

## Macau Casino Bonds Beat Vegas on Record Revenue - Bloomberg

Written by Administrator

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Melco Crown Entertainment Ltd.'s City of Dreams casino stands in Macau, China Photographer: Daniel J. Groshong/Bloomberg

Macau, which surpassed [Las Vegas](#) as the world's biggest destination for gamblers, has also overtaken America's gaming capital for bond market performance.

[Melco Crown Entertainment Ltd](#) 's \$600 million of 10.25 percent notes due May 2018 rose 17 percent since Jan. 1, according to Cantor Fitzgerald & Co. prices on Bloomberg.

[Galaxy Entertainment Group Ltd](#)

's zero-coupon convertible notes due December 2011 climbed 28 percent to 159.75 cents on the dollar, KNG Securities LLP prices show. Casino bond prices in the U.S. rose 0.1 percent on average this year, according to Bank of America Merrill Lynch's U.S. High-Yield Gaming Index.

Casino revenue reached a record 18.9 billion patacas (\$2.4 billion) last month, according to Macau's [Gaming Inspection and Coordination Bureau](#) , equivalent to almost half the [Las Vegas Strip](#)

's takings for all of 2010. Visitors from

[China](#)

, where the number of billionaires jumped 60 percent last year, spurred growth even as the city added measures to limit gaming tables.

"Earnings are coming in much higher than expected and these companies have been able to pay down their debt faster than forecast," Aaron Fischer, regional head of gaming research at CLSA Asia-Pacific Markets, said in a phone interview from [Hong Kong](#) . "A few years ago there was a risk some of these companies could go bankrupt. That's far from the case now."

Full-year revenue rose 58 percent to a record 188 billion patacas, according to data compiled by Macau authorities.

218-Carat Diamond

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Macau, where visitors outnumbered residents 40-to-1 in the first eleven months of 2010, is the only city in China in which casinos operate legally. The city received 22.7 million visitors from January to November, according to its [tourism agency](#), lured by the promise of 24-hour gambling and attractions such as the [18-carat diamond](#) on display at billionaire [Stanley Ho](#)'s Grand Lisboa Hotel and casino. [2](#)

In the U.S., where unemployment is above 9 percent, gaming revenue on the Las Vegas Strip fell 0.6 percent to \$5.6 billion last year, after peaking at \$6.8 billion in 2007, according to data going back to 2002 compiled by the State of Nevada Gaming Control Board.

[MGM Resorts International](#) has 99 percent of its hotel rooms and 77 percent of its gaming tables in the U.S. Its \$525 million of 5.875 percent notes due February 2014 trade at about 95.75 cents on the dollar, up from 92.125 cents in December, according to Trace, the bond price-reporting system of the Financial Industry Regulatory Authority.

Wynn, Melco

[Wynn Resorts Ltd](#)'s \$1.32 billion of 7.75 percent bonds due August 2020, the securities with the second-highest weighting in Bank of America's High-Yield Gaming Index, trade at about 108.5 cents, unchanged from the end of December, Trace prices show.

Melco Crown's 10.25 percent notes rose 11 percent to 115 cents on the dollar from 103.5 cents in the second half of 2010, according to Nomura Holdings Inc. prices, while Galaxy's zero-coupon notes jumped 54 percent to 125 cents from 81 cents, KNG Securities prices show. Casino bonds in the U.S. returned an average 0.05 percent over the same period, Bank of America's U.S. High-Yield Gaming Index shows.

"Las Vegas is there when it comes to saturation" at a time when growing visitor numbers to Macau are handing investors "a huge advantage," Todd Youngberg, Chicago-based head of high-yield investments at Aviva Investors, said in an interview in [Singapore](#) yesterday. "The probability of default in Macau looks like it would be less, but I'd want to get comfortable with the

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regulations surrounding bankruptcy laws," he said.

