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Peter Tcheong, Las Vegas, 2016

The Challenges and Opportunities in Macau Casino Gaming Industry

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Abstract

This paper briefly reviews the success in last decade and analyzes the challenges in Macau casino gaming industry. Macroeconomic and political factors in China are the principal direct cause of Macau's gaming revenue decline in 2014, implicating the vulnerability and unsustainability associated with the VIP business model of casino gaming industry. Although Macau continues to face challenges since late 2014, the prospect of Macau gambling industry is still optimistic in the long term, as there are emerging positive catalysts which will boost demand. From casino operators' perspective, they should continue to try to increase revenue from mass market and non-gaming business by relocating the resource and adding more non-gaming amenities. This paper provides a fresh perspective, and a new line of thinking with regard to how casino gaming industry in Macau will develop in the future. It therefore potentially directs a new path of research in the area.

Wednesday June 8, 2016

10:30 am - 12:00 pm

Session 2-2-F Grand Ballroom D

But What Does the Research Say? Perspectives on Macau's Free Fall

Moderator: Desmond Lam, University of Macau

Paradise Lost: Macau Casinos and the New Normal

Sudhir Kale, Bond University/GamePlan Consultants, Australia

Challenges and Opportunities in the Macau Casino Gaming Industry

Peter Tcheong, Macau Polytechnic Institute, Matthew Liu, University of Macau, and Edmund Loi, Macao Polytechnic Institute

Macau's Casino Downturn: Analysis of Public Policy

Jonathan Galaviz, Global Market Advisors (GMA), Singapore

Path Dependence in the Industrial Development of Casino Gaming: The Lesson from Macao

