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ESG Review of Six Macau Casino Operators

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WHAT IS ESG?

Investors and operators in hospitality and gaming are looking into sustainability in a more comprehensive way. ESG stands for **E**nvironmental, **S**ocial and **G**overnance. ESG covers a wide range of key performance indicators (KPIs) in corresponding aspects, such as green house gas (GHG) emissions, stakeholder engagement and people management.

WHY ESG MATTERS?

In 2013, HKEX published its first ESG Reporting Guide providing stakeholders a clear framework to evaluate the ESG performance of listed companies on a regular basis. Amid the Covid-19 outbreak, environmental and social issues received increasing attention, and ESG disclosure became a critical indicator of corporates being good citizens and neighbors.

ESG REPORTING

Obligated by stock exchange regulations, listed companies usually report their annual ESG performance together with annual report or in a separate report. The reporting practice varies among companies in the hospitality and gaming industries. Some companies provide more comprehensive disclosure on certain aspects and adhere to more stringent standards than others. This paper serves to give an overview of how the six major casino operators in Macau disclose their ESG performance and reviews the quality of their reporting. This can help to enhance their performance and encourage more detailed disclosure in the future.



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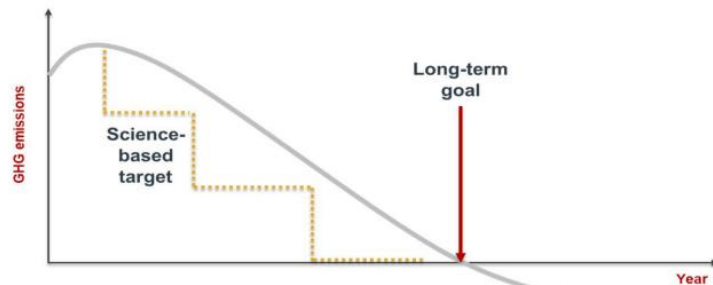
ESG Reporting Overview, 2020

All 6 casino operators in Macau reported their ESG and sustainability commitments in 2020 as part of their annual reporting; some of them also submitted their performance to CDP, a not-for-profit organization dedicated in global benchmarking of environmental reporting for year 2020 and 2021.

Company	Galaxy Entertainment Group ("GEG")	Melco International ("Melco")	MGM China ("MGM")	Sands China ("Sands")	SJM Holdings ("SJM")	Wynn Macau ("Wynn")
Company Logo	 銀娛 GEG	 MELCO	 MGM CHINA HOLDINGS LIMITED 美高梅中國控股有限公司	 金沙中國 Sands China Ltd.	 澳門博彩控股有限公司 SJM HOLDINGS LIMITED	 Wynn MACAU
Reporting Year	2019-2020	2018-2020	2018-2020	2019-2020	2020	2019-2020
Format	Part of annual report	ESG Report	ESG Report	ESG Report	ESG Report	ESG Report
Listing & Ticker	Hong Kong Exchange (0027.HK)	Hong Kong Exchange (0200.HK)	Hong Kong Exchange (2282.HK)	Hong Kong Exchange (1928.HK)	Hong Kong Exchange (0880.HK)	Hong Kong Exchange (1128.HK)
Guidelines Used	HKEX ESG Reporting Guide	HKEX ESG Reporting Guide GRI Standards	HKEX ESG Reporting Guide GRI Standards	HKEX ESG Reporting Guide GRI Standards	HKEX ESG Reporting Guide	HKEX ESG Reporting Guide GRI Standards
CDP Reporting	N/A	B (Climate Change 2020,2021)	A- (Climate Change 2020,2021)	A (Climate Change 2020,2021)	N/A	N/A
Footprint	Macau SAR	Macau SAR, Philippines, Cyprus	Macau SAR	Macau SAR	Macau SAR	Macau SAR
Scale of Organization	3 properties >4,200 rooms	3 properties in Macau >4,000 rooms (in Macau)	2 properties >1,980 rooms	5 properties >12,000 rooms	2 properties >2,300 rooms	2 properties >2,710 rooms

Environmental Targets Initiative

As part of the KPIs under GRI Index, companies are required to disclose their goals of emissions reductions in their reports, and one of the commonly used scale, **Science Based Targets initiative (SBTi)**, helps companies understand the timeline and actions required to reduce their GHG emissions. Currently, the ultimate goal is for GHG emissions to halve by 2030 and reduce to net zero by 2050.



