

Macau Gaming: COVID Remains The Wild Card

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Corporate Ratings

Nov. 24, 2021



S&P Global
Ratings

This report does not constitute a rating action

Key Takeaways

The biggest near-term threat for rated issuers is a slow recovery in gross gaming revenue (GGR) because of COVID-19-related travel restrictions:

- We forecast Macau GGR to still be only 60%-70% of 2019 levels during 2022, and we don't expect a full recovery until 2023 at the earliest.
- Five negative actions occurred in 2021 and negative bias remains across the portfolio.

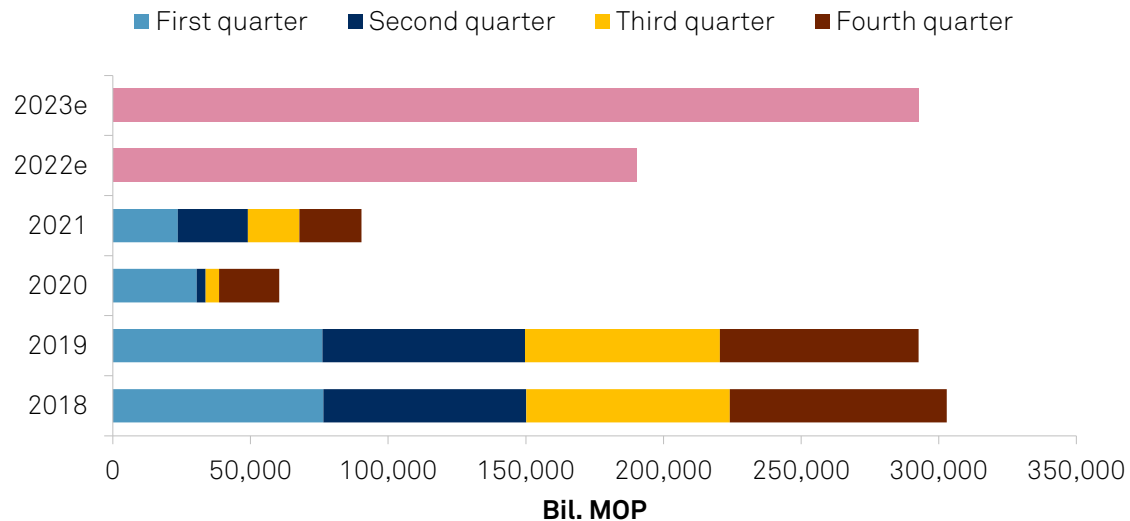
Regulatory risk is rising, but the immediate credit impact is limited for now:

- None of the concessionaires or sub-concessionaires is expected to lose their gaming licenses during the rebidding process.
- Other new regulatory measures are moderately negative, but they are not totally unexpected.
- How these changes would be implemented is critical and whether they signal further government intervention on casino operations and fund extractions.

