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UNDERSTANDING THE GAMBLING CAPITAL OF THE WORLD

By Mary Mendoza - Managing Director of The Platinum Limited

Is the future of the gambling capital of the world uncertain in the short-term? Macau, S.A.R., China has been coined the “gambling capital of the world,” having first surpassed the Las Vegas Strip’s gross gaming revenue (GGR) in 2006 (Macau GGR USD7 billion while Las Vegas was USD6.5 billion) and the entire State of Nevada by 2008 (Macau USD13.5 billion while Nevada USD11 billion).

Macau’s gaming giants (casino integrated resorts) are run by three foreign operators (Sands China Ltd, Wynn Macau Ltd., and MGM China Holdings Ltd.) and three local operators (SJM Holdings Ltd., Galaxy Entertainment Group Ltd., and Melco Resorts & Entertainment Ltd.). Macau’s gaming tax & levies of 39 percent are some of the highest in the world, making the enclave’s economy reliant on the casino industry with contributions of 70-80 percent of the government’s revenue. However, all six licensees (concessionaires & sub-concessionaires) are set to have their licenses expire in June 2022. Investors, operators, industry experts and

observers are questioning if these decades of glory are nearing an end.

Macau is geographically located bordering mainland China and accessible by foot (Zhuhai) and by bridge (Zhuhai and Hong Kong) while the nearest tier 1 city (developed city), Guangzhou is around 90 minutes away by high-speed train via Zhuhai. With ease of travel enhanced by the individual visa scheme (IVS) and cooperation with motherland China, Macau enjoyed visitation from 39 million tourists prior to the pandemic, of which 70 percent were mainland Chinese while the remaining tourist population came from Hong Kong, Taiwan, and other Asian countries. These circumstances have made Macau reliant on a single source market (mainland China) and as well as a single source economy (gaming).

VIP Clampdown

Macau is uniquely positioned as the only place within Chinese territory where gambling is legally permitted. At the peak of its gaming glory in 2013, Macau’s GGR reached USD45 billion of which the VIP (junkets) seg-

ment’s contribution was 66 percent. Junkets (gaming promoters/agency) have a vital role in soliciting high rollers and extending credit to VIP players. However, the central government in China started clamping down on VIP players’ activity and junket operators organized gaming trips over concerns of money laundering and unlawful transfer of money out of the mainland China.

As a result, the revenue driven by the VIP market was gradually replaced by the “premium mass” market and increased visitation of mass market players. Five years after the crack-down, Macau’s GGR finally peaked at





USD37 billion, of which the VIP market represented only 55 percent.

For the first time in Macau's gaming history the mass market has surpassed the VIP's GGR contribution in 2019, representing a low 46 per cent of VIP market.

Pandemic & Gaming License Review

Fast forward to today, there are two significant events on the gaming industry's horizon. First, the pandemic's impact on the market and second, the expiring licenses for all casino operators next year.

Pandemic Impact

Macau is using the "zero-virus strategy" as opposed to "living with the virus strategy." One of its tourism campaigns is being a "safe destination." In perspective, there are cumulative infected cas-

es of 77; no deadly cases reported, and a vaccination rate of nearly 70 percent (November 2021 data). Therefore, the government is prioritizing the safety of its people, be it locals, non-resident workers, or tourists. There are strict regulations to ensure the prevention of an epidemic; for instance, mandatory wearing of masks in all public areas (except while dining/drinking in bars/karaoke), sanitization of public areas, and each person having to present their government health code app at point of entry into all public areas (casinos, restaurants, hotels, retail stores, public offices, etc.).

Only mainland Chinese tourists are currently allowed to visit Macau. Foreign passport holders are prohibited from entering Macau (except for a few eligible persons subject to tight requirements and approval). While residents coming from Hong Kong and Taiwan are allowed to enter, these visi-

tors must go through a procedure that is cumbersome, time consuming and costly to undergo all of the requirements required to enter Macau. For instance, a PCR negative test certificate issued within 48/24 hours prior to arrival must be presented, followed by a quarantine/medical observation of up to 21 days at their own expense. Macau residents coming from overseas are only allowed to enter if residents are vaccinated and are virus free for at least the past two months plus all other requirements such as a PCR test certificate and quarantine upon arrival. Macau residents and Mainland Chinese coming directly from China are the only exception to the quarantine.

