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MACAU LEGEND SELLS LANDMARK TO REAL ESTATE INVESTOR

by DANIEL BEITLER MONDAY, NOVEMBER 13, 2017 - 14 HOURS AGO NO COMMENTS 1,555 VIEWS

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David Chow's Macau Legend Development Ltd has announced in a filing to the Hong Kong Stock Exchange its intention to dispose of 100 percent equity in the Landmark Macao casino-hotel for some HKD4.6 billion.

The buyers are a group of four entities led by Dong Lap Hong Investment Company. Controlling a 58 percent stake in the acquisition, Dong Lap Hong is owned by Chong Sio King according to the commercial registry, who is also the president of the board of the Macau General Association of Real Estate.

Ben Lee, managing partner of IGamiX Management & Consulting, told the Times that the deal was unusual given that the expertise of the buyer lies in the real estate market.

"It's unusual as the buyers don't appear to have any background in the casino or junket industry," he said yesterday. "This close to the concession billing process, it relies on quite a few assumptions on the surety of SJM's concession being [renewed]."

Lee said that the valuation shows that buyers have not been deterred by the possibility of a non-renewal in the upcoming license negotiations. "The license [issue] doesn't seem to impact the price all that much," he said, comparing it to earlier property acquisitions.

Located along the Amizade strip in ZAPE, the Landmark Macao is owned by New Macau Landmark Management Ltd, a subsidiary of David Chow's group, while its gaming services are provided by another subsidiary, Hong Hock Development Company, which also services the Babylon Casino and Legend Palace Casino.

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As of June 2017, the Pharaoh's Palace Casino in The Landmark Macau included 60 mass market gaming tables, 17 VIP gaming tables and 141 slot machines in operation, all provided by gaming concessionaire SJM Holdings. In 2016, the audited revenue for the company amounted to HKD274.8 million, posting a loss of about HKD84 million.

Macau Legend said that the disposal will "enable the Group to streamline its operation."

The HKD4.6 billion deal, struck on Thursday after the HKSE had closed, was followed a day later by a 3.2 percent uptick in Macau Legend's share price.

According to the filing, the sale is pursuant to an opinion issued by a local legal advisor to Macau Legend Development, clarifying that the deal does not violate any of Macau's laws. Under Macau law, casino operators must be endowed with a license from the government, however gaming concessionaires can lease gambling operations to third parties under management contracts.

SJM Holdings is responsible for the 67 gaming tables currently in operation at The Landmark and its approval of the deal is still pending, according to Thursday's filing. It is believed that the MSAR government will also need to give its tacit approval for the deal to complete.

"It's a straightforward property deal, but the gaming part is always subject to government approval," said gaming analyst Lee. "I don't expect there to be any pushback from the government [... as] the satellite casino system has been in place for a while and it is a market-recognized value. [... That is,] the value of the casino is inseparable from the property."

To this end, the filing states that both SJM and the Gaming Inspection and Coordination Bureau will be notified of the terms of the deal "as soon as practicable."

What is known is that the deal will see SJM will pay a service fee to Hong Hock of about 15 percent of gross gaming income in exchange for the operational expenses of running the casino. Moreover, "Hong Hock will be entitled to receive 0.5 percent of total monthly gross gaming income generated from the Gaming Tables," to be paid by New Macau Landmark.

In addition, agreements with existing gaming promoters will be shortly terminated, except for Neptune VIP Room.

A document containing more information on the disposal, as required under the listing rules of the HKSE, is expected to be circulated to shareholders on or before November 30.

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