

Asia-Pacific Leisure Deal of the Year 2013: Studio City

14/03/2014

Macao casinos have become a byword for excess in raising construction financing. The special administrative region has repeatedly defied predictions of a slow-down in revenue growth, and raised jumbo financings for new developments from regional and international banks.

The financing for the \$3.05 billion Studio City project, which closed in stages between November 2012 and December 2013, continues this upward trend in deal sizes in Macau. It combined a high-yield bond, bank loan and delayed-draw bank loan and is also notable for not being secured on either a concession or a sub-concession for a casino.

Melco Crown Entertainment is already a Project Finance Deal of the Year award-winner, for the \$1.75 billion financing that it closed in 2007 for its City of Dreams project. In 2011 it agreed to buy a 60% stake in the Studio City development from eSun Holdings for \$260 million upfront and \$100 million on milestone payments. The remaining shareholder is New Cotai, whose main shareholders are US hedge funds Oaktree Capital and Silver Point Capital. Together they are contributing \$825 million in equity.

Studio City involves building a new facility on the Cotai Strip with 500 gaming tables, as well as a hotel and entertainment attractions. Melco holds a subconcession from Wynn Macau for the City of Dreams, and in turn subcontracts with Studio City for the operation of the newest facility. The arrangement not only leaves lenders to Studio City at several removes from the license under which their casino operates, but also complicated the financing for the City of Dreams. Melco went back to holders of \$600 million of its corporate bonds with a consent solicitation, but in February 2013 bought back the bonds, which carried a 10.25% coupon and were due in 2018, with \$1 billion of 5% bonds due 2021.

The corporate bond buy-back followed Studio City's issuing \$825 million in high-yield bonds in November 2012. The Studio City bonds came to market in the wake of Hurricane Sandy hitting New York, and priced at 8.5%, slightly above initial guidance of 8.25%. But the proceeds of the B-/B3 (S&P/Moodys) bonds create a large tranche of subordinate funding.

The senior debt signed on 28 January 2013, and consisted of a HK\$10.08 billion (\$1.3 billion) five-year delayed-draw term loan and a HK\$775.4 revolving credit. The debt is priced at 450bp over Hibor until the end of the first full quarter after completion, when it then varies between 375bp and 450bp depending on Studio City's total leverage.

The project sponsors are putting up \$225 million in completion guarantees, backed with cash or letters of credit. Melco Crown Entertainment can also use its own cash reserves to support the Studio City project, providing that it meets restricted payment tests under its own

Studio City Company Limited

Status
Bank debt signed 28 January 2013;
high-yield priced November 2012

Size
\$3.05 billion

Description
Casino on Macaus Cotai Strip

Sponsors
Melco Crown Entertainment;
Oaktree Capital;
Silver Point Capital

Equity
\$825 million

Debt
\$825 million high-yield issue,
\$1.4 billion bank facility

Bank arrangers
ANZ, Bank of America Merrill Lynch, Bank of China, Citigroup, Crédit Agricole, Deutsche Bank, ICBC, UBS

Participants
Banco Espírito Santo; Banco Nacional Ultramarino, Banco Weng Hang, Bank of Communications; Cathay United Bank; Chang Hwa Commercial Bank; China CITIC Bank; Chong Hing Bank; CIC; Dah Sing Bank; First Commercial Bank; NAB; Tai Fung Bank;
Bank of East Asia;
Scotiabank; Wing Lung Bank

Bond bookrunners
ANZ, Bank of America Merrill Lynch, Bank of China, Citigroup, Crédit Agricole, Deutsche Bank, UBS

corporate bond documentation.

Studio City has a firm focus on mass-market gaming, targeting mainland China's affluent. Much of Macau's revenue growth has come from high-end gamblers, but revenues from that segment are dependent on an easy supply of credit to such players. The casino is located close to the Lotus bridge, through which most Chinese visitors to Cotai will come.

The development lent on a core group of banks as both loan and bond arrangers. ANZ, Bank of America Merrill Lynch, Bank of China, Citigroup, Crédit Agricole, Deutsche Bank, ICBC and UBS led the bank financing, while the same group, minus ICBC, led the bonds. The bank deal, which finally closed in December 2013, attracted another 16 lenders.

Borrower legal counsel

Ashurst (UK/HK) Appleby Global (BVI) Shearman & Sterling (US) Manuela Antonio (Macau); Skadden, Arps, Slate and Meagher & Flom (US hedge funds)

Lender legal counsel

Clifford Chance (UK/HK); Maples and Calder (BVI); White & Case (US); Henrique Saldanha (Macau)

Environmental consultant
AECOM

Market and technical consultant

Franklin & Andrews

EPC contractors

Paul Y Construction and Yau Lee Construction

Sponsors insurance adviser
AON

Lenders insurance adviser
Jardine Lloyd Thompson

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