Revised Macau GGR Forecasts

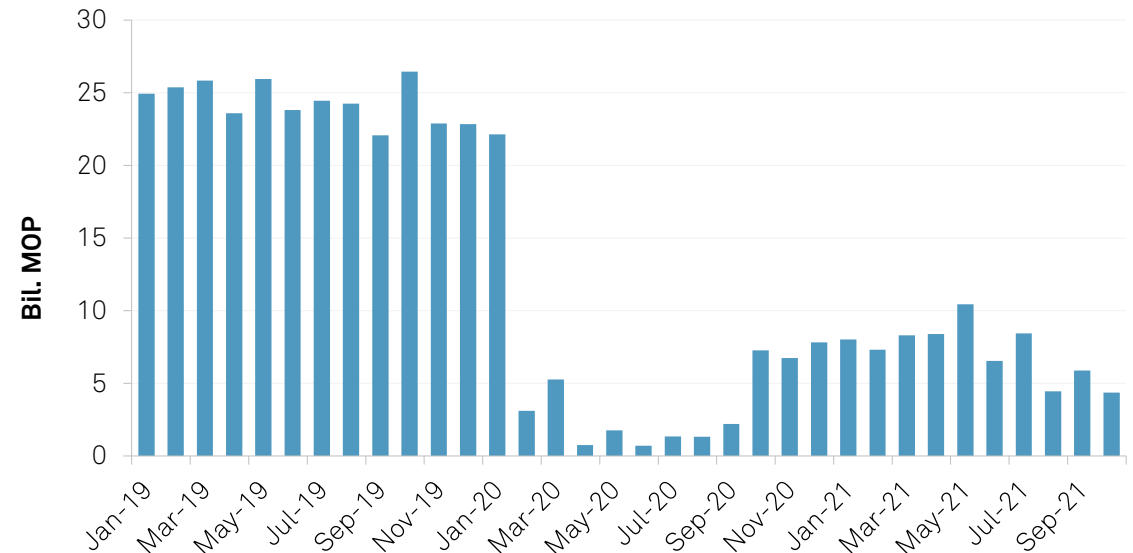
- Our base case assumes China's zero-tolerance COVID-19 policy to address the delta variant will continue through the first half of 2022. This will introduce volatility to the market's recovery.
- We now expect Macau's GGR to be only 60%-70% of 2019 levels in 2022 and to fully recover only in 2023 at the earliest.
- This assumes easing of travel restrictions between Macau and mainland China beginning sometime in 2022; and in our view, Macau remains a strong market with good long-term growth prospects, especially in the mass segment.

A Full Recovery In Macau's GGR May Only Happen In 2023



GGR--Gross gaming revenue. MOP--Macanese pataca. e--Estimate. Source: Gaming Inspection and Coordination Bureau (Macau), S&P Global Ratings.

Macau Monthly GGR

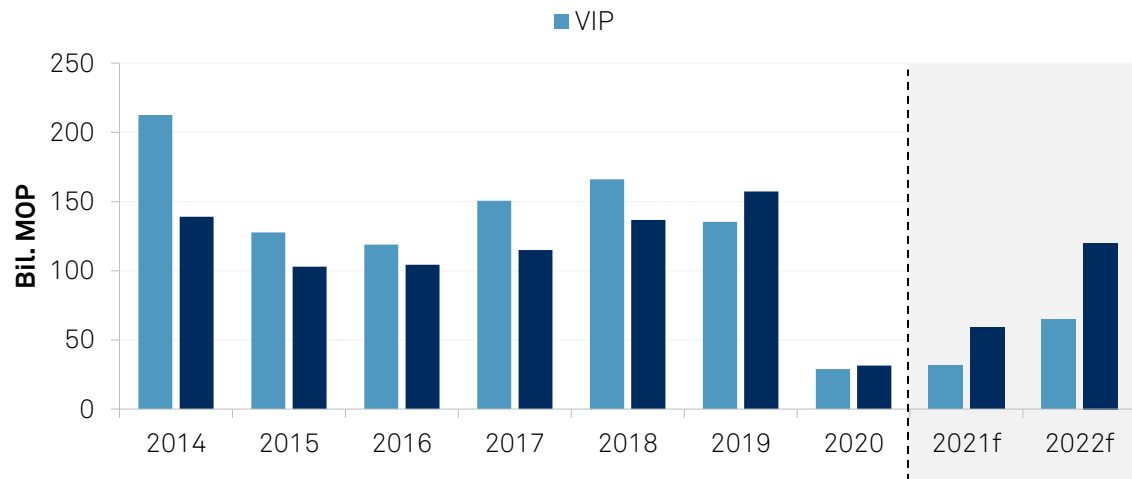


GGR--Gross gaming revenue. MOP--Macanese pataca. Source: Gaming Inspection and Coordination Bureau (Macau), S&P Global Ratings.