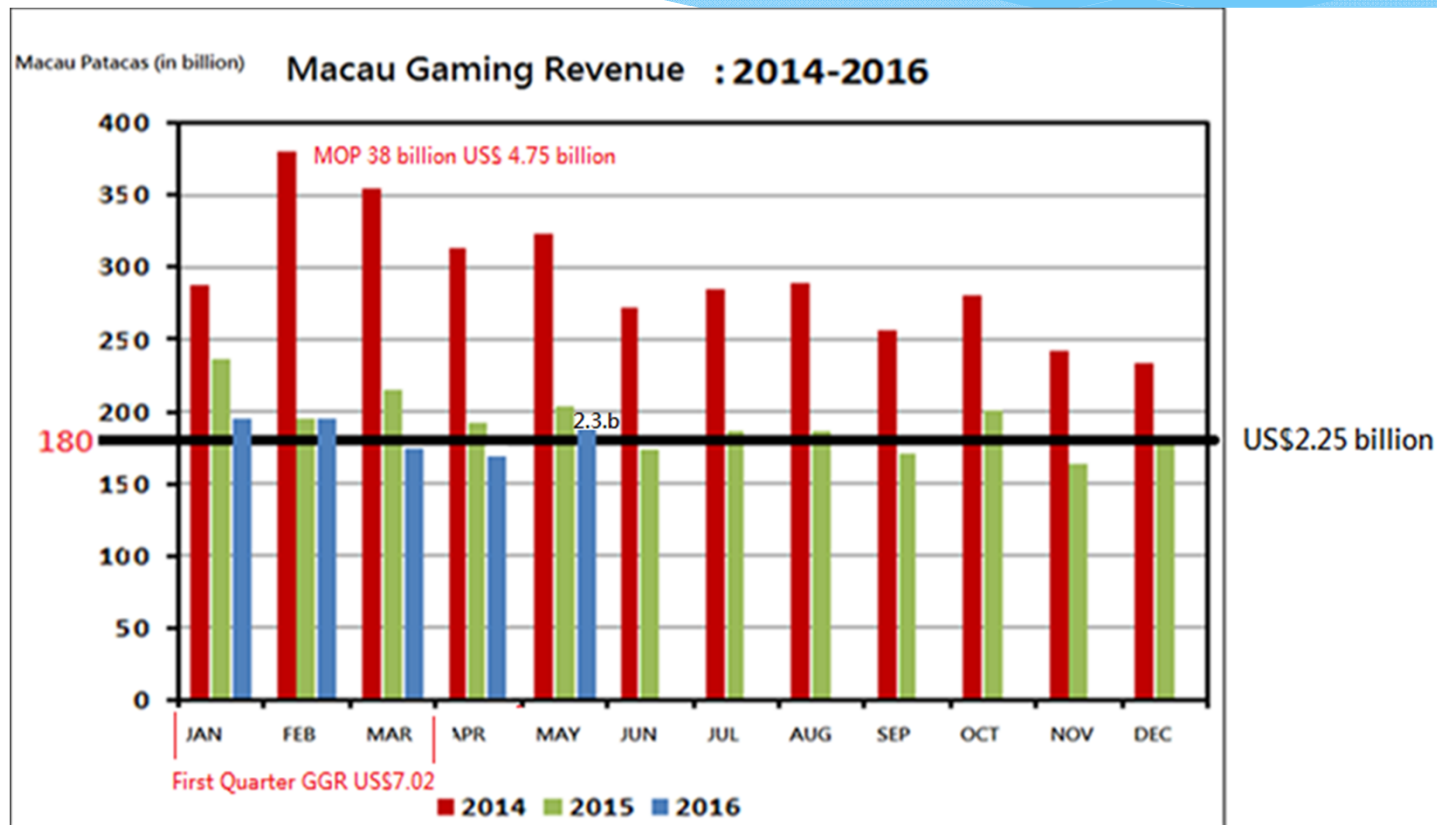
Ricardo Siu, University of Macau

Macau Gaming Revenue

Back in 2013, everyone said the Macau Gaming Market would go up to 80~100 billion in revenue by 2020.

2013	45 billion
2014	44 billion
2015	29 billion

But, the gaming revenue in Macau declined 34.3% in the year ended Dec.31, 2015 compared to 2014, a result of China's economic slowdown and Beijing's crackdown on corruption.



Will Macau follow Atlantic City?

Some newspapers reported that Macau would not recover from this fall.

I would like to take this opportunity to point out something about Macau Casino Gaming Industry in these two years.

