

# MGM Grand Paradise: Déjà vu

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01/03/2006

It has been a long time coming, but the financing of the MGM Grand Macau was finally launched into the market on 15 February.

MGM Grand Paradise, the joint venture developer of the casino resort, is financing the \$1.06 billion casino resort with \$700 million of debt, repayable in five and seven years, and expects to reach financial close in March.

The project company in fact received underwriting commitments from a group of eight banks as long ago as the summer of 2005, but has spent the last few months negotiating additional features to the project.

The lead banks are Bank of America, Bank of China, Banco Nacional Ultramarino, BNP Paribas, China Construction Bank, HSBC, Royal Bank of Scotland and Sumitomo Mitsui Banking Corporation. Of these eight, Bank of America and HSBC are bookrunners. All reaffirmed their commitment to the deal in January 2006, signing a slightly modified term sheet that gives the project company more debt and a higher gearing for the same price.

Capitalising on the island's popularity with lenders, MGM has secured the lowest cost of funding yet for a Macau project of size, paying an initial margin of 2.5% over Libor despite the modifications. Appetite for Macau's gaming industry is booming and companies such as Venetian Macau have had little trouble raising as much as \$2.5 billion through less structured deals.

MGM was expected to launch the project finance loan into syndication in September 2005, but asked the lead banks to wait until early February before approaching the market. The borrower rewarded lenders for their patience with a gala dinner at Hong Kong's Four Seasons Hotel on February 14 and held presentations the following day above its construction site in Macau.

Both events were popular, and not just for the cabaret. Lending appetite for Macau has grown rapidly since the deal was first announced, and the launch also coincided neatly with a positive results announcement from rival Las Vegas Sands, reinforcing the message of Macau's potential. Sands disclosed revenues of \$270 million for the fourth quarter of 2005 at its Macau casino alone, recording an increase of 61.3% on the same period in 2004.

As it looks to keep pace with the competition, the cost of the project has risen from \$975 million to \$1.06 billion, with the debt portion being increased from \$615 million to \$700 million as a result. This means the gearing of debt to equity has risen slightly, with the loan now funding 66% of the project.

Pricing remains attractive for lenders, offering a margin of 250bp over Libor when the loan is drawn and total fees of 125bp for banks joining at the top level of syndication.

The margin will step down as the loan amortizes and the borrower's leverage improves.

The 250bp level applies during construction, and whenever the borrower's total debt exceeds three times its annual earnings before interest, tax, depreciation and amortization. The margin then falls to 225bp below this threshold, and drops again to a floor of 200bp when total debt is less than twice the company's Ebitda.

Lenders that signed up to the Wynn Macau expansion (for more details search 'Wynn' on [www.projectfinancemagazine.com](http://www.projectfinancemagazine.com)) could be forgiven for thinking they have been here before. However, the aggressive reverse flex on Wynn's 2005 loan is unlikely to be repeated: MGM has already improved terms and the leverage test is already included.

As in both Wynn Macau financings, the loan is split between two seven-year term loans and a \$10 million five year revolving credit facility. The term loans remain distinct to separate the financing of the casino and hotel project, allowing lenders who are unable to fund gaming projects to back the hotel tranche, while the revolver provides working capital. Final tranching will depend on the preference of banks joining the syndicate and has not yet been decided.

In fact the two projects are remarkably alike, with similar total costs as well as construction schedules, and the similarity in financing structures is of little surprise. They are situated on neighbouring plots of land in downtown Macau, near the ferry terminal that links the island with Hong Kong, and both developments include casino, hotel and retail space. Wynn Macau will have first move advantage when it opens to the public on September 5 this year, while MGM will open in 2007.

Both also involve Bank of America in a leading role, with the institution's proven knowledge of the US gaming industry allowing it to build on existing relationships with the US sponsors despite a lack of any presence in project finance advisory in Asia.

Alongside MGM Mirage, which will lend its MGM Grand brand name to the casino project, is Pansy Ho Chiu-king, a local businesswoman with interests in property, transport and tourism around Macau. Pansy Ho is the daughter of Stanley Ho, who ran a network of Macanese casinos as a monopoly until the government granted new concessions in 2002.

While it is unusual for an individual to act as a project sponsor, Pansy Ho is a well-known and influential figure in Macau. Ho is investing her own money in the casino project and has made it clear that neither Shun Tak Holdings, of which she is managing director, nor her father will participate in the joint venture.

A good relationship with Stanley Ho, however, has been essential to the success of the project. Sociedade de Jogos de Macau (SJM), Stanley Ho's company, is one of only three concessionaires awarded gaming licences by the government in 2002 (the others being Wynn Resorts and Galaxy). MGM Grand Paradise has purchased a sub-concession from SJM, reportedly paying around \$200 million for an 18-year licence.

The sub-concessionaire intends to open additional sites in Macau, and MGM Mirage, the US sponsor, also has its eyes on a gaming licence in Singapore. The chance of future business will make it all the more attractive to lenders who are looking for a safe bet.

### **MGM Grand Paradise**

**Status:** Syndication launched February 15

**Financial close expected:** March 2006

**Size:** \$1.06 billion

**Location:** Macau SAR, China

**Description:** Hotel and casino resort under construction

**Debt:** \$700 million

**Sponsors:** MGM Mirage (50%), Pansy Ho Chiu-king (50%)

**Bookrunners:** Bank of America, HSBC

**Lender counsel:** Clifford Chance

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