

Galaxy Entertainment (27)

Overweight (V)

Target price (HKD)	19.37
Share price (HKD)	15.18
Potential return (%)	27.6

Dec	2010a	2011e	2012e
HSBC EPS	0.23	0.58	0.93
HSBC PE	66.7	26.1	16.4
Performance	1M	3M	12M
Absolute (%)	8.6	52.4	358.6
Relative [^] (%)	15.2	54.2	282.8

Note: (V) = volatile (please see disclosure appendix)

30 May 2011

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Issuer of report: The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch

MICA (P) 208/04/2011

MICA (P) 040/04/2011

Disclaimer & Disclosures

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

Initiate OW(V): A company transformed

- ▶ **Galaxy Macau: a market-leading resort**
- ▶ **We expect further announcements of new projects**
- ▶ **Initiate with OW(V) rating and TP of HKD19.37 based on weighted average of the SOTP and DCF valuations**

Galaxy Entertainment Group (GEG) is one of six casino gaming concessionaires in Macau SAR and has the largest undeveloped land bank in Macau. The company currently operates six casinos and opened the new mega casino resort, Galaxy Macau, on 15 May 2011.

Galaxy Macau has transformed GEG. The new mega resort, Galaxy Macau, has transformed GEG on many levels. If we were to add the 2010 results from StarWorld to the 2012 forecasts for Galaxy World, then the new resort will increase reported revenue by 120%, reported EBITDA by 200%, total employees by 233%, hotel rooms by 436%, and F&B outlets by 725%. But beyond the metrics, Galaxy Macau is not only one of the largest casino resorts in Macau, it has set new standards for interior finishes, functionality and family entertainment, in our view.

Undeveloped land bank offers 15.5m sqf of additional GFA. GEG owns the largest contiguous piece of undeveloped land in Macau, spanning 31 hectares. We believe this land can yield 15.5m sqf of new resort facilities and we expect the company to announce major new developments as early as 2H11.

We initiate coverage on GEG with an Overweight (V) rating and a target price of HKD19.37. The stock has run hard over the past 12 months, outperforming the Hang Seng Index by 359%. We believe the company continues to be in a major re-rating phase and the stock offers a potential return of 28%.

Investment risks: Specific risks for GEG relate to the company's ability to secure and retain sufficient staff to develop and operate its resorts. Generic risks for Macau casino concessionaires include unexpected changes in government gaming policy, or economic changes in China that can impair customer visitation and expenditure. Business concentration risk also exists given all of the company's operations are largely centred in Macau SAR.

Index [^]	Hang Seng Index
Index level	22,747
RIC	0027.HK
Bloomberg	27 HK

Source: HSBC

Free float (%)	50
Market cap (USDm)	8,066
Market cap (HKDm)	62,761

Source: HSBC

Financials & valuation

Financial statements

Year to	12/2010a	12/2011e	12/2012e	12/2013e
Profit & loss summary (HKDm)				
Revenue	19,262	32,163	38,112	41,417
EBITDA	2,231	4,508	5,644	6,146
Depreciation & amortisation	-511	-917	-1,217	-1,217
Operating profit/EBIT	1,720	3,591	4,427	4,929
Net interest	-44	-355	-485	-435
PBT	958	2,436	3,942	4,494
HSBC PBT	958	2,436	3,942	4,494
Taxation	-45	-48	-51	-53
Net profit	898	2,347	3,825	4,366
HSBC net profit	898	2,347	3,825	4,366

Cash flow summary (HKDm)

Cash flow from operations	2,000	3,957	4,963	5,515
Capex	-7,425	-2,825	-725	-725
Cash flow from investment	-6,033	-2,825	-725	-725
Dividends	0	0	0	0
Change in net debt	3,096	-3,143	-4,238	-4,790
FCF equity	-5,424	1,089	4,193	4,742

Balance sheet summary (HKDm)

Intangible fixed assets	1,320	1,249	1,178	1,107
Tangible fixed assets	17,288	20,096	20,804	21,512
Current assets	5,536	12,157	16,395	21,186
Cash & others	4,003	10,625	14,863	19,653
Total assets	25,186	34,545	39,419	44,846
Operating liabilities	5,793	9,325	10,375	11,436
Gross debt	9,426	12,905	12,905	12,905
Net debt	5,423	2,280	-1,958	-6,748
Shareholders funds	9,197	11,544	15,370	19,735
Invested capital	14,348	13,552	13,139	12,715

Ratio, growth and per share analysis

Year to	12/2010a	12/2011e	12/2012e	12/2013e
Y-o-y % change				
Revenue	57.5	67.0	18.5	8.7
EBITDA	99.3	102.1	25.2	8.9
Operating profit	197.5	108.8	23.3	11.3
PBT	-22.3	154.2	61.8	14.0
HSBC EPS	-22.0	155.5	59.2	13.8

Ratios (%)

Revenue/IC (x)	1.6	2.3	2.9	3.2
ROIC	14.8	26.8	34.4	39.3
ROE	10.3	22.6	28.4	24.9
ROA	4.4	9.2	11.9	11.6
EBITDA margin	11.6	14.0	14.8	14.8
Operating profit margin	8.9	11.2	11.6	11.9
EBITDA/net interest (x)	50.1	12.7	11.6	14.1
Net debt/equity	56.6	19.1	-12.4	-33.6
Net debt/EBITDA (x)	2.4	0.5	-0.3	-1.1
CF from operations/net debt	36.9	173.6		

Per share data (HKD)

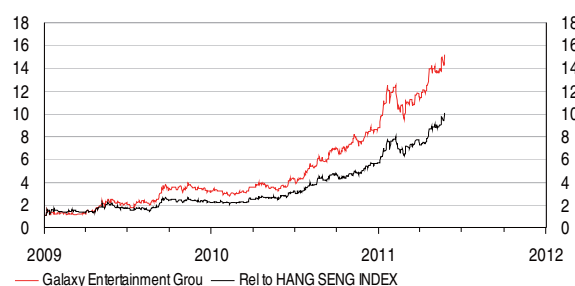
EPS reported (fully diluted)	0.23	0.58	0.93	1.05
HSBC EPS (fully diluted)	0.23	0.58	0.93	1.05
DPS	0.00	0.00	0.00	0.00
NAV	2.33	2.80	3.71	4.76

Valuation data

Year to	12/2010a	12/2011e	12/2012e	12/2013e
EV/sales	3.5	2.0	1.6	1.3
EV/EBITDA	30.1	14.2	10.6	8.9
EV/IC	4.7	4.7	4.5	4.3
PE*	66.7	26.1	16.4	14.4
P/NAV	6.5	5.4	4.1	3.2
FCF yield (%)	-8.8	1.8	6.8	7.7
Dividend yield (%)	0.0	0.0	0.0	0.0

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Source: HSBC

Note: price at close of 25 May 2011

Contents

Investment summary	4	Financial forecasts	26
Summary	4	Earnings forecasts	26
Target price	6	Cash flow statement	27
Overweight (V) rating	6	Balance sheet	27
SOTP and DCF valuation	6	Share capital	28
Valuation sensitivities	9	Dividend policy and forecast	28
Comparative multiples	11		
Share price analysis	12	Appendix	29
		Galaxy Macau	29
Group structure	13	Macau casino location map	30
Ownership structure	13		
Operational structure	14	Disclosure appendix	31
Gaming	15		
Concession renewal assumptions	23	Disclaimer	33
Construction materials	25		

Investment summary

- ▶ New Galaxy Macau transforms company and stock
- ▶ Earnings growth visibility and corporate credibility enhanced
- ▶ Initiate with OW(V) rating and TP of HKD19.37

Summary

- ▶ We are initiating coverage on Galaxy Entertainment Group (GEG) with an Overweight (V) rating and a target price of HKD19.37.
- ▶ GEG is ultimately controlled by the Lui Family of Hong Kong.

What we like about GEG

- ▶ GEG owns one of six gaming concessions in Macau and has the largest undeveloped land bank of any concessionaire in the market.
- ▶ Macau is the only centre for legal gaming within China and as such offers companies such as GEG a strong position to target the expanding domestic market.
- ▶ GEG management has adopted a highly strategic expansion programme, which is more aggressive than Wynn Macau and MGM China, although less aggressive than Sands China.
- ▶ GEG's new major resort, Galaxy Macau, is 450% bigger in investment than its last major opening (StarWorld) and when opened will increase GEG's NPAT by 326% from that recorded in 2010, based on our estimates.

Where we have concerns

- ▶ Macau and PRC Government policies: The Macau government has been plagued by issues of corruption. It has also implemented policies restricting the use of foreign labour, and delayed gazetting of land for new resorts, which have all impaired the development of the casino industry. The PRC government had previously changed visa policies, which has impaired visitation to Macau.
- ▶ New project execution: GEG has substantial undeveloped land; the timing and profitability of new developments carry risks.

Investment risks

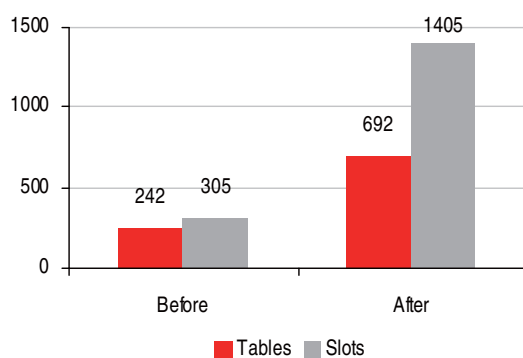
- ▶ Upside risk can come from stronger earnings growth, the announcement of further casino projects, or sale of non-gaming assets.
- ▶ Potential negative catalysts could include a regional macroeconomic shock, changes to government regulations, political instability or collateral damage from any negative findings from the ongoing investigations by the United States SEC, DoJ, FBI and the Stock Exchange of Hong Kong against Sands China Limited.

