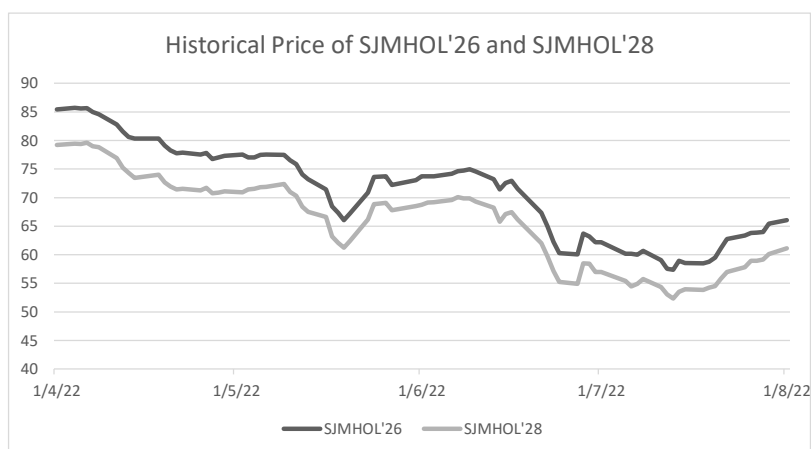


CMBI Credit Commentary

SJMHOLs: Shareholder's support provides much-needed financial flexibility

Range-bound trading to continue without a strong conviction but prefer SJMHOL'26 over '28

Since mid Jul'22, SJMHOLs rebounded 8-9pts, along with other Macau gaming bonds. In our view, the valuation of SJMHOLs and that of other Macau gaming bonds are not demanding for non-distressed credits. That said, the operating environment will remain challenging and uncertain given the strict quarantine policy of Macau and travel approval policy of Mainland China, as well as the risk of future lock-down if number of COVID-19 cases rebounds. We expect SJMHOLs, as well as other Macau gaming bonds, to be range-bound until there will be more material change in quarantine policy. Since the strict quarantine policy implemented in late Mar'22, SJMHOL'26 and '28 were mostly traded within the ranges of high 50 to high 70, and low 50 to low 70, respectively. At 66 and 61, we see more upside for SJMHOL'26 within the recent trading range. As we wrote in [our comments: Macau Gaming: Q&A after the final draft of gaming law amendment bill published on 20 Jun'22](#), buying Macau gaming bonds is equivalent to buying an idea that the quarantine policy and approval for mainland travelers will be relaxed. Our preference for the sector in case of relaxation of these policies will be those offer deeper value, the order of our preference is: SJMHOL>STCITY>WYNMAC>MPEL.



Weak 1H22 results expected, 3Q22 remains challenging

The weak 1H22 results are not surprising given the tightened quarantine policy since Mar'22 and the stricter non-essential travel approval from Mainland China. In 1H22, its net gaming revenue declined 26% yoy to

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HKD4.1bn while adj. EBITDA loss widened significantly to HKD1.2bn from HKD510mn in 1H21. As we have been discussing, even the quarantine policy relaxed to 10+7 on 15 Jun'22 from 14+7, this strict policy remains a big hindrance for Macau gaming sector as the average stay of Macau tourist is only 1.6 days. In view of the closure of casinos in Jul'22, as well as the strict quarantine policy and travel approval, the 2H22 operating performance will continue to be under pressure.

Parental support notably strengthens financial flexibility

Subsequent to the conclusion of 6-yr syndicated loans of HKD19bn with maturity in Jun'28, SJM's new-term refinancing risk was substantially relieved. We take additional comfort that Daisy Ho who is the chairman of SJM and effectively controls its parent (STDM) reiterated the willingness of STDM to provide shareholder's loan of up to HKD5bn during the investors' call last evening. This should be sufficient for SJM to cover the capital commitment of MOP5bn required for the new casino concession. As per Chairman Ho, the shareholder's loan of HKD5bn will be additional to the CBs of HKD1.9bn for the purchase of Oceanus in Jun'22. For the remaining 3 self-promoted and leased casinos, SJM owns the gaming area of Casino Lisboa. The operations of Eastern and Taipa are relatively small. SJM will assess the market condition if these operations and current leased arrangements will continue. Based on the LTM run-rate and the daily opex of HKD15.5mn 2Q22, we estimate its liquidity can cover cash burnt of 13-14 months.

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