



ARTICLE

Clearing the Obstacles: Asian Gaming Looks to the Long Term for Recovery

Any hint of a recovery will look like success for the gambling industry in Asia after the last year. When it comes, the industry may look quite different to what it did pre-pandemic.

Nowhere have COVID-19's effects been felt more than on businesses carried on indoors and activities that rely on people travelling. As a sector that is based on both of those things, gaming has taken more blows than most. The impact has been hard in Asia, the location of Macau and other important centres of the industry. As well as the pandemic-related inhibitors, including uncertainty about the resumption of international travel, other obstacles placed in front of it include increased regulation and official moves to clamp down on Chinese gamblers,¹ the largest source of customers in the region.

With vaccination rates against the virus increasing all the time² and cross-border travel restarting,³ the outlook for a rebound in the gambling market in Asia is positive, however. Isolated signs of revival⁴ in markets such as South Korea are apparent, but what form any wider rebound will take, particularly what in-person gambling will look like in an age of social distancing, sanitisation and vaccination, are only some of the questions that require answers.

Though governments in Asia have an ambiguous relationship with gambling because of its reputation as

a morally dubious activity – except for specific forms of gambling such as national lotteries and horserace betting,⁵ it is illegal for local citizens in most jurisdictions and where it is allowed, often only open to foreign tourists and those with overseas passports – they also recognise it as a source of tax revenue and employment for their populations.

Headwinds

While the gaming industry in Asia has had a number of success stories in recent years, such as Macau, it does not

¹ "China's crackdown on cross-border gambling aims for payment platforms and others abetting": <https://www.scmp.com/news/china/politics/article/3128949/chinas-crackdown-cross-border-gambling-aims-payment-platforms> (April 9, 2021)

² "Tracking Coronavirus Vaccinations Around the World": <https://www.nytimes.com/interactive/2021/world/covid-vaccinations-tracker.html> (September 4, 2022)

³ "APEC Prepares to Restart Travel": <https://www.apec.org/press/news-releases/2022/apec-prepares-to-restart-travel> (February 23, 2022)

⁴ "Grand Korea Leisure casino sales up 48pct m-o-m in April," GGRAsia (May 7, 2021): <https://www.ggrasia.com/grand-korea-leisure-casino-sales-up-48pct-m-o-m-in-april/>

⁵ "Asian gambling market: what is its status?": <https://www.softgamings.com/blog/gambling-asia/> (last visited October 6, 2022)

have the wind behind it as it tries to mount a comeback.⁶ Even when international travel becomes common again and other restrictions are cleared away, no one is sure that people will be willing to congregate in close proximity to others in order to gamble in casinos again in the same numbers, and in the same amounts, as before.

Online gambling, which you might expect to flourish during periods of confinement, has suffered from reputational issues, too, with many gamblers preferring to trust live dealers rather than automated play. It grew quickly in Asia from 2017 to 2019, but China's crackdown on gambling has hampered growth during COVID-19. For example, the Philippines used to have a digital casino market worth US\$7 billion. A so-called POGO (Philippine offshore gaming operator) market was developed, regulated by the Philippine Amusement and Gaming Corporation (PAGCOR). However, the various anti-gambling restrictions in China, which was the target of many of these operators, have crushed this effort and the market is now only about 10-20% of its former size.⁷

One thing that investment research analysts and other market participants can agree on is that recovery is likely to take longer than desired.⁸

The truth is many Asian integrated resorts, such as in Ho Tram and Phu Quoc in Vietnam, were struggling before COVID-19. Union Gaming, an investment bank that focuses on the sector, warned in 2019 that gambling companies would not make enough money from the estimated US\$65 billion-worth of developments that are due to spring up around the region in the next few years to justify their construction. Now, Covid has either called a halt to or severely impeded the work⁹ on some of these resorts such as Emerald City in Cebu in the Philippines.

Macau restrictions

Macau, which relies on the majority of its customers on Guangdong Province that are suffering from constantly changing restrictions to and back from Macau, has heavily hindered Macau's recovery. Macau's GGR dropped significantly by 37% MoM in Jun/2021 to MOP6,535mn, representing only 27% of 2019 average monthly revenue.

