



Caesars Entertainment positions for growth after emerging from bankruptcy
by [Dexter Tan](#)

After its operating unit emerged from Chapter 11 last October, Caesars Entertainment Corporation (Caesars) has a stronger balance sheet with nearly USD 2bn of liquidity to invest in its future growth. [Last week](#), the US Federal Trade Commission agreed to grant Caesars an early termination of the waiting period with respect to its announced acquisition of Centaur Holdings LLC (Centaur). The lifting of the regulatory hurdle is likely to speed up the acquisition process that was initially projected to complete in Q2 2018. The issuance of new shares lifted the market value of the company and coincided with a decline in the firm’s default risk, tracked by the RMI-CRI 1-year Probability of Default (PD).

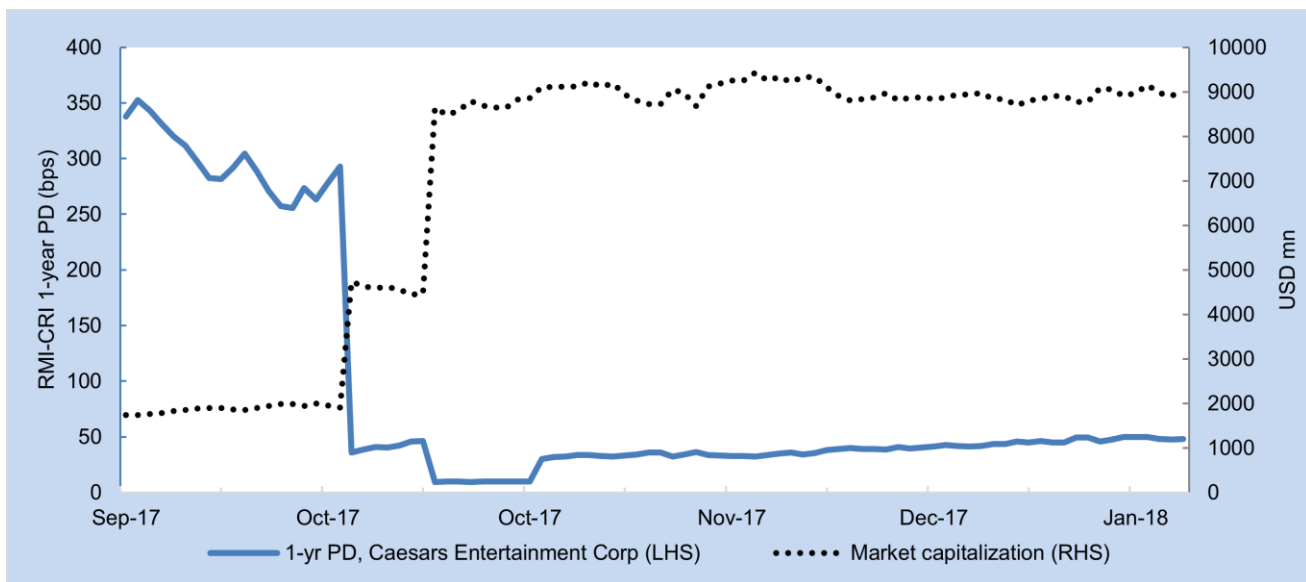


Figure 1: RMI-CRI 1-year PD and market capitalization for Caesars Entertainment Corp. Source: RMI-CRI, Bloomberg

The Centaur USD 1.7bn transaction was financed using a combination of cash, borrowings under the revolving credit facility, and USD 1.14bn proceeds from the sale of Harrah’s Las Vegas to VICI Properties. The latter is a real estate investment trust (REIT) owned by creditors of the bankrupt Caesars Entertainment Operating Company (Old CEOC) that will soon list on the NYSE.

As a result of the CEOC reorganization plan, Caesars accrued nearly USD 8.8bn of restructuring and support expenses that led to the issuance of USD 4.5bn of common stock and USD 2.24bn of convertible notes for the settlement of claims. A new operating company (new CEOC) was also formed and 19 properties were sold to VICI Properties (a REIT spin-off from Old CEOC). The new operating company will lease properties it operates from VICI Properties.