2015

Gov't Revenue



Gov't Expenses



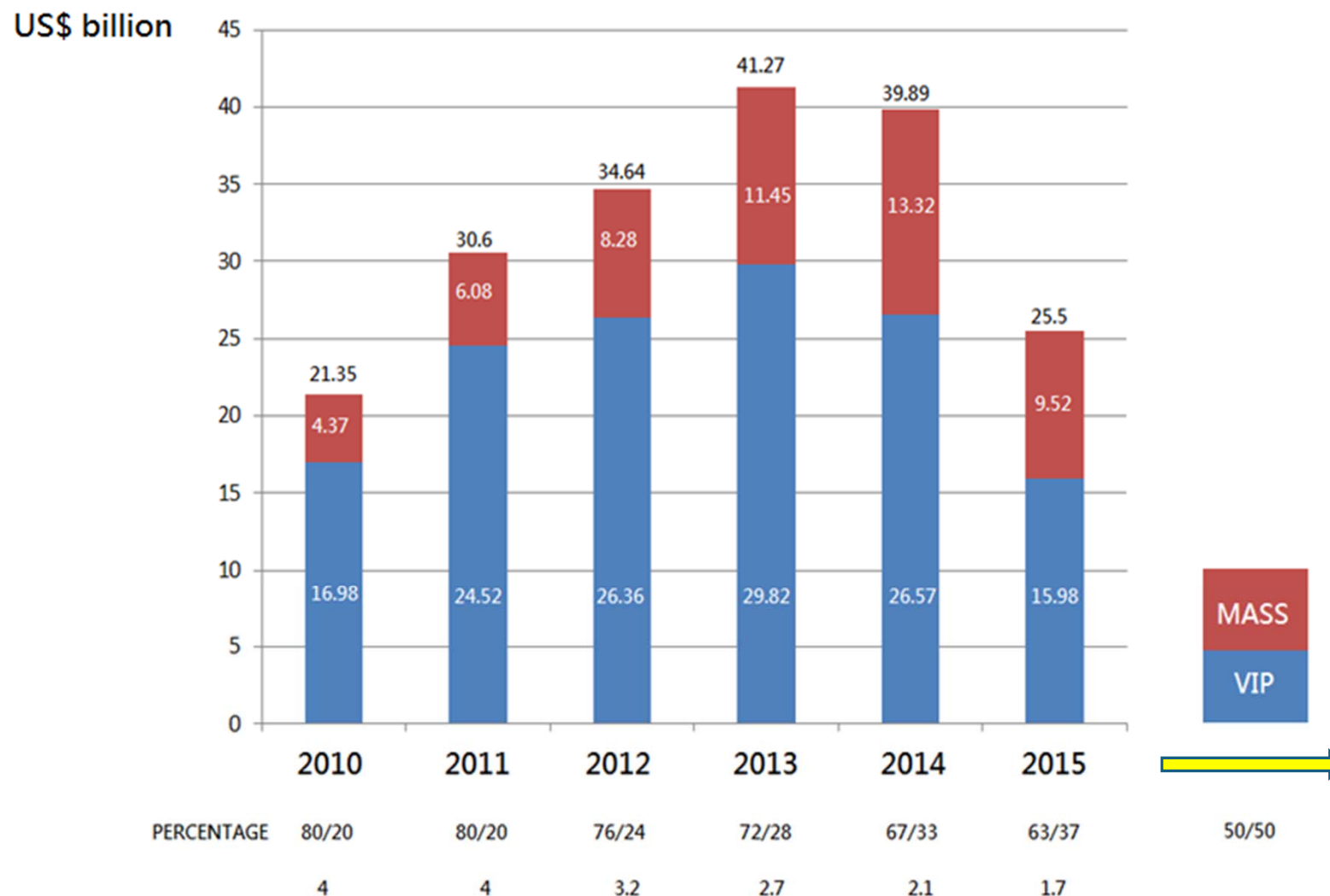
2016 Budget

REVENUE	EXPENSES
US\$12.93 billion	US\$10.65 billion

The budget for 2016 : Macau Government **revenue** will drop to **US\$12.93 billion (MOP103.25 billion)** from US\$15 billion (MOP119.97 billion), while **expenses** are expected to **US\$10.65 billion (MOP85.04 billion)**

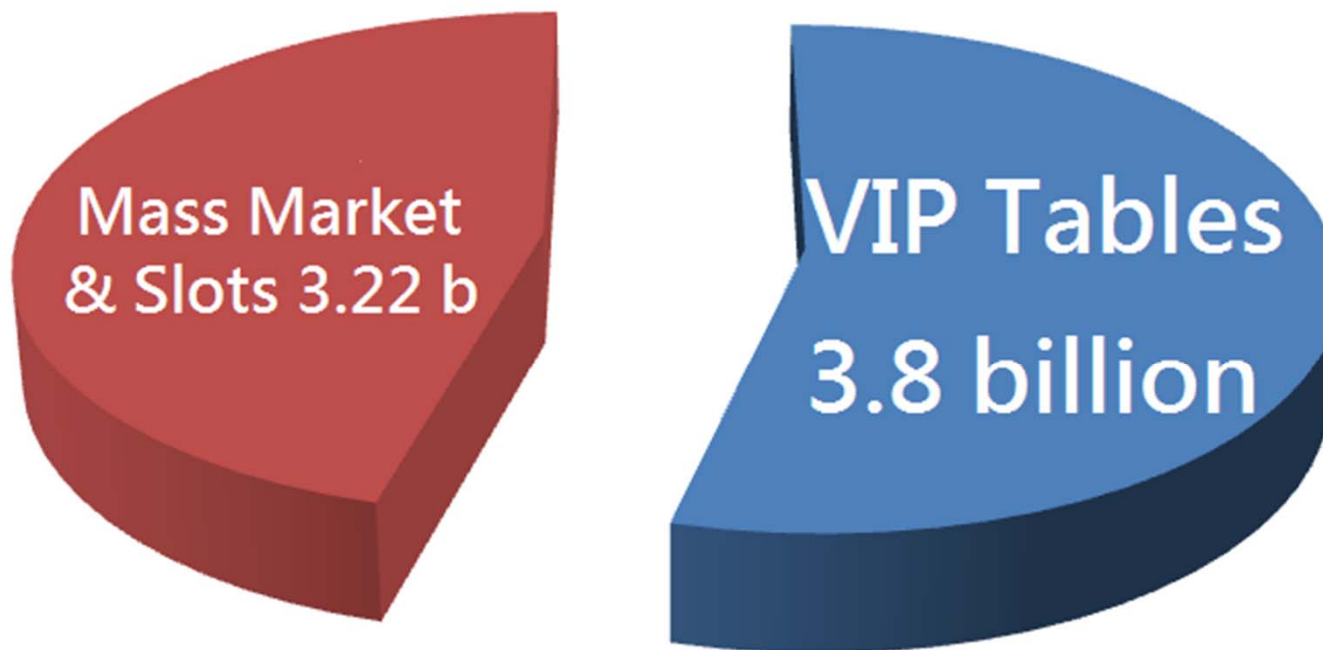
That is to say, Macau still can be with surplus.

