

MARKET INSIGHT

Casino Review: What's your view on

the Greater Bay Area development plan and the potential benefits for Macau?

Ben Lee: The GBA plan is the latest iteration of the previous PPRD Cooperation Framework Agreement inked in 2004. In it, Macau's role was to act as the doorway to the Portuguese speaking economies, as well as become a centre for tourism and leisure. This new plan tightens the framework to a smaller collection of cities. Macau's role, however, remains essentially unchanged.

CR: While the plan highlights the potential tourism synergies between cities in the region, it doesn't address the fact that Macau's economy remains dependent on the casinos. What and how much should we read into this?

BL: It is stated that the prime objective of the GBA Plan is to foster a region that adds more value to China's economy. The initiative plans for the region to become an important global centre for advanced manufacturing and to focus on innovation, financial services, transport and logistics, trade, and tourism and leisure. Hong Kong and Guangdong will carry the bulk of the weight in becoming a leading global innovation hub, boost infrastructure connectivity between cities as well as an international centre of finance, shipping and trade as well as the centre for the offshore yuan business. Insofar as Macau is concerned, we still lack the resources and ability to participate in a meaningful way, which is why we are once again tasked with being a liaison for the Lusofonia countries and tourism.

CR: It was recently announced that the state council was proceeding with plans to develop Hengqin as an "island for international leisure and tourism" in order to support the "moderate economic diversification" of Macau. What's your take on this – it seems like one of the main barriers at present is the visa issue? BL: Hengqin was an opportunity for Macau via investment and economic



Concession renewal "represents the first opportunity for Beijing to reframe the industry"

Ben Lee, Managing Partner at IGamiX Management and Consulting discusses the impact of the Greater Bay Area development plan on Macau, along with regional gaming growth and, of course, concession renewal, and contextualises the fall in VIP baccarat revenue during Q1 2019.



participation to nurture the growth of a neighbouring city in order to provide a pathway towards diversifying Macau's economy. However, from statistics last seen, the commitment by our business tycoons remains less than convincing.

The most common narrative you will hear is how we can tap into Hengqin as a visitor base for our casinos, which is the complete opposite of the diversification intention behind its development. I believe that once we are able to look beyond gaming, into services and manufacturing for instance, we

will then be able to unlock the true potential of Hengqin to the benefit of Macau.

At a simple non-visionary, pragmatic level, yet still riding on the back of the gaming industry, it is worth questioning what is stopping our large companies from setting up back offices as they have in Zhuhai to avail themselves of a larger pool of labour and access real estate.

CR: In a recent interview Galaxy's Francis Lui recently suggested that regional competition represents the "biggest threat" to the Macau market. Would you agree with that assessment?

BL: We have been tracking the growth of the regional markets and to say that they have seen good growth in the past 12 months is probably an understatement. Certainly, the bases are low, which resulted in mid to high double-digit YoY growth, and in terms of VIPs, we estimate these markets now collectively represent somewhere in the vicinity of 20-30 percent of Macau's market. Another metric to consider is that each of the top four Macau junkets have not only opened a great number of fixed junket rooms in casinos outside of Macau but they have also been investing in bricks and mortar.

When they start owning their own casinos, it would be natural for them to channel their clients to their own establishments. We expect that within the next two to three years, we could see these other markets collectively reaching 50 percent of Macau's VIP revenue.

CR: DICI statistics show that VIP baccarat revenue fell 13.4 percent year-on-year during Q1 2019. It marks the overall market's first year-on-year decline in almost three years, and it's the first time the segment has lost its majority share of the Macau market. What factors have played a role in this and should we be concerned about the VIP market?

BL: This is not the first time the VIP segment lost its majority share. Our own research showed that VIP actually dipped to 49.8 percent in July 2016 just before staging a rapid recovery in subsequent months following the opening of Wynn Palace.

We alerted our clients this same time last year of reports of loss of confidence in the export and manufacturing sector in neighbouring Guangdong, the rice bowl of Macau's VIP segment.

This coincided with the first indications of Guang-

dong entrepreneurs scouting Indo-China for possible relocation of their factories as a result of the trade war with the US. The initial forays and eventual setting up of new factories there has resulted in the explosive growth of VIP business in Indo-China as the junket operators followed their clients to those markets.

This development continued as the trade war intensified and with the announcement of new forex rules in February this year, we predicted that the gaming industry will contract as a result.

CR: On the flip side, GGR in the mass segment grew by 16.1 percent during the quarter. Could this be taken as a measure of success in the government's aim of transitioning Macau towards being a more mass-orientated tourism destination?

BL: In 2014 when the Macau market first plunged into negative territory in terms of YoY growth, the mass market dived alongside the VIP. No-one has commented on this correlation, other than ourselves. Our research showed that the mass market hit -30 percent in H2 2014 following VIP's plunge of -40s for the same period. Why would the mass market have been impacted by the anti-corruption campaign at the same time as VIPs? Could it be the two segments essentially draw from the same source market?

As it turns out, the gaming industry participants eventually admitted, after a turn, that a large chunk of the so-called premium mass are players who have been re-badged from VIP, face the same challenges and incentives as the VIP players.

Historically, mass has always lagged VIP, except in 2013 to early 2014 when the re-badging occurred. This current down-trend in the VIP segment will be repeated in the mass, as it in turn impacts the SMEs.

CR: What do you think we might see during the concession re-tendering process? Is it likely that the government will offer any new concessions?

BL: This represents the first opportunity for Beijing to reframe the industry to align with its national interests so we should all expect the unexpected. There has been much chatter about new additional concessions, dilution of equity amongst the incumbents, etc.; everything and anything is possible particularly against the backdrop of a protracted trade battle with the US.

