
Reports

MACAU MARKET



Macau

Fight or Flight?

Macau is the epicentre of gambling, glitz and glamour. It's the Las Vegas of Asia and a world class city offering luxury entertainment. So as the Coronavirus pandemic brought the gambling world crashing down, all eyes have been on Macau as a marker by which all other gambling markets are measured in terms of recovery and progress.

Formerly a colony of the Portuguese empire, Macau was transferred to China in 1999. Today it maintains separate governing and economic systems from those of mainland China and is the most densely populated region in the world. The once sparsely populated group of coastal islands have been transformed into major leisure resorts and as such it has become a leading gambling destination.

Since Macau opened its locally controlled casino industry to foreign competition in 2001 it has attracted billions of dollars in foreign investment, whilst China's decision to relax travel restrictions in 2016 for its residents visiting Macau, has only fuelled gambling growth.

The peninsula has a 3km land boundary with China whilst the former islands of Taipa and Coloane are joined together by a strip of reclaimed land (Cotai) which now hosts several casino resorts.

Last year the gambling market in Macau was worth \$36.5bn (MOP292.3bn) and gambling taxes are responsible for around 76 per cent of government revenue.

CORONAVIRUS

As the virus hit Wuhan in China in early January, Macau was on Covid-19 alert earlier than the rest of the world with its first confirmed case on January 22. The same day the DICJ requested all casino staff to wear protective masks and cancelled all events for the Chinese New Year

A week later the Independent Visa Scheme (IVS), which enables visitors from mainland China to travel independently into Macau, was suspended along with tour group visas whilst the Hong Kong Macau ferry terminal was closed in early February and flights to Macau were suspended or operated with reduced services.

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There are usually four ferry routes operating between Hong Kong and Macau offering a total of 138 sailings per day whilst commercial aircraft movement at Macau airport dropped 93 per cent year on year in July with six or seven daily passenger flights. There were seven airlines operating flights to Macau in July connecting the city to 15 destinations across China and Asia mostly. Incoming travellers have to provide a negative Covid-19 test.

The casinos were forced to close on February 5 for 15 days and reopened on February 20 subject to government safety procedures including limitations on spacing of open tables and slots,



On July 15, authorities eased certain quarantine requirements for people travelling between Guangdong province and Macau (non-tourism related visas) and visitors entering Guangdong from Macau no longer have a two week quarantine rule. Alongside the Macau and Guangdong travel bubble was the reinstatement of the IVS and group travel for Zhuhai Hukou residents and Zhuhai Resident Permit Holders to Macau.

limiting players and spectators at tables to three or four, temperature checks, mask protection and other health measures.

An entry ban was enforced on all visitors into Macau from March 18 and only visitors from China, Hong Kong and Taiwan were permitted to enter Macau with tight restrictions.

By the end of August the virus was under

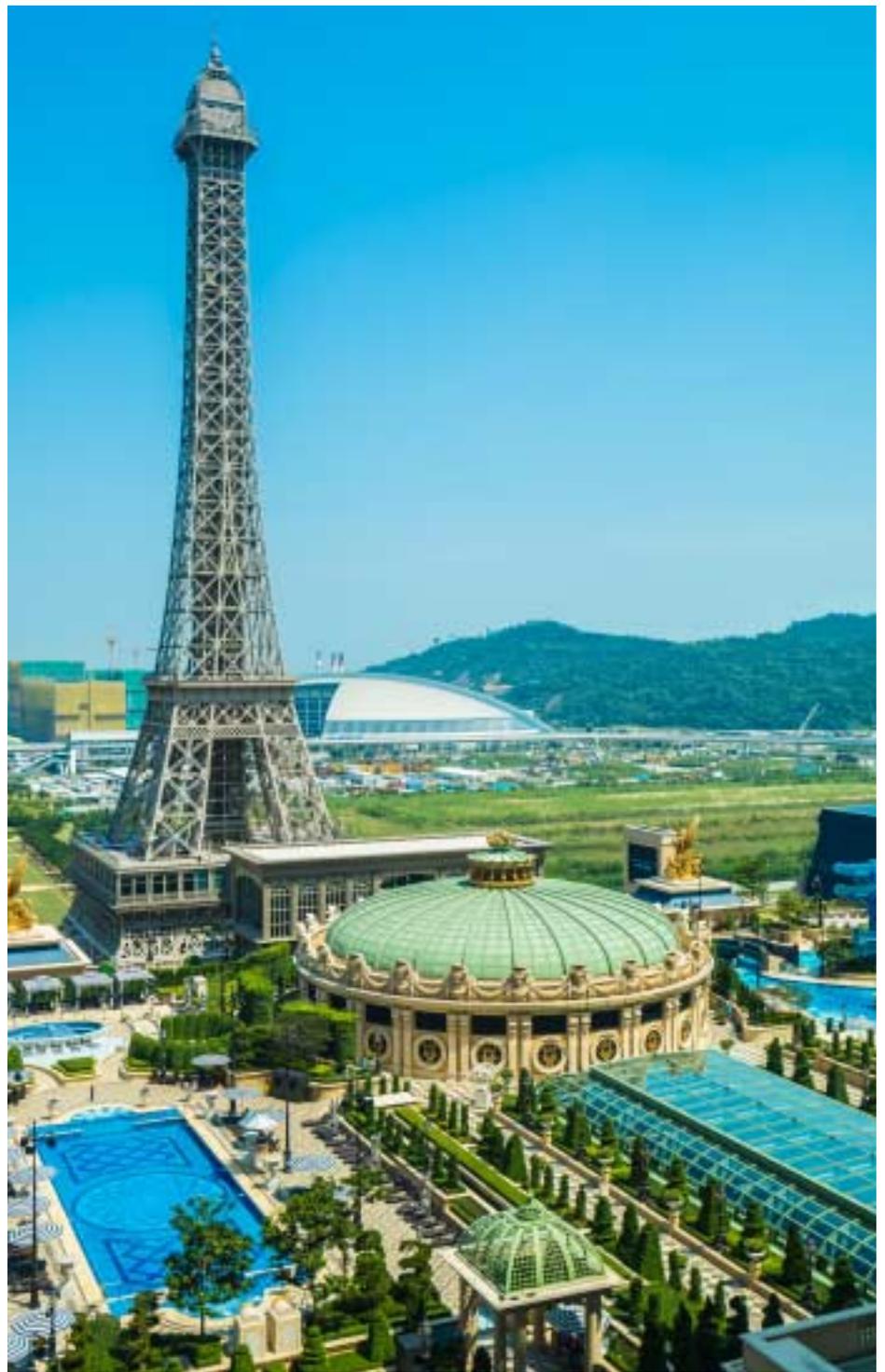
control in Macau but travel is still limited due to active cases in neighbouring regions. There were just 46 cases reported by mid September and no deaths.

