

Melco Resorts

In-line 4Q EBITDA; right move to step up investments

Maintain Rating: NEUTRAL | PO: 10.00 USD | Price: 8.26 USD

4Q23 results in line; property EBITDA +8% QoQ

Q4 property EBITDA grew 8% QoQ to US\$303mn, in line with BofA forecast but missed consensus by 6%. This represented 74% of pre-COVID level. Melco's market share in Macau remained flat QoQ at 14.6% with its GGR from Macau market rising by 11% QoQ (but missed our forecast by 2%). Including overseas properties, Melco's total GGR increased by 9% QoQ to US\$1.16bn.

Right move to reinvest; maintain Neutral

Management was frank in admitting that Melco probably cut costs too much last year, which hurt its offering and resulted in market share loss – consistent with observations from our channel checks. The three recent operational management new hires (analytics, retail, hotel F&B) are meant to improve customer service experience. Melco is also looking for a new COO to replace David Sisk, who recently resigned. While the operational change will likely increase costs near term, we think the company is making the right move to stay competitive. We maintain our Neutral rating as valuation appears inexpensive (8.2x 2024E EBITDA and 5.5x cash earnings) and we believe it would take time for these efforts to bear fruit.

Opex to grow faster from new investments

As expected, daily opex grew by US\$100k QoQ to US\$2.6mn/ day in Q4. Management expects the increased investments to add another US\$100k/day to opex in 2024 (3% of our EBITDA estimate before any revenue benefit and 80bps impact on margins). Melco is expected to roll out RFID tables next month.

Studio City outperformed; impairment for Altira

Studio City outperformed in Q4 with its GGR +15% QoQ to US\$295mn, partially due to the higher table hold rate for the mass segment. On the other hand, COD GGR growth (+10% QoQ) was behind our estimates. Melco took a US\$208mn impairment for Altira. The Cyprus operations were hurt by the Middle East conflict but have done better so far this year. Management indicated that its Macau mass GGR in CNY was 122% of 2019 levels but admitted that it had lost share in January. Management also believes the rollout of Individual Visit Scheme (IVS) to two more Mainland cities (Qingdao, Xi'an) to bring in more visitors.

Continued focusing on deleveraging

Melco repaid US\$200mn of revolver credit facility in 4Q23 and repurchased US\$100mn of senior notes issued by Studio City. Net debt level declined by 6% YoY to US\$6.1bn. In 2024, its primary focus is still on deleveraging. Melco expects 2024 capex of US\$360-375mn. It fully completed the amount budgeted for its gaming concession commitment in 2023 and is confident to fulfill its commitment in 2024.

29 February 2024

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Stock Data

Price	8.26 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)	3,613 USD / 437.4
Average Daily Value (mn)	24.18 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

COD: City of Dreams

F&B: food & beverage

GGR: gross gaming revenue

RFID: radio frequency identification

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Timestamp: 29 February 2024 11:42AM EST

Exhibit 1: 4Q23 results summary

Property EBITDA +8% QoQ

US\$ mn	4Q23	3Q23	4Q19	QoQ	vs. 2019	BofAE	Variance	Consensus	Variance
Total GGR	1,156	1,064	1,734	9%	67%	1,161	0%	1,169	-1%
VIP	160	147	717	9%	22%	168	-5%	185	-13%
Mass	834	765	840	9%	99%	842	-1%	813	3%
Slot machine	162	152	177	7%	92%	151	7%	171	-5%
Total revenue	1,090	1,020	1,451	7%	75%	1,099	-1%	1,140	-4%
Prop. EBITDA	303	281	410	8%	74%	309	-2%	321	-6%
Corp. EBITDA	288	262	383	10%	75%	289	-1%	300	-4%
Luck adju. corp. EBITDA	304	273	413	12%	74%				

Source: Company, BofA Global Research estimates

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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

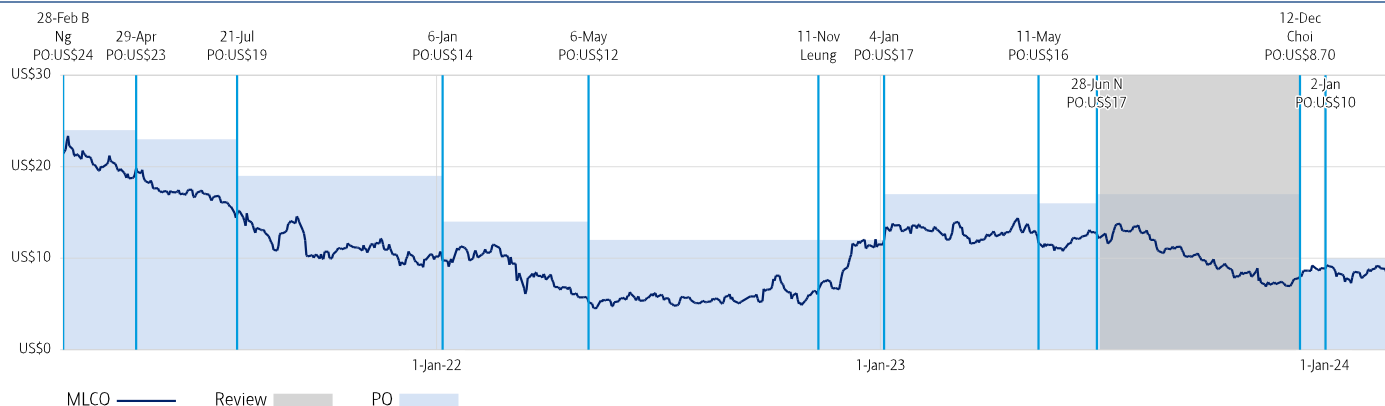
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Melco Resorts (MLCO) Price Chart



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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%

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Buy	1895	53.62%	Buy	1083	57.15%
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Sell	807	22.84%	Sell	383	47.46%

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