

The irresistible force of Macau's growth

By [William Spain](#)

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So far, neither competition nor controversy has made a dent

MACAU (MarketWatch) — The irresistible force that is Macau has yet to meet its immovable object. Or even a mildly defiant one.

Steve Wynn publicly humiliates his longtime Japanese partner, throwing him off the board of Wynn Resorts and forcibly buying him out for pennies on the dollar. It is as un-Asian a move as can be imagined and one that will cost them both face while making legions of lawyers rich. But still the money from Macau rolls in.

A ring operating out of the Venetian, a Las Vegas Sands joint venture in Macau, lures unsuspecting mainland Chinese to VIP “junket” rooms in the casino and drugs them before robbing them blind and scarpering off with the cash. But the players keep coming and spend even more.

The International Union of Operating Engineers charges Macau casino operators with links to Chinese organized-crime figures — and does an online document dump to back up the claims. A week later, stock analysts raise their revenue targets for the enclave.

China announces a trade deficit after years of surpluses. Fears surface that the red-hot economy of the People's Republic — source of most of Macau's visiting gamblers — could slow down. Yawn.

Late last year, there was a brief scare that gamblers from China might tighten their purse strings. That set off a one-day slaughter on the Hong Kong market, with shares of major operators plunging by double-digit percentages.

But still the money poured in. In 2011 revenue soared 42% to almost \$34 billion, more than three times the total recorded on the Las Vegas Strip. Some analysts expect it to jump another 25% in 2012, putting it on pace to eclipse the entire U.S. casino take before long.

“The standards by which the two jurisdictions are assessed are very different,” said Ben Lee, managing partner of IGamiX, an industry consultancy. “They are popping Champagne corks in Las Vegas these days when growth hits 4%.”

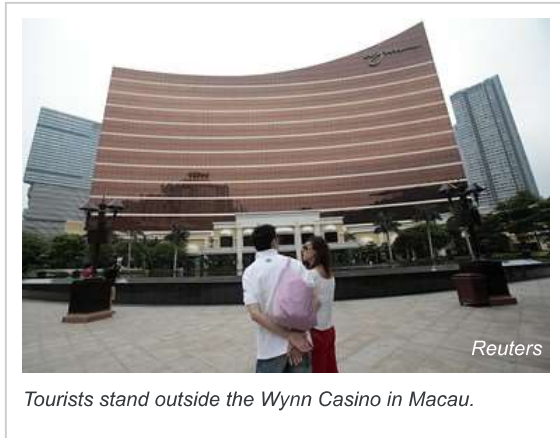
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Grant Bowie, MGM China

For, he pointed out, “as your base grows, your percentage growth declines, and that is exactly what is happening this year.”

On Tuesday, Asian-traded casino stocks were sharply higher, buoyed by signs of continued strong growth in Macau and a bullish view of the industry from Deutsche Bank. In a note to investors, Karen Tang rated all of the key players as buys following a trip to the city that made her “turn from [mildly] to very bullish.” Demand from the high-end VIP segment “seems to be stabilizing,” while “we believe Macau's two largest junkets have recently raised over HK\$5 billion (\$641 million) in capital from high-net-worth individuals” that will likely translate to higher VIP revenue. She also raised her view for gambling revenue growth this year to 25% from 20%.

Shares of Wynn Macau (1128) [WYNN](#), -2.32% spiked more than 9% while Sands China (1928) [LVS](#), -1.97% added 7% and MGM China (2282) [MGM](#), -2.33% rose 5%. All three were also up in U.S. trading.



Tourists stand outside the Wynn Casino in Macau.

"Our main challenge is trying to manage investor expectations," said Grant Bowie, chief executive of MGM China. "If we grow 20% this year, that means we are going to be up roughly \$7 billion. That's like adding another Las Vegas Strip."

He sees no end in sight, he said. "As long as we continue to meet our obligations to diversify the industry, there is no reason we cannot continue to grow."

Bowie did add a caveat on the prospect of increased competition: "There is no doubt that the more successful Macau becomes, the more likely it is for other sovereign states to introduce gaming."

When Singapore opened up, there was some trepidation that it might take a bit of the wind out of Macau's sails, but so far that it is not the case. "It hasn't made a measurable dent," said Grant Goversen, an analyst with Union Gaming. "Singapore went from zero to \$6 billion, but Macau went from \$20 billion to \$33 billion over the same period."

The high end is also growing, even in Las Vegas, he added: "You essentially have this pool of big players moving around and spending more and more money."

One big question for the U.S. casino brands is what happens when their Macau licenses come up for renewal over the next decade. While they very much helped build the business as it is now — Las Vegas Sands and Wynn in particular — there is little to stop the authorities from expressing their gratitude and sending them home to the States.

A popular local conspiracy theory is that regulators, pressured by Chinese operators including SJM and Galaxy, will find reasons to chase the foreigners out and hand over the business solely to home-grown concerns.

Goversen, though, said that "internal compliance is so strong that regulators are unlikely to find anything that could lead to a loss of licenses. And, given the ultimate value of the licenses, they are not going to do anything to jeopardize them over a few million dollars."

Another concern is saturation. For years, casino companies in the U.S. just kept expanding, building bigger and glitzier facilities and moving into new jurisdictions. All the while, they managed to keep filling up the new properties while not cannibalizing existing ones. That trend has come nearly to a standstill and the industry is at, or very near, the point where casinos can only steal customers from one another.

Macau is already huge, with parts of it making Vegas look like a rundown amusement park. More ambitious projects are on the drawing board or in development. But the confidence is there that Macau can absorb a lot more traffic and that a tipping point is a long ways off.

"We aren't even near the saturation level," said John Catt, managing partner of CRG International, a consulting firm in Macau and a former casino-industry executive. "We still have 1.3 billion people right next door who haven't been here yet."

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