	(17,392)	(17,335)	(18,992)	(22,396)
Gross Profit	15,110	17,019	17,655	19,343	23,271
Other Opng (Exp)/Inc	(13,184)	(14,067)	(14,504)	(16,582)	(19,681)
Operating Profit	1,926	2,952	3,151	2,762	3,591
Other Non Opg (Exp)/Inc	54	16	16	16	16
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(34)	(28)	(35)	(35)	(44)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	1,947	2,940	3,132	2,742	3,562
Tax	(12)	(27)	(43)	(41)	(53)
Minority Interest	29	(62)	(108)	(95)	(123)
Preference Dividend	0	0	0	0	0
Net Profit	1,963	2,850	2,981	2,607	3,386
Net Profit before Except.	1,963	2,850	2,981	2,607	3,386
Growth					
Revenue Gth (%)	(24.7)	9.3	1.7	9.6	19.1
EBITDA Gth (%)	(8.1)	31.4	2.7	8.7	24.0
Opg Profit Gth (%)	(17.6)	53.3	6.8	(12.4)	30.0
Net Profit Gth (%)	(15.6)	45.2	4.6	(12.6)	29.9
Margins & Ratio					
Gross Margins (%)	48.0	49.5	50.5	50.5	51.0
Opg Profit Margin (%)	6.1	8.6	9.0	7.2	7.9
Net Profit Margin (%)	6.2	8.3	8.5	6.8	7.4
ROAE (%)	7.7	10.3	10.3	8.7	10.8
ROA (%)	4.2	5.1	5.0	3.9	4.5
ROCE (%)	5.5	6.4	6.5	5.1	5.9
Div Payout Ratio (%)	66.3	45.7	58.0	58.0	58.0
Net Interest Cover (x)	57.5	107.3	89.5	78.8	81.3

Source: Company, DBS HK

SJM Holdings

Balance Sheet (HK\$ m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	24,972	30,660	36,584	42,039	48,157
Invt in Associates & JVs	379	434	434	434	434
Other LT Assets	3,712	4,672	4,193	4,193	4,193
Cash & ST Invt	15,891	18,693	17,172	18,107	19,987
Inventory	83	91	104	114	134
Debtors	1,166	1,849	1,378	1,510	1,798
Other Current Assets	84	0	0	0	0
Total Assets	46,287	56,399	59,865	66,397	74,703
ST Debt	200	200	1,700	1,700	1,700
Creditors	11,174	11,958	14,044	15,387	18,145
Other Current Liab	85	117	346	346	346
LT Debt	7,935	15,245	13,676	17,676	21,676
Other LT Liabilities	1,424	1,193	1,027	1,026	1,030
Shareholder's Equity	25,397	27,552	28,830	29,925	31,347
Minority Interests	72	135	242	337	459
Total Cap. & Liab.	46,287	56,399	59,865	66,397	74,703
Non-Cash Wkg. Capital	(9,926)	(10,135)	(12,909)	(14,110)	(16,559)
Net Cash/(Debt)	7,756	3,248	1,796	(1,268)	(3,389)
Debtors Turn (avg days)	13.5	19.6	14.4	14.4	14.4
Creditors Turn (avg days)	268.9	268.9	315.2	327.2	326.3
Inventory Turn (avg days)	2.0	2.0	2.3	2.4	2.4
Asset Turnover (x)	0.7	0.6	0.6	0.6	0.6
Current Ratio (x)	1.5	1.7	1.2	1.1	1.1
Quick Ratio (x)	1.5	1.7	1.2	1.1	1.1
Net Debt/Equity (X)	CASH	CASH	CASH	0.0	0.1
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	0.0	0.1
Capex to Debt (%)	72.8	37.4	45.5	37.6	35.2
Z-Score (X)	0.0	0.0	0.0	0.0	0.0

Source: Company, DBS HK

Cash Flow Statement (HK\$ m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	1,947	2,940	3,132	2,742	3,562
Dep. & Amort.	1,205	1,163	1,073	1,829	2,102
Tax Paid	(12)	(27)	(43)	(41)	(53)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(489)	156	2,556	1,201	2,449
Other Operating CF	(61)	(195)	0	0	0
Net Operating CF	2,589	4,036	6,718	5,731	8,059
Capital Exp.(net)	(5,920)	(5,776)	(6,997)	(7,284)	(8,220)
Other Invt.(net)	(5,800)	(2,650)	3,840	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	3	22	0	0	0
Other Investing CF	(145)	(987)	1,061	0	0
Net Investing CF	(11,863)	(9,390)	(2,097)	(7,284)	(8,220)
Div Paid	(1,301)	(1,302)	(1,729)	(1,512)	(1,963)
Chg in Gross Debt	7,588	7,250	(69)	4,000	4,000
Capital Issues	3	9	26	0	0
Other Financing CF	(355)	(452)	(529)	(1)	3
Net Financing CF	5,934	5,506	(2,302)	2,488	2,040
Currency Adjustments	0	0	0	0	0
Chg in Cash	(3,339)	152	2,319	936	1,879
Opg CFPS (HK\$)	0.54	0.69	0.73	0.80	0.99
Free CFPS (HK\$)	(0.59)	(0.31)	(0.05)	(0.27)	(0.03)

Source: Company, DBS HK

^ Bloomberg ESG Disclosure Scores rate companies annually based on their disclosure of quantitative and policy-related ESG data. It is based on a scoring scale of 0-100, and calculated using a subset of more than 100 raw data points it collects on ESG. It is designed to measure the robustness of companies' disclosure of ESG information in their reporting/the public domain. Based on Bloomberg disclosures, as of 25 Jan 2019, the global ESG disclosure average score is 24.92 and 22.14, 28.26, 49.97 for Environmental, Social and Governance, respectively.

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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

Completed Date: 30 Sep 2019 10:29:38 (HKT)

Dissemination Date: 30 Sep 2019 14:54:51 (HKT)

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

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