

SKYCITY

Re-checking the Odds

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OUTPERFORM

The casino sector has been hit hard by COVID-19, with data points fluid and evolving, however, early data and anecdotes support our view gaming spend will recover. Revisiting the global casino backdrop we believe SKYCITY (SKC) remains well positioned versus sector peers, helped by a greater reliance on domestic visitation. We expect the share price to remain volatile and responsive to COVID-19 (and vaccine) related newsflow. However, at 15x PE and 7.5x EV/EBITDA using FY22E, which still incorporates a c. 14% decline in our EBITDA expectations since pre COVID-19 levels, we believe you are being compensated for the risks. OUTPERFORM.

NZX Code	SKC	Financials: Jun/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$2.54	NPAT* (NZ\$m)	173.0	61.7	47.4	130.4	EV/EBITDA	6.9	11.9	11.6	7.5
Target price	NZ\$3.10	EPS* (NZc)	25.6	8.7	6.2	17.2	EV/EBIT	9.3	21.6	23.0	11.1
Risk rating	Medium	EPS growth* (%)	0.9	-66.2	-27.9	n/a	PE	9.9	29.3	40.7	14.8
Issued shares	760.1m	DPS (NZc)	20.0	10.0	5.0	14.0	Price / NTA	4.8	3.5	3.4	3.2
Market cap	NZ\$1,931m	Imputation (%)	100	100	100	100	Cash div yld (%)	7.9	3.9	2.0	5.5
Avg daily turnover	1,123k (NZ\$3,297k)	*Based on normalised profits					Gross div yld (%)	10.9	5.5	2.7	7.7

SKC appears well positioned versus casino sector peers

COVID-19 has been (and still is) highly disruptive for the global casino sector given: (1) property closures and government imposed supply restrictions, (2) consumer confidence / willingness to visit large, typically crowded, facilities, (3) the impact on global and domestic travel. SKC appears well positioned versus peers, particularly given a greater reliance on domestic/local visitation (vs tourists) and no restrictions at its key casino properties. Although we caution there is risk the latter changes should we see a re-escalation of the virus in NZ.

Revisiting the recovery path

There remain a number of known unknowns, with no precedent to use as a guide for the demand recovery path. Early data points show indications of pent-up demand on re-opening, however, it remains challenging to forecast where demand 'settles'. Our regular visits to SKC Auckland suggest visitation levels steadily accelerated post re-opening and appear to have stabilised in recent weeks.

Our base case now assumes a return to 'normal' in FY22E (most areas of the business) or FY23E (when including International Business, IB, and hotels). We make some adjustments to our recovery path – NPAT revised +16% in FY20E, -15% in FY21E (taking a more conservative view on border re-opening which negatively impacts IB and hotels) and -1% in FY22E – with minimal changes thereafter. FY20 and FY21 will be 'messy' years given COVID-19 closure & disruption, accounting implications from the NZICC fire, and project accounting. Looking beyond this, SKC trades on undemanding FY22 multiples vs history, peers and the NZ market.

Balance sheet questions resolved following funding injection; dividend reinstatement first full year likely to be FY22

The recent funding injection (new equity and bank facilities) resolved our outstanding questions around SKC's balance sheet. There are still a number of moving parts (including project capex timing, fire insurance / reinstatement timing, and EBITDA recovery profile), however, our analysis suggests SKC has balance sheet capacity and reasonable headroom in its gearing trajectory (and temporary covenant waivers) for various scenarios, including should we see another period of casino closure. We assume a return to dividend payments from 2H21, with our forecasts for an FY22E cash yield of c. 5.5%, attractive vs most benchmarks, including the NZ market.

SKYCITY Entertainment Group Ltd (SKC)

Priced as at 21 Jul 2020 (NZ\$)						2.54						
12-month target price (NZ\$)*						3.10	Spot valuations (NZ\$)					
Expected share price return						22.0%	1. DCF					2.95
Net dividend yield						2.3%	2. Sum of the parts (current)					3.07
Estimated 12-month return						24.3%	3. Sum of the parts (w project upside)					3.41
Key WACC assumptions						DCF valuation summary (NZ\$m)						
Risk free rate						2.00%	Total firm value					2,682
Equity beta						0.99	(Net debt)/cash					(351)
WACC						8.1%	Less: Capitalised operating leases					(85)
Terminal growth						1.5%	Value of equity					2,246
Profit and Loss Account (NZ\$m)						Valuation Ratios						
	2018A	2019A	2020E	2021E	2022E		2018A	2019A	2020E	2021E	2022E	
Sales revenue	999	1,012	661	681	919	EV/EBITDA (x)	6.8	6.9	11.9	11.6	7.5	
Normalised EBITDA	338	343	194	192	300	EV/EBIT (x)	9.4	9.3	21.6	23.0	11.1	
Depreciation and amortisation	(94)	(90)	(87)	(95)	(99)	PE (x)	10.0	9.9	29.3	40.7	14.8	
Normalised EBIT	244	253	107	97	201	Price/NTA (x)	5.2	4.8	3.5	3.4	3.2	
Net interest	(13)	(10)	(21)	(32)	(24)	Free cash flow yield (%)	-0.4	-5.5	-10.3	-12.3	0.3	
Associate income	0	0	0	0	0	Net dividend yield (%)	7.9	7.9	3.9	2.0	5.5	
Tax	(62)	(70)	(25)	(18)	(47)	Gross dividend yield (%)	10.9	10.9	5.5	2.7	7.7	
Minority interests	0	0	0	0	0	Capital Structure						
Normalised NPAT	170	173	62	47	130	Interest cover EBIT (x)	19.5	24.8	5.2	3.0	8.5	
Abnormals/other	(0)	(28)	140	0	0	Interest cover EBITDA (x)	27.1	33.6	9.5	5.9	12.7	
Reported NPAT	170	145	202	47	130	Net debt/ND+E (%)	27.2	30.3	21.3	25.5	29.1	
Normalised EPS (cps)	25.4	25.6	8.7	6.2	17.2	Net debt/EBITDA (x)	1.3	1.5	1.8	2.4	1.9	
DPS (cps)	20.0	20.0	10.0	5.0	14.0	Key Ratios						
Growth Rates							2018A	2019A	2020E	2021E	2022E	
Revenue (%)	6.9	1.3	-34.6	2.9	35.0	Return on assets (%)	9.6	9.9	4.2	3.6	7.0	
EBITDA (%)	5.6	1.3	-43.3	-1.0	56.0	Return on equity (%)	14.7	15.0	4.8	3.5	9.5	
EBIT (%)	8.2	3.7	-57.5	-9.3	>100	Return on funds employed (%)	11.9	11.1	4.6	4.1	7.9	
Normalised NPAT (%)	10.5	1.9	-64.3	-23.2	>100	EBITDA margin (%)	33.9	33.9	29.4	28.3	32.6	
Normalised EPS (%)	8.5	0.9	-66.2	-27.9	>100	EBIT margin (%)	24.4	25.0	16.2	14.3	21.9	
Ordinary DPS (%)	0.0	0.0	-50.0	-50.0	>100	Capex to sales (%)	26.1	31.6	50.2	56.7	25.0	
Cash Flow (NZ\$m)							2018A	2019A	2020E	2021E	2022E	
EBITDA	338	343	194	192	300	Capex to depreciation (%)	318	418	456	481	276	
Working capital change	73	19	6	5	19	Imputation (%)	100	100	100	100	100	
Interest & tax paid	(157)	(147)	(68)	(50)	(83)	Pay-out ratio (%)	79	78	115	80	82	
Other	0	0	0	0	0	Operating Performance						
Operating cash flow	254	215	133	147	236	Total revenue (incl gaming GST)	2018A	2019A	2020E	2021E	2022E	
Capital expenditure	(261)	(320)	(332)	(386)	(230)	Auckland	585	607	465	482	584	
(Acquisitions)/divestments	(47)	225	129	0	0	Hamilton	61	62	52	58	62	
Other	0	0	145	130	0	Other NZ	13	13	11	9	11	
Funding available/(required)	(55)	119	74	(108)	6	Adelaide (A\$)	149	149	117	150	193	
Dividends paid	(85)	(127)	(127)	0	(106)	Darwin (A\$)	111	83	0	0	0	
Equity raised/(returned)	0	(37)	205	0	0	IB	160	191	71	27	129	
(Increase)/decrease in net debt	(140)	(45)	152	(108)	(100)	Online / esports	0	0	7	15	17	
Balance Sheet (NZ\$m)							2018A	2019A	2020E	2021E	2022E	
Working capital	(163)	(172)	(178)	(184)	(203)	Revenue (incl gaming GST)	1,101	1,119	729	750	1,009	
Fixed assets	1,499	1,436	1,549	1,724	1,883	EBITDA breakdown						
Intangibles	832	798	784	770	755	Auckland	261	268	188	191	242	
Right of use asset	0	0	51	51	51	Hamilton	27	27	17	23	26	
Other assets	107	220	115	115	115	Other NZ	2	2	1	1	2	
Total funds employed	2,275	2,282	2,321	2,477	2,601	Adelaide (A\$)	23	21	14	16	33	
Net debt/(cash)	433	504	352	460	561	Darwin (A\$)	25	19	0	0	0	
Lease liability	0	0	51	51	51	IB	33	42	7	(4)	29	
Other liabilities	685	622	622	622	622	Online / esports	0	0	3	5	7	
Shareholder's funds	1,157	1,156	1,296	1,343	1,367	Corporate costs	(33)	(35)	(32)	(35)	(36)	
Minority interests	0	0	0	0	0	Other	(3)	(4)	(4)	(5)	(5)	
Total funding sources	2,275	2,282	2,321	2,477	2,601	Total EBITDA	338	343	194	192	300	
						NZDAUD	0.92	0.94	0.95	0.94	0.94	

