

Asia: The golden jackpot

Gambling is big business in the region, and the number of venues is about to jump. Australian companies are queuing for a piece of the action.

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Today it is Macau, China and Singapore. Tomorrow it could be Thailand, Taiwan, Japan, the Philippines, Korea or even India. Asia is on the cusp of a huge gaming boom - the amount spent on gambling in the region is estimated to increase from \$US13 billion in 2004 to \$US24 billion in 2006 - and Australian companies are well-placed to tap these lucrative markets.

Although Kerry Packer's decision to invest more than \$200 million through Publishing & Broadcasting Limited (PBL) to buy a seat at the table with the Macau casino baron Stanley Ho is the best-known deal, all the big Australian gaming companies have Asia in their sights.



JAMES PACKER
Image: Jessica
Hromas

Most analysts say Thailand could be the next country to issue casino licences, despite Thai Government statements to the contrary. A gaming analyst with Deutsche Bank, Mark Wilson, says Thailand may issue three casino licences as early as 2006, and Taiwan may legalise gambling within three years. A Credit Suisse First Boston analyst in Hong Kong, Gabriel Chan, takes the Thailand prediction a step further by saying PBL and Melco International Development - the publicly listed Ho family company in partnership with PBL - "have been in talks with the (Thai) Government for more than two years".

But the big sleeper for the global gaming industry is Japan. Gambling is technically illegal in Japan, but citizens spend more than \$355 billion a year - or about four times the revenue from legal casino gambling worldwide - playing pachinko machines (slot machines) in the country's 17,000 gaming parlours. The Japanese Government has been examining the casino issue for about four years; a special parliamentary committee is investigating possible models and structures for the industry. There is a huge push for legalisation from many local government officials, including the mayor of Tokyo, and 22 local prefectures have said they would build casinos.

None of the Australian gaming companies are publicly touting their interest in these countries. PBL, Tabcorp, Tattersall's and the Melbourne minnow Sino Strategic International are acutely aware of the political sensibilities that surround the legalisation of casinos and gaming in all parts of Asia - excluding Macau - and that public comment could be commercial suicide. Yet all Asian governments know that gaming and tourism go hand in glove - a staggering 80% of mainland Chinese tourists visit a casino - and they can ill afford to miss out. It is not just their tourism industries that will be the poorer; their treasuries will forgo massive tax receipts.

In such politically fraught conditions, Packer's move into Macau makes sense. The former Portuguese enclave at the mouth of the Pearl River became a special administrative region of China in 1999 and makes no apologies for having its economy built on gaming. China's regaining of political sovereignty over Macau has done nothing to change the status quo - the industry is on a roll not enjoyed since gaming was legalised more than two centuries ago.

Macau's GDP growth is running at 8.2% and gambling taxes account for about 70% of government revenue. Tourist arrivals surged 40% to 16.7 million in 2004. Deutsche's Wilson describes Macau

as one of the gaming world's biggest growth opportunities. "We believe the large population in close proximity to Macau, favourable demographics, relaxation of travel restrictions and the large capital investment in gaming projects (up to \$US10 billion) could make Macau one of the most dynamic gaming markets over the next few years."

PBL teamed up with Melco in November 2004, paying \$211 million for a 28% stake in a new hotel and casino being built in Macau (known as Crown Macau) and the exclusive right to partner Ho in other ventures in Asia. The Crown Macau will open in late 2006 and PBL and Melco have announced they will develop a second, larger hotel to be called City of Dreams. That property, which will have the world's first underwater casino, is scheduled to open in mid-2008.

The executive chairman of PBL, James Packer, told the company's latest annual general meeting that Macau is quickly becoming the world's most important gaming centre and its location gives it a monopoly on gaming in China.

But there are downsides for the Packers in Macau. Figures from Credit Suisse First Boston's Chan show that Macau's phenomenal gaming growth is slowing - down an estimated 5% in 2005 compared with 2004. Even so, he predicts Macau will surpass the Las Vegas strip as the biggest gaming market in the world in calendar 2005.

James Packer concedes that PBL's local casinos - Melbourne's Crown and Perth's Burswood - will lose some international high-roller customers to Macau. The pay-off is access to the Asian market. "I think that we have to look at it and say we are prepared to cannibalise ourselves and look at that deregulation as an opportunity, as opposed to a threat," he says.

