

# MELCO RESORTS – A SECULAR GROWTH STORY



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Over the past year, the Perpetual team has opportunistically purchased some high quality, growing businesses at attractive valuations. One such example is Melco Resorts and Entertainment (Melco) (NASDAQ:MLCO), a stock we bought back into during the second half of 2018. It was a time when all stocks exposed to China were selling off due to the Trump/Xi Jinping trade war.

We find the best opportunities arise when fundamentals don't change, but share prices wax and wane due to sentiment. This is what happened with Melco, despite the strong secular trends in tourism and gaming in Macau and the benefits of its recently updated Morpheus property.

## **The Melco story**

Melco develops, owns, and operates casino gaming and entertainment casino resort facilities in Macau and the Philippines. Perpetual has been an investor and follower of the stock for many years, as Crown was a majority shareholder for many years.

Melco's major assets include:

- **City of Dreams** (Macau), an integrated casino resort that has 500 gaming

tables, 800 gaming machines and approximately 1,400 hotel rooms and suites. It also has a theatre, approximately 30 restaurants and bars and 150 retail outlets. City of Dreams also offers a range of recreation and leisure facilities, including health and fitness clubs, spas and salons, swimming pools, as well as meeting facilities.

- **Morpheus** (Macau), is part of Melco's City of Dreams development and is a flagship hotel development on which it spent over US\$1.1 billion. The building is designed to look like a stylised number eight, a lucky number in Chinese culture. The hotel is 41 stories high and has 772 rooms and suites. Morpheus was recently awarded the 2019 Building of the Year Award, in the Hospitality Architecture Category, by readers of ArchDaily, the world's most visited architecture website.
- **Altira** (Macau), a casino hotel, which has approximately 112 gaming tables, 56 gaming machines and 230 hotel rooms. It also provides fine dining and casual restaurants, as well as a variety of recreation and leisure facilities.
- **Studio City** (Macau), a cinematically-themed entertainment, retail and gaming resort in which it has a 54 percent interest.
- **Melco Resorts Philippines**, in which Melco owns a 72 percent interest. This includes City of Dreams Manila, a resort and casino that features three luxury hotel brands and a number of premium restaurants. It's also home to the first DreamWorks inspired entertainment hub.

### Macau – the world's casino capital

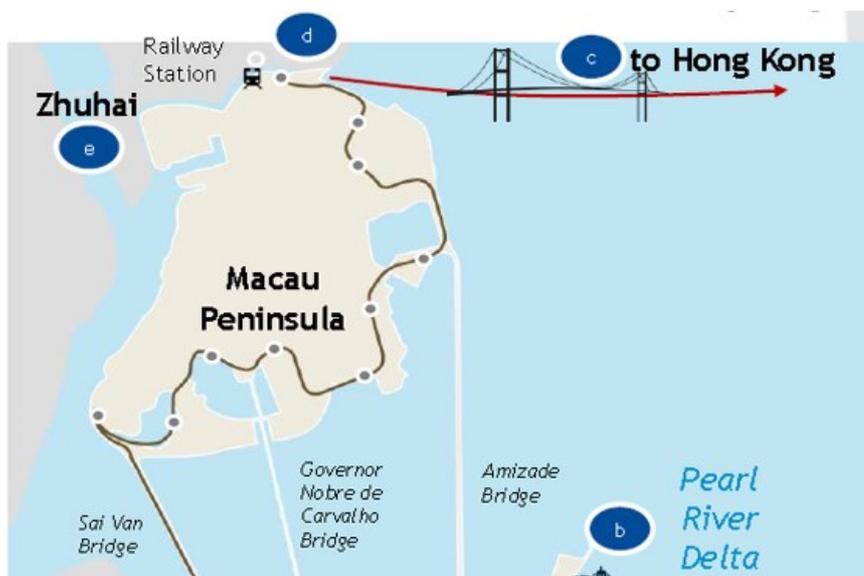
Macau has been described as Asia's answer to Las Vegas; however, Macau took the mantle of the world's casino capital in 2010 when its gambling revenue exceeded not just that of 'sin city', but the entire state of Nevada<sup>1</sup>.

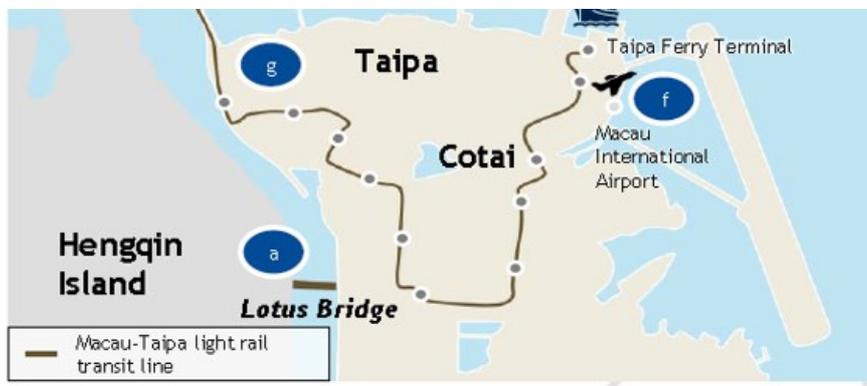
Two years after Hong Kong officially reverted to Chinese sovereignty, Macau followed suit to become a 'special administrative region'. There is one important difference between Macau and Hong Kong/mainland China – Macau is the only part of China in which gambling is legal.

Macau is currently undergoing some meaningful new infrastructure investment, which should increase accessibility and decrease the time to travel for gamblers. This should help drive earnings for all casino operators.

The major new improvements include a bridge between Hong Kong-Zhuhai-Macau, an extension of the Guangzhou-Zhuhai intercity mass rapid transit (Hengqin extension) and the Macau-Taipa light rail transit line.

The new bridge connecting Macau with Hong Kong is expected to increase tourist numbers, as well as those travelling from mainland China. Each of these are expected to be operational over the next year or two and we expect to see an immediate increase in visitation and increased spend at the casinos and related establishments as a result.





## Manila – an emerging casino hub

The Philippines aren't the first region that springs to mind when one thinks of gambling destinations; however, Melco's City of Dreams Manila is one of several such establishments in the country's capital.

Located at the gateway of Entertainment City, within the popular Manila Bay area, City of Dreams Manila offers a variety of hotel brands across its six hotel towers. These range from celebrity-inspired lifestyle for trendsetting leisure and business travellers through to a luxurious casino hotel experience for VIPs. Its hotel brands include Nobu Hotel Manila and the business/leisure traveller-focused Hyatt City of Dreams Manila. The complex also houses numerous specialty restaurants, bars and gaming facilities.

As key differentiator, the City of Dreams Manila also features three distinctive entertainment venues, including:

- DreamPlay by DreamWorks, the world's first DreamWorks-inspired family entertainment centre
- CenterPlay, a live performance lounge inside the casino
- World renowned nightclub brands Pangaea and Chaos, situated at the Fortune Egg, an architecturally-unique dome-like structure accentuated with a creative exterior lighting design.

In all, the company is positively exposed to the secular growth thematic of increasing wealth in Asia and the strong consumer behavioural trend towards gambling. China's economic success, the increased wealth of its citizens and its burgeoning middle class will help support Melco's continued growth.

1. <https://theconversation.com/how-macau-became-the-worlds-casino-capital-108866>

Melco Resorts and Entertainment (Melco) (NASDAQ:MLCO) is held in the Perpetual Global Share Fund.

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