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Critical Mass Under Construction

Making Macau "the place to go" in Asia

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Wynn MACAU

2006 Autumn

Wynn Resorts (Macau) S.A.

Critical Mass Under Construction



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Closing In

AS CHINA closes the economic gap established over long centuries with the West in a few short but eventful decades, the motherland will send a growing number of disposable-income-laden tourists to the child it was most recently reunited with: Macau. To have the supply in place before the expected demand, casino and hotel operators are working feverishly on billions in investments to establish Macau as the “Las Vegas of the East” in less than a decade.

By comparison, it took the Las Vegas Strip about fifty years to evolve into its present sparkling form, according to **Paul Steelman Design Group Asia** Managing Director Rokh Afshai, who also explains in this official launch issue of *Inside Asian Gaming* that while Macau will draw on Vegas for inspiration in the process, Vegas will also be inspired by innovations coming out of Macau.

The Vegas benchmark

Vegas will be constantly referenced to track Macau's transformation. Investment bank **CLSA** points out in its authoritative “Macau Mania” report that “more people visit Las Vegas than Mecca, and if Vegas was a separate country it would rank as the world's fifth most popular destination.”

Key to Vegas' success has been its success in drawing middle class throngs from the US and abroad. Macau will rise on the back of China's exploding middle class. According to CLSA, by 2010, up to 237 million Chinese will have sufficient discretionary income to be considered middle class.

And key to Vegas drawing the middle class was the cleaning-up of the Strip, which took about 15 years to accomplish. The 1960s represented the “high water mark” for organised crime on the Strip, but by the mid-70s, Vegas was all about family fun as large, stockmarket-listed firms had taken control of the casinos and hotels.

A similar clean-up is underway in Macau, on the surface at least. Since the heady gaming and tourism boom which began in the second half of 2003, Macau has gone from being labelled by the world press as a variously “seedy” and “sleepy” enclave to the most coveted leisure investment destination in the world.

Currently, Macau has around 10,000 hotel rooms, but that figure is expected to double over the next two years. In Vegas, it took over a decade for the number of hotel rooms to double – from 25,000 in 1970 to 50,000 by 1982. The figured

doubled again by 1997, and is set to reach 135,000 by the end of this year.

Creating critical mass

Over 60 percent of Macau's visitors come from mainland China, and another 30 percent from neighbouring Hong Kong. However, once Macau achieves a critical mass of tourism and entertainment offerings, it will draw large numbers of visitors from farther afield in Asia and the world – something which the first foreign-operated casino in the city, **Sands Macau**, has already started to do in a small way.

Apart from expanding the market, critical mass also provides insulation from external shocks. CLSA explains that “Since 1970, total tourist arrivals [to Vegas] have declined in only one year (2001). Between 1970 and 1979 – when real oil prices surged and fuel was rationed, unemployment hit a record high and the US economy stagnated – visitor arrivals to Las Vegas rose every year: from 6.7m in 1970 to 11.7m in 1979. By 1990, tourist arrivals had doubled again and by 2004 they totalled more than 37m.”

Watching its back

Even as Macau closes the gap with Vegas, other Asian countries will attempt to close the gap with Macau by legalising and developing sprawling casinos and integrated resorts. Singapore has invited bids to build and operate two massive integrated resorts worth a combined US\$2.4-4.2 billion by 2009, and Thailand and Japan have set the stage for legalising casinos. The industry in the Philippines will struggle on in the face of what foreign investors consider inconsistent and non-transparent treatment from the government, and Malaysia and Korea will vie to draw more gamblers from around the region, and China in particular.

Hotspot-focus

Inside Asian Gaming will keep you abreast of gaming-industry developments throughout the region, but first-mover Macau will remain the industry's regional hotspot for at least the next few years – and perhaps for decades if Vegas is any guide. As such, the magazine's focus and base will remain in Macau.

We are moved by the positive feedback and support on our trial issue from the local industry, which has opened doors and provided insights. We will strive to put out a world-class publication to mirror Macau as it evolves rapidly into a world-class gaming and tourism destination. - KAREEM JALAL



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Lessons From the Lab

Smart students don't pay tuition. If they're really smart, their schools pay them, especially if school turns into the fastest growing casino market in the world.

Get to class early

Gaming class in Macau opened in 2002, when the government ended the city's 40-year gambling monopoly by awarding three casino operating concessions – which subsequently multiplied to five, with the awarding of sub-concessions. In June 2002, Wynn Resorts (Macau) and Venetian Macau inked deals with the Macau government on the terms of their concessions (Venetian Macau initially won a joint concession with Hong Kong-based Galaxy Casino and Resort, but the concession was later split into two separate sub-concessions). Erstwhile monopoly operator Stanley Ho also retained a concession through Sociedade de Jogos de Macau (SJM).

Venetian Macau, eager to learn about the local market, chose to get to class early, slapping down US\$265 million to build its first Macau property, the Sands Macau casino. Construction on Sands Macau began in February 2003, sixteen months before the hesitant Steve Wynn broke ground on his first Macau property.

Venetian Macau COO Frank McFadden describes Sands Macau as “almost a laboratory,” run by Sheldon Adelson and Bill Weidner

At first, it appeared Venetian Macau may have been too eager to learn. Also in February 2003, severe acute respiratory syndrome (SARS) began its spread from China's Guangdong province around the region. By April, Macau's tourism and gaming markets were decimated, and it looked like Venetian Macau would be saddled with its student debt for years to come.

Then came two lucky breaks. The SARS outbreak was eradicated by June 2003, and the central government in Beijing eased travel restrictions on mainlanders wishing to travel to the two special administrative regions, Hong Kong and Macau – primarily as a means to boost the Hong Kong economy following a half-million strong anti-government rally in the city in July (which Beijing attributed to



By the time Sands Macau opened its doors on 18 May, 2004, SARS was a faint memory, and school became very profitable as hordes of gambling-hungry mainlanders flooded the city

discontent with the waning economy, rather than democratic aspirations). Macau may have been an indirect beneficiary of a gift for Hong Kong, but its tourism- and gambling-dominated economy soared much higher than Hong Kong's on the back of the eased travel restrictions.

By the time Sands Macau opened its doors on 18 May, 2004, SARS was a faint memory, and school became very profitable as hordes of gambling-hungry mainlanders flooded the city (casinos are illegal on the mainland). Venetian Macau paid off its US\$265 million investment within twelve months of opening, and its chief operating officer, Frank McFadden, estimates the company will "bank US\$750 million of EBIDTA [earnings before interest, taxes, depreciation and amortisation] before anyone [namely Wynn Macau] opens their casinos."

Mix it up

Mr. McFadden describes Sands Macau as "almost a laboratory," run by Sheldon Adelson and Bill Weidner, chairman and president, respectively, of Las Vegas Sands Corp., parent company of Venetian Macau. For their experiment, Mr. McFadden explains, they "simply designed something that was the antithesis of what was here before. So by design, they actually differentiated themselves totally from the market. Where you have low ceilings, we have high ceilings. Where you have dark corners, we have round light corners. Where you have no entertainment, we have entertainment. Where you have a chair that has to be cheap and functional, we have design elements in it... Where we mix slots and tables on the same floor."

The experiment succeeded. "All those sorts of design elements made people come in and just say 'wow.' And you can see when you go in, there are more groups, and there's a more social element to the gaming where people gather around the tables and cheer and boo."

The role of design

Mr. McFadden offers an analysis of the experiment's main result. "Design created a fun atmosphere, an unpressured atmosphere. You came to the casino out here [Sands Macau] to have fun, look around and gamble a bit. You don't go into a dark hall, basically to have war with the casino to see if you can win money. There's a far lighter element here, and that's where design played a huge role, in segmenting us from the rest of the market."

Mr. McFadden concedes, however, that not all the hypotheses tested by Venetian Macau have been winners – notably the third floor high-end restaurants, which "are half empty."

But Mr. McFadden shrugs off the failures: "If that's the cost of entry and the cost of learning, then I'm comfortable with it

Criticism of results

"It's very hard to be critical of the most profitable casino in the world, and the one that gave a return on capital within twelve months," says Mr. McFadden.

Yet the Hong Kong press, in particular, has tried, alleging impropriety at Sands Macau, highlighting difficulties faced by Venetian Macau in carrying out its investment projects, and in some cases, even publishing unfounded reports to hint at tensions between Venetian Macau and its local competitors.

In August, the *South China Morning Post* published an erroneous report that Sands Macau had raised commissions paid to local gambling-junket operators to as high as 1.3 percent, from its previous cap of 1.1 percent. With win on the roll – commissions to Macau junket operators are given on "rolling" amounts, when live chips are exchanged for dead chips – ranging from 2.5 to 2.8 percent, given Macau's 40 percent tax on gross gambling revenue (35 percent goes to the government as direct tax and an additional 5 percent as compulsory social and welfare contributions), if a casino offers 1.3 percent commission, it would earn only 0.3 percent, with which it must cover operating expenses. As such, the fictitious increase detailed in the *Post* would have seen Sands Macau possibly losing money.

Cotai sceptics

More pertinent to the ultimate success of Venetian Macau's experiment, the Hong Kong press has also pointed to "growing investor scepticism about Macau tourism projects," as *The Standard* put it, which jeopardises the realisation of the company's vision to develop a strip of hotels and casinos on Cotai (the strip of reclaimed land between Coloane and Taipa islands) to rival the Las Vegas Strip.

At the centre of Cotai will stand the US\$2 billion Venetian, a replica of Las Vegas Sands' flagship casino resort in Vegas. The Venetian is slated to open in late June 2007 with 3,000 hotel rooms.

Venetian Macau hopes Cotai will provide a critical mass of gaming, resort, entertainment and dining offerings, establishing Macau as a regional tourism hotspot. "Once you establish an identity of 'the place to go', then it's kind of self-perpetuating demand, so it's going to be quite interesting there," says Mr. McFadden.

The Las Vegas Strip has 130,000 hotel rooms, while Macau currently has around 10,000. What would Mr. McFadden say

constitutes critical mass in Macau? Perhaps "a downtown market of 20,000 rooms, and Cotai with 30,000 rooms. We'll add 12,000 in two years on Cotai [along with other hotel investors]."

Reports earlier this year focused on Venetian Macau's partner hotel-investors in Cotai getting cold feet on fears of slowing tourism growth. Then came the announcement last month that Hong Kong-based Regal Hotels had pulled out of its joint venture with Venetian Macau but would press ahead with its investment, leasing its casino not necessarily to Venetian Macau, as originally planned, but to "an authorized gaming operator in Macau."

Mr. McFadden remains confident, how

CONFERENCE HIGHLIGHT

One of the *South China Morning Post* articles pointing to a rosy future for the Venetian in Cotai (in order to highlight a threat to Hong Kong's conference market) revealed in June that China's largest conference organiser, the China Council for the Promotion of International Trade, had agreed to stage the opening event of one of its most prestigious trade shows at the Venetian Macau when the Cotai property opens in 2007

"There's been a lot of enthusiasm for Macau as a conference centre," says Mr. McFadden, and the draw is clear. "If you're a Hitachi rep in Beijing, would you rather go to Guangzhou for your regional conference, or would you rather go to Macau? Into a place that will give you Cirque du Soleil, or that sort of entertainment, fine dining, retail mall, wave pools?"

"The casino's the foot driver. And critical mass is important. Because if you have people for three different days, they want to dine in three different restaurants. You need more than one show, you need more than one shopping mall."

Critical mass will drive up non-gaming revenue. Gaming revenue makes up about 95 percent of revenue at Sands Macau, but when the Venetian Macau opens, "you'd be looking at initially a 60-40 mix to gaming, with that evolving to a Las Vegas model, where it's under 40 percent of the revenue from resorts coming from gaming. The big drivers are hotels, conferencing, and food and beverages."



