Greater China Corporate Day Takeaways Part I

Gaming, tourism, ports and conglomerates

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We invited 19 companies across the casino gaming, domestic travel, port and conglomerate sectors to our Greater China Corporate Day on June 8-11. Much of investors' focus was on the impact of the pandemic, expected timing of travel resumption and pace of recovery. While visibility remains low and many corporates expressed concern over a potential second wave of virus outbreak, China appears well ahead of HK/Macau and overseas markets in normalization of business activities. The 24% rebound in Macau stocks in the last 2 months has, to a certain extent, priced in the GGR recovery ahead - we recommend investors add to positions in laggard names (MLCO, Wynn) or those in other markets (Paradise in Korea) (see our Apr 29 report). In general, we see more value in the conglomerate and port stocks, as discussed in our prior report (*Recovery scenarios, balance sheet risks and how to position for our HK coverage universe*).

Below, we highlight the key takeaways by sector. Exhibit 1 lists those by individual companies.

- **Casino gaming**: While China's IVS (Individual Visit Scheme) policies regarding HK/Macau tend to go hand in hand, casino operators do not rule out the possibility that the border between Macau and Guangdong will be re-opened first, and as early as within this month, and are confident that the market will see strong pent-up demand then. Ongoing social distancing measures may affect grind-mass focused properties with small gaming areas, but should not have much impact on premium mass/VIP segments, which together contribute about half of industry EBITDA. Meanwhile, new project construction is still on track with SJM's Lisboa Palace scheduled for opening around year-end, followed by Galaxy Macau Phase 3 in 2H21 then Studio City Phase 2 in 2022. Outside of Macau, although South Korea still has various travel restrictions in place since casino re-openings in late-April, Paradise managed to achieve ~40% of 4Q19 GGR run rate in May supported by local Koreans who also hold foreign passports. There is still no re-opening timeline for Naga in Cambodia, but the company is hopeful this will happen soon with other local/tourist attractions re-opening (e.g., museums in June). Suncity targets to soft-launch its Hoiana casino in 3Q20 and remains committed to opportunities in other countries. In general, most casinos across Asia have sufficient liquidity to weather the current downturn for at least a year and have been proactively managing their costs, i.e., fixed opex lowered by 10-20%.

- **China tourism:** We note a wide variance in the pace of visitation recovery for tourist attractions across China. Those catering to individual and high-end travelers (e.g., Tianmu Lake, Anji, Hainan) have seen demand back to 80-90% of pre-COVID-19 level, while others more reliant on group packaged tours (e.g., Huangshan Mountain, Wuzhen) have only seen traffic back to 20-40% of prior level as travel agents are still prohibited from arranging inter-province group tours, although the Beijing Tourism Bureau issued a statement last week that it is considering lifting such restrictions. Most indoor tourist attractions have remained closed until earlier this month when some were allowed to re-open gradually (e.g. Songcheng's theme parks are set to reopen on June 12). In general, the pricing environment remains promotional but discounts for high-end products are narrowing gradually. Looking ahead, most operators share the view that demand for outbound travels will take time to recover, which should in turn benefit domestic destinations in coming months. On consumption repatriation, the central gov't also recently announced the policy roadmap to building Hainan as a free trade port/international tourism destination, for which we see positive short-term impact but negative long-term implication for CITS (see our June 4 report).
- **China Ports**: China port volume fell -6% yoy in April, an improvement from -9% yoy in 1Q20, led by domestic volume recovery, fulfillment of backlog overseas orders and a pickup of COVID-19 related product exports. Looking into 2H20, port operators sound cautiously optimistic and expect further narrowing of volume decline by year-end. Despite concern over another government-instructed port tariff cut, companies see low likelihood of this happening and actually believe there is scope for moderate upward adjustment once demand stabilizes, just as they managed to raise tariffs inline with inflation at overseas ports last year. Both CMPH and COSCO remain eager to expand overseas, especially in Southeast Asia to benefit from value chain and factory migration trends, and are open to divesting non-core, lower-yielding port assets in China to replenish liquidity. CMPH reiterates that its parentco has no intention to privatize the company at this stage and would like to retain its HK listing to facilitate any potential fund raising need for overseas acquisitions, although doing so could help streamline the two layered structure (see our Apr 29 report).
- **HK/China conglomerates**: Depending on their industry exposure, conglomerates we cover are affected by COVID-19 to different degrees, with CKI the least impacted given the stable nature of its regulated assets which contribute over 60% of its earnings. MTRC will see sharper earnings decline (we model -44% yoy in FY20E) due to 40+% yoy run-rate decline in patronage and other rental concession/adjustments to its kiosk rental and shopping businesses. Wharf has suffered from a lack of mainland Chinese buyers for its HK Peak portfolio (given

travel restrictions), mall closure in Jan-Feb and residential project launch delays in China, but momentum especially for its malls has picked up swiftly in recent weeks. Wheelock continues to execute well and locked in another HK$5bn HK DP sale with over 80% see-through rate for the recently launched Ocean Marini project. With over 70% of group earnings from the telco and infra divisions, CKH's earnings are relatively more resilient, dragged only by port (volume -8% ytd) and retail (revenue -10-20% ytd). In China, Shanghai Industrial's tollroad and consumer-related businesses have recovered more quickly than property. Overall, we believe the conglomerates have strong balance sheets to sustain their dividend. CKI and MTRC remain committed to their dividend policy. We also expect CKH to maintain its DPS - even during years of 3G loss, it still kept its DPS at HK$1.73 in 2000-2009.

