LVS | Q4 CALL SUPPORTS LONG TRADE

But have we seen this movie before?

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CALL TO ACTION

Déjà vu, rerun, we've seen this movie before, replay, Rocky X. After re-reading our LVS Q3 analysis, I was struck by the similarity with last night's release. Hedgeye was positioned long on the stock. What we thought would happen did indeed happen. The stock still looks like a long but, just like last quarter, only for a trade.

Believe me, I want to make the long recommendation, call the turn, be the maverick. In meetings with clients in New York, Boston, and London I laid out conditions I was looking for to go long for more than a trade: 1) multiple compression, 2) lower Street estimates more in line with Hedgeye, and 3) a belief that Mass has stabilized. For the first time in our 2 year short call 1) and 2) have occurred but it's that fundamental point number 3 that brings us back to our keep a trade a trade recommendation.

WHAT WE SAW IN THE Q4 RELEASE

As we expected, LVS posted a small beat so the world didn't end. The Chinese New Year commentary was positive. Management reaffirmed its capital return policy yet financial leverage remained low. However, the Mass segment confirmed our assertion that December and Q4 Mass was softer than what the analysts were espousing. We think they have the table reclassification analysis wrong. One analyst reported that Mass revenues on Cotai were flattish YoY for the market in Q4. Sands China, mostly a Cotai company, posted a double digit YoY decline in Q4. We calculated 'true' Mass revenue in Macau fell 10% YoY in Q4 (~-6% on Cotai). Sorry but Mass has not stabilized.

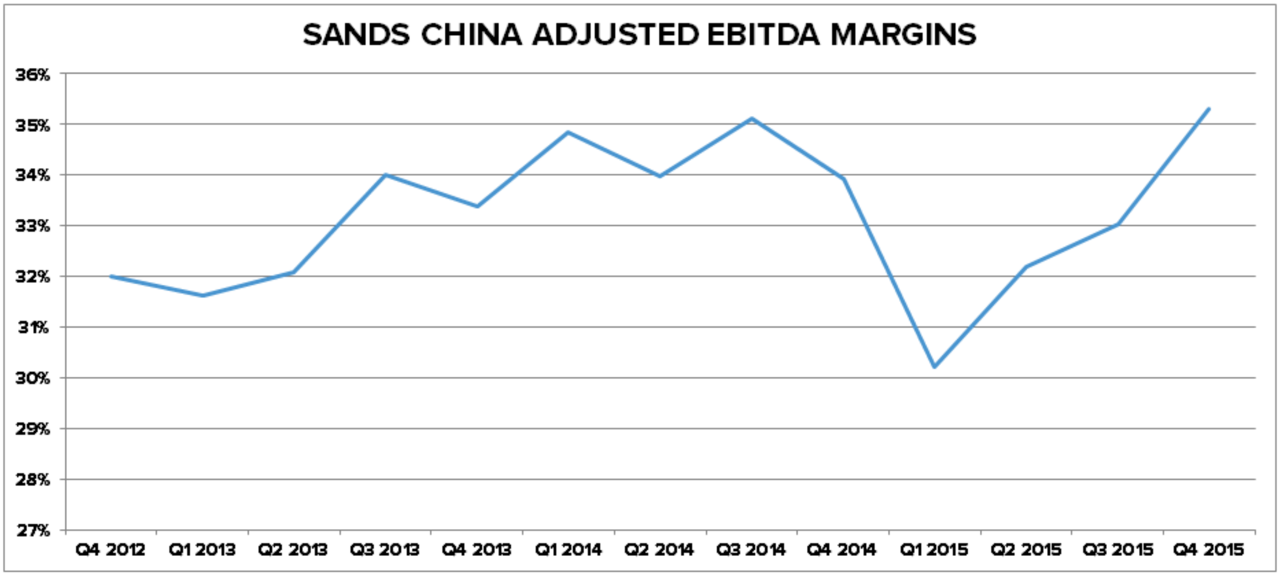
LVS reported an overall in-line quarter relative to our estimate, but above the Street. Solid margins pushed Macau above our projections, Vegas beat, but Marina Bay Sands missed on lower VIP hold (although Mass hold was higher than normal).

