

HD *S&P Upgrades Studio City To 'BB-'; Outlook Stable

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The following is a press release from
Standard & Poor's:

-- We believe MCE **Group** has a strong willingness and ability to financially support Macau-based gaming **company** Studio City in a stress scenario.

-- We now consider Studio City to be a "strategically important" subsidiary of the MCE **Group**.

-- We are raising our long-term corporate credit rating on Studio City to 'BB-' from 'B+'. We are also raising the long-term issue rating on the senior notes that Studio City Finance issued to 'B' from 'B-'.

-- The stable outlook reflects our expectation that the Studio City project will be on budget and its opening will not be significantly delayed.

We expect the **company** to remain highly leveraged over the next 12 months.

HONG KONG (Standard & Poor's) April 30, 2014--Standard & Poor's Ratings Services said today that it had raised its long-term corporate credit rating

on Macau-based gaming **company** Studio City Co. Ltd. to 'BB-' from 'B+'. The outlook is stable. We also raised the long-term issue rating on the senior notes that Studio City Finance Ltd. issued to 'B' from 'B-'. At the same time, we raised our Greater **China** regional scale ratings on Studio City to 'cnBB+' from 'cnBB' and on the notes to 'cnBB-' from 'cnB+'.

Studio City Finance is the indirect parent of Studio City. Studio City Finance's existing and future restricted subsidiaries, including Studio City, guarantee the notes.

"We upgraded Studio City because we believe the Melco Crown Entertainment Ltd. (MCE) **Group** has a strong willingness and ability to financially support Studio City in a stress scenario," said Standard & Poor's credit analyst Joe Poon.

We now consider Studio City to be a "strategically important" subsidiary of

the MCE **Group** under our **group** rating methodology. The rating on the **company** is therefore two notches higher than the stand-alone credit profile of 'b'. We earlier assessed Studio City to be a "moderately strategic" subsidiary of Australia-based Crown Resorts Ltd., which is a subsidiary of Consolidated Press Holdings Ltd.

In our view, Studio City is an important part of MCE **Group**'s expansion in the gaming sector. The **company** has high integration with the **group** since MCE acquired a 60% stake in Studio City in 2011. MCE **Group** will operate Studio City's proposed casino under its sub-concession. We assess the credit profile of MCE **Group** as 'bb'.

The rating on Studio City reflects the **company**'s high leverage and significant construction and execution risks associated with its integrated gaming resort development, called Studio City Project, in Cotai, Macau. In addition, Studio City is exposed to single-**property** risk in Macau. The good growth prospects of Macau's gaming market and our expectation of ongoing support from the project sponsor, MCE, temper these weaknesses.

We rate the notes two notches lower than the corporate credit rating on Studio City because of structural subordination risk in the event of a default. The notes will rank behind the **company**'s senior secured bank facilities of about US\$1.4 billion equivalent in a recovery scenario.

Our assessment of Studio City's "highly leveraged" financial risk profile primarily reflects our view that the **company**'s project is still under construction and will not generate revenues until at least late 2015, when it is scheduled to open. Significant delays in project construction or weaker-than-expected demand will hurt Studio City's financial performance and could impair the **company**'s ability to meet its financial obligations. We do not deduct surplus cash from debt because the **company**'s business risk profile is "weak."

"The stable outlook reflects our expectation that the Studio City project will be on budget and will not face any significant delay in opening," said Mr. Poon. "We expect the **company** to remain highly leveraged over the next 12 months. The outlook also factors in ongoing managerial and financial support from MCE **Group**."

We could lower the rating on Studio City if we no longer assess that the **company** is a "strategically important" entity of MCE **Group**, in particular if MCE **Group** materially reduces its shareholding in Studio City. We could also lower the rating if we believe the **group** credit profile of MCE **Group** has weakened.

We could raise the rating on Studio City if we raise the **group** credit profile of MCE **Group**. Although less likely in the next 12 months, we could also raise

the rating if we assess Studio City as a "core" entity of MCE **Group**.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Key Credit Factors For The Leisure And Sports Industry, March 5, 2014
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- **Group** Rating Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

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Primary Credit Analyst: Joe Poon, **Hong Kong** (852) 2533-3507;
joe.poon@standardandpoors.com
Secondary Contact: Christopher Yip, **Hong Kong** +852 25333593;
christopher.yip@standardandpoors.com

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IN i97912 : Gambling Industries | ilea : Leisure/Arts/Hospitality

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