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Valuation

Despite a recent recovery, SKC's EV has still declined by ~NZ\$1bn since the COVID-19 outbreak took hold in China, equating to over five years of lost earnings, and substantially larger than our various scenarios of the risk/cashflow impact. There is no easy answer to what the valuation impact 'should' have been and we expect the share price to remain volatile and responsive to COVID-19 / virus related newsflow. However, at 15x PE and 7.5x EV/EBITDA using FY22E, which still incorporates a c. 14% decline in EBITDA expectations since pre COVID-19 levels, we believe you are being compensated for the risks. SKC's asset base (c. NZ\$2bn) and long-term monopoly casino licences also continue to provide comfort of value above current market pricing.

Valuation versus peers

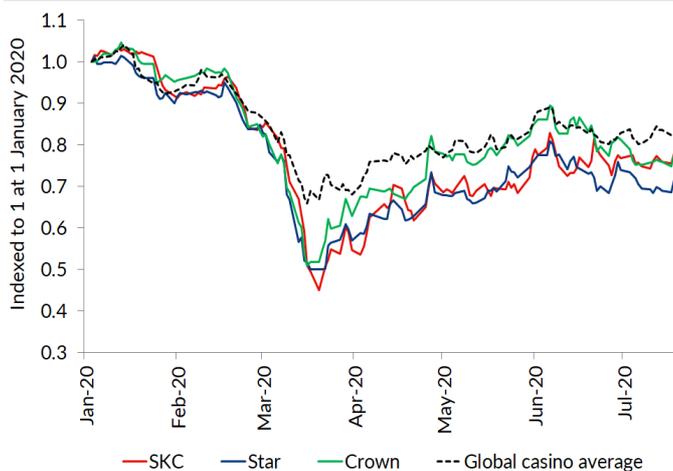
Near-term valuation comparisons for the casino sector (and some other market constituents) will be distorted for some time, particularly due to country differences (including virus trajectory and government responses). Taking this aside, we believe SKC trades on undemanding FY22E multiples vs history, peers and the NZ market. We expect the company to return to paying an attractive cash yield from FY22E of c. 5.5%. This is supported by our expectations for an improving free cashflow yield as major project capex finally rolls off after an extended period.

High current correlation in price movement with peers, which wasn't the case in 2019

Since COVID-19, SKC's share price / EV has largely tracked global casino peers despite its greater reliance on domestic/local players and more recently the potential for a shorter duration of disruption from the virus (due to NZ's more aggressive initial restrictions).

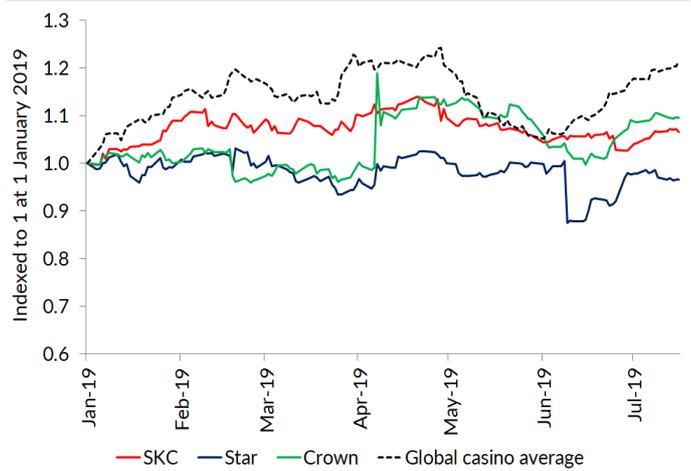
Interestingly, the EV movement for SKC has exhibited a 94% and 93% correlation with Australian and global casino peers through 2020 respectively. By comparison this was 1% and 18% for 2019.

Figure 1. EV moves for casino peers highly correlated in 2020



Source: Forsyth Barr analysis, Bloomberg

Figure 2. But materially less so in 2019



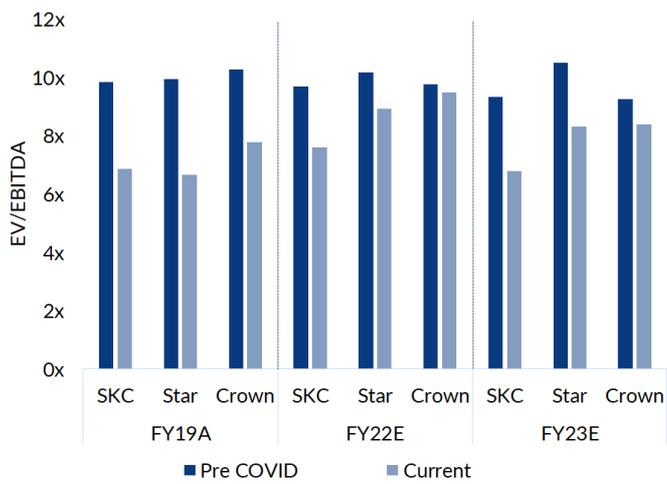
Source: Forsyth Barr analysis, Bloomberg

Looking back to 'traditional' valuation multiple comparisons

COVID-19 has made valuation metrics more difficult to compare for a sector which already has complexities (major project accounting, normalisations, and in Australia – any cannibalisation from new casino openings).

