

Australian Gaming Industry

20 for '20: Forecasting Casinos, Lotteries, Slots and Wagering in the upcoming year

We make 20 forecasts for '20 in our annual Australian gaming industry outlook. 35 pages of deep dive details overleaf (*industry-level forecasts, company-specific metrics, government-reported statistics and the health of the Australian gambler*). **ALL remains our top pick; TAH our least preferred.**

- **1) TAH wagering revenue will decline.** Tote is 49% of TAH wagering revenues and we expect this channel (tote) to decline ~5% this year.
- **2) UBET's tote deterioration will accelerate.** We expect **greater >10%**.
- **3) WA TAB sale will drive VIC value & price higher** for the incumbent.
- **4) VIC wagering will grow** as a benefit of lower POCT and at the expense of others states. 8% VIC captures bookmaker interest from 15% QLD/10% NSW.
- **5) Liquidity will become a bigger concern** as large gamblers exit pools/markets. \$1 spent wagering (post POCT) is turned **0.5x less**; causing turnover to drop ~7% as gamblers are losing money historically faster w/POCT.
- **6) Gamblers will accelerate the shift from racing to sport** (>1% of turnover last year) as it is now **~4x more expensive** to bet on racing vs sport.
- **7) TAH / TTS synergies will remain in question;** product, price, marketing and advertising remain competitive w/corporates; TAH will continue to invest.
- **8) 'FOMO' will reduce lottery ticket sales** by 7% in the next 12 months.
- **9) Avg jackpot sizes will create a drag** on FY21 sales after **increasing 21%**.
- **10) Lottery digital migration will assist margins**, although full-penetration is likely to occur in the near term (we forecast 28% in FY25).
- **11) VIP margins will compress** as MEL **VIP turnover will fall by 28%**.
- **12) 'Loyalty' will be the battlefield** across Sydney domestic VIP.
- **13) Macau VIP turnover may improve**, however, the recent **Coronavirus** may create a less buoyant environment for Chinese visitation to Australia.
- **14) Weak consumer discretionary & international visitation in 3Q.** **Bushfire headlines** are impacting international inbound bookings as consumers are unwilling to spend while seeing others struggle in affected / recovery areas.
- **15) Probity will remain a question mark.** Both SGR & **CWN** awaiting rulings with resolution unlikely during 1HCY20; we do, however, expect approvals.
- **16) ALL's land-based dominance will continue.** **VLT/C2** to provide tailwinds.
- **17) Key question for ALL will persist:** "How, will, & when does the company 'make' another RAID"? Is it developed, bought, or already in the portfolio?
- **18) ALL will need a successful title** (like RAID) every 18-24 months.
- **19) Gaming M&A: 'Buy and scale'** strategy for mid-scale/cycle titles will assist ALL to maintain active & highly profitable users.
- **20) ALL will re-rate above \$40** if another game scales & monetizes.

Australia Gaming

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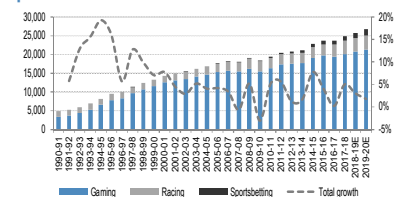
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Figure 1: Total gambling expenditure by product



Source: AGS - Gaming represents all forms of gambling other than Racing and Sports betting, and J.P. Morgan estimates.

Equity Ratings and Price Targets

Company	Ticker	Mkt Cap (A\$ mn)	Price (A\$)	Rating		Price Target			
				Cur	Prev	Cur	End Date	Prev	End Date
Aristocrat Leisure LTD	ALL AU	22,825.57	35.71	OW	n/c	37.50	Dec-20	n/c	n/c
Crown Resorts Limited	CWN AU	7,857.22	11.43	N	n/c	11.75	Jun-20	n/c	n/c
Star Entertainment Group Limited	SGR AU	3,816.06	4.16	N	n/c	4.50	Dec-20	n/c	n/c
Tabcorp Holdings	TAH AU	9,340.32	4.64	UW	n/c	4.10	Jun-20	n/c	n/c

Source: Company data, Bloomberg, J.P. Morgan estimates. n/c = no change. All prices as of 28 Jan 20.

See page 42 for analyst certification and important disclosures, including non-US analyst disclosures.

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20 estimates for FY20

Wagering

- UBET's tote revenue has been declining at an increasingly accelerated rate (FY18 down -6.5%; 1H19 down -7.5%, 2H19 down -11%; FY19 down -9.1%). We expect TAH's marketing (online/fixed odds/sports) to promote increased cannibalization for UBET/tote and reduce turnover by 10% or more in throughout the year. **As total TAH tote revenue accounts for 48.9% of wagering revenue (FY19), we estimate a reduction of -4.6% in TAH revenue for this channel at the FY20 result.** Furthermore, the exiting of key, individual gamblers who provide liquidity into tote markets (estimates place certain individuals as consistently contributing up to 7% of pools) will have a domino effect and drain this channel.
- **PRA's and equine welfare requirements may pressure race field fees** and further affect industry growth. Public expectations have increased, which is placing more scrutiny on horseracing as the benchmark is likely to become more expensive.
- The sale process of Western Australia's TAB will progress, with [press](#) reports valuing the licence at A\$400m-500m; resulting in an **increased Victorian TAB valuation at a later date, and a more expensive re-negotiation for TAH.** This poses potential risk of stretching the company's balance sheet if they also win WA, continue the dividend payout, and particularly have to re-invest in product. Please note our deep dive on this topic [here](#).
- Structural, declining turnover continue across on-course, agency, and off course retail turnover. **We forecast overall FY20 industry turnover down -6.7% (across tote pools) although certain codes and geographies (particularly Victoria) will likely benefit at the expense of others.** Key drivers include code and PRA management, POCT, and vision rights/structure. Key drivers for Australian turnover growth are underpinned by upside across online, sports, and fixed odds. We provide detailed estimates in this outlook.
- **Gamblers are shifting ~1% of total turnover from racing to sports per year** (note [here](#)). Domestic Thoroughbred racing represents ~55% of Australian wagering turnover (Racing Australia – Sport, Harness, Greyhounds, and Thoroughbred). **It is ~4x more expensive for a recreational punter to bet on racing vs sport.** Marketing expenses, generosities, and promotions will continue to challenge margins, especially TAH as they seek to grow revenue share. We estimate group **TAH fixed odds yield at 13.6% for FY20E.** Some bookmakers have increased promotional generosities to 3x highest previous levels.
- The POCT will continue to negatively impact odds (reduced) with the ensuing impact particularly focused on states with higher rates (i.e. 15%). Regardless of promotional activity, **a dollar deposited into a wagering account is now (averaging) only getting turned over 3.1x, while it has historically been 3.6x.**
- TAH/TTS integration for the technology platform will be in the spotlight in the lead up to the Melbourne Cup. We remain **hesitant the TAH merger is completed on-time with synergies being realized for investors.** Implementation costs may increase as synergies are realised later or reinvested to maintain competitive with product, pricing, marketing & advertising to keep pace with bookmakers.

Lotteries

- We believe the A\$150m jackpot in Sept-19 will increase the Australian FOMO point to A\$70.5m from A\$42.3m previously. 'The Fear of Missing Out' (**FOMO**) **will continue to cast a long shadow over ticket sales (-7.2%) for CY20**. We believe jackpot volumes and respective ticket sales in 2020 will continue to be a key share price driver for TAH. **JIN** (Jumbo, Not covered) also operates in lotteries.
- **Our analysis for 1H20 lotteries indicates the average total jackpot value was \$45.6m (+22% vs pcp)**. This is inclusive of the record \$150m jackpot (Sept-19) and following this, the largest jackpot was only \$40m in Nov-19. **We expect 23 jackpots (\$15m or more) across Powerball and Oz Lotto**.
- **The lack of growth for large jackpots in CY20 presents a risk to group earnings going backwards as wagering is forecast to underperform (-1.7% wagering revenue and -4.4% profit decline FY20)**. Outsized ticket sales in a given year typically result in subsequent underperformance, as seen with American Powerball results.
- **Digital migration (23.5% of turnover) is likely reaching saturation (we forecast 27.9% in FY25)**. Although some further penetration is possible, TAH is unlikely to enjoy the same margin expansion in 2H20 as 2H19 or even 1H20. The future of the lottery business will continue to remain online, however, benefitting TAH, in our view.

Casinos

- **We estimate VIP margins will compress and are unlikely to recover**. Although we believe initial interest in Barangaroo will be strong when it opens 2-3 months earlier than originally announced, the negative impact of two casinos in one location is gambler '**choice**'. Reduced margins from offering better sweeteners to capture local, finite, gambling dollars poses a real risk. As both casinos will now have a competitor 15 minutes-walk away, we could see the same result for margins as the corporate bookmakers have dealt to TAH with competition.
- **Melbourne VIP turnover to fall in FY20**. Due to greater interest in Sydney with two casinos, we believe there will be an almost-immediate impact for inbound VIP gamblers choosing Sydney over Melbourne, irrespective if they only gamble at Barangaroo.
- **Loyalty offerings to be the forefront of the battlefield across Sydney domestic VIP**. In the lead-up to Barangaroo's opening at the end of CY20, we believe both casinos will seek to 'steal' customers through offerings, sweeteners, and program-matching. Without needing a cooling-off period, SGR loyalty members can receive instant reciprocity at CWN and access to Barangaroo; meaning each additional SGR card issued may benefit CWN's penetration into Sydney.
- **Macau VIP turnover may improve, however **Coronavirus** impact to Australia is unknown at this stage**. Some of the key global headwinds from last year (VIP smoking ban, junket issues, Hong Kong SAR protest, and visa control) are unlikely to recur in 2020, in our view; HK gaming analyst [notes](#). Macro pressures (trade tensions and liquidity) should ease and provide upside, in our view. The VIP cycle is close to the bottom and we are observing early signs of stabilization due to junkets' deposit levels.

- **Probity will continue to remain a delayed issue for SGR and CWN.** A public hearing regarding CWN's suitability to hold a licence in NSW and James Packer's sale to Melco (19.99% stake) commenced in late Jan '20. The hearing investigated the legitimacy of the sale – Melco has until the end of [May-20](#) to request approval from NSW, VIC and WA regulators. SGR is still awaiting approval for its shareholders CTF and FEC to receive approval to increase their holdings.

Slots & Digital

- **ALL's land-based dominance will continue in FY20 with game design momentum carrying performance well into 2021.** If ALL makes a land-based acquisition, it is likely to be "non-felt" (non-table related).
- ALL's 2020 investment thesis hovers around one key question: **Can ALL 'do it again' (similar to RAID)?** Back-filling existing evergreen such as like RAID with a mid-size (but proven) game and utilizing meta/live ops capabilities to scale and monetize the platform would likely prevent leakage of these highly profitable cohorts, while diversifying the paying base.
- **ALL only needs one successful game (like RAID) every 18-24 months.** We believe ALL will manage the 'yield' of RAID in 2020 (18-24 month lifecycle), but requires fresh (and proven) titles to retain users when RAID matures; this requires a successful game monetizing in late CY20.
- Adopting a **'buy and scale' strategy** for mid-scale/cycle titles might be the key for ALL re-rating. The company can utilize its scope, capabilities, and portfolio to cross-promote and effectively manage UA within acquisitions, thereby lending a strong case to acquire mid-scale game titles (Zynga's operating model).
- **ALL has the potential to re-rate above \$40 in 2020.** A consensus FY20 P/E of 22.1x implies ALL should trade at \$36.1 (+1.1% premium vs current levels) on our FY20 EPSA estimate of \$1.63. If new digital titles are developed, RAID monetization continues, and land-based adjacency growth continues in the US, we believe the multiple could expand further, as seen below.

Table 1: ALL's EPSA (Fully Diluted) P/E Cases

EPSA (Fully Diluted)	P/E	Share Price	Upside/Downside to Share Price
1.63	19.6x	32.0	-10.3%
1.63	20.1x	32.8	-8.0%
1.63	20.6x	33.7	-5.8%
1.63	21.1x	34.5	-3.5%
1.63	21.6x	35.3	-1.2%
1.63	22.1x	36.1	1.1%
1.63	22.6x	36.9	3.4%
1.63	23.1x	37.7	5.7%
1.63	23.6x	38.6	8.0%
1.63	24.1x	39.4	10.3%
1.63	24.6x	40.2	12.5%
1.63	25.1x	41.0	14.8%

Source: J.P. Morgan estimates, Bloomberg.

35th Australian gambling statistics analysis

In this outlook, we have dedicated sections to each gaming vertical which reflect past trends, observe consumer behaviours, and forecast future performance. We also highlight key consumer trends affecting the Australian gambler.

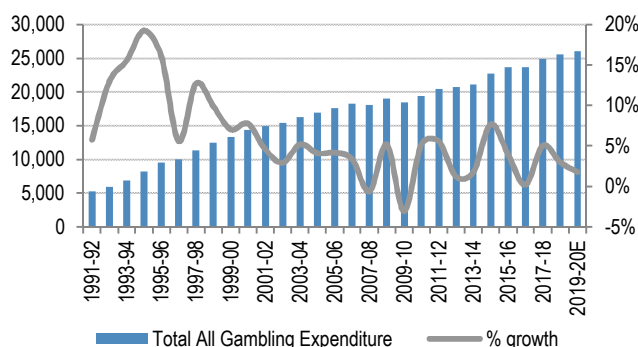
We expect gambling expenditure will increase by +1.8% in 2020

Australian gambling expenditure has grown steadily; 2.9% CAGR over the past 15 years. Australia continues to remain one of the most penetrated and developed gambling markets in the world. After a period of double-digit growth in the 1990s and mid-single digit growth in the early 2000s, 2007-08 and 2009-10 saw declines due to the implementation of a smoking ban in 2007 and the impact of the global financial crisis. Australian gambling expenditure grew 5% in 2017-18, above the long-term average and well above the 0.2% in 2016-17. We expect gambling expenditure will increase by +1.8% in 2020.

On a per-capita basis, gambling expenditure has increased at a 1.2% CAGR over the last 15 years. This indicates the majority of gambling expenditure growth in recent years has been driven by incremental population growth and foreign visitor influx. Per-capita gambling expenditure increased 3.3% in 2017-18, after a -1.7% decline in 2016-17. We expect softening global economic conditions, subdued consumer sentiment and lower spending levels to impact growth in 2020 (+1.6% expected).

Figure 2: Total Gambling Expenditure

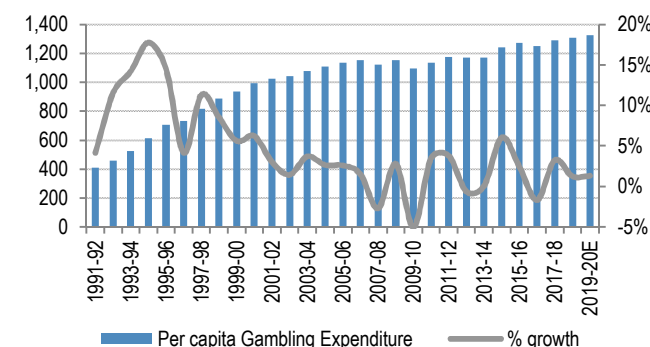
A\$ in millions



Source: AGS and J.P. Morgan estimates.

Figure 3: Per Capita Gambling Expenditure

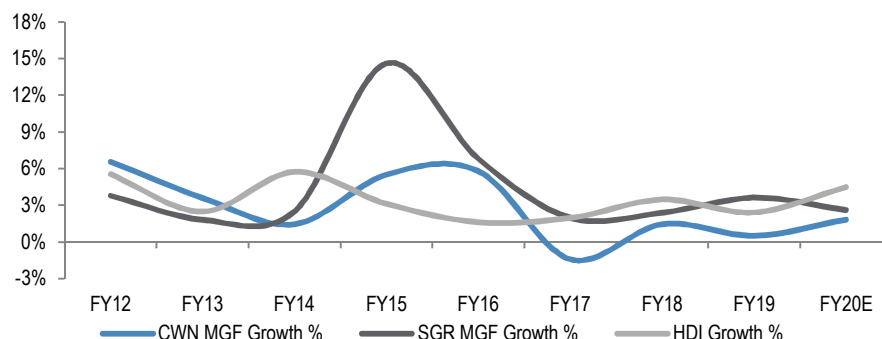
A\$



Source: AGS. Population data includes only resident population aged 18 years and over. J.P. Morgan estimates.

Over the last eight years, Household Disposable Income (HDI) growth and Main Gaming Floor revenue growth at CWN and SGR have shown a positive relationship, with the exceptions of FY15 where SGR undertook refurbishments and FY17 where CWN experienced negative growth. We expect this relationship to continue into FY20 with new promotions and loyalty programs in the lead-up to CWN Barangaroo opening up in late CY20.

Figure 4: Main gaming floor revenue growth at CWN vs SGR vs HDI



Source: Company reports, Bloomberg, J.P. Morgan estimates

Gaming Expenditure by Product

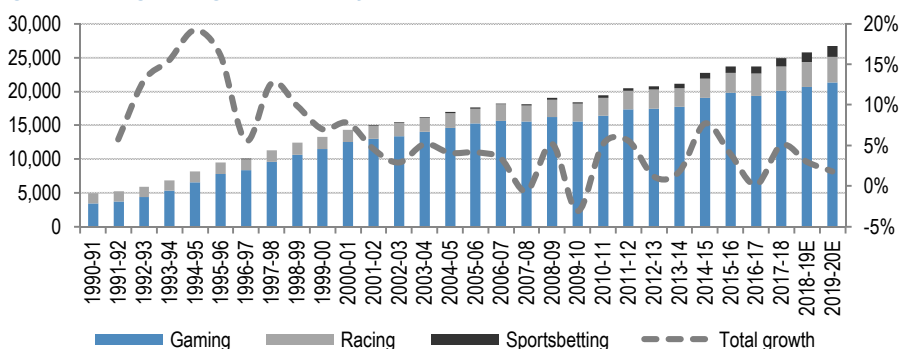
There has been a structural shift in gambling product preferences over the last 10 years with **casinos (+146bps over 10 years)** and **sports betting (+450bps)** taking an **increasing share of total gambling expenditure**, while **EGMS declined -621bps**. This preference shift has been driven by demographic and macroeconomic changes, discussed below.