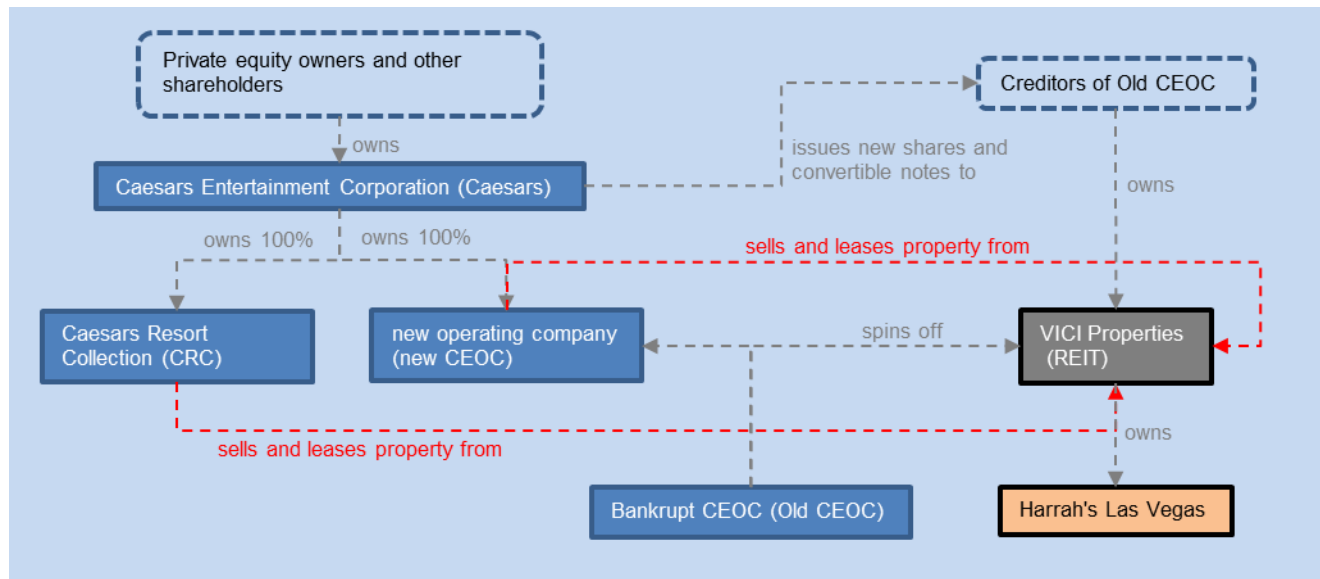


Figure 2: Caesars corporate structure post-bankruptcy. Source: Company presentations, RMI-CRI

On Dec 22, Caesars refinanced all its outstanding debt at two of its subsidiaries to lower its overall cost of capital and reduce its annual interest expense by at least USD 290mn in the following 4 years. The new debt obligations were issued under Caesars Resort Collection (CRC), a newly formed Caesars subsidiary and consisted of (i) a USD 1.7bn 5.25% 2025 note, (ii) a USD 1bn revolving credit facility bearing interest at LIBOR + 2.25% and (iii) USD 4.7bn term loan bearing interest at LIBOR + 2.75%. Consequently, the refinancing deal lowered Caesars annual estimated debt service requirements through 2021 and extended them till 2025.

	2018	2019	2020	2021	Thereafter
Before refinancing on Dec 22 (USD mn)	498	552	3732	2639	725
After refinancing on Dec 22 (USD mn)	62	62	595	653	9684

Table 1: Caesars annual estimated debt service requirements. Source: Company Q3 10Q filing, Bloomberg estimates

With a simpler company structure in place and without the restructuring overhang, Caesars may now focus on increasing room rates, improving marketing and acquisitions. Management planned to mine the Total Rewards Program database, one of the most popular and largest casino loyalty programs in the US. New software will be deployed to read the database and algorithms will be used to materially improve the conversion rate of its marketing campaigns.

Caesars is already ranked among the most leveraged in the industry with a lease-adjusted debt to EBITDA multiple of more than 6.5X. Leasing expenses for the 19 properties will start from USD 640mn for the first seven years and an annual escalator will apply commencing in the second year of the lease term. Moving forward, the casino giant is likely to continue working with VICI Properties with further sale and leaseback transactions. Caesars did express interest in doing a sale leaseback on Centaur's assets but decided not to as it would exacerbate the firm's debt ratio.

After missing out on international markets, Caesars is keen to catch up with its competitors in Asia as rivals like Wynn Resorts and Las Vegas Sands have benefitted from their investments in Asian markets such as Macau. The long term plan is for Caesars to establish integrated resort (IR) licenses in Japan and possibly, Brazil and Vietnam. Last [November](#), the Asian Nikkei Review reported that Caesars submitted plans to construct casino resorts in Osaka and Tomakomai, but details of the casino implementation bill have not been passed. Winning a casino license in Japan would be an exciting opportunity for Caesars as it would help increase gaming revenue.

