

The background is a dense, colorful collage of casino-related imagery. It includes various casino buildings, some with 'SOLAIRE' and 'MGM' logos. There are also images of money (US dollars), playing cards (aces, clubs, spades), roulette wheels, and other gaming equipment. The overall theme is the casino industry.

CLSA

RAINING CASINOS

TOO MANY OR NOT ENOUGH?

Special report

September 2015



Asian gaming capex to double in five years

Q&A with the experts

Top-down and bottom-up number crunching suggest it's not too much

Strained budgets mean more gaming markets

Still too early to jump back into Macau

ROIC coming down, but still above cost of capital

Raining casinos

We expect the number of casinos in Asia to increase from 200 to 230 over the next five years. Most of these additions will use the large-scale integrated-resort model, which dwarfs many of the small existing operations in the region. In capex terms, we expect a near-doubling to roughly US\$90bn. It's raining casinos, which is scary given the slowdown in Macau. However, after performing both top-down and bottom-up analyses, we conclude that Asia can comfortably absorb this capacity increase.

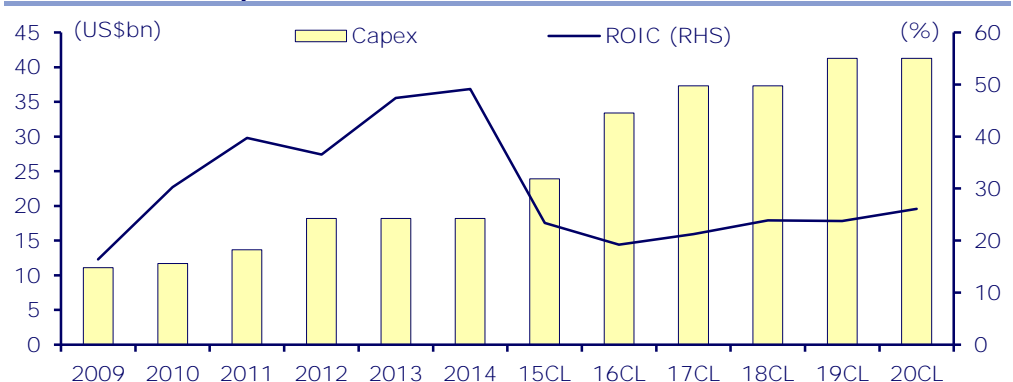
We interview senior management at leading global gaming companies for their opinions on the forthcoming new supply. We ask if there are too many casinos, and find out what they believe are the critical elements that drive successful integrated resorts not only for shareholders but also to help governments achieve particular objectives. We also interview three leading architects and a regulatory expert.

We compare the US and Asian population, wealth and appetite for gambling. There are c.1,000 casinos or three per million capita in the States, versus just c.200 or 0.05 per million capita in Asia. We also perform bottom-up returns analysis. We expect average ROIC to substantially drop from 34% on existing properties to around 21% for new properties in Macau. However, that 21% comfortably exceeds the average cost of capital as well as the global average ROIC for major projects in the USA and Australia. We also compare gaming ROIC to other tourism investments and note that gaming remains a high-return industry and the best way to play the Chinese tourism story.

Strained budgets mean governments at both the national and local level are looking for new sources of revenue. Rather than slashing services or raising taxes, many are either considering or are already committed to legalising gaming, including Japan and Vietnam in Asia. But while many jurisdictions are entering gaming, not all will bring fortune to investors. We provide the criteria we use when assessing the potential success of a new jurisdiction.

We downgraded Macau gaming in March and maintain a neutral view. The sector has fallen by two-thirds from the peak and valuations are becoming appealing for some stocks. However, we do not believe a share-price rebound is likely in the very near term, given ongoing concerns over the China macro environment and its potential impact on Macau. Also, we do not expect a meaningful recovery in monthly gross gaming revenue (GGR) until 2Q16, as the base eventually becomes easier and we have a critical mass of new openings. Within our global gaming coverage, we adjusted targets and ratings based on recent price action. We are BUYers of **Galaxy, Wynn Resorts, Wynn Macau, Crown, Bloomberry** and **Melco Phils**, and SELLers of Korea's **GKL** and **Paradise**. We have Outperform or Underperform ratings on other names.

