



THE STAR

ENTERTAINMENT
GROUP

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ASX: SGR

1.0 Introduction

1.1 Executive Summary

The purpose of this report is to analyse corporate governance, risk, return, cash flows, profitability, capital structure, dividends and executive remuneration of the Star Entertainment Group (SGR). In doing so, the current processes will be interpreted and challenged. Accordingly, suggestions for improvement will be gathered, whereas new insights will be advocated as supplementation. And finally, recommendations will be compiled in accordance with the prerequisite that competitiveness is upheld.

Throughout this report it is stated that SGR bears a strong corporate governance, however, diversification across the board via female presences should be endorsed. After utilizing various calculations metrics, the company's risk-return relationship has been analysed, concluding that the company carries a moderate level of risk. Still and all, it coincides with appropriate returns. Nonetheless, the existing projects are not adding value for the investors, however, as most investments take a long time to complete, current management cannot be criticised for this. The firm is largely funded through equity and their moderate levels of debts lead to minor tax benefits. As a result of the new strategic alliance, the firms' dividend has increased but will likely not be sustainable. Furthermore, the short and long-term incentives for executive remuneration align the interests of the shareholders with the management. Finally, COVID-19 has consummated a significant impact to the firm and has translated into (worldwide) uncertainty about future impingements and overall damages.

1.2 Company Overview

In 2011, Star Entertainment group (SGR) entered the Australian stock market, making it a relatively young company. The company wasn't taken publicly, but it was a result of Tabcorp holdings demerging from its integrated resort sector. It was originally put on the stock market on a different name, namely Echo Entertainment Group Limited (EGP), however, at the yearly annual meeting in 2015 it was changed to Star Entertainment Group (Star Entertainment Group, 2016). The in Brisbane based SGR is the second largest integrated resort company in Australia. They operate casinos, resorts, restaurants, bars, theatres and an exhibition centre. The company operates through three segments, which are at the same time also their three locations: Sydney, Gold Coast and Brisbane (Morningstar, 2020).

Crown Resorts Limited (CWN), the leading integrated resort company in Australia, is the biggest and only competitor of SGR. However, SGR's vision challenges this: "To be Australia's leading integrated resort company by fully harnessing our unique opportunities in each property, to provide the most thrilling guest experiences in ways that truly reflect the unique character of our cities" (Star Entertainment Group, 2019) .

In order to achieve this vision, the company engages in expansion, currently (2020), the company is committed to three different projects; Queen's Wharf Brisbane (\$3,6 billion, due to 2022), expand of The Star Gold Coast (\$2 billion+, due to completion to 2022), and further investments in The Star Sydney, including refurbishment and a new hotel (1\$+ billion, unknown due date) (Star Entertainment Group, 2020a).

Nonetheless, SGR couldn't realize those projects without its strategic alliance with Hong Kong's Chow Tai Fook Enterprises (CTFE) and Far East Consortium (FEC), formed in March 2018. Where both companies bought a stake of 4,99% each in SGR (Gardner, 2018). With this efficient capital structure -that conveniently allows dividend boots for investors- they don't only limit their exposure to costs, but are also given the opportunity to endorse the Star Entertainment group amongst the extensive Asian networks.

Queen's Wharf Project



2.0 Corporate Governance

2.1 CEO Synopsis

Table 1: Past and Current CEO's

Year	CEO
2011 - 2012	Larry Mullin
2013	John Redmond
2014 - Current	Matt Bekier

Source: Bloomberg, 2020



Matt Bekier

Managing Director and Chief Executive Officer

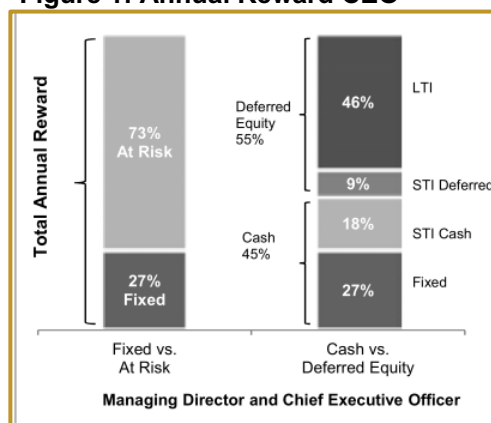
Master of Economics and Commerce; PhD in Finance

Prior to his current role as CEO of SGR, Matt Bekier fulfilled different functions at McKinsey & Company. From here, he worked as CFO for Tabcorp from 2005 until its demerger in 2019. Mr Bekier continued this role as CFO for the new Echo Entertainment Group. In 2014, he became the CEO of Echo entertainment Group that was later named Star Entertainment Group (Star Entertainment Group, 2020b).

Mr Bekier has no internal connection in the company and earned his position by hard-work and taking initiative. As seen in **Figure 1**, 73% of the potential salary of Mr Bekier is emanated on performance which in turn, actively stimulates the aligning of interests with the shareholders. In addition to this, Mr. Bekier currently has access to 1,006,320 shares. When taking the salary of the most recent year into account (FY2019), Mr. Bekier 'only' received \$1,842,710 of which 92,6% was fixed. When compared to the salary of the year before (FY2018), this amounted to \$4,888,651 of which 34,1% was fixed (Star Entertainment Group, 2019). This salary cutback of 62,3%, occurred due to the performance targets that were missed. This resulted into no bonus (Tasker, 2019). This again indicates the strong alignment of the CEOs interest and that of shareholders.

When looking at **Table 1**, it can be said that the CEO's position is uncertain as preceding underperforming managers have been removed hastily, demonstrating the efficient response of management towards shareholders. As mentioned before, the overall earnings of Mr. Bekier coincide with his success and align the interest of the stockholders and himself. Analysis can be further extended when looking at the board of directors.

Figure 1: Annual Reward CEO



Source: Star Entertainment Group, 2019



2.2 Board of Directors

The board consist of a highly adequate team, all of which endeavour particular skills. All board members have various commitments to other companies, which can result in keeping the effectiveness of the board away from its potential (**Appendix 10.1**). In addition, the CEO is not the chairman, which is an indicative of positive corporate governance. The lacking engagement by the CEO of Tabcorp (the last owner) also adds up to this. However, there is a possibility for Tabcorp to still have a significant influence on executive decisions, when taking the previous positions at Tabcorp of two important board members (CEO Matt Bekier & Chairmen John O'Neill) into account. This lay solid grounds for a conflict of interests.

Furthermore, there is a clear separation between management and ownership, as seven of the eight board members are independent. Female presence on the board is minimal, but still offers imperative diversification within the board. This diversity of man and woman has a positive influence and is transcended throughout the company due to the great amount of knowledge, ideas, experiences and behaviours, it coincides with (Adams et al, 2009). When taking into account that diversity can create a stronger oversight to that the interest of both management and shareholders are aligned, it would be beneficial to attain a more diversified team of genders and backgrounds.

Finally, all directors possess moderate levels of shares within the company (Star Entertainment Group, 2019). By having their own money at stake, potential conflict of interest is limited. The board boasts no significant issues in relation to governance which drastically reduces downside potential for the firm (Damodaran, 2014).

2.3 Ownership Summary

As seen in **Table 2**, the company is held by largely institutional firms (**Appendix 10.2**). By nature, institutional firms are attracted to strong corporate governance while also helping to keep management accountable (Gillan & Starks, 2005). With the company's institutional holdings totalling 55,13%, it can be concluded that the corporate governance is currently in a good state.

On the other hand, the 0.3% of the shares in the hands of insiders is still limited. However, when comparing it to the 0.2% of shares in the hands of insiders at Crown Resorts, it can be stated that there is slightly more 'trust' amongst the management at SGR.

Table 2: Holdings of Ownership Types

Ownership Type	Institutional Investors	Insiders
% Owned	55.13%	0.3%

Source: Bloomberg, 2020

2.4 Lending parties

When glancing over SGRs' debt structure, figures can be quite deceptive. Deriving from **Table 3**, the company has major bank borrowings of 1205 million dollars, from which 696 million dollars is utilized. In addition to this, SGR has 531 million in USPP notes (US privately placed debt market). These notes can often fly under the radar and are a very private form of debt. More specifically, the bank borrowing coincides with a weighted average pay back period of 4.59 years. Where the USPP notes are for amount to 5.87 (Star Entertainment Group, 2019).