Macau Baccarat Revenue 2010 - 2015



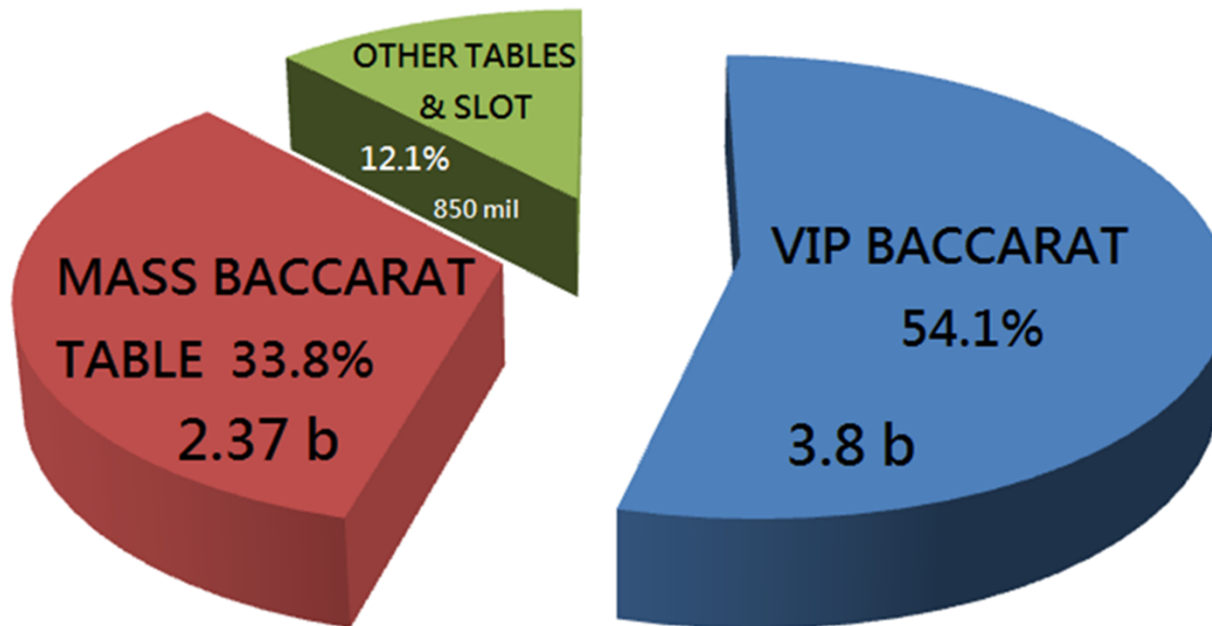
As Baccarat Revenue represents almost 90% of Macau Gaming Revenue. This Chart shows the changes between Mass Baccarat and VIP Baccarat revenues in these 6 years.

