

Melco Resorts

Slight tweaks to estimates on strong Dec. finish

Reiterate Rating: NEUTRAL | PO: 10.00 USD | Price: 8.21 USD

Strong sector GGR in Dec; focus on margins

The strong Macau gross gaming revenues (GGR) in Dec should enhance investors' confidence about further GGR growth in 2024. On the other hand, we see increased reinvestment rates and non-gaming investments to cap margin performance in the 4Q23 results season. Indeed, our checks suggest that promotion intensity was stepped up somewhat in 4Q23, while do not sense that operators are being irrational (still targeting profitable growth). We expect the focus on margins to dominate investor sentiment in the next 3-4 weeks, but anticipation of strong GGR showing during Chinese New Year (CNY) may provide more upside support in Feb.

We estimate Melco likely gained market share in 4Q23

We raise our GGR forecast for Melco by 2% in 2023E to factor in its market share gain in 4Q23 (i.e., 14.9% estimated vs. 14.3% in 3Q23). In 3Q23, Melco recorded slower QoQ EBITDA growth of 5% partly due to unfavorable luck impact. Looking into 4Q24, we estimate its EBITDA growth to accelerate to +10% QoQ, but do note that Cyprus operations likely swung to a slightly loss in EBITDA vs. US\$7mn EBITDA in Q3 owing to lower visitations after the Middle East conflict. We thus raise our FY23E cash earnings by 3% to US\$395mn while our FY24E earnings remained largely unchanged. We maintain Neutral rating on Melco given the fair risk-reward (i.e., inexpensive 8.3x FY24E EV/EBITDA but high leverage and overhangs from its Cyprus operations). Our PO (based on 6.7x 2024E cash earnings) is also unchanged.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
Net Income (Adjusted - mn)	(746)	(875)	(40)	202	403
EPS	(0.566)	(0.669)	(0.078)	0.138	0.289
EPS Change (YoY)	35.8%	-18.2%	88.4%	NM	109.2%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	(0.656)	(0.883)	0.264	0.483	0.589
Valuation (Dec)					
P/E	NM	NM	NM	17.8x	9.0x
Free Cash Flow Yield*	-26.19%	-34.22%	9.65%	17.70%	21.70%

* For full definitions of *IQmethod*SM measures, see page 5.

15 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	3,736.6	3,783.6
2024E Rev (m)	4,545.6	4,544.3
2025E Rev (m)	5,011.9	5,011.0
2023E EPS	-0.09	-0.08

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Stock Data

Price	8.21 USD
Price Objective	10.00 USD
Date Established	2-Jan-2024
Investment Opinion	C-2-9
52-Week Range	6.80 USD-14.46 USD
Mrkt Val / Shares Out (mn)	3,591 USD / 437.4
Average Daily Value (mn)	28.63 USD
Free Float	39.7%
BofA Ticker / Exchange	MLCO / NAS
Bloomberg / Reuters	MLCO US / MLCO.OQ
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	NA

GGR: gross gaming revenue

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Timestamp: 14 January 2024 03:30PM EST

iQprofileSM Melco Resorts

Key Income Statement Data (Dec)

(US\$ Millions)

	2021A	2022A	2023E	2024E	2025E
Sales	2,012	1,350	3,784	4,544	5,011
Gross Profit	521	287	1,619	1,974	2,214
Sell General & Admin Expense	(426)	(423)	(571)	(691)	(757)
Operating Profit	(577)	(743)	279	514	677
Net Interest & Other Income	(376)	(349)	(464)	(400)	(347)
Associates	NA	NA	NA	NA	NA
Pretax Income	(954)	(1,092)	(185)	114	330
Tax (expense) / Benefit	(3)	(5)	0	(4)	(4)
Net Income (Adjusted)	(746)	(875)	(40)	202	403
Average Fully Diluted Shares Outstanding	1,434	1,391	1,315	1,316	1,322

