

By Vinicy Chan

Jan. 23 (Bloomberg) -- Across the way from casino mogul Stanley Ho's Grand Lisboa in Macau, flashing neon lights lure cash-strapped gamblers to pawn their Rolexes and other trinkets and take another tilt at the gaming tables.

In almost any other city, these "receptacles of misery and distress," as Charles Dickens termed pawnshops, thrive in times of economic downturn. Not in Macau, where they help fuel a casino market that's six times the Las Vegas Strip by enabling the mainland Chinese who crowd the gaming tables to sidestep China's currency controls.

Gambling revenue in the city of 576,000 people will climb 16 percent to a record \$44 billion this year, driven by mass-market visitors from China as operators try to cut their reliance on high-rollers, Credit Suisse Group AG estimates.

Unlike the VIPs, these gamblers don't have ready access to casino-linked credit lines.

"Unofficial funding channels, such as pawnshops, are likely to gain more importance as the casinos are keen to attract more premium-mass gamblers," said Gabriel Chan, an analyst in Hong Kong for the Zurich-based bank. To skirt the cap on yuan they can take out of China, gamblers buy expensive goods from pawnshops using debit cards and trade them in for cash at the same store, he said.

Middle-class Chinese tourists have helped fuel growth in Macau. Revenue from mass-market gamblers will rise at least 25 percent this year, exceeding the industry's gain, according to Credit Suisse and Deutsche Bank AG estimates.

Two Billionaires

That will mean continued profits for casinos including billionaire Sheldon Adelson's Venetian -- Macau's biggest resort

-- Ho's Grand Lisboa and Lui Che-woo's Galaxy Macau. Shares of Galaxy Entertainment Group Ltd. have more than doubled in the past 12 months, while Sands China Ltd. jumped 52 percent and Ho's SJM Holdings Ltd. soared 60 percent. All outperformed the Hong Kong Hang Seng Index's 18 percent gain.

There's room to grow. Sands China, controlled by Adelson, who is 18 on the Bloomberg Billionaires Index (Lui is ranked 68), and Galaxy Entertainment may benefit the most from the boom because of their focus on premium-mass gamblers. Both are rated the equivalent of a buy by Credit Suisse and Deutsche Bank.

The price of SJM, which operates 20 of Macau's 35 casinos, is about 20 times its earnings, lower than the average of 22 for 16 global peers compiled by Bloomberg. Galaxy Entertainment has a multiple of about 24, and Steve Wynn's Wynn Macau Ltd. unit trades at about 16, according to the data.

Mainland Tourists

Tourists from mainland China can bring 20,000 yuan (\$3,217) when traveling across the border, and withdraw as much as 10,000 yuan a day with each card at cash machines. The average Chinese visitor stays about two nights in Macau, a territory of China that, like Hong Kong, has retained its own currency and legal system since the end of colonial rule.

Premium mass-market visitors form the top tier of the mass market, typically spending as much as 500,000 yuan a trip and placing minimum bets of 2,000 yuan per hand, said Karen Tang, a Hong

Kong-based analyst at Deutsche Bank. The high-rollers, who bet at least 10,000 yuan a hand, account for about two-thirds of revenue in the world's largest gambling hub.

VIP baccarat rose 7.5 percent to 210.9 billion patacas in Macau last year, according to data compiled by Bloomberg Industries. All other games climbed 30 percent to 93.3 billion.

Off Macau's bustling Avenida da Amizade, at one of dozens of pawnshops operating 24 hours a day, a salesman named Ah Keung said customers typically come in to buy valuables using a debit or credit card.

Instant Credit

"We'll then refund them in Macau patacas or Hong Kong dollars in cash as if they had decided to sell the goods immediately," Ah Keung said. Pawnshops usually take 5 percent to 10 percent of the cash refund as commission, he said.

Macau's pawnshops provide instant credit to gamblers who run out of cash, in contrast to their role until the 1960s as a bank for the poor and a place for the rich to store their valuables, according to a leaflet from the Tak Seng On Pawn Shop Museum, run by the government's Cultural Affairs Bureau.