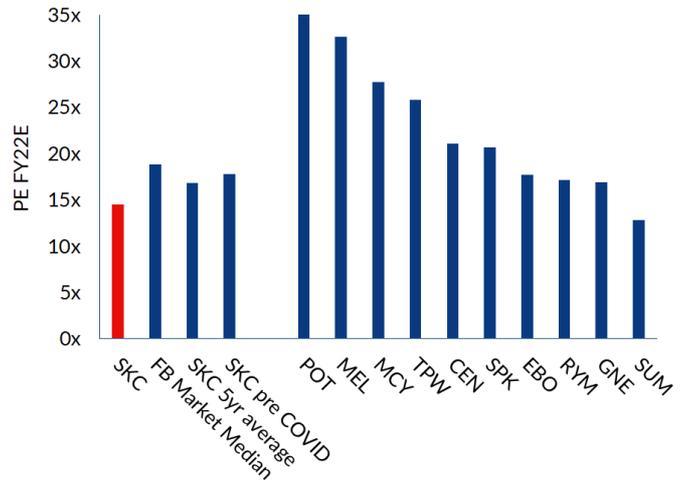
We believe SKC looks attractive vs sector peers, the NZ market and history – with an FY22E EV/EBITDA of 7.5x, P/E of 15x and cash yield of c. 5.5%. This assumes an earnings recovery to -14% of pre COVID-19 forecasts and -7% below FY19A (excluding Darwin and despite the completion of the Adelaide expansion project).

Figure 3. EV/EBITDA multiples – casino peers



Source: Forsyth Barr analysis, Bloomberg

Figure 4. FY22E PE – SKC vs NZ market peers



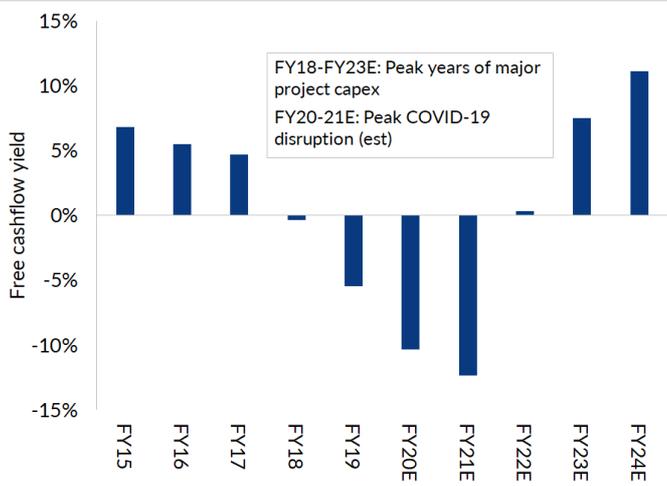
Source: Forsyth Barr analysis, Bloomberg

Expectations of a return to an attractive cash yield from FY22, supported by an improving free cashflow profile

SKC has historically offered an attractive dividend yield and we expect this to be the case again from FY22E. Our forecasts suggest a yield ahead of most NZ companies (Figure 6), helped in part by our recent dividend reduction expectations for the electricity sector given the increased near-term uncertainty.

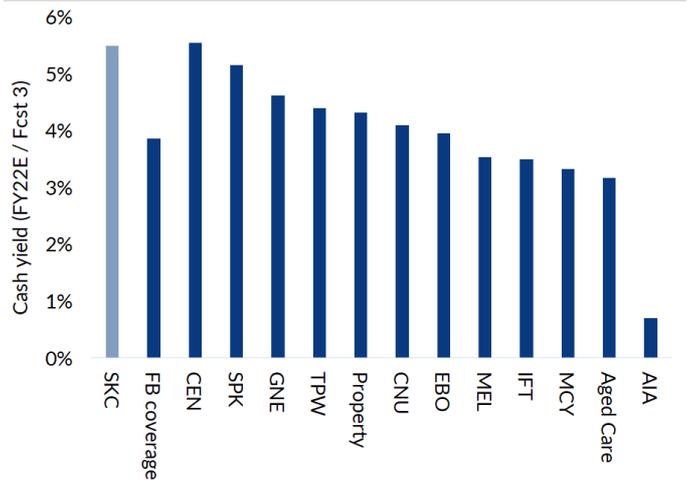
This is supported by our expectations for an improving free cashflow yield, particularly from FY23E, as major project capex finally rolls off after an extended period.

Figure 5. Free cashflow yield profile



Source: Forsyth Barr analysis

Figure 6. Cash yield vs NZ peers (Forsyth Barr forecasts)



Source: Forsyth Barr analysis

Another look at the recovery path

With SKC's properties re-opened, the focus is on the demand recovery path. This remains challenging to forecast, with no precedent to use as a guide and multiple moving parts. There also remains the risk of a re-escalation in the virus, as seen in a number of other countries. Our base case assumes a return to 'normal' in FY22E (most areas of the business) or FY23E (including IB and hotels).

What have we learnt to date?

Early data points are mixed, not helped by varied restrictions still in place across the key casino markets. What has been evident is a level of pent up demand post casino re-opening, and it has also demonstrated the reliance on core (premium) customers who are likely more influential than we expected, with their spending showing resilience to date. It remains difficult to pre-empt the level at which demand 'settles'. Our regular visits to SKC's key Auckland property suggest visitation levels initially accelerated as restrictions eased and broader consumer confidence built. This appears to have stabilised in recent visits.

Observations from offshore – read through limited given high reliance on tourists and various restrictions

Recent anecdotes from Las Vegas and US casinos have been mixed, likely not helped by various (and changing) restrictions and some venues / offerings which are still closed. Initial data saw a pent-up demand surge in Vegas on re-opening on June 4 albeit far below levels where it was before the closures, particularly on weekdays. More recent data suggests foot traffic is starting to slow, which commentators are linking to rising COVID-19 cases in the state, although median visit duration is higher (+7% vs pre COVID-19 levels).

Gaming in Macau has been materially restricted over recent months with Q2 revenue (April to June) down 96% on pcp, reflecting strict social distancing and border restrictions on inbound visitors.