Key Cash Flow Statement Data

Net Income	(812)	(931)	(102)	182	383
Depreciation & Amortization	580	522	544	580	580
Change in Working Capital	(95)	(117)	145	172	78
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	58	(93)	105	(99)	(86)
Cash Flow from Operations	(269)	(619)	692	836	954
Capital Expenditure	(672)	(610)	(345)	(200)	(175)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other Cash Inflow / (Outflow)	(3)	(196)	74	212	212
Cash Flow from Investing	(675)	(806)	(271)	12	37
Shares Issue / (Repurchase)	(52)	(189)	(169)	5	5
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	822	1,783	(1,023)	(301)	(1,489)
Free Cash Flow	(941)	(1,229)	347	636	779
Net Debt	4,907	6,549	6,355	5,509	4,519
Change in Net Debt	997	1,618	(251)	(852)	(996)

Key Balance Sheet Data

Property, Plant & Equipment	5,938	5,871	5,672	5,292	4,887
Other Non-Current Assets	1,077	1,356	1,356	1,384	1,411
Trade Receivables	55	57	73	95	105
Cash & Equivalents	1,653	1,864	1,210	1,756	1,257
Other Current Assets	161	154	154	154	154
Total Assets	8,884	9,302	8,466	8,681	7,815
Long-Term Debt	6,560	8,090	7,565	5,028	5,280
Other Non-Current Liabilities	482	328	567	806	1,045
Short-Term Debt	0	323	0	2,237	497
Other Current Liabilities	1,022	876	1,038	1,232	1,320
Total Liabilities	8,064	9,616	9,169	9,302	8,141
Total Equity	820	(314)	(703)	(621)	(327)
Total Equity & Liabilities	8,884	9,302	8,466	8,681	7,815

iQmethodSM - Bus Performance*

Return On Capital Employed	-6.5%	-7.9%	3.5%	6.6%	9.1%
Return On Equity	-110.8%	NM	NM	NM	NM
Operating Margin	-28.7%	-55.0%	7.4%	11.3%	13.5%
EBITDA Margin	0.1%	-16.4%	21.7%	24.1%	25.1%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	NM	NM	NM	4.1x	2.4x
Asset Replacement Ratio	1.3x	1.3x	0.7x	0.4x	0.3x
Tax Rate (Reported)	NM	NM	0.2%	3.3%	1.2%
Net Debt-to-Equity Ratio	598.5%	NM	NM	NM	NM
Interest Cover	-1.6x	-2.0x	0.6x	1.2x	1.8x

Key Metrics

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Gaming

Company Description

Melco Resorts is a developer, owner and operator of casino gaming and resort facilities focused on the Macau market. The company currently operates Mocha Clubs, Altira Macau on Taipa as well as the City of Dreams and Studio City on Cotai in Macau. It also operates the City of Dreams Manila in the Philippines and City of Dreams in Cyprus.

Investment Rationale

We believe risk reward is balanced for Melco and have Neutral rating. On the one hand, its valuation looks inexpensive. On the other hand, the opening of Studio City Ph2 has been weaker than expected so far. Meanwhile, its Cyprus operations have been hurt by the latest Middle East conflict. Its leverage is also relatively high.

Stock Data

Price to Book Value

NA

Exhibit 1: Estimate changes table for Melco

We raise 2023E cash earnings by 3%

Melco	New			Previous			Changes		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
GGR	3,979	4,759	5,168	3,916	4,743	5,151	1.6%	0.3%	0.3%
Total revenue	3,784	4,544	5,011	3,737	4,546	5,012	1.3%	0.0%	0.0%
Property EBITDA	1,048	1,283	1,458	1,035	1,283	1,457	1.2%	0.0%	0.0%
Core profit	-40	202	403	-52	201	402	N/A	0.4%	0.2%
Cash earning	395	656	855	383	655	854	3.1%	0.1%	0.1%

Source: BofA Global Research

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Price objective basis & risk

Melco Resorts (MLCO)

Our US\$10.0 PO is based on 6.7x FY24E cash P/E, c.1.5 SD below historical mean mainly factoring in our concern about its visibility in gaining market share and the company's relatively high leverage level.