While Venetian Macau waits for its big experiment to begin on Cotai, there are more lessons to be learned from the Sands lab

ever, of the success of the Venetian in Cotai, which he believes will draw a different tourism market to Macau, driving up hotel occupancy rates from the current 66 percent to nearer the 99 percent rate enjoyed by the Venetian in Las Vegas. While he admits a 99 occupancy rate in Macau is not in the company's projections, he points out: "On Cotai you're going to have Monday to Thursday conferencing and exhibitions, the business tourism market. Counter-cyclical to that, Thursday nights, and Fridays, Saturdays and Sundays, you're going to have a genuine tourism resort market. So you're not going to compete with what's happening up here. You're going to have a completely different market segment."

Further experiments

While Venetian Macau waits for its big experiment to begin on Cotai, there are

Venetian Macau hopes Cotai will provide a critical mass of gaming, resort, entertainment and dining offerings, establishing Macau as a regional tourism hotspot

more lessons to be learned from the Sands lab. "We must understand that we're here to learn. If we're not learning, we won't be able to take our lessons to the larger investments," says Mr. McFadden.

First will come another shot at courting low-rollers, with Sands Macau's initial experiment with MOP50 minimum bet tables quickly abandoned because of too much demand. The minimum bet is now MOP300, but "before the end of the year, we're going to put an escalator into the middle floor, and we're going to put another pit in there. We're going to trial the MOP200 and MOP100 tables there."

We're going to use a slightly different design, so that it's eye-catching, so it draws people up. So we'll then have the Pearl Room as the main gaming floor, and the next one up there."

Mr. McFadden continues: "We've also put a theatre in to test different acts moving forward over the next 18 months."

As for the high-end restaurants, Mr. McFadden feels the verdict is still inconclusive. "If the legislation changes which allows people to travel through non-gaming areas in the casino to restaurants and to retail malls, I think they'll be fine, because there are so many associations here. All we have here is high-end dining and corporate dining, and we don't have association dining and non-governmental organisation dining [because of current legislation]. And that will come." □

THE GOVERNMENT DELIVERS

Venetian Macau Chief Operating Officer Frank McFadden is a fan of the Macau government. "Before I came here from Casinos Austria, I ran 65 casinos in 18 different jurisdictions. I've never experienced a government so determined in their vision. One of the reasons I'm so comfortable working here is the government. They're discreet, they deliver. The issues that are facing me are the issues facing all investors into Macau, which is where do I find my staff, and how do I move 30,000 international delegates into a conference in one day across the borders?"

The government is striving to develop supporting infrastructure "in advance of private equity, creating an atmosphere conducive to investment," says Mr. McFadden, pointing to the third bridge linking the Macau peninsula to Cotai, the extension of the under-utilised airport in anticipation of Cotai traffic, and even the completion of the ring road around Zhuhai ahead of the landing of a bridge connecting Hong Kong to Macau and Zhuhai by 2010.

As for the issue of Macau's worsening labour crunch, Mr. McFadden believes "a solution will be reached in a timely manner, and in a manner that will suit Macau." Mr. McFadden feels the only reason the government has been slow in relaxing its labour importation policy is that it first wanted to confirm that all the big investors are intent on honouring their commitments and creating new jobs. "Because what people say, and then what they do, is very important. For us as investors, we've said, we've done. Now they [the government] see Wynn is building, Galaxy is building StarWorld, they see the Venetian going up one floor every five days, and they think 'okay, they're doing it. Now, we will respond in a positive way.'"



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Regal on its Own

Regal Hotels International will proceed with its Cotai Strip projects without Las Vegas Sands



Artist's impression of the upcoming Regal's Grand Foyer

LAS VEGAS Sands (LVS) may just have to be content with critical mass.

In March, it appeared the company would have commanding control of gaming, entertainment and conferencing on the Cotai Strip development it is spearheading in Macau to rival the Las Vegas Strip. The centrepiece of

Cotai will be LVS' US\$2 billion 3,000-room Venetian Macau, and in March, it was announced that the company had partnered with six major hotel chains, including Four Seasons, Hilton Hotels, Marriott International, Starwood Hotels & Resorts Worldwide, Dorsett and Regal Hotels International to build an additional

10,000 rooms, casinos, entertainment theatres and a convention centre.

A sticky-sweet deal

Under the original agreement, hotel investors would finance their own resorts, while Venetian Macau was to lease and operate the

casinos and conference halls inside, keeping all gambling revenues to itself – a seemingly sweet deal for Venetian Macau, but a model which, according to Hong Kong-daily *The Standard*, has proven “a sticking point with prospective investors.”

First came the collapse of negotiations with one of LVS' major partner investors, Hong Kong-based Harilela Hotels. LVS said it would take over financing of the three resorts Harilela Hotels was to have built.

Last month, Hong Kong-listed Regal Hotels International Holdings also pulled out of its agreement with LVS, but confirmed it would proceed with its planned investments regardless. The project, when completed, will consist of three hotels with a total 3,950 rooms (an all-suite 5-star hotel with 550 suites, a 4-star hotel with 1,650 rooms and a 4-star hotel with 1,750 rooms) on the same lot of land, which is not controlled by LVS. It will also include restaurants, a theatre, a convention plaza, and shopping and entertainment areas. Regal also took the opportunity at the press conference announcing its split with LVS to reveal some additions to its project: a 3-D IMAX theatre and a 60,000 sq. ft. non-profit making hotel

training school, which Regal hopes to run in co-operation with the Macau Government to train hotel and hospitality staff.

Regal's reason for splitting

Regal Hotels International kept its explanation for breaking up with LVS deliberately vague: “By reason of certain material changes in the circumstances affecting some fundamental issues that had remained unresolved, the terms of the definitive agreements could not be agreed or finalized.”

LVS responded: “Given the excitement and tremendous interest in the development of the Cotai Strip™ there are bound to be periods of posturing, negotiation, and cooperation. These phases are perfectly natural and our attention remains focused on the larger picture and the emergence of the Cotai Strip™ as Asia's Las Vegas™.”

No free lunch on Cotai

The main result of the split is that, according to Regal Hotels International Executive Director Donald Fan, “The casino, which was intended previously to be leased to and operated by Venetian exclusively, will now be

intended to be leased out and operated by a licensed gaming operator, maybe by tender in a later stage. In this way, we expect the return will be even higher.”

Elaborating on the benefits of not being beholden to LVS, Mr. Fan says “This latest move can allow Regal to have more flexibility on the project including cost control, design, time control as well as the return rate control. Project time frame can also speed up as well. Total investment is estimated to be within HK\$3 billion.

LVS will have to work harder than previously thought for its share of Cotai gaming and entertainment revenue. According to *The Standard*, Hong Kong-listed Far East Consortium International is the only company to have reached a preliminary agreement with Las Vegas Sands to finance a resort, but has yet to finalize terms.

Meanwhile, Stanley Ho, who still has the commanding lead in Macau casino revenue, has succeeded in grabbing a site on Cotai and is planning another Cotai project, while Hong Kong-listed eSun Holdings, which is developing hotels adjoining the Cotai Strip, will also invite offers from casino operators. □

Model of the future Regal in Macau



Catch-22 Credit Potential

Casino operators – particularly the newly arrived Americans – in Macau are clamouring for provisions to write-off uncollectible gaming debts from taxed revenue. The man charged with drafting the necessary legislation explains that while some write-offs will likely be allowed in the medium term, the unlawfulness of collecting gaming debts on the mainland creates several dilemmas

CREDIT MULTIPLIES spending. “If you don’t have to put down your own cash, if you can do things on credit, you will bet more,” says Jorge Oliveira, the commissioner for legal affairs of the Macau government’s Commission for Gaming.

Mr. Oliveira explains the explosion in Macau’s gaming revenue since the ‘80s was “not because management has become better or because government policy has changed. It’s just because of the beginning of credit.”

As in other jurisdictions, he says credit multiplied gaming revenue in Macau by a factor of up to five times, or even more.

Casinos and junket operators have been able to legally grant credit in Macau since July last year. Three more pieces of supporting legislation are now needed, according to Mr. Oliveira. “One extends to the procedures to assess credit-worthiness. The other establishes the procedures for lawful collection. And the other establishes the fiscal side, meaning how is the credit debt which is not collected considered for fiscal purposes? The problem of the write-offs.”

On assessing credit-worthiness

“The difference between here and America is that in America, casino operators have mechanisms that will allow them to ascertain the credit-worthiness of someone very quickly,” says Mr. Oliveira, who offers an illustration of how the process works:

“A guy comes by the afternoon from L.A. to Las Vegas. He goes on the highway in his Porsche, and he calls the casino operator, and is put through to the guy from the credit department, who he already has a wonderful relationship with.”

The conversation goes thus:

- “I’d like you to extend me US\$100,000 credit.”
- “Have you ever had credit with us?”
- “Yes.”
- “What’s your client number?”
- “This.”

“The first thing they do is they check the database between all the casino operators. Then they realise he’s had credit seven times and never had a default. Then they go and ask for the national database of the financial system, which they have access to. They also see he has no problem on his credit card, no problem on his mortgage for his house, or any other relevant loans he has.”

“They go back to the phone, sometimes within one minute, and they tell him ‘Okay, look, perhaps not US\$100,000. We will give



Mr. Oliveira explains the explosion in Macau’s gaming revenue since the ‘80s was “not because management has become better or because government policy has changed. It’s just because of the beginning of credit”

you for sure US\$50,000, and when you get here we’ll discuss further.”

In Macau, “you don’t have such a mechanism,” points out Mr. Oliveira, “and you won’t have.”

“Even in Hong Kong it doesn’t work very well, because many of the banks refuse to put in the correct inputs, otherwise they would have so many people under the line that their own ratings, be they insurers

or financial institutions, would be put in jeopardy."

On collecting credit

Another key difference between Macau and Vegas is that 95 percent or more of casino patrons in Vegas reside within the US, where it is lawful to collect gaming credit, whereas in Macau, the bulk of patrons come from the mainland, where it is unlawful.

Mr. Oliveira offers another illustration. It's late 2006. A Shanghaiese man of middling stature waltzes into the newly opened Wynn Macau and asks for a credit line. The man has no bank accounts or assets outside China, but it's known he has four factories in Shanghai, thousands of workers, and plenty of other assets on the mainland. "So okay, you grant credit of say 3 million patacas."

The trouble is, "if he loses, how are you going to collect, if you can't collect lawfully in China anyway?"

"Macau's potential is precisely for guys like him. Because the others, those that have bank accounts and assets outside China, they already go to Las Vegas every year. They will use those assets they have outside China as guarantees when they issue markers for getting credit in Las Vegas."

The tremendous non-Canto potential

VIP rooms account for 70 percent of Macau's gaming revenue. "If you look at the big junkets that operate with Stanley Ho, they are all Cantonese," says Mr. Oliveira. "Today, between two-third and three-quarter of patrons in the VIP rooms, in terms of volume gambled there, are from the mainland." Yet the networks of the junkets feeding the rooms are largely restricted to southern China.

"Now, is it likely that a guy from Houston would be able to get rich guys from Manhattan? Probably not." The potential for revenue to grow by creating new networks throughout the rest of the mainland "is tremendous."

Steve Wynn has hired Linda Chen from the Bellagio "to create a network of junkets, mainly through the Chinese world. She's a Shanghaiese, which will be the first time we will have a non-Cantonese actually working here organising junkets."

"We have a lot of guys from Hong Kong, maybe there are also guys from the mainland, but they are not large. That's my point," continues Mr. Oliveira. "And it makes sense. Put yourself in Stanley Ho's place. You would want to have business with people who are here, that you know." When the proverbial "hits the fan, you grab them by their" unmentionables.

"Now, what I predict is in the coming years the Americans will find a way to get into the credit market, and there will be an explosion. We will have people trying to get connections with rich people in Sichuan, in Shanghai, in Beijing, and all over China."

On lawful collection

"In China, or Singapore for that matter, where it's not possible to collect lawfully, I can only see two ways. One is you hire a priest, and maybe collect on goodwill, which

is not a very good prospect. Or you resort to the people who can force people to collect," says Mr. Oliveira.

"American operators, whose behaviour here reflects on their licenses there [back in the US], they will not be able to collect on the mainland. They could use third-parties to do that, but because of the regulations of Nevada and New Jersey, they would be closely associated with them, and therefore it would put their licenses at risk."

"That is the problem we face now. We have difficulties in bringing competition to the credit market operations because of this."

