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Greater China Corp Day Takeaways II

GGR recovery on track in gaming; resilient performance in conglo/ports

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We invited 15 companies across the casino gaming, port and conglomerate sectors to our Greater China Corporate Day on Jan 6-8, and also attended Swire Pacific's pre-blackout analyst briefing on Jan 10. While various macro issues (e.g., US/China trade war, HK unrest) have presented operational challenges for selective businesses (i.e., HK retail, transportation), the participating companies sounded generally cautiously optimistic about the outlook in 2020. **Despite its strong performance over the last 2-3 months, we stay bullish on the gaming sector (both Macau and Korea) and recommend investors to be more selective on port/conglomerate names. Top picks: SJM/Wynn, Paradise, CKH, MTRC, Fosun, COSCO/CMPH (all Buy rated). We also make minor changes to our FY19-21E EPS for COSCO, CMPH, CKH and Swire, and raise our 12m TPs for CMPH/COSCO by up to 3%.**

Below, we highlight the key takeaways. Exhibit 1 presents a quick summary of the companies' views on the outlook in 2020.

- **Macau Gaming:** Macau's VIP GGR softened to a 30+% yoy decline in Dec (vs. ~20% yoy in prior months) as expected, while mass-market remained resilient (up ~10% yoy in 4Q19), despite the impact from the temporary suspension of IVS visas. Suncity confirms that its volume at Starworld/Galaxy Macau has picked up after the launch of its newly renovated VIP rooms, suggesting a potentially slower ramp-up at Morpheus/MGM Cotai vs. prior quarters. Looking into 2020, Macau casino operators generally sound cautious on the outlook for the VIP segment (i.e. a mid-to-high single-digit rolling volume decline) but are more optimistic on the mass-market growth outlook helped by infrastructure buildout (e.g. the high-speed-rail (HSR) extension from Gongebei to Hengqin in 1H20) and new IR completion and property upgrades (e.g. Lisboa Palace in 3Q20). Even though the protracted HK situation has affected inbound visitation to HK (and Macau's overnight night visitation to a lesser extent given the 15% overlap), it does not seem to have much impact on mass-market GGR in Macau which is still predominately driven by Guangdong day-trippers.

- **China Ports:** The impact of the US/China trade war appears to have been somewhat absorbed by CNY devaluation and service re-routing by shipping liners with steady port volume growth in recent months. Ports operators have guided for low single-digit volume and ASP growth in China this year. Future growth by our covered companies will likely hinge on their ability to secure and execute on overseas acquisitions, for which CMPH was more aggressive last year, having acquired a 10-terminal portfolio via its JV, Terminal Link. COSCO is left with more financial headroom to pursue more M&A. Both companies are keen to gain greater exposure in Southeast Asia to benefit from value chain and factory migration trends.
- **HK/mainland China Conglomerates:** While performance has been mixed, depending on their industry/country exposure, the business performance of the HK/mainland China conglomerates we cover has generally remained resilient in 2H19, except for Swire Pacific (dragged by HK retail and Cathay). GBP appreciation toward the end of 2019 year boded well for CKH/CKI's HKD-denominated earnings in 2H19, while Wheelock continued to execute well on its property sales. In China, both Fosun and CITIC have conducted a number of asset disposals and/or restructurings last year, and expect rather limited activities in 1H20. The two have shifted their priorities to improving their market positioning and operational efficiency through market consolidation and synergistic M&A.

Key charts on takeaways from our Greater China Corporate Day

Exhibit 1: A summary of the general message from companies attending our Greater China Corporate Day

Industry	Company	Recent trends	2020 outlook	Major takeaways
Asia Gaming	Galaxy	Positive	**VIP:** Cautious on the outlook of the VIP segment and expect a mid-to-high single-digit rolling volume decline owing to ongoing regional competition. **Mass:** **More optimistic** on mass-market with infrastructure buildout and project launches/upgrades (SJM's Lisboa Palace expected to launch in 3Q20).	Potential market share recovery in VIP after completion of Suncity room renovation. Mass-market has grown steadily. GM Ph3 still targeting 1Q21 opening.
	SJM	Resilient		Solid mass-market trend in 4Q19-Janmtd on healthy casino visitation. 3 o/s regulatory approvals for Lisboa Palace. On-track to open in 3Q20.
	MGM China	Resilient		Steady GGR volume qoq in 4Q19. No major o/s projects near term. Ramp-up hinges on its ability to draw more premium mass players by Mansion Villas.
	MLCO	Resilient		GGR share gain momentum might have slowed in 4Q19. A number of o/s non-gaming amenities to be launched in the coming quarters at CoD and MSC.
	Suncity Group	Resilient		Rolling volume fell more than 30% in Dec, but demand has since picked up. Steady sequential growth in Cambodia. Targets mid-to-high single-digit growth in FY20.
	Paradise	Positive		Paradise targets 20% GGR growth at P-City and 5-10% at existing properties. Still confident on improving profitability. We see upside risk to cosensus.
HK/China Conglomerates	CKH	Positive	**Resilient fundamentals** in underlying business segments. **Potential uplift** from removal of Brexit overhang.	Solid performance in WindTre and AS Watson offsets weaker trends in other European telcos. Port volume +3% in FY19. No decision on potential tower spinoff yet.
	CKI	Negative	Regulatory resets likely to pressure earnings growth. **Expect limited dividend growth.**	Company acknowledges that earnings will be under pressure on regulatory resets. Still confident that it can defend dividends, albeit at lower growth.
	Wheelock	Positive	Management **does not see much downside** in housing prices given the still-strong housing demand locally. They target 4 new project launches.	Continued execution of property sales in HK. Secured another HK$7bn in 2H19 and locked in much of its earnings in FY20-21. ASP and margin outlook remain steady.
	Swire	Resilient	**Operational challenges** in HK retail, hotel and aviation in 2H19. **Cautiously optimistic** on 2020 outlook.	Challenging business environment dragged overall performance in 2H19, but remains cautiously optimistic on 2020 outlook. Further scope for growth in China and recovery of HK situation.
	Fosun	Positive	Fosun to continue to make progress on re-steering its focus to operations vs M&A.	The group's consumer-focused segments outlined more details about future growth strategies. We see incremental visibility on recurring income.
	Shanghai Industrial	Resilient	New business opportunity in solid waste processing; near-term impact likely remains limited.	Business performance remains steady helped by the defensive business nature. Company looks to expand into solid waste processing.
	CITIC	Resilient	Management now expects limited additional restructuring activities and disposal needs. New product segments and cost savings to drive further growth.	The group aims to expand beyond financials, but we see limited incremental core earnings growth. Balanced risk reward at current valuation.
	NWS Holdings	Resilient	Aiming to maintain progressive dividend policy. Open to more non-core asset disposals.	Modest traffic growth from its road business. Aviation, and construction business resilient. Aiming to increase AOP contribution.
China Ports	COSCO	Resilient	No guidance, but growth will likwly hinge on ramp-up of overseas assets.	After close to half a year from the most recent tariff hike implementation (US$200bn in May 2019), the trade war impact appears to have been largely absorbed by the shippers. Container volume appears to have stabilized recently - top 8 Chinese ports' monthly volume grew +1.4/+1.6% yoy from Oct/Nov.
	CMH	Resilient	Guides for low single-digit % volume growth in FY20E.	

