

OCR Macau Gaming Monthly

Abuse of Macau Transit Visas. We analyzed flight and tourist data and conclude that Mainland visitors continue to misuse transit visas in order to gamble in Macau. It's too early to tell if that will pay off over time in higher revenue.

Visit to Cambodia's Naga World. We traveled to Phnom Penh to visit Naga Corp.'s (3918 HK) casino. The Cambodian company is gaining Chinese visitors and VIP through junkets, clearly siphoned from Macau.

Survey Results: Slowing Revenue Continues. Three-quarters of our survey pool saw falling VIP revenue in March and expect further declines. However, most are "neutral" about the current state of the industry.

Interviews: Cost Cutting. Our interviews suggest the casinos are working with the Macau government to change the rules to allow for more layoffs to reduce costs.

Signs of Visa Abuse by Mainland Visitors

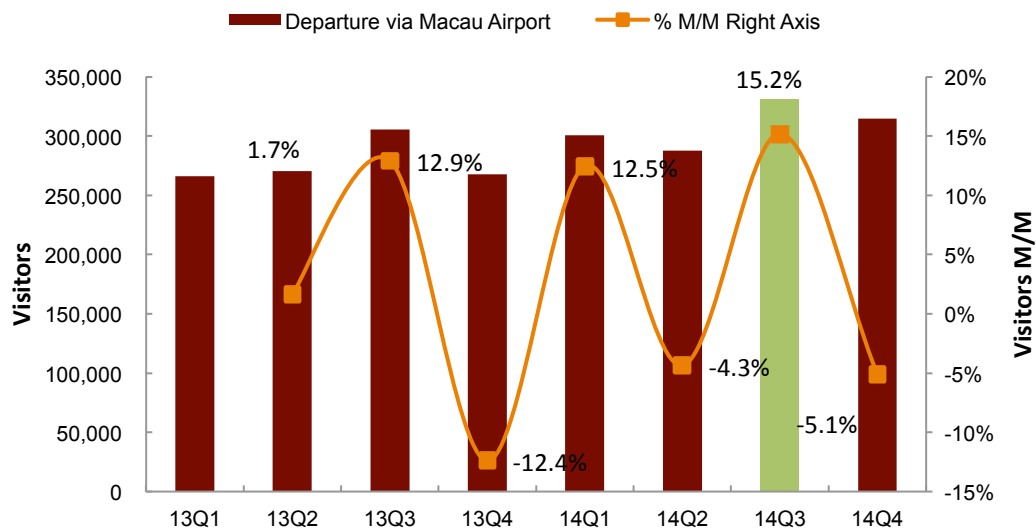
There have been persistent rumors since Q4 2014 that Macau is restricting arrival of mainland Chinese to reduce Chinese gambling. In addition, in July 2014, Macau lowered its transit visas permission from five to seven days. However, we have heard from local sources that mainlanders are evading the restrictions by utilizing transit visas. They do this by flying from the mainland to Macau and then to another nearby destination (such as Vietnam, Thailand, and Cambodia). Once they have their visa stamped in the third country, they return to Macau for five days of gambling.

We looked at a variety of data to see if there is abuse of transit visas. The data – although indirect – suggests this has become a new route to enter Macau.

1. Airport Departures

The data airport departures suggest that there has been an increase in transit visitors. Since mainland Chinese account for three-quarters of all visitors, it is likely the increase came primarily from this group. As the chart below indicates, following the lower transit visas in July 2014, in 3Q 2014 departures via Macau airport rose 15.2% Q/Q to 331,597, the highest level in seven quarters.

