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# Reports

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## THE PHILIPPINES MARKET

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President Rodrigo Duterte hates gambling. And drug dealers. Gambling, however, brings in big revenues for the Philippines, so he isn't systematically killing that particular industry off. The Philippine gaming market is fairly stable and one of the most robust in Asia. In 2019, gaming revenues generated or overseen by the Philippines Amusement and Gaming Corporation (PAGCOR) hit P256.4bn with the highest amount of P181.3bn coming from privately licensed casinos primarily in Entertainment City.

But it is a fragile balance. The sector is subject to licensing approval from PAGCOR, which being government run, depends on the political

situation. The casinos are also heavily reliant on VIP customers coming mostly from China, Korea, Singapore, Thailand and Malaysia and therefore are vulnerable to economic downturns, smoking bans, tax changes and, of course, global pandemics.

Duterte's views and policies are also incredibly contradictory and often knee-jerk reactions to issues, causing some confusion in the gambling industry where revenues have quadrupled during his first three years in office.

So whilst he abruptly shut down thousands of local lottery operations last year, on the other hand he has refused to adhere to pressure from

Beijing to shut down the Philippine Offshore Gaming Operations (POGOs).

Likewise when Duterte took office he directed PAGCOR to boost tourism and turn the nation into a gambling and entertainment hub, then did a heel turn not long after, terminating developments planned for Entertainment City and withdrawing casino plans on Boracay island. He's unpredictable and arbitrary. His extreme drug war and pro-death penalty proposals are causing huge concerns in the US and EU governments.

The Philippines House of Representatives has recently approved a bill to re-introduce the



Laws in the Philippines can be passed swiftly. Only recently a new anti-terrorism act came into place when Duterte signed the ATA in July and in doing so has redefined the definition of a 'terrorist' or 'terrorism' whilst also allowing the government to determine who is considered a terrorist.

# The Philippines

## The more corrupt the republic, the more numerous the laws

The Philippine's tourism slogan last year was "It's More Fun in the Philippines". With 7,000 plus islands offering everything from beaches to mountains, it's an appealing proposition, but you don't need to scratch too deeply beneath the surface to have the fun taken right out of things.

death penalty, which in turn has led the US and EU governments to warn about imposition of trade restrictions on the Philippines which may impact the economy.

EU lawmakers said in September they are recommending revoking the Philippines Generalised Scheme of Preferences Plus (GSP+) status (which provides tariff perks for Filipino goods) if the death penalty is reinstated.

The GSP+ status provides duty free entry for more than 6,200 products from the Philippines such as textiles, footwear, vehicle parts, fruits and metals. The trade incentive is issued to countries that have ratified 27 core international conventions on human and labour rights, environmental issues and good governance.

The Philippines was warned about the removal of GSP+ in 2017 if their human rights issues had not improved. The EU is the Philippines fourth largest trading partner after China, Japan and the US. The EU accounted for about nine per cent of the Philippines' total trade in 2018 and exports to the EU increased by 27 per cent a year after the Philippines qualified for GSP+. Revoking the GSP+ amid the Covid crisis would only exacerbate the economic situation in the country.

The death penalty is on ongoing debate in the Philippines. It was abolished in 1987, reinstated in 1993 and then abolished again in 2006 under President Gloria Macapagal-Arroyo.

The death penalty push is part of Duterte's war against drug criminals and will punish all drug crimes including possession and sales.

Laws in the Philippines can be passed swiftly. Only recently a new anti-terrorism act came into place when Duterte signed the ATA in July and in doing so has redefined the definition of a 'terrorist' or 'terrorism' whilst also allowing the government to determine who is considered a terrorist. It was fast tracked into parliament and many say will basically kill free press, free expression and freedom of speech in one swoop and leave all the power with high ranking politicians.

It is highly controversial and critics say it enables the government to simply target anyone who campaigns or speaks out against Duterte's policies. The act for instance defines terrorism to also include vandalism. People can be arrested without a warrant and the government is no



longer accountable for any wrongful acquittals. The act has been brought to the Supreme Court to question it on constitutional grounds.

Meanwhile the EU has also raised concerns over the human rights issues concerning founder and CEO of Rappler news service, Maria Ressa and has asked the Philippines to drop charges against her and also to renew the franchise of the ABS-CBN network which was ordered to shut down by the National Telecommunications Commission in May.

ABS-DBN, the largest television network in the Philippines was shut down after congress refused to renew the station's 25-year licence. It's not the only media to come under attack.

The independent news website Rappler, which has published critical stories about Duterte's drug war, is also under fire. The Philippine Securities and Exchange Commission, an agency under the President, has revoked the registration of Rappler citing violation of foreign ownership.

Rappler was launched in 2012 as an online news organisation. In September the European parliament called for the Philippine government to drop charges against Maria Ressa, who was arrested on 'cyber libel' charges in June and is facing 100 years in prison for various charges.

The government apparently created false



Facebook accounts and have bombarded social media with propaganda against Ressa.

There's a long list of injustices Duterte is accused of and many hope that as his health appears to deteriorate his ability to run during the 2022 elections may be in question.

At 75 he has revealed several ailments which are often cited for reasons behind his absences from official events. On the one hand this elicits sympathy from his loyal supporters and on the other, raises concerns over his capability to rule. If he steps down Vice President Leni Robredo would lead – he is a member of the opposition and vocal critic of the President.

The election of Duterte in 2016 as the 16th President of the Philippines signified huge changes for the country.

But despite an apparent huge mass appeal to

some he has been associated with several questionable practices, particularly his shockingly violent campaign to eradicate crime and drug pushers in the country. This has made him popular in some respects but also earned him titles such as 'Duterte Harry' and 'The Punisher'.

Duterte is a previous mayor of Davao City, which he served for 22 years and he was a key figure behind the extrajudicial killings of drug users, street children and criminals. Human rights groups have documented over 1,400 killings by the alleged Davao Death Squad operating between 1998 and 2016. An investigation was closed in 2019 with no evidence of the existence of the death squad or connecting Duterte to the killings.

Later his Presidential campaign came with a promise to kill thousands of criminals and to end crime within six months. With 7,000 deaths



The country is made up 81 provinces and 38 cities. Colonised by the Spanish, the Americans then invaded early last century and the country has never really emerged from its client-state status. The country is filled with Americanisms with large chain stores and restaurants, even though it is said the vast majority of Filipinos live on less than \$2 a day and around 25 per cent of the population still lives under the poverty line.

by 2017 the state apparently stopped publishing data. Duterte is Chairman of the ruling party PDP Laban (Philippine Democratic Party), which is a left wing party and the result of a merger in 1982 between the Partido Demokratiko Pilipino and Lakas ng Bayan and was founded by Aquilino 'Nene' Pimentel Jr (PDP) and Benigno 'Ninoy' Aquino Jr (Laban) and a group of protestors who were against the authoritarian government run at the time by Ferdinand Marcos and the ruling KBL party.

#### **TOURISM AND ECONOMY**

Political turmoil and high levels of crime and poverty aside, the Philippines is a beautiful location in the Pacific with around 7,000 islands offering beach, jungle, volcanoes and mountains.

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The country is however one of the most dynamic economies in the East Asia Pacific region with a large young population and strong consumer demand. Real economic growth slowed in 2019 but was still strong with six per cent year on year growth.

The country has been struggling to contain the Coronavirus outbreak and by October 20 there were a total of 359,000 cases and 6,675 deaths.

There have been strict regional lockdowns and many have accused the government of being unprepared and overwhelmed with the health crisis and economic problems that have followed.

