

Macau Gaming Sector GGR Data in Dec 2012

Report type: Update

Sector Overview

The Gaming Inspection and Coordination Bureau Macao SAR releases monthly Gross Revenue from Games of Fortune. The data provides guidance on the direction of growth for the sector and the companies operating in Macau.

What is the news?

Macau reported record gross gaming revenue of MOP 28.245mn for December 2012. Data showed 13.5% m-m growth and 19.6% y-y growth.

How do we view this?

Market participants are excited and sent the casinos' share prices higher on belief that growth has returned to Macau, finally. But we opine that a trend is not created with a month's data and data from a festive/holiday month has upside bias.

Assuming a world with fixed number of players and amount of money, the cyclical nature of the gaming sector is as such that a good month is more often than not, followed by a bad month, vice versa. Players require time to 'recuperate' from their losses. Their winnings won this round, may be lost in the following round. Therefore, to sustain continued growth in gross gaming revenue, it requires (a) an increase in the number of players and/or (b) increase in funds for gambling.

Bearing this cyclicity in mind, we note that December's data culminated from months of slow growth. Historically too, December and January often show growth followed by a lull period in February, (Fig 2- 2011 shows decline in Jan but growth in Feb instead). It remains to be seen whether growth has indeed returned to Macau. We further note that the 19.6% y-y growth pales in comparison to Macau reported CAGR of 35% from 2007 to 2012.

Investment Actions?

We believe the days of steroidal growth are over. As the next phase is characterized by slower growth and eventually, a bitter fight for market share, we believe market leaders are better able to defend their market share. In this respect, we like **Galaxy** and **Las Vegas Sands**.

Table 1. Operators in Macau

Company	Sands China	Melco Crown	Wynn Macau	MGM China	SJM	Galaxy
Ticker	1928	6883	1128	2282	880	27
Price (HKD)	36.45	47	21.8	14.42	18.5	31.15
Mkt Cap (HKD'B)	293.6	77.9	113.1	54.8	102.9	130.8
PE	36.1	22.4	16.7	13.8	17.0	21.7
PB	7.8	-	15.4	13.8	6.0	2.9
EV/EBITDA	21.2	12.3	13.7	10.1	11.3	13.9
ROE (%)	21.4	13.9	97.1	114.6	38.1	47.9
Dividend Yield (%)	1.6	0.0	0.0	0.0	2.9	2.1

Source: Bloomberg, PSR

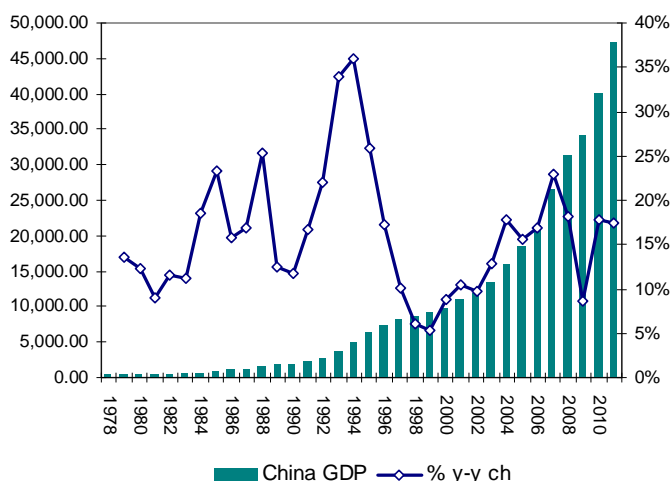
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Entering a new stage of growth

Every company or sector goes through a growth cycle. For many years, Macau's gaming growth had been blistering with on year rates of above 40%. - a characteristic of youth (early growth stage). In 2012, rates slowed dramatically, giving the appearance that adolescence has matured and investors have to acclimatize to the new norm.

Macau's growth is in part, fuelled by China's strong GDP growth and by the throngs of Mainlanders who visited it.

Fig 1. GDP and Nominal growth rate (% y-y)



Source: CEIC, Phillip Securities Research

Data for 2012 GDP has not been released but is expected to be lower than 2011 growth rate (which explains the slower growth in GGR in 2012).

Macau's growth is also impacted by the money supply and the velocity of money in Macau. Anecdotes from the ground often associate high roller's funding supply with graft and embezzlement. If so, the following measures will act to restrict the flow of laundered funds into Macau and further constrain GGR growth.

AMLO

In April 2012, the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO) required all remittance agents and money changers to apply for license with the respective government organization if they want to carry on their business activities. Details of customers' transactions such as the date, amount and reason for remittance have to be submitted to the authorities. This has the effect of clamping down the flow of funds from China via Hong Kong to other parts of the world. Interestingly, the commencement of the new ruling coincided with lower on year GGR growth rates.