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quarantine rule. Alongside the Macau and Guangdong travel bubble was the reinstatement of the IVS and group travel for Zhuhai Hukou residents and Zhuhai Resident Permit Holders to Macau as of August 12. This was extended to the entire Guangdong province by end of August and was expected to be instated nationwide by September 23, providing there is no spike in Covid cases.

Zhuhai is a city of around 1.7 million people in the Guangdong province bordering Macau. Guangdong residents represented 46 per cent of all mainland Chinese visitors to Macau in 2019 whilst 72 per cent utilised the IVS.

Despite the ease in restrictions Macau continues to experience low visitation due to travel issues and quarantine measures. The hope is that visas will be fully restored by October's Golden Week, which is usually a peak period for Macau's tourism and casino industries. Without, there is



little hope of the influx of visitors the casinos and other entertainment facilities so desperately need.

Gross Gaming Revenue in Macau saw its fifth straight month of revenue decline in August. The GGR has slumped since February due to the knock on effect of limited travel restrictions. Visitors levels were around 2,000 daily in July and around 7,000 daily for the last week of August compared to more than 100,000 on average daily during the same period last year.

Macau's GGR for the first half of 2020 was HK\$32.7bn which has declined by 77 per cent year on year.

The gaming market is heavily dependent on the tourism sector. Typically customers travel from nearly Asian destinations to gamble. Around 90 per cent of visitors to Macau last year came from mainland China, Hong Kong and Taiwan.

TOURISM

Last year there were over 39.4 million visitors to Macau (10 per cent higher than 2018) made up of 20.7 million same day visitors and 18.6 million over night visitor stays. Around 92 per cent of these visitors were from China. Macau International Airport saw 9.6 million passengers in total last year. The airport usually serves around 30 airlines and provides access to 55 destinations.

By the end of 2019 there were 123 hotel and guesthouse establishments (36 five star hotels) offering over 38,000 rooms in the city. Occupancy rate is usually around 90 per cent with an average room rate of \$170. In June 2020 occupancy rate was just over 11 per cent.

Although tourism to Macau grew during the first half of 2019 to 20.3 million, a 20 per cent increase compared to the same period in 2018, the second half of 2019 was marred by social

disturbances in Hong Kong and visitor numbers fell by 5.7 per cent compared to the first six months to 19.1 million.

And then of course the pandemic arrived. And the tourism market all but collapsed.

January to July 2020 saw a total of just 3.3 million visitors, a drop of 86 per cent on the 23.8 million who visited the same seven month period in 2019.

In the month of January there were 2.85m visitors, by June this had dropped to just 22,500 visitors. In comparison in June 2019 there were just under 3.1 million visitors – a 99 per cent drop year on year for this month.

In the month of July there were 74,000 visitors which came from mainland China, Hong Kong or Taiwan only, a drop of 98 per cent on the 3.5 million in July 2019.



DATA YEAR 2020

	JAN 20	FEB 20	MARCH 20	APRIL 20	MAY 20	JUNE 20	JULY 20
Unemployment rate	1.7%	1.9%	2.1%	2.2%	2.4%	2.5%	2.7%
Visitor arrivals	2,850,500	156,400	212,300	11,000	16,100	22,600	74,000
No. of hotels/guest houses	122	115	112	110	108	109	114
Hotel guests	1,079,000	154,500	238,900	106,900	116,500	134,200	151,900
Occupancy rate	81%	14.8%	23.2%	12.6%	11.8%	11.8%	12.1%
Total GGR	MOP22.19bn	MOP3.19bn	MOP5.3bn	MOP762.1m	MOP1.78bn	MOP770.2m	MOP1.41bn
GGR (games of chance)	MOP22.12bn	MOP3.10bn	MOP5.25bn	MOP754m	MOP1.76bn	MOP716m	MOP1.34bn

According to the Macau SAR statistics and census service, visitation to Macau decreased by 69.9 per cent during the first quarter of the year and by 99.5 per cent during the second quarter, compared to the same periods in 2019.

Visitor spend in 2019 had fallen by eight per cent to MOP64.08bn (\$7.98bn) compared to 2018 figures whilst per capita spending of visitors fell by 16.5 per cent to MOP1,626 (\$203). First quarter 2020 visitor spend (excluding gaming) was MOP5.01bn this is compared to the first quarter of 2019 which saw MOP16.93bn spend.

Ever since the early days as a trading port and historical gateway between China and Europe the tourism industry has been developed over the years in Macau and it is now the key industry. With its unique blend of Portuguese and Chinese culture the city has much to offer.

There are some constraints however including limited land and lack of human resources. But with a plan to turn Macau into the World Centre

of Leisure and Tourism in September last year the Macau Government Tourism Office launched its Tourism Industry Development Master Plan to help develop the tourism sector in the city over the next 15 years. The plan proposes eight key objectives, 33 strategies and 91 action plans for short, medium and long term implementation.

The eight objectives are:

- Diversify tourism products and experiences.
- Improve service quality and skills.
- Re-brand Macau as a multi day destination and expand high value markets.
- Optimise the urban development model.
- Manage Macau's tourism carrying capacity.
- Utilise innovative technology.

- Enhance tourism industry cooperation.

- Enhance Macau's position as a core tourism city in the regional and international tourism community.

There are new reclamation areas to be developed into cultural and commercial districts and MICE complexes and waterfront tourism development whilst the aim is to increase the number of visitors to up to 40 million per year. Additionally the aim is to increase non-gaming spend to around \$13-14bn (compared to \$6.6bn in 2016); lengthening visitor overnight stays; increase the number of hotels available; increase employment in the sector and obtain higher hotel occupancy rates.

GAMBLING

Gambling is crucial for the territory and the sector employs about three quarters of its 600,000 population directly or indirectly.

After 2002, when the Macau government ended



Essential information and facts about Macau:

Total Area	28.2sq.km
Population	696,000
Median Age	40.8 years
Religions	Folk religionist (59%), Buddhist, Christian, other
Ethnic Groups	Chinese (89%), Portuguese, other
Languages	Cantonese (80%), Mandarin, other
Currency	Patacas (MOP)
Unemployment	2.7% (July 2020)
Tourism	39.4m (2019)
Government type	Executive-led limited democracy
Chief of State	President of China XI Jinping (since 2013)
Head of Government	Chief Executive Ho Iat Seng (since 2019)
Elections	President elected by National People's Congress for five year term. Last election was 2018 and next due 2023. Chief Executive is chosen by Election Committee for five year term. Next election is 2024.

By the end of 2019 there were 41 casinos in Macau with 6,739 tables and over 17,000 slots. Of these, 25 casinos are located in the Macau peninsula and 16 on the Taipa island. Two casinos are currently suspended. There are six operating companies and as of this year the Sociedade de Jogos (SJM) has 20 casinos, Galaxy has six casinos, Venetian has five casinos, Melco Crown has four, Wynn has two and MGM has two casinos.

which granted three concessionaires which could each then enter into a sub-concession agreement with one sub-concessionaire.