Table 2: Mix shift in Australian gambling expenditure

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19E	2019-20E	10-yr bps chg
Casino	19.1%	19.0%	19.9%	19.8%	20.8%	22.7%	22.0%	20.2%	20.5%	20.5%	20.5%	+146 bps
EGM (ex-Casino)	55.4%	54.7%	53.2%	52.2%	52.3%	50.9%	51.1%	51.2%	50.3%	49.8%	49.2%	-621 bps
Racing	14.3%	13.9%	13.7%	13.6%	13.0%	12.4%	12.4%	14.0%	14.3%	14.1%	14.0%	-26 bps
Sports betting	1.6%	1.7%	1.9%	2.3%	3.0%	3.6%	3.9%	4.5%	5.0%	5.5%	6.1%	+450 bps
Lotteries & Lotto	8.0%	9.1%	9.6%	10.3%	9.2%	8.7%	9.0%	8.4%	8.4%	8.5%	8.6%	-58 bps
Other	1.6%	1.6%	1.7%	1.7%	1.7%	1.6%	1.6%	1.7%	1.6%	1.5%	1.5%	+8 bps

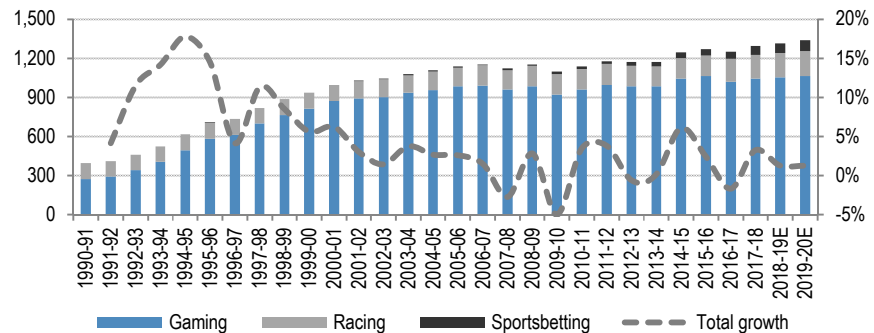
Source: AGS and J.P. Morgan forecasts for 2018-19 & 2019-20. 10-yr bps chg is from 2019-20E vs 10-yr ago.

Figure 5: Total gambling expenditure by product



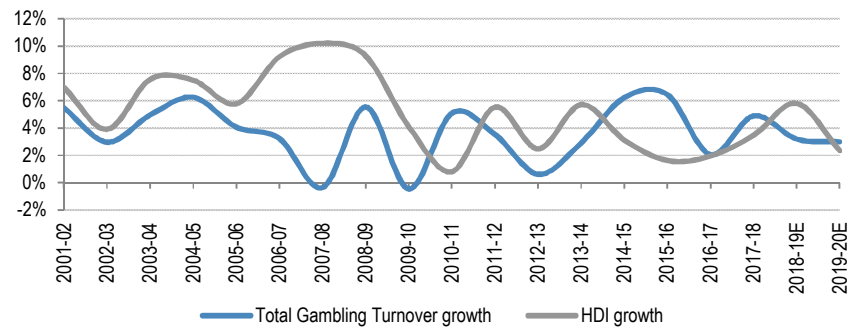
Source: AGS - Gaming represents all forms of gambling other than Racing and Sports betting, and J.P. Morgan estimates.

Figure 6: Per-capita gambling expenditure by product



Source: AGS - Gaming represents all forms of gambling other than Racing and Sports betting. Population data includes only resident population aged 18 years and over, and J.P. Morgan estimates.

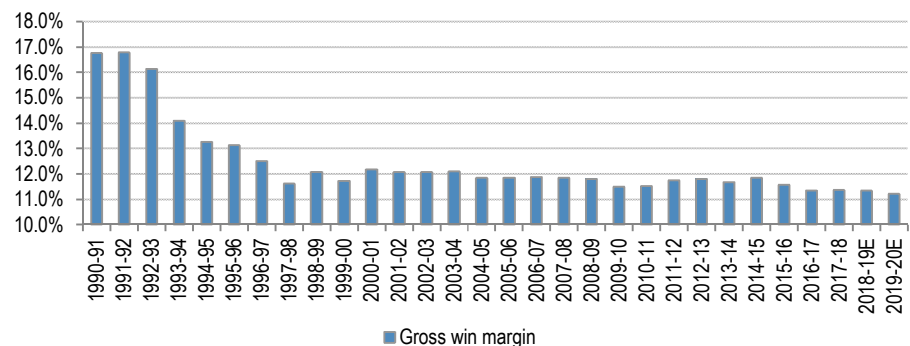
Figure 7: Total gambling turnover growth and HDI



Source: AGS, J.P. Morgan estimates, Bloomberg.

Similar growth in gambling turnover (+4.9%) vs expenditure (+5.0%) implies **gross win margins have held steady at 11.4%** (due to similar growth rates), as more competitive products are launched across different sub-sectors (attractive odds and free bets in wagering; higher return-to-player in EGMs; increased lottery jackpots; and the introduction of new table games) to capture repeat customer visitation and new customers. Gross win margin on total gambling turnover has remained within the 11-12% over the past decade. **We expect 3% in total gambling turnover growth in FY20 and total gambling expenditure growth could be below at 1.8% leading to compressed margins (11.2%) due to the soft consumer spend outlook.**

Figure 8: Gross win margin on total gambling turnover



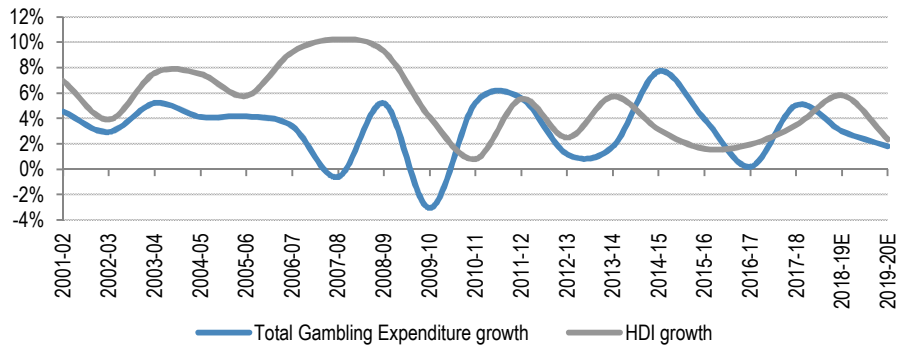
Source: AGS, J.P. Morgan estimates.

Macroeconomic drivers and demographic shift

Household disposable income

Household Disposable Income (HDI) is an important indicator of consumer health and their propensity to allocate towards leisure activities. As HDI increases, consumers tend to spend more on services such as leisure and gaming. Gaming expenditure would typically benefit from tax cuts, refunds and government subsidies.

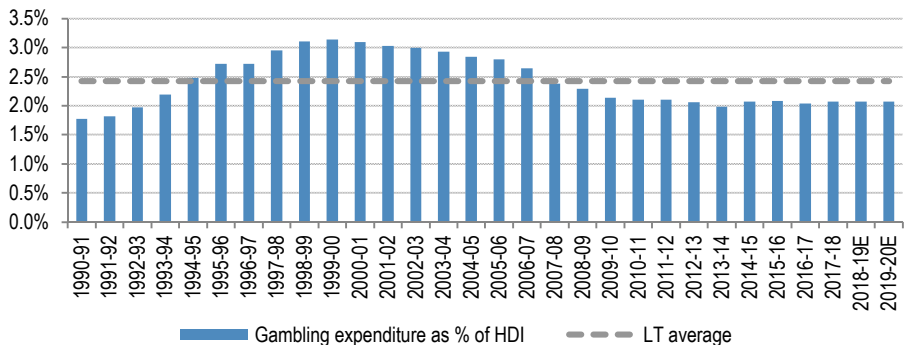
Figure 9: Gambling expenditure vs HDI growth



Source: AGS, J.P. Morgan estimates, Bloomberg.

Gambling expenditure as a proportion of HDI has stabilized at around 2.1% over the past decade, lower than the long-term average of 2.45% and down from the ~3% highs reached in 1997-2004. Gambling expenditure and HDI growth show a positive relationship over the period. In our forecast periods we expect them to be both trending down due to a soft outlook.

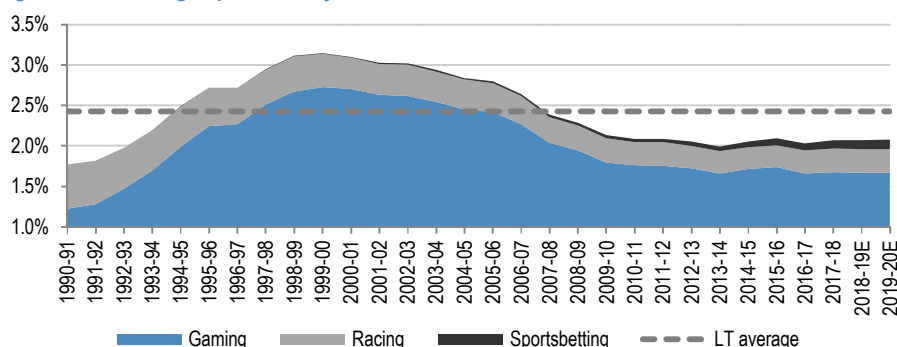
Figure 10: Total gambling expenditure as a % of HDI



Source: AGS, J.P. Morgan estimates. LT average represents 30-yr average.

Product expenditure as proportion of HDI has seen a marked shift with Racing now contributing almost half of what it did 26 years ago (0.30% in 2017-18, 0.55% in 1990-91).

Figure 11: Gambling Expenditure by Product as % of HDI



Source: AGS. Gaming represents all forms of gambling except Racing and Sports betting. LT average represents 30-yr average.

As indicated in the tables below, **gambling expenditure is strongly correlated with HDI growth**. Some products have seen a shift in correlation trends with HDI over the past 28 years.

Table 3: Total Expenditure Correlation with HDI

	Last 28yrs	Last 15yrs	Last 10yrs
Racing	98%	93%	84%
Sports betting		88%	98%
Casino	99%	96%	95%
Lotteries & Lotto	95%	77%	57%
EGM ex casino	89%	88%	95%
Total Gambling	99%	95%	97%

Source: AGS, J.P. Morgan estimates. Refers to correlation analysis on actuals (2017-18).

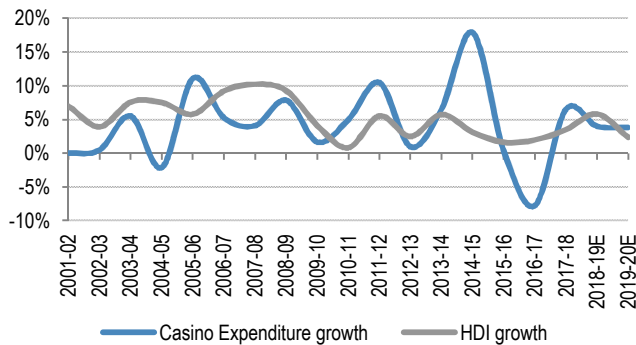
Table 4: Per Capita Expenditure Correlation with HDI Per Capita

	Last 28yrs	Last 15yrs	Last 10yrs
Racing	95%	79%	47%
Sports betting		81%	95%
Casino	92%	91%	92%
Lotteries & Lotto	82%	10%	8%
EGM ex casino	79%	-45%	58%
Total Gambling	89%	77%	89%

Source: AGS, J.P. Morgan estimates. Population data includes only resident population aged 18 years and over. Refers to correlation analysis on actuals (2017-18).

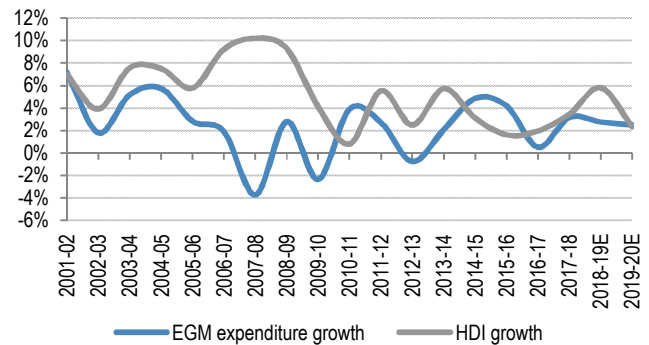
Sports betting expenditure continues to grow strongly as the correlation with HDI rises, while on a per-capita basis, the trend of Racing, Lotteries and EGM expenditures seem to no longer be supported by HDI growth, as mixed growth was observed in these industries in recent years. Recent trading updates from online wagering operators in Australia in 3QCY19 showed revenue was up +45% for Beteasy, +19% for Sportsbet, and +8.3% for TAH sport (FY19). **We are expecting double-digit turnover growth (13%) to continue for the sports betting sector in FY20 and a margin of ~11% (expenditure/turnover).**

Figure 12: Casino expenditure growth vs HDI growth



Source: AGS, J.P. Morgan estimates.

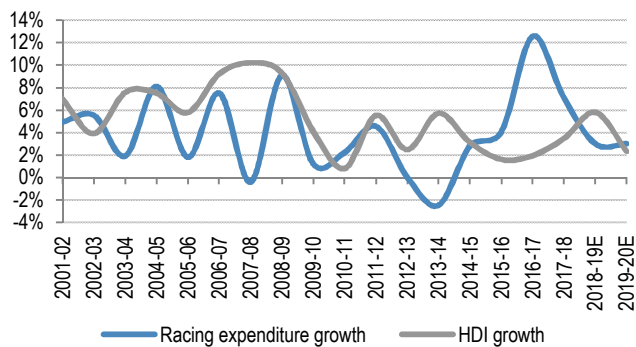
Figure 13: EGM (ex-Casinos) expenditure growth vs HDI growth



Source: AGS, J.P. Morgan estimates.

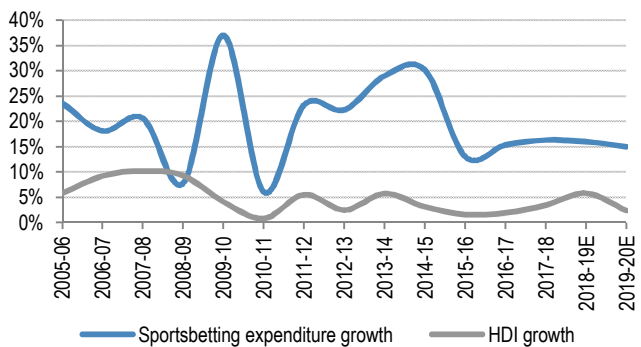
EGM expenditure and HDI growth have shared a similar pattern and have a HDI correlation of 95% in the last 10 years. We estimate FY20 slots and MTGM's revenue of \$747.7m (+2.4%) for CWN and \$701.7m (+2.8%) for SGR.

Figure 14: Racing Expenditure Growth vs HDI Growth



Source: AGS, J.P. Morgan.

Figure 15: Sports betting Expenditure Growth vs HDI Growth



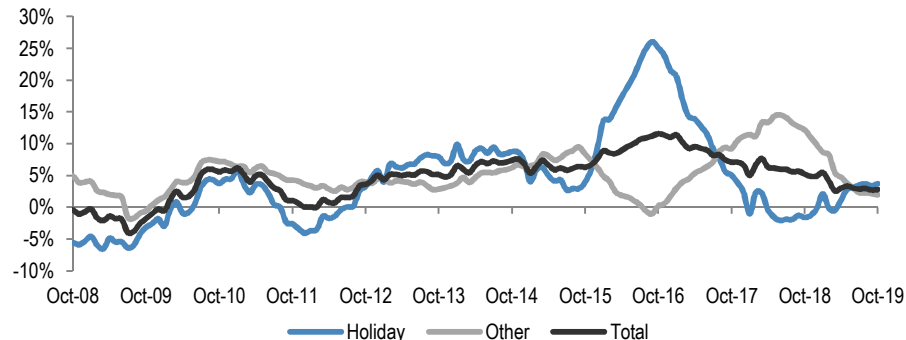
Source: AGS, J.P. Morgan.

We estimate FY20 TAH total racing revenue of \$2.017m (-3.7%) and sports betting revenue of \$273.2m (+8.4%).

Tourism trends and observations

Australia remains a popular tourist destination with total visitor growth showing positive trends for holidays in 2019. Foreign tourists are a key income source for casinos.

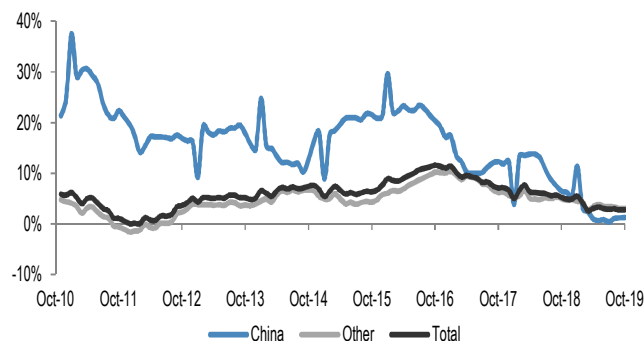
Figure 16: Visitor arrivals growth - purpose of visit



Source: ABS, J.P. Morgan. Rolling 12 month visitor growth vs pcp.

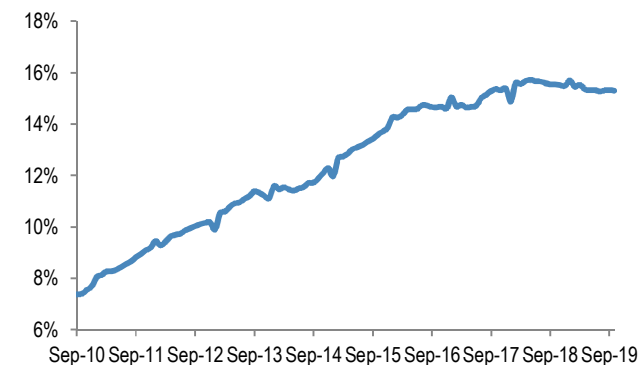
Chinese tourists are the highest paying, segments of foreign visitors. Casinos offer block rooms to draw in Asian tour groups, and EGMs have introduced games that target the Chinese casino-goer.

Figure 17: Visitor arrivals growth - country of residence



Source: ABS, J.P. Morgan. Rolling 12 month visitor growth vs pcp.

Figure 18: % Chinese among total visitor arrivals - LTM



Source: ABS, J.P. Morgan. Rolling 12 month visitor growth vs pcp.

- **Tourist growth data has shown a modest 3.6% in FY20-to-date**, with Chinese visitor growth at only +2.6% in Jul-Oct FY20 vs pcp. Overall growth in Aug-19 was 9.6% while Sep-19 and Oct-19 both showed 1.4% and June at -2%.
- Tourism Research Australia's latest International Visitor's [Survey](#) revealed tourists from China accounted for **32% of total international visitors spend in Australia trip expenditure vs 30.7% in FY18**. Overall visitor forecasts below with an expectation of ~14m visitors by FY29 vs current levels of ~8.6m.
- **Chinese tourism growth will continue to be a tailwind for casinos, albeit the pace has moderated from previous highs**. China continues to be Australia's largest inbound visitor market for short-term visitor arrivals (1.32m tourists in FY19, however only +0.8% growth vs pcp). Growth has moderated significantly from the +12.2% in FY18 due to global uncertainty, weakening economic conditions and geopolitical tensions.

- Additional hotel capacity ([Queens Wharf](#) & Barangaroo) will allow the higher-quality overnight stays from this demographic, plus relationship with travel agents, to have room blocks available for booking.

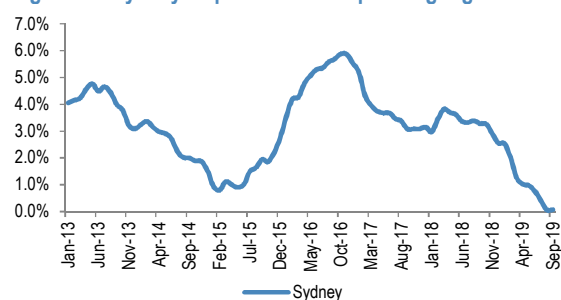
Overall tourism trends in FY20 YTD were weak in Gold Coast, Perth, and Sydney. While Brisbane, Melbourne, and Adelaide displayed subdued growth.