LVS Q4 2015 EBITDA	Q4 2015	Q4 2014	YoY Change	HE Estimate	Actual vs. Est.	FACTSET
Venetian & Palazzo	$97.4	$78.0	25%	$92	$5	$89
Sands Macau	$51.3	$76.7	-33%	$52	($1)	$51
Venetian Macau	$297.3	$321.4	-8%	$271	$26	$253
Four Seasons	$65.8	$92.7	-29%	$50	$16	$57
Sands Cotai Central	$160.9	$220.3	-27%	$164	($3)	$157
Marina Bay Sands	$338.2	$518.5	-35%	$384	($46)	$381
Other Asia (Cotai Ferries)	$6.1	$2.2	170%	$3	$3	$4
Sands Bethlehem	$34.3	$36.2	-5%	$39	($5)	$36
Property-Level EBITDA	$1,051	$1,346	-22%	$1,055	($4)	$1,028
Adjusted Diluted EPS	$0.62	$0.92	-33%	$0.66	($0.04)	$0.65

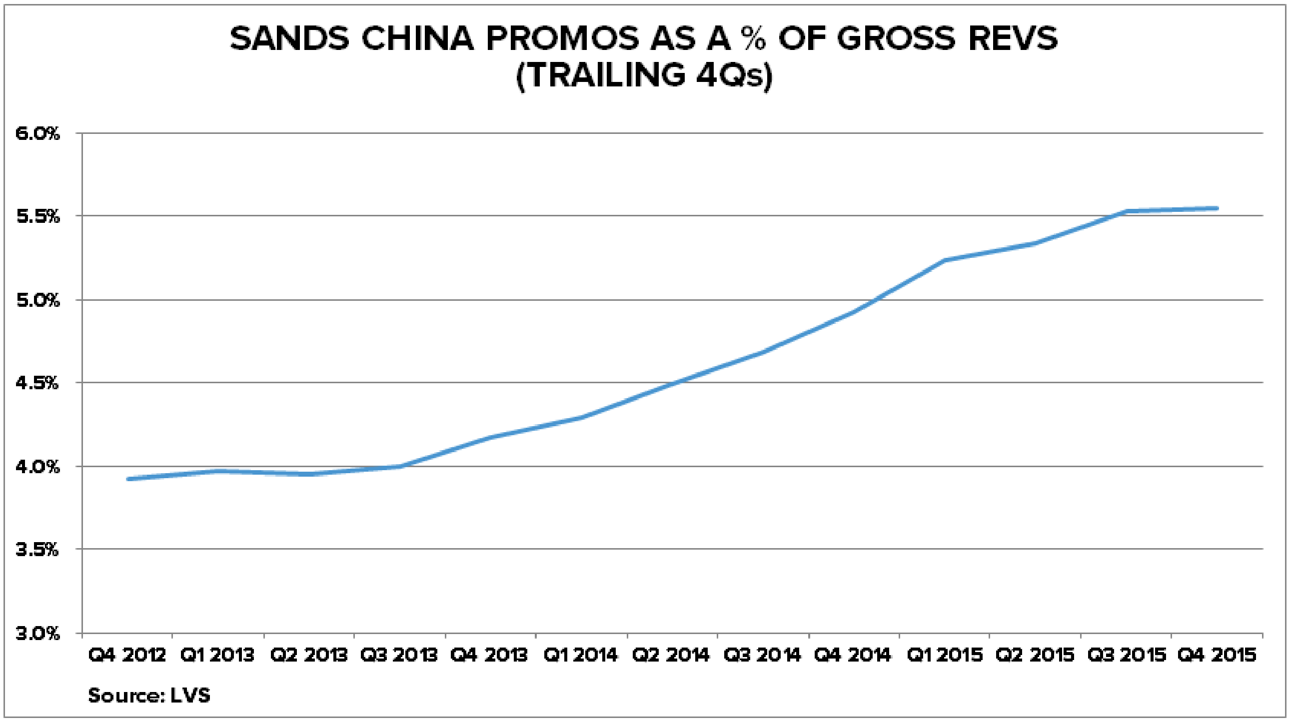
POSITIVE TAKEAWAYS

Strong Macau margins

Despite continued revenue declines, the Sands China properties posted a YoY improvement in margins and another sequential increase. Better margins drove the Macau beat from our estimates. Sands management continues to outperform the competition in driving down costs



Even in the area of promotional allowances, management held costs as a percent of gross revenues sequentially flat for the first time since the downturn.