Figure 1: Casino resort operations post opening of Galaxy Macau (1)

	StarWorld 2010	Galaxy Macau (2012E)	StarWorld + Galaxy Macau (Combined)	
Revenue (HK\$m)	16546	19851	36398	120%
EBITDA (HK\$m)	1831	3668	5498	200%
Assets (HK\$m)	3300	14820	18120	449%
ROA (%)	55%	25%	30%	
Borrowings (HK\$m)	1700	9000	10700	529%
Borrowings / Assets (%)	52%	61%	59%	
Interest Costs (HK\$m)	77	405	482	
EBITDA / Net Interest (x)	23.9x	9.1x	11.4x	
Total Employees (no.)	3300	7700	11000	233%
Gaming Tax paid (HK\$m)	6355	6781	13136	107%
Hotel Rooms (no.)	505	2200	2705	436%
F&B Outlets (no.)	8	58	66	725%
Gaming Tables (no.)	242	450	692	186%
EGMs	305	1100	1405	361%
Daily Visitors (no.)	9000	35000	44000	389%

Source: HSBC estimates, (1) 2012 is the first full year of operations of Galaxy Macau, and 2010 was the last full year for StarWorld

Figure 2: GEG gaming devices after opening of Galaxy Macau



Source: HSBC

Figure 3: GEG employees and daily visitors before and after opening of Galaxy Macau

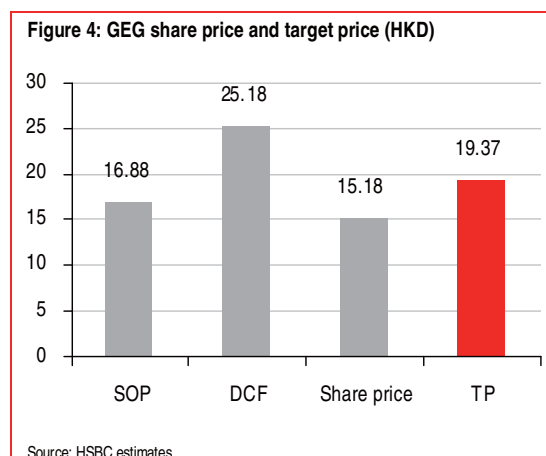


Source: HSBC

Target price

Our target price for Galaxy Entertainment Group Limited (GEG) is HKD19.37 and is based on a weighted average of the SOTP and DCF valuations.

Given the relative uncertainty surrounding long-term forecasts in Macau (licence expiry, etc.), we give 30% weight to the DCF valuation and 70% weight to the SOTP valuation.



Overweight (V) rating

Under HSBC's research model, the Neutral rating band for Hong Kong equities with a volatile flag is 10ppt above and below the hurdle rate of 8.5%, or -1.5-18.5% around the current share price.

Our target price of HKD19.37 implies a potential return of 28%, which is above the Neutral band; thus, we have a rating of Overweight (V) on GEG stock.

SOTP and DCF valuation

Our SOTP valuation for GEG is HKD16.88/share. Key assumptions are outlined as follows and provided in Figure 6.

▶ StarWorld

On a SOTP basis, we value the StarWorld operations at HKD23.8bn, which represents 28% of the company valuation.

We have applied a multiple of 13.0x 2011e EBITDA for the valuation of StarWorld, which is slightly lower than the 14x used in our valuation of Galaxy Macau, and 15x used in the valuation of Wynn Macau (including Encore) and Venetian Macau (see Figure 5).

The lower multiple reflects the marginally lower view of the competitive position of this property relative to other major resort properties such as Wynn Macau and Venetian Macau.

▶ City Clubs

On a SOTP basis, we value the City Club operations at HKD402m, which represents 0.4% of the company valuation.

We use a 5x EBITDA multiple on these operations, which is significantly lower than that used in the valuation of StarWorld, Galaxy Macau, Wynn Macau and Venetian Macau.

The lower valuation multiple reflects our concerns regarding the ongoing sustainability of these casinos.

These facilities are facing ever increasing competition from newer, larger, better designed and better managed casinos and as such may become non-commercial in the near future.

Moreover, we remain concerned with respect to the uncertain treatment of the licensing of these facilities by the Macau government beyond the renegotiation and concession expiry in 2017-22 (see page 23).

► Galaxy Macau

On a SOTP basis, we value the newly opened Galaxy Macau operations at HKD38.8bn, which represents 41% of the company valuation.

We have applied a multiple of 14.0x 2011e EBITDA for the valuation of StarWorld, which is slightly lower than the 15x used in our valuation of both Wynn Macau (including Encore) and Venetian Macau (see Figure 5).

The investment multiple is slightly lower than that used in similar mega destination resorts simply due to the uncertainty surrounding the untested operational performance of the property.

While we do expect this facility will be highly successful, we believe a lower multiple is prudent at this stage.

► New Cotai projects

We forecast GEG will develop new resorts on Cotai in two phases.

On a SOTP basis, we value these future operations at HKD23.2bn, which represents 27% of the company valuation.

The assumptions underpinning this valuation are outlined on pages 20 and 21.

► Land premium

We have incorporated HKD1.275bn in residual payments for the Cotai land over 2011-13 as this represents the schedule undertaken with the government under the land grant.

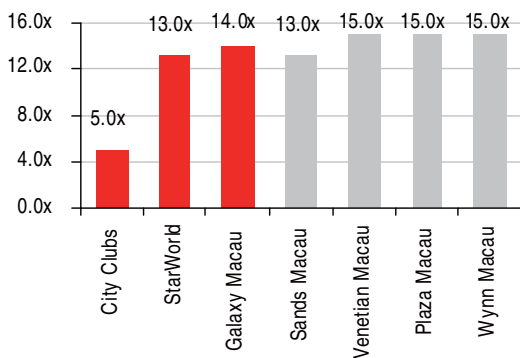
► License renewal assumption

We inherently assume that the Macau government extends all gaming concessions beyond their expiry in 2022.

We assume that the government levies a one-off fee based on the number of gaming devices operated by each concessionaire. We assume that GEG will pay HKD29.4bn (USD3.8bn) in 2019 as its renewal fee.

The assumptions underpinning this estimate are outlined on page 23.

Figure 5: Macau casino valuation multiples (1)



Source: HSBC estimates, (1) multiples of 2011e EBITDA

Figure 6: GEG sum of the parts valuation (HKDm except per share data)

	EBITDA	(x)	Value	Share
Owned & operated				
StarWorld	1831	13.0x	23799	28%
Galaxy Macau	2771	14.0x	38799	45%
Total	4602		62598	73%
City Clubs operations	80		402	0.5%
Total current gaming	4683		63001	73%
Cotai Projects				
Phase II (2015)			8665	10%
Phase III (2017)			14539	17%
Total			23204	27%
Total gaming			86205	100%
Construction mat.	376	7.0x	2631	3%
Corporate	-200	14.0x	-2800	-3%
Gross Assets			86035	100%
Less:				
Land premium			(1275)	
License renewal			(12756)	
Less: net debt				
Borrowings			12905	
Cash			10625	
Net assets			69725	
Shares in issue			4130	
Net value per share			HK\$16.88	

Source: HSBC estimates

Figure 7: GEG DCF valuation (HKDm except per share data)

	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e
EBITDA	4508	5644	6146	6931	7624	8387	9225	10148	11163
Less: capex	-2,825	-725	-725	-300	-300	(330)	(363)	(399)	(439)
Less: land premium	(425)	(425)	(425)						
Op Free CF	1258	4494	4996	6631	7324	8057	8862	9748	10723
Income Tax	-48	-51	-53	-56	-60	-64	-69	-73	-78
Total	1210	4444	4943	6575	7264	7993	8794	9675	10645
DCF value									
Cashflows	41380	35%		Ke	12%				
Terminal value	54446	46%		Kd	6%				
Total	95825	81%		WACC	11%				
Cotai Projects									
Phase II (2015)	8665	7%							
Phase III (2017)	14539	12%							
Total	23204	19%							
Total Assets	119029	100%							
License renewal fee	-12756								
Less:									
Borrowings	12905								
Cash	10625								
Net	-2280								
Net Assets	103993								
Shares in issue (m)	4130								
Value per share	25.18								

Source: HSBC estimates

Valuation sensitivities

We have provided alternate scenarios to assess the DCF sensitivity from changes to key assumptions such as revenue growth, licence expiry, new project development and changes to gaming tax.

Scenario 1: Market revenue growth

We have applied two alternate revenue growth rates for the market:

► Low growth scenario

This assumes Macau gross gaming revenue (GGR) grows at a CAGR of 12% between 2010 and 2020. This is 5% slower than our base forecast and causes an 18% fall in our DCF valuation.

► High growth scenario

This assumes Macau GGR grows at a CAGR of 25% between 2010 and 2020. This is 8% higher than our base forecast and causes a 38% increase in our DCF valuation, also assuming no margin expansion.

Scenario 2: Licence renewal

When we assume that the license is not renewed, this implies no perpetuity and no development of additional gaming resorts.

This scenario causes a 62% decline in our DCF valuation. We view this scenario as unlikely.

We have provided scenarios to assess varying degrees of licence renewal fee. At 2x our forecast fee, the DCF valuation declines by 12%, and at 4x, the DCF declines by 37%.

Scenario 3: No expansion

When we assume that the licence is renewed but no further resorts are developed (beyond those already under construction), then this causes a 22% decline in our DCF valuation.

Scenario 4: Gaming tax

We have applied two scenarios relating to the imposition of higher gaming tax post license renewal.