Packer is right. The Macau play, when coupled with the Ho connection (Chan rates Melco the best investment bet in Macau) will open doors in Asia. But perhaps not in what is potentially the biggest market - China. Some analysts say that although Beijing is "relaxed" about the Ho family's pre-eminent position in Macau, it would not allow them to operate in mainland China.

The Communist Party, which portrays "eroticism, gambling and narcotics" as "the three evils", would have to reconcile that credo with the most public face of gambling in Asia - the Ho family. The problem is not insurmountable, but it is a hurdle.

A difficult market

Under chief executive Matthew Slatter, Tabcorp, too, has discovered that cracking the China gaming market is no lay-down misere since entering an agreement with a Hong Kong company. Tabcorp says: "In August 2005, Tabcorp International announced it had entered a joint-venture arrangement with China LotSynergy Holdings to supply up to 60,000 terminals for a Keno lottery system and technical services in China. The joint venture is called Tabcorp International Hong Kong (TIHK).

"China LotSynergy ... has a sound understanding of the Chinese market (and) this deal marks the first time a foreign company has been invited to participate in the national Chinese lottery market. Based on the expected terminal roll-out timetable for Keno, TIHK's revenue is expected to be about \$100 million a year, from year five onwards. The first of the terminals are expected to be rolled out in the first quarter of 2006."

But questions abound. To date, China has limited Keno to Shanghai and Beijing, and the southern city of Shenzhen is expected to get approval soon. In Shanghai, the US company Scientific Games provides the hardware; in Beijing, it is the US company GTech. In a China where there is still no national legislative framework or regulatory body overseeing gaming, analysts query whether TIHK will get a national contract. They add that if China does go down this path, Scientific Games and GTech will have the inside running.

The ownership structure of TIHK's China partner, Beijing Lottery Online Technology (Blot), has also been an issue. Although China LotSynergy says the Ministry of Welfare is a part owner of Blot, Hong Kong analysts say it is a private company. And the rapid jump in China LotSynergy's

share price is believed to have raised eyebrows in Beijing - in March, when it made its first statement about gaming in China, its share price was about HK4¢ (0.7¢); today it is trading about \$HK2.50 (70¢).

To date, only one company, Sino Strategic, is making revenue in China. It has secured a monopoly in the Lotto and Keno business in Shanghai after going into partnership with the Hong Kong company Best Winning Investments in May. Since early August, Sino has opened about 50 gaming venues in China's biggest city, and expects to have 500 operating by March 2006. The eventual target is 750.

Sino Strategic pays a 100,000 renminbi (\$15,560) deposit for each Keno gaming venue and 3000 renminbi (\$467) for each Lotto point of sale to the operator, the state-owned Shanghai Welfare Lottery. The licence for what is an agency arrangement to operate the Lotto and Keno gaming venues has to be renewed annually, a requirement Sino Strategic's managing director, Richard Li, says is a formality.

Li estimates that the daily turnover of each gaming venue will be about 10,000 renminbi (\$1556) once the system has been rolled out and gained public acceptance (the present turnover is much lower). He adds that Keno will eventually produce about 90% of turnover. Other potentially lucrative gaming markets for Sino Strategic, and other entrants that get a foothold, are Lotto and Keno (via mobile phones using debit cards), poker machines and sports betting.

China has only 40 poker machines nationwide, reflecting the Communist Party's political sensitivities to this gaming activity. But Li is confident that this form of gaming will gain acceptance over time, as will sports betting. Sport, national and international, is assuming a larger role in Chinese society as the country becomes more affluent, and sports betting is likely to be established. Sports betting in Hong Kong turns over \$US10 billion a year.

But Sino Strategic and Best Winning Investments have their difficulties. Li says there has been a change in strategy already, moving away from venues such as bars and restaurants, where it is part of a mixed entertainment package, and instead focusing on stand-alone Keno and Lotto venues. "There's still an element of suck-it-and-see," he says. Another advantage of stand-alone Keno and Lotto venues is that because they are situated in the suburbs, rent and refurbishment costs are lower.