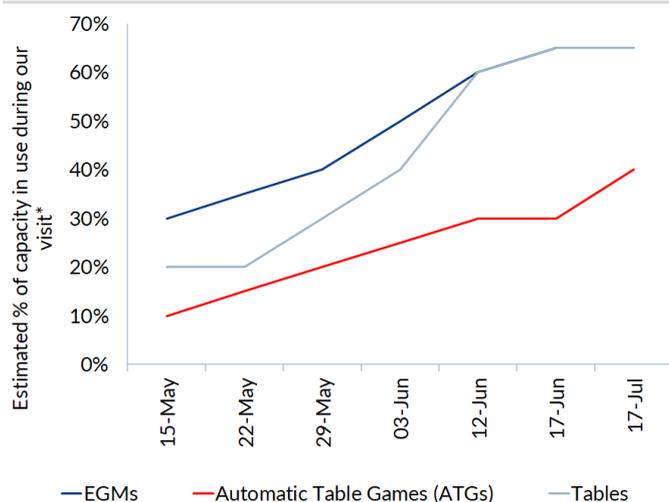
Observations from our visits to SKC

The key notable changes on our most recent visit to SKC Auckland (Friday 17 July) was:

- Promo wheel open (not the case on previous visits)
- Very minimal COVID-19 paraphernalia (nothing on the door or near entrance)
- Gaming: Activity at Automatic Table Games (ATGs) was noticeably higher versus our previous visits since re-opening. Overall visitation levels were broadly similar to our previous visits, picking up steadily through the evening.

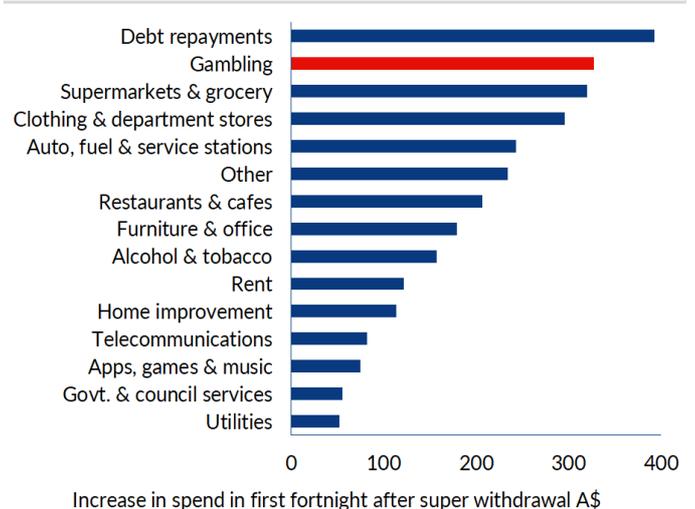
We have no visibility on level of spend or duration of visit, however, our regular series of visits (at the same time on Friday nights) since re-opening does help to provide some insight into visitation levels. Initially post re-opening we observed a steady acceleration in visitation, particularly noticeable for tables, while visitation appears to have broadly stabilised through June/July (refer Figure 7).

Figure 7. Our observations around capacity utilisation at SKC's Auckland casino*



Source: Forsyth Barr analysis *Note: these are our observations during the visit and are not necessarily comparable to revenue (also dictated by win per unit which we can't observe)

Figure 8. Gambling has been a key destination for Australian superannuation withdrawal



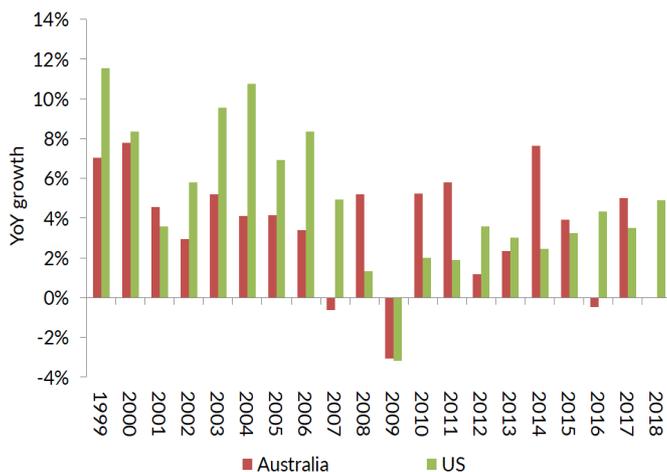
Source: Forsyth Barr analysis, ilion, AlphaBeta NB A total A\$2,855 extra was spent in the first fortnight after accessing their super. This is based on sample of 13,000 people.

Key demand considerations

The situation and demand path remains fluid, with a number of competing drivers and considerations particularly for near-term forecasting, including:

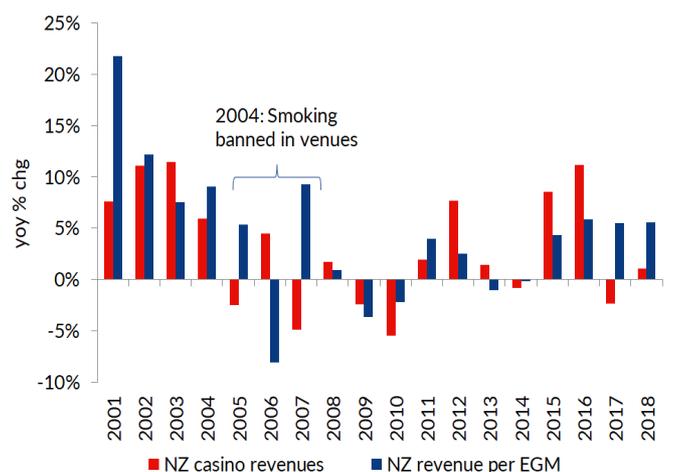
- **Travel:** Border closures will see IB revenue near zero in the near-term, with a recovery likely reliant on a COVID-19 vaccine. Leisure travel (and reduced hotel supply, due to quarantine use for a number of hotels in Auckland) may provide some benefit to SKC, however, this is highly unlikely to offset lost earnings from offshore high roller guests.
- **Pent-up demand:** This has been evident both from SKC (win per unit higher than normal on re-opening), offshore casinos and various other consumer discretionary categories. What is less clear, is how long this may last. We do expect win per unit to normalise for SKC.
- **Share of wallet:** With overseas holidays not possible this share of the consumers' wallet may be reallocated to other discretionary means. Luxury car sales has been one area which has been publicised as a current beneficiary.
- **Availability of entertainment options.**
- **Virus progression and government messaging:** Important to consumers' confidence and willingness to visit SKC's facilities.
- **Government stimulus:** Gaming has historically been a beneficiary of stimulus payments made to households. Initial anecdotes suggest this may be the case again, with gambling (surprisingly) ranking as the second highest destination for funds withdrawn from Australian superannuation (a COVID-19 relief measure) – refer Figure 8.
- **Consumer sentiment:** With rising unemployment and other household pressures, consumers' ability and willingness to spend will feature.
- **Economic realities / disposable income, particularly when wage subsidies roll-off:** Data through history across multiple geographies suggests gaming spend has been somewhat resilient through the cycle, with no obvious boom or bust cycles, albeit not recession proof or immune to a slowdown. During the GFC spending declines in casino and gaming spend across various markets were broadly within the -5% to -10% range (refer Figures 9 and 10). We have factored income / spending pressures into our short to medium-term earnings expectation path (with our forecasts still modestly below pre COVID-19 levels in FY24E).

Figure 9. Australia and US gaming revenue YoY growth



Source: Forsyth Barr analysis

Figure 10. NZ gaming and casino revenue through the cycle



Source: Forsyth Barr analysis

SKC appears well positioned versus casino sector peers

Large scale entertainment destinations are one of the key sectors most exposed to (1) COVID-19 related supply restrictions, (2) consumer sentiment to visiting large, typically crowded, venues and (3) travel restrictions and preferences. Data and anecdotes are regularly changing and will likely continue to do so for some time yet. Nonetheless, we see SKC as well positioned versus casino sector peers, particularly given its lower reliance on tourists.