The two rates are 45% and 50% vs the current rate of 40% and these rates result in our DCF declining by 6% and 12%, respectively.

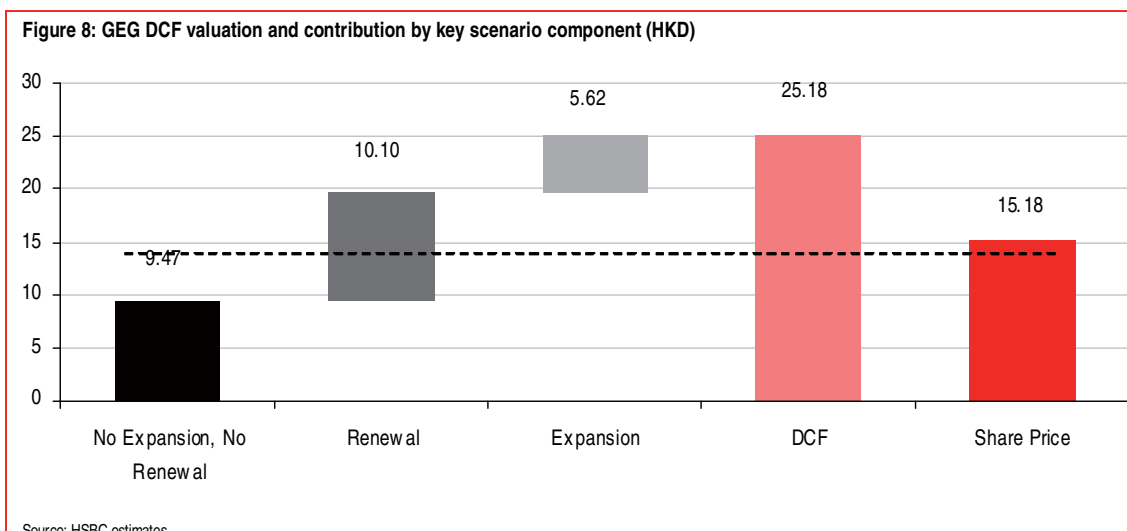


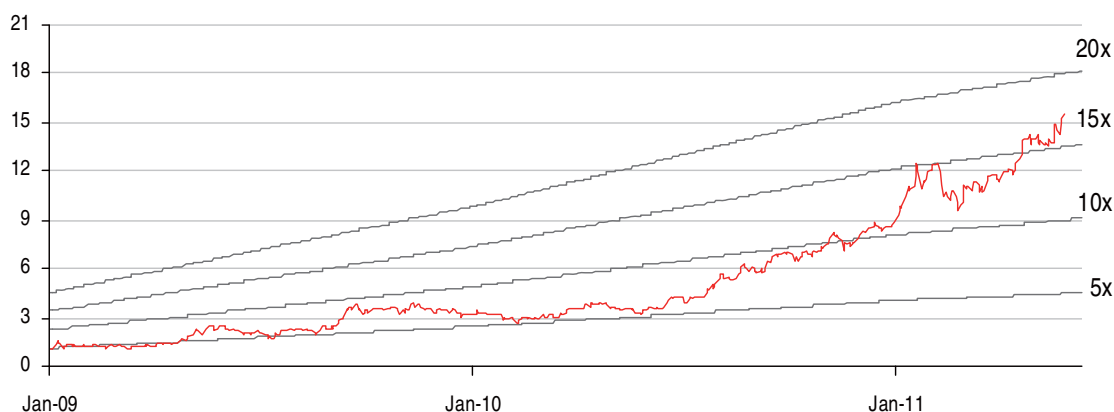
Figure 9: Macau casino company DCF valuation sensitivity (HKD)

	Galaxy Ent. Group	Sands China Ltd(1)	Wynn Macau Ltd
Revenue growth			
Base forecast	25.18	37.02	36.49
Low scenario (-5%)	20.66	29.11	29.84
Change	-18%	-21%	-18%
High scenario (+8%)	34.71	53.68	50.56
Change	38%	45%	39%
License renewal			
Base forecast	25.18	37.02	36.49
No renewal	9.47	12.58	13.73
Change	-62%	-66%	-62%
Renewal no fee	28.27	38.79	38.09
Change	12%	5%	4%
Fee 2x forecast	22.09	35.26	34.89
Change	-12%	-5%	-4%
Fee 4x forecast	15.92	31.73	31.69
Change	-37%	-14%	-13%
Expansion			
Base forecast	25.18	37.02	36.49
No expansion	19.56	34.90	32.38
Change	-22%	-6%	-11%
Gaming Tax			
Base forecast	25.18	37.02	36.49
45% tax	23.62	34.84	34.46
Change	-6%	-6%	-6%
50% tax	22.05	32.65	32.43
Change	-12%	-12%	-11%

Source: HSBC estimates

Comparative multiples

Figure 10: Galaxy Entertainment Group share price and PE bands



Source: Datastream, HSBC estimates

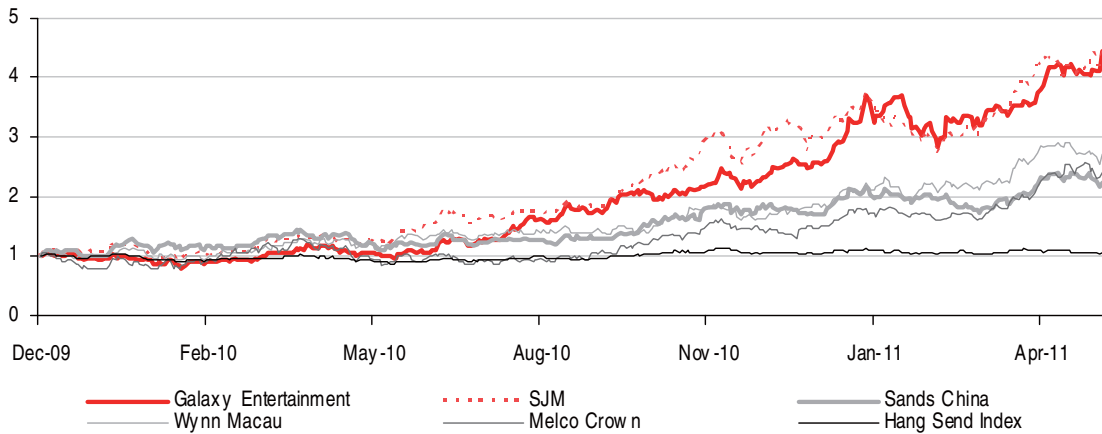
Figure 11: Asia gaming company valuation summary

Companies	Bloomberg Ticker	Pricing currency	HSBC Rating	Price May 25	HSBC TP	Mcap (USDm)	EV/EBITDA (x)			P/E (x)		
							2010	2011e	2012e	2010	2011e	2012e
Asia listed operators												
SJM Holdings	880 HK	HKD	N.R	17.96	N.R	12,718	19.8	13.7	11.2	27.2	19.3	15.9
Galaxy Entertainment	27 HK	HKD	OW(V)	15.18	19.37	8,064	32.9	19.4	12.3	66.0	31.0	18.7
Wynn Macau	1128 HK	HKD	N	25.20	26.18	16,797	25.0	17.4	14.5	29.6	22.1	18.1
Sands China	1928 HK	HKD	OW(V)	20.20	29.64	20,889	20.2	15.7	11.5	32.5	23.6	17.3
Melco Intern. Devel.	200 HK	HKD	N.R	6.57	N.R	1,039	305.5	121.2	101.4	N.A	59.7	31.3
Kangwon Land	035250 KS	KRW	N.R	26,050	N.R	5,058	8.5	6.8	6.5	12.6	11.9	11.4
NagaCorp	3918 HK	HKD	N.R	1.81	N.R	484	N.A	N.A	N.A	11.6	7.8	7.8
Genting Berhad	GENT MK	MYR	OW	10.94	12.80*	13,255	5.3	4.3	3.5	18.4	13.9	12.1
Genting Malaysia Bhd	GENM MK	MYR	OW	3.52	4.44*	6,796	9.3	7.7	6.3	15.7	12.9	10.9
Genting Singapore Plc	GENS SP	SGD	N(V)	2.01	2.22	19,642	18.0	13.8	12.3	NA	23.7	21.4
Genting Hong Kong	678 HK	HKD	N.R	3.10	N.R	3,095	N.A	40.0	39.9	N.A.	39.8	39.8
Tabcorp Holdings	TAH AU	AUD	N.R	7.57	N.R	5,474	6.6	6.2	6.8	10.0	10.2	11.8
Crown Limited	CWN AU	AUD	N.R	8.52	N.R	6,753	10.8	10.2	9.1	21.0	17.9	15.2
Average						120,065	15.4	14.1	12.2	24.5	22.6	17.8

Source: Datastream, Bloomberg consensus estimates, HSBC estimates for rated companies *TPs for Genting Berhad and Genting Malaysia were changed on 30 May.

