Macau's 2014 Capacity Drought
Will Japan Make a Bet?

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Macau integrated casino resort operators face slower growth next year as they won’t add any new capacity before 2015. This dearth follows seven years of expansion that have helped fuel a surge in Chinese visitors, betting and...

Critical Themes
1) 2014 Asia Gaming Outlook
2) 2014 US Gaming Outlook
3) N.J. Online Gaming $435 Million Opportunity in 2014
4) VIP to Mass Market Shift - Margins to Benefit

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11) Atlantic City Casino 27% Revenue Gain Is Yoy Reversal: BI Chart 12/11
12) Iowa Gaming Revenue 0.5% Decline Smallest Since May: BI Chart 12/11
13) Missouri Casino Revenue Falls 2.6%, River City Up 13%: BI Chart 12/10
2014 Outlook

Key Themes: Asia Gaming

- Supply-Driven Macau Faces Draught...Then Flood: Casino operators will open no new integrated casino resorts in 2014. Then a torrent of capacity will open over 2015-2016.

- Tough Comparison in 2014; Execution and Clusters Can Help: New trains and a bigger border spurred 2013 visitor and revenue expansion. Older Macau casinos grew even with more competition from Cotai expansion, offering ideas for 2014.

- Consensus Expects Slowing Revenue: Top-line growth is estimated to cool to 12% from 17% in 2013. Valuation is at a multi-year high.

- Japan May Deal Next Big Thing: Huge potential, but long road.
Macau Outstrips Las Vegas Casino Revenue Eightfold in 2013

Analysts Tim Craighead & Brian C. Miller

Jan 3, 2014

Macau’s casino gaming revenue dwarfs that of Las Vegas, with a 2013 total of $45 billion vs. about $6.3 billion for the U.S. city. The spread widened during the year, increasing to about 8x in recent months as Macau revenue expanded 18% in 2013, while Las Vegas revenue stagnated. The higher propensity for gambling in Asia is part of the reason, with the Chinese game of choice the higher-stakes baccarat as opposed to lower-denomination slots in the U.S.
Macau’s Supply-Driven Casino Market Faces Drought: 2014 Outlook

Analyst Tim Craighead

Nov 26, 2013

Macau’s casino expansion will hit a temporary wall in 2014, denting a key growth driver. The gaming haven has consistently shown that it has been supply constrained as new and progressively larger integrated resorts have been quickly filled to capacity, benefiting all six operators. Next year will be the first since 2006 with no incremental supply to help draw new visitors, leaving operators a challenge in maintaining growth rates.

Dashboard Home:
Gaming, Global (BI GAMEG)
Macau's Chinese Visitors May Slow After 2013 Surge: 2014 Outlook

Analysts Tim Craighead & Brian C. Miller
Jan 3, 2014

China visitors to Macau jumped 10% this year through November, propelled largely by residents from central and northern provinces, who benefited from new direct high-speed trains and less waiting time at an expanded border. Mainland tourists account for 65% of visitors to Macau and the increase helped drive a 17% ytd surge in gaming revenue. While more punters may come in 2014, the yoy comparison will be challenging without further service improvements.

Dashboard Home:
Gaming, Global (BI GAMEG)
Melco Crown’s City of Dreams, Sands’ Venetian and Galaxy have all sustained mass-market growth well after their openings, and even with new competition from the nearby 6,000-room Cotai Central. This performance suggests that clustering popular casino resorts benefits all operators, as visitors are drawn to the latest attractions. The Cotai casinos may still act as a draw in 2014 as they have attained critical mass.
Hotel Stays Keep Macau Gamblers Spending More in Casino Resorts