Duterte's response has always been the offensive and he is well known for launching attacks on activists or shutting down media networks whilst the extrajudicial killings of Duterte's political enemies apparently continued during lockdown with many activists believing they are now simply 'sitting ducks'.

The death in August of Zara Alvarez, a legal worker for the human rights group Karapatan has highlighted the issue. She was shot in the back by an unidentified gunman and was



waiting for court protection when she was shot.

Initial lockdown in the Philippines ran from March 15 until June 1 whilst a second wave of restrictions were imposed on August 4 for two weeks to try and curb rising Coronavirus cases.

The Philippine government announced travel restrictions from mainland China, Hong Kong, Macau and Taiwan in early February, and on March 8 the President declared a state of public health emergency throughout the country, which was later raised to Code Red Sublevel 2, the highest alert level. The entire island of Luzon, including Metro Manila, was placed under Enhanced Community Quarantine (EHQ) from March 16.

On March 23 the government passed a law known as the 'Bayanihan We Heal as One Act' which granted the President emergency powers to order privately owned medical and health facilities and other establishments to house health workers and serve as quarantine or

medical facilities. A second round of fiscal stimulus measures were recently introduced under the Act giving loan repayment moratorium measures.

The GDP during the first quarter of 2020 dropped by 0.7 per cent and by 16.5 per cent in Q2 2020. The predicted contraction this year is expected to be 7.3 per cent.

Analysts at the Asian Development Bank (ADB) believe contraction may have bottomed out in May or June and there is confidence for the rest of the year. Many say the Philippines remains an economic powerhouse in the region.

Unemployment in the Philippines was at 10 per cent by July 2020, less than the 17.7 per cent recorded in April at the height of quarantine measures and compared to five per cent in 2019.

Venues such as internet cafes, gyms and hairdressing shops could re-open in Manila at the end of the August whilst other areas faced

mild lockdowns with night curfews in place. As the ECQ was introduced PAGCOR suspended all casino operations during this time with a temporary closure of venues from casinos to slot clubs and sports betting. The ECQ lasted until May 15 after several extensions and Metro Manila was transitioned from ECQ to Modified Enhanced Community Quarantine (MECQ) with relaxed rules.

Borders to the Philippines opened on June 1 but re-closed again as cases climbed. Despite receiving a 'safe to travel' stamp from the World Travel and Tourism Council, the Philippines has announced it will not open its borders to international visitors until the second half of 2021 with domestic tourism gradually reactivated via travel bubbles.

For example, Baguio City only reopened to travel bubble residents on October 1 and says since the March lockdown the city has lost P2bn in tourism revenue. At the moment the city will only permit domestic tourists from the Ridge



## Essential information and facts about The Philippines:

<b>Total Area</b>	300,000sq.km
<b>Population</b>	109 million
<b>Median Age</b>	24.1 years
<b>Religions</b>	Roman Catholic 80%; Protestant 8%; other
<b>Ethnic Groups</b>	Tagalog; Bisaya; Cebuano; Ilocano; others
<b>Languages</b>	Filipino and English (official)
<b>Currency</b>	Philippine Peso (PHP)
<b>Unemployment</b>	10% (July 2020)
<b>Tourism</b>	8.26 million (2019)
<b>Government type</b>	Presidential republic
<b>Chief of State</b>	President Rodrigo Duterte (since 2016)
<b>Head of Government</b>	President Rodrigo Duterte (PDP Laban)
<b>Elections</b>	Cabinet approved by president with consent of the Commission of Appointments. President and Vice President elected by simple majority popular vote for a single six-year term. Next election due May 2022.

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In 2019 tourism hit an all time high with 8.26 million visitor arrivals, up 15 per cent on the previous year contributing 12.7 per cent to the country's GDP (P2.48 trillion). The tourism sector provides jobs for 13.5 per cent of total employment.

The largest number of tourists arrived from Korea with 1.9 million and China with 1.7 million. Other key visitors are from the US, Japan and Taiwan.

There were huge increases last year in the number of tourists arriving through Kalibo airport, particularly Chinese tourists with arrivals surging by 155 per cent. This has been attributed to the reopening of Boracay resort which underwent a 'clean up' project in 2018.

### ENTERTAINMENT CITY

Meanwhile life goes on. There are some 66 new hotel properties listed for development in the Philippines according to Tophotel.com. This will increase the number of rooms on offer in the country by another 17,000. By end of this year 11 new hotels are expected to be open with another 14 the following year and 17 properties are earmarked for development for 2023 and beyond.

The largest project at the moment is the Solaire Cruise Centre and will be the world's first integrated resort with its own luxury cruise port attached.

Start of construction has been delayed by a year as Bloomberry Cruise Terminals Inc put their plans on hold for the P308m project under Sureste Properties, a subsidiary of Bloomberry Resorts Corp who operates the Solaire Resort and Casino.

Originally scheduled to open in August 2021 the new port project will accommodate two mega size cruise ships and berths for large vessels plus entertainment and dining facilities. It will stand adjacent to the Solaire Resort and Casino in Entertainment City.

Westside City Resorts World (formerly Resorts World Bayshore) is the second integrated resort of Travellers International Hotel Group Inc, under the Resorts World brand. The development will sit in Entertainment City along with the other three integrated resorts. It will feature world class gaming areas, hotels, retail and entertainment.

The Westside City project is being developed by

and Reef travel bubble which includes a handful of 'safe' provinces with a 200 maximum visitor capacity per day.

There is a new online portal dubbed VIS.I.T.A (Baguio Visitor Information and Travel Assistance) for travel registration, payments, contact-tracing database and information. If Baguio travel corridor system proves a success it is expected to be rolled out in other areas around the country.

The country's Department of Tourism has listed several venues and locations now open such as nature parks and lakes opened to General Community Quarantine zones. The DoT has a P1.44bn budget next year to promote the Philippines, mostly targeted at persuading locals to travel around the country.

Tourism total arrivals in the Philippines fell by 73 per cent between January and July this year from 4.8 million in 2019 to 1.3 million this year same period.

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## Bloomberry is planning an expansion of its operations with a second IR Solaire North in Quezon City after Sureste purchased land from the national housing authority in 2015. Excavation work began in July 2019, but was halted due to Covid. Construction work resumed in June 2020 and it is expected to be completed by end 2022 or early 2023. Bay Tower has 488 hotel rooms and suites, 15 restaurants and bars and casino with 1,650 slots and 295 tables and 88 electronic table games.

Travellers International Hotel Group Inc. The area will include 4,000 residential units which will be developed by Megaworld Corporation.

Macau casino junket boss Alvin Chau, who controls Suncity Group Holdings, is a key backer of the project via Suntrust Home Developers which is 51 per cent owned by Suncity Group Holdings. Westside City Resort and Suntrust Home Developers entered into a co-developer agreement to develop a portion of Westside City.

The development is set to cost US\$700m and the casino should include 400 gaming tables and 1,200 slots across VIP and mass gaming. Any planned development has been halted due to the Covid crisis but is expected to begin anytime soon. The casino is now expected to open in late 2022 to early 2023.

The gaming sector in the Philippines recorded overall GGR of P256.4bn last year and a huge percentage (P167.1bn) of this was generated by Entertainment City. For the first six months of 2020 the total industry GGR was P55.3bn of which Entertainment City accounted for P35.7bn

Entertainment City is the huge gaming and entertainment complex developed by PAGCOR on reclamation land in the Manila Bay area.

To date four IR projects have been approved and each has an investment commitment of at least US\$1bn. The Entertainment City resort will have

almost 10,000 hotel rooms to accommodate up to a million tourists annually when fully completed.

