

CMBI Credit Commentary

Macau Gaming: Q&A after the final draft of gaming law amendment bill

Time to buy Macau gaming bonds?

Hmmmm.....The conviction is not strong. Despite the more clarity on the regulatory environment, we consider the key drivers for the bond performance to be the COVID quarantine policy and visa approval for mainland travelers of which the clarity is still low. The recently relaxed quarantine period to 10+7 (from 14+7) remains a big challenge for Macau gaming sector as the average stay of Macau tourist is only 1.6 days. The new cases over the weekend after relaxation are the first reported cases in 8 months. This could complicate the path for further relaxation. To us, buying Macau gaming bonds is equivalent to buying an idea that the quarantine policy and mainland travelers will be resolved in the coming months. If so, our preference for the sector will be those offer deeper value. Our order of preference is SJMHOL>STCITY> WYNMAC>MPEL.

How likely is a near-term default?

	SJM (FY21)	Melco (FY21)	Studio City (LTM)	Sands (FY21)	Wynn (LTM)	MGM (FY21)
Gross Profit*	707	1,157	64	1,857	-447	658
Liquidity**	987	3,303	956	2,071	2,208	688
Total liquidity source	1,695	4,460	1,020	3,928	1,762	1,346
Cash burn***	2,171 - 2,234	3,640	774	3,599 - 3,699	1,815 - 1,835	1,842 - 1,857
Liquidity (Number of month)	9.1 - 9.4	14.7	15.8	12.7 - 13.1	11.5 - 11.6	8.7 - 8.8

*Gross Profit = Revenue - Gaming tax

**Liquidity = Cash + Undrawn facilities

***Cash burn includes Opex, ST debts, interest expense, capex and minimum capital requirement

The gaming operators will have adequate liquidity for coming 9-16 months based on the FY21 or LTM cash flow. The liquidity profile of SJM was notably improved subsequent to securing HKD19bn new loans. The share placement of Studio City to raise USD300mn in Feb'22 and the liquidity support of USD500mn from Wynn's parent have also demonstrated the ability and willingness of their shareholders to provide support. Additionally, the gaming operators do not have much repayment pressure in the near-term. Amongst the outstanding USD bonds of the sector, the first maturity will be in MGMCHI'24 (o/s USD750mn) due May'24. We continue to believe that the near-term default risk of the sector is low.

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What are the major changes of the final draft of the amendment bill?

Not many. As we wrote in the daily on 16 Jun'22, the skeleton of the final draft of the gaming law amendment bill is largely the same as the first draft in Jan'22. If there are any subtle changes from the first draft more noteworthy, we would highlight that concessionaires need to maintain their net asset value of at least MOP5bn throughout the concession period, in addition to cash capital requirements of MOP5bn (Article 17). Another more noteworthy change is on levies for public good. These were changed to 5% from not exceeding 5% while Macau CE can waive or lower the levies if concessionaires can contribute to attract more overseas tourists (Article 22). These imply that the total gaming tax and levies could reach 40% (35% gaming tax+5% levies) from the current level of 38-39%. The regulatory uncertainties regarding concession renewal is dwindling.

What are key timelines for gaming license renewal?

The Legislative Assembly will have the second and final read of the bill before 26 Jun'22 (end of current gaming concessions). In addition, media reported the existing 6 concessionaires would sign contracts to extend their licenses on 23 Jun'22 for 6 months to the end of Dec'22. We understand that concessionaires paid MOP47mn for the short-term extension. Separately, the second read of the bill on "Regime for the exploitation of games of chance" to regulate the junkets and satellite casinos should be before mid-Aug'22. After this, the Macau government can start the tender application for new concessions. The tender process should finish by Nov'22.

How satellite casinos will be handled?

Under the amendment bill, concessionaires will be given a 3-year grace period for the operations of satellite casinos. The bill on "Regime for the exploitation of games of chance", in our view, will speed up the phasing out satellite casinos well ahead of the proposed 3-year grace period.

On paper, SJM will be affected most by earlier-than-expected phasing out of satellite casinos. There are 18 satellite casinos in Macau, 14 of them are operated under SJM, 3 of them are under Galaxy and one under Melco. In 1Q22 and FY21, satellite casinos contributed 58% and 63% of SJM's total gross gaming revenue, respectively. So far, Dragon Group and Emperor, altogether operating 4 satellite casinos under SJM, have indicated that they might cease operations after Jun'22 facing the tightening regulatory environment. Galaxy, on the other hand, confirmed that 2 out of 3 of its satellite casino ceased operations on 15 Jun'22. That said, we are not too concerned on the phasing-out of satellite casinos in the near-term. SJM has recently paid USD2.7mn to take over the operations of the satellite casino at Grand Emperor Hotel from 27 Jun'22 to 31 Dec'22. This reflects concessionaires can cherry-pick to continue the operations of better-located/run satellite casinos. More important, gross gaming revenue of Macau in 2021 is only 30% and 24% of that in 2019 and at the peak of 2013, respectively. The sector is facing over-capacity and the near-term impact of phasing out satellite casinos is manageable.

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