Figure 1: Macau Airport Departures

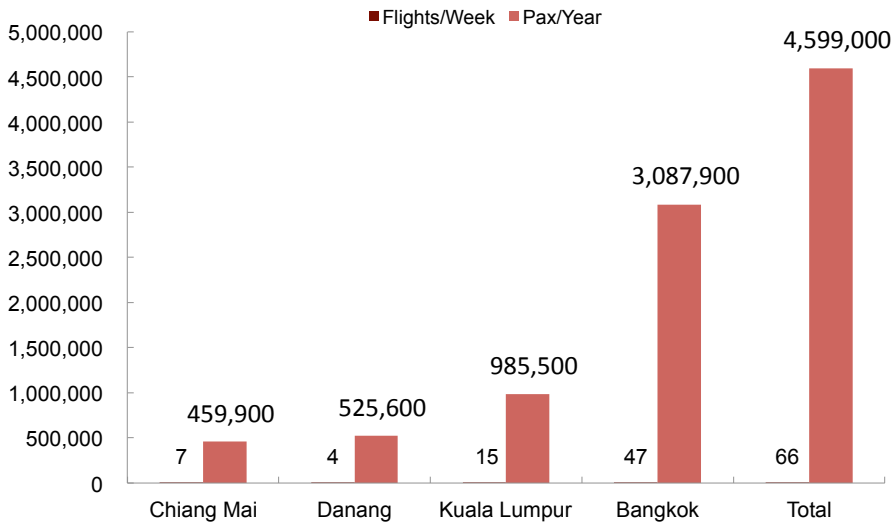


Source: Government of Macau

2. More Flights Leaving Macau

We also checked reports that airlines have increased their flights out of Macau to nearby Asian destinations in order to cater to the mainland visitors misusing transit visas to gamble in Macau. We were able to verify that one major airline serving Macau, Australia-based Jetstar, increased its flights at the end of 2014 to Danang, Vietnam, by 50%, from two to three. A Jetstar sales representative we spoke to noted that those flights “are quite full.”

Figure 2: Major Flights from Macau to Nearby Asian Destinations



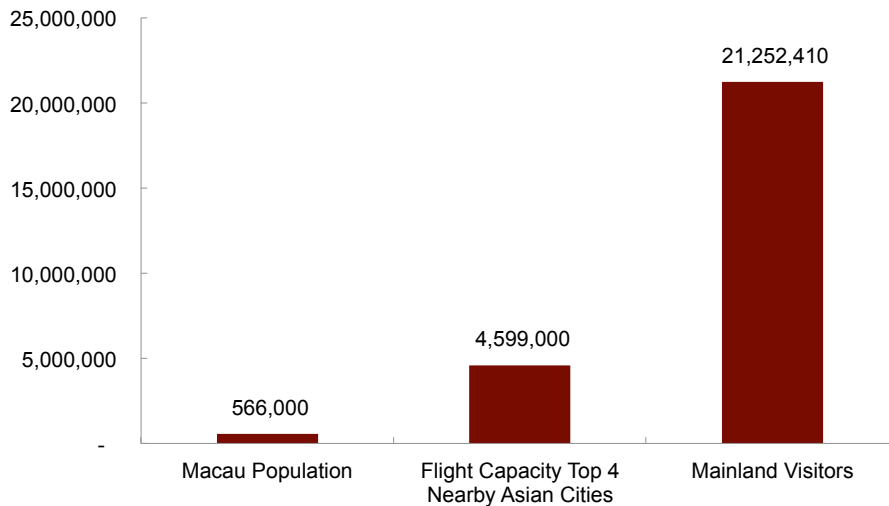
Source: Airlines, Orient Capital Research

3. Flight Capacity Ex-Macau Quite High

The capacity of the flights to just four destinations – Chiang Mai, Thailand; Danang, Vietnam; Kuala Lumpur, Malaysia; and Bangkok, Thailand -- is quite high given Macau's relatively small population. The capacity of these flights is 4.6 million compared with a population of 566,000. Clearly, Macau residents are not using these flights. There could be ordinary tourists flying from Macau to other destinations. But we believe a significant number of these flights are used by Chinese on Macau transit visas.

As the chart shows, the flights ex-Macau are a significant portion of Mainland visitors (21.6%) and total visitors to Macau (14.6%). We believe a large number are mainland visitors on transit visas.