Revenue from VIP, one of the three sectors that the gambling market is usually broken down into, premium mass and mass being the other two – was already declining before the onset of the virus. In 2013 this part of the market in Macau brought in US\$30 billion in revenue. By 2019 this had more than halved to US\$14 billion.¹⁰

As the analysts' forecasts suggest, conditions are unlikely to ease in the near term. Though Macau mass revenue showed signs of a comeback at the end of 2020, the Chinese authorities' crackdown on illegal gambling has been taking its toll,¹¹ with severe curbs on capital outflows; limits to visas granted under the Individual Visit Scheme (IVS), the system set up in 2003 to allow people from the Mainland come to Macau and Hong Kong, and a campaign, including criminal measures, to stop overseas gambling operators from targeting Chinese gamblers. Uncertainty over the renewal of gaming licences¹² and what a public consultation on amendments to its gaming legislation may throw up are also weighing on Macau's prospects.¹³

Clampdown

While the Chinese announcements of a crackdown on gambling in September 2020 and February 2021 did not specify any countries, many feared they would threaten Macau as a destination for Chinese gamblers. But analysts believe the real targets are illegal online casinos

⁶ "Macau's mass to make up for lost VIP ground by 2025, but more work needed": <https://agbrief.com/intelligence/08/03/2022/macau-mass-to-make-up-for-lost-vip-ground-by-2025-but-more-work-needed/> (last visited March 8, 2022)

⁷ "Philippines to shut 175 offshore gambling firms, deport 40,000 Chinese workers": <https://edition.cnn.com/2022/09/26/business/philippine-pogo-gambling-shuts-chinese-workers-deport-intl-hnk/index.html> (September 26, 2022)

⁸ "Bloomberg research compares gaming recoveries in different Asian markets": <https://www.gamblinginsider.com/news/17847/bloomberg-research-compares-gaming-recoveries-in-different-asian-markets> (August 25, 2022)

⁹ "Emerald Bay casino timing hurt by pandemic: COO," GGRAsia (May 20, 2021): <https://www.ggrasia.com/emerald-bay-casino-timing-hurt-by-pandemic-coo/>

¹⁰ "Revenue from VIP gambling fell 19% in 2019, overtaken by mass segment": <https://www.macaubusiness.com/revenue-from-vip-gambling-fell-19-in-2019-overtaken-by-mass-segment/#:~:text=In%20addition%2C%20the%20VIP%20game%20has%20lost%20ground,region%2C%20but%20in%202019%20the%20figure%20was%2046.2%25> (January 18, 2020)

¹¹ "China reaffirms crackdown stance on cross-gambling crimes": <https://agbrief.com/news/china/18/08/2022/china-reaffirms-crackdown-stance-on-cross-gambling-crimes/> (August 18, 2022)

¹² "Macau keeps casino licences limited to six, halves duration": <https://www.reuters.com/business/macau-limits-new-casino-licences-6-last-up-10-years-2022-01-14/> (January 14, 2022)

¹³ "Macau gambling operators give little away in public consultation": <https://agbrief.com/news/macau/20/09/2021/macau-gambling-operators-give-little-away-in-public-consultation/> (September 20, 2021)

originating in places such as the Philippines, Cambodia, Myanmar, Vietnam and Laos,¹⁴ illegal payment platforms and underground banking operations. The biggest impact on Macau and other gambling destinations is expected to be on junkets, where operators provide gamblers with lavish accommodation and dining at a low cost, or even free, in exchange for time spending money in their casinos.¹⁵

The gambling industry in Asia has struggled in 2020 and 2021, yet there have been at least three examples of gambling companies who have successfully gone to the capital markets to raise money: Macau operators, Studio City, SJM and MGM China, all launched successful bond issues in 2021: Studio City offering US\$750 million-worth of notes in January¹⁶ and an additional US\$350 million in May,¹⁷ SJM issuing US\$1 billion-worth of notes,¹⁸ also in January, and MGM China came forward with a dual listing of US\$750 million-worth of notes.¹⁹ Whether issuers without the same track records would have done as well is hard to say.