What Li does not say is that these forms of gaming, as in Australia, operate better in poorer suburbs than in the more affluent areas of a booming Shanghai. This is not surprising. The return to the gambling public is only 65% of every renminbi invested; 20% goes to welfare, 9% to operate the system, and 6% as Sino Strategic's agency fee. These are hardly attractive odds, and reflect the official ambivalence with which gaming is still held in this one-party state.

In Singapore, it is not much different. But the need for the island state to have a competitive tourism industry has influenced the decision to build two casinos; locals will have to pay a \$S100 (\$80) tax to enter the casinos. On November 15, the Singapore Government announced the 14 companies on its shortlist, including PBL and Tabcorp. Their final proposals are due by March 29, 2006.

Tabcorp and PBL's competitors include the giants of Las Vegas, such as Harrah's Entertainment, MGM Mirage, Wynn Resorts, Las Vegas Sands and Eighth Wonder. Also on the shortlist are the Malaysian conglomerates Genting Group and GuocoLand, the Bahamas resort owner and developer Kerzner International and the South African casino and resort operators Peermont Global and Sun International. The gaming industry is strapping itself in for a wild, closely fought bidding process.

There is plenty at stake. Sean Monaghan, a Singapore gaming analyst with Merrill Lynch, estimates the two casinos will have total revenue of \$4.2 billion in 2008-09 (the likely first full year of operation) and earnings before interest, tax, depreciation and amortisation of \$745 million. Of course, the winners also get the opportunity to tap into potential lucrative markets such as Indonesia, Malaysia, Brunei, Thailand and China, which only adds to the attractiveness of the project. Monaghan says: "We expect that the ... intensity of the bidding process will be fierce."

But the chances of an Australian company winning either licence look slim. The executive general

manager of Tabcorp International, Paul Gulbenkian, says: "The objective for Tabcorp International is to selectively investigate and develop markets where the company is able to replicate its gambling entertainment business model." But that is precisely Tabcorp's problem. The conservative Singapore Government wants its casinos to be seen as spectacular tourist destinations that will attract international gamblers rather than locals. But Tabcorp is used to running smaller, low-key properties that rely mainly on high volumes of play from locals.

Rather, the smart money says that the Singapore Government will favour one of the Las Vegas bidders, which have proven they can build casinos that are part-hotel, part-resort, part-amusement park - and part-theatre complex and nightclub. PBL's James Packer also plays down its chances.

THE PLAYERS

Publishing & Broadcasting Limited

Joint venture in two casinos with Ho family in Macau. Holding talks with Thai authorities over a casino licence and bidding for one of the two Singapore licences. Other Asian countries are in its sights.

Tabcorp Holdings

Joint venture with Hong Kong company China LotSynergy to supply terminals and technical services for Keno lottery system in China. Also bidding for a Singapore casino licence.

Sino Strategic

Secured a monopoly in the Lotto and Keno business in Shanghai in partnership with the Hong Kong company Best Winning Investments. Has opened about 50 gaming venues. Its target is 750.

Tattersall's

Believed to have held talks with Sino Strategic about a joint venture in China. It also has South Africa in its sights.

SOURCE: *BRW*

THE PLACES

Macau

Asia's gambling mecca is enjoying an unprecedented boom. Big investments by international companies are likely to make turnover larger than the Las Vegas strip.

China

Despite official concerns about the "evils of gambling", Lotto is firmly established and Keno is establishing a toehold. Poker machines are likely but the overt nature of casino gambling suggests that this form of gambling is unlikely in the near future.

Japan

Gambling is technically illegal but more than \$355 billion is spent each year on pachinko machines (slot machines) in gaming parlours. The Government is examining the case for casino licences. Opportunities for overseas companies to invest are still to be resolved.

Singapore

The Government has announced 14 companies on a shortlist for two casino licences. Wynn Resorts

is a strong favourite to win one licence. The needs of Singapore's tourism industry are behind the decision, which must trouble the conservative government.

Thailand

Analysts say three casino licences could be issued as early as 2006. But the official position is still "no".

Taiwan

Analysts say casinos may be legalised within three years.

India/Philippines

Governments are considering different gaming options.

SOURCE: *BRW*