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	Signs of recovery	COVID-19 impact & outlook	Major takeaways
Asia Gaming	Galaxy	High visibility	**Timing of border reopening:** Potential for re-opening between Guangdong and Macau without HK initially given the relatively contained situation in Macau and synchronized health code system in place since May 10 **Path of recovery:** Strong pent-up demand once border reopens, especially for the VIP/premium mass segment. Benefit from curtailment of international travel until further policy relaxation **Impact of social distancing:** No material impact on premium/VIP segment but expect grind-mass focused properties with smaller gaming area may see more impact **VIP segment:** No significant debt collection issue despite the pandemic. Suncity has abundant liquidity to weather downturn	For Galaxy Macau Phase 3, Galaxy management acknowledges delay in construction progress amid the pandemic and targets to launch the project in 2H21.
	SJM	High visibility		Confident in its VIP/premium mass strategy for Lisboa Palace given (1) the introduction of new junket partners, (2) hiring□of 150+ personnel□in its marketing team, and (3) the supply of quality hotel rooms.
	MGM China	High visibility		The group highlighted that there is no change in company's strategy after the recent management change following the retirement of Grant Bowie.
	MLCO	High visibility		Should there be no second wave of COVID-19 outbreak, MLCO believes it may take 6-9 months until GGR level to fully recover back to the pre-COVID level.
	Suncity Group	High visibility		Despite the challenging business environment amid viral outbreak, Suncity remains committed to transforming itself from a pure junket to a regional casino operator. Hoiana IR now targets for soft launch in summer 2020□followed by grand opening in early 2021.
	Paradise	Positive	Although foreigners cannot yet visit the properties, they have seen solid□demanc from local Koreans with foreign passports which drive GGR recovering back to 41% of its 4Q19 GGR run rate.	OP breakeven□unlikely until further travel relaxation. The company does not see liquidity issue and believes it can tap the debt market if needed (i.e.,□KRW300bn with its land as collateral). We estimate it can sustain its operations at current GGR run-rate for almost a year
	Naga	Negative	Naga in Cambodia has□suspended its casino operation since Apr 1 with no specific timeline of re-opening yet.□	The company has implemented various cost saving initiatives (e.g., unpaid leaves for staffs)□and managed to reduce its fixed opex per day to ~US$0.3mn from US$0.5mn pre-COVID. Even in a no revenue scenario, we estimate Naga is able to sustain its operations for ~17 months.
China Tourism	CYTS	Positive	Since site reopening□in mid April, the pace of demand recovery in Wuzhen/Beijing W-Town so far in line with management expectation with visitation currently running at□10-20%/20-30% of pre-COVID level.	They are shifting focus primarily to domestic group tours (outbound used to account for 85% of their travel agency revenues)□as they foresee full recovery in outbound travel could take up to 2-3 years.□
HK/China Conglomerates	CKH	Positive	Steady recovery in Watson retail, expecting positive sales growth in 2H20; Ports volume recovery will likely be gradual depending on overseas situation	Tower company formation to be completed by June. Priority is to maintain credit rating. Increase shareholder return if net debt to net capital (excluding perpetual securities) falls below 25%
	CKI	Mixed	Limited impact on CKI's□regulatory assets, but□has adversely□affected□its unregulated businesses (e.g., carpark, energy wastage)	Target 6-8% ROE as lower regulated return may□be partially offset by lower funding costs. Opened to M&A taking advantage of its and sister companies' sizeable balance sheets
	MTRC	High visibility	Railway domestic services show signs of recovery helped by local demand; fare rebate one-off in 2H20	Retail sales at most of its malls (except for Elements) tracking better or inline with the broader HK retail market. Expanding its mall portfolio. 7 new railway projects under the Railway Development Strategy 2014 in discussion with the government
	Wheelock	Positive	Slower contract sales pace but steady pricing; target 4 new project launches unchanged.	Remain positive on future prospect of□Kai□Tak□projects. Key privatization decision on Jun 16.
	Wharf	Mixed	Faster pace of recovery in recent months in its rental vs. residential development property□businesses; expect the trend to normalize gradually in 2H20	Limited revenue loss from rental concession. Malls' footfall back to□50-60% of pre-COVID19 level. No sale of Mount Nicholson units given travel restrictions. PRC sales take time to normalize. Maintain 30-35% earnings payout. No□immediate plan for share buyback
	Shanghai Industrial	Mixed	Recovery in toll road traffic & tobacco sales, continued softness in property contract sales; looking into 2H20, company remains hopeful the toll road and consumer business could recover to FY19 level.	Continue to allocate more capital towards infra/utilities segment (vs property); no immediate tobacco spinoff or share buyback plan; target to maintain FY18 regular dividend payout.
	NWS Holdings	High visibility	Toll□road fee recovered to 80-90% to pre-COVID level since the resumption of toll fee collection in May; reopening of HK boarder will bode well for its insurance segment (FT Life).	Refocus on its core business segments (i.e. roads, aviation, construction, insurance) via disposal on non-core businesses; abundant liquidity to maintain its progressive dividend policy despite the current challenging environment.
China Ports	COSCO	Positive	No guidance, but recovery will now hinge on the overseas side.	- Divergence in recovery paces: domestic normalization vs early signs of recovery in overseas - Domestic tariff risk skewed to upside; overseas tariff increase pegged to long-term inflation rate - Opened to non-core port□asset disposals in China; CMPH's two-layered□structure likely remains unchanged - Future volume growth hinges on new ports ramp-up; no change in dividend policy
	CMPH	Positive	Low single digit % underlying volume increase	
	HPHT	Mixed	Guides for low single digit underlying volume decline in 2H20.	

Source: Goldman Sachs Global Investment Research, Company reports

Exhibit 2: We invited 19 companies across the casino gaming, domestic travel, port and conglomerate sectors to our Greater China Corporate Day on Jun 8-11

Company ratings and valuation

	Ticker	Covering analyst	Rating	Ccy	Last closing price 6/11/2020	12-m Target Price	Market cap (US$mn)	EV/EBITDA			P/E			P/B			Dividend yield		
								FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Asia Gaming																			
SJM Holdings	0880.HK	Simon Cheung, CFA	Buy*	HKD	9.11	10.00	6,524	12.1	61.5	11.4	15.4	n.m.	22.3	1.8	1.9	1.8	3.3%	2.2%	2.7%
Galaxy Entertainment Group	0027.HK	Simon Cheung, CFA	Buy	HKD	53.50	61.50	29,073	11.0	35.7	12.5	17.8	n.m.	21.6	3.2	3.3	2.9	1.7%	1.7%	1.4%
Melco Resorts & Entertainment Ltd.	MLCO	Simon Cheung, CFA	Buy	USD	17.17	24.00	9,525	9.0	22.5	9.8	18.1	n.m.	19.5	3.4	4.6	4.4	3.8%	1.9%	3.8%
MGM China	2282.HK	Simon Cheung, CFA	Neutral	HKD	10.24	11.00	5,021	9.3	48.5	10.6	20.1	n.m.	30.8	3.7	4.9	4.5	1.7%	0.8%	1.1%
Nagacorp	3918.HK	Simon Cheung, CFA	Neutral	HKD	10.24	11.30	5,736	8.4	11.9	8.9	11.0	21.3	14.9	3.2	2.9	2.7	6.5%	1.8%	4.0%
Paradise Co.	034230.KQ	Simon Cheung, CFA	Buy	KRW	14800	18700	1,054	19.6	112.6	10.2	n.m.	n.m.	19.4	1.0	1.0	1.0	0.7%	0.7%	2.9%
Suncity	1383.HK	Not covered	NA	HKD	1.26	NA	1,084	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
China Tourism																			
CYTS	600138.SS	Not covered	NA	CNY	10.03	NA	1,027	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Conglomerates																			
CK Hutchison Holdings	0001.HK	Simon Cheung, CFA	Buy*	HKD	52.70	75.00	26,222	8.8	8.3	7.7	5.1	5.7	5.3	0.4	0.4	0.4	6.0%	6.0%	6.0%
Cheung Kong Infrastructure	1038.HK	Simon Cheung, CFA	Neutral	HKD	41.70	52.00	13,557	43.1	32.2	31.4	10.5	10.8	11.1	0.8	0.8	0.8	5.9%	5.9%	5.9%
Wheelock and Co.	0020.HK	Simon Cheung, CFA	Buy	HKD	59.50	63.00	15,599	11.3	12.3	12.1	7.6	7.9	7.2	0.5	0.4	0.4	2.6%	3.1%	3.3%
Wharf Holdings	0004.HK	Simon Cheung, CFA	Buy	HKD	15.48	20.00	6,060	9.9	6.8	7.7	7.3	7.0	7.3	0.3	0.3	0.3	2.1%	4.3%	4.1%
MTR Corp.	0066.HK	Simon Cheung, CFA	Buy	HKD	40.70	48.00	32,339	17.4	19.6	13.5	19.2	28.3	18.3	1.3	1.3	1.3	3.0%	3.0%	3.2%
Shanghai Industrial	0363.HK	Simon Cheung, CFA	Buy	HKD	12.28	17.50	1,723	6.3	6.4	5.6	3.9	3.8	3.6	0.3	0.3	0.3	4.4%	8.3%	8.9%
NWS Holdings	0659.HK	Not covered	NA	HKD	7.12	NA	3,593	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Ports																			
COSCO Shipping Ports Ltd.	1199.HK	Simon Cheung, CFA	Buy	HKD	4.29	8.20	1,750	15.3	17.2	13.6	6.0	9.0	6.6	0.3	0.3	0.3	7.1%	5.8%	6.1%
China Merchants Port Holdings	0144.HK	Simon Cheung, CFA	Buy	HKD	9.92	16.00	4,319	17.7	20.1	18.7	8.0	8.8	0.0	0.4	0.4	0.4	10.0%	5.1%	5.7%
Hutchison Port Holdings	HPHT.SI	Simon Cheung, CFA	Neutral	USD	0.12	0.19	1,019	9.0	8.0	7.6	15.1	16.2	15.4	0.3	0.3	0.3	12.1%	11.2%	11.5%