95 percent or more of casino patrons in Vegas reside within the US, where it is lawful to collect gaming credit, whereas in Macau, the bulk of patrons come from the mainland, where it is unlawful

"We would also like to have everything done by the book, but the big discussion that nobody is willing to bring to the table is 'are we willing to give away the mainland credit market?'"

That would amount to giving up two-thirds of gaming revenue.

"Because if we cannot collect lawfully, and we're going to change regulations to create a common level playing field, then you may have to actually give it away. If you give it away, is it not likely that someone will come and occupy that space?"

On write-offs

The main reason the sprawling HK\$2.1 billion (US\$270 million) Sands Macau generates less revenue than Galaxy Resort and Casino's modestly appointed HK\$485 million Waldo casino is that the latter grants credit. Las Vegas Sands said in a filing with the US stock exchange that it was waiting for Macau to allow write-offs of uncollectible debts before extending credit.

"Either we change the rules, then we risk losing a lot of government revenue in order to allow the American operators to grant credit basically to a market where they cannot grant it – basically, they would be able to grant to Hong Kong and Taiwan.

Or we will have to create other mechanisms to allow competition to take place – mainly, to allow more autonomy to the junkets in order to have more competition on the credit market, but that, so far, we have resisted doing. Because of the connections that will in time have to be created between the large junkets and undesirable entities [to enforce debt collection], we do not want them to operate autonomously. The solution is not easy."

Establishing the scope of the write-offs is another tricky matter.

Mr. Oliveira explains that unlike the US, Macau has two kinds of credit relationships. "The one that everybody thinks about is credit granted to the patron. But, because of the way VIP rooms operate, you also have a lot of credit extended by the VIP room operators to the junkets. He [the VIP room operator] buys the chips on credit, and he sells them on credit to the junket operators, who resell them to the patrons."

If write-offs are allowed, the government would face pressure to extend them to the relationship between VIP room operators or casinos and junkets. "If we allowed this, we could have all sorts of accounting games, especially between SJM and large junkets in Macau. There's a lot of money involved. If you're talking about a cake of 3 billion patacas a year [of VIP room gaming revenue], you can imagine the kind of engineering that could take place. So this makes everybody nervous."

The arriving Americans are most vocal in calling for the write-offs, but the biggest gainer would be the established local – Sociedade de Jogos de Macau (SJM). "The Americans will not really be more competitive where they want to be, which is on the mainland market," says Mr. Oliveira.

Mr. Oliveira does envisage a scenario where it would make sense to extend write-offs, however.

He believes that many people who play on credit in the VIP rooms would be willing to switch to the mass market as the offerings in the latter improve. "Look at the statistics. Before the Sands opened, 70 percent of the market was on credit, 30 percent was on the mass market. In spite of all the competition in other places, six months after Sands opened, we have at least 35 percent of the market in the mass market."

"The whole cake has grown, but what this means is the mass market grew by more than the credit market. The reason for this may be the guys who operate in the credit market may not be innovative. They did not find new patrons. Still, common sense would not dictate that. We have more and more people coming from China, so it should go hand in hand. I think there was a switch of 5 percent overall."

"What we expect is that simply with Wynn and MGM and tomorrow with Venetian Cotai, they [VIP room patrons] will make a switch to the point where at least half of the market is mass market."

"If the cake in the meantime becomes much larger, if the gross gaming revenue is huge, it may make sense to lose some money to try to risk something to get back some of the credit market."

A sufficient cap

Mr. Oliveira suggests allowing write-offs equivalent to a cap of six percent of gross gaming revenue, though the government is considering a lower cap. Mr. Oliveira feels at least 6 percent is needed because debt collection is expensive, and would likely involve

payment of at least 20 percent of recovered debts to collection companies.

"When you think about it, why does Stanley Ho give such a large percentage of gross gaming revenue to the junkets? Because he has to. Otherwise they would not be able to live with it."

Mr. Oliveira explains that in Vegas, uncollectible credit is equivalent to two percent of gross gaming revenue, but excluding the cash-based slot machines (which account for over 70 percent of revenue), it is equivalent to more than six percent. Thus, a six percent cap appears warranted.

An edge on Singapore

While write-off provisions have yet to be determined, the lawfulness of granting credit in Macau is clearly established, giving the city an advantage over other regional jurisdictions – notably Singapore – hoping to legalise casino gaming. "That allows operators like Steve Wynn to say 'we are going to have a significant percentage of our operations based on credit.'"

VIP rooms, according to the latest study by Deutsche Bank, have an average win per table per day of US\$42,000, compared to US\$5,500 at non-VIP tables, largely thanks to the credit multiplier.

"By allowing credit, you can expect, and you can condense things to have such a high return on your investment that they

While write-off provisions have yet to be determined, the lawfulness of granting credit in Macau is clearly established, giving the city an advantage over other regional jurisdictions – notably Singapore – hoping to legalise casino gaming

will be willing to finance not only the first project, but the second, and more. They will expect, especially after the first case with the Sands, to have a very quick return on investment."

In Singapore, the arrival of patrons from jurisdictions where gaming debt cannot be lawfully collected "would not only question the seriousness of the entire legal regulatory framework, but more important than that, it would be totally disastrous to the credibility of a large financial centre."

Mr. Oliveira wants Macau to help Singapore establish legalised gaming precisely in order to demonstrate that credibility risk to Hong Kong.

"It will put aside the temptations that exist permanently in Hong Kong to legalise casino gaming. I may be wrong, but we will see."

The expected stymieing of credit legislation in Singapore (where the request for proposals for two integrated resorts has just been delayed a second time to address the

concerns of potential operators) will slow the return on Singapore gaming investments. This is particularly relevant because the Singapore government is "forcing operators to very high levels of investment. It's still not clear, but I wouldn't be surprised if investment committed to each of the areas would be 1.5 to 2 billion US dollars."

Even in Macau, it has taken a while to gain acceptance for allowing casinos and junkets to grant credit. "I arrived in Macau at the end of '89, when I saw attempts to put things more clearly, in terms of the lawfulness of granting credit. I saw the then Secretary for Justice shouting that he would 'never be responsible for legalising loansharking.'"

"It's a stupid way of looking at it, precisely because if you don't legalise and regulate, you are leaving the door open for loansharking. But in a society where most of the people have a prejudice against gaming, in fact, what you have is this kind of approach. So I would be very, very surprised if the Singaporean government would be able to do it." □

THE CASE FOR LIBERALISING GAMING MACHINES

Jorge Oliveira is currently working to fill "gaps in the legal system that we cannot afford to have as a leading world casino gaming jurisdiction."

One of the things he's got to do is write himself a pass to the Sands' fine-dining restaurants. "In integrated resorts, we have to amend things to allow civil servants to pass through the casinos. If we have corridors of passage-ways through the gaming areas, the corridors would not be gaming floor. So I, as a civil servant, would be able to cross it to go to the retail, to go to a show, to a restaurant. If you want to have integrated resorts instead of little casinos, if you want to change to this new concept, then of course you have to allow that," since civil servants in Macau are numerous and relatively affluent. More importantly, Mr. Oliveira is drafting regulations for gaming machines. "Who can sell, if you need to be licensed, if the equipment needs to be certified. Who can touch the machines. These kinds of things."

The machine manufacturers are also calling on the Macau government to allow them to share revenue with casinos on the machines they install. Mr. Oliveira feels this would distort the working of the market.

"We want the machines to come because the operators here want to invest in machines. Casinos may put machines



in without investment by offering profit share to the manufacturers."

Mr. Oliveira wants more gaming machines in Macau, and he believes the best way to achieve that is to liberalise the gaming machine market to allow hotels and other non-Casino venues to install them. He believes failing to liberalise the market will lead to under-investment and open the door to a significant threat to Macau. "You may have very soon in Hong Kong the idea that they should start to legalise casinos by legalising machines. If they do that, would we say that they are entering our turf? We have just three thousand machines."

But what of the notion that Macau casino operators will in coming years

create vast halls of gaming machines, particularly on Cotai?

"Casino operators sell the idea that they are going to invest a lot in machines. But common sense dictates otherwise. Tables make US\$5,500 per day, and even if that falls to US\$4,000," will still offer much better returns for casinos than machines, which make around US\$300 per day.

"Sands is closing its restaurants to put in more tables. Wynn will have 20,000 sq. m of casino space. It will be by far the biggest casino in Macau. And you know how many machines they will have in 20,000 sq. m? Three hundred something. Those are almost like artificial plants. They are decorative elements."

By seeking to maintain their stronghold on gaming machines, the new casino operators will strengthen the position of Melco International Development, which is owned by erstwhile monopoly operator Stanley Ho. "The only entity that is investing in machines is Melco. Because the group with which they are associated, STDM [parent company of SJM], has a lot of gaming floor available. STDM is the largest real estate company in Macau, and they can have a lot of gaming floor available. If they have an unlimited gaming floor, it makes sense that they try to drive the competition out by reserving a part of that for machines. The current system only benefits Melco, at the end of the day."



銀河

GALAXY

Galaxy Resort & Casino
congratulates
Inside Asian Gaming
on its launch



Looks Matter

The design of Sands Macau was vital “in segmenting us from the rest of the market,” explains Venetian Macau Chief Operating Officer Frank McFadden. Behind the design was Las Vegas-based Paul Steelman Design Group (PSDG), which opened a branch office in Macau, PSDG Asia, to handle booming gaming and resort business in the region. *Inside Asian Gaming* spoke to PSDG Asia Managing Director Rokh Afshai about the difficulty of recruiting staff and the challenges of designing Sands Macau on such an odd-shaped plot of land.

THE TOURISM boom is drowning out the cries of foul from Macau's small- and medium-sized enterprises (SMEs), who are struggling to compete for resources – particularly labour – with powerful casino and hotel operators. The government stresses the need to diversify the economy and prevent Macau becoming overly reliant on its “dragon head” industries – gambling and tourism – but has so far done little to prevent the dragon head devouring the city's scarce human resources to feed its growth, leaving SMEs starved of labour.

Yet the dragon head could well sprout a mottled tail, spurring the development of other knowledge-based support industries in the city. Take architecture, for example.

The liberalisation of Macau's gambling sector in 2002 not only brought in foreign casino operators, but also the companies that serve them. Paul Steelman Design Group (PSDG), considered the world's leading casino architecture firm, designed the first foreign-operated casino in the city, Sands Macau. In 2003 it set up a local branch office, PSDG Asia, which is currently expanding. Mr. Afshai can confirm that PSDG Asia is working on “at least three” of the mega casino resorts planned for the Cotai Strip.

From Macau, PSDG Asia “will serve the

whole of Asia,” according to the company's managing director, Rokh Afshai. *Inside Asian Gaming* asked Mr. Afshai about PSDG Asia's bid, along with Venetian Macau, to design an integrated gaming resort in Singapore, and whether that could see the set-up of a Singapore office. “If it [the bid] goes through, we will need a local office in Singapore. But the size of that office doesn't need to be the size of the Macau office. The Macau office will be much larger, and 90 percent of the work will be done in Macau, and a small portion of it, probably to liaise with the government officials, in Singapore.”

PSDG had briefly considered neighbouring Zhuhai in China to base its Asia ops. “But it creates some strategic problems, basically to travel back and forth, the visa issues, and everything else. We don't look at it as cost only. Obviously, the operation will have a lower cost if it's in China, but it's irrelevant. It won't be this comfortable. Macau is a comfortable place to live, to work, and especially with the Venetian here, we're as close as possible to the client.”

PSDG Asia could handle projects from outside Asia. “We don't separate the business to be done in the Macau office or US offices. Sometimes the Macau project works for Las Vegas, and it doesn't have to be a Macau project for the Macau office to get involved. We [the Macau office] help them, they help us, especially now that we are expanding.”

Expansion jam

PSDG Asia currently has seven architects based in Macau. It hopes to expand to more than twenty before the end of the year, though Mr. Afshai feels recruiting will be a “very difficult task given the market.”

