

May 8, 2017

Company Overview

Melco Crown Entertainment Ltd.

NASDAQ: MLCO

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Melco Crown Entertainment
新濠博亞娛樂

Company Report

MELCO – Just Hold Steady

Recommendation:

HOLD

Current Stock Price:

\$21.71

As of 5/8/17

Target Stock Price:

**(Range: \$19.32-
23.87)**

- ***Strong start to 2017, as Macau Gaming Industry beefs up***

Net revenue increased to \$1.277 million in 1Q2017, a growth of 16% from the same period in 2016. Adjusted EBITDA for the quarter was up 42% from 2016, a rise of \$248.8 million to \$353.3 million from the same period as the mass-market segment increases.

- ***Revenue Expected to Grow***

Strong 4Q2016 and 1Q2017 earnings beat estimates, as bullish investors gleam brightly at the Macau market's revival, suggesting averages of 12% growth in total gaming revenue in 2017 from the previous year.

- ***Fifth Tower Expansion at Studio City expected to open in 2018***

Morpheus, Melco's fifth hotel tower at Studio City is expected to open in 2018, which will increase Melco's hotel sector by 24%.

- ***Peer Comparison and Discounted Cash Flow indicates no free lunch at Melco***

Valuations suggest Melco's accurate pricing in the market, despite strong growth indicators. We push for investors to hold steady on Melco, but keep an eye open for movements in the future.

Report Outline –

- A. Company Overview
 - a. Business Overview
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- B. Key Takeaways
 - a. 4Q2016 and 1Q2017 Results
 - b. Property Overview
 - c. Development Opportunities
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Company Overview

Business Overview

Melco Crown Entertainment (“MLCO”, “Melco” or the “Company”) is a developer, owner and operator of casino gaming and entertainment casino resort facilities in Asia. Melco Crown Entertainment is one of only six companies with a license to operate casinos in Macau, the only region in China with legalized gambling. The Company currently has three major casino-based operations in Macau: City of Dreams, which is an integrated award-winning resort and casino in Cotai serving both mass-market and premium-end patrons; Altira Macau, a complex focused on VIP customers; and Studio City, a cinematically themed entertainment, retail resort and casino.

Melco also operates a non-casino gaming entertainment center in Macau called Mocha Clubs, which is the largest non-casino based operation of electronic gaming machines in Macau. Mocha Clubs caters to mass-market and day visitors to Macau, as Macau is only an hour ferry ride away from Hong Kong. MLCO also operates and owns a casino resort in Manila, Philippines called City of Dreams Manila. Together, Melco manages 3,230 hotel rooms, 1,136 casino tables, 3,844 slot machines, and a variety of restaurants and entertainment facilities.

The Company is currently in the process of developing Morpheus, the fifth hotel tower at the City of Dreams site in Cotai, Macau and expects its opening in 2018. The additional tower will add over 1.0 million square feet of hotel space and 0.5 million square feet of podium space. Morpheus is expected to house approximately 780 rooms, suites and villas, which will expand Melco’s hotel offerings by 24%.

Current and future operations are designed to cater to a broad spectrum of gaming patrons, from high-stakes rolling chip gaming patrons to gaming patrons seeking a broader entertainment experience. MLCO currently owns and operates two Forbes 5-Star hotels in Macau – Altira Macau and Crown Towers – and has nine Forbes 5-Stars and one Forbes 4-Stars across its properties.

In the Philippines, MCE Leisure Philippines, a subsidiary of MLCO, currently operates and manages City of Dreams Manila, a casino, hotel, retail and entertainment integrated resort in the Entertainment City complex in Manila.

The Company is strongly supported by its single largest shareholder, Melco International Development Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited and is substantially owned and led by Mr. Lawrence Ho, who is the Chairman, Executive Director and Chief Executive Officer of MLCO.

History and Development of the Company

Melco Crown Entertainment was founded on December 17, 2004 and is headquartered in Hong Kong. In December 2006, the Company completed the initial public offering of ADSs (American Depositary Shares), each of which represents three ordinary shares, and listed ADSs on the Nasdaq under the symbol “MPEL.”

On July 27, 2011, the Company acquired a 60% equity interest in SCI, the developer of Studio City. Studio City is a large-scale cinematically themed integrated entertainment, retail and gaming resort developed in Macau.

On December 19, 2012, MLCO completed the acquisition of a majority interest in the issued share capital of MCP, a company listed on the Philippine Stock Exchange. Following the completion of its acquisition of MCP, the Company transferred its 100% equity interest in MCE Leisure Philippines to MCP in March 2013. MCE Leisure Philippines has been granted the exclusive right to manage, operate and control our Philippines integrated casino resort project, City of Dreams Manila.

In April 2017, the Company’s Nasdaq ticker symbol changed from “MPEL” to “MLCO.”

Key Takeaways

Table 1: EBITDA Summary 2014-2016

US\$m	2014	2015	2016
Market share	13%	14%	15%
- VIP market share	12%	14%	13%
- Mass market share	13%	14%	17%
- Slot market share	18%	20%	21%
EBITDA			
- Mocha Clubs	36	30	24
- Altira	85	36	5
- City of Dreams Macau	1,166	798	742
- City of Dreams Manila	0	55	160
- Studio City	(1)	12	156
Property EBITDA	1,285	932	1,088
- Corporate inc & exp	(119)	(116)	(115)
Group EBITDA (actual)	1,167	816	973
yoy	-9%	-30%	9%
EBITDA (as % of GGR)	20.5%	18.4%	19.0%
EBITDA margin (US GAAP)	24.6%	20.5%	21.5%

Table 2: EBITDA Summary 1Q16-4Q16 (Source: DB)

US\$m	1Q16	2Q16	3Q16	4Q16
Market share	15%	16%	16%	15%
- VIP market share	13%	14%	14%	12%
- Mass market share	17%	16%	16%	17%
- Slot market share	21%	21%	22%	21%
EBITDA				
- Mocha Clubs	7	5	7	5
- Altira	-14	2	14	3
- City of Dreams Macau	206	178	170	189
- City of Dreams Manila	29	37	45	50
- Studio City	22	25	53	57
Property EBITDA (actual)	249	245	289	304
qoq	5%	-1%	18%	5%
yoy	-8%	12%	11%	18%
Beat/ Miss	Meet	Meet	Beat	Beat
EBITDA (as % of GGR)	23.3%	24.2%	26.8%	27.1%
EBITDA margin (US GAAP)	22.5%	22.9%	25.1%	25.5%
Property EBITDA (Luck-adj)	234	240	297	312
qoq	-7%	3%	24%	5%
yoy	-5%	5%	27%	24%

1Q2017 Recap

The Company released 1Q17 results on May 4th. Melco's earnings exceeded expectations as the Macau market continues to rebound, and Melco's improved rolling chip and mass market table game revenues. Net revenue for the period increased 16% from 2016 up to \$1.277 billion from \$1.103 billion in the same period of 2017. Adjusted EBITDA (adding back corporate and other expenses) was up 42% year over year to \$353.3 million, from \$248.8 million in the first quarter of 2016.

Non-gaming revenue increased 7.6% year over year for this quarter, up to \$162.8 million from \$151.2 million in the first quarter of 2016.

Management also commented on the company's name change stating, "early this year, we received shareholder approval to change our company's name to Melco Resorts & Entertainment Limited, reflecting a corporate identity which is more closely

aligned to our long term vision of building the world's leading luxury gaming, entertainment and hospitality company."

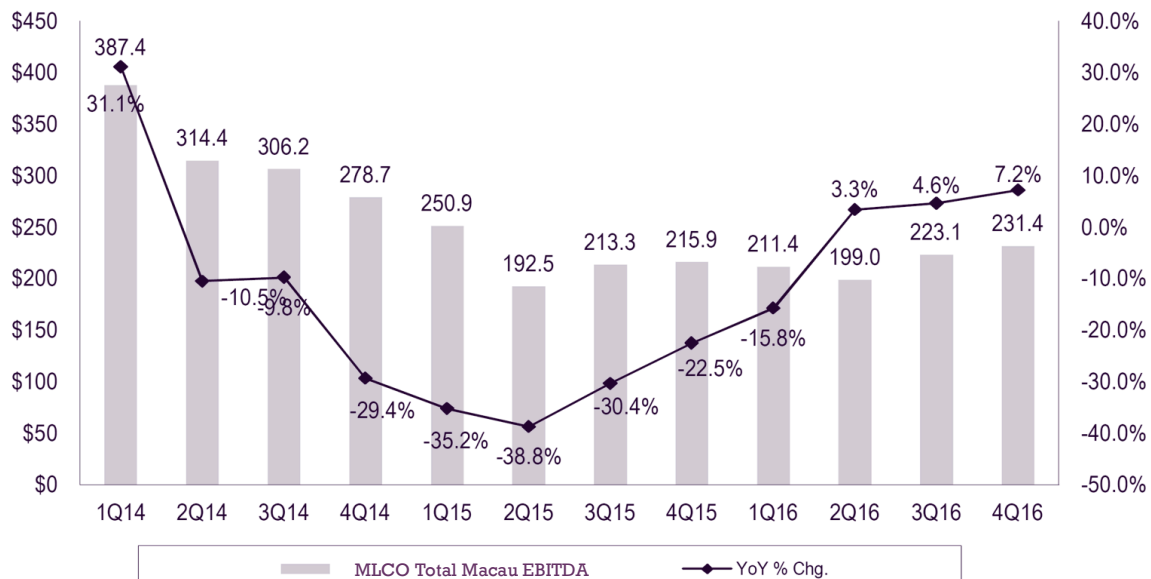
Overall, a strong start to 2017 as management exceeds 2016 earnings for the same period and builds investors' confidence.