June 8, 2016



Total GGR in 1st Q 2016 US\$7.02 billion

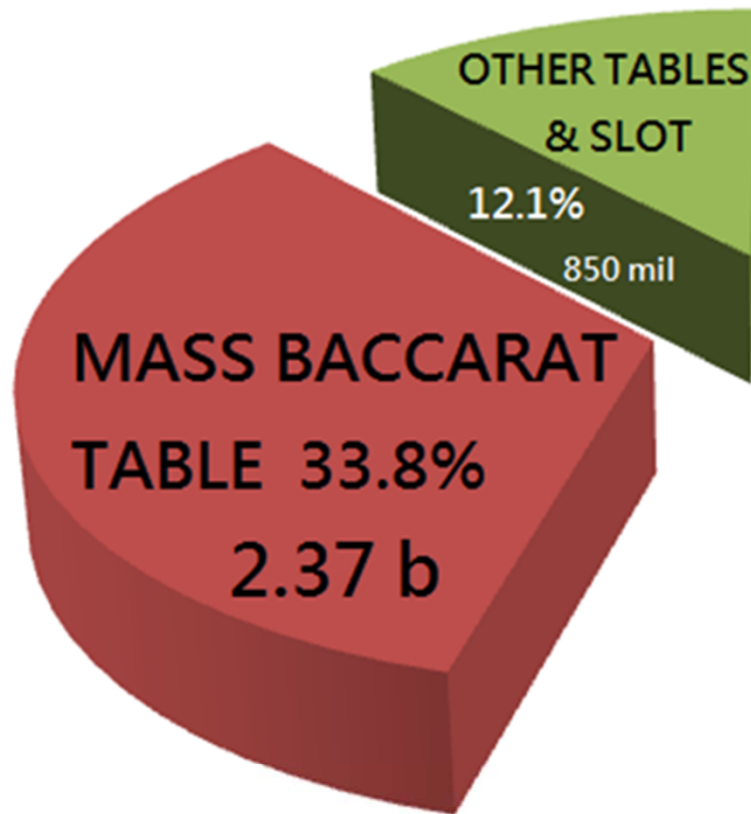
Source: DICJ Macau



MACAU GGR FIRST QUARTER 2016
US\$ 7.02 billion (MOP56.17 b)

BACCARAT 87.9% OTHER TABLES & SLOT 12.1%

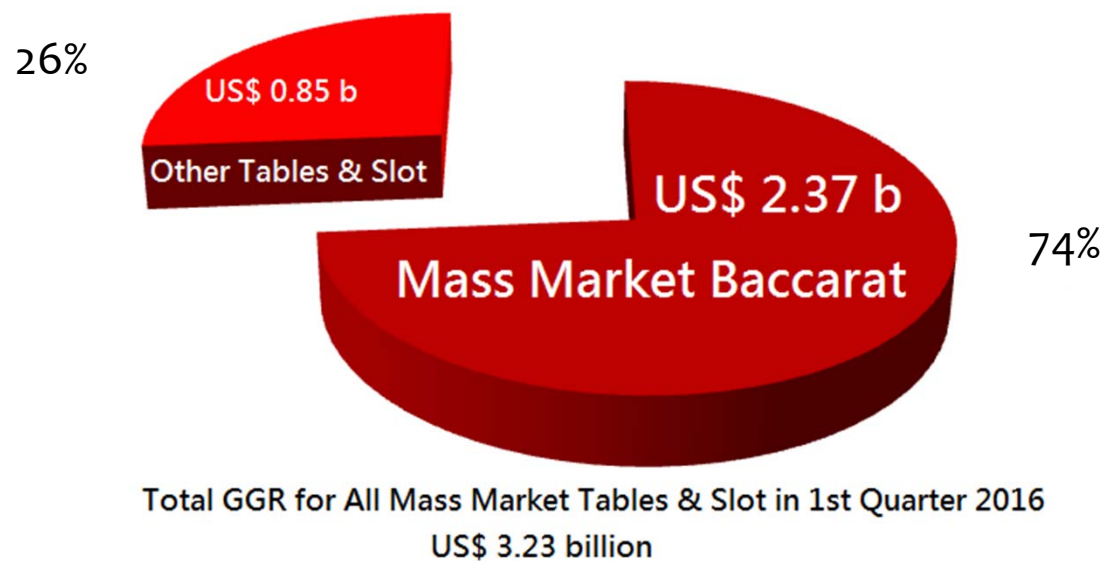
Source: DICJ Macau



US\$3.22 billion in First Quarter 2016

Source: DICJ Macau

MASS MARKET TABLES & SLOTS



Source: DICJ Macau

2016 Macau Gaming Industry

Mass vs VIP

Macau's VIP segment has been most hurt by the slump in Macau casino Gaming Industry.