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

Source: Bloomberg, Goldman Sachs Global Investment Research

Asia Gaming

Four of the six casino operators (Galaxy, MLCO, SJM, MGM China), the largest junket (Suncity Group), Korea's leading foreigner-only operator (Paradise), and Cambodia's operator (Naga) joined our Corporate Day. Macau's GGR remained subdued for the first 7 days in June, with daily run rate of MOP57mn (-93% yoy) given the continued travel restrictions (e.g. suspension of IVS visa/group tour, 14-day quarantine requirement traveling in/out of Macau). Suncity commented that its total rolling volume fell more than 90%+ yoy in May, with Macau contributing 90% (vs. 80% pre-COVID) since most Asian casinos are still closed. Paradise is one of the first Asian casinos that have resumed full operation since Apr 20 after ~3 weeks of closure. Supported by pent-up demand by local Koreans who also hold foreign passports, Paradise's GGR recovered back to 41% of its 4Q19 run rate in May despite the travel restrictions. Naga in Cambodia has suspended its casino operation since Apr 1 with no specific timeline for re-opening yet.

One of the key focus areas for investors is the timing of border reopening for Macau. **While historically HK/Macau's travel policies have tended to go hand-in-hand, casino operators do not rule out the possibility for border re-opening between Guangdong and Macau without Hong Kong initially, given the viral situation looks relatively contained in Macau, and a synchronized health code system has been in place since May 10.** At a media briefing on Jun 9, the HK government also said that the health code system between Guangdong, Macau and Hong Kong is close to completion, a step closer to the formation of a "travel bubble" among the three jurisdictions. Not surprisingly, operators share optimism on pent-up demand once the border reopens, particularly for the VIP/premium mass segment after seeing the solid domestic travel trend during the May Labor Day holiday. **When asked about how ongoing social distancing measures may affect the path of recovery, companies generally think it will not have any material impact on the premium/VIP segments but expect grind-mass-focus properties with smaller gaming area to see some impact.** As far as liquidity situations are concerned, most casinos across Asia appear to have sufficient liquidity to weather the current downturn for at least a year and have been proactively managing their costs, i.e., fixed opex lowered by 10-20%. The recent proposed bond issuances by Sands China, MGM China and Wynn Macau should also serve as a positive signal on accessibility to financing from the debt capital market in the event of a liquidity shortage should the downturn persist.

We believe the +24% price rally of Macau stocks over last 2 months has to a certain extent priced in GGR recovery ahead. While we still see scope for further re-rating with sector trading at 12x FY21E EV/EBITDA (vs. mid-cycle of 13-14x), we would recommend adding positions in laggards such as **Wynn Macau and MLCO/Melco,** which are more exposed to VIP/premium mass segments where players are expected to return earlier. Outside of Macau, we also like **Paradise (Buy)** for (1) its better leverage to benefit from the cyclical recovery of foreigner demand once travel restrictions are lifted, and (2) continued market share gains given its better product offerings as the only fully fledged IR in Seoul/Incheon.

- **Potential re-opening of border between Guangdong and Macau initially ahead of Hong Kong -** Casino operators do not rule out the possibility of potential re-opening of the border between Guangdong and Macau first since (1) Macau has had no newly confirmed COVID-19 cases for 64 consecutive days (as of Jun 11) and (2) the synchronized health code system between mainland China and Macau has been in place since May 10. They also noted that Macau's Chief Executive recently had a conversation with the Guangdong government on this issue (media link). The re-opening will likely be gradual, perhaps starting off with a removal of a 14-day quarantine requirement between Guangdong and Macau, followed by a resumption of Individual Visit Scheme (IVS)/group tour applications by province from June-July onward. In the medium/long term, the casino operators remain hopeful that the government may consider expanding the IVS scheme as highlighted in the Macau Policy Address this year (see our Apr 21 report) as the current scheme only covers 49 cities and ~25% of China's population.
- **No significant debt collection issue despite the pandemic. Suncity has abundant liquidity to weather downturn -** Amid continued travel restrictions in Macau, Suncity's rolling volume remained weak in May (-96% yoy) with Macau accounting for over 90% (vs. 80% pre-COVID) since most of the overseas casinos were still closed. When asked about debt collection from players, Suncity acknowledges there are some delays in collection primarily due to the physical disruption during COVID-19. Once business activities resume, they should be able to collect the debt as usual.
- **Strong pent-up demand as seen in March. Social distancing measures may have greater impact on grind-mass-focused properties -** Considering (1) the strong domestic travel trend during the May Labor Day holiday (-41% yoy vs. -60% in Apr) and (2) curtailment of international travel for quite a number of months, casinos operators expect solid pent-up demand ahead, particularly for the VIP/premium mass segment, and it may take 6-9 months for GGR to recover back to pre-COVID19 levels. Regarding the impact of ongoing social distancing measures, they expect limited impact on premium mass/VIP segments, but properties with small gaming areas focusing on grind mass would be more affected. On a positive note, SJM highlights that there is still space to reconfigure the floor layout of Grand Lisboa to mitigate such impact.
- **Lisboa Palace on track to be launched toward year-end or early next year. Marketing staff already hired. Galaxy Macau Phase 3 potentially delayed to mid-2021 -** Given most of the construction work for Lisboa Palace has already been completed, SJM still targets to launch the property by end-FY20. Having received the green light from the Fire Service Bureau, the company is waiting for DSSTOP (Land, Public Works and Transport Bureau) to award them the occupancy permit, followed by two pending approvals: (1) hotel license by MGTO (Macau Government Office); (2) table quota by DICJ. Targeting more the premium mass/VIP players at Lisboa Palace, the company has already hired 120 marketing staff (including half as casino hosts) and signed agreements with major junket operators (e.g., Suncity/Tak Chun/Neptune/Megstar). As for Galaxy Macau Phase 3, as mentioned at its 1Q20 results call, Galaxy management acknowledges delay in construction progress amid

the pandemic and targets to launch the project in 2H21.

- **No change to SJM's board as expected. MGM China's strategies unchanged after CEO retirement -** As expected (see our May 27 report), the 4 executive directors in the board have been re-elected (Daisy Ho (Chairman), Timothy Fok (Co-Chairman), Angela Leong (Co-Chairman), and Ambrose So (Vice-Chairman and CEO)). Louis Ng stepped down as COO but will remain on the board as a non-Executive Director. His COO role will be assumed by Frank McFadden, who joined the group in 2008 and has been responsible for the operation of its self-operated casinos, including Grand Lisboa and Lisboa Palace development. We do not expect other major management changes in the near term, as we believe the company wants to show stability ahead of license expiry in 2022-. In terms of future development, other than Lisboa Palace, management does not rule out potential re-development of Old Lisboa which only uses up to ~50 of its maximum plot ratio. As for MGM China, following CEO Grant Bowie's retirement, Pansy Ho has assumed a new title of Co-Chairperson and Managing director of MGM China, while Hubert Wang (former CFO) and Kenneth Feng (former Chief Strategy Officer) were appointed as dual Presidents of MGM China and COO/CFO to oversee the daily operations of the business. The group said there is no change in the company's strategy after the aforementioned management change.
- **Government priority is controlling the pandemic. Details on gaming concession renewals or re-tendering after the public consultation later this year -** Consistent with what the Macau Chief Executive mentioned in his policy address speech (see our Apr 21 report), casino operators expect the government to disclose more details on the gaming license renewal or re-tendering process after the public consultation in 2H20. The criteria laid out in the mid-term review in 2016 will stay relevant, e.g., capital commitment, support to local labor markets/SMEs, non-gaming development, etc. All six concessionaires in Macau have demonstrated good corporate citizenship during this pandemic through money/mask donation and their commitment to not lay off any employees.
- **Suncity still committed to IR expansion across Asia. Hoiana IR now targets for soft launch in summer 2020 followed by grand opening in early 2021 -** Despite the challenging business environment amid the viral outbreak (e.g. visa restrictions, casino closures), Suncity remains committed to transforming itself from a pure junket to a regional casino operator. Following a number of acquisitions in the last 1-2 years, it has gained exposure in various gaming markets outsides of Macau (e.g. Vietnam, Russia, Philippines, Korea). Based on its existing project pipeline, Suncity expects to operate 820 gaming tables, 4,570 hotel rooms, and 4,223 slot machines by 2024. Among them, the upgrade of Tigre de Cristal phase 1 (i.e. new Suncity VIP rooms, 34 new hotel rooms, and new Chinese/Korean F&B outlets) is scheduled for completion by end-2020. The company targets a soft launch of its flagship project in Vietnam (Hoiana) around summer this year, followed by a grand opening in 2021. Only ~100 rooms will be opened initially out of the 1,000 rooms for Phase 1.
- **Pent-up demand from local players with foreign passports since Paradise opened its casinos in mid-April. Operating profit breakeven unlikely until further travel relaxation -** After ~3 weeks of casino closure since end-Mar, all

