

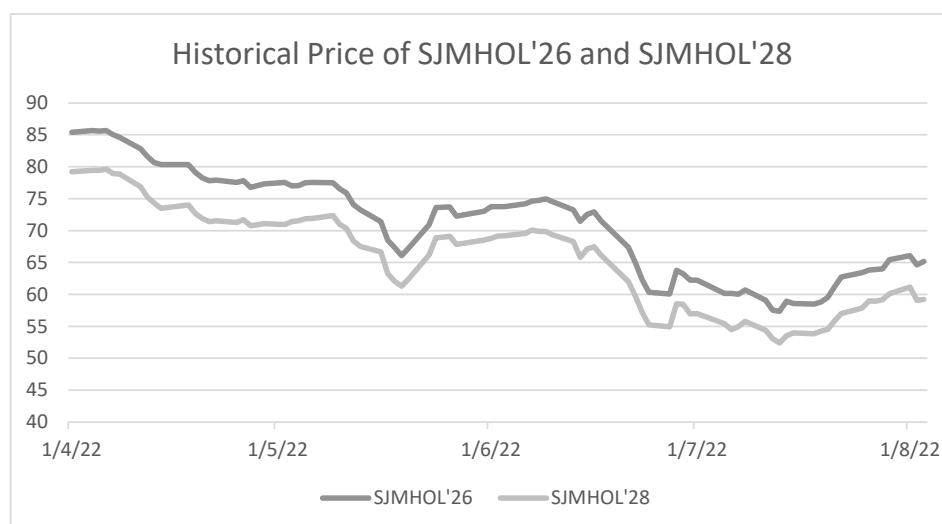
CMBI Credit Commentary

SJMHOLs: Relaxed quarantine policy and shareholder's support

Trading buy on SJMHOLs

Further to [our comments on 2 Aug'22](#), we see SJMHOLs trading buy opportunities upon the considerable relaxation of quarantine policy and earlier than expected provision of shareholder's support. We expect SJMHOLs to trade higher and closer to the high end of the trading range of over the past few months. As written before, SJMHOL'26 and '28 were mostly traded within the ranges of high 50 to high 70, and low 50 to low 70, respectively, since the strict quarantine policy implemented in late Mar'22. We also consider SJMHOLs a leveraged play on further relaxation of quarantine policy and gradual recovery of the Macau gaming sector. Nonetheless, we still believe that SJMHOLs, as well as other Macau gaming bonds, to continue to be range-bounded as the full recovery of the Macau gaming sector is hindered by the strict, albeit relaxing, quarantine policy and the tightened travel approval policy of Mainland China. There could also be more ups and downs of COVID-19 cases in Macau. SJMHOL'26 and '28, offered at 69 and 64, moved 3pts higher this morning.

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Quarantine policy relaxed but remains harsh

On 2 Aug'22 evening, Macau government announced to cut the quarantine period considerably to 7+3 from 10+7. Starting from last evening, the quarantine-free customs entry policy were resumed between Macau and Zhuhai. We see the Macau government's effort in cutting the quarantine period. Starting from 6 Aug'22, travelers can enter into casinos

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on the 11th day after their arrivals compared with the 22th before 15 Jun'22. Nonetheless, the quarantine policy remains a big hindrance for Macau gaming sector (compared with the average tourist stay of only 1.6 days), especially for the efforts to bring in non-mainland travelers given the tightened travel approval policy of Mainland China. Before the pandemic, Mainland China, HK and Taiwan contributed 71%, 19% and 3% of Macau's tourist visitation, respectively. For a speedier recovery of the sector and bonds to break through the range-bound, we still need to see further significant relaxation of the quarantine policy.

Positive surprises of the shareholder's support

Last night, SJM also announced the shareholder's support of HKD5bn (HKD3bn rights issue and HKD2bn loans from STDM) to pre-fund the additional cash capital required for the tender process of new casino concession. The shareholder's support of HKD5bn is not a surprise (See our comments 2 Aug'22) but we consider the rights issue of HKD3bn and timing of the shareholder's support positive surprises. We originally expected all the shareholder's support of HKD5bn to be in the form of shareholder's loan and the timing of the shareholder's support to be in 4Q22, closing to the end of the tender process. We also acknowledge that the rights issue is fully underwritten, and terms of shareholder's loan is favourable (unsecured, 6-year and interest rate of 4% p.a.). These demonstrate STDM's strong ability and commitment to support.

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