

## Macau Gaming

Shockingly bad CNY; earnings cut seems inevitable

- **Very disappointing CNY.** GGR for the first 23 days of February came in at MOP13.9bn, implying average daily revenues (ADR) of c.MOP605m MTD (vs. MOP766m/day in Jan). More importantly, ADR in the last 8 days (16-23 Feb) **declined WoW to c.MOP560m** (vs. c.MOP580m in the previous week), which was totally unexpected as the period covered the three peak days of CNY holidays (21-23 Feb). Weekly numbers admittedly have very poor visibility, especially for holidays. But, last week's run-rate was very disappointing to us, as it was nearly 40% below what we had anticipated.
- **Why was it so weak?** Based on our checks, we found out the following. **First**, demand in the first 4 days was exceptionally weak across the board, well below the usual pre-holiday slowdown level. This suggests that soft revenue in 1H Feb was, in fact, due to genuinely weak demand, not because of weak seasonality before the holiday. **Second**, grind-mass demand was healthy during peak days, which, however, was more than offset by a lull in high rollers. This was somewhat expected for VIPs, who usually come in the week after CNY to avoid heavy traffic. But, this time around, we understand *even premium mass demand remained very muted*, primarily due to the deteriorated player mix (our checks suggest comp threshold level was unusually low for a peak season). **Third**, we understand some properties had negative luck factor, but not to the extent that can meaningfully explain the industry's weakness in our view.
- **QTD demand has been underwhelming.** We now expect Feb GGR to drop 52~55% yoy (from -45%), assuming MOP600~900m/day run-rate for the remaining month (given stronger VIP seasonality post CNY). This implies Jan/Feb GGR would decline 37-39% yoy, well below -30% in Dec, as well as our initial expectation of ~29% decline for Jan/Feb.
- **Another round of earnings cuts seems inevitable.** Whilst we caution extrapolating weekly data given its volatility, QTD demand suggests another round of consensus cut is inevitable, based on our simple stress-test. If we assume gaming demand stays flat at a QTD run-rate until the year-end (c.MOP700m/day), 2015 GGR would fall c.25% yoy, which in turn could drive down the sector's EBITDA by 15-20% yoy. This assumption might be too conservative as we still look for improvements into 2H with new openings. Regardless, consensus expectations of high-single-digit decline in GGR and c.5% decline in EBITDA seem to have meaningful downside in any case. We admit that we had been too optimistic as well. We are keeping our estimates now pending further review of the overall sector.
- See Figures 1-2 for weekly run-rate trends and MTD market shares.

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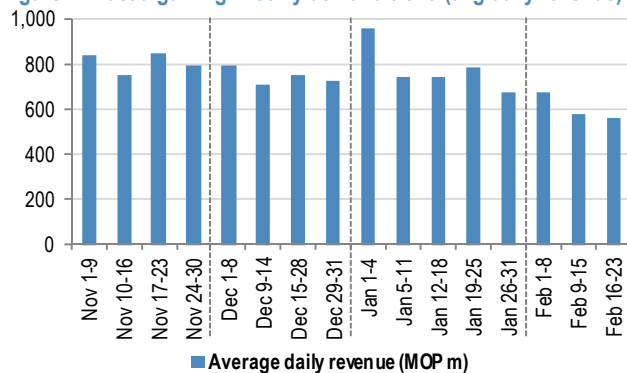
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Figure 1: Macau gaming: weekly demand trend (avg daily revenue)



Source: J.P. Morgan estimates, Company data.

Figure 2: Macau gaming: Table revenue market shares

	4Q14	Jan-14	Feb MTD	MoM chg
<b>Sands</b>	21.8%	19.8%	22.7%	2.9%
<b>Galaxy</b>	21.6%	22.9%	20.0%	-2.9%
<b>SJM</b>	23.8%	22.3%	24.5%	2.2%
<b>MPEL</b>	14.0%	14.5%	13.6%	-0.9%
<b>Wynn</b>	9.1%	10.4%	9.8%	-0.6%
<b>MGM</b>	9.7%	10.0%	9.4%	-0.6%
<b>Total</b>	100.0%	100.0%	100.0%	

Source: J.P. Morgan estimates., Company data.

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