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Macau Casinos Bank On New Gaming Capacity To Turn The Tables On Weak Revenue

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HONG KONG (Standard & Poor's) Nov. 17, 2015--A streak of weak gaming revenue that threatens to continue over the next year could dampen the credit outlook for Macau's casino operators. However, plans by the operators to open several new casinos, falling capital investment requirements, and stabilizing revenue from the mass-market, or regular-customer, segment ought to temper the risks. That's according to, "Macau Casinos Bet On New Gaming Capacity And Steadying Mass Market," a report publish today by Standard & Poor's Ratings Services.

"The decline in gross gaming revenue in Macau in the first 10 months of 2015 was more severe than we anticipated, with revenue falling 35.5% year on year, due to a more than 40% decline in the high-roller or "VIP" segment, and about a 30% drop in the mass market segment," said Sophie Lin, a credit analyst at Standard & Poor's and author of the report.

We cut our gaming revenue forecast to a drop of 30%-35% in 2015, compared with our previous expectation of a 25%-35% fall. However, we expect the decline to moderate to 0%-10% in 2016, given a lower revenue base and the opening of new casinos that will target mass-market customers. We believe a meaningful rebound in gaming revenue in Macau is unlikely in 2016 given policy headwinds and the shift from high rollers to the mass market. The impact of the Chinese government's commitment to stamp out corruption and tighten regulations in

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Macau will continue to constrain growth in gross gaming revenue in Macau, in our view. A newly introduced cap on overseas cash withdrawals through China UnionPay and potential tightening of regulations on junkets may further undermine demand in the Macau gaming industry, especially from high rollers. We view a decline of up to 10% as our downside scenario, if sluggish VIP patronage more than offsets the revenue from new gaming capacity and our assumption that mass market revenue will stabilize.

Most of Macau's casino operators should maintain their current credit profiles, in our view, even if gaming revenue drops another 0%-10% in 2016, given their strong balance sheets and lower investment requirements to expand gaming capacity.

The fall in gaming revenue growth will least effect the casino operators that are relatively focused on the mass market or those that have large cash flow in other gaming markets, such as Las Vegas Sands Corp. (the majority owner of Sands China), Melco Crown (Macau) Ltd., and MGM Resorts International (majority owner of MGM China). However, those casinos with a heavier reliance on the VIP segment will feel more pain, including Wynn Resorts Ltd. (majority owner of Wynn Macau) and Galaxy Entertainment Group Ltd.

The report is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@standardandpoors.com. Ratings information can also be found on Standard & Poor's public Web site by using the Ratings search box located in the left column at www.standardandpoors.com. Members of the media may request a copy of this report by contacting the media representative provided.