

Analyst: Paul Sham

Main Board Listing – Research

永利澳門有限公司

Wynn Macau, Limited [Stock Code: 01128]

Joint Global Coordinators and Joint Sponsors : J.P. Morgan Securities (Asia Pacific) Limited
Morgan Stanley Asia Limited
UBS AG

Joint Bookrunners and Joint Lead Managers : J.P. Morgan Securities (Asia Pacific) Limited
Morgan Stanley Asia Limited
UBS AG
Merrill Lynch Far East Limited
Deutsche Bank AG

Sector : Hotels, Restaurants & Leisure

Business : Casino operator in Macau

<p>Total share offer: *1,250,000,000 shares (25.0% of the enlarged share capital)</p> <p>Public Offer: 125,000,000 shares (10%)</p> <p>Placing: 1,125,000,000 shares (90%)</p> <p>Greenshoe: 187,500,000 shares</p> <p>*All 1,250,000,000 shares are New Shares</p>	<p><u>Business of Wynn Macau</u></p> <p>Wynn Macau owns one of the six gaming concessions in Macau, the world's largest gaming market in 2008 as measured by gross gaming revenues. The Macau gaming market generated HK\$105.6 billion in gross gaming revenues in 2008, more than double the HK\$46.7 billion generated by the Las Vegas Strip during the same period.</p> <p>Wynn Macau opened to the public on 6 September 2006 on the urban Macau peninsula. As of June 2009, it had one casino property with 369 gaming tables, 1,220 slot machines, 600 luxury hotel rooms & suites, and high-end retail space totalling 46,000 square feet. In terms of gaming revenues, Wynn Macau captured 16% of the city's HK\$50bn gaming market.</p> <p>Wynna Macau is scheduled to further expand capacity in 1Q 2010. A new extension, named Encore at Wynn Macau, is scheduled to open in 1H 2010. In Cotai, the company has identified a site of approximately 52 acres for longer-term development.</p>
<p>Price: HK\$8.52 – HK\$10.08 per share</p> <p>Market Cap: HK\$42,600 million – HK\$50,400 million</p> <p>Pro forma fully diluted FY09E PER: 29.03x – 34.34x</p> <p>Adjusted NTA per share: HK\$0.15</p> <p>Staffing: 6,311 (as of 30th June 2009)</p>	
<p>HK Public Offer period: 24th September 2009 – 29th September 2009</p> <p>Receiving bank: Standard Chartered Bank (Hong Kong) Limited The Bank of East Asia, Limited Dah Sing bank, Limited</p> <p>Share registrar: Computershare Hong Kong Investor Services Ltd.</p> <p>Listing date: 9th October 2009</p>	

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**Shareholding Structure after Listing**

WM Cayman Holdings Limited I – a wholly owned subsidiary of Wynn Resorts Limited, a Nasdaq-listed company, owned as to: <ul style="list-style-type: none"> - 19.9% by Aruze Corp., a Japan-based company mainly engaged in the development, manufacture and sale of gaming machines - 18.0% by Mr. Stephen A. Wynn, the Chairman, Chief Executive Officer and President of Wynn Macau - 62.1% by Public Shareholders 	75.0%
Public Investors	25.0%
	100.0%

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$11,625 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$9.30 each, being the midpoint of the indicative price range).

	HK\$ million
To pay the Acquisition Note issued by Wynn Macau to its parent company, as part of the consideration during the IPO reorganization. Such funds will not be retained by Wynn Macau	HK\$11,586
To finance the business operations or development	HK\$38.8

Financial Highlights

(HK\$ million)	Year ended 31 st December			Six months ended 30 th June	
	2006	2007	2008	2008	2009
Revenue	2,293	10,858	14,711	7,964	6,660
Operating profit	(394)	1,438	2,331	1,433	1,106
Attributable profit	5,876	1,375	2,040	1,387	904
Operating margin	(17.2%)	13.2%	15.8%	18.0%	16.6%
Net margin	256.2%*	12.7%	13.9%	17.4%	13.6%

* HK\$6,995.5 million was received during 2006 from the sale of the subconcession

Revenue Breakdown by segment (% of Total Revenues)

