



# ATLANTIC

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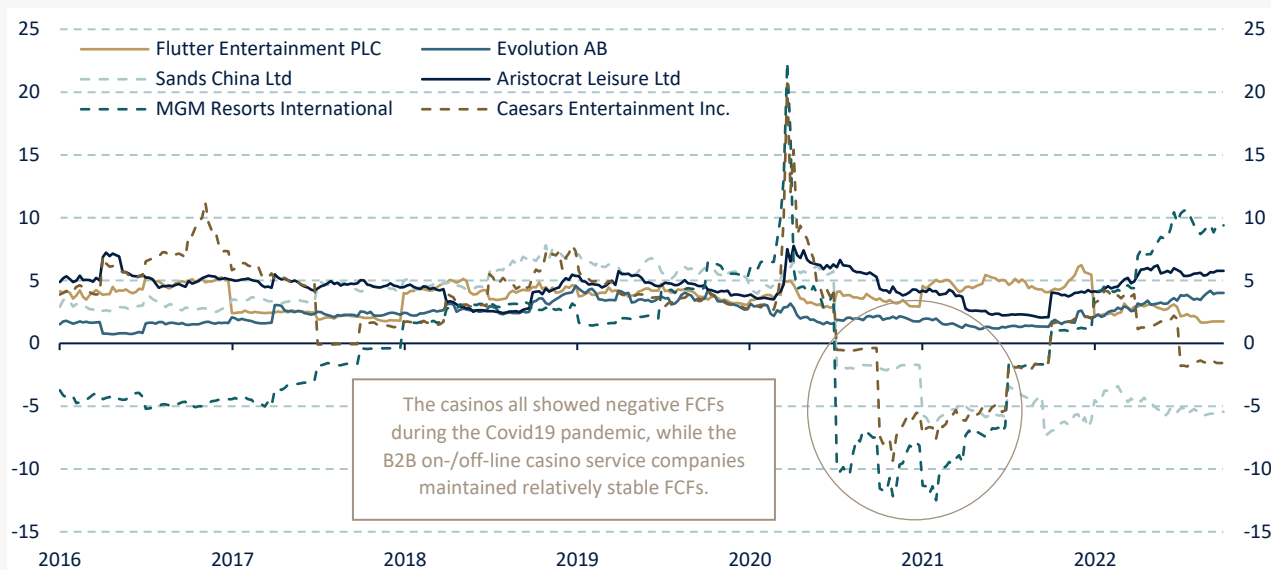
## Weekly Investment Focus

19 September 2022

### "THE GAME IS UP... ONLINE OR OFF-LINE"

- ◆ Casinos, a fast-growing sector
- ◆ ... thanks to the digitalisation of the sector and new technologies
- ◆ And the recovery of global tourism
- ◆ Finally, regulation would be an asset rather than a hindrance

### CHART OF THE WEEK: "Beware of cash flows in turbulent times"



Source: Bloomberg, Atlantic Financial Group

### FINANCIAL MARKET ANALYSIS

The gambling sector has performed exceptionally well during the Covid19 pandemic thanks to the advent and success of online gaming, which has offset the closure of casinos. The sector's revenues are approaching €400 billion, a staggering figure, with online gaming already accounting for almost a third of revenues. The major players in the sector have posted more mixed performances since the beginning of the year, with average figures of between -20% and -30% over a year.