Table 5: Inbound Monthly Visitor Details

City	FY19	FY20 YTD
Gold Coast	0.20%	-3.10%
Perth	2.00%	-3.90%
Sydney	0.70%	-1.80%
Brisbane	1.70%	2.60%
Melbourne	2.00%	-
Adelaide	1.20%	3.70%
Darwin	-4.00%	-

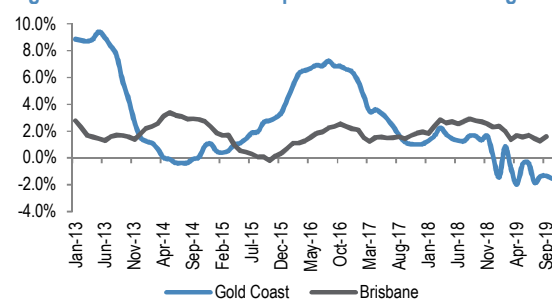
Source: BITRE.

Figure 19: Sydney Airport – inbound passenger growth



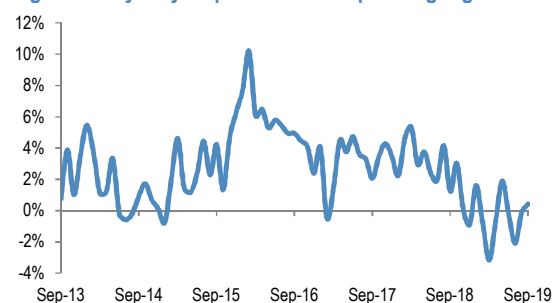
Source: BITRE. Rolling 12 month passenger growth vs pcp.

Figure 20: GC & Brisbane Airports – Inbound Passenger Growth



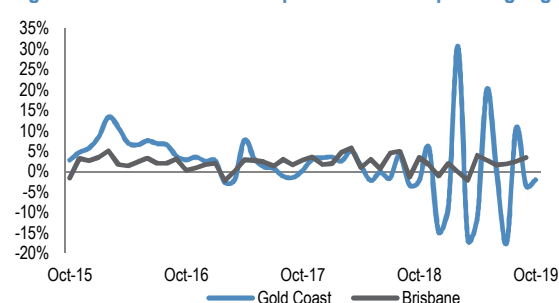
Source: BITRE. Rolling 12 month passenger growth vs pcp.

Figure 21: Sydney Airport – inbound passenger growth



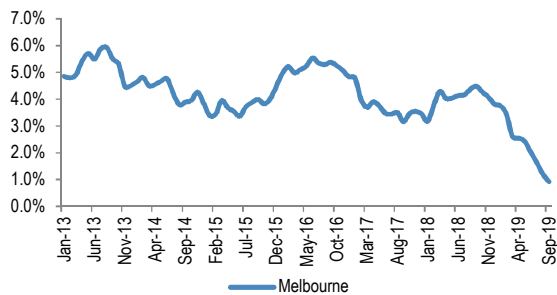
Source: BITRE. Monthly % pcp.

Figure 22: GC & Brisbane Airports – inbound passenger growth



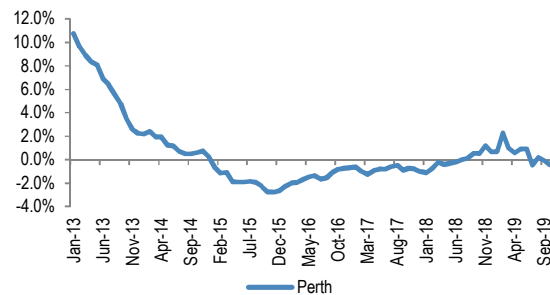
Source: BITRE. Monthly % pcp.

Figure 23: Melbourne Airport – inbound passenger growth



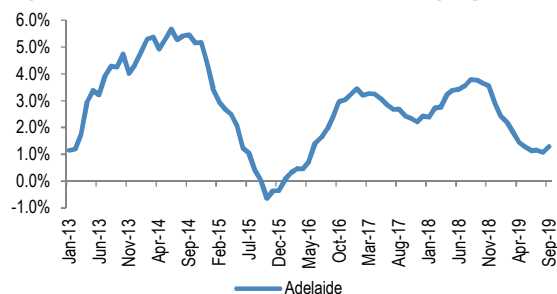
Source: BITRE. Rolling 12 month passenger growth vs pcg.

Figure 24: Perth Airport – inbound passenger growth



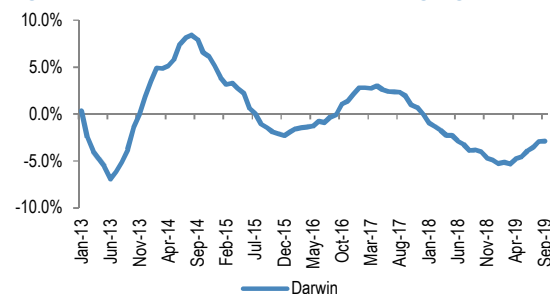
Source: BITRE. Rolling 12 month passenger growth vs pcg.

Figure 25: Adelaide Airport – inbound passenger growth



Source: BITRE. Rolling 12 month passenger growth vs pcg.

Figure 26: Darwin Airport – inbound passenger growth

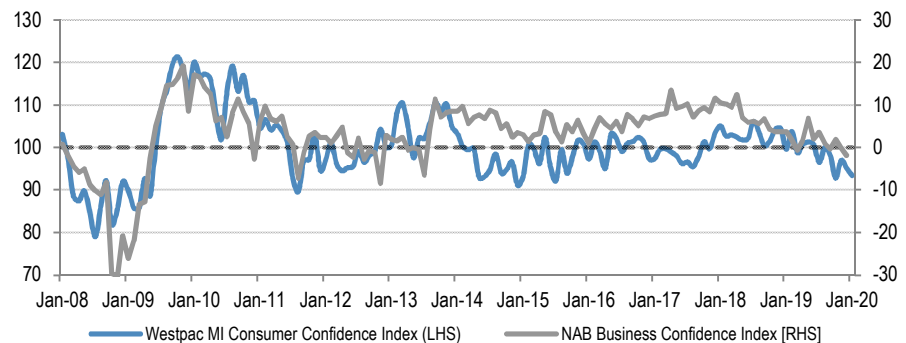


Source: BITRE. Rolling 12 month passenger growth vs pcg.

Health of the Australian gambler

A low consumer confidence index and heavily indebted consumer creates concerns around discretionary spending levels as there are rising cost of living pressures. Westpac's consumer confidence levels in the economy decreased by -6.2% to 93.4 in Jan-20 vs 99.6 in Jan-19 and down -1.8% relative to Dec-19. This is primarily driven by RBA rate cuts, deterioration in consumer spending, bush fire impacts, lower economic growth updates, concerns around global trade wars and political uncertainty. Looking ahead, the outlook for retail spending is mixed as household gearing levels are elevated and the bushfires may moderate spending. However, recent expansionary monetary and fiscal policies are positives, in our view. Employment growth is also the key support, although a major fall in household incomes would create a challenge. We outline key themes and charts below:

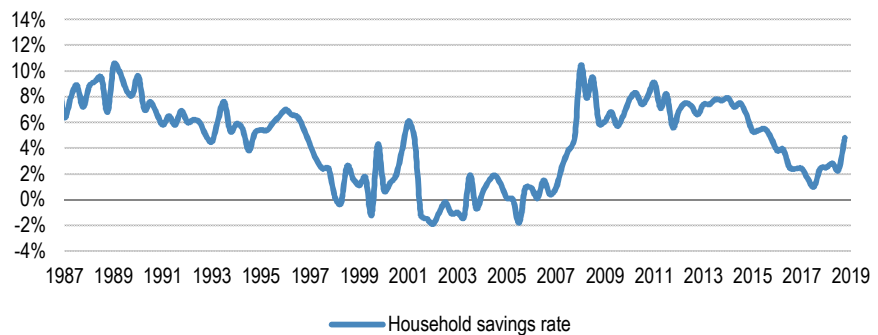
Figure 27: Consumer confidence indexes – both have fallen recently



Source: Westpac, Bank Consumer Sentiment, NAB and J.P. Morgan estimates. Note: NAB Business Confidence Index to be released in Feb-20.

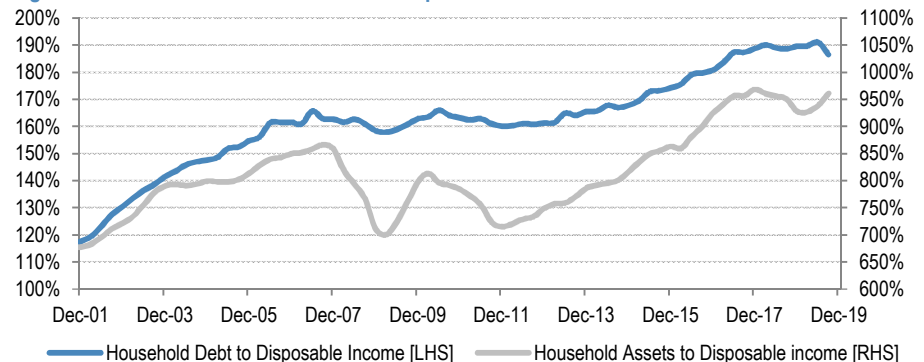
Household savings rates were falling and supporting spending, but consumers are more cautious now and the household savings rate has increased. In recent periods, the household savings rate increased to 4.8% in 3QCY19 vs 2.3% in 2QCY19, with falling house prices the likely catalyst.

Figure 28: Household savings rate



Source: ABS

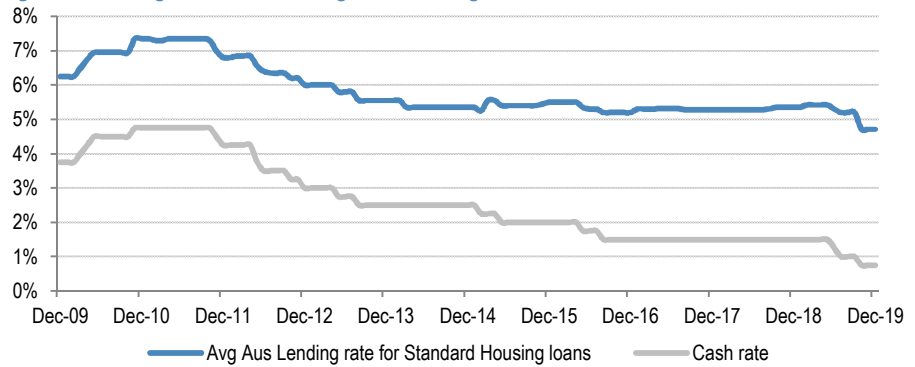
Figure 29: Household debt and assets to disposable income



Source: ABS

Household debt servicing costs remain low, however high household debt makes the consumer more vulnerable to falls in assets or income.

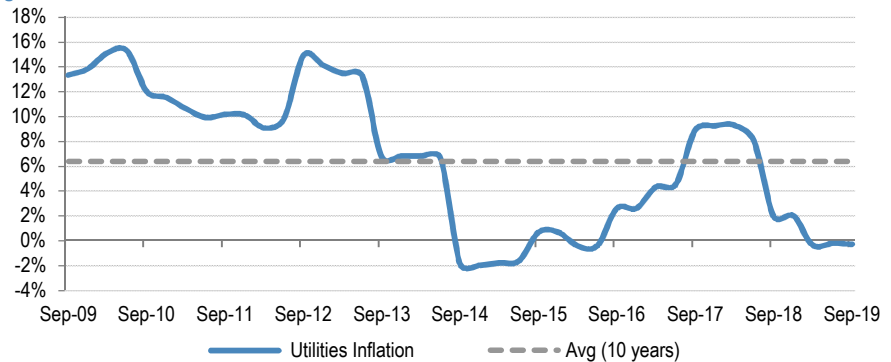
Figure 30: Average standard housing loans lending rate and cash rate



Source: ABS

Mortgage costs have decreased due to the RBA interest rate cuts throughout 2019 and are low and stable. Macro-prudential changes have caused a shift from interest-only loans to principal and interest loans.

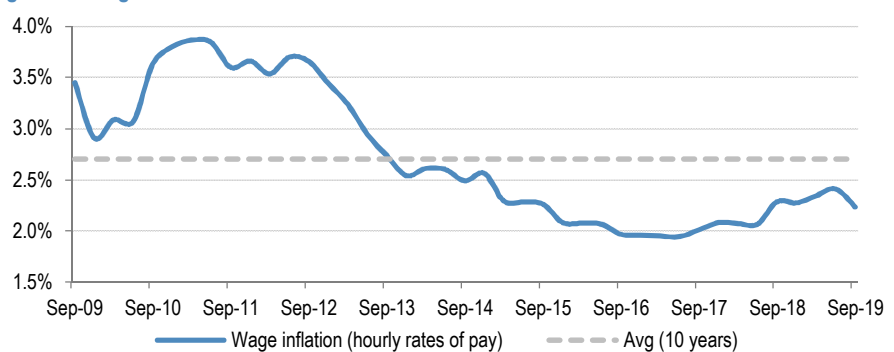
Figure 31: Utilities inflation



Source: ABS

Low utilities inflation rates (and slightly into negative inflation rates throughout 3QCY19) provides greater ability for discretionary spending due to higher disposable incomes.

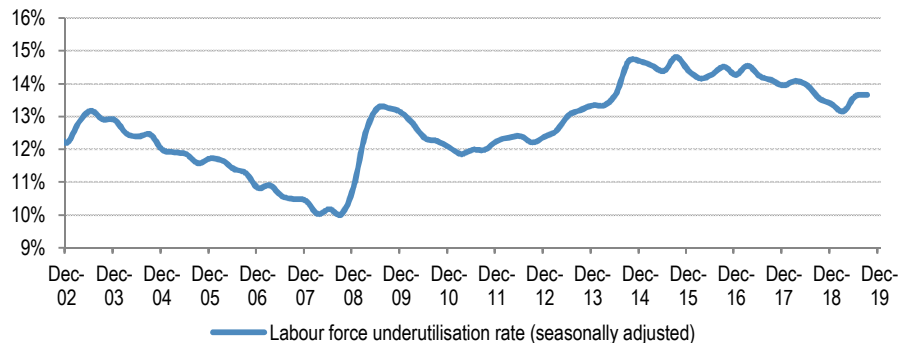
Figure 32: Wage inflation



Source: ABS

Low wage growth levels (~2.2%) impacts consumer spending and household budget levels due to lower disposable incomes.

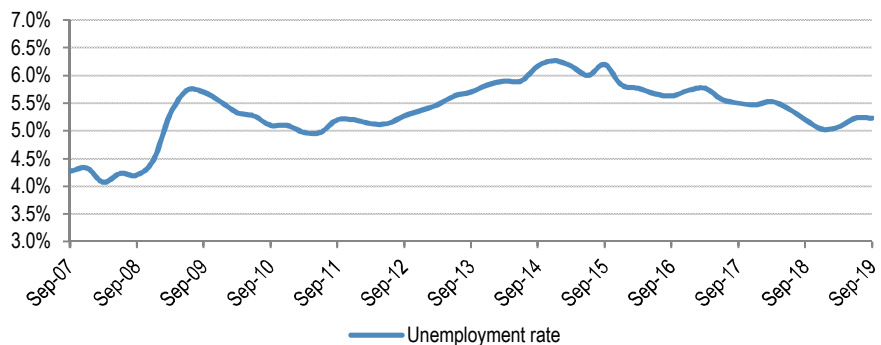
Figure 33: Labour force underutilization



Source: ABS

Labour force utilization rates show signs of under-employment stabilizing, however at levels of ~13.6% still represent inefficiencies in the market, and may impact consumer spending negatively.

Figure 34: Unemployment rate



Source: ABS

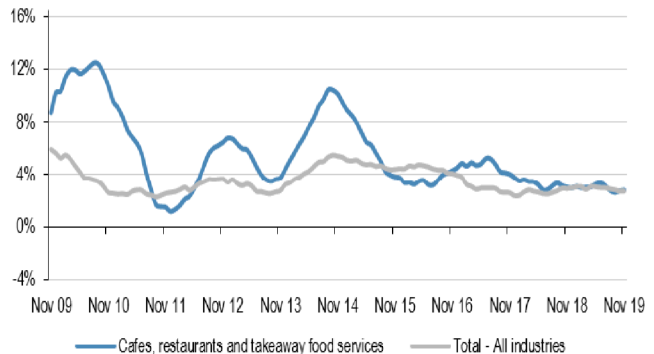
Unemployment levels remain low and a positive for consumer spending levels.

Figure 35: Outbound travel growth has decreased



Source: ABS, J.P. Morgan.

Figure 36: Eating out remains a structural area of growth



Source: ABS, J.P. Morgan. Rolling 12 months retail sales % change on pcp.

Outbound travel growth has decreased significantly while cafes and eating out expenses are in-line with other retail spend. This is not a surprise as eating out remains a structural area of growth.

Casinos (CWN and SGR)

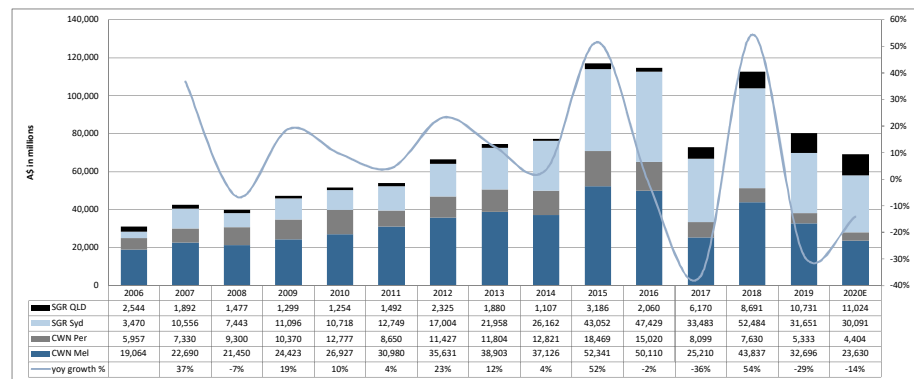
Takeaways for CWN & SGR

FY20 outlook for CWN and SGR

We believe VIP growth should see some recovery from FY19 levels, but risks remain due to political uncertainty. We forecast FY20 VIP turnover to decrease -27.7% for CWN Melbourne, -17.4% for CWN Perth, -4.9% for SGR Sydney and +2.7% for SGR Queensland on the pcp. CWN and SGR are focused on attracting and retaining customers, and we believe capital investments in Barangaroo and Queens Wharf will remain as long-term growth drivers.