Source: SBTi

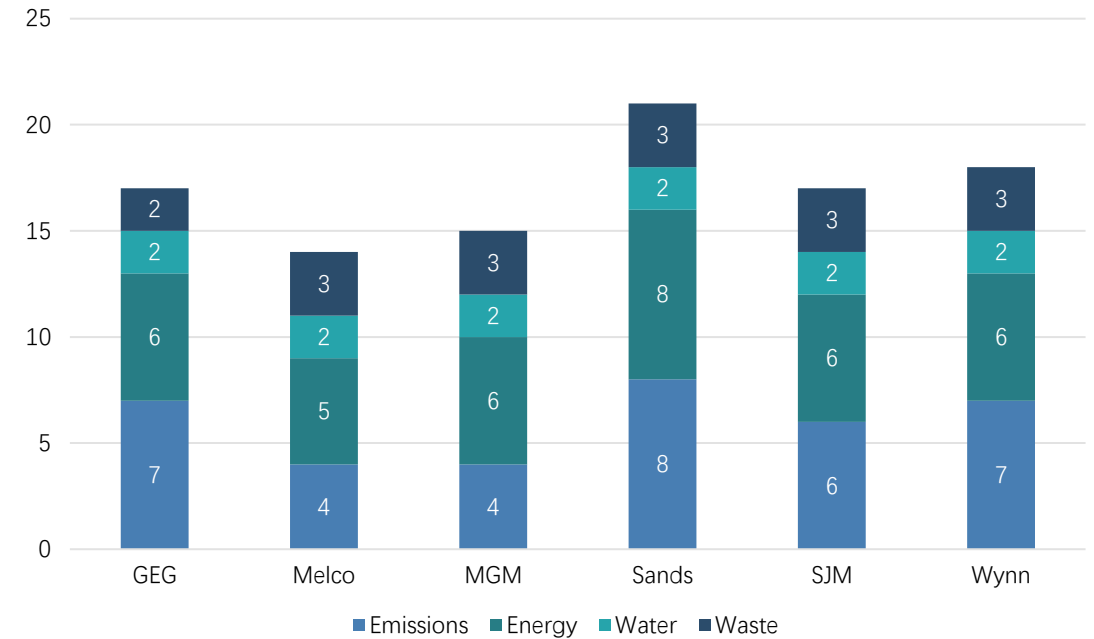
Among the six casino operators in this article, **Sands** is the only company reporting its approved SBTi in the report. In 2020, Sands set a new science-based target, reducing GHG emissions (scope 1 and 2) by 17.5% from a 2018 baseline year by 2025.

Both Melco and MGM disclosed their emission reduction targets in their report without clear explanations of methodology and approach.

- **Melco** aims to achieve carbon neutral resorts by 2030
- **MGM** targets energy saving of 13% from a 2019 baseline year by 2025 and reaching peak carbon emission by 2030

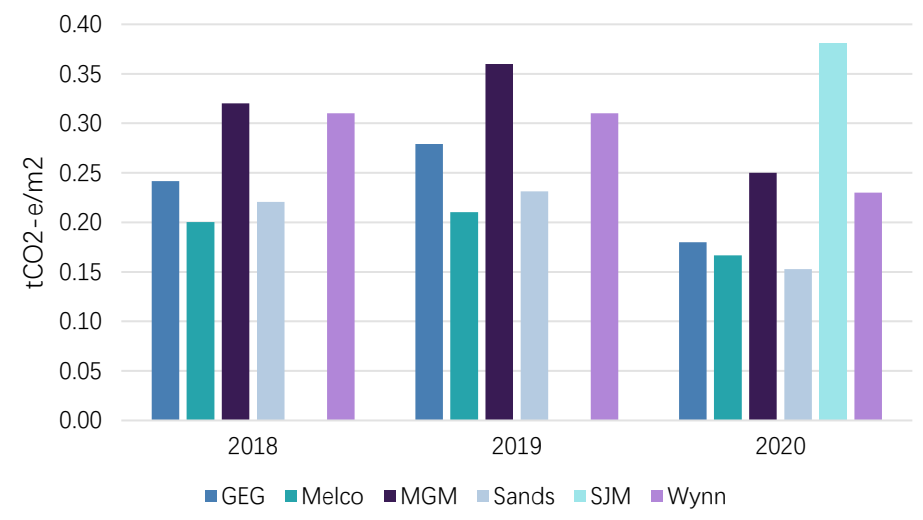
On the other hand, **GEG**, **SJM** and **Wynn** did not report their long-term goals and targets of GHG emissions reduction in their ESG reports in 2020.