Each licensee must construct a minimum of 800 hotel rooms and IR must have a minimum of 250,000sq.m of gross floor area and the gaming area cannot exceed more than 7.5 per cent of the gross floor area. Each should have a thematic attraction and at least 20,000sq.m of retail space.

The four IRs are the City of Dreams Manila, Solaire Resort and Casino, Okada Manila and Resorts World Manila (although this last property is located near Manila Airport it is considered part of Entertainment City for licensing purposes).

Resorts World Manila was opened by Travellers International Hotel Group back in 2009 and was the first licensed integrated tourism resort located in Newport City in the Manila airport area. Travellers is a joint venture partnership between Alliance Global Group Inc (AGI) and Genting Hong Kong Limited (GHK).

The resort houses seven hotel brands with 3,400 rooms; a MICE facility through the Marriott Grand Ballroom, the country's largest ballroom; 1,500 seat performing arts theatre; four screen cinema, mall and various entertainment areas. The casino is made up of 355 gaming tables and 2,053 slots machines and 100 electronic table

game machines (ETGs). Total revenues for Travellers in 2019 amounted to P28.3bn, a 38 per cent growth on the previous year, of which P27.6bn was GGR divided between P16bn mass gaming and P11.6bn VIP.

RWM reported Q2 2020 gaming revenues of just P565m, a 91 per cent drop from P6.64bn for the same period in 2019. H1 2020 results were P6.1bn (compared to P13.5bn in H1 2019).

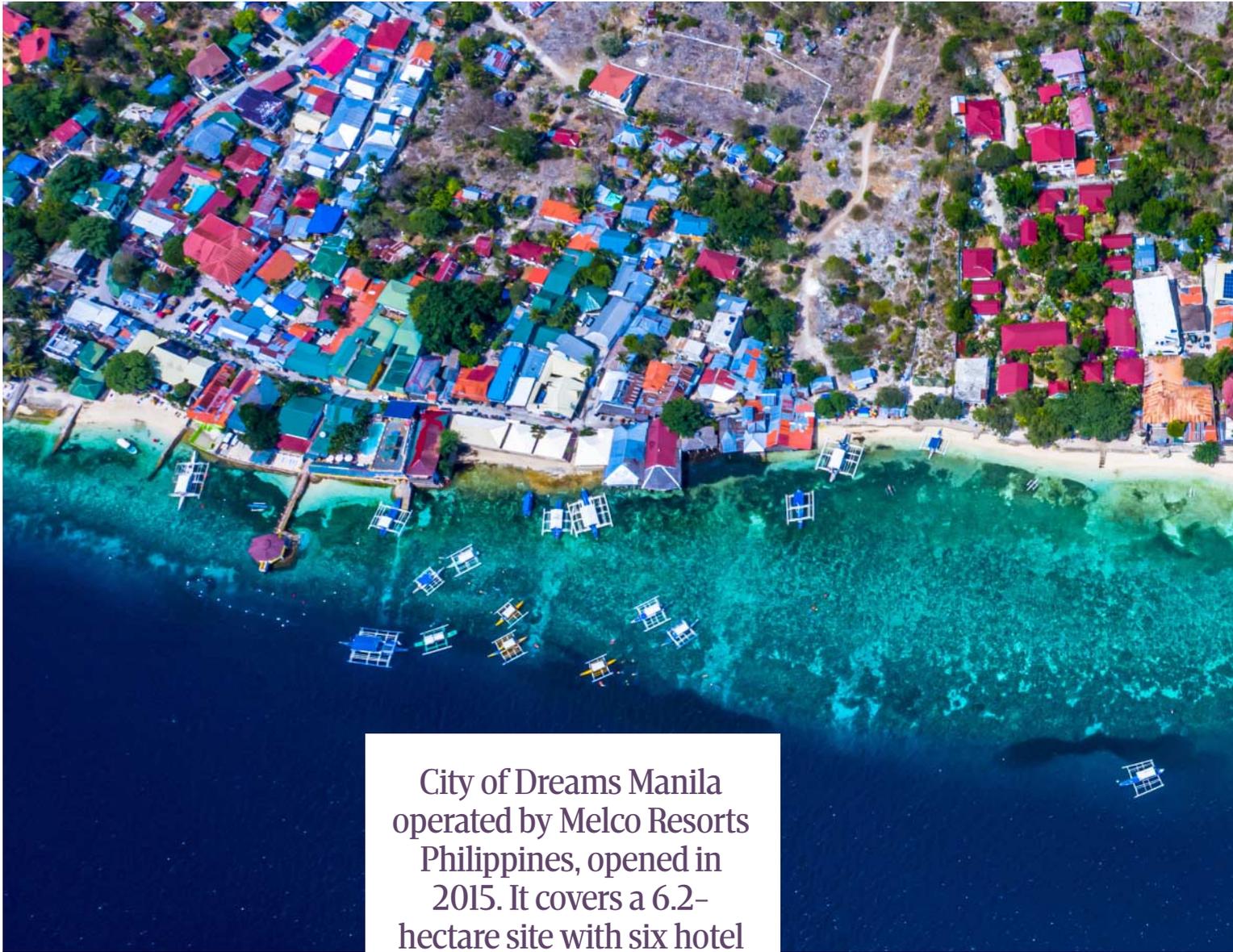
Solaire Manila (Bloomberry Corp/BHRI) was the first IR to open back in 2013 and has 800 rooms in the Bay Tower and Sky Tower buildings. The resort offers a 1,740-seater theatre, retail and dining.

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Sky Tower features 312 rooms plus 10 additional VIP gaming salons with 230 slots, 66 tables. In 2018 the Cigar Bar and Poker Room opened, a high-end poker area with eight gaming tables. It was later renamed the Baccarat Room and Bar. In February 2019 Solaire opened the Philippines first electronic table game stadium called Players Stadium with 360sq.m surround screen.

In 2019 GGR in Solaire hit P59.8bn, a 17 per cent growth on the previous year. VIP tables saw a GGR of P26.2bn, slots P16.8bn and mass tables with P16.7bn. The casino saw 6.6 million visitors during the year. Q2 (ending June 2020) GGR for the Philippine operations was P686.6m compared to P14.6bn for the same period in 2019, a decrease of 95 per cent. Of this P122m was from VIP tables (P6.1bn in Q2 2019); P304m mass table gaming (P4bn in Q2 2019) and P261m from slots (P4.3bn in Q2 2019).

Hotel, food and drinks revenue amounted to P218.8m in Q2 2020, a decrease of 79 per cent from the same period last year.



**City of Dreams Manila operated by Melco Resorts Philippines, opened in 2015. It covers a 6.2-hectare site with six hotel towers including three hotel brands – the Nuwa, Nobu and Hyatt – a total of 950 rooms, dining outlets and the iconic Fortune Egg which was opened in 2019 and houses the VIP gaming areas and nightclub.**

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There are four entertainment venues – the DreamWorks Family Entertainment Centre; CenterPlay in the main gaming area plus K-Golf and the Garage VR zone. The gaming area currently has (June 2020) 301 tables, 1,966 slots and 307 electronic table games.

In 2019 total net operating revenues for City of Dreams amounted to P31.3bn of which P24.7bn came from the casino (the remaining non-gaming).

Q2 (end June 2020) revenues saw a total of P387.2m in total net operating revenues (P9.17bn in Q2 2019) of which P291.3m was from the casino gambling (P7.5bn in Q2 2019). The net loss for the Q2 period was P2.4bn.

Okada Manila, formerly Manila Bay Resorts, is a project developed by Tiger Resorts Leisure and Entertainment (a subsidiary of Universal Entertainment Corporation) which opened at the end of 2016 and covers a 42-hectare size.