SJM granted a sub-concession to MGM; Galaxy granted a sub-concession to Las Vegas Sands and Wynn granted its sub-concession to Melco.

All concessionaires pay a special gaming tax of 35 per cent of GGR plus an annual gaming premium of:

- MOP30m per annum fixed premium.
- MOP300,000 per year per VIP gaming table.
- MOP150,000 per year per mass market gaming table.
- MOP1,000 per year per gaming machine.

The Sociedade de Jogos de Macau (SJM) currently operates 20 casinos in Macau. The group's flagship Casino Grand Lisboa operates 292 mass market gaming tables and 123 VIP tables plus 780 slots and saw some 12 million visitors last year. The group's latest resort, Grand Lisboa Palace, on Cotai was completed at the end of 2019 and now has to go through a process

of obtaining operating licences and is anticipated to open by the end of this year. It includes 1,900 hotel rooms and suites.

The two towers - Palazzo Versace with 271 rooms and the Lagerfeld with 271 rooms - have been designed by the famous designers. The resort also features meeting and conference facilities, 100 plus shops, 30 food and drink outlets and entertainment and casino.

SGM total net gaming revenue for year end 2019 was MOP34.2bn (a 1.5 per cent drop on 2018). Total revenues (to include the hotel/retail/catering sector) amounted to MOP34.9bn and taxes amounted to MOP14.8bn.

VIP gaming accounted for over 34 per cent of the group's total gross gaming revenue last year with 275 VIP tables in operation and 15 VIP promoters. VIP gaming was operated at 13 of its casinos by end 2019. Group VIP gross revenues fell by 30 per cent in 2019 to MOP14bn.

Mass market table gaming accounted for over 62 per cent of the group's GGR in 2019 with 1,511 tables in operation by end 2019. Mass market table gaming increased by 8.9 per cent to MOP25.8bn.

a 40 year monopoly on gaming, the market in Macau opened and big name concessionaires entered the market. There is no limit to the number of casinos each concessionaire can operate, although each casino must be approved by the government. The Gaming Inspection and Coordination Bureau (DICJ) collaborates with the government in terms of gaming policies and operations of casinos and pari-mutuel betting.

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There are six operating companies and as of this year the Sociedade de Jogos (SJM) has 20 casinos, Galaxy has six casinos, Venetian has five casinos, Melco Crown has four, Wynn has two and MGM has two casinos.

These operate under the Macau Law No. 16/2001

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GGR for slot operations makes up three per cent of the group's total GGR with 2,439 slots and revenues of MOP1.22bn in 2019, a 2.5 per cent increase on 2018 revenue.

When the casinos were permitted to re-open SJM initially opened 16 of its 20 casinos until the others followed suit. At the end of June, SJM had 1,084 slots operating in 11 of its casinos compared with 2,439 slots at the end of December 2019.

The SJM interim report for the first six months of 2020 shows a 74 per cent drop in group net gaming revenue from HK\$16.7bn in 2019 to HK\$4.27bn this year. The group has seen HK\$1.4bn in losses (a 184 per cent drop compared to profits of HK1.67bn last year.

well as hotel, restaurant and other non gaming activities that depend on tourism will continue to be negatively impacted by Covid-19 for an indefinite period in the future.

“Whilst certain travel restrictions are likely to be gradually lifted and that visitation and spending will respond positively to such lifting, we do not expect a return on our previous level of revenue during any part of 2020. In particular it is not known when China's group and individual travel visas, which are critical to Macau's tourist flow, will be reinstated on a national basis. Even after such via resumption moreover it is not possible to predict whether there will be lingering economic effects and health concerns caused by Covid-19 that will affect our business for a longer period.”

\$1.79bn (\$1.99bn in 2018).

The second resort, the Wynn Palace opened in 2016 in Cotai with 323 tables and over 1,000 slots together with private gaming and sky casinos. The hotel has 1,706 rooms and suites, 14 restaurants, retail outlet leisure and convention area.

A Crystal Pavilion project is in the design stage and will include a world class theatre, catering, hotel and entertainment zone. Construction is due to begin in late 2021. Total casino revenues in 2019 amounted to \$2.13bn (\$2.35bn in 2018).

Total operating revenues for both Macau venues in 2019 were \$4.61bn (MOP37.25bn), an 8.7 per cent drop on 2018 mostly due to a drop in win on VIP tables which saw a 25 per cent drop in gross win.

The affect of closure and then restrictions has been significant on revenues for Wynn's casinos. The operating revenues for Q4 2019 for Wynn Macau were \$525.4m whilst Q1 2020 revenues were \$229.5m (a 56 per cent drop from Q1 2019) whilst Q2 results were \$11.9m (a 97.8 per cent drop from \$546.5m for Q2 2019)

Operating revenues for Wynn Palace for the Q4 2019 were \$590m whilst Q1 2020 were \$259.5m (64 per cent drop from \$726.6m in Q1 2019) and Q2 were \$8.7m (a 98.6 per cent decrease from \$628.9m in Q2 2019)

Meanwhile Galaxy Entertainment Group (GEG) operates three flagship destinations in Macau plus three City Club casinos.

Total net revenues for 2019 for the Galaxy gambling operations amounted to HK\$51.9bn (MOP50.5bn), a six per cent decline on 2018 data. Gross income from gambling operations was MOP61.1bn (12 per cent decrease on 2018) with mass gaming MOP30.1bn, slots MOP2.6bn and VIP segment MOP28.4bn (a 26 per cent drop).

In regards to the adverse effect the Covid-19 closures has had on the company's revenues – the GGR for Q4 2019 for the group was HK\$14.4bn with net revenues of almost HK\$13bn.

“Whilst certain travel restrictions are likely to be gradually lifted and that visitation and spending will respond positively to such lifting, we do not expect a return on our previous level of revenue during any part of 2020. In particular it is not known when China's group and individual travel visas, which are critical to Macau's tourist flow, will be reinstated on a national basis.”

Mass market table game revenue dropped by 73.5 per cent and VIP gross gaming revenue decreased by 81.6 per cent during the first half of 2020 compared to the year before. Slot revenue decreased by 59 per cent.

The group's flagship Casino Grand Lisboa saw an 80.7 per cent decrease in gross gaming revenue to HK\$1.32bn whilst hotel occupancy dropped from 75.9 per cent the year before to 18.9 per cent. Usually the casino sees around 35,000 visitors per day. During the first half of 2020 this was around 6,600 per day.

A statement within the interim report said: “We expect that gross gaming revenues in Macau as

Wynn Resorts operates two casino resorts – the Wynn Macau which opened in 2006 in the heart of the peninsula whilst Encore, an expansion of Wynn Macau opened in 2010. The casino houses 322 tables and 838 slots plus private gaming, sky casinos and poker room. The resort also has a feature lake, two hotel towers with over 1,000 rooms, 12 restaurants, retail, leisure area and convention space.

