

SKYCITY Entertainment Group Ltd.'s NZ\$125 Million Fixed-Rate Notes Assigned 'BBB-' Rating

April 29, 2021

MELBOURNE (S&P Global Ratings) April 30, 2021--S&P Global Ratings today assigned its 'BBB-' long-term issue rating to SKYCITY Entertainment Group Ltd.'s (SkyCity; BBB-/Stable/--) NZ\$125 million unsubordinated, unsecured, fixed-rate notes that mature on May 21, 2027. The company will use the proceeds to pay down drawings on its bank facilities. We equalize the issue rating with the issuer credit rating on SkyCity, given that no significant elements of subordination risk are present in the capital structure.

SkyCity's long-term monopoly positions in its key markets, good asset quality supported by ongoing reinvestment and effective management, and earnings resilience through traditional economic cycles underpin its business risk profile. We view SkyCity's Auckland casino to be the highest quality asset in its portfolio and a key driver of the group's performance. Furthermore, SkyCity holds exclusivity licenses in Auckland until 2048, helping it to maintain its market share. Tempering these strengths are COVID-19 related business interruptions to trading, execution risks associated with the group's major developments in Auckland, earnings concentration in Auckland, and the risks of operating in a heavily regulated industry.

We expect a solid recovery in SkyCity's earnings in fiscal 2021 (year ending June 30, 2021) to at least 75% of fiscal 2019 levels, with a near-normalized earnings recovery in fiscal 2022. Fiscal 2021 EBITDA is likely to exceed fiscal 2020 levels, resulting in a S&P Global Ratings adjusted debt-to-EBITDA ratio of less than 3x, further reducing to the mid-2x range in fiscals 2022 and 2023. This recovery will be supported by strong gaming revenue and a recovery in non-gaming revenue, primarily at the group's Auckland and Adelaide assets. Management continues to target a 2.5x net debt-to-EBITDA ratio as part of the company's capital allocation framework and commitment to an investment grade rating.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Leisure And Sports Industry,

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March 5, 2014

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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