

Macau Gaming: Shady Past, Rosy Future

U.S. investors are betting on the explosive Macau gambling scene. Wynn, Sands, and others have come to the table at the Asian resort area.

The Chinese enclave of Macau has long been dubbed the Las Vegas of Asia for its lively gaming scene and raucous nightlife. Soon it might be more appropriate to call Las Vegas the Macau of North America.

Macau could usurp Las Vegas as the world's biggest gambling city in terms of gaming revenues in 2006. And growth looks absolutely spectacular going forward, given the proximity of Macau – a one-hour ferry ride from Hong Kong – to the growing ranks of affluent mainland Chinese living in major coastal Chinese cities. As a result, big global gaming companies think they could make a real killing building glittering new casino and resort complexes here.

Steve Wynn already has. On Mar. 6, the Las Vegas-based Wynn Resorts sold sub-concession rights granted under its gambling license for a cool USD 900 million to two companies: Sydney-based Publishing & Broadcasting and Melco International Development of Hong Kong. That windfall will cover almost the entire development cost of the \$ 1.2 billion casino and destination resort that Wynn is opening in early September called (surprise!) Wynn Macau.

Wynning Hand? That sum stunned analysts. But it underscores just how explosive the growth dynamics of Macau's casino industry have become. Gaming revenues grew more than 11% last year to USD 5.5 billion. And if it doesn't overtake Las Vegas this year, it's only be a matter of time. „It's clearly on the same scale as Las Vegas with considerably less hardware,“ says

Grant Bowie, president and general manager of Wynn Resorts, Macau. „By 2008 or 2009, we are talking of an USD 8 billion to USD 10 billion market.“

For casino operators, Macau is already proving to be a far more lucrative place to do business than Las Vegas. The average daily take per gaming table is between USD 8,000 and USD 9,000 a day, compared with about USD 3,200 in Las Vegas. Dealers are a bargain. They earn about USD 800 to USD 1,000 a month before tips and are in good supply. Las Vegas dealers earn a minimum wage, but can pocket up to USD 70,000 per year with tips.

And with mainland China on its doorstep, Macau can look forward to cashing in on the growing number of affluent mainlanders traveling abroad in the years ahead.

High Rollers. Macau also attracts a big-spending clientele. Unlike Las Vegas casinos, which earn most of their gaming revenues from small-time punters feeding coins into slot machines or USD 10 bets at the blackjack tables, Macau has traditionally been a market dominated by high rollers. They gather in smoky VIP rooms where single-hand bets of USD 35,000 aren't uncommon.

Last year VIP gamblers accounted for 65% of gaming revenue, while mass market table gamblers contributed 25%, and slot machines just 5%. In Las Vegas, slot machines contributed to 75% of revenues and VIPs just 5%, according to Credit Suisse (CIK) gaming analyst Gabriel Chan.

Global gaming companies have been flocking to Macau since 2002, when the Beijing government finally busted up the decades-long casino monopoly controlled by Hong Kong gambling kingpin Stanley Ho. (His company still controls 70% of Macau's gaming revenues.) The government handed out three licenses. Each licensee could sell off one sub-concession (effectively the right to operate casinos) to another company. In practice,

Beijing allowed five new casino developers in addition to Ho to come to Macau.

In the Game. And the newcomers are throwing around some serious cash. Sheldon Adelson's Las Vegas Sands (LVS) has already spent USD 265 million to open the Sands Macau. Next, he plans to sink as much as USD 2.75 billion into a casino, hotels, and an international convention center, complete with his trademark Venetian gondolas. MGM-Mirage (MGM) is moving ahead with a USD 1.06 billion casino and hotel that will boast an atrium three times the size of its Bellagio resort in Las Vegas. Wynn's new USD 1.2 billion property kicks off operations in early September.

Hotel operators are scrambling to get into the game as well. Starwood Hotels (HOT) is in discussions with Las Vegas Sands to manage a 1,200-room Sheraton Hotel and a 300-room St. Regis Hotel. They will be located, along with Sheldon Adelson's new casino and hotel development under construction, on a section of reclaimed land linking two Macau islands.

Malaysian luxury operator Shangri-La Hotels and Resorts will run a 1,500-room hotel, while Hong Kong-based Mandarin Oriental Group also plans to open a luxury hotel. „We believe in the vision that Sheldon Adelson and Las Vegas Sands and others have articulated for Macau of becoming an Asian Las Vegas,“ says Scott Woroch, senior vice-president of development Asia Pacific at Four Seasons Hotels and Resorts, which is opening a 400-room hotel in 2007. „It will become the gaming, leisure, and entertainment destination for this part of the world.“

Shady Past. These mega projects are exactly what Beijing and local officials had wanted for Macau. This former Portuguese colony reverted to Chinese control in 1999 after 450 years as a Portuguese colony. Macau has been a gambling center for decades. It was known for its baccarat tables and a game favored by the Chinese, called high-low. It also had a

notoriously seedy reputation for its brothels and underworld connections. American casino operators are expected to transform Macau's seedy gaming industry into something world class.

Even with the arrival of foreign investment, Macau still has plenty of cleaning up to do. Stories still surface in the Chinese press of mainland managers from state-owned companies gambling away company money on junkets to Macau. A Macau bank was recently accused by the U.S. of money laundering proceeds from North Korea.

Mindful that they could lose their U.S. gaming licenses if they were linked to any organized crime, the new operators are taking extra care to vet their associates using in-house investigation teams.

Family Friendly. Much of that sleuthing effort in Macau is spent on the agents, or local junket operators, who bring in the high rollers. In Las Vegas, casino operators fly in VIPs on company jets and extend credit to keep them at the tables – they usually have a good idea of who they're dealing with. In Macau, it is far more difficult to screen out the troublemakers.

The other way to make sure they keep their noses clean is to market the new casinos to a mass-market consumer base as a destination resort with all the amenities. „We want to start strongly in the mass market,“ says Wynn Resorts' Bowie. To this end, he's set up sales offices in Hong Kong, Guangzhou, Shanghai, and Beijing to promote the group's non-gambling facilities (it's illegal to promote gambling in China) to a target market of 200 million relatively affluent consumers.

Will it work? Some big ticket U.S. resort projects in China have been disappointing. Disney's (DIS) theme park that opened in 2005 is off to a lukewarm start. And it remains to be seen whether the cabaret acts, spewing volcanoes, and fine wine

lists will be enough to entice a mass market of tourists.

Rolling the Dice. While Macau, a city of just 450,000, attracted more than 18 million tourists last year, they stayed on average just 1.15 days. But Credit-Suisse's Chan believes Macau's potential is enormous, provided you build the right properties. „If you put in more casinos, people will come,“ he says. „Macau is a supply-driven market.“

It's fair to say the transformation from Macau's image as a „sin city“ is still a work in progress. Over at the Sands Macau, which opened in 2004, it is true you will find polished granite bathrooms, smoke-free sections, and white-gloved attendants. But at Stanley Ho's flagship casino, the Lisboa, things haven't changed in decades. There are crowded, smoke-filled gaming rooms, filthy carpets, and commercial sex workers aplenty.

Still, there is no denying Macau is enjoying explosive growth at the moment. And some serious players in the global casino and resort business are doubling down that it will continue.