Macau has been undergoing a transition towards a more mass market - focused business model since mid 2014.

Quoted from Union Gaming

“We estimate combined mass market and slots GGR eclipsed VIP GGR for the third consecutive quarter; we look for this trend to continue for the foreseeable future and are currently forecasting mass/slots to capture 57% of the GGR pie in 2016.”

In G2E Macau 2016

Revenue from the mass market will account for more than 50 percent of gaming revenue as 2016 progresses, says Bloomberg industry analysts.

“Mass market revenue has been stabilizing for a year now and was only down 4.8 percent vs VIP down 19.3 percent,” said Catherine Lim and Margaret Huang at the G2E conference in Macau, adding there was also evidence that non-gaming revenue is on the up-trend from the current 7 percent of visitor spending.

VIP TABLES SHIFT TO MASS TABLES

1,958 to 1,458
(Dec.31, 2014) (Dec.31, 2015)

Table allocation: It is an indicator operators will gradually shift tables to more profitable mass segment.

Total Gaming Tables: 5,957

Which is more profitable? MASS OR VIP

PROFITABILITY

	Mass Market Table		Premium Mass Table		VIP Table	
REVENUE \$10,000	DROP \$40,000@25% Hold		NN Chips Rolling 300,000-400,000 @3% win rate		NN Chips Rolling 300,000-400,000 @3% win rate	
	\$10,000		\$10,000		\$10,000	
Less: Government Tax	39%	3,900	39%	3,900	39%	3,900
Less: Marketing (REINVESTMENT)	5%	500	15%	1,500	Junket commission 45%	4,500
Less: Operating Costs	15%	1,500	6%	600	6%	600
EBITDA	41%	4,100	40%	4,000	10%	1,000
	100%	10,000	100%	10,000	100%	10,000

Macau Gaming Market

The decline in the main floor gaming revenue has lessened in the second half of 2015. Now the ratio between mass market table & VIP in first quarter of 2016 was US\$3.2 billion & 3.8 billion (46% vs 54%). US\$ 7.02 billion in the first quarter of 2016 was reported by DICJ Macau.

Expectations from Outside

Regulators around the world have expressed concerns about the junket industry in Macau, in part because the companies disclose little details about their ownership structures, operations or customers. Many casino operators say they don't like the system because of the commissions they have to pay junkets.

Now, Macau casinos have been highlighting their non-junket business, and non-gaming business, which will conform to new 5 year Plan suggested by the Macau Government in May 2016.

Right moment for reform

During the years of 2013 & 2014, The Macau gaming industry made huge money.

Who dare to take steps to suggest or enforce any reform in regulations in order to make Macau Gaming Industry more aligned with the World Standards?

Macau Government

DICJ has a new Director Mr. Paulo Chan - with impressive judiciary background. DICJ will continue to further strengthen and refine the laws and regulations and to improve the overall quality of the gaming industry.

35 junket operators could not renew their licenses as they had not submitted required data.

DICJ will recruit 50 new Inspectors in this year.

The Macau government is working on a proposal to increase the capital requirements for new junkets operators by 100-fold to MOP10 million (US\$1.3 million), from MOP100,000.

Phone Bets are forbidden in Macau VIP Rooms since May 9, 2016 .

Macau's Secretary of Security, Wong Sio Chak has been appointed to the local Gaming Commission. That means Macau government would be looking to strengthen supervision and security controls in and around casinos to ensure Macau will remain safe during the ongoing adjustment of the gaming industry.

Gov't New 5-year Plan

The draft plan was released by the Macau government on April 26, 2016.

