

# Gaming fortune

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Macao, the Special Administrative Region of China, and the only place in the country where casinos are legal, is doing reasonably well. The region's special status and its massive development projects underway have put a stamp on the former Portuguese enclave as a gambling mecca.

As incomes rise in China, pushing millions of people into the upper-middle class bracket, Macao has reaped the benefits, due to its close proximity to both the mainland and Hong Kong

However, due to recurrent news regarding a tightening visa regulation and the ongoing anti-corruption campaign on the mainland, the gaming industry has seen a reversal of its fortunes.

In July, casinos in Macao recorded a year-on-year drop of 3.6 percent in total revenue to MOP28.4 billion (\$3.56 billion), according to the Gaming Inspection and Coordination Bureau.

UBS, a global firm providing financial services, gave an annual forecast of earnings before interest, taxes, depreciation, and amortization (EBITDA) of 2 percent or 3 percent for the whole industry, while the EBITDA growth will be lowered by 2 percentage points to 20 percent this year.



### **Shorter stay for mainlanders**

Citibank pointed out that its June estimation was HK\$27 billion, down by 5 percent year on year, reflecting the first slowdown since June 2009.

On June 10, local media reported there had only been a limited payment using UnionPay — a bankcard for inter-bank clearing and settlement system on the mainland — inside casinos, regarded as a potential cut back on revenue by the market.

Stock prices of major casino operators saw a sharp 5-percent decrease on the same day. Some even reached an eight-month low.

The situation just worsened, as seven days later, Macao authorities confirmed a further control of stay for Chinese passport holders.

Since July 1, the length of stay for visitors from the mainland has been reduced from seven days to five days. Last year, about 2.1 million mainlanders visited Macao, without transferring to other regions. Visits from the mainland have accounted for 80 percent of the total.

Some analysts said the shorter length of stay would not allow mainlanders to change their visiting patterns too much.

“Normally, visitors will only spend a day or two in Macao. I don’t see there is any kind of an increase so far,” said Kaven Tsang, vice-president and senior analyst with Moody’s Investors Service Hong Kong Ltd.

However, the market responded immediately with a fall in stock prices.

Tsang said the market downturn is particularly affected by the slowdown in the VIP segment, which refers to those who play almost exclusively in dedicated VIP rooms or designated casino or gaming areas.

“The VIP revenue growth has been affected because of a cooling Chinese economy, as well as the climb-down of the government spending or the anti-corruption activities on the mainland, which has been happening for the past three months,” Tsang added.

Denis Wang, director of the School of Hotel and Tourism Management at The Chinese University of Hong Kong’s Business School, said the ongoing anti-corruption campaign on the mainland is another major reason for the slowdown in casino revenues.

Meanwhile, he suggests that investors should not worry about the temporary setbacks as the fluctuations are quite normal in the longer run.

For casinos, the major revenue is mainly from four categories — casinos, shopping malls, hotels, food and beverages and convention-related business. Of the four types, revenue from casinos takes about 90 percent of the total.

Commenting on the decline of casino stocks prices on June 26, Francis Tam Pak-yuen of Macao’s Secretariat for Economy and Finance told the media there would not be any new UnionPay Point of Sale (POS) terminals inside the casinos, but assured visitors that the existing terminals would not be removed either.

The speech was an instant pump for sluggish casino stock prices.

Wynn Macau, a major casino, saw its stock price bounce back by 5 percent on that day. Stock prices of Galaxy Entertainment Group and Sands China climbed by 4 percent in one day.

Tsang said, to some extent, the casinos’ revenue will be affected by further restrictions on UnionPay card use at casinos. But the impact would not be very severe.

“The Macao government has restricted the card payment system inside the casinos. But, they are still allowed to have this kind of payment system in the resort areas as it would be less convenient to get the money from the card system. But that’s not something totally restricted,” he said.

Many investment banks and analysts predict that the VIP sectors will see a heavy crash as a result of the mainland’s massive anti-corruption drive.

On the other hand, the number of mass-market customers, who comprise the most-profitable gaming segment, will keep growing steadily.

Citibank noted that the market has placed too much attention on the VIP section, which only takes about 30 percent of the total EBITDA on average. The mass-market sector still records a healthy growth.

Wang said revenues from the mass-market sector will help to cover those lost in the VIP section.

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**Some analysts blame the World Cup for diverting a number of patrons away from the world's largest gambling hub.**

## Still optimistic

“Right now for Macao, revenue from (the) VIP section accounts for more than 60 percent of the total. But, in mature casino markets, such as Las Vegas, the mass market will take even more,” said Wang.

He added that greater exploration should be conducted to tap the great existing potential as only 2 percent of mainland residents have visited Macao, as against 25 percent in the US.

Tsang says his firm has a positive view of the mass market, and expects a continuous growth trend.

“The proportion of mass-market gamblers will increase because they will be attracted by some other events held in Macao,” he said, adding that resort-oriented activities, in addition to gaming, could also attract more visitors.

“On the other hand, the mass market is more profitable. If you look at it from the gaming operators’ viewpoint, the increasing proportion in the mass market could help improve profitability,” said Tsang.

Fitch Ratings gave a 12-percent forecast for gross revenue growth in 2014.

Tsang said the growth will continue to slow down as the mainland economy was slowing down. The VIP segment too will feel the pressure from the anti-corruption campaign.

“We are expecting the overall gaming revenue to slow down, mostly, but we are still expecting a growth in the next 12 to 18 months,” Tsang said.

Wang said the second half will see a better performance, predicting an annual revenue of \$49 billion — about 10 percent increase from \$45 billion in 2013.

“Macao will eventually come up with a way to make its visitors stay longer. The casinos will be more diversified, (and) not just offer gambling.”

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### **World Cup: Boon or bane?**

By Hua Yang

Macao, which is 11 time zones away from Brazil where the 2014 FIFA World Cup was held recently, has seen a repeat of its gaming revenue slump that the former Portuguese colony recorded during the July 2010 World Cup held in Johannesburg, South Africa. At that time, Macao casinos' gross gaming revenue fell 20 percent compared with that in June 2010.

According to the Gaming Inspection and Coordination Bureau of Macao, during the 2014 World Cup held between June 12 and July 13, Macao's casino revenue in June this year dropped by 3.7 percent year-on-year to MOP27.4 billion (\$3.43 billion) — the first monthly fall in five years, and the revenue also fell 3.6 percent in July to MOP28.4 billion. “When some big event, like the World Cup, takes place in the market that gamblers can participate in, they can be easily diverted to these events, dampening casino activities,” said Kaven Tsang, a senior analyst at Moody's Investors Service Hong Kong Ltd.

As in previous years, some analysts are also blaming the World Cup for diverting a number of patrons away from the world's largest gambling hub.

The expected decline was in line with analysts' expectations of a 3 to 5-percent drop.

According to the Gaming Inspection and Coordination Bureau of Macao, before July 2010, there was a dip in June 2009. The earnings fell 17 percent year-on-year as a result of the global financial crisis.