Environmental KPIs Reported, 2020

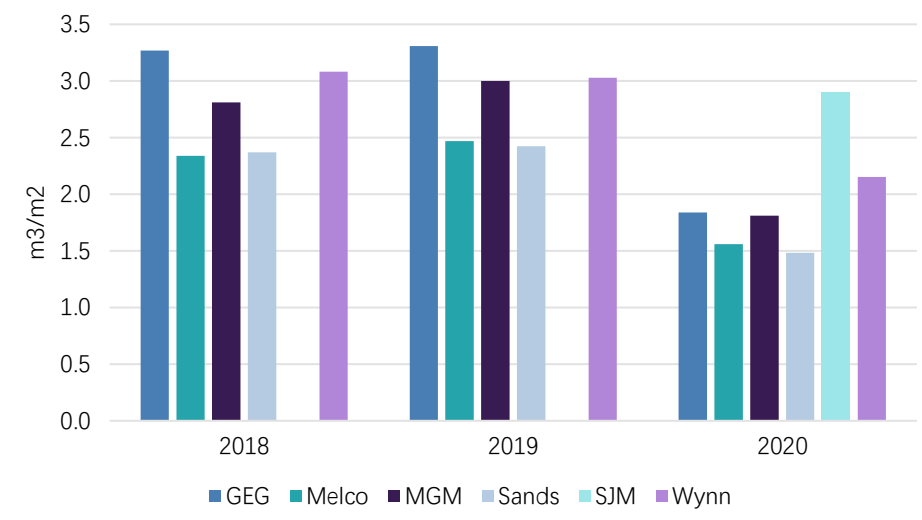


- **Sands** had the most comprehensive environmental KPI reporting (21 out of 21 items identified!), including partial GHG Scope 3 emissions and renewable energy.
- Operators generally reported their total consumption of energy, and some further reported a breakdown of energy consumption.
- All 6 operators reported water consumption in both total consumption and consumption intensity - this is the most consistently reported environmental KPIs.
- Most of the operators mentioned their initiatives and achievements in recycling and waste diversion despite different reporting angles.