Pent up demand from mainland China was anticipated for Golden Week in October; however, Macau unexpectedly had local delta variant infected cases at the end of September. This caused neighboring Zhuhai, followed

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Tourist Visiting Ruins of St. Paul Before Pandemic



Tourist Visiting Ruins of St. Paul 2021

The primary effect of the pandemic was a staggering drop in tourist visitation. As of September, Macau has only welcomed 5.7 million tourists this year, which is at least 30 million short compared to pre-pandemic levels, while in revenue it translates to GGR of USD9 billion this year (January-October 2021) vs. USD30 billion for the first 10 months in 2019.

Gaming License Review

The worst decline in market capitalization Macau gaming ever experienced shocked the world of gaming in early September when an aggregate total of USD18.4 billion (26.1 percent loss) was wiped out at the Hong Kong Exchange (HKEX) and a decline in China's bond market associated with the gaming operators from Macau. That was due to the panic of uncertainty after the Gaming Inspection and Coordination Bureau of Macau (DICJ) announced a draft of proposals to revise the enacted gaming "Law 16/2001" and Law "26/2001" including tightened restrictions on

casino operators and the number of licenses. The proposals were open for a 45-day industry and public consultation to discuss the legal revisions and convey opinions on the Government's principles for the future of Macau gaming.

The liberalization of the gaming industry in 2002 revolutionized the sector from 40 years of monopoly under STDM to awarding six new licenses, which allowed casinos to operate until 2022. Although the Macau Chief Executive Ho Iat Seng hinted the possibility of extending the current gaming license beyond June 2022 if gaming law revision is not completed on time it is still worrying the operators.

What has unfolded during the industry and public consultation period that ended on October 29 was debate among operators, legal advisors, analysts, industry experts on the nine topics of interest as part of the gaming law review. As published by Rato, Ling, Lei & Cortés – Advogados

e Notários - Lektou in a legal alert on the subject, these nine topics below are the focus of the Macau Government for the existing gaming-law legal revision.

1. The total number of concessions (licenses)
2. Term of the concession
3. Supervision of concessionaires (share capital, managing director, profit distribution)
4. The appointing of a government representative to supervise the operators
5. The protection of Macau residents and its employment benefits
6. Strengthen review mechanism for casino operators and junket operators
7. Criminal Liability & Administrative Sanction
8. Increase of non-gaming elements in support of Macau's diversification
9. Corporate Social Responsibility

The key takeaway is the defining moment. The total number of licenses is unknown and the existing casino operators do not have guarantees

guarantees if their licenses will be renewed. However, as quoted from Bernstein analysts, led by Vitaly Uman-sky said that, "officials had highlighted the importance of maintaining a scale for the gaming industry, indicating that all six companies are likely to keep their licenses". The duration of new concession terms is still unknown, whether it would be a 20-year period with the possibility of five-year extensions. Strengthen review mechanism for casino operators and junket operators is a question of how much control there would be, given that the historical GGR of Macau is above 50 percent VIP market.

The Macau Government has a maximum of six months from the end of public consultation to deliver their conclusions followed by the proposal for the amendment of gaming-law.

Projects In The Pipeline

The increase of non-gaming elements in support of Macau's diversification has already begun unfolding since 2007 when the Venetian Macau Resort opened the largest arena with 15,000 seats (where Macau previously had less than 3,000), a retail mall with 360 shops (previously Macau had a less than 200 shops in a retail mall space), MICE space of 150,000 sqm (1.6 million square feet) just to name a few. The non-gaming amenities that had subsequently been added continue to wow the world. The efforts of the casino operators never ceased to amaze locals and tourists. This is in line with the goal to attract a diversified profile of tourists globally and increase week-day visitation.

