WFH, shelter-in-place, follow the science and give it a shot! Targeting regional names amid staycation surge

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Core views

Investors are finally seeing the pinhead of light at the end of the tunnel amid some early successes in vaccine development. With the US presidential election uncertainty behind us and the pandemic in Asia Pacific pretty much under control, we see a rebound in sentiment in the travel and tourism sector. However, while most people are still cautious and holding back on overseas travel, we see a surge in staycation demand post lockdowns, and thus we believe regional names should benefit in the short to medium term. We like the Macau gaming names, such as SJM (00880.HK), Sands China (01928.HK) and Galaxy Entertainment (00027.HK), the Vladivostok regional gaming name Summit Ascent (00102.HK), and the multifaceted entertainment giant Walt Disney (DIS.N). We also believe that as the vaccine becomes more widely available with its safety and efficacy confirmed, the view of returning to "normal" should bring in an explosive rebound in consumption, especially in travel and tourism, and thus, the aforementioned names should further benefit.

- Macau gaming sector is gradually getting out of the woods, thanks to the resumption of the Individual Visit Scheme (IVS) scheme, early successes in vaccine development, and Biden's victory. However, Macau's ultimate success still depends on its conversion from a high-rolling based gaming haven to a family-oriented leisure and MICE center, with Hengqin in the picture.

  We forecast that Macau's gross gaming revenue (GGR) in 2021 could return to about 70% of its 2019 level. While the VIP market has been suffering from a setback, we expect that much of the recovery should be contributed by the mass market. As a matter of fact, the share of mass GGR had already surpassed VIP's in 2019, however, the trend was disrupted by the lack of visitors this year. Moving on to the post-Covid period, we believe that Macau's tourism and its entertainment industry should resume the focus on its conversion into a family-oriented entertainment hub, as its VIP business should be further affected by government policies, global economic recovery and competition from the neighboring countries. Back in 2016 during Premier Li Keqiang's visit, Macau had started to follow in Vegas' footsteps and escalated its revolution in treating the lower-end souvenir shoppers as its VIPs. Macau has an immediate need to diversify from pure gaming and to aggressively focus on building out more non-gaming facilities. We also believe that Hengqin, on the other side of the river, must be in the picture for hotel, infrastructure and MICE capacity pooling.

  Macau's six gaming operators had come out with their 3Q results. Most of them claimed that the sector had seen an early reprieve since October and GGR had returned to about 30% of the pre-Covid level. Despite a bit of a relief in liquidity for VIPs, we believe that the returning of mass traffic is critical to the sector's recovery. However, we also noticed that visitors might still be reluctant to come as the self-service visa application is still suspended and a negative nucleic acid test must be presented when entering Macau and its resorts. Going forward, we expect the number of visitors should return to about 70% of the 2019 level, i.e. at least 28 million visitors, as the entry process becomes less hairy. While tourists have been gradually returning to Macau, its border control measures could be tightening up again in case there are any resurgence of Covid cases in winter. We ask investors to stay vigilant. SJM is our top pick as its new integrated resort in Cotai is opening in 1Q21. We like Galaxy Entertainment as its Phase 3 with new hotel and MICE capacity is coming up later next year. We also recommend Sands China as it has the largest mass and non-gaming business among the operators.

We believe that SJM should be revalued with its legacy properties continue to see margin improvement and its new integrated resort (IR) is coming online. The opening of Grand Lisboa Palace (GLP) was impacted by the pandemic and had been postponed until 1Q21. The new IR will open partially to start with and we expect it to contribute a 20% increment in EBITDA compared to 2019 during its first-year ramp-up, and in the second year we expect it to contribute 80%+ in a steady state. We like GLP because its design suits the taste of its target clients well and its new management team is aggressively introducing operational standards to this new property. The IR provides over 2,000 hotel rooms, with hotel towers paying tribute to two Italian legendary fashion designers, Versace and Karl Lagerfeld. SJM has also partnered with CDF to open a flagship duty-free store inside the property. In addition, GLP's VIP area will host the top-tier gaming agents for better clientele. In terms of its legacy properties on Macau Peninsula, we noticed that the lower-end clients arriving via the HK-ZH-MO bridge were the major contributors helping in reviving these old properties.

Galaxy Entertainment planned to open its Phase 3 in 2H21 and Phase 4 later in 2022. With hotel capacity being the major bottleneck in Macau, we believe Galaxy should benefit from its new properties. Phase 3 features a MICE facility with 1,500 hotel rooms, while Phase 4 will provide another 2,000 rooms. We believe the new hotel accommodation should be able to facilitate growth in both of its gaming and non-gaming businesses. Galaxy has a well-balanced mass and VIP business. Its non-gaming business includes a one-stop shopping mall, diversified choices of international cuisines, and a family-oriented outdoor water world, etc. These make Galaxy's IR one of the top choices among vacationers. In addition, Galaxy is also the only Macau gaming operators having a piece of undeveloped land in Hengqin. We believe that Galaxy is in the best position in experiencing the Macau-Hengqin synergy.