Figure 37: CWN and SGR casinos VIP turnover

A\$ million



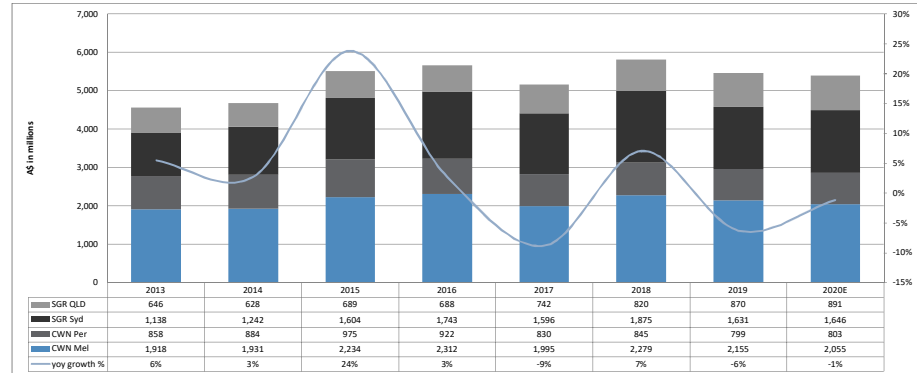
Source: Company reports and J.P. Morgan estimates.

We forecast FY20 gross gaming revenue to decrease -4.7% for CWN Melbourne, up 0.4% for CWN Perth, +0.9% for SGR Sydney and +2.5% for SGR Queensland on the pcp. SGR [noted](#) 1H20 YTD domestic revenue up 1.5% vs the pcp with growth in both SYD/QLD. For CWN, main gaming floor was up 2% across Australian resorts in the AGM update.

The start to FY20 may be a disappointing headline number, but this is also consistent (perhaps higher) with broader retail industry feedback of a slower Sept 19. These first 16wks of trading are interesting, but the key trading period data – Christmas & increasingly important November is to be observed. We believe expansionary fiscal and monetary policy could have a greater impact on the consumer.

Figure 38: CWN and SGR casinos gross gaming revenue

A\$ million



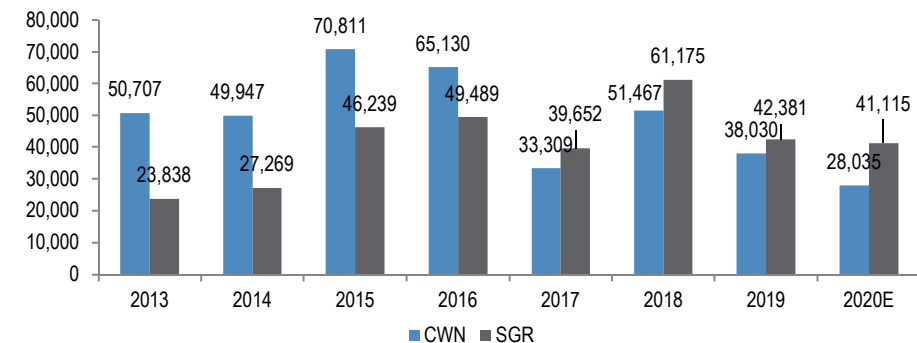
Source: Company reports and J.P. Morgan estimates.

FY19 performance

FY19 VIP revenue at CWN was \$513.4m (normalized) and down -26.1% on the pcp with Melbourne down -25.4% and Perth down -30.1%. SGR's VIP revenue was \$572.9m, down -30.7% on the pcp with Sydney down -39.7% and QLD up +23.4%.

Figure 39: SGR vs. CWN VIP Turnover

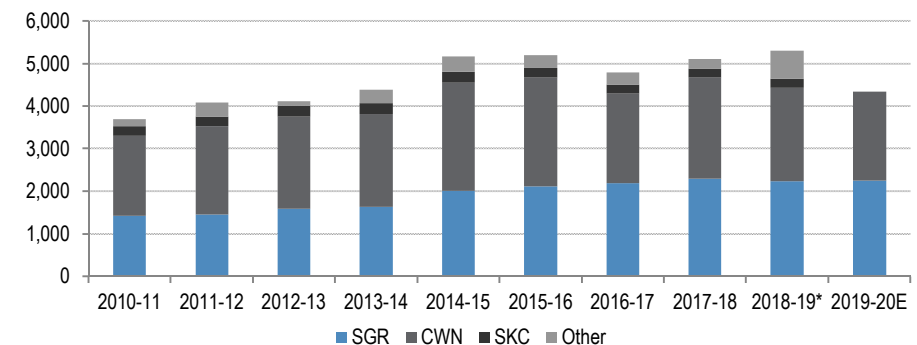
A\$ in millions



Source: Company reports and J.P. Morgan estimates

Figure 40: Contribution of Australian Casinos to Expenditure

A\$ in millions



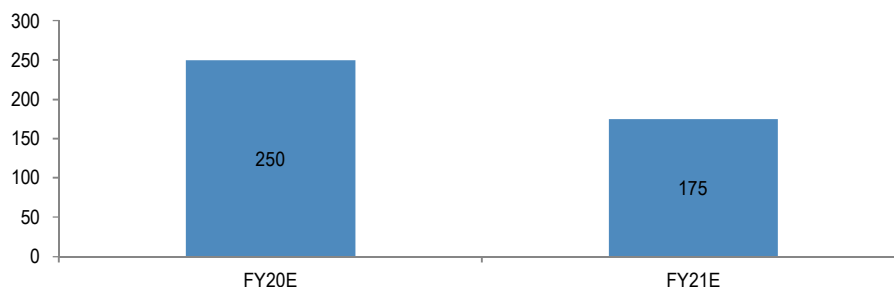
Source: AGS, J.P. Morgan estimates and company reports. *2018-19 represents SGR+CWN+SKC's reported FY19 gaming revenues. 2019-20E are JPM estimates.

Project pipeline

- The main sources of capital investment for SGR and CWN over the medium term are the new property openings at Brisbane and Sydney, respectively (no change).
- SGR FY20-21 Capex: Investments in JV projects: ~\$175-200m in FY20, ~\$125-175m in FY21, group capex of ~\$250m in FY20 and ~\$175m in FY21.

Figure 41: SGR Group Capex

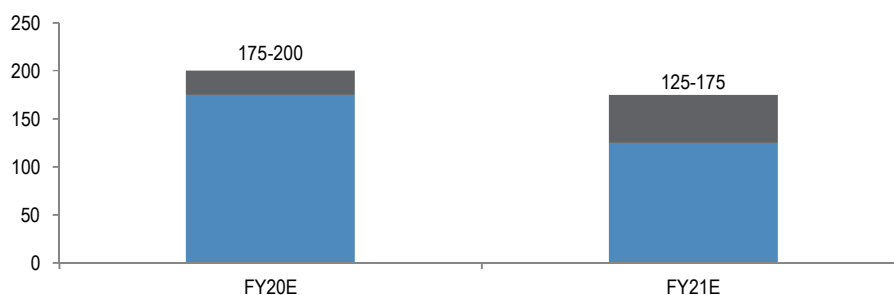
A\$ in millions



Source: Company reports

Figure 42: SGR Investments in JV Projects

A\$ in millions

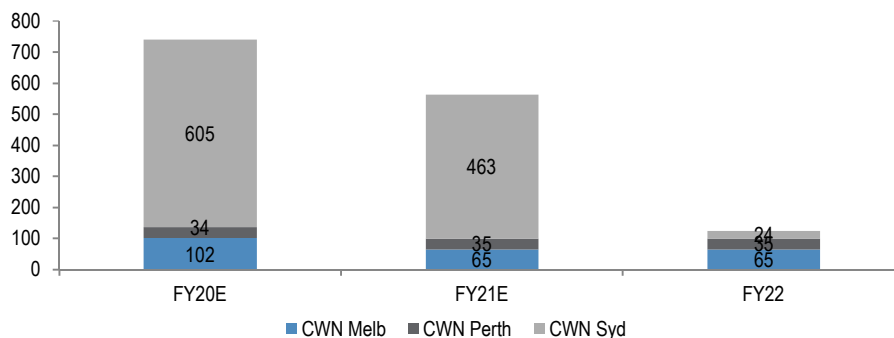


Source: Company reports

Crown Capex: Barangaroo project remains on track for completion in late CY20 with gross project cost of ~\$2.2b and net cost of ~\$1.4b.

Figure 43: CWN Investments

A\$ in millions



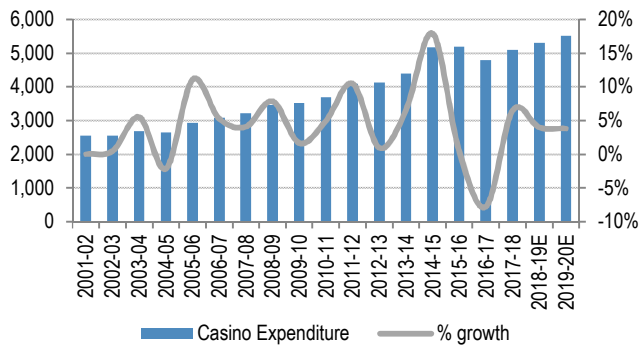
Source: Company reports. Note: excludes Aspinalls, Digital and One Queensbridge project proposal.

Industry overview

- Over the past ten years, Australian casino expenditure has grown 3.9% CAGR and per-capita casino expenditure has grown at a 2.3% CAGR over the same period. We expect casino expenditure growth of +3.8% in FY20.
- FY19 saw a decline in casino expenditure across Australia as VIP revenue decreased due to challenging macroeconomic conditions and political uncertainty. However, the levels are not near the Oct '16 events (arrests of CWN employees in China), which affected all the major casino operators in Australia.

Figure 44: Total casino expenditure

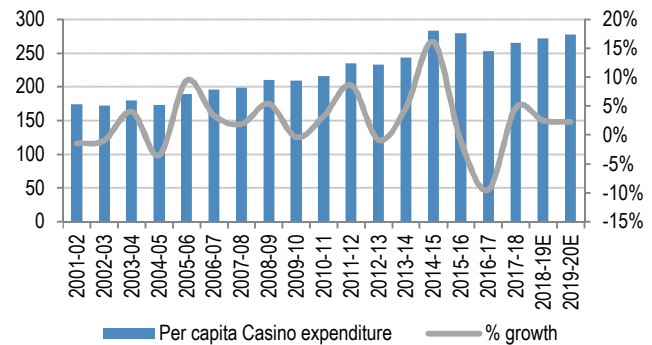
A\$ in millions



Source: AGS, J.P. Morgan estimates.

Figure 45: Per-capita casino expenditure

A\$

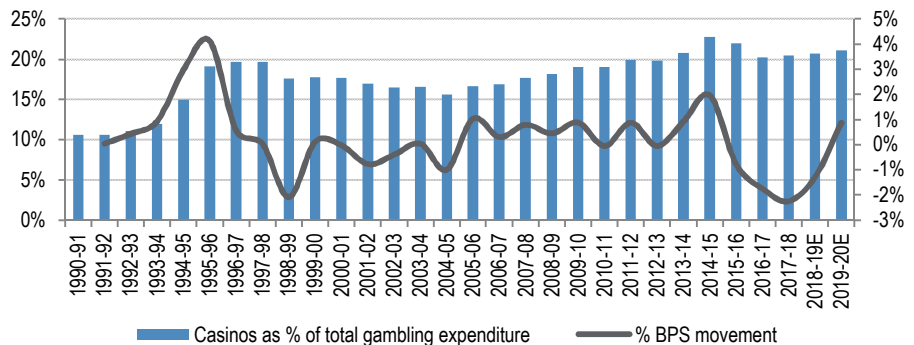


Source: AGS, J.P. Morgan estimates.

High contribution to total gambling and HDI

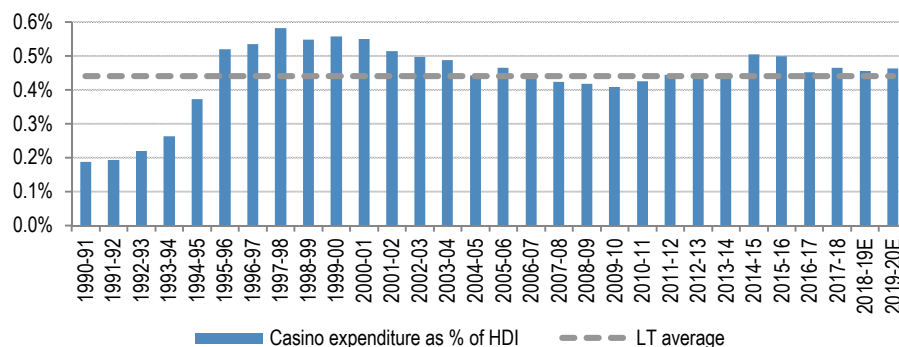
Casino's contribution to total gambling expenditure slightly increased this year – 20.5% vs 20.2% in the pcp. However, growth is minimal and we suspect this is primarily due to the VIP issue mentioned above.

Figure 46: Casino Expenditure Contribution to Total Australian Gambling



Source: AGS, J.P. Morgan estimates.

Figure 47: Casino Expenditure as % of HDI



Source: AGS, J.P. Morgan estimates.

FY19 VIP revenue at CWN was \$513.4m (normalized) and down -26.1% on the pcp with Melbourne down -25.4% and Perth down -30.1%. SGR's VIP revenue was \$572.9m, down -30.7% on the pcp with Sydney down -39.7% and QLD up +23.4%. The start to FY20 has been positive with recent [AGM trading updates](#) indicating SGR's VIP revenue is 'up' YTD vs pcp. However, CWN's VIP turnover was down -46% on pcp. We believe casinos will continue to use promotional activity to draw domestic visitors as HDI support is limited.

We believe VIP margins will compress & are unlikely to recover. Although initial interest in Barangaroo will likely be strong when it opens 2-3 months earlier than originally announced (1HCY21), the negative impact of two casinos in one location is the gambler's ability to choose. Competitive promotions to re/capture & maintain local, finite, gambling dollars pose margin risk.

Macau VIP turnover may improve (and therefore incremental benefit to Australia) in 2020 as some of the key Asian issues from last year (VIP smoking ban, junket issues, Hong Kong SAR protests, and visa controls) are unlikely to recur in 2020, in our view.

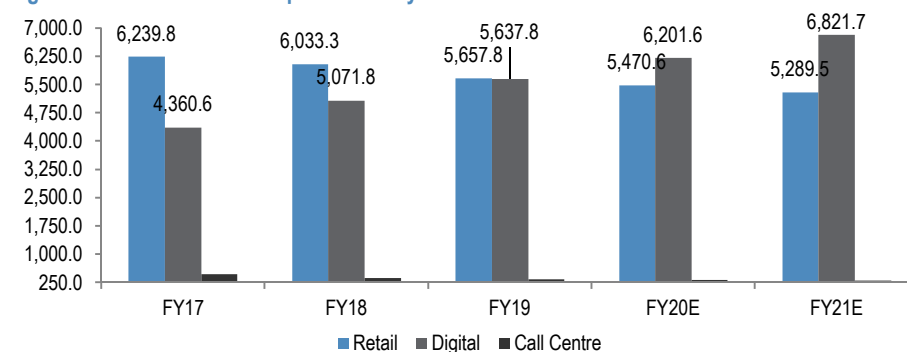
Wagering (TAH)

Takeaways for TAH & corporate bookmakers

FY20 outlook for TAH

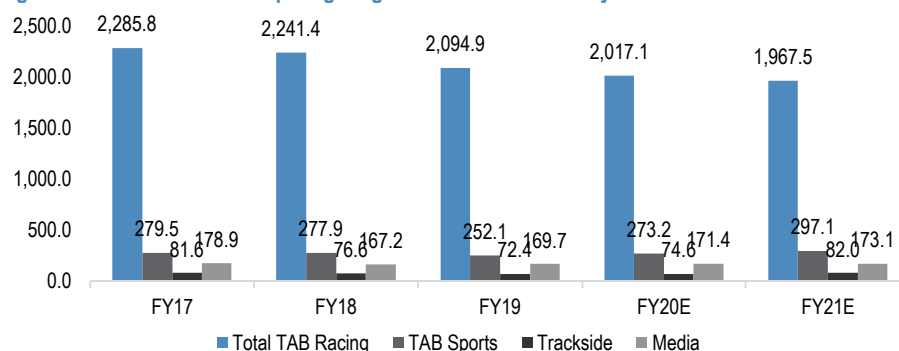
- We believe TAH will focus on merger integration and achieving guidance of \$90m for EBITDA synergies in FY20.
- We believe the company's marketing and investment in product (such as "Venue Mode") will continue to pressure margins to address bookmakers continuing innovation and customer engagement with brand, brand strategy, and promotions.
- Digital migration is a positive for the future of the lottery business and will continue to provide margin improvement, in our view. However, increasingly larger jackpots have a [negative effect](#) on player behavior for future sales of lower 'value' prizes.
- We expect fixed odds marketing to grow which will cause pari-mu (tote) to decline at an accelerating rate. This is a negative for TAH's group tote revenue exposure, we estimate this will decline by -4.6% for FY20.
- Structural changes will negatively impact turnover across: on-course tote racing, agency off course, and phone off course. Australia is still underpenetrated in the online betting space and we believe significant upside exists for online betting channels (**TAB and UBET have 44.6% and 34.1% of digital share of turnover in wagering**).

Figure 48: JPMf for TAH Group Turnover by Distribution



Source: Company reports and J.P. Morgan estimates. Note: estimates include UBET.

Figure 49: JPMf for TAH Group Wagering and Media Revenues by Product



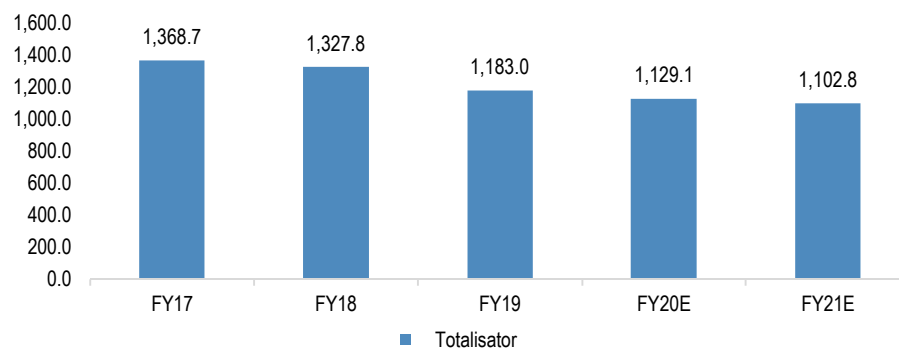
Source: Company reports and J.P. Morgan estimates. Note: estimates include UBET.

Table 6: JPM Wagering Estimates for Australian Market

Category	2016-17 Growth	2017-18 Growth	2018-19E Growth	2019-2020E Growth
Racing Expenditure	12.6%	7.1%	3.0%	3.0%
Racing as a % of HDI	0.28%	0.3%	0.29%	0.29%
Sports betting Expenditure	15.3%	16.3%	16.0%	15.0%
Sports betting as a % of HDI	0.09%	0.1%	0.11%	0.12%
Fixed Odds Turnover	3.9%	15.0%	15.0%	15.0%
Tote Turnover - All forms	8.9%	-14.3%	-6.0%	-6.7%

Source: AGS & J.P. Morgan estimates.