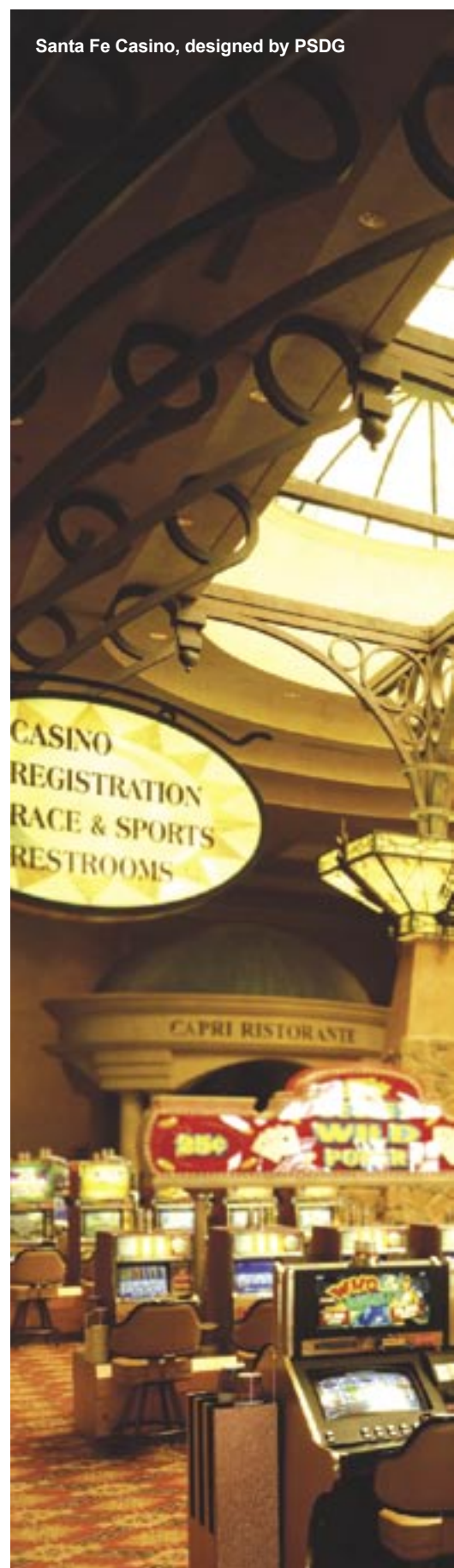
“Macau has a very limited market of professionals, and we have to look for them in the Chinese market or Hong Kong market. Then to invite them here to move is not for everyone.”

“It's just a matter of understanding things that make sense. We put an ad in the Macau magazines and Macau newspapers. After a few weeks, I received one call, and that was a wrong call. It was an engineer, unfortunately.”

“From China I received about five or six, and we are advertising in China on a special website for recruitment, and those replies were not so bad.”

“In Hong Kong it's very positive, and people have a very high level of professionalism in our field. I received more than ten or fifteen the last time we advertised there.” Mr. Afshai stresses the company's “hunger for new, creative team members – archi-

Santa Fe Casino, designed by PSDG







and designers.” Apparently, the Vegas office “is also in need.”

Meanwhile, PSDG Asia is still getting by without administrative staff, since Mr. Afshai wants tri-lingual staff proficient in English, Chinese and Portuguese. “We haven’t been able to find the right people yet.”

Awards and constraints

At the end of June, PSDG was awarded several American Gaming Association (AGA) 2005 Casino Design Awards, including the 2005 Architectural Design Company of the Year award for its work on Sands Macau.

Winning the award was no mean feat given the small plot of land available and its odd shape – the six-acre parcel of land on which Sands Macau is built is 1,200 feet long and 300 feet wide and built on piers over a flood plain. The company did as best it could, but Mr. Afshai is quick to point out its mistakes. “Given the opportunity we would like to rectify them.”

**“While Macau
strives to become Las Vegas,
Las Vegas casinos
are moving away
from that and will start
looking at doing
the kinds of things
we have done
here”**

“For example, our buffet, on the second floor, is too large for the demand.”

“We have a mezzanine level on the west side of the building, and access to that mezzanine level is only through a grand staircase, there is no comfortable escalator access. We do have handicap access, of course, that’s code, but there is no comfortable escalator access. Given the opportunity we would like to rectify that problem and add an escalator.”

“The other problem that I can think of is probably the porte-cochere [Sands Macau’s expansive four-lane entrance]. It’s too large, again. We saw the traffic in Macau. There is traffic, but it’s no way comparable to traffic that we have in the US, and that was missed probably. We could have better utilised that space.”

PSDG’s lab too

Sands Macau was “exploratory for us, and I would say also for the Venetian. It was the first Las Vegas-style casino in Macau,” explains Mr. Afshai. It was “the first casino in the world that lets daylight right in. It’s great, and now everybody is doing it.”

It was also the first casino designed by PSDG that was not located on street-level. “We seriously believe that casinos work bet



Here and on bottom: Casino Ray Helsinki, Finland



ABOUT PAUL STEELMAN DESIGN GROUP

Founded in 1987, Paul Steelman Design Group employs 100 people located in four offices: Las Vegas, Macau, Connecticut and Atlantic City. Over the years, the firm has completed 80 projects in 12 countries and 15 states. Acknowledged as a trendsetter in the entertainment architecture field, Paul Steelman has created every type of gaming project including resort, local, European, barge-based, riverboat, pari-mutuel and Native American. Paul Steelman has worked for Las Vegas Sands, the Mirage, MGM, Harrah's, Park Place, Harvey's, Hard Rock, Swiss Casinos, Hyatt, Caesars, Sheraton,

Grand Casinos, WWF and many others. The Paul Steelman Design Group has also completed many hotels, suites, shopping malls, retail stores, health clubs, theme parks, themed attractions, and restaurants, and is string to expand its non-gaming related business, just as casino operators in Macau seek to expand the share of non-gaming revenue at their future resorts.

"We were until a couple of years ago limited to gaming design – gaming facilities, and entertainment related to the gaming. But we are expanding," says PSDG Asia Managing Director Rokh Afshai.



ter, attract people better, if they are on the street level," says Mr. Afshai, "but this one we couldn't," because of the land constraints. "The space did not give us the possibility of putting all on the same level – a great entrance, great lobby, and a casino."

The crowds have come regardless, making Sands Macau the most profitable casino in the world, and proving that for more determined gamblers in Asia, having casinos on upper levels "is okay."

Sands Macau doesn't merely mimic Las Vegas, it sets trends for Vegas to follow. Paul Steelman said earlier this year: "The Sands incorporates new ideas and thinking in modern casino design. The irony is that while Macau strives to become Las Vegas, Las Vegas casinos are moving away from that and will start looking at doing the kinds of things we have done here."

Hushed on Cotai

Mr. Afshai divulges no details of the three projects PSDG Asia is working on for Cotai,

Mr. Afshai points out the rapid timetable for the Cotai development. "He [Sheldon Adelson] is actually creating a Las Vegas of the East, so-called, that will take maybe six or seven years... and Las Vegas took a while, say 50 years, to be where it is now."

except to say they all involve hotels and casinos and will be large. "We are really pleased to play a part in this great vision of Sheldon Adelson," proclaims Mr. Afshai, and it's pre-

sumably a rather profitable part too.

Mr. Afshai points out the rapid timetable for the Cotai development. "He [Sheldon Adelson] is actually creating a Las Vegas of the East, so-called, that will take maybe six or seven years. He's going to provide people with Las Vegas-style and Las Vegas-size entertainments, and Las Vegas took a while, say 50 years, to be where it is now."

Interestingly, PSDG Asia is pressing ahead with the projects even though contracts have yet to be signed. "In our business, a lot is based on relations that you have with the owners of the casinos, and the clients. We are not waiting for a contract to be signed physically black and white to start a project. Sometimes we are very close to submit the construction documents, and there is no contract. We don't wait for that. We trust our clients, and they trust us."

Bidding for a city

Mr. Afshai does not reveal what other countries PSDG Asia is currently active in,



and all he'll say about the Singapore bid is that it "is a super project, as far as the schematic design of it. It's a city, basically, it's that large."

PSDG's Asian business is being driven by "Asian people asking for different product, new product. And that is of course the focus of our business. That's what we do. We don't do cookie-cutter projects, we don't copy," asserts Mr. Afshai.

But even though PSDG Asia doesn't copy, others in Asia will surely copy it. *Inside Asian Gaming* showed Mr. Afshai a picture of a new casino in the Philippines with some unmistakable Sands features. "It's actually pleasant. We did something right, and people liked it and copied it. It's all right," he responds, adding: "After we've done it, then it's public."

With copycats always close on their tail, PSDG Asia merely needs to stay one step ahead. "So far we have been successful in going further and further every time," Mr. Afshai confidently concludes. □



Caesar's Gauteng, South Africa





Venetian Macau Limited

Congratulates

Inside Asian Gaming Magazine

on its Launch and Wishes

it Many Years of Success

BY INVITATION **CLSA**
ASIA-PACIFIC MARKETS

Homework Amidst the Pile-Drivers

Investors arrive in Macau to see for themselves whether to believe the hype

THE SOUND of pile-drivers reverberates through Macau. Still, while the city waits for its critical mass to come online, and with the easing of growth rates from last year's astonishing levels – driven by several one-off factors, including the mainland's easing of travel restrictions and a low base brought about by the SARS outbreak – investors now have a quiet period in the absence of major market-moving catalysts in which to do their homework. Investors are searching out not only potential winners, but also those players who will respect the interests of minority shareholders.

CLSA recently tested investors' appetite for Macau by organising an investor tour to the city. Around 45 investors, mostly from Europe and the US, signed up. The whistle-stop 24-hour itinerary included meetings with the major gaming and leisure companies, tours of the casinos on Friday night and a general tour of Macau on Saturday, taking in the Cotai Strip and the observation deck on the Macau Tower. We also managed to meet with many of the key players behind the transformation of Macau currently in progress — Sheldon Adelson, Bill Weidner and Frank McFadden (Las Vegas Sands), Lawrence Ho (Melco), Vanessa Fan (Emperor), Grant Bowie (Wynn), William Lo (K.Wah/Galaxy), Bill Mok (Far East Consortium), Pansy Ho and Daisy Ho (Shun Tak).

The importance of seeing Macau in person cannot be underestimated, with investors noting "seeing is believing" and "... it makes a huge difference to actually go down there, to see the construction taking place, to speak to management and discuss their plans. To



me, it's no longer a bubble-like spivvy story, it's for real."

Feeling better after the trip

Most of the investors came away believing there was substance to Macau's hyped development, with one investor noting "I feel much more positive after the trip because without going there I didn't have enough of an understanding to have an opinion one way or the other. So I went from neutral to

positive." Most also now have a better sense of what Macau will look like in the future. But following the huge run in share prices around 12 months ago, investors are taking a more considered approach, and performing the necessary due diligence to determine which players are going to be the long run winners and losers.

According to one investor, "The key driver of this story is the opening up of Chinese tourism. Macau is set to benefit from a huge

Daisy and Pansy Ho (right) present the Nam Van model



Lawrence Ho proudly presents The City of Dreams



amount of traffic over the coming 15 years - there is no doubt about it." We certainly agree. The world is on the cusp of a sustained Chinese tourism boom with outbound growth showing the greatest potential. We predict that China will become the largest supplier of outbound tourists by 2020 - at 115 million.

Outbound travel by mainland Chinese is already on the rise, increasing by 43 percent in 2004 to reach 29 million. Stripping out travel to Hong Kong and Macau, which represents around 70 percent of the total, and considering that only 4 percent of the urban population has travelled overseas, we can clearly see the huge growth potential. Rising disposable incomes and government reform is driving this change, allowing more people to travel individually to Hong Kong and Macau, as well as adding more countries to the approved destination list, primarily for group travel.

Macau will emerge as the premier destination for mainland Chinese tourists given its proximity to China, similar language and culture, legalised gaming and, eventually, an extremely diverse entertainment, retail, and culinary offering. Already, Macau has been a major beneficiary of the Chinese outbound tourism boom. Last year GDP grew by 28 percent, driven primarily by the 40 percent rise in inbound travel.

