

Middle market tourists, not VIP gamblers, are pushing Macau revenue higher.

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Instead of worrying, appreciate Macau's unprecedented mass gaming led recovery likely unfolding over the rest of this year. The global casino capital's transition from VIP gaming to mass market is showing its muscle, enabling first quarter Ebitda to rise even while gaming revenue fell. Beyond the numbers and stakeholder buzz at last month's Global Gaming Expo Asia (G2E Asia) trade show and conference at Venetian Macao, crowds on the streets, casino floors and breakfast buffets announce Chinese tourists remain genuinely excited about visiting Macau despite slowing economic growth, trade tensions and expiring casino concessions.

[Macau's casino revenue rose 1.8% in May](#) from a year earlier to 25.95 billion Macau patacas (MOP; US\$3.24 billion), boosted by the May 1 Labor Day triggering a weeklong holiday. It's just the second month in 2019 when gaming revenue grew, the other February, boosted by Chinese new year. Mass revenue in May grew in the low teens, VIP revenue declined 11-12% and VIP volume, or roll, fell in the high teens, JPMorgan analysts DS Kim and Christopher Tang estimate. For the year through May, gaming revenue decreased 1.6%.

First quarter earnings reports show that Ebitda rose 2% industry-wide, despite a marginal decline in gaming revenue. Morgan Stanley analyst Praveen Choudhary notes that luck-adjusted Ebitda fell 2%, calculating mass revenue grew 10%, VIP revenue fell 12% and VIP roll retreated 23% from a year earlier. Any revenue or earnings snapshot, though, is just a tree in the forest of Macau's transition.

"The story is mass," gaming and marketing consultancy 2NT8 managing director Alidad Tash says. The former Las Vegas Sands and Melco Resorts executive suggests the VIP segment in Macau is being marginalized in favor of mass market gaming and more generally mass tourism in which gambling is just one revenue stream, along with shopping, hotels and food.

Lui family controlled Galaxy Entertainment Group's flagship Galaxy Macau nimbly followed Macau's transition from VIP to mass focus and is investing billions in expansion. (Paul Yeung/Bloomberg)

## Macau Casino Metamorphosis Marches On

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“We are encouraged by the fact that mass [gaming] growth is tracking better than expected and we estimate 2Q growth to accelerate to +12% YOY (from +10% YOY),” Choudhary writes in a research note. “What’s also very encouraging is that mass strength does not appear to be driven by the HKZM [Hong Kong Zhuhai Macau] bridge, which felt ghostly when we traveled it, given the lack of traffic. We see a significant opportunity for the bridge to ramp up over the coming years, driving continued support.”

Mass revenue isn’t defying the gravity of a slowing economy in mainland China, source of two-thirds of Macau’s visitors and, experts say, even more of its gaming revenue and tourist spending. Sanford Bernstein senior analyst Vitaly Umansky says mass growth slid from 16% in last year’s third quarter to 13% in the fourth and 10% in this year’s first, adding, “Mass growth has been decelerating in contrast to VIP, which has seen declines in quarter one after decelerating for much of 2018.”

“Rising contribution from mass/non-gaming (making up nearly 85% of industry profits) means Macau’s cash-flow generation capability has never been more visible, predictable or sustainable, in our view,” JPMorgan’s Kim writes in a client note. “We still see a multi-year structural growth story, which shouldn’t be clouded by short-term volatility.”

Yet worries over China’s economy, U.S.-China trade conflicts and concession expiration are clouding investors’ outlook. Though the middle of last week, shares prices for the six Macau casino operators were each down 20% or more during the past 30 days and fallen by an average of 36% over the past 12 months. There’s nothing in the numbers or on gaming floors to suggest that level of value destruction.

House of Dancing Water at Melco Resorts’ City of Dreams is a rare long running entertainment success for Macau casino operators.

Muhammad Cohen

Don’t believe me, believe Macau casino concessionaires that have US\$10.5 billion worth of projects in progress and that much again on the drawing board, according to a report by Union Gaming Group analyst Grant Govertsen. Casino operators appear unfazed by [concession expiration in 2022](#)

. (So do institutional investors: At the Japan Gaming Congress in Tokyo last month, Choudhary said Macau operators have extended bonds beyond 2022.) For casino operators, concession expiration is like living in California: you accept the unlikely possibility of The Big One, the earthquake that wipes you out, and live your life, or you move. Ain’t no operators moving out of

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Macau.

“The days of double digit growth are over,” Tash, inventor of Macau’s immensely popular no-commission baccarat, concedes. “What you’ll see ahead is steady 5-6% growth: close your eyes and in ten years, you’ve doubled. And this is what [China’s] Central Government wants. They want the pie to slowly get bigger.”

If the authorities in Beijing are happy, there’s little for concessionaires to fear. Their challenge remains to make Macau a place that can keep attracting Chinese travelers as their destination options expand. That means a lot more attention to the non-gaming product, where Macau operators continue to produce, at best, uneven results.

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