(HK\$ million)	Year ended 31 st December						Six months ended 30 th June			
	2006	%	2007	%	2008	%	2008	%	2009	%
VIP gross revenues	1,546	67.4%	9,126	84.0%	12,953	88.1%	7,236	90.9%	5,549	83.3%
Mass gross revenues	862	37.6%	2,954	27.2%	3,475	23.6%	1,835	23.0%	1,664	25.0%
Slot gross & Poker revenues	138	6.0%	697	6.4%	1,234	8.4%	594	7.5%	756	11.3%
Commissions and discounts	(476)	-20.7%	(2,579)	-23.8%	(3,779)	-25.7%	(2,105)	-26.4%	(1,703)	-25.6%
Non-gaming	223	9.7%	660	6.1%	827	5.6%	404	5.1%	395	5.9%
Total	2,293	100.0%	10,858	100.0%	14,711	100.0%	7,964	100.0%	6,660	100.0%

Peer valuation comparison

	Wynn Macau (01128)		SJM (00880)		Galaxy (00027)		Melcon (00200)	
	FY2009E	FY2010E	FY2009E	FY2010E	FY2009E	FY2010E	FY2009E	FY2010E
P/E ratio	31.7*	N/A	28.1	18.0	26.5	99.2	NA	45.8

Remark: (*) the mid-point of the indicative price range; Sources: Reuters

**Strengths/Opportunities**

- ✓ **Strong market growth with limited competition** Macau has been a rapid growth gaming market over the last few years, with tourist visitation increasing from 11.9 million in 2003 to 22.9 million in 2008 (14.0% CAGR) and total gaming revenue increasing from HK\$27.8 billion to HK\$105.6 billion during the same period (30.6% CAGR). Since Macau government limited the competition to only six market participants, there will be no new entrants in the foreseeable future. Future earnings generated by the growing Macau gaming market will be shared by limited players only.
- ✓ **A focus on luxury led to the highest productivity and profitability among peers** The Macau gaming market can be divided into two primary segments: “VIP” gaming which makes up 68% of revenues in the market and “mass-market” table games and slot machines, which make up 32% in total. Wynn Macau caters primarily to the high-end mass market and VIP segments, with 71% and 29% of its gaming revenue came from the VIP and mass-market business respectively in 2Q09. This optimal revenue mix enables Wynn Macau to be far more productive than the broader Macau, with VIP tables, mass market tables and slot machines, each exceeding the market average by 80.5%, 39.2% and 175.4%, respectively.
- ✓ **Long proven track record** Wynn Macau was led by Mr. Stephen A. Wynn, who is the leading developer, owner and operator of destination casino gaming and entertainment resort facilities. Mr. Wynn has been involved in casino development and operations for over 40 years and has been responsible for developing, building and operating resorts and hotels including The Mirage, Treasure Island, Bellagio, and its affiliates, Wynn Las Vegas and Encore at Wynn Las Vegas. Mr. Wynn’s high-end casino-resort development experience, in our view, lead to above average returns, despite a smaller physical footprint than its competitors.
- ✓ **Future growth opportunities: Encore Macau and Cotai** Wynn Macau plans to open two expansion phases in 2010, which allows the Company to increase its hotel suite capacity by 67%, and its VIP, mass market and slot machine capacity by 44%, 9% and 5% respectively. In addition, Wynn Macau has identified a 52 acre site on Cotai and awaiting final approval of its application to the Macau government to obtain the right to lease this parcel. The Cotai project creates a growth driver for Wynn Macau in the medium run.

Weaknesses/Threats

- × **Pricy valuation** Compared with its rivals namely SJM and Galaxy, with FY09E PE of around 26x – 28x, Wynn Macau’s 31.7x FY09E PE sounds reasonable due to its premium image. However, in our view, the rapid expansion of gaming revenue in the past years will not be sustainable following the significant growth experienced in 2006-2008, that was driven by new gaming capacity additions: Wynn Macau in September 2006, Galaxy Starworld in October 2006, Grand Lisboa in February 2007, the Venetian Macao in August 2007 and MGM Grand Macau in December 2007. As a result, the future growth prospect may not be able to justify their current high PE ratios.
- × **IPO proceeds go to parent company** Owing to the special arrangement during the IPO reorganization, over 99% of the fund raised will not be retained by Wynn Macau. Instead, the IPO proceeds will go to its parent company. Therefore, the IPO of Wynn Macau can be considered as share sales of its parent company and the fund raised will not help Wynn Macau finance its future business operations or development.
- × **Potential competition outside Macau** Despite no new entrants will appear in the Macau gaming market, competition is not limited to Macau alone. Regional competition from other existing or potential gaming jurisdictions in other Southeast Asia countries, especially Singapore, could have a material adverse impact on the earning prospect of Wynn Macau.

Recommendation: Trading buy



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