properties of Paradise (i.e. P-City, Walker Hill, Busan, Jeju) have resumed operations since Apr 20, followed by GKL on May 6. Although foreigners cannot yet visit the properties given various travel restrictions in place, they have seen solid demand from local Koreans with foreign passports, helping to drive GGR recovery back to 41% of its 4Q19 GGR run rate. Paradise expects its monthly casino revenue to stay at around KRW30bn per month until further relaxation of travel policies (e.g quarantine requirement/entry ban for Chinese/Japanese travelers). This will be lower than the OP breakeven level of KRW40-50bn monthly casino sales (55-69% of 4Q19 run rate) per the company. **On a positive note, the company does not see any liquidity issues, and believes it can tap the debt market if needed (i.e., up to KRW300bn with its land as collateral). We estimate it can sustain its operations at current GGR run-rate for almost a year (see our Jun 7 report for details).**

- **No specific timeline for casino reopening in Cambodia; No liquidity issues -** As a precautionary measure to control the viral situation, Naga Corp in Cambodia have suspended their operations since Apr 1. While there is no timing yet on re-opening, the company is hopeful it will happen soon, as local museums were already approved to reopen in June. The company has implemented various cost saving initiatives (e.g., unpaid leave for staff), and has managed to reduce its daily fixed opex to ~US$0.3mn from US$0.5mn pre-COVID19. With cash balance of US$473mn (or US$252mn post final dividend payment) as of end-1Q20, this would imply it can sustain its operations for ~17 months (see our Apr 29 report for details). On a separate note, the company is not overly concerned about the impact of ongoing social distancing measures in place given its properties have empty space/tables allowing them to reconfigure the gaming floor easily.

China Tourism

China CYTS Tours (600138.SS)

- **Business update on Wuzhen and Beijing W-Town -** Since site reopening in mid-April, the pace of demand recovery in Wuzhen and Beijing W-Town has so far been in line with management expectation with visitation currently running at 10-20% and 20-30% of the level in the same period of last year respectively. As average spending continues to increase year on year, revenue recovery is about 10ppt ahead of visitation recovery.
- **Three bottlenecks to near-term recovery -** Management sees three areas where bottlenecks prevent stronger recovery. **First**, inter-province group tours, a key traffic feeder to Wuzhen, remain prohibited for the time being. Following the statement last week by the Beijing Tourism Bureau that it is considering allowing inter-province group tours to resume, management now sees a chance for this to materialize from end of June. **Second**, consumers continue to prefer short-haul trips over long-haul in the current environment due to concerns over the health risk. **Thirdly**, some employers such as SOEs remain cautious these days by asking employees to conduct self-quarantine if they travel out of the province.
- **Cautiously pessimistic towards the pace of outbound travel recovery -** When asked about its travel agency business, management said they are shifting focus primarily to domestic group tours (outbound used to account for 85% of their travel agency revenues) as they foresee full recovery in outbound travel could take up to 2-3 years.

China Ports

China 4M20 throughput volume dropped -8% yoy helped by a sharper rebound in recent months (Mar/Apr -5%/-6% yoy) led by domestic recovery (Mar/Apr -5%/flat yoy) despite moderate deterioration in international trades volume (Mar/Apr -7%/-8% yoy) due to the timing differences of the Covid-19 outbreak. Looking into May (see our Jun econ note), it saw further improvement likely benefiting from (1) surging Covid-19 related exports, and (2) delayed backlog orders delivery. By region, Bohai (4M20 -6% yoy) outperformed other regions helped by higher domestic trade exposure, Yangtze River Delta region (4M20 -8% yoy) performed inline with industry, whereas Pearl River Delta region (4M20 -11%yoy) lagged due to higher EU/US trade exposure and cannibalization of trades being re-routed to Southeast Asia. Accordingly, CMPH volume (4M20 -2% yoy) outperformed COSCO (4M20 -6% yoy) and HPHT (HK/Yantian 4M20 -7%/-19% yoy) reflecting their different portfolio exposures. Looking into 2H20, CMPH maintains its previous guidance of low single digit underlying volume decline on the basis of more sticky demand for consumer staples and continued signs of domestic recovery. While COSCO and HPHT have not provided any guidance so far due to the lack of visibility for recovery in trade. Overall, we maintain our -6% yoy port volume decline forecast in FY20E and believe potential upside will hinge on overseas recovery as domestic volume recovery has been on track.

During the meetings, the investors' questions were focused around potential downside arising from tariff cuts given the government's more supportive policy stance towards lowering infrastructure costs to cope with contraction in overseas demand. We note that port operators generally see limited downside from tariff cuts given (1) there was no change in port tariffs even during the most severe pandemic period in Feb-March, (2) limited cost savings for shipping liners - CPMH estimates the ports charges accounts for only ~10% of overall delivery costs, and (3) smaller ports could face financial distress if more cut is mandated. The operators also do not see scope for tariff hikes until demand recovery becomes more visible. Elsewhere in overseas, both CMPH and COSCO remain confident to raise tariffs by 3-4% per annum, inline with inflation rates.

We reiterate our Buy ratings on both CMPH/COSCO given they are close to historical trough valuation (0.4x FY20E P/B). While concerns around possible second waves of virus and/or future supply chain migration may present earnings risk for Chinese port operators in the near term, we believe the market has not priced in the recurring nature of the container port business cashflow, much of which is driven by demand of necessities or consumer staple products. We expect COSCO to continue ramping up its ports utilization backed by its parentco, China COSCO. As for CMPH, we believe its new acquisition of Southeast Asia gateway ports portfolio via Terminal Link should offer downside hedge to its volume exposure towards the supply chain shift from China and provide upside potential for the economic growth prospect within the region. We retain Neutral on HPHT due to macro uncertainties and transshipment reductions due to downstream consolidation.

- **Divergence in recovery paces; Domestic normalization vs early signs of**

recovery in overseas - Recent China throughput volume recovery has been led by a sharper domestic volume rebound in Mar/Apr thanks to more controlled domestic situations despite softness in overseas volume since Mar. As such, regions with higher domestic exposure (e.g. Bohai Rim) outperformed. Looking into 2H20, CMPH maintained low single digit % underlying volume declines, implying flattish domestic recovery during the period. COSCO also expects similar trend in its domestic portfolio. On the other hand, HPHT remains cautious given trade uncertainties and its higher US/EU trade exposure. The company noted that the national security law impact to its HK volume is rather limited and only accounted for 400K TEU or 3% of total volume in FY19. Elsewhere in the overseas markets, US/EU has been more severely impacted since Mar (e.g. ~-20% decline in COSCO European ports). On a positive note, COSCO sees some early signs of recovery with less shipment cancellation between Asia-Europe. Compared to developed markets, emerging market ports held up better with flattish volume trend ytd. TCP (a Brazil port owned by CMPH) for example benefits from more export of meat and posted 13% yoy volume growth ytd.