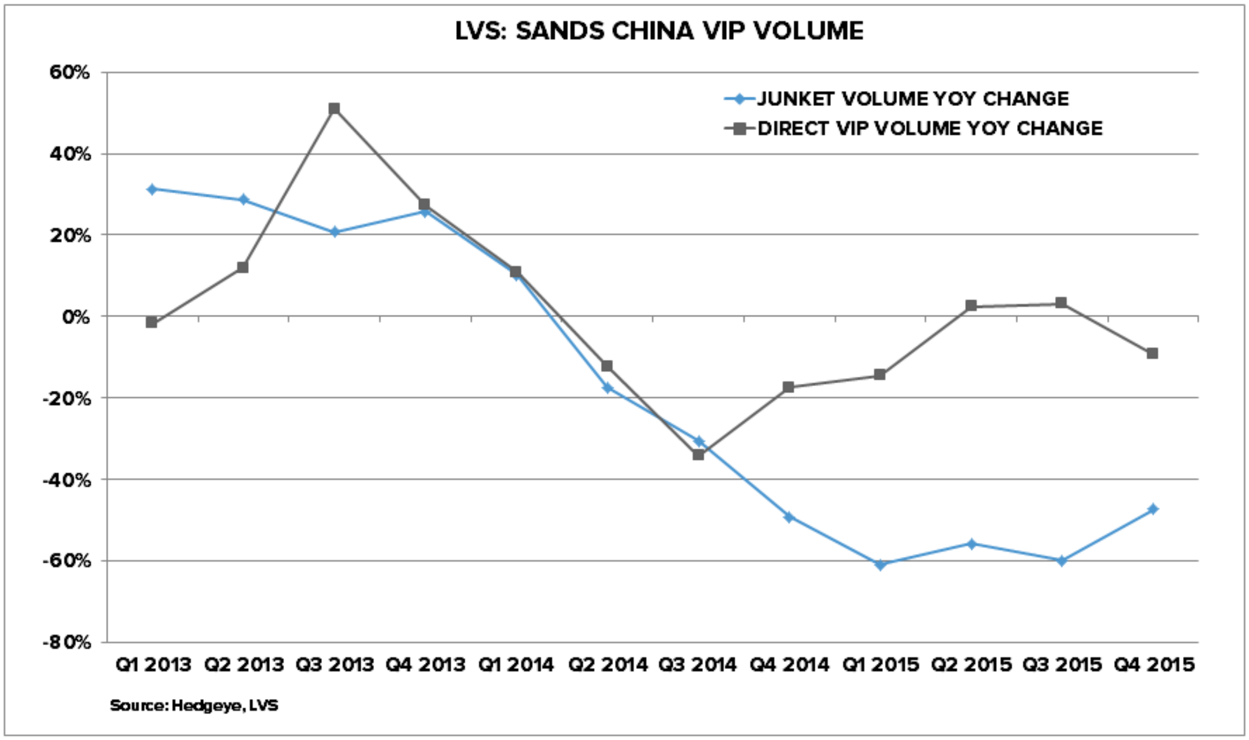
Too bad Las Vegas is no longer a core LVS market (same comment from Q3)

The Venetian/Palazzo in Las Vegas performed very well, and experienced EBITDA growth of 25% YoY. EBITDA of $97m exceeded our estimate by $5m and was held back by a low hold percentage that cost the property about $8m in EBITDA. RevPAR accelerated, up a staggering 22% YoY. Weaker baccarat and other table volume were offset by Non-gaming, including RevPAR, F&B/Retail/Convention which posted close to 16% growth YoY. Despite a 16% increase in slot handle YoY, the outlook for non-gaming in Vegas certainly looks better than for gaming as table games volume was -14% YoY. Unfortunately, Las Vegas represents just 9% of total property level EBITDA for LVS.