Table 3: Lending Summary

Utilized Loan Amount	Facility amount	Due Date	Lending Party
98m	98m	2021	UPS
199m	225m	2023	Bank
494m	980m	2025	Bank
64m	64m	2025	UPS
369m	369m	2027	UPS
Total: 1224m	Total: 1736m	Weighted Average maturity debt: 5.15 years (on April 1 st 2020)	

Source: Star Entertainment Group 2019



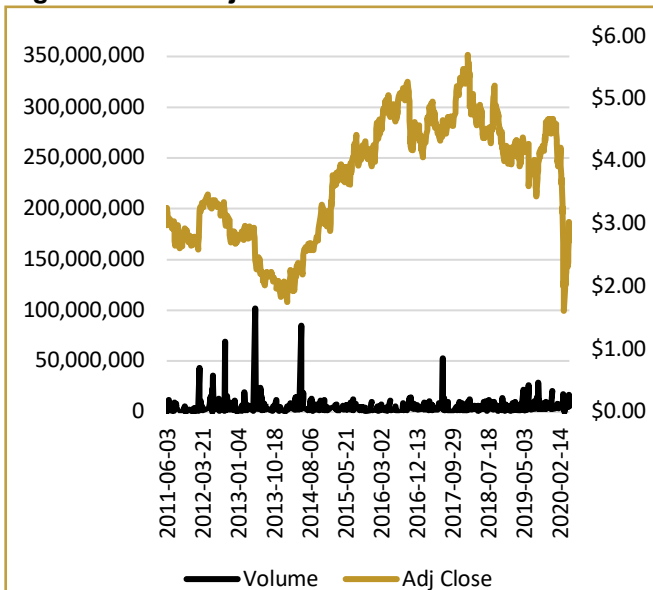
The use of USPP is beneficial for management but imposes substantial conflict of interest as these types of loans prohibit information from investors. On the other hand, the use of the USPP harmonizes with financial benefits, resulting into stronger performance in stock price. Since the Australian bond market is undeveloped relative to countries like the US and Japan (Damodaran, 2015), it is common for domestic firms to raise debt offshore. The USPP allows the borrower to diversify lending sources and gives access to longer duration capital that banks often will not provide (Bondadvisor, 2018). In addition, shareholders voiced a strong level of support from investors in the undertaking of new notes (Star Entertainment Group, 2017). This again demonstrates management's inclusion of stockholders in operations.

2.5 Financial Performance

Considering the performance of the company since the initial start in 2011, it can be stated that steady share price growth arose until the point of September 2015 where the trend stagnated (**Figure 4**). The average trading volume in those years was 3,688,186. The major jumps in share price tended to occur after dividends paid, financial statements release, or major news announced (Covid19 for example). This therefore implies that there is a vast array of analyst monitoring the firm's performance as share prices accommodate rapidly to company announcements and information. SGR releases information through quarterly, semi-annual and annual reports in conjunction with company announcements. Information is available on both ASX (Australian Stock Exchange) and company websites. Overall SGR maintains an efficient system for relaying of information to investors, yet it is still up to investors on how to interpret the results.

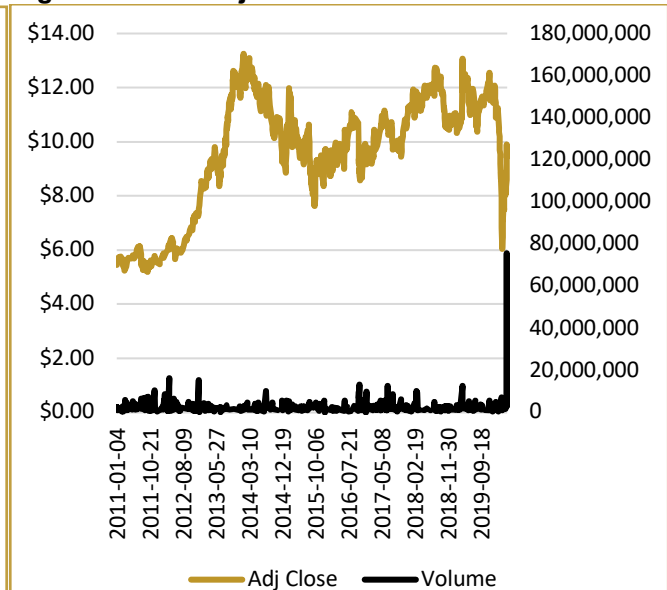
In consideration of Star's competitor Crown Resorts (CWN) (**Figure 5**), whom displayed similar price growth in the first years (until November 2013), also stagnated but hasn't been able to recover since. Studying two prices, both companies are struggling to sustain the growth they conceived in their early years.

Figure 4: SGR Adjusted Close + Volume



Source: Yahoo Finance, 2020

Figure 5: CWN Adjusted Close + Volume



Source: Yahoo Finance, 2020

2.6 Societal Constraints

In 2016, the Star Entertainment Group set out a five-year sustainability strategy called 'Our Bright future'. SGR's view of sustainability is broad and focuses on building business capacity and delivering continuous improvement in the management of environmental, societal and governance issues. 'Our Bright Future' groups the objects and targets into four key pillars (**Appendix 10.3**): (I) They strive to be Australia's leading integrated resort company, (II) They actively support guest wellbeing, (III) They attract; develop and retain talented teams, and (IV) They develop and operate world class properties. Those 4 key pillars are divided into multiple smaller objectives within those key pillars (**Appendix 10.3**), those smaller objectives are based on the sustainability development goals of the United Nations. Once more to confirm the importance of stakeholders to SGR, they divided those smaller objectives in accordance to the importance of the stakeholders (**Appendix 10.4**). In other words: the most important issues for stakeholders, are also the most important issues for the company.



Awards

Since the birth of the sustainable strategy in 2016, they realized various successes. One of which has entitled them for four consecutive years (and counting) with being the Global leader in the Dow Jones Sustainability Index (DSJI) for the Casinos and Gaming Industry. Another award, a more recent one, was attained from the Tourism Accommodation Australia (NSW), being the Best innovation project award for The Darling Sydney in 2019.

The Star Entertainment Group's corporate governance has been well recognized. They demonstrate responsiveness between management and investors, removing the majority of agency costs. The firm releases information regularly, efficiently and allows for a transparent reflection of its position in the market. In addition, the strong history of environment and social engagement provides essential for reputation building. As time continues, the level of corporate governance and the ESG (Environmental, Social, and Governance) score of 79 (CSRHUB, 2020a) is only going to improve. In 2020, SGR surpassed Crown Resorts, on the basis of ESG score, as CWN had a score of 78 (CSRHUB, 2020b).

The Darling Sydney lobby



3.0 Risk & Return

3.1 Risk Profile & Cost of Equity

To analyse the performance and risk of SGR, 5 years of monthly returns have been used. This time frame was selected to reduce crowding and minimize day to day fluctuations to reflect a more accurate beta. By annualizing the regression intercept (**Appendix 10.5**), Jensen's Alpha can be measured to determine if the company has outperformed the market over the previous 5-year period. As seen down below, SGR has been able to outperform the market (ASX) on average by 0.54% a year.

$$a(\text{slope intercept}) = 0.0012$$

$$a(\text{slope intercept}) \text{ yearly} = 0.0012 * \sqrt{12}$$

$$a(\text{slope intercept}) \text{ yearly} = 0.0042$$

$$a(\text{slope intercept}) \text{ yearly} > RFR(1 - \text{beta})$$

$$0.0042 > 0.43(1 - 1.299135)$$

$$0.0042 > -0.00129$$

$$0.0042 - 0.00129 = 0.0054$$

$$\text{Annualized } a = 0.54\%$$

The slope of the regression (**Appendix 10.5**) indicates the company's sensitivity relative to the market (Beta). As the regression beta (1.299) is greater than 1, it can be concluded that company's share price is slightly more volatile than the market (ASX 200). Even though that the casino industry can be described as a consistent business, the highly dependence on VIP clients of SGR makes it riskier. The standard error for the given beta equates to 0.184 meaning that our true beta could vary between 1.115 and 1.484. However, as the beta stays above the market (1) still maintaining an above average level of risk.

