The Big Read: Once a money spinner, can Singapore's casinos beat the odds?

As the odds continue to be stacked against casinos here, their future seems to be a big gamble.
By Rumi Hardasmalani -
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SINGAPORE — Last month, George, a pit manager at Resorts World Sentosa (RWS), was asked by a superior to stay back after work.

He had a bad feeling. In the previous few days, several colleagues who "stayed back" had not returned to the office. Turns out he was right to worry.

"I was sacked on the spot. I asked, why me. They were unable to explain. They said that my performance for the previous year was average and they were expecting better performance," added the middle-aged Singaporean, who asked that his real name not be used.

"How could they do this to us? We were the founding members of the team. Back then, our chairman had said that the group never lets go of its people, we trusted him."

RWS, which employs 12,000 people, cut close to 400 casino jobs last month, citing difficulties facing the business. So far, rival Marina Bay Sands (MBS), which employs about 9,500 people, has dismissed talk of potential layoffs. But like RWS, its casino profits are slipping.

THE BIG READ: Singapore's glittering casinos were touted as an economic lifeline a decade ago. But with the odds stacked against them, the future seems to be a big gamble.

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(Video: Illiyin Anuwar/TODAY)

Singapore's glittering casinos, touted as an economic lifeline a decade ago, appear to be losing their lustre. Their fortunes are waning — total gaming revenue fell 16 per cent last year — as Chinese high rollers have stopped coming due to a slowing economy and a crackdown on corruption back home.

And restrictions such as levies on Singapore gamblers mean casinos cannot turn to locals to help make up the shortfall, a key revenue stream in casinos elsewhere.

As the odds continue to be stacked against casinos here, their future seems to be a big gamble. Will they be able to find a new revenue model to sustain operations or gradually lose their winning streak, weighed down by regulations and as regional rivals catch up?

Their fortunes are also tied to a political minefield. With the current bad news of layoffs and plunging profits, it has revived questions on whether Singapore was right to scrap its long-time ban on casinos and embrace gaming as an economic driver.

"The pressure on the government can be immense, particularly when it needs to show that the decision to legalise casino gaming was the right one," said Singapore Management University (SMU) law don Eugene Tan who tracks the gaming industry closely.

It is a tough call. Government agencies dealing with trade and tourism believe investments in the two integrated resorts (IRs) — which houses hotels, dining, entertainment, convention spaces and casinos — have helped the local economy, but they are also hedging their tourism bets.

The IRs have generated significant business and job opportunities for local SMEs and Singaporeans, a Ministry of Trade & Industry (MTI) spokesperson told TODAY. They have also brought in world-class leisure, entertainment and dining options, MTI added.

The Singapore Tourism Board (STB), meanwhile, said the IRs are just one part of its diverse tourism strategy, which includes non-gaming attractions such as Gardens by the Bay, National Gallery and Formula One Singapore Grand Prix.

SINGAPORE'S BIG BET

After years of rebuffing casinos for fear of creating a nation of gamblers and the ancillary vice and crime that could follow, the city state had granted licences for not one, but two, gaming outlets in 2006. This change of heart, amid intense public debate, was driven purely by economics. The IRs were said to bring in more tourists and create as many as 35,000 jobs.

"We cannot stand still. The whole region is on the move," Prime Minister Lee Hsien Loong told Parliament in April 2005.

"Losing our appeal to tourists is the lesser problem. But if we become a backwater, just one of many ordinary cities in Asia, instead of being a cosmopolitan hub of the region, then many good jobs will be lost, and all Singaporeans will suffer. We cannot afford that," he added.

"We need to do many things to become a global city. A casino by itself is not essential to this vision. But an IR is not just a casino. An IR is one significant idea we must consider, that will help us reinvent Singapore."

But there were also moves to shield Singaporeans from gambling, such as a S$100 levy imposed on citizens entering the casinos on top of setting up agencies such as the Casino Regulatory Authority and National Council on Problem Gambling.

Once the government agreed to building IRs, an elaborate bidding and project evaluation process followed. Mr Sheldon Adelson's Las Vegas Sands and Malaysian gaming giant Genting clinched the contracts to build an IR each.

The world's biggest casino operator, Las Vegas Sands, pumped in close to S$8 billion to develop the iconic MBS. It houses a 2,563-room hotel, a roof-top pool and restaurants, a 1.3 million-sqf convention centre, an expansive shopping mall, one museum, two theatres, multiple celebrity restaurants to accompany the largest atrium casino in the world with 500 tables and 1,600 slot machines.

