



Outlook for the Macau Economy and its Tourism & Gaming Industry

Presentation

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Key Topics for Discussion

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- The fast growing Macau economy and its changing structure
- Macau's gaming industry fundamentals
- Financing the growth of Macau's gaming industry: why has Macau been able to attract in the last few years such a significant amount of investment? Are these investment flows sustainable in the long term?
- The impact of the development of Macau's economy in the banking sector.

A Fast Growing Economy

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MAING GROWTH DRIVERS

- Free individual visa scheme for residents in mainland China.
- Concession of new gaming licenses.
- Accelerated growth of mainland China.



INVESTMENT

- TOURISM, GAMING CONVENTION, EXHIBITION AND ENTERTAINMENT CENTER
- REAL ESTATE
- INFRASTRUCTURE
- RETAILING



A Fast Growing Economy

Factors driving the growth of the economy

- ❖ Changes in individual visa scheme for residents of mainland China, concession of new gaming licenses and accelerated growth of mainland China, raised dramatically the growth potential of the hospitality and gaming industry, in particular of large integrated hotel/casino/resort projects.
- ❖ Large investments by the concessionaires and sub-concessionaires and companies in hotel/casino/shopping malls/MICE projects in the Peninsula of Macau and Cotai Strip.
- ❖ Rising investment in real estate market – mass and luxury housing market and office building.
- ❖ Investment in transportation, energy and communication infrastructure to accelerate in the next few years.
- ❖ Macau – a service orientated economy
- ❖ Gross Domestic Product to grow between 25% and 30% in 2007.

A Fast Growing Economy

Main Economic Indicators

Special Administrative Region of Macao, China

Main Economic Indicators 2002 – 2006

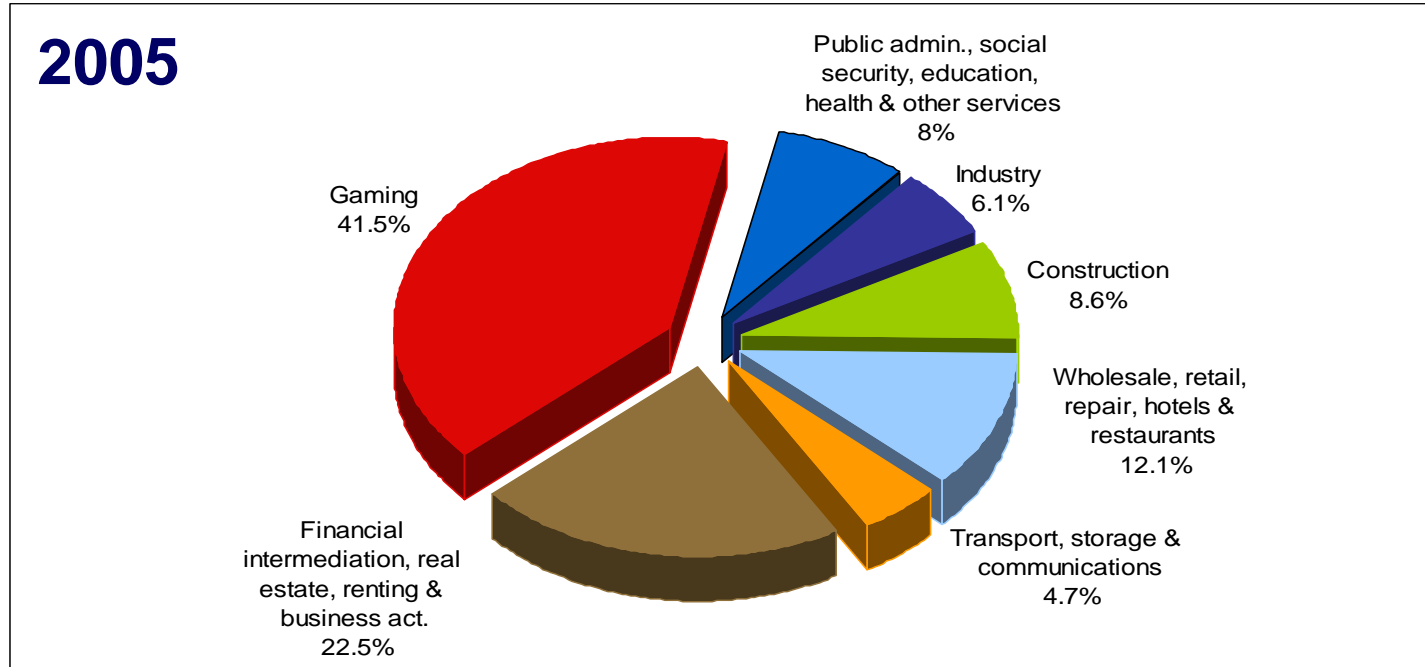
	2002	2003	2004	2005	2006
Demand and Gross Domestic Product (% yoy)					
Real GDP (%)	10.1	14.2	28.4	6.9	16.6
Private Consumption (%)	4.5	3.6	8.8	7.2	8.2
Gross Fixed Capital Formation (%)	9.4	45.7	37.2	59.7	40.6
Construction	11.9	72	31.2	88.9	52.3
Others	6.9	17.1	46.1	11.4	12.6
Net Exports of Goods and Services (%)	17.3	17.4	46.9	-9.9	13.4
Inflation and Unemployment					
Inflation rate (CPI % yoy)	-2.6	-1.6	1.0	4.4	5.2
Unemployment rate (%)	6.3	6.0	4.8	4.1	3.7
Tourism					
Visitors arrivals (1,000s)	11,531	11,888	16,673	18,711	21,998
From Mainland China	4,240	5,742	9,530	10,463	11,986
Visitors arrivals (% yoy)	12.2	3.1	40.3	12.2	17.6
From Mainland China	41.1	35.4	66.0	9.8	14.6