- **Domestic tariff risk skewed to upside; Overseas tariff increases pegged to long-term inflation rates -** When asked about tariff risk for domestic ports, all operators believe a policy cut in tariff is unlikely despite the Covid-19 impact. Most operators view the likelihood remains fairly minimum at this stage given there was an immaterial cut even during Mar, when the impact was most severe. The group expects negative impact from further cuts (e.g. lack of profitability for the industry) to outweigh any marginal benefits from cost reduction (e.g. CMPH said port charges accounts for ~10% of total logistic cost). That said, given the demand uncertainties, most operators also didn't expect a domestic tariff hike until demand recovery is more visible. Both CMPH and COSCO continue to expect a 3-4% tariff increase overseas to offset any long-term inflationary pressure.
- **Opened to non-core port asset disposals in China. CMPH's two-layered structure likely remains unchanged -** Both CMPH and COSCO noted they are opened to disposing their non-core port assets in China to raise funding for overseas expansion. We believe sale to external third-parties would likely be more easily executed (compared to sale to their publicly listed parentcos (for which we take no views)), since the SOE restrictions that limit any asset disposals at below book value may create conflict of interests regarding fair purchase prices. As for privatization potential for CMPH, as discussed in our Apr privatization report, we think the likelihood remains low considering (1) an asset swap between A-share and H-share remains highly unconventional; (2) the group's intention to maintain a separated listing platform to focus on its overseas expansion.
- **Future volume growth hinges on new ports ramp-up. No change in dividend policy -** While the trade outlook is negatively impacted by trade tensions and the viral outbreak, both CMPH and COSCO continue to execute on growth strategies. CMPH recently acquired another 6 gateway SEA ports after closing its CMA-CGM deal (see Nov report), while COSCO will continue to drive volume growth through synergies with parentco shipping alliances. Its volume contribution from parentco (Ocean Alliance, OOCL) saw steady growth (+2.8 ppts to 52.3% as of 1Q20). With

rather healthy balance sheets (CMPH/COSCO gearing 33%/34% as of FY19), both companies maintain their regular dividend policies (CMPH/COSCO maintained 40-50%/40% earnings payout ratio). CMPH attributed its lower 32% payout ratio in FY19 to one-off HK$3.3bn non-cash land regulation gains. So far CMPH does not see any need for asset impairments. At current prices, CMPH/COSCO offer 5.0%/5.7% dividend yields in FY20E. As for HPHT, the company maintained its DPU guidance (HK$8-11cents) - we now model HK$0.10 DPU for FY20E, implying 11.2% dividend yield.

HK/China Conglomerates

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

As expected and discussed in our May report, CK Hutchison's infrastructure and telco segments are relatively more resilient than retail and ports amid COVID-19. Looking ahead, the group has mixed views toward the pace of recovery for individual segments. They are hopeful that Watson retail revenue growth will return to positive yoy in 2H20. For ports (volume -8% yoy YTD), volume recovery will likely be gradual depending on how well the situation is controlled overseas. We note that on May 28 the EU General Court overruled the European Commission's blockage of the 3UK/O2 merger in the UK back in 2016 — per the company, this may help to set a precedent to facilitate CKH's potential negotiations of telco merger deals in other countries (e.g., Denmark, Sweden). Meanwhile, the group expects to complete the formation of the telco tower company in June and will consider whether it will proceed with potential spinoff and/or other ways to unlock value. Reiterate our Buy rating (on CL) on CKH, which is trading at trough valuation (11% FCF yield, 54% NAV discount, 5.2x P/E in FY21E), pricing in limited expectation for potential recovery ahead, in our view.

- **Steady recovery in Watson retail, expecting positive sales growth in 2H20 -** As COVID19 has become better controlled in China, Watson China noted it continues to show operational improvement, with sales decline narrowing to -10% yoy during the Golden Week in May (vs. -80% yoy with 64% store closures back in Feb). However, with various overseas city lockdowns, 16%/19% of its stores in Europe/Asia remain closed. Overall, the group expects double-digit % revenue decline for AS Watson in 1H20. Given operating de-leverage, earnings decline would be more drastic, in excess of -30% yoy by our estimate. They are hopeful to resume positive revenue growth in 2H20, expecting certain pent-up demand for its health beauty and cosmetic products. We model -23% yoy EBIT decline from AS Watson in FY21E.
- **Tower company formation to be completed by June -** The Company noted it does not foresee much additional capital requirement for its 5G rollout, given it has already acquired sufficient 700Mhz or 3.5Ghz telecom spectrum across different markets, except for Denmark and Sweden where the auctions are expected to take place later in FY20 or next year. Upon the completion of IT migration this year, the company said there would be scope for cost savings in 3UK from 2021. With regard to the previously announced formation of the telco tower company (CK Hutchison Networks) which owns its 28.5k telco towers in Europe generating EUR300mn EBITDA per annum, the group expects this to get completed by the end of this month. As discussed in our prior report, CKH has not made a decision as to whether it would monetize the assets, and if so (we take no views), with what options (e.g., spinoff, M&A, outright sale). The group said it is also contemplating using this as a platform company for potential acquisition of more tower assets globally (CKH has another 9.3k sites in Asia, which could be injected into CKN later, per the company). Depending on its decision and market valuation, we continue to believe this could represent value unlocking potential for the group in the near term.

- **Priority is to maintain credit rating. Increase shareholder return if net debt to net capital (excluding perpetual securities) falls below 25% -** One of the group's key objectives is to preserve liquidity and maintain its credit rating (A2 on Moody's; A on S&P; A- on Fitch). Other than telcos (for which it may need to spend capital for spectrum acquisitions), the group remains committed to keeping each division self-sufficient and cashflow positive. Even though Husky has cut its dividend, we think its impact to CKH's cashflow is rather limited as the group only received HK$1-2bn dividend uplifted from Husky each year. When asked about shareholders' return, the group reiterated that it will be more open to increasing dividend payout and/or conducting share buybacks if (1) its net debt to net capital falls below 25% excluding perpetual securities (vs. 26% now); (2) it receives sizable cash proceeds from asset disposals or monetization, e.g., tower sales.

Cheung Kong Infrastructure (1038.HK, Neutral)

1038.HK	12m Price Target: HK$52	Price: HK$41.15	Upside: 26.4%

Neutral	GS Forecast				
		12/19	12/20E	12/21E	12/22E
Market cap: HK$103.7bn / $13.4bn	**Revenue (HK$ mn) New**	**6,733.0**	**6,851.7**	**7,034.9**	**7,137.8**
Enterprise value: HK$123.8bn / $16.0bn	Revenue (HK$ mn) Old	6,733.0	6,866.5	6,986.2	7,094.4
3m ADTV :HK$143.8mn/ $18.5mn	EBITDA (HK$ mn)	3,929.0	3,729.7	4,086.7	4,226.3
Hong Kong	**EPS (HK$) New**	**4.17**	**2.98**	**3.80**	**3.79**
Hong Kong Conglomerates	EPS (HK$) Old	4.17	3.87	3.75	3.74
	P/E (X)	14.3	13.8	10.8	10.9
M&A Rank: 3	P/B (X)	1.2	0.8	0.8	0.8
Leases incl. in net debt & EV?: No	Dividend yield (%)	4.1	6.0	6.0	6.0
	CROCI (%)	8.0	6.8	7.8	7.8
		6/19	**12/19**	**6/20E**	**12/20E**
	EPS (HK$)	2.36	1.81	1.69	1.30

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 12 Jun 2020 close.

