

Premium Mass Becoming the New VIP In Macau

14TH DEC 2012 | WRITTEN BY: MARTIN JOHN WILLIAMS

Signs of impressive growth in Macau's mass market revenues are being achieved through a strategic reallocation of VIP gambling, according to observers.

Macau's VIP gamblers and junkets are responding to pressure from Beijing by shifting to a variety of premium mass play that has inflated overall mass market revenue and muddied premium mass as an analytical category, according to a leading gaming consultancy.

"Macau seems to be in transition, or at least junket operators are temporarily utilising a new model given numerous external pressures," said Ben Lee, the editor of Macau Gaming Gazette, published by IGamiX Management & Consulting.

The new revenue model involves a "shift to premium mass, which is now managed by junket operators in much the same way as VIP rooms, replacing rolling chips with promo chips and offering commission upon buy-in rather than turnover," the Gazette said on Friday.

Largely owned by junket operators, the third-party casinos operating under SJM Holdings and Galaxy Entertainment Group licences dominate the practice.

But the same practices are also being seen at Melco Crown Entertainment's City of Dreams and SJM's flagship Grand Lisboa casino, Lee told GamblingCompliance on Tuesday.

Analysts have largely attributed falling growth in VIP revenue since September 2011 and negative growth from the second quarter of 2012 to China's economic slowdown, and to a lesser extent lower spend by VIP customers wary of [China's change in leadership](#).

Ongoing strong growth in mass baccarat revenue, however, has been credited to new supply of hotel rooms, diversification of the market and other factors, despite economic unease and falling visitor numbers.

The Gazette said such analysis conceals migration of VIP players to premium mass to avoid identification, amid tighter monitoring by the Macau government and "indirect directives or warnings by Beijing" directed at junket operations and underground lending networks.

Junkets have adjusted intelligently, the Gazette said, offering VIP players discounts on premium mass rolling chips known as "promo chips", the proceeds from which Macau's gaming regulator, the Gaming Inspection and Coordination Bureau (DICJ), inexplicably classifies as mass revenue.

The narrowing of market share between VIP and mass revenue since 2011 — a prerequisite for satisfying Beijing's demand for "diversification" of Macau's economy — has, therefore, relied in part on mixing up sources of premium mass revenue.

"Investors and analysts may not have grasped this implication yet. They just think, 'There are more players in mass, more players in premium mass, therefore the casinos with the greatest exposure to mass are going to enjoy the highest margin'," Lee said.

"Casinos normally reinvest maybe 5 percent on the grind [mass floor] and up to 25 percent in premium mass," he said. "But when you talk about promo rolling chips, you are now talking about something in the vicinity of 35 percent being given back to them in commission rebates."

"Obviously, as casinos engage more in this area, they are going to be sacrificing more of their EBITDA margin," he said.

With the introduction of promo rolling chips, premium mass is now "a very muddy category", Lee said. "That's why the Western casinos have resisted it in the past; it was going to eat into their margins."

Far from being a knee-jerk response to recent political developments, the shift to premium mass has been unfolding for more than a year, said Lee, adding that the junket industry is already well prepared for change.

The case of the Grand Emperor, an SJM-licensed casino, provides a clear illustration.

With three of five floors dedicated to premium mass, whose tables feature minimum bets exceeding those of some VIP rooms, the casino reported 66 percent growth in mass revenue year-on-year for the year ending March 2012, while VIP revenue fell 3 percent.

"The VIP business is still there," the Gazette concluded. "It's just a rose by another name."

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