

Macau Gaming

Rating: **Negative**

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

Jamie Soo, CA
(852) 2773 8529
jamie.soo@hk.daiwacm.com

Adrian Chan, CFA
(852) 2848 4427
adrian.chan@hk.daiwacm.com

Jennifer Wu
Jennifer Wu (852) 2532 4308
jennifer.wu@hk.daiwacm.com

■ 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.

Important Disclosures and Disclaimer

This publication is produced by Daiwa Securities Group Inc. and/or its non-U.S. affiliates, and distributed by Daiwa Securities Group Inc. and/or its non-U.S. affiliates, except to the extent expressly provided herein. This publication and the contents hereof are intended for information purposes only, and may be subject to change without further notice. Any use, disclosure, distribution, dissemination, copying, printing or reliance on this publication for any other purpose without our prior consent or approval is strictly prohibited. Neither Daiwa Securities Group Inc. nor any of its respective parent, holding, subsidiaries or affiliates, nor any of its respective directors, officers, servants and employees, represent nor warrant the accuracy or completeness of the information contained herein or as to the existence of other facts which might be significant, and will not accept any responsibility or liability whatsoever for any use of or reliance upon this publication or any of the contents hereof. Neither this publication, nor any content hereof, constitute, or are to be construed as, an offer or solicitation of an offer to buy or sell any of the securities or investments mentioned herein in any country or jurisdiction nor, unless expressly provided, any recommendation or investment opinion or advice. Any view, recommendation, opinion or advice expressed in this publication may not necessarily reflect those of Daiwa Securities Group Inc., and/or its affiliates nor any of its respective directors, officers, servants and employees except where the publication states otherwise. This research report is not to be relied upon by any person in making any investment decision or otherwise advising with respect to, or dealing in, the securities mentioned, as it does not take into account the specific investment objectives, financial situation and particular needs of any person.

Daiwa Securities Group Inc., its subsidiaries or affiliates, or its or their respective directors, officers and employees from time to time have trades as principals, or have positions in, or have other interests in the securities of the company under research including market making activities, derivatives in respect of such securities or may have also performed investment banking and other services for the issuer of such securities. The following are additional disclosures.

Ownership of Securities

For "Ownership of Securities" information, please visit BlueMatrix disclosure link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Investment Banking Relationship

For "Investment Banking Relationship", please visit BlueMatrix disclosure link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Japan

Daiwa Securities Co. Ltd. and Daiwa Securities Group Inc.

Daiwa Securities Co. Ltd. is a subsidiary of Daiwa Securities Group Inc.

Investment Banking Relationship

Within the preceding 12 months, the subsidiaries and/or affiliates of Daiwa Securities Group Inc. * has lead-managed public offerings and/or secondary offerings (excluding straight bonds) of the securities of the following companies: Modern Land (China) Co. Ltd (1107 HK); econtext Asia Ltd (1390 HK); Accordia Golf Trust (AGT SP); Hua Hong Semiconductor Ltd (1347 HK); GF Securities Co Ltd (1776 HK); Mirae Asset Life Insurance Co Ltd (085620 KS).

*Subsidiaries of Daiwa Securities Group Inc. for the purposes of this section shall mean any one or more of: Daiwa Capital Markets Hong Kong Limited (大和資本市場香港有限公司), Daiwa Capital Markets Singapore Limited, Daiwa Capital Markets Australia Limited, Daiwa Capital Markets India Private Limited, Daiwa-Cathay Capital Markets Co., Ltd., Daiwa Securities Capital Markets Korea Co., Ltd.

Hong Kong

This research is distributed in Hong Kong by Daiwa Capital Markets Hong Kong Limited (大和資本市場香港有限公司) ("DHK") which is regulated by the Hong Kong Securities and Futures Commission. Recipients of this research in Hong Kong may contact DHK in respect of any matter arising from or in connection with this research.

Relevant Relationship (DHK)

DHK may from time to time have an individual employed by or associated with it serves as an officer of any of the companies under its research coverage.

Singapore

This research is distributed in Singapore by Daiwa Capital Markets Singapore Limited and it may only be distributed in Singapore to accredited investors, expert investors and institutional investors as defined in the Financial Advisers Regulations and the Securities and Futures Act (Chapter 289), as amended from time to time. By virtue of distribution to these category of investors, Daiwa Capital Markets Singapore Limited and its representatives are not required to comply with Section 36 of the Financial Advisers Act (Chapter 110) (Section 36 relates to disclosure of Daiwa Capital Markets Singapore Limited's interest and/or its representative's interest in securities). Recipients of this research in Singapore may contact Daiwa Capital Markets Singapore Limited in respect of any matter arising from or in connection with the research.