Source: Goldman Sachs Global Investment Research

Exhibit 2: We invited 15 companies across the casino gaming, port and conglomerate sectors to our Greater China Corporate Day on Jan 6-8, and also attended Swire Pacific's pre-blackout analyst briefing on Jan 10

Company ratings and valuation

	Ticker	Covering analyst	Rating	Ccy	Last closing price 1/10/2020	12-m Target Price	Market cap (US$mn)	EV/EBITDA		P/E		P/B		Dividend yield	
								FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Asia Gaming															
SJM Holdings	0880.HK	Simon Cheung, CFA	Buy*	HKD	10.0	11.3	7,026	15.6	15.4	19.8	27.6	1.9	1.8	3.1%	2.2%
Galaxy Entertainment Group	0027.HK	Simon Cheung, CFA	Buy	HKD	61.4	65.1	32,647	12.8	12.3	17.6	19.0	3.6	3.2	1.6%	1.6%
Melco Resorts & Entertainment Ltd.	MLCO	Simon Cheung, CFA	Buy	USD	23.9	27.1	12,886	12.4	11.2	21.5	17.0	5.1	4.4	2.7%	2.8%
MGM China	2282.HK	Simon Cheung, CFA	Neutral	HKD	13.5	14.2	6,567	11.5	10.4	20.3	18.4	4.7	4.0	1.7%	2.7%
Paradise Co.	034230.KQ	Simon Cheung, CFA	Buy	KRW	21,150	24,600	1,499	23.3	14.4	38.6	26.1	1.3	1.3	1.2%	1.8%
Suncity Group	1383.HK	Not covered	NA	HKD	1.82	NA	1,509	NA	NA	NA	NA	NA	NA	NA	NA
HK/China Conglomerates															
CK Hutchison Holdings	0001.HK	Simon Cheung, CFA	Buy*	HKD	74.1	94.0	36,510	9.4	8.8	7.2	6.7	0.6	0.6	4.3%	4.6%
Cheung Kong Infrastructure	1038.HK	Simon Cheung, CFA	Neutral	HKD	56.4	61.3	18,071	40.8	38.8	12.9	13.3	1.1	1.1	4.4%	4.4%
Wheelock and Co.	0020.HK	Simon Cheung, CFA	Buy	HKD	53.7	59.0	14,036	13.3	12.7	5.8	6.9	0.4	0.4	3.1%	3.2%
Swire Pacific	0019.HK	Simon Cheung, CFA	Neutral	HKD	72.6	81.0	13,989	14.6	14.3	11.2	13.7	0.4	0.4	3.6%	4.0%
Fosun International	0656.HK	Simon Cheung, CFA	Buy	HKD	11.9	16.0	13,049	19.6	20.3	6.3	5.9	0.8	0.7	3.7%	3.9%
Shanghai Industrial	0363.HK	Simon Cheung, CFA	Buy	HKD	14.8	20.0	2,077	6.1	5.9	4.7	4.7	0.4	0.3	3.6%	6.8%
CITIC Ltd.	0267.HK	Simon Cheung, CFA	Neutral	HKD	10.0	11.8	37,533	4.0	4.8	5.5	5.3	0.5	0.5	4.6%	4.9%
NWS Holdings	0659.HK	Not covered	NA	HKD	11.4	NA	5,686	NA	NA	NA	NA	NA	NA	NA	NA
Ports															
COSCO Shipping Ports Ltd.	1199.HK	Simon Cheung, CFA	Buy	HKD	6.3	10.4	2,214	14.2	14.2	8.7	8.5	0.5	0.5	4.6%	4.7%
China Merchants Port Holdings	0144.HK	Simon Cheung, CFA	Buy	HKD	13.6	17.3	4,311	21.5	20.5	5.4	10.7	0.6	0.6	7.4%	4.2%

Note: Buy* denotes the stock is in our conviction list (CL)

Source: Bloomberg, Goldman Sachs Global Investment Research

Macau Gaming

Four of the six Macau casino operators (MLCO, Galaxy, MGM China, SJM), the largest junket (Suncity Group) and Korea's leading foreigner-only operators (Paradise) joined our Corporate Day. As flagged in our prior reports, President Xi visited Macau last month. Macau's VIP GGR trend softened in December – Suncity commented that its rolling volume fell more than 30% yoy in Dec (vs. 20+% yoy in Nov). Mass-market was relatively resilient (up low-teen % yoy in 4Q19) despite the impact from temporary suspension of IVS visas. Elsewhere in the region, Paradise continues to outperform GKL (+0.4% market-share gain in 4Q19) helped by further ramp-up of P-City, while Suncity said that its VIP volume at NagaCorp in Cambodia has been steady sequentially in recent months.

Looking into 2020, Macau casino operators generally sound cautious on the outlook for the VIP segment and expect a mid-to-high single-digit rolling volume decline owing to ongoing regional competition (e.g. Suncity is scheduled to launch Hoiana IR in Vietnam around 1Q20), although this schedule could be overly conservative as it would imply further sequential decline in the coming quarters despite easing US/China trade tensions and our economists expectation of a better macro outlook (see China 2020 outlook). Suncity, for example, guides for mid single-digit % rolling volume growth for the group as a whole. They are more optimistic about mass-market and expect the solid momentum to continue into FY20 helped by (1) infrastructure buildout (e.g. the HSR extension from Gongebei to Hengqin to be launched in 1H20); (2) new IR completions and property upgrades (e.g. Lisboa Palace in 3Q20, new suites at Four Seasons in 1H20, etc.)

Despite the 23% average share price rally over the last 3 months vs. the HSI index up 11%, we stay constructive on Macau stocks as we see further scope for the sector valuation multiple to re-rate in the coming quarters, driven by earnings upgrades vs. relatively low market expectations (consensus forecasts 3-5% GGR growth in 2020E). Reiterate Buy ratings on SJM (on CL), Galaxy, Wynn and MLCO. We also like Paradise for upside from continued strong GGR growth translating to 8pts margin expansion on positive operating leverage and a re-rating from potential easing of duo-political tensions between Korea and China/Japan.

- **Signs of VIP stabilization in recent weeks with potential recovery hinging on the outcome of US/China trade negotiations:** Macau casino operators said VIP demand was soft as expected in December (see our Oct 17 report) as reflected by Suncity's 30+% yoy rolling volume decline (HK$90bn per month vs. HK$100-110bn in prior months). On a positive note, we are seeing signs of stabilization in the last few weeks and early January, helped by pent-up demand and solid room bookings for the upcoming CNY (hotel rooms almost fully booked). This said, they still sound cautious and see low visibility for a potential recovery, guiding for a 5-10% VIP GGR decline in FY20.