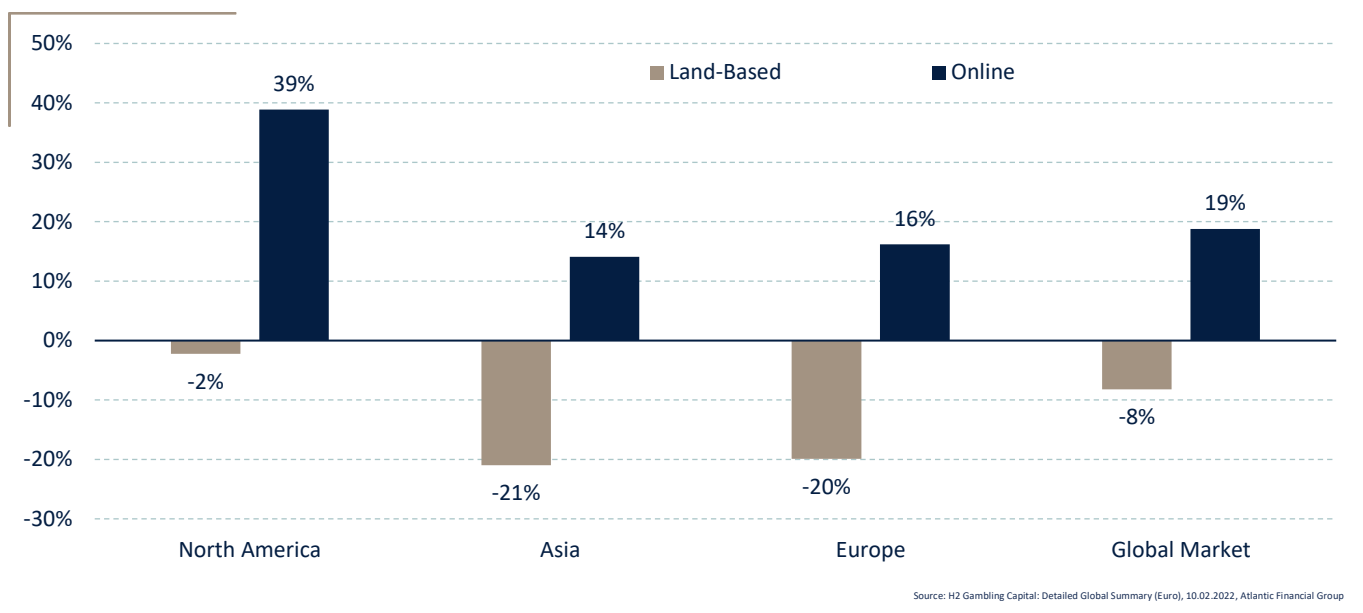


### ◆ Casinos, a fast-growing sector

It is difficult to trace the origin of gambling, but it seems to have always existed. Dice games were already mentioned in ancient Greece and in ancient Indian texts. **The sector seems to be booming again lately thanks to the advent of online games and new technologies.**

**Over the last five years (2017-2021), online gaming has achieved an annual growth rate of around 19%,** compared to a negative 8% for the real casino market (see Fig. 2). It is the companies exposed to Online gambling and the providers of B2B services to online and offline casino that benefit the most, delivering more stable free cash flow over time vs. land-based casino (See Chart of the week).

Fig. 2 - Compound annual growth rate of online and casino gaming (2017-2021)



Whether online or offline, the gambling market is segmented by type of game: casino (table games and slot machines), lotteries, sports betting and others. **The lottery segment is the largest segment of the gambling market, with almost 50% of the market share.** This can be attributed to the high popularity of lotteries worldwide. **The sports betting segment is expected to be one of the fastest growing segments, with an annual growth rate of 7%.** In the casino segment, **virtual reality gaming is expected to be one of the fastest growing segments with an annual average rate of over 21%.**

Geographically, **demographics play a role in the growth of the sector. Asia-Pacific is the largest gambling market, accounting for over 32% of the global total.** It is followed by North America and then Western Europe. In the future, Asia-Pacific and Africa will be the fastest growing regions, with annual growth rates of nearly 8%.

The significant market size in Asia-Pacific is supported by the gambling industry in regions such as **Macau, the only place where Chinese citizens can play casino legally,** the Philippines, Malaysia and South Korea. The lottery market in China also contributes significantly to the size of the Asia-Pacific gambling market.



◆ ... thanks to the digitalisation of the sector and new technologies

One of the biggest impacts of technology on the gaming and casino industry has been the growth of online casinos. Today, **with the advent of the Internet, it is possible to gamble from the comfort of one's own home. The online gambling industry is even growing exponentially due to the emergence of new technologies such as hybrid games, virtual reality (VR) and augmented reality (AR).** Casino operators are using these technologies to differentiate themselves from their competitors and gain market share in this highly competitive industry. These technologies are revolutionising the casino experience, making it more interactive and exciting. For example, casinos are introducing hybrid table games to attract customers and keep them engaged. Hybrid table games are a combination of online and land-based casino games where the ease and fast-paced experience of slot machines is combined with the presence of a live dealer. With virtual reality (VR), players experience a virtual casino, along with other players and machines.

Fig. 3 - Flutter, global leader in gambling



Flutter Entertainment is an industry leader with a strong and diverse portfolio of brands across all geographies. Its combination with The Stars Group has created the world's leading online gaming company, with a dominant position in the US sports betting market (see Fig.3).

With the development of online casinos, **crypto currencies are now accepted on many platforms. Players prefer this payment option as they consider it more secure and keeps their anonymity.** Crypto currencies are virtually untraceable and allow players to play all over the world, even from locations where gambling is still prohibited.

