

## Wynn Macau (1128 HK)

Share price (21 Mar): HKD29.05

12-mth rating: **Outperform (2)**

Consumer Discretionary: **Macau**

### Wynn Macau's bond prices are also signalling a potential hike in dividends

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**Summary:** In our last company report, we had discussed in detail Wynn Resort's (Wynn US, USD178.92, not-rated) cash flow conditions and the potential for its subsidiary (Wynn Macau) to raise its dividend as a means of covering for the parent's cash shortfall.

In this note, we examine Wynn Macau's recent bond prices, which may also be signalling negative balance risks and a strong indicator on the impending dividend hike that could be announced after-market tomorrow.

Since 26 January, 2018, the last trading day prior to the publishing of WSJ's article alleging Steve Wynn's misconduct, a series of events ensued at Wynn Resorts, including:

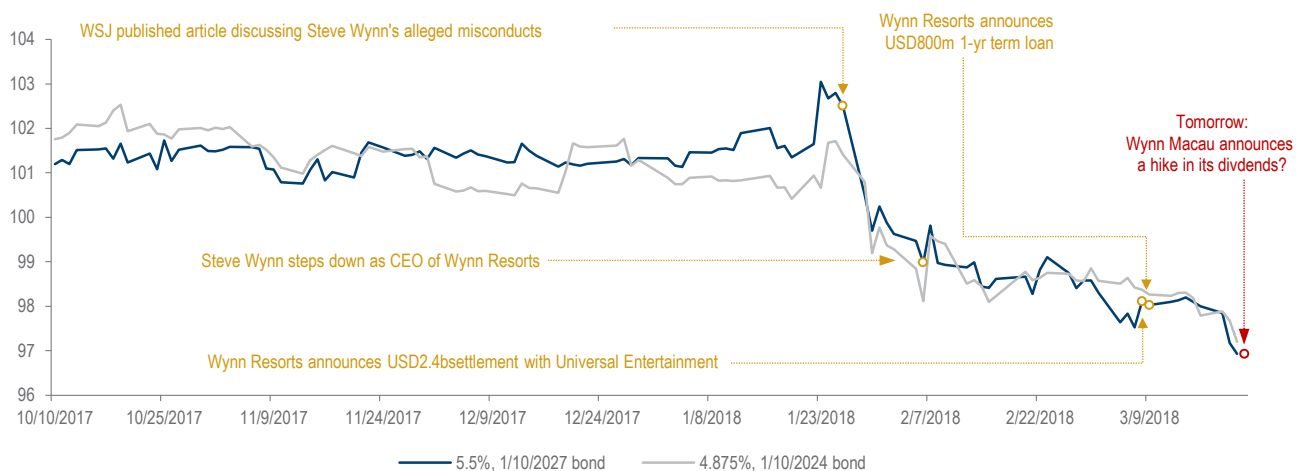
- **6 February 2018:** the resignation of Steve Wynn (key man risk)
- **8 March 2018:** announcement of USD 2.4b settlement with Universal Entertainment
- **9 March 2018:** announcement of a 1-yr USD800m term facility at Wynn Resorts

**Wynn Macau's falling bond prices perhaps signals negative balance sheet risks and is a leading indicator for the operator's looming potential dividend hike.**

As we had discussed in our report (see [link](#)), the significant cash flow requirements resulting from the recent developments at the parent level (cost of settlement + future capex for Boston and Las Vegas) will likely result in looming cash shortfall for the parent. To us, this provides us with a strong indicator that Wynn Macau will likely raise its dividend going forward (in the form of regular and/or special dividends).

It would appear that Wynn Macau's bond prices are already pricing in the increased odds of a negative balance risk and support of our case for a hike in Wynn Macau's dividends, as illustrated in the chart below. This could be officially announced after-market hours tomorrow.

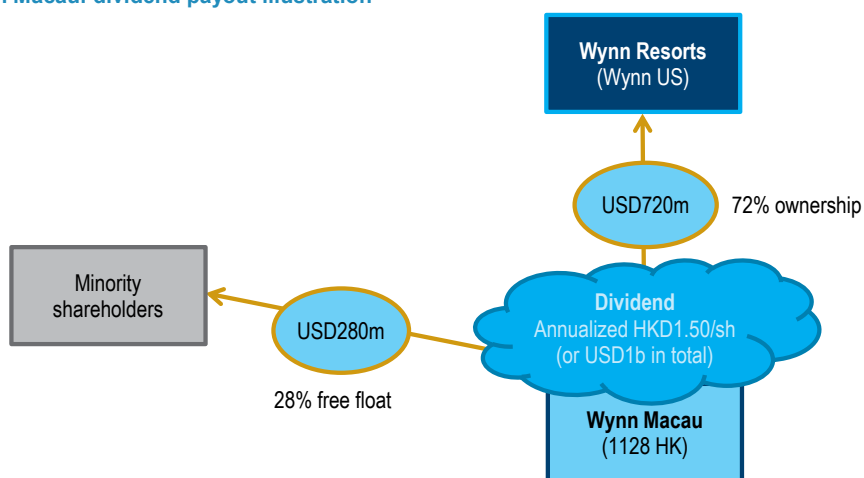
**Wynn Macau bond prices timeline**



Source: Bloomberg, Daiwa

**Valuation: Benefit from the leakage.** We reiterate our Outperform (2) call on the stock. If we are right about Wynn Macau's potential dividend hike (potentially to an annualized HKD1.0/share as previously discussed and as illustrated below and implying a c.5% dividend yield), minority shareholders should benefit directly as Wynn Resorts owns only 72% of its Macau subsidiary. We have a SOTP-based 12-month TP of HKD31.0 for Wynn Macau. Key risk to our positive view: a larger-than-expected swing in China's macro fundamentals.

**Wynn Macau: dividend payout illustration**



Source: Daiwa estimates  
Note: H:\Consumer Team\Gaming\1Q18 thematic report\Wynn US\_main\_model.xlsx

In the interests of timeliness, this document has not been edited.

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Rating	Percentage of total
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Hold**	20.9%
Sell***	11.7%

Source: Daiwa

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