

Stronger VIP Gaming Revenue Is Unlikely To Improve The Odds For Macau's Casino Operators In 2017

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HONG KONG (S&P Global Ratings) March 2, 2017--Macau's better-than-expected gaming revenue numbers in February 2017 are unlikely to be sustainable. S&P Global Ratings believes the credit-fueled VIP gaming segment may have contributed to the stronger growth. Growth in this segment could be more volatile and less profitable than in the mass-market segment. We maintain our stable outlook on Macau's gaming sector.

"We reiterate our view that gross gaming revenue in Macau is likely to grow 0%-10% in 2017, driven by the opening and ramping up of mass-market focused new casinos, better infrastructure connecting Macau with mainland China, and stabilizing regulations," said S&P Global Ratings credit analyst Sophie Lin. "We expect the rebound in gross gaming revenue to primarily result from a 5%-10% growth in the mass-market segment, while VIP gaming revenue could swing from a decline of up to 5% to positive growth of 5% in 2017."

The growth in the VIP gaming segment could be volatile, given its high sensitivity to changes in regulations and government controls. The Chinese government's further curbs on capital outflows, impact of a refreshed crackdown on corruption, and the implementation of a full smoking ban in Macau could all materially weaken growth in the VIP gaming segment.

In addition, we note that the profitability of the VIP gaming segment is much lower than that of the mass-market segment. As a result,

stronger-than-expected VIP gaming revenue may not translate into materially higher EBITDA for casino operators. We estimate that mass-market EBITDA margins are usually 30%-40%, compared to about 10% for the VIP segment. Nevertheless, we believe casino operators' flexibility and pace of response to the shift between the VIP and mass-market gaming segments will differentiate their credit quality.

"We expect the debt leverage and rating buffers of most rated casino companies in Macau to improve moderately in 2017, given improving operating conditions," said Ms. Lin. "However, the rating outlook for individual casino operators will largely depend on their financial discipline on capital spending and shareholder returns, and their ability to expand market share while ramping up new properties efficiently."

On March 1, 2017, the Gaming Inspection and Coordination Bureau of Macao Special Administrative Region released data that gaming revenue in Macau increased 17.8% in February 2017, which is the strongest year-on-year growth over the past 36 months. Accumulated revenue increased 10.6% in January-February 2017, which is also marginally higher than our estimate of 0%-10% growth for 2017.

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