

19 February 2021

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The Star Entertainment Group Limited

Consumer Services

UNDERPERFORM

SGR A\$3.72

TARGET PRICE A\$2.78

The Star Entertainment Group Limited (SGR, formerly Echo Entertainment Group Limited) is into management of integrated resorts with gaming, entertainment and hospitality services. The Group also manages the Gold Coast Convention and Exhibition Centre on behalf of the Queensland Government and invests in number of strategic joint ventures.

Company Data

Number of shares	952.0 M
Market Capitalisation	\$3,503.4 M
Free float (%)	90.0
12-month high/low	\$4.33/\$1.62
Average Daily Turnover (\$m)	7.33
% S&P/ASX200	0.18%
DDM Ranking	374
% All Ordinaries	0.16%

GICS Industry Group Consumer Services

Source: FactSet, Barclay Pearce Capital

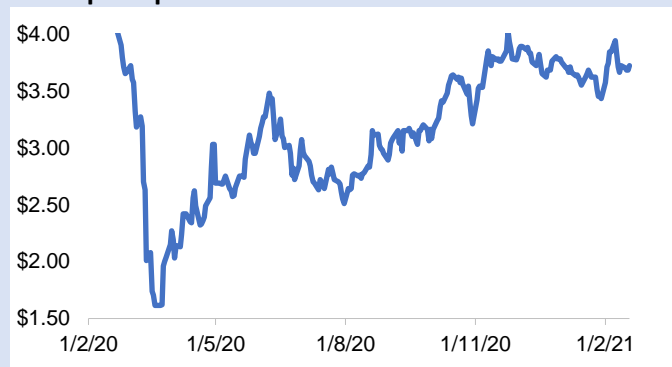
Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	1,973.0	1,613.2	2,025.8	2,254.5
EBITDA (\$M)	429.6	428.1	511.6	585.6
Reported NPAT (\$M)	-94.6	95.3	172.4	246.7
Adjusted NPAT (\$M)	120.8	104.0	173.2	241.4
Reported EPS (c)	-10.3	9.6	19.0	27.8
Adjusted EPS (c - FD)	13.2	11.3	18.6	25.0
Adjusted EPS growth (%)	-44.0	-14.5	65.3	34.1
Adjusted P/E (x)	27.9	32.6	19.7	14.7
Dividend (c/sh)	10.5	1.5	9.7	18.2
Gross yield (%)				
Net yield (%)	2.9	0.4	2.6	4.9
ROIC (%)	2.4	2.1	3.5	4.8

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195, Capital IQ and Bloomberg.

Share price performance.



Source: FactSet, Barclay Pearce Capital

1H FY2021 Results

On 18th February, The Star Entertainment Group Limited (SGR) released their results for the half year ended 31 December 2020 with the following highlights:

Sound performance in the context of COVID-19 related operating restrictions

- Normalised EBITDA of \$226m and normalised NPAT of \$63m;
- Statutory EBITDA (before significant items) of \$233m and statutory NPAT of \$51m; and
- COVID-19 related social distancing restrictions and border closures materially impacted volumes across the Group's properties.

Key performance highlights

- Gold Coast slots revenue up 8%, Brisbane up 7%;
- Group loyalty gaming revenue up slightly – Sydney Sovereign PGR up 5%; and
- Group normalised EBITDA margin improved from 23.5% to 30.4%.

Costs and capex well managed

- Operating expenses down 40% to \$324m;
- Variable costs aligned with lower revenues while fixed costs reduced (operating costs include higher temporary COVID-19 related costs including cleaning, security, and hygiene marshals); and
- Capex down 65% on the prior period.

Balance sheet position improved, debt covenant waivers attained

- Net debt reduced by \$151m during the period;
- Negotiated full waiver of debt covenants for the December 2020 testing date and an amendment of the covenant ratios for the June 2021 testing date; and
- Contracted the sale of the VIP aircraft and boat while progressing the sale process for The Star Sydney Car Park concession.

Trading Update and 2H FY2021 Outlook

- Early 2H FY2021 trading is exhibiting similar trends to the first half with all 3 properties experiencing positive domestic demand conditions;
- Performance continues to be impacted by COVID-19 related operating restrictions;
- In the period from 1 January 2021 to 14 February 2021, group domestic gaming revenue was ~81% of pcp with group domestic revenue ~80% of pcp;
- Operating costs continue to be well managed with the overall EBITDA margin in January in-line with the prior period; and
- Restrictions may change over the remainder of the year which could materially impact revenues and earnings.

Earnings changes

For 1H FY2021 SGR reported normalised NPAT of \$63.2M, a decrease of 50.0% from the pcp. This is in line with market expectations. Hence, we don't expect any significant earnings revisions.

Valuation

We are initiating on SGR with a price target of \$2.78 and a UNDERPERFORM recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Buy – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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Buy	40.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)