

Where the chips fall

CASINOS ACROSS ASIA PACIFIC ARE HOPING TO WIN BIG ON HUGE DEMAND AND SHORT SUPPLY

Casinos: Region ups the ante

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In recent years, casinos have been sprouting up like mushrooms across Asia Pacific. With governments in the region looking at the benefits of easing gambling restrictions, casinos are increasingly responsible for rising tourism figures in places like Singapore and Macao and for contributing to economic growth.

"The rise of casinos reflects Asia's growing affluence," says Keith Pogson, managing partner of financial services in Asia Pacific for multinational professional services firm EY.

"Even in poor countries like Cambodia, casinos are creating jobs and revenue," he tells *China Daily Asia Weekly*. "Casinos sort of formalize the whole gambling experience," he says.

Nowhere is that experience more reflected than in the former Portuguese colony of Macao — once a seedy gambling backwater situated next door to Hong Kong. Today Macao is the jewel in the crown of Asia's booming casino sector.

Often described as the "Vegas of the East", Macao's casino revenues hit \$45 billion last year — seven times that of Las Vegas, once the undisputed casino gambling capital of the world. Projected revenues for 2015 are expected to exceed \$62 billion, according to some estimates.

However, in August, gambling revenues were down 6.1 percent for the third consecutive month.

Gambling revenue from Macao's 35 casinos fell to 28.9 billion pata-

cas (\$3.6 billion) in August from 30.7 billion patacas a year earlier, according to data released by the Macao government on Sept 1. Analysts were expecting a decline of 2 to 6 percent, according to a report by Reuters.

Despite this recent fall in revenues, Reuters said that analysts expect stronger demand in the coming months from so-called "mass market" visitors who come in larger numbers directly to the casino, compared to high rollers who are typically brought in by junket companies or middle men who take a hefty commission.

Global consultancy PricewaterhouseCoopers (PwC) estimates world-wide casino gaming revenue will hit \$182 billion next year from \$117.6 billion in 2010, with much of that growth (\$79.3 billion) coming from Asia Pacific.

Richard Huang, an investment analyst with CLSA, a leading investment and brokerage firm in Asia, says in terms of revenue, Macao is the world's biggest gaming destination.

"No one comes near to it," he says.



Foreign casino operators, especially from the United States, have poured billions into Macao, turning the tiny enclave into a glittering, sophisticated gambling mecca. "Sure, there is a perception that casinos are popping up all over Asia," Huang says. "But they are limited to just a handful of (places)."

"If Japan lifts its ban on gambling, that will have a ripple effect around the region. But it will be questionable whether it can attract the foreign tourists as, say, Macao or Singapore."

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Huang believes Japan will, initially, focus on the domestic market, adding that the bulk of Macao's gamblers come from the Chinese mainland and Hong Kong while Singapore draws gamblers from Malaysia, Indonesia and elsewhere in the region.

"The Philippines is still largely a domestic market, although the resorts being built in Manila Bay (a natural harbor) could change that in time," he says.

The main driver of the growth of casinos in Asia is demand, and "there is a lot of demand in the region," he adds. "There are more than 1,300 casinos in the United States — the place is saturated and the demand is not there."

Huang cites Singapore as an example of the demand in Asia: Although it only has two casinos, occupancy in both is almost 100 percent.

"The point is, here in Asia there is huge demand for casinos, but the supply is limited ... at least for integrated resort-type operations. The same companies build and operate casinos around the region so there is no excessive competition and everyone is making money," he says.

In Vietnam, the government is debating whether to lift a ban on Vietnamese "who meet certain criteria" to gamble in casinos. Casinos operating in the country are currently only open to foreigners.

According to *Thanh Nien News*, the government is looking to allow Vietnamese to use a new casino being built in the Van Don Economic Zone in Quang Ninh province bordering China as a trial before lifting the ban altogether.

Vietnamese tycoon Dao Hong Tuyen and US firm ISC Corporation are investing \$7.5 billion in the project, which will include a casino, marinas, convention center, golf course and tennis courts, the newspaper said.

Since the debate began in August last year, at least 10 provinces have applied for casino licenses. Vietnam already has six casinos but they are restricted to foreigners.