The calculated beta can then be used to formulate the expected return on equity (Cost of equity / Expected return), which is the rate that equity holders would require in order from the firm to justify a purchase and management should use this as a benchmark for performance. The risk premium is provided by KPMG and is equal to 6% (KPMG, 2020). This number is from the latest report (31 December 2019), meaning it will not include the Covid19 impact.

$$\text{Expected return} = \text{Risk Free Rate} + \text{Levered Beta} (\text{Market Risk Premium} - RFR)$$

$$\text{Expected return} = 0.0043 + 1.299135(0.06 - 0.0043)$$

$$\text{Expected return} = 0.076662$$

$$\text{Expected return} = 7.67\%$$

(RFR = 5-year T-Bill Rate, Bloomberg) (Market Risk Premium, KPMG report)

With the cost of equity being 7.67% compared to Crown's 7.88%, we can see that the inherent beta risk differential between the firms creates a slightly lower level of risk for equity investors. By un-levering the beta we can disclose how much of the risk is attributed to the market and how much is due to the leverage:

$$\text{Unlevered Beta} = \frac{\text{Levered Beta}}{1 + (1 - \text{tax rate}) \left(\text{calculated} \frac{\text{debt}}{\text{equity}} \right)}$$



$$\text{Unlevered Beta} = \frac{1.299135}{1 + (1 - 0.2896) \left(\text{calculated} \frac{1169}{3740.9} \right)}$$

$$\text{Unlevered Beta} = \frac{1.299135}{1 + (1 - 0.2896)(0.312492)}$$

$$\text{Unlevered Beta} = 1.063127 \approx 1.06$$

$$\text{Leverage effect} = 1.299135 - 1.063127 = 0.236008$$

(Tax rate, Bloomberg 2020)

With the leverage effect of 0.236008 we can divulge that $\left(\frac{0.236008}{1.299135} = 0.181666 = \right)$ 18.17% of the firm's risk is accredited to the capital structure. As the current debt to equity is reasonably low, the limited amount of risk to capital structure comes as no surprise. If the firm was to undertake more debt in the future, the overall beta of the firm would rise depending on the relevant D/E ratio.

The R^2 (**Appendix 10.5**) indicates the firm's risk attributes. R^2 of 0.4654 means that 46.54% of risk can be attributed to the market with the remaining 53.46% being firm specific. This shows a limited amount of pressure on managers and their risk strategies, as the firm specific risk is slightly more than half. Linking this to the previous leverage effect, we can see that with this increase in the debt to equity would be unfavourable due to an increase of internal pressure. This harnesses the idea that excess market returns can be attributed to effective management. To augment our understanding of the companies' risk and return, we can estimate the cost of debt.

3.2 Cost of Debt

Estimating Star Entertainment's cost of debt can be quite a tedious task. With the undertaking of USPP debt, any contract information is kept secret (**Section 2.4**). Add that to the fact that it is unrated by major credit agencies, due to being a relatively new company. On the other hand, the majority of borrowing has been conducted through medium term bank loans. All bank loans are based on the 3-month Australian bank rate. Announcing new USPP loans, the company stated its interest expense has fallen to around 5%, thus this figure will be used with respect to the USPP debt. Furthermore, the default spread will be 2% as there is no information contradicting this and we feel this accurately reflects on how the lending party views the risk level.

Weighted debt rate

$$= \left(\text{Rate of USP} * \left(\text{USPP} \frac{\text{Debt}}{\text{USPP debt} + \text{Bank Debt}} \right) \right)$$

$$+ \left(\text{Average 3m Bank Rate} * \left(\text{Bank} \frac{\text{Debt}}{\text{USPP debt} + \text{Bank Debt}} \right) \right)$$

$$\text{Weighted debt rate} = \left(0.05 * \left(\frac{531}{1224} \right) \right) + \left(0.022497 * \left(\frac{693}{1224} \right) \right)$$

$$\text{Rate of Debt} = 0.034428 = 3.44\%$$

$$\text{After tax cost of debt} = (\text{Rate of Debt} + \text{default spread}) (1 - \text{tax})$$



$$\text{After tax cost of debt} = (0.034428 + 0.02) (1 - 0.2896)$$

$$\text{Weighted average After tax cost of debt} = 0.038666 = 3.87\%$$

(3M Bank Rate, Bloomberg) (Tax 2019, Bloomberg) (Weighting, Section 2.4)

In light of the analyses, it can be concluded that the weighted average after tax cost of debt is 3.87%. This could be viewed as reasonable given the firm's ability to cover its interest expense. Due to the smaller size of the firm in comparison to world markets, a greater spread is inherited per interest coverage ratio. The current rate has been achieved by a diverse debt structure and the bargaining power the firm has attained over the USPP debt contract. However, with the desire to borrow internationally, the company must hedge against the exchange rate. This prerequisite was not realized in the previous calculation, leading to an increased chance that the actual cost of debt surpasses the 3.87% (depending on the form of hedge). With both cost of debt and equity calculated, we can determine the firm's cost of capital.

3.3 Cost of Capital

Resorting to the previously estimated figures, the company's Weighted Average Cost of Capital (WACC) can be calculated. This metric is used to determine how expensive it is for a firm on (average) to raise capital.

(1) Market Value of Equity

The market Value of equity is heavily influenced by the COVID-19 crisis, which almost halved the share price, resulting in a lower market value of equity in comparison to the preceding.

$$\text{Market Value of Equity} = \text{Outstanding Shares} * \text{Price}$$

$$\text{Market Value of Equity} = 917,322,730 * 2.34$$

$$\text{Market Value of Equity} = 2,146,535,188$$

(Bloomberg 2020)

(2) Market Value of Debt

Calculating the market value of debt is slightly more complex than equity. The market value of each debt structure must be calculated differently due to differences in pre-tax debt costs and weighted payback period averages. The interest expense is split between the two forms of debt depending on their weights.

$$\text{Interest expense (Bank Debt)} = 32,400,000 * \frac{693,000,000}{1,224,000,000}$$

$$\text{Interest expense bank debt} = 18,344,118$$

$$\text{Bank Weighted Avg} = 4.59$$

$$\text{Pre Tax Cost of Debt} = 0.056925449 = 5.69\%$$

$$\text{MV of Bank Debt} = 18,344,188 \left(\frac{1 - \left(\frac{1}{(1 + 0.056925)^{4.59}} \right)}{0.056925} \right) + \frac{693,000,000}{(1 + 0.056925)^{4.59}}$$

$$\text{MV of Debt} = 72,313,551 + 537,489,079$$

$$\text{MV of Debt (Bank)} = 609,802,630$$

(Pre Tax Cost of Debt, Section 2.4) (Weighted Avg, Section 2.4) (Interest expense, Star Entertainment Group 2019)



$$\text{Interest expense (USPP)} = 32,400,000 * \frac{531,000,000}{1,224,000,000}$$

$$\text{Interest expense bank debt} = 14,055,882$$

$$\text{USPP Weighted Avg} = 5.87$$

$$\text{Pre Tax Cost of Debt} = 5\%$$

$$\text{MV of Bank Debt} = 14,055,882 \left(\frac{1 - \left(\frac{1}{(1 + 0.05)^{5.87}} \right)}{0.05} \right) + \frac{531,000,000}{(1 + 0.05)^{5.87}}$$

$$\text{MV of Debt} = 70,008,560 + 398,761,605$$

$$\text{MV of Debt (USPP)} = 468,770,165$$

(Pre-Tax Cost of debt, section 2.4) (Weighted Avg, section 2.4) (Interest expense, Star Entertainment Group 2019)

$$\text{MV of Debt} = \text{MV of Debt bank} + \text{MV of Debt USPP}$$

$$\text{MV of Debt} = 609,802,630 + 468,770,165$$

$$\text{MV of Debt} = 1,078,572,795$$

(3) Debt to Equity

$$\text{Debt to Equity} = \frac{MVD}{MVE}$$

$$\text{Debt to Equity} = \frac{1,078,572,795}{2,146,535,188}$$

$$D/E = 0,502471518 = 50.25\%$$

(4) (Weighted Average) Cost of Capital

$$(\text{Weighted Average}) \text{ Cost of Capital} = \text{Return on Equity} * \left(\frac{E}{V} \right) + \text{Return on Debt} * \left(\frac{D}{V} \right)$$

$$= 0.076662 * \left(\frac{2,146,535,188}{3,225,107,983} \right) + 0.034428 * \left(\frac{1,078,572,795}{3,225,107,983} \right)$$

$$(\text{Weighted Average}) \text{ Cost of Capital} = 0.062537684 = 6.25\%$$

With the majority of financing through IPO equity, the Weighted Average Cost of Capital (WACC) is influenced by the cost of equity. The output of the analysis is limited due to the influences of COVID-19 that halved the Market Value of Equity. When COVID-19 wasn't part of the equation, the WACC would lean towards the 7,67% (COE). In turn, the WACC could be reduced with more debt financing. However, this would be unfavourable to current debt holders and would reduce financial flexibility going forward. With a strong proportion of risk attributed to the market, it would be favourable for management to keep contractual obligations to a minimal. With the cost of capital calculated, the profitability of the firm can be divulged via analyses.

