

Symbol of the excesses in vogue in Macau. The Parisian, inaugurated in 2016, serves as a casino, a hotel and a mall. The area is also home to many restaurants.



Macau's newest bet

The world's largest gambling hub continues its incredible growth, now by betting on families and mass tourism. The trend has led to gigantic casinos.

BY JULIE ZAUGG

The Eiffel Tower stands proudly against the blue sky. All along Boulevard Saint-Honoré, tourists wander among shops, occasionally stopping to explore the luxury boutiques on either side of the street. A man in a striped shirt and a black beret has set up his easel on the street to paint. This idyllic scene is not in Paris, but in Macau, in a casino named The Parisian, a Haussmann-esque structure inspired by the City of Lights that opened in September 2016.

There are French bistros serving steak-frites and bœuf bourguignon, a reproduction of the fountains at Place de la Concorde, halls decorated to resemble Versailles and a crowd of actors that walk around the casino, disguised as mime artists, painters or high-society women from the era of the Sun King.

Next to The Parisian, The Venetian, another casino, this time inspired by the Serenissima. Its main attraction is a series of canals with floating gondolas under a blue ceiling subtly lit to make it seem like visitors are outdoors. The two artificial cities are operated by Sands China, a subsidiary of the US group founded by gambling magnate Sheldon Adelson. They are among a handful of mega casinos that have opened over the past two years on the Cotai Strip, in the centre of the former Portuguese enclave that now belongs to China.

Another is Wynn Palace, a giant copper-coloured building with soaring cable cars that opened in August 2016. It is owned by Wynn Resorts, another Nevada company led by businessman Steve Wynn. A year earlier, Studio City, a casino operated by Melco – an Australian-Hong Kong joint venture – opened, with decor

inspired by Hollywood. Later this year, US group MGM Resorts International will open a new casino, followed in 2018 by The Grand Lisboa, operated by SJM, a conglomerate founded by Hong Kong businessman Stanley Ho.

This real estate frenzy is a result of the incredible good health of this small territory on the southern side of China that has become the world's largest gambling hub. "Since the start of the year, the Macau gambling industry grew 25% to 30% per month, compared to the same period last year," said Ben Lee, a director of the consulting firm IgamiX. Lee believes profits are expected to reach \$35 billion in 2017, compared to \$28 billion last year. In comparison, Las Vegas casinos made \$11.1 billion in financial year 2016.

The number of visitors is also booming: 31 million people last year. ▶

“This figure is expected to reach 45.6 million by 2025, which is a 47% increase,” said Chelsey Tam, analyst at Morningstar.

“The recent depreciation of the yuan favoured cash outflows”

Zibo Chen, analyst at Macquarie

The vast majority of visitors to Macau’s casinos come from mainland

China (90% in 2016). “Most people come from the neighbouring province of Guangdong, with a population of more than 100 million and located less than four hours from Macau by train,” said Edmund Lee, partner at PricewaterhouseCoopers, in charge of relations with the Macau casinos. Everything was designed with these tourists in mind.

Most of the casinos have several Chinese restaurants serving delicacies that are well-loved by this clientele, such as abalone and shark fin soup. Their gaming tables have less poker and more baccarat (a popular

card game in China), but also Sic Bo (a dice game) and Mahjong tournaments (a dominos game played on the pavements of the Middle Kingdom). The House of Dancing Water, a type of aquatic Cirque du Soleil show inspired by Chinese mythology, has been sold out since it opened in 2010.

Macau is a relatively closed market. Until the territory’s handover to China in 1999, the Sociedade de Turismo e Diversões de Macau, led by Stanley Ho, was the only company authorised to open casinos there. “Three concessions were granted to SJM, Wynn



An ice sculpture of the character Po, one of the protagonists of the film Kung Fu Panda, during an exhibition at the casino The Venetian.

Resorts and Galaxy Entertainment (ed. note: a Hong Kong company),” said Lee. “They are valid until 2022.” These three companies received the right to give sub-concessions to Sands China, MGM China and Melco. But the Ho family continues to dominate the industry: SJM is led by Stanley Ho and his children have management roles at Melco and MGM China.

The Macau casinos have seen their profits skyrocket over the past few months, mainly due to the explosion

ALL OF ASIA IS GETTING INVOLVED

Several Asian countries are looking to compete with Macau and attract some of its Chinese clientele. Singapore started building its first casinos in 2009. Their profits increased from \$4 billion to \$7 billion between 2011 and 2015. The Philippines also has several casinos, particularly in the suburbs of Manila, much like Vietnam has near Ho Chi Minh City. A handful of casinos even opened in Saipan in the Mariana Islands in the middle of the Pacific, as well as Vladivostok, the easternmost point of Russia, close to the Chinese border.

At the end of 2016, Japan changed its legislation to make gambling legal. The US company Wynn Resorts plans to build a casino there. Elsewhere, the majority of new establishments are managed by local operators, with the notable exception of those in Singapore, and as a result are less spectacular than the casinos in Macau. They have also had bad publicity. Casinos in the Philippines were used to launder some of the \$81 million stolen by hackers in the Bangladesh Bank heist of 2016. Profits are still low: after a high-profile opening, the Singapore casinos have experienced stagnant revenue over the last two years.



