

## Melco Resorts

## Market share gain may take time; trim PO

Reiterate Rating: NEUTRAL | PO: 8.40 USD | Price: 7.30 USD

## Sector GGR seems to be back on track in March

Based on our channel checks, ADR was at MOP610mn through the first 10 days of March, 4% lower than the peak level in Feb-2024 (or -2% vs. Jan). This was in line to 5% above our forecast (MOP590mn). However, the sector base mass recovery has not been strong enough to propel GGR recovery to break out from 75% of 2019 level on a sustained basis, suggesting that further upside must come from more unpredictable VIP and or premium mass. It may also take a couple of quarters to see how rising competition for premium mass customers may impact market share and margins.

## Lower PO by 16% to US\$8.4 on lower ests/target multiple

We project Melco's GGR market share in 1Q24 to be relatively stable (vs. 4Q23 at 14.5%) as a strong Chinese New Year showing was partly offset by a weaker Jan, and a below-average hold rate in late Feb. We lower 2024/25E EBITDA for Melco by 2%/8% on lower forecast for GGR and margin (due to increased spending). Melco trades at 8.3x 2024E EBITDA and 5.2x cash earnings (13.4x historical average). While the valuation is not expensive, we lower our cash P/E target multiple to 6.0x (vs. 6.7x (1.5 SD below historical average) previously), 2SD below historical average as it may take time to see its improvements in execution. We thus cut our PO by 16% to US\$8.4 and reiterate our Neutral rating.

## EBITDA share rather than GGR share as key target

Melco recently announced three operational management new hires in order to improve customer service experience. While the increased investment may increase daily opex by 3-4% from 4Q23 levels, management does not intend to materially raise its reinvestment rate. Instead, Melco hopes to improve spending efficiency to make sure it is targeting the right customers. EBITDA share rather than GGR share is management's key metric. Melco's concession-related spending was split 1/3 capex and 2/3 opex in 2023, but the company expects the split longer term to be more even.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
Net Income (Adjusted - mn)	(875)	(4)	155	219	312
EPS	(0.669)	(0.211)	0.101	0.150	0.219
EPS Change (YoY)	-18.2%	68.4%	NM	47.5%	46.1%
Dividend / Share	0	0	0	0	0.200
Free Cash Flow / Share	(0.883)	0.162	0.339	0.497	0.589
<b>Valuation (Dec)</b>					
P/E	NM	NM	20.7x	14.7x	10.4x
Dividend Yield	0%	0%	0%	0%	8.8%
Free Cash Flow Yield*	-38.52%	6.67%	13.99%	20.59%	24.49%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

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Timestamp: 11 March 2024 04:30PM EDT

12 March 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	10.00	8.40
2024E Rev (m)	4,544.3	4,502.5
2025E Rev (m)	5,011.0	4,853.4
2026E Rev (m)	5,292.3	5,118.0
2024E EPS	0.14	0.10
2025E EPS	0.29	0.15
2026E EPS	0.39	0.22

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## Stock Data

Price	7.30 USD
Price Objective	8.40 USD
Date Established	12-Mar-2024
Investment Opinion	C-2-9
52-Week Range	6.62 USD-14.46 USD
Mkt Val / Shares Out (mn)	3,191 USD / 437.1
Average Daily Value (mn)	22.78 USD
Free Float	39.7%
BofA Ticker / Exchange	MLCO / NAS
Bloomberg / Reuters	MLCO US / MLCO.OQ
ROE (2024E)	NA
Net Dbt to Eqty (Dec-2023A)	NA

ADR: average daily revenue

GGR: gross gaming revenue

Opex: operating expense

# iQprofile<sup>SM</sup> Melco Resorts

## Key Income Statement Data (Dec)

### (US\$ Millions)

	2022A	2023A	2024E	2025E	2026E
Sales	1,350	3,775	4,503	4,853	5,118
Gross Profit	287	1,413	1,937	2,076	2,215
Sell General & Admin Expense	(423)	(488)	(684)	(733)	(773)
Operating Profit	(743)	65	478	505	565
Net Interest & Other Income	(349)	(467)	(397)	(356)	(313)
Associates	NA	NA	NA	NA	NA
Pretax Income	(1,092)	(402)	81	149	253
Tax (expense) / Benefit	(5)	36	(4)	(4)	(4)
Net Income (Adjusted)	(875)	(4)	155	219	312
Average Fully Diluted Shares Outstanding	1,391	1,315	1,315	1,321	1,328

## Key Cash Flow Statement Data

Net Income	(931)	(278)	133	198	290
Depreciation & Amortization	522	543	587	634	685
Change in Working Capital	(117)	173	174	88	61
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(93)	119	(88)	(88)	(80)
Cash Flow from Operations	(619)	558	806	832	956
Capital Expenditure	(610)	(345)	(360)	(175)	(175)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other Cash Inflow / (Outflow)	(196)	167	212	212	212
Cash Flow from Investing	(806)	(178)	(148)	37	37
Shares Issue / (Repurchase)	(189)	(169)	5	5	5
Cost of Dividends Paid	0	0	0	0	(89)
Cash Flow from Financing	1,783	(1,113)	(207)	(1,487)	(834)
Free Cash Flow	(1,229)	213	446	657	781
Net Debt	6,549	6,162	5,503	4,634	3,729
Change in Net Debt	1,618	(210)	(663)	(874)	(910)