Figure 3: Mainland Visitors to Macau in 2014



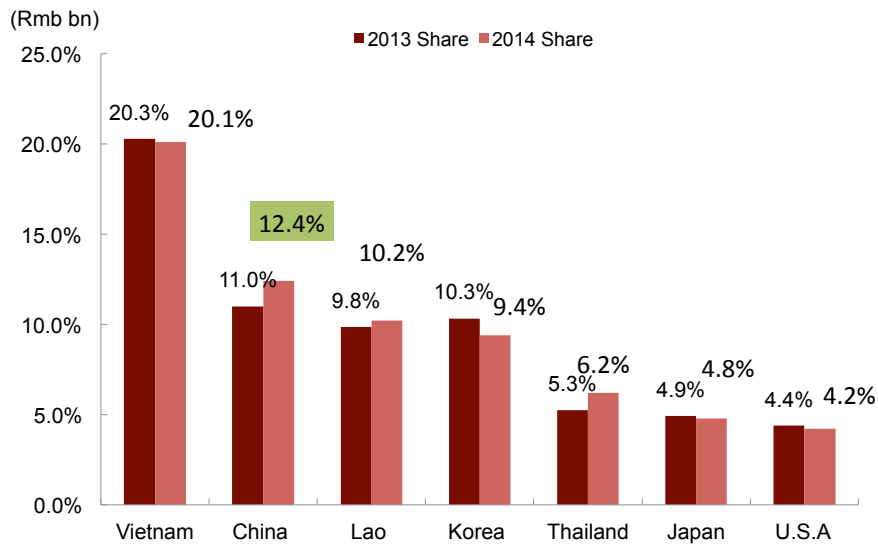
Source: Macau Government, Orient Capital Research

Cambodia's Naga World Gaining Chinese Gamblers

Growing Mainland Visitors

We visited Naga World, a casino listed in Hong Kong under Naga Corp. (HK 3918), based in Phnom Penh, the capital of Cambodia. Overall, the number of Chinese visiting Cambodia is rising rapidly. The share of mainland Chinese visitors rose from 11.0% of the total in 2013 to 12.4% in 2014, an increase of 21%, compared with growth of 7% for all visitors.

Figure 4: Chinese as Percentage of Tourist Arrivals in Cambodia

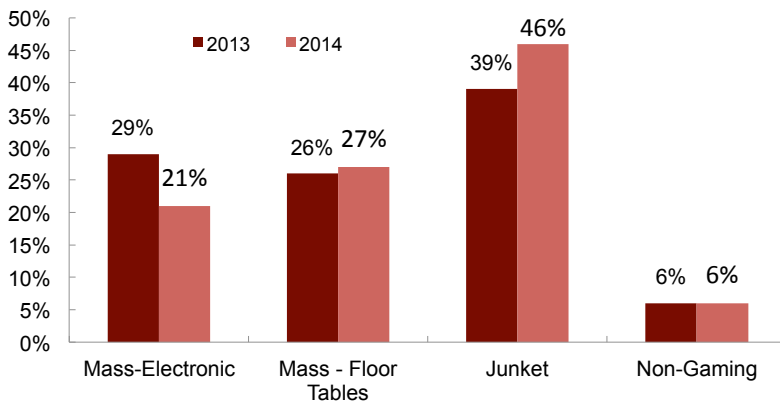


Source: Cambodia Tourism Bureau, Orient Capital Research

More VIP Gamblers in Junkets

Naga World's revenue from junkets is growing at a much faster pace than its other sources of revenue, rising from 39% to 46% of revenue. While some of these junkets are arriving from Vietnam and other nearby countries, our interviews suggest a growing portion is coming from China. A F&B manager at Naga was busy planning for a Chinese function for 600 baccarat players. He also noted that Naga has double the number of Chinese visitors so far in 2015 compared with 2014.