4Q2016 Recap

MLCO's adjusted property EBITDA of \$304m rose 29% year over year and 5% sequentially. Adjusted property EBITDA margin increased to 25.5% in the fourth quarter from 25.1% in the third quarter. Net revenue in the quarter was \$1,193 million, a 13% year-over-year increase and a 3.5% sequential quarterly increase. Higher contribution from Studio City and City of Dreams Manila was offset by weaker performance at City of Dreams Macau and Altira. EBITDA contributions from the VIP segment represent only 5% of EBITDA in the Macau properties. The dividend for the quarter was \$0.009 per ADS, and the dividend payout ratio for the quarter is 10%.

MLCO Chairman and CEO Lawrence Ho, through his investment vehicle, Melco International Development, has purchased 198m shares (\$1.2b) from Crown Asia Investments, a subsidiary of Australian-based casino operator Crown Resorts. The transaction takes Melco International Development ownership to 51.3% ownership. Given Mr. Ho's background in Macau and membership in the National Committee of the Chinese People's Political Consultative Conference ("CPPCC") in Mainland China, we view the share transaction as a positive.

Table 3: MLCO Macau EBITDA & Y-o-Y % Change (Source: Company 20-F Annual Report)



Property Overview

Melco operates four properties in Macau and one property in the Philippines. Detail regarding each property is outlined below.

Table 4: Melco's Properties (Source: Company 20-F Annual Report)

Name	Location	Hotle rooms	Entertainment space Sqft	Slots	Gaming Tables
Macau					
City of Dreams	Cotai, Macau	1,400	26,200	1,250	500
Altira Macau	Macau S.A.R.	230	153,000	62	124
Studio City	Cotai, Macau	1,600		1,175	250
Mocha Clubs	Macau S.A.R.	na		1,259	na
Other					
City of Dreams Manila	Manila, Philippines	950	\	1,579	261

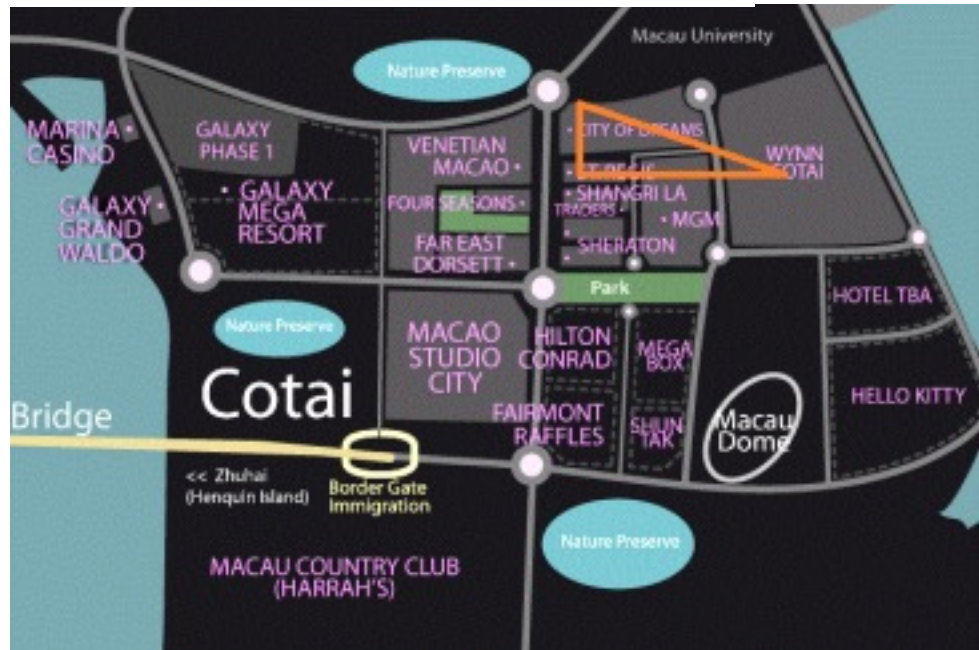
City of Dreams Macau

At City of Dreams Macau (“CoD”), gross gaming revenues of \$732m were above Street Consensus of \$650m, resulting in higher EBITDA and delivering margin of 28.5%. On its quarterly earnings call, the Company noted that low hold at the property had a negative \$15m impact on EBITDA, and reiterated its plans to open its \$1b, 780-room Morpheus hotel tower in 2018.

City of Dreams Macau is the company's crown jewel, and main producer of EBITDA. The property may be in the best location in Cotai, flanked by Venetian, Sands Cotai Central, Wynn Palace, and in the future MGM Cotai, and is one of the most successful premium mass casinos in the Macau market.

City of Dream is adjacent to the main thoroughfare of the Cotai Strip. Behind City of Dreams is Wynn's 2016 opening, Wynn Palace and MGM's upcoming MGM Cotai, slated for opening in 2Q17. Of the three properties, we believe City of Dreams is the best located given its access and visibility from the main Strip. Finally, there is smoking permission in some City of Dreams premium mass rooms (Macau has a smoking ban on non-VIP gaming floors) given the facilities legacy configuration.

Table 5: The “Golden Triangle” in Cotai, Macau (Source: Company’s filings)



Studio City

4Q16 revenue of \$246m was slightly below Street Consensus of \$250m estimate, primarily on lower than estimated VIP and slot gross gaming revenue (“GGR”), though the more important (and higher margin) mass GGR was above estimate, resulting in EBITDA of \$56.7m.

We believe Studio City is the best-located integrated casino resort site on both the Cotai Strip and Macau overall. Studio City is also located at a key stop on the planned light rail system (the first stop from Mainland China to Cotai). The Macau Light Rail Transit line will service Cotai, Taipa and the Macau Peninsula at major immigration checkpoints (such as the Lotus Bridge). We anticipate the Macau Light Rail line to be operational sometime next year or early CY18.

We note this was the first quarter the property had VIP tables. Despite only having 30 tables, the VIP area significantly exceeded volume expectations last quarter. With the VIP area, Studio City now offers a compelling high-end gaming experience,

conveniently connected to the pre-existing luxury mall and premium mass area. We believe that this opens up an entirely new clientele for Studio City, and should continue to drive growth in the future. However, the Macau government appears to no longer be permitting additional VIP tables, at least for the moment. This means that to increase the size of the VIP area at Studio City, MPEL would have to give up valuable VIP tables elsewhere.

On its 4Q16 call, management noted low VIP hold had a \$15m adverse EBITDA impact. Lastly, recent refinancing of the property's debt removed the risk of a potential covenant breach, which was a major risk given the volatile operating environment in Macau. Studio City is only 60% owned by MLCO, with the balance owned by private equity investors.

Studio City was opened in October of 2016 and had a “break-out” quarter in 3Q16, doubling EBITDA from 2Q16.

City of Dreams Manila

Net revenue at City of Dreams was \$661.1 million, down 1.2% year over year. Adjusted EBITDA was \$188.7 million in the fourth quarter, reflecting a decrease of 1.8% year over year primarily due to lower mass market table games revenues and rolling chip revenues, partially offset by an increase in non-gaming revenues.

City of Dreams Manila is our biggest concern among the major properties in MLCO's portfolio for a number of reasons. Firstly, we are concerned with the Manila market itself. Although we believe that the market will continue to grow into a major gaming market primarily driven by the large local population, we are less certain that it will become a major destination market. Infrastructure and traffic constraints are major issues in Manila, while we also fear that the number of casinos opening in the market will make for rather a competitive environment. In fact, the new \$2.4 billion Okada Manila integrated resort had its soft opening late last December.

Secondly, MLCO does not own City of Dreams Manila, but only operates it through a joint venture with local partner Belle Corp. In fact, Belle owns the real estate of City of Dreams Manila, and

receives both fixed rent payments and 50% of the gaming EBITDA of the property. As such, we believe that the potential free cash flow MLCO could generate out of this property is limited. Given the lack of real estate ownership, we believe that the multiple investors should assign to City of Dreams Manila cash flows should be lower than its other properties.

Altira Macau

Net revenues of \$103.3m were slightly above Street Consensus of \$101.4m, with the delta largely attributed to higher VIP GGR. Revenue was down by a significant 27.3% year over year. Altira Macau generated adjusted EBITDA of \$3.3 million in the fourth quarter, down considerably by 66% on a year-over-year basis. Overall, Altira represents an insignificant portion of MLCO's business.

Morpheus

In 1Q18, MLCO will open its 5th tower at City of Dreams called, Morpheus. The Company pioneered private rooms for premium mass-market consumers, which is becoming more common throughout Macau. We believe the \$1b Morpheus tower, which will host some table games shifted from existing areas, is MLCO's next strategic move to gain premium mass share. Morpheus will be the first totally dedicated premium mass tower in Macau.

Balance Sheet Overview

MLCO had \$2.0b in cash and cash equivalents, including \$39m of restricted cash, at 4Q16-end, and total gross debt was approximately \$3.7b. MLCO had capital expenditures of \$79m in the 4Q16, predominantly related to various projects at City of Dreams, mostly the \$1 billion Morpheus hotel tower.

Macau Overview

Macau is one of the fastest growing gambling and casino markets in the world. This is mainly due to China's recent high economic growth, as well as it being the only legalized casino location in China, and the largest of the only casino resort areas in Asia.