Genting Singapore's S$6.59 billion RWS project includes six hotels with over 1,500 rooms, Universal Studios theme park, Adventure Cove Waterpark, S.E.A. Aquarium — one of the world's largest Oceanariums, convention facilities, food and retail outlets, and the casino spanning 161,500 sqf.

In 2010, Singapore's IRs debuted as belles of the economic ball. They added vibrancy and verve to the economy. Visitors — from the curious to the compulsive — flocked in, quickly transforming Singapore into the world's third largest gambling destination in terms of revenue after Macau and Las Vegas.

The IRs contribute somewhere between 1.5 per cent and 2 per cent of Singapore's GDP.

UNLUCKY GAMBLE

But Lady Luck has not been favouring the gaming duopoly recently. Revenues dipped as the biggest whales, Chinese high rollers, stayed away. They avoided casinos amid a corruption crackdown led by President Xi Jinping and a slowing Chinese economy.

As Chinese high rollers make up a significant portion of Singapore casinos' revenue, their absence hit the bottom line hard. Singapore's gross gaming revenue (GGR) fell 16.5 per cent, from US$5.59 billion (S$7.52 billion) in 2014 to US$4.8 billion in 2015.

Analysts expect revenue to dip even more this year . The numbers from the first quarter already show a downward slide of 15 per cent with GGR declining to US$1.1 billion — from US$1.3 billion in the same quarter last year.

The figures are even bleaker for GGR from VIP gamblers or high rollers — those who deposit over S$100,000 with casinos. It saw a steeper contraction of nearly 34 per cent in 2015, across the two IRs.

The dip, however, was deeper at RWS. Its VIP GGR fell 49 per cent, leading to its market share declining from mid-50's in 2014 to a low 40 per cent in 2015, said Mr Mervin Song, an analyst at DBS Vickers Securities.

MBS, with its city centre location preferred by most international travellers, has fared better.

While the two IRs are still profitable, growth has been stagnant since the initial burst of success due to rigid regulations hampering expansion plans.

In addition to being hurt by the anti-graft movement in China, which is aimed at stopping officials from siphoning cash off the mainland, stringent Singapore government regulations on junket operators are also affecting IRs.

Unlike in Macau and other gaming destination, the middlemen who bring in VIPs are not allowed to lend money to gamblers in Singapore, which leaves the casinos here directly exposed to the risk of lending to its customers.

Money that Genting Singapore is owed but hasn't collected totalled US$787.5 million in 2014, more than double the US$369 million in 2010. That's about four times the average at Macau's six biggest casino operators, according to a Bloomberg report.

As a side effect, Singapore casinos miss out on the mainland connections that these junket operators are known for in the gaming industry. Singapore has only three licensed junket operators while there are about 200 in Macau — a special administrative region like Hong Kong and the only place in China where casinos are legal.

This means a smaller and shrinking pool of gamblers for Singapore casinos.

"Singapore draws upon its own domestic market as well as that of neighbouring Indonesia and Malaysia. Without the involvement of junket operators to help draw the business from China, it is essentially facing a fully matured gaming market," said Mr Ben Lee, managing partner at IGamiX Management & Consulting.

This, together with the stumbling VIP gaming business and ballooning net exchange losses on investments, led Genting Singapore to record its

smallest annual profit in five years in 2015. Profits plunged 70 per cent last year to S$193 million. Its net profit crashed even more in the first quarter this year, an 83 per cent year-on-year slide to S$10.8 million.

MBS performed better. First-quarter profit fell 33.8 per cent to US$274.9 million (S$368 million) while net revenue was down 23.1 per cent at US$603.7 million.

Things could get even tougher, as regional rivals are fast nipping at the heels of Singapore’s gaming industry.

With governments in the region easing their stance on gaming over the past decade, neighbouring countries like Cambodia, South Korea, Vietnam and the Philippines have been drawing in investments for mega-sized IRs. More casinos are also opening in mature markets like Macau and Australia.

By 2020, about 17 more casinos will open in the Asia Pacific region with Macau — the world’s biggest gambling destination — set to be home to six of these new casinos. Three of the new casinos will be in South Korea (including one by Genting Singapore at Jeju), with Russia, New Zealand, Australia and the Philippines opening two new casinos each in the next five years.

Japan is moving closer to legalising casino gambling with its bill to allow for casino-based IRs, similar to Singapore.

Still, some analysts say Singapore has an edge.

“There is increased competition from regional players but the economic slowdown has left some of these plans on hold. There is no immediate threat as casinos in Singapore are sufficiently established,” said Ms Charlotte Hsu, Entertainment and Media Leader at PwC Singapore.

