

Will Macau Ever Be The World's Casino Capital Again?

Written by Administrator

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Ghost Town: After a strict Covid policy, Macau finally opened its borders to nonresidents in September 2022.

Universal Images Group via Getty Images

The region reported its first case of Covid in January 2020 and its once-packed casinos have still not recovered from it. Here's why analysts say don't bet against Macau in the long run.

Macau is on a serious losing streak.

Once known as the "Las Vegas of the East"—despite revenue three times that of Sin City in 2019—[Macau has been humbled](#) by the pandemic.

The special administrative region (SAR) of China reported its first case of Covid on January 20, 2020, and the government's response was swift. China's zero-Covid policy forced the brief closure of Macau's casinos and soon its borders were closed to nonresidents. With Macau essentially cut off from the world, including nearby Hong Kong, annual gambling revenue fell by 80%. The region reported a mere \$7.55 billion in 2020, compared with the year before when gamblers lost \$36.3 billion in Macanese casinos. Last year, revenue was still down 70%—\$10.83 billion—compared to pre-pandemic levels.

The real Las Vegas, meanwhile, has been dealt a much better hand. Blessed by a robust recovery, it brought in \$11.44 billion in gambling revenue last year, a 10% increase over 2019. Overall, Nevada has been enjoying an astonishing winning streak—reporting [17 straight months in which gaming revenue exceeded \\$1 billion](#)

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It took a lethal, highly contagious virus and strict government regulations from China, but Vegas is currently king of the casino industry. But no one believes that reign will last long. Brendan Bussmann, the managing partner of B Global, a consulting firm focused on gaming and hospitality, says a healthy Macanese casino economy has historically been three times the size

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of Vegas. The current pecking order with Vegas on top is strictly due to incredible circumstances.

“Vegas came back just as Macau will come back; it’s just a matter of time,” says Bussmann. “We’re at a collapsed point, but there’s only one place to go, which is up.”

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Casinos in the former Portuguese colony are now open and functioning, but the Asian gambling capital is nowhere close to a recovery. China’s Covid policy is still a threat to the gaming industry. The last time the government shut down casinos in Macau was a 12-day period in July. “Macau still remains a conundrum over when it will fully reopen,” says Bussmann. “It is one Covid case away from shutting back down.”

Rob Goldstein, the CEO of Las Vegas Sands—which has five properties in Macau, including the Venetian—said during an earnings call in June that the company hasn’t lost faith in the island that was responsible for 59% of its Ebitda in 2019.

“We retain great optimism and our ability to perform to pre-pandemic levels and beyond in Macau, once visitation returns,” said Goldstein, explaining that tourism rate is at 16% of pre-pandemic levels. “We would welcome the opportunity to invest billions of additional dollars in Macau. We continue to believe Macau is now outstanding market for additional investment.”

Las Vegas Sands, which was founded by the late billionaire entrepreneur Sheldon Adelson, has invested \$15 billion in Macau since it opened its [first casino there in 2004](#). Recently, the company has invested \$2.2 billion to build a new project on the Cotai Strip—the Londoner Macao, complete with a replica of the U.K. Parliament and “Big Ben,” the Londoner Court and the Grand Suites at Four Seasons Macao. After the company sold its Las Vegas properties to affiliates of Apollo Global Management, Inc. and VICI Properties Inc. for \$6.25 billion in February 2022, the company, which also operates the Marina Bay Sands casino in Singapore, is essentially an Asian gaming company.

Chad Beynon, a managing director and equity analyst at Macquarie Securities, expects Macau’s gambling revenue to recover to 2019 levels by 2024. The Chinese government is expected to lift the quarantine rules in Hong Kong, where the government mandated three days in a hotel and

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four days of monitoring at home, in October. Historically, most visitors come by ferry from Hong Kong, which is only about an hour ride. “[The quarantine rules] were massively restrictive, and not worth it,” says Beynon. “Macau is a day-trip market, most people go over on a ferry, and they come back at night. It's like going to Staten Island from Manhattan.”

While the timing of the recovery is uncertain, the gaming license renewal process brings even more uncertainty to the region. All licenses for the six gaming operators in Macau, which includes the Asian subsidiaries of Las Vegas Sands, MGM International and Wynn Resorts, expire at the end of 2022. A bidding process for a new ten-year license to operate in the market opened last week. All six current operators had been expected to get renewals, but Genting Group, the Malaysian gaming and cruise company run by [billionaire Lim Kok Thay](#), submitted a last-minute bid,

[according to](#)
[Wall Street Journal](#)

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There's now a possibility that all three Western companies will not have their licenses renewed, but that would send a strong protectionist message that could chill other U.S.-based investors in China. “The six incumbent concessionaires would say that they've done everything that's been asked of them in terms of employing locals, in terms of building what the government wanted them to build, particularly the Western companies,” Benyon says. “They've spent billions upon billions building what the government wanted.”

Until some of the questions about licenses and tourism are resolved, exactly when Macau will recover remains uncertain. Dan Wasiolek, a senior equity analyst at Morningstar who covers the gaming and hospitality industry, says Macau will likely feel more pain before a rebound. “Going into 2022, I think most people following this space, ourselves included, thought that we would see somewhat of a recovery,” says Wasiolek. “We've seen the opposite. This year, it's actually going to be a drop-off.”

Coming Up Empty: Macau reported its first case of Covid in January 2020—and tourism is now at 16%.

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Macau is still a good long-term bet, analysts say. Compared to Las Vegas, which is a mature market where the average return on investment is in the single digits, Macau, once it recovers,

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will give investors double-digit returns on capital, Wasiolek explains. Wasiolek expects a recovery by the end of 2024 or perhaps the beginning of 2025, but that is rife with a possible downside. “There could be a million reasons that make that prediction incorrect,” he says.

Despite the drastic downturn, Wasiolek believes two elements remain safe bets about Macau—the near term is “highly uncertain,” and the long-term outlook “remains bright,” he says. “We’re just waiting for China to exhale and to allow things to return to normal,” he says. “Macau will rise again.”

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