- **More optimistic on mass-market with infrastructure buildout and project upgrades:** Mass market GGR growth continues its solid momentum in 4Q19-Jan mtd, which operators attribute to a healthy casino visitation trend that is more than sufficient to offset slight softness in per-player gaming spending. Looking ahead, we echo their view that infrastructure will improve accessibility for visitors from mainland China. Of note, the extension of HSR from Gongbei to the Hengqin border gate (set to launch in 1H20) is expected to draw more inbound travel, especially to Cotai, through faster customs clearance, less traffic congestion during peak hours at the border gate, etc (see our Dec 13 note for details).

- **Slower Morpheus/MGM Cotai ramp-up in 4Q19, with new product offerings by Galaxy/Wynn:** While remaining optimistic that there is further scope for Morpheus and MGM Cotai to ramp up, both MLCO and MGM China acknowledge that their GGR growth momentum has not been as strong as in prior quarters, attributed to competing new offerings by Galaxy and Wynn. Suncity confirms that the newly renovated VIP rooms at Starworld/Galaxy Macau have seen solid volume growth in 4Q19, consistent with the trends shown in our VIP room occupancy tracker (Galaxy/Wynn +10%/+7% qoq in 4Q vs. 4% Macau total). MLCO highlights a number of projects/upgrades in the pipeline, i.e., new premium mass and VIP areas by 1Q20 followed by Nuwa/Countdown Hotel room renovations at CoD; food court, water slides, theaters, ice-skating rink at Studio City. MGM also plans to open more suites on top of MGM Cotai Towers, but they will not come on stream until 2022.
- **New gaming supply to drive GGR recovery in Macau; Lisboa Palace on track to open by 2H20, followed by GM Phase 3 in 1Q21:** SJM said that the construction of Lisboa Palace has largely been completed and is still scheduled for launch in 3Q20, pending securing of the last three regulatory approvals (i.e., occupancy permit by DSSOTP, hotel license by MGTO, table gaming floor inspection by DICJ). It will operate at least 300 gaming tables (60 VIP), ~90% of its retail outlets and various F&B amenities on the first day of launch, focusing on the premium mass segment with limited cannibalization with its Peninsula properties expected. Given a lack of experience in this segment, the company has hired externally to beef up its marketing capability. As for Galaxy Macau Phase 3, Galaxy also said it is on track for opening by 1Q21 with various new non-gaming offerings (1,500 hotel rooms, 400k sqft MICE space, 16k seat arena, F&B and retail, etc.), followed by Phase 4 (3,000 hotel rooms and additional non-gaming amenities) in 2H22. Together with Broadway redevelopment and a 2.7-sq km land site in Hengqin Island, the company still sees much scope for its future growth in Macau.
- **Macau gaming concession renewals still uncertain; further details could follow after the policy address in April:** When asked about gaming license renewals, the casino operators commented that the process and timeline remain uncertain at this stage, but that the new Macau Chief Executive (Mr. Ho Iat-Seng) might provide more color following his policy speech in April 2020. They still believe the most likely scenario is for the status quo, with the gaming licenses extended for the existing 6 operators with much emphasis on their contribution to (1) non-gaming diversification; (2) support to the local economy and job market, as opposed to seeking more revenue by charging higher gaming tax, as doing so may accelerate VIP GGR diversion to other markets. Suncity said it remains interested in applying for a Macau gaming license if the opportunity arises.

- **Suncity's Vietnam IR on track to open in 1Q20:** As flagged in our earlier report (see our Apr 3 note), Suncity continues to make progress in expanding overseas to transform itself from a pure junket to a regional casino operator. Based on its existing project pipeline, the company expects to open 820 gaming tables, 4,570 hotel rooms and 2,550 slot machines by 2024. Among them, its flagship project in Vietnam (Hoiana IR) will be launched in 1Q20 with 140 gaming tables (70 VIP/70 mass) and other non-gaming amenities including 1,000+ hotel rooms, F&B products, a golf club and other non-gaming amenities.

- **Paradise remains positive on P-City ramp-up; we see upside to consensus estimates:** In 4Q19 Korea's foreigner-only gaming market maintained solid GGR momentum, +21% yoy (vs. 18% in 3Q19), led by Paradise (+23% yoy vs. 31% in 3Q19), whereas GKL's growth appeared optically stronger (+17% yoy vs. 3.1% in 3Q19) on a lower base as its hold rate continued to recover (11.0% vs. 7.6% in 4Q18). For FY20, Paradise still targets ~20% GGR growth at P-City (vs. +50% yoy in FY19) and 5-10% at its other properties (vs. +5% yoy in FY19). In terms of Phase 2 expansion, the group highlighted that it may increase non-gaming amenities and additional hotel supply to accommodate mass players, but still targets to fully ramp-up P-City Phase 1 for the medium-term before proceeding into the next phase.

China Ports

China Merchants Port Holdings (0144.HK, Buy)

0144.HK	12m Price Target: HK$17.3	Price: HK$13.64	Upside: 26.8%

Buy	GS Forecast				
		12/18	12/19E	12/20E	12/21E
Market cap: HK$34.0bn / $4.4bn	**Revenue (HK$ mn) New**	**10,160.0**	**10,535.4**	**11,253.8**	**11,904.6**
Enterprise value: HK$85.0bn / $10.9bn	Revenue (HK$ mn) Old	10,160.0	10,523.5	11,251.5	11,922.0
3m ADTV :HK$41.7mn/ $5.3mn	EBITDA (HK$ mn)	4,732.0	4,514.0	4,815.7	5,105.5
China	**EPS (HK$) New**	**2.18**	**2.49**	**1.26**	**1.36**
China Conglomerates	EPS (HK$) Old	2.18	2.48	1.25	1.35
	P/E (X)	7.6	5.5	10.8	10.0
M&A Rank: 3	P/B (X)	0.7	0.6	0.6	0.6
Leases incl. in net debt & EV?: No	Dividend yield (%)	5.7	7.3	4.2	4.5
	CROCI (%)	6.2	5.3	5.1	5.3
		12/18	**6/19**	**12/19E**	**--**
	EPS (HK$)	0.51	1.91	0.58	--

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 10 Jan 2020 close.

COSCO (1199.HK, Buy)

1199.HK	12m Price Target: HK$10.4	Price: HK$6.3	Upside: 65.1%

Buy	GS Forecast				
		12/18	12/19E	12/20E	12/21E
Market cap: HK$19.9bn / $2.6bn	**Revenue (HK$ mn) New**	**1,000.4**	**1,065.2**	**1,158.6**	**1,224.7**
Enterprise value: HK$42.0bn / $5.4bn	Revenue (HK$ mn) Old	1,000.4	1,076.8	1,161.6	1,222.3
3m ADTV :HK$18.0mn/ $2.3mn	EBITDA (HK$ mn)	331.2	355.2	392.4	435.9
China	**EPS (HK$) New**	**0.83**	**0.72**	**0.76**	**0.81**
China Conglomerates	EPS (HK$) Old	0.83	0.73	0.75	0.78
	P/E (X)	9.1	8.7	8.3	7.8
M&A Rank: 3	P/B (X)	0.6	0.5	0.5	0.4
Leases incl. in net debt & EV?: No	Dividend yield (%)	4.4	4.5	4.8	5.1
	CROCI (%)	7.7	8.0	7.1	7.1
		12/18	**6/19**	**12/19E**	**--**
	EPS (HK$)	0.39	0.37	0.35	--

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 10 Jan 2020 close.