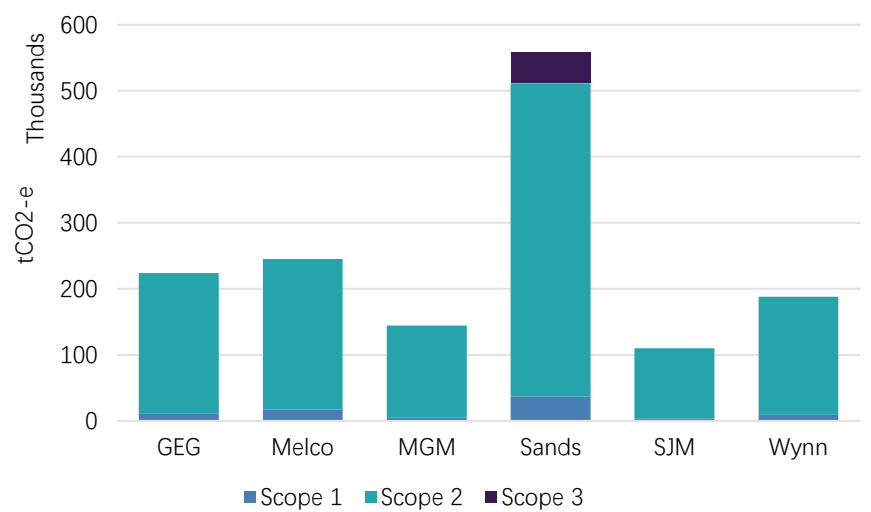
 GHG Emission Reported, 2018-2020



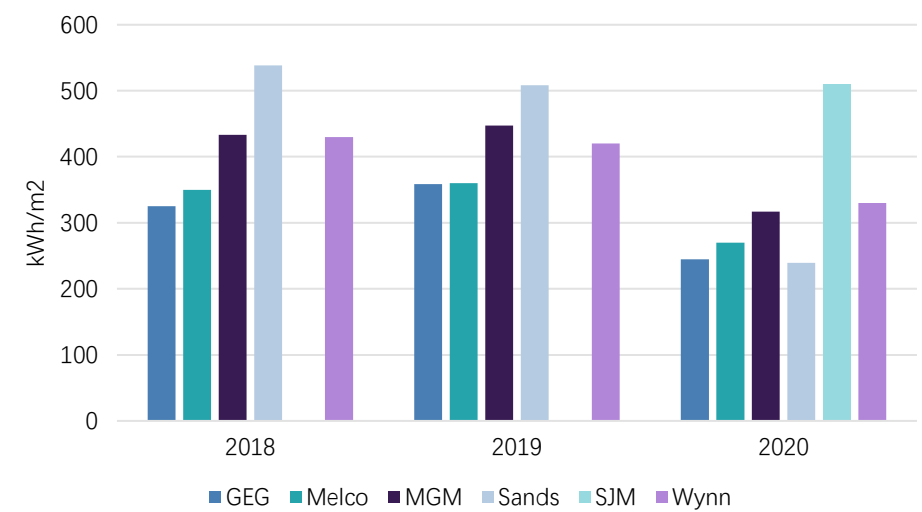
 Water Intensity Reported, 2018-2020



 GHG Emission, 2020

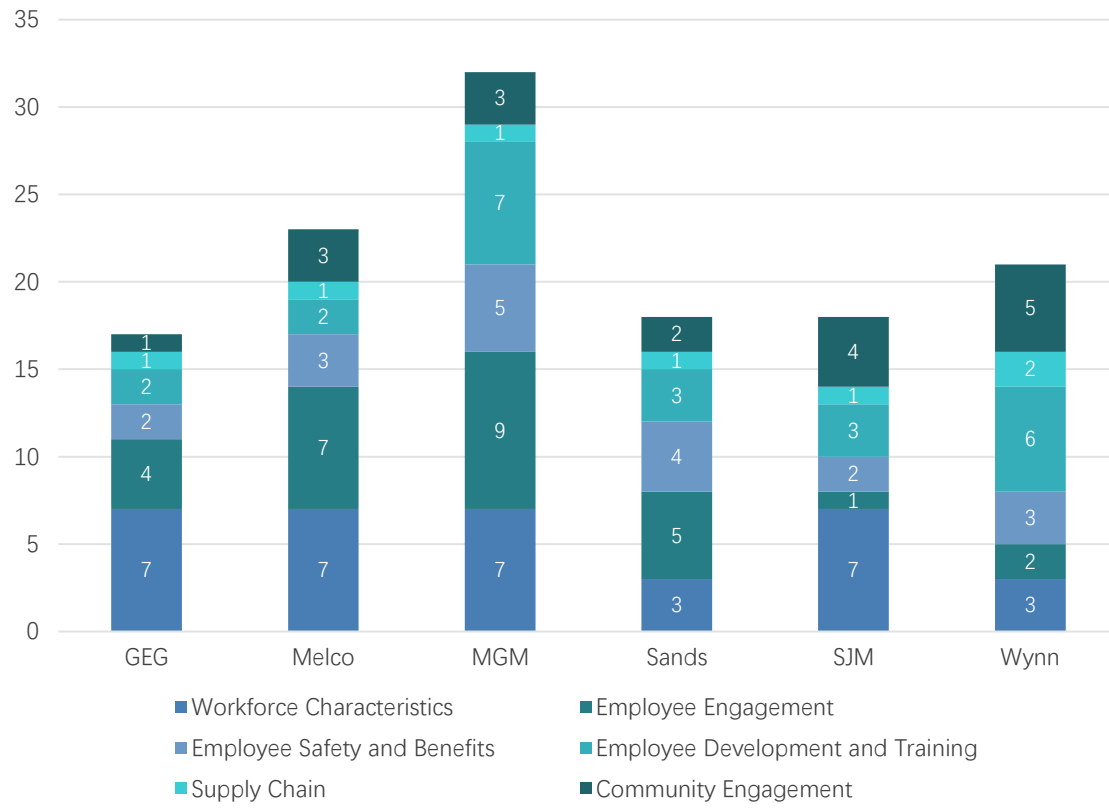


 Energy Intensity Reported, 2018-2020



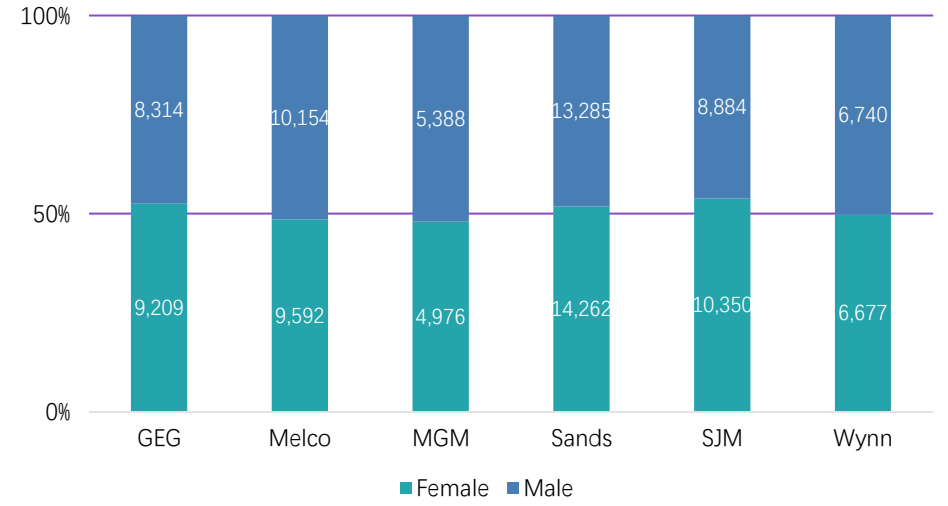
On a per square meter GFA basis, the operators were able to reverse a mostly rising trends in 2019 to lower ratios in 2020. However, COVID-19 lowered business levels significantly, concealing a potentially negative trend. SJM in their first report showed the highest ratios among its peers providing ample room for improvement via new and future initiatives.