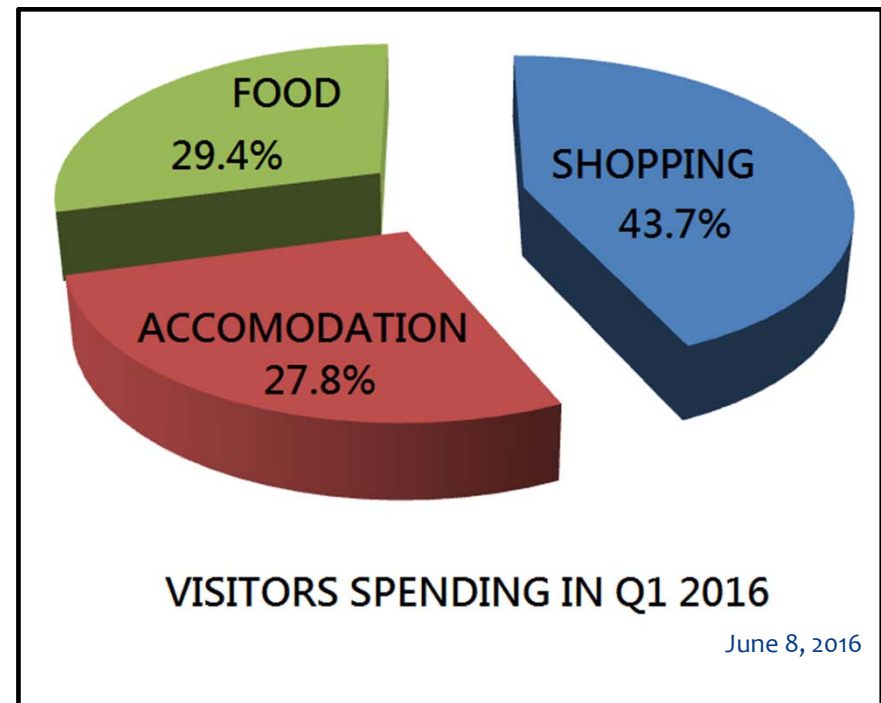
With respect to the gaming industry, one of the goals of the plan is to increase the non-gaming revenue from 6.6 percent in 2014 to 9 percent by 2020, said Union Gaming.

The 5-year plan also mentioned the upcoming interim report, which will address changes to the regulatory environment and associated laws, particularly in the VIP segment.

Visitor non-gaming spending

Visitor non-gaming spending amounted to MOP 11.5 billion (\$US1.4 billion) in 16Q1, according to data from the Statistics and Census Service (DSEC).

Spending on shopping, which accounted for 43.7 percent of overall spending, compared to 27.8 percent on accommodation and 29.4 percent on food.



VISITATION

30.7 million in 2015

(31.5 million visitors in 2014)

For Mass Market Revenue: It depends on VISITATION

In the first two months of 2016, visitor arrivals totaled 5,090,165, down by 1.0% year-on-year;

In 2015

Mainland 20.4 million (66%)

Hong Kong 6,500,000

Taiwan over 988,000

Korea 554,177

Malaysia 229,102

Singapore 158,814

DRIVERS FOR VISITATION

Future Growth Drivers

More efficient and affordable transportation infrastructure in nearby provinces

Greater number of hotel rooms and non-gaming offering in Macau in coming years

Additional tourism attractions in Macao and Hengqin Island

Rapidly expanding middle-class with growing disposable income

Result in Visitation

Come From Farther Away Places

Stay Longer, overnight % increased

Spend More On:

Lodging

Retail

Dining

Entertainment

Gaming

Border Gate



From GGR Asia Mar.14, 2016

Future

In the midst of an economic downturn and Beijing's anti-graft measures, Macau Gaming Industry has been on a decline for more than two years. The relaxation of visa norms and a less stringent commentary on smoking ban in casinos are some positive signs. While it is difficult to ascertain when a recovery in gaming will kick in, the long-term Macau growth story remains integral. There are multiple factors such as key infrastructural initiatives and growth in Mainland China to drive growth in Macau Casino Mass Market. Around 70% of Macau visitors are from Mainland China and a better macroeconomic environment in China will boost Macau gaming industry.