Recovery Path And Outlook

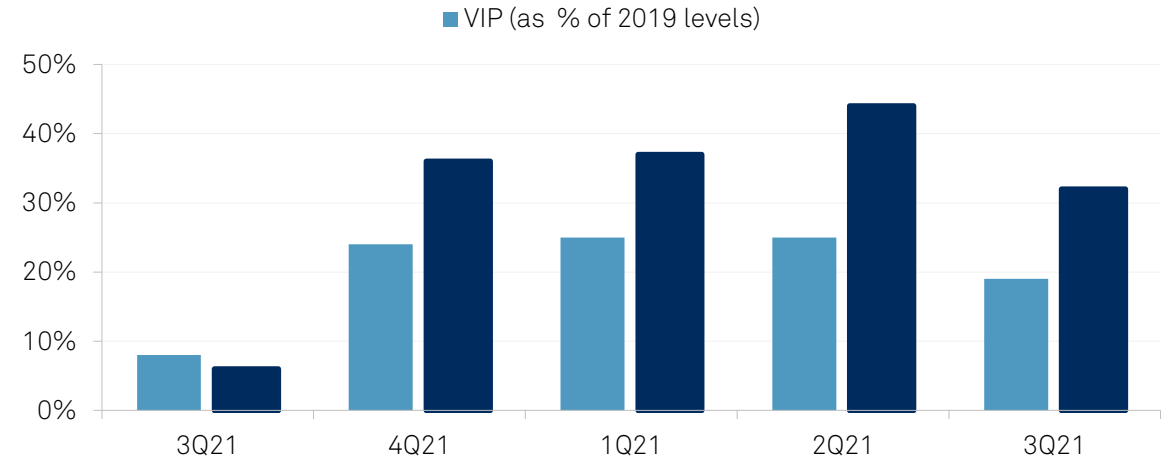
- The recovery happened first in the premium mass segment in 2021, which is the most profitable segment. We expect travel restrictions to affect base mass more than premium mass in the near-term. Authorities appear reluctant to allow visitation to increase too quickly as COVID-19 remains a risk.
- The VIP market will face more challenges, given the mix of regulatory and economic considerations. Capital control and stricter regulations on overseas gambling could continue to weigh on credit availability for VIP players, but weakness in the property market and China's common prosperity initiatives could lower player demand.
- Our base case assumes Macau 2022 mass GGR of about 70%-80% of 2019 levels and VIP GGR of about 40%-50% of 2019 levels.

Mass GGR To Drive EBITDA Recovery In 2022



GGR--Gross gaming revenue. MOP--Macanese pataca. f--Forecast. Source: Gaming Inspection and Coordination Bureau (Macau), S&P Global Ratings.

Healthy Momentum In Mass GGR Recovery



GGR--Gross gaming revenue. Gaming Inspection and Coordination Bureau (Macau), S&P Global Ratings.

Regulatory Risks

Categories	Our base case	Risks and credit implications
License renewal	<ul style="list-style-type: none"> – None of the rated issuers will lose their gaming licenses. – No meaningful additional licenses. 	<ul style="list-style-type: none"> – The rebidding process may come with certain social and economic considerations that increase leverage or reduce profitability. – Examples include additional capital investment in non-gaming amenities, upfront payments for license renewal, and additional social considerations or safeguards for employees such as enhanced benefits.
Approving dividend payments	n/a	<ul style="list-style-type: none"> – Fewer dividends could be a credit positive. – Rated issuers do not rely on cash flow from Macau to fund operations/expansion overseas.
Appointment of a government representative to the boards	n/a	<ul style="list-style-type: none"> – Impact depends on how the measure will be implemented.
Increasing local ownership	<ul style="list-style-type: none"> – Rated issuers to maintain their controlling stake. 	<ul style="list-style-type: none"> – Impact depends on how the measure will be implemented.
More scrutiny on junkets	<ul style="list-style-type: none"> – Additional scrutiny on junkets could further tighten junkets' liquidity and credit availability for VIP customers. 	<ul style="list-style-type: none"> – VIP customers contribute about 10% to EBITDA. – Lower demand in the high-end mass segment as some players overlap.