During the meetings, investors' focus was largely on business performance updates, regulatory resets and M&A. COVID-19 had limited impact on CKI's regulatory assets, but has adversely affected its unregulated businesses (e.g., carpark, energy wastage). The company acknowledged potential earnings risk ahead from the regulatory resets in UK/Australia from 2020 to 2023, but believes it should have sufficient cashflow cushion to maintain its HK$2.46 DPS as in FY19. Maintain Neutral.

- **No impact on regulated assets. Unregulated assets at greater risk -** Regulatory assets are largely unaffected by the pandemic. Northumbrian Water Group (NWG) was the first one to undergo regulatory reset in April 2020, whereby OFWAT lowered the allowable cost of equity (in real term) to 3.1% from 5.7% in the previous 5 year term. As discussed in our prior report, we expect the resets for its UK/Australia regulated assets to lower much of the group's earnings growth till

2023. As far as its unregulated assets are concerned, the group did not see any earnings impact from COVID-19. In Canada, for example, Park'N Fly, a Canadian off-airport car park company, is severely impacted given the drastic reduction in airport traffic with various travel restrictions in place. On a separate note, the group also expects a one-off HK$1.4bn non-cash tax credit loss to be incurred in 1H20 as the UK government decided not to implement its previously planned corporate tax cut from 19% to 17% starting from April (per Bloomberg News). The group said this would not have any impact on cashflow, however.

- **Target 6-8% ROE as lower regulated return may be partially offset by lower funding costs -** While CKI acknowledges the risk of potential lower return from regulatory resets, the company believes the impact could be partly offset by lower cost of funding. Over the years, in addition to taking on 40% financial leverage at the project level, the group also has leveraged its strong balance sheet to fund part of the equity injection using debt at the holdco. Taking all factors into consideration, they are hopeful that project ROEs can still be maintained at the 6-8% level (vs. 10-12% 10-15 years ago).
- **Opened to M&A by leveraging its and sister companies' sizeable balance sheets -** While most of its cashflow uplifted from project companies would be used to fund its recurring dividend, the company believes its net gearing (at 13.5% at end-2019) remains one of the healthiest among infrastructure companies. It will continue to leverage its strong balance sheet of its sister companies (CKA at 6% gearing; PAH at net cash) and look for M&A opportunities together.

Earning changes: Factoring in the latest operating trends for the unregulated businesses and UK tax rate changes, we revise CKI's FY20E-22E EPS by -10% to -2% and keep our 12-month SOTP-based price target unchanged at HK$52.

MTRC (66.HK, Buy)

0066.HK	12m Price Target: HK$48	Price: HK$40.85	Upside: 17.5%

Buy	GS Forecast				
		12/19	**12/20E**	**12/21E**	**12/22E**
Market cap: HK$251.6bn / $32.5bn	**Revenue (HK$ mn) New**	**54,504.0**	**43,222.6**	**54,578.6**	**57,599.2**
Enterprise value: HK$269.1bn / $34.7bn	Revenue (HK$ mn) Old	54,504.0	52,476.7	59,402.9	62,286.7
3m ADTV :HK$245.5mn/ $31.7mn	EBITDA (HK$ mn)	17,326.0	9,910.7	18,135.5	19,734.5
Hong Kong	**EPS (HK$) New**	**2.34**	**0.94**	**2.21**	**3.02**
Hong Kong Conglomerates	EPS (HK$) Old	2.34	1.22	2.23	5.99
	P/E (X)	20.0	43.5	18.5	13.5
M&A Rank: 3	P/B (X)	1.5	1.4	1.3	1.2
Leases incl. in net debt & EV?: No	Dividend yield (%)	2.6	3.0	3.2	3.3
	CROCI (%)	7.3	4.2	6.4	6.5
		6/18	**12/18**	**--**	**--**
	EPS (HK$)	1.18	1.46	--	--

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 12 Jun 2020 close.

Amid both the COVID-19 outbreak and social unrest, MTRC's railway business has remained under pressure (patronage for domestic lines -43% yoy in Mar-April) although the traffic on a sequential basis picked up moderately in May after the removal of certain social distancing measures. Management noted that the voluntary fare rebate is one-off in 2H20. As far as kiosk rental and shopping mall businesses are concerned, MTRC agrees to offer small tenants (contributing slightly over half and 40-50% of revenue respectively) a 50% rental concession for a limited time period. Based on the company's earlier guidance of HK$0.8-1bn earnings impact for each additional month of city-shutdown, we now model HK$7.1bn core net profit in FY20E (-45% yoy) by assuming (1) half-year of city shutdown (from February to the official scheduled re-opening in July), (2) no change to its HK DP booking more attributed to Lohas Park Phase 6. Despite the stock's outperformance, we still like MTRC as we believe the financial impact of COVID-19 should be short-lived, given the half-year impact assumed, as noted, and does not affect the company's long-term positioning as a monopolistic rail operator and one of the few land suppliers in HK. Maintain Buy.

- **Railway domestic services show signs of recovery helped by local demand; fare rebate one-off in 2H20 -** The patronage of domestic services/light rail in Apr was -44% yoy (vs. -42% in Mar), while tourism-related services continued to suffer more severely – AEL -92% yoy (vs. -84% in Mar), cross-boundary -100% yoy under operation suspension. But with the city's gradual reopening and the removal of social distancing measures in May, traffic for domestic services has picked up moderately. As discussed in our previous note (Apr 9), MTRC announced additional fare rebates on Apr 8 to help local passengers in light of current difficulties. During the conference, the company highlighted that the concession was one-off in 2H20, which will be expired in 2021. On a separate note, in relation to the Hung Hom station construction, MTRC stated that it has commenced a litigation process against the contractor. MTRC still expects maximum financial liabilities to be capped at its project management fee of HK$7.9bn (or slightly higher if adjusted for cost overrun).

- **Retail sales at most of its malls (except for Elements) tracking better or inline with the broader HK retail market. Expanding its mall portfolio -** Among its shopping mall portfolio, Elements is negatively impacted the most given the lack of Chinese tourists who used to contribute to 50-60% of its retail sales. For the rest of its portfolio, sales performance has generally been more resilient, tracking slightly better than the broader HK retail market. When questioned about its acquisition in the interests in two shopping malls (50% stake in the Telford Plaza II and 21% stake in the PopCorn 2) earlier this year, MTRC said it sees synergies as the company was already the majority shareholder of the two malls prior to the transaction. The acquisitions would also help to expand MTRC's recurring income base, per the company.
- **7 new railway projects under the Railway Development Strategy 2014 in discussion with the government -** Out of the 7 new projects, 5 proposals have been submitted and those for the remaining 2 projects namely (1) Hung Shui Kiu Station and (2) South Island Line (West), will also be submitted within this year. It has already received approval for Tuen Men South Extension, Northern Link and Tung Chung Line Extension and has commenced detailed planning and at the design stage now. MTRC said it plans to take on equity ownership of the Tuen Men South Extension (estimated cost of HK$11.4bn; expected completion in 2030) and Tung Chung Line Extension (estimated cost of HK$18.7bn; expected completion in 2029) as opposed to acting as a contractor and agent as with the case for Express Rail and Shatin-Central Link. If the 7 new rails could achieve say 10% equity IRR (assuming MTRC funds 40% of equity, or HK$51bn), they could potentially add HK$3/share or 6% to group NAV (see Nov 27 note).

Earning changes: Factoring in the latest operating trends and updated property completion schedule, we revise MTRC's FY20E-22E EPS by -49% to -1% and change our 12-month SOTP-based price target to HK$48 from HK$50.95.

