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OPINION – Dismantle to Rebuild

By admin



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In 1986, Stanley Ho invited Madam Szeto Yuk Lin to return from Manila where she was running a Pai Gow VIP room, to set up Lisboa's first junket room with the promise that she would be the only one

The number of officially licensed junkets peaked at 235 in 2013 with actual numbers exceeding that as there was a huge number of unlicensed junkets operating under handshake agreements with the licensed ones. With the successive introduction of stricter licensing regimes as well as more onerous administrative burdens, the number of sanctioned operators steadily dropped over the years, finishing at 85 at the beginning of 2021.

The top three, Suncity, Tak Chun and Guangdong made up the bulk of VIP rolling. In 2018, they generated roughly 78-79% of the casinos' VIP revenue, growing to the low 80s in 2019 and ending at

the low 90s in 3Q2021.

In short, the advent of tighter regulations and enhanced probity resulted in consolidation of this industry segment, with more influence and economic power being concentrated in a small handful of junkets.

At that time, this was actually seen as a good thing, as the top junket operators were better organized and well resourced, with the ability to meet all the new paperwork burdens that were instituted by the DICJ under its then new director, Paulo Martins Chan.

Tolerated until it wasn't

The functions of the Macau junkets are well documented. What they did and do has long been publicised, so it's no secret. The junkets are there to bridge the chasm between what is legally sanctioned in Macau and the grey market in China.

The Macau junkets were everywhere. They commanded the best locations and suites in every casino in Macau. They also had dominant presence in all four IRs in Manila. Collectively, they owned/operated VIP rooms and casinos covering the region: Australia, Cambodia, Vietnam, the Philippines, South Korea, Russia and even the US territories such as the Commonwealth of Northern Mariana Islands.

Casinos in Australia, Singapore and the US flew their private jets into Macau and even China to ferry the VIP players, both junket and direct, out to their far-flung resorts.

Opiate of the Masses

We have developed some possible explanations for the upending of Macau's gaming industry.

China, faced with a slowing economy due to the pandemic, has finally decided enough is enough.

The amount of liquidity leaking out of its economy, whilst tolerable when the economy was booming, may no longer be tolerable in the current environment.

In 2013, official GGR for Macau was US\$45b. Assuming a casino hold rate of 20%, the amount of cash that had to come into Macau's casinos in order for them to hold US\$45b would have been US\$225b.

Then, if you factored in side-betting, which we estimated to be roughly three times VIP revenue of US\$30b, for argument's sake there is another US\$90b to be added to the original GGR, making the unofficial GGR US\$135b.

With an assumed hold rate of 20%, the amount of cash that had to flow into the Macau gaming industry would have been circa US\$675b.

That's money that flowed out from China into Macau and from here to the rest of the world. That would explain China's unhappiness with Macau's gambling industry, particularly at a time when its own economy appears to be slowing as a result of the pandemic and they appear to be increasingly focused on domestic self-reliance.

To exacerbate the problem, online gambling exploded first in the Philippines followed by Cambodia, then back in the Philippines again.

An article published in China's influential Economic Information Daily in July 2019 painted online gambling as the opiate of the masses, a term that may have engendered memories of previous colonial subjugation.

The Economic Information Daily happens to be sponsored and supervised by Xinhua News Agency and is directly controlled and managed by the Central Policy Research Office of China, which in turn, according to Wikipedia, is “*an institution of the Central Committee of the Chinese Communist Party responsible for providing policy recommendations and insights to matters of governance, spanning political, social, and economic realms ... responsible for drafting the ideology and theories of the Chinese Communist Party, as well as various policy pronouncements at major congresses or plenums*”.

An SCMP article in August 2020 quoted the amount of online gambling revenue at US\$145b whilst the Chinese Ministry of Public Security estimated the sum total at RMB 1tn (US\$153b) for the first nine months of 2020, according to Nikkei Asia.

And with Taiwan slipping further away from unification and zero tolerance for shenanigans in Hong Kong, there would no longer be the need to hold Macau up as the economic prosperity model for the other two, particularly not at a price China is willing to pay.

Dismantling

We have already seen the Macau casinos moving post haste to terminate their relationships with the junket operators this month.

Without a doubt, the Macau fixed-room junket model will no longer be *de rigueur*. And the VIP direct or premium mass model may not survive this latest storm either. After all, which casino marketing host will risk their neck pursuing players from mainland China when it has already been demonstrated that promoting gambling to Chinese citizens is highly undesirable.

The casino operators themselves may too be at risk. The whole practice of incentivising players throughcomplimentaries as well as credit is now also in the same fragrant ‘honey bucket’.

The Chinese VIP direct segment will most likely die down for a little while.

We could see the whole junket aggregation dissolve into its independent agent components. Junket agents have always been independent individuals who gather their group of peers or contacts to travel to the casinos. They collect or put up the cash and represent the credit risks to the licensed junket operators. At the bottom of the pyramid sits the travel agents. These agents could still lead groups of players to casinos on a casual basis, which is essentially the South-East Asian model where they do not have fixed rooms nor staff permanently stationed in the casino.

They rely on the casinos’ VIP team for most of the usual services and as a result of that, as well as their lower volume, receive a lower revenue share or commission from the casinos.

In some cases, the junket reps are presented as the lead player rather than a junket agent, as had happened in Singapore, thus bypassing any prohibitions on junkets.

There is also the Singapore IMA, or International Marketing Agent program, where licensed agents refer players to casinos but remain liable for any bad debts that arise after extending credit to their players. This program has not been attractive to the junkets for the obvious reason that they bear the risks of any defaults arising from credit granted by the third-party casino without the ability to manage it.

In any event, the amount of revenue likely to come from these arrangements won’t be anywhere near the volume generated by the Macau model and may be 5% of Macau’s VIP revenue at best, based on the feasibility studies we have done throughout the region. There is also the sad fact that promoting gambling is also illegal in most ASEAN countries as it is in China.

There is no way we can put a positive spin on this latest saga. The face of the industry has changed with China no longer willing to make any sacrifices to keep the local residents in a lifestyle that they

have become used to. This change is as much a new direction for Macau as it is for its gaming industry as China seeks to dismantle much of the old structure.

Rebuild

After years of ineffectual attempts to diversify Macau's economy, and a corresponding lack of investment and progress in neighbouring Hengqin island, Beijing appeared to have taken direct control with the appointment of a senior party official over the development of the latter. The announcement that RMB will be the default currency in Hengqin telegraphs the pending replacement of the HKD in Macau with the RMB/E-CNY.

With a renewed urgency to develop non-gaming industries in Hengqin, the likelihood of the existing gaming concessions being delayed or extended is fast diminishing, as the gaming concessionaires are still viewed as the prime drivers of investment, albeit probably in a more directed and focused manner than previously. Theme parks, entertainment, movie studios, MICE, dining precincts, duty free shopping malls and wedding tourism are likely to be on the wish list.

China has already undergone several transformational changes within its own economy from developing one of the most extensive fast-rail networks in the world to the use of big data in its 'social credit' program and is probably looking to affect a similar strategy with Macau.

To dismantle and rebuild Macau's economy with short sharp pains is probably faster and more systemically sound than continual incremental change.

Macau's tourism industry will likely be very different in the next 5-10 years with gaming relegated to secondary consideration, and one more closely aligned with Beijing's vision for it.

