

Analyst: Kelvin Li

Main Board Listing – Research

澳門博彩控股有限公司

SJM Holdings Limited [Stock Code: 00880]
Sole Global Coordinator, Bookrunner, Sponsor and Lead Manager : Deutsche Bank

Sector : Hotels, Restaurants & Leisure

Business : Casino operator in Macau

Total share offer: <u>1,250,000,000</u> shares (25% of the enlarged share capital) Public Offer: 187,500,000 shares (15%) Placing: 1,062,500,000 shares (85%) Greenshoe: 187,500,000 shares	<u>Business of SJM Holdings</u> <p>SJM is one of the 6 Concessionaries and Sub-Concessionaires permitted by the Macau Government to operate casino games and is the largest casino operator in Macau in terms of gaming revenue, market share and the number of casinos as at the end of 2007.</p> <p>Of the total 28 casinos in Macau as at the end of 2007, 18 were operated by SJM, featuring a total of 305 VIP gaming tables in 75 VIP rooms, 1,107 mass-market gaming tables and 3,702 slot machines. As at 19th June 2008 (the "Latest Practicable Date"), SJM operated 19 casinos, of which 9 were self-promoted and 10 were 3rd party promoted. A 3rd party-promoted casino is a casino at which marketing is handled by the mass-market service providers.</p> <p>SJM's controlling shareholder STDM, founded by Dr. Stanley Ho Hung Sun, has been the gaming monopoly in Macau from 1962 to 2002 and has established a long history in the territory's gaming business.</p>
Price: HK\$3.08 – HK\$4.08 per share Market Cap: HK\$15.4 billion–HK\$20.4 billion Pro forma 1H2008E EPS: HK\$0.11 Adjusted NTA per share: HK\$1.93 – HK\$2.17 Staffing: 17,467 (as of 31 st December 2007)	
HK Public Offer period: 26 th June 2008 – 2 nd July 2008 noon Receiving bank: Bank of China (HK) The Bank of East Asia ICBC (Asia) Standard Chartered Bank Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 10 th July 2008	

Shareholders after Listing (Assuming the over-allotment option is not exercised)

STDM Investments Ltd. (*)	61.000%
Dr. Ho Hung Sun, Stanley	7.625%
Dr. So Shu Fai	2.550%
Mr. Ng Chi Sing	1.913%
Mr. Rui Jose da Cunha	0.319%
Ms. Leong On Kei, Angela	0.319%
United Glory Co. Ltd. – held by key employees of SJM	1.275%
Public Investors	25.000%
	100.000%

Remarks:

(*) **STDM Investments** is 99.99% owned by Sociedade de Turismo e Diversoes de Macau ("**STDM**") (^) and 0.01% by Dr. Ho Hung Sun.

(^) As at 19th Jun 2008, **STDM** had 44 corporate and individual shareholders, including Dr. Ho and Lanceford Co. Ltd. (controlled by Dr. Ho) with an aggregate 32.204% stake, Henry Fok Foundation with a 26.576% stake, Interdragon Ltd (60% owned by Shun Tak Holdings (HKEx: 00242) and 40% by STDM itself) with a 10.796% stake, Many Town Co. Ltd. (controlled by Cheng Yu Tung and his son Cheng Kar Shun) with a 9.606% stake and other shareholders with stakes ranging from 0.023% to 7.347%.

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$3,992.4 million (Assuming an offer price of HK\$3.58, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
To finance SJM's acquisition of interests in the remaining 15/16 portion of the building known as Hotel Lisboa and Nam Van Lake Lot 11-A.	1,300.0
To fund SJM's projects, including the Grand Lisboa, Ponte 16, Oceanus, The Pearl and L'Hermitage.	2,293.2
For working capital.	399.2

Financial Highlights

	Year ended 31 st December		
	2005	2006	2007
	HK\$ million	HK\$ million	HK\$ million
Revenue	33,406	34,196	32,147
Net gaming revenue	20,524	20,970	19,649
Operating profit	5,418	2,641	1,493
Profit attributable to shareholders	5,374	2,424	1,493
Net gaming revenue margin	61.44%	61.32%	61.12%
Operating profit margin	16.22%	7.72%	4.64%
Net profit margin	16.09%	7.09%	4.64%
	31/12/2005	31/12/2006	31/12/2007
Net debt/(cash) to Equity	(114.7%)	(89.1%)	(22.5%)

