

Billionaire Lui Gains as Probes Hit Macau Casino Rivals: Retail

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By Vinicy Chan -

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For casino billionaire [Sheldon Adelson](#), what happens in Macau doesn't always stay in Macau as U.S. courts probe his operations in the world's biggest gambling hub. The scrutiny has investors favoring local rivals.

[Galaxy Entertainment Group Ltd. \(27\)](#), a Macau gaming operator owned by [Hong Kong](#) property tycoon Lui Che-Woo, has surged 75 percent in Hong Kong trading in the past 12 months, more than double the 31 percent gain in Adelson's [Sands China Ltd. \(1928\)](#)

That helped put Lui among the world's 100 richest people for the first time yesterday, according to the [Bloomberg Billionaires Index](#)

Adelson and U.S. rival [Wynn Resorts Ltd. \(WYNN\)](#) have invested more than \$10 billion to build in Macau and now count on the territory, site of [China](#)'s only legal casinos, for most of their profit. The two helped expand the industry after the former Portuguese colony opened to global firms in 2002 and were rewarded by investors as Wynn Resorts's share price jumped almost nine-fold since then and Adelson's [Las Vegas Sands Corp. \(LVS\)](#) has added about 60 percent since its 2004 initial public offering.

"The lawsuits at Sands or Wynn have been going on for some time and we've already priced in that risk by cutting our exposure," [Alex Au](#), managing director of Richland Capital Management Ltd., said by phone in Hong Kong. "We like Galaxy instead."

[Las Vegas](#) Sands was sanctioned Sept. 14 by a Nevada judge who said the company and its Sands China Ltd. unit deceived the court concerning evidence sought by the former head of its China operations in a lawsuit over his firing.

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Wynn's Macau operations are also under investigation by the Securities and Exchange Commission and face lawsuits in Nevada courts, underscoring the difficulties foreign casino operators have to face as they navigate both regulatory relations.

Following Rules

Sands China has followed regulations in both Macau and Las Vegas, Chief Executive Officer Edward Tracy said in an interview last month. Melina Leong, a spokeswoman for the company in Macau, declined to comment on the probe on Sept. 15.

Wynn Resorts, based in Las Vegas, is under Securities and Exchange Commission investigation over a HK\$1 billion (\$129 million) donation last year to the University of Macau. Former director and largest shareholder Kazuo Okada, a Japanese pachinko billionaire, has also sued Wynn over the company's Feb. 19 unilateral redemption of his shares.

Katharine Liu, a spokeswoman for [Wynn Macau](#), declined to comment on the investigation.

Macau Gaming

"The lawsuits concerning Sands or Wynn have made several headlines that would prompt investors to exercise caution," said Edwin Fan, an analyst at BOC International. The U.S.-based companies are "being penalized by the negative news flow," he said.

While the regulatory and court scrutiny deters some investors, it hasn't damped roaring demand for gambling in Macau as rising incomes in China drive bettors to the island's casino resorts.

Gaming revenue in the gambling hub rose to 26.1 billion patacas (\$3.27 billion) in August from 24.8 billion patacas a year earlier, and more than doubling from the 11.3 billion patacas in August 2009, according to data from the city's Gaming Inspection and Coordination Bureau.

Galaxy profit is expected to double this year to HK\$6.4 billion, according to the average of 16 analyst [estimates](#) compiled by Bloomberg. The estimated profit growth is the Macau industry's fastest, driven in part by Galaxy's focus on China's middle-class gamblers, who bring higher

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margins because they tend to visit on their own rather than through VIP junkets, which take a share of profit.

Profit Jump

Galaxy's first-half profit climbed nine-fold after it drew more Chinese visitors to a gambling resort it set up last year. Its revenue overtook that of Sands China last year with HK\$41.2 billion, making it the city's second-largest operator after [SJM Holdings Ltd. \(880\)](#)

Despite the earnings growth, Galaxy's shares are still [relatively cheaper](#) than Sands China's. Its stock trades at 15.8 times estimated 2012 earnings compared with 22.1 times for Sands, according to data compiled by Bloomberg.

Profit at Adelson's Macau unit will probably rise about 13 percent to HK\$10 billion this year, according to the average of 15 analyst estimates compiled by Bloomberg. Wynn Macau earnings are expected to gain 15 percent to HK\$6.8 billion, the average of 11 analyst estimates.

Cotai Strip

Galaxy "has a good mix of VIP and mass-market gamblers," Au at Richland Capital said in a phone interview. "Galaxy also has good growth potential as it's expanding to double its capacity in three years."

On the territory's Cotai strip, a piece of reclaimed land that is the Asian equivalent of the [Las Vegas Strip](#)

, Sands' Venetian stands next door to Galaxy's more Asian-focused resort. The Venetian has artificial canals and singing gondoliers that resemble those of

[Venice](#)

. The Galaxy Macau offers a Shanghai- styled cabaret show at the kitsch China Rouge club.

SJM, founded by Hong Kong billionaire [Stanley Ho](#) and operated as Macau's casino monopoly for almost 40 years until 2002, is still the largest by revenue.

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“We understand the market, we understand the fabric of the society and we’re closer to the government as I see it, so we’re able to read the pulse better than the other operators,” Ambrose So, SJM chief executive officer, said in an interview in Macau this month. “We’re in a better position, though that’s not because the foreign players are facing lawsuits.”

Newspaper Seller

Lui arrived in Hong Kong as a refugee from mainland China at age four in 1934. He helped his family by selling food on the streets, his son Francis, who handles the day-to-day running of Galaxy, said in an interview with Bloomberg Markets magazine last year.

Galaxy Chairman and founder Lui is also close to the government. He’s a member of the 1,193-person committee that elects Hong Kong’s chief executive, and he was the first casino operator to win a permit to expand capacity in the latest cycle of government approvals.

Government Support

The permit win is “suggesting strong support from the Macau government,” Gabriel Chan, an analyst at Credit Suisse, said in a July research note. “The new project is set to provide Galaxy the first-mover advantage in the next round of casino opening cycles.”

Macau, like Hong Kong, is a special administrative region of China. Galaxy is expected to double its capacity and the expansion will be completed by 2015.

Macau locals including Galaxy and SJM still have a profit gap with Las Vegas-based rivals Wynn and Sands.

Adelson is scheduled to visit Macau today to open the latest expansion of one of his casinos on the island’s so-called Cotai strip.

The visit comes amid a probe of allegations by [Steven Jacobs](#), the former CEO of Sands China who sued in 2010 after he was fired.

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Jacobs claims Adelson directed him to secretly investigate Macau government officials and use “improper leverage” against them. Las Vegas Sands denied Jacobs’s allegations and said it is cooperating with the investigations.

To contact the reporter on this story: Vinicy Chan in Hong Kong at vchan91@bloomberg.net

To contact the editor responsible for this story: Stephanie Wong at swong139@bloomberg.net

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