

Melco Resorts May Have an Edge in Japan Casino Bidding -- The Motley Fool

Written by Administrator
Sunday, 22 April 2018 07:20 -

Hong Kong-based gaming operator **Melco Resorts & Entertainment** ([NASDAQ:MLCO](#)) may have catapulted itself to the front of the pack of casino operators trying to win one of the first licenses to be issued in Japan.

Like **Las Vegas Sands** and **MGM Resorts**, Melco has said it was willing to spend \$10 billion or more constructing its integrated resort. And like the Hard Rock Cafe, which last year established a local subsidiary in Japan for the express purpose of supporting "the company's growth plans in the region," Melco said it's willing to relocate its corporate headquarters to Japan if it's successful.

But what makes Melco Entertainment's effort stand out from all the others is its new security system that will monitor who enters and exits the casino. With the Japanese government worried about gambling addiction and people visiting the gaming halls too often, a security system that can track a gambler's comings and goings may be enough to sway the vote.



Image source: Getty Images.

The devil is in the details

The Japanese government is slowly hammering out the details on legislation to regulate the casino market, trying to carefully balance the lucrative potential legalized casino gambling brings with it against the relatively broad opposition from the public to the effort.

Gambling on various sports and forms of entertainment is legal in Japan, but casino gambling is not because of the country's higher than average rate of gambling addiction, which is said to run five times greater than in other countries with legalized casinos.

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As a result, tight rules are being negotiated for citizens that won't apply to tourists from other countries. Among the details worked out within just the past few weeks:

- Entry fees equal to \$56 will be imposed on Japanese entering a casino.
- Limiting casino visits to three times in one week, or 10 times in a month.
- Casino floor space will also be limited to just 3% of the total square footage of the entire resort, which is less than the 5% currently allocated in Macau.
- Casinos will be taxed at a rate of 30%, which, although higher than anywhere else in Asia, is lower than Macau's 39% rate and is much lower than the 50% tax that had previously been considered.

Diminishing returns

When the idea of legalizing casino gambling in Japan was first broached back in 2014, estimates of the market's value ran as high as \$40 billion, which would make it the most lucrative region in the world, exceeding even the value of Macau at its height.

However, in the ensuing years, and as legislation has wound its way through the government to make it a reality, analysts have scaled back their estimates. Recently, **Morgan Stanley** suggested it believes Japan's casino market could be worth just \$15 billion.

With only three licenses expected to be issued initially, analysts estimate that Tokyo will garner around 40% of the total market, or \$6 billion; Osaka will get about a quarter of the total, or \$4 billion; and the remainder will go to a third city.

Spending \$10 billion or more for a license might seem excessive then, but Melco Resorts has long said it was willing to do "whatever it takes" to secure one. However, it is the security system the resort operator unveiled earlier this year that may sway regulators the most.

Government watchdog

Gamblers coming to Melco's casino would be issued an identity card that would have to be shown upon each visit. Then the MelGuard security system would verify the identity of visitors electronically through fingerprints and facial recognition technology before opening and giving them access to the casino. That gives the company an effective means of imposing the strict rules established for Japanese citizens.

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Melco will also reportedly give the government free, unfettered access to all of the information its security system collects from visitors.

Assuming it's as effective and all-encompassing as reported, it doesn't seem like a stretch that the government would mandate the MelGuard system be installed at all casinos, or at least a similar level of monitoring.

In any event, Melco Resorts & Entertainment may have an edge in the license lottery that larger, more financially able casino operators do not.

[Rich Duprey](#) has no position in any of the stocks mentioned. The Motley Fool has no position in any of the stocks mentioned. The Motley Fool has a [disclosure policy](#).

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