Direct VIP dips but still a relative outperformer (segmentally and to the competition)

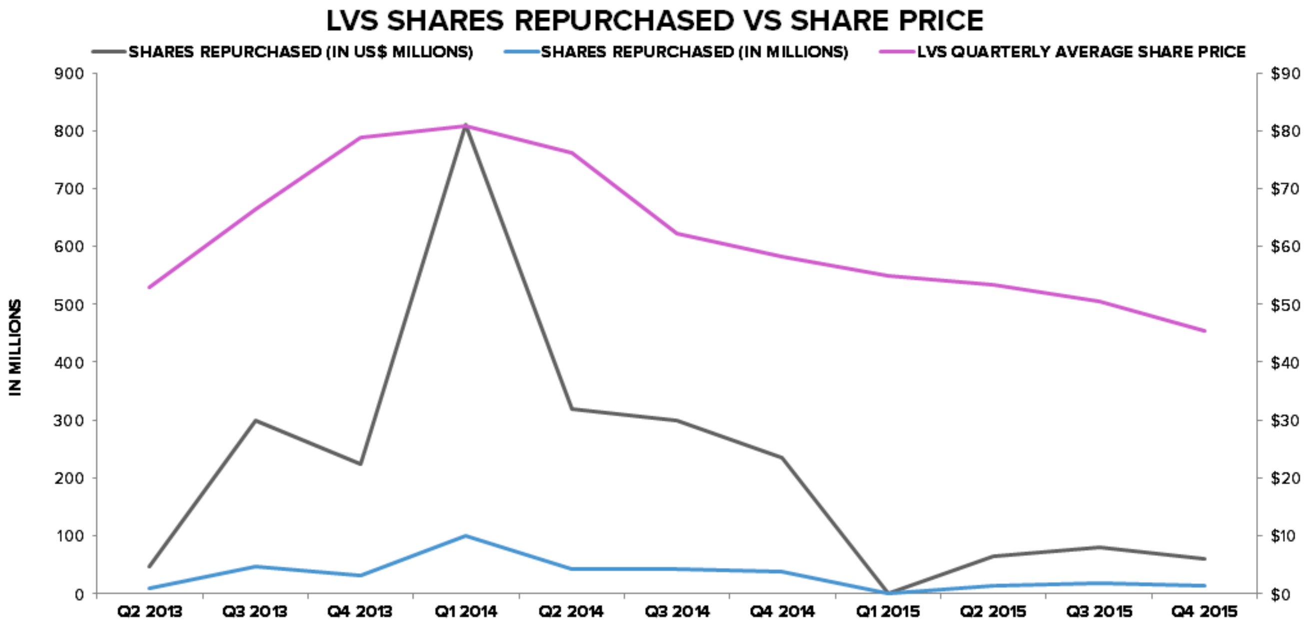
LVS has consistently outperformed the competition in the Direct segment which, without a junket commission, carries a higher margin than VIP. As the Macau Junket business is in absolute distress, Sands China is pushing ahead with expanding its Direct VIP business. Direct VIP will continue to grow in importance as the concessionaires attempt to attract lost junket business through the more profitable channel.

Direct VIP volume looked like it fell around 10% YoY versus flattish the last few quarters. However, that's a good relative number to the Junket segment and as you'll see later, better than Mass. Moreover, the comparison was more difficult. Surprisingly, the junket segment actually improved sequentially – or the YoY declined lessened. Please see our April 10th and October 8th presentations for more on Sands' Direct business.