Share price analysis

Figure 12: Galaxy Entertainment Group share price and other Macau listed casino companies



Source: Datastream, HSBC estimates

Figure 13: Asia gaming company share price performance

	Bloomberg Ticker	Pricing currency	Price May 25	Market cap (USDm)	Free float (USDm)	Absolute performance (%)						
						1W	1M	3M	6M	1Y	2Y	5Y
Asia Gaming												
SJM Holdings	880:HK	HKD	17.96	12718	4579	-0.2	5.9	60.1	62.1	271.8	575.2	NA
Galaxy Entertainment	27:HK	HKD	15.18	8064	3468	1.9	8.6	52.4	99.7	358.6	540.5	135.3
Wynn Macau	1128:HK	HKD	25.20	16797	4703	-1.9	-7.7	23.5	60.3	119.5	NA	NA
Sands China	1928:HK	HKD	20.20	20889	6267	-3.1	-8.2	9.3	19.2	89.5	NA	NA
Melco Int. Development	200:HK	HKD	6.57	1039	686	-2.7	-3.4	32.2	42.8	120.5	19.7	-66.0
Kangwon Land	035250:KS	KRW	26050	5058	2883	1.2	6.8	4.2	5.5	62.8	57.4	56.9
NagaCorp	3918:HK	HKD	1.81	484	116	-4.7	0.0	12.4	3.4	101.1	72.4	NA
Genting Berhad	GENT:MK	MYR	10.94	13255	9013	-2.1	-5.5	8.1	5.2	72.3	97.1	134.8
Genting Malaysia Bhd	GENM:MK	MYR	3.52	6796	3602	-0.8	-3.6	6.3	4.1	32.3	26.2	43.1
Genting Singapore Plc	GENS:SP	SGD	2.01	19642	9428	-2.9	-9.9	3.1	-0.5	117.3	137.4	634.0
Genting Hong Kong	678:HK	HKD	3.10	3095	743	-6.1	-5.5	2.0	-10.9	142.2	162.7	121.4
Crown Limited	CWN:AU	AUD	8.52	6753	2431	1.5	1.2	3.5	3.0	12.1	21.9	NA
Sky City Entertainment	SKC:AU	AUD	2.81	1704	1500	2.9	10.2	17.1	14.2	19.6	17.1	-26.3
Tabcorp Holdings	TAH:AU	AUD	7.57	5474	5474	-3.2	-2.6	0.3	5.1	15.6	7.8	-50.9
Total/Average				121769	54892	-1.5	-1.0	16.8	22.4	109.7	144.6	109.1
Indices												
KL Comp Index			850			-0.7	0.5	3.7	3.2	22.7	43.9	58.8
Straits Times Index			3119			-0.7	-2.2	3.1	-1.3	17.7	37.5	32.7
Jakarta Comp Index			3780			-1.6	-0.2	9.8	2.1	50.4	99.9	185.7
Hang Seng Index			22747			-1.2	-5.8	-1.2	-1.3	19.8	32.9	44.9
Dow Jones			12395			-1.3	-0.7	2.2	10.8	23.4	49.7	10.6
S&P500 Casinos			1072			-2.8	-2.8	13.7	28.3	43.3	130.3	-19.0

Source: Datastream, HSBC estimates

Group structure

- ▶ GEG is controlled by the Lui Family
- ▶ Casino operations account for 93% of 2012e EBITDA
- ▶ Cotai undeveloped land could yield two more mega resorts

Ownership structure

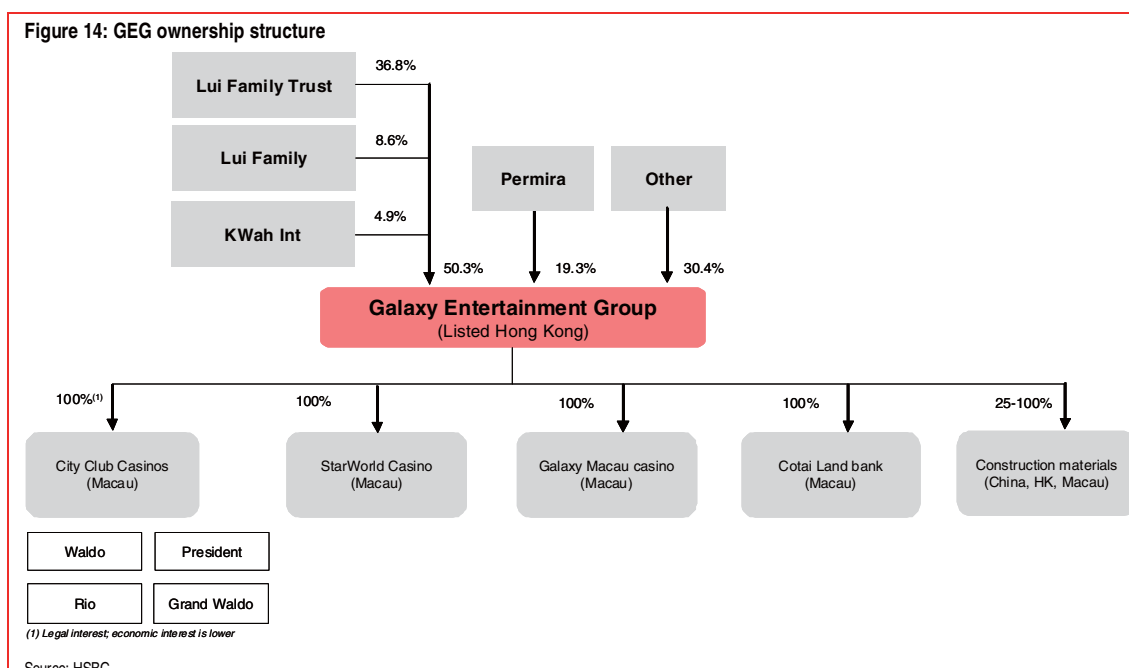
Galaxy Entertainment Group is ultimately controlled by the Lui Family of Hong Kong, which has a combined interest of 50.3%.

The Family has a direct interest of 8.6% in GEG and an indirect interest of 41.7% via the Lui Family Trust and Hong Kong listed K Wah International (Bloomberg 173:HK).

K Wah International is a residential and commercial property developer with active projects in China and Hong Kong.

The Lui Family has substantial interests in hotels in North America via its controlling position in Stanford Hotels Group, which operates 13 hotels under leading brands such as Sheraton, Hilton, Marriott and Intercontinental.

Permira acquired a 19.3% shareholding in GEG in 2007 via a placement and acquisition of existing shares held by KWah International.



Operational structure

Galaxy Entertainment Group is primarily a Macau-facing company and we do not see the company expanding beyond this market. There are five broad areas of operation:

Construction materials

The construction materials operations were the original core activities of the company before the Macau gaming operations were acquired in 2005. These activities focus on the production and sale of aggregates and slag primarily in China.

Investors have expected these operations to be sold at some point to make GEG a pure-play Macau gaming company.

City Clubs

The City Clubs involve four small casinos being operated effectively under a franchise arrangement with third-party promoters.

StarWorld

StarWorld has been the flagship for GEG. The casino property opened in 2006 and has achieved one of the highest ROIs in the market.

Galaxy Macau

Galaxy Macau is GEG's new major resort costing USD1.9bn and is located on GEG's Cotai land bank. The project opened on 15 May 2011.

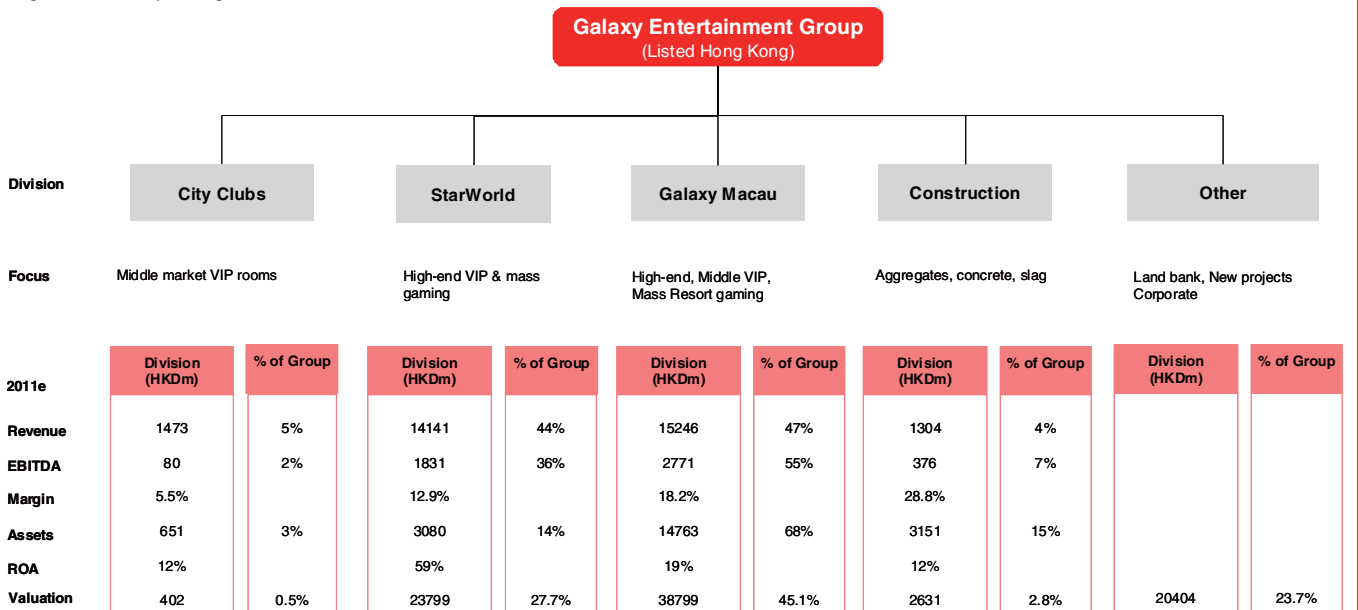
Land bank

GEG's Cotai land bank allows for the development of 21.5m sqf of GFA.

After the completion of Galaxy Macau (which has a GFA of 6m sqf), the residual 15.5m sqf of GFA could yield:

- ▶ 2-3 major new projects encompassing a potential 5000 hotel rooms,
- ▶ 400,000 sqf of retail and
- ▶ 600,000 sqf of gaming.

Figure 15: GEG operating structure



Source: HSBC

Gaming

We forecast GEG's gaming activities will generate HKD4.3bn EBITDA in 2011, up 117% from 2010.