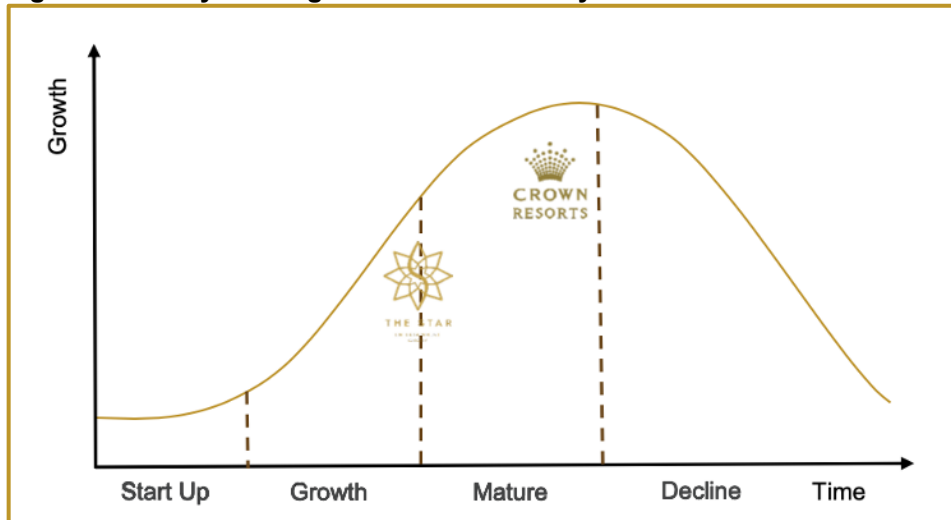


4.0 Earnings & Cash Flow

4.1 Analysing Existing Investments

Analysis of the Star's current projects showed the emergence of a negative persona based on previous unprofitable undertakings. To better understand the company's current position and future outlooks, the lifecycle hypothesis (**Figure 6**) must be employed. Although cashflows has been relatively stable and dividend pay-out is high, the company's current expansion plans still demonstrate a massive growth potential for the company withholding it from positioning in the mature stage. The latter is substantiated by the 13,95% CAPEX/Sales ratio in 2019, indicating a significant level of investment. However, the CAPEX/Sales ratio was 19% and 23% in 2017 and 2018, evidence of the firm's gradual transition into the later stages of the life cycle.

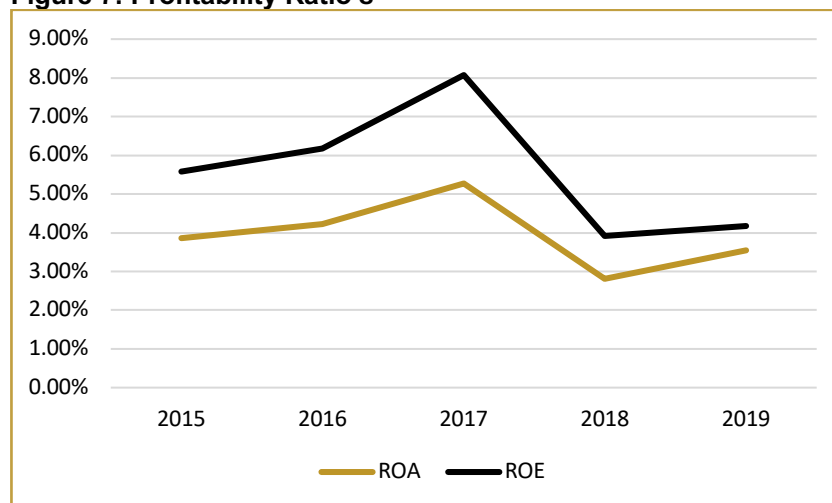
Figure 6: Life Cycle Integrated Resort Industry Australia



In order to determine a project's profitability, the company's cost of capital or equity must be compared with its returns or one of the other metrics. Considering it from the firm's perspective, it can be stated that the firm isn't doing a good job, as the ROIC (Return on Invested Capital) hasn't exceeded the WACC in the past couple of years. This means that the projects are not adding substantial value for investors.

In the years from 2015 till 2017 the gap between ROE and ROA increased (**Figure 7**), indicating a developing profitability. As you can see, in 2018 it decreased. This was due to the acquisition of new debt which has driven down net income and in turn damaged EPS. However, the upcoming coming projects can't be neglected. Especially not for the Brisbane location which will likely coincide with a moderate growth spike in the ratio the years to come. On the other hand, the full implications of COVID-19 have yet to be felt. Here, the long-term posterity will definitely be affected which implies a low profitability return.

Figure 7: Profitability Ratio's



Source: Star Entertainment Group 2014 / 2015 / 2016 / 2017 / 2018 / 2019



For a more intuitive figure we can use the Economic Value Added (EVA) to obtain the numerical figure of benefits being added to the company as a result of investments. For the past 5 years, except for 2017, the EVA has been negative. With the new growth coming from the Star, it may be unwise to rely on the current economic value figures as the EVA analysis is better for stable and mature companies (Damodaran, 2002). With total investment sharply rising as a result of company plans, NOPAT is not expected to rise until completion of projects. In turn this explains the negative EVA for the past years.

$$\text{Economic Value Added (FY19)} = \text{NOPAT} - (\text{Total Investment} * \text{Cost of Capital})$$

$$EVA = 223.07 - (4909.9 * 0.0625)$$

$$EVA = -\$83.99\text{m}$$

In conclusion, all financial ratios conclude the same thing; concerning the present, the firm isn't doing a great job. However, as most investments are in the future, investors have to be patient until completion of future projects. This makes it hard to measure the management's ability to invest in profitable projects.

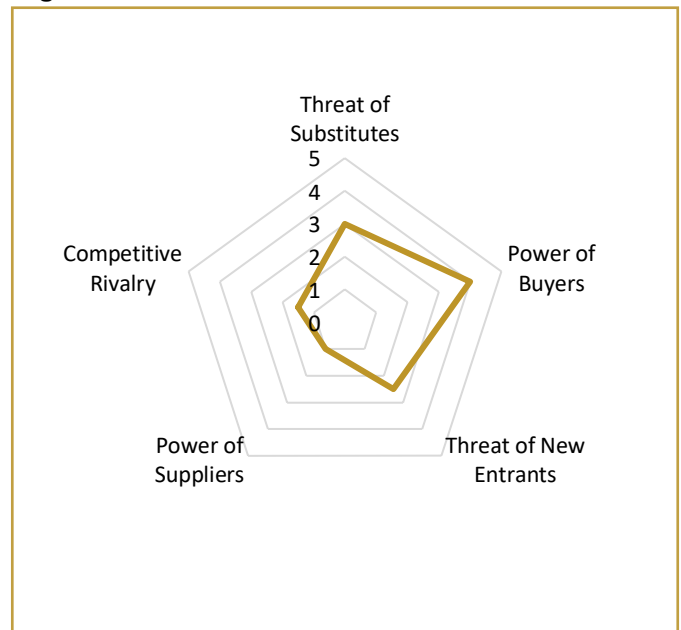
4.2 Competitive Strength Assessment

Conducting both a SWOT (**Appendix 10.6 / Figure 8**) and Porter's 5 Force (**Appendix 10.7 / Figure 9**) analysis, helps gain insights into the competitive position of the company as well as exploring fundamental qualitative investment points. Overall, the company holds a favourable position in the industry. The main strength of the industry can be described as the 'experience' it brings with it. Furthermore, the differentiation between the firms is based on the brand, making the understanding of brand recognition essential in this industry. Revenue is only gathered domestically (in Australia), where it has a duopolistic reign. Its competitor operates currently in its own region. However, with Crown moving into Sydney later this year, it will automatically increase the rivalry with SGR, and will provide valuable information on the future of this antagonism. Moving forward, the question remains, is their position sustainable in the long run?