China's 11M19 throughput volume grew +5% yoy ahead of aggregate +1%/-1% volume growth at CMPH/COSCO's China portfolios, helped by faster growth from the other smaller domestic ports due to the low base in FY18. The impact of the US/China trade war appears to have been somewhat absorbed by CNY depreciation and service re-routing by the shipping liners, with volume stabilization in recent months – the top 8 Chinese ports' monthly volume grew +1.4/+1.6% yoy in Oct/Nov. Looking into 2020, CMPH expects a more stable operating environment, with low single-digit % volume growth (i.e., China: flat to up low-single digit %; overseas: +mid single-digit %). COSCO has not finalized its 2020 budgets – we model +7% volume growth on the ramp-up of its newer overseas ports, e.g., Abu Dhabi terminal. In light of potential resolution of US/China trade tensions (phase 1 deal news), we see upside risk to our 2% port throughput growth forecast in 2020E.

As far as port tariffs are concerned, both COSCO and CMPH appear confident that they will be able to raise overseas port tariffs by 3-4%, but expect a relatively steady rate in China domestically, depending on the outcome of trade talks and business confidence. With an expected recovery in China's imported volumes (our macro team forecasts +1% in FY20E vs. -3% in FY19), more laden imported cargo containers (as opposed to empty containers) could help improve the cargo mix – we model a modest 1% increase in revenue per TEU in FY20E. Given the migration of the value chain from China to other Asian countries, both companies are keen to pursue overseas acquisitions. e.g, COSCO's Abu Dhabi terminal commenced operations in 4Q19; CMPH's JV, Terminal Link, announced it would acquire a 10-terminal portfolio from CMA-CGM to gain exposure in Southeast Asia (see our Nov 29 report).

We reiterate our Buy ratings on both CMPH/COSCO on undemanding valuation (10.7x/8.2x FY20E P/E) already pricing in much pessimism on the global trade outlook. We expect COSCO to continue to ramp up its ports utilization backed by its parentco, China COSCO. As for CMPH, our thesis has been predicated on its attractive dividend payout as the company commits to distributing 40% of its earnings inclusive of the HK$3.3bn Qianhai land revaluation. However, management highlights potential risk that it may run into insufficient retained earnings at the holdco to maintain such a payout.

Earnings/TP changes: We raise our FY19-21E EPS for both ports moderately by -1% to 3% reflecting the latest operating trends, and accordingly our SOTP-based 12-month TPs for CMPH/COSCO increase by 1%/3% to HK$17.3/HK$10.4, respectively.

- **CMPH guides for low single-digit % volume growth in FY20E; no guidance by COSCO yet, but its growth to hinge on the ramp-up of overseas assets:** China throughput volume appears to have stabilized in 4Q19, as shippers likely see the new imported tariffs as a new norm (the top 8 ports' international volumes grew +1.4/+1.6% yoy in Oct/Nov 19). Looking into 2020, CMPH guided for low single-digit % volume growth and expects the diverging trends by region to continue, led by Yangtze River (YRD) and the Bohai Rim benefiting from international trade recovery, while the Pearl River Delta (PRD) may suffer from ongoing pressure for value chain relocation to Southeast Asia. While COSCO has not yet finalized its FY20 budgets, we expect its China portfolio to post similar growth in FY20E as last year (+3%). Coupled with +8% volume growth overseas, we model +7% total volume growth for COSCO vs. +3% for CMPH in FY20E.

- **Potential risk that CMPH may not have sufficient retained earnings to maintain its policy of a 40% payout on all-in earnings:** CMPH highlights potential challenges to distribute part of its non-cash disposal gain as it did in the past, as it was left with only HK$0.7bn in retained earnings on its holdco balance sheet after the sizeable payout in prior years. Should the company decide not to distribute part of the disposal gain, a 45% payout on its HK$1.17 recurring FY19 EPS would imply HK$0.53 DPS, implying 4% dividend yield (instead of HK$0.99 DPS or 7.3% dividend yield in our base case).
- **CMPH will likely fund the port acquisitions by Terminal Link through disposal of low-yielding terminals; more M&A gearing headroom for COSCO:** While the proposed acquisition by Terminal Link (see our Nov 29 note) will allow CMH to increase exposure to ASEAN markets, the company has said it will have to fund it through asset disposals, as the acquisitions would bring its gearing to 43% (vs. its historical threshold of ~40%). The asset disposals could be conducted through group restructuring with its parentco, China Merchant Ports Group (001872.SH, Not Covered); or (2) reducing its equity stake in some of its controlling ports (e.g. 85%-owned Hambantota, 90%-owned TCP). We believe COSCO has more financial capacity to pursue M&A with 33% net gearing at end-1H19 vs. its threshold of 50-60% without the need to maintain credit rating as CMPH does.

HK/China Conglomerates

CK Hutchison (0001.HK, Buy (on CL))

0001.HK	12m Price Target: HK$94	Price: HK$74.05	Upside: 26.9%

Buy	GS Forecast				
		12/18	**12/19E**	**12/20E**	**12/21E**
Market cap: HK$285.7bn / $36.8bn	**Revenue (HK$ mn) New**	**276,025.0**	**297,317.5**	**307,560.7**	**318,551.2**
Enterprise value: HK$625.3bn / $80.4bn	Revenue (HK$ mn) Old	276,025.0	297,317.5	307,580.4	318,573.1
3m ADTV :HK$329.4mn/ $42.1mn	EBITDA (HK$ mn)	60,068.0	65,891.5	68,704.3	70,632.0
Hong Kong	**EPS (HK$) New**	**10.11**	**10.14**	**10.90**	**11.16**
Hong Kong Conglomerates	EPS (HK$) Old	10.11	10.17	10.90	11.22
	P/E (X)	8.8	7.3	6.8	6.6
M&A Rank: 3	P/B (X)	0.8	0.6	0.6	0.6
Leases incl. in net debt & EV?: No	Dividend yield (%)	3.6	4.3	4.6	4.7
Asia ex. Japan Conviction List	CROCI (%)	8.8	9.5	9.7	9.5
		6/18	**12/18**	**6/19E**	**12/19E**
	EPS (HK$)	4.67	5.44	4.72	5.42

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 10 Jan 2020 close.

No major surprise as its businesses remain steady with better results from Wind Tre, retail and port (volume +3% yoy in FY19) offsetting weaker performance in other European telco operations, infrastructure and Husky. Given GBP appreciation vs. HKD in 4Q19, its 2H19 results should see less drag from forex translation vs. 1H19 – we model +3% yoy core earnings growth in FY19 (vs. +1% yoy or +6% in local currency term in 1H19). Reiterate our Buy rating (on CL) given undemanding valuation (10% FCF yield, 47% NAV discount, 6.6x P/E) and expect removal of the Brexit overhang to re-rate the stock in the coming months.