Figure 50: JPMf for TAH Group Tote Revenue



Source: Company reports and J.P. Morgan estimates

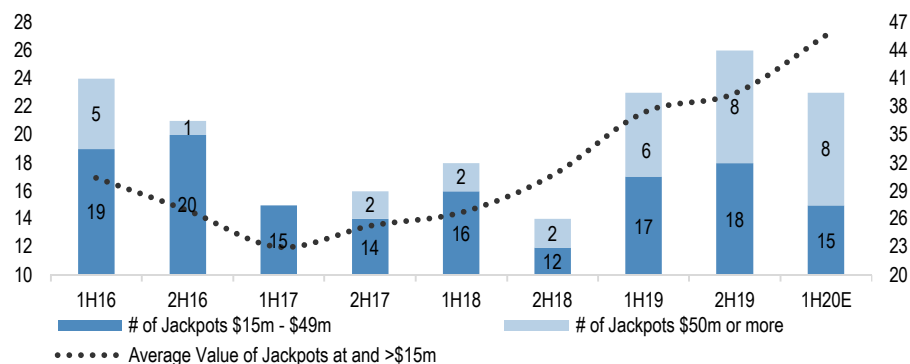
Table 7: JPMf for TAH Group Wagering & Media revenues by product

	FY17	FY18	1H19	2H19	FY19	1H20E	2H20E	FY20E	FY21E
- Totalisator	1,368.7	1,327.8	645.4	537.6	1,183.0	615.9	513.1	1,129.1	1,102.8
% chg		-3.0%	-5.6%	-16.5%	-10.9%	-4.6%	-4.5%	-4.6%	-2.3%
- Fixed Odds	917.1	913.6	464.3	447.6	911.9	452.1	435.9	888.0	864.7
% chg		-0.4%	-4.3%	4.5%	-0.2%	-2.6%	-2.6%	-2.6%	-2.6%
Total TAB Racing	2,285.8	2,241.4	1,109.7	985.2	2,094.9	1,068.1	949.0	2,017.1	1,967.5
% chg		-1.9%	-5.1%	-8.1%	-6.5%	-3.8%	-3.7%	-3.7%	-2.5%
TAB Sports	279.5	277.9	135.9	116.2	252.1	147.2	126.0	273.2	297.1
% chg		-0.6%	0.1%	-18.2%	-9.3%	8.3%	8.4%	8.4%	8.8%
Trackside	81.6	76.6	39.4	33.0	72.4	40.6	34.0	74.6	82.0
% chg		-6.1%	-1.3%	-10.1%	-5.5%	3.0%	3.0%	3.0%	10.0%
Media	178.9	167.2	83.0	86.7	169.7	83.9	87.6	171.4	173.1
% chg		-6.5%	1.0%	2.0%	1.5%	1.0%	1.0%	1.0%	1.0%
Total	2,825.8	2,763.1	1,368.0	1,221.1	2,589.1	1,339.7	1,196.5	2,536.2	2,519.7

Source: Company reports and J.P. Morgan estimates.

- We estimate a total of 23 jackpots for 1HFY20 for TAH's lotteries business (Powerball and Oz Lotto only) and expect an average total jackpot value of ~\$45.6m for 1HFY20 (+22% vs pcp). TAH's digital share of ticket sales is 23.5% and we expect upside in the short term with high-20% a likely watermark.

Figure 51: TAH Lotteries – Powerball and Oz Lotto only

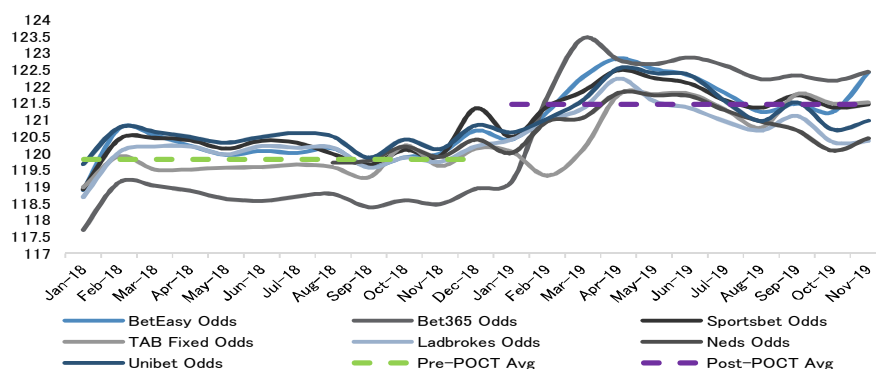


Source: Company reports and J.P. Morgan estimates. Note: excludes Sat Lott – 4 jackpots (\$15m or more observed in 1H20).

FY19 performance

- TAH experienced FY19 revenue declines across the board, in sports (-9.3%), fixed odds (-0.2%), tote (-6.3%) vs pro-forma.
- Turnover also declined in retail (-7.4%, and call centre (-12.8%). However, digital continues to grow (+7.7%).
- TAH delivered a wagering result which calls into question the company's execution across product, technology, and marketing. We believe TAH is unlikely to deliver much significance in wagering until FY21.
- Currently, the average over-round for the industry is 121.4 for the month of Nov-19 and Jan-to-Nov 2019 is 121.5.

Figure 52: Market Odds Historical Pricing



Source: Company data. Note: POCT implementation on 1-Jan-19

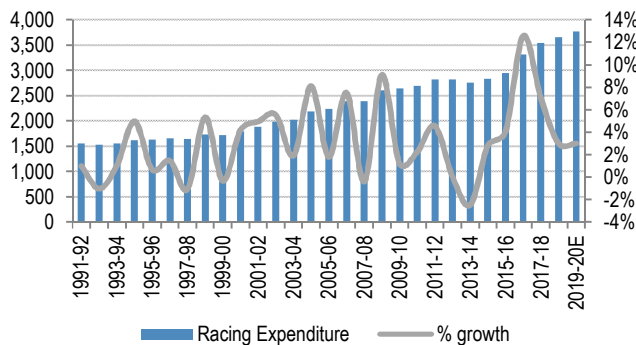
Industry overview and key drivers

Racing expenditure grew 3.8% CAGR over 15 years and 3.1% over the last decade. This compares to racing per-capita growth of 2.1% CAGR over 15 years and 1.5% over the last decade. However, sports betting expenditure grew at 15.1% CAGR over 15 years and 18.8% over the last decade. We expect racing expenditure growth of +3.0% in FY20 and sports betting growth of +15.0% in FY20.

We also continue to observe a shift in preference toward fixed odds betting over tote, and digital channels over retail.

Figure 53: Total Racing Expenditure

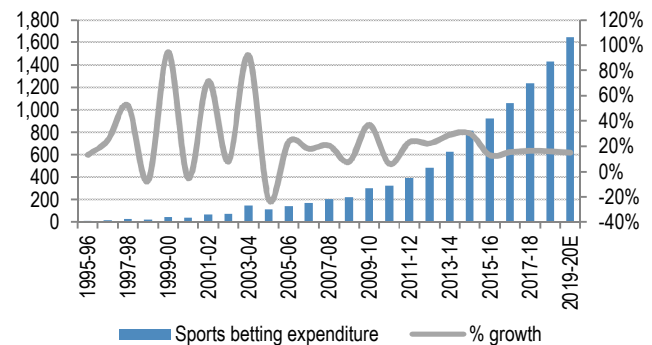
A\$ in millions



Source: AGS, J.P. Morgan estimates

Figure 54: Total Sports Betting Expenditure

A\$ in millions

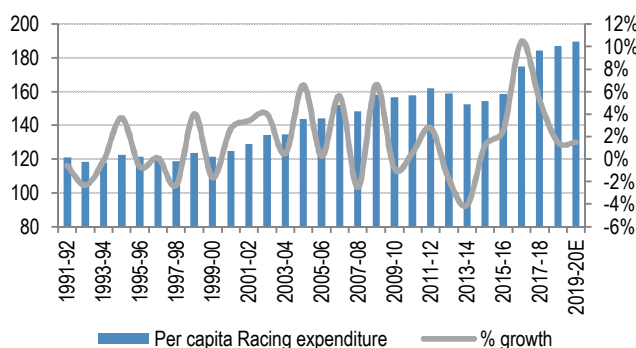


Source: AGS, J.P. Morgan estimates.

Per-capita racing expenditure previously appeared to have peaked and stabilized at ~A\$150-160 per year, however in 2017-18 it was \$184, while sports betting continues to capture increasing wallet share with double-digit growth at 13.2% (\$56) for 2016-17.

Figure 55: Per Capita Racing Expenditure

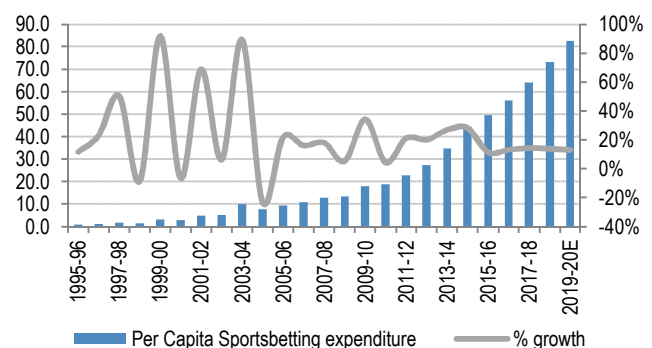
A\$



Source: AGS, J.P. Morgan estimates.

Figure 56: Per Capita Sports Betting Expenditure

A\$

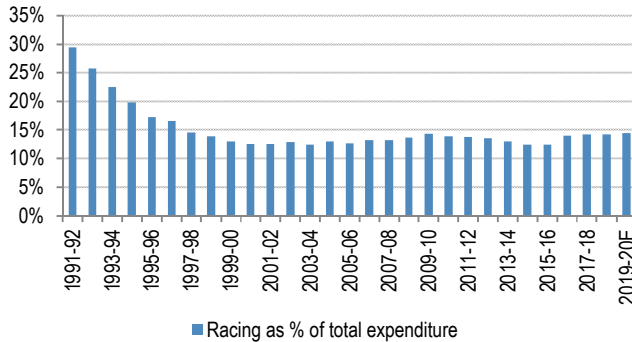


Source: AGS, J.P. Morgan estimates.

Contribution to total gambling and HDI

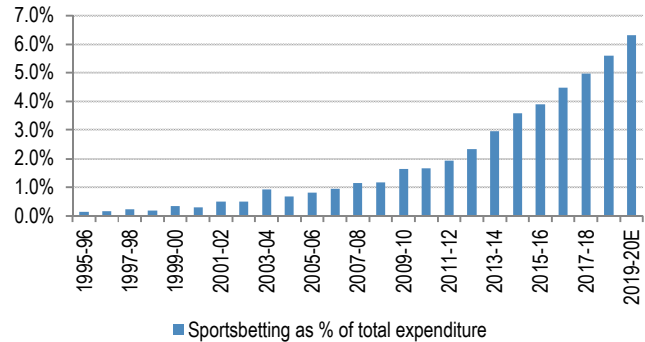
The racing industry's contribution to total gambling has remained fairly constant at ~13% since 2000 but improved to 14.3% in 2017-18, while Sports betting now contributes 5% of total expenditure (+0.5% vs pc), and up from less than ~1% a decade ago.

Figure 57: Racing Contribution to Total Gambling Expenditure



Source: AGS, J.P. Morgan estimates.

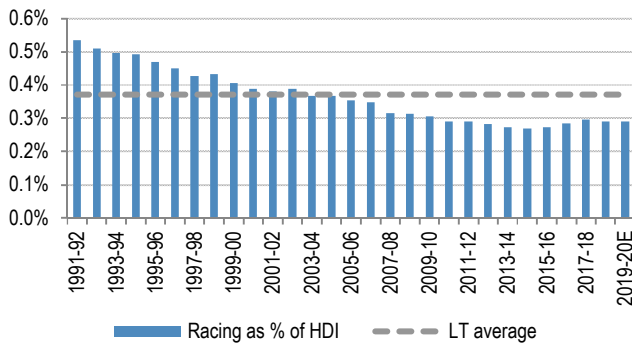
Figure 58: Sports betting Contribution to Total Gambling Expenditure



Source: AGS, J.P. Morgan estimates.

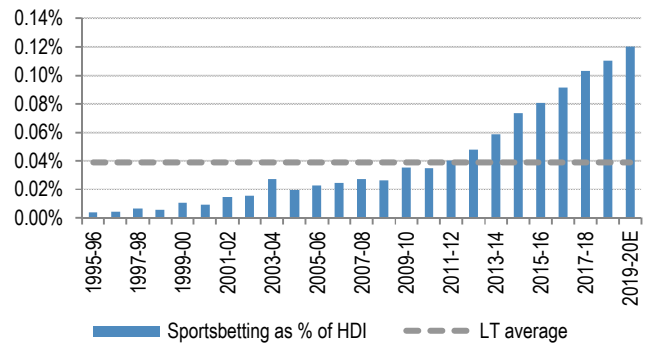
Racing expenditure growth is no longer supported by HDI growth as consumers prefer to spend an increasing wallet share elsewhere, especially toward sports betting.

Figure 59: Racing Expenditure as % of HDI



Source: AGS, J.P. Morgan estimates. LT average represents 30yr average.

Figure 60: Sports betting Expenditure as % of HDI

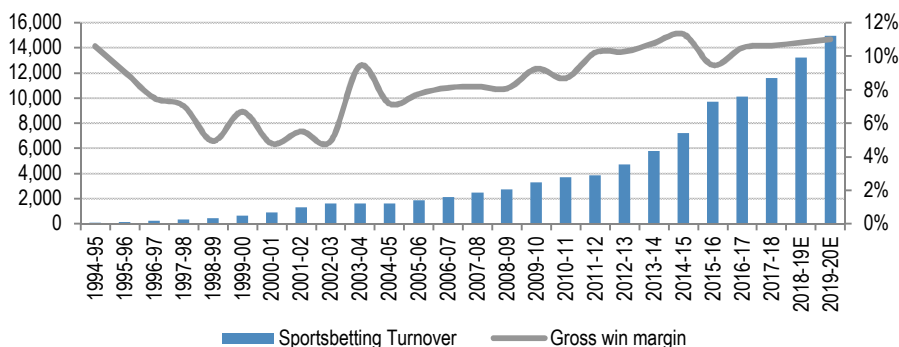


Source: AGS, J.P. Morgan estimates. LT average represents 26yr average.

Sports betting gross win margins impacted by the competitive environment

Margins peaked in 2014-15 (11.3%) and have since recovered from the decrease in 2015-16 (9.5%) to 10.6% in 2017-18. We continue to believe regulations such as POC tax will further impact the bottom line of corporate bookmakers in the medium term. We expect sports betting gross win margin of 11% in FY20E.

Figure 61: Sports Betting Gross Win Margin vs Turnover



Source: AGS, J.P. Morgan.

Smartphone penetration and mobile trends

According to data from Deloitte's Mobile Consumer Survey 2019, 91% of Australians own a smartphone (+15% vs 5 years ago), one of the highest penetration rates in the world. This presents an opportunity for wagering operators to strengthen their mobile and digital offerings to capitalize on the high penetration rate, in our view.

EGM Manufacturers (ALL)

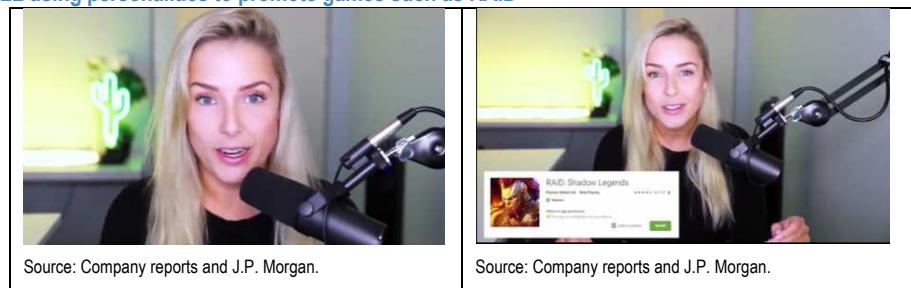
FY20 takeaways for Aristocrat & manufacturers

FY20 outlook – Australia specific

- We believe slot manufacturers in VIC will have difficult sales targets to achieve. We expect the VIC EGM market will continue to grow at +1-2% in FY20 as the market is still quite challenging and pubs and clubs are feeling the impact of higher RTP on their floors vs 12-18 months ago as turnover has not really grown.
- RTP has increased as older slots have been removed and replaced with higher RTP slots so the theoretical RTP has increased while turnover is flat (in a positive case). ALL has been the major driver due to their Dragon and Lightning Link titles taking a higher floor share in venues.
- We believe single venue operators in VIC will incur high set-up costs for the TITO system and this is likely to exceed capex budgets.
- The Australasian Hospitality and Gaming Expo in Brisbane on 18 & 19 Mar-20 will be an important opportunity for manufacturers to showcase new games and concepts to drive additional spending from venue operators.
- The Australian bushfires in late CY19 and early CY20 resulted in a significant amount of donations (shift away from discretionary spend). The outlook remains quite soft across retail.
- ALL continues to dominate game performance reports due to its Dragon Cash and Dragon Link titles. Lightning Link also remains above floor average. ALL's performance raises competitive tensions for other manufacturers in the market.
- ALL's Welcome to Fantastic jackpot is above floor average at present and is continuing to perform but is unlikely to penetrate and obtain representation to the level of Dragon and Lightning Link titles. ALL's Grand Star release performance remains in question, however PC Opal has been released in VIC.
- ALL's new Helix X cabinet release in VIC is a positive catalyst but results are still to be seen (recent release). Some venue operators have purchased the cabinet for Welcome to Fantastic or Grand Star.
- IGT's Bubble Blast was IGT's key theme but expectations are this will decline in the future so there are concerns regarding their upcoming pipeline. Recent results show Star Stax, Wild Fury, Fortune Gong, and Wheel Shot are losing prominence, while Fortune Charm and Fortune Rising's performance are to be seen. The performance of IGT's Crystal Curve and new 27" cabinet are not clear yet but they are likely to be selling more 27" cabinets.
- AGI has had some success with their individual titles recently but previous themes have not performed (due to low confidence levels).
- Konami's All Aboard series gained traction in the market but penetration and floor representation is still low.
- SGMS released their new 27" cabinet in Sep-19 but their games have not shown significant performance. Venue operators are likely to remain cautious and will likely retain the 23" dualos and order conversions. SGMS has only released a few titles in VIC since Sep-19.

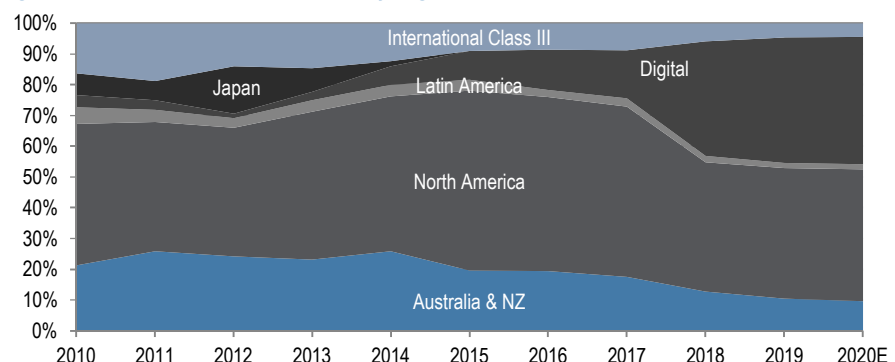
- We expect ALL's Class III premium segment in Americas to continue expanding and forecast another +5.8% increase in installed base in 1H20. We are confident in another 12 months of land-based dominance as ALL's momentum of game adoption continues.
- Australian state-wide data may provide interesting context for the Australian consumer, but it is less indicative of ALL's earnings as it only comprises 9.6% of revenue and 10.4% of earnings (FY20E). Dec-19 EGM spend data showed QLD is up 3.3% on the pcp, Brisbane is up 1.5% and Gold Coast is down -0.2%. This implies 1H20 EGM expenditure in Australia will see mixed growth, and provides some uncertainty for ALL's ANZ division. However, [ALL](#) remains the market leader and most popular manufacturer in Australia.
- Digital strategy and investment into titles/UA/growth is based on tactical deployment of capital where an above-hurdle ROIC can be achieved. We believe digital will showcase normalized benefits of RAID in FY20.
- We expect publishers to spend less on main avenues & channels (FB, Google, etc.) to capture DAU's. Publishers are drifting away from mass UA spend and focusing more on targeting title specific growth. For example, using specific, resonating personalities to promote specific games targeted at particular demographics:

ALL using personalities to promote games such as RAID



- Digital's revenue share continues to take a large share supported by strength in North America.