Recovery path influences

Our assessment suggests SKC is currently well positioned versus peers in two primary areas: (1) no COVID-19 restrictions and no community transmission in New Zealand, which differs from most other key casino regions globally, although there remains risk of a re-escalation of the virus, (2) greater exposure to domestic grind customers, with less reliance on tourists.

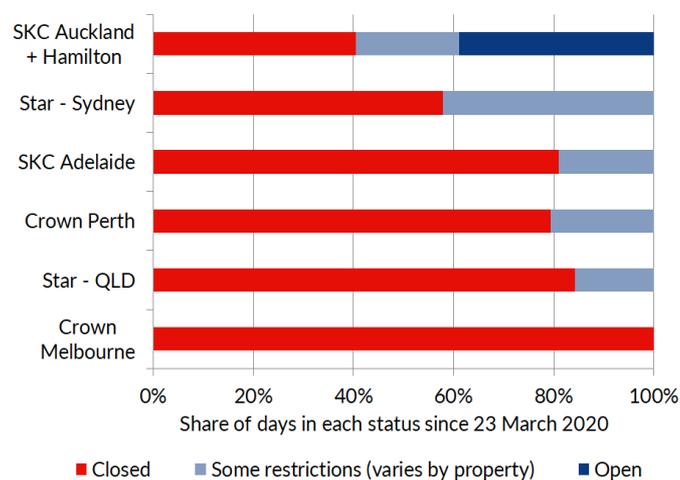
Supply side – COVID-19 related restrictions and virus status

- COVID-19 status:** New Zealand currently has 27 active COVID-19 cases, all of which are returning travellers in managed quarantine and it has been c. 80 days since the last reported case of community transmission, although we caution that low recent community testing limits the confidence in reported statistics. This contrasts what is happening in a number of other countries, including Australia where cases have escalated in Melbourne which has seen a return to lockdown. Global experience reinforces the risk of a resurgence in the virus, including for New Zealand.
- Current casino restrictions:** SKC's New Zealand casinos are fairly unique globally, with no COVID-19 related restrictions in place. Australian casinos and gaming in pubs & clubs has largely re-opened (with Melbourne the key exception), albeit with some modest restrictions in place (refer Figure 11). The current virus trajectory in Sydney and Melbourne has seen escalating recommendations (Sydney) and restrictions (Melbourne). Further afield, restrictions are mixed (and in some instances continue to change), including a requirement for masks to be worn in Vegas.

Lower reliance on tourists

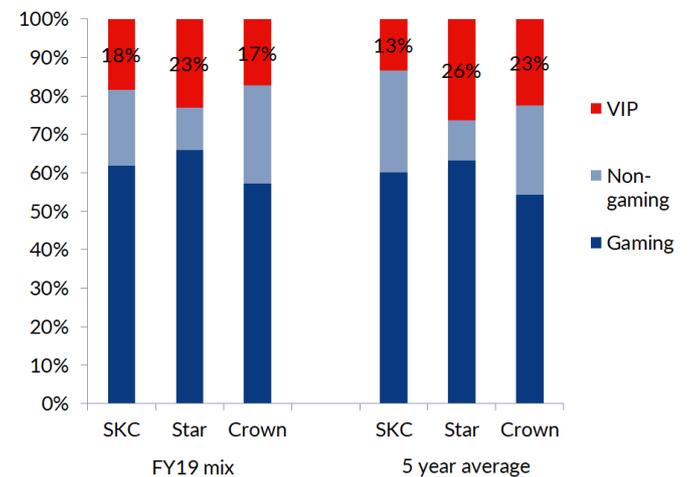
- Lower exposure to tourists:** SKC is predominantly a domestic grind business, reliant on local gaming. We estimate EBITDA exposure to tourists at c. 20% (all of IB and c. 50% of hotel revenue). This is substantially lower than offshore casinos, particularly Macau and Vegas.
- Lower exposure to IB / VIP:** VIP customers have historically made up c. 6–12% of SKC's group EBITDA. SKC has also historically had the lowest reliance on VIP revenue versus its Australasian peers (FY19 aside which was boosted by a low win rate) – see Figure 12. A recovery in this segment for Australasian casinos is reliant on borders to re-open, and likely reliant on a COVID-19 vaccine.

Figure 11. Australasian casino restriction status



Source: Forsyth Barr analysis, Company releases

Figure 12. Australasian casino revenue make-up



Source: Forsyth Barr analysis, Bloomberg

Balance sheet, cashflow and dividends

An injection of new funding (capital and bank facilities) and near-term covenant relief, has resolved our balance sheet questions for SKC. By our estimates the company has balance sheet capacity to see it through COVID-19 disruption (including should we see another short period of lockdown in the near-term) and capital committed to finish its major projects. We forecast the first full-year of dividends to resume in FY22E with an attractive cash yield of c. 5.5% (payout ratio ~81%) and a materially improved free cashflow yield from FY23E as major projects are finally completed.

Balance sheet questions resolved with funding injection

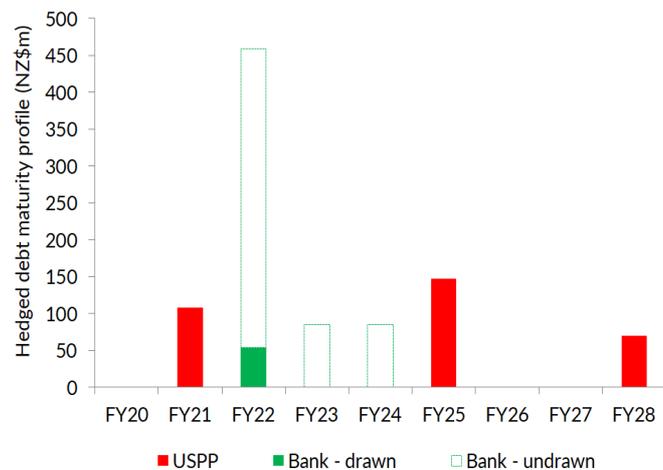
An injection of new capital (NZ\$230m), new banking facilities (NZ\$160m) and the securing of near-term covenant relief from both banks and USPP noteholders (testing periods: 31 December 2020 and 30 June 2021) has resolved our questions around SKC's balance sheet given the prior likelihood of a covenant breach due to the EBITDA impact of temporary casino closure. SKC now has available liquidity of c. NZ\$580m (Figure 13).

Dividends appear likely from 2H21 and materially improved free cash flow yield from FY23 as major project capex rolls off

SKC has indicated: "Dividend policy to be reviewed in FY21 and recommence as soon as possible after covenant waiver period".