Even though casino licenses are set to expire by mid-2022, there are several projects being developed as part of the casino operators' non-gaming amenities. Here are the highlights of projects opening from 2021 onward:

The Londoner Macao – Sands China

Ltd.

As an integrated resort operator, Sands China Ltd., frequently reinvests in its properties to keep competitive. As an example, the rebranding of Sands Cotai Central to The Londoner Macao with additional luxury rooms, David Beckham designed suites, new non-gaming amenities, featuring iconic landmarks of London such as the Houses of Parliament and Big Ben. The property progressively opened in phases starting in February of this year.



Grand Lisboa Palace Resort Macau – SJM Resorts, S.A.

The USD5 billion Grand Lisboa Palace Resort Macau (GLP) held its first phase opening in July 2021. 90% of the total area is dedicated to non-gaming



amenities comprising MICE, shopping, dining, entertainment and three hotel towers comprising 1,892 keys of rooms and suites. The Grand Lisboa Palace Macau opened this summer and other towers are expected to open in a later stage including the Palazzo Versace Macau and THE KARL LAGERFELD.

Galaxy Entertainment Group

Galaxy Entertainment Group is expanding its footprint with an additional 1 million sqm at Galaxy Cotai phases

3 and 4. The Galaxy International Convention Center will open a 16,000-seat arena. The legendary Raffles Hotel, an exclusive, all-suite luxury tower with 450 keys, and Andaz, a lifestyle hotel with 700 keys are scheduled to open in phases in 2022.

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Galaxy currently has the largest upcoming development in Cotai Macau.

Melco Resorts & Entertainment

The expansion of Studio City Phase 2 is on track for completion before year-end 2022. This development is expected to offer around 900 keys of luxury hotel rooms and suites, an auxiliary water park touted to be one of the largest in the world, a Cineplex, fine dining F&B outlets, and state-of-the-art MICE space. Melco Resorts & Entertainment is continually driving growth and diversifying its portfolio in alignment to Macau's diversification plan.

Although the Macau gaming industry appears to be uncertain in the short-term, one can be optimistic to see the brighter side of the industry in the long-term as it plays a crucial role to adding non-gaming elements as part of Macau's diversification plan. This is one of the top priorities to maintaining the image of Macau as a global leisure tourism destination. With the total mainland Chinese population of 1.4 billion and the Greater Bay Area (GBA) connectivity right at the doorstep of Macau, expect a promising future for Macau.

About the author:



Mary Mendoza is managing director of The Platinum Limited, a gaming-hospitality consulting firm and affiliated with C3 Gaming Group (Las Vegas based gaming consortium). Mary has over 25 years of working experience of which she served within the hospitality, gaming, and tourism industries. Having studied and worked in Macau, she provides expert advice on Asian market, insights on the casino integrated resort with in-depth on-the-ground insight on Macau and Asia's gaming, hospitality, and tourism sector.

She previously held positions as Head

of Casino Marketing (AVP) at Hoiana Suncity in Vietnam, Vice President of Marketing at The Grand Ho Tram in Vietnam, and before that was Vice President of Marketing at Imperial Pacific in Saipan, CMNI, USA. She also held management positions at Sands China Ltd in Macau.

Mary Mendoza has visited nearly 1,000 casinos plus integrated resorts globally, she is an IR executive, thought leader, speaker, advisor, and consultant. She was invited numerous times at G2E Asia Macau as a judge and speaker. In addition, numerous speaking engagements she was invited to including EGR Manila, ASEAN Gaming Summit Manila, Hong Kong City U, Macau MUST, IFTM, Macau University, Rotary Clubs (globally), Chamber of Commerce, and GRWA in Australia just to name a few.

On a philanthropic capacity, Mary is serving as an ASEAN Advisor for a non-profit organization The Cambodian Community Dream (The CDDO).

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