

Macau Gaming

Rating: **Negative**

News of junket capital absconding – a repeat of last year’s Kimren incident?

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■ Highlights

Staff at one of Macau’s junket operator, Dore Holdings, had allegedly absconded with its cage capital earlier this week. While the exact amount in question is difficult to quantify, our on-the-ground checks have indicated an amount ranging from HKD200m to as high as HKD2b. This newest development echoes a similar incident in April 2014 when a junket principal of Kimren allegedly absconded with USD1b. While similar incidents had been purportedly occurred since April 2014, the balance in this instance, even at the low end, is material and quite significant.

In our view, there are three direct and tangible negative implications of this new development:

Renewed capital flight. The Kimren incident last year resulted in widespread panic and paralysis across the industry which culminated in widespread cash withdrawals by 3rd party depositors.

As a whole, the junket segment never recovered from this liquidity squeeze since. We are already seeing signs of this today, with individuals purportedly rushing to the junket (Dore) in an attempt to withdraw funds.

Contagion impact on Suncity and beyond. While it is difficult to ascertain the exact relationship between Dore and Suncity (Macau’s #1 junket), there is an observable connection between the two. As of today, Suncity continues to advertise Dore’s 2 junket rooms on its website (see attached). We have noted in our last sector downgrade (link below) that Suncity is now Macau’s best performing and largest junket operator representing 35% of the VIP market share. We expect the potential negative contagion impact from Dore to adversely influence the businesses of Suncity.

Furthermore, our on-the-ground checks points to the possibility that other junket operators may share some of Dore’s existing stakeholders which may exacerbate this contagion impact.

Bad debts for casino operator. Based on our proprietary junket count, Dore operates exclusively in Wynn Macau with 2 VIP rooms. While all junket operator are very much disinclined to jeopardize their relationships with casino operators, Wynn may still face some form of bad debt in the event that the junket’s remaining capital base is unable to absorb the loss. Continued junket closures are a real possibility, and as previously highlighted, we have already witnessed an acceleration of junket closures in the past 2 months. There are at least 11 VIP rooms slated for closure in Aug/Sep 15 alone, based on our count.

This new development also echoes comments made earlier by Rob Goldstein, President and COO of Las Vegas Sands ([link](#)), who views Macau’s existing junket model as “broken” with concerns on anti-money-laundering and money movement to Macau from China.

Despite the fact that the VIP segment has been the main drag on the sector GGR (falling by 56% YoY YTD v. -24% YoY by the mass market), it still represents a very material 50% of Macau’s revenue base today.

We remain Negative on the sector and will continue to monitor the situation.

*For more, see our latest in-depth **sector Report (47 pages)**, [A falling house of cards](#), 18 August 2015*

In the interests of timeliness, this document has not been edited.

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