- **CKH's Italian telco business continues to outperform, offsetting softness in the UK/continental Europe due to ongoing IT migration until 1H20:** As highlighted in our Nov 11 report, the group reaffirms that Wind Tre continues to perform better than 3 UK and other telco operations in Continental Europe, where earnings were dragged by higher opex due to IT upgrades which will last till mid-2020. Although Wind Tre continues to lose revenue from subscriber loss to the new entrant, Iliad, in 2H19, it was more than offset by more wholesale network fees received from Iliad, resulting in better EBITDA margin yoy. We still believe Iliad (covered by Andrew Lee) faces financial constraints to expand its network capacity with 3x net debt/EBITDA at end-1H19. In terms of capex, the company does not expect a significant increase in FY20 and will take a measured approach in 5G rollout only in markets where it makes commercial sense (e.g., the UK). Meanwhile, CKH will continue to pursue in-market consolidation opportunities, having already done so in Denmark, Sweden and Indonesia. There is not much update on its plan re its telco tower assets – the formation of the tower company is expected to be completed in 1H20, per the company. A separate management team has been hired to look for more acquisition opportunities to expand its network, but the team has not yet decided whether to spin off or divest the stake in the tower business.

- **Limited EBITDA impact on AS Watson from HK unrest in HK; steady growth in mainland China, Asia and Europe:** Given the HK unrest, Watson HK's SSS fell more than 20% yoy in Oct-Nov19 and ParknShop's SSS also dropped a single digit %. This should have limited financial impact on AS Watson, however, since HK only contributes 3-4% of its EBITDA. Elsewhere, the company continues to maintain steady growth, with mainland China revenue +7% yoy and SSS slightly positive in RMB term; Asia operations saw strong double-digit % top-line growth led by Watson in Malaysia and Thailand. EBITDA in Watson Europe grew mid single-digit % in local currency term. Overall, it maintains its guidance to add 1.3k stores each year on a gross basis (or 800 on a net basis).
- **Continued headwinds for Husky on production curtailments in Alberta; lower-than-expected production guidance in 2020:** The production curtailment in Alberta, Canada continued to affect Husky's production volume in 2H19. For FY20, the company guides 295-310 kboe/d, 1-6% lower than our energy team's forecast of 313 kboe/d. Upstream opex guidance were broadly inline at C$14.0-15.0 per barrel. In terms of M&A, Husky may seek to dispose a few additional downstream assets in the future to improve its balance sheet having announced its sale of Prince George Refinery in Oct-19 for a consideration of C$215mn (finalized in Nov). The deal should provide a cushion for Husky to fulfill its C$500mn dividend payment in FY19 (see the Dec 2 note), for which CKH would receive C$200mn or HK$1.2bn.

Earning changes: Factoring in the latest operating trends for Husky Energy, we revise CKH's FY19E-21E EPS by less than 1% and keep our 12-month SOTP-based price target unchanged at HK$94.

Cheung Kong Infrastructure (1038.HK, Neutral)

Much of the investor focus is on the impact of regulatory reset, dividend sustainability and M&A. While acknowledging the earnings hit in the initial year of reset, which we expect to wipe off much of CKI's earnings growth in the next 3-4 years (see our Nov 27 report), management remains committed to its flat to progressive dividend policy. With 14% net debt to equity at end-2019, it has the financial capability to pursue M&A, which, if successful, should help to drive incremental earnings growth.

- **Northumbrian Water (NW) the first to go through regulatory reset in April-2020; lower-than-expected allowable return but offset by greater incentive payment in the final UK water reset:** The detailed terms of the UK water regulatory reset was announced late last year and will take effect in April 2020, which includes (1) real allowable regulatory return below expectation at 1.96% (vs. 2.19% in the initial draft); (2) RAV inflation index will be pegged 50/50 to RPI/CPIH, respectively, vs 100% RPI, resulting in a slightly lower price hike; (3) approved annual regulated asset base (RAB) growth to slow from 4.4% FY14-18 CAGR to 1.5% in the upcoming term; (4) slightly higher incentive range on RORE (return on regulated equity) based on the operator's performance revised up from the -3.0% ~ +1.2% range (draft) to -1.5% to 1.4% (final determination). CKI remains hopeful that better operating efficiency and a lower refinancing cost should help to mitigate the impact of the reset.

- **Higher deal complexity and larger transaction size to justify higher returns for new deals; we expect limited dividend growth ahead:** The company attributes its inability to secure any acquisition over last year to intense competition, especially for small to mid-sized deals. The company will continue to look for opportunities across different regions, but will focus more in Canada and Europe, since the group already has significant exposure in the UK/Australia, and had previously been rejected by the government re its acquisition proposal (e.g., APA in Australia). Management still sees competitive advantages on its ability to execute on larger and more complicated transactions given its experience. Its sister company and investment partner for recent projects, CKA, has provided guidance on acquisition criteria, i.e., at least US$1bn equity investment, 7-8% cash yield.
- **Stable dividend uplift from PAH; commits to maintaining stable or progressive dividend policy:** Although PAH is still in net cash position, it has already been paying more dividend than its recurring cashflow (HK$2.8 vs. HK$2.5 per share) and hence will unlikely raise its dividend much further. As for CKI, despite concern over dwindling earnings due to the upcoming regulatory reset, the company remains committed to at least maintaining or growing its absolute DPS progressively – we model flat DPS of HK$2.43 in FY19. As discussed in our prior reports, we estimate CKI's group cashflow amounted to HK$2.8/share in FY19E, which should be sufficient to cover the HK$2.43 DPS. Unless forex depreciates significantly and/or the earnings impact from the regulatory reset is greater than expected, we do not foresee any shortfall for the group to maintain its existing dividend policy.

Wheelock (20.HK; Buy)

Wheelock continues to execute well on its property sales in HK, having secured another HK$7bn in 2H19 (vs. HK$16.2bn in 1H19) and locked in much of its earnings in FY20-21. ASP and margin outlook remain steady. With HK$6.4bn in sale proceeds of Wheelock Singapore to its subsidiary Wharf REIC, Wheelock holdco gearing could be reduced to 13.9% at end-2019E. Despite its outperformance last year, narrowing the holdco NAV discount to 26%, we maintain our Buy rating on Wheelock for undemanding valuation of its two subsidiaries, Wharf and Wharf REIC, both rated Buy.

- **Steady ASP and solid property sales despite HK unrest; 4 new project launches in FY20:** Wheelock still seems positive about its see-through rate (i.e., 84%/49% for Lohas 9A/9B) and has achieved HK$7.0bn in contract sales in 2H19, including HK$6.4bn from Lohas Park 9 and HK$0.5bn from Mount Nicholson owned by its subsidiary Wharf Holdings (4.HK; Buy). The relaxation on the mortgage LTV ratio announced by the government in Oct has been supportive to housing demand in the mass segment (i.e., price tag below HK$10mn). Given weaker market sentiment in general amid HK unrest, the company has adjusted its price modestly. For instance, ASP for Lohas Phase 9 was maintained the same as Phase 7 even though its better location should arguably justify a price premium. Looking into FY20, management does not see much downside in housing prices given the still-strong housing demand locally. It targets 4 new project launches supplying ~3,000 housing units, including Lohas 9C, Sin Fat Road, Muk Tai St, and Hing Wah.