Capital return remains a pillar of financial policy

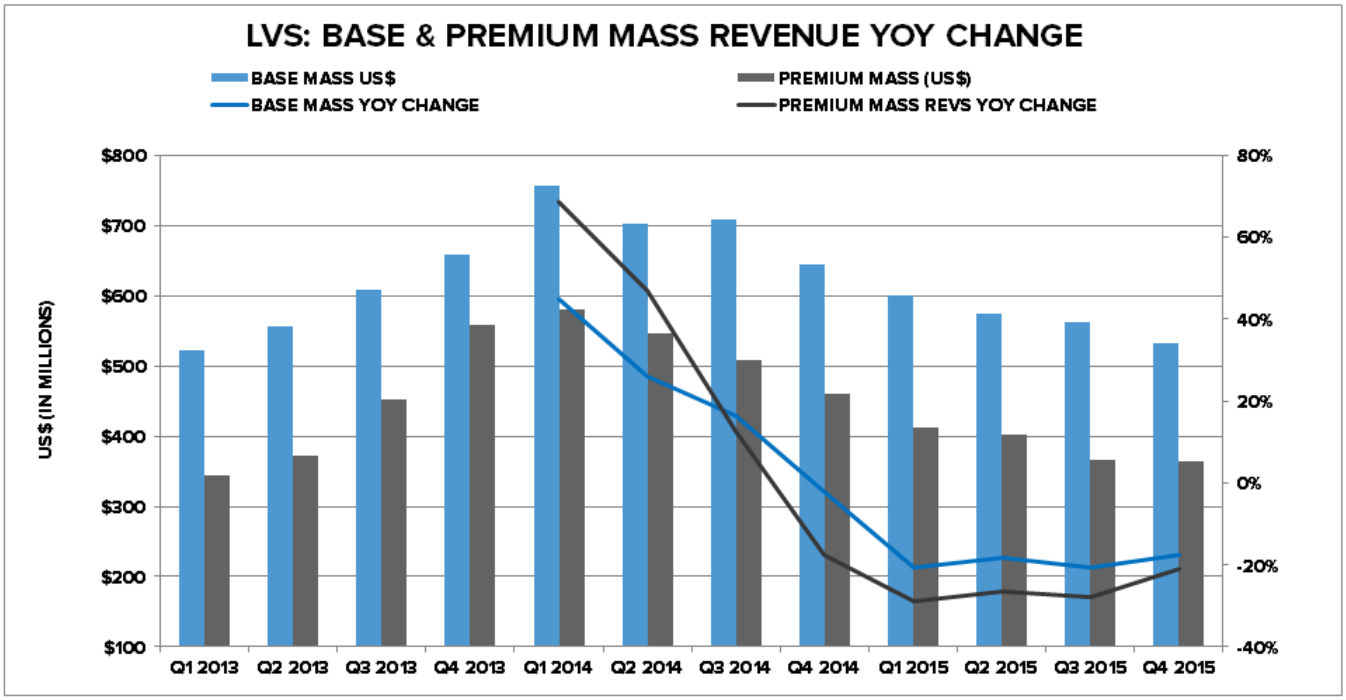
Financial leverage remained low at only 1.7x despite more stock buybacks and higher dividends. LVS reaffirmed raising its quarterly dividend by 11% for 2016 and bought back $60m in stock during the quarter. The Q4 pace was meaningfully lower than the quarterly rate from a few years ago but $60 million certainly goes a lot further these days.



KEEP A TRADE A TRADE...

Wish we could say Mass has stabilized

The Mass performance in Macau was probably the most disappointing aspect of the quarter – and potentially the most disconcerting when looking ahead. Premium Mass revenues fell 21% while Base Mass was only a little better at -18%. These numbers are in sharp contrast to assertions made recently by a number of analysts that Macau Mass revenue have stabilized and were even flattish YoY on Cotai. Sure, the YoY decline has stabilized but that's due to easier comparisons. What would matter to us is sequential stability. While Premium Mass revenues looked only slightly worse than Q3, Base Mass continued to deteriorate. These numbers look even worse when considering seasonality – Q4 is typically a stronger quarter than Q3.