Lifting the ban on locals using casinos could spark a major building boom for big gaming companies such as Las Vegas Sands and the Malaysia-based Genting Group.



Keith Pogson, managing partner, Asia Pacific financial services, EY.



Richard Huang, analyst, CLSA.

Analysts say Vietnam's relatively young population and location, just a few hours away from many Asian capitals and within easy reach of wealthy Chinese, make it a natural gambling hub.

A recent report by the Boston Consulting Group said two-thirds of Vietnam's fast-growing population of 90 million are under the age of 30, and it has a consumer middle class that is expected to double by 2020.

If the ban is lifted without restrictions, according to a report by Reuters, Vietnam could become a "regional casino hub, with the potential to make annual gaming revenues of \$3 billion."

That's about half of Singapore's 2013 revenue but 10 times that of Cambodia and on par with those of the Philippines and South Korea,

Reuters said, citing official and company data.

Japan, where gambling is still banned, is also trying to get in on the act.

The Japanese parliament is debating a bill to lift the ban on gambling despite the fact that the highly popular game of *pachinko* last year saw players spending a staggering \$187 billion. A cross between a slot machine and vertical pinball, the game is a popular obsession for millions of people in Japan.

Although not formally seen as gambling (the rewards in the *pachinko* parlor are non-cash), it is possible for punters to exchange

their winning tokens for cash in establishments outside the parlor.

"I don't see casinos being a new pot of money in Japan," EY's Pogson says. "*Pachinko* is well entrenched and it will take some time to break that hold. Also, where will the tourism come from?"

One country that will feel the impact if the ban is lifted will be South Korea. With the exception of Kangwon Land in the northeastern province of Gangwon-do, casinos are only open to foreigners.

With the bulk of casino patrons coming to South Korea being Japanese, the question is: How many of the Japanese gaming tourists will stay at home if and when the ban is lifted? Analysts say that a lifting of the ban on domestic gamblers will have a significant impact on the South Korean casino market.

One of the biggest surprises in this area has been Singapore.

The impact of its two casinos — the Marina Bay Sands and the Resorts World Sentosa — has been dramatic, both on the economy and tourism, since they began operation in 2010. Drawing most of its punters from Malaysia and

Indonesia, domestic gamblers are allowed, but not encouraged, to use the facilities.

The two casinos produced combined revenues last year of \$6 billion and tourism in the city-state has risen by around 40 percent since they opened in 2010.

In Australia, work on billionaire James Packer's luxury casino and hotel complex in Sydney's Barangaroo suburb is well under way. The



AFP

Inside the Sands Cotai Central casino in Macao. Revenues have fallen in Macao's 35 casinos for the past three months. However, it remains the world's biggest gaming destination with revenues of \$3.6 billion in August.

A\$1.3 billion (\$1.2 billion) project is aimed at Chinese high rollers.

Casino revenues for the financial year 2014-15 are expected to reach \$5.6 billion, excluding revenues gained from poker machines or slot machines in pubs and clubs. New casinos are being planned for Queensland's Gold Coast and Cairns in the far north of the state.

Increased competition from Singapore and Macao has had a significant impact on the Australian market.

A report by PwC says Australia's casinos are finding it harder to attract high spenders from other countries, as there are now more resort casinos in the Asia-Pacific region. The report also says that one

significant factor in the profitability of operators in Asia Pacific is the widespread use of "junket operators".

"In Macao, these businesses organize and help to arrange currency for 'high roller' gamblers and visitors from other territories such as mainland China," the report adds.

"While their use is commonplace in Macao, they are not currently operating in Singapore, nor permitted to operate in Australia, and have to be licensed in the US."

The Philippines, on the other hand, already has a vibrant casino gaming market, with new casinos being built along Manila Bay to propel spending at a 16.9 percent compound annual rate to \$1.2 billion in

2015, making it a major gaming area as well, according to PwC.

"But the Philippines still has a long way to go to match Singapore, let alone Macao," Pogson says.

"The Philippines is still considered a domestic market with some foreign gamblers. But you don't need a million tourists flying in to gamble — you just need 30 or 40 thousand rich punters to make it worth your while," he concludes.