Just like the Costner flick

Other investors were focused on supply side

One investor put it bluntly: "The road system sucks, we continually had to drive in circles to go nowhere. What are the government's plans for infrastructure, including schools, hospitals, etc, to absorb all the new workers and visitors?"

issues: "I would say that the main question I had before the trip was "if you build it, will they come?" Overall, after seeing Macau and the company presentations, I believe that the new development in Macau and especially the Cotai Strip will be a big success. My view was partly due to Sheldon's presentation and the success he has had with the Sands to date in Macau."

If you build a Las Vegas in Macau, they will come, just as they did to Kevin Costner's Field of Dreams. Yes, there will be some key differences in order to cater more specifically for mainland tourists (food, style of entertainment, etc), but it will be broadly similar. For this reason, we believe that a trip to Las Vegas to appreciate the quality of the resorts and the variety of entertainment is just as important as a trip to Macau.

Las Vegas also has a huge convention market with total convention spend in 2004 at around US\$4.5 billion, according to the Las Vegas Convention Visitor Authority. The convention market is an important drawcard for the city and also extends the average length of stay in Las Vegas to around four days, com-

pared to only one day in Macau. The potential for the meetings, incentives, conventions and exhibitions (MICE) business in Macau is huge as China continues to strengthen its position as the world's largest exporter by 2010. Las Vegas Sands is clearly making the biggest bet in this segment, drawing on its Las Vegas experience.

Infrastructure sinking under the strain

However, there are some concerns, not least of which is infrastructure. Inbound tourist traffic has jumped 82 percent in the last five years to 16.6 million in 2004, and we expect arrivals will reach 35.2 million by 2010. The infrastructure in Macau is substandard and the territory is severely constrained by its ability to increase its number of roads. The city already has the most dense road network in the world, with 19km per sq. km. But with more cars and motorbikes on the road and no new roads being built, congestion is rising and Macau already is the fifth-most-crowded road network in the world. Coupled with a surge in visitor arrivals, it is a recipe for more accidents. Traffic accidents rose by 30 percent

Macau will emerge as the premier destination for mainland Chinese tourists given its proximity to China, similar language and culture, legalised gaming and, eventually, an extremely diverse entertainment, retail, and culinary offering



from 2001 to 2004, while accidents involving pedestrians rose by a phenomenal 156 percent last year.

One investor put it bluntly: "The road system sucks, we continually had to drive in circles to go nowhere. What are the government's plans for infrastructure, including schools, hospitals, etc, to absorb all the new workers and visitors?" In fact, government has recognised these issues and in terms of transportation at least, a number of projects are underway including the Hong Kong-Macau-Zhuhai bridge, a second ferry terminal and the Taipa airport expansion. However, these projects will support an increase in inbound traffic, not ease congestion within the city itself. Apart from some road works, the main initiative will be the introduction of a Light Rail Transit system, but this is not likely to be operational until 2010 at the earliest.

Day-tripping labour

Human resources are also a huge challenge. Macau's population is around 465,000 with a workforce of close to 250,000. We estimate the Cotai area alone will require 50,000 workers, or 20 percent of the existing workforce. Rising wages and training courses will attract those into the country but where will they reside? Macau is already the most densely populated country in the world. The only solution seems to be that the government will allow foreign workers, mostly from Zhuhai, to work in Ma-

A THOUGHT FOR THE SLOW SEASON

If you own property in Macau and aren't getting any bids, then wait till December 2005 - March 2006. When foreigners get their bonuses (especially those in our industry), that's when the bids come flooding in. If you are planning to buy and have some spare cash, put it in now, during slow season, and when scared owners are willing to off-load at very reasonable prices. The two areas, the Square Quadrant on the Peninsula with Macau Tower/MGM/Sands/ and Wynn for day trippers, plus the Cotai Strip: Venetian, City of Dreams (Melco, Kerry Packer) - look exceptional for helping to propel your property prices when it's all built and publicised properly by end 2006/2007.

cau and return home on a nightly basis.

Too much room at the tables?

With gaming tables expected to increase from 1,092 in 2004 to around 4,000 in 2008CL, there is concern that such a rapid and sizeable

increase in supply cannot be sustained, particularly in light of the apparent lack of lack of traffic in the VIP casinos: "For a Friday night, I was shocked by the low levels of traffic. Besides the Sands, the other casinos were very quiet. Even at the Sands, I thought it would have been more active. All I had been hearing was how people were lined up to play huge wagers and this was simply not the case. It is much more difficult to get a table at the Borgata on a weekend." But many noted that this is offset by the much higher betting amounts than seen in Las Vegas - in 2004, the net win per table in Macau was around US\$18,000, compared to US\$2,500 in Las Vegas.

Timing's everything

While investors continue to believe in Macau's potential and start getting comfortable with the longer term winners, one question remains: When is the best time to invest? Valuations on near term earnings look expensive. However, valuations start to look extremely attractive, at mid single digit PE multiples, when new projects start to make a meaningful earnings contribution - from 2007/08 onwards. Stocks are, therefore, unlikely to significantly re-rate, until earnings become more transparent and execution risk is reduced. The challenge is therefore to wait on the sidelines until this occurs, but not be caught off guard, because when the stocks run, they will run fast. □

FOLLOWING THE BIG BETTORS

From an investment perspective, we continue to believe that Las Vegas Sands, Melco and Shun Tak represent the most interesting plays, and investors we met on our recent trip seem to agree.

New York-listed Las Vegas Sands is making the biggest bet of the US operators on Macau. During 2Q 2005, Macau already contributed around 50 percent of revenue for the group, and this is expected to rise to around 65 percent over the medium term. The group is also investing US\$2 billion in an 80-hectare project in Cotai, which is set to open within the next 18 months. The group is well positioned for success given their i) first mover advantage - with an established brand and valuable experience in a unique market; ii) ability to leverage their expertise in mass market gaming, retail, conventions and other entertainment, which will be an increasingly important drawcard for visitors to Macau.

Hong Kong-listed Melco is transforming into one of the leading plays on the Macau gaming and leisure market. The company has an exciting pipeline of projects coming on stream, with the high-roller Crown Macau (formerly called Park Hyatt) development in 2006 and City of Dreams in 2008. Targeting the faster-growing mass market and non-gaming activities, City of Dreams will feature a marine theme including an underwater casino hall, which promises to lure throngs of



gape-mouthed mainland tourists. Melco will use funds from the sale of its branded serviced apartments to finance the project and to shorten the project period to less than three years.

The company appears to have the ideal combination of parties behind it. Stanley Ho, Macau's "king of gambling", is chairman, while his son Lawrence is managing director. Using Ho's Sociedade de Jogos de Macau (SJM) licence, Melco has the experience and contacts for doing business in Macau. It has also joined forces with Australian high-roller casino giant Publishing and Broadcasting Ltd (PBL), through a JV arrangement covering Melco's existing gaming operations and any future investment in Macau and the rest of Asia to bring the

well known Crown brand to Asia. Accounting for more than 85 percent of group NAV, Hong Kong-listed Shun Tak's Macau business portfolio stretches from property to transportation and from hospitality to gaming. The group operates Mandarin Oriental and Westin Resort in Macau, and a high-speed jetfoil fleet that accounts for 80 percent market share of Hong Kong-Macau routes. Major development projects in Macau include the residential Nova Taipa Garden and mixed use Nam Van project. The group's gaming exposure comes from its 11.5 percent stake in Sociedade de Turismo e Diversões (STDM), parent of the gaming license holder Sociedade de Jogos de Macau (SJM), and a revenue sharing agreement at the Nam Van Casino to be completed in 2007. Shun Tak will benefit from increasing China tourism in all its business areas. First and directly, China tourism will boost Hong Kong-Macau passenger travel on its hi-speed jetfoils as well as occupancy at its hotels in Macau. More importantly, through its shareholding in STDM and revenue sharing at Nam Van casino, Shun Tak is set to gain from the influx of Chinese tourists and gamblers into Macau. In addition, stronger tourism and property buying interests from China will support the Macau economy and property prices, and hence the company's development profit.

From the Manila Grapevine

If recent rumours are true, the Philippines appears to be falling further out of contention as a viable alternative to Macau for gamblers from Greater China

IF YOU'RE able to doze off despite the roar of Boeing engines, less than two hours on a flight to the Philippines could pass almost as painlessly as an hour on the jetfoil to Macau.

With the Thai king's continued opposition to legalising casinos in his country, the Philippines remains the most convenient alternative to Macau for gamblers from Hong Kong and southern China. The Philippines has other draws: all-year tropical weather, water-sports and greater protection for card-playing cadres from the prying eyes of the mainland authorities. For casino operators, another big attraction is an army of university graduates willing to work as dealers for the minimum wage of 6,000 pesos (US\$107), compared to starting salaries for short-in-supply dealers in Macau as high as US\$1,500.

Looking for the exit

According to recent rumours, rather than digging in to give Macau a run for its fast-growing gaming revenue, foreign investors in the Philippines appear more likely to pull out of a country beset with corruption and lack of transparency.

Private investors are only allowed to operate casinos in the country's special economic zones (SEZs), which include the former US bases, Subic and Clark. If you want to locate outside a SEZ though, not to worry; get Congress to make you a SEZ, as the South Americans did when they built the



Rumour has it that Jack Lam is trying to get out off Laoag

Fiesta Casino and Hotel "right in the middle of a hilly region, with no access whatsoever, except by this little road," as one analyst put it to *Inside Asian Gaming*.

Outside the SEZs, casinos are the sole remit of the Philippine Amusement and Gaming Corporation (Pagcor). Pagcor was

created in 1977 with a 25-year franchise (which has now expired) to raise funds to finance infrastructure and social development projects, provide another attraction for tourists, and stem the proliferation of illegal casinos and betting. Noble aims, but "Pagcor is a government institution where corrup-

STALLED VISION

Pagcor Chairman Efrain C. Genuino has ambitious plans for developing the country's gaming industry, including a vision of a theme park built on a reclaimed 250-hectare site along Manila Bay, into which Mr Genuino hopes to siphon US\$15 billion worth of investment within ten years. So far, no one has agreed to stump up the US\$1 billion investment needed to jump-start the project, in part because Manila Bay is not a SEZ, so all casinos within it would have to be operated by Pagcor. Mr Genuino explains that while "Gaming will be one of the important aspects of the theme park immediately, eventually it will be relegated to the background." Apart from world-class casinos, he wants the development to include convention centres, shopping malls, residential and business centres, a sports stadium and a cultural complex.



Manila Bay, not yet on the way

tion is inherent and undeniable," claimed one local legislator.

Hyatt Manila up for grabs?

The rumour-mill churns incessantly in the Philippines. Fresh from the grapevine are rumours that Hong Kong-listed NewWorld Development is seeking a buyer for its Hyatt Manila hotel, which is just over a year old.

Two possible explanations are offered as to why New World may want to dispose of the hotel. One view is that with Pagcor running the casino inside (under the Casino Filipino brand, like all Pagcor-run casinos), New World simply isn't making a sufficient return on its investment. Sources explain the casino is simply over-capitalised. It has capacity for three floors of gaming tables and 1,000 slot machines, but thus far, only one floor of gaming space has been opened, and five to six hundred slot machines have been installed.

According to the sources, the revenue generated by a Pagcor-run casino at the nearby Pan Pacific Manila Hotel is surprisingly greater than that of the far more luxurious casino in the Hyatt. One Pagcor official offered an insight into why this might be, when he made the off-the-cuff remark, "Why would Pagcor want to maximise returns for someone else?"

Incidentals out of control

The other issue is that New World's incidental expenses at the Hyatt are mounting. The company perhaps did not realise, when it agreed to certain perks, that it was leav-

ing itself open to uncontrolled expenses. Pagcor officials are offered open expense accounts at the hotel's food and beverage outlets, and New World offers Pagcor discretionary room allocation (the trouble is, it's hard to say no to Pagcor officials). Even more telling is Pagcor's decision to base its top level office within the Hyatt, even though Pagcor has its own building a few blocks away.

