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Crown Resorts 08/08/2017 **FAT-AUS-834**

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Time to fold 'em

Crown Resorts' (ASX, CWN) full year performance has proved to be disappointing especially with ongoing issues with the authorities in China dragging down revenues from the international high roller market. Also, the company's direction towards becoming a more Australian-focussed business puts a cap on growth in our view. As such, and following a take profits recommendation in June, we now recommend Members sell their remaining holdings in Crown Resorts.

FY17 Results – comparisons are on a year-on-year (yoy) basis, unless otherwise noted, and currency in Australian Dollars

Last Friday Crown Resorts released full year results to 30 June, with underlying net profit coming in at $343.1 million, down 15.5 percent on the previous corresponding period and below consensus estimates of $367 million. Underlying earnings per share likewise declined at a similar pace of 15 percent. A decline in the international high roller business pressurised revenues, and took its toll on the bottom-line. Crown's normalised revenues fell 9.9 to $32.31 billion from circa $35.85 billion last year worsened by the arrest of the company's international VIP staff in China for 'gambling related crimes' last October.

Breaking it down, VIP revenues sunk from circa $1 billion in 2016 to about $449.7 million, down 48.9 percent, while mass market Main floor gaming revenue decreased by 1.4 percent to $1.66 billion.

Given the headwinds in the VIP segment, Chairman John Alexander noted that they would reconsider their strategy once all of the detained staff were released by the Chinese authorities. Thus far 10 employees, including two Australians, were released in July. The last Australian held is Jason O'Connor, the head of the company's international VIP casino business and who is expected to be released this week.

Going forward, we expect Crown will continue facing headwinds in the VIP segment, following a re-evaluation of their strategy here, and the closure of international offices.

Crown Resorts Limited Group Result

	F17 Normalised $m	F16 Normalised $m	Variance F/(U)	F17 Actual $m	F16 Actual $m	Variance F/(U)
Australian Resorts EBITDA	833.7	933.2	(10.7%)	828.0	949.2	(12.8%)
Crown Aspinalls EBITDA	26.6	26.5	0.4%	(5.5)	16.0	N/A
Wagering and Online Social Gaming Operations EBITDA	14.8	(5.4)	N/A	14.8	(5.4)	N/A
Corporate costs	(47.1)	(98.5)	52.2%	(47.1)	(98.5)	52.2%
EBITDA	**828.0**	**855.8**	(3.3%)	**790.3**	**861.3**	(8.3%)
Depreciation & amortisation	(296.8)	(282.7)	(5.0%)	(296.8)	(282.7)	(5.0%)
EBIT	**531.2**	**573.1**	(7.3%)	**493.5**	**578.6**	(14.7%)
Net interest	(101.6)	(141.6)	28.3%	(101.6)	(141.6)	28.3%
Income tax	(135.1)	(87.2)	(55.0%)	(127.1)	(89.9)	(41.4%)
Equity accounted - MRE	42.4	58.1	(27.0%)	37.9	42.7	(11.3%)
- Other	1.3	(1.4)	N/A	1.3	(1.4)	N/A
NPAT (pre non-controlling and significant items)	**338.2**	**401.0**	(15.7%)	**304.0**	**388.4**	(21.7%)
Non-controlling interest	4.9	5.2	(6.1%)	4.9	5.2	(6.1%)
NPAT (pre significant items)	**343.1**	**406.2**	(15.5%)	**308.9**	**393.6**	(21.5%)
Significant items (net of tax)	-	-		1,557.2	555.2	180.5%
Net Profit – attributable to the parent	**343.1**	**406.2**	(15.5%)	**1,866.1**	**948.8**	96.7%

Source: 04 August 2017 Company Presentation

Naturally, in response to these headwinds, Crown has been reducing their cost base. Corporate costs have declined from $98.5 million last year to $47.1 million in FY17, and which compares favourably to consensus expectations of $52 million. Overall operating expenses, however, rose slightly, up $12.17 million to $1.7 billion, due to the opening of the Crown Towers Perth.

Going forward, management has guided that they do not anticipate any further material cost savings aside from the ones achieved in the 2H17

Operating income came in at $531.3 million, lower by 7.3 percent from the previous corresponding period but despite that, margins seemed to have expanded 40 basis points to 16.4 percent.

In our previous report (FAT-AUS-806), we mentioned that management intends to use the proceeds from the sale of Melco Resorts to reduce the company's net debt position. This has fallen substantially, from $1.81 billion in 2016 to $174 million.

As a means to return capital back to shareholders, the company has also announced a fully-franked dividend of 30 cents to be paid on 06 October compared to last year's 39.5 cents. Members should note that the ex-date is 22 September 2017, so this will not be received if following this sell recommendation before that time.

