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Message

Hong Kong Hotels, Restaurants and Leisure
Thematic (Sector/Industry)

Smartkarma full report link: <https://www.smartkarma.com/insights/suncity-group-holdings-1383-hk-strong-portfolio-but-needs-time>

Suncity Group Holdings (1383 HK) - Strong Portfolio but Needs Time

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EXECUTIVE SUMMARY

Suncity is establishing a strong regional portfolio of gaming operations in Asia with the most significant near-term driver being the HOIANA integrated resort in Vietnam. We are positive on HOIANA on a longer term basis. However, given the current macro uncertainty involving COVID-19 along with only an expected gradual resumption of international travel, we do not expect HOIANA to significantly contribute to Suncity's profits until FY22.

DETAIL

HOIANA - the next Macau style integrated resort in ASEAN

We recently met with the management of [Suncity Group \(1383 HK\)](#) to obtain an update on its regional expansion plan with a focus on the company's HOIANA project in Vietnam. HOIANA <https://www.hoiana.com/> is a beachfront integrated resort (IR) located in Central Vietnam within the city of Hoi An which is 30 km south of Da Nang. Both Da Nang and Hoi An are major tourism sites within Vietnam as the main attraction of Da Nang are its beaches and the attraction of Hoi An being its old town UNESCO World Heritage site.

HOIANA phase 1 with a capex budget of US\$1bn consisting of over 1k hotel rooms, 140 gaming tables (2/3 VIP, 1/3 mass) and 330 slots had a preview opening in late June with a grand opening scheduled for FY21. Phase 1 includes the HOIANA casino, New World Hotel and Residences, KHOS Hotel, Rosewood Hoi An and HOIANA Shores Golf Club. Suncity owns 34% of the project with the remaining partners being New World and VinaCapital who own roughly 1/3 each. Suncity also runs the gaming operations at HOIANA with Suncity receiving a percentage of GGR.

Phase 2 of the project will consist of additional resorts/hotels, non gaming amenities such as a Vietnamese cultural center along with additional gaming facilities. Suncity will find other developers to partner with for the construction of Phase 2. The overall project site for HOIANA is 986 hectares (160 hectares for Phase 1). As a comparison base, 986 hectares is roughly twice the size of Cotai in Macau.



Source: Company reports

Looks nice but how much can the property make?

Suncity already operates a VIP room at the Crowne Plaza in Da Nang. We estimate that Suncity generated roughly US\$1.4m GGR (gross gaming revenue) per table per month at Crowne Plaza. Extrapolating this to the 140 tables at HOIANA Phase 1, we estimate that the property can generate roughly US\$196m of GGR per month or US\$2.35bn per year. Applying a 20% EBITDA margin (double that of Macau), we estimate that HOIANA Phase 1 at full ramp can achieve EBITDA of US\$470m per year which is 70% of [NagaCorp Ltd \(3918 HK\)](#) FY19 EBITDA.

Our GGR and EBITDA assumptions are conservative as we are just applying a GGR per table from Crowne Plaza even though HOIANA is a true IR which is not the case with Crowne Plaza. Thus, HOIANA may be able to reach players with higher gaming budgets who desire a more refined Macau style property to play in. HOIANA will have a lower cost base relative to Macau both in terms of gaming tax and major fixed costs such as dealer salary. The average dealer salary in Vietnam is only US\$400 per month vs. US\$2,500 for Macau. In addition, the gaming tax in Vietnam ranges from 14 to 35% vs. 40% for Macau.

The biggest question now is when does the full ramp occur. Da Nang currently has travel restrictions due to COVID-19 as travellers are required to quarantine for 14 days upon entering. This has shut down international travel to the city where the major inbound international airport for the area is. Therefore, HOIANA is currently only targeting local players which produces minimal GGR. Assuming COVID-19 is no longer an issue in FY21, we believe the property can achieve full ramp in FY22.

Given Suncity's extensive client base in Asia in addition to Vietnam being a strong tourism destination, we believe HOIANA offers distinct tourism and gaming advantages vs. its regional peers such as NagaCorp. Also, given that Suncity owns HOIANA, we believe that Suncity has the financial incentive to potentially steer customers away from regional destinations such as Naga into HOIANA over the longer term.

Suncity's other regional projects - diversified portfolio

Suncity's listco's assets include travel agency related services, property management/sales, and fees received from the management of integrated resorts. The listco recorded a 70% decline in revenue along with a net loss of RMB118.6m during 1H20 due to the negative impact of COVID-19.

Suncity's junket related business is not included within the listco. We estimate that Suncity's junket operations holds around 45% market share in Macau, the highest among junkets. This database of players is crucial for Suncity's plan of international gaming expansion.

Besides HOIANA, the two other major regional products/projects that Suncity has are its investments in [Summit Ascent Holdings \(102 HK\)](#) the gaming property in Vladivostok, Russia along with the Westside City Project in Entertainment City, Philippines. Both entities will be consolidated into the Suncity's financials.

Summit Ascent's primary asset is the Tigre de Cristal resort in Vladivostok. While the property only generated US\$28m of EBITDA in FY19 with 121 rooms, 49 gaming tables and 336 slots, we are positive on the longer term development of Vladivostok as a regional gaming hub due to the arrival of additional gaming operators which would create a gaming cluster effect, low tax regime, an improvement in property amenities coupled with additional phase development for Tigre de Cristal. Vladivostok is located within a favourable location (less than a 3 hour flight) with key feeder markets being Korea, Japan and Northeast China.



Source: Company reports

Suncity's Manila Westside City project is expected to open by FY23 which will include 400 tables, 1,200 slots, 470 hotel rooms along with non gaming amenities such as a shopping mall, opera house, hotels, F&B and night clubs. The property is strategically located between the current City of Dreams, Solaire and Okada IRs within Entertainment City. We are positive on the long term development of the gaming market in the Philippines through a strong domestic market, gaming cluster effect in Entertainment City, in addition to increased tourism.



Source: Company reports

Projects will take some time to monetize

We are optimistic on the longer term development of Suncity as a regional gaming operator because the company will have the most diversified offering of regional IRs in which it can offer to its customers. While Suncity remains the top junket in Macau, given the policy risks in Macau such as capital control or anti-corruption, diversifying gaming assets to multiple jurisdictions outside of Macau is a wise strategy.

Given Suncity's strong portfolio of VIP customers, the company is well connected to monetize future assets. However, we believe that the true ramp up of gaming operations will only likely take place in FY22 for HOIANA since new developments usually take at least 6 months to ramp up after the opening. We also do not forecast a more significant EBITDA contribution from Summit Ascent until Phase 2 opens in FY23 or beyond. Westside City probably won't contribute significantly to group EBITDA until FY25.

Hence, despite the positive longer term outlook for the group's gaming development, we do not expect Suncity to be a major disrupting force in terms of altering existing gaming market share among current operators within the region for the next 1-2 years. Upside risks are a faster than expected monetization ramp up of projects.