yoy: year over year

Sources: Statistics and Census Service of Macao (DSEC); Monetary Authority of Macao (AMCM); Economic Services

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Economic Structure



Economic Structure at Current Prices 2003 - 2005

Year	Secondary sector (%)			Tertiary sector (%)					
	Subtotal	Industry	Construction	Subtotal	Wholesale, retail, repair, hotels & restaurants	Transport, storage & communications	Financial intermediation, real estate, renting & business act.	Gaming	Public admin., social security, education, health & other services
2003	12.7	8.7	3.9	91.4	11.7	5.3	20.2	36.6	17.5
2004	11.6	7.2	4.4	91.6	12.8	5	19.3	38.7	15.6
2005	14.7	6.1	8.6	88.7	12.1	4.7	22.5	41.5	8

Note: "Financial Intermediation Service Indirectly Measured" adjustment not included; therefore, sum of proportion of the secondary and tertiary sectors > 100%. Source: DSEC Macau.

A Fast Growing Economy

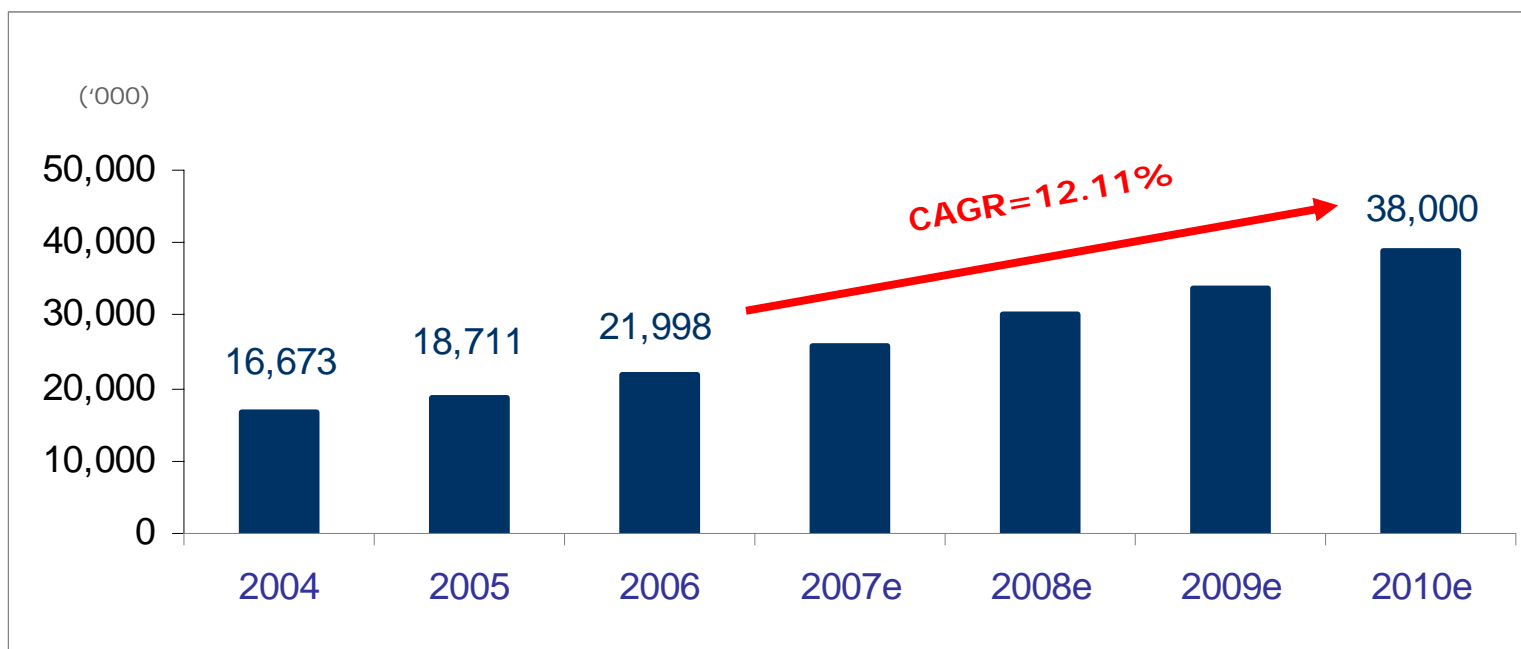
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Strong fundamentals for the hospitality, gaming, MICE and entertainment industry

- ❖ Strong growth of the number of visitors and gaming revenues.
- ❖ Supportive Government policies
- ❖ Government resources to support the construction of the infrastructure
- ❖ Experienced and well managed companies
- ❖ High level of profitability
- ❖ Involvement and interest of international and local banks in financing the development of the sector.
- ❖ Human resources – a problem for the sector

Development of the Tourism & Gaming Industry⁸

Visitors



	Total	Change (%)	Mainland China	Change (%)	Hong Kong	Change (%)	Others	Change (%)
2004	16,673	40.25%	9,530	65.96%	5,051	9.26%	2,092	37.37%
2005	18,711	12.23%	10,463	9.79%	5,615	11.16%	2,633	25.89%
2006	21,998	17.57%	11,986	14.55%	6,941	23.61%	3,072	16.65%

