



# Playing the Tables

**MACAU'S** GAMING INDUSTRY CONTINUES TO THRIVE IN ASIA. MARK MOBIUS VISITS THE FORMER PORTUGUESE COLONY AND FINDS OUT THERE'S MORE TO IT THAN MEETS THE EYE

**M**ACAU IS ONE OF MY FAVOURITE places. As an investor, I'm keen to follow up on our investments in the highly profitable public-listed casinos.

Second, I love the laid-back atmosphere – it's no wonder that life expectancy is longer at 84 years in Macau than Japan's 82.

Let's first talk about the casinos. It's quite astonishing to learn that, in 2010, Macau's gaming revenue was four times more than that of Las Vegas. Gambling revenue has made Macau the world's top casino market, and business continues to boom. Since 2004, Macau's casino gaming revenues have been growing at a compound annual rate of 30 per cent, rising from US\$2 billion in 2000 to US\$24 billion in 2010. During that time, the number of casinos more than doubled from 15 to over 30. Annual tourist arrivals skyrocketed, from nine million to 13 million. And the growth continues. During the first half of 2011, total Macau gaming revenues rose by 45 per cent compared with the same period in 2010.

Before the arrival of international casino operators, the reputation of casinos in Macau was like something out of a movie, featuring smoke-filled gambling rooms and organised crime

activity. Founded in 1962 by Stanley Ho and a handful of partners, Sociedade de Turismo e Diversões de Macau (STDM) maintained a gambling monopoly that lasted for almost 40 years.

Then, in 2001, the Macau government decided to liberalise the gaming market. The advice the government received from accounting firm Arthur Andersen was to allow a total of three licences. One was given to SJM (an STDM subsidiary), one to K Wah's Lui Che-woo, and one to Wynn Resorts, headed by Steve Wynn.

To satisfy the Macau government's desire for foreign involvement in addition to Wynn, K Wah's Galaxy Entertainment Group formed a joint venture with Sheldon Adelson's Las Vegas Sands. As a result, there are now six licences in Macau, but each licence holder has been allowed to open in multiple locations upon approval from the Macau government.

Sands Macao was the first new casino to open up in 2004, and broke even in nine months. Wynn Macau followed in 2006. While those two new casinos were located on the peninsula near Stanley Ho's main casino, there was also major expansion in the Cotai Strip with the opening of The Venetian Macao in 2007, at the time the second-largest building in the world by floor space.

In mid-2011, there were 34 casinos in Macau, with 24 on the Macau Peninsula and 10 on the Cotai Strip, the reclaimed land uniting two islands. SJM controls the lion's share with 20 casinos; Galaxy has six; The Venetian Macao (owned by Las Vegas Sands) and Melco Crown (formerly known as Melco PBL) have three each; and Wynn Resorts and MGM Resorts have one

## BRIGHT LIGHTS

**FROM TOP**  
Macau's famous  
skyline at night;  
Mark Mobius





## Macau's GDP growth rate has averaged 10 per cent annually for the past decade

each. Stanley Ho's SJM is still the undisputed king of the Macau gaming industry even after losing its monopoly. With 20 properties, it has over 1,700 gaming tables and 4,000 slot machines.

Macau is a market for big spenders, and in the so-called VIP market the minimum bet starts at US\$2,500 and can reach into the millions. Gaming revenue breakdown for 2010 was VIP (72 per cent), mass market (23 per cent) and slot machines (5 per cent). The win rate is key to measuring the profitability and success of a casino. For the VIP segment of the market, the most popular game is baccarat, with a theoretical win rate of 2.85 per cent. Therefore, if a casino has a "rolling-chip" volume of US\$100 million, then it should report revenue of US\$2.85 million. Rolling volumes are counted like this: let's say a gambler changes US\$1 million into chips and bets all. He is now "rolling" US\$1 million. Let's say he wins and gets another US\$1 million, then he bets it all again: US\$2 million. The "rolling" is US\$3 million (US\$1 million initial chip value plus US\$2 million on the table). You can see that although he just exchanges US\$1 million in cash for gambling, the rolling can potentially be much higher than that. For the mass market, where not only baccarat but also slot machines and other games are played, yields are much better and a successful casino can have a win rate of over 25 per cent.

The VIP business is driven by "junkets" where casinos offer an average of 1.25 per cent in commissions to the junket operators. The junket companies, in turn, have agents who offer rebates to the VIP players and also take responsibility for collecting from the players. Usually with US\$100 million in capital, a junket operator can reach a rolling chip volume of up to US\$800 million in a month, depending on the speed of debt collection from the gamblers. If debts are not collected, this is a big problem for junket operators – during the Asian financial crisis, over half of the operators were wiped out. Now operators are more conservative and don't extend credit to players more than 1:1, and accounts are usually receivable within 23 days.

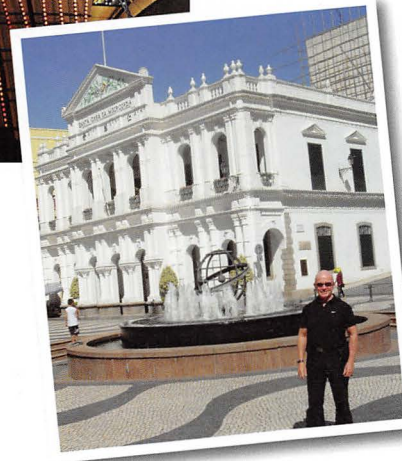
Since the Macau gaming industry was liberalised, its GDP growth rate has averaged 10 per cent annually for the past decade. The casinos and tourism business that it generates represent more than 50 per cent of Macau's GDP, and 70 per cent of Macau government revenues. Perhaps less known about Macau is that it could become an important financial centre,



a tax haven and a free port with no foreign exchange controls. The region is a net creditor with strong finances, and carries a prime "Aa3" Moody's credit rating. With high earnings from the growing gaming market, Macau residents receive numerous benefits, including 15 years of free education, so the literacy rate hovers around 94 per cent.

Probably most important for Macau's future is the planned Hong Kong-Zhuhai-Macau Bridge, a series of bridges and tunnels that will connect Hong Kong with Macau and the city of Zhuhai in Guangdong province, situated on the west side of the Pearl River Delta. The 50-kilometre link, expected to cost around US\$10 billion, is scheduled for completion in 2015. Instead of having to take the one-hour ferry ride from Hong Kong to Macau, visitors will be able to drive to Macau across bridges and tunnels spanning 29 kilometres.

Although the future looks bright for Macau, there is competition looming on the horizon. Singapore's casinos are growing fast and the city is poised to quickly overtake Las Vegas and become the world's second-largest gaming market, possibly within the year. In 2011, Singapore is forecast to deliver more than US\$6 billion in gaming revenue, with Resorts World Sentosa and Marina Bay Sands setting the pace. Singapore casinos also enjoy a lower tax on gaming revenues than Macau – the tax in Macau is 39 per cent, while in Singapore it ranges from 12 per cent to 22 per cent. Will Singapore usurp Macau's grip on the Asian gaming market? Or will there be peaceful coexistence, Macau continuing to attract tourists in droves with all that it offers beyond the casinos? Only time will tell. ■



### GAMING HAVEN

#### FROM TOP

The Grand Lisboa is one of 20 casinos owned by Stanley Ho's SJM; Mobius soaking in Macau's laid-back atmosphere