Analysts Brian C. Miller & Tim Craighead

Jan 25, 2014

The percentage of Macau’s visitors staying in hotels is increasing, to 36% in November, supporting casino operators. With overnight tourists spending five times the amount of single-day visitors, the motivation to keep gamblers in casinos for multiple days is clear. Macau’s hotel occupancy is about 80% to 85%, leaving room for improvement in 2014, with no new resorts coming on stream. Sands China and Galaxy have the most hotel rooms in Macau.
Macau's Hengqin Island, a special economic district, is building out zones ranging from the Central Business District in the northeast to the Leisure zone in the south, with Chimelong's Ocean Kingdom water park. The leisure and MICE facilities should help draw more mass-market visitors to Macau's Cotai Strip, boosting gaming revenue. The island's additional housing and offices can also support casino operations.
Macau casino operators will next year prepare for a torrent of new resort supply opening on the Cotai Strip in 2015. While the city won’t add any new capacity in 2014, Galaxy 2, The Parisian and Studio City will all open in 2015, potentially luring more visitors to new and old casinos. All three should be fully open by late 2015 and another four resorts are due to open in 2016 to 2017, which may create temporary oversupply and investor angst.
Growth in casino revenue for Macau's six integrated resort operators will cool to 12% next year from 17% this year, based on consensus, amid a lack of new capacity. Total revenue may reach $53 billion. Sands China is expected to lead growth for a second year, with a 19% revenue increase. Wynn is seen trailing again with a 7.9% expansion. Earnings are expected to outpace revenue at all six operators, with EPS growth averaging 20%.

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Short Name</th>
<th>2012 Sales</th>
<th>2013 BEst Sales</th>
<th>2014 BEst Sales</th>
<th>2013 BEst Sales yoy</th>
<th>2014 BEst Sales yoy</th>
<th>2014 EPS G</th>
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</thead>
<tbody>
<tr>
<td>1928</td>
<td>HK SANDS CHINA LTD</td>
<td>6.488</td>
<td>8.828</td>
<td>10.508</td>
<td>36.08%</td>
<td>19.07%</td>
<td>29.10%</td>
</tr>
<tr>
<td>27</td>
<td>HK GALAXY ENTERTAIN</td>
<td>7.358</td>
<td>8.278</td>
<td>9.328</td>
<td>15.66%</td>
<td>12.62%</td>
<td>23.84%</td>
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<tr>
<td>2282</td>
<td>HK MGM CHINA HOLDIN</td>
<td>2.808</td>
<td>3.318</td>
<td>3.718</td>
<td>18.20%</td>
<td>12.29%</td>
<td>16.21%</td>
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<td>MPEL</td>
<td>US MELCO CROWN-ADR</td>
<td>4.028</td>
<td>4.958</td>
<td>5.528</td>
<td>23.00%</td>
<td>11.47%</td>
<td>30.99%</td>
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<td>880</td>
<td>HK SJM HOLDINGS LTD</td>
<td>10.178</td>
<td>11.168</td>
<td>12.218</td>
<td>9.77%</td>
<td>9.48%</td>
<td>11.05%</td>
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<tr>
<td>1128</td>
<td>HK Wynn Macau LTD</td>
<td>3.738</td>
<td>3.948</td>
<td>4.268</td>
<td>5.82%</td>
<td>7.93%</td>
<td>8.20%</td>
</tr>
</tbody>
</table>
Macau Gaming Stocks Hit Jackpot in 2013

Normalized As Of 12/31/2012

<table>
<thead>
<tr>
<th>Company</th>
<th>Last Price</th>
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<tbody>
<tr>
<td>SJM Holdings Ltd</td>
<td>132.778</td>
</tr>
<tr>
<td>Galaxy Entertainment Group Ltd</td>
<td>236.244</td>
</tr>
<tr>
<td>Melco Crown Entertainment Ltd</td>
<td>257.176</td>
</tr>
<tr>
<td>Wynn Macau Ltd</td>
<td>161.814</td>
</tr>
<tr>
<td>Sands China Ltd</td>
<td>169.956</td>
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<tr>
<td>MGM China Holdings Ltd</td>
<td>212.91</td>
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<tr>
<td>Hong Kong Hang Seng Index</td>
<td>99.979</td>
</tr>
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</table>

Excitement about Japan, China Golden Week and 3Q results

Anticipation of strong 4Q results

Casino revenue acceleration, strong 2Q results, improved China macro data

China credit crunch fears induced summer dip

Does not include cash dividends in returns.