◆ Global tourism recovery will bring back more sustainable growth

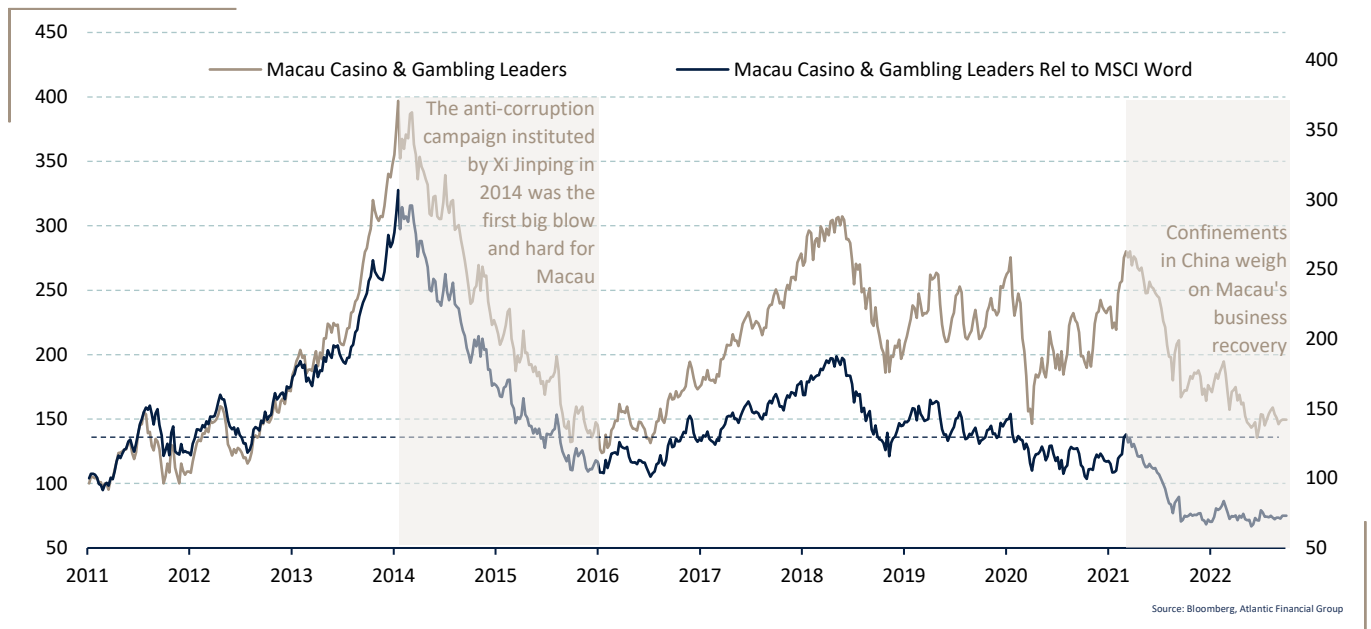
**An increasing proportion of casino turnover is generated by tourism rather than gambling. The reopening of destinations such as Macau in Asia is therefore crucial for the sector. Las Vegas is also reviving as a popular destination for tourists since the end of the confinements in the United States.** Hotel-casino revenues are back to 2019 levels or even higher, i.e. MGM Las Vegas Strip. Economic strength and consumption are also important variables and the impact of rate hikes and inflation on household leisure spending will need to be monitored.

Post-covid tourism has only recently picked up and is lagging behind in Asia, so even if an economic slowdown is expected, the figures could still improve in 2023 compared to 2022. In addition, **consumers**