Breakdown of gaming revenue in terms of business lines

	Year ended 31 st December					
	2005		2006		2007	
	HK\$ million	%	HK\$ million	%	HK\$ million	%
VIP gaming operations	23,699.8	70.9%	23,887.7	69.9%	20,613.6	64.1%
Mass market table gaming operations	8,981.6	26.9%	9,339.0	27.3%	10,676.4	33.2%
Slot machine operations	721.9	2.2%	967.7	2.8%	854.7	2.7%
Others	3.0	0.0%	1.9	0.0%	1.9	0.0%
Gross gaming revenue	33,406.3	100.0%	34,196.3	100.0%	32,146.6	100.0%
Special gaming tax, special levy & gaming premium	(12,882.1)	(38.6%)	(13,226.5)	(38.7%)	(12,497.6)	(38.9%)
Net gaming revenue	20,524.2	61.4%	20,969.8	61.3%	19,649.0	61.1%

**Strengths/Opportunities**

- ✓ Thanks to the Individual Travel Scheme since 2003, which allows residents of selected cities or provinces of China to visit Hong Kong and Macau on minimal approval requirements, the number of Mainland visitors in Macau grew sharply in the last 5 years, boosting both the tourism and gaming industries in Macau. For 2007, the number of Mainland visitors to Macau totalled 14.87 million, up robustly from 4.24 million in 2002 (before the Individual Travel Scheme was implemented) or a CAGR of 28.5% p.a. In fact, driven by the continued investment in gaming and tourist infrastructure like casinos and hotels, Macau has been attracting more and more visitors from other regions like HK, Taiwan and Southeast Asia.
- ✓ Since the opening of the Macau's gaming industry in 2002, the size of the sector has grown rapidly in terms of gaming revenue. For 2007, the gaming industry of Macau reported a total gaming revenue of HK\$80.6 billion, up almost three-fold from 2002 or a CAGR of 30.3% during the period, outstripping growth in Las Vegas Strip and Atlantic City and became the world's top casino market.
- ✓ Macau is the only territory in China that casino operation is legalised, which minimizes competition with other Mainland cities for gaming business.
- ✓ SJM Holdings had a strong net cash position of more than HK\$1.4 billion as of the end of 2007, which would give the Group room to scale up its gearing in funding its future expansion.

Weaknesses/Threats

- ✗ Visitors from the Mainland now accounts for the majority of gaming business of Macau. Any slowdown in the Mainland economy and consumer spending may dampen growth in the tourism and gaming industry in Macau and hurt SJM's business.
- ✗ Following the opening of Macau's gaming industry, competition has heated up substantially on an increased number of casino operators. Despite robust growth in the gaming industry of Macau in terms of gaming revenue over the past few years, SJM only managed to keep its gaming revenue flat but lost market share to its rivals. SJM remained the top gaming operator in Macau with a market share of nearly 40% in FY2007. However, it was down sharply from a market share of more than 62% in 2006, and it is still too early to say whether the downward trend has stabilized.
- ✗ The casino operators not only fight for visitors and punters, but also compete for staff amid labour shortage in Macau, pushing up the overall salary level in the territory. In 2007, SJM's total staff compensation amounted to HK\$3.055 billion, up 61.6% from a year earlier. Owing to a drop in gross gaming revenue in FY2007, staff compensation accounted for 9.5% of SJM's top line, up sharply from 5.5% in 2006, leading to a much weaker profit margin last year.
- ✗ The Macau government has the right to end SJM's concession contract for operating casino games with at least one-year notice or grant additional concessions to other new operators after April 2009, which is regarded as vital to SJM's existing operation and business outlook. However, such circumstance should be remote as it would create huge shock to the Macau gaming industry and its economy. Besides, it should be noted that SJM's current concession contract will expire on 31st Mar 2020, and there is no guarantee that SJM could renew the contract term thereafter.

Recommendation: Neutral



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