Another suggested scenario is that New World is having trouble with the Hong Kong regulatory authorities because while it claims to own the casino in the Hyatt, it must fork over 60 percent of the revenue to Pagcor. The arrangement has also led to trouble for Pagcor in Congress. Outside SEZs, all casinos are owned and run by Pagcor by lease arrangement. Since the arrangement with the Hyatt is on a profit-sharing basis, the opposition asks how a lease arrangement can be variable?

There is further fodder from the grapevine concerning Jack Lam, head of the Hong Kong-based Jimei Group, which runs casino cruises out of Hong Kong and the Philippines, manages the Fontana Leisure Park casino in Pampanga, runs VIP junkets to the Heritage Hotel Casino, and has VIP rights to other casinos in the Philippines. There are strong rumours Mr. Lam wants to sell off some of his interests in the

Philippines because of undisclosed problems with Pagcor.

Will your payoff pay off?

Meanwhile, some Korean gaming operators seeking a license in the Philippines have reported that the informal going rate paid to middle men to facilitate the process is 60 million pesos (US\$1.07 million). Is it worth it? "You have to generate a hell of a lot of revenue to cover that out of your 40 percent," says a regional gaming analyst. With Pagcor serving either as your partner (in non-SEZs) or regulator, that could be difficult. □



The Hyatt Manila



The Pan Pacific Manila

According to recent rumours, rather than digging in to give Macau a run for its fast-growing gaming revenue, foreign investors in the Philippines appear more likely to pull out of a country beset with corruption and lack of transparency

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The Magnificent Five

IN LATE 1980, five foreign gamblers rolled into town and made a killing at the Lisboa's blackjack tables – though some accounts mistakenly put the number of foreigners at six or seven. The four Americans and Austrian wore futuristic suits studded with diamonds, and over a month, used their card-counting abilities to clear the Lisboa of millions.

Card counting involves neither x-ray specs nor a photographic memory. What card counters keep track of is how many “tens” and “babies” have been dispensed. When a deck contains a higher proportion of tens than babies than at the outset, the house advantage can shift to a player advantage. Knowing this, card counters wait until the advantage shifts in their favour, and bet big.

Soon after the arrival of the magnificent five, the Lisboa managers discovered the group were professionals whose names appeared in the International Gambling Organisation's black list. However, there was no prohibition on professional gamblers in Macau's casinos, so the Lisboa was powerless to halt their run.

Stanley Ho offered the group first class tickets to Las Vegas on condition that they leave Macau in twenty four hours, but they refused. They further threatened to open a blackjack school in Macau if they were barred entry to local casinos. The impasse contin-

ued, but ended abruptly with the magnificent five's sudden decision to leave Macau.

There is much speculation about why the Magnificent Five finally left, with inevitable gangland allusions, but one veteran Lisboa dealer *Inside Asian Gaming* spoke to claims they were driven out by a simple strategy adopted by the casino. “We cut the decks in half and threw away one half so that their counting became irrelevant,” says Jenny Tai, a dealer for 30 years who now runs a dealer training centre.

Now, with the introduction of continuous reshufflers in Macau, creating a virtually infinite deck, counting cards is impossible.

One card-counter we spoke to explained that continuous reshufflers are not all good for the industry. “The problem is, this slows down the game, so fewer hands are played. This is bad for the casino, since they want to play as many hands as possible, because most players don't count cards, and the casino has a positive expectation on each hand.”

Though counting cards is still possible in some casinos in Vegas, advances in surveillance technology and the internet have made it virtually impossible for big-time card counters to go unnoticed, with photos and details of card-counters circulated instantaneously to all major casinos around the world through the Griffin Investigations database. □

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BRINGING DOWN THE HOUSE

Casinos in the US tried to get laws passed that would make counting a crime, but the courts declared that counting is simply a skilful use of the information available to the player. Still, casinos are private property, and reserve the right to eject customers.

While casino pit bosses can easily spot individual counters by their obvious betting patterns, blackjack teams have walked away from casinos with millions of dollars before being caught. One legendary team from the Massachusetts Institute of Technology won big before they were discovered. Their exploits are detailed in *Bringing Down the House: The Inside Story of Six M.I.T. Students Who Took Vegas for Millions*, by Ben Mezrich. The following is an account of how a

typical blackjack team works:

One player, the spotter, sits at the table playing the table minimum. His bet never varies. At the same time, he's counting cards carefully, but not obviously. Because his bet never changes, the pit bosses never suspect him of counting. If the casino is very busy, a back-spotter might be used. Typically, this is a female team member, made to look like a player's girlfriend, standing behind him and rubbing his shoulders as he plays. The whole time, she's keeping up the true count. Meanwhile, another team member is hanging around nearby, but he's not playing blackjack. Taking advantage of common stereotypes that pit bosses encounter, this player might be a young man who looks like he could be the son

of a rich, foreign businessman – a big spender.

When the true count shows an advantageous deck, the spotter gives a subtle signal to the big spender. A hand in a pocket or arms folded across the spotter's chest are enough to bring the big spender over to the blackjack table. Acting like a drunk, reckless rich kid, the big spender lays down a huge bet as soon as he reaches the table and keeps betting big until the spotter signals that either the count is getting low or the pit boss is getting suspicious. Then the big spender stumbles away with his winnings, and no one on the team ever changed their betting pattern or did anything else the casinos usually look for in catching counters.

Melco's Progressive Payout

Slot machine revenue constitutes just 2 percent of Macau gambling revenue, compared to close to 70 percent in Nevada, but with the mass-market gambling boom, the balance in Macau is shifting swiftly in slots' favour. Melco International Development, the city's dominant slot operator, will profit handsomely in the process. Yet the company's ambitious hotel and resort projects now under construction – including an underwater casino – are more important than slots in buoying its surging stock price.

SLOTS ARE emerging from behind the tables in Macau. Investment bank CLSA forecasts Macau's total slot revenue will surge from US\$77.5 million in 2004 to US\$606.2 million by 2010, a near eight-fold increase. VIP bacarat, which currently accounts for around 70 percent of Macau casino revenue, is not even forecast to double in the same period, growing from 3.6 billion in 2004 to a forecast 7.15 billion by 2010. Mass market table revenue, meanwhile, is expected to grow from 1.33 billion to 4.36 billion.

Window-dressing no more

In days gone by, casinos in Macau only installed slot machines in order to "look more like a casino," according to Melco Executive Director Lawrence Ho. The 28-year-old Lawrence Ho is son of the legendary Stanley Ho, Macau's erstwhile monopoly casino operator and reigning king of casino revenue – CLSA predicts the elder Mr. Ho will retain a 50 percent share of gambling revenue by 2008.

The younger Mr. Ho, meanwhile, is the master of slots, controlling over 30 percent of slot machines in Macau through his four Mocha Slot outlets – described by Lawrence Ho as "Starbucks with 150 slot machines." Melco plans to open two more Mocha Slot outlets by the end of this year, and three or four more in 2006.

Rise of the machines

The number of slot machines in Macau has jumped from 814 in 2003 to around 2,600 by the middle of this year. Still, there is much room for growth, with the ratio of slot machines to gaming tables in 2004 still at a very



Lawrence Ho opens a Mocha Slot outlet

low two times, compared to over 20 times on the Las Vegas Strip.

Mocha's new outlets alone will add 2,500 more machines by the end of 2006, and by 2010, CLSA predicts Macau will have 14,000 slot machines. Meanwhile, PricewaterhouseCoopers Macau gaming practice director David Green predicts there could be as many as 13,000 slot machines by 2008.

Despite the heady growth in the number

of slot machines, Mocha's average win per machine climbed from HK\$1,500 last year to about HK\$2,000 now. The explosion in the number of gaming tables, on the other hand, has brought down Macau's average daily average table win. Deutsche Bank estimates the figure dropped from US\$26,900 in 2003 to US\$15,300 last year, and is set to stabilise at US\$7,400 in 2008.

The prince's Crown

For now, Melco's revenues derive primarily from slots, but the company has more diversified offerings in the pipeline. It is building the Crown Macau hotel – which was originally to have been a Park Hyatt, until negotiations for it to be managed by the Hyatt group broke down – due to open in the second half of 2006 ahead of full completion in 2007 in a HK\$2 billion joint venture with Australian media tycoon Kerry Packer's Publishing & Broadcasting Ltd.

Dreaming of rapid returns

The Melco-PBL joint venture is also building the US\$1 billion City of Dreams, a casino and entertainment complex, together with two blocks of upmarket service apartments (new gaming resorts in Vegas are increasingly featuring serviced apartments). Melco plans to recoup the entire City of Dreams investment within "18 months after commencing operation in mid 2008," according to Lawrence Ho. The Melco-PBL joint venture will begin pre-selling units in the first serviced apartment tower next year, and use the cash flow from property sales to help finance the project.

In addition, Melco and PBL are jointly

DREAM STATS

The City of Dreams will feature an underwater casino surrounded by marine life, and could establish a new trend by making the gaming area the key attraction of the resort (attractions have until now tended to be in other areas of resorts). The City of Dreams will feature 2,000 hotel rooms, 72,000 sq. ft of gaming space with 450 gaming tables and 3,000 slot machines, 20,000 sq. ft of restaurants,

10,000 sq. ft of retail, bars, nightclubs and other entertainment facilities, and full-service business conferencing and meeting facilities. The resort will also include 1,200 branded serviced apartments, using proceeds from pre-sale of the apartments to finance the development. Residents of the apartments will also serve as a secure client base for The City of Dreams' attractions.





bidding for a licence to build and operate a casino in Singapore, and Melco also owns the Jumbo Kingdom restaurant and is involved in investment banking, technology and property businesses.

Profits pique

Melco's net profit for the six months ended June 30 was HK\$534.2 million, up almost eight times from HK\$61.4 million in the year-ago period. But slots are only a small part of the gain. The profit surge in the first half of 2005 was largely attributable to a one-off gain of HK\$514.4 million from sales to PBL of stakes in Melco's Mocha Slot business and Great Wonders Investment Ltd (the holding company for the Crown Macau). Meanwhile, revenue – largely attributable to the Mocha Slot outlets – rose a more subdued 19 percent to HK\$250.7 million.

Melco shares have soared almost 700 percent over the past year on the back of

Melco's net profit for the six months ended June 30 was HK\$534.2 million, up almost eight times from HK\$61.4 million in the year-ago period. But slots are only a small part of the gain

The Melco-PBL joint venture will begin pre-selling units in the first serviced apartment tower [in The City of Dreams] next year, and use the cash flow from property sales to help finance the project

"Macau Mania" among investors in Hong Kong. The stock closed at HK\$9.2 at the end of September.

The future flagship?

The now lofty stock price could be justified. When asked for a clarification at the request of the Hong Kong Stock Exchange regulatory body, Stanley Ho said that he "did not exclude the possibility of making Melco the flagship company of his gambling empire".

Citigroup has a HK\$14.5 target price

on Melco stock, and says investors should focus more on the firm's net asset value and completion schedules of its two major projects in the works, rather than the company's immediate earnings. United Overseas Bank, meanwhile, maintains a HK\$13 target on Melco stock, saying Melco could buy additional projects from Stanley Ho or SJM, although it believes the chances of Melco winning a bid to jointly develop and operate an integrated casino resort in Singapore with PBL is "very unlikely." □

MELCO-PBL PARTNERSHIP TERMS

The announcement of PBL's deal with Melco came as a surprise, since most had originally believed the group would seek access to potential riches in Macau through a management contract with Galaxy Resort and Casino. The management contract would have been a quick, simple and cost-effective means of entering Macau, allowing Crown Casino to offer an alternative venue to its impressive list of high-rollers (Crown is recognised as a world leader in attracting high-rollers),

and to hedge against the competitive threat posed by the new resorts being developed in Macau. PBL and Melco have also agreed to cooperate on an exclusive basis in future projects across Asia. If the investment is located in the Greater China area, Melco will take a 60 percent stake, with the remaining 40 percent going to PBL. If it is in any other Asian country, PBL will take 60 percent and Melco 40 percent. The agreement does not cover Australia or New Zealand.

Packer Poised to Go Online and Offshore

WHEN YOU are billed as Australia's richest man – with a fortune estimated to be worth around A\$6.9 billion (US\$5.4bn), it's not unusual for a few myths to accumulate along with the dollars.

