



China's reopening expedites the restoration of Macau casino operators' credit health

by [Wang Chenye](#)

- **NUS-CRI Agg PD indicates that the reversal of China's zero-covid policy and the resultant impact on gaming revenue lowers the credit risk of Macau casino operators**
- **NUS-CRI Forward PD suggests an improvement in the Macau casino operators' credit outlook as compared to global peers**

Macau casino operators¹ saw a [51%](#) YoY fall in revenue in 2022 due to the long-standing travel restrictions, government crackdown and strict zero-COVID policy in China. The NUS-CRI aggregate (median) 1-year Probability of Default (Agg PD) of Macau casino operators had been above that of their global counterparts throughout the majority of 2022, warning of heightened credit risk in the industry. However, in Nov-2022, the industry's credit risk profile improved when China's immigration bureau allowed mainland residents to travel to Macau by an [online visa system](#), exempting them from in-person applications and quarantine. Meanwhile, the six [incumbent](#) casino operators successfully won the concessions that had [unsettled](#) the industry's credit outlook, further consolidating their market positions. On the back of this recovery, the NUS-CRI Aggregate (median) Forward 1-year Probability of Default (Forward PD²) of Macau casino operators suggests an improved credit outlook compared to its global peers, despite risks of a potentially slow rebound for the industry.

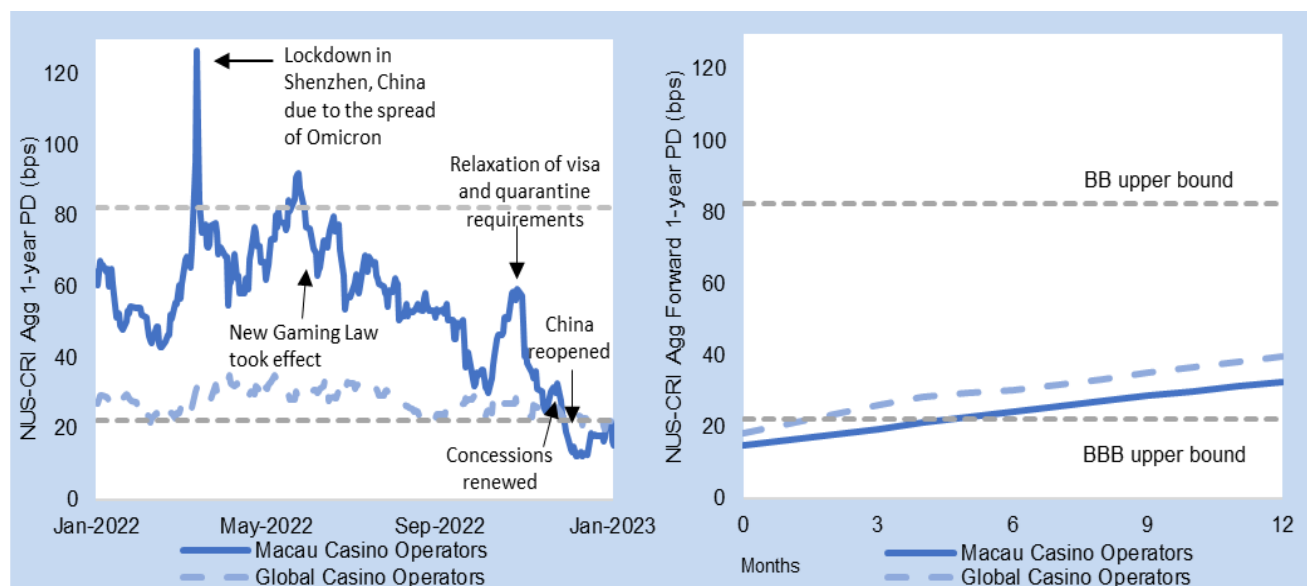


Figure 1a (LHS): NUS-CRI Agg (median) 1-year PD for Macau casino operators and their global counterparts with reference to PDiR2.0³ bounds. Figure 1b (RHS): NUS-CRI Agg (median) Forward 1-year PD for Macau casino operators and their global counterparts as of Jan-2023, with reference to PDiR2.0 bounds. *Source: NUS-CRI*

Macau's new [Law on the Operation of Casino Gaming](#) (Gaming Law) officially took effect on Jun 23rd, 2022. The new Gaming Law effectively led to the crackdown on junket agencies, which were one of the top sources of revenue for Macau's casinos.⁴ Furthermore, with more than [90%](#) of Macau's visitors coming from greater

¹ Macau Casino Operators in the sample - Sands China Ltd, MGM China Holdings Ltd, Galaxy Entertainment Group Ltd, SJM Holdings Ltd, Wynn Macau Ltd, Melco Resorts & Entertainment Ltd.