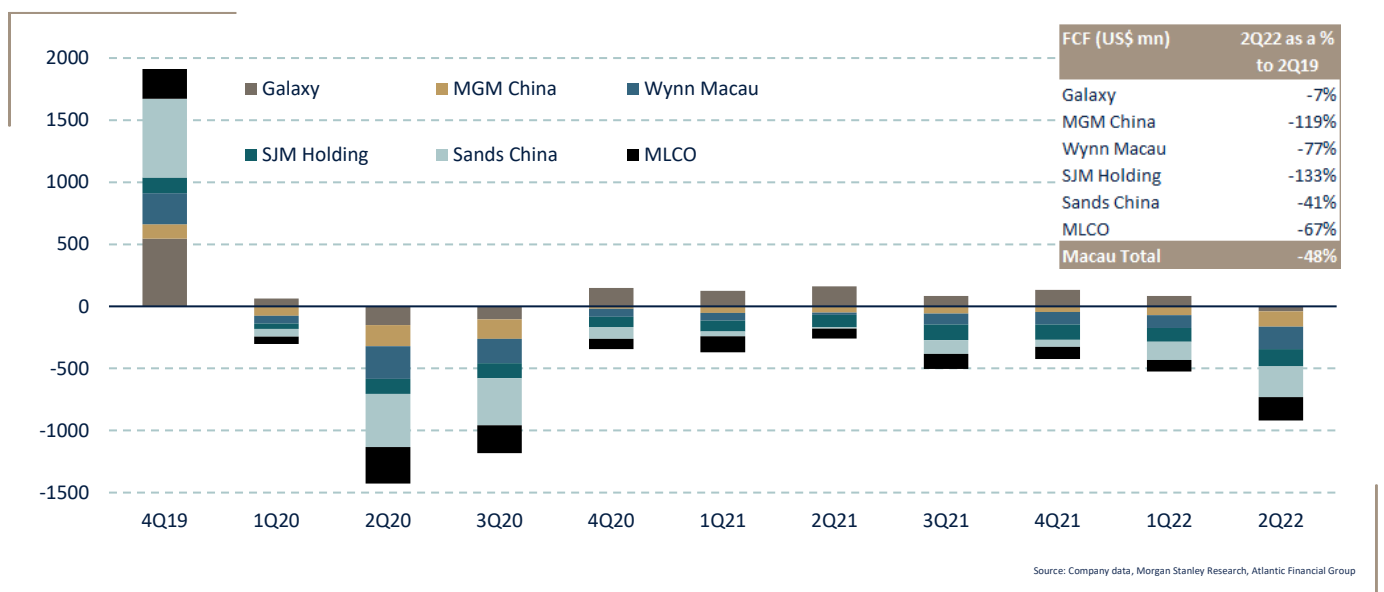
seem to favour leisure spending (holidays, experiences) over spending on durable goods (cars, furniture or TVs). Finally, long-delayed conferences and business travel are also expected to return to their pre-pandemic pace and support the land-based casino industry.

Fig. 4 - Macau's casino performance depends on China's economic health



Companies in Macau have recorded negative FCFs since the start of the Covid-19 pandemic. Only Galaxy Entertainment seems to be doing well, with FCF seemingly moving faster towards its 2019 levels (see Fig. 5).

Fig. 5 - Casino FCF in Macau since the Covid-19 pandemic





Overall, when business picks up in Macau, companies could return to their pre-covid19 valuations, i.e. a FCF yield (free cash flow/market capitalisation) of around 7%, which on this basis offers a stock appreciation capacity of more than 100% (see Fig. 6). Of course, **the performance of stocks is subject to Xi Jinping's zero-covid policy and the risk of an economic recession in China if the real estate crisis continues.**

Fig. 6 - Appreciation potential of casinos in Macau

Valuation	FCF 2024	Target Yield	Implied Value	Implied Value per share	Stock price Up/downside
	US\$ mn	%	US\$ mn	Local ccy	%
Melco	786	8%	9 825	20,5	279%
Wynn Macau	785	8%	9 808	14,5	182%
SJM Holding	506	8%	6 326	7	150%
MGM China	429	8%	5 365	11	158%
Sands China	2693	7%	38 473	37	109%
Galaxy	2492	6%	41 535	74	71%
					158%

Source: Company data, Refinitiv, Morgan Stanley Research, Atlantic Financial Group

◆ Finally, regulation would be an asset rather than a hindrance

**The gambling industry is regulated at national or regional level.** Many countries have regulations for land-based casinos that are not applied to online gaming. Some countries have a gaming monopoly, where only one operator is licensed, while others have established systems where several operators can be licensed to offer online gaming. In some cases, gaming operators licensed in one country also offer games in other countries.

An increasing number of countries are introducing national regulations. This means that gambling operators, and in some cases also suppliers, must apply for country-specific licences, pay local taxes and be subject to national supervision. This is the case for Macau for example.

**Regulation is an important growth factor for the online casino market, as it brings in more potential end-users and gives operators greater opportunities to promote the product while erecting barriers to entry for smaller operators.**

The scope is expected to grow with the regulation of new markets such as Brazil, Canada and the Netherlands. The US is the largest growth opportunity in the sector today, with an estimated market size of over \$20 billion by 2025.