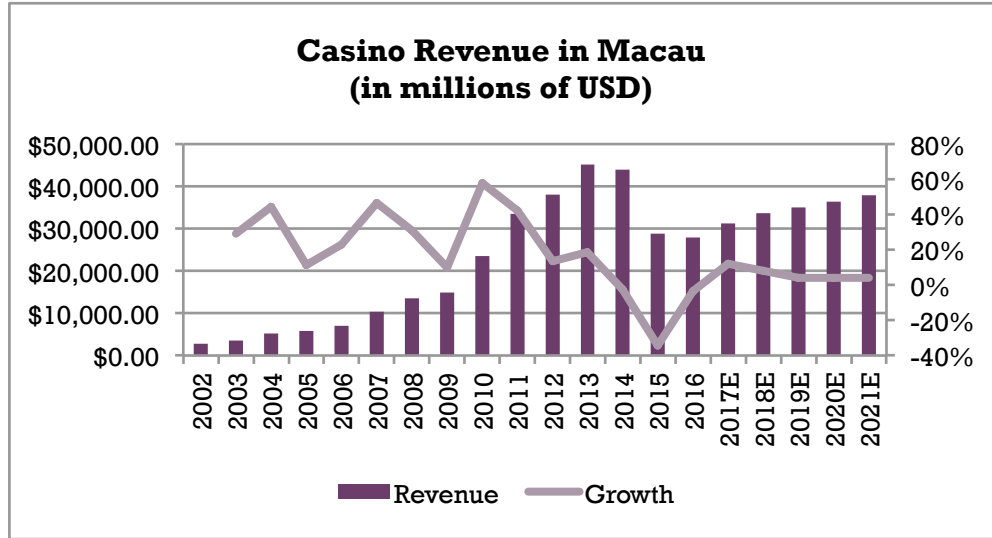
Macau - ~3.2 billion
people within a 5-hour
flight

Prior to 2014, Macau's casino industry catered mainly to VIP or high-stake, wealthy clientele. These VIP customers spend large amounts of money at the resorts, and often times gamble in private rooms, which includes having personal lines of credit from the casino.

In 2014, China began to crack down on corruption, which significantly impacted the number of VIP visitors to Macau, as well as the amount of money being used in VIP Baccarat and other large-stake games. Due to the corruption shakeup, Macau experienced a 26-month year over year loss from the end of 2014 through 2016. As you can see in the graph below, growth rates in the Macau market prior to 2012 were volatile and cyclical. After the 2014 anti-corruption campaign, the Macau market

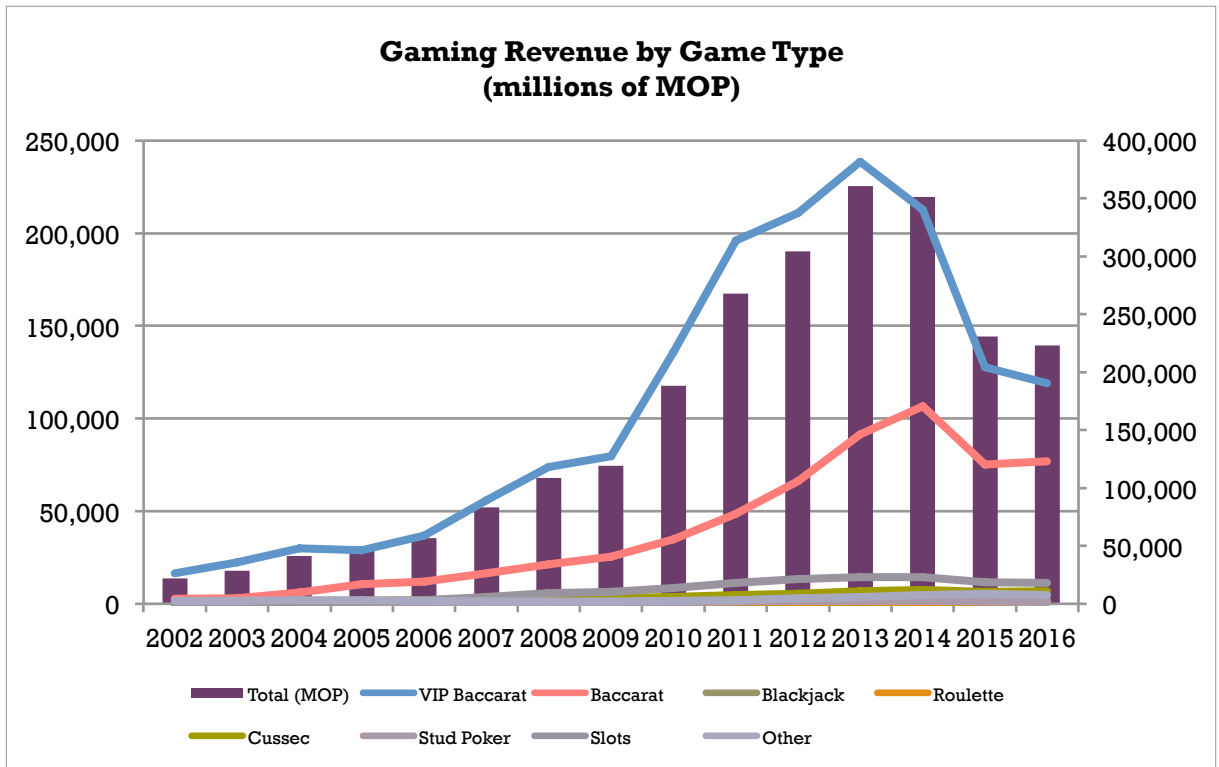
dipped to almost 40% loss in 2015. The market has seen a significant rebound in the past nine months, which lends us to believe in the market's view of a 12% growth rate this year. However, such a high growth rate does not appear sustainable, and we predict an average revenue growth rate of roughly 4% after 2019, which falls in line with the historical average growth rate.

Table 7: Total Gaming Revenue in Macau in millions of USD (Source: unlv.edu)



Fortunately, the downward trend has appeared to subside as of August 2016, as Macau shifted its focus to the mass-market segment. As the graph below depicts, the gaming revenue from non-VIP games is increasing as the VIP market decreases.

Table 8: Gaming Revenue by Game Type (Source: unlv.edu)



In addition, Macau's casino operators have also shifted their focus to non-casino revenue streams, such as entertainment, retail and food services, a trend that has also occurred in the past decade in Las Vegas.

We feel this creates opportunity for increased gross gaming revenue and believe that the market consensus of a 12% growth rate in 2017 is more than likely, based on the recent month by month increases in February and March by 17.8% and 16% respectively.

Macau's recent upturn has created a stir in the Macau casino

market as bullish investors seek to buy the stocks. We feel that growth in the short term can be expected as the Macau's market returns to its month-over-month seasonality.

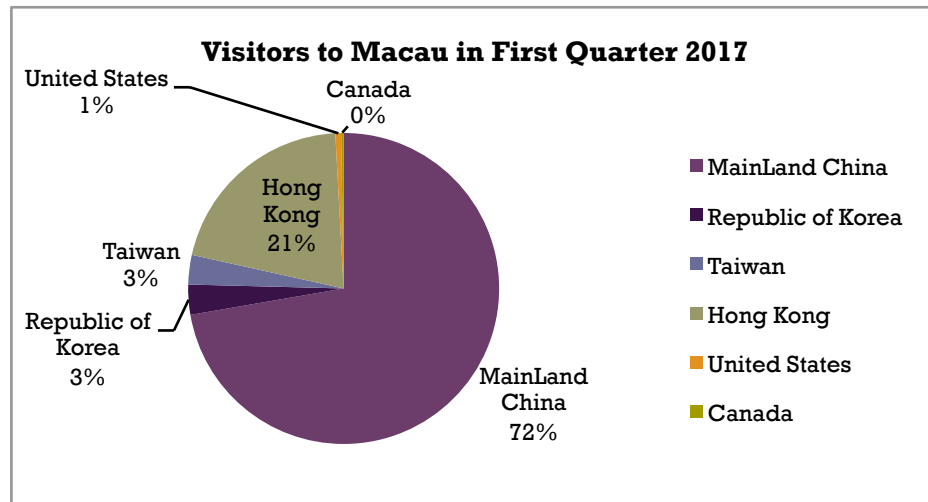
Macau stocks have risen 4% in the first quarter of 2017, outperforming the MSCI HK index, which rose roughly 1%. The Macau sector is currently trading at 14.5x 12-month forward consensus EV/EBITDA, at +1.3 standard deviation versus a 12.2x historical average.

Limited Players

Melco and the other Macau casino operators are dependent on tourism to their facilities for revenue production. Over 72% of its visitors arrive from Mainland China, and 21% visitors from nearby Hong Kong. Visitors to Macau increased 5.6% from the previous year in the first quarter of 2017, most notably from an increase from Mainland China and Korea, 7.6% and 32% respectively. Although Melco's visitors are concentrated in China, we do not anticipate this to be much of a problem due to China's 1.4 billion population and their growing middle class.

Table 9: 2017 First Quarter Visitors to Macau

(Source: <http://www.dsec.gov.mo/Statistic/TourismAndServices/VisitorArrivals/2017年3月入境旅客.aspx>)



Concession to operate

Melco's subconcession permitting casino operation in Macau is set to expire in June 2022. This falls in line with the other 5 concessions granted by the Macau government, whose are expected to expire between 2021 and 2022. We anticipate renewal discussions to gain traction in 2018. While theoretically operators, and therefore Melco, could lose their casino businesses without extension of the concessions, we do not anticipate the extensions to be a problem. Over 80% of the Macau government is dependent on gaming taxes, therefore, we expect that likelihood of concession terminations to be extremely small as Macau. Melco and other casino operators have invested heavily toward the long-term aspirations of both the Macau and Mainland Government.

Investment Case

- We forecast the company's Macau gaming revenue to grow by 12% in 2017, in line with market expectations and to recover returns in line with pre-corruption changes in China. We believe this to be true based on the 16% and 17% year over

year growth for the past two months, as well with the increase of the mass-market segment focus and China's overall high economic growth.