² The Forward PD estimates the credit risk of a company in a future period, which can be interpreted similarly to a forward interest rate. For example, the 6-month Forward 1-year PD is the probability that the firm defaults during the period from 6 months onwards to 18 months – this is conditional on the firm's survival in the next 6 months.

³ The Probability of Default implied Rating version 2.0 (PDiR2.0) provides a more familiar interpretation through mapping the NUS-CRI 1-year PDs to the S&P letter grades. The method targets S&P's historical credit rating migration experience exhibited by its global corporate rating pool instead of relying solely on the reported default rates.

⁴ The junket agents, also known as gambling promoters, earn their commissions or share the profits with the operators by introducing high net worth clients to the VIP rooms. They have been a [top source](#) of VIP clientele for the past 20 years. VIP betting did play a significant role in Macau's gaming revenue, accounting for up to [70%](#) of total revenue.

China, the latter's stringent quarantine measures throughout last year greatly threatened Macau's status as the world's biggest gambling hub, squeezing casino operators' revenues further. The impact on operators' profitability was profound as costs remained stagnant due to a government directive that made casinos [unable](#) to lay off employees. Loss of revenue amidst heightened expense burden increased pressure on the casino operators' debt servicing capabilities, with yield-to-maturity of bonds from several major casinos, such as Wynn Macau's 5.5% USD-denominated bond due 2026 and MGM China's 4.75% USD-denominated bond due 2027, rising through the first three quarters of last year (See Figure 2a).

Due to the new gaming law and to have a robust rebound in gaming revenue, casino operators have transformed their revenue model from "junket-driven" to "mass market". This transition may bode well for Macau casino operators as the [contribution](#) of retail cash customers to gross profit margins is higher than that of VIP customers (35% vs 10% respectively). Therefore, even if the transition may pose some headwinds to profitability in the short-term as the industry adjusts to the new gaming law, a positive impact on sustainable cash flows arising from gaming revenues in this market segment could act as a longer-term credit positive for the industry, especially as the volume of tourists visiting Macau increases.