On the other hand, some countries are trying to restrict the gambling industry. Unfortunately, bans are designed to be circumvented and gamblers are on the move... with access facilitated by online casinos and the use of crypto currencies. **The regulator will still have to adapt to digital changes, but history shows that better regulation lays a sounder and more sustainable foundation for this type of activity.**



### Conclusion:

The land-based casino industry was already suffering before the Covid19 pandemic from the emergence of online casinos. The leaders have adapted and are offering increasingly entertaining and hybrid experiences. As in many other sectors, the pandemic has accelerated the trend towards digitisation of the business and may have offset the closures of establishments. The reopening of casino hotels should revive a whole part of this economy based on family, business and event tourism. The sector appears indebted, but the balance sheets should strengthen as new cash flow pours in with the activity recovering some kind of normality.



## RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2022 Year-to-Date (%)	2021 (%)	2020 (%)
<b>Equities</b>							
World (MSCI)	597.6	36.19	-4.0%	-9.2%	-19.5%	19.0%	16.9%
USA (S&P 500)	3 873	37.72	-4.7%	-9.9%	-17.8%	28.7%	18.4%
USA (Dow Jones)	30 822	35.69	-4.1%	-9.4%	-13.9%	20.9%	9.7%
USA (Nasdaq)	11 448	37.91	-5.5%	-12.5%	-26.4%	22.2%	45.0%
Euro Area (DJ EuroStoxx)	386.0	40.13	-2.4%	-8.0%	-17.0%	23.5%	0.8%
UK (FTSE 100)	7 237	41.98	-1.5%	-3.6%	0.9%	18.4%	-11.4%
Switzerland (SMI)	10 611	35.45	-2.7%	-4.7%	-15.4%	23.7%	4.3%
Japan (Nikkei)	27 568	43.37	-2.3%	-4.5%	-3.1%	6.7%	18.3%
Emerging (MSCI)	944	31.96	-2.6%	-6.7%	-21.3%	-2.3%	18.8%
Brasil (IBOVESPA)	109 280	47.29	-2.7%	-3.7%	4.3%	-11.9%	2.9%
Russia (MOEX)	2 435	64.02	0.4%	10.3%	-34.1%	21.9%	14.8%
India (SENSEX)	59 222	48.75	-1.6%	-1.6%	2.1%	23.2%	17.2%
China (CSI)	3 917	31.63	-3.9%	-5.7%	-18.8%	-3.5%	29.9%
Communication Serv. (MSCI World)	74.90	32.16	-5.4%	-12.3%	-31.5%	10.9%	24.2%
Consumer Discret. (MSCI World)	307.7	42.28	-3.7%	-9.0%	-24.3%	9.2%	37.0%
Consumer Staples (MSCI World)	254.4	32.76	-3.0%	-7.2%	-11.1%	11.7%	8.8%
Energy (MSCI World)	222.5	45.25	-2.4%	0.3%	22.6%	37.5%	-27.7%
Financials (MSCI World)	126.5	43.94	-2.3%	-6.3%	-13.7%	25.1%	-3.1%
Health Care (MSCI World)	318.3	41.20	-2.8%	-5.9%	-12.6%	18.0%	15.4%
Industrials (MSCI World)	260.7	33.56	-5.0%	-10.7%	-20.2%	16.6%	11.8%
Info. Tech. (MSCI World)	403.1	33.23	-5.7%	-14.4%	-29.3%	27.6%	46.2%
Materials (MSCI World)	285.2	37.12	-5.0%	-9.1%	-19.0%	15.4%	21.6%
Real Estate (MSCI World)	182.5	34.10	-4.6%	-9.6%	-20.4%	23.6%	-5.7%
Utilities (MSCI World)	155.3	40.03	-3.1%	-5.3%	-2.1%	11.1%	4.8%