- The Company made several key management changes, including the hiring of David Sisk, the former COO of Sands China, as president of its Cotai operations in September 2016, which we see as a positive sign in the overall improvement of the Company's operation.
- Since the Company removed a potential covenant overhang over Studio City when they refinanced the property's bank facility with senior notes, we believe that this eliminates an important potential distraction for management.
- We believe that MLCO has a chance to receive a Japanese gaming concession award. We also look at MLCO as being on the front-line for potential opportunities in other neighboring countries such as Vietnam (offering to locals), Korea (offering to locals) or Thailand (full expansion), now that Japan gaming liberalization may push neighboring countries to do the same.

Risks

Mainland China Outlook

Melco's economic sustainability and growth is dependent on tourists from Mainland China, as well as legislation from the Chinese government. President Xi Jinping, since assuming his presidency role in November 2012, has made combating corruption a key area of his focus. This has had a significant impact on the Macau gaming sector, due to the reduction of VIP gamblers visiting Macau casinos. We anticipate that such negative effects have subsided, but should the campaign intensify, we may see another reduction in VIP visitors to Macau, which could have significant affect on Melco's outlook.

Macau market sentiment

Sentiment in the gaming sector has been volatile in the first quarter of 2017. The excitement of the rebound of Macau has been mixed with uncertainty as investor confidence in the gaming sector deteriorated in the first few months of 2017 due to other large operators, most notably MGM, missing their earnings

expectations. However, Melco has surpassed earnings estimates for the past 3 quarters, which has improved the market's confidence in Macau's fundamentals. This uncertainty in the future of Macau and thus Melco highlights the volatility in the current stock prices for Macau casino stocks. Market's expectations are largely rooted in the anticipation of the continued growth in Macau after the lengthy downturn.

Individual property performance

Although we are extremely pleased with the overall performance of Melco's Macau properties, we are also concerned about a unique business issue relating to the company's City of Dreams property. The development of the fifth tower at City Dreams must be completed by June 2018. If it is not completed by June 2018, the Macau government has the right to cease the entire City of Dreams property. Melco's management is proactive about the threat and has filed for an extension of the development project in November 2016. No news has surfaced on the extension, but all signs point to the extension being granted. During 1Q2017 earnings call, management was very straightforward about the delays in construction despite working to receive the extension and pushing for project completion. Although a risk, we believe the City of Dreams property will be granted the extension to delay development and operations to continue as normal.

Valuation

Melco currently trades for \$22.30 a share, with a market capitalization of \$10.971 billion. This represents an EV/EBITDA multiple of 15.17x and a P/E ratio of 49.55x.

We believe based on our discounted cash flow and comparable multiples approach that the current market price accurately reflects the value of the Company. We suggest that investors hold this company's stock, as not much upside nor downside is able to be readily captured through market plays.

Comparable Approach

Our initial analysis compared MLCO to its named competitors through the use of EV/EBITDA multiples, as shown in the table below. We chose companies Melco specifically named as their competitors and narrowed the comparable universe to only those companies with relevant operations. We also removed the large U.S. firms such as MGM and Las Vegas Sands, as their Macau entities are represented separately below, due to those Macau entities being traded separately on the Hong Kong stock market. All figures below are in millions, except for ratios and share prices.

COMPARABLES - MACAU ON (in millions)											
Company	Fiscal Period	Price	Market Value	EV	Sales	EBIT	EBITDA	EV/EBIT	EV/EBITDA	P/E	EPS
MLCO	12/31/2016	\$22.5	\$10,963.8	\$13,506.4	\$4,507.8	\$362.2	\$890.3	37.29x	15.17x	49.55x	\$ 0.45
SJM	12/31/2016	0.97	5,491.7	3,926.6	3,314.7	270.3	408.3	14.53x	9.62x	53.87	0.02
Sands China	12/31/2016	4.54	36,639.2	39,719.2	6,653.0	1,364.0	1,975.0	29.12x	20.11x	74.19	0.06
Galaxy Entertainment Grp	12/31/2016	5.57	23,814.9	22,098.3	6,805.3	787.1	1,235.9	28.07x	17.88x	77.51	0.07
Genting	12/31/2016	2.27	8,510.9	13,279.5	4,433.3	955.4	1,419.1	13.90x	9.36x	23.79	0.10
Caesars Entertainment	12/31/2016	11.20	1,653.5	5,624.5	3,877.0	257.0	696.0	21.89x	8.08x	9.46	1.18
Alliance Global Group	12/31/2016	0.30	3,042.0	6,775.1	2,883.1	694.3	800.6	9.76x	8.46x	15.17	0.02
Wynn Macau	03/31/2017	2.20	11,423.1	15,235.5	3,301.5	344.0	597.0	44.28x	25.52x	76.53	0.03
Crown Resorts	12/31/2016	9.48	6,882.2	8,103.5	2,591.9	376.2	589.7	21.54x	13.74x	46.86	0.20
Genting Singapore	12/31/2016	0.80	9,647.9	8,544.4	1,613.8	344.2	559.1	24.82x	15.28x	68.82	0.01
Bloomberry Resorts	12/31/2016	0.18	1,981.7	2,377.4	639.9	120.0	222.3	19.81x	10.70x	35.87	0.01
Travellers Intl Hotel Grp	12/31/2016	0.07	1,040.6	1,367.3	528.5	100.7	135.3	13.58x	10.11x	30.77	0.00
Average		3.42	10,011.6	11,550.1	3,331.09	510.30	785.30	21.94	13.53	46.62	0.15
Median		2.20	6,882.2	8,103.5	3,301.53	344.25	597.05	21.54	10.70	46.86	0.03

As shown in the table, the average EV/EBITDA multiple is 13.53x. Using this figure and Melco's EBITDA as of December 31, 2017, we calculate Melco's implied enterprise value to be \$12.047 million. This results in a share price of \$19.32 or a 14% downside on the current market price of \$22.30. Although this may show a slight mispricing, we believe the value capture is not achievable due to the market's volatility and daily share price movement.

COMPARABLE APPROACH	
Enterprise Value	\$ 12,047.68
Less: Total Debt	-4,016.40
Less: Preferred Equity	0.00
Less: Minority Interest	-479.90
Plus: Investments in Unconsolidated Subsidiaries	0.00
Less: Pension Liabilities	0.00
Plus: Cash and Equivalents	1,953.80
Market Capitalization	9,505.18
Shares Outstanding	491.97
Price Per Share	\$ 19.32
Upside/(Downside)	-14%

We also used our EBITDA forecasts for 2017 and 2018, as detailed below in our discounted cash flow assumptions, and the comparable EV/EBITDA multiple of 13.38x from the market's consensus. This resulted in a share price of \$23.87 and \$28.88 in 2017 and 2018 respectively. This underscores the volatility of this stock and our uncertainty with moving forward with either a buy or a sell.

Discounted Cash Flow Valuation

We conducted a discounted cash flow valuation based on our revenue projections and various assumptions described below. Our analysis resulted in a share price of \$19.68, currently representing a market overvaluation of 12%.

Discount Rate

In order to discount future cash flows, we utilized the weighted average cost of capital as our discount rate due to Melco's consistent debt to total capital ratio of 40% over the previous ten years. Management has provided no indication of changing their capital structure in the future, which reinforces our use of WACC.

The cost of debt for MLCO is 5.37%. This is an average of the cost of debt for Melco as listed in their 2016 20-F annual report. Their tax rate is currently 10.89%, and is expected to stay relatively stable for the near future.

The cost of equity was calculated using the capital asset pricing model, using the ten-year treasury rate as the risk-free rate, and a market premium of 7%. These figures, along with a beta of 1.57, resulted in a cost of equity of 13.34%.

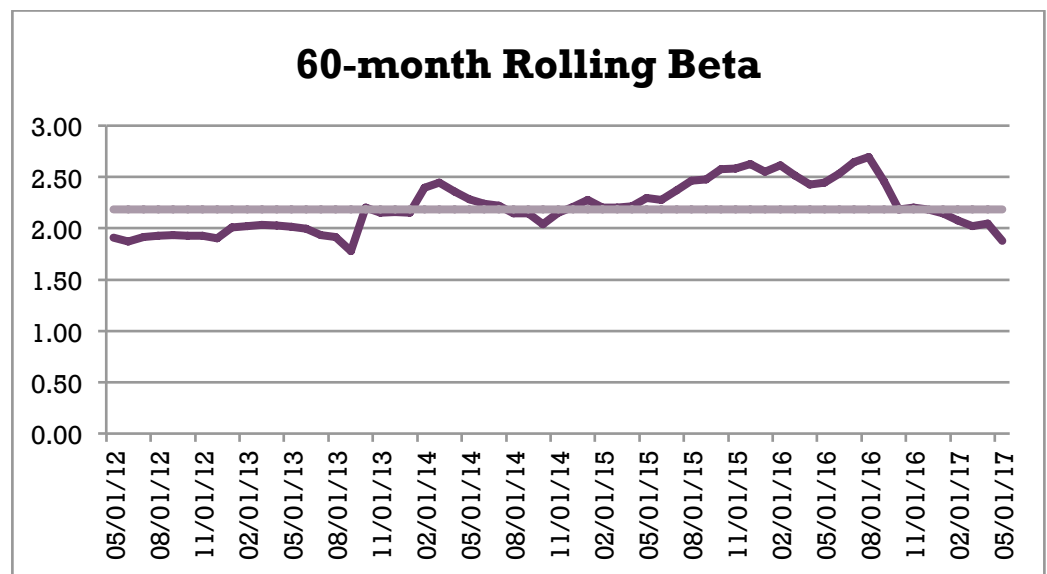
DISCOUNT RATE	
Risk-free Rate	2.33%
Equity Risk Premium	7.00%
Interest Rate on Debt	5.37%
Beta Levered	1.57
Cost of Equity	13.34%
Debt % of EV	37%
Equity % of EV	63%
Tax Rate	10.89%
WACC	10.21%

The beta of 1.57 was calculated by un-levering the betas of Melco's direct competitors, and re-levering the median of the peers' unlevered betas by Melco's debt-to-equity ratio and tax rate.