Table 2. GGR in 2012

Month	GGR MOP'mn	% Y-Y ch	% Q-Q ch	YTD GGR
Jan-12	25,040	34.8%	6.1%	25,040
Feb-12	24,286	22.3%	-3.0%	49,326
Mar-12	24,989	24.4%	2.9%	74,315
Apr-12	25,003	21.9%	0.1%	99,318
May-12	26,078	7.3%	4.3%	125,396
Jun-12	23,334	12.2%	-10.5%	148,730
Jul-12	24,579	1.5%	5.3%	173,309
Aug-12	26,136	5.5%	6.3%	199,445
Sep-12	23,866	12.3%	-8.7%	223,311
Oct-12	27,700	3.2%	16.1%	251,011
Nov-12	24,882	7.9%	-10.2%	275,893
Dec-12	28,245	19.6%	13.5%	304,138

Source: DICJ, Phillip Securities Research

Junkets arrested

On 5th Dec 2012, people were arrested from at least three of the biggest junket operator. The top 3 junket operators are privately run and account for up to 38% of the market share. The clamp down on junkets coincided with the release (on 1st Dec) of a prominent triad leader from jail. The arrests may be a warning to the ex-convict to toe the line, but could also reflect government's stance on anti-corruption activities.

New government's stance

The CCP may take a harder stance on anti-corruption measures which launders money through the China's underground banking system. The CCP has outline austerity plans and banned officials from claiming a leisure trip as a working trip. All party departments were asked to intensify supervision of officials' adherence to party policies. A stricter regiment may put a lid on blatant corruption practices which again, may reduce the amount of funds available to be laundered, at least for the initial year(s), pending the President's determination to weed out corruption.

Gamblers' Haven to Families' Desired Destination

The China government appears to be uncomfortable with Macau's association as the gamblers' haven and Macau is heeding the central government's call to somewhat disassociate by promoting family fun activities like shopping and leisure. It also encourages Macau as a venue for MICE. Such a shift has the impact of attracting a different kind of visitor –visitors who occupy the same hotel space but who do not generate as much profit as a gambler.

Infrastructure Improvements aid Visitation growth

Despite the structural changes, infrastructure support continues. A new high speed rail way linking Zhuhai to Macau will reduce travel time from 2 hours to 40 min. HK-Zhuhai-Macau bridge will take 40 min from Central HK to Macau, down from 4 hours. A new airport ferry terminal linked to HKIA as well as expansion of Macau airport terminal can handle larger capacity.

Going to Macau becomes so easy that visitors can visit in the spur of the moment. So while high-rollers may be reduced due to the anti-money laundering measures, the

premium market or mass market are likely to increase due to easier access to Macau.

We like casinos with existing properties exposed to high rollers and new properties exposed to the premium mass and mass market. Both **Galaxy** and **Sands China** have opened new properties and are completing Phase II and III. **Galaxy (27:HK)** is expected to complete Phase II in mid-2015 and has planned Phase III to the tune of US\$6.5B which is expected to include 1,000 slots and 500 tables.