For Kerry Packer, 67, media and entertainment mogul, polo player and legendary gambler, the stories of his gaming exploits are like the man himself: formidable but hard to pin down.

Legend has it that Packer's grandfather put the family on the road to riches by buying a passage from Tasmania to mainland Australia on the proceeds of a bet on a horse. Grandfather Packer found his 10-shilling stake lying in the street.

A nice story and one that, over the years, has blurred between fiction and fact, much like Packer's huge wins and losses in Las Vegas and London. Undisputed is Packer's shrewd business sense, plus his eye for a bargain. Packer's company, Publishing and Broadcasting Ltd (PBL), owns Melbourne's Crown Casino and Perth's Burswood International Resort, Western Australia's only casino, for which PBL paid A\$715 million (US\$550m) in September 2004.

PBL is one of Australia's largest diversified media and entertainment companies. Its market capitalisation of more than A\$8 billion places it among the top 25 companies in Australia. Its chairman is James Packer, son of Kerry, and also chairman of Consolidated Press Holdings, PBL's founding and largest shareholder.

PBL's core businesses are television production and broadcasting; magazine publishing and distribution; and gaming and entertainment.

Online poker hedge

Packer is also spreading his bets with invest-

ments in British online betting group **Betfair**. A 50:50 joint venture with PBL is poised to help Betfair to develop its controversial betting exchanges in Australia and New Zealand. The deal is conditional on Betfair obtaining the necessary licences from the relevant government authorities.

According to New York-based research firm Christiansen Capital Advisors, the online poker market alone soared to US\$1 billion in 2004 from US\$92 million in 2002. Quoted in a 2005 Bloomberg market report, Christiansen predicts that while revenue at traditional casino and gaming companies is likely to edge up three percent a year through 2009, revenue at online companies will surge about 22 percent annually to reach about US\$23 billion in that year.

Urgency to go overseas

Last year, Packer announced another joint venture, with Melco International Development, owned by casino boss Stanley Ho. PBL's initial investment of A\$211 million (US\$162m) gives it a 28 per cent stake in a new six-star hotel, spa and casino being built in Macau, together with an exclusive right to be a partner with Ho in other gaming ventures across Asia, including China.

Australia has a mature gaming market, in which social impact concerns have served to put a lid on the expansion of existing casino operations. Hence the urgency for Packer and others to seek opportunities overseas.

The PBL-Melco group says the HK\$2 billion casino, to be called Crown Macau, will be opened in the second half of next year with the full project to be completed in the first half of 2007.

Lawrence Ho, group managing director of Melco, said in a media statement that "branding is very important in our business,



The Crown Melbourne

Australia has a mature gaming market, in which social impact concerns have served to put a lid on the expansion of existing casino operations. Hence the urgency for Packer and others to seek opportunities overseas.

particularly in view of the fact the majority of our potential customers are expected to be mainland Chinese, who are extremely brand conscious. Crown Melbourne's appeal to mainland Chinese cannot be overstated."

PBL's biggest local rival is Melbourne-based Tabcorp, Australia's largest gaming group, which in the 2004-2005 financial year topped forecasts with a 19 percent rise in annual profit, boosted by casino and wagering acquisitions.

Tabcorp owns four of Australia's 13 casinos, including Sydney's Star City, and has indicated it is looking beyond its home market for growth. "We are looking at opportunities where we can leverage the expertise we have in Australia," said Tabcorp chief executive Matthew Slatter. "Broadly, we are looking in Asia. We are also looking in Europe."

Smoked out Down Under

In June, Tabcorp International, a subsidiary of Tabcorp, entered into a joint venture to provide 60,000 keno lottery machines and technical services to China, a deal that the company hopes will open up new opportunities in China.

Tabcorp has also signaled an interest in bidding for a casino licence as part of an integrated resort it hopes to develop with partners in Singapore.

PBL, Tabcorp and operators like SkyCity, which has casinos in New Zealand (Auckland, Christchurch and Queenstown) and Australia

BIO BYTES

Born in 1937, Kerry Packer began building his empire with "Women's Weekly" magazine. He spent nine months in an iron lung at the age of six, as a result of catching polio, and spent six (or seven, depending who you believe) minutes clinically dead in 1990 following a heart attack (or stroke, depending who you believe). He is a compulsive gambler who surfaces in a news story every couple of years either winning, losing or betting some record amount in richly anecdotal circumstances.



(Adelaide and Darwin) face a challenge from increasingly tough anti-smoking regulations in Australia and New Zealand.

Tabcorp is investing heavily in smoking solutions in an effort to head off total bans in casinos.

SkyCity managing director Evan Davies said the smoking ban in New Zealand had been among factors to dampen its 2005 financial year result.

"The impact of smoking bans will continue to restrain earnings growth for our New Zealand operations during FY06, and regulatory restrictions are likely to continue to confine business development," he said.

PBL is also facing up to demands from the anti-smoking lobby to restrict smoking in its International Room at Burswood Casino.

Health groups have been vociferous in

demanding that smoking in public places – including the international high roller rooms at the leading Australian casinos – should be banned.

It's a slow-burn issue for casino operators Down Under that is unlikely to drift away. □

GAMBLING AUSSIES

In 2003-04, Australians gambled away A\$15.3 billion (US\$11.7bn– or A\$1026 (approx US\$790) for every adult. Poker machines command about 70 percent of the market, followed by casinos (13 percent) and horse racing (9 percent).

AUSTRALIA CASINO GUIDE

• **CROWN MELBOURNE** (www.crownltd.com.au) - 350 table games and 2,500 gaming machines. Part of a fully integrated hotel, casino, entertainment and retail complex. Averages more than 15 million visitors a year. VIP Room (Mahogany Room) and private gaming salons.

• **BURSWOOD INTERNATIONAL RESORT CASINO**, Perth (www.burswood.com.au) - 123 gaming tables, 88 on the main floor and 35 in exclusive International Room. Diamond Lounge is a higher limit gaming venue. 1300 gaming machines.

• **CONRAD TREASURY**, Brisbane (www.conrad.com.au/treasury) - 80 tables and 1300 gaming machines. Club Conrad has higher stakes than main floor and is open to all. Invitation only Club Conrad VIP Room has minimum A\$100 stake.

• **SKY CITY ADELAIDE** (www.skycityadelaide.com.au) - 72 table games, 850 gaming machines. Grange Room hosts VIPs.

• **SKY CITY DARWIN** (www.skycitydarwin.com.au) - 26 table games, 462 gaming machines. Incorporated in 107-room 5-star hotel.

• **LASSETERS HOTEL CASINO**, Alice Springs (www.lasseters.com.au) - Billed as Australia's and the world's first government-licensed and regulated online casino.

• **SOFITEL REEF CASINO CAIRNS** (www.reefcasino.com.au) Boutique casino with Club Prive offering higher stakes for VIPs

• **JUPITERS HOTEL AND CASINO**, Townsville (www.jupitertownsville.com.au) - First fully themed casino in Australia. About 300 gaming machines and variety of table games.

• **CONRAD JUPITERS**, Gold Coast (www.conrad.com.au/jupiters) - 70 table games and 1300 gaming machines with VIP gaming at Club Conrad.

• **STAR CITY** (www.starcity.com.au) - New South Wales' only casino and Sydney's premier 24-hour entertainment facility, located on the shores of Sydney Harbour. There are 200 gaming tables. Star City's private gaming room is the Endeavour Room,

• **CASINO CANBERRA** (www.casinocanberra.com.au) Forty-one table games and private facilities for VIPs.

• **WREST POINT**, Hobart, Tasmania (www.wrestpoint.com.au) Australia's first casino. 650 gaming machines, variety of table games and premium player programme.

• **COUNTRY CLUB CASINO**, Launceston, Tasmania (www.countryclubcasino.com.au) Intimate casino with table games and gaming machines, plus premium player programme.



Conrad Jupiters

While revenue at traditional casino and gaming companies is likely to edge up three percent a year through 2009, revenue at online companies will surge about 22 percent annually to reach about US\$23 billion in that year.

Macau-Related Gaming Stocks Slump

Share prices of two of the US-based companies spearheading Macau's construction of gaming critical mass, Las Vegas Sands (LVS) and Wynn Resorts, are each down more than 40% from their highs of the past year. High gas prices, rising interest rates and bad weather have all taken their toll. The trouble is that heady growth registered last year on the back of one-off factors, including the end of the SARS outbreak and easing of travel restrictions by the mainland authorities, have now moderated. Tourist arrival growth has slowed to 14 percent, from 40 percent last year, and is evidently failing to meet investors' irrationally exuberant expectations. Meanwhile, Hong Kong listed Macau concept stocks have taken a drubbing. Take Medtech Group, whose main

business is watches, which paid HK\$1.25 billion (US\$161 million), a then-record HK\$3.22 million per room, for the Casa Real hotel after spending HK\$500 million for the Grandview in Taipa. Its share price has been sliced in half. Other factors behind investors' increasing unease on Macau-related stocks is the coming explosion in the number of hotel rooms, which may fail to be matched by demand, and the questioning of whether the much-touted "Vegas model," where non-gaming revenue outstrips gaming revenue, can be replicated in Macau. Critics of the model point to empty seats at Sands Macau's fine-dining restaurants to argue the predominantly mainland visitors to Macau are only interested in spending their money at the gaming tables.

Boosting their Singapore Bids

Harrah's Entertainment (operator of the Caesar's Palace in Las Vegas) and Keppel Land, who have submitted a joint bid for a Singapore IR license, attempted to boost their chances by tying-up with SMG, a key player in the global conventions and meetings industry, to manage the conventions and meetings aspects of their proposed development in Singapore's Marina Bayfront. Last year, SMG hosted over 9,000 events, attended by 50 million delegates at its 176 facilities across the US and Europe. Although SMG has evaluated opportunities in China, the Harrah's tie-up would be its first foray into Asia. Las Vegas Sands, meanwhile, announced a global strategic partnership with Clear Channel Entertainment (CCE) as part of its IR proposal. Clear Channel is a leading producer and marketer of live entertainment events. It has access to an extensive range of productions including the Lion King, Hairspray, Chicago and The Producers; world-class musical acts like Madonna, U2, Sting, The Rolling Stones, and N'Sync, and also specializes in a wide-variety of family entertainment shows, museum exhibitions, and specialized sports and motor sports events and televised events for a global audience. LVS and Clear Channel are currently developing a new version of Andrew Lloyd Webber's musical phenomenon The Phantom of the Opera. The production is slated to open next summer at The Venetian Resort Hotel Casino in Las Vegas.



Second Singapore IR Proposal Request Delay

The Singapore Tourism Board said it will now only launch the formal request for proposals for the integrated resort (IR) at Marina Bayfront by the end of November 2005. The one for the Sentosa site will follow in the first quarter of 2006. The next phase of the bidding process for the IRs was originally due to be launched in the second quarter, but this was later delayed by three months, and now by another two. STB says it needs more time to address concerns expressed by the potential bidders. Five months ago, the government announced the shortlist of 12 companies that made it to the second phase of the bidding process. There is talk that land cost is a major concern, especially after a group of developers paid S\$1.8 billion for the neighbouring Business And Financial Centre at Marina Bayfront.

Curbing Overseas Gambling by Mainlanders

In a recent circular, China's Ministry of Public Security ordered local public security departments not to issue tourist exit permits to Chinese citizens who are heading for neighbouring countries where local people have set up casinos. The circular also said: "Various levels of local social security departments must adopt more effective measures to prevent overseas gambling venues from establishing agencies in China, under the pretext of being entertainment companies, in order to attract Chinese citizens." Such agencies will be shut down, according to the circular. Furthermore, those responsible for organizing Chinese citizens to go overseas to take part in gambling will be punished according to Chinese laws.

Korea's Local Losses

All the casinos in Korea, save one, are restricted to foreigners. The country's only casino that permits Koreans, Kangwon Land, netted US\$654 million in gross revenue in the ten months to July this year, on the back of 270,190 visitors. The opposition in parliament did not lose the opportunity to highlight how much locals had "lost" at Kangwon Land, though presumably, the money will remain in the country. In a report, the opposition also pointed out that during the ten-month period, 1,858 visitors have visited the casino more than 100 times with 4,392 visiting more than 50 times and 21,136 more than 11 times.



