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Research Update:

Enjoy S.A. 'B' Rating Affirmed, Outlook Remains Stable

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Table Of Contents

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Rating Action Overview

- We expect Enjoy's cash flows to increase over the next few years thanks to its focus on revenue growth and operating efficiency, after somewhat weaker-than-expected 2018 results.
- We also expect Chile-based gaming company to maintain active debt refinancing, but liquidity should remain limited due to considerable capital expenditures (capex).
- On Dec. 26, 2018, we affirmed our 'B' issuer credit and debt ratings on Enjoy.
- The stable outlook reflects our expectation that Enjoy's increasing cash flows will lead to debt to EBITDA of 3.5x-4.5x, funds from operations (FFO) to debt of 12%-16%, and EBITDA interest coverage of 2x-3x in the next few years.

Rating Action Rationale

The affirmation reflects our expectation of higher cash flows starting in 2019, compensating for the relatively weaker-than-expected 2018 results due to weak Uruguayan operations and one-time higher expenses related to the consultant firm Enjoy hired. The company is currently implementing measures to support revenue growth and improve operating efficiency, and we expect lower interest expenses due to its recent debt refinancing.

During the first half of 2018, Enjoy was able to renew its three municipal casino licenses in Chile in a bidding process, through which it was also awarded a new license in Puerto Varas, where it already operates a hotel. As part of the license renewal, Enjoy committed to invest about $118 million for the acquisition of new slots and expansion/refurbishment of the properties during 2018-2021. We believe Enjoy will finance the investments mostly with internal cash flows and the recent domestic bond issuance. We also assume the company would constantly refinance debt maturities, maintaining relatively stable gross debt at about CLP330 billion over the next few years, after proven access to banks and local capital markets in 2018.

These expansion investments and several actions Enjoy is taking to improve operations, such as better revenues management of slots machine and game tables, improving recovery of receivables among others, should raise EBITDA margin close to 24% in 2019 from the likely level of 21.7% in 2018, similar to 2017. On the other hand, the change in Chile's tax regime from a fixed to

variable cost starting in 2020 should pressure Enjoy's EBITDA margin again, bringing it to close to 21%. Still, we expect the company to maintain this margin thanks to Enjoy's solid market position. The company has recently acquired two casinos in San Antonio and Los Ángeles in Chile, which should generate less than 5% of total revenue, but add to the company's gains of scale. Also, we believe, Enjoy could continue pursuing new acquisitions, diversifying portfolio, and strengthening its presence in the region.

Outlook

The stable outlook reflects our expectation that the company's cash flows will rise due to efforts to improve operating efficiency, while Enjoy is likely to continue to refinance its debt. We expect the company to keep relatively stable debt levels, resulting in debt to EBITDA of 3.5x-4.5x, FFO to debt of 12%-16%, and EBITDA interest coverage of 2x-3x in the next two years.

Upside scenario

We could revise the outlook to positive or raise the ratings in the next 12 months if Enjoy generates higher-than-expected cash flows and extends its debt tenor through ongoing debt refinancing. In this scenario, we would see a more comfortable liquidity position, with sources of cash exceeding uses in more than 1.2x. The company could reach this through a maturity extension of about CLP25 billion out of its current CLP55 billion short-term debt.

Downside scenario

We could downgrade Enjoy in the next 12 months if we see a weaker liquidity position due to refinancing risks arising from limited access to capital markets and banks. This scenario would likely be a result from weaker cash flows due to cooling economic conditions in Chile, Brazil, and Argentina, which would reduce travelers' flow to the company's casinos, resulting in its debt to EBITDA above 5.0x and FFO to debt below 12%.

Company Description

Enjoy is the leading casino operator in Chile. Based in Chile, the company currently owns and operates 10 casinos and resorts in Chile and Uruguay. It also has a minority stake in one casino in Argentina, but it's not consolidated in its financial statements. In the first nine months of 2018, about 80% of the company's revenues come from gaming, with the remainder divided among hotels and restaurants/food and beverage segments. Enjoy's largest shareholders are private equity fund from Advent, with a 34.4% stake and Martinez family with a 28.7% stake.