In December 2019 Wynn Macau opened the first phase of the Lakeside Casino with 44 non VIP gaming tables and high stake slot area with a second phase planned this year to include two new restaurants and extra retail space. Total casino revenues for the year 2019 amounted to



The Venetian Macao opened in 2007 on the Cotai Strip and is the group's anchor property. There are 656 tables and 1,668 slots and the integrated resort saw 36 million visits in 2019. There is a 39-storey hotel with more than 2,900 suites, plus shopping, dining areas and convention centre.

The GGR for Q1 2020 for the group was HK\$5.5bn with net revenues of HK\$5.1bn (down 61 per cent compared to Q1 2019) whilst the GGR for Q2 2020 for the group was HK\$485m with net revenues of HK\$1.15m (down 91 per cent year on year).

Starworld Macao is GEG's first five star flagship in Macao peninsula and is a 39 storey hotel with 500 rooms, casino, dining and entertainment. It opened in 2006 and saw net revenues of MOP11.2bn in 2019. Net revenues for first half 2020 were HK\$1.08bn compared to HK\$5.74bn (H1 2019)

Galaxy Macao opened in 2011 and expanded in 2015 adding further hotels to bring the resort total to six hotels with 3,600 rooms including the Broadway Macao. There is a water park, mini beach, more than 120 restaurants and 200 shops. It is the group's biggest earner with MOP38.5bn in net revenue in 2019. Net revenues for first half 2020 were HK\$3.85bn compared to HK\$18.7bn same period 2019.

The Broadway Macao is a smaller hotel which opened in 2015 as part of the Galaxy Macao expansion. It offers 320 rooms and has a 3,000 seat theatre. There is VIP gaming and this casino saw net revenues of MOP611m last year. Net revenues for H1 2020 were HK\$65m compared to HK\$298m (H1 2019)

City Clubs includes the Waldo Casino which opened in 2004, President Casino which opened in 2006 and Rio Casino which opened in 2006. They contributed MOP121m to net revenues in 2019. GGR H1 2020 was HK\$311m compared to HK\$1.06bn H1 2019.

In 2018 Galaxy began a MOP1.5bn property development plan to renovate gaming areas, hotel rooms and other facilities for the Galaxy

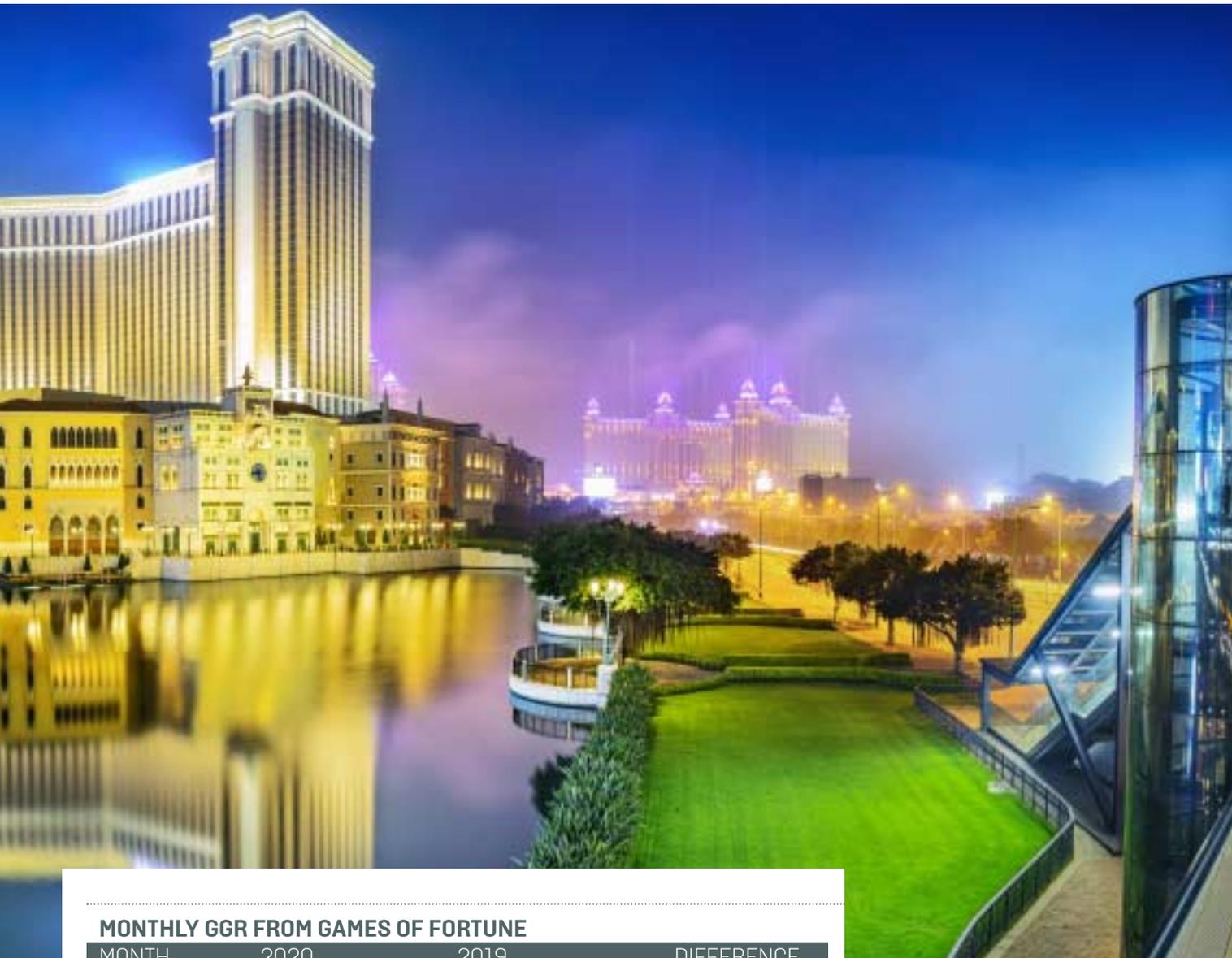
Macao and Starworld Macao. The group plans to extend its development on Cotai over a further 1m sq.m over the next few years and is still progressing with the plans which will also help develop Macao into a World Centre of Tourism and Leisure.

A spokesman said in August: "We will try to maintain our development targets, however due to Covid-19 development timelines may be impacted. At this point we cannot quantify the impact but we will endeavour to maintain our schedule."

Development on Cotai includes 3,500 rooms and villas, convention space, catering, retail and leisure areas. They opened the Galaxy International Convention Centre and Galaxy Arena last year and the first Andaz Hotel of the Hyatt Hotel Corp in Macao and the Galaxy Integrate Resorts complex. The group is also planning a lifestyle resort on Hengqin.

Sands China Ltd owns and operates five properties in Macao, comprising casinos, more than 11,700 hotel rooms and suites, 158 restaurants and food outlets, 2.1m sq.ft of retail malls, 1.7m sq.ft of MICE space, four theatres and a 15,000-seat arena.

