Enjoy S.A. (/gws/en/esp/issr/86916741)

FitchRatings

Fitch Upgrades Enjoy's IDR to 'B+'; Outlook Stable

Fitch Ratings-New York-05 July 2018: Fitch Ratings has upgraded Enjoy S.A.'s Issuer Default Rating (IDR) to 'B+' from 'B' and revised the Rating Outlook to Stable from Positive. In addition, Fitch has upgraded Enjoy's senior unsecured notes to 'BB-'/'RR3' from 'B+'/'RR3'.

The upgrade of Enjoy's IDR to 'B+' from 'B' reflects its strengthened capital structure and improved financial flexibility after a capital increase, along with the completion of the bidding process ending with Enjoy retaining all its licences and adding a new one. Enjoy's ratings also factor in the longstanding and leading position of the company's operating casinos in Chile and its developing diversification in Latin America.

KEY RATING DRIVERS

Enjoy Retained Licenses: In June 2018 Enjoy won the bidding process for concessions to all three of its casinos that were up for renewal. In addition, the company won a fourth concession previously operated by its key competitor, Sun Dreams. As a result, Enjoy will maintain its operations in Vina del Mar, Coquimbo and Pucon, which, in total, contributed materially to the company's operating profitability. The new concession, Puerto Varas, is also expected to add to operating profitability.

Capital Increase Improved Capital Structure: The capital increase and entrance of Advent International to Enjoy's ownership structure in January 2018 improved the company's capital structure, financial flexibility, and strengthened its strategic focus and corporate governance, with a clearer and more conservative approach to leverage. Proceeds from the CLP112 billion capital increase were used to prepay USD105 million of the USD300 million international bond, as well as CLP50 billion of local bonds.

No Further Financial Profile Improvements Projected: Fitch does not incorporate in its base case that Enjoy will further strengthen its credit profile in the medium term, considering the additional capex and the new canon for the new licenses. The agency projects the company will reach net debt/EBITDA of 3.8x by the end of 2018, and it will remain around 4.0x during the next two years. Enjoy will pay a fix amount of USD68 million annually for the right to operate the three renewed concessions and the new one, plus a reduced gaming tax rate of 20% for those new licenses. Fitch estimates net cost for these four new licences would be incremented by approximately USD30. New payments will start when the new licenses are put in place. Enjoy will be also incrementing the amount of Capex associated with its three renewed licences and the Puerto Varas casino. Capex for these four casinos will be in the vicinity of USD115 million during the next 24 to 36 months period.

New Shareholder: The entrance of Advent International has given Enjoy a more focused strategy, concentrating on the gaming business to improve the company's EBITDA. Advent is a large private equity fund with significant investments in businesses around the globe; this is their first investment in a gaming company. They have a more conservative approach to debt than the previous shareholders, and part of the corporate strategy is to increase the value of the firm through organic growth and improving efficiencies versus growth through acquisitions financed with debt.

Slow Growth in the Industry: The gaming business in Chile is a mature industry, with low-single-digit growth. Enjoy's growth strategy is focused on developing underdeveloped locations, such as Santiago and Chiloe, as its other casinos post modest growth figures, as well as increasing it appetite for opportunities outside Chile. The expected recovery in Argentina and Brazil should improve results at Enjoy's casino in Punta del Este, Uruguay, which has been affected by the weak performing economy.

Further, the prospects of the opening of the gaming market in Brazil and improving laws in Colombia could increase competition, putting pressure on the company's operations in Uruguay.

DERIVATION SUMMARY

Enjoy's 'B+' IDR is in line with small casino operations in the Americas. Enjoy's leverage was reduced to below 4x after the capital increase, but the company shows lower margins at much larger operator such as Boyd Gaming Corporation, MGM Resorts International and Wynn Resorts. Enjoy's business factors remain good, with strong market position in Chile, profitability and an operating environment that limits new competition in Chile. Enjoy is a much smaller operator than the above mentioned peers, with 70% of its EBITDA coming from Chile, and diversification only in Latin America. Additionally, after several years of financial stress, the company is in need of capex to revitalize its asset base. Enjoy owns all of its underlying real estate, with the exception of Vina del Mar, which lowers license renewal risk and is a positive for the credit. No country ceiling, parent/subsidiary or operating environment aspects impacts the rating.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer
--Capex for CLP17 billion annually, plus CLP72 million within the next three years in the municipal casinos.
--Dividend policy of 50% of net income.

Key Recovery Rating Assumptions
--The recovery analysis assumes that Enjoy would continue operating in case of default and that the company would be reorganized rather than liquidated.
--Fitch has assumed a 10% administrative claim.

Going-Concern Approach:
Recovery analysis considers a post restricting EBITDA after default equivalent to 2017 EBITDA less 30%. The EV multiple of 3x used to calculate a post-reorganization valuation considers the latest casino and gaming saloon transactions in the market, with a haircut, as the latest transactions have been of ongoing healthy business with no financial distress.

The waterfall results in a 63% recovery, corresponding to 'RR3' Recovery Rating, which allows for a one-notch upgrade of the issuance to 'B+'.

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action
--Higher international diversification.
--Net Debt/(CFO-Capex) ratio below 5x.
-- FFO fixed charge coverage above 3x.

Developments That May, Individually or Collectively, Lead to Negative Rating Action
--Adjusted Debt/EBITDAR above 5.0x on a consistent basis.
--FFO fixed charge coverage below 2x.

LIQUIDITY

In February 2018 Enjoy paid 35% of the international USD 300 million five-year term loan (USD105 million) and CLP 50 billion of local bonds, improving its financial flexibility and reducing its amortization schedule for the following years. The company has short term debt for CLP58 billion and available cash for CLP21 billion, but 70% of the short-term debt is revolving. For 2018 and 2019 Enjoy has amortizations for CLP17 billion and CLP15 billion respectively, and its main maturity is in 2022, for CLP124 billion, consisting mainly in the USD195 million remnant of the international bond.

FULL LIST OF RATING ACTIONS

Fitch has upgraded the following ratings:

Enjoy S.A.
--Long-Term IDR to 'B+' from 'B', Outlook revised to Stable from Positive;
--Senior unsecured USD300 million notes to 'BB-'/'RR3' from 'B+'/'RR3'.

Contact:

Primary Analyst
Jose Vertiz
Director
+1-212-908-0641
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Rodolfo Schmauk
Director
+56 2 2499 3341

Committee Chairperson
Sergio Rodriguez
Senior Director
+52-81-8399-9100

Summary of Financial Statement Adjustments
Fitch considers part of the cash reported by Enjoy in its casino operations as restricted cash, as it functions as a liquidity reserve for VIP clients.

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com

Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria

Corporate Rating Criteria (pub. 23 Mar 2018)
(https://www.fitchratings.com/site/re/10023785)
Country-Specific Treatment of Recovery Ratings Criteria (pub. 16 Apr 2018)
(https://www.fitchratings.com/site/re/10026835)

Additional Disclosures

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