Credit News**Oi saga prompts Brazil to rethink bankruptcy law**

Jan 15. The restructuring of Oi, Brazil's largest fixed-line telecoms operator, has been complicated to resolve, partly because the two biggest shareholders have been accused of playing dirty in order to implement restructuring plans that would have preserved their equity while handing large losses to creditors. This was possible, as Brazil's existing bankruptcy law contains problematic requirements, particularly one that only equity holders can present a debt recuperation plan, not creditors. The average debt recovery process in Brazil yielded just 12.7 cents in the dollar and took four years, as compared to 82.1 cents and one year for the US. Hence, the Brazilian finance ministry might seek to propose changes to the current bankruptcy law, and changes might include giving creditors the right to present their own plan to the bankruptcy court. ([FT](#))

Stronger growth expected for global economy in 2018

Jan 15. Most international organizations endorse that the global economic sentiment has become far more upbeat in 2018. World Bank has upgraded its forecasts and expects that the growth of the global economy to hit 3% next year. Separately, the IMF forecasted in October that the world economy would grow at the fastest pace since 2011. The latest data showed that US retail sales rose to USD 691bn in November and December 2017, a 5.5% increase, which is good news for Asia, a big manufacturer and exporter of goods to the United States. The broad recovery in investment, manufacturing and trade will benefit Asia's trade-dependent economies. Despite the strong economic growth, short-term risks, including financial stress and rising geopolitical tensions continue to pose a threat. Longer-term challenges like flagging productivity and ageing populations also pose a concern. ([Straits Times](#))

Junk bond sales triple as investor optimism soars

Jan 12. Investors have bought billions of dollars of riskier corporate debt since the start of the new year and some portfolio managers have raised warnings on the euphoria after a rally in equities and high-yield bond prices. Sales of high-yield bonds in the US have more than tripled from year-ago levels as speculative rated companies, those judged to be riskier than their investment grade counterparts, have borrowed USD 4.5bn through US debt markets so far this year. Over the past two weeks, investors have added USD 2.3bn to US junk bond funds. The appetite for riskier investments has helped push risk premiums investors demand to own junk debt to the lowest level since 2007. ([FT](#))

S&P cuts Brazil debt rating as pension reform doubts grow

Jan 12. Ratings agency Standard & Poor's (S&P) lowered its long-term rating for Brazil sovereign debt to BB- (three notches below investment grade) from BB on January 11, with a stable outlook, as doubts grew about greater policy uncertainty after this year's elections and a push to trim its costly pension system. Moody's Investors Service rated Brazil as Ba2 and Fitch Ratings holds rating of BB, both two notches into "junk" territory. The Finance Ministry said that S&P's decision underscored the urgency of fiscal reforms, including Brazil's social security and tax policies. Brazilian index fund iShares MSCI Brazil ETF (EWZ) dropped 0.3% in after-market trading in New York after gaining 1.9% during that session. ([Reuters](#))

Global green bond issuance hit record USD 155.5bn in 2017

Jan 10. Research from the Climate Bonds Initiative (CBI) shows that global green bond issuance has hit a record USD 155.5bn in 2017, surpassing previous estimates, and could reach USD 250-300bn in 2018. Issuance in 2017 was 78% higher than 2016's USD 87.2bn and well above the CBI's estimate in December of USD 130bn. The United States, China and France accounted for 56% of total issuance in 2017. There were 10 new countries to the green bond market in 2017 including Argentina, Singapore and Switzerland. Although green bonds make up a small fraction of the overall bond market, they are attracting more attention as meeting emissions cut targets will require trillions of dollars of capital from the public and private sectors. ([Reuters](#))

Government holds crunch meeting with Carillion ([FT](#))

Teva's debt cut to junk by Moody's, adding to drugmaker's woes ([Bloomberg](#))

Home loans get pricier as banks hike interest rates again ([Business Times](#))

Regulatory Updates

China's new year rule flurry may reduce broader systemic risks

Jan 11. China's top regulators have announced rules to tighten financing for less-creditworthy borrowers as policy makers prioritize efforts to limit risks to the financial system. The regulators ordered banks to ensure that they were not expose to risks from their involvement in entrusted lending and cap their credit risk exposure to any one client. The regulators also barred insurance firms from extending loans in the form of equity investment and tightened supervision on leveraged bond trading by ordering traders to meet liquidity requirements in their deals. The new rules are targeting shadow lending which will make it more difficult for riskier firms to borrow and limit a key funding source for some banks. ([Bloomberg](#))

MAS puts more scrutiny on bank loans for property development

Jan 9. A wave of aggressive land deals by developers last year has prompted the MAS to take a closer look at the way banks are financing development projects. In a survey sent out last month, the MAS sought to collect data that includes the size of banks' exposures, and details of the loan facilities granted for each project such as the key covenants and loan-to-value (LTV) ratios. Industry players believe that the MAS is paying more attention to the en bloc and government land sale (GLS) tenders because of the steep LTV ratios on development loans in some cases. Some market watchers go further to speculate that one of the ways the Government can douse feverish land bids is by having borrowing limits on development projects. However, such lending curbs may not always be effective, as exemplified in the case of Hong Kong, where land and home prices have continued to shoot through the roof despite several lending curbs. ([The Straits Times](#))

ECB joins central bank chorus hinting at faster tightening ([FT](#))

European banks braced for "slow burn" payments revolution ([Reuters](#))