The Venetian Macao opened in 2007 on the Cotai Strip and is the group's anchor property.



MONTHLY GGR FROM GAMES OF FORTUNE

MONTH	2020	2019	DIFFERENCE
January	MOP22.12bn	MOP24.94bn	-11.3%
February	MOP3.1bn	MOP25.37bn	-87.8%
March	MOP5.25bn	MOP25.84bn	-79.7%
April	MOP754m	MOP23.58bn	-96.8%
May	MOP1.76bn	MOP25.95bn	-93.2%
June	MOP716m	MOP23.8bn	-97%
July	MOP1.34bn	MOP24.4bn	-94.5%
August	MOP1.33bn	MOP24.2bn	-94.5%

There are 656 tables and 1,668 slots and the integrated resort saw 36 million visits in 2019. There is a 39-storey hotel with more than 2,900 suites, plus shopping, dining areas and convention centre. Total net casino revenues in 2019 were \$2.88bn. In Q2 2020 net casino revenue was \$5m compared to \$698m in Q2 2019.

The Sands Cotai Central integrated resort opened in phases beginning in 2012 and consists of four hotel towers with 5,621 rooms and suites plus gaming area with 399 tables and 1,374 slots. There is a theatre, retail space and more than 50 restaurants and catering establishments. It saw 19.2 million visits last year. Total net casino revenues in 2019 were \$1.54bn. Construction work on the conversion of Sands Cotai Central into the new integrated resort The Londoner Macao is continuing. The Londoner Macao

project is to be completed in phases throughout 2020 and 2021.

The Parisian Macao opened in 2016 and is connected to The Venetian Macao and The Plaza Macao, and has 304 tables and 1,278 slots. There are approximately 2,500 rooms and suites and a shopping mall plus 24 restaurants and food outlets. There is a half-scale authentic re-creation of the Eiffel Tower with panoramic platform and restaurant. In 2019, the integrated resort saw some 13 million visits and total net casino revenues of \$1.38bn.

The Plaza Macao opened in 2008 adjacent to The Venetian Macao and has 128 tables and 248 slots. The integrated resort has 360 suites and rooms plus conference, retail and restaurants. It saw 24.3 million visits last year and total net casino revenues of \$650m.

Finally Sands Macao opened in 2004 and was the first Las Vegas-style casino and entertainment complex in Macao and is located next to the Macau Maritime Ferry Terminal and saw approximately 5.7 million visits last year. The resort has 289 suites and a gaming area with 198 tables and 782 slots. Plus there are spa facilities, restaurants and entertainment. Total net casino revenues last year were \$576m.

For Sands China's combined Macau operations, total casino net revenues amounted to US\$7.02bn in 2019, a three per cent increase on 2018 revenues.

Total net revenues in Q1 2020 amounted to \$814m compared to \$2.33bn in Q1 2019 whilst total net revenues for Q2 2020 amounted to \$40m compared to \$2.14bn Q2 2019.

Total net revenues amounted to \$848m for H1 2020 compared to \$4.47bn H1 2019 with a loss of \$716m for the first half of 2020 compared to a profit of \$1.07bn for the first half of last year.

Sands China remains unwavering in its commitment to long-term investment in Macao and despite the current impact from the Covid-19 pandemic, Sands China is encouraged by recent announcements regarding changes to travel policies, which the group believes represent the first steps towards the recovery of



“While we focus to contain our costs, we are rolling out programs to drive traffic and prepare for gradual recovery. The trend setting holistic non gaming offerings at both MGM Macau and MGM Cotai have been well received. We are confident about the prospects of Macau gaming and hospitality market in a longer term.”

tourism in Macau. Sands China remains confident that travel and tourism spending in Macao will eventually fully recover and that future growth will continue as travel and tourism spending return.

Concessionaire MGM Grand Paradise operates two resorts. The MGM Macau opened in 2007 and has 1,085 slots and 290 tables and is made up of a Forbes five-star luxury resort with 35 storey tower with 582 rooms and suites. There are eight restaurants and convention space

MGM Cotai opened in February 2018 with 262 tables and 1,154 slots. There are two hotel towers with 1,390 rooms and suites, 12 restaurants, bars, commercial area and convention space. In 2019 The Mansion, an ultra exclusive resort within a resort opened.

The group's operating revenues increased by 18.6

per cent in 2019 to HK\$22.76bn whilst main floor gross table games win saw a year on year growth of 37 per cent to HK\$14.9bn. Revenue for MGM Macau was HK\$12.3bn whilst MGM Cotai saw HK\$10.3bn.

Results for the Q1 2020 MGM China recorded total revenues of HK\$2.1bn divided between MGM Macau with HK\$1.1bn and MGM Cotai with HK\$1bn. Overall occupancy rate was 36 per cent.

The first half 2020 results MGM China recorded

Melco is currently developing the remaining project for Studio City which will consist of two hotel towers with 900 rooms approximately, cineplex, MICE, gaming area and water park. Prior to the Covid-19 outbreak the company anticipated a 32 month build time. However the project exists under the terms of a land concession which has to be fully completed by May 2022.



2009 and includes four hotels with a total of 2,230 suites and rooms between them. The gaming area has 516 tables and 862 slots plus around 35 restaurants on the complex plus shopping and nightclub. In 2018 Melco opened Morpheus the third phase of City of Dreams with 770 rooms and suites. Total operating revenue for City of Dreams by end 2019 was US\$3.05bn (53 per cent of total group net revenues). Operating revenue for HI 2020 was US\$573m (\$1.5bn in HI 2019).

Altira Casino is a luxury resort in Taipa with a 38 storey hotel tower offering 230 rooms and suites. Gaming area offers 103 tables and 178 slots located in the Mocha Club Altira. Total operating revenues for 2019 were US\$465.1m (eight per cent of total group net revenues). HI 2020 operating revenues were \$69.9m (\$237.3m in HI 2019).

Studio City is a large scale resort on Cotai which opened in 2015 operating a four star hotel, shopping and entertainment area and attractions. The gaming area has 295 tables and 947 slots. Studio City focuses on mass market gaming although VIP rolling chip operations were introduced in 2016 and a VIP rolling chip area was built with up to 45 VIP tables authorised from December 2019 which are due to cease by January 2021. Total operating revenues in 2019 were US\$1.35bn (23.6 per cent of total group net revenues). HI 2020 operating revenues were US\$147.5m (US\$659.3m in HI 2019).

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Mocha Clubs began operating in 2003 and today there are eight clubs with 1,478 slots. They are mostly located within four and five star hotels and offer electronic tables and slots. Total operating revenues in 2019 were US\$117.5m (two per cent of total group net revenues.) Mocha operating revenues for HI 2020 were US\$41.2m compared to US\$60m for HI 2019.

Melco HI 2020 results for the Macau casinos amounted to HK\$6.5bn compared to HK\$19.4bn during the same half year period in 2019.