“As a regional business and tourist destination with its geographical location, safety, availability of good restaurants as well as the ease of commuting to the casinos, it is less likely for Singapore’s position to be eroded.”

Singapore’s biggest challenge, perhaps, is how to remain an attractive gaming destination without lowering social and other regulatory safeguards.

WHAT’S NEXT?

The two IRs here, in fact, have limited options to boost growth and profits.

Casinos account for nearly three quarters of the total revenue of both IRs. But, given the regulatory restrictions imposed on them and the Government’s hesitation on letting them expand, much of any potential revival strategy for the casinos remain out of the control of the IRs.

The drop in Chinese gamblers is also part of a larger global trend. Surveys of outbound Chinese travellers, analysts said, have shown that the share of wallet for gaming has declined.

The Chinese mass market is changing, and that means the IRs will need to very quickly adapt their business model, said Mr Lee of IGamiX.

“What is required for the IRs, is a sustainable strategy beyond high rollers and junket operators. The long held mantra of ‘build and they will come’ can no longer be relied upon once the novelty value has worn off,” he added.

Indeed, both RWS and MBS have shifted focus to the mass market. Though not enough to offset losses from the retreat of high rollers, it has provided some cushion.

With the recent rise in tourist arrivals into Singapore, Mr Song of DBS Vickers said the mass business for the IRs seem to be stabilising.

Yet, going mass market is also not a long-term growth strategy – at least for Singapore.

"At virtually every casino in the world, the mass market tends to be predominantly local-oriented," said Mr Grant Govertsen, MD at Union Gaming Securities Asia. "Given the restrictions that the government puts on locals it will be challenging for the two casinos to grow their mass market business in a significant way."

That leaves the IRs to concentrate on growing the remaining one quarter of the business pie, including hotels, high-end retail and entertainment, even though it may not be enough to lift their overall fortunes.

Yet, that clearly is the only option they have and they are back to the drawing board with an obvious focus on boosting non-gaming businesses.

Las Vegas Sands has asked the Singapore authorities for more land to increase rooms at its MBS hotel by about 60 per cent. It now plans to add 1,500 rooms to MBS besides additional meeting rooms, ballrooms and exhibition spaces.

Genting Singapore said, in its first quarter earnings statement, that it will continue to enhance RWS's brand identity to target Asia's affluent travellers.

RWS has announced a strategic partnership with Michelin Guidebook and the wine authority, Robert Parker, creating Asia's first Michelin Chef showcase restaurant. RWS also recently launched a new Italian restaurant, Fratelli, helmed by 3 Michelin-starred chefs Enrico and Roberto Cerea.

When asked if there are any specific plans by the government to help the two IRs turn their fortunes, MTI and STB did not divulge any specific plans.

"The Integrated Resorts are part of our overall tourism strategy, which includes a strong portfolio of world-class attractions and events to enhance our tourism appeal as a vibrant global city," said a MTI spokesman. "We continue to work with the two IRs to ensure that their attractions and services remain internationally competitive and contribute to Singapore's tourism appeal."

Ms Carrie Kwik, STB's Executive Director (Arts, Entertainment and Integrated Resorts) told TODAY that it is working with the tourism industry to attract more visitors. For instance, it is engaging consumers researching travel products online through sites such as China's Baidu and South Korea's Kakao.

"We will also diversify our marketing investments to include secondary cities in our top markets, and the key long-haul markets of Europe and US," said Ms Kwik, adding that STB will also develop more experiences that showcase Singapore's authenticity and hidden gems. "These efforts will help maintain Singapore's destination appeal and drive tourism growth in the long run."

Meanwhile, the exclusivity period for RWS and MBS will expire next year. In this environment though, analysts do not expect the government to allow more players. Nor do they foresee any easing of gaming regulations, except on junkets.

"It will be interesting to see how the government responds ... Any proposed relaxation of the regulatory regime cannot be done expediently as what is given away in bad times may not be so easily taken back in good times. Moreover, it would show regulatory inconsistency and that regulations and safeguards are secondary to profits," SMU's law don Eugene Tan noted.

“We blazed a trail with our approach to the gaming industry. If we go for easy solutions that do not gear up the industry for sustainable adaptation to the fast changing landscape…lowering our safeguards is the surest way to undercutting public support for and the legitimacy of the gaming industry.”

Perhaps one question to ask is: Does Singapore really need to encourage more gaming – a concept that was introduced to help drive the economy?

As Mr Lee of IGamiX put it: “Singapore’s vision (for the IRs) has been executed perfectly and that it is now time to look at something else for that new boost.”

As for what is that “something else”, that is the burning question consuming the government committee looking at how to grow the future Singapore economy.

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