

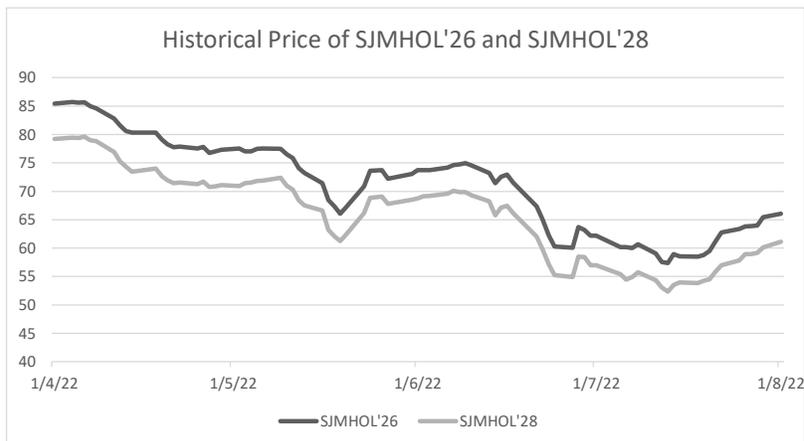
CMBI Credit Commentary

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.

Glenn Ko, CFA 高志和
 (852) 3657 6235
 glennko@cmbi.com.hk



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

CMBI Fixed Income
 fis@cmbi.com.hk

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.

CMB International Securities Limited

Fixed Income Department

Tel: 852 3761 8867/ 852 3657 6291

fis@cmbi.com.hk

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Author Certification

The author who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the author covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that author in this report.

Besides, the author confirms that neither the author nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS and/or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

Disclaimer

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.