

## Macau Gaming MTD Update:

### Robust Inbound Visitation Growth from Mainland China; Accelerating VIP Rolling Momentum

#### Accelerating Momentum in Both Mass and VIP Segments

We estimate that the Average Daily Revenue (ADR) in Macau for first half of July (1<sup>st</sup>- 15<sup>th</sup>) impressively reached ~ MOP800, up 10% YoY despite the distraction of the final week in FIFA World Cup Russia. We expect that during the second half of July GGR growth is likely to reach 19% YoY, faster than in May before the World Cup. Break down the segment of GGR, we estimate that VIP grew ~12 YoY, and mass grew ~20% YoY in July. VIP GGR growth rate was dragged down by a very high win rate of 3.3% during the same period last July, which was ~15% higher than the normal win rate of 2.85%.

Exhibit 1: GGR Growth Breakdown by Segment

GGR YoY by Segment - 072018			
Segment	GGR Contribution	Growth Rate YOY	Weighted Growth YoY
VIP	56%	12%	7%
Mass + Slot	44%	20%	9%
Total	100%		16%

Source: JL Warren Capital LLC

Contrary to the sell-side analysts, who recently downgraded Macau gaming stocks based on the VIP GGR growth deceleration in H2 2018 and beyond, we see the opposite trend in VIP rolling growth. We believe that rolling represents the demand to gamble. We think sell-side analysts confuse rolling and GGR in their analysis. Rolling represents demand but GGR is influenced by luck factors in each room. GGR is calculated by rolling amount, times luck factor. Luck factor normalizes around 2.85% historically and is set by algorithm with no human interference. For example, Sun City, the largest junket operator in Macau who has 42% of the market by rolling, saw rolling growth of 19% YoY for first 14 days in July (even with the final week of World Cup in the backdrop), accelerating from 17% YoY. However, during the period, the win rate in VIP rooms operated by Sun City averaged ~2.95%, 12% lower than 3.35% last June. Lower win rate at SC alone dragged industry VIP GGR by 5%.

Exhibit 2: Macau Gaming Monthly GGR

2018 Macau GGR Forecast				
Month	Monthly GGR	Daily GGR	Days	2018/2017
Jan	26,260	847	31	36%
Feb	24,304	868	28	6%
Mar	25,950	837	31	22%
Apr	25,728	858	30	28%
May	25,500	823	31	12%
Jun	22,490	750	30	12%
Jul E	26,660	860	31	16%
Aug E	26,660	860	31	18%
Sep E	25,800	860	30	21%
Oct E	28,830	930	31	8%
Nov E	25,800	860	30	12%
Dec E	26,660	860	31	17%
<b>Total</b>	<b>310,642</b>	<b>851</b>	<b>365</b>	<b>17%</b>

Source: DICJ, JL Warren Capital LLC

In addition to the estimated 12 YoY growth in rolling in VIP rooms, the mass segment also continued to grow rapidly at ~20% YoY in July. According to air travel data from China Aviation, Macau remains to be the fastest growing destinations for outbound tourists from mainland China. The number of mainland Chinese visitations via flight grew 60%, and 52% YoY in June and H1 2018, respectively, far exceeding to overall outbound tourists' growth of 17% and 13% respectively.

Exhibit 3: Outbound Flight Passenger Data by Destination – Jun 2018

Outbound Passenger Counts	June 2018	% Total	June 2017	% Total	% YoY
Macau	119,597	3.4%	74,748	2.5%	60.0%
South Korea	329,156	9.5%	220,910	7.4%	49.0%
Japan	558,365	16.1%	407,566	13.7%	37.0%
Africa	6,979	0.2%	5,410	0.2%	29.0%
Latin America	5,758	0.2%	4,534	0.2%	27.0%
Asia Ex. Japan, Korea	913,151	26.3%	801,010	27.0%	14.0%
Hongkong	322,821	9.3%	283,176	9.5%	14.0%
Europe	543,132	15.6%	498,286	16.8%	9.0%
Australia and New Zealand	92,132	2.7%	86,105	2.9%	7.0%
Nother America	358,174	10.3%	361,792	12.2%	-1.0%
Taiwan	222,983	6.4%	227,534	7.7%	-2.0%
<b>Total</b>	<b>3,472,248</b>	<b>100.0%</b>	<b>2,971,070</b>	<b>100.0%</b>	<b>16.9%</b>

Source: China Aviation, JL Warren Capital LLC

Exhibit 4: Outbound Flight Passenger Data by Destination – H1 2018

Outbound Passenger Counts	H1 2018	% Total	H1 2017	% Total	% YoY
Macau	723,317	3.3%	476,015	2.4%	52.0%
Japan	3,037,883	13.8%	2,523,200	13.0%	20.4%
Hongkong	1,512,793	6.9%	1,283,448	6.6%	17.9%
Asia Ex. Japan, Korea	7,255,699	33.0%	6,248,035	32.1%	16.1%
Australia and New Zealand	892,676	4.1%	779,526	4.0%	14.5%
Latin America	72,579	0.3%	64,028	0.3%	13.4%
Europe	2,714,449	12.4%	2,530,559	13.0%	7.3%
South Korea	1,978,358	9.0%	1,847,690	9.5%	7.1%
Nother America	1,884,422	8.6%	1,842,600	9.5%	2.3%
Taiwan	1,563,480	7.1%	1,528,838	7.8%	2.3%
Africa	338,067	1.5%	355,539	1.8%	-4.9%
<b>Total</b>	<b>21,973,723</b>	<b>100.0%</b>	<b>19,479,477</b>	<b>100.0%</b>	<b>12.8%</b>

Source: China Aviation, JL Warren Capital LLC

#### Risks:

On July 1th, the official data showed China's GDP growth decelerating to 6.7% year-on-year in Q2 as government-led infrastructure including roads, railways, subways, and public facilities, spending slowed materially to 7.3% YoY from 9.4% YoY during 5M 2018. GDP growth in H1 2018 was in line with consensus of 6.8% YoY (surprisingly!) Analysts attribute the slowdown to Beijing's efforts to rein in local government borrowing as part of the deleverage campaign. Deleverage is a macro headwind to gaming industry, which is highly cyclical. However, the risks could be offset at least partially by possibly more active fiscal project launches in H2. Historically Macau GGR correlates with government-led investments overall.

Sector specifically, we believe that Macau, as a supply driven, unique tourism destination, continues to take share from the Chinese travel budget as indicated in our monthly outbound air passenger data. Long planned infrastructure expansion invites more visitations, longer stays and higher budget. In the coming months, the HK-Zhuhai-Macau bridge, new casinos (MLCO/Morpheus, MGM/Sky Loft), increased tables (approved by local government), and expanded entertainment choices will ensure that the GGR growth in Macau will outpace China's GDP growth by multiple times.

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