Figure 8: Summary SWOT Analysis

Strength	Weakness
- Extensive growth plans - Well located resorts - High entry barriers	- Declined level of VIP - Exposure foreign conditions - Lower than expected revenue
Opportunities	Threats
- Enhanced loyalty experiences - Potential strong foreign reputation - Major developments across locations	- Unknown long-term effect Covid19 - Potential for overdevelopment - Asian economies begin to steady

Figure 9: Porter's 5 Forces



4.3 Sustainability of Competitive Strength

SGR's and Crown's rivalry is expected to continue in the future. By nature, the industry has low barriers as preliminary investments are high and there is a high regulatory. A success of the Crown Sydney could have some serious implications for more results in the same areas of SGR.

On step back and taking a glance at the world as it is today, since they have high dependence on tourism, COVID-19 may do serious damages for the industry. The worrying party about this, is the fact that the long-term implications are still unpredictable and will most likely have a negative impact. Next to that, the Asian economies have begun to steady, which will result in a lower growth of VIP customers, the main revenue source.



5.0 Financing Sources

5.1 Current Financing

Star Entertainment group is currently financed through a mix of debt and equity, free from hybrid securities. Using calculated market values of E/V (**Section 3.3**) shows that equity accounts for 66,56% of financing, leaving the remaining 13,35% to be funded by debt. No additional equity has been raised since 2012, indicating that recent projects have been funded through bank loans or USPP debt. The bank loan comes at a variable interest rate (3M Bank Rate). While the USPP debt, as it follows the structure of a bond, costs a fixed rate. Both those types of funding combined gives a weighted average maturity date of 5.15 years. A high Weighted average maturity date, what SGR has, result in stronger cashflows.

5.2 Benefits of debt

The corporate tax for Australian entities is 30%. SGR's effective tax rate for FY2019 amounted to 28.96%, indicating the company almost has no real tax benefit. A higher level of debt will generally add discipline to management with respect to effective uses of cash flow. Since the company is reaching the mature stage, it will be beneficial to take on more debt in order to minimize taxes, generating stronger cash flows. Opposingly, higher levels of debt bring considerable repercussions.

5.3 Cost of Debt

With SGR's current position in the business cycle, the cost from rising debt heavily outweighs the benefits mentioned above, driving the justification for lower levels of debt. Through financial risk ratios, such as the interest coverage, this hypothesis can be confirmed. By maintaining a lower debt to equity ratio, the risk of default and ultimately bankruptcy, can be minimized. The interest coverage ratio of 8.90 (Star Entertainment Group, 2019) implies a substantially low level of risk. However, with recent undertaking, the current interest expense is forecasted to rise, thus reducing the ratio. SGR could take on additional debt safety, however this would constrain flexibility and restrict future project undertakings. In the future, this can hinder company growth and the return for equity holders. Thus, making higher debt levels an impractical approach for the current capital structure. As stated in Section 2.4, they still have 500 million remaining from their bank loan. This is equal to 50% of their utilised loan on which they pay interest. However, having extra cash in uncertain times as these (Covid19), may outweigh the costs of additional interest obligations. This will decrease the interest coverage ratio, but it will also be helpful for funding projects.

The nature of investments undertaken by the company are likely to cause a reasonable level of agency cost with respect to bond holders. With little information on current management's ability to undertake profitable projects in combination with the sheer size of projects undertaken, the risk for debt holders is quite severe. When combining this with a very poor quick ratio the point is further evidenced. The quick ratio is used over the current ratio for conservation of risks, however, as both ratios are well below on the risk for lenders is high. It would be unfavourable for the company to take any more debt as the return required by lenders will rise the more risk they undertake. Although assets are tangible, ratios indicate that they are not substantial enough to cover a substantial amount of liabilities at short notice. For bondholders this means there is no guarantee of principle payback if the company were to liquidate.

In conclusion, it is strongly recommended that the Star does not raise its current levels of debt. With foreign partnership, it has forgone the need to raise extravagant amounts of money to fund its new projects. By maintaining the current levels of debt, management maintains flexibility and minimize default risks.



6.0 Dividend Policy

6.1 Historical Dividend

SGR started paying dividend from its second year when they went public, which was in 2012. In that year (FY2012), the dividend yield was 1.2%, last year, 7 years later (FY2019), it has grown to 5.2%, which is a Compound Annual Growth Rate (CAGR) of 23.17%. In these 7 years, the dividend grew from 0.04 in FY2012 till 0.205 in FY2019, resulting a CAGR of 26.29%, which is higher than the CAGR of 23.17% of the yield mentioned above, indicating that the share price grows slower than the dividend.

In the past 2/3 years, the dividend yield spiked in comparison to the first 5 years. The main reason behind this, is that SGR changed their policy due to the emergence of the partnership with Chow Tai Fook and Far East (**Section 1.2**). In 2012, the dividend policy was “To pay dividends equal to 50% of statutory (rather than normalized) net profit after tax (NPAT)” (Star Entertainment Group, 2012). In 2017, SGR gave out the bare minimum of exactly 50% dividends. From 2018 onwards, the new strategic partnerships assured an increase to 122% of the Statutory NPAT and 70% of normalized NPAT. This trend continued in 2019 with a pay-out ratio of 95% of statutory NPAT. In the annual report of 2019, they also changed their policy to “minimum of 70% of normalized NPAT” (Star Entertainment Group, 2019).

Comparing the dividend payments to a company's NPAT is a simple way of reality-checking whether a dividend is sustainable. The pay-out ratio of 95% and 117% of its profits as dividends can be described as high and is not (well) covered by earnings. Another important metric is challenging whether or not the free cash flow generated is sufficient to pay the dividend. With a cash pay-out ratio of 257% in 2019, SGR's dividend payments are poorly covered by cash flow (Simply Wall St, 2019). Paying out such a high percentage of cash flow suggests that the dividend was funded from either cash at bank or by borrowing, neither of which is desirable over the long term. This is evidenced by the fact that SGR got increased amount bank loans in 2017, making it highly likely that dividends were financed from these “proceeds” (Star Entertainment Group, 2018).

6.2 Firm Characteristics

As elaborated on in **Section 2.3**, the marginal investor of SGR is a diversified, institutional investor (Damodaran, 2014). It is likely that they see long term prospects within the company and appreciate the dividend yield of 5.2%, which is slightly above the average of the ASX 200 of 4.56% (Walton, 2019). Due to the nature of Star's investors, it is safe to say that dividend would be preferred to stock buyback. This is because the repurchase of shares will minimize their potential capital gains and come at the cost of future projects.

Having the 95% pay-out ratio and the 257% cash pay-out ratio in mind, it is safe to say that those dividends are not sustainable in the long-term. This is most likely the reason why the percentage of institutional investors went down past few years (Bloomberg, 2020).



7.0 Executive Remuneration

7.1 Internal environment

Similar to the remuneration of the CEO (**Section 2.1**), the other executives (**Appendix 10.8**) have as well a large variable income (**Figure 10**). The variable part, just like the CEO, is divided into Short Term Incentives (STI) and Long-Term Incentives (LTI). Those two incentives combined, increases the alignment of interest between shareholders and management.

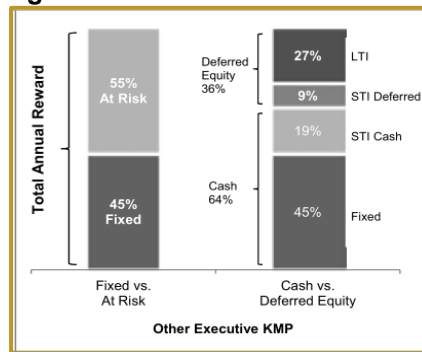
Short Term Incentives (STI)

The Key Performance Indicators (KPI) of the STI can be seen in the table in **Appendix 10.9**. Those KPI's are based on the strategic priorities of the firm. In addition, the table shows if the current outcome is on track (or below target / above target). 2 out of 7 KPI's are below target, those two are; Financial Performance & Employee engagement. It is recommended that management prioritises this, in order to be on track again.