Australia

This research is distributed in Australia by Daiwa Capital Markets Australia Limited and it may only be distributed in Australia to wholesale investors within the meaning of the Corporations Act. Recipients of this research in Australia may contact Daiwa Capital Markets Stockbroking Limited in respect of any matter arising from or in connection with the research.

India

This research is distributed in India to Institutional Clients only by Daiwa Capital Markets India Private Limited (Daiwa India) which is an intermediary registered with Securities & Exchange Board of India as a Stock Broker, Merchant Bank and Research Analyst. Daiwa India, its Research Analyst and their family members and its associates do not have any financial interest save as disclosed or other undisclosed material conflict of interest in the securities or derivatives of any companies under coverage. Daiwa India and its associates may have received compensation for any products other than Investment Banking (as disclosed) or brokerage services from the subject company in this report during the past 12 months. Unless otherwise stated in BlueMatrix disclosure link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>, Daiwa India and its associates do not hold more than 1% of any companies covered in this research report.

There is no material disciplinary action against Daiwa India by any regulatory authority impacting equity research analysis activities as of the date of this report.

Taiwan

This research is distributed in Taiwan by Daiwa-Cathay Capital Markets Co., Ltd and it may only be distributed in Taiwan to institutional investors or specific investors who have signed recommendation contracts with Daiwa-Cathay Capital Markets Co., Ltd in accordance with the Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers. Recipients of this research in Taiwan may contact Daiwa-Cathay Capital Markets Co., Ltd in respect of any matter arising from or in connection with the research.

Philippines

This research is distributed in the Philippines by DBP-Daiwa Capital Markets Philippines, Inc. which is regulated by the Philippines Securities and Exchange Commission and the Philippines Stock Exchange, Inc. Recipients of this research in the Philippines may contact DBP-Daiwa Capital Markets Philippines, Inc. in respect of any matter arising from or in connection with the research. DBP-Daiwa Capital Markets Philippines, Inc. recommends that investors independently assess, with a professional advisor, the specific financial risks as well as the legal, regulatory, tax, accounting, and other consequences of a proposed transaction. DBP-Daiwa Capital Markets Philippines, Inc. may have positions or may be materially interested in the securities in any of the markets mentioned in the publication or may have performed other services for the issuers of such securities.

For relevant securities and trading rules please visit SEC and PSE links at <http://www.sec.gov.ph/irr/AmendedIRRFinalversion.pdf> and <http://www.pse.com.ph/> respectively.

Thailand

This research is distributed to only institutional investors in Thailand primarily by Thanachart Securities Public Company Limited ("TNS").

This report is prepared by analysts who are employed by Daiwa Securities Group Inc. and/or its non-U.S. affiliates. This report is provided to you for informational purposes only and it is not, and is not to be construed as, an offer or an invitation to make an offer to sell or buy any securities. Neither Thanachart Securities Public Company Limited, Daiwa Securities Group Inc. nor any of their respective parent, holding, subsidiaries or affiliates, nor any of their respective directors, officers, servants and employees accept any liability whatsoever for any direct or consequential loss arising from any use of this research or its contents.

The information and opinions contained herein have been compiled or arrived at from sources believed to be reliable. However, Thanachart Securities Public Company Limited, Daiwa Securities Group Inc. nor any of their respective parent, holding, subsidiaries or affiliates, nor any of their respective directors, officers, servants and employees make no representation or warranty, express or implied, as to their accuracy or completeness. Expressions of opinion herein are subject to change without notice. The use of any information, forecasts and opinions contained in this report shall be at the sole discretion and risk of the user.

Daiwa Securities Group Inc. and/or its non-U.S. affiliates perform and seek to perform business with companies covered in this research. Thanachart Securities Public Company Limited, Daiwa Securities Group Inc., their respective parent, holding, subsidiaries or affiliates, their respective directors, officers, servants and employees may have positions and financial interest in securities mentioned in this research. Thanachart Securities Public Company Limited, Daiwa Securities Group Inc., their respective parent, holding, subsidiaries or affiliates may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any entity mentioned in this research. Therefore, investors should be aware of conflict of interest that may affect the objectivity of this research.

United Kingdom

This research report is produced by Daiwa Capital Markets Europe Limited and/or its affiliates and is distributed in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority ("FCA") and is a member of the London Stock Exchange, Eurex and NYSE Liffe. This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>.

Germany

This document is distributed in Germany by Daiwa Capital Markets Europe Limited, Niederlassung Frankfurt which is regulated by BaFin (Bundesanstalt fuer Finanzdienstleistungsaufsicht) for the conduct of business in Germany.