Source: Bloomberg Industries

BLOOMBERG INDUSTRIES 2014 OUTLOOK
Chapter: Japan Poised to Gamble on Casinos - New Opportunity

Japan Casino Resorts May Lure Chinese, Gambling-Loving Locals
Analyst Tim Craighead
Jan 20, 2014

Many casino operators are interested in developing integrated resorts in Japan, which has the potential to become the "next big thing" beyond Macau. The country has an under-developed international tourism and convention business, and it's close to northern China's baccarat-loving punters. Japanese consumers also already spend tens of billions of dollars on betting each year. Many cities would like to host resorts, and the 2020 Olympics may spur legalization.

Japanese Attractions

Global Integrated Resort Operators See Multiple Opportunities in Japan

1. Underpenetrated international tourist potential
   - only 8.4 million overseas visits to Japan in 2012
   - Singapore had 14.4 million, Malaysia 25 million and Macau 26 million

2. Global Business Center with Small Current MICE Business
   - Tokyo's 'Big Sight' only has 80,000 square meters of exhibit floor space
   - Las Vegas Convention Center has 300,000; Marina Bay Sands 120,000

3. Proximity to China's Growing VIP, Mass Market Gamblers/Shoppers
   - China's northern provinces are closer to Japan than Macau

4. Local Market Gambling Culture
   - Japan generates tens of billions of dollars in pachinko and sports betting

5. Olympic Impetus and Benefits
   - prospects of 2020 Olympics investment may help spur legal passage and offer revenue potential and global visibility for integrated resort benefits

6. Multiple Locations Possible
   - Tokyo, Osaka, Sapporo and Okinawa and others are conceptually interested
Chapter: Japan Poised to Gamble on Casinos - New Opportunity

Japan Casinos May Offer 2.8 Million Chinese a Quicker Bet

Feb 19, 2014
Feb 19, 2014 14:29

If Japan opens casino gambling, Northeastern Chinese will have a closer alternative than Macau for gambling, shopping and entertainment. In the eight Chinese provinces closest to Japan, 2.8 million visitors made a 2013 trip to Macau and spent an estimated $5.1 billion on and off the casino floor. If Japan develops a cluster of integrated resorts and supportive policies on credit and taxation, it has the potential to tap into this pool of punters.

Japan Market Potential

<table>
<thead>
<tr>
<th>China</th>
<th>Population (2012 mm)</th>
<th>2013 Macau Visitation</th>
<th>Estimated Revenue ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Shanghai</td>
<td>23.8</td>
<td>508,143</td>
<td>770</td>
</tr>
<tr>
<td>Jiangsu</td>
<td>79.2</td>
<td>517,700</td>
<td>702</td>
</tr>
<tr>
<td>Henan</td>
<td>94.1</td>
<td>365,950</td>
<td>490</td>
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<tr>
<td>Beijing</td>
<td>20.7</td>
<td>357,283</td>
<td>464</td>
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<tr>
<td>Liaoning</td>
<td>43.9</td>
<td>292,674</td>
<td>484</td>
</tr>
<tr>
<td>Shandong</td>
<td>56.8</td>
<td>268,247</td>
<td>478</td>
</tr>
<tr>
<td>Hebei</td>
<td>72.9</td>
<td>241,581</td>
<td>364</td>
</tr>
<tr>
<td>Anhui</td>
<td>59.2</td>
<td>225,203</td>
<td>368</td>
</tr>
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</table>

North/East Provinces

<table>
<thead>
<tr>
<th>North/East Provinces</th>
<th>Population (2012 mm)</th>
<th>2013 Macau Visitation</th>
<th>Estimated Revenue ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total China</td>
<td>1,354.0</td>
<td>2,807,047</td>
<td>$3,806 $1,263</td>
</tr>
</tbody>
</table>

* Macau avg $1450 casino rev/visitor and $400 rev/overnight visitor in 3Q13
** GGR = Gross Gaming Revenue