These shops, with a 450-year history dating back to the Qing dynasty, flourished after the government ended a 40-year gaming monopoly in 2002 and opened the market to foreign operators including Las Vegas Sands Corp. and Steve Wynn's Wynn Resorts Ltd.

The number of pawnshops in Macau more than tripled in the past 10 years to about 170, said Chou Chin-Leong, president of the Macau General Chamber of Pawnbrokers.

No Limit

There are no official figures on pawnshops' contribution to casino revenue, and Chou declined to provide financial information.

Unlike in neighboring Hong Kong, Macau pawnbrokers can have a retail business on the premises and there is no limit on how much they can loan in exchange for valuables, said Chou, who started working in the trade about 30 years ago and owns seven pawnshops, three jewelry stores and three restaurants.

Rolex, IWC and Cartier watches, diamond jewelry and gold Buddha statues are among the most popular items for sale, said a saleswoman at Ka Shing Pawn Shop who would only give her name as Wing.

Pledged valuables that aren't redeemed, alongside brand-new items that pawnshops buy directly overseas at reduced costs, are then sold to bargain-hunters.

Retail Contributor

In a sign of pawnshops' changing role, the retail business has become the main earnings contributor, accounting for as much as 70 percent of profits, Chou said.

Spokesmen for Visa Inc., the world's biggest electronic- payments network, and China UnionPay, the national bankcard network, declined to comment on how much mainland Chinese spend in Macau.

Mainland Chinese make up as much as 80 percent of all visitors at Sands China Ltd. casinos, said Melina Leong, a spokeswoman at the owner of the Venetian.

Casino revenue is the biggest contributor to economic growth in the city, a former Portuguese colony that's half the size of Manhattan, accounting for 45 percent of gross domestic product in 2011. Spurred by casino earnings, per-capita GDP jumped more than fourfold within a decade to \$67,093 in 2011.

The city's casino market is also driven by the middleman or junket operator, who brings in high-stakes gamblers betting as much as the legal limit of 250,000 patacas a hand, equivalent to more than \$30,000.

Junket Operators

Junket operators identify high-rollers in China, organize their trips to Macau, and offer credit. They also enforce and collect gambling debts on behalf of the casinos in a legal void, said Steve Vickers, a former commander of the Royal Hong Kong Police's Criminal Intelligence Bureau, who now runs his own credit-risk and corporate investigation company.

"The junkets have evolved into a major component of an informal financial system," Vickers wrote in an e-mail.

Suspicious transaction records related to the financial and gaming industries more than doubled to 1,563 cases in 2011 from 725 in 2007, Macau's Financial Intelligence Office said in its 2011 annual report. There were no suspicious transactions reported by pawnshops for the past five years, according to Daniel Tang, a senior officer at the office.

Pawnbrokers are required to submit a monthly report to Macau police listing what has been pawned in the past 30 days and may have to produce customer records upon requests from the police, Tang said in an e-mailed response to a Bloomberg News query.

Restaurant Bills

A gambler surnamed Huang from the southern city of Guangzhou, who asked not to be further identified because he was skirting the law, said he once bought 150,000 yuan of watches from a pawnshop and had the purchase split into three transactions so he didn't have to leave his contact details.

There are other ways to get cash in Macau too, according to Huang, who said he visits the city once every three to four months and gambles about 100,000 yuan on each trip. He said in some restaurants, he adds the amount of cash he wants to take out and puts it on top of his bill.

The ease of changing yuan into other currencies, the lack of foreign-exchange controls and the commingling of illicit and legitimate money at the casinos makes Macau vulnerable to money laundering, including proceeds from corruption, the U.S. State Department said in a report last year.

"There are all kinds of ways to shuffle money out of China," said Doug Guthrie, dean of George Washington University School of Business, who specializes in Chinese economic reform, leadership and corporate governance. Some methods are more official, like project investments, while others are "a bit more under the radar," he said.

"If you come to Hong Kong or Macau, you can exchange renminbi into Macau patacas or Hong Kong dollars pretty easily," Guthrie said. "By doing so your money can travel anywhere in the world with ease."

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