The company also announced the buyback of up to an additional 29.3 million shares, which equates to some $374.79 million at yesterday's closing price of $11.87. Combined with the Initial Share Buy-Back, this represents no more than 10 percent of the smallest number of shares on issue during the last 12 months of approximately 688.8 million shares.

Turning to the charts, on the daily, a band of resistance located between $13.26 (78.6% Fibonacci retracement) and $13.34 (June high as shown by the horizontal solid-red line) was respected. This has resulted in a deep correction, and in the process has led to a downtrend to emerge. Downside risk remains at play, and a breach of support sighted at the 200-day moving average (green line) of $11.90 would accelerate the current path south.

With reference to the monthly chart, resistance was respected at the 50% Fibonacci retracement (red) of $14.01 in August 2016. This led to a short-term correction in the share price. In order for the medium-term technical outlook to strengthen, a decisive break above the June high (horizontal solid-red line) of $13.34 is required. Should this occur, then momentum would once again swing in favour of the longer-term bulls. However, on the flip side, if the bears were to remain in control, then the likelihood of support being tested at the September 2015 low of $9.80 could very well become reality.

Summary

Crown Resorts' 2017 results show the overall direction of the company on becoming a more Australian-focussed business. This decision will arguably remove some of the growth premium from Crown Resorts' market price, and as such we believe the time has come to cash in the chips. The fact that Crown has pulled away from its international aspirations, and sold off its Macau investment, has significantly dampened the allure in our view. Also, investors have every right to be concerned about Crown Resorts' current saga with authorities in China, particularly given the impact it is having on the company's VIP business.

Given this, the potential upside for Crown Resorts is ultimately limited in our view especially given the fact that the company's shares are currently trading at 22.4 times FY18 earnings. Accordingly, **we recommend Members to SELL their holdings in Crown Resorts at current levels**.

MTR, MTU, NAB, NCM, NMG, NUF, OBS, ORE, OSH, OVH, POS, PPS, PRG, PRT, PXG, QAN,QBE, RIO, RXL, RRS, S32,SDG, SFR, SGP, SIV, SLR, SPK, STO, SUN, SYD, TAM, TEN, TLS, TME, TTN, WBC, WFD, WES, WHC, WOW, WPL, WSA. International stocks 3i Group, Acacia Mining, Amec Foster Wheeler, Anglo American, Archipelago Resources, Arian Silver Corp, Aviva, Avocet Mining, Bank of China, Barratt Developments, BMW, Berkeley Energy, BG Group, BOLSAS Y MERCADOS ESPANOLES,SOCIEDAD, Bovis Homes, BP, Braemar Shipping Group, British American Tobacco, BT Group, Cairn Energy, Centamin Egypt, China Life Insurance, China Mobile, China Overseas, China Taiping, China Vanke, Country Garden, Daejan Holdings, Development Securities, Dragon, Enquest, Esure, Euronext, FedEx, Fresnillo, Ibiden, Infosys, Glaxosmithkline, Glencore International, Goldbridges Global Resources, Google (Alphabet), Grainger, Gulf Keystone Petroleum, Highland Gold Mining, HSBC,ICICI Bank, Ironveld, iShares Physical Metals, J Sainsbury, JKX Oil & Gas, John Wood Group, Kazakhmys, Legal & General, Lloyds, Low and Bonar, Market Vectors Junior Gold Miners, Market Vectors Oil Services, Market Vectors Vietnam, Marstons, Medusa Mining, Mitchells & Butlers, Mitsubishi Tokyo Financial, Mitsubishi UFJ, National Grid, Nippon Telegraph and Telephone, Panasonic, Paragon Group of Companies, Petra Diamonds, Petrofac, Petropavlovsk, PICC Property & Casualty, PPHE Hotel Group, Randgold Resources, Rank Group, Reckitt Benckiser, Royal Dutch Shell, Solgold, Sony Corporation, Standard Chartered, STV Group, Sylvania Platinum, Tata Motors, Tencent, Tertiary Minerals, Teva Pharamaceutical, Toyota Motor, Tullow Oil, Unilever, Vedanta Resources, Vodafone, Walt Disney, Zillow.

Snapshot CWN

Crown Resorts

Latest Closing Price: $11.85

Crown Resorts operates and manages gaming (gambling) and entertainment facilities. The company opened its major expansion project in Macau in June 2009, the City of Dreams casino.

Market Capitalisation:$8.16B

	FY1	FY2
Price to Earnings	22.4	20.5
Dividend Yield (%)	5.1	5.1
Price to Book	1.7	1.7
Return on Equity (%)	7.0	8.1
EV/EBITDA	9.8	9.2