Comparable Companies - Unlevered Beta Calculation (HKD\$ in millions)						
Name	Levered Beta	Debt	Equity	EV	Tax Rate	Unlevered Beta
Sands China	0.97	\$33,900	\$270,900	\$304,800	3.5%	0.87
Wynn Macau	1.33	\$32,170	\$81,452	\$113,622	0.9%	0.96
Crown Resorts	1.42	\$2,258	\$8,484	\$10,742	8.7%	1.14
Bloombery Resorts	1.85	\$34,078	\$92,072	\$126,150	41.7%	1.52
SJM	1.23	\$1,278	\$26,640	\$27,918	1.4%	1.17
Median	1.33					1.14
MLCO	1.57	\$ 4,016	\$ 9,497	\$ 13,514	10.9%	1.14

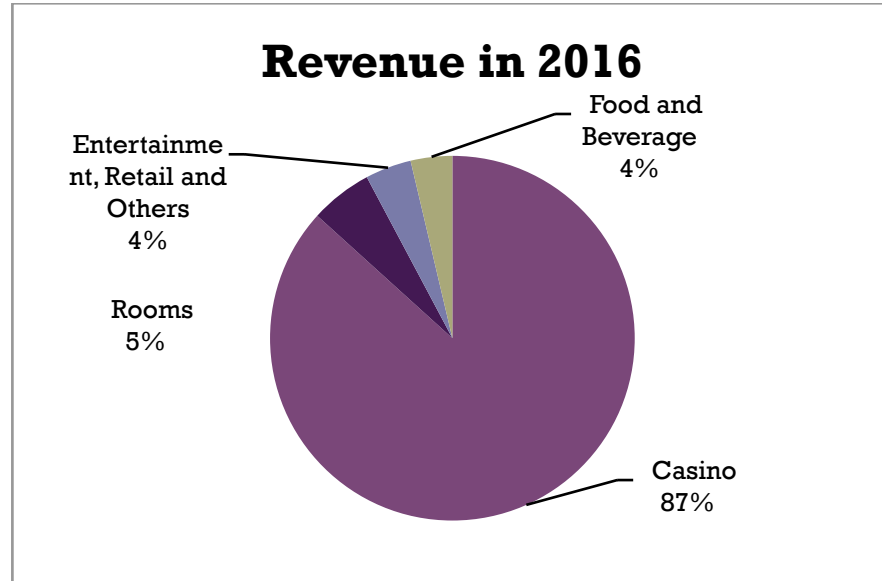
We initially calculated the beta to be 2.18 by conducting a 60-month rolling beta graph. However, after much discussion, we believe that the rolling beta result does not accurately reflect the movement of Melco's stock. Since Melco is traded first on the Hong Kong stock exchange, and then relisted through a 3-to-1 ADS exchange on the Nasdaq, we did not feel that comparing Melco to only the United States market was entirely accurate.

Although we regressed 60-months of Melco’s returns to that of the Russell 3000, we believe Melco’s reaction to the market should be more in line with those of its Hong Kong peers, and such a comparison with the U.S. only market paints a cloudy picture of the stocks correlation to general market movements. Therefore, we opted to instead use our beta calculation based on Melco’s relevant peers. The results of our rolling beta analysis are shown below for your reference.

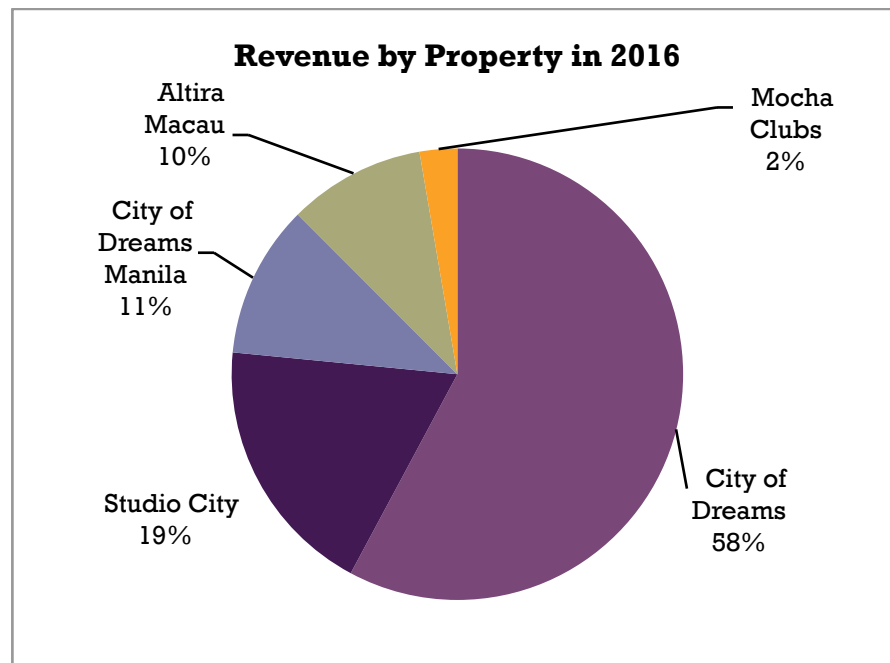


Revenue

Melco is dependent on four main revenue streams: casino and gaming, room, food, entertainment and other, including retail sales. However, over 92% of its revenue is recognized through its casino and gaming operations (87% after adjustment for promotional activities).



These four revenue streams are achieved through Melco's five properties, four of which are dependent on the Macau market and one dependent on the Philippine market. Each category of revenue was forecasted separately, with a particular geographical focus on the casino and room revenue streams.



Casino Revenue

The first and most influential revenue stream is the casino and gaming revenue. We approached forecasting the relevant revenue projections by focusing on the market in Macau, and separately the market in the Philippines. Therefore, we are making the assumption that the three casino providers in Macau – City of Dreams, Altira Macau, and Studio City – are moving in relative tandem with the Macau market, and all contribute to Melco's market share of Macau.

Macau Casinos

We first calculated the relevant revenue contributions of each of the three Macau casinos and multiplied the 2016 revenue outputs by the proportion of each property's revenue attributable to the casino gaming sector, which is roughly 92%.

Revenue by Property											
<i>(in millions USD)</i>											
Revenue	2007A	2008A	2009A	2010A	2011A	2012A	2013A	2014A	2015A	2016A	CAGR
City of Dreams (MACAU)			\$ 552.1	\$ 1,638.4	\$ 2,491.4	\$ 2,920.9	\$ 3,857.0	\$ 3,848.6	\$ 2,794.7	\$ 2,590.8	
% Growth				197%	52%	17%	32%	0%	-27%	-7%	37.6%
Studio City (MACAU)						\$ 0.2	\$ 1.1	\$ 1.8	\$ 125.3	\$ 838.2	
% Growth							583%	62%	6991%	569%	2051%
City of Dreams Manila								\$ 7.6	\$ 300.4	\$ 491.2	
% Growth									3872%	64%	1968%
Altira Macau (MACAU)	\$ 277.2	\$ 1,313.0	\$ 658.0	\$ 859.8	\$ 1,173.9	\$ 966.8	\$ 1,033.8	\$ 744.9	\$ 574.8	\$ 439.1	
% Growth									-23%	-24%	-23.2%
Mocha Clubs (MACAU)	\$ 81.4	\$ 92.0	\$ 98.0	\$ 112.0	\$ 131.9	\$ 143.3	\$ 148.7	\$ 147.4	\$ 136.2	\$ 120.5	
% Growth		13%	7%	14%	18%	9%	4%	-1%	-8%	-12%	4.9%
Corporate and Others		\$ 11.1	\$ 24.7	\$ 31.8	\$ 33.6	\$ 46.9	\$ 46.6	\$ 52.1	\$ 43.4	\$ 39.5	
% Growth			122%	29%	6%	40%	-1%	12%	-17%	-9%	23%
Total Revenue by Region											
Macau Revenue	\$ 358.6	\$ 1,405.0	\$ 1,308.2	\$ 2,610.1	\$ 3,797.2	\$ 4,031.1	\$ 5,040.6	\$ 4,742.6	\$ 3,631.0	\$ 3,988.6	
Philippines Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7.6	\$ 300.4	\$ 491.2	
Corporate and Other	\$ -	\$ 11.1	\$ 24.7	\$ 31.8	\$ 33.6	\$ 46.9	\$ 46.6	\$ 52.1	\$ 43.4	\$ 39.5	

We then forecasted the entire gross gaming revenue of the Macau market over the next five years. We assumed a 2017 growth rate of 12% in line with market expectations and our own belief on the rebound the market based on first quarter earnings. We then assumed a growth rate tapering off to 4% in 2021 as the Macau market adjusts for the upward swing. We believe a growth rate of

4% in the long term is consistent with the growth rate of the casino industry in the United States, and is attainable with the growing Chinese economy of roughly 6.5%.

We then reviewed Melco's market share percentage of the Macau market. From 2011 through 2016, Melco's market share grew from 11% to 13%. We believe growth opportunity exists for Melco to capture an additional 2% market share through their current development project completion, which will increase the luxury aspect of the City of Dreams and contribute an additional 780 hotel rooms for visitors to occupy as they visit Melco's casinos. Therefore, we project a market share increase to occur gradually to 15% in the year 2021.

We also believe this to be true as the CEO, Lawrence Ho, of Melco is often in the media discussing his properties and the Macau environment, and works closely with Macau politicians to ensure an increased economically stable city. This political and social leverage strategically places Melco in a position for optimal performance.

