

FINANCIALS

With official figures showing that Macau's **VIP segment** outgrew the mass market for the third quarter in a row, analysts remain divided as to whether this trend is set to abate any time soon.

Macau experts debate future of thriving VIP market



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Macau's VIP segment outgrew the mass market in Q3 2017 for the third quarter running, according to government figures, but the steady trend has not healed the deep division among analysts.

The Special Administrative Region has experienced two years of gross gaming revenue contraction starting June 2014, after an anti-corruption drive weighed on the VIP market.

Volatility stemming from the flighty VIPs prompted widespread calls to re-orient toward a system driven by the middle-class, as in Las Vegas.

However, 2017's rebound in VIP gross gaming revenue has put mass-market cheerleaders on the backfoot and emboldened their rivals.

According to Macau's Gaming Inspection and Coordination Bureau (DICJ), VIP gross gaming revenue grew 35 percent year-on-year in Q3 2017,

compared with the mass market's 7.4 percent.

VIP GGR grew four times as fast as the mass market in 2017Q2 and two times as fast in 2017Q1.

"We were the first to predict the return of the VIPs in October 2016 in notes to our subscribing clients," said Ben Lee, managing partner at iGamiX Management and Consulting.

"We have always said any recovery in Macau must come from the VIP segment. Macau's local residents have already spoken out about how they do not want to be swamped by Chinese tourists, and the authorities have stated obliquely in the past that they prefer quality visitors' to packaged group tours.

"A single VIP player is the equivalent of several thousand mass players in terms of their contribution to the bottom line. Macau just does not have the infrastructure to handle the alter-

native.

"Furthermore several studies have shown that the mass market gamblers were trending down in terms of gaming spend per head over the past 2-3 years. Gambling is no longer sexy for the mainland Chinese. There is statistical evidence of that in South Korea, Singapore and even Macau."

When asked about the oft-cited instability of the VIP market, as demonstrated by the devastation caused by President Xi Jinping's corruption crackdown in 2014, Lee argued the mass market can be just as wobbly.

He said: "Look at South Korea, where the gaming industry has languished after China stopped most of their group tours from visiting the country. And South Korea is a mass market destination, with 90 percent of the foreigner-only casinos getting their revenue from middle-class people."

However, Grant Govertsen, MD of Union Gaming Securities Asia, remained sceptical regarding the VIP market despite the streak of impressive performances in 2017.

"The numbers reported by the government always overstate the rate of VIP growth and understate the rate of mass growth," he told International Casino Review.

Govertsen prefers to look at operator-reported data, because the reclassification of some mass tables as VIP in 2014 by the DICJ has caused persistent overestimation when compared with numbers released by the Big Six casinos.

In October 2014, smoking was prohibited on Macau casinos' mass market gaming floors, although it was allowed to continue in VIP gaming areas. This encouraged name-only reclassifications of tables from mass to VIP as a way of softening

the impact of the ban.

"While the VIP growth rate is, for now, at a higher rate than mass market, it is important to keep in mind that mass/slots still accounts for more than 50 percent of market-wide revenues," Govertsen stated.

"Mass is slightly above 50 percent in terms of total GGR but closer to 80 percent in terms of its contribution to EBITDA. Hence mass market is still the most important component of Macau and where companies are focused for the long-term."

In addition, while the VIP market contributes 20 percent to EBITDA, this number overstates the contribution to casino's bottom-lines, because credit is often extended to high-rollers, and it can sometimes come home to roost as bad debt.

However, according to Ben Lee: "The premium mass segment can be just as

skinny, particularly towards the top end. Those top 20 percent receive complementaries (player reinvestment) that cuts the EBITDA margin from those players down to almost as thin as that of the VIP segment.

"The grind mass market has stagnated and it is being propped up by the premium mass. We estimate that 50 percent of the so-called mass revenue comes from the premium mass. And with the 80:20 rule, 80 percent of the premium mass revenue is probably generated by 20 percent of the top players there.

"Essentially all that has happened is that a significant portion of the VIP players have moved into the mass and become the so-called premium mass players; however, in terms of player profile, motivators and triggers, they remain essentially VIP players."