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of real estate prices and easier access to credit in China, which increased the cash flow available to gamblers in the country. “The recent depreciation of the yuan also favoured cash outflows and some of these outflows fed the VIP rooms of Macau,” said Zibo Chen, analyst at Macquarie. In the longer term, the growth of China’s upper classes and the traditional appetite they have for gambling will continue to feed Macau’s growth.

However, this good fortune suffered a significant setback between June 2014 and July 2016. The new Chinese President Xi Jinping and the launch of his anti-corruption campaign convinced many players to keep a low profile. “The big fish, who spend \$25 million in one weekend, began avoiding the Macau casinos,” said Ben Lee.

A series of measures designed to minimise the Chinese capital flight also has an impact on the amounts of money spent in Macau. A limit was

established on the amount of money that could be taken out of ATMs with a Chinese UnionPay card. “Some machines were even equipped with facial recognition cameras to prevent the same person from making several withdrawals with different cards,” said Edmund Lee.

Two employees dressed up as mermaids dance underwater

The Macanese government also cracked down on junket operators, intermediaries that lend money to big players. As a result, revenue from the Macau casinos, which spiked at \$44 billion in 2013, fell 2.6% in 2014, then 34% in 2015, before levelling out in mid 2016. It began to pick back up again in 2017. ▸

One of the main reasons for this recovery was the decision to expand the pool of visitors to include more families and non-gamblers. To do this, most casinos increased their restaurants, hotel rooms, shows and shops.

That's what Galaxy Macau did. Its large golden facade looks out onto the Grand Resort Deck, a 75,000 sq. m water park that includes a wave pool, slides, luxury cabanas and a white sandy beach. A 575-metre long artificial river winds around the complex and visitors can float on inflatable rubber rings. Two employees dressed up as mermaids dance underwater. Even in the middle of the week, the park is filled with children.

The casinos operated by Sands are also making a big effort to attract a mass public. "These casinos have over 800 shops, an arena hosting concerts by Chinese and Russian pop stars, an exhibition area and

a convention space," said Michael Ting, analyst at CIMB that follows the company. And let's not forget the trips to the Eiffel Tower and the gondola rides. The US-based company also hired stars Sophie Marceau and David Beckham to promote their casinos. A third casino is slated to be built with a London theme.

"Casinos are no longer dependent on a small number of high-level gamblers whose luck can change from one day to the next"

Michael Ting, analyst at CIMB

Two amusement parks, one of which is dedicated to the film Avatar, will

also increase tourist traffic to this destination, as well as the imminent opening of a bridge linking Hong Kong, Macau and Zhuhai in China, a new terminal for ferries and an aerial train that goes between the casinos.

By focusing on a public that is no longer exclusively gamblers, casinos were able to recover from the crisis of the past two years. It also helped them increase their margins. "Margins reached 30% to 35% in the mass tourism segment, compared to 5% to 10% in the VIP segment," said Adam Trivision, analyst at Gabelli & Co.

Profits are also less volatile. "Casinos are no longer dependent on a small number of high-level gamblers whose luck can change from one day to the next," said Michael Ting. The city of Macau also benefits from this diversification: it relies on casinos for 80% of its revenue and one-sixth of its population works in the industry. ▽

LAS VEGAS HOLDS OUT

In the United States, the casino market has recovered since the 2007 crisis. But now it must face another challenge: online gambling.

In the United States, the casino industry is on the upswing, after a difficult period during the recession that hit the country starting in 2007. "Since the end of the crisis in 2009, the industry has grown year on year," said Sara Slane, in charge of public affairs for the American Gaming Association. "In 2006, profits reached \$39 billion, an increase of 1.1%."

While Las Vegas remains the main hub for gambling, Massachusetts had the highest growth last year," said Slane. This state, along with Pennsylvania and

Delaware, is one of a handful of states with new legislation legalising casinos. Florida, Maryland and New York also have new casinos. Up against this regional competition, Atlantic City (NJ), the other major gambling hub in the country, has seen profits fall.

The market is dominated by four players: Caesars Entertainment, MGM Resorts International, Las Vegas Sands and Wynn Resorts. They don't have big expansion projects in the works for Las Vegas, where the market is saturated, but instead have begun investing in Massachusetts. "MGM will open a casino there in 2018 and Wynn in 2019," said Slane. Malaysian company Genting, which already owns a casino in New York, plans to build

another on the Miami seafloor for an estimated \$3 billion. But in the US, casinos are up against an invisible enemy. "Virtual casinos, mobile gaming and the Daily Fantasy Sports industry have attracted both the attention and money of gamblers," said Robert Tercek, president of the digital games provider Milestone Entertainment. At the end of 2015, this market was worth \$41 billion.

This new offer has generated certain expectations that players look for. "They want to win more often, earn points, play in a network and most importantly, play games that are free," said Tercek. Given this change, casinos must adapt if they don't want millennials to boycott their slot machines.