Downside Risks: 1) economic slowdown caps GGR recovery, 2) margin pressure from labor or reinvestment, 3) regulatory, and 4) travel disruptions

Upside risks, 1) stronger than expected GGR growth, 2) higher than expected margin

Analyst Certification

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APR - Gaming & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Aristocrat Leisure	ARLUF	ALL AU	Sriharsh Singh
	Atour Lifestyle	ATAT	ATAT US	Ronald Leung, CFA
	Bloomerry Resorts	BLBRF	BLOOM PM	Joahnna See-Soriano
	Central Plaza Hotel	XWTF	CENEL TB	Charti Phrawphraikul
	China Travel International	CTVIF	308 HK	Ronald Leung, CFA
	Galaxy Entertainment	GXYEF	27 HK	Karl Choi, CFA
	H World Group Limited	HTHT	HTHT US	Ronald Leung, CFA
	H World Group Limited	XHUAF	1179 HK	Ronald Leung, CFA
	Lottery Corp	LTRCF	TLC AU	Ware Kuo
	MGM China	MCHVF	2282 HK	Karl Choi, CFA
	Minor International	MINOF	MINT TB	Charti Phrawphraikul
	NagaCorp Ltd.	NGCRF	3918 HK	Ronald Leung, CFA
	Paradise	PDCLF	034230 KS	Susie Lee
	Sands China Ltd.	SCHYF	1928 HK	Karl Choi, CFA
	Shangri-La Asia	SHALF	69 HK	Ronald Leung, CFA
	Songcheng Performance	XMUGF	300144 CH	Ronald Leung, CFA
	The Erawan Group	XCZVF	ERW TB	Charti Phrawphraikul
NEUTRAL				
	China Tourism Group Duty Free	XCTVF	601888 CH	Ronald Leung, CFA
	Genting Singapore	GIGNF	GENS SP	Ronald Leung, CFA
	Grand Korea Leisure	XFAIF	114090 KS	Susie Lee
	Melco Resorts	MLCO	MLCO US	Karl Choi, CFA
	Wynn Macau, Limited	WYNMF	1128 HK	Karl Choi, CFA
UNDERPERFORM				
	BTG Hotels	XYGTF	600258 CH	Ronald Leung, CFA
	China CYTS Tours Holding	XCMWF	600138 CH	Ronald Leung, CFA
	Genting Malaysia	GMALF	GENM MK	Ronald Leung, CFA
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	SJM Holdings Limited	SJMHF	880 HK	Karl Choi, CFA
	Wangfujing Group	BJNGF	600859 CH	Ronald Leung, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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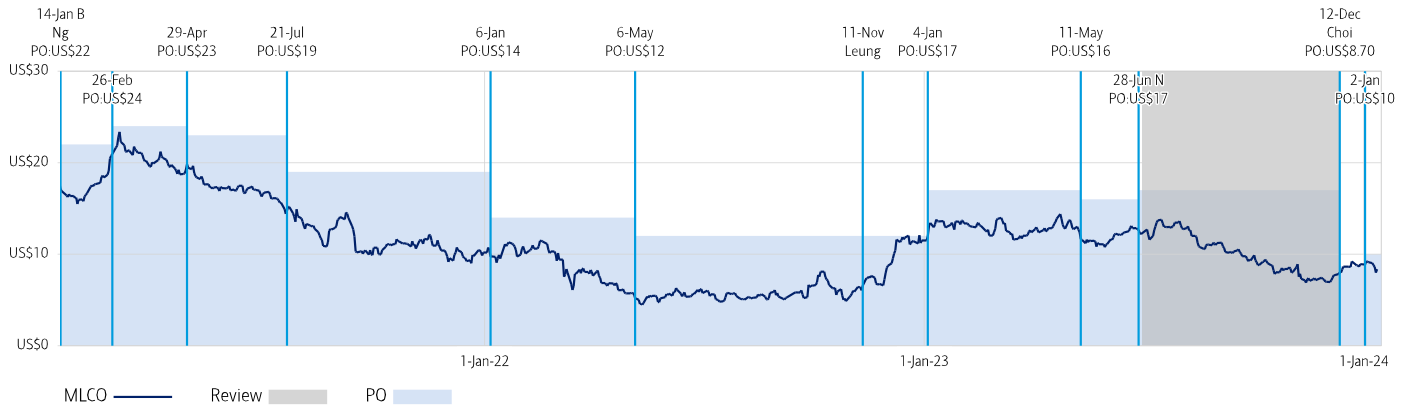
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Melco Resorts (MLCO) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Gaming Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	22	50.00%	Buy	10	45.45%
Hold	12	27.27%	Hold	6	50.00%
Sell	10	22.73%	Sell	3	30.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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