Long Term Incentives (LTI)

The LTI is divided into three parts; TSR Ranking (33.33%), EPS (33.33%), and ROIC 33.4%. As seen in the previous sections, the ROIC and the EPS aren't doing very well past few years. This will most likely not improve in the foreseeable future, due to Covid19.

Figure 10: Remuneration mix FY19



Source: Star Entertainment Group, 2019

7.2 External Environment

SGR and Crown are both highly dependent on the VIP income. Past year they were already struggling with the VIP income. This will most likely not go up again very soon, due to the stagnating Asian economics, which is the origin of most of the VIP income. Next to that, the impact of Covid19 in the long-term is still very unpredictable, which could worsen the economic conditions even further. Taking into account that airlines are telling that it most likely takes around 2/3 until they will fly as much as before Covid19 (Turak, 2020), will result in a decrease in tourism worldwide, which in turn will most likely decrease the (VIP) revenue of the firm and could have other long-term implications. On the other hand, according to analysis, SGR has enough liquidity to survive COVID19 for more than year (Blaschke, 2020). Which is substantiated by the information in **Section 2.4**, which shows the undrawn debt facilities.

FY2019 management wasn't able to achieve the STI and LTI, which resulted in that CEO and the other executives didn't get their bonuses (Gardner, 2018). Having said that, it may be wise to change the Short / Long term goals in order to make the results more feasible, especially with the (above-named) worsened economic conditions in mind.

7.3 Stakeholders

It is safe to say that shareholders appreciate short- and long-term incentives, as it clarifies for both management and shareholders which goals they are working towards to, which aligns the interest of both parties. On the other hand, it could be argued that the short-term incentives aren't as good as long-term incentives, as from the shareholder perspective, it could result into a focus of management on short term goals instead of long-term goals. A possible result would be to let the Long-term incentives weigh more than the STI, currently 28% of the remuneration is STI and 27% is LTI (**Figure 10**). However, a very low short-term incentive, could lead to a demotivation of management.



8.0 Conclusion

SGR has an advantageous market position in their duopolistic market. Potentially they will strive towards becoming the number one integrated resort company. Unfortunately, future plans will probably be disrupted by the surging damages inflicted by COVID-19. Its impact has already been felt and transcended in the halving of SGR's share price. Given the fact that SGR's business model is built upon thriving tourism, the serious implications have yet to be felt in the years to come as the scope COVID-19 is still unperceivable.

SGR has a strong corporate governance, surpassing CWN on the ESG score in 2020. However, diversification across the board via female presences should be endorsed. Indicators such as ROE, ROIC and EVA all conclude the same thing; concerning the present, the firm is underperforming, anyhow, as the projects take a significant time to complete, current management cannot be criticized for this. Additionally, it was conclusive that during normal circumstance, the current D/E ratio -where there is a strong proportion of the risk attributed to the market- should be maintained in order to prevent default risk, flexibility and reduce pressure for managers. However, due to the implications of COVID-19, it may be wise to attain debt by utilizing the outstanding bank loans in order the 'survive' the COVID-19 crisis. Alternatively, since SGR entered into a foreign partnership, they have forgone the need to raise extra money. Anyhow, the dividends of the past two years aren't sustainable, nor form a net income-, nor a cashflow -perspective. Therefor it recommended to alter the current dividend policy, especially taking the (negative) economic outlook into consideration. Finally, as management wasn't able to achieve the STI in 2019 and having the current (negative) economic outlook in mind, it may be wise to lower the STI in order to secure the LTI.

In summary; Star Entertainment Group offers a strong growth potential but should be conservative with respect to sustaining their cash flows. And they should be adequate with respect to the unforeseeable implications of COVID-19 in the years to come.

'Masterplan' of the Star Gold Coast



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10.0 Appendix

10.1 Board of Directors

Name and Function		Since	Experience	Independent	Earnings 2019
John O'Neill <i>Chairman and Non-Executive director</i>		Non- ex since 28/03/2011 Chairman since 08/06/2012	Mr O'Neill was formerly Managing Director and Chief Executive Officer of Football Federation Australia, Managing Director and Chief Executive Officer of the State Bank of New South Wales, and Chairman of the Australian Wool Exchange Limited, as well as a Director of Tabcorp Holdings Limited.	Yes	<i>Income:</i> \$484,500 <i>Holdings:</i> 80,858
Matt Bekier <i>CEO & Managing director</i>		11/04/2014	See Section 2.1	No	See Appendix 10.2
Gerard Bradley <i>Non-Executive Director</i>		30/05/2013	Mr Bradley is the Chairman of Queensland Treasury Corporation and related companies, having served for 14 years as Under Treasurer and Under Secretary of the Queensland Treasury Department. He has extensive experience in public sector finance in both the Queensland and South Australian Treasury Departments.	Yes	<i>Income:</i> \$233,200 <i>Holdings:</i> 50,000
Ben Heap <i>Non-Executive Director</i>		23/05/2018	Mr Heap has wide-ranging experience in asset and capital management as well as technology and digital businesses. He has extensive business strategy, innovation, investment and governance expertise.	Yes	<i>Income:</i> \$215,700 <i>Holdings:</i> 30,000
Katie Lahey <i>Non-Executive Director</i>		01/03/2013	Ms Lahey has extensive experience in the retail, tourism and entertainment sectors and previously held chief executive roles in the public and private sectors.	Yes	<i>Income:</i> \$233,200 <i>Holdings:</i> 36,907
Sally Pitkin <i>Non-Executive Director</i>		19/12/2014	Ms Pitkin is a company director and lawyer with extensive corporate experience and over 20 years' experience as a Non-Executive Director and board members across a wide range of industries in private and public sectors.	Yes	<i>Income:</i> \$233,200 <i>Holdings:</i> 45,900
Richard Sheppard <i>Non-Executive Director</i>		01/03/2013	Mr Sheppard has had an extensive executive career in the bank and finance sector including an executive career with Macquarie Group Limited more than 30 years.	Yes	<i>Income:</i> \$233,200 <i>Holdings:</i> 150,000
Zlatko Todorovski <i>Non-Executive Director</i>		23/05/2018	Mr Todorovski is an experienced executive with over 30 years' experience in the oil and gas, logistics and manufacturing sectors. He has a strong background in corporate strategy and planning, mergers and acquisitions, and strategic procurement. He also has deep finance expertise across capital markets, investor relations, accounting and tax.	Yes	<i>Income:</i> \$233,200 <i>Holdings:</i> 70,000

Source: Star Entertainment Group, 2019

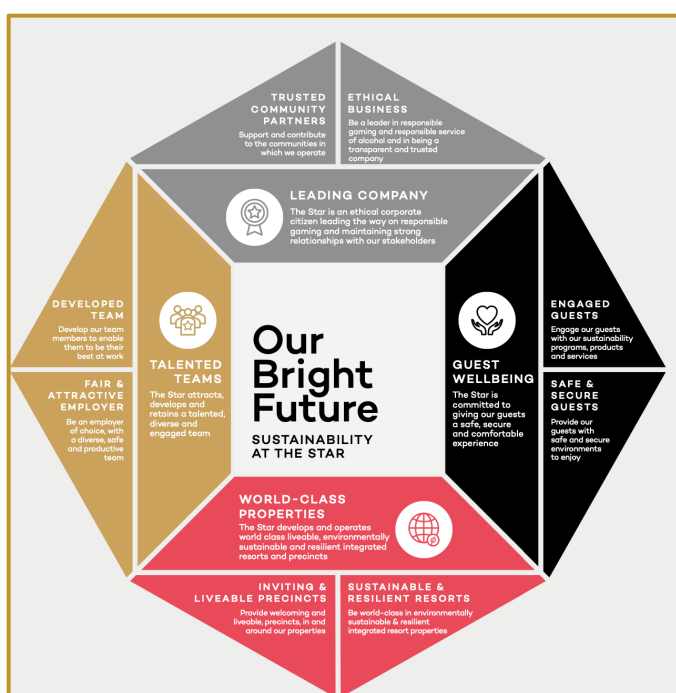


10.2 Ownership Summary: Top 10 holdings

Holder name	Investor Type	Position	Position (%)
Perpetual LTD	Investment Company	57,523,080	6.27%
National Australia Bank LTD	Bank	57,192,110	6.23%
Paradice Investment Management Pty LTD	Funds manager	56,212,775	6.13%
Commonwealth Bank	Bank	51,654,931	5.63%
Yarra Funds Management Ltd	Funds manager	47,440,726	5.17%
Vanguard Group	Investment Company (US)	45,956,664	5.01%
Chow Tai Fook Ltd	Conglomerate (Hong-Kong)	45,825,000	5.00%
Far East Consortium Ltd	Hotel Company (Hong-Kong)	45,825,000	5.00%
Dimensional Fund Advisors Lp	Investment Company (US)	18,995,964	2.07%
Norges Bank	Central Bank (Norway)	12,319,217	1.35%
Total shares of company		917,322,730	100%