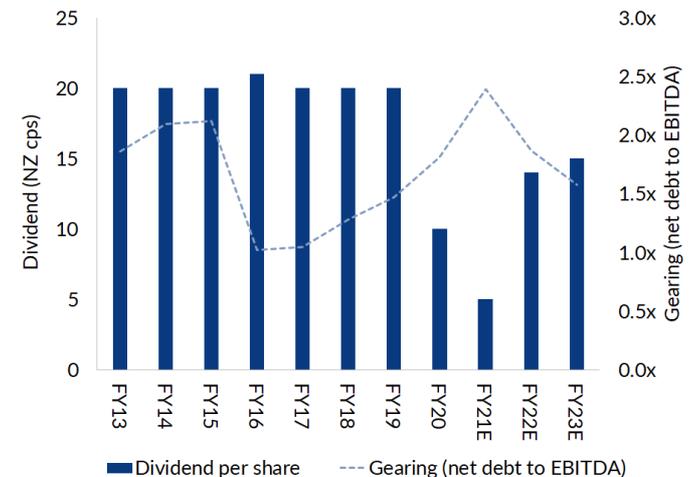
We expect dividends to be reintroduced from 2H21E, with the first full-year of dividends from FY22E. Our base case is SKC pays out 14cps, a payout ratio of ~81% (albeit below pre COVID-19 levels "80% payout; with a minimum of 20cps"). This equates to a cash yield of c. 5.5%. This is supported by our expectations for an improving free cashflow yield as major project capex finally rolls off after an extended period.

Figure 13. Pro forma debt maturity profile



Source: Forsyth Barr analysis, Company reports

Figure 14. Forecast dividend and gearing profile



Source: Forsyth Barr analysis

Appendix 1. COVID status by market for casino sector

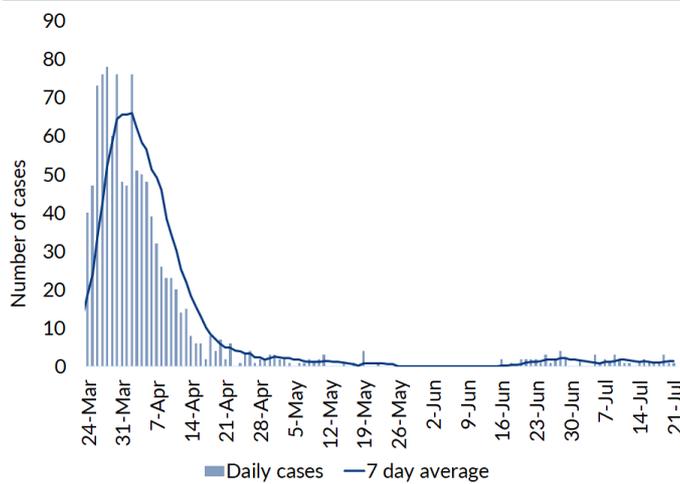
The current status of reported COVID-19 cases in key markets for the listed casino players is highlighted in the charts below, with SKC currently in a comparatively favourable position. We cannot rule out a re-escalation of the virus in NZ, however, based on the current data the key areas of concern are Melbourne (Crown), Sydney (Star) and Vegas where daily recorded cases have increased in recent weeks. However, testing levels in Australia are materially higher than NZ, which provides greater confidence in the data.

SKYCITY Entertainment (SKC NZ)

New Zealand makes up the vast majority of group earnings for SKC, underpinned by the key Auckland property (which made up ~74% of group revenue pre COVID-19, including IB, and c. 82% of EBITDA).

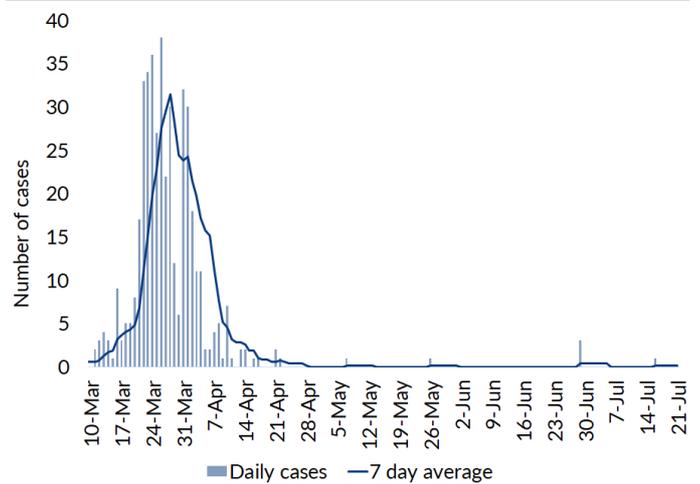
New Zealand currently has 27 active COVID-19 cases, all of which are returning travellers in managed quarantine, and it has been c. 80 days since the last reported case of community transmission. However, very low levels of community testing in New Zealand is not helpful in having confidence in the data.

Figure 15. Daily change in COVID-19 cases – New Zealand



Source: Forsyth Barr analysis, worldometer

Figure 16. Daily change in COVID-19 cases – South Australia



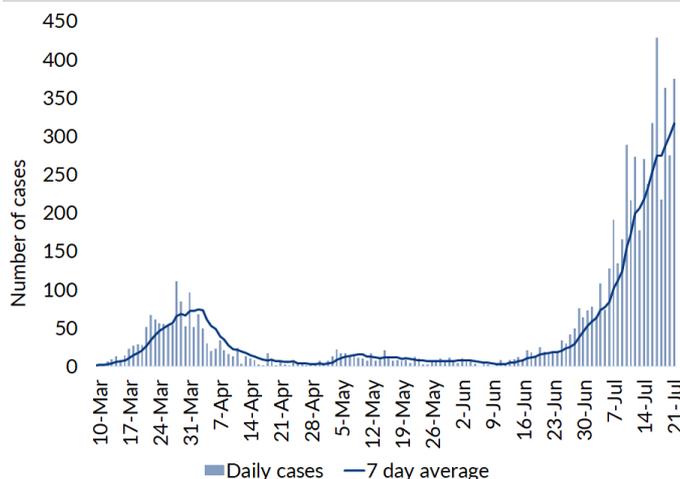
Source: Forsyth Barr analysis, COVID-19 Data AU

Crown Resorts (CWN ASX)

Pre COVID-19, Crown Melbourne made up c. 73% of group revenue and EBITDA, with the balance from Crown Perth.

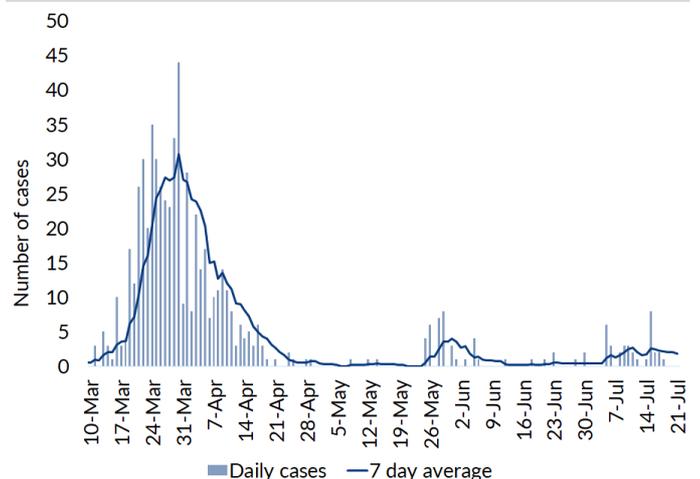
On 7 July, the Victorian government announced Melbourne would re-enter Stage 3 lockdown for the next six weeks, which will continue to keep the casino closed. Face masks have also been mandated from 23 July.