- **Already submitted for Lohas Phase 12 site tender by MTRC; confident on takeup for its Kai Tak project:** The company had ~6.3mn sq ft of landbank at end-FY19, a similar level as in prior years, implying 3-5 years development on the pipeline. After acquiring five Kai Tak sites last year (including 1 acquired by Wharf), the company is under no pressure to replenish its landbank and reiterated its focus to acquire mass-oriented sites close to MTR stations. For example, it had submitted its proposal for MTRC's Lohas Phase 12 site last month. When asked about the expected profit margin for its Kai Tak projects (~2mn sq ft, or 30% of land bank), management targets HK$30+k psf ASP. Netting it out against HK$12-14psf land and other associated costs, we expect close to 20% profit margin when sold.
- **The sale of Wheelock Singapore to Wharf REIC to better align focus and responsibilities among group companies' maintain progressive dividend policy:** Management said that its sale of Wheelock Singapore (see our Dec 21 report) to Wharf REIC is to better align business focus and responsibility among group companies, with Wheelock focusing on HK DP and Wharf REIC in rental properties in HK/Singapore. It will redeploy the cash proceed for its HK property development and maintain a progressive dividend policy. With regard to its other subsidiary, Wharf's acquisition of the Kai Tak site, the company explains that it had taken into consideration the relative cashflow and balance sheet strength between Wheelock and Wharf, since Wheelock had already acquired three Kai Tak sites last year for a total of HK$10.7bn (Wheelock/Wharf's net gearing were 16%/17% at end-1H19).

Swire Pacific (0019.HK; Neutral)

0019.HK	12m Price Target: HK$81	Price: HK$72.6	Upside: 11.6%

Neutral	GS Forecast				
		12/18	12/19E	12/20E	12/21E
Market cap: HK$109.0bn / $14.0bn	**Revenue (HK$ mn) New**	**84,506.0**	**83,460.2**	**86,543.4**	**90,182.6**
Enterprise value: HK$206.0bn / $26.5bn	Revenue (HK$ mn) Old	84,506.0	83,460.2	86,543.4	90,182.6
3m ADTV :HK$128.3mn/ $16.4mn	EBITDA (HK$ mn)	15,892.0	13,902.0	14,496.2	15,186.3
Hong Kong	**EPS (HK$) New**	**15.74**	**6.42**	**5.19**	**5.76**
Hong Kong Conglomerates	EPS (HK$) Old	15.74	6.48	5.26	5.84
	P/E (X)	5.2	11.3	14.0	12.6
M&A Rank: 3	P/B (X)	0.5	0.4	0.4	0.4
Leases incl. in net debt & EV?: No	Dividend yield (%)	3.7	4.1	4.3	4.4
	CROCI (%)	5.8	4.6	5.0	5.2
		6/18	**12/18**	**6/19E**	**12/19E**
	EPS (HK$)	8.99	6.75	5.47	0.95

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 10 Jan 2020 close.

We attended Swire Pacific's pre-blackout meeting at their office on Jan 10. After strong performance in 1H19, the group's 2H19 results were affected by the unrest in HK, with the greater impact on its HK retail, rental property and aviation businesses. SPO also continued to suffer from vessel oversupply and recognized another HK$2.1bn impairment loss in Nov last year. On a positive note, HAECO and Swire Beverage performed well on product upgrades/premiumization and cost controls. Though not committing, the group hopes to maintain a progressive dividend policy – we model flat total DPS of HK$3/share in FY19. Overall, the group sounds cautious on its FY20 outlook. While valuation looks undemanding at a 29% holdco NAV discount and 4% dividend yield, we retain a Neutral rating on Swire Pacific given continued operational challenges arising from the concurrent macro issues and limited visibility for a potential recovery.

- **Operational challenges in HK retail, hotel and aviation in 2H19; cautiously optimistic on 2020 outlook:** Amid the ongoing situation in HK and US/mainland China trade tensions, the group's overall performance was under pressure in 2H19, especially for its airline, hotel and retail segments. It is offering rental concession for its tenants but only on a case-by-case basis. There has not been any noticeable improvement in Cathay's passenger volume and yield as of late. On a positive note, its shopping malls in China continued to perform well, with sale growth continuing at a sustainable double-digit %. Swire Beverage also posted solid revenue growth across all geographics (mainland China, US, HK, Taiwan) helped by higher ASP on product premiumization. Management believes its strong balance sheet and diversified business exposure should help the group to weather macro challenges and remains cautiously optimistic in 2020.
- **SPO's loss widened in 2H19 dragged by depressed chartered hire rate; financial**

turnaround may take longer than expected: While SPO saw improvements in the vessel utilization rate in 2H19, driven by further pick-up in oil rig activities, its chartered hire rates stayed depressed on ongoing oversupply of vessels in the industry. Together with some temporary repair works conducted for a few of its premium-rated vessels, the company guides for a slightly wider net loss from SPO – we model a -HK$1.2bn loss in FY19E (vs. HK$1.1bn in FY18). Visibility for a financial turnaround remains low – we do not forecast positive earnings until 2022E.

- **Unlikely to conduct share buybacks; strong balance sheet to step up investments in Greater Bay area or top-tiered cities in mainland China; maintain progressive dividend policy:** When asked about capital allocation, management said that Swire Properties still has a pipeline of projects (e.g., Taikoo Place redevelopment in 2021-22, Po Wah Buildings redevelopment in 2023, Taikoo Li Qiantan in 2020) with total future capital commitments of HK$16.8bn. In HK, Swire Beverage is also upgrading its manufacturing plant in Shatin. Despite a potential earnings shortfall (we model -21% decline in EPS to HK$3.9/share in 2019E), the group maintains its progressive dividend policy. Though not committed, management targets to maintain its absolute DPS in FY19. When asked about share buybacks, the group has evaluated the various options of capital deployment internally and still prioritizes investing in existing and new businesses. Geographically, management is keen to explore more acquisition opportunities in the Greater Bay Area and other first-tiered cities in the PRC.

Earning changes: Factoring in the latest operating trends, we tweak our FY19E-21E EPS by c.1% and keep our 12-month SOTP-based price target unchanged at HK$81.