We value GEG's gaming operations at HKD86.2bn, which represents 97% of the company valuation.

Overview

GEG's gaming activities have evolved greatly since the company was first awarded the concession in a joint venture with Las Vegas Sands.

In 2002, GEG arguably had no experience or competency in the gaming industry and this was certainly the case following the split with Las Vegas Sands.

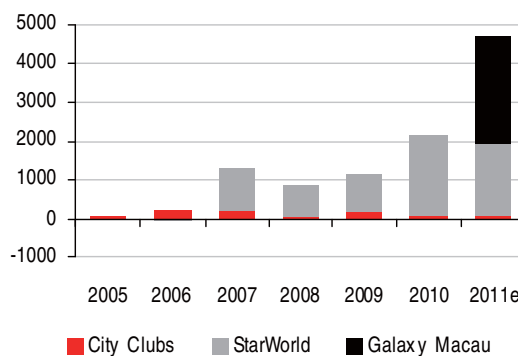
The company's first casino, Waldo, was and still is designed as an outsourced business where GEG is the landlord leasing out space to other parties that undertake gaming.

In 2006, GEG evolved into a true casino company with the opening of StarWorld, which while still relying heavily on the VIP segment, does operate

mass gaming and provides a ROI equal to that generated by the best gaming operators in Macau.

With the opening of Galaxy Macau on 15 May, GEG has evolved into a full-fledged casino resort developer/operator on the same level as any other gaming company in Asia.

Figure 16: GEG EBITDA (HKDm)



Source: Company reports, HSBC estimates

StarWorld

We forecast StarWorld will generate EBITDA of HKD1831m in 2011, down 10% from the HKD2040m reported in 2010.

We value StarWorld at HKD25.6bn, which represents 28% of our company valuation.

Figure 17: GEG portfolio of casino gaming operations

	City Clubs				Total	StarWorld	Galaxy Macau
	Waldo	Rio	President	G/Waldo			
Opening Date	4-Jul-04	2-Feb-06	27-Apr-06	21-May-06		19-Oct-06	15-May-11
Market Focus	VIP	VIP	VIP	VIP		VIP/Mass	VIP/Mass/Resort
Location	Peninsula	Peninsula	Peninsula	Cotai		Peninsula	Cotai
Gaming Area (sq. ft)	37674	55972	59201	150695	303542	140,000	400,000
Devices							
Tables							
VIP	20	15	20	68	123	120	80
Mass gaming	15	60	40	75	190	100	370
Total	35	75	60	143	313	220	450
Slot Machines	75	150	NA	334	559	250	1100
Hotel Rooms	0	0	0	0	0	507	2200
Convention space	0	0	0	0	0	0	
Retail	0	0	0	0	0	0	
Project CAPEX (HK\$m)	155	124	155	214	649	3108	14763
(US\$m)	20	16	20	28	84	400	1900

Source: HSBC estimates

Overview

The StarWorld casino hotel property opened on 19 October 2006 and is located across the road from Wynn Macau on the Macau Peninsula (see Figure 41 on page 30).

StarWorld has a total GFA of 1.3m sqf and includes around 220 gaming tables, 200 slot machines and 500 hotel rooms.

The property was built at a total development cost of HKD3108m (USD400m) and we forecast the property will generate an EBITDA ROI of 59% in 2011.

Financial forecasts

We forecast StarWorld will generate EBITDA of HKD1831m in 2011, down 10% from the HKD2040m in 2010. Key points include:

▶ VIP

We forecast VIP non-negotiable chip rollover of HKD438bn, down 15% from 2010.

We expect a decline in 2011 volume due to business shifting to the company's new Galaxy Macau property on Cotai.

▶ Mass gaming

We forecast mass gaming revenue of HKD1.2bn, down 12% from 2010.

We expect a decline in 2011 business due to business shifting to the company's new Galaxy Macau property on Cotai.

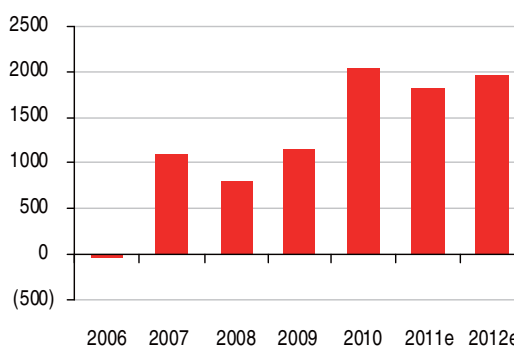
We believe there is risk that the impact to mass gaming could be larger than forecast.

Figure 18: StarWorld earnings (HKDm)

	2009	2010	2011e	2012e
Revenue				
Gaming	9431	16295	13885	15045
Other	211	251	256	265
Total	9642	16546	14141	15310
EBITDA	1152	2040	1831	1954
Margin	12%	12%	13%	13%
Table				
VIP	8352	14935	12695	13964
Mass	940	1153	1010	909
Total	9292	16088	13705	14873
Slots	139	207	181	172
Total	9431	16295	13885	15045
VIP roll (bn)	288	515	438	482
Cost	3108	3108	3108	3108
ROA	37%	66%	59%	63%

Source: Company reports, HSBC estimates

Figure 19: StarWorld EBITDA (HKDm)



Source: HSBC

Galaxy Macau

We forecast Galaxy Macau will generate EBITDA of HKD2771m in 2011, which will be the first period of operation (7.5 months).

We value Galaxy Macau at HKD38.8bn, which represents 45% of our company valuation.

Overview

Galaxy Macau is a mega resort of a similar scale as City of Dreams and Wynn Macau.

▶ Gaming

The gaming areas are divided into mass, VIP direct (Jinmen) and VIP junket.

▶ Mass gaming

The mass gaming area takes up the majority of the ground floor of the resort and occupies a total of 400,000 sqf. We assume that there will be 400 gaming tables and 1100 slots at the time of opening.

▶ VIP gaming

The premium direct, Jinmen, business will have a dedicated exclusive area with around 30 gaming tables and will be located just off the main gaming floor. The VIP junket rooms have been designed in consultation with GEG's strategic VIP junket partners and are equal to anything currently existing in the Macau market, in our view.

▶ Hotels

The Galaxy Macau resort has three hotels operating in the two towers with a total room inventory of 2,200 rooms. We expect the resort to open with all but 800 rooms, which will be completed over several months post opening in the Galaxy hotel tower.

▶ Galaxy Macau

Galaxy Macau occupies the single tower on the right hand side of the resort (closest to Taipa) and

has 1500 rooms in a modern style similar to StarWorld in modern design.

▶ Hotel Okura

The Okura at Galaxy Macau will likely be one of the best in terms of servicing the Japanese market. Okura is renowned for its service and was founded on the principle that Okura hotels must consistently offer the best accommodation, the best cuisine, and the best service in the Japanese tradition of attention to detail.

▶ Banyan Tree

Banyan Tree at Galaxy Macau encompasses 256 deluxe suites as well as the best spa in Macau. Banyan Tree resorts is famous for its bungalows with infinity pools and as such Galaxy Macau will incorporate these rooms in a unique style yet to be seen in the Macau market.

▶ Other attractions and features

▶ Retail

Galaxy Macau has two retail arcades designed to cater to specific customer groups. The mass retail outlets are contained in the arcade running along the Eastern side of the property (below the Galaxy Hotel) running from the lobby where the bus tour groups arrive. The higher-end retail is located on the Western side of the property beneath the Okura and Banyan Tree hotels.

▶ F&B

Galaxy Macau will have over 50 F&B outlets catering to a very broad range of customers.

▶ Pool and outdoor recreation area

The resort fully utilises its podium deck, which incorporates five resort pools including the world's largest sky wave pool, complete with 80 meters of beach with 350 tonnes of sand.

Financial forecasts

We forecast Galaxy Macau will generate EBITDA of HKD2771m in 2011, which will be the first period of operation (we assume 7.5 months).

Figure 20: Galaxy Macau earnings (HKDm)

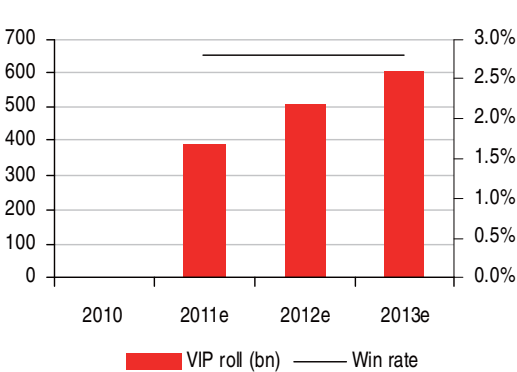
	2010	2011e	2012e	2013e
Days of operation	0	230	366	365
Revenue				
Gaming	0	13743	17388	19834
Other	0	1503	2463	2530
Total	0	15246	19851	22364
EBITDA	0	2771	3668	4091
Margin		18%	18%	18%
Table				
VIP	0	11310	14138	16258
Mass	0	2160	2880	3168
Total	0	13470	17018	19426
Slots	0	273	371	408
Total	0	13743	17388	19834
VIP roll (bn)	0	390	488	561
Win rate		2.9%	2.9%	2.9%
Dev. Cost		14820	14820	14820
ROA		19%	25%	28%

Source: HSBC estimates

► **VIP rolling**

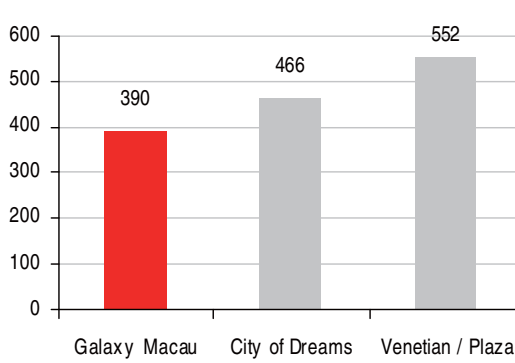
We forecast Galaxy Macau will achieve total VIP roll of HKD390bn (USD50bn), which is slightly less than our forecast of HKD438bn for the full year for StarWorld in 2011.