Rating Actions In 2021

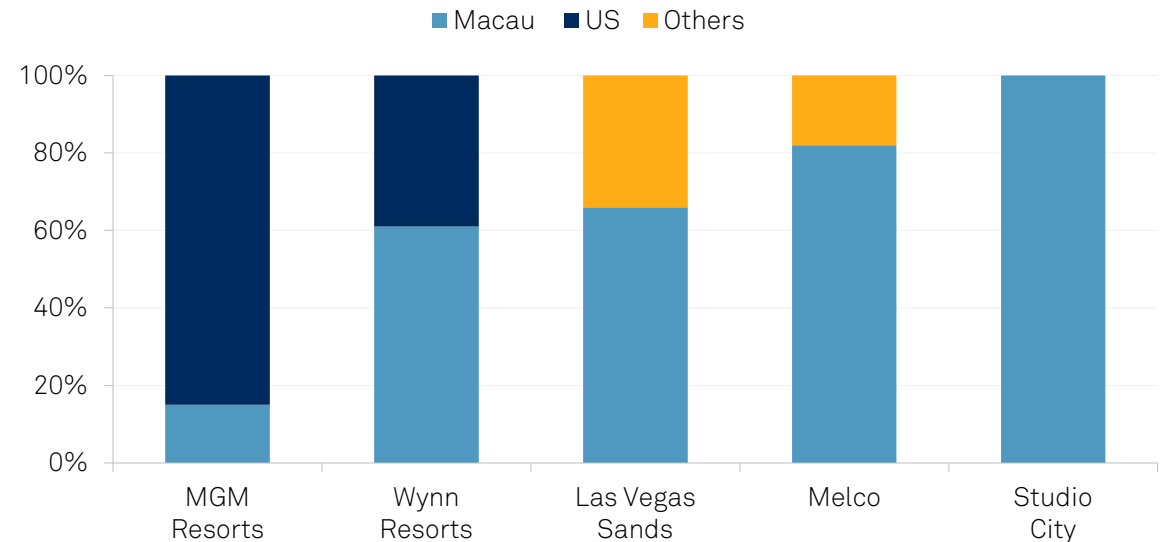
- Ratings on Melco Resorts, Studio City and Wynn Resorts were lowered due to the slow recovery in Macau’s gaming revenue.
- MGM Resorts is less exposed to Macau. The rating actions on MGM were driven by leveraging transactions in the U.S.
- Las Vegas Sands entered the pandemic with more financial buffer than its peers. Its asset sale in Las Vegas will support its credit metrics recovery.
- Negative bias remains across the portfolio.

Rated Entities With Exposure To Macau

	From	To	Date
Negative actions			
Melco Resorts (Macau) Ltd.	BB-/Negative/--	BB-/Negative/--	Oct 13, 2021
Studio City Co. Ltd.	BB-/Negative/--	B+/Negative/--	Oct 13, 2021
Wynn Resorts, Ltd.	BB-/WatchNeg/--	B+/Negative/--	Oct 13, 2021
MGM Resorts International*	B+/Negative/--	B+/WatchNeg/--	Oct 1, 2021
	BB-/WatchNeg/--	B+/Negative/--	Mar 5, 2021
No rating change			
Las Vegas Sands Corp.	n/a	BBB-/Negative/--	n/a

