

SKYCITY

1H21 Preview — COVID Still a Handbrake

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OUTPERFORM

We expect SKYCITY (SKC) to report a profit decline in 1H21, given COVID-19 related restrictions, albeit greater focus will likely be on outlook/trading insights and longer-term drivers. Of particular interest is (1) early trading from the Adelaide expansion, (2) discussion around regulatory, AML and risk protocols (after the recent review of Crown Resorts), (3) dividend reinstatement timing. Valuation metrics are attractive, particularly looking beyond COVID-19 disruption (our forecasts assume a recovery to 'normal' by FY23E), and the resumption of a supportive dividend yield a potential near-term catalyst.

NZX Code	SKC	Financials: Jun/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$2.94	NPAT* (NZ\$m)	66.2	82.2	124.8	146.5	PE	29.5	27.2	17.9	15.3
Target price	NZ\$3.40	EPS* (NZc)	10.0	10.8	16.4	19.3	EV/EBIT	23.8	19.3	13.8	12.0
Risk rating	Medium	EPS growth* (%)	-61.1	8.6	51.8	17.4	EV/EBITDA	13.6	11.8	9.3	8.2
Issued shares	760.1m	DPS (NZc)	10.0	6.0	13.5	15.0	Price / NTA	2.5	2.4	2.2	2.0
Market cap	NZ\$2,235m	Imputation (%)	100	100	100	100	Cash div yld (%)	3.4	2.0	4.6	5.1
Avg daily turnover	1,365k (NZ\$3,640k)	*Based on normalised profits					Gross div yld (%)	4.7	2.8	6.4	7.1

Key areas of interest

- **COVID-19 still front and centre:** 1H21 included the temporary closure of Auckland (19 days), various periods of restriction and negligible IB/VIP customers or tourists. This compares to an unrestricted prior period. The rapid change in NZ this week (Auckland temporary casino closure; material restrictions in rest of NZ) is also a reminder of the fluid trading backdrop.
- **Balance sheet and dividend:** SKC has covenant waivers (from banks and USPP noteholders) for the testing periods of 31 December 2020 and 30 June 2021. No interim dividend will be paid, but an update on restatement timing intentions is of interest (we forecast 6cps in 2H21E). SKC has material liquidity and headroom available (and covenant waivers) to manage temporary closure(s).
- **Product mix favourable for margins:** We expect to see resilience in gaming spend (with a quick rebound on re-opening), while hospitality is more challenged. This, coupled with cost-out and opex discipline, is likely to see margin expansion.
- **Adelaide expansion:** Key focus: (1) Early trading insights, particularly gaming, post opening in a staged manner from December 2020. Evolving state border restrictions in Australia and no tourists is not a perfect backdrop, however, we expect a captive local audience should have seen an encouraging start. (2) Updated views on long-term earnings potential.
- **New management:** This will be Michael Ahearne's first result as CEO, with a restructured executive team, albeit still awaiting a new CFO. While there has been a lot of change, we are not expecting any material shift in strategy.

Conference call — 11am NZ time; Thursday 18 February

SKC will host a conference call at 11am NZ time. Pre-registration: <https://s1.c-conf.com/diamondpass/10012053-pfe916.html>.

Figure 1. SKC 1H21 result expectations

Normalised result (NZ\$m)	1H20	1H21E	% chg
Revenue (incl gaming GST)	490.9	322.2	-34%
Normalised EBITDA	153.3	101.4	-34%
EBITDA excluding IB	145.1	103.0	-29%
Normalised profit	75.0	35.5	-53%
EPS (cps)	11.3	4.7	-59%
Dividend per share (cps)	10.0	0.0	-100%

Source: Forsyth Barr analysis, Company reports

Figure 2. Snapshot by casino of COVID-19 restrictions (1H21)

Casino	Share of 1H21 period in each status		
	Closed	Open with restrictions	Open with no restrictions
Auckland	10%	21%	69%
Hamilton	0%	22%	78%
Queenstown	0%	22%	78%
Adelaide	2%	98%	0%

Source: Forsyth Barr analysis

SKYCITY Entertainment Group Ltd (SKC)

Priced as at 15 Feb 2021 (NZ\$) **2.94**

12-month target price (NZ\$)*	3.40
Expected share price return	15.6%
Net dividend yield	3.7%
Estimated 12-month return	19.4%

Key WACC assumptions	
Risk free rate	1.30%
Equity beta	1.06
WACC	6.6%
Terminal growth	1.5%

Spot valuations (NZ\$)	
1. DCF	3.27
2. Sum of the parts (current)	3.19
3. Sum of the parts (w project upside)	3.43

DCF valuation summary (NZ\$m)	
Total firm value	3,151
(Net debt)/cash	(531)
Less: Capitalised operating leases	(63)
Value of equity	2,558