Source: Bloomberg, 2020

10.3 'Our Bright Future' & United Nations Sustainable Development Goals



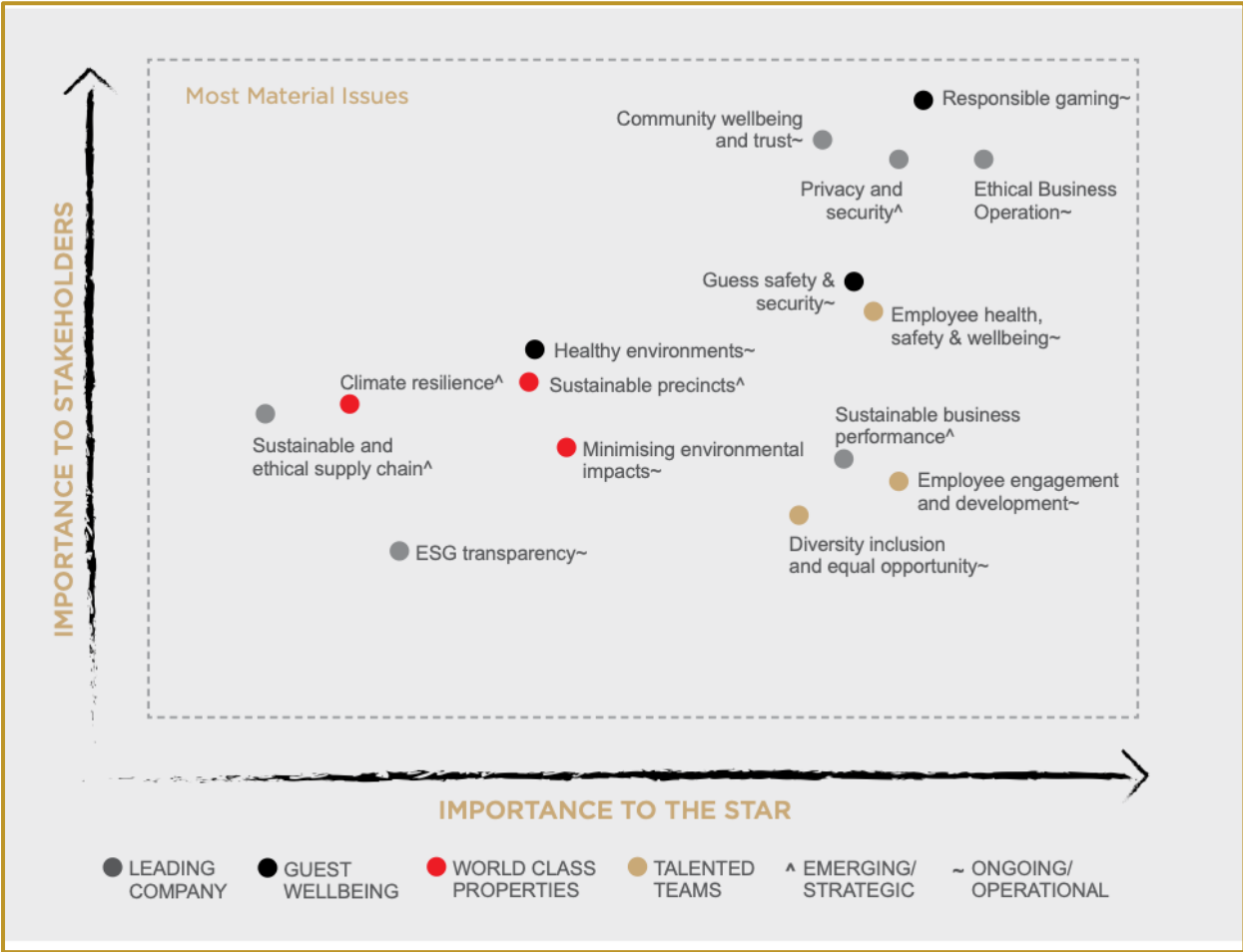
Source: Star Entertainment Group, 2020c

MATERIAL ISSUE		UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS			
LEADING COMPANY	Ethical business operation	9	1 NO POVERTY	2 ZERO HUNGER	3 GOOD HEALTH AND WELLBEING
	Community well-being and trust	16			
	Privacy and security	16	4 QUALITY EDUCATION	5 GENDER EQUALITY	6 CLEAN WATER AND SANITATION
	Sustainable and ethical supply chain	9, 12, 17			
	ESG transparency	9			
WORLD CLASS PROPERTIES	Sustainable Business Performance	8	7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
	Climate resilience	6, 7, 13, 14, 15			
	Minimising environmental impacts through operating efficiently	6, 7, 13, 14, 15			
GUEST WELLBEING	Sustainable precincts	11	10 REDUCED INEQUALITIES	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
	Responsible gaming	3, 11			
	Safety and security	3			
TALENTED TEAMS	Healthy environments	3	13 CLIMATE ACTION	14 LIFE BELOW WATER	15 LIFE ON LAND
	Diversity, inclusion and equal opportunity	5, 8, 10			
	Employee engagement and development	8, 4	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	17 PARTNERSHIPS FOR THE GOALS	
	Employee health, safety and well-being	3, 8			