Bahrain

This research material is distributed in Bahrain by Daiwa Capital Markets Europe Limited, Bahrain Branch, regulated by The Central Bank of Bahrain and holds Investment Business Firm – Category 2 license and having its official place of business at the Bahrain World Trade Centre, South Tower, 7th floor, P.O. Box 30069, Manama, Kingdom of Bahrain. Tel No. +973 17534452 Fax No. +973 535113

United States

This report is distributed in the U.S. by Daiwa Capital Markets America Inc. (DCMA). It may not be accurate or complete and should not be relied upon as such. It reflects the preparer's views at the time of its preparation, but may not reflect events occurring after its preparation; nor does it reflect DCMA's views at any time. Neither DCMA nor the preparer has any obligation to update this report or to continue to prepare research on this subject. This report is not an offer to sell or the solicitation of any offer to buy securities. Unless this report says otherwise, any recommendation it makes is risky and appropriate only for sophisticated speculative investors able to incur significant losses. Readers should consult their financial advisors to determine whether any such recommendation is consistent with their own investment objectives, financial situation and needs. This report does not recommend to U.S. recipients the use of any of DCMA's non-U.S. affiliates to effect trades in any security and is not supplied with any understanding that U.S. recipients of this report will direct commission business to such non-U.S. entities. Unless applicable law permits otherwise, non-U.S. customers wishing to effect a transaction in any securities referenced in this material should contact a Daiwa entity in their local jurisdiction. Most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as a process for doing so. As a result, the securities discussed in this report may not be eligible for sales in some jurisdictions. Customers wishing to obtain further information about this report should contact DCMA: Daiwa Capital Markets America Inc., Financial Square, 32 Old Slip, New York, New York 10005 (Tel no. 212-612-7000).

Ownership of Securities:

For "Ownership of Securities" information please visit BlueMatrix disclosure link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Investment Banking Relationships:

For "Investment Banking Relationships" please visit BlueMatrix disclosure link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

DCMA Market Making:

For "DCMA Market Making" please visit BlueMatrix disclosure link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Research Analyst Conflicts:

For updates on "Research Analyst Conflicts" please visit BlueMatrix disclosure link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>. The principal research analysts who prepared this report have no financial interest in securities of the issuers covered in the report, are not (nor are any members of their household) an officer, director or advisory board member of the issuer(s) covered in the report, and are not aware of any material relevant conflict of interest involving the analyst or DCMA, and did not receive any compensation from the issuer during the past 12 months except as noted: no exceptions.

Research Analyst Certification:

For updates on "Research Analyst Certification" and "Rating System" please visit BlueMatrix disclosure link at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>. The views about any and all of the subject securities and issuers expressed in this Research Report accurately reflect the personal views of the research analyst(s) primarily responsible for this report (or the views of the firm producing the report if no individual analysts[s] is named on the report); and no part of the compensation of such analyst(s) (or no part of the compensation of the firm if no individual analyst[s] is named on the report) was, is, or will be directly or indirectly related to the specific recommendations or views contained in this Research Report.

The following explains the rating system in the report as compared to relevant local indices, unless otherwise stated, based on the beliefs of the author of the report.

- "1": the security could outperform the local index by more than 15% over the next 12 months.
- "2": the security is expected to outperform the local index by 5-15% over the next 12 months.
- "3": the security is expected to perform within 5% of the local index (better or worse) over the next 12 months.
- "4": the security is expected to underperform the local index by 5-15% over the next 12 months.
- "5": the security could underperform the local index by more than 15% over the next 12 months.

Disclosure of investment ratings

Rating	Percentage of total
Buy*	60.4%
Hold**	26.0%
Sell***	13.6%

Source: Daiwa

Notes: data is for single-branded Daiwa research in Asia (ex Japan) and correct as of 30 June 2015.

* comprised of Daiwa's Buy and Outperform ratings.

** comprised of Daiwa's Hold ratings.

*** comprised of Daiwa's Underperform and Sell ratings.

Additional information may be available upon request.

Japan - Additional notification items pursuant to Article 37 of the Financial Instruments and Exchange Law

(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with us based on the information described in materials presented along with this document, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, we will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction.
- In some cases, we may also charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident of Japan.
- For derivative and margin transactions etc., we may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements.

- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by us.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.
* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with us.

Corporate Name: Daiwa Securities Co. Ltd.
Financial instruments firm: chief of Kanto Local Finance Bureau (Kin-sho) No.108
Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan
Japan Securities Investment Advisers Association
Type II Financial Instruments Firms Association