The casino houses approximately 3,000 EGMs and around 500 gaming tables with 70 tables linked in an Asian progressive jackpot system. The hotel has almost 1,000 luxury rooms and suites plus there is a fitness and retreat spa, over 60 retail outlets and the iconic dancing water fountain.

Universal saw total net sales in 2019 of ¥124.9bn made up of their pachislot/pachinko sales with ¥51.6bn and the IR business (Okada Manila) with net sales of ¥71.4bn.

Q1 2020 net sales for the IR business amounted to ¥15.7bn (a 6.3 per cent drop on Q1 2019)

whilst Q2 2020 (six months ending June 2020) saw net sales for the IR business of ¥16.09bn, a decrease of almost 49 per cent year on year.

**CLARK AND FIESTA**

Other licensed casinos in the Philippines include those in the Clark Freeport and Special Economic Zone which is an area spanning the city of Angeles and provinces of Pampanga and Tarlac in Central Luzon region.

It is divided into two zones, the Clark Freeport Zone and Clark Special Economic Zone. The first covers the area of a former US military air base and emerged from volcanic ashes when it was developed after the Americans left in 1991 following the eruption of Mount Pinatubo. It was designated a Freeport Zone in 2007.

Central Luzon is one of the leading growth areas in the Philippines and is just 66km from Metro Manila. There are seven provinces within the region and 12 cities and it is strategically located and is the country's third largest region in terms of population.

The Clark International Airport is now said to be four times larger than Manila's Ninoy Aquino airport and is the driving force behind development in this area. The original terminal was expanded back in 2008 to accommodate one million passengers per year. Since then



## PHILIPPINE INDUSTRY DATA

SECTOR	2019	Q1 2020	Q2 2020
<b>PAGCOR Operated</b>			
Table games	P12.59bn	P2.50bn	P38.5m
Slot machines	P16.52bn	P3.42bn	P49.3m
Bingo operations	P26.15bn	P5.70bn	P28.3m
Electronic games	P6.01bn	P1.29bn	P10.09m
<b>Licensed casinos</b>			
Entertainment City	P167.1bn	P33.89bn	P1.95bn
Fiesta	P2.02bn	P435.4m	P19.1m
Clark	P12.17bn	P3.90bn	P185.7m
<b>Other Licensees</b>			
Junket	P7.84bn	P1.68bn	P129.7m
In-house bingo	P180.1m	P31.3m	(P72,000)
Poker	P79.8m	P27.9m	-
<b>TOTAL (Pagcor+licensees)</b>	<b>P250.75bn</b>		
Offshore gaming (POGO) 2% fee		P5.73bn	
<b>TOTAL INDUSTRY GGR</b>	<b>P256.49bn</b>	<b>P52.91bn</b>	<b>P2.42bn</b>

further expansions have taken place and currently the passenger capacity is around 4.2 million annually.

It has domestic and international flights reaching as far as Dubai, Tokyo, Singapore and Macau.

Four new terminals are now planned and expected to be fully operational by 2025 and

will increase the passenger capacity to more than 110 million annually. The first of the new terminals is due to open anytime soon and will triple the annual passenger capacity to 12.2m

New road and rail infrastructure have also been developed including the US\$15bn North South Commuter Railway which will connect Clark to Manila with a link to the airport. The full project is 148km long with two tracks and 36 stations. It

is one of the most expensive projects under the Duterte administration's Build Build Build Infrastructure Program. Partial operations begin next year and full operations by 2025.

The Build program is paving the way to increasing jobs and boosting tourism. It is also one of the key drivers behind re-starting the economy during the pandemic crisis and aims to address the congestion problems in the cities and increase regional and countryside development.

The program is made up of around 20,000 infrastructure projects from building new roads, airport terminals, seaport terminals, hospitals, schools and evacuation centres.

One huge project is the plan to build the first ever subway system under Metro Manila which, when completed in five years time will carry an estimated 1.3 million people daily easing traffic congestion in the city.

At the moment Clark is made up of tourism and investor manufacturing evenly split with a push to encourage more tourism and MICE events. There are currently six casinos open, mostly lured by the tax incentives this area provides, plus the fact the Clark Development Corporation (CDC) holds governance over the area making investment simpler. Mimosa



**Midori Casino opened back in 2016 by BB International Leisure and Resort Development Corp which is also involved in the development of a water theme park (Aqua Planet). There are 111 rooms in the five-star hotel plus business centre, spa, banquet room. There are 12 table games and 140 slots.**



Casino is a PAGCOR satellite casino located in the Mimosa Leisure Estate. The casino has a Hollywood glitz and glamour theme and offers 27 table games and 170 slots.

Royce Casino is an elegant hotel with casino over two floors.

Widus Casino is 4,500sq.m with 342 slots and 53 table games. There are two hotel towers with a total of 233 rooms

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D'Heights Casino opened in July last year and

has 50 table games and 576 slots and operated by Dong Huang Clark Corp. The \$250m property will also include a five-star 300 room Hilton Hotel and a Hyatt Regency, indoor water park, lake, golf course and commercial spaces.

Fortunegate at the Hotel Stotsenberg was formerly known as the Casablanca Casino and opened last year. It is owned by Frontier Capital Group

Meanwhile Fontana Casino has closed down recently. This casino is within a 300-hectare



There are a total number of 296 gaming tables and 1,763 slots in Clark. Koreans are the main visitors providing around 20 per cent of the visitor figures. The Pampanga province in Clark Freeport was transferred to a Modified Enhanced Community Quarantine in September after strict ECQ measures for the two months previously.

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Meanwhile there are two Fiesta casino brands operating in Poro Point, a headland and peninsula located in the city of San Fernando, La Union on the island of Luzon. The special economic zone was established in 1993 and the entire peninsula is just 1.82 sq.km in size.

The Thunderbird Resort & Casino opened back in 2006 and is situated on a scenic 100ft cliff top at the highest point of Poro Point overlooking the San Fernando Bay and West Philippine Sea.

The resort covers 65 hectares offers various accommodation with 70 deluxe rooms and 60 villas. The Fiesta casino is 4,000sq.m in size and has 28 table games and 400 slots and was re-launched in 2017.

The second resort is located in Binangonan in Rizal, a valley some 210ft above sea level overlooking the Sierra Madre mountain range. The IR is about an hour from Manila and opened in 2005 with around 110 deluxe rooms and suites. The Fiesta Casino offers a total of 24 tables and 218 slots and 33 ETGs.

#### NEW CASINO PROJECTS

Despite the current climate there are still new casino projects on the table. Hong Kong's International Entertainment Corp (IEC) has recently been granted conditional approval for the issuance of a provisional gaming licence from PAGCOR for its Marina Square Properties subsidiary.

IEC is aiming to upgrade its hotel premises in Manila, the New Coast Hotel Manila, into an IR. The space is currently leased by PAGCOR for its own gaming operations.

Formerly known as the New World Manila Bay Hotel it closed during quarantine and has yet to fully re-open and IEC has reported a loss of US\$39.4m for year ending June 2020 which is said to be heavily impacted by the closure of the New Coast Hotel.

Revenue from leasing to PAGCOR fell by 38.7 per cent to US\$18.2m whilst hotel operational revenues declined by 42 per cent to US\$10.6m

Meanwhile over on Mactan Island, the Emerald Bay Resort and Casino is due to open. Developed by LapuLapu Leisure Inc (part of PH Resorts Group Holdings, which is the hospitality and gaming arm of Udenna Group) this will be a huge destination location with 838 hotel rooms and casino with 122 tables and 600 EGMs plus retail, restaurants and ballroom. The five-star

property offering leisure park, water park, golf and casino. There are 495 villas, 70 hotel rooms and 20 townhouse units. It is owned by Macau's gambling tycoon Jack Lam and was shut down in May for the second time in four years when authorities found an illegal makeshift hospital for Chinese visitors suspected of Covid infections. It was temporarily closed back in 2016 after the arrest of 1,300 illegal Chinese workers whilst Lam was accused of bribing officials to release the illegal workers. There are now calls for a full investigation of the resort for prostitution and human trafficking activities.