Northeast Chinese that traveled to Macau in 2013 may represent a $5 billion revenue opportunity, and they live closer to Japan than south China

Source: Macau DSEC, DICJ, Bloomberg Industries

Exhibit Data
Chapter: Japan Poised to Gamble on Casinos - New Opportunity

Singapore’s Two Casino Resorts Offer Blueprint for Tokyo, Osaka

Feb 19, 2014 14:42
Singapore is a model for Japan in developing multi-faceted integrated resorts with gambling, entertainment, shopping, hotels and conventions. The city-state, with less than half of Tokyo’s population, gets almost 50% more international visitors a year as the whole of Japan. It two casino resorts generate more than $7 billion in annual revenue on and off the casino floor, drawing foreign tourists and hosting majors global trade shows, key Abenomic goals.

Japan Market Potential

<table>
<thead>
<tr>
<th></th>
<th>2013 GGR ($billion)</th>
<th>Non-Gaming Rev ($billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China (see prior slide for details)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marina Bay Sands</td>
<td>3.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Resort World Sentosa</td>
<td>2.9</td>
<td>0.5</td>
</tr>
<tr>
<td>Total Singapore Revenue</td>
<td>6.0</td>
<td>1.3</td>
</tr>
</tbody>
</table>

* GGR = Gross Gaming Revenue, Resort World Sentosa est'd based on 9 month results

Source: Company Filings, Singapore Tourism Board

Singapore created a major regional integrated resort business from scratch, primarily driven by international visitors, that generates over $7 billion in revenue, on a relatively small GDP and population base.
Chapter: Japan Poised to Gamble on Casinos - New Opportunity

Japan’s Affinity for Pachinko, Metro Areas Bode Well for Casinos

Feb 19, 2014 14:43

Japan’s local-market opportunity for integrated resorts could be significant, if casinos are legalized. Japanese show an affinity for gambling, with Pachinko already generating about $25 billion in revenue to parlor operators in 2010. If Abenomics policies spur consumer confidence and spending, new casino resorts could benefit. Tokyo and Osaka are the #1 and #7 cities in the world in GDP, clearly large enough to support a substantial city-resort business.

Japan Market Potential

- **China**
  - (see prior slide for details)
- **Singapore**
  - (see prior slide for details)
- **Japan**
  - Pachinko/Pachislot 2010 Revenue: ~$25 billion
    - Japan 2013 Population: 127 million
    - Japan 2012 GDP: $5.9 trillion
    - Japan 2013 Int Visitors: 10 million
    - Tokyo Population: 13.2 million
    - Tokyo Metropolitan Population: 36 million
    - Tokyo 2012 GDP*: $1.5 trillion
    - Tokyo International Visitors: ~5 million
    - Osaka Population: 2.6 million
    - Osaka 2012 GDP*: $650 billion
    - Source: Japan Natl Tourism Organization, Brooking Institute, Econ & Social Res Inst of Japan

Japanese pachinko parlors generated a local business of about $25 billion in revenue in 2010, showcasing an affinity for electronic gaming. Abenomics wants to attract foreign tourists and investment; integrated resorts draw visitors and host large trade shows. Tokyo and Osaka are among the 10 largest cities in the world by GDP.
Sands Touts Marina Bay as Potential Tokyo Casino-Resort Model
Analysts Tim Craighead & Brian C. Miller

Jan 30, 2014
Sands said it was in a "leadership position" as Japan nears the legalization of casinos, partly because of experience with Marina Bay Sands in Singapore. The city-based resort could serve as a model for a facility in Tokyo or Osaka, and it generates significant taxes, jobs and overseas visitors. About 22% of non-gaming revenue is also Japan-related. Galaxy, Melco, Wynn and other casino operators are also interested in Japan. Legislation could be passed as early as 2Q.

"In Japan everybody that we have spoken to believes that legislation is going to pass... About 22% of our non-gaming business in Singapore Marina Bay Sands has Japanese components to it either visitors or meetings or conventions. We're very well known there and Marina Bay Sands is often talked as the model to what the integrated resort facility in Tokyo or Osaka would be like. So we are in a leadership position..."