Source: DSEC

A Fast Growing Economy

Inbound tourism market

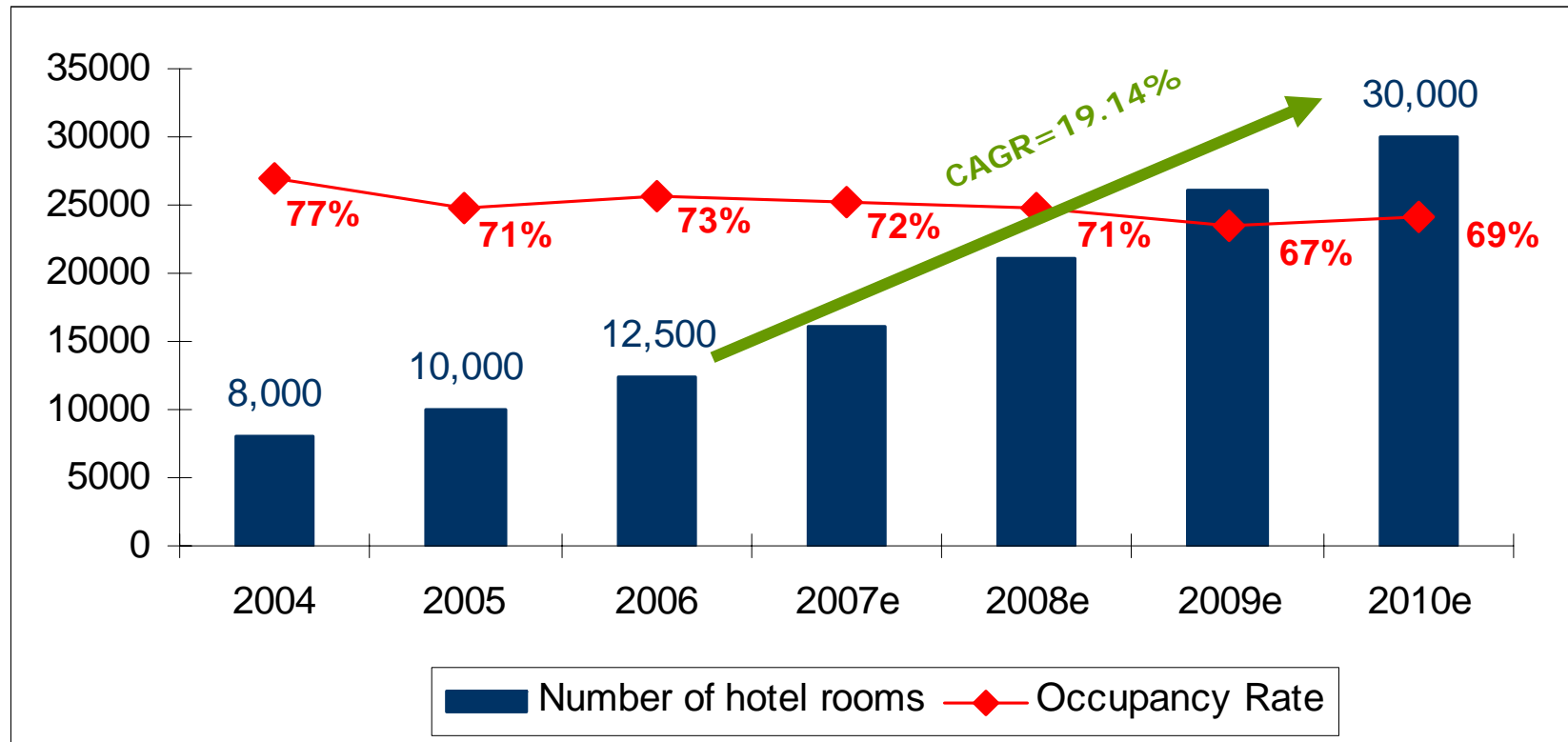
- ❖ Increasing importance of mainland China visitors. Chinese tourism is of great relevance to Macau, since:
 - ❖ 400 city dwellers live in the Eastern strip of the Country, which in the last 20 years has recorded double digit annual economic growth.
 - ❖ Macau is 3 hours away:
 - ❖ by road, of 100 million people
 - ❖ by plane, of 300 million people
- ❖ Guangzhou Province, which borders Macau, is the wealthiest of China and has 85 million inhabitants.
- ❖ Half of the mainland Chinese visitors Macau come on individual visas (relative higher spending power than tours).

Inbound tourism market

- ❖ In 2008, more visitors from Mainland China will visit Macau than Hong Kong.
- ❖ Number and quality of new properties to attract more visitors from mainland China, Hong Kong and other Asian countries.
- ❖ Appreciation of the renminbi to increase mainland China visitors purchase power
- ❖ The MICE industry, in its early stage of development, has a strong growth potential to drive visitation.
- ❖ It is becoming clear that the investments projected will give Macau the scale and “first mover advantage” that will make the territory a very competitive gaming jurisdiction, MICE and entertainment center in Asia.

Development of the Tourism & Gaming

Hotel Rooms & Industry Occupancy Rate



Hospitality Industry

- ❖ Major international hotel chains are present in Macau Peninsula and Cotai Strip
- ❖ Theme properties and service apartments.
- ❖ Concerns regarding oversupply of hotel rooms may be overblown since we are at the initial stage of development of the sector. However, we may see temporary dips in hotel occupancy rate.
- ❖ In years ahead the MICE industry will be critical in attracting visitors.
- ❖ Increase visitor's average stay

Development of the Tourism & Gaming Industry¹³