 Social KPIs Reported, 2020

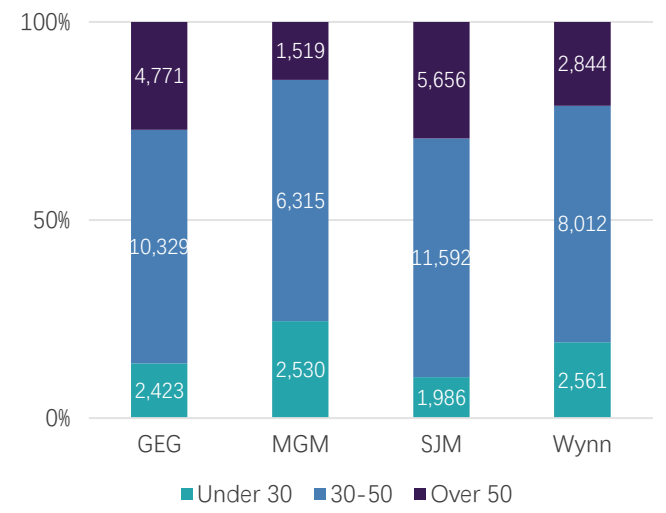


- Social KPIs vary from operator to operator, and the most common reported KPIs concern their employees, supply chain and community engagement. While operators cover major aspects of social KPIs, some operators may focus more on specific items than the other
- For employee development and training, the operators usually highlighted their initiatives of responsible gambling and anti-money laundering.

 Workforce by Gender, 2020

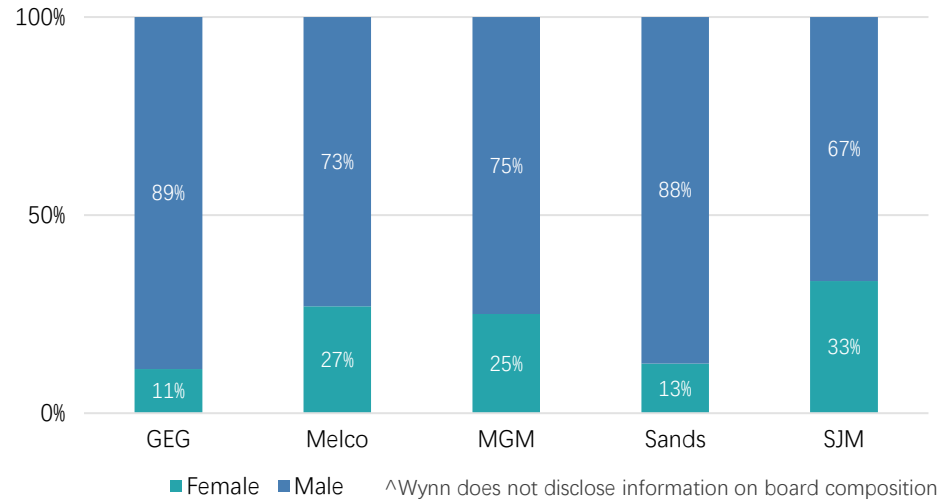


 Workforce by Age, 2020

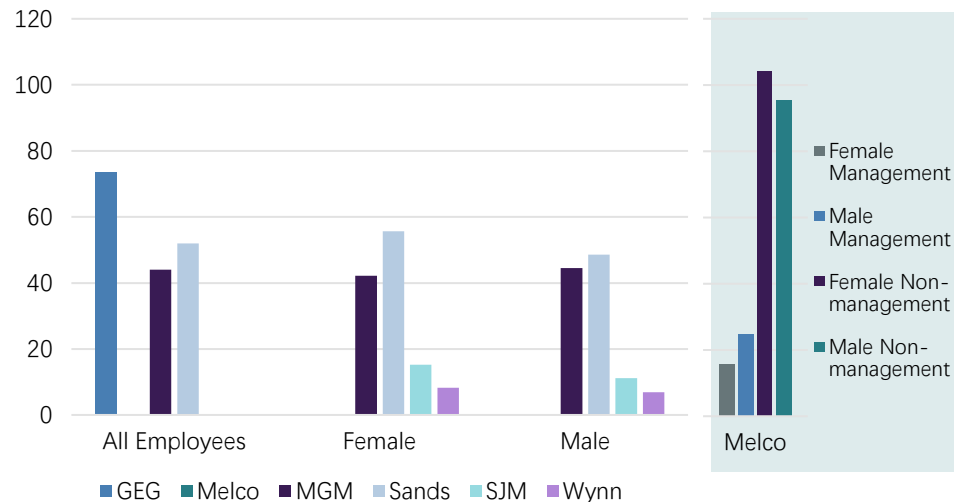


^Melco and Sands did not disclose the data of their workforce by age.