Michael Leven — President and COO, Las Vegas Sands
4Q 2013 Earnings Call, 1/29/2014
Las Vegas Sands, Galaxy to Sega Sammy Show Japan Casino Interest
Analysts Tim Craighead & Brian C. Miller
Jan 23, 2014
Japan’s move toward legalizing casinos is attracting interest from overseas integrated-resort operators and local Japanese equipment makers. U.S.-based Las Vegas Sands, MGM and Wynn are looking to expand in Asia beyond Macau, while Caesars wants its first chance in the region. Asian operators Galaxy and Melco Crown also hope to move beyond Macau, and Genting aspires to duplicate its Singapore success. Konami and Sega Sammy are among interested Japanese companies.

Who’s Betting on Japan

Casino operators around the globe have professed interest in developing integrated casino resorts in Japan

- **US/Global Operators**
  - Las Vegas Sands, MGM Resorts, Wynn Resorts, Caesars Entertainment

- **Macau Operators**
  - Melco Crown, Galaxy Entertainment

- **Asia Operators**
  - Genting Singapore, Naga Corp

- **Japanese Operators, Vendors and Developers**
  - Universal Entertainment, Sega Sammy, Konami, Mitsui Fudosan

Source: Company Statements and Filings, News Reports
Tokyo Olympics Costs May Aid Case for Japan Casino Legislation

Analyst Tim Craighead

Sep 23, 2013

Tokyo’s selection as the 2020 Olympics host city may boost support for legalizing casinos, as integrated resorts could open in time for the games. This private investment in hotel and leisure facilities would help fund the planned $5 billion-plus of spending need for the Olympics. Importantly, it would also help ensure that facilities are used for entertainment events after the games end.

Olympian Sized Costs

<table>
<thead>
<tr>
<th>Year</th>
<th>City</th>
<th>Cost</th>
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<tbody>
<tr>
<td>1998</td>
<td>Nagano</td>
<td>$2.3 billion</td>
</tr>
<tr>
<td>2000</td>
<td>Sydney</td>
<td>$3 billion</td>
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<tr>
<td>2002</td>
<td>Salt Lake City</td>
<td>$2.3 billion</td>
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<tr>
<td>2004</td>
<td>Athens</td>
<td>$12 billion</td>
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<tr>
<td>2006</td>
<td>Turin</td>
<td>$4 billion</td>
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<tr>
<td>2008</td>
<td>Beijing</td>
<td>$43 billion</td>
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<tr>
<td>2010</td>
<td>Vancouver</td>
<td>$9 billion</td>
</tr>
<tr>
<td>2012</td>
<td>London</td>
<td>$14 billion</td>
</tr>
<tr>
<td>2014</td>
<td>Sochi</td>
<td>$50 billion estimate</td>
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<tr>
<td>2020</td>
<td>Tokyo</td>
<td>$5 billion estimate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$9 billion with average 80% overrun*</td>
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Source: News Reports, "Olympic Proportions" by Flyvbjerg and Stewart

* as found in Flyvbjerg and Stewart study
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<th>Country</th>
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<td>BEIJING</td>
<td></td>
<td>+86 10 66497500</td>
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<tr>
<td>FRANKFURT</td>
<td></td>
<td>+49 69 92041210</td>
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<tr>
<td>LONDON</td>
<td></td>
<td>+44 20 73307500</td>
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<tr>
<td>NEW YORK</td>
<td></td>
<td>+1 212 3182000</td>
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<tr>
<td>SÃO PAULO</td>
<td></td>
<td>+55 11 30484500</td>
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<td>SYDNEY</td>
<td></td>
<td>+61 2 97778600</td>
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<tr>
<td>DUBAI</td>
<td></td>
<td>+971 4 3641000</td>
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<tr>
<td>HONG KONG</td>
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<td>+852 29776000</td>
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<tr>
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<td>SAN FRANCISCO</td>
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<td>TOKYO</td>
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