Figure 62: ALL – Revenue contribution by segments



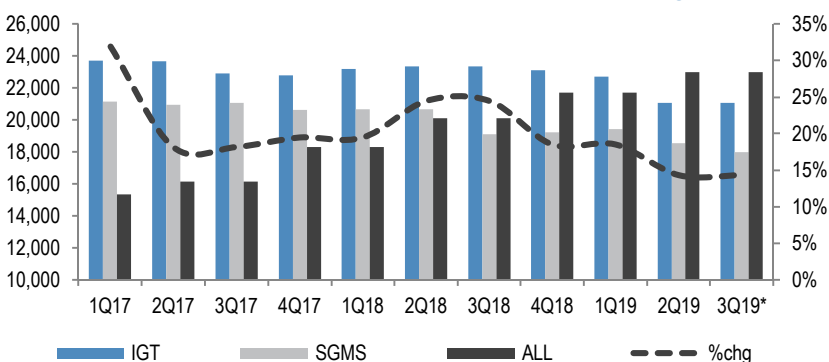
Source: Company reports and J.P. Morgan estimates.

FY19 performance

- ALL reported strong double-digit earnings growth at the group level (+19.3%), with Americas (+15.5%) and Digital (+11.9%) also experiencing double digit growth.

- Digital margins decreased to 29.6% in FY19 from 32.8% in FY18 due to lower margin social games business. As evidenced by reduced DAU's but increased ABPDAU, ALL has curtailed investment in low-quality players to grow profitability in later periods.
- Americas margin growth is driven by performance in Class III premium products and strong NA installed base. Average fee per day and average sales price remains above market average.
- NA Class III installed base increased by 1,303 units in the half to 22,998. SGMS lost share while IGT held steady.

Figure 63: ALL – NA Class III Premium Installed Base – ALL continued share gains in FY19



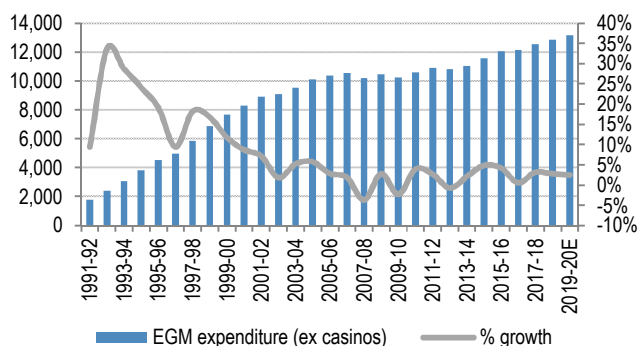
Source: Company reports, J.P. Morgan estimates. Periods represent calendar year quarters.

Industry overview and key drivers

EGM expenditure grew 3.2% in FY18 vs pcg, an improvement compared to FY17 which grew only 0.5% vs pcg. Per capita EGM expenditure in 2017-18 was \$650, and only 0.2% CAGR has been observed over the past 10 years. We EGM expenditure growth of +2.5% in FY20.

Figure 64: Total EGM Expenditure

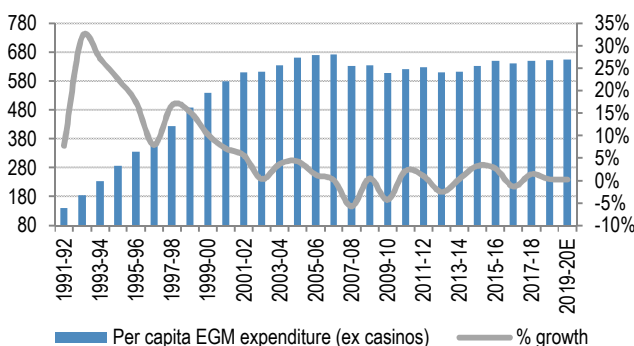
A\$ in millions



Source: AGS, J.P. Morgan estimates.

Figure 65: Per Capita EGM Expenditure

A\$



Source: AGS, J.P. Morgan estimates.

Slot manufacturers are continuing to invest in the high growth social/online casino segment, which also serves as a testing platform for its EGM titles.

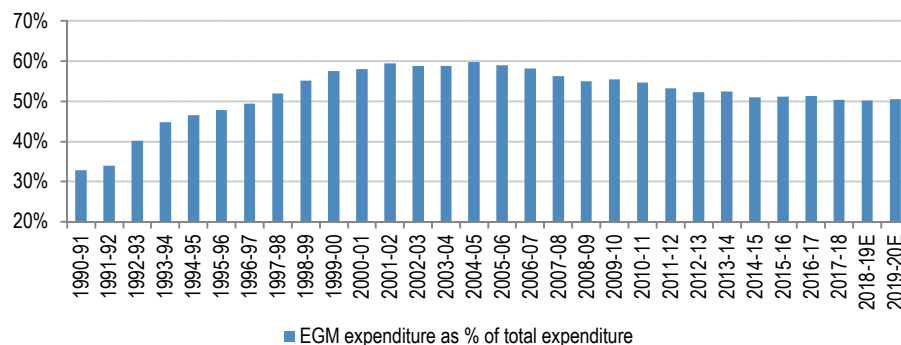
ALL will continue to invest in user acquisition spend in the digital division in FY20 with a focus on marketing, designing and scaling popular apps such as RAID Shadow Legends. Digital division now represents 40.7% of group revenue (FY19) and JPMf 41.5% contribution in FY20.

Contribution to total expenditure and HDI support declining

EGM contribution to total expenditure has reduced from ~60% in 2004-05 to 51.2% in 2016-17, and remains below the long-term average as % of HDI.

Land-based slot expenditure continues to be in structural decline, although manufacturers continue to introduce innovative products, online offerings, and pursue younger demographics via non-core gaming channels.

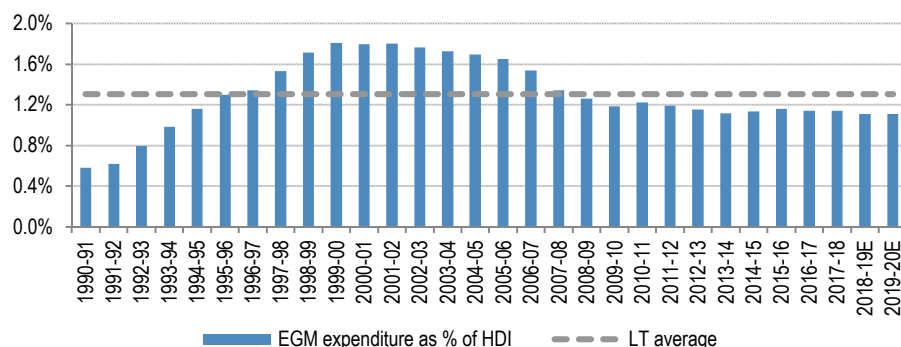
Figure 66: EGM Contribution to Total Gambling Expenditure



Source: AGS, J.P. Morgan estimates.

EGM spend as a % of HDI continues to track below the 28-year average.

Figure 67: EGM Spend as % of HDI



Source: AGS, J.P. Morgan estimates. LT average represents 28 yr average.

Australian state-wise EGM performance

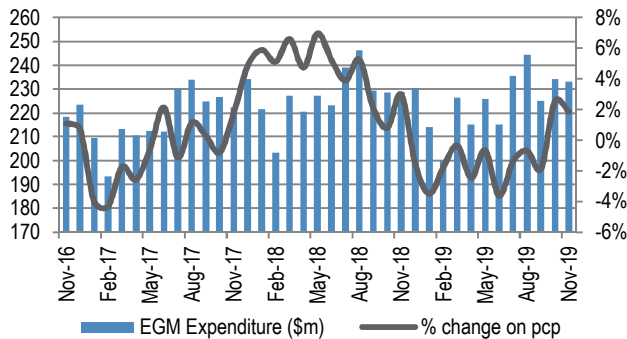
We see variable trends in Australian state EGM expenditure levels, with most of the states and cities now recovering from lows endured in February 2019.

EGM data for VIC shows November expenditure is up 1.8% on the pc, in-line with expectations of a recovery. Operators who were impacted by the reduced ATM and EFTPOS limits in 2018 are showing signs of recovery. We expect 1-2% growth in FY20 as VIC continues to recover from challenging conditions.

EGM data for December shows Brisbane is up 1.5%, Gold Coast is down -0.2%, and Queensland is up 3.3%. A relatively soft showing during the holiday period and also reflective of weak consumer sentiment, bushfire issues, and weak retail spend.

Figure 68: Victorian EGM Expenditure

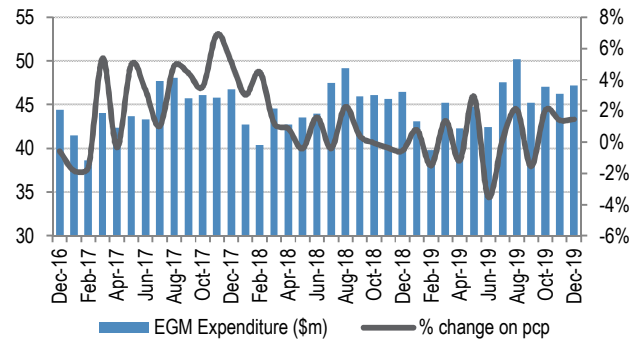
A\$ in millions



Source: vcgr.vic.gov.au.

Figure 69: Brisbane EGM Expenditure

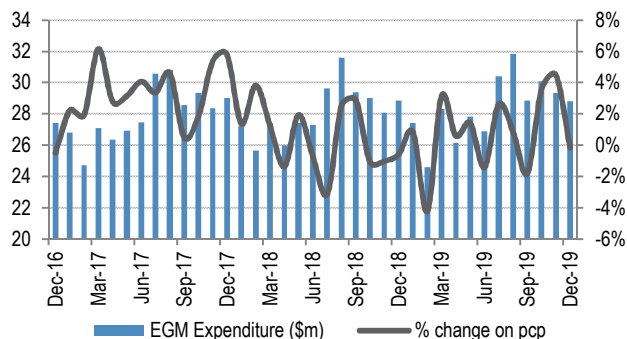
A\$ in millions



Source: olgr.qld.gov.au.

Figure 70: Gold Coast EGM Expenditure

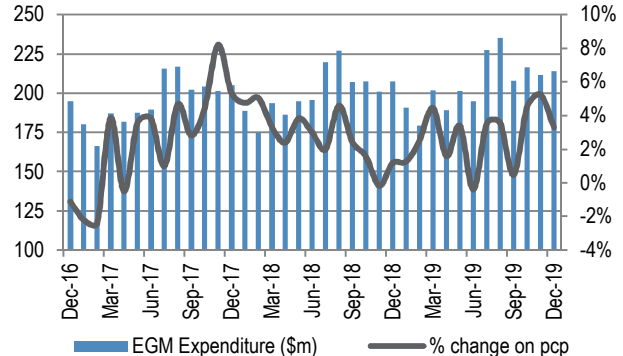
A\$ in millions



Source: olgr.qld.gov.au.

Figure 71: Queensland EGM Expenditure

A\$ in millions



Source: olgr.qld.gov.au.

Aristocrat Leisure LTD

Overweight

Company Data	
Shares O/S (mn)	639
52-week range (A\$)	37.58-22.67
Market cap (\$ mn)	15,431.02
Exchange rate	1.48
Free float(%)	90.8%
3M - Avg daily vol (mn)	1.78
3M - Avg daily val (\$ mn)	40.7
Volatility (90 Day)	21
Index	ASX 100
BBG BUY HOLD SELL	13 3 1

Aristocrat Leisure LTD (Reuters: ALL.AX, Bloomberg: ALL AU)

Year-end Sep (A\$)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (A\$ mn)	3,584	4,397	4,847	5,147	5,430
Gross margin	-	-	-	-	-
Adj. EBIT (A\$ mn)	973	1,163	1,353	1,429	1,520
Adj. EBITDA (A\$ mn)	1,312	1,576	1,690	1,777	1,887
Adj. EPS (A\$)	0.97	1.18	1.46	1.60	1.74
BBG EPS (A\$)	1.18	1.37	1.62	1.78	1.92
Reported EPS (A\$)	0.85	1.10	1.46	1.60	1.74
Dividend yield	1.3%	1.6%	1.8%	2.0%	2.2%
Adj. P/E	37.0	30.3	24.4	22.4	20.5
EV/EBITDA	17.1	14.1	12.8	11.8	10.9

Source: Company data, Bloomberg, J.P. Morgan estimates.

Aristocrat Leisure LTD (Overweight; Price Target: A\$37.50)

Investment Thesis

Retain Overweight. ALL is a slot machine manufacturer with operations in ANZ, the Americas, and International Class III segments, as well as a fast-growing Digital division. ALL has strong recurring revenues, and has been consistently gaining market share in North American gaming operations. ALL has significantly increased its digital exposure (40.1% of FY19 revenue) and continues to develop titles for both land-based and digital platforms. Further digital growth and capital management opportunities are available, and coupled with strong execution by management and the scarcity of earnings growth in the market, despite a challenging and structural slot expenditure decline, we believe the risk/reward remains attractive.

Valuation

Our share price target is based on our SOP valuation compounded forward to Dec-20 at ALL's cost of equity and adjusted for dividends where appropriate. We calculate our SOP valuation based on the individual cash flow streams of each discrete business segment. In ALL's case, we value capital expenditure, working capital and provisions at the Group level. Our group post-tax WACC is 8.6%. The key figures that make up this discount rate are a cost of equity 9.8% and post-tax cost of debt of 4.8%. We apply a beta of 0.97 within this calculation.

Risks to Rating and Price Target

Key downside risks include the consistent decline of EGM expenditure. Australian per-capita gaming expenditure has declined 0.7% on average since 2007/8, which could indicate a shift of preference within the gaming sector. This shift, coupled with technological advances, may favor emerging industries such as virtual reality or skills-based gaming. ALL is also susceptible to FX exposure because it generates revenue in multiple currencies, particularly USD. There is also the ongoing risk of changes to the regulatory environment in which ALL operates, which may have a material impact on earnings. The future of EGM remains questionable regarding pre-commitments, EGM expenditure caps, time caps and market size regulation.

Aristocrat Leisure LTD

Relative recommendation:

Overweight

A\$ in millions, year end Sep

Profit And Loss	FY18	FY19	FY20E	FY21E	FY22E	Valuation Summary	A\$m	A\$ps			
Revenue	3,584	4,397	4,847	5,147	5,430	Current mkt capitalisation	22,825.57	35.71			
Revenue growth	46.1%	22.7%	10.2%	6.2%	5.5%						
COGS	(1,976)	(2,487)	(2,734)	(2,917)	(3,067)	Price Target		37.50			
Operating Expenses	(479)	(563)	(616)	(651)	(684)	Capital growth to price target		5.0%			
EBITDA	1,312	1,576	1,690	1,777	1,887						
EBITDA growth	32.8%	20.2%	7.2%	5.2%	6.1%	Trading Multiples	FY18	FY19	FY20E	FY21E	FY22E
EBITDA margin	36.6%	35.8%	34.9%	34.5%	34.7%	PE Pre-abnormals	37.0	30.3	24.4	22.4	20.5
Amortisation	(156)	(184)	(144)	(150)	(160)	PE Reported	42.1	32.6	24.4	22.4	20.5
Depreciation	(182)	(229)	(192)	(198)	(207)	EV/EBITDA	17.1	14.1	12.8	11.8	10.9
EBIT	973	1,163	1,353	1,429	1,520	EV/EBIT	23.1	19.1	15.9	14.7	13.5
Other Income	-	-	-	-	-						
Other Expenses	-	-	-	-	-	Key Ratios	FY18	FY19	FY20E	FY21E	FY22E
Net Interest	(105)	(124)	(126)	(89)	(59)	Dividend Yield	1.3%	1.6%	1.8%	2.0%	2.2%
Pre-Tax Profit	868	1,039	1,227	1,340	1,461	Franking	100.0%	100.0%	100.0%	100.0%	100.0%
Tax	(251)	(286)	(295)	(322)	(351)	Return on Assets (%)	13.5%	12.4%	14.7%	15.9%	17.0%
Tax Rate	28.9%	27.5%	24.0%	24.0%	24.0%	Return on Equity (%)	40.1%	38.8%	38.5%	34.1%	30.9%
Minorities	0	0	0	0	0	ROIC (%)	35.8%	39.9%	51.4%	52.9%	54.1%
Abnormals (post tax)	(74)	(54)	0	0	0						
Reported NPAT	543	699	933	1,018	1,111	Leverage	FY18	FY19	FY20E	FY21E	FY22E
Normalised NPAT	730	894	1,042	1,132	1,232	Gearing (Net Debt / Equity)	1.4	1.0	0.6	0.3	0.1
Growth	34.3%	22.6%	16.5%	8.6%	8.8%	Gearing (ND / (ND + E))	58.6%	50.9%	36.6%	24.0%	11.0%
End of Period Shares	638	637	637	637	637	Net Debt / EBITDA	1.9	1.4	0.9	0.6	0.3
EFPOWA	639	638	638	638	638	EBIT Interest Cover (x)	9.2	9.4	10.7	16.0	25.8
Reported EPS	0.85	1.10	1.46	1.60	1.74	Balance Sheet	FY18	FY19	FY20E	FY21E	FY22E
Normalised EPS	1.14	1.40	1.63	1.78	1.93	Cash	428	569	569	569	569
Growth	34.3%	22.8%	16.5%	8.6%	8.8%	Receivables	720	941	854	917	967
DPS	0.46	0.56	0.63	0.73	0.78	Investments	-	-	-	-	-
Growth	35.3%	21.7%	12.5%	15.1%	7.6%	Inventories	160	163	240	258	272
DPS/EPS payout	54.2%	51.1%	43.1%	45.4%	44.8%	Other Current Assets	44	60	60	60	60
Cash Flow Statement	FY18	FY19	FY20E	FY21E	FY22E	Total Current Assets	1,352	1,733	1,723	1,803	1,867
Net Profit for Cashflow	543	699	933	1,018	1,111	Net PPE	389	431	556	719	927
Depreciation & Amortisation	339	414	337	348	366	Total Intangibles	3,899	4,008	3,895	3,767	3,623
Non Cash Items	-	-	-	-	-	Other Non Current Assets	207	164	164	164	164
Working Capital Changes	13	(174)	124	(18)	(18)	Total Non Current Assets	4,495	4,604	4,615	4,650	4,715
Other Operating Cashflows	39	147	0	0	0	Total Assets	5,847	6,337	6,338	6,454	6,582
Cashflow from Operating Activities	934	1,086	1,393	1,348	1,459	Creditors	669	720	834	896	942
Capex	(270)	(317)	(348)	(383)	(431)	Current Borrowings	0	0	0	0	0
Net Acquisitions	(72)	(69)	(76)	(83)	(86)	Current Tax Provisions	-	-	-	-	-
Other Investing cashflows	(2,208)	(337)	(348)	(383)	(431)	Other Current Provisions	55	63	63	63	63
Investing Cash Flow	(2,208)	(337)	(348)	(383)	(431)	Other Current Liabilities	294	258	258	258	258
Inc/(Dec) in Borrowings	1,434	(292)	(666)	(526)	(550)	Total Current Liabilities	1,018	1,041	1,155	1,218	1,264
Equity Issued	0	0	0	0	0	Non Current Creditors	27	51	51	51	51
Dividends Paid	(249)	(312)	(379)	(440)	(478)	Non Current Borrowings	2,881	2,793	2,127	1,601	1,051
Other Financing Cashflows	(50)	(26)	0	0	0	Deferred Tax Liabilities	123	152	152	152	152
Financing Cash Flow	1,135	(630)	(1,045)	(965)	(1,028)	Other Non Current Provisions	14	30	30	30	30
Net Cash Flow	(119)	141	(0)	(0)	0	Other Non Current Liabilities	53	126	126	126	126
						Total Non Current Liabilities	3,097	3,152	2,486	1,961	1,410
						Total Liabilities	4,114	4,193	3,641	3,178	2,674
						Equity	715	715	715	715	715
						Other Equity	0	0	0	0	0
						Reserves	(24)	3	3	3	3
						Retained Profits	1,041	1,426	1,979	2,558	3,190
						Outside Equity Interests	0	0	0	0	0
						Total Shareholders Equity	1,733	2,144	2,697	3,276	3,908
						Net Debt	2,453	2,224	1,558	1,033	482

Source: Company reports and J.P. Morgan estimates.