In 2018 the GGR for Clark's casinos was P8.62bn and in 2019 is was P12.17bn. First quarter 2020 GGR was P3.90bn (a 38 per cent increase year on year and helped by the opening of two casinos in 2019). Of course, due to quarantine closures the Q2 GGR was just P185.7m.

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LRWC operates bingo parlours throughout the Philippines via subsidiary AB Leisure Exponent (ABLE) which are mostly found in city shopping malls. ABLE is the biggest contributor to the company's group revenues with gross revenues of P7.8bn last year with almost 11,000 e-bingo machines in around 154 parlours under the Bingo Bonanza trade name, a 35 per cent market share approximately. Other bingo operators include Bingo Mania and Bingo Amusement.

hotel is near the city of Cebu and will be the first integrated casino resort on the island. It is due to be completed in two phases with the first phase to include the casino by early 2022

The company is also in the design stage for an adventure themed integrated resort called The Base due to open in 2022 in Clark Global City in Pampanga and a hotel in Panglao, Bohol called Donatela Hotel.

Other projects have been halted. On the island of Boracay a \$550m casino project planned by Leisure & Resorts World Corp and Galaxy Entertainment has been abandoned after uncertainly from the government.

LRWC operates bingo parlours throughout the Philippines via subsidiary AB Leisure Exponent (ABLE) which are mostly found in the city shopping malls. ABLE is the biggest contributor to the company's group revenues with gross

revenues of P7.8bn last year with almost 11,000 e-bingo machines in around 154 parlours under the Bingo Bonanza trade name, a 35 per cent market share approximately.

Other bingo operators in the Philippines include Bingo Mania and Bingo Amusement Corporation plus a handful of smaller players. It also operates Total Gamezone Xtreme Inc (TGXI) which is the operator and licensee of PAGCOR e-games stations (PeGS), which are electronic game sites mostly located in Metro Mania and nearby areas. TGXI has around 36 branches with 934 terminals.

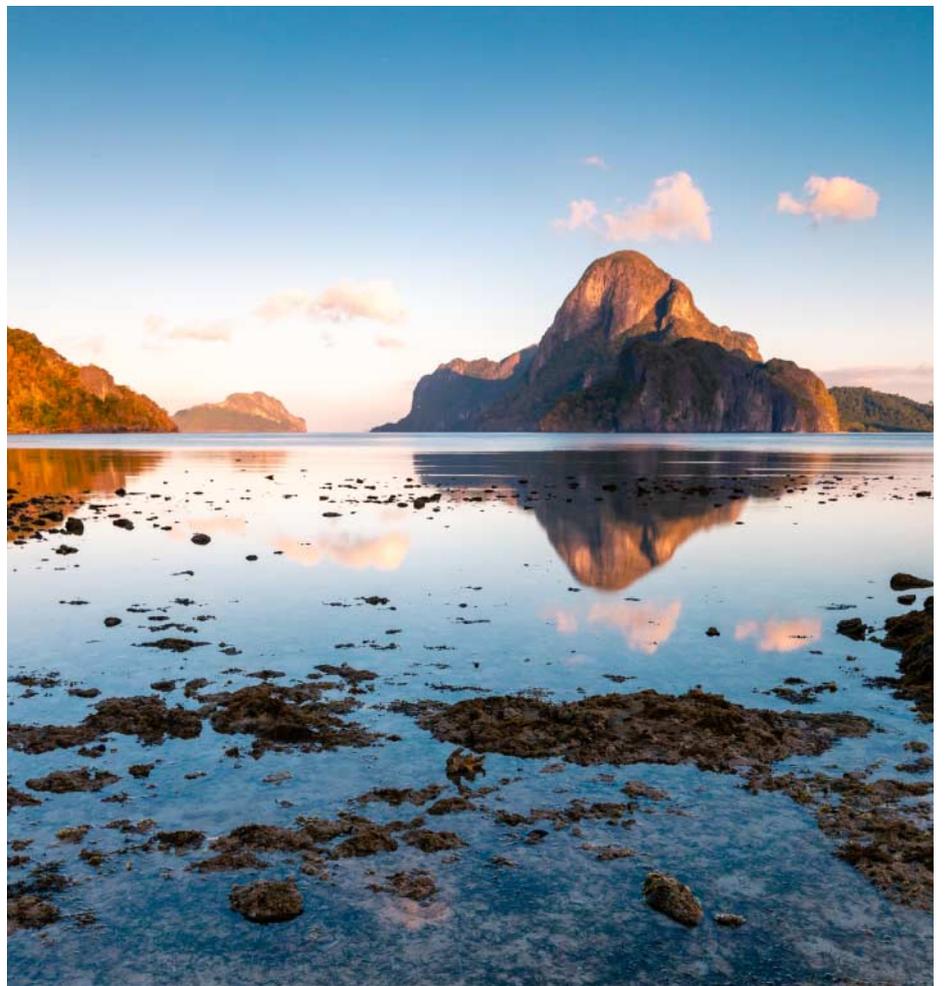
LRWC purchased a 23-hectare piece of land on east side of Boracay island, near Tambisaan Beach. Boracay is a top tourism destination and accounted for around one third of total inbound tourism to the Philippines in 2017 and is home to over 32,000 residents with around 2.1 million total tourists last year.

The island underwent an enforced shutdown in April 2018 when Duterte ordered the island to undergo a \$18.5m six-month long operation to clean up the waters and beach after inspectors found more than 300 establishments in breach of sewerage regulations.

At the time visitor numbers were capped on the island with a daily limit of 6,405 tourist arrivals and 15,000 workers whilst visitors must have a confirmed hotel booking prior to travelling to the island. Beach parties are banned alongside single use plastic.

But just as the island began to re-open and recoup its losses it is now struggling from a second closure wave due to Covid-19. With practically zero tourists, hotels and shops are closing and residents are struggling.

The provisional licence for the casino issued in 2018 was later withdrawn and Justice Secretary



Menardo Guevarra has called for an executive order to ban casinos ever on the island despite the fact PAGCOR had backed the project. There is talk that if Galaxy can come up with certain measures that Duterte's administration will find favourable, there could be a chance.

Galaxy had said the project would be an environmentally friendly resort with about 200 villas and 50 to 60 gaming tables for the casino. Meanwhile Landing International has been given an extension by PAGCOR to find alternative land for its provisional gaming licence it received back in 2018.

Landing was given a provisional gaming licence for a US\$1.5bn IR in Entertainment City called NayonLanding. It broke ground in August 2018 but the project was sacked and Landing Resorts was given six months from September 2019 to find an alternative site for its planned resort and theme park or risk losing its provisional licence. Duterte announced last year that no casino would be permitted at Nayong Pilipino Foundation's planned 'cultural park' project within Entertainment City in Parañaque, Manila. But due to the lockdown and travel restrictions it has been difficult for the company to identify a new development area and the company was recently granted a suspension.

### **PAGCOR**

Up until Covid-19 derailed the Philippine economy the country had not seen such rapid growth since the 1950s. The country was on the up and up.

Prior to Covid the estimations for GDP growth in the Philippines for this year was around 6.1 per cent. This is now estimated to be -2 per cent.