New World Services (659.HK; Not Rated)

- **Modest traffic growth from its road business; aviation, and construction business resilient:** Its 15 toll roads in China continued to deliver modest traffic growth, though partly offset by the 5% effective tariff reduction as the Chinese government popularize the use of electronic toll collection (ETC) to reduce logistic costs. Looking ahead, the company expects the recent new concession rights of Hunan Changliu Expressway (65km with average daily traffic flow of 29k+ vehicles) to support further traffic growth in FY20. Despite macro uncertainties, its aviation segment performed steadily, so did its construction segment, where the company has secured HK$42bn in contracts on hand, including Kai Tak, immigration office, Taikoo Place, etc. The company budgets HK$12bn in revenue booking in FY20.
- **Increase focus on core business segments to support progressive dividend policy; opened to more non-core asset disposals:** The company reaffirms its goal to increase its attributable operating profit (AOP) contribution from the four core business segments (i.e. roads, aviation, construction, insurance) which it believes provide better earnings visibility. Over the past year, the company has secured HK$1.4bn in cash proceeds from non-core asset disposals (e.g., Hip Seng Group, BCIA) and is open to more disposals in the future. Of note, the company's core business AOP contribution has been steadily increasing +8pts to 75% in FY19 from 67% in FY17, with further room to improve, per the company, following the

successful completion of FTLife Insurance on Nov 2019 (total consideration of HK$21.5bn). The company is confident that a shift in focus into its core businesses should enable sustainable earnings growth to support its progressive dividend policy in the future.

Fosun International (656.HK; Buy)

Fosun continues to make progress in turning from an investment company to one focusing more on improving operational efficiency. If successfully executed, this should provide greater visibility on its earnings quality, helping the stock to re-rate over time, in our view. Reiterate Buy on undemanding valuation (49% NAV discount, 6x FY20E P/E).

- **Growing Jewelry businesses and the launch of phase 2 to drive accelerated growth for Yuyuan Garden:** Fosun's 69%-owned subsidiary, Yuyuan Garden (600655.SH, Not Covered), also attended our conference where management outlined its growth strategies and sounded upbeat about the outlook. It sees stabilizing SSSG in 4Q19 and targets to double its store count in China from 2.6k currently in the medium term, with Lao Miao/Yayi brands focusing on the premium/mass segments. Management also expects a better margin trend (+1ppt yoy in 3Q19) to continue on improving product mix and channel upgrades. Yuyuan phase 2, which is around 3 times the size of phase 1, should help to drive recurring income growth when it opens, although the timeline remains uncertain pending the demolishing of existing construction on site. Re property bookings, Fosun guides for Rmb4.8bn in FY19-20E (or Rmb2.4bn per annum) from a guarantee agreement with the parentco. It will continue to pursue more integrated (residential, office, mall) development opportunities.
- **More investments to be conducted at the operating platform companies to free up more cashflow for potentially higher dividend:** Most of Fosun's investments last year were conducted by its subsidiary operating companies, i.e., Fosun Insurance Portugal acquired La Positiva, a Peru insurance company; Nanjing Nangang Iron Steel United acquired FFT, a manufacturing automation company. These acquisitions reaffirm our belief (see our Aug-19 report) that (1) the group will become increasingly operational and earnings quality focused; (2) it will pursue investments that complement and/or provide synergies with its existing businesses; (3) its holdco should be left with more cashflow for de-leverage, venture into new segments and/or potentially raise its dividend payout over time.

Shanghai Industrial (363.HK; Buy)

Business performance remains steady given the defensive nature of infra and utility operations, accounting for 37% of FY19E GAV. The group will continue look for growth opportunities in the solid waste processing segment where it sees ample growth given tightening regulations in the wastage segment. Maintain Buy on undemanding valuation (48% NAV discount, 4.7x FY20E P/E).

- **New business opportunity in solid waste processing; near-term impact likely remains limited:** Management reiterated its capital allocation priority on the utilities segment and has identified solid waste processing as a new business opportunity for the group. Given the fairly fragmented market share nature and growing demands, driven by tightening regulation, the company believes it can leverage its partner Canvest Environmental's (1381.HK, Not Covered) technology expertise to win over more projects and establish itself as a domestic market leader in the segment. While bullish on the long-term prospects of this segment, the company did acknowledge that such projects will rely on partnerships with local governments and thus may not be easily scalable in the short term. As per company, it now expects project-level ROE to be around 8% after ramp-up. By way of sensitivity, based on its Rmb2bn capex budget, this could imply Rmb160mn in earnings, or 5% of FY19E earnings.

- **Not plan for privatization or share buyback program despite book value accretion' expect progressive cash dividend policy:** When asked about its preference between book value accretive measures as opposed to organic capex – e.g. share buybacks (0.4x P/B for SIHL) or SIIC Environment (SIIC.SP, Not Covered, 0.4x P/B) privatization similar to the CITIC Envirotech buyout, the company noted such remains unlikely. Management expects limited financial flexibility due to a high gearing ratio (34% as of 1H19) and would remain conservative on capital deployment constrained by its property businesses. When asked about future dividend policy, management expects a special dividend payout in SIUD shares (563.HK, Not Covered) to be a one-off. With 47.4% ownership in SIUD, the company sees limited room to distribute more shares while maintaining control. Looking ahead, the company reiterated that it will follow progressive dividend policies pegged to the 2018 level, implying a 7% FY20E dividend yield.

CITIC Ltd (267.HK; Neutral)

After a series of value-unlocking restructurings (CITIC Special Steel re-rated to 2.8x P/B vs 1.3x P/B since restructuring) and asset disposals (e.g. 17% IRR for McDonald's China sale), we expect limited additional activities in FY20E. Given the group's moderate diversification progress beyond financials (79% of FY19E reported net profit) and limited incremental core earnings growth. We see balanced risk reward at current valuation (+30% NAV discount, 5.3x P/E). Maintain Neutral.

- **Rmb5.5bn CITIC Dicastal sale completed; estimated 17% levered IRR on 22% McDonald's China sale:** The CITIC Dicastal sale was completed by Dec 19 where 58% of shares were tendered at Rmb5.5bn, valuing the company at Rmb9.5bn. As flagged in our Aug report, we think the earnings or NAV impact will be muted as it represents less than 1% of FY19E NAV. On Jan 8, 2020, CITIC announced it will auction 22% effective ownership in MacDonald's China businesses at a minimum bid of Rmb3.7bn (Rmb1.5/Rmb2.2bn debt/equity split or 0.7% FY19E NAV) while retaining 10% ownership in MacDonald's China post sale. Based on the estimated Rmb1.5bn entry price at Jul 17 for a 22% stake (32% stake at US$309mn cost), the minimum bid represents ~50% capital appreciation over the period, or 17% IRR over around two and a half years. Based on the company's disclosure, MacDonald's China's 11M19 net profit was Rmb856mn, or Rmb298mn in annualized attributable profit to CITIC, accounting for less than 1% of FY19E earnings. We expected limited earnings or NAV accretion upon the sale.

- **Expect mid single-digit FY19E earnings growth; likely limited restructuring activities heading into FY20E:** The company expects around mid single-digit earnings growth for FY19E, in line with our +6% FY19E earnings growth (slightly behind CITIC Bank's +8% FY19 earnings growth). As flagged in our Nov 19 report, the group has been active in restructuring and disposing of non-core assets this year (special steel restructuring, CITIC Dicastal sale, McDonald's China sale). Looking into FY20E, management now expects limited additional restructuring activities and disposal needs. Given the high earnings base and significant contribution from financial, the company expects new top-line growth (consumer banking, new products for trusts) and cost saving (special steel manufacturing, sino ore) to drive future earnings growth, although it will likely be incremental. We expect +3% earnings growth for FY19E.