Are they votes of confidence in Macau? Probably, though it is worth noting that investment in the large gambling companies such as those that operate in Macau is mainly US-driven. Some estimate that 60-70% of their investors

are from there, so these operators are not relying on Asian lenders or investors, some of whom may shy away from putting their money into the gambling sector because of its perception as a vice. However on the flip side, it should also be kept in mind that all six gaming licenses expired on 26 June 2022 with an extension of their concessions to 31 December 2022.²⁰ The possibility that some US gaming operators losing their rights to run casinos in Macau should not be ruled out – given the current political tension between China and US. This could potentially lead to casino operators being forced to invest in unprofitable businesses to cooperate with Beijing’s “common prosperity” drive, which would further hurt the bottom lines of gaming operators.²¹

Slow moving

Asian territories are treading carefully before fully opening up to local and international holidaymakers alike. This spells bad news for the gambling industry as it seeks to recover from the dive it has been in, especially since the onset of the pandemic in 2020. Confidence is high that the market will recover, but it is unlikely to be the same one that existed before.

¹⁴ “China Lengthens its Overseas Gambling Travel Blacklist”: <https://thediplomat.com/2021/01/china-lengthens-its-overseas-gambling-travel-blacklist/> (January 27, 2021)

¹⁵ “China’s cross-border gambling crackdown another hit to junket market – Brokerage”: <https://www.macaubusiness.com/chinas-cross-border-gambling-crackdown-another-hit-to-junket-market-brokerage/> (February 8, 2021)

¹⁶ “Studio City Finance Limited Announces Pricing of Senior Notes Offering”, Studio City Finance Limited (January 5, 2021): <https://ir.studiocity-macau.com/news-releases/news-release-details/studio-city-finance-limited-announces-pricing-senior-notes-0>

¹⁷ “Studio City Finance Announces Pricing of 5.000% Senior Notes Offering”, Studio City Finance Limited (May 11, 2021): <https://ir.studiocity-macau.com/news-releases/news-release-details/studio-city-finance-announces-pricing-5000-senior-notes-offering>

¹⁸ “Issuance of US\$500,000,000 4.50% Senior Notes Due 2026 and US\$500,000,000 4.85% Senior Notes Due 2028 and Disclosure Pursuant to Rule 13.18 of the Listing Rules & Exempted Connected Transaction in Relation to the Partial Subscription of the Notes by Connected Persons”, SJM Holdings Limited (January 21, 2021): http://www.sjmholdings.com/resources/images/uploads/e_20210121_sjmh_issuance-of-senior-notes-2.pdf

¹⁹ Ben Blaschke, “MGM China completes dual listing of bonds on Macau Exchange”, Inside Asian Gaming (May 18, 2021): <https://www.asgam.com/index.php/2021/05/18/mgm-china-completes-dual-listing-of-bonds-on-macau-exchange/>

²⁰ “Macau government extends casino licences to December”: <https://www.reuters.com/world/china/macau-government-extends-casino-licences-december-media-2022-03-03/> (March 3, 2022)

²¹ “Macau Casinos’ Uncommon Prosperity Is at Risk”: <https://www.wsj.com/articles/macau-casinos-uncommon-prosperity-is-at-risk-11631696153> (September 15, 2021)

The views expressed herein are those of the author(s) and not necessarily the views of FTI Consulting, Inc., its management, its subsidiaries, its affiliates, or its other professionals.

FTI Consulting, Inc., including its subsidiaries and affiliates, is a consulting firm and is not a certified public accounting firm or a law firm.

KENNETH FUNG

Senior Managing Director
Corporate Finance & Restructuring
+852 3768 4617
kenneth.fung@fticonsulting.com

CHRISTOPHER BROOKES

Managing Director
Corporate Finance & Restructuring
+852 3768 4722
chris.brookes@fticonsulting.com