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## Focus on Asia:

### Suncity's Path From Junket Promoter to Integrated Resort Developer

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January 5, 2021

As widespread production of Covid-19 vaccines ramps up in early 2021, and as governments implement protocols to assure that inbound travelers are vaccinated, international tourism should begin to recover in the latter half of 2021. Primary beneficiaries will be travel, leisure, and hospitality companies that rely on international visitation for the bulk of their revenue. Suncity Group is one company that is poised to benefit from a re-emergence of international travel, particularly among wealthy citizens from the Peoples Republic of China (PRC).

Suncity Group Holdings Limited is a diversified leisure and entertainment company whose portfolio includes a travel services company, an entertainment division that assembles and promotes concerts, a food & beverage division that operates a variety of restaurant brands, and a division that develops and operates integrated casino resorts. Suncity is also one of Asia's largest junket promoters. It operates VIP gaming rooms in casinos across Asia including the Philippines, Vietnam, and Macau. It is this junket division that has historically brought the company much of its success, and it remains a linchpin in its business strategy.

Junket promoters are an integral part of the Asian casino industry. In its simplest form, a junket promoter facilitates travel for its casino customers. A junket promoter arranges air transportation, visas, and accommodations at casinos. They also extend gambling funds so that players do not have to carry large amounts of cash across international borders. This latter service is indispensable since the collection of gambling debts in the PRC is illegal. Since casino operators cannot sue to collect on markers issued to Chinese players, junket promoters mitigate the risk by providing credit and assuming that potential liability. Junket promoters are paid a commission by casino operators predicated on the wagering volume of the promoter's customers, often referred to as VIP players.

#### Macau

Suncity is the largest junket promoter in Macau. It operates VIP gaming rooms within some of the Special Economic Zone's (SAR) largest integrated resorts, and gaming revenue derived from junket players remains the biggest contributor to Macau's gaming revenues. According to the DICJ, Macau's gaming regulatory authority, in 2019 Macau's casinos generated USD \$36.7

billion in gross gaming revenue (GGR). 46.2% of GGR, or USD \$17 billion was generated by junket and VIP direct players. It has been reported that Suncity maintains a 45% share of the Macau junket market. Using these assumptions, Suncity's customers alone lost approximately USD \$7 billion in 2019. Put more simply, Suncity, a company that does not own a hotel-casino in Macau and does not hold one of the SAR's six gaming concessions, was probably responsible for about 20% of the SAR's 2019 GGR.

Suncity is a powerful force in Macau's gaming industry and its ability to re-start the delivery of VIP players from the PRC will be essential if Macau is to quickly recover once the pandemic abates. Given Suncity's position in the market, its ability to deliver VIP players, and its aspirations to become an international casino operator, the company hopes to receive a coveted gaming concession when they come up for renewal and possible tender in 2022.

## Vietnam

Suncity's ambitions are not confined to Macau. In June of 2020, the company and its Vietnamese partners, VinaCapital Group and Chow Tai Fook Enterprises, opened Hoiana, an integrated casino-resort on Vietnam's central coast, just south of Danang. Suncity owns a 34% stake in the USD \$4 billion project. Phase I includes 1,000 hotel keys, a championship golf course, multiple dining, leisure and entertainment venues, and a casino. While the pandemic has slowed the property's ramp-up, it is expected to be fully operational by 2022. The success of the project is dependent in large part on Suncity's ability to expand its database of premium gaming customers and bring a portion of them to the property.

## Vladivostok

In June of 2020, a subsidiary of Suncity Group acquired a majority stake in The Tigre de Cristal Casino Resort, located just outside of Vladivostok. Tigre de Cristal was originally developed by Summit Ascent and was the first casino to open in the Primorye gaming zone. Vladivostok is emerging as a regional gaming destination, serving the cities of Northern China, Korea, and Japan. NagaCorp is expected to also enter the market, creating a critical mass of gaming, lodging and entertainment. VIP players from Harbin, Shenyang and Changchun are expected to serve as key target markets. Suncity's network of premium customers is expected to grow demand to this gaming zone.

## Sihanoukville

In 2018, Suncity entered into a consultancy agreement with Golden Sun Sky, a company currently developing an integrated casino resort in Sihanoukville, Cambodia. Upon completion, Golden Sun Sky will contain over 2,000 lodging keys, over 500 gaming tables, and 3,000 electronic gaming devices. Sihanoukville is emerging as a regional gaming destination serving the cities of Southern China, Thailand, and Malaysia.

## The Philippines

Suncity has long operated in the Philippines, and the company continues to invest in the market. Its experience goes back to the early 2000s, when a legacy company operated a casino in the Cagayan Special Economic Zone. The company also operates VIP gaming tables in casinos in Entertainment City and greater Manila.

In 2019, the company announced that it reached an agreement to serve as the exclusive operator of a casino at an integrated resort under development in Entertainment City. The casino-hotel will feature 400 table games, 1,200 electronic gaming devices, and 400 lodging keys.

Over the past fifteen years, Suncity Group has built a formidable travel and leisure company and, with it, the ability to target and serve premium customers, particularly those with a propensity to gamble. More importantly, the company has a sizable database of customers who trust the brand and can be enticed to visit other Suncity branded properties. Its success in reaching agreements to operate casinos in Vietnam, the Philippines, and Cambodia has opened up the possibility of obtaining a concession to operate a casino in Macau. It has even given the company aspirations to develop an integrated resort in Wakayama, Japan. Its strategy is to leverage its experience as a junket promoter, and become a major operator of casino-resorts across Asia.

## The Wrench in the Engine

In December of 2020, China's National People's Congress passed an amendment to its criminal law that will make it a crime to organize mainland Chinese citizens to gamble outside of the country. The penalty for such an infraction is severe, with prison sentences of up to five years for minor infractions and up to 10 years for more serious ones. While it is unclear whether the law targets people or organizations that organize gambling trips to Macau, it is unambiguous as it relates to overseas gambling. Those junket promoters that organize gaming trips to Korea, Russia, the Philippines, Cambodia, Malaysia, and Vietnam are clearly targets of this new law.

This recent announcement is an issue that may impact Suncity's business strategy and survival as both an operator and junket promoter. Suncity is faced with a dilemma. Its business model is predicated in large part on catering to wealthy Chinese, particularly those with a penchant to gamble. Continuation of that business strategy might put the company in the crosshairs of the PRC, and recent history has shown that is not a good place to be.

Macau's gaming regulators may also find themselves facing a Hobson's Choice. Suncity will play a critical role in the casino industry's recovery if the company can successfully entice its customers to return. If Macau's gaming regulators grant a casino concession to Suncity and allow the company to develop an integrated resort, they could incur the wrath of the PRC. Conversely, if the gaming authority denies a concession to Suncity, Suncity could take their customers and divert them to their other properties.

Tough decisions will have to be made in the next year by both Suncity and Macau's gaming authorities.