Source: Star Entertainment Group, 2019

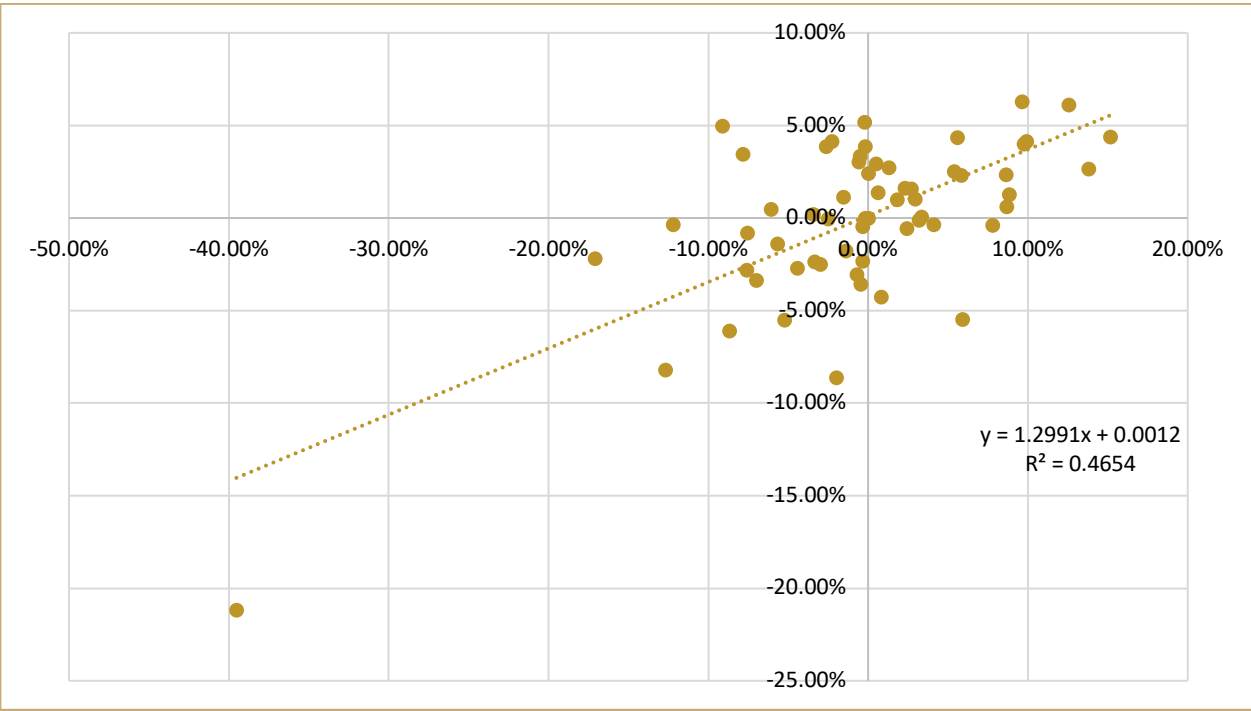


10.4 Materiality Matrix



Source: Star Entertainment Group, 2019

10.5 SGR vs ASX Regression result



Source: Yahoo Finance, 2020



10.6 SWOT Analyses

Strengths	Weaknesses	Opportunities	Threats
- Extensive growth plans - Venue locations in areas of high tourism (especially Asians) - Strong partnership with highly experienced and reputable foreign companies - Strong market revenue capitalisation - Clear and simple company target - Award winning attractions associated within venues	- Declined level of VIP interaction - Recent name change means rebuilding the 'Star' brand - Revenue from new developments is lower than expected	- Major developments across three locations - Increasing foreign reputation due to international partners - Enhanced loyalty experiences with new IT platforms	- Chinese and other high growth Asian economies begin to steady - The completion of Crown Sydney at the end of 2020, could lead to more resorts in the same area of SGR - Due to the highly exposure of foreign conditions due to tourism, and the unknown long-term effect of Covid-19 on tourism, there may be serious implications in the near future

10.7 Porter's 5 Forces

Competitive Rivalry (Low, but increasing)	Threat of New Entrants (Moderate)	Power of Suppliers (Low)	Power of Buyers (High)	Threat of substitutes (Moderate)
The only competitor of SGR is Crown Resorts. However, as CWN is currently not in the same areas as SGR, it can be stated that the competition is non-existent. However, at the end of 2020, Crown will have finished building its new resort in Sydney, which will be SGR first 'real' competitor.	High cost / investment and regulatory barrier of entry for new competitors. The completion of the resort of CWN in Sydney, could lead to more resorts in the same areas of SGR.	The suppliers of SGR are mainly made out of products which can be described as general. To elaborate on this, for example, for food and drinks there are many companies who can deliver food and drinks The same counts for companies who build the hotels/ resorts/ casinos. In the building market, there is a trend of materials getting more expensive, which decreases the margins for the above-named companies, which in turn could result in higher prices for new projects. However, as there are several companies in Australia or the rest of the world who build hotels/ resorts/ casino's, makes the negotiation position of the above-named companies low. Those reasons make that the power of suppliers is rated low.	In regard to the power of buyers, we make a difference between two sorts of buyers (customers), those are; (I) the 'normal' customers and (II) VIP customers. The VIP customers have a relatively high buying power, this can be substantiated to the relatively large debt that they have at SGR (Star Entertainment Group, 2019). This also makes sense, from the company perspective, as the VIP customers spend the most money, which SGR needs retain. So, the Power of buyers, in this case VIP customers, is high. On the other hand, the 'normal' customers have a relatively low power, as they don't bring a substantial amount of money to for example also become in debt at the firm.	There are several substitutes of going to an integrated resort. An example of such a substitute would be to go to a resort without an casino. Another example is that you can gamble online. However, in the first one, you miss the casino, which is the main reason for a lot of VIP customers to go to the resort. In the latter one, there is a lack of 'experience'. So, even though that there are several things that can be done instead of going to an integrated resort, it will have in all cases not the same experience as actually being there, especially for the VIP customers. This is also one of the main strengths of the industry. The above-named reasons makes that the Threat of Substitutes is rated moderate.



Name		Since	Experience + Job	Performance rights	Shares	Target Remuneration	Actual Remuneration
Matt Bekier <i>CEO & Managing Director</i>		April 2014	See Section 2.1	2,097,569	1,006,320	\$6,290,000	\$2,842,710
Harry Theodore <i>Chief Commercial Officer</i>		November 2020	Prior to joining The Star Entertainment Group, Mr Theodore held the role of Director – Head of Gaming and Food & Beverage in the equities research team at the Royal Bank of Scotland to that was a lawyer with Aliens Arthur Robinson Mr Theodore joined the Star Entertainment Group in 2011 as Head of Strategy and Investor Relations and was appointed to the role of Chief Commercial Officer in October 2018. He led the Queen's Wharf Brisbane bid and leads the Group's joint venture partnerships with Chow Tai Fook and Far East Consortium in addition to a number of other commercial and finance functions. As CFO Mr Theodore is responsible for the finance, strategy, investor relations and IT functions as the Group's.	-	-	-	-
Greg Hawkins <i>Chief Casino Officer</i>		January 2019	Mr Hawkins has over 22 years' experience spanning the Australian, Asian and New Zealand gaming markets. Having managed both a premium VIP hotel and casino and a large-scale integrated resort, Mr Hawkins provides valuable insight into the Asian VIP and premium mass market sectors.	537,232	284,683	\$2,772,000	\$1,265,209
Geoff Hogg <i>Group Executive Operations</i>		July 2019	Mr Hogg has more than 20 years of operational casino experience at a senior executive level. He has group-wide responsibility for operations at The Star Sydney, The Star Gold Coast, The Gold Coast Convention & Exhibition Centre and Treasury Brisbane. Prior to the current role, Mr Hogg was Managing Director Queensland for The Star Entertainment Group for over 10 years.	262,207	251,931	\$1,397,550	\$665,454

Source: Star Entertainment Group, 2019



10.9 STI Key Performance Indicators FY2019

Strategic Priorities	STI key performance indicator	Performance outcomes/ commentary	Overall Rating
Shareholder Value Creation	FINANCIAL PERFORMANCE Deliver budgeted NPAT	Normalised NPAT was below target. This was driven predominantly by the International VIP Rebate business that was adversely impacted by market conditions.	Below target
	CAPITAL REDEVELOPMENT PLANS Deliver capital works and key projects on time and on budget	Overall capital plans are on time and on budget: - In Sydney, upgrades to the main gaming floor, porte cochere and lobby were completed. The Sovereign Resorts 2.0 project is on schedule to open in late FY20. - Queen's Wharf Brisbane excavation work was completed in line with the project timetable and budget. Work has commenced on the shell, core and façade, with ~60% of project costs currently contracted in line with budget. - On the Gold Coast, the Master Plan (with JV partners) announced in November 2018, received all Government approvals and construction on the first tower (Dorsett Hotel and Residences) has commenced.	On track
Differentiated value proposition / Guest Satisfaction	GUEST SERVICE CULTURE Elevate the guest service culture and guest experience across all of our properties	Overall the guest satisfaction results were in line with targets set by the Board, despite disruptions from ongoing capital development works in Sydney and on the Gold Coast.	On target
	LEADERSHIP IN LOYALTY Achieve a leadership position in Loyalty and thereby drive earnings growth and market share in electronic gaming machines (EGM)	The Group experienced EGM market share gains at all of its properties relative to the prior year.	On track
People (Engagement and Safety)	EMPLOYEE ENGAGEMENT Attract and retain talented teams through a compelling Employee Value Proposition and highly engaged team member environment	The Group's engagement score for FY19 was 1 basis point below the prior year and in the "moderate" zone relative to other comparable organisations.	Below target
	SAFETY Deliver a safe environment for all workers and guests while on any of our properties	The Group's FY19 Total Reportable Injury Frequency Rate (TRIFR) was in line with the limit set by the Board at the beginning of the year.	On target
Governance, risk and stakeholder management	RISK, COMPLIANCE & SUSTAINABILITY Deliver sustainable business outcomes within a strong risk and compliance environment, underpinned by a strong governance framework.	There were no material breaches or significant penalties imposed on the Group during FY19. The Group was ranked first amongst global peers in the Casino and Gaming industry sector in the Dow Jones Sustainability Index in 2018, matching the result achieved in 2017 and 2016.	Above target

Source: Star Entertainment Group, 2019