## Key Balance Sheet Data

Property, Plant & Equipment	5,871	5,534	5,307	4,848	4,339
Other Non-Current Assets	1,356	1,306	1,333	1,361	1,388
Trade Receivables	57	92	120	129	136
Cash & Equivalents	1,864	1,311	1,761	1,143	1,301
Other Current Assets	154	141	141	141	141
Total Assets	9,302	8,384	8,663	7,622	7,306
Long-Term Debt	8,090	7,473	5,028	5,280	4,090
Other Non-Current Liabilities	328	599	838	1,077	1,316
Short-Term Debt	323	0	2,237	497	941
Other Current Liabilities	876	1,104	1,305	1,403	1,471
Total Liabilities	9,616	9,175	9,408	8,256	7,817
Total Equity	(314)	(791)	(745)	(634)	(511)
Total Equity & Liabilities	9,302	8,384	8,663	7,622	7,306

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	-7.9%	1.0%	6.3%	7.1%	8.8%
Return On Equity	NM	NM	NM	NM	NM
Operating Margin	-55.0%	1.7%	10.6%	10.4%	11.0%
EBITDA Margin	-16.4%	16.1%	23.6%	23.5%	24.4%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	NM	NM	5.2x	3.8x	3.1x
Asset Replacement Ratio	1.3x	0.7x	0.6x	0.3x	0.3x
Tax Rate (Reported)	NM	8.9%	4.7%	2.7%	1.7%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	-2.0x	0.1x	1.1x	1.3x	1.8x

## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## 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

## Price objective basis & risk

### Melco Resorts (MLCO)

Our US\$8.4 PO is based on 6.0x FY24E cash P/E, 2 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
<b>BUY</b>				
	Aristocrat Leisure	ARLUF	ALL AU	Sriharsh Singh
	Atour Lifestyle	ATAT	ATAT US	Ronald Leung, CFA
	Bloomberry 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
	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
<b>NEUTRAL</b>				
	China Tourism Group Duty Free	XCTVF	601888 CH	Ronald Leung, CFA
	Genting Singapore	GIGNF	GENS SP	Ronald Leung, CFA
	Melco Resorts	MLCO	MLCO US	Karl Choi, CFA
	Wynn Macau, Limited	WYNMF	1128 HK	Karl Choi, CFA
<b>UNDERPERFORM</b>				
	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
	Shanghai Jin Jiang Intl Hotels Dev Co.	XGCQF	600754 CH	Ronald Leung, CFA
	SJM Holdings Limited	SJMHF	880 HK	Karl Choi, CFA
	Wangfujing Group	BJNGF	600859 CH	Ronald Leung, CFA
<b>RVW</b>				
	Kangwon Land	KGWNF	035250 KS	Susie Lee
	Paradise	PDCLF	034230 KS	Susie Lee



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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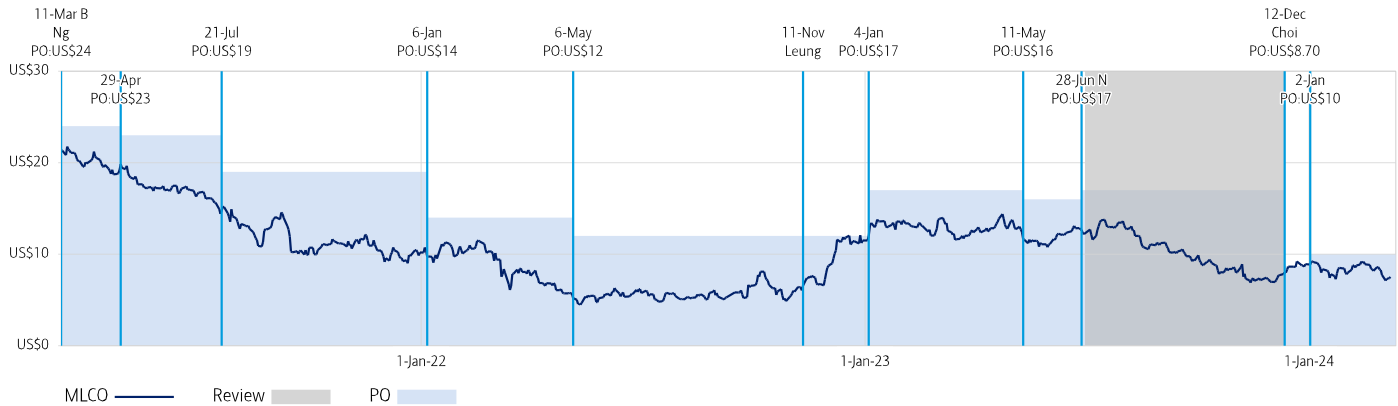
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### Equity Investment Rating Distribution: Gaming Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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