Wheelock (20.HK; Buy)

Despite the Covid-19 pandemic impact, Wheelock continues to execute relatively well on its HK residential property sales and achieved a HK$5.5bn ytd contract sales, adding up to a HK$32.5bn net order book. Its recently launched Ocean Marini project has achieved ~80% sell through rate at similar prices as the adjacent projects (ASP -2% yoy). With regards to the previously proposed privatization plan, shareholder voting will take place on Jun 16.

- **Slower sales pace but steady pricing; No change to project launch schedule this year –** The company achieved HK$5.5bn contract sales ytd (vs HK$16.2bn in 1H19), adding up to HK$32.5bn net order book. Although the pace has slowed, it managed to maintain rather steady selling prices (ASP -2% yoy) and satisfactory sell-through (80% for Ocean Marini) reflecting strong end-user demand esp. for mass-focused projects. Overall, the company will continue to maintain its higher asset turnover strategy. While there was no sales guidance for FY20E, the group's 4 project launch pipelines in FY20E (Lohas 9C, Sin Fat Road, Muk Tai St, and Hing Wah) remain unchanged. The FY20E pipelines would add ~3K apartments to the market.

- **Remain positive on future prospect of Kai Tak projects –** As flagged in our Mar 12 note, Wheelock currently owns 1.6mn sqft landbank (~30% of total) in Kai Tak area. It remains positive on the positioning of these projects offering seaview facing Victoria Harbor and convenient transportation access on top of the new MTRC station. The company targets HK$30k/sqft or above ASP, which, we estimate if achieved, would generate 15-20% EBIT margin. The company said it will place more emphasis in price over volume, as it believes the company and the consortium have holding power given their strong financial positions.
- **Key privatization decision on Jun 16 –** The group will hold both the general and court meetings on June 16 for the voting of the privatization proposal. To pass, it would require approval by at least 75% of minority shareholders. Should the privatization proposal be accepted, Wheelock stock will cease trading on Jun 18. On Jul 22, the proposal offer (1 share of Wharf, 1 share of Wharf REIC, and HK$12) shall be dispatched to registered scheme holders. Wheelock would then withdraw listing on Jul 23.

Wharf (4.HK; Buy)

0004.HK	12m Price Target: HK$20	Price: HK$15.62	Upside: 28%

Buy	GS Forecast				
		12/19	12/20E	12/21E	12/22E
Market cap: HK$47.4bn / $6.1bn	**Revenue (HK$ mn) New**	**16,874.0**	**28,291.4**	**22,893.0**	**28,078.3**
Enterprise value: HK$59.0bn / $7.6bn	Revenue (HK$ mn) Old	16,874.0	31,027.3	24,295.1	30,748.7
3m ADTV :HK$84.1mn/ $10.8mn	EBITDA (HK$ mn)	8,581.0	8,680.9	7,136.2	8,885.1
Hong Kong	**EPS (HK$) New**	**1.11**	**1.06**	**1.81**	**2.13**
Hong Kong Conglomerates	EPS (HK$) Old	1.11	2.20	2.11	2.47
	P/E (X)	18.4	14.8	8.6	7.3
M&A Rank: 3	P/B (X)	0.4	0.3	0.3	0.3
Leases incl. in net debt & EV?: No	Dividend yield (%)	1.6	3.6	3.5	4.1
	CROCI (%)	3.3	4.3	4.2	4.9
		6/19	**12/19**	**6/20E**	**12/20E**
	EPS (HK$)	0.80	0.31	0.77	0.29

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 12 Jun 2020 close.

The company sees a faster pace of recovery in recent months in its rental vs. residential development property businesses. Shopping mall tenants have mostly resumed operations as footfall has normalized back to 50-60% of pre-COVID19 levels. While most of its DP projects in mainland China have resumed constructions, contract sales have yet to see a significant pick up. Looking into 2H20, the company expects the trend to normalize gradually. Maintain Buy on undemanding valuation (75% NAV discount, 0.27x FY20E P/B).

- **Limited revenue loss from rental concession. Malls' footfall back to 50-60% of pre-COVID19 levels –** Unlike in HK where Wharf REIC has been offering rental concession for its tenants for a few months, Wharf did not give much rental concession across its mainland China portfolio, but only waived the rental fees during mall closure, i.e., none for Chengdu IFS, 10 days for Changsha IFS. 60-90% of tenants have now resumed operations; its footfall has normalized to 50-60% of pre-COVID19 levels. Online sales and vouchers given by local governments have also helped drive sales recovery in recent weeks. In general, they see stronger consumption recovery from youngsters vs. older generation. Management is hopeful to see its business will fully normalize in 2H20.
- **No sale of Mount Nicholson units given travel restrictions. PRC sales take time to normalize –** Wharf had not locked in any residential sales from Mount Nicholson ytd given weaker demand esp. by PRC buyers amid social unrest and travel restrictions. In mainland China, the company has recognized more impairment losses in view of the difficult market environment (in addition to HK$3.4bn recognized in 2H19). 80-90% of construction works have already been resumed, but property sales remain slow running well below its full-year target of RMB15bn. We model RMB11bn property sales for the full year.
- **Maintain 30-35% earnings payout. No immediate plan for share buyback -** After liquidating its position in Facebook and Amazon shares, the group has received US$944mn bringing its net gearing to 8.0% (vs. 13.0% at end-2019). It has maintained its other security positions unchanged - including both CMEs and HK property stocks. It continues to expect 30-35% earnings payout ratio.

Earning changes: Factoring in softer 1H20 contract sales due to COVID-19, we revise Wharf's FY20E-22E EPS by -14% and change our 12-month SOTP-based price target to HK$20 from HK$21.

New World Services (659.HK; not covered)

Amid the COVID-19 outbreak since late January, NWS's various business segments have been impacted given 63%/30% of its attributable operating profit (AOP) in FY1H20 are from mainland China/Hong Kong. With the gradual re-opening of economic activity in mainland China and recent stabilization of the viral situation in Hong Kong, the company expects a gradual recovery going forward should the viral situation remain under control. In terms of capital allocation, the company recently completed its disposal of a 60% stake in New World First Ferry Services, reaffirming its goal to refocus on the 4 core business segments (i.e. roads, aviation, construction, insurance) which it sees as having better earnings visibility. Despite the earnings impact from the COVID-19 related business disruption, NWS is still determined to maintain its existing progressive dividend policy at the moment.

- **Toll road fees recovered to 80-90% to pre-COVID level since the resumption of**

toll fee collection in May; reopening of HK borders bodes well for its insurance segment (FT Life) - During the period of prevention and control measures taken by the central government amid the viral outbreak, toll fee exemption was implemented by the central government from Feb 17, which has impacted the results of NWS's road segment (41% of FY1H20 AOP). With the gradual resumption of economic activities in mainland China, toll fee collection has resumed in May with the group revenue back to 80-90% of pre-COVID level. As for the aircraft leasing segment (12% of FY1H20 AOP), while the company has granted deferral of rental concession for selected customers, they emphasized that the arrangement is not a waiver by nature. Given one-third of its new insurance business is related to mainland Chinese visitors, the company is hopeful to see a recovery in its insurance segment (7% of FY1H20 AOP) once the HK border is re-opened to mainland Chinese visitors.

- **Continued disposal on non-core businesses; abundant liquidity to maintain its progressive dividend policy despite the current challenging environment -** As part of its initiative to refocus on its core business segments (i.e. roads, aviation, construction, insurance), NWS has completed the disposal of 60% stake in New World First Ferry Services (NWFF) to Chu Kong Shipping Enterprises in May for HK$232.8mn. The group still owns 40% of NWFF post-disposal. As a recap, the total disposals NWS made in FY19-20 amounted to ~HK$2.5bn (e.g. Hip Seng Group, Tianjin Orient Container Terminal, shares of BCIA). These considerations from disposal are recuperated to its core businesses. For example, it acquired FT Life Insurance in FY20. When asked about the dividend policy amid this challenging environment, the company is still committed to its progressive dividend policy highlighting its financial strength with HK$12.5bn cash on hand as of end-FY1H20 along with over HK$10bn unutilized committed banking facilities as of Feb 28.