Macau ROIC and capex



Source: CLSA, companies

Global gaming comps

Stock	Code	Price (lcl)	Mkt cap (US\$m)	ADTV (US\$m)	Old rec	New rec	Old target price	New target price	Upside (%)	PE (x)		EV/Ebitda (x)		Div yld (%)		Abs perf (%)			
										FY1	FY2	FY1	FY2	FY1	FY2	1m	3m	12m	
Macau																			
Galaxy	27 HK	23.80	13,072	71	BUY	BUY	32.00	32.00	34	17.9	19.0	11.7	10.8	4.0	4.0	(36)	(29)	(56)	
Louis XIII	577 HK	2.30	273	0	N-R	N-R	na	na	na	15.1	5.2			0.0	0.0	(20)	(33)	(57)	
Macau Legend	1680 HK	1.02	848	4	U-PF	O-PF	1.65	1.18	16	(398.4)	43.0	15.1	11.6	0.0	0.0	(49)	(62)	(76)	
Melco Crown	MPEL US	17.28	9,394	74	O-PF	O-PF	20.00	20.00	16	177.2	49.5	12.4	9.3	0.2	0.6	(26)	(12)	(38)	
MGM China	2282 HK	12.66	6,206	13	O-PF	O-PF	15.00	14.65	16	15.8	22.0	15.6	14.7	4.4	2.0	(27)	(9)	(45)	
Sands China	1928 HK	28.40	29,564	81	O-PF	O-PF	30.00	30.00	6	18.4	17.6	15.6	14.0	7.5	6.5	(22)	(3)	(39)	
SJM	880 HK	6.81	4,970	15	O-PF	O-PF	7.88	7.88	16	21.7	28.2	12.3	13.4	3.1	2.5	(26)	(30)	(62)	
Wynn Macau	1128 HK	11.84	7,936	23	BUY	BUY	16.00	16.00	35	26.3	26.3	10.3	6.7	2.7	2.7	(28)	(16)	(53)	
Asean																			
Bloomberry	BLOOM PM	6.55	1,539	2	BUY	BUY	9.25	9.25	41	71.7	12.9	8.7	5.5	0.0	0.0	(30)	(27)	(49)	
Melco Phils	MCP PM	5.15	544	1	BUY	BUY	9.00	9.00	75	(3.8)	(34.2)	290.2	8.5	0.0	0.0	(32)	(25)	(59)	
Travellers Intl	RWM PM	3.78	1,271	0	U-PF	U-PF	5.00	4.40	16	15.4	13.6	10.4	11.4	1.3	1.5	(32)	(27)	(54)	
Genting Malaysia	GENM MK	4.10	5,311	5	O-PF	O-PF	4.58	4.58	12	16.4	14.1	9.3	8.0	1.7	1.9	1	(2)	(6)	
Genting Singapore	GENS SP	0.74	6,239	13	U-PF	O-PF	0.90	0.85	15	32.3	16.9	6.7	4.9	1.4	1.4	(11)	(19)	(38)	
Korea																			
GKL	114090 KS	29,750	1,536	15	SELL	SELL	27,000	27,000	(9)	20.2	19.2	14.3	13.2	2.3	2.4	(2)	(23)	(32)	
Kangwon Land	035250 KS	42,050	7,509	17	O-PF	O-PF	45,000	45,000	7	17.8	15.8	13.6	12.0	2.6	3.0	(0)	7	19	
Paradise	034230 KQ	20,700	1,571	25	SELL	SELL	13,000	13,000	(37)	28.1	29.0	4.2	4.7	1.8	1.6	(9)	(30)	(44)	
Australia																			
Ainsworth	AGI AU	2.76	618	2	O-PF	O-PF	3.29	3.29	19	14.4	13.6	8.3	7.6	3.6	3.7	(5)	(3)	(18)	
Aristocrat	ALL AU	8.31	3,667	17	O-PF	O-PF	9.61	9.61	16	22.3	18.3	12.2	10.5	2.3	2.7	(6)	8	46	
Crown	CWN AU	10.97	5,564	22	BUY	BUY	16.38	12.82	17	15.6	16.1	9.5	9.2	3.4	3.4	(21)	(14)	(27)	
Donaco	DNA AU	0.70	405	1	BUY	BUY	0.98	0.98	40	6.8	6.3	5.7	4.7	0.0	0.0	(6)	(4)	(29)	
Echo	EGP AU	4.82	2,768	17	O-PF	O-PF	5.68	5.51	15	17.0	16.0	8.4	7.9	2.9	3.1	(3)	9	50	
SkyCity	SKC AU	3.48	1,424	2	U-PF	O-PF	4.01	3.75	8	11.5	10.9	7.8	8.1	7.4	7.8	(9)	(14)	5	
Tabcorp	TAH AU	4.50	2,599	19	O-PF	O-PF	5.09	5.09	13	18.0	16.6	8.3	7.9	5.9	7.0	(4)	(3)	32	
Tatts	TTS AU	3.51	3,570	15	O-PF	O-PF	3.98	3.98	13	18.9	18.1	11.0	10.4	5.0	5.2	(12)	(8)	8	
USA																			
Las Vegas Sands	LVS US	47.88	38,182	283	O-PF	O-PF	55.00	55.00	15	18.4	17.5	11.1	10.5	5.5	5.5	(16)	(8)	(24)	
MGM Resorts	MGM US	21.12	11,893	187	O-PF	O-PF	24.00	24.00	14	61.2	54.4	12.0	11.9	0.0	0.0	(5)	9	(13)	
Wynn Resorts	WYNN US	73.04	7,416	256	BUY	BUY	104.00	104.00	42	36.9	19.4	12.0	9.4	3.0	3.0	(29)	(29)	(60)	
IGT	IGT US	16.81	3,337	25	U-PF	U-PF	17.00	17.00	1	16.5	14.4	8.5	8.2	1.5	1.5	(10)	(7)	na	
Pinnacle	PNK US	36.35	2,207	32	U-PF	U-PF	34.00	34.00	(6)	17.7	14.8	9.5	8.7	0.0	0.0	(7)	(2)	35	
SGMS	SGMS US	12.02	1,035	16	O-PF	O-PF	12.00	12.00	(0)	(13.3)	(17.3)	6.4	6.0	0.0	0.0	(6)	(26)	(10)	

Note: As at close of business 11 September 2015. Source: CLSA, Bloomberg