Q&A

Macau VIP Business perspective

- a. Junkets dead chip commission income down.
 - b. VIP Owners have to conform to the rules & regulation of DICJ, thus more transparency in the industry.
- Exploring elsewhere for new markets, such as Korea, Philippine, Russia, Vietnam & Laos.

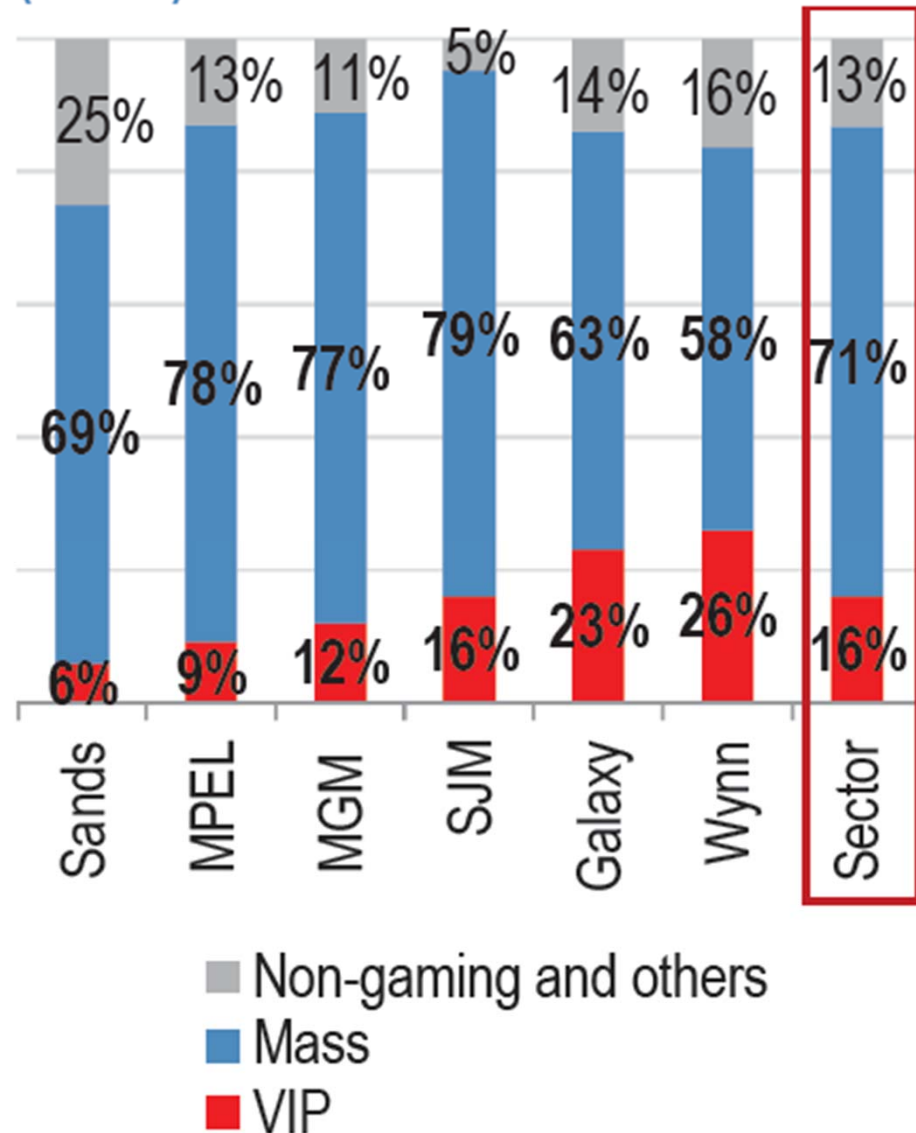
VIP Dead Chips Turnover
2014 US\$ 810 billion
2015 US\$ 390 billion

2014 Junket commission roughly USD 10 billion
2015 Junket commission roughly USD 4.9 billion 1.25% on Turnover

Non Gaming

The comments from Macau's five-year development plan, called for an increase in non-gaming revenue of resorts from 6.6 percent in 2014 to 9 percent by 2020.

Figure 1: EBITDA split by segment (2015E)





GAMBLING CONTRIBUTION TO LAS VEGAS REVENUE 35%