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Sales revenue	1,012	642	683	878	983
Normalised EBITDA	343	201	232	297	333
Depreciation and amortisation	(90)	(87)	(90)	(97)	(105)
Normalised EBIT	253	114	142	200	228
Net interest	(10)	(21)	(26)	(29)	(28)
Associate income	0	0	0	0	0
Tax	(70)	(27)	(34)	(46)	(54)
Minority interests	0	0	0	0	0
Normalised NPAT	173	66	82	125	146
Abnormals/other	(28)	169	0	0	0
Reported NPAT	145	235	82	125	146
Normalised EPS (cps)	25.6	10.0	10.8	16.4	19.3
DPS (cps)	20.0	10.0	6.0	13.5	15.0

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	7.8	13.6	11.8	9.3	8.2
EV/EBIT (x)	10.5	23.8	19.3	13.8	12.0
PE (x)	11.5	29.5	27.2	17.9	15.3
Price/NTA (x)	5.6	2.5	2.4	2.2	2.0
Free cash flow yield (%)	-4.7	-11.9	-4.2	-2.5	0.1
Net dividend yield (%)	6.8	3.4	2.0	4.6	5.1
Gross dividend yield (%)	9.4	4.7	2.8	6.4	7.1

Capital Structure	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	24.8	5.4	5.4	6.9	8.2
Interest cover EBITDA (x)	33.6	9.5	8.8	10.3	12.0
Net debt/ND+E (%)	30.3	27.0	25.3	23.0	22.3
Net debt/EBITDA (x)	1.5	2.6	2.3	1.6	1.5

Growth Rates	2019A	2020A	2021E	2022E	2023E
Revenue (%)	1.3	-36.6	6.5	28.5	11.9
EBITDA (%)	1.3	-41.4	15.7	27.8	12.3
EBIT (%)	3.7	-54.9	24.5	40.6	14.3
Normalised NPAT (%)	1.9	-61.7	24.2	51.8	17.4
Normalised EPS (%)	0.9	-61.1	8.6	51.8	17.4
Ordinary DPS (%)	0.0	-50.0	-40.0	>100	11.1

Key Ratios	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	9.9	4.1	5.1	7.1	8.4
Return on equity (%)	15.0	4.6	5.2	7.7	8.6
Return on funds employed (%)	11.1	4.5	5.0	6.9	7.8
EBITDA margin (%)	33.9	31.3	34.0	33.8	33.9
EBIT margin (%)	25.0	17.8	20.8	22.8	23.2
Capex to sales (%)	31.6	53.8	38.6	32.1	26.4
Capex to depreciation (%)	418	503	371	365	305
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	78	100	55	82	78

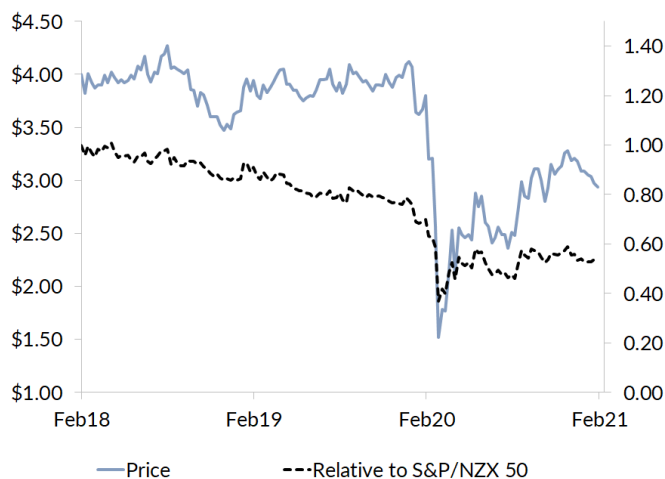
Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E
EBITDA	343	201	232	297	333
Working capital change	19	2	11	14	10
Interest & tax paid	(147)	(123)	(74)	(85)	(82)
Other	0	0	0	0	0
Operating cash flow	215	79	170	225	262
Capital expenditure	(320)	(345)	(264)	(282)	(260)
(Acquisitions)/divestments	225	(2)	0	0	0
Other	0	257	44	169	72
Funding available/(required)	119	(12)	(50)	112	74
Dividends paid	(127)	(133)	0	(67)	(74)
Equity raised/(returned)	(37)	158	50	0	0
(Increase)/decrease in net debt	(45)	13	(0)	45	(0)

Operating Performance	2019A	2020A	2021E	2022E	2023E
Total revenue (incl gaming GST)					
Auckland	607	497	490	572	602
Hamilton	62	59	62	63	64
Other NZ	13	11	11	11	13
Adelaide (A\$)	149	121	143	190	210
Darwin (A\$)	83	0	0	0	0
IB	191	79	9	80	137
Online / esports	0	10	27	32	34
Revenue (incl gaming GST)	1,119	783	753	963	1,077

Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Working capital	(172)	(173)	(184)	(198)	(208)
Fixed assets	1,436	1,529	1,584	1,799	1,760
Intangibles	798	650	631	611	591
Right of use asset	0	52	51	50	49
Other assets	220	456	414	248	179
Total funds employed	2,282	2,513	2,495	2,511	2,371
Net debt/(cash)	504	537	537	492	492
Lease liability	0	53	55	58	61
Other liabilities	622	489	336	336	121
Shareholder's funds	1,156	1,435	1,567	1,625	1,697
Minority interests	0	0	0	0	0
Total funding sources	2,282	2,513	2,495	2,511	2,371

EBITDA breakdown	2019A	2020A	2021E	2022E	2023E
Auckland	268	194	217	248	263
Hamilton	27	24	28	29	29
Other NZ	2	1	2	2	3
Adelaide (A\$)	21	11	21	34	42
Darwin (A\$)	19	0	0	0	0
IB	42	5	(3)	16	29
Online / esports	(1)	1	6	7	7
Corporate costs	(35)	(32)	(34)	(35)	(36)
Other	(3)	(4)	(7)	(7)	(7)
Total EBITDA	343	201	232	297	333
NZDAUD	0.94	0.95	0.93	0.93	0.93

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

Figure 3. Price performance


Source: Forsyth Barr analysis

Figure 4. Substantial shareholders

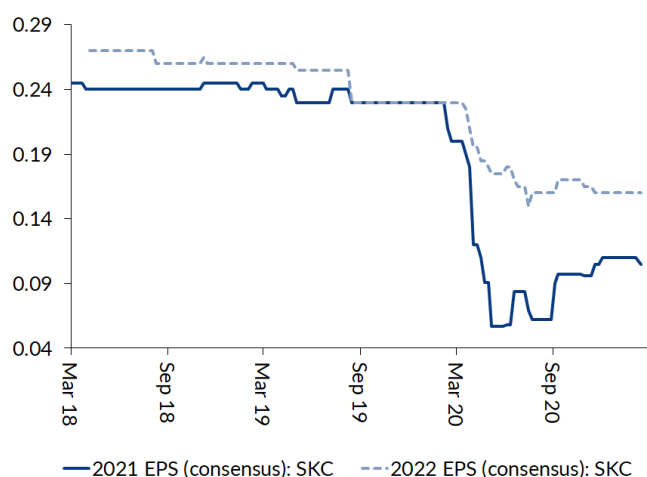
Shareholder	Latest Holding
Sumitomo Mitsui Trust Holdings	10.4%
Commonwealth Bank of Australia	7.1%
ACC	6.1%
Investor Mutual	5.6%
The Vanguard Group	5.3%

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

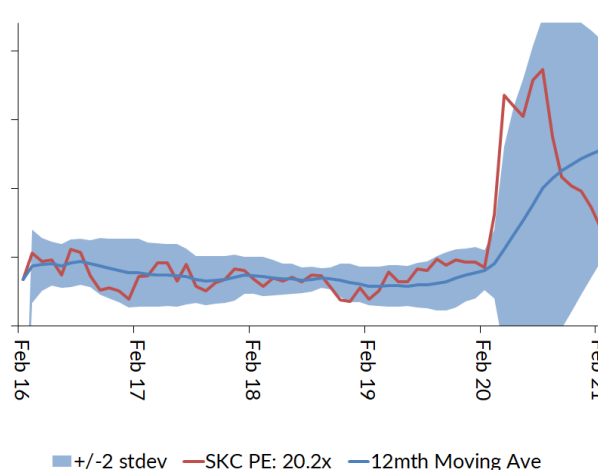
Figure 5. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld	
(metrics re-weighted to reflect SKC's balance date - June)			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E	
SKYCITY	SKC NZ	NZ\$2.94	NZ\$2,235	27.2x	17.9x	11.9x	9.3x	19.5x	13.8x	4.6%	
CROWN RESORTS	CWN AT	A\$9.81	A\$6,643	<0x	28.0x	24.1x	10.7x	>75x	19.9x	4.4%	
TABCORP HOLDINGS	TAH AT	A\$4.57	A\$10,132	30.1x	26.0x	13.4x	12.5x	21.4x	19.1x	3.0%	
STAR ENTERTAINMENT GRP/T	SGR AT	A\$3.83	A\$3,646	36.1x	20.8x	12.5x	10.2x	24.7x	16.8x	2.6%	
GENTING MALAYSIA BHD	GENM MK	RM2.68	RM15,151	9.1x	20.9x	56.2x	9.1x	2.6x	20.6x	5.8%	
KANGWON LAND INC	035250 KS	KRW24450.00	KRW5,230,845	4.5x	21.7x	1.7x	11.6x	5.0x	15.9x	3.1%	
Compco Average:				20.0x	23.5x	21.6x	10.8x	13.4x	18.4x	3.8%	
EV = Current Market Cap + Actual Net Debt				SKC Relative:	36%	-24%	-45%	-14%	45%	-25%	21%

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

Figure 6. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 7. One year forward PE (x)


Source: Forsyth Barr analysis

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