The Department of Finance is now re-looking at the plan to privatise PAGCOR and the Philippine Charity Sweepstake Office (PCSO) in a bid to raise much needed additional revenues to cover debts incurred during the pandemic.

For 2020 the Philippines is set to borrow P3 trillion, the bulk of which is to come from domestic sources, which will be used to plug the deficit in the government's budget. By the end of August, the Philippines outstanding debt due to borrowings was P9.615 trillion which is expected to reach P10.16 trillion by the end of the year.

The privatisation plan has resurfaced a few times over the last few years stemming from proposals to privatise PAGCOR's casinos leaving the company to solely focus on regulatory issues. The past plans were apparently pushed to one side due to the growing gaming revenues the PAGCOR casinos generated.

Senate Minority Leader Franklin Drilon currently says privatisation is preferred rather than imposing higher or new taxes next year and has been backed by Finance Minister Carlos Dominguez who wants to privatise PAGCOR and transfer small town lottery to private operators. Drilon says the government could collect around P300bn in additional revenue annually by privatising the gaming industry.

With funding urgently required it's a hot topic. Plus, many feel that PAGCOR is juggling too many balls to function correctly. The company provides a variety of functions. It not only acts as a regulator and oversees the privately operated casinos, it also regulates e-game cafes, sports betting and electronic bingo outlets.

PAGCOR regulates all gaming activities in Philippines except for the lottery, sweepstakes and horse racing and Cagayan zone gambling. It is a government owned corporation created in 1977 by President Ferdinand Marcos to control the casino market and curb illegal casino operations which were mushrooming in the market.

The company operates under the law known as the PAGCOR Charter which gives the company the right to regulate, operate, authorise and licence games of chance, games of cards, number games and casino gaming.

There are currently around 26,000 electronic bingo machines plus 200 e-gaming cafes throughout the Philippines. It also has its own casino operations via the Casino Filipino brand plus 33 satellite casinos mostly located in hotels. In addition, PAGCOR regulates the offshore gaming operations referred to as POGO

# Reports

## THE PHILIPPINES MARKET

(Philippine Offshore Gaming Operations). Aside from regulating the industry PAGCOR can also operate its own casinos. Things began to change in the Philippines in 2008 when the Arroyo government opened up the country's gambling market to the world removing PAGCOR's monopoly.

This led to the boom of integrated resort facilities built to compete with those in neighbouring Macau, Malaysia and Singapore. It was a decision which paid off and revenues have grown considerably.

Today PAGCOR operates 12 casinos in three of the major islands. The Casino Filipino brand includes:

**Metro Manila:** Casino Filipino Malate and Casino Filipino Winford. Casino Filipino Winford, is a satellite casino in Manila which was given approval in August last year to be converted into a casino branch.

**Luzon:** Casino Filipino Angeles, Casino Olongapo, Casino Filipino Ilocos Norte, Casino Filipino Tagaytay and Casino Filipino Mimosa.

**Visayas and Mindanao:** Casino Filipino Bacolod, Casino Filipino Cebu, Casino Filipino Davao, Casino Filipino Iloilo and Casino Filipino Mactan.

In 2019 Casino Filipino saw P12.59bn in revenues from table game operations whilst the slot machines posted P16.52bn in GGR.

PAGCOR also operates 33 satellite casinos in the major three islands of Luzon, Visayas and Mindanao.

PAGCOR's income is distributed with five per cent of winnings going to the BIR as franchise tax; 50 per cent of the balance goes to the National Treasury; five per cent of the balance then goes to the Sports Commission and one per cent of the net income goes to the Board of Claims. Cities hosting PAGCOR casinos also receive a fixed amount for community projects.

In 2019 the total industry GGR was P256.49bn which includes PAGCOR's own operations (P75.75bn) and its licensed casinos via Entertainment City, Fiesta and Clark (P181.3bn). The first quarter of 2020 saw a GGR of P52.9bn and the second quarter P2.42bn.

PAGCOR's own GGR of P75.75bn was not as high as 2018's record breaking P104.12bn however this high figure was fuelled that year by PAGCOR's sale of land in Entertainment City to Bloomberry Resorts Corporation. Actual gaming revenues in 2018 amounted to P67.85bn.

It handed over P56bn to the government through its mandated contributions with the lion's share (P35.92bn) going to the National Treasury.

### POGO

Online gambling operations have essentially been up and running in the Philippines since the early 2000s. However, PAGCOR took steps to enforce stricter regulations and took over the licensing in late 2016 after Duterte came into power and he 'tided' up the sector and closed down the PhilWeb Corporation. The aim was to legitimise online gambling and wipe out illegal online hubs. And so, POGO was introduced – Philippine Offshore Gaming Operations – providing online gambling to foreign players only, based in another country, with an age limit of 21 years.

The Rules and Regulations for POGO were issued in August 2016. The Offshore Gaming Licensing Department (OGLD) was set up and a year later gambling regulators PAGCOR, Cagayan Economic Zone Authority (CEZA),

**Senate Minority Leader Franklin Drilon currently says privatisation is preferred rather than imposing higher or new taxes next year and has been backed by Finance Minister Carlos Dominguez who wants to privatise PAGCOR and transfer small town lottery to private operators. Drilon says the government could collect around P300bn in additional revenue annually by privatising the gaming industry. With funding urgently required it's a hot topic. Plus, many feel that PAGCOR is juggling too many balls to function correctly.**

Aurora Pacific Economic Zone and Freeport Authority (APECO) and Authority of the Freeport Area of Bataan (AFAB) were given the authority to issue Offshore Gaming Licences (OGL) to operate online gambling activities.

Foreign based operators may also apply with certain requirements, such as a local gaming agent and authorised capital stock of P15m equivalent. OGLs are valid for three years renewable and there are three types licences:

- e-casino – operation of live casino games or RNG based games.
- Sports betting – wagers on sporting events except non-professional sports in the Philippines such as amateur games, municipal games or those listed by PAGCOR.
- Sports betting or Regulated Wagering Events – wagers on gaming events regulated by other jurisdictions proving live coverage from an event such as horse or dog races, licensed cockfighting events.





Licensing fees for an offshore gaming licence are US\$200,000 for an e-casino; \$150,000 for sports betting plus an application and processing fee of \$150,000 and \$120,000 respectively. Both need a security bond of \$300,000.

Regulatory fees paid to PAGCOR per month are either two per cent of the GGR for e-casino/sports betting licences or 1.5 per cent for sports betting or Regulated Wagering Events or a Minimum Guarantee Fee for each licence of \$150,000 for e-casino and \$40,000 – whichever is higher.

In March 2020 there were 60 approved POGO operators and over 200 accredited service providers.

The sector was closed down due to the pandemic, but in May it was permitted to partially resume operations and by end of September, 33 POGO operators were given the authority to resume operations, although only 30 per cent of the workforce could return initially whilst staff had to be tested and adhere to strict protocols.

The decision has been hugely contentious. Duterte argued that POGOs are an 'essential service.' However, reports of destroying mangrove land to develop a POGO island; rise in prostitution cases; money laundering activities and even Covid-19 clinics exclusively set up for POGO workers, have all caused some level of concern.

PAGCOR has addressed the criticisms pointing out the revenues generated by the POGOs. Prior to POGO most online gaming operators were operating under licences issued by the Economic Zone Authorities with little or no money going to the government.