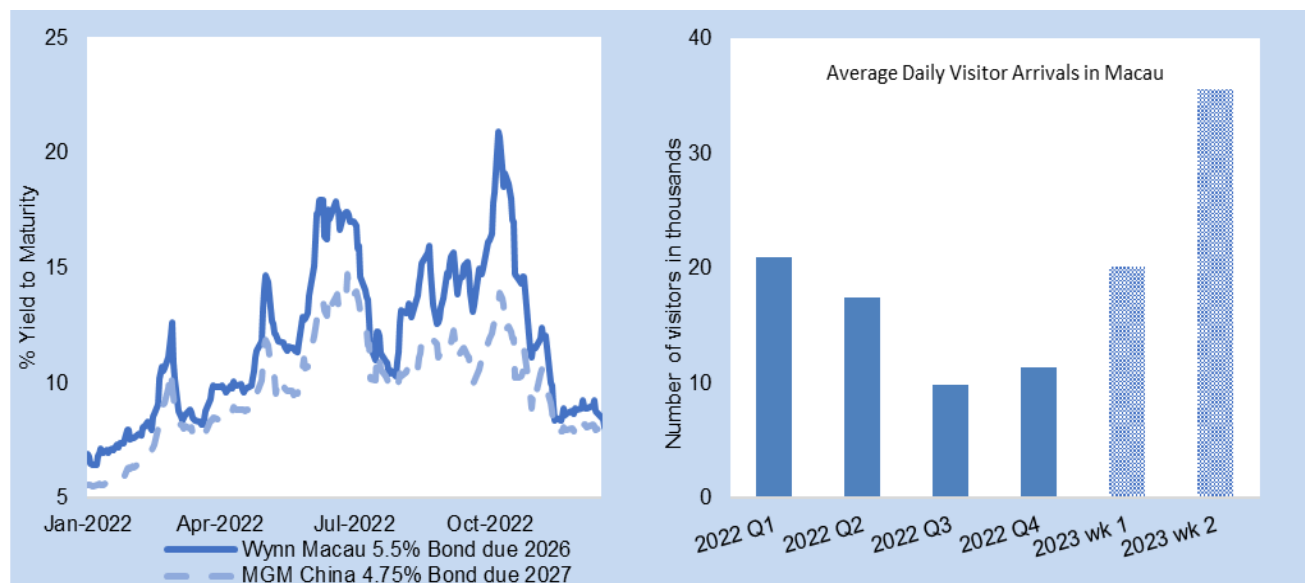


Figure 2a (LHS): Yield to Maturity (%) of Wynn Macau Ltd.'s bond due 2026 and MGM China Holdings Ltd.'s bond due 2027. Figure 2b (RHS): Average number of daily visitors entering Macau; the last two columns show the weekly data in 2023. Source: Bloomberg, [Macau Government Tourism Office](#)

The silver lining that is now providing a lifeline to the industry is China's curbing of its COVID-zero policy. On Nov 1st, 2022, China's immigration bureau allowed mainland residents to travel to Macau by an online visa system instead of in-person applications. With China formally opening in Dec-2022, Macau has seen average daily visitors increase drastically over the first two weeks of 2023 (See Figure 2b). As such, gross gaming revenues are expected to increase [rapidly](#) in 2023 and 2024, adding some reprieve to the industry's cash-generating ability this year. The regulatory move away from sub-concessions could also effectively act as market consolidation that reaps benefits to the industry's revenue once visitor volume rebounds.

Given the tailwind that China's reopening provides to Macau casinos' gaming revenues, the credit risk outlook, as suggested by the Forward PD in Figure 1b, remains safer than its global counterparts. Though the industry has significantly increased its debt load since the onset of the pandemic⁵, Macau casino operators have only 5%⁶ of their total debt due over the next 12 months, with most of their debt coming due post-2025. This provides the operators with potential breathing room against refinancing headwinds, especially if the rebound in gaming revenue is not strong. However potential liquidity concerns, especially with working capital needs abound, still pose headwinds. With major industry players [bleeding cash](#) for the majority of last year, it is plausible that these operators may continue to tap into credit lines from [banks](#) or their [parent organizations](#) in the near future, especially if they are to meet the [rising capital needs](#) from investment projects into non-gaming operations.

Looking forward, though China's reopening has brought much-needed relief to Macau casino operators' credit profiles, the credit risk outlook for the industry is still faced with challenges, as suggested by the increasing term structure of the Forward PD in Figure 1b. The impact of the prolonged pandemic has provoked Macau authorities

⁵ Net debt for the industry has increased fourfold since 2019 to [USD 23bn](#).

⁶ Data from Bloomberg

to build a more diverse economy that is not driven by casino operators. As such, casinos will now have to invest close to [USD 13.5bn](#) over the next decade in non-gaming projects that may require additional financing. Though its implications on the industry's short-term credit risk outlook may be minimal, it may lead to many operators increasing their leverage positions to fund capital expenditure in non-gaming operations, especially if gaming revenue takes longer than expected to rebound to pre-pandemic levels.

Credit News**Risky US corporate bonds rebound strongly as inflation threat recedes**

Jan 15. Risky US corporate bonds have started 2023 on a positive note, with yields on speculative bonds falling in the first few weeks of the year. Distressed bonds have shown a larger improvement with the ICE index of distressed debt showing a 3 percentage point drop in yields. The improvement in bond yields is driven by market expectations of a softer stance taken by the Fed in the face of a slowdown in inflation. The yield spreads between US treasuries and junk-rated bonds has also narrowed, signaling that investors expect a soft landing and lower defaults. ([FT](#))

Bond sales break EUR 99bn in Europe's busiest week ever

Jan 12. European debt markets have been enjoying a busy 2023 as borrowers rush to borrow as they try to capitalize on the start of the year rally. Resultantly, European borrowers have raised close to USD 107bn in a mere 4 days. In contrast, 2022 was filled with heightened credit market volatility as uncertainty around rate hikes, surging inflation, and expectations of a recession kept investors wary. The current boom in issuances is led by European banks trying to raise funds as they face the prospect of repaying cheap European Central bank debt. ([Bloomberg](#))