Bulging Coffers in Macau

Macau's income from direct gaming tax rose 17.8 percent year-on-year in the first eight months of the year to 10.9 billion patacas (US\$1.37 billion). Direct gaming tax receipts contributed 75.8 percent of the government's total revenue during the period. Macau's 17 casinos pay 35 percent of their gross revenues as direct tax to the government, and an additional 5% as compulsory social and welfare contributions.



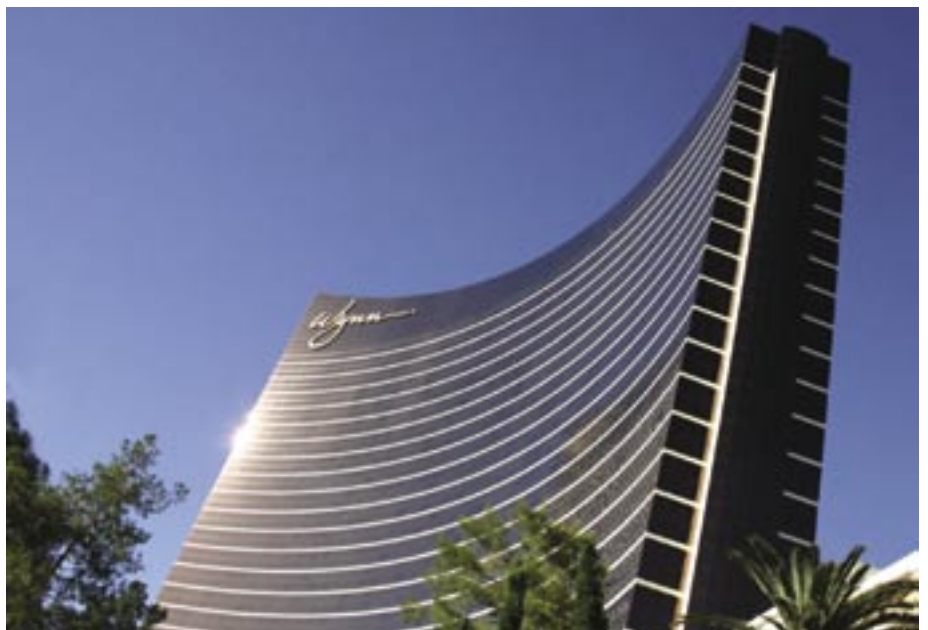
Wynn Scores Deal With Eager Banks

Wynn Resorts leveraged healthy demand from banks to finance its Macau investment to cut the interest on US\$764 million of loans to fund its US\$1.1 billion project. Banks appear hungry to help finance the more than US\$12 billion in investment being carried out in Macau by the likes of Wynn, Las Vegas Sands, MGM Mirage, Galaxy Resort and Casino, and erstwhile monopoly operator Stanley Ho's SJM. The Wynn Macau loan "sets the benchmark for financing that will follow in the gaming, leisure and property sector in Macau," said Ashley Wilkins, head of project finance at Societe Generale's Corporate & Investment Banking in Hong Kong. Las Vegas-based Wynn will get US\$744 million from a dual-currency loan arranged by Bank of America Corp., Deutsche Bank AG and Societe Generale. It is also borrowing HK\$156 million (US\$20 million) from Banco Nacional Ultramarino SA, a unit of Caixa Geral de Depositos SA, Portugal's biggest bank. Wynn asked for a lower loan

rate after the transaction was about 1.5 times subscribed, and the request was accepted by all of the 28 lenders. The loan is the first in Asia to have its interest margin cut during its syndication among a wider group of banks, the arrangers said. The credit is made up of a six-year US\$729 million portion and a two-year HK\$117 million piece. Wynn will initially pay an interest margin of 3 percentage points over the London interbank offered rate for the US\$729 million portion. The rate falls to 2.75 percentage points when the casino opens in the third quarter of 2006 and may decline to 2 percentage points after the project's second phase in 2007, depending on Wynn's debt to earnings ratio. Wynn initially agreed an interest margin of 3 percentage points throughout the life of the loan. The company paid a margin of 3.5 percentage points for a seven-year portion of a US\$397 million loan signed in September, which will be replaced by the new credit.

Sky City Seeks Acquisition

Sky City Entertainment Group, New Zealand's largest casino operator, is considering an acquisition as it seeks to reduce its reliance on its Auckland casino, where government curbs on gambling have crimped earnings. The company's shares fell amid concern that the purchase might be a repeat of its acquisition in 2000 of the Adelaide Casino, where earnings slumped 44 percent this year. Sky City last year bought MGM Mirage's Darwin casino. An acquisition in Australia would be the fifth takeover of a casino owner there since 2003 and would further concentrate ownership in the nation's A\$16.2 billion-a-year gambling market. Australia has six casino owners, down from nine at the start of 2003.



Those Annoying People Called Customers

Give up the car giveaways, advises casino marketing guru Octo Chang

TABLE OPERATIONS are pretty straightforward to understand, but does anybody really understand marketing, particularly to casino customers? The target market, the message, and the execution?

The promotions I have seen so far in the gaming venues in this region tend to be the good old prize draw. Want to increase your patronage? Give away a BMW or two. Want to increase their hours of play? Hold a cash lottery prize draw.

How often have you heard such suggestions from your promotions department?

They would spend large sums promoting car/prize giveaways

only to have the eventual winner ask for cold hard cash, despite the buy back value being substantially less than the retail value. This would inevitably lead the august people in the promotions department to conclude that people do not want prizes but prefer cash. Logical, you would say.

Erroneous, I'd say. One can always look at it the other way – the customers did not like the prizes. If they did, there would have been a much higher level of prize retentions.

So if they did not like the prizes, we then should ask ourselves two questions:

1. Did the draw/giveaway really trigger incremental play/busi-



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ness (i.e. did the promotions people measure the before and during level of activity?)

2. What type of prizes would motivate the target customers to increase their playing behaviour?

Almost all marketing departments in large consumer products/services companies spend a large chunk of their budget studying their targets' buying behaviour and searching for the right trigger to induce repeat purchases. Countless hours are spent on focus groups and analyzing the possible motivations of such groups. It is only in the casinos in this region, including Australia and New Zealand, where the standard response to any request for promotions is to launch a major prize giveaway.

Perhaps such promotions are past their use-by date? Imagine every toothpaste company adopting the same promotions strategy – one that has long since lost its ability to excite the target market.



The great mooncake giveaway

Yet there are some glimmers of marketing creativity in the region. The recent Mid-Autumn festival reminded me of a little story I heard.

At reputable and sizeable casino in the ANZ region, the promotions department offered with regular monotony about four giveaways a year, ranging from plain cash to BMWs. No measurement was carried out to determine whether the incremental income covered the marketing investment.

After some research, an enterprising marketing fellow at the casino found that majority of customers were quite skeptical of their chances of winning that one major prize, and that being punters, they can roughly estimate their odds, leading them to conclude that it was not worth their spending the additional time or money playing just that little bit more to get the additional entry coupon – ergo, no change in their buying behaviour.

After adding in some personal observation of the shopping behaviour of the target market, where a deep-seated desire for bargains prevails to the expense of personal time (picture a little old lady combing through a dozen shops to find that HK\$5 savings and you will know what I mean), he suggested the casino try out a Mooncake Redemption Promotion.

A small simple promotion where the customers could redeem their points for boxes of mooncake at 30 percent less than the retail price (equivalent to the wholesale price at which the casino bought the mooncakes).

The shop sold out of a week's worth of stock in the first morning. Straw polls indicated that the customers took days off to come in having been told by their friends of this "bargain," and they spent more on the tables and slots having come in all that way. They even had to deploy security guards to escort the mooncakes to the shop



Put them away and do your homework

as the customers were grabbing them off the trolley as it emerged from the elevator. And the financial results – a significant blip in the play for that period.

A post mortem established the following factors at work: i) *bragging factor* – in this case, being able to brag to their friends about the bargain they scored; ii) *informal word-of-mouth advertising* (which is more influential than any paid media advertising); iii) the customer placed a higher value on the prize because it required commitment on their part; and iv) the prize was something that was relevant to their culture and was easily achievable.

So, give up the car giveaways. As my mother used to say, "Do your homework".

If nothing else, measure the before base level of activity before the promotion, the action during the giveaway period, and the level after it ends to see for yourself whether you achieved any return on your marketing investment. □

Octo Chang, who writes under a pseudonym to avoid more lucrative job offers from the US-based casino operators now invading Asia, has fifteen years marketing experience ranging from industrial products and consumer marketing to VIP and regular gaming market development. He is a Certified Practicing Marketer with the Australian Institute of Marketing.

LVS Launches Problem-Gambling Program

Las Vegas Sands is working with the Harvard University Medical School Division on Addictions to start a program that trains all employees, from senior management on down, to recognize customers and co-workers who show signs of problem gambling, according to a report in the Las Vegas GamingWire. The program, dubbed Project Emerge (executive, management and employees responsible gaming program) began last month; 2,000 Venetian gaming and hospitality employees underwent a one-hour training program. Company executives and other managers had spent 2 1/2 days at Harvard in a training course so they could train the casino and hotel staff. By October, all 5,500 Venetian employees, including housekeeper and back-of-the-house workers, will have participated in the program. The Sands program will be updated regularly with new research from



Harvard. LVS employees at the company's casino in Macau will also receive training tailored for the Asian market. Earlier this year, Nevada legislators established a US\$2.5 million fund through a slot-machine tax to help problem gamblers.

US Senate Turns Aside Internet Gambling Restrictions

The US Senate turned aside an attempt to restrict Internet gambling in a procedural move, but Senator Jon Kyl vowed he would try again and said he expected the legislation would become law eventually. The Arizona Republican tried to attach language restricting Internet gambling to an annual spending bill that must be passed this year, but an unnamed Democrat objected to attaching an unrelated matter to the spending measure under consideration. Kyl said his legislation would require banks and credit card companies to block payments to online Internet gambling sites. He said some firms were already voluntarily blocking money transfers. The US Justice Department has said the laws that prohibit interstate gambling apply to the Internet. But Americans have turned to offshore gambling Internet sites as an alternative. The Senate and US House of Representatives have passed similar legislation in the past but have been unable to reach agreement on a single, identical bill, Kyl said.



UK "Super Casino" Panel Starts Work

Blackpool is believed to be the favourite, along with Glasgow, to be chosen by the government as the site of the UK's only "super casino." The government had originally proposed 40 "super casinos" but cut this under pressure from the Conservative Party. A five-strong independent panel will advise the government on the most suitable location. The UK has also introduced new rules on gambling in the industry's biggest overhaul since the 1960s, according to the BBC. It is now easier to join a casino but a new regulator called the Gambling Commission aims to ensure that betting is fair, safe and socially responsible. UK Culture Secretary Tessa Jowell has said the UK will have the most heavily regulated gambling industry in the world. The new commission will aim to keep organised crime out and regulate online betting. In other changes, it will be possible to go straight into a casino and start betting – previously gamblers had to take out membership then wait 24 hours. Casinos will also be able to advertise for the first time. Slot machines will no longer be allowed where children can access them, such as in fast food outlets, and children will not be allowed into casinos. However they will still be able to use fruit machines in arcades, which critics charge could encourage gambling.



Katrina Casino Tax-Breaks Blasted

A prominent Republican congressman has sent a letter to President Bush protesting plans to extend tax breaks to casinos as part of the Hurricane Katrina rebuilding efforts. Rep. Frank R. Wolf (Va.), a member of the House Appropriations Committee, wrote: "I do not have the words to express the depth of my disappointment in learning... that your administration is planning to provide the gambling industry in the Gulf region with special tax breaks." According to Bill Crawford, deputy director of the Mississippi Development Authority, the casinos there have not needed any enticement to invest in the state and are ready to rebuild. A Harrah's spokesman said the casino was planning to "come back bigger and better" in the wake of Hurricane Katrina – without special tax breaks.

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