Crown Resorts Limited

Neutral

Company Data	
Shares O/S (mn)	687
52-week range (A\$)	14.37-11.01
Market cap (\$ mn)	5,311.81
Exchange rate	1.48
Free float(%)	42.8%
3M - Avg daily vol (mn)	1.41
3M - Avg daily val (\$ mn)	11.8
Volatility (90 Day)	17
Index	ASX 100
BBG BUY HOLD SELL	4 9 0

Crown Resorts Limited (Reuters: CWN.AX, Bloomberg: CWN AU)

Year-end Jun (A\$)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (A\$ mn)	3,483	3,139	3,029	3,089	3,328
Gross margin	-	-	-	-	-
Adj. EBIT (A\$ mn)	592	529	486	498	489
Adj. EBITDA (A\$ mn)	878	802	755	772	822
Adj. EPS (A\$)	0.56	0.54	0.49	0.50	0.49
BBG EPS (A\$)	0.54	0.54	0.53	0.55	0.55
Reported EPS (A\$)	0.81	0.59	0.49	0.50	0.49
Dividend yield	5.2%	5.2%	5.2%	5.2%	5.2%
Adj. P/E	20.3	21.2	23.2	22.8	23.4
EV/EBITDA	8.5	9.6	10.9	11.2	10.3

Source: Company data, Bloomberg, J.P. Morgan estimates.

Crown Resorts Limited (Neutral; Price Target: A\$11.75)

Investment Thesis

Retain Neutral. Australian VIP turnover may have stalled, and although CWN lost share to SGR, management is focusing on regaining VIP customers for Barangaroo, albeit with an impact on operating margins. Asset sales allow focus on core land-based casino operations without balance sheet pressure (net cash position now), and capital investments in Barangaroo are a long-term growth driver. However, we remain hesitant due to a lack of valuation support (SOP A\$11.28) at current share price levels, with CWN trading well above SGR and its long-term average.

Valuation

We retain our Jun-20 share price target of A\$11.75. This is based on our SOP valuation, compounded forward to Jun-20 at CWN's cost of equity and adjusted for dividends where appropriate. We calculate our SOTP valuation based on the individual cash flow streams of each discrete business segment. Our group post-tax WACC is 9.2%. The key figures that make up this discount rate are a cost of equity of 10.9% and post-tax cost of debt of 4.0%. We apply Beta of 1.15 within this calculation.

Risks to Rating and Price Target

Key downside risks to our price target include a retraction of consumer spending and/or a shift in gaming allocation, continued volatility and low-margin revenue from International VIP clients and less-than-expected savings from cost management.

There is also the ongoing risk of changes to the regulatory environment in which Crown operates which may have a material impact on earnings. CWN's business CrownBet also leaves the group susceptible to structural shifts in the wagering, fixed odds and sports betting spaces. It faces competition from market leaders such as TAH and offshore competitors, which may impact on margins.

Upside risks include a larger return of VIP turnover than expected with a stronger recovery of Perth or Melbourne main gaming floor.

Crown Resorts Limited

Relative recommendation:

Neutral

A\$ in millions, year end Jun

Profit And Loss						Valuation Summary						A\$m	A\$ps
	FY18	FY19	FY20E	FY21E	FY22E								
Revenue	3,483	3,139	3,029	3,089	3,328	Current mkt capitalisation						7,857.22	11.43
Revenue growth	7.8%	(9.9%)	(3.5%)	2.0%	7.7%								
COGS	(2,607)	(2,340)	(2,273)	(2,317)	(2,506)	Price Target							11.75
Operating Expenses	-	-	-	-	-	Capital growth to price target							2.8%
EBITDA	878	802	755	772	822								
EBITDA growth	6.1%	(8.7%)	(5.8%)	2.2%	6.4%	Trading Multiples	FY18	FY19	FY20E	FY21E	FY22E		
EBITDA margin	25.2%	25.6%	24.9%	25.0%	24.7%	PE Pre-abnormals	20.3	21.2	23.2	22.8	23.4		
Amortisation	0	0	0	0	0	PE Reported	14.1	19.4	23.2	22.8	23.4		
Depreciation	(286)	(274)	(270)	(275)	(333)	EV/EBITDA	8.5	9.6	10.9	11.2	10.3		
EBIT	592	529	486	498	489	EV/EBIT	12.5	14.6	17.0	17.3	17.3		
Other Income	-	-	-	-	-								
Other Expenses	-	-	-	-	-	Key Ratios	FY18	FY19	FY20E	FY21E	FY22E		
Net Interest	(46)	(10)	(2)	(6)	(9)	Dividend Yield	5.2%	5.2%	5.2%	5.2%	5.2%		
Pre-Tax Profit	556	532	484	491	480	Franking	60.0%	42.5%	60.0%	60.0%	60.0%		
Tax	(170)	(162)	(150)	(152)	(149)	Return on Assets (%)	4.6%	4.7%	4.2%	4.1%	4.0%		
Tax Rate	30.6%	30.5%	31.0%	31.0%	31.0%	Return on Equity (%)	7.5%	7.2%	6.6%	6.8%	6.7%		
Minorities	1	(1)	0	0	0	ROIC (%)	-	-	-	-	-		
Abnormals (post tax)	172	33	0	0	0								
Reported NPAT	559	402	334	339	331	Leverage	FY18	FY19	FY20E	FY21E	FY22E		
						Gearing (Net Debt / Equity)	NM	NM	0.1	0.2	0.1		
Normalised NPAT	387	369	334	339	331	Gearing (ND / (ND + E))	(7.3%)	(0.9%)	8.9%	14.9%	12.9%		
Growth	12.7%	(4.7%)	(9.5%)	1.6%	(2.2%)	Net Debt / EBITDA	NM	NM	0.7	1.1	0.9		
						EBIT Interest Cover (x)	12.9	52.3	237.8	77.5	53.6		
End of Period Shares	687	677	677	677	677								
EFPOWA	688	682	677	677	677	Balance Sheet	FY18	FY19	FY20E	FY21E	FY22E		
						Cash	1,845	1,126	1,126	1,126	1,126		
Reported EPS	0.81	0.59	0.49	0.50	0.49	Receivables	172	99	123	151	163		
Normalised EPS	0.56	0.54	0.49	0.50	0.49	Investments	-	-	-	-	-		
Growth	16.1%	(3.9%)	(8.8%)	1.6%	(2.2%)	Inventories	17	17	12	13	14		
						Other Current Assets	42	44	44	44	44		
DPS	0.60	0.60	0.60	0.60	0.60	Total Current Assets	2,076	1,285	1,305	1,334	1,347		
Growth	(58.0%)	0.0%	0.0%	0.0%	0.0%	Net PPE	3,881	4,259	4,749	5,058	4,878		
						Total Intangibles	1,543	1,479	1,460	1,440	1,411		
DPS/EPS payout	73.9%	101.9%	121.8%	119.9%	122.6%	Other Non Current Assets	671	611	611	611	611		
						Total Non Current Assets	6,096	6,349	6,820	7,108	6,899		
Cash Flow Statement	FY18	FY19	FY20E	FY21E	FY22E	Total Assets	8,172	7,634	8,125	8,442	8,246		
Net Profit for Cashflow	559	402	334	339	331	Creditors	428	433	457	465	491		
Depreciation & Amortisation	286	274	270	275	333	Current Borrowings	26	288	288	288	288		
Non Cash Items	-	-	-	-	-	Current Tax Provisions	165	154	154	154	154		
Working Capital Changes	34	80	4	(21)	13	Other Current Provisions	225	186	186	186	186		
Other Operating Cashflows	(147)	23	0	0	0	Other Current Liabilities	0	0	0	0	0		
Cashflow from Operating Activities	732	778	607	593	677	Total Current Liabilities	844	1,061	1,085	1,092	1,118		
						Non Current Creditors	288	255	255	255	255		
Capex	(394)	(539)	(741)	(563)	(124)	Non Current Borrowings	1,467	791	1,331	1,707	1,560		
Net Acquisitions	197	2	0	0	0	Deferred Tax Liabilities	381	402	402	402	402		
Other Investing cashflows	59	4	0	0	0	Other Non Current Provisions	33	24	24	24	24		
Investing Cash Flow	201	(532)	(741)	(563)	(124)	Other Non Current Liabilities	2	5	5	5	5		
						Total Non Current Liabilities	2,170	1,476	2,016	2,393	2,246		
Inc/(Dec) in Borrowings	(429)	(425)	540	377	(147)	Total Liabilities	3,014	2,537	3,101	3,485	3,364		
Equity Issued	(19)	(131)	0	0	0	Equity	(72)	(203)	(203)	(203)	(203)		
Dividends Paid	(413)	(409)	(406)	(406)	(406)	Other Equity	(16)	0	0	0	0		
Other Financing Cashflows	0	0	0	0	0	Reserves	(61)	1	1	1	1		
Financing Cash Flow	(861)	(965)	134	(30)	(553)	Retained Profits	5,306	5,299	5,226	5,159	5,084		
						Outside Equity Interests	0	0	0	0	0		
Net Cash Flow	73	(719)	0	0	(0)	Total Shareholders Equity	5,158	5,097	5,024	4,957	4,882		
						Net Debt	(352)	(47)	492	869	722		

Source: Company reports and J.P. Morgan estimates.

Star Entertainment Group Limited

Neutral

Company Data	
Shares O/S (mn)	917
52-week range (A\$)	4.93-3.56
Market cap (\$ mn)	2,579.82
Exchange rate	1.48
Free float(%)	99.6%
3M - Avg daily vol (mn)	4.22
3M - Avg daily val (\$ mn)	13.3
Volatility (90 Day)	22
Index	ASX 100
BBG BUY HOLD SELL	10 1 2

Star Entertainment Group Limited (Reuters: SGR.AX, Bloomberg: SGR AU)

Year-end Jun (A\$)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (A\$ mn)	2,695	2,501	2,537	2,573	2,564
Gross margin	-	-	-	-	-
Adj. EBIT (A\$ mn)	381	351	398	398	390
Adj. EBITDA (A\$ mn)	568	557	596	598	588
Adj. EPS (A\$)	0.28	0.24	0.27	0.26	0.26
BBG EPS (A\$)	0.28	0.24	0.26	0.28	0.26
Reported EPS (A\$)	0.18	0.22	0.27	0.26	0.26
Dividend yield	4.9%	4.9%	5.2%	5.3%	5.3%
Adj. P/E	14.8	17.1	15.6	15.7	16.3
EV/EBITDA	8.5	9.3	8.9	9.0	9.1

Source: Company data, Bloomberg, J.P. Morgan estimates.

Star Entertainment Group Limited (Neutral; Price Target: A\$4.50)

Investment Thesis

SGR has seen defensive, stable and transparent domestic earnings growth and has invested strategically in expansion and refurbishment in the domestic market. SGR's domestic gaming offers a high-margin, predictable and recurring portion of earnings, and the company is delivering on initiatives to improve the domestic offering by reinvesting in the customer and driving tourism through product and loyalty. Queens Wharf and hotel room expansions remain the key long-term drivers, although increased capex and regulations remain risks. We note the risks surrounding VIP volatility. Probity will also continue to remain a delayed issue for SGR and CWN. Low consumer confidence index levels and a heavily indebted consumer creates concerns around discretionary spending levels as there are rising cost of living pressures. CWN's casino in Barangaroo is opening in late CY20 and presents competitive risk. We have a Neutral rating on SGR.

Valuation

Our Dec-20 PT of \$4.50 is based on our SOP (A\$4.44) valuation, rolled forward to Dec-20 at SGR's cost of equity and adjusted for dividends where appropriate. We calculate our sum-of-the-parts valuation based on the individual cash flow streams of each business segment. Our group post-tax WACC is 8.2%. The key figures that make up this discount rate are a cost of equity of 9.7% and a post-tax cost of debt of 3.7%. We apply a Beta of 0.95 within this calculation.

Risks to Rating and Price Target

Key downside risks to our rating and price target include a retraction of consumer spending and/or a shift in HDI gaming allocation, continued volatility and low-margin revenue from international VIP clients, and a potential structural decline in VIP revenue. SGR is susceptible to delays or unanticipated costs associated with its refurbishment/growth strategy. If expansion projects are not completed or face unexpected headwinds from legal issues, this could have material impacts on earnings. There is also ongoing risk of regulatory changes in the gaming industry and the upcoming construction and opening of CWN's casino in Barangaroo in late CY20.

Key upside risks include an increase in consumer spending and/or a shift in HDI gaming allocation, increase in EGM spend, improvement in VIP turnover and higher margin clients, and benefits from its refurbishment/growth strategy.

Star Entertainment Group Limited

Relative recommendation:

Neutral

A\$ in millions, year end Jun

Profit And Loss	FY18	FY19	FY20E	FY21E	FY22E
Revenue	2,695	2,501	2,537	2,573	2,564
Revenue growth	15.3%	(7.2%)	1.4%	1.4%	(0.3%)
COGS	(2,127)	(1,944)	(1,941)	(1,975)	(1,977)
Operating Expenses	0	0	0	0	0
EBITDA	568	557	596	598	588
EBITDA growth	10.3%	(2.0%)	7.1%	0.4%	(1.8%)
EBITDA margin	21.1%	22.3%	23.5%	23.2%	22.9%
Amortisation	-	-	-	-	-
Depreciation	(187)	(206)	(198)	(200)	(198)
EBIT	381	351	398	398	390
Other Income	-	-	-	-	-
Other Expenses	-	-	-	-	-
Net Interest	(34)	(35)	(47)	(51)	(54)
Pre-Tax Profit	346	315	351	347	336
Tax	(108)	(91)	(105)	(104)	(101)
Tax Rate	31.3%	28.9%	30.0%	30.0%	30.0%
Minorities	0	0	0	0	0
Abnormals (post tax)	(90)	(26)	0	0	0
Reported NPAT	148	198	246	243	235
Normalised NPAT	238	224	246	243	235
Growth	11.0%	(6.0%)	9.8%	(1.2%)	(3.2%)
End of Period Shares	845	917	917	917	917
EFPOWA	846	919	919	919	919
Reported EPS	0.18	0.22	0.27	0.26	0.26
Normalised EPS	0.28	0.24	0.27	0.26	0.26
Growth	8.4%	(13.4%)	9.8%	(1.2%)	(3.2%)
DPS	0.21	0.21	0.22	0.22	0.22
Growth	28.1%	0.0%	4.9%	2.3%	0.0%
DPS/EPS payout	117.1%	95.1%	80.4%	83.3%	86.1%
Cash Flow Statement	FY18	FY19	FY20E	FY21E	FY22E
Net Profit for Cashflow	148	198	246	243	235
Depreciation & Amortisation	187	206	198	200	198
Non Cash Items	-	-	-	-	-
Working Capital Changes	9	(41)	32	11	14
Other Operating Cashflows	53	49	48	52	55
Cashflow from Operating Activities	397	411	524	507	502
Capex	(476)	(328)	(248)	(172)	(165)
Net Acquisitions	(77)	(105)	(200)	(175)	0
Other Investing cashflows	0	0	0	0	0
Investing Cash Flow	(552)	(433)	(448)	(347)	(165)
Inc/(Dec) in Borrowings	(249)	296	165	95	(81)
Equity Issued	489	0	0	0	0
Dividends Paid	(132)	(216)	(193)	(202)	(202)
Other Financing Cashflows	43	(55)	(48)	(52)	(55)
Financing Cash Flow	152	26	(76)	(160)	(338)
Net Cash Flow	(3)	4	(0)	(0)	0

Valuation Summary				A\$m	A\$ps
Current mkt capitalisation				3,816.06	4.16
Price Target					4.50
Capital growth to price target					8.2%
Trading Multiples	FY18	FY19	FY20E	FY21E	FY22E
PE Pre-abnormals	14.8	17.1	15.6	15.7	16.3
PE Reported	23.8	19.3	15.6	15.7	16.3
EV/EBITDA	8.5	9.3	8.9	9.0	9.1
EV/EBIT	12.6	14.7	13.4	13.6	13.7
Key Ratios	FY18	FY19	FY20E	FY21E	FY22E
Dividend Yield	4.9%	4.9%	5.2%	5.3%	5.3%
Franking	100.0%	100.0%	100.0%	100.0%	100.0%
Return on Assets (%)	4.6%	4.1%	4.3%	4.1%	4.0%
Return on Equity (%)	6.7%	5.9%	6.5%	6.4%	6.1%
ROIC (%)	-	-	-	-	-
Leverage	FY18	FY19	FY20E	FY21E	FY22E
Gearing (Net Debt / Equity)	0.2	0.3	0.3	0.3	0.3
Gearing (ND / (ND + E))	15.8%	22.0%	24.3%	25.5%	24.2%
Net Debt / EBITDA	1.2	1.9	2.0	2.2	2.1
EBIT Interest Cover (x)	11.1	9.9	8.5	7.8	7.2
Balance Sheet	FY18	FY19	FY20E	FY21E	FY22E
Cash	110	114	114	114	114
Receivables	222	236	211	213	212
Investments	-	-	-	-	-
Inventories	16	18	18	19	18
Other Current Assets	49	60	60	60	60
Total Current Assets	396	427	404	406	404
Net PPE	2,659	2,780	2,838	2,827	2,813
Total Intangibles	1,859	1,861	1,853	1,836	1,816
Other Non Current Assets	358	515	715	890	890
Total Non Current Assets	4,875	5,157	5,406	5,553	5,519
Total Assets	5,271	5,584	5,810	5,959	5,924
Creditors	366	341	350	363	376
Current Borrowings	134	196	196	196	196
Current Tax Provisions	-	-	-	-	-
Other Current Provisions	65	100	100	100	100
Other Current Liabilities	25	37	37	37	37
Total Current Liabilities	589	674	683	696	708
Non Current Creditors	0	0	0	0	0
Non Current Borrowings	686	972	1,136	1,231	1,150
Deferred Tax Liabilities	176	171	171	171	171
Other Non Current Provisions	13	17	17	17	17
Other Non Current Liabilities	25	10	10	10	10
Total Non Current Liabilities	900	1,169	1,334	1,428	1,347
Total Liabilities	1,489	1,843	2,016	2,124	2,056
Equity	3,070	3,063	3,063	3,063	3,063
Other Equity	0	0	(0)	(0)	(0)
Reserves	(7)	(16)	(16)	(16)	(16)
Retained Profits	718	694	747	788	821
Outside Equity Interests	0	0	0	0	0
Total Shareholders Equity	3,782	3,741	3,794	3,835	3,868
Net Debt	710	1,054	1,218	1,313	1,232

Source: Company reports and J.P. Morgan estimates.