Figure 17. Daily change in COVID-19 cases – Victoria



Source: Forsyth Barr analysis, COVID-19 Data AU

Figure 18. Daily change in COVID-19 cases – Western Australia



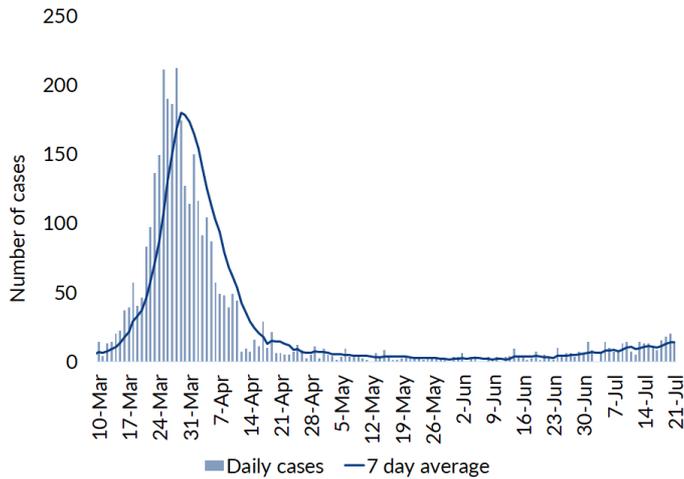
Source: Forsyth Barr analysis, COVID-19 Data AU

Star Entertainment (SGR ASX)

Pre COVID-19, The Star Sydney made up c. 65% of group revenue and EBITDA, with the balance from its Queensland property.

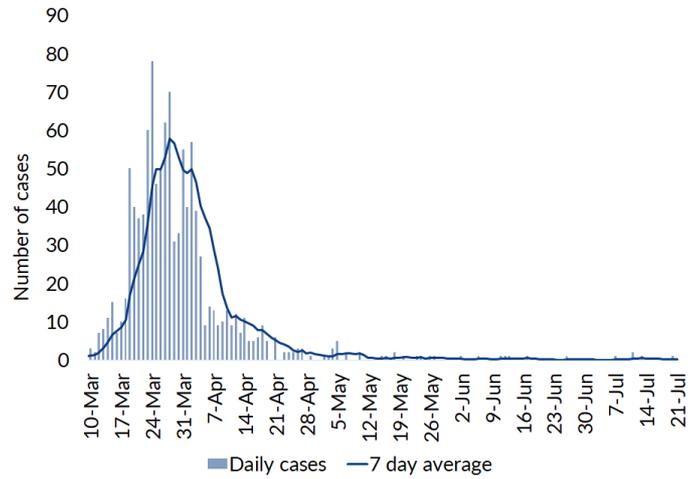
NSW Health has recently urged people (Sunday 19 July) to avoid non-essential travel and social gatherings, and consider wearing masks if they cannot socially distance, given the state has some community transmission. "Of particular concern is transmission in venues such as hotels and restaurants, the gym and social gatherings" (health.nsw.gov.au). Star has also confirmed a patron who visited its Sydney complex on Saturday 4 July in peak time (between 7:30–10:30pm) has tested positive for COVID-19.

Figure 19. Daily change in COVID-19 cases – New South Wales



Source: Forsyth Barr analysis, COVID-19 Data AU

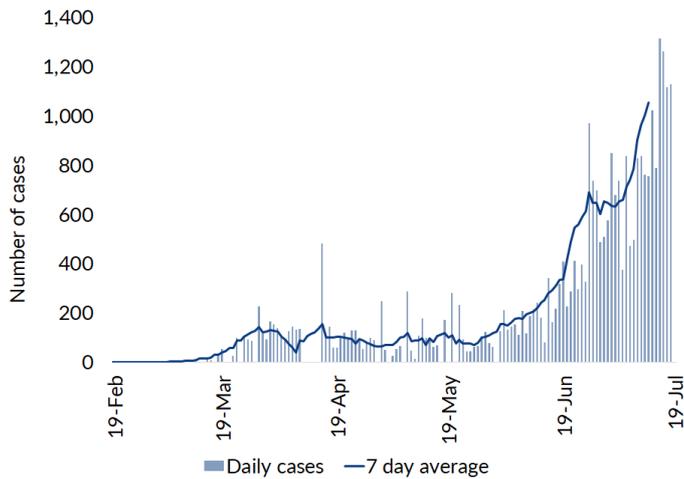
Figure 20. Daily change in COVID-19 cases – Queensland



Source: Forsyth Barr analysis, COVID-19 Data AU

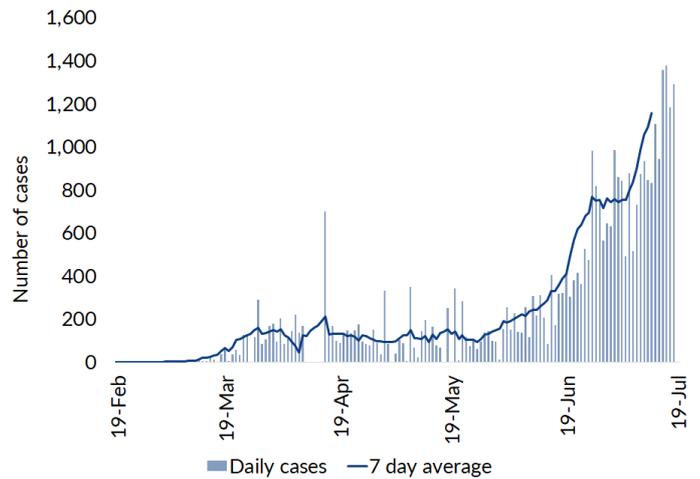
Vegas

Figure 21. Daily change in COVID-19 cases – Clark County



Source: Forsyth Barr analysis, CDC

Figure 22. Daily change in COVID-19 cases – Nevada state



Source: Forsyth Barr analysis, CDC

Investment Summary

SKYCITY (SKC) is one of the largest gaming operators in Australasia. Earnings and valuation are driven by Auckland, which makes up >75% of group EBITDA. The company is facing unprecedented challenges from COVID-19 related disruption, including a period of temporary closure for its properties. Whilst there remains uncertainty in the current environment, SKC has a strong asset base, recently recapitalised balance sheet (and temporary covenant waivers) and we expect it to come through the crisis and gaming spend levels to recover. Valuation levels are attractive, more than compensating for the risks. **OUTPERFORM.**

Business quality

- **Monopoly assets:** SKC has a casino monopoly in all its markets and significant term on its exclusive casino licences.
- **Increasingly capital intensive platform:** given a fairly mature industry and a need to continually diversify and refresh its offering to retain relevance and drive visitation.

Earnings and cashflow outlook

- **Earnings outlook:** SKC is facing a period of depressed earnings near-term, given temporary enforced property closures and disruption from COVID-19. We do expect gaming spend to recover, although this will likely take time and is contingent on the virus trajectory and government policies around restrictions.
- **Project execution:** Two major capital projects are underway in Auckland and Adelaide. Achieving a satisfactory return on capital is the challenge given the substantial capital being spent. Adelaide in particular raises questions given perennial disappointment from the property through history.