- **Summit Ascent (00102.HK): A pearl off the shore of Far East Russia. A regional play benefiting from staycation demand in the short term. We expect the Japanese and Korean clientele to return in the medium term, while new hotel capacity and foreign expansion is ready to fuel its long-term growth.**

Summit Ascent owns Tigre de Cristal, which is located in the Primorye region near Vladivostok in Far East Russia. As a major player in this new gaming market, we like its fundamentals in all aspects. We believe it is a strong regional play ready to benefit from the surge in staycation demand. Its operations were suspended from March 28 to July 15, but its local demand was strong ever since it reopened, contributing to a positive EBITDA in both August and September. Its mass turnover and slot turnover both returned to about 100% of the pre-Covid level. From mid-2021 to late-2022, we expect overseas clientele (mostly from South Korea and Japan) will gradually return thanks to the wider availability of vaccines. Beyond 2022, Phase 2 of Tigre de Cristal is expected to come online. We project that the total hotel capacity should reach over 500 rooms, and the total number of gaming tables and slot machines should come up to over 125 and 600, respectively. Summit Ascent is also planning on participating in an international expansion project in the Philippines. The Westside IR project located in Manila's Entertainment City is expected to open in late 2022.

We notice that local demand in countries which allow locals to participate in gaming activities is not insignificant. Kangwon Land in South Korea is a good example. Its GGR rebounded by 121% QoQ in 3Q amid strict border control. We also noticed that Kangwon alone contributed over 50% of South Korea's total GGR during 2010-2019. This shows that gaming is popular among South Koreans, and they are also Summit's targeted clientele. The Philippines also allows its locals to participate in gaming activities. The Manila Entertainment City was closed from March 16 through the end of August, but it saw speedy recovery in 3Q with a 630% QoQ increase in GGR. In the US, Nevada's offline gaming revenue also returned to about 76% of the 2019 level, with 3Q GGR of the three major Vegas names, Las Vegas Sands (LVS.N), Wynn Resorts (WYNN.O), and MGM Resorts (MGM.N), reaching 90%, 75%, and 59% of the levels in the same period in 2019.

We believe that successful entertainment destinations can be categorized into two types: 1) a gaming hub clustered with many IRs, such as the Cotai Strip in Macau, the Las Vegas Strip, and the Entertainment City in Manila; 2) a popular tourist destination with a handful of IRs, such as Vietnam, Japan, and Australia. We believe that Vladivostok is both a popular tourist destination rich in Sino-Russian history and scenic view, and with a budding gaming hub in Far East. Currently, there are two IRs in the region, including Tigre de Cristal and the Shambhala resort developed by a local Russian developer of the same name. HK-listed NagaCorp and another Russian local developer Diamond Fortune are also planning to operate there. We believe that a cluster-based gaming center provides a fairly benign competition environment for the operators and should quickly become a magnet for leisure travelers. Vladivostok is only within 2-3 hours by air from Japan and South Korea. The gaming concessionary in Russia is granted permanently and gaming taxation is the lowest in Asia Pacific, as it is based on the number of tables and slot machines multiplied by a fixed amount. Thus, Russia in general provides a favorable environment for gaming operators.

Walt Disney (DIS.N): A multifaceted entertainment giant poised to become the ultimate beneficiary of the WFH and staycation boom.

While the spread of Covid still hasn't been curbed in the US and Europe, investors are finally seeing some light at the end of the tunnel amid early successes in vaccine development. With that, investors have been eagerly flocking to the old economy names that had been undervalued and hard hit by the pandemic. Disney as a multifaceted O2O entertainment giant, in our view, can be the ultimate beneficiary amid the staycation and work-from-home (WFH) boom. The company described that the pandemic had significantly impacted its theme park division due to lockdowns and forced closures. Currently, Disneyland Resorts in California and Paris had remained closed, while parks in Asia had been reopened with limited capacity during 4Q, including the ones in Tokyo, Shanghai and Hong Kong. Florida's Disneyworld Resort equipped with the new Star Wars theme is also open for business. We believe that Disney's theme park division should benefit from economic recovery and staycation demand during the upcoming holiday season.

While Disney's studio entertainment division should begin to recover as the pandemic getting under control and people heading back to theaters, we notice that shelter-in-place might have become the catalyst of the recent media industry restructuring. Consumer habits had changed during the lockdown and increasingly gravitated to digital viewing. Previously, a new movie was scheduled for exclusive showing in theaters for about 90 days before it became available on another platform. But media giants are all starting to prioritize the streaming media. Disney is taking more major titles directly to its steaming platform, e.g. they experimented it with Mulan during this summer. It will also debut the Pixar animation Soul on Disney+ on Christmas Day. Warner Bros' Wonder Woman 1984 will follow suit to debut on HBO Max.

Disney+, the company's streaming movie platform has proven a huge success with a record 73.7 million subscribers on its first anniversary. We like Disney's streaming media bundle, with the family-oriented Disney+, the "cord cutter" catalyst Hulu, and the sport hub ESPN+, and we believe the direct-to-customer division is Disney's real bright spot. We also like Disney's multifaceted O2O closed-loop experience starting with its movie IP, to its theme parks, vacation packages and peripheral merchandises, and ending up on its streaming media. We believe the company will continue to be revalued as its streaming media business starting to breakeven and its other offline businesses starting to revive in the post-Covid period.

Potential risks

Global economic slowdown, expiration of Macau gaming licenses, the coronavirus pandemic hitting Macau's tourism and leading to tightening cash flow of gaming companies, and intensified competition from Southeast Asia, etc.

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