Companies, lenders clash over loan spreads in switch from Libor

Jan 13. As the phaseout of Libor draws closer, many companies have been at odds with lenders as they transition their leveraged loan agreements away from Libor. As per Barclays, almost 78% of the leveraged loan market is still under Libor agreements as of early Jan-2023. Companies are attempting to use the transition as an opportunity to lower their interest burdens whereas lenders seek to adjust the interest cost to reflect the actual difference between Libor and SOFR. Going forward, as a larger proportion of the leveraged loan market enters negotiation, conflicts may increase. The current difference between Libor and SOFR stands at 25 bps for loan maturities of 5-7 years. ([WSJ](#))

Energy crisis roils Kepco and local debt market

Jan 15. Kepco, South Korea's main state-owned electricity supplier, recently adopted its biggest quarterly price increase in 4 decades. The tariff increase is another sign of financial stress at the company as it deals with skyrocketing energy prices, a weak currency and increasing borrowing costs. It is estimated that the company's losses in 2022 have widened to USD 24bn as compared to losses of USD 6bn in 2021. Consequently, the company had to resort to raising capital from debt markets to better manage the surge in energy prices. Despite its current financial stress, market participants do not believe a default is imminent due to the government's implicit guarantee. ([FT](#))

Chinese developers facing USD 141bn in maturing bonds this year

Jan 11. Chinese developers are facing CNY 958bn in onshore and offshore bonds maturing this year, up by CNY 70bn from last year. Nearly CNY 110bn of the debt due in Q1-2023 is considered risky or in distress, especially given that default risks for real estate companies are still prevalent due to slow recovery in sales. In 2022, real estate companies defaulted on around CNY 180bn of onshore and offshore bonds. However, the Chinese government has announced measures to help developers with low debt risk access funding through bank loans. The government has also started a government-backed bond issuance facilitation program, while simultaneously loosening restrictions on lending mechanisms to encourage offshore USD-denominated bond payment. These measures have provided some relief, as in Dec-2022, 100 major real estate companies raised CNY 102bn through domestic bond markets, up 85% from the previous month. ([Nikkei Asia](#))

More than 750,000 UK households at risk of mortgage default, says regulator ([FT](#))

Emerging market governments raise USD 40bn in January borrowing binge ([FT](#))

Carvana cuts workers amid slowing sales and debt squeeze ([WSJ](#))

Regulatory Updates

Bank of Japan under pressure over next move as bond yields and yen surge

Jan 13. Long-term Japanese bond yields surged this week as the market signaled worsening dysfunction due to the Bank of Japan's (BOJ) ultra-loose monetary policy. After years of predictable quantitative easing stance taken by the central bank, BOJ revised its yield curve control measures, producing more volatility in the country's bond markets in recent weeks. The sudden change in the yield curve control measures, as well as the lack of clear signals by the BOJ to the markets, may mean further selling of government bonds and worsening market function. It remains unlikely that the central bank will tighten policy unless there is a material change in the country's inflation outlook and wage increases. It remains to be seen how the policy will change with the BOJ's governor, Haruhiko Kuroda leaving his role in Apr-2023. ([FT](#))

China relaxes 'red lines' on property sector borrowing in policy pivot

Jan 14. China plans to loosen its three red lines policy for 30 well-performing developers with relative 'systemic importance' in scale, area of operations and other factors. This shift in policy stance signals that the government is looking at maintaining economic stability over underlying problems such as excessive debt loads. Though details regarding the policy shift are yet to be released, the current cap on borrowers' debt-to-equity ratio is among the requirements that may be relaxed. The resolution plan also includes CNY 100bn of loans for rental housing, as well as a refinancing scheme for asset management companies to encourage M&A activity. The authorities have also signaled that banks should extend repayment deadlines for loans used to build housing by 12 months. ([Nikkei Asia](#))

Treasury's debt-ceiling maneuvers to hamper Fed's tightening efforts ([Bloomberg](#))

ECB interest rates seen hitting peak of 3.25% before cut in July ([Bloomberg](#))

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