Fig 2. Macau GGR % q-q growth

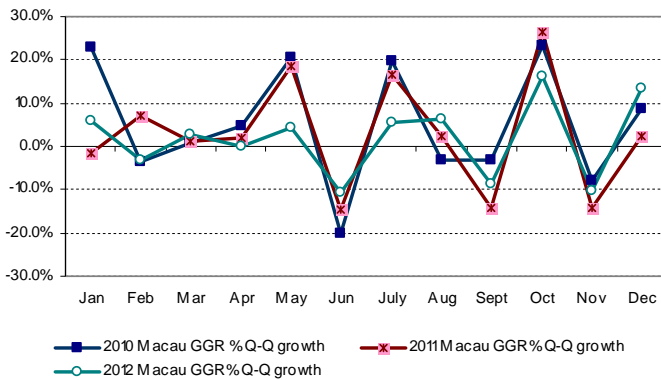


Fig 3. Macau GGR % y-y growth

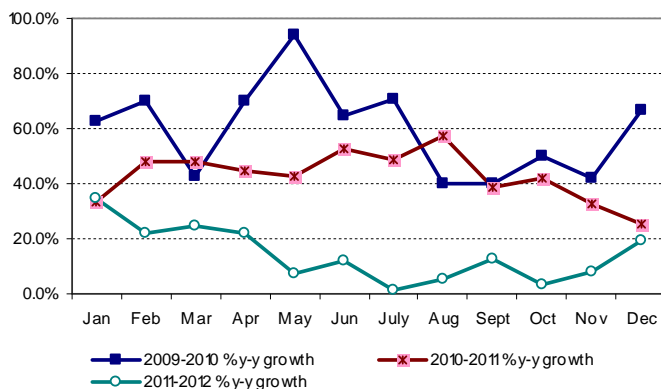
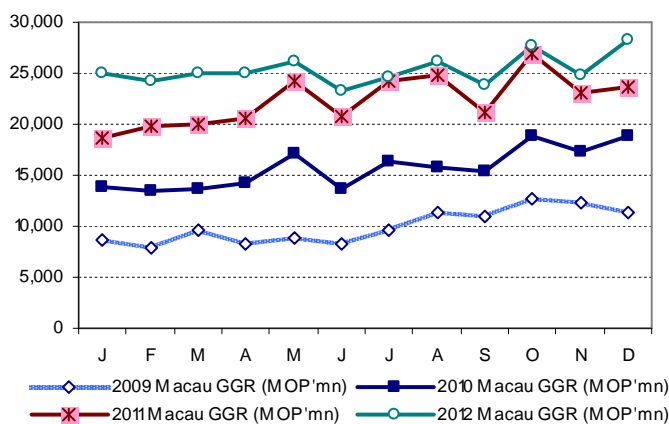


Fig 4. Macau 2009 - 2012GGR



Sands China (1928:HK) will focus on the construction of Parisian which will have 3,000 hotel rooms and others. Instead of an investment in Sands China, investors may prefer **Las Vegas Sands (LVS:US)** for its diversified exposure to US and Singapore gaming.

Wynn, SJM, MGM new properties are likely to be ready in 2016-2017, hence giving the two a heads up. Both Galaxy and Sands China are market leaders and in the top 3 for their control of market share.

Fig 5. Macau Cumulative GGR (Jan 2005 – Dec 2012)

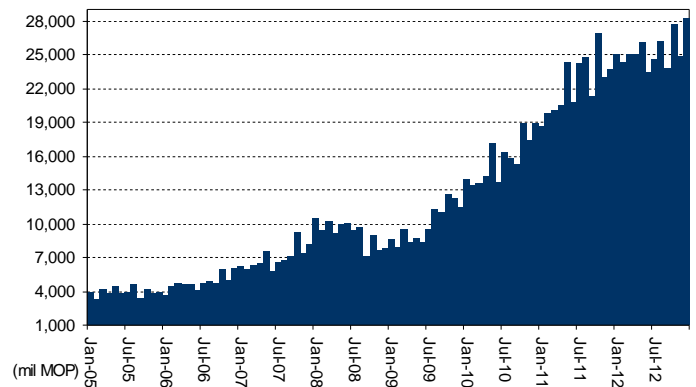


Fig 6. GGR breakdown by Month

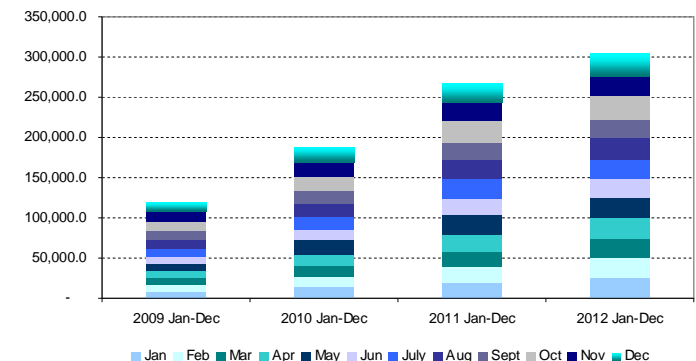
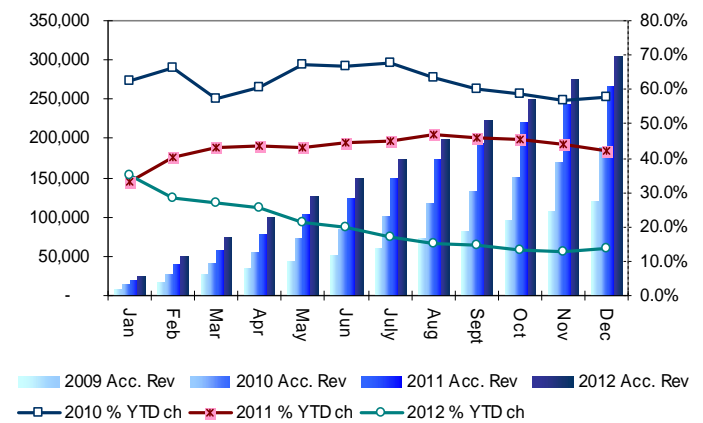


Fig 7. Accumulated GGR and growth rates



Source: DSEC, Phillip Securities Research

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