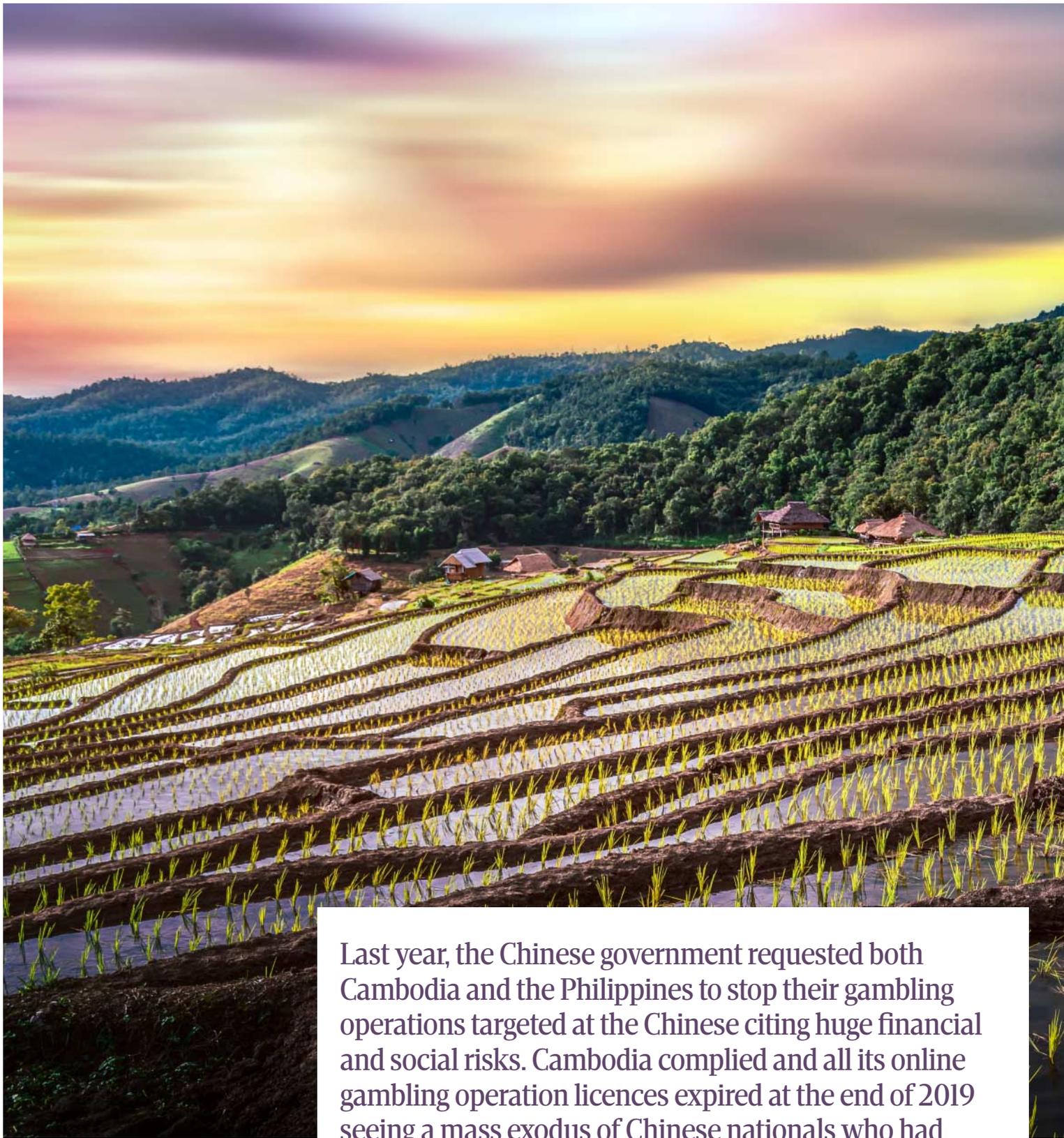
Last year the operational licensed POGOs saw tax collections of P6.4bn, a 169 per cent increase on 2018 figures of P2.38bn. The largest POGO companies include AG Interpacific Resources with an income of P404.8m last year and MG Universal Link Ltd with P395m income. Both are based in Makati City.

Since 2016 PAGCOR has collected a total of P20.83bn from POGOs in regulatory and other fees. In Q1 2020 POGOs contributed P1.8bn in regulatory fees alone.

The majority of players accessing POGOs are Chinese which would explain the 67,700 official Chinese nationals employed in the POGO/Service Provider sector compared to the 21,000 Filipinos. POGOs employ around 120,000 employees in total.

The POGO hubs are mostly located in Manila and Makati which has created a huge demand for office leasing and housing. Landlords are rubbing their hands on the way to the bank whilst locals have complained over the rise in rentals.

Questions are also raised over the limited hiring of Filipinos in this industry, non payment of taxes, organised crime, corruption, high rental increases and xenophobia problems where workers are housed. POGO workers are said to



**Last year, the Chinese government requested both Cambodia and the Philippines to stop their gambling operations targeted at the Chinese citing huge financial and social risks. Cambodia complied and all its online gambling operation licences expired at the end of 2019 seeing a mass exodus of Chinese nationals who had worked in the sector (G3 Cambodia - June 2020) which, followed by lockdown, has left the market struggling.**

work 12-hour days, six days a week earning a promised \$2,000 a month which is often less once fees are deducted for paperwork.

There are also questions about the role these Chinese employees play. With Customer Service titles their job is to mostly pull in customers with promotional and marketing techniques, which goes against any responsible gaming protocols and is causing issues in China where gambling is illegal.

Recently (September 2020) the Philippine National Bureau of Investigations sued 19 immigration airport officers over accepting

bribes from Chinese nationals (via a travel agency) to enter the country illegally, the majority of which are POGO workers.

Last year, the Chinese government requested both Cambodia and the Philippines to stop their gambling operations targeted at the Chinese citing huge financial and social risks. Cambodia complied and all its online gambling operation licences expired at the end of 2019 seeing a mass

exodus of Chinese nationals who had worked in the sector (see G3 Cambodia issue June 2020) which, followed by lockdown, has left the market struggling.

However, the Philippines took zero action and Duterte continues to defend POGOs despite many questions about their transparency and legitimacy.



As lockdown was lifted in the Philippines and online gambling resumed operations there were a series of tax obligations introduced for POGOs and their service providers, before permission to resume was granted. The companies must:

1. Update and settle all tax liabilities.
2. Update payments for any regulatory fees, licence fees, performance bond or penalties
3. Remittance of regulatory fees for the month of April
4. Must be ready to implement safety protocols.

In mid-September, Duterte also signed a new bill doubling revenues received from POGOs by introducing a new five per cent franchise tax on turnover rather than revenue which should see tax collections increased to P17.5bn to aid the Covid reform.

This is part of the Bayanihan 2 Act, which gives the President special powers to address the pandemic and aims to provide a P165.5bn stimulus fund.

Many Chinese workers are still unable to return to the Philippines and due to the obligations required only 33 POGOs have resumed to date whilst only 99 accredited local gaming agents and service providers have resumed operations compared to 218 operational at the beginning of the year. For any POGOs shutting up shop, there's no escape. Taxes must be paid before a business can close to prevent companies fleeing the Philippines with outstanding debts.

Monthly collections of around P600m in regulatory fees had fallen by half thanks to an 80 per cent decline in fees from POGOs and their service providers specifically.

In turn the decline of POGO operations is also having a negative affect on real estate, office leasing and government revenues. POGOs are accountable for about 1.34m sq.m of leased office space in Metro Manila.

Before POGOs were introduced the First Cagayan Leisure and Resort Corporation (First Cagayan) was the only government agency to issue licences for online gambling houses.

The Cagayan Special Economic Zone and Freeport is in the northern tip of Luzon island and is made up of five provinces and four major cities. In 1995 it was given the power to regulate and operate under a different set of rules to stimulate economic growth and has its own set of laws regarding gambling which are not subject to PAGCOR regulations.