Exhibit 3: Risks and valuation methodology

	Ticker	Covering analyst	Rating	Ccy	Last closing price 1/8/2020	12-m Target Price	Upside/ downside	Key risks	Valuation methodology
Asia Gaming									
SJM Holdings	0880.HK	Simon Cheung, CFA	Buy*	HKD	10.0	11.3	13%	(1) Worse-than-expected VIP GGR e.g., tighter capital controls or junket liquidity; (2) Further delay in Grand Lisboa Palace after suspending construction due to an accident late 2016; (3) Fiercer competition from Cotai operators	Sum-of-the-parts (12 months)
Galaxy Entertainment Group	0027.HK	Simon Cheung, CFA	Buy	HKD	59.2	65.1	10%	(1) Worse-than-expected GGR trends e.g., lower Chinese visitation, tighter capital controls; (2) Intense competition from other Macau operators if GGR softens significantly	Sum-of-the-parts (12 months)
Melco Resorts & Entertainment Ltd.	MLCO	Simon Cheung, CFA	Buy	USD	23.9	27.1	13%	(1) Worse-than-expected ramp-up of Morpheus; (2) Worse-than-expected GGR trends; (3) Competition in Philippines from newly opened casinos such as Okada	Sum-of-the-parts (12 months)
MGM China	2282.HK	Simon Cheung, CFA	Neutral	HKD	13.4	14.2	6%	(1) Faster/slower GGR trend e.g., lower Chinese visitation, tighter capital controls; (2) Less/more intense competition from other Peninsula operators if GGR softens significantly.	Sum-of-the-parts (12 months)
Wynn Macau	1128.HK	Simon Cheung, CFA	Buy	HKD	19.8	20.6	4%	(1) Worse-than-expected VIP GGR; (2) More intense competition from other Macau operators	Sum-of-the-parts (12 months)
Sands China	1928.HK	Simon Cheung, CFA	Neutral	HKD	43.3	41.6	-4%	(1) Better/worse-than-expected GGR trends e.g., higher/lower Chinese visitation, looser/tighter capital controls; (2) More/less-than-expected cannibalization from within its newly opened properties	Sum-of-the-parts (12 months)
Paradise Co.	034230.KQ	Simon Cheung, CFA	Buy	KRW	20,000	24,600	23%	(1) Prolonged China-Korea geopolitical tensions affecting Chinese visitation; (2) Worse-than-expected execution on Paradise City, first IR in Korea, opened in April 2017;(3) Earlier-than-expected materialization of Japan's gaming market	Sum-of-the-parts (12 months)
Suncity Group	1383.HK	Not covered	NA	HKD	1.8	NA	NA	NA	NA
Conglomerates									
CK Hutchison Holdings	0001.HK	Simon Cheung, CFA	Buy*	HKD	74.1	94.0	27%	(1) FX movement (weaker EUR, GBP); (2) severe macro downturn and political uncertainties (e.g. trade protectionism may affect its port throughput); (3) worse-than-expected price war in Italy as Iliad continues to ramp up	Sum-of-the-parts (12 months)
Cheung Kong Infrastructure	1038.HK	Simon Cheung, CFA	Neutral	HKD	56.4	61.3	9%	(1) FX movement (weaker EUR, GBP, AUD); (2) tariff resetting of regulated assets; (3) later-than-expected delivery of service contracts for its UK rail business	Sum-of-the-parts (12 months)
Wheelock and Co.	0020.HK	Simon Cheung, CFA	Buy	HKD	53.7	59.0	10%	(1) Worse-than-expected property sales in Hong Kong would adversely impact Wheelock's group profit; and (2) Slower-than-expected recovery of HK retail sales, which could pressure retail rental reversion.	Sum-of-the-parts (12 months)
Swire Pacific	0019.HK	Simon Cheung, CFA	Neutral	HKD	72.6	81.0	12%	(1) Better-/worse-than-expected offshore E&P demand; (2) better-/worse-than-expected business travel demand.	Sum-of-the-parts (12 months)
Fosun International	0656.HK	Simon Cheung, CFA	Buy	HKD	11.9	16.0	35%	(1) a sharp correction in A share market, (2) sharp interest rate hikes, EUR depreciation.	Sum-of-the-parts (12 months)
Shanghai Industrial	0363.HK	Simon Cheung, CFA	Buy	HKD	14.8	20.0	35%	(1) Tighter housing market policy; (2) drastic slowdown in industrial activities.	Sum-of-the-parts (12 months)
CITIC Ltd.	0267.HK	Simon Cheung, CFA	Neutral	HKD	10.0	11.8	18%	Value accretive/dilutive M&A, abrupt macro slowdown.	Sum-of-the-parts (12 months)
NWS Holdings	0659.HK	Not covered	NA	HKD	11.4	NA	NA	NA	NA
Ports									
COSCO Shipping Ports Ltd.	1199.HK	Simon Cheung, CFA	Buy	HKD	6.3	10.4	65%	(1) Worse-than-expected global trade, (2) poor execution in overseas M&A	Sum-of-the-parts (12 months)
China Merchants Port Holdings	0144.HK	Simon Cheung, CFA	Buy	HKD	13.6	17.3	27%	(1) further escalation in US-China trade war; (2) poor execution in overseas M&A	Sum-of-the-parts (12 months)

Note: Buy* denotes the stock is in our conviction list (CL)

Source: Bloomberg, Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

I, Simon Cheung, CFA, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Unless otherwise stated, the individuals listed on the cover page of this report are analysts in Goldman Sachs' Global Investment Research division.

GS Factor Profile

The Goldman Sachs Factor Profile provides investment context for a stock by comparing key attributes to the market (i.e. our coverage universe) and its sector peers. The four key attributes depicted are: Growth, Financial Returns, Multiple (e.g. valuation) and Integrated (a composite of Growth, Financial Returns and Multiple). Growth, Financial Returns and Multiple are calculated by using normalized ranks for specific metrics for each stock. The normalized ranks for the metrics are then averaged and converted into percentiles for the relevant attribute. The precise calculation of each metric may vary depending on the fiscal year, industry and region, but the standard approach is as follows:

Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

For a more detailed description of how we calculate the GS Factor Profile, please contact your GS representative.

M&A Rank

Across our global coverage, we examine stocks using an M&A framework, considering both qualitative factors and quantitative factors (which may vary across sectors and regions) to incorporate the potential that certain companies could be acquired. We then assign a M&A rank as a means of scoring companies under our rated coverage from 1 to 3, with 1 representing high (30%-50%) probability of the company becoming an acquisition target, 2 representing medium (15%-30%) probability and 3 representing low (0%-15%) probability. For companies ranked 1 or 2, in line with our standard departmental guidelines we incorporate an M&A component into our target price. M&A rank of 3 is considered immaterial and therefore does not factor into our price target, and may or may not be discussed in research.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

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Coverage group(s) of stocks by primary analyst(s)

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Goldman Sachs Investment Research global Equity coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
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