A statement said: "We remain bullish on the long term growth prospects of the group.

total revenues of HK2.4bn. Overall occupancy was 19.8 per cent. MGM Macau saw a total GGR of HK\$1.3bn and MGM Cotai with HK\$1.1bn.

As part of their business re-launch MGM has introduced the Mixy-Go-Matchy offerings to include bespoke hospitality packages, enhanced food and drink options and entertainment.

At the end of July, Hubert Wang, President and CEO of MGM China said: "We are encouraged to see the lifting of quarantine measures for visitors from Macau into Guangdong province as

an important first step of business normalisation.

"While we focus to contain our costs, we are rolling out programs to drive traffic and prepare for gradual recovery. The trend setting holistic non gaming offerings at both MGM Macau and MGM Cotai have been well received. We are confident about the prospects of Macau gaming and hospitality market in a longer term."

Finally Melco Resorts operates the iconic City of Dreams which is located in Cotai and opened in

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Macau's Chief Executive, Ho Iat Seng, is focusing all his efforts on stabilising an ailing economy and prevention of any Covid cases, which means that the renewal process is not high on his agenda. Local authorities have to complete a review of the gaming sector before the permit renewal and tender process can even begin. The licences last 20 years although some are suggesting a shorter 10 year duration in future to enable for more flexibility in responding to any market changes.

Specifically within Asia, we expect that Macau will continue its strategic development as a world leading tourism and entertainment destination as it further integrates into the Greater Bay Area. This process is spurred by new infrastructure such as the Hong Kong-Zhuhai-Macau bridge which facilitates a steady increase in inbound tourism and reinforced by the expanding Chinese middle class which will

benefit Macau's mass gaming market.

"We remain committed to our global development program. We are confident that the Studio City Phase Two project in Macau and the City of Dreams Mediterranean project in Cyprus will set other new standards in their respective regions with best in class leisure and entertainment offerings, significantly

differentiating themselves from all other local resorts."

CHANGES

The gaming licences for Macau's six concessionaires expire in mid 2022 and details about renewing the permits will begin next year. However delays are now possible.

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GAMBLING DATA 2017-2020

GAMES	2017	2018	2019	2020 Q1	2020 Q2
Number of:					
Casinos	40	41	41	41	41
Gaming tables	6,419	6,588	6,739	5,533	5,869
Slots	15,622	16,059	17,009	7,216	7,595
Amount Wagered:					
Greyhound racing	MOP218m	MOP110m	-	-	-
Horse racing	MOP517m	MOP504m	MOP491m	MOP71m	MOP70m
Chinese Lotteries	MOP39m	MOP49m	MOP55m	MOP9m	MOP12m
LD Apost Soccer	MOP5.5bn	MOP6.3bn	MOP5.3bn	MOP845m	MOP498m
LD Apost Basketball	MOP2.6bn	MOP2.6bn	MOP2.7bn	MOP641m	MOP165m
TOTAL	MOP8.91bn	MOP9.71bn	MOP8.67bn	MOP1.5bn	MOP745m
GGR					
Greyhound racing	MOP46m	MOP23m	-	-	-
Horse racing	MOP104m	MOP101m	MOP98m	MOP14m	MOP14m
Chinese Lotteries	MOP10m	MOP13m	MOP14m	MOP2m	MOP2m
LD Apost Soccer	MOP519m	MOP674m	MOP534m	MOP92m	MOP50m
LD Apost Basketball	MOP185m	MOP222m	MOP211m	MOP41m	MOP16m
Games of Chance	MOP265.7bn	MOP302.8bn	MOP292.4bn	MOP30.4bn	MOP3.2bn
TOTAL	MOP266.6bn	MOP303.8bn	MOP293.4bn	MOP30.6bn	MOP3.3bn

It is anticipated that this 2022 time frame could lapse a year or even longer. Under Macau law the concessionaire's current licences could be extended for a maximum of five years (until 2027) giving more time to analyse the casino sector.

The tender process can be opened to any other operator and there is no guarantee that current licensees will retain their permits.

There is talk about encouraging Macau to become less reliant on gambling for its revenue. The Covid epidemic highlighted the problem that when gambling goes down then the loss of revenue is hugely significant.

Macau officials are now revamping the gambling laws which could see some changes in operations. The changes however have to be sent out for public approval then approved by

Macau's legislative Assembly. This could take another year or so.

Some suggest that the trade tensions between the US and China could also see renewal licensing risks for Las Vegas Sands and Wynn.

The trade war is just one issue causing Macau's revenues to slump last year. Back in 2002 the gaming industry was worth \$2.9bn. Last year it was worth \$36.5bn (MOP292.3bn) whilst the mass market table games segment accounted for over 48 per cent of market wide gross gaming revenues in 2019.

There was a slow down in 2019 revenues attributed to a slowing of the world economy, the ban on smoking in VIP areas, competition from other markets and the growing tensions of the US-China trade war.

This, plus the recent crackdown on cross border money movement, means the 2020 GGR figures for Macau would not have been as high as perhaps many are predicting the levels will return to post Covid.

Although the US and China have been entangled in a nasty trade fight for the last couple of years the pandemic has merely prompted Trump to encourage companies to bring manufacturing back to the States. However in response to US pressure on Chinese exports, many companies are now moving their manufacturing facilities to other Asia countries where wages are even lower. And the Macau junkets have followed their clients causing a downward trend in GGR in Macau.

Samsung, Hasbro, Apple and Nintendo for example are relocating. In April Apple was producing about a quarter of its AirPods

Reports

MACAU MARKET

earphones in Vietnam a sign it is gradually relocating its supply chains away from China. As US trade with China dropped significantly last year, imports from Vietnam, Taiwan and Mexico increased.

According to a survey by analyst firm Gartner, more than a third of companies with global supply chains are moving or planning to move their activities out of China within the next couple of years.

The rising tariffs imposed by Trump, plus Brexit issues are the main cause, whilst the Covid pandemic has merely added icing on the cake by highlighting supply issues

This shift in location is also driving Macau's 'bread and butter' customers out from neighbouring Guangdong to Indochina. Macau's VIP play is now drifting over to regional markets such as Vietnam and Cambodia.

Macau's GDP fell by 4.7 per cent in 2019 to MOP434.7bn (US\$54.2bn). Exports of gaming services fell by 9.8 per cent due to a decrease in VIP gaming business.

GGR generated by VIP play was down 18.6 per cent in 2019 although the mass market table gaming sector grew by 16.8 per cent resulting in a total GGR drop of 3.4 per cent in 2019 compared to 2018. Tax revenue was MOP112.7bn last year.

Macau's Q2 exports of gaming services and other tourism services fell by 97 per cent and 93.9 per cent respectively (year on year) which saw a 67.8 per cent drop in the city's GDP for the period

The GDP growth rate fell by 48.7 per cent during the first quarter of 2020 and fell by 67.8 per cent during the Q2.

