

CMBI Credit Commentary

Macau gaming: Meaningful policy relaxations to double visitation

Buy Macau gaming, prefer SJMHOL, STDCTY/STCITY, MPEL and WYNMAC

Over the weekend, the Macau government announced that the agreement with the Chinese government to resume package tours for mainland Chinese to visit Macau, and the electronic visa issuance. We expect these changes to help turning most of the gaming operators into positive EBITDA by 1H23 and reverse the trend of cash burnt. As we repeatedly discussed, the key drivers for Macau gaming bonds are the visa policy of mainland China and Macau's quarantine policy. We consider these relaxations significant positive catalysts for the Macau gaming bonds to perform. Hence, we recommend buy on the sector. Our order of preference, factoring in risk and return profile, is SJMHOL>STDCTY>STCITY >MPEL> WYNMAC. Macau gaming bonds were 4-6pts higher this morning.

What are the relaxations?

Macau has suspended package tour from mainland China since early 2020. Currently, individual travelers from mainland China under the Individual Visit Scheme (IVS) needs to make appointments in advance and apply the Macau visa in person over the counter. The approval period is one week. Subsequent to the changes, Macau will resume the package tours from mainland China with priorities given to residents from Guangdong, Zhejiang, Jiangsu, Fujian and Shanghai where, altogether account for c60% of visitations in Macau. Regarding the resumption of e-visa, mainland Chinese can walk in and use automated kiosks to obtain instant visa approval. The Macau government expects the new policies to be implemented by end of Oct'22 or by early Nov'22. Additionally, the government expects the daily visitation from mainland China to double to 40,000. In 2021, mainland Chinese accounted for 91.4% of the tourist visitation in Macau. Before the pandemics, mainland Chinese accounted for 70.9% of tourist visitation in Macau. Even Macau is yet to relax quarantine policy (7+3) for travelers from HK, Taiwan and overseas, this round of relaxations targeting on travelers from mainland China will significantly boost the visitation in Macau.

Trend of cash burnt to be reversed

We expect most of the gaming operators to reverse the trend of cash burnt and turn positive EBITDA by 1H23. In our ballpark estimates, 60-70% increase in visitation from the current low level and the commensurate increase in gaming revenue will allow most of the gaming operators to turn into positive EBITDA. This will also have a knock-on positive impact on the funding environment for operators in refinancing and funding. The near-term default risk of Macau gaming sector has always been low, in our view.

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Cash Burnt Table	SJM (LTM to Jun'22)	Melco (LTM to Jun'22)	Studio City (LTM to Jun'22)	Sands (LTM to Jun'22)	Wynn (LTM to Jun'22)	MGM (LTM to Jun'22)
Gross Profit (Revenue - Gaming Tax)	625.5	441.0	28.5	1449.0	628.2	567.2
Liquidity (Cash + Undrawn facilities)	2082.7	2794.3	956.0	2806.0	1819.6	1961.7
Liquidity source	2708.2	3235.4	984.5	4255.0	2447.8	2528.9
OPEX	720.7	502.9	292.6	2371.0	1129.6	926.8
ST Debt	29.1	0.1	0.0	0.0	0.0	0.0
Interest expense	101.4	351.1	116.8	373.0	301.1	185.3
Capex (expansion + maintenance)	255-318	850	450	290-390	60-80	90-105
Minimum capital commitment (MOP5bn)	618.4	618.4		618.4	618.4	618.4
Share repurchases		35.0				
Cash burn	1725-1788	2357.6	859.4	3652-3752	2109-2129	1821-1836
Liquidity (number of month)	18.2-18.8	16.5	13.7	13.6-14	13.8-13.9	16.5-16.7

Next focus on license renewal

As per media report, the 7 accepted applicants have made oral presentations to Macau gaming tender committee over the last weekend. The preliminary decision on the new casino concessions will be announced in Nov'22. Our base case is the 6 incumbents will have their licenses renewed, partly because of the very tight timetable, and partly because the renewal will have the lowest impact, economically and politically, to Macau. We do not believe that the operators with US investors are more exposed to the license renewal risk under the current geo-political environment. We indeed see the strong incentive for the Chinese government in vying the support from the US business sector which is an influential political bloc. We also believe that investors are, to some extent, protected from the licence renewal risk given the special put option at par in case the gaming licenses of existing operators are not renewed.

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