Manila Revenue

Similarly, we calculated the Philippine revenue growth based on Melco's market share capture of the Manila market. Currently, Melco's City of Dreams Manila casino and resorts captures 18.35% of the market. We do not see significant competition in Manila for loss of market share, nor opportunities for expansion at this current time. Therefore, we assume a constant market share rate over the next five years. We also project the Philippine casino gaming market to increase 4% year over year. This falls in line with management's expectations and the increase of gaming in Manila. Street economists predict a growth rate of 25% in 2017, however, we find little evidence to justify that large increase. Therefore, we predict 4% based on historical improvements and the increase of infrastructure per year through out Manila.

CASINO REVENUE								
MACAU:	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Visitors to Macau	32	31	31	32	33	35	36	38
Total Gaming Revenue Macau	\$ 43,940	\$ 28,855	\$ 27,849	\$ 31,191	\$ 33,686	\$ 35,033	\$ 36,435	\$ 37,892
<i>% Gaming Growth</i>	-2.6%	-34.3%	-3.5%	12.0%	8.0%	6.5%	4.0%	4.0%
MLCO Revenue from Macau	\$ 4,743	\$ 3,631	\$ 3,989					
<i>% from Casino</i>	96.9%	94.8%	92.4%	92.4%	92.4%	92.4%	92.4%	92.4%
<i>Average Revenue % from Casinos</i>								
MLCO Casino Revenue from Macau	\$ 4,596	\$ 3,441	\$ 3,686	\$ 4,211	\$ 4,716	\$ 5,080	\$ 5,465	\$ 5,684
<i>% of Macau Revenue Captured by MLCO</i>	10%	12%	13%	13.5%	14.0%	14.5%	15.0%	15.0%
<i>Average % Macau Revenue Captured</i>								
<i>% MLCO Casino Growth Macau</i>	-6.1%	-25.1%	7.1%	14.2%	8.0%	6.5%	4.0%	4.0%
Casino Revenue from Macau	\$ 4,596	\$ 3,441	\$ 3,686	\$ 4,211	\$ 4,716	\$ 5,080	\$ 5,465	\$ 5,684
PHILIPPINES:								
MLCO Philippines Revenue	\$ 7.6	\$ 300.4	\$ 491.2					\$ -
<i>% Growth of Philippines Revenue</i>								
<i>% from Casino</i>	97%	95%	92%	92%	92%	92%	92%	92%
Casino Revenue from Philippines	\$ 7.3	\$ 284.7	\$ 454.0					\$ -
Total Philippine Gaming Revenue (PHP)		112,155	133,868	139,223	144,792	149,135	153,609	158,218
Total Philippine Gaming Revenue (USD)		\$ 2,243	\$ 2,677	\$ 2,784	\$ 2,896	\$ 2,983	\$ 3,072	\$ 3,164
<i>Growth in Philippine Casino Revenue</i>			19%	4%	4%	3%	3%	3%
<i>MLCO Market Share</i>		13.39%	18.35%	18.35%	18.35%	18.35%	18.35%	18.35%
Casino Revenue from Philippines	\$ 7.6	\$ 300.4	\$ 491.2	\$ 510.9	\$ 531.3	\$ 547.3	\$ 563.7	\$ 580.6
<i>% Growth</i>		3872%	64%	4%	4%	3%	3%	3%
<i>Source: http://www.pagcor.ph/regulatory/pdf/Industry%20Statistic/Industry%20Data%203Q%202016.pdf</i>								
TOTAL CASINO REVENUE	\$ 4,604	\$ 3,742	\$ 4,177	\$ 4,722	\$ 5,247	\$ 5,627	\$ 6,029	\$ 6,264

Room Revenue

Secondly, we reviewed the room revenue for each property separately, using the hotel's occupancy rate, average daily rate, revenue per available room, and the number of hotel rooms available.

For each of the Macau hotels, we assumed that the previous year's conservative occupancy rate remained consistent in the future. This is mainly due to the slight decrease in occupancy rate due to Macau's general market downturn. However, we anticipate steady occupancy rates due to the increase in the number of visitors to Macau already this year, which is up 5.6% from the previous year.

ROOM REVENUE								
	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Altira Macau:								
Occupancy	99%	98%	94%	94%	94%	94%	94%	94%
<i>Average Occupancy 2013-2016</i>			97.50%					
Average Daily Rate	\$ 232.00	\$ 212.00	\$ 205.00	\$ 205.00	\$ 209.10	\$ 214.33	\$ 219.69	\$ 225.18
<i>Daily Rate % growth</i>	0.87%	-8.62%	-3.30%	0.00%	2.00%	2.50%	2.50%	2.50%
Revenue per available Room	67.49	209	\$ 192.70	\$ 192.70	\$ 196.55	\$ 201.47	\$ 207.51	\$ 214.77
<i>RevPar % growth</i>		209.68%	-7.80%	0.00%	2.00%	2.50%	3.00%	3.50%
Number of Hotel Rooms	217	217	217	217	217	217	217	217
Revenue from Rooms	\$ 18.38	\$ 16.6	\$ 15.26	\$ 15.26	\$ 15.6	\$ 16.0	\$ 16.4	\$ 17.0
	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
City of Dreams Macau:								
Occupancy	99%	99%	96%	96.0%	96.0%	96.0%	96.0%	96.0%
<i>Average Occupancy 2013-2016</i>			97.75%					
Average Daily Rate	\$ 197.00	\$ 201.00	\$ 200.00	\$ 200.00	\$ 204.00	\$ 209.10	\$ 214.33	\$ 219.69
<i>Daily Rate % growth</i>	4.23%	2.03%	-0.50%	0.00%	2.00%	2.50%	2.50%	2.50%
Revenue per available Room	195	\$ 198.99	\$ 192.00	\$ 192.00	\$ 195.84	\$ 200.74	\$ 205.75	\$ 210.90
<i>RevPar % growth</i>	6.56%	2.05%	-3.51%	0.00%	2.00%	2.50%	3.00%	3.50%
Number of Hotel Rooms	1,387	1,387	1,387	1,387	1,777	2,167	2,167	2,167
Revenue from Rooms	\$ 98.72	\$ 100.7	\$ 97.20	\$ 97.20	\$ 127.0	\$ 158.8	\$ 162.7	\$ 166.8
	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Studio City Macau:								
Occupancy		98%	98%	98%	98%	98%	98%	98%
<i>Average Occupancy 2013-2016</i>			98.00%					
Average Daily Rate		\$ 136.00	\$ 136.00	\$ 136.00	\$ 138.72	\$ 142.19	\$ 145.74	\$ 149.39
<i>Daily Rate % growth</i>			0.00%	0.00%	2.00%	2.50%	2.50%	2.50%
Revenue per available Room		\$ 133.28	\$ 133.28	\$ 133.28	\$ 135.95	\$ 139.34	\$ 142.83	\$ 146.40
<i>RevPar % growth</i>			0.00%	0.00%	2.00%	2.50%	3.00%	3.50%
Number of Hotel Rooms		1,600	1,600	1,600	1,600	1,600	1,600	1,600
Revenue from Rooms		\$ 77.8	\$ 77.84	\$ 77.84	\$ 79.4	\$ 81.4	\$ 83.4	\$ 85.5
	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
City of Dreams Manila:								
Occupancy	63%	86%	91%	92%	93%	93%	93%	93%
<i>Average Occupancy 2013-2016</i>			80.00%					
Average Daily Rate	\$ 207.00	\$ 191.00	\$ 159.00	\$ 159.00	\$ 162.18	\$ 166.23	\$ 170.39	\$ 174.65
<i>Daily Rate % growth</i>		-7.73%	-16.75%	0.00%	2.00%	2.50%	2.50%	2.50%
Revenue per available Room	\$ 130.41	\$ 164.26	\$ 144.69	\$ 146.28	\$ 150.83	\$ 154.60	\$ 158.46	\$ 162.42
<i>RevPar % growth</i>		25.96%	-11.91%	1.10%	3.11%	2.50%	2.50%	2.50%
Number of Hotel Rooms	950	950	950	950	950	950	950	950
Revenue from Rooms	\$ 45.22	\$ 57.0	\$ 50.17	\$ 50.72	\$ 52.3	\$ 53.6	\$ 54.9	\$ 56.3
TOTAL ROOM REVENUE	\$ 136.43	\$ 199.7	\$ 265.29	\$ 241.02	\$ 274.3	\$ 309.7	\$ 317.5	\$ 325.6

We also assumed a rate of 0% in the average daily rate of Macau hotels in 2017, as Macau seeks to bring more visitors back to their resorts, and therefore do not expect management to increase rates this year. However, we anticipate a modest 2%, rising to 2.5% increase in the average daily rate from 2018 through 2021, based on growth rates of their hotels in previous positive market environments, and the conservative assumptions of minimal increases in time in line with general world growth figures.

Food Revenue

The third revenue stream is the food revenue, which comprises approximately 4% of Melco's total revenue. In this forecast, we assumed a 4% growth rate in 2017, increasing to 6% in 2021, as Melco shifts its focus to increasing non-gaming revenue, and the addition of the Morpheus project in 2018. We believe 4-6% growth rate is a more reasonable assumption than the historical average growth rate of 24%, which was driven mainly by Melco's previous disregard for this section prior to the corruption campaign. A 4-6% growth rate in this sector falls in line with other casino operators expectations in Macau, and although management has not provided commentary to this matter, we believe is an accurate growth rate for Melco as well.

We also calculated the average dollars spent for visitor, by looking at the expected average increase in revenue per year divided by the increase in number of visitors per year. Consistently, we have seen an increase of dollars spent by patrons on food and beverage, which has risen from \$2.21 dollars in 2011 to \$5.70 in 2016. We anticipate a small rise to \$6.00 per guest, as visitors stay for slightly more time on average than they had in the past.

FOOD REVENUE								
	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Food and Beverage Revenue (in mm)	\$ 84.9	\$ 126.8	\$ 177.5	\$ 184.6	\$ 192.9	\$ 202.6	\$ 213.7	\$ 226.5
% Revenue Growth	7.63%	49.42%	39.94%	4.00%	4.50%	5.00%	5.50%	6.00%
Average Growth			24.61%					
Visitors to Macau	32	31	31	32	33	35	36	38
Food & Beverage per Visitor	2.69	4.13	5.74	5.73	5.76	5.81	5.90	6.01
Average Change	0.1%	53.4%	38.9%	0.0%	0.5%	0.9%	1.4%	1.9%
Average Growth Food (2011-2016)			22.7%					
FOOD REVENUE	\$ 84.9	\$ 126.8	\$ 177.5	\$ 184.6	\$ 192.9	\$ 202.6	\$ 213.7	\$ 226.5

Entertainment, Retail, Other and Promotional Allowances

Melco's final revenue stream is the entertainment, retail, and other services sector. We believe, similar to the food revenue predictions, that Melco's entertainment revenue should rise 4% in 2017 and increase to 6% in 2021. This falls in line with other Macau casino operators predictions and accurately reflects the Macau's appetite for entertainment, retail and other activities. Although interest is growing in these areas, we believe high or even historical average growth rates are too large for this sector. Due to Melco's cinematically-themed resorts, we believe Melco has already captured significant growth rates in 2015 and 2016. Our conservative estimates of 4-6% are industry standards in Macau and we are comfortable with those figures.

In terms of promotional allowances, we anticipate a decline in promotional and complimentary gifts as the Macau market rebounds to historical healthy environments. Prior to the corruption crackdown and Macau's downturn, promotional allowances grew around 13% per year. We believe as the Macau market improves, that in 5 years, the promotional allowances will return to those levels.

OTHER REVENUE								
	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Entertainment, Retail & Other	\$ 108.4	\$ 117.5	\$ 197.0	\$ 204.9	\$ 214.1	\$ 224.8	\$ 237.2	\$ 251.4
<i>% Change</i>	4.5%	8.4%	67.6%	4.0%	4.5%	5.0%	5.5%	6.0%
<i>Average of 2011-2015 % Change</i>			8%					
Promotional Allowances	\$ (181.6)	\$ (236.6)	\$ (297.1)	\$ (360.4)	\$ (428.8)	\$ (501.7)	\$ (577.0)	\$ (652.0)
<i>% Change</i>	10.3%	30.3%	25.6%	21.3%	19.0%	17.0%	15.0%	13.0%
<i>Average of 2012-2016 % Change</i>			21.3%					

Expenses

We predict Melco's expenses to remain relatively consistent with historical profit margins for all revenue streams except for the operation of the casinos. Melco's casinos have seen an increase in profit margin consistently over the years, most notably beginning at 27% in 2011 and increasing to 30% in 2016. We predict that due to management's focus of strategically streamlining cost initiatives, and the efficiency of the casino and

gaming products, it is reasonable to assume that Melco can increase their profit margin for casinos by 5% of the next 5 years. We are comfortable with this assumption as management seeks to benefit from Macau's rebound and their guidelines with regards to cost-cutting on their casino floors, which should improve profits as a factor of economy of scale.

Additionally, we expect our total operating costs and expenses to increase slightly in 2017 and 2018, as Melco rebuilds its brand and focuses on the launch of the new Morpheus tower. After Morpheus's opening in 2018, we anticipate that total operating costs will return to a growth rate of 3% in line with historical rates, and in line with peers' estimates of cost increases.

One other expense items to note is the amortization of land rights, which has been reduced by 50% in 2016 by the extension of land right contracts by ten additional years. All other expense items are expected to stay relatively constant as a percentage of revenue. We did not expect much deviation, and management has not provided any guidance.

EXPENSES (in mm)								
	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Gross Revenues	\$4,983.9	\$4,211.4	\$4,816.5	\$5,352.2	\$5,928.7	\$6,364.2	\$6,797.3	\$7,068.0
Operating costs and expenses	\$4,117.0	\$3,876.4	\$4,156.3	\$4,483.4	\$4,855.1	\$5,027.2	\$5,184.8	\$5,325.1
<i>% Growth</i>	-3.1%	-5.8%	7.2%	7.9%	8.3%	3.5%	3.1%	2.7%
Casino	\$3,246.4	\$2,654.8	\$2,904.9	\$3,257.9	\$3,568.2	\$3,770.2	\$3,979.1	\$4,071.9
<i>% Margin</i>	30.2%	29.5%	30.4%	31.0%	32.0%	33.0%	34.0%	35.0%
Rooms	\$12.7	\$23.4	\$33.2	\$31.3	\$35.7	\$40.3	\$41.3	\$42.3
<i>% Margin</i>	90.7%	88.3%	87.5%	87.0%	87.0%	87.0%	87.0%	87.0%
Food and beverage	\$23.5	\$43.3	\$65.8	\$70.4	\$73.6	\$77.3	\$81.5	\$86.4
<i>% Margin</i>	72.3%	65.9%	62.9%	61.8%	61.8%	61.8%	61.8%	61.8%
Entertainment, retail and others	\$62.1	\$77.5	\$109.8	\$64.9	\$67.8	\$71.2	\$75.1	\$79.6
<i>% Margin</i>	78.3%	63.2%	66.6%	68.3%	68.3%	68.3%	68.3%	68.3%
General and administrative	\$311.7	\$383.9	\$446.6	\$361.3	\$355.7	\$381.9	\$407.8	\$424.1
<i>% Revenue</i>	6.3%	9.1%	9.3%	6.7%	6.0%	6.0%	6.0%	6.0%
Average % of Revenue								
Payments to the Philippine parties	\$0.9	\$16.5	\$34.4	\$25.5	\$26.6	\$27.4	\$28.2	\$29.0
Franchise Tax on Gaming Revenue								
Pre-opening costs	\$94.0	\$168.2	\$3.9	\$48.6	\$94.0	\$48.6	\$3.9	\$3.9
Development costs	\$10.7	\$0.1	\$0.1	\$8.2	\$8.2	\$8.2	\$8.2	\$8.2
Amortization of gaming subconcession	\$57.2	\$57.2	\$57.2	\$57.2	\$57.2	\$57.2	\$57.2	\$57.2
Amortization of land use rights	\$64.5	\$54.1	\$22.8	\$27.9	\$29.2	\$30.5	\$32.0	\$33.5
% of Land Use Rights Asset	-7.3%	-6.5%	-2.8%	-2.9%	-2.9%	-2.9%	-2.9%	-2.9%
Depreciation and amortization	\$246.7	\$359.3	\$472.2	\$524.7	\$533.6	\$509.1	\$465.1	\$483.7
<i>% Revenue</i>	-4.9%	-8.5%	-9.8%	-9.8%	-9.0%	-8.0%	-6.8%	-6.8%
Property charges and others	\$8.7	\$38.1	\$5.3	\$5.3	\$5.3	\$5.3	\$5.3	\$5.3
Gain on disposal of assets held for sale	\$22.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

Capital Expenditures

During the first quarter earnings call on May 4, 2017, management noted that \$93 million was spent, which was mostly from the development of the Morpheus tower. We anticipate similar expenditures in the remaining three quarters of 2017 as development on Morpheus continues, resulting in a capital expenditure of \$370 million. Management has provided estimates of around \$150 million of capital expenditures per year from 2018 and beyond. We believe that is a fair estimate of future

capital expenditures based on previous years of non-development.

CapEx Schedule (in mm)					
	2017E	2018E	2019E	2020E	2021E
Project CapEx	\$272.0	\$100.0	\$50.0	\$50.0	\$50.0
Maintenance Capex	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0
Total CapEx	\$372.0	\$200.0	\$150.0	\$150.0	\$150.0

Debt Expense

Melco's leverage ratio has remained constant around 4.4x throughout the past 5 years. Management has suggested no change to the debt-to-equity ratio, and therefore we anticipate a similar debt level in future years. Our debt expense was determined by calculating the total debt per year from our forecasted EBITDA, times the 4.4 leverage ratio, and multiplying by the interest on debt. Our results are in the table below.

Debt Interest Schedule (in mm)					
	2017E	2018E	2019E	2020E	2021E
EBITDA	\$ 1,118.3	\$ 1,264.8	\$ 1,432.2	\$ 1,589.9	\$ 1,665.2
Leverage Ratio	4.4x	4.4x	4.4x	4.4x	4.4x
Total Debt	\$ 4,906.7	\$ 5,549.4	\$ 6,284.2	\$ 6,975.9	\$ 7,306.5
Interest on Debt	5.37%	5.37%	5.37%	5.37%	5.37%
Debt Expense	\$ 263.5	\$ 298.0	\$ 337.5	\$ 374.6	\$ 392.4

Valuation

Our resulting discounted cash flow model results in an enterprise value of \$12.227 million. Adjusting for nonoperating assets and liabilities, our resulting equity value is \$9.684 million, implying a share price of \$19.68. This indicates a discount to the current stock price of \$22.30.