Tabcorp Holdings

Underweight

Company Data	
Shares O/S (mn)	2,013
52-week range (A\$)	4.99-4.19
Market cap (\$ mn)	6,314.44
Exchange rate	1.48
Free float(%)	99.5%
3M - Avg daily vol (mn)	6.06
3M - Avg daily val (\$ mn)	19.4
Volatility (90 Day)	15
Index	ASX 100
BBG BUY HOLD SELL	3 7 3

Tabcorp Holdings Limited (Reuters: TAH.AX, Bloomberg: TAH AU)

Year-end Jun (A\$)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (A\$ mn)	3,834	5,482	5,552	5,183	5,283
Gross margin	-	-	-	-	-
Adj. EBIT (A\$ mn)	488	764	767	732	800
Adj. EBITDA (A\$ mn)	736	1,065	1,081	1,048	1,113
Adj. EPS (A\$)	0.16	0.21	0.20	0.20	0.22
BBG EPS (A\$)	0.18	0.20	0.20	0.21	0.22
Reported EPS (A\$)	0.01	0.21	0.20	0.20	0.22
Dividend yield	4.5%	4.7%	4.8%	4.7%	5.4%
Adj. P/E	29.1	22.2	23.1	23.5	20.8
EV/EBITDA	16.3	11.4	11.2	11.6	10.9

Source: Company data, Bloomberg, J.P. Morgan estimates.

Tabcorp Holdings Limited (Underweight; Price Target: A\$4.10)

Investment Thesis

We retain our Underweight recommendation. TAH is exposed to declining wagering yields from competitive pressures, along with inhibited growth due to its high retail exposure. TAH's exposure to growth segments like fixed-odds, online, and sport is shrinking as corporate bookmakers have garnered the most market share. Significant execution risks remain in our view with regard to the integration of the Ubet brand and other Tatts divisions. Digital lottery sales and synergies from the Tatts merger provide some margin relief, but there is lack of valuation support (JPM SOP A\$3.96).

Valuation

Our June-2020 share price target is A\$4.10, based on our Group SOP valuation, compounded forward to June 2020 at TAH's cost of equity and adjusted for dividends where appropriate. We calculate our SOP valuation based on the individual cash flow streams of each discrete business segment. In TAH's case, we value capital expenditure, working capital and provisions at the Group level. Our group post-tax WACC is 8.0%. The key figures that make up this discount rate are a cost of equity of 9.4% and a post-tax cost of debt of 4.6%. We apply a Beta of 0.85 within this calculation.

Risks to Rating and Price Target

Upside risks include better- and earlier-than-expected realized synergies from the TTS merger and favourable regulatory changes that could result in yields declining for offshore bookmakers.

Competition and offshore wagering pose the largest downside risk to TAH's market share. Australian gamblers' access to cheaper odds offshore has resulted in a loss of market share from domestic companies. TAH also requires economies of scale in order to face the many regulatory headwinds and margin-compressing trading conditions. Bans on advertising and "click-to-call" betting threaten the future of the wagering market.

Tabcorp Holdings

Relative recommendation:

Underweight

A\$ in millions, year end Jun

Profit And Loss	FY18	FY19	FY20E	FY21E	FY22E	Valuation Summary	A\$m	A\$ps			
Revenue	3,834	5,482	5,552	5,183	5,283	Current mkt capitalisation	9,340.32	4.64			
Revenue growth	72.0%	43.0%	1.3%	(6.7%)	1.9%						
COGS	-	-	-	-	-	Price Target		4.10			
Operating Expenses	(3,098)	(4,418)	(4,472)	(4,135)	(4,170)	Capital growth to price target		(11.6%)			
EBITDA	736	1,065	1,081	1,048	1,113						
EBITDA growth	46.1%	44.6%	1.5%	(3.0%)	6.2%	Trading Multiples	FY18	FY19	FY20E	FY21E	FY22E
EBITDA margin	19.2%	19.4%	19.5%	20.2%	21.1%	PE Pre-abnormals	29.1	22.2	23.1	23.5	20.8
Amortisation						PE Reported	354.7	22.2	23.1	23.5	20.8
Depreciation	(249)	(301)	(314)	(316)	(313)	EV/EBITDA	16.3	11.4	11.2	11.6	10.9
EBIT	488	764	767	732	800	EV/EBIT	24.7	15.9	15.8	16.7	15.2
Other Income	-	-	-	-	-						
Other Expenses	-	-	-	-	-	Key Ratios	FY18	FY19	FY20E	FY21E	FY22E
Net Interest	(128)	(190)	(178)	(152)	(146)	Dividend Yield	4.5%	4.7%	4.8%	4.7%	5.4%
Pre-Tax Profit	360	573	589	580	654	Franking	100.0%	100.0%	100.0%	100.0%	100.0%
Tax	(123)	(173)	(183)	(180)	(203)	Return on Assets (%)	2.8%	3.2%	3.1%	3.0%	3.4%
Tax Rate	34.2%	30.1%	31.0%	31.0%	31.0%	Return on Equity (%)	5.4%	5.9%	5.7%	5.6%	6.4%
Minorities	0	22	0	0	0	ROIC (%)	9.5%	14.6%	15.0%	14.1%	15.9%
Abnormals (post tax)	(218)	0	0	0	0						
Reported NPAT	19	423	406	400	451	Leverage	FY18	FY19	FY20E	FY21E	FY22E
						Gearing (Net Debt / Equity)	0.4	0.5	0.4	0.5	0.5
Normalised NPAT	237	398	406	400	451	Gearing (ND / (ND + E))	30.2%	31.1%	31.0%	31.8%	31.3%
Growth	32.4%	67.8%	2.2%	(1.5%)	12.7%	Net Debt / EBITDA	4.3	3.1	3.0	3.2	2.9
						EBIT Interest Cover (x)	3.8	4.0	4.3	4.8	5.5
End of Period Shares	2,013	2,019	2,019	2,019	2,019						
EFPOWA	1,483	2,020	2,024	2,024	2,024	Balance Sheet	FY18	FY19	FY20E	FY21E	FY22E
						Cash	368	463	463	463	463
Reported EPS	0.01	0.21	0.20	0.20	0.22	Receivables	98	111	105	93	95
Normalised EPS	0.16	0.20	0.20	0.20	0.22	Investments	-	-	-	-	-
Growth	(25.5%)	23.2%	2.0%	(1.5%)	12.7%	Inventories	0	0	0	0	0
						Other Current Assets	201	191	191	191	191
DPS	0.21	0.22	0.23	0.22	0.25	Total Current Assets	668	765	758	747	748
Growth	(16.0%)	4.8%	2.3%	(2.2%)	13.6%	Net PPE	488	562	571	571	565
						Total Intangibles	11,503	11,439	11,380	11,310	11,232
DPS/EPS payout	1605.5%	105.1%	112.1%	111.2%	112.1%	Other Non Current Assets	282	534	534	534	534
						Total Non Current Assets	12,273	12,534	12,485	12,415	12,331
Cash Flow Statement	FY18	FY19	FY20E	FY21E	FY22E	Total Assets	12,941	13,299	13,243	13,161	13,080
Net Profit for Cashflow	19	423	406	400	451	Creditors	1,070	1,206	1,254	1,127	1,149
Depreciation & Amortisation	249	301	314	316	313	Current Borrowings	133	192	192	192	192
Non Cash Items						Current Tax Provisions	0	0	0	0	0
Working Capital Changes	665	123	55	(116)	20	Other Current Provisions	92	66	66	66	66
Other Operating Cashflows	(485)	(132)	0	0	0	Other Current Liabilities	115	128	128	128	128
Cashflow from Operating Activities	448	715	775	601	784	Total Current Liabilities	1,411	1,592	1,640	1,513	1,535
						Non Current Creditors	212	234	234	234	234
Capex	(291)	(276)	(264)	(246)	(229)	Non Current Borrowings	3,372	3,527	3,481	3,581	3,500
Net Acquisitions						Deferred Tax Liabilities	596	575	575	575	575
Other Investing cashflows	(109)	(139)	(133)	(125)	(118)	Other Non Current Provisions	79	70	70	70	70
Investing Cash Flow	(165)	(363)	(264)	(246)	(229)	Other Non Current Liabilities	33	94	94	94	94
						Total Non Current Liabilities	4,291	4,501	4,455	4,554	4,474
Inc/(Dec) in Borrowings	511	153	(46)	99	(81)	Total Liabilities	5,702	6,093	6,095	6,067	6,008
Equity Issued	0	0	0	0	0	Equity	8,529	8,562	8,562	8,562	8,562
Dividends Paid	(314)	(393)	(464)	(454)	(475)	Other Equity	0	0	(0)	0	0
Other Financing Cashflows	(242)	(1)	0	0	0	Reserves	(724)	(726)	(726)	(726)	(726)
Financing Cash Flow	(44)	(241)	(510)	(355)	(555)	Retained Profits	(566)	(629)	(687)	(741)	(764)
						Outside Equity Interests	0	0	0	0	0
Net Cash Flow	238	110	(0)	0	(0)	Total Shareholders Equity	7,239	7,207	7,148	7,094	7,071
						Net Debt	3,137	3,256	3,210	3,310	3,229

Source: Company reports and J.P. Morgan estimates.

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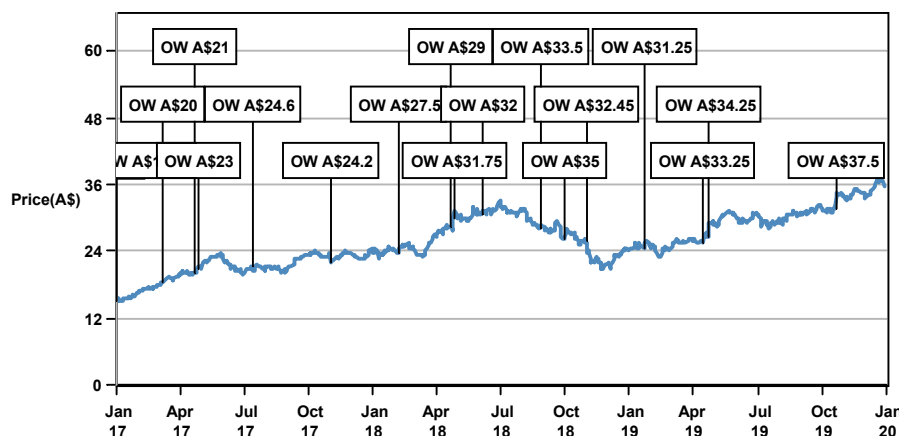
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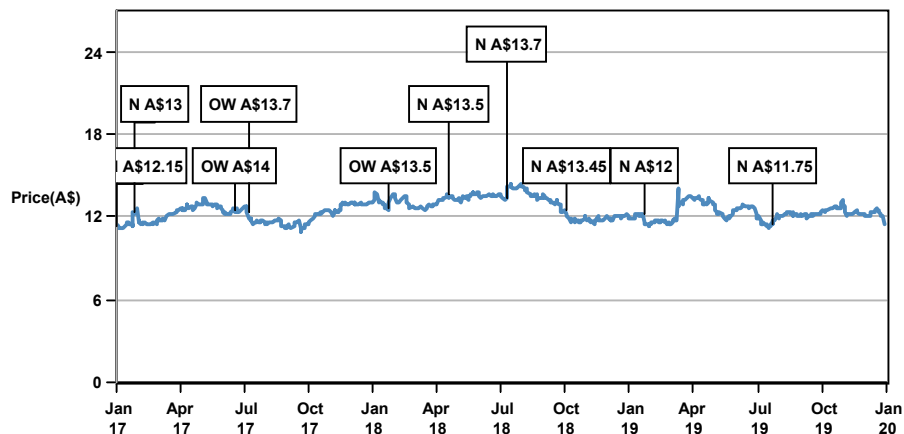
Aristocrat Leisure LTD (ALL.AX, ALL AU) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jan 21, 2001. All share prices are as of market close on the previous business day.
Break in coverage Oct 17, 2016 - Jan 31, 2017.

Date	Rating	Price (A\$)	Price Target (A\$)
31-Jan-17	OW	15.18	17.75
06-Apr-17	OW	18.26	20
22-May-17	OW	20.20	21
26-May-17	OW	21.04	23
11-Aug-17	OW	21.26	24.6
01-Dec-17	OW	21.99	24.2
06-Mar-18	OW	23.70	27.5
21-May-18	OW	28.39	29
25-May-18	OW	30.04	31.75
04-Jul-18	OW	30.50	32
25-Sep-18	OW	28.13	33.5
29-Oct-18	OW	26.31	35
29-Nov-18	OW	26.11	32.45
21-Feb-19	OW	24.64	31.25
15-May-19	OW	25.48	33.25
23-May-19	OW	26.52	34.25
20-Nov-19	OW	31.80	37.5

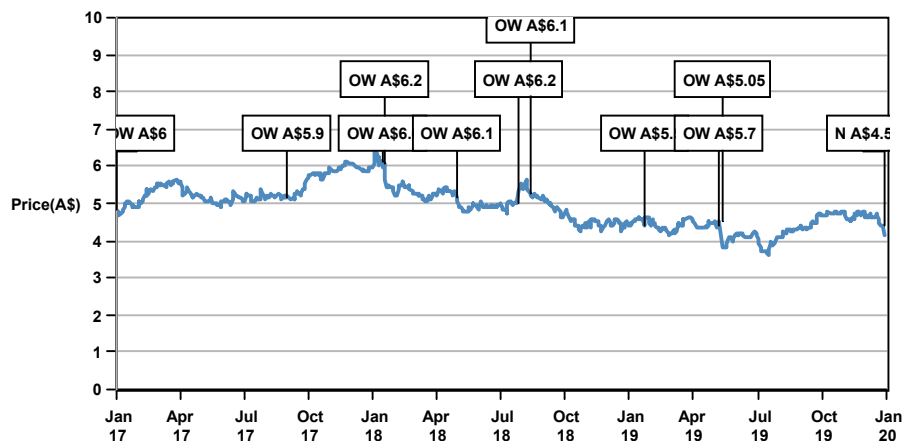
Crown Resorts Limited (CWN.AX, CWN AU) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Mar 19, 2008. All share prices are as of market close on the previous business day.
Break in coverage Oct 17, 2016 - Jan 31, 2017.

Date	Rating	Price (A\$)	Price Target (A\$)
31-Jan-17	N	11.39	12.15
24-Feb-17	N	12.29	13
18-Jul-17	OW	12.51	14
05-Aug-17	OW	12.40	13.7
20-Feb-18	OW	12.60	13.5
17-May-18	N	13.64	13.5
09-Aug-18	N	13.32	13.7
01-Nov-18	N	12.51	13.45
20-Feb-19	N	12.20	12
21-Aug-19	N	11.42	11.75

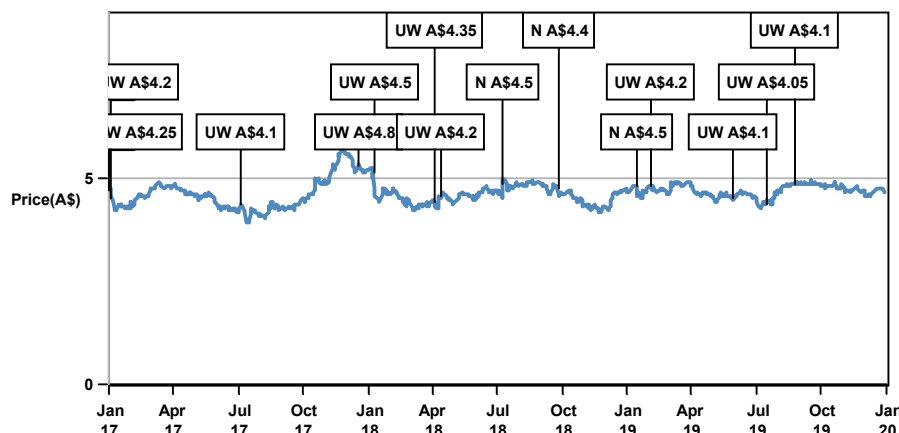
Star Entertainment Group Limited (SGR.AX, SGR AU) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 09, 2011. All share prices are as of market close on the previous business day.
Break in coverage Oct 17, 2016 - Jan 31, 2017.

Date	Rating	Price (A\$)	Price Target (A\$)
31-Jan-17	OW	4.85	6
29-Sep-17	OW	5.18	5.9
12-Feb-18	OW	6.13	6.6
16-Feb-18	OW	6.05	6.2
29-May-18	OW	5.14	6.1
24-Aug-18	OW	5.00	6.2
12-Sep-18	OW	5.26	6.1
21-Feb-19	OW	4.40	5.5
05-Jun-19	OW	4.40	5.7
11-Jun-19	OW	4.51	5.05
28-Jan-20	N	4.39	4.5

Tabcorp Holdings (TAH.AX, TAH AU) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 21, 2005. All share prices are as of market close on the previous business day.
Break in coverage Oct 17, 2016 - Jan 31, 2017.

Date	Rating	Price (A\$)	Price Target (A\$)
31-Jan-17	UW	4.71	4.25
03-Feb-17	UW	4.50	4.2
05-Aug-17	UW	4.35	4.1
17-Jan-18	UW	5.27	4.8
08-Feb-18	UW	5.11	4.5
04-May-18	UW	4.42	4.35
14-May-18	UW	4.55	4.2
09-Aug-18	N	4.84	4.5
25-Oct-18	N	4.74	4.4
13-Feb-19	N	4.77	4.5
05-Mar-19	UW	4.79	4.2
27-Jun-19	UW	4.49	4.1
14-Aug-19	UW	4.37	4.05
23-Sep-19	UW	4.86	4.1

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