

Macau's top risk: too many casinos

Macau is facing a potential oversupply of casinos as James Packer's PBL and other licence holders negotiate deals to allow third parties to open their own casinos in the city, Deutsche Bank has warned.

PBL and Packer's Hong Kong-based partner, Lawrence Ho, are negotiating to allow Las Vegas casino operator David Friedman to operate a casino in the new USD 2.6 billion Macau Studio City on Macau's Cotai strip.

Under the deal, the joint venture between PBL and Lawrence Ho's Melco will receive a percentage of gross gaming revenue from Mr Friedman, the former chief counsel for Sheldon Adelson's Las Vegas Sands group.

Singapore's CapitaLand is taking a 20 per cent stake in the project, which is scheduled to open in the first quarter of 2009.

The deal is one of an increasing number of franchise arrangements being negotiated by some of the six official licence holders in Macau, with local veteran, Stanley Ho, 85, leading the charge.

Malaysian casino operator Genting International has recently negotiated a deal to build a USD 1 billion Resorts World Macau under a franchise arrangement with Mr Ho's Sociedade de Jogos de Macau (SJM), following deals with players including Hong Kong-listed firms Emperor Entertainment, Golden Resorts, Century Legend and A-Max.

Stanley Ho also has another franchise arrangement with long-time partner David Chow, operator of Pharaoh's casino.

This has seen the number of casinos operated under Stanley Ho's licence jump from 11 to 17 over the past three years.

Richard Branson's Virgin Group is also reported to be negotiating a deal for a hotel-casino complex in Macau with the Hong Kong-based Galaxy group, another of the six official licence holders. In a research note, Deutsche Bank analyst Karen Tang says the prospect of Branson entering the Macau market highlights the growing number of operators coming into the city who are not licence holders.

Ms Tang points out that Virgin does not have a Macau gaming licence. „As such it will have to form revenue-sharing arrangements with one of the six licence holders to operate the casino.

„The news highlights industry supply risks as non-licence holders can relatively easily enter the market via forming revenue-sharing arrangements with concessionaires.’

Under Macau law the six official licence holders are free to negotiate deals with operators to run casinos under their licence.

While the deals are profitable for the licence holders such as PBL, which will be able to receive revenue from David Friedman's casino with no risk to their own company, they have the potential to drastically increase the supply in the city.

So while Deutsche and others are predicting continued strong growth in the demand for gambling in the city, as China expands the list of cities whose residents are free to travel to Macau, the question is whether margins will be squeezed by a possible oversupply.

„These deals highlight supply-side risks and increase competition for the six licence holders,” Ms Tang notes.

The deals come as the official licence holders are also

pushing ahead with their own multi-billion-dollar hotel-casino projects. Stanley Ho recently opened his new flagship, the Grand Lisboa, while PBL-Melco are set to open their first Macau casino, the Crown Macau later this year.

Ms Tang notes that the opening date of the Crown Macau casino, which was originally scheduled for late last year, is expected to be delayed again from April until May.