Meanwhile Trump recently issued executive orders to ban the Chinese messaging app WeChat citing security concerns. The app is used by US gaming companies as a social media platform with 1.2 billion users worldwide and is particularly popular in China whilst international WeChat users are estimated to be between 100 and 200 million and on average around 19 million daily active users in the US.

The ban is due to come into force from September 20 and basically will cut off communication with customers in China for the likes of Wynn, MGM and Las Vegas Sands severely causing a disadvantage compared to their non-US competitors.

It will ban US citizens and corporations from conducting 'any transaction that is related to WeChat'. Trump's order issued on August 6 will simultaneously also ban video app TikTok owned by Beijing based ByteDance, if the two apps are not sold by their parent companies.

He wants an American company to own the apps. It's an unprecedented move. WeChat is the overseas version of Weixin as it is called in China providing a range of services from instant messaging, video calls, book restaurants, order food and ability to send money to other users.

With the Macau casinos unable to advertise themselves in China their marketing relies heavily on social apps to contact clients and advertise their promotions. WeChat is also a popular payment option and many Chinese businesses favour WeChat over credit card payments.

The Chinese have little choice but to use this app which is operated by Tencent. The country's communist rulers block access to other social media sites such as Facebook, Twitter and many foreign websites and online services.

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WeChat is permitted because the Chinese government surveys and censors content blocking any criticism of the Chinese government and other 'sensitive' subjects whilst data is flagged and stored. This happens with Chinese registered accounts but there have also been endless reports of blocked accounts or messages for those Chinese nationals now living outside of China sending messages back home.

With The Trump re-election in November this could be undone if Democrat candidate Joe Biden wins and reverses this decision. In the interim it does, however, put the US operators in a difficult position.

This is all part of Trump's escalating tech war with China. The Chinese Ministry of Foreign Affairs firmly opposes the order saying the US is using state power to oppress non-American businesses.

Meanwhile as all forms of gambling in mainland China are banned (bar state owned sports





lotteries and national lottery) illicit online gambling has always been a lucrative business. And most of these operations are Chinese owned and mostly based in Cambodia or the Philippines. In 2019 it was estimated that the amount gambled through online gambling in China was around US\$145bn a year.

Cambodia shut down its online gaming sector at the beginning of the year whilst the Philippines has simply shrugged off the protest with Duterte saying he would not ban the industry.

Online casinos called POGOS (Philippine Offshore Gaming Operator) have mushroomed in the Philippines with around 60 licensed POGOs in the country which apparently attract more than 100,000 Chinese nationals who work in the virtual casinos.

Around 90 to 95 per cent of customers are from China. The Philippines did close down its online and landbased sectors in March during lockdown but this has since re-opened.

So in June the Chinese government launched a 'whistle blowing' platform to allow citizens to report any illegal cross border gambling with rewards for information leading to arrests.

This is part of the country's 'Strictly Combating Cross Border Gambling and Telecommunications Network Fraud during the Epidemic' project claiming the cross border flow of funds for gambling was a national security risk.

Financing channels used by the online gambling sector and digital currency lending platforms were cut off and thousands arrested. Authorities froze bank accounts and seized more than \$32.95bn.

Casinos and junket operators in Macau say this crackdown is hitting big spender VIP customers worried about financing channels via the junkets.

The crackdown is impacting liquidity on top of the pandemic crisis. The VIP junket sector in Macau accounts for almost 50 per cent of overall gambling revenues. Although most top junkets are not involved in online gambling, agents do use the channels to settle debts and provide credit for high rollers.

There was speculation that Suncity, a leading junket operator in Asia, was targeted by the Chinese authorities whilst according to reports some 900 players withdrew deposits from Suncity's VIP clubs across Macau during a few days in July.

Suncity is controlled by junket boss Alvin Chau Cheok Wa with 16 VIP clubs in Macau. He denied the company had been targeted and in August Chau exchanged his existing HK\$3.88bn shareholder loans into Perpetual Securities on an unsecured and unsubordinated basis and will lend the company up to HK6bn from his own pocket injecting a vote of confidence into the Suncity group.

Suncity is busy developing IR projects in Vietnam, Russia and Manila and is the largest shareholder of Summit Ascent Holdings Ltd

Macau junkets: a necessary component in the overall offer



Ben Lee,
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IGamiX Management and Consulting Ltd

Ben Lee is the Managing Partner at IGamiX Management and Consulting Ltd based in Macau and is acknowledged as one of the region's experts in the Asian gaming market and has extensive gaming experience all over Asia and Australia.

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Interested in the shifting dynamics of Macau's junket industry, G3 talks to Ben Lee, Managing Partner at IGamiX Management and Consulting about the crackdown on financing channels and the impact of the changes on the recovery of the Macau market following strict control measures in 2020

China has been cracking down on the money channels since 2014, but has ramped up efforts to that end recently. Bearing in mind that the Chinese players whom Macau relies on for virtually all its gaming business face enormous roadblocks when it comes to sending any funds overseas, those more recent clampdowns have had and will continue to have a depressant impact on all segments of Macau's gaming industry, not just the VIP sector.

How does the Junket system work in Macau?

Macau does not have much of a domestic mass base, virtually all our gaming revenue comes from outside our border, which in our case is China. It is illegal for the mainlanders to gamble, to promote gambling in China, to organise trips for the purpose of gambling and to collect gambling debts. It is also illegal for anyone to remit more than US\$10k per annum.

So enter the junkets. They fulfil a necessary evil and do all the functions that the casinos are not able to do. The junkets are loose pyramids of agents and sub agents of which the travel agents sit at the very bottom of. As such they are able to perform many of the functions above without collectively being held responsible.

How will the crackdown on financing channels used by online gambling operators affect the junket market?

China has been cracking down on the money channels since 2014, but has ramped up efforts to that end recently. Bearing in mind that the Chinese players whom Macau relies on for virtually all its gaming business face enormous roadblocks when it comes to sending any funds overseas, those more recent clampdowns have had and will continue to have a depressant impact on all segments of Macau's gaming industry, not just the VIP sector.

In terms of the crackdown on online gaming and Macau, surprisingly most of the noteworthy Macau junkets have had very little to do with the online business.

The simple reason is that they have lots more to lose if they are no longer licensed in Macau. What we have seen is that the online sector is dominated by parties straight out from China with no landbased presence. There is some intersection between the landbased and online but those tend to be the minor junkets operating on the fringe.

In turn how will this affect Macau's recovery?

This means that our recovery will be much slower than our previous recovery from SARs and the financial crisis. It will be gradual and much more controlled.

Revenue figures for 2019 in Macau were already dropping partly because of the US-China trade war. What is the outlook for this year?

That is a salient point that most people pointing to a rapid recovery are overlooking. The manufacturing and export sector, our prime source market for gamblers, are relocating to Indochina and that trend will continue. What that means is that new regional centres will develop, taking the cream off what was once Macau's.



