

China Casino Detentions Cast Pall Over Macau's Recovery

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China's detention of 18 Crown Resorts Ltd. employees may have been intended as a warning to foreign casinos, but it's also unsettling gambling businesses in Macau, the nation's own betting enclave.

In theory, the detentions of workers at the Australian company late last week shouldn't affect Chinese casinos and could even help them by putting higher scrutiny on competitors outside of Macau. But a more watchful government eye is unwelcome in an industry that has been roiled by corruption crackdowns in the past few years.

Just hours after the news of China's clampdown on the Australian casino company, at least three Macau junket operators said they have called off meetings with Chinese high-rollers. The operators, who lend money to VIP visitors who bet hundreds of thousands of dollars during excursions to the former Portuguese colony, asked not to be identified as the plans are confidential.

Gambling revenue has just starting to rebound after two years of declines in Macau's \$29 billion gaming market, where foreign companies run casinos with Chinese partners. The question is whether that nascent recovery can survive a renewed focus on foreign casino operators that market in China.

"The Crown incident is raising concerns in Macau's gaming market," said Ben Lee, managing partner at Asian gaming consultancy IGamiX. "We expect the direct VIP and premium mass market will dive over the next several months."

For story on China warning Crown and others about casino marketing

The Chinese government hasn't specified any of the charges. The Foreign Ministry has only said the Australians are being detained for gambling-related crimes based on China's laws. Not only is it illegal to gamble in China. Anyone who entices its citizens overseas to bet, or try to force them to repay debts later, can be punished with jail terms. While gambling is legal in Macau, the gaming hub is highly regulated in other ways.

Shares of Crown rose 1.7 percent by the close of Sydney trading on Tuesday, a day after it plummeted a record 14 percent. Macau casino shares also advanced after declining Monday, with Galaxy Entertainment Group Ltd. up 2.7 percent and Sands China Ltd. gaining 0.9 percent in Hong Kong.

The medium-term impact for Macau's casinos "could be limited as there's little evidence to suggest the crackdown could involve 'local' casinos or junkets," JPMorgan Chase & Co. analyst DS Kim wrote in a note. "There was no meaningful impact on Macau's VIP or premium-mass after the Korean casino incidents last year. We don't see why this Australian case is different."



The next few weeks will determine if the Crown detentions have a more widespread chilling effect. Casinos in Macau are expected to stop sending marketing executives across the border to facilitate fund transfers and entertain high-rollers and the next category of elite players known as premium mass, said Lee.

To avoid scrutiny, the junket operators said they won't travel to meet high-stakes players in Guangdong province and Shanghai that were scheduled in upcoming weeks.

"It is almost a certainty that Macau will see shorter-term operational pressures," said Daiwa Capital Markets Hong Kong Ltd. analyst Jamie Soo. "It is uncertain how long the impact will last as it remains to be seen what steps China will take."

Korean Casinos

Of course, rival casinos in other countries are also likely to pull back on marketing in China because of the detentions. In the short-term, Asia casinos will stop aggressively promoting in China for a while, hurting their high-roller revenue, said JPMorgan's Kim. Further out, foreign casinos -- such as in South Korea, the Philippines and Singapore -- will be increasingly careful about marketing, hurting their ability to acquire new players, Kim said.

China arrested employees of Korean casino operators Paradise Co. and Grand Korea Leisure Co. in June last year. All six of its employees who were arrested have been released after serving jail time, a Paradise spokeswoman said Monday. Out of Grand Korea's seven jailed employees, three were set free in August and four on Monday, its spokesman said Tuesday.

Paradise shares fell 4.7 percent and Grand Korea slipped 0.2 percent by the close of trading in Seoul.

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The latest detentions also pose uncertainties for the **planned spinoff** of international assets by Australian billionaire James Packer's Crown, including its stake in Macau casino operator Melco Crown Entertainment Ltd. The split had been designed to isolate Crown's Australian casino business from the wider group, which Crown Chairman Robert Rankin said investors undervalued because of Macau's gambling downturn.

[For story on James Packer's reaction to China detentions, click here](#)

Crown still owns a 30 percent stake in Nasdaq-listed Melco Crown, which saw its net income tumble last year amid the Macau slump.

"We will continue to make all efforts needed to observe evolving requirements," Melco Crown said in a statement when asked about the impact of the latest detentions, adding that its marketing practices "are guided by the prevailing legal requirements." The company declined to comment on the Crown detentions.