Our Base-Case Scenario

Under our base-scenario, we assume the following:

- GDP growth in Chile of 3.3% in 2019 and 3.0% in 2020.
- GDP growth in Brazil of 2.4% in 2019 and 2.5% in 2020.
- GDP decline in Argentina of 0.8% in 2019 and growth of 2.5% in 2020.
- Chile's inflation of 3.1% in 2019 and 2020.
- Inflation in Uruguay of 7.4%-7.6% in 2019 and 2020, and a minor weakening of the currency with UYU33.5 per $1 in 2019 and UYU33.75 per $1 in 2020.
- Gaming revenue to increase 7%-10% in 2019 and 2020, mainly driven by casinos in the north and central regions of Chile due to slots renewal and measures to improve revenue management, and also the rising use of loyalty program that boosts domestic visits.
- For the food & beverage and hotels segment, we forecast annual revenue growth at 3.5%-6.0%, in line with inflation growth rate.
- Stronger EBITDA margin in 2019 as result of several strategic initiatives the company is implementing to increase revenue and control costs and expenses. But lower margins starting in 2020 due to the impact of higher taxes related to the licenses renewal.
- Ongoing debt refinancing over the next few years, keeping relatively stable gross debt levels about CLP330 billion.
- Capex related to the licenses renewal mainly in 2019 (about $43 million) and in 2020 (about $63 million). We also assume capex of about 3.5% of revenues per year for maintenance.
- No dividend payments in 2019, because the company accumulated losses in 2018. And minimum dividends payout of 30% of previous year net income in 2020.

Based on these assumptions, we arrive at the following credit measures:

- EBITDA margin of 23%-24% in 2019 and 21%-22% in 2020, compared with our expectations of about 22% in 2018;
- Debt to EBITDA of 3.5x-4.0x in 2019 and 2020, compared with our forecast of 4.2x in 2018; and
- FFO to debt of 13%-17% in 2019 and 2020, compared with likely 13% in 2018.

Liquidity

We forecast that the company's sources over uses of liquidity should be slightly below 1x in the next 12 months. However, we expect Enjoy to continue to be active in refinancing upcoming maturities, enabling sufficient liquidity sources to comply with the capex related to the municipal licenses' renewal over the next few years. Our liquidity assessment incorporates the recent

domestic bond issuance of CLP82 billion, which Enjoy used to pay down short-term debt of about CLP57.4 billion and fund the recent acquisition for $9 million. Our assessment also incorporates our view that Enjoy's ability to absorb low-probability, high-impact events without refinancing is limited, given relatively high capex plan for the coming years.

Principal Liquidity Sources:

- Total cash and equivalents for CLP59.6 billion as of September 2018; and
- Expected FFO of about CLP38 billion in the following 12 months as of September 2018.

Principal Liquidity Uses:

- Short-term maturities for CLP54.9 billion after debt payment with proceeds from the recent local bond issuance;
- Working capital needs for about CLP4 billion in the next 12 months; and
- Capex of around CLP45.3 billion, considering minimum maintenance capex of CLP5 billion and CLP40 billion for operations' improvements.

Covenants

Enjoy has several financial covenants on its bank loans, and international and domestic bonds. We expect Enjoy to show limited covenants cushion over the next few years, but because the main covenants only limit the incurrence of additional debt, we don't expect any major constraints given that we assume the company will fund growth through its cash flows and recent domestic bond issuance.

Issue Ratings - Subordination Risk Analysis

We rate Enjoy's senior secured notes at the same level as issuer credit rating because we believe this debt is better positioned than unsecured debt due to the additional protection the security provides. Enjoy's senior secured international notes are secured by mortgages on real estate and pledge on common stock of several operating subsidiaries.

Ratings Score Snapshot

Issuer Credit Rating: B/Stable/--

Business Risk: Fair

- Industry Risk: Intermediate
- Country Risk: Intermediate
- Competitive Position: Fair

Financial Risk: Highly Leveraged
- Cash Flow & Leverage: Highly Leveraged

Anchor: 'b'

Modifiers:
- Diversification: Neutral (No impact)
- Capital Structure: Neutral (No impact)
- Financial Policy: Financial Sponsor-6 (No impact)
- Liquidity: Less than adequate (No impact)
- Management and Governance: Fair (No impact)
- Comparable Ratings Analysis: Neutral (No impact)

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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, March 5, 2014
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

Enjoy S.A.

Issuer Credit Rating	B/Stable/--
Senior Secured	B

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.