Shanghai Industrial (363.HK; Buy)

Benefiting from the more controlled domestic Covid-19 situation, SHIL saw a recovery in toll road traffic and tobacco sales, despite continued softness in property contract sales. Looking into 2H20, the company remains hopeful the toll road and consumer business can recover to FY19 level though acknowledges a lack of visibility towards property businesses recovery. After China Tobacco's (6055.HK, not covered) HK listing, much debate has been focused on the potential spin-off of the tobacco business to unlock shareholder value, of which management affirmed there is no ongoing plan. The group will continue to allocate more capital towards infra/utilities segment (vs property) and target to maintain a similar to FY18 regular dividend level. Trading at a 54% NAV discount, 4.4x FY20E P/E, we believe the valuation is undemanding against company's defensive asset profile. Maintain Buy.

- **Divergence in recovery paces, ongoing discussion on toll road shutdown compensation –** The company saw infra and consumer recovery outpace its property businesses. By segments, infrastructure (e.g. toll road) recovered the fastest among all benefiting from the travel restriction easing - its traffic volume has largely recovered to normal operating level vs previous year. While the tobacco business was negatively impacted due to the lock-down, management expects pent-up demand in 2H20 could further partially offset the 1H20 decline for FY20E. The property segment remains the most challenged post-pandemic. Despite the group's effort to launch online sales, the company remains cautious on the pace of recovery. When asked about the loss of revenues from the government's mandated toll road shutdown, the company is seeking options including (1) an extension of operating rights, and (2) cash rebates for the loss of revenues (as flagged in our Apr 8 note). So far the discussion is still ongoing without final determination.

- **No immediate tobacco spinoff or share buyback plan; Target to maintain FY18 regular dividend payout** - Post China Tobacco's (6055.HK, Not Covered) listing in HK, which is now trading at 31x consensus FY20 P/E, investors have been keen on the possibility of a spin-off listing of the tobacco business to unlock shareholder value. So far, the company affirmed there is no immediate plan for such. The group will remain focused on executing its transition plan with more capital allocation towards infra/utilities, especially waste disposal with project level hurdle IRR of 8%. The company views capex on new project development as a more sustainable way of creating long-term shareholder value vs near-term share buybacks. On a positive note, given the group's ample liquidity (HK$28bn cash) and balance sheet capacity (35% gearing), the company guided a similar dividend payout compared to the FY18 level at ~HK$1/share, implying 8.0% dividend yield at current valuation.

Exhibit 3: Risks and valuation methodology

	Ticker	Covering analyst	Rating	Ccy	Last closing price 6/11/2020	12-m Target Price	Upside/ downside	Key risks	Valuation methodology
Asia Gaming									
SJM Holdings	0880.HK	Simon Cheung, CFA	Buy*	HKD	9.11	10.00	10%	(1) Worse-than-expected VIP GGR e.g., tighter capital controls or junket liquidity; (2) Further delay in Grand Lisboa Palace; (3) Instensified competition from Cotai operators	Sum-of-the-parts (12 months)
Galaxy Entertainment Group	0027.HK	Simon Cheung, CFA	Buy	HKD	53.50	61.50	15%	(1) Worse-than-expected GGR trends e.g., lower Chinese visitation, tighter capital controls; and (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	17.17	24.00	40%	(1) Worse-than-expected GGR trends (e.g., lower Chinese visitation, tighter capital controls); and (2) Intense competition from other Macau operators if GGR softens significantly	Sum-of-the-parts (12 months)
MGM China	2282.HK	Simon Cheung, CFA	Neutral	HKD	10.24	11.00	7%	(1) Better-/worse-than-expected GGR trend e.g., driven by higher/lower Chinese visitation, looser/tighter capital controls; and (2) Higher-/lower-than-expected competition from other Macau operators	Sum-of-the-parts (12 months)
Nagacorp	3918.HK	Simon Cheung, CFA	Neutral	HKD	10.24	11.30	10%	(1) Faster-/slower-than-expected ramp-up of Naga2; and (2) Faster-/slower-than-expected addition of flights from China	Sum-of-the-parts (12 months)
Paradise Co.	034230.KQ	Simon Cheung, CFA	Buy	KRW	14800	18700	26%	(1) Prolonged China-Korea geopolitical tensions affecting Chinese visitation; (2) Worse-than-expected ramp-up 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	1383.HK	Not covered	NA	HKD	1.26	NA	NA	NA	NA
China Tourism									
CYTS	600138.SS	Not covered	NA	CNY	10.03	NA	NA	NA	NA
Conglomerates									
CK Hutchison Holdings	0001.HK	Simon Cheung, CFA	Buy*	HKD	52.70	75.00	42%	(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; (4) weaker-than-expected mainland China retail sales which may weaken the sales growth for its retail division.; (5) tariff resetting of regulated assets for its infrastructure assets	Sum-of-the-parts (12 months)
Cheung Kong Infrastructure	1038.HK	Simon Cheung, CFA	Neutral	HKD	41.70	52.00	25%	(1) FX movement (stronger/weaker EUR, GBP, AUD); (2) tariff resetting of regulated assets; (3) earlier/later-than-expected delivery of service contracts for its UK rail business; (4) a sharp decrease/increase in US treasury yield	Sum-of-the-parts (12 months)
Wheelock and Co.	0020.HK	Simon Cheung, CFA	Buy	HKD	59.50	63.00	6%	(1) Worse-than-expected property sales in Hong Kong would adversely impact Wheelock's group profit; (2) a slower-than-expected recovery of HK retail sales which could pressure retail rental reversion	Sum-of-the-parts (12 months)
Wharf Holdings	0004.HK	Simon Cheung, CFA	Buy	HKD	15.48	20.00	29%	(1) Further policy tightening in the mainland China property market, (2) weaker foreign trade affecting throughput	Sum-of-the-parts (12 months)
MTR Corp.	0066.HK	Simon Cheung, CFA	Buy	HKD	40.70	48.00	18%	(1) Worse-than-expected HK macro conditions, which could negatively impact patronage growth and the performance of MTRC's IP portfolio; (2) Worse-than-expected property profit shares, which could limit profitability of the company's DP segment	Sum-of-the-parts (12 months)
Shanghai Industrial	0363.HK	Simon Cheung, CFA	Buy	HKD	12.28	17.50	43%	(1) Tighter housing market policy; and (2) Drastic slowdown in industrial activities	Sum-of-the-parts (12 months)
NWS Holdings	0659.HK	Not covered	NA	HKD	7.12	NA	NA	NA	NA
Ports									
COSCO Shipping Ports Ltd.	1199.HK	Simon Cheung, CFA	Buy	HKD	4.29	8.20	91%	(1) Worse-than-expected global trade; and (2) Poor execution in overseas M&A	Sum-of-the-parts (12 months)
China Merchants Port Holdings	0144.HK	Simon Cheung, CFA	Buy	HKD	9.92	16.00	61%	(1) Further escalation in US/China trade tensions; (2) Poor execution on overseas investments	Sum-of-the-parts (12 months)
Hutchison Port Holdings	HPHT.SI	Simon Cheung, CFA	Neutral	USD	0.12	0.19	62%	(1) Further escalation/de-escalation in the US-China trade war; (2) Favorable/unfavorable domestic policy in port charges; and (3) Faster/slower-than-expected interest rate hikes	Sum-of-the-parts (12 months)

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

Source: Bloomberg, Goldman Sachs Global Investment Research

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