Figure 5: Naga World's Revenue Breakdown

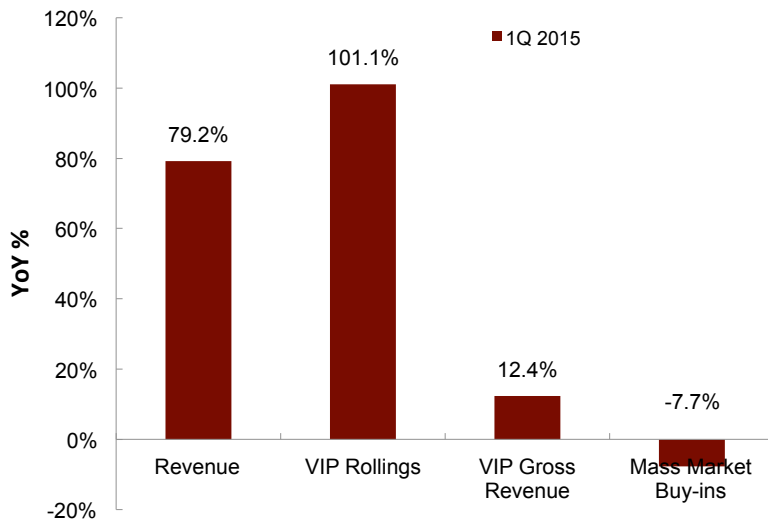


Source: Naga Corp. Financials

Rising VIP Revenue

Also, Naga's VIP revenue is growing much faster than its mass revenue, which is partly due to the increasing international junkets from China and elsewhere.

Figure 6: Naga World's 1Q 2015 Revenue



Source: Naga Corp. Financials

Industry Outlook – Casino Employee Interview Summary

1. Did March 2015 Revenue increase, decrease or remain the same?				
	VIP	Main Floor	Non-gaming	Total
Increase				
Slightly increase	0%	22%	56%	0%
Same as previous month	11%	0%	0%	22%
Slightly decrease	22%	44%	11%	22%
Decrease	67%	22%	22%	44%
Not sure	0%	11%	11%	11%
2. Do you expect FY 2015 Revenue to increase, decrease or remain the same?				
	VIP	Main Floor	Non-gaming	Total
Increase	11%	0%	0%	0%
Slightly increase	11%	44%	56%	22%
Same as previous year	0%	11%	11%	22%
Slightly decrease	0%	22%	22%	11%
Decrease	67%	11%	0%	33%
Not sure	11%	11%	11%	11%
3. Did the casinos try to do promotions to attract more main-floor gamblers?				
Yes, but not effective	44%			
Yes, and effective	0%			
Yes, but don't know the effectiveness	44%			
No	11%			
4. Did the casinos adjust the budget to reduce expenses (i.e force no-pay leave)?				
Yes, but not effective	22%			
Yes, and effective	33%			
Yes, but don't know the effectiveness	44%			
No				

5. Did the casinos reduce the budget expense for VIP gamblers?	
No	44%
Yes, reduce 1%-5%	22%
Not Sure	33%
6. Did the casinos try to attract more VIP gamblers?	
Yes, but not effective	33%
Yes, and effective	0%
Yes, but don't know the effectiveness	33%
No	33%
7. Did the ratio of the non-gaming component in the casinos increase?	
Yes, the ratio is increasing	44%
No, the ratio is stable	33%
No, and the ratio is decreasing	11%
Not Sure	11%
8. Did the casinos try to find gamblers from other countries?	
No, still aim at mainland China	44%
Yes, Asia area (i.e Japan/Korea/Singapore)	44%
Not Sure	11%
9. Has the Number Changed of VIP gamblers found by the gambling intermediaries?	
Increase	11%
Slightly increase	0%
Same as previous month	0%
Slightly decrease	0%
Decrease	44%
Not sure	44%
10. How do you feel about the Current State of the Macau gambling industry?	
Positive	0%
Neutral	78%
Negative	22%

Comments By Macau Casino Employees

“VIP revenue has reached the lowest level; there will be no further big decrease in revenue.”

“There are too many workers in the gambling industry. The casinos are going to fire workers”

“The officials in the government support using more foreign workers, mainly from mainland or Taiwan, in order to reduce operational costs in the casinos.”

“Apart from dealers, the workers such as cleaners and casino custodians are usually from the

mainland. The ratio is more than 50% and seems to be increasing.”

“Macau government officials are discussing using foreign workers as dealers, a position originally restricted for local Macau workers only.”

“The casinos reserved 5% less hotel room from the hotel, which is usually reserve for VIP”

“The Chinese government is cooperating with the Macau government to trace the people (gamblers) who enter Macau, along with the direction of the cash flow. This hinders the attractiveness for mainland gamblers coming to Macau.”

END