Figure 21: Galaxy Macau VIP roll (HKDbn)



Source: HSBC estimates

Figure 22: VIP rolling Cotai casinos 2011e (HKDbn)

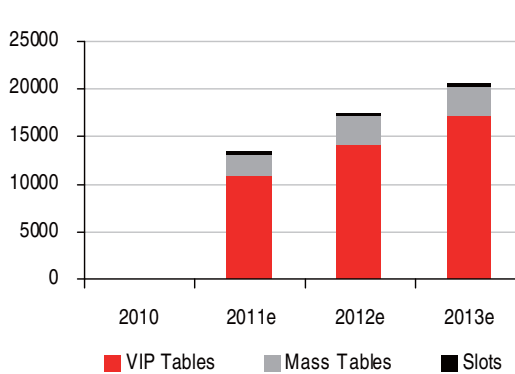


Source: HSBC estimates

► **Mass gaming**

We forecast Galaxy Macau will achieve total mass gaming revenue of HKD2.4bn, with 89% coming from tables games and 11% coming from slots. We see this as being achievable based on peer comparison of mass tables and slots.

Figure 23: Galaxy Macau gross gaming revenue (HKDm)



Source: HSBC estimates

City Clubs

We forecast the City Clubs operations will generate EBITDA of HKD80m in 2011, which is 2% lower than in 2010.

We value the City Clubs operations at HKD402m, which represents 0.5% of our company valuation.

Overview

The City Clubs operations involve four casino properties that operate under Macau-government-approved Service Agreements.

These Service Agreements legally allow third-party entities to play a significant role in the operation of the casinos and earn the vast majority of economic value.

The casinos are as follows:

▶ Waldo

Waldo was opened in July 2004 and is located across the road from Sands Macau on the main road Avenida Da Amizade, Peninsula Macau (see Figure 41 on page 30).

Waldo is primarily a VIP room casino with different floors and rooms operated by certain junket operators.

GEG does not consolidate the revenue of Waldo and only receives EBITDA equal to 3% of actual gross revenue. The rest of EBITDA is retained by the VIP room operators.

▶ Rio

The Rio casino was opened in February 2006 and is located behind the Waldo property on Rua Luis Gonzaga Gomes, Peninsula Macau (see Figure 41 on page 30).

Rio is primarily a VIP room casino with different floors and rooms operated by certain junket operators.

GEG consolidates 100% of the revenue of Rio although the EBITDA contribution is only 2-3% of revenue.

▶ President

The President casino was opened in May 2006 and is located further up the Avenida da Amizade from Waldo and across the road from StarWorld, Peninsula Macau (see Figure 41 on page 30).

The President hotel and casino is primarily a VIP room casino with different floors and rooms operated by certain junket operators.

GEG does not consolidate the revenue of President and only receives EBITDA equating to 1-2% of actual gross revenue. The rest of EBITDA is retained by the VIP room operators.

▶ Grand Waldo

Grand Waldo was opened in May 2006 and was the first casino property to be developed and opened on Cotai.

The property is located across the road from Galaxy Macau (see Figures 41 on page 30 and 30 on page 22).

Grand Waldo has gone through various iterations as it struggled financially and is now a combination of mass and VIP room gaming.

GEG consolidates only 50% of the revenue of the Grand Waldo casino although the EBITDA contribution is only 2-3% of revenue.

Cotai land bank and further development

Land bank

- ▶ GEG's Cotai land bank grant was gazetted on 21 October 2009 for casino resort gaming.
- ▶ The land area spans 4,760,000 sqf.
- ▶ The terms of the land grant include a 25-year lease renewable pursuant to applicable laws in Macau.
- ▶ The land premium is approximately HKD2.8bn and an initial payment of HKD1.1bn was made on 10 September 2009, with the balance being payable over four years, in eight equal semi-annual instalments of approximately HKD225m each.
- ▶ The plot ratio is currently 4.5 although originally may have been lower at 3.9.
- ▶ The buildable GFA is 21.5m sqf.
- ▶ Galaxy Macau occupies 1.4m sqf of land and 6.0m sqf of GFA.
- ▶ The residual area of the land bank (post Galaxy Macau) is 3.3m sqf of land and 15.5m sqf of buildable GFA.

Further development

After the completion of Galaxy Macau (which has a GFA of 6m sqf), we estimate the land bank could accommodate two further mega resorts with a combined GFA of 15.5m sqf. Key points:

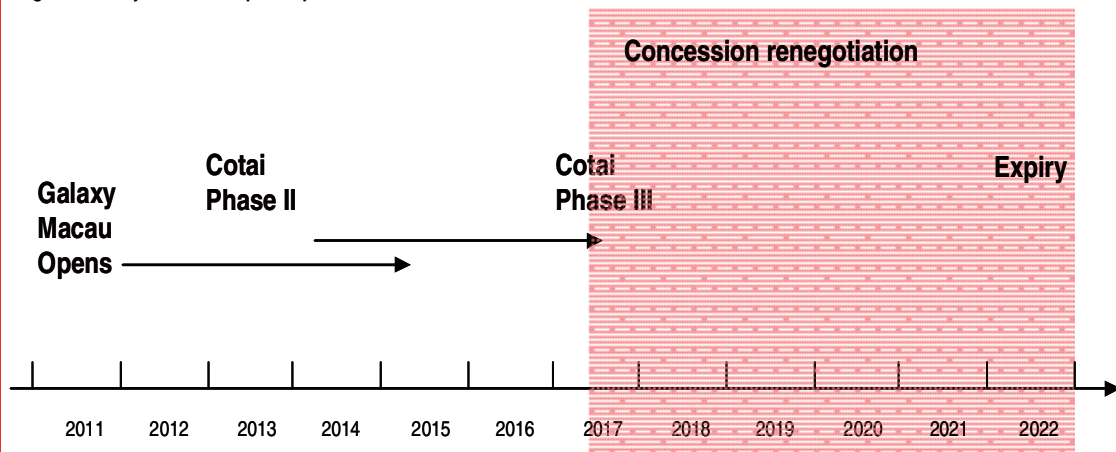
- ▶ We assume the projects will be completed in two distinct phases, which we have denoted as Phase II and Phase III (Galaxy Macau being Phase I).
- ▶ Development cost will be slightly higher than that for Galaxy Macau due to inflationary pressures, with construction for Phase II completing in 2015 and for Phase III in 2017 (Figure 25).

Figure 24: Cotai Phase II and III development assumptions

	Phase II	Phase III	Total
Start	2011	2014	2011
Completion/open	2015	2017	2017
Site area (sqf)	1,099,560	2,232,440	3,332,000
Plot ratio (x)	4.7x	4.7x	4.7x
Potential GFA (sqf)	5,115,000	10,385,000	15,500,000
Projected GFA (sqf)	3,580,500	7,269,500	10,850,000
Build cost (USD/sqf)	380	418	405
Develop cost (USDm)	1361	3039	4399

Source: HSBC estimates

Figure 25: Projected development phases for GEG Cotai land bank



Source: Company reports, HSBC estimates

Valuation assumptions for future Cotai projects

We value the future Cotai projects at HKD30.9bn, which represents 33% of our company valuation.

Key points include:

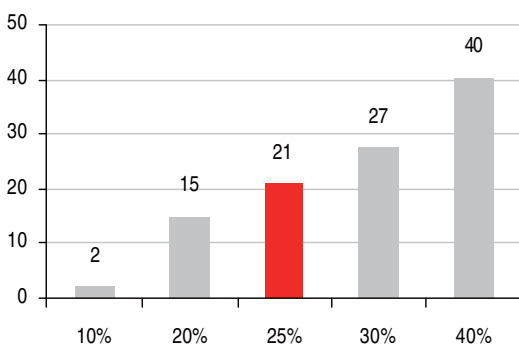
- ▶ Phase II
 - ▶ Total development cost of HKD10.6bn
 - ▶ Project ROA of 25%
 - ▶ Valuation EBITDA multiple 12.0x
 - ▶ Gross completion value of HKD21.1bn discounted back 4 years to 2011 at 10%
 - ▶ Additional project discount of 40% reflecting inherent uncertainty surrounding political variables.

Figure 26: Phase II valuation accretion sensitivity (HKDm)

Multiple	EBITDA ROA				
	10%	20%	25%	30%	40%
8.0x	-2114	6343	10572	14800	23258
10.0x	0	10572	15858	21144	31715
12.0x	2114	14800	21144	27487	40173
14.0x	4229	19029	26429	33830	48630
15.0x	5286	21144	29072	37001	52859

Source: HSBC estimates

Figure 27: Phase II valuation accretion sensitivity (HKDm)(1)



Source: HSBC estimates, (1) assuming EBITDA multiple of 12x

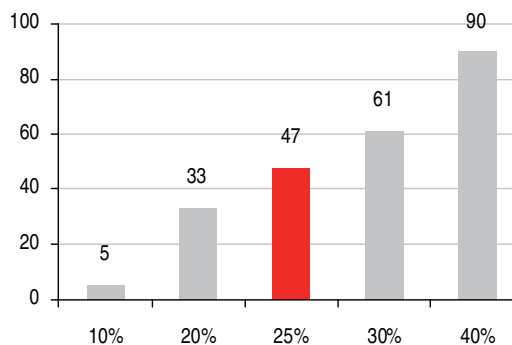
- ▶ Phase III
 - ▶ Total development cost of HKD23.6bn
 - ▶ Project ROA of 25%
 - ▶ Valuation EBITDA multiple 12.0x
 - ▶ Gross completion value of HKD47.2bn discounted back 7 years to 2011 at 10%
 - ▶ Additional project discount of 40% reflecting inherent uncertainty surrounding variables.