Financial structure

- **Gearing:** SKC has committed to a BBB- credit rating and efficient capital allocation is a key strategic priority. There are a number of moving parts influencing gearing with capex for its two capital projects, asset divestments (carparks, Darwin), COVID-19 disruption, and future growth plans. SKC has recently recapitalised its balance sheet and secured near-term covenant waivers (for 31 Dec 2020 and 30 June 2021).
- **Yield:** SKC has historically offered a solid dividend yield. The COVID-19 crisis has forced the Board to reconsider its dividend policy, with confirmation of a temporary dividend suspension, for a minimum 12 months, during the period of covenant waivers and heightened uncertainty.

Risk factors

- **Gaming regulation:** Unexpected regulatory and taxation changes.
- **Mature local gaming market:** The market is not only mature but vulnerable to changing entertainment spending patterns.
- **COVID-19:** SKC's properties have re-opened. However, risk of a second wave remains which would likely see a return of material restrictions across its properties, including the potential for further temporary closures.

Figure 23. FY19 revenue breakdown

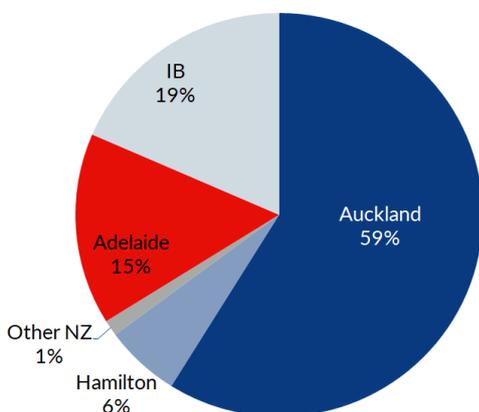
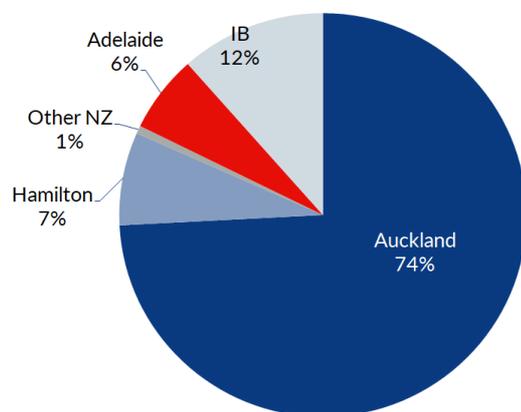
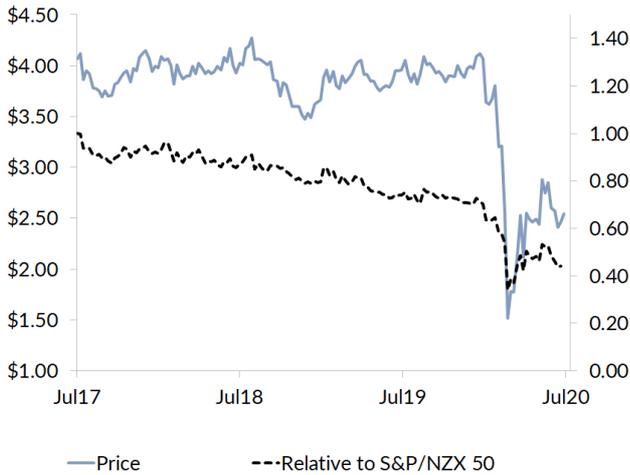


Figure 24. FY19 EBITDA breakdown



Source: Forsyth Barr analysis, Company reports

Source: Forsyth Barr analysis, Company reports

Figure 25. Price performance


Source: Forsyth Barr analysis

Figure 26. Substantial shareholders

Shareholder	Latest Holding
Sumitomo Mitsui Trust Holdings	8.8%
Lazard	8.6%
Commonwealth Bank of Australia	8.2%
Investor Mutual	7.1%
ACC	6.1%
The Vanguard Group	5.3%

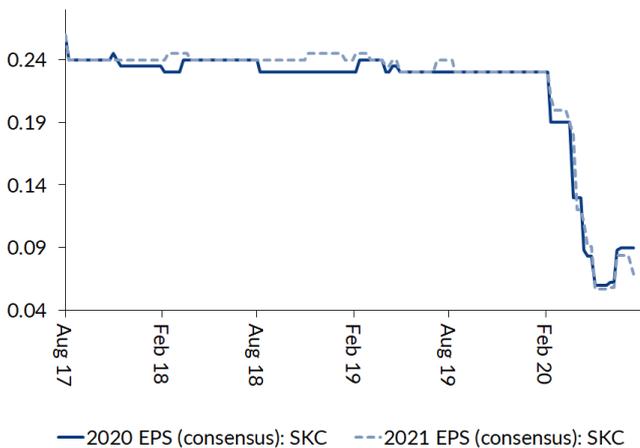
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 27. International valuation comparisons

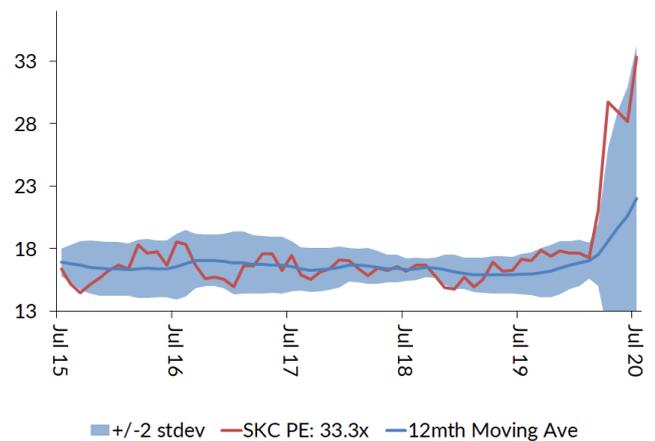
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E	
				2020E	2021E	2020E	2021E	2020E	2021E		
SKYCITY	SKC NZ	NZ\$2.54	NZ\$1,931	29.3x	40.7x	12.5x	12.7x	22.7x	25.0x	2.0%	
CROWN RESORTS	CWN AT	A\$9.34	A\$6,325	45.6x	49.9x	14.3x	13.4x	35.0x	40.3x	4.1%	
TABCORP HOLDINGS	TAH AT	A\$3.39	A\$6,890	25.3x	22.6x	11.1x	10.7x	18.2x	17.0x	3.5%	
STAR ENTERTAINMENT GRP/T	SGR AT	A\$2.80	A\$2,655	32.2x	31.5x	10.7x	10.4x	24.8x	24.2x	2.1%	
GENTING MALAYSIA BHD	GENM MK	RM2.41	RM13,624	<0x	<0x	11.7x	12.1x	60.3x	61.5x	5.0%	
KANGWON LAND INC	035250 KS	KRW24900.00	KRW5,327,118	<0x	<0x	29.8x	30.1x	>75x	>75x	3.5%	
				Compc Average:	34.3x	34.7x	15.5x	15.4x	34.6x	35.7x	3.6%
				SKC Relative:	-15%	17%	-19%	-18%	-35%	-30%	-46%

EV = Current Market Cap + Actual Net Debt

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compc metrics re-weighted to reflect headline (SKC) companies fiscal year end

Figure 28. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 29. One year forward PE (x)


Source: Forsyth Barr analysis

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