The CEZA can issue licences for horse, dog racing, gambling, casinos and other tourism and entertainment facilities. There are three companies who serve as master licensors – First Cagayan Leisure and Resort Corporation; North Cagayan Gaming and Amusements Corporation and Cagayan Development and Leisure Corporation.

Leisure and Resort World Corporation (LRWC) acquired First Cagayan in 2005 and develops and operates internet and gaming enterprises and facilities in the CEZA. First Cagayan receives and processes applications for interactive gaming licences and regulates operators of internet gaming in the zone.

Licences are issued for a) interactive gaming licenses covering online gaming for casinos, lotteries, bingo, sports book and b) restrictive licences for sports betting only.

There are also two landbased casinos housed here – The Eastern Hawaii Casino and the Cagayan Holiday and Leisure Resort.

LRWC's First Cagayan Leisure and Resort Corporation GGR for 2019 was P458.3m, a 16 per cent increase on the previous year.

## Skewed priorities puts POGOs ahead of community support



**Ralph Rivas,**  
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There are around 60 POGOs, most of which resumed operations so long as they comply with all requirements. Philippine Amusement and Gaming Corporation (PAGCOR) Chief Executive Officer Andrea Domingo said 30 per cent of the total workforce of POGOs will be allowed to report for work, provided concerned companies settle unpaid taxes and workers are guaranteed to be healthy.

### The Philippine government skews its priorities by allowing Philippine Offshore Gaming Operations (POGOs) to re-open in May, despite most non-essential industries closing due to the coronavirus pandemic

As the government struggles to provide relief to the poor, Philippine Amusement and Gaming Corporation (PAGCOR) Chief Executive Officer Andrea Domingo confirmed in several radio interviews that POGOs, run mostly by Chinese businessmen, will give the much needed cash.

"POGOs will earn significant revenues without the risk of spreading Covid-19," Domingo said in an interview with DZMM.

There are around 60 POGOs, most of which resumed operations so long as they comply with all requirements. Domingo said 30 per cent of the total workforce of POGOs will be allowed to report for work, provided concerned companies settle unpaid taxes and workers are guaranteed to be healthy.

POGOs also need to provide shuttle services for employees, conduct temperature checks, ensure physical distancing is observed, and provide masks.

Employees who have tested positive for Covid-19 or are suspected cases will not be allowed to work. Immunocompromised individuals and pregnant women will not be allowed to get back to work.

Domingo also said that POGOs are technically Business Process Outsourcing (BPO) companies. BPOs have been allowed to operate during the Luzon-wide lockdown.

"The bettors, like the clients of BPOs, are overseas. The platform and service providers, like BPOs, are here in the country," Domingo said.

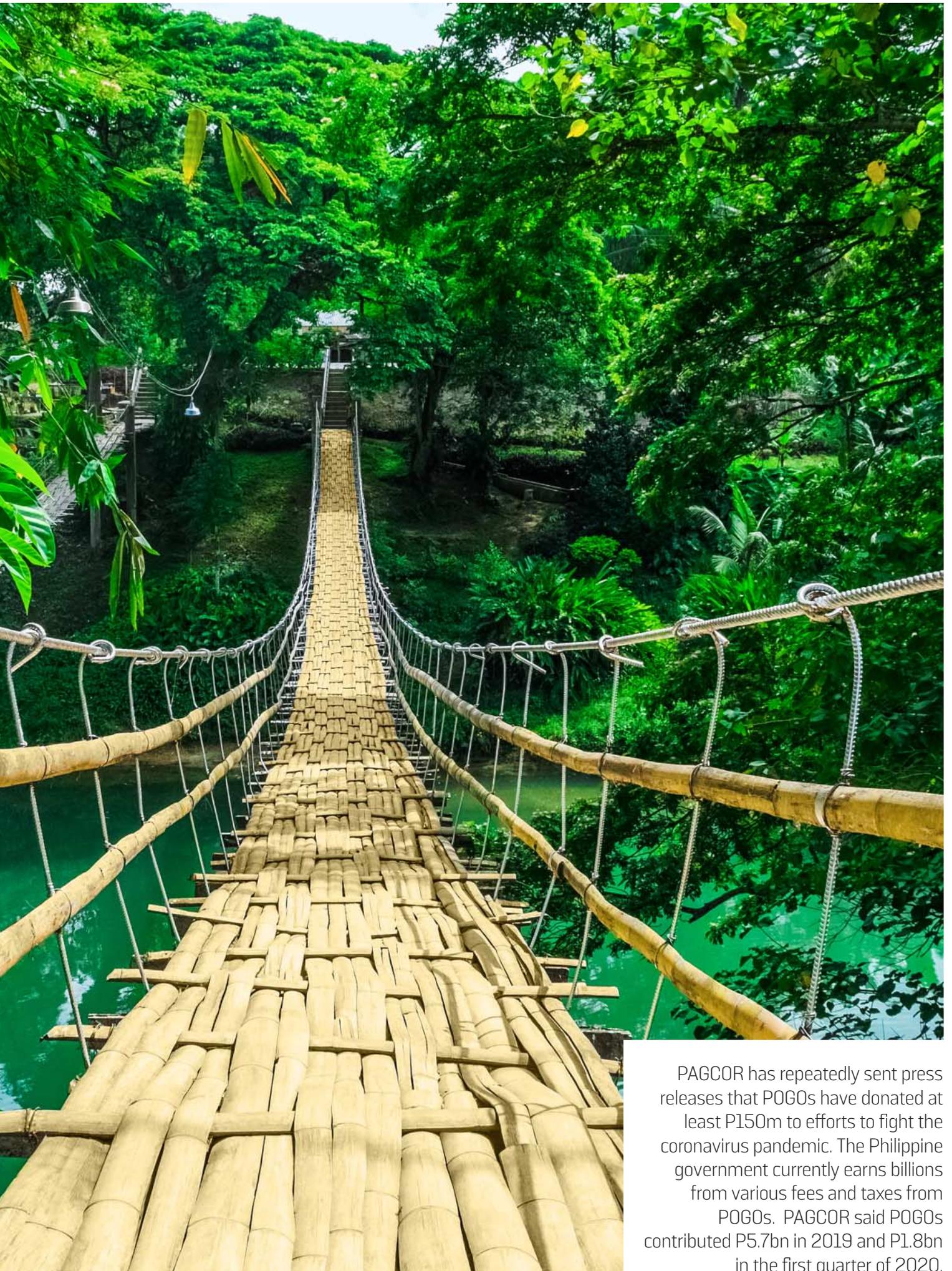
PAGCOR said POGOs employ 31,556 Filipinos.

"Partial opening of POGOs will create ripples in economic activity, such as the real estate industry which has earned approximately P25bn on leaseholds and rentals alone, as POGOs occupy 1m sq.m of office space," PAGCOR said in a statement.

PAGCOR has repeatedly sent press releases that POGOs have donated at least P150m to efforts to fight the coronavirus pandemic. The Philippine government currently earns billions from various fees and taxes from POGOs. PAGCOR said POGOs contributed P5.7bn in 2019 and P1.8bn in the first quarter of 2020.

PAGCOR reported gaming revenues of P75.75bn in 2019, 11.7 per cent higher than the P67.9bn in 2018. In 2018, PAGCOR's total revenues stood at P104.1bn, but the agency clarified that P32.7bn of it came from its sale of land to a subsidiary of Bloomberg Resorts Group.

PAGCOR was able to remit over P56bn to the government because of strong earnings last year. However, the industry is hounded by issues linked to tax evasion, money laundering, sex trafficking, and kidnapping.



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