*Two rating actions for MGM Resorts in 2021

Property EBITDA By Region In 2023e



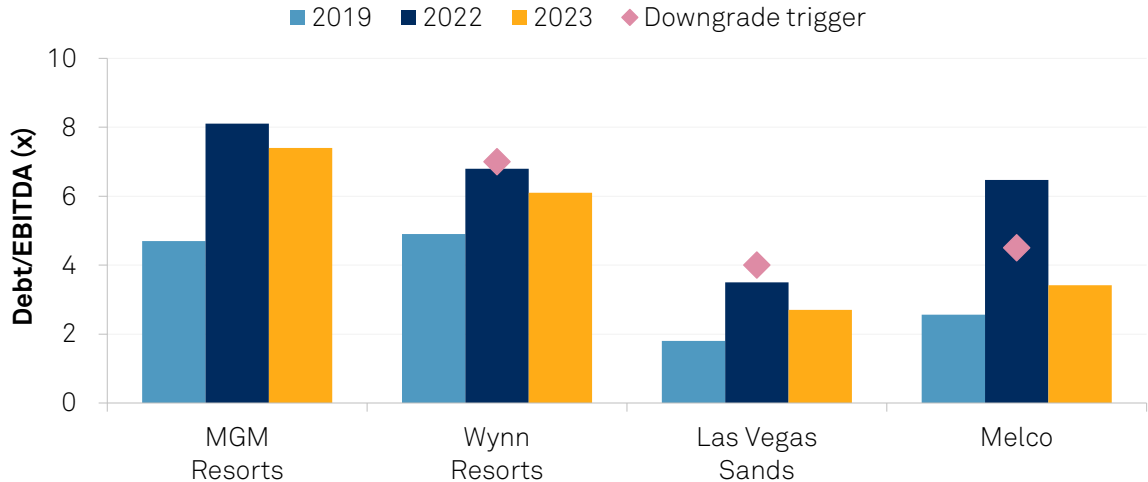
Source: S&P Global Ratings.

Credit Metrics Remain Elevated in 2022

- Leverage will likely remain high in 2022 because of a more gradual recovery in gaming revenue and hence cash flow. Elevated debt leverage is an ongoing risk.
- We have not included potential license renewal costs in our base case given the uncertainty of form and size. Any material investment requirement will likely be spread across a long-term period, considering the number of investments the rated issuers have committed in recent years.

Leverage Analysis

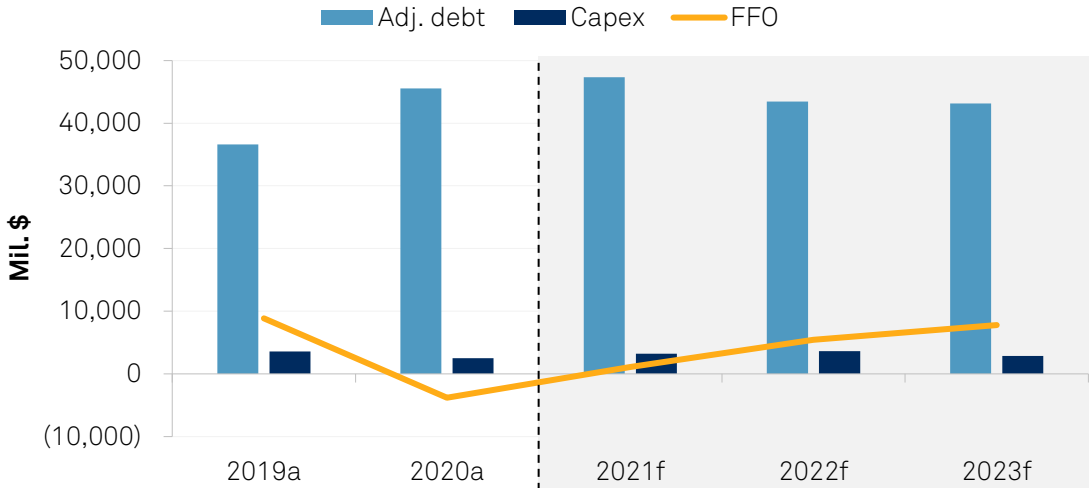
Most of the rated issuers' leverage will improve by 2023, but remain above pre-pandemic levels



No downgrade trigger for MGM given it is on Credit Watch. Source: S&P Global Ratings.