Figure 28: Phase III valuation accretion sensitivity (HKDm)

Multiple	EBITDA ROA				
	10%	20%	25%	30%	40%
8.0x	-4722	14166	23610	33054	51943
10.0x	0	23610	35415	47221	70831
12.0x	4722	33054	47221	61387	89719
14.0x	9444	42499	59026	75553	108607
15.0x	11805	47221	64928	82636	118052

Source: HSBC estimates

Figure 29: Phase III valuation accretion sensitivity (HKDm)(1)



Source: HSBC estimates, (1) assuming EBITDA multiple of 12x

Figure 30: Location of Galaxy Macau and Phases II and III projects on Galaxy Cotai land bank



Source: HSBC estimates

Concession renewal assumptions

GEG's gaming concession expires in June 2022. The date of expiry is the same as that of other concessionaires such as Sands China Limited, Wynn Macau and Melco Crown, and two years after SJM's and MGM's (in 2020).

The Macau government has yet to clearly provide a framework for the casino market after the expiry of the current concessions. However, it has stated that negotiations surrounding the concessions will commence in December 2017.

Renewal scenarios

We provide the following four scenarios covering the concession renewal process.

Scenario 1: Extend with no changes

This assumes the government simply extends the current situation with no imposition of a renewal fee or change to the gaming tax rate.

Pros: the benefit of this approach is the simplicity: it does not upset any stakeholder.

Cons: the government will clearly miss out on the opportunity to capture a portion of the excess profits currently accruing to concessionaires.

The intrinsic financial value of a concessionaire is evident through both the market capitalisation of the listed Macau stocks and the price at which concessionaires sold subconcessions.

SJM was the first concessionaire to sell its subconcession to Pansy Ho and MGM for USD200m. Wynn Macau later sold its subconcession in 2006 for USD900m to Melco Crown.

This market structure will also not address current market inefficiencies such as the existence of junket operators that under-report gaming revenue and operate casinos themselves under the service agreement arrangement.

Scenario 2: Extend for 20 years with one-off fee

We have adopted this scenario for the valuation of Sands China Limited, Galaxy Entertainment Group and Wynn Macau Limited.

This scenario assumes the current market structure continues with a one-off levy imposed on each concessionaire.

We believe there are two potential approaches under the 'one-off fee' scenario:

▶ A: Based on MPEL acquisition

Under this approach, each concessionaire would pay the same fee which is based on MPEL acquisition, as this was the last time a gaming concession was acquired.

As background, MPEL paid USD900m in 2006 for the sub-concession from Wynn Macau. In 2006, this amount equated to 13% of total Macau reported GGR (Figure 31).

Based on this ratio, the government could state that when GGR in the Macau market increases to USD92.3bn in 2018, then each concessionaire will pay USD12.0bn (Figure 31).

Figure 31: Macau licence renewal fee scenario (USDm)

	2004	2006	2018
GGR (USDm)	5021	6872	92267
Concessionaire price	200	900	11995
Ratio	4%	13%	13%

Source: Company reports, HSBC estimates

The problem with this approach is that the current Macau concessionaires each operate businesses of different sizes and as such the above approach will not be quite equitable to the smallest operators.

▶ B: Based on the number of gaming devices operated

Under this scenario, we assume the renewal levy will be determined on an equitable basis and be proportional to the extent of gaming devices operated (or intended to be operated) by each

concessionaire. As such, larger concessionaires will pay more than those operators with fewer gaming devices.

Figure 32 outlines our assumptions for the assumed fee that GEG will pay under this scenario based on the projected number of devices in operation in 2017.

Figure 32: Estimate for concession renewal fee (USDm)

	Fee / device	
	Tables	EGM
Table	2000000	
EGM	50000	

	Devices	
	Tables	EGM
Galaxy Macau	500	1500
Other Cotai	700	4000
StarWorld	220	250
Service Contracts	313	599
Total	1733	6349

	Fee payable		
	Tables	EGM	Total
Galaxy Macau	1000	75	1075
Other Cotai	1400	200	1600
StarWorld	440	13	453
Service Contracts	626	30	656
Total	3466	317	3783

Source: HSBC estimates

Pros: the benefits of this scenario include the continuation of the current market structure involving all existing stakeholders. This structure also captures a portion of the supernormal profits earned by concessionaires.

This scenario may also assist in correcting the abnormality of service agreements which have increased the number of actual casino operators beyond the initial intention of three companies. The imposition of a high fee per gaming device could place significant pressure on service agreement operations where the concessionaire earns very little from these operations.

Cons: The lack of an open market bid arguably means that the government may not secure an optimal market price for the concessions.

Scenario 3: Continuation plus increase in tax

This scenario assumes the continuation of the current market structure with existing concessionaires under a higher tax structure.

Pros: the benefit of this scenario is the simplicity.

It is the same situation as scenario 1 with the benefit of potentially extracting additional supernormal profits from concessionaires.

The cons: The potential drawbacks include slower market revenue growth. We believe there is risk that junket operators will increase the extent of OTT-UTT under a higher taxation environment.

The government could offset these risks by auditing every junket operator as in the proposed structure in Singapore.

Scenario 4: Open the market and enable all companies to bid for concessions

This scenario assumes that the government decides to end the current market structure and start over with an open market bidding programme.

Pros: the benefits of this approach:

- ▶ Maximise revenue to government

The bidding tension created by an open tender will likely maximise the amount of money paid upfront to the government.

- ▶ Vet market operators

The government could produce a select list of market operators and as such remove certain market operators who may be associated with less legitimate activities.

► Market development

The government could clearly state what it wants developed in the next phase of Macau's development.

Cons: rebidding the entire market would likely disrupt casino operations, creating a period of inactivity where there is a switch from one concessionaire to another.

This would likely impair taxation receipts to the government as well as create instability in local employment.

Macau has very little vacant land and as such the existing concessionaires control all the properties in Macau or at least will do by the time the concessions formally expire in 2020-22.

Re-tendering would thus also potentially create uncertainty in terms of how a new casino operator secures tenancy within the existing casino properties.

Construction materials

We forecast the construction materials operations will generate 2011 EBITDA of HKD376m, which is 8% higher than in 2010.

We value the construction materials operations at HKD2.6bn, which represents 3% of our company valuation.

Overview

The construction materials operations were the original business focus of GEG.

As background, in 2005 the listed company, K Wah Construction, acquired Galaxy Entertainment SA and subsequently changed its name to Galaxy Entertainment Group.

These operations span the production and sale of aggregates and slag to customers in China, Hong Kong and Macau.

We view these operations inherently as non-core given the casino operations of GEG not only dominate group operations but GEG is now viewed by investors as a leading gaming company.

We believe it is possible that GEG could dispose of the construction materials operations as part of a funding initiative to facilitate the development of further resorts on its Cotai land bank.

Earnings forecasts

Our financial forecasts for the construction materials operations are outlined as follows.

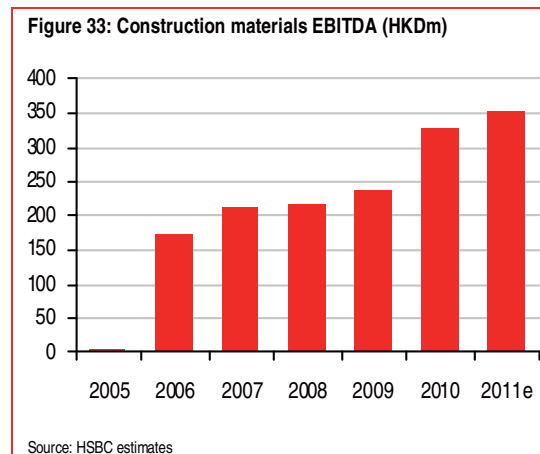


Figure 34: Construction materials earnings (HKDm)

	2009	2010	2011e	2012e
Revenue	1245	1242	1304	1369
Growth	-22%	0%	5%	5%
EBITDA	237	348	376	395
Margin	19%	28%	29%	29%

Source: HSBC estimates

Financial forecasts

- ▶ FY011e revenue to grow 67% to HKD32.2bn
- ▶ FY011e EBITDA to grow 102% to HKD4.5bn
- ▶ FY011e NPAT to grow 161% to HKD2.3bn

Earnings forecasts

Revenue

We forecast revenue growth of 67% in 2011 following the opening of Galaxy Macau on 15 May 2011.

We assume 7.5 months of operations for Galaxy Macau in 2011 and a mild cannibalisation of revenue at StarWorld.

We forecast the full year of operations of Galaxy Macau in 2012 sees revenue rise by a further 18%.

EBITDA

We forecast GEG's group EBITDA increasing to HKD4508m in 2011 from HKD2231m in 2010.

The significant increase reflects the strong contribution from Galaxy Macau.

We have assumed pre-opening costs of at least HKD500m to be recorded in 2011 associated with Galaxy Macau as well as the abnormal expenses associated with the conversion of debt instruments in 1H11.

NPAT

We forecast 2011 NPAT of HKD2347m, up from the HKD898m reported in 2010.