Board Composition by Gender, 2020



Average Training Hours, 2020



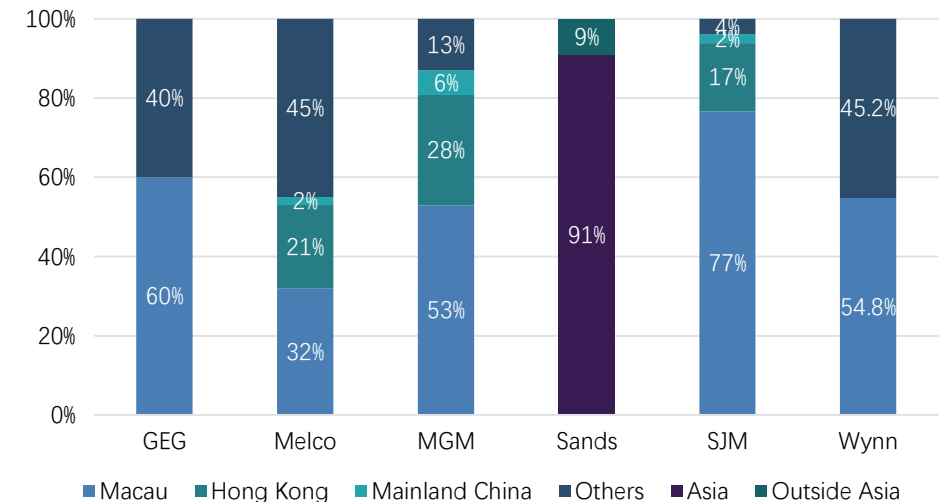
^Melco reported training hours by gender and employee category

Charitable Donations, 2020

^SJM only provided partial initiatives



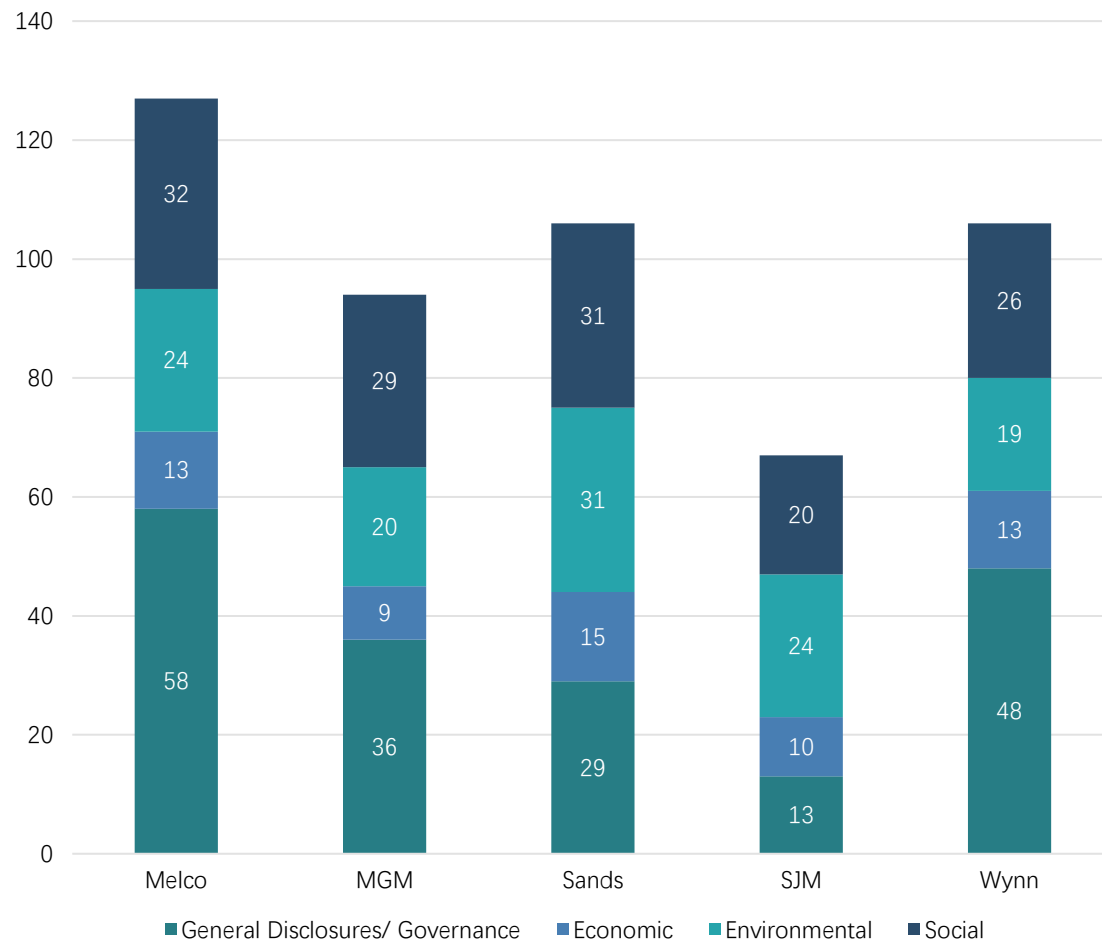
Number of Suppliers by Geographical Region, 2020