Rated Issuers' Aggregate Capex, Debt, FFO Profile

Capital expenditure in 2022 could be mostly funded by internal cash flows



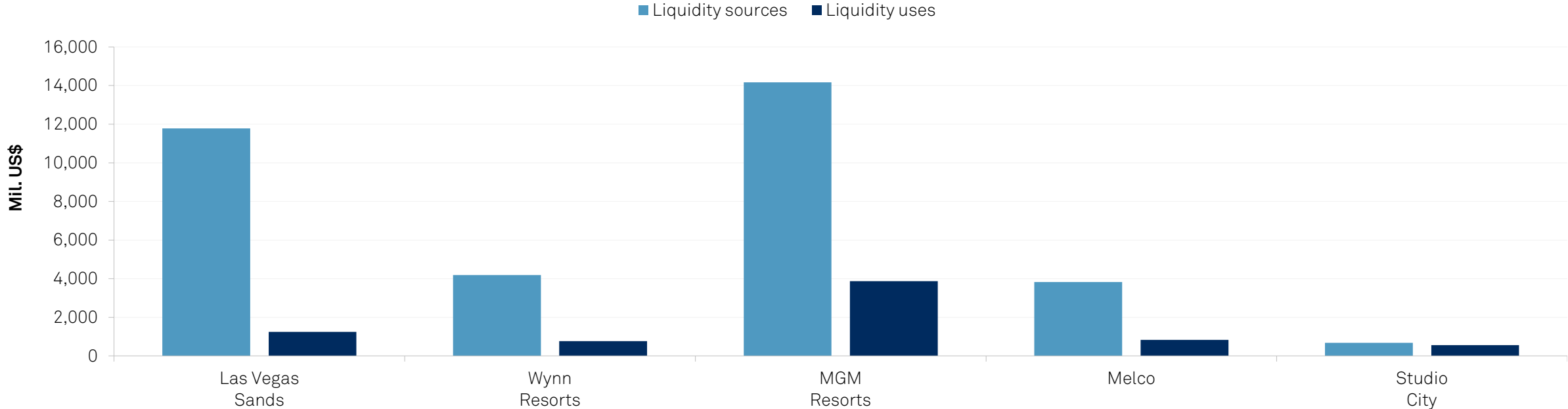
Capex-- Capital Expenditure, FFO-- Funds from Operations A-- Actual. F--Forecast. Source: S&P Global Ratings

Liquidity

- Liquidity profiles remain solid. Although not sufficient to offset the COVID risk, this allows us to look at the recovery path through late 2022 to early 2023.
- Most rated issuers maintain 18-20 months of liquidity even under a zero-revenue scenario.

Liquidity Profile (Base Case) 12 Months Forward

As of Sept 30, 2021



Note: Liquidity sources defined as cash on the balance sheet and revolver availability at Sept. 30, 2021, and estimated cash FFO for the next 12 months. Liquidity uses include debt service requirement and maintenance and development capital spending. Source: S&P Global Ratings.

Related Research

- Research Update: Las Vegas Sands Corp. Ratings Affirmed On Expected 2022 Leverage Improvement Despite Slow Recovery; Outlook Negative, Nov. 18, 2021.
- Research Update: Wynn Resorts Ltd. Ratings Lowered On Slow Recovery In Macau's Gaming Revenue, Removed From CreditWatch; Outlook Negative, Oct. 13, 2021.
- Research Update: Melco Resorts And Studio City Downgraded On Slow Recovery In Macau's Gaming Revenue; Outlook Negative; Oct. 13, 2021.
- Research Update: MGM Resorts International Ratings Placed On CreditWatch Negative On Leveraging Transactions; Oct. 1, 2021.
- Stricter Gaming Law Would Worsen Odds For Macau Casinos; Sept. 20, 2021.
- Research Update: Las Vegas Sands Corp. 'BBB-' Unsecured Debt Rating Placed On CreditWatch Negative; 'BBB-' Issuer Credit Rating Unchanged; March 6, 2021.
- S&P Global Ratings webinar, [Macau Gaming Sector: COVID Remains The Wild Card](#), Nov. 18, 2021.

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