Figure 35: GEG earnings (HKDm)

	2009	2010	2011e	2012e
Revenue				
Gaming				
City Clubs	1346	1474	1473	1582
Star World	9642	16546	14141	15310
Galaxy Macau	0	0	15246	19851
Total	10988	18020	30860	36743
C/ materials	1245	1242	1304	1369
Other	0	0	0	0
Total	12233	19262	32163	38112
EBITDA				
Gaming				
CityClubs	157	82	80	85
StarWorld	983	2040	1831	1954
Galaxy Macau	0	0	2771	3668
Pre-opening	(139)	(148)	(400)	(300)
Total Gaming	1001	1974	4283	5407
C/ materials	237	348	376	395
Other	(119)	(92)	(150)	(158)
Total	1119	2231	4508	5644
Dep & Amort	(541)	(511)	(917)	(1217)
EBIT	578	1720	3591	4427
Net interest	(111)	(44)	(355)	(485)
Associates & JVs	86	141	0	0
PBT	1233	958	2436	3942
Tax	(76)	(45)	(48)	(51)
Minorities	(9)	(16)	(41)	(66)
NPAT	1149	898	2347	3825
Shares on issue	3942	3947	4130	4140
EPS	29.2	22.8	58.1	92.5

Source: Company reports, HSBC estimates

Cash flow statement

We forecast GEG will generate operating free cash flow of between HKD3.9bn and HKD4.9bn pa over the next two years.

The company has yet to announce a dividend programme and as such will commence accumulating significant cash on completion of the current development programme.

Investing cash flows will largely involve the completion of Galaxy Macau in 2011.

We believe that in the event that Galaxy Macau proves to be commercially successful, GEG will likely announce the next phase of expansion (see page 20) as early as 2H11.

Figure 36: GEG cash flow (HKDm)

	2009	2010	2011e	2012e
EBIT	578	1720	3591	4427
Operating CF	1565	1991	3948	4953
Investing				
Capex	(2359)	(7425)	(2825)	(725)
Other	109	1401	10	10
Total	(2250)	(6024)	(2815)	(715)
Financing				
Equity	2	20	1990	0
Debt change	(1794)	4000	3500	0
Dividends	0	0	0	0
Other	(50)	500	0	0
Total	(1841)	4520	5490	0
Net change	(2526)	487	6622	4238
Cash beginning	6042	3516	4003	10625
Adjustments	1	0	0	0
Cash end	3516	4003	10625	14863

Source: Company reports, HSBC estimates

Balance sheet

GEG had a net-debt-to-equity ratio of 57% in 2010 and we forecast this will decline to -12% in 2012 (assuming no further new developments).

GEG's gearing increased throughout the construction phase of Galaxy Macau although we now forecast this to rapidly decline as the cash flow increases from the new operations.

Figure 37: GEG balance sheet (HKDm)

	2009	2010	2011e	2012e
C/ assets				
Cash	3516	4003	10625	14863
Other	1109	1532	1532	1532
Total	4626	5536	12157	16395
NC Assets				
PPE	7175	12394	15219	15944
Intangibles	1391	1320	1249	1178
Other	5771	5936	5919	5902
Total	14337	19650	22387	23024
Total assets	18963	25186	34545	39419
C/Liabilities				
Borrowings	1383	2283	2283	2283
Other	4182	5725	9258	10307
Total	5565	8008	11541	12590
NC Liabilities				
Borrowings	4460	7144	10622	10622
Other	503	460	460	460
Total	4962	7604	11082	11082
Total	10528	15612	22623	23672
Net assets	8435	9575	11922	15747
Debt/Assets	31%	37%	37%	33%
Net Debt/Equity	28%	57%	19%	-12%

Source: Company reports, HSBC estimates

Share capital

We forecast GEG will have 4.13bn shares in issue at the end of 2011. Key equity issues include:

- ▶ 2005: issue of 1994m new shares by way of restructure and acquisition of Galaxy SA
- ▶ 2007: issue of 640m shares by way of a placement to Permira
- ▶ 2011: issue of 183m new shares from conversion of convertible debt in 1H11

Figure 38: GEG shares in issue (m)

	2009	2010	2011e	2012e
Shares beginning	3938	3942	3947	4130
New issue	3	5	183	1010
Buy back	0	0	0	0
Shares end of year	3942	3947	4130	4140
Weighted average	3938	3945	4135	4135

Source: Company reports, HSBC estimates

Dividend policy and forecast

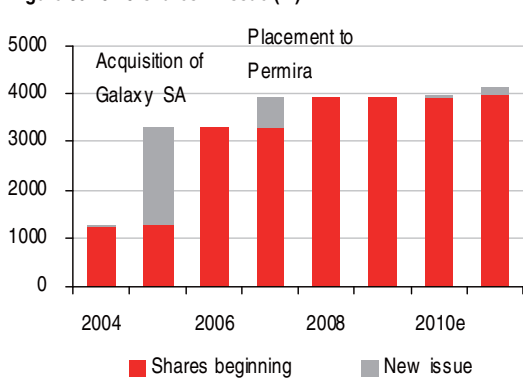
GEG has yet to announce a dividend programme and this largely reflects the fact that it has been in the development phase of the StarWorld and Galaxy Macau projects.

We have assumed that GEG will not commence a dividend programme within the forecast period.

We expect the company to announce further resort developments in the near term and suggest excess cash flow will be dedicated to such projects.

In the absence of any short-term resort announcements, we suspect the company will commence the repayment of existing bank borrowings.

Figure 39: GEG shares in issue (m)



Source: Company reports, HSBC estimates

Appendix

- ▶ Galaxy Macau is a stunning new addition to Macau
- ▶ Cotai is where all the major new development is underway

Galaxy Macau

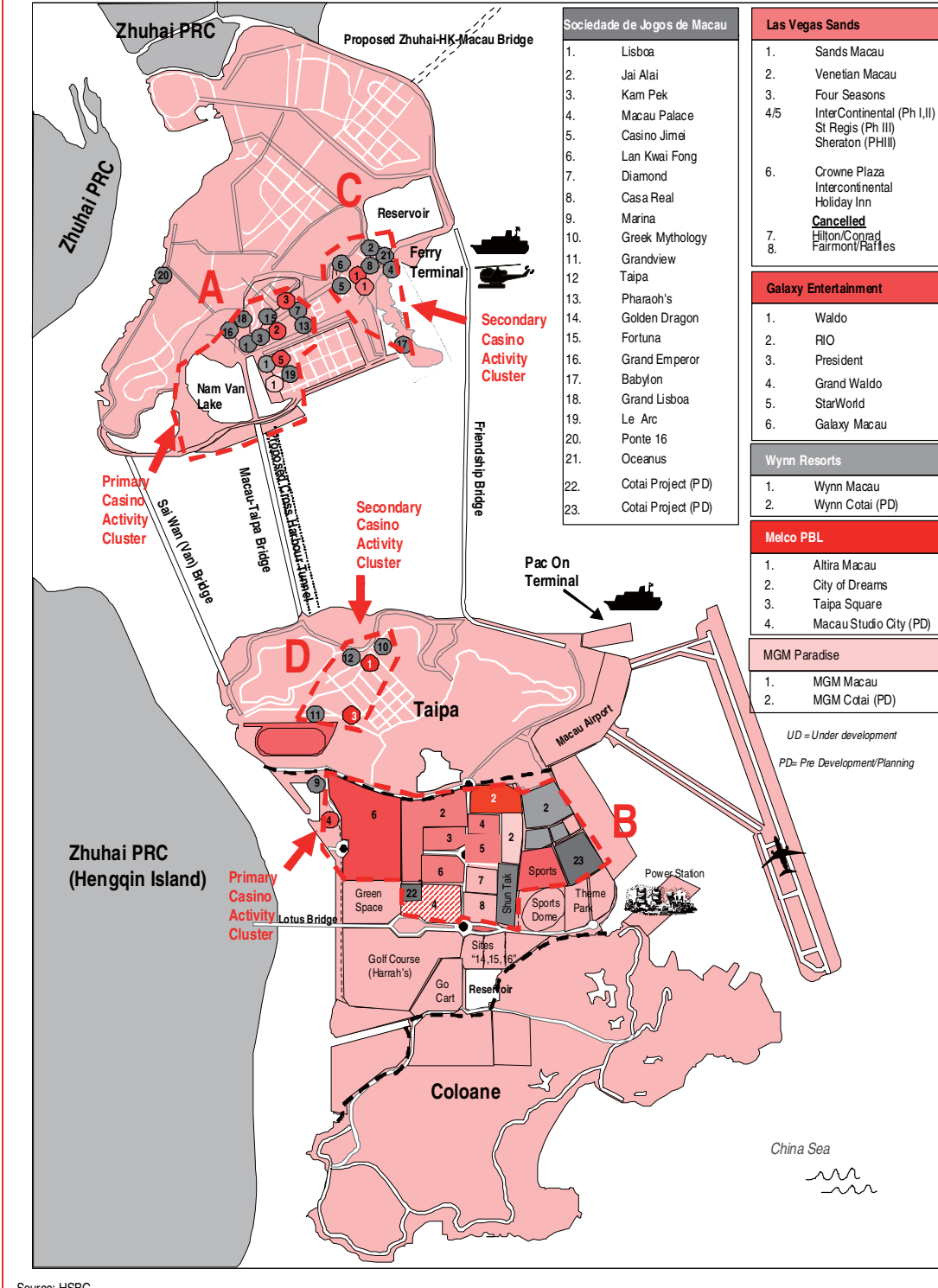
Figure 40: Galaxy Macau casino resort located on Cotai, Macau SAR



Source: Galaxy Entertainment Group

Macau casino location map

Figure 41: Location of Macau casinos by concessionaire



Disclosure appendix

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GALAXY ENTERTAINMENT GROUP	0027.HK	15.90	26-May-2011	1, 5, 11

Source: HSBC

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