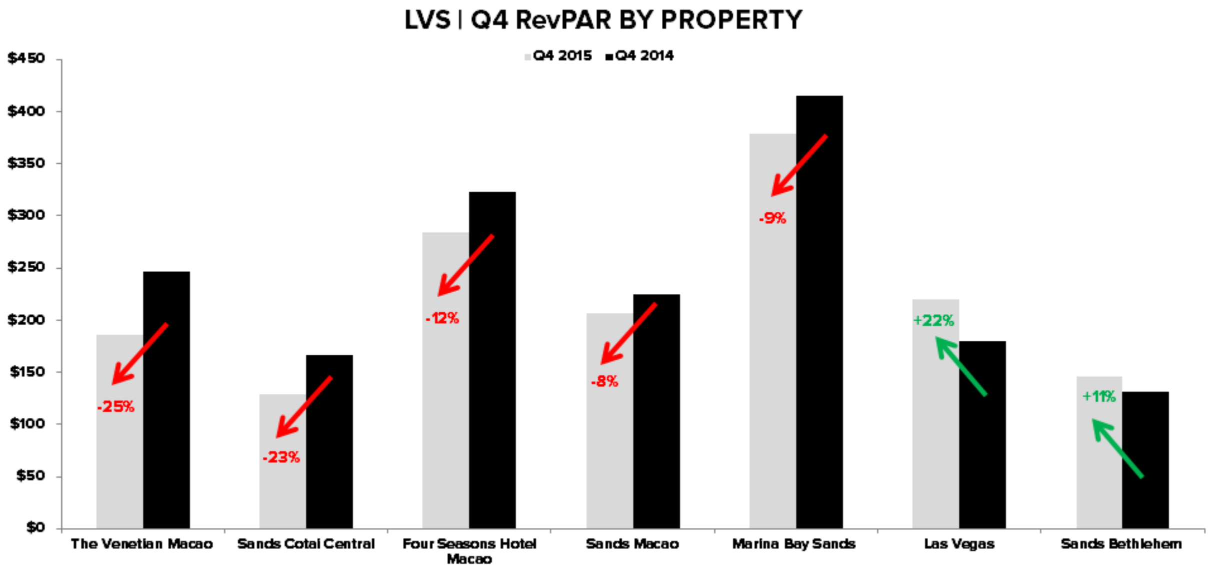
So how did the analysts get it wrong? We think their table reclass adjustments were wrong. Remember that many properties reclassified some Mass tables to VIP for the sole purpose of circumventing the smoking ban. This process began in October 2014. Since the reclassed tables still are fundamentally Mass, they carry higher margins. One error the Street may be making in their adjustment is to assume that the same number of tables were reclassed in Q4 2015 as Q4 2014. We're pretty sure there are actually fewer that were reclassed (so some were re-reclassed) which would cause the street to overestimate Mass revenues.

Regardless of the source of the analyst errors, LVS is the first to report earnings and Mass was clearly disappointing. LVS is the main Mass operator so we feel that our more pessimistic Mass estimates are corroborated. As a reminder, we're estimating the overall Macau revenues fell 10% in December (Street was saying flattish) and -14% for Q4.

Macau non-gaming continues to look worse

While the sell-side focus remains on the gaming segment, we think they are missing the 2016 risks in non-gaming segments. When RevPAR starts dropping in the mid-teens heading into a 20%+ room growth environment, people should be concerned. Non-gaming accounts for 30% of property EBITDA and room rates changes carry 85-90%+ margins, thus big drops are material to EBITDA.

Outside of the US, the hotel segment performed poorly and much worse than expectations. LVS has more exposure to cash room rates than any other Macau company. We fully expect a much better February given the positive outlook for Chinese New Year bookings. However, expect worse RevPAR for the rest of 2016 especially with more supply on the way.



Until 2H of 2015, LVS's retail business has held up well in turbulent times. Despite positive commentary on the call, we are once again seeing declining metrics for this segment. Specifically, each of LVS's retail malls showed lower rents YoY. Singapore was not immune as the The Shoppes at Marina Bay Sands saw occupied rent per square ft decline for the 5th consecutive quarter, although management attributes most of the decline to currency headwinds and touts the relative performance as a positive. Meanwhile, at Sands China, convention/retail/other revenues fell 13% in 4Q, its 2nd YoY decline since Q1 2011. We believe this segment accounted for 15% of Sands China's total property EBITDA.