Macau Gaming Concessions: A case for licence extensions



Rui Pinto Proença,
Managing Partner, MdME

Rui Pinto Proença is Managing Partner of MdME Lawyers and head of the firm's Corporate and M&A practice. He specializes in mergers and acquisitions and also focuses on the gaming sector where he regularly acts for gaming companies in Macau and across Asia-Pacific region assisting government in emerging markets developing their gaming policies and regulatory frameworks.

Rui is the global chair of the Lex Mundi Gaming Solution, a network of law firms covering over 25 gaming jurisdictions around the world and a member of the Board of Trustees of the IAGA.

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The six contracts at the epicentre of this discussion are no less than the very legal instruments that allowed for the growth of the Macau gaming industry in the past 20 years. From a total GGR of US\$2.9bn (in 2002) the sector now represents an unimaginable US\$36.5Bn per annum (in 2019), accounting for more than 75 per cent of the total tax revenue of this relatively tiny region of China.

When this article goes to print, we will be approximately 20 months out from the expiration of the existing concession (and sub-concession) contracts between the Macau government and the current casino operators. These are SJM, MGM, Melco, Wynn, Galaxy and Sands

Twenty months may seem like plenty of time to address what is, in its essence, a licensing issue. However, as recent global experience has demonstrated, a lot may change rapidly so, for all the stakeholders involved, this deadline looms just around the corner...

In fact, the six contracts that are at the epicentre of this discussion are no less than the very legal instruments that allowed for the growth of the Macau gaming industry in the past 20 years. From a total GGR of US\$2.9bn (in 2002) the sector now represents an unimaginable US\$36.5bn per annum (in 2019), accounting for more than 75 per cent of the total tax revenue of this relatively tiny region of China.

These contracts have not only shaped the operators into the gaming powerhouses they are today, they have also changed the face (and the faith) of Macau. What is at stake then is not simply the future of each

of the companies involved but rather the prosperity of Macau and its people. And, as most industry veterans would recognise, both require a delicate balance that has been carefully crafted over the past two decades.

WHAT ARE THESE PIVOTAL DOCUMENTS?

In short, a concession contract is a civil law instrument used in the Portuguese legal system as the preferred way for the government to outsource services considered essential to the public (the provision of water and electricity, waste management, etc.). It is also used to allow the commercial operation of activities that, although not being of direct public interest, can be as profitable as they are socially costly. Casino gaming is the latter.

For these reasons, the operation of games of chance for profit is an activity reserved by law to the Macau Government; it may only be pursued by private



In a rare glimpse of clarity over the government's thoughts on the topic [of Macau's gaming licences], Macau's Chief Executive has revealed that the government will proceed with opening a public tender, that it has no plans to extend the current terms beyond 2022 and that there will be no tax reduction. It also added that a public consultation on the topic will be launched by the end of the year.

entities that have been awarded (conceded) a contract with such scope. Gaming concession contracts have three important characteristics.

Firstly, they are awarded by public tender.

Secondly, they create scarcity by limiting the number of operators in the market (currently three concessionaires and three subs).

And last, but certainly not least, they are limited by time. At the end of their term the government may reassess its policies for the sector and make a judgment on the capacity of existing operators to pursue them.

The last time the Macau Government conducted such an exercise was in 2001, when it decided to move away from a monopolistic concession and launched an international public tender. The

existing contracts are the culmination of such tender. They all end in June 2022 and, under the current legal framework, are not susceptible of being renewed.

They may, however, be extended beyond their 20-year term, one or more times, for a

maximum of five years. This extension may only be granted on an exceptional basis under a justified decision of the Macau Chief Executive.

Neither the law, nor the contracts, prescribe what circumstances may justify such exception. Nevertheless, it is safe to assume that it may only be used if public interest could be substantially better served by not taking a definitive decision in respect of the issue of the concessions, within their maximum natural term.

This could happen in two scenarios:

- (i) by reasons internal to the Government – if it is not able, for political reasons or otherwise, to complete the tender process in a manner that would guarantee a continuous and uninterrupted operation of the market;



If the latest figures of online GGR are to be taken seriously, it is not wise to disregard the effects of competition from this segment going forward. Adding to the uncertainty, there are the risks arising from the global geopolitical landscape. This high-stakes game, of unforeseeable consequences, may impose on the local government decisions that may be contrary to the best interests of Macau and its people.

(ii) by reasons external to the Government – if the macroeconomic and socio-political context in existence at the relevant time would advise against a change to the status quo.

One could argue that the current public health emergency is a textbook example of an external and extenuating circumstance that could warrant an extension of the contracts. However, Macau's Chief Executive – the top government official who holds the power to grant it – has denied it.

In a rare glimpse of clarity over the government's thoughts on the topic, the CE has revealed that the government will proceed with opening a public tender, that it has no plans to extend the current terms beyond 2022 and that there will be no tax reduction. It also added that a public consultation on the topic will be launched by the end of the year.

These statements were produced in April this year –

just after the peak of the pandemic in China – during the government's annual policy address. Now that the situation seems to have stabilised in China (by far Macau's largest market) is there a case to revisit the CE's predications? In my opinion, there is.

Firstly, the pandemic is far from being under control globally and there are no assurances that China will not be affected again.

Secondly, we are now more aware of its long-lasting consequences – social, economic, and political. This is particularly relevant for the casino-resort industry, which is highly dependent on the circulation of large numbers of people, social interaction and availability of disposable income.

Thirdly, the operators' ability (or willingness) to invest – and thus to meet the government's expectations as to their obligations under new contracts – is no doubt tampered by months of burning through cash reserves



and credit facilities. This is especially true in Macau where operators have been obligingly performing as the region's social safety net.

Lastly, and most importantly, it is hard to anticipate the changes in players' behaviour that may outlast the pandemic.

As one of many possible examples, if the latest figures of online GGR are to be taken seriously, it is not wise to disregard the effects of competition from this segment going forward. Adding to the uncertainty, there are the risks arising from the global geopolitical landscape. This high-stakes game, of unforeseeable consequences, may impose on the local government decisions that may be contrary to the best interests of Macau and its people.

All of the above variables require careful observation and must be considered by the Macau government when identifying public policies and defining policy

goals. These will influence the licensing structure, the standards and criteria for evaluating applications and, ultimately, how new concession contracts will look.

In a land where harmony is key, a new equilibrium must be found. One that can rebalance local socio-economic expectations with overarching national policy goals, in a context of increasing regional competition.

Against a remarkably fluid background, all stakeholders would benefit from buying time. This will bring clarity to some, if not all, current conjectures and hopefully help craft a new balance under a new leadership.

An extension is therefore warranted and a decision on the matter should be made swiftly and definitively. The prosperity of Macau must not be taken for granted as what has worked so far will most likely not succeed in the future.

Against a remarkably fluid background, all stakeholders would benefit from buying time. This will bring clarity to some, if not all, current conjectures and hopefully help craft a new balance under a new leadership. An extension is therefore warranted and a decision on the matter should be made swiftly and definitively. The prosperity of Macau must not be taken for granted as what has worked so far will most likely not succeed in the future.