^Sands used Asia/ Outside Asia as category in the report

SJM has the largest share of female board members, while **Melco** made the highest charitable donations. **Melco** also led in training hours, followed by **GEG**. **SJM** had the highest share of local suppliers by number. *We recommend disclosure of supplier origin by value in the future.*

ESG Reporting KPIs, 2020



All six operators reported their KPIs according to GRI Standards and/or HKEX ESG Reporting Guide, and all provided index references as appendix except GEG. The chart presents data in four aspects, including **general disclosures/governance, economic, environmental** and **social** topics with reference to both GRI Standards and the HKEX ESG Reporting Guide.

- **Melco** reported its ESG KPIs most comprehensively among six the operators in Macau and also reported the most items in general disclosures/governance and social topics.
- **Sands** and **Wynn** ranked second in terms of ESG KPIs reported despite concentrations on different aspects. Sands had the highest number of environmental KPIs reported, and Wynn had the second highest in general disclosures/governance.
- Both **SJM** and **GEG** reported solely based on HKEX ESG Reporting Guide, while the other four used at least two guidelines in their ESG reporting. Notably, the practice of ESG reporting is relatively new for SJM and GEG: 2020 was the first year SJM publishing a dedicated sustainability report, and GEG only disclosed its ESG KPIs in its annual report in 2020.

At the same time, **Wynn** also indicated their ESG KPIs under three sets of SASB industry standards, including restaurants, casinos & gaming, and hotels & lodging. SASB goes beyond the general ESG KPIs, and Wynn listed at least 18 industry-specific items in the report in 2020, including:

- Details of hotel rooms, gaming facilities and restaurants managed by the group
- Smoke-free casinos across the properties with percentage indicated
- Percentage of employees earning minimum wage, average salary, etc.
- Ecological impacts of the hotel properties

Notes

- (1) The KPIs are categorized by GRI Standards (2020) and HKEX ESG Reporting Guide.
- (2) Governance KPIs are under general disclosures in the chart above.
- (3) Information was retrieved from ESG reports and annual reports for YE2020.
- (4) GEG and SJM reported their ESG performance following solely HKEX ESG Reporting Guide.

Recommendations

Operators should prioritize adopting SBTi and adopt bold and ambitious targets on a path to net zero for 2050, specifying the degrees of global warming (for example 1.5°C). Starting with such a goal will allow the organizations to work backwards and force 'out-of-the-box' thinking on how to do things different from today.

After comparing all six ESG KPIs reporting, we suggested that the topics below should be addressed in more detail in the future:

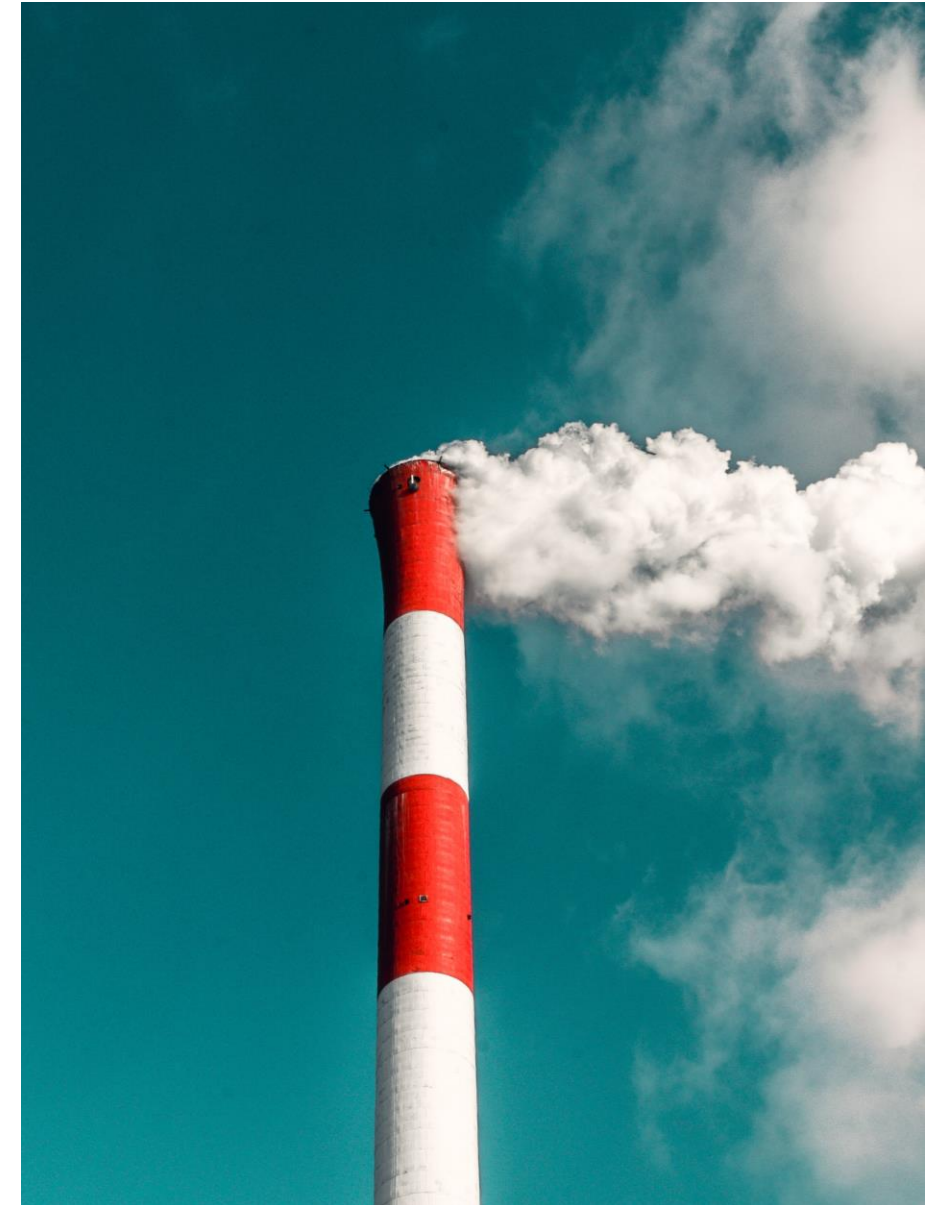
- **Environmental Topics**
 - Science-based targets for goal setting
 - GHG Scope 3 emissions
 - Reusable energy adapted in business operations
 - Details of waste diversion and recycling
- **General Disclosure and Governance Topics**
 - Details of remuneration for senior executives in the organization, including remuneration policy, annual total compensation ratio, etc.
 - Details of the governance body and related policies
 - Adopt and adhere to specific standards, such as ISO
 - Consider SASB and CDP reporting
- **Social Topics**
 - Board member composition and diversity
 - Maternity leave and parental leave policies
 - Supply chain information by value
 - Pay ratios by gender

Conclusion

Against the backdrop of a rising importance of ESG initiatives in the hospitality industry, all six casino operators executed various initiatives and reporting in 2020. While COVID-19 temporarily affected business operations and the different KPIs, operators constantly engaged with stakeholders to strengthen their ESG and sustainability commitments throughout the year. This paper presents the ESG performance and reporting landscape in Macau, and it also provides operators references for reporting and ESG related initiatives in the future.



- **CDP Reporting (Carbon Disclosure Project)** is the global environmental disclosure system helping organizations, such as companies and cities, understand their environmental performance and identify areas that require future attentions. There are currently three types of reporting, climate change, forests, and water security with scale ranging from A/A- to D/D-. The reporting is reviewed every year, and it provides detailed benchmarking including global average performance score and average by industry and continents.
- **ESG** refers to environmental, social, governance topics, please see introduction on page #2.
- **GFA (Gross Floor Area)**
- **GHG Emissions (Green House Gas Emissions)** is the gas that contributes to the greenhouse effect by absorbing infrared radiation (GRI Standards, 2020).
 - Scope 1 is defined as all direct emissions from the activities of the organization, including fuel combustion such as diesel, coal, petrol, and fugitive emissions.
 - Scope 2 is the indirect emissions from purchased electricity used for the organization.
 - Scope 3 is all other indirect emissions from the activities of the organization but from the source that it does not own or control. It is commonly generated from business travel of employees, waste and water consumption.
- **GRI Standards** are the global reporting standards for sustainability matters, and the set include one section of universal standards (GRI 101/102/103) and three topic-specific standards, including economic (GRI 200), environmental (GRI 300), and social (GRI 400). Despite the update of GRI Standards in 2021, this article uses 2020 version for reference.
- **HKEX and its ESG Reporting Guide** was first published by the Hong Kong Exchange in 2013 aiming to provide listed companies a clear framework for their annual ESG reporting. Such reporting will be mandatory for all listed companies no later than 2025.
- **SBTi (Science-based Target initiative)** provides company a systematic approach for companies to set their goals of GHG emissions reduction timely, and it aims to reduce GHG emissions to net zero by 2050. The minimum ambition in corporate target setting was well below 2°C above pre-industrial levels, and it is changed to 1.5°C in 2021 in response to the urgency for climate change actions.





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