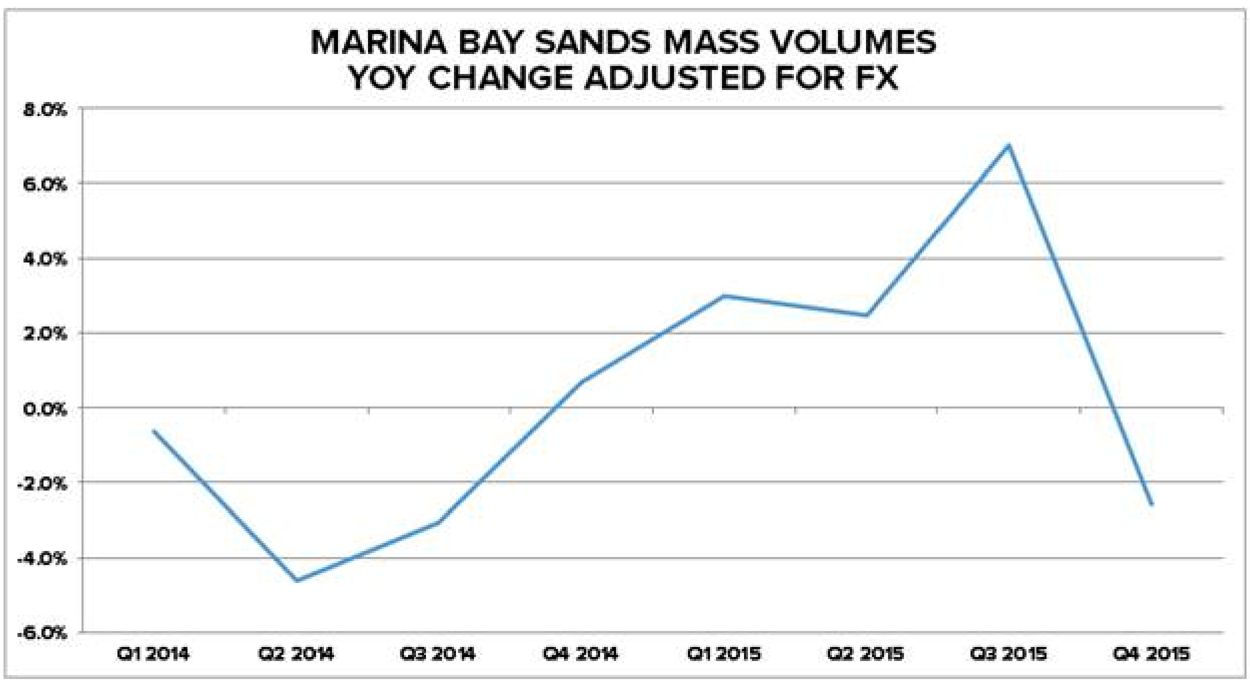
Normalizing hold, Singapore still missed

Per management, Marina Bay Sands's (MBS) miss should be blamed solely on low VIP hold and stronger US dollar, right? We think there's more behind the miss.

Yes, normalizing VIP hold to 2.85% would add about $46m to revenues and $37m to adjusted EBITDA. However, Mass table hold hit a record high of 28.5% in the quarter. In fact, Mass table hold has crept up every year at MBS since inception. If you normalize mass table hold by taking the trailing 6 quarter average mass hold, revenues would have dropped by $22m. This is partially offset by lower than normal slot hold which normalized, would have added $10m in revenues in the quarter. So, overall it wasn't that unlucky for MBS in 4Q.

In addition, accounting for the 9% rise in the US dollar in Q4 2015, mass volume still missed our estimate by 3%. Adjusting for the FX impact, mass volumes fell by 2.6% in Q4 – marking it the 1st quarterly YoY decline since Q3 2014. Adjusting for FX, VIP volumes also missed our estimate by 4%.

Based on our estimate of a slight YoY decline in industrywide Singapore GGR for Q4 2015, Genting may have regained some GGR share.



CONCLUSION

At worst, LVS's earnings release and conference call confirmed our longer term caution on the stock and the group. At best, the release justified a long trade. Earnings for a stock with significantly negative sentiment were better than expected and forward commentary, albeit very short term in nature, was positive. For now there are too many pushes and pulls to recommend anything more than a trade. Keep a trade a trade.

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