<b>Bonds (FTSE)</b>							
USA (7-10 Yr)	3.45%	30.16	-0.9%	-4.5%	-12.7%	-2.4%	9.3%
Euro Area (7-10 Yr)	2.51%	31.03	-0.5%	-6.2%	-15.1%	-2.9%	4.5%
Germany (7-10 Yr)	1.76%	30.52	-0.4%	-5.3%	-13.2%	-2.7%	3.0%
UK (7-10 Yr)	3.14%	25.51	-0.3%	-7.5%	-14.6%	-4.9%	5.4%
Switzerland (7-10 Yr)	1.10%	29.56	-0.9%	-5.1%	-10.6%	-2.3%	0.4%
Japan (5-10 Yr)	0.26%	35.75	-0.1%	-0.9%	-1.3%	0.0%	-0.1%
Emerging (5-10 Yr)	7.96%	36.62	-2.0%	-2.8%	-19.7%	-2.3%	5.2%
USA (IG Corp.)	5.14%	32.43	-0.9%	-3.3%	-15.8%	-1.0%	9.9%
Euro Area (IG Corp.)	3.67%	30.78	-1.1%	-3.1%	-12.5%	-1.0%	2.8%
Emerging (IG Corp.)	7.83%	34.81	-0.7%	-1.5%	-16.4%	-3.0%	8.1%
USA (HY Corp.)	8.74%	34.96	-2.3%	-3.6%	-12.0%	5.3%	7.1%
Euro Area (HY Corp.)	7.56%	37.47	-1.1%	-2.6%	-11.8%	3.4%	2.3%
Emerging (HY Corp.)	11.35%	43.76	-1.8%	-1.2%	-16.4%	-3.2%	4.3%
World (Convertibles)	362.4	42.20	-1.9%	-4.4%	-17.3%	2.4%	38.8%
USA (Convertibles)	489.6	43.33	-2.2%	-4.5%	-17.4%	3.1%	54.5%
Euro Area (Convertibles)	3 485	30.50	-1.6%	-4.9%	-15.1%	-0.3%	6.1%
Switzerland (Convertibles)	170.1	23.37	-0.8%	-3.2%	-8.5%	-0.5%	0.5%
Japan (Convertibles)	199.4	61.07	0.2%	1.0%	-0.7%	3.3%	2.8%
<b>Hedge Funds (Crédit Suisse)</b>							
Hedge Funds Indus.	733	64.63	n.a.	0.5%	n.a.	8.2%	6.4%
Distressed	940	59.24	n.a.	1.7%	n.a.	12.5%	3.8%
Event Driven	763	54.18	n.a.	0.7%	n.a.	12.9%	7.0%
Fixed Income	384	57.77	n.a.	0.0%	n.a.	5.2%	3.6%
Global Macro	1469	79.16	n.a.	2.1%	n.a.	9.6%	6.5%
Long/Short	851	48.35	n.a.	-1.3%	n.a.	8.3%	7.9%
CTA's	407	76.66	n.a.	3.1%	n.a.	8.2%	1.9%
Market Neutral	287	57.81	n.a.	1.5%	n.a.	6.2%	1.7%
Multi-Strategy	694	58.49	n.a.	0.8%	n.a.	7.0%	5.6%
<b>Volatility</b>							
VIX	26.30	56.74	15.4%	33.6%	52.7%	-24.3%	65.1%
VSTOXX	26.43	52.15	6.2%	23.9%	37.2%	-17.6%	67.5%
<b>Commodities</b>							
Commodities (CRB)	568.7	n.a.	-0.6%	-3.9%	-1.7%	30.3%	10.5%
Gold (Troy Ounce)	1 666	32.90	-3.4%	-4.7%	-8.9%	-3.6%	25.1%
Oil (WTI, Barrel)	85.11	41.44	-3.0%	-1.6%	10.6%	58.7%	-20.5%
Oil (Brent, Barrel)	90.82	42.30	-0.8%	-1.7%	18.2%	51.4%	-23.0%
<b>Currencies (vs USD)</b>							
USD (Dollar Index)	110.01	61.78	1.5%	1.7%	15.0%	6.4%	-6.7%
EUR	0.9976	44.62	-1.4%	-0.6%	-12.3%	-7.5%	9.7%
JPY	143.33	35.81	-0.3%	-4.4%	-19.7%	-10.2%	5.1%
GBP	1.1386	31.40	-2.5%	-3.7%	-15.9%	-1.0%	3.1%
AUD	0.6689	38.25	-2.9%	-2.7%	-7.9%	-5.6%	9.6%
CAD	1.3303	32.91	-2.4%	-2.3%	-5.0%	0.7%	2.1%
CHF	0.9679	47.79	-1.5%	-0.9%	-5.7%	-3.0%	9.4%
CNY	7.0144	25.51	-1.3%	-2.8%	-9.4%	2.7%	6.7%
MXN	20.097	48.60	-1.3%	0.4%	2.2%	-3.0%	-5.0%
EM (Emerging Index)	1 615.7	26.11	-1.0%	-2.7%	-6.8%	0.9%	3.3%

Source: Bloomberg, Atlantic Financial Group

Total Return by asset class (Negative \ Positive Performance)



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