### Record January

Casino revenue in Macau may jump to a record 20.8 billion patacas this month, analysts at CLSA forecast on Jan. 17. To reduce the risk of oversupply, which threatened growth before the financial crisis, the city is enforcing a cap of 5,500 new gaming tables by 2013, which equates to about 200 tables a year.

Macau's success is helped by "the lack of investment opportunities in China," Gabriel Chan, a Hong Kong-based analyst at Credit Suisse Group AG, said in a phone interview. "The stock market was one of the worst performing in 2010, and you can't punt on property any more with all the restrictions. It's driving people to take money out using Macau as a window."

Junket operators, which organize gaming trips for so-called V.I.P. gamblers, are offering to pay as much as 3 percent in interest a month to clients who agree to keep their winnings in Macau to be lent to other gamblers. That compares with a one-year deposit rate of 2.75 percent in China.

"This is higher than keeping money in banks or even some mutual funds," CLSA's Fischer said.

### Inflation

Inflation accelerating at the fastest pace in 28 months is threatening economic growth in China that averaged more than 10 percent over the past five years. The central bank has said it will raise bank reserve ratios tomorrow by 50 basis points, or 0.5 percentage point, to 19 percent.

Five-year credit-default swaps on the nation's bonds have risen 7.7 basis points this year after China increased the benchmark one-year lending rate by 25 basis points to 5.81 percent Dec. 25. The contracts fell 0.5 basis point to 75.5 basis points on Jan. 17, according to CMA prices in

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[New York](#) .

Credit-default swap indexes are benchmarks for protecting debt against default and traders use them to speculate on [credit quality](#) . An increase suggests deteriorating perceptions of creditworthiness and a drop shows improvement.

China's \$1 billion of 4.75 percent notes due October 2013 pay 1.49 percent, according to Royal Bank of Scotland Group Plc prices, the lowest yield of similar-maturity dollar-denominated bonds sold by the so-called BRIC nations. [Brazil](#) 's \$1.25 billion of 10.25 percent debt due June 2013 yields 1.92 percent, according to Banif Banco de Investimento SA prices, while [Russia](#) 's \$2 billion of 3.625 percent paper due April 2015 yields 3.51 percent, according to RBS prices.

[India](#) hasn't sold any dollar bonds.

Hu Visits U.S.

The yuan strengthened 0.15 percent to 6.5829 per dollar in [Shanghai](#) yesterday, after reaching a 17-year high, as President [Hu Jintao](#) begins a state visit to the U.S., according to the China Foreign Exchange Trade System.

Non-deliverable forwards show traders are betting on a 2 percent increase in the coming 12 months. One-year interest-rate swaps, or the fixed cost needed to receive the floating seven-day repurchase rate, rose 5 basis points, or 0.05 percentage point, to 3.45 percent yesterday, data compiled by Bloomberg show.

Melco Crown, a Hong Kong-based venture between Australian billionaire [James Packer](#) and Lawrence Ho, the son of Macau gambling magnate Stanley Ho, posted a third-quarter profit in November that beat analysts' estimates on the back of China's gambling boom.

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### 'Bright' Future

Galaxy Chief Financial Officer Robert Drake forecast in October a “bright” future after third-quarter earnings more than doubled from a year earlier. The Hong Kong-listed company said it received 14 billion yuan of orders when it sold 1.4 billion yuan of bonds last month.

Drake is traveling and not available for comment, according to Peter Caveny, a company spokesman.

“There shouldn’t be any material increase in Galaxy or Melco Crown’s debt levels given their improving earnings and the fact most of the funding needs for planned capital expenditure have been accounted for,” Kaven Tsang, an analyst at Moody’s Investors Service, said in a phone interview from Hong Kong. “With the predictable environment now giving investors some comfort, especially compared to sectors like Chinese property, there should be pretty good investor demand for their bonds.”

Galaxy Entertainment has the equivalent of \$1.53 billion in bonds and loans maturing before the end of 2016, while Melco Crown has \$2.28 billion due before the end of 2018, data compiled by Bloomberg show.

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