

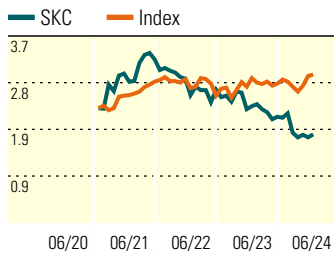
SkyCity Entertainment Group Limited SKC

★★★★★ (4:00PM 31-Jan-2024)

Snapshot

Fair Value Uncertainty	High
Moat Rating	Narrow
Fair Value \$	3.20
Capital Allocation	Standard
Market Cap \$Mil	1,342
Morningstar Style Box	—
Price \$ (4:00PM 31-Jan-2024)	1.76
52 Week High/Low \$	2.39/1.53
Shares Issued Mil	760
Morningstar Sector	Consumer Cyclical
Morningstar Industry	Resorts & Casinos
GICS Sector	Consumer Discretionary

Price vs. Market



	06/22	06/23	06/24e	06/25e
NPAT (\$Mil)	9.0	129.1	113.3	152.4
EPS ¢	1.2	17.0	14.9	20.0
EPS Chg %	-89.3	1,337.8	-12.3	34.5
DPS ¢	0.0	11.2	11.3	15.0
Franked %	—	—	—	—
Div Yld %	0.0	4.7	6.4	8.5
P/E x	241.2	13.9	11.8	8.8

Source: Morningstar estimates 08-Dec-2023

Profile

SkyCity Entertainment Group (SKC) SkyCity operates integrated entertainment complexes in New Zealand (in Auckland, Hamilton and Queenstown) and in Adelaide, Australia - each featuring casino gaming facilities and premium restaurants and bars, which appeal to both domestic and international visitors alike

Investment Perspective by Angus Hewitt 08-Dec-2023

SkyCity Entertainment is a high-quality, cash-generative casino operator in New Zealand and Australia. With long-dated licences, the firm's core Auckland and Adelaide casinos have a record of delivering resilient earnings, underpinning SkyCity's economic moat. Each boasts a privileged position as the sole casino operator in its state and, as a result of unrelenting reinvestment throughout the years, has built up scale that is likely to deter new entrants. In addition to licensed exclusivity, the substantial up-front capital investment requirements and relatively small size of the addressable market act as significant deterrents for any aspiring new entrants.

Research Archive

Time	Date	Rating	Price \$	Event
0:06AM	09-Dec-2023	★★★★★	1.66	
<i>SkyCity Entertainment: Weak Discretionary Environment Weighing on the Near Term</i>				
10:20PM	04-Sep-2023	★★★★★	1.85	
<i>SkyCity: New Zealand Casino License Suspension Likely, but Our Fair Value Estimate Is Unchanged</i>				
11:35PM	23-Aug-2023	★★★★★	2.06	
<i>SkyCity Earnings: Result as Expected, but International VIPs Less Important</i>				
11:02AM	25-May-2023	★★★★★	2.12	
<i>SkyCity: Investor Day Presents No Material Surprises as Profitability Continues To Recover</i>				
10:51PM	15-Feb-2023	★★★★★	2.35	
<i>SkyCity's First Half Rebounded Strongly As Restrictions Eased and Tourists Returned</i>				

\$ = Price Move = Research Report

Financials

	06/21	06/22	06/23	06/24e	06/25e
Sales Revenue (\$Mil)	765.0	587.5	899.3	951.6	1,022.3
EBITDA Margin %	30.6	21.8	32.1	28.0	31.8
EBIT (\$Mil)	149.4	40.2	204.3	186.0	243.3
EBIT Margin %	19.5	6.8	22.7	19.6	23.8
Adjusted NPAT (\$Mil)	84.0	9.0	129.1	113.3	152.4
Reported NPAT (\$Mil)	145.2	-31.3	7.4	139.7	155.2
Earnings Per Share ¢	11.1	1.2	17.0	14.9	20.0
Avg no. of Shares (\$Mil)	759.7	760.2	760.2	760.2	760.2
Book Value Per Share ¢	202.2	192.3	187.3	196.9	201.2
Net Operating Cashflow (\$Mil)	232.1	55.1	228.3	280.7	235.0
Capex (\$Mil)	-159.7	-93.1	-237.0	-369.7	-106.9
Free Cash Flow (\$Mil)	16.2	64.2	195.9	-69.3	149.7

Key Dates

Fiscal Year End	30 Jun	AGM	27 Oct 2023
Listing Date	29 Mar 1999	DRIP	Active

Equities Research Methodology and Disclosure

We believe that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star, or Buy-rated, stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star, or Sell-rated, stocks trade at premiums to their intrinsic worth. Four key components drive the Morningstar rating: our assessment of the firm's economic moat, our estimate of the stock's fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's equity analysts. In this document, we provide a detailed overview of how the Morningstar Rating for stocks is derived, and also outline the analytical work that feeds into our coverage of stocks.

Morningstar's Economic Moat™ Rating

Moat is a proprietary Morningstar rating that measures a company's sustainable competitive advantage, if any. An economic moat enables a company to generate returns on invested capital above its cost of capital for a long period of time.

Morningstar has identified five sources of economic moats: intangible assets, customer switching costs, cost advantages, network effects, and efficient scale. Morningstar assigns stocks one of three moat ratings: wide moat (companies with the longest-lasting competitive advantages), narrow moat (those with less durable competitive advantages), and no moat (those with no sustainable competitive advantage).

Determining Fair Value

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' independent primary research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process.

The Uncertainty Rating

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. Analysts use the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Our Uncertainty Rating is meant to consider anything that can increase the potential dispersion of outcomes for the intrinsic value of a company, and anything that can affect our ability to predict these outcomes accurately. These can include cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes. We have five different ratings: Low, Medium, High, Very High, or Extreme. Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases.

Generating the Morningstar Star Rating

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the recommendation, or star rating, is automatically re-calculated at the market close on every day the market is open. Lower price/fair value ratios (<1.0) lead to positive recommendations while higher price/fair value ratios (>1.0) lead to negative recommendations.

Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted. Furthermore, we would expect our fair value estimates to generally rise over time, due to the time value of money. Specifically, over the course of a year, barring major changes to analyst assumptions, we would expect our fair value estimates to increase at the level of our estimate of a firm's cost of equity (net of shareholder returns attributed to dividends). So, for a stock that pays no

dividends with a \$100 fair value estimate today and an estimated 10% cost of equity, we would expect our fair value estimate to rise to \$110 in 12 months, all else equal.

It is also worth noting that there is no predefined distribution of our recommendations. That is, the percentage of stocks that earn a Buy rating can fluctuate daily, so the recommendations, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many Buy-rated stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

Our recommendations /star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential. This rating encourages investors to consider an overweight position in the security relative to the appropriate benchmark.

★★★★ Appreciation beyond a fair risk-adjusted return is likely, in our opinion. This rating encourages investors to own the firm's shares, possibly overweight relative to the appropriate benchmark after fully considering more attractively priced alternatives, such as our Buy recommendations.

★★★ Indicates that we believe investors are likely to receive a fair risk-adjusted return (approximately cost of equity). Concentrated portfolios might consider exiting these positions if more attractively priced alternatives are available.

★★ We believe investors are likely to receive a less than fair risk-adjusted return and should consider directing their capital elsewhere. Securities with this recommendation should generally be underweight, assuming less expensive alternatives are available for the portfolio strategy being employed.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss. This rating encourages investors to strongly consider exiting portfolio positions in the security in nearly all strategies.