DISCOUNTED CASH FLOW ANALYSIS					
	2017E	2018E	2019E	2020E	2021E
EBIT	\$508	\$645	\$835	\$1,036	\$1,091
Less: Taxes	(\$19)	(\$30)	(\$46)	(\$64)	(\$67)
EBIT After Tax	\$489	\$615	\$789	\$972	\$1,024
Plus: D&A	\$610	\$620	\$597	\$554	\$574
Less: Capex	(\$372)	(\$200)	(\$150)	(\$150)	(\$150)
Less: Change in Working Capital	\$65	(\$86)	\$228	\$53	\$87
Unlevered FCF	\$793	\$949	\$1,464	\$1,429	\$1,535
Discount Periods	1.00	2.00	3.00	4.00	5.00
Discounted Cash Flows	\$719	\$781	\$1,094	\$969	\$944
Terminal Value	\$12,551				
WACC	10.21%				
Terminal Growth Rate	2.5%				
PV of CF	\$4,507	36.86%			
PV of TV	\$7,720	63.14%			
Implied Terminal Multiple	5.03				
Enterprise Value	\$12,227				
Less: Total Debt	(\$4,016)				
Less: Minority Interest	(\$480)				
Plus: Cash and Equivalents	\$1,954				
Plus: Investments in Unconsolidated Subsidiar	\$0				
Less: Pension Liabilities	\$0				
Equity Value	\$9,684				
Common Shares Outstanding (millions)	491.97				
Implied Price per Share	19.68				
Premium / (Discount)	-11.7%				

However conducting a sensitivity analysis, shows that Melco's share price is very dependent on the appropriate discount rate. This creates uncertainty around our predicted share price as it indicates volatility in the stock. For this reason, we are suggesting a hold.

Sensitivity Analysis

SENSITIVITY ANALYSIS		WACC:							
Growth Rate:		8.5%	9.0%	9.5%	10.2%	10.5%	11.0%	11.5%	12%
GROWTH	1.5%	24.46	22.15	20.15	17.75	16.88	15.53	14.33	13.25
	2.0%	26.11	23.52	21.30	18.66	17.71	16.24	14.94	13.79
	2.5%	28.02	25.10	22.61	19.68	18.64	17.04	15.63	14.38
	3.0%	30.29	26.94	24.13	20.86	19.70	17.93	16.39	15.04
	3.5%	33.01	29.11	25.89	22.20	20.91	18.95	17.25	15.77

Conclusion

In the last two months, the Melco's stock has appreciated from \$16.06 to a recent price of \$22.30, for a gain of about 36%. Based on our analysis, a market price of \$19-\$22 is a fair value for the company, and slight variations in the price have more to do with investors outlook on the Macau market and Melco's discount rate, than on Melco's fundamentals.

While we believe the fundamental arguments for Melco shares are promising, we believe that these arguments are widely understood and accepted by market participants. Therefore, we suggest that investors hold their position with regards to this stock. Any slight mispricing will be hard to capture due the stock price's rapid volatility.

FINANCIALS								
<i>(in millions)</i>								
	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Net revenues	\$ 4,802.3	\$ 3,974.8	\$ 4,519.4	\$ 4,991.8	\$ 5,499.9	\$ 5,862.5	\$ 6,220.4	\$ 6,416.0
Gross revenues	4,983.9	4,211.4	4,816.5	5,352.2	5,928.7	6,364.2	6,797.3	7,068.0
Casino	4,654.2	3,767.3	4,176.7	4,721.6	5,247.4	5,627.1	6,028.9	6,264.4
Rooms	136.4	199.7	265.3	241.0	274.3	309.7	317.5	325.6
Food and beverage	84.9	126.8	177.5	184.6	192.9	202.6	213.7	226.5
Entertainment, retail and others	108.4	117.5	197.0	204.9	214.1	224.8	237.2	251.4
Promotional allowances	(181.6)	(236.6)	(297.1)	(360.4)	(428.8)	(501.7)	(577.0)	(652.0)
Total Revenue	4,802.3	3,974.8	4,519.4	4,991.8	5,499.9	5,862.5	6,220.4	6,416.0
Total operating costs and expenses	\$ (4,117.0)	\$ (3,876.4)	\$ (4,156.3)	\$ (4,483.4)	\$ (4,855.1)	\$ (5,027.2)	\$ (5,184.8)	\$ (5,325.1)
Casino	(3,246.4)	(2,654.8)	(2,904.9)	(3,257.9)	(3,568.2)	(3,770.2)	(3,979.1)	(4,071.9)
Rooms	(12.7)	(23.4)	(33.2)	(31.3)	(35.7)	(40.3)	(41.3)	(42.3)
Food and beverage	(23.5)	(43.3)	(65.8)	(70.4)	(73.6)	(77.3)	(81.5)	(86.4)
Entertainment, retail and others	(62.1)	(77.5)	(109.8)	(64.9)	(67.8)	(71.2)	(75.1)	(79.6)
General and administrative	(311.7)	(383.9)	(446.6)	(361.3)	(355.7)	(381.9)	(407.8)	(424.1)
Payments to the Philippine parties	(0.9)	(16.5)	(34.4)	(25.5)	(26.6)	(27.4)	(28.2)	(29.0)
Pre-opening costs	(94.0)	(168.2)	(3.9)	(48.6)	(94.0)	(48.6)	(3.9)	(3.9)
Development costs	(10.7)	(0.1)	(0.1)	(8.2)	(8.2)	(8.2)	(8.2)	(8.2)
Amortization of gaming subconcession	(57.2)	(57.2)	(57.2)	(57.2)	(57.2)	(57.2)	(57.2)	(57.2)
Amortization of land use rights	(64.5)	(54.1)	(22.8)	(27.9)	(29.2)	(30.5)	(32.0)	(33.5)
Depreciation and amortization	(246.7)	(359.3)	(472.2)	(524.7)	(533.6)	(509.1)	(465.1)	(483.7)
Property charges and others	(8.7)	(38.1)	(5.3)	(5.3)	(5.3)	(5.3)	(5.3)	(5.3)
Gain on disposal of assets held for sale	22.1	-	-	-	-	-	-	-
Total operating costs and expenses	(4,116.9)	(3,876.4)	(4,156.3)	(4,483.4)	(4,855.1)	(5,027.2)	(5,184.8)	(5,325.1)
Operating income (EBIT)	\$ 685.4	\$ 98.4	\$ 363.1	\$ 508.4	\$ 644.8	\$ 835.3	\$ 1,035.6	\$ 1,090.9
<i>EBIT Margin %</i>	14.3%	2.5%	8.0%	10.2%	11.7%	14.2%	16.6%	17.0%
Plus: Depreciation and Amortization	\$ 368.4	\$ 470.6	\$ 552.3	\$ 609.9	\$ 620.0	\$ 596.9	\$ 554.3	\$ 574.4
EBITDA	\$ 1,053.7	\$ 569.0	\$ 915.4	\$ 1,118.3	\$ 1,264.8	\$ 1,432.2	\$ 1,589.9	\$ 1,665.2
<i>EBITDA Margin %</i>	21.9%	14.3%	20.3%	22.4%	23.0%	24.4%	25.6%	26.0%
<i>EBITDA Growth %</i>	-13.8%	-46.0%	60.9%	22.2%	13.1%	13.2%	11.0%	4.7%
CAGR 2011-2016	2.8%							
CAGR 2017-2021	8.3%							
Total non-operating expenses, net	\$ (154.9)	\$ (158.2)	\$ (288.0)	\$ (332.3)	\$ (369.8)	\$ (412.3)	\$ (452.4)	\$ (473.2)
Interest income	20.0	13.9	6.0	10.0	10.0	10.0	10.0	10.0
Interest expenses, net of capitalized interest	(124.1)	(118.3)	(223.6)	(263.5)	(298.0)	(337.5)	(374.6)	(392.4)
Other finance costs	(47.0)	(45.8)	(55.8)	(58.8)	(61.8)	(64.8)	(67.8)	(70.8)
Amortization of deferred financing costs	(28.1)	(38.5)	(48.3)	(51.3)	(54.3)	(57.3)	(60.3)	(63.3)
Loan commitment and other finance fees	(19.0)	(7.3)	(7.5)	(7.5)	(7.5)	(7.5)	(7.5)	(7.5)
Foreign exchange loss / gain, net	(6.2)	(2.2)	7.4	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Other income, net	2.3	2.3	3.6	2.0	2.0	2.0	2.0	2.0
Loss on extinguishment of debt	-	(0.5)	(17.4)	(16.0)	(16.0)	(16.0)	(16.0)	(16.0)
Costs associated with debt modification	-	(7.6)	(8.1)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
Total non-operating expenses, net	(154.9)	(158.2)	(288.0)	(332.3)	(369.8)	(412.3)	(452.4)	(473.2)
Income(Profit) before income tax	\$ 530.4	\$ (59.8)	\$ 75.1	\$ 176.2	\$ 275.0	\$ 423.1	\$ 583.2	\$ 617.7
<i>Effective tax rate %</i>	-0.6%	1.7%	-10.9%	10.9%	10.9%	10.9%	10.9%	10.9%
Provision for income tax	\$ (3.0)	\$ (1.0)	\$ (8.2)	\$ (19.2)	\$ (29.9)	\$ (46.1)	\$ (63.5)	\$ (67.3)
Income / loss from continuing operations	\$ 527.4	\$ (60.8)	\$ 66.9	\$ 157.0	\$ 245.0	\$ 377.0	\$ 519.6	\$ 550.5
Net income / loss	\$ 527.4	\$ (60.8)	\$ 66.9	\$ 157.0	\$ 245.0	\$ 377.0	\$ 519.6	\$ 550.5
<i>Net Margin %</i>	10.6%	-1.4%	1.4%	2.9%	4.1%	5.9%	7.6%	7.8%
Net income	\$ 527.4	\$ (60.8)	\$ 66.9	\$ 157.0	\$ 245.0	\$ 377.0	\$ 519.6	\$ 550.5
Plus: D&A	368.4	470.6	552.3	609.9	620.0	596.9	554.3	574.4
Less: Capex	(1,637.3)	(1,455.8)	(437.9)	(372.0)	(200.0)	(150.0)	(150.0)	(150.0)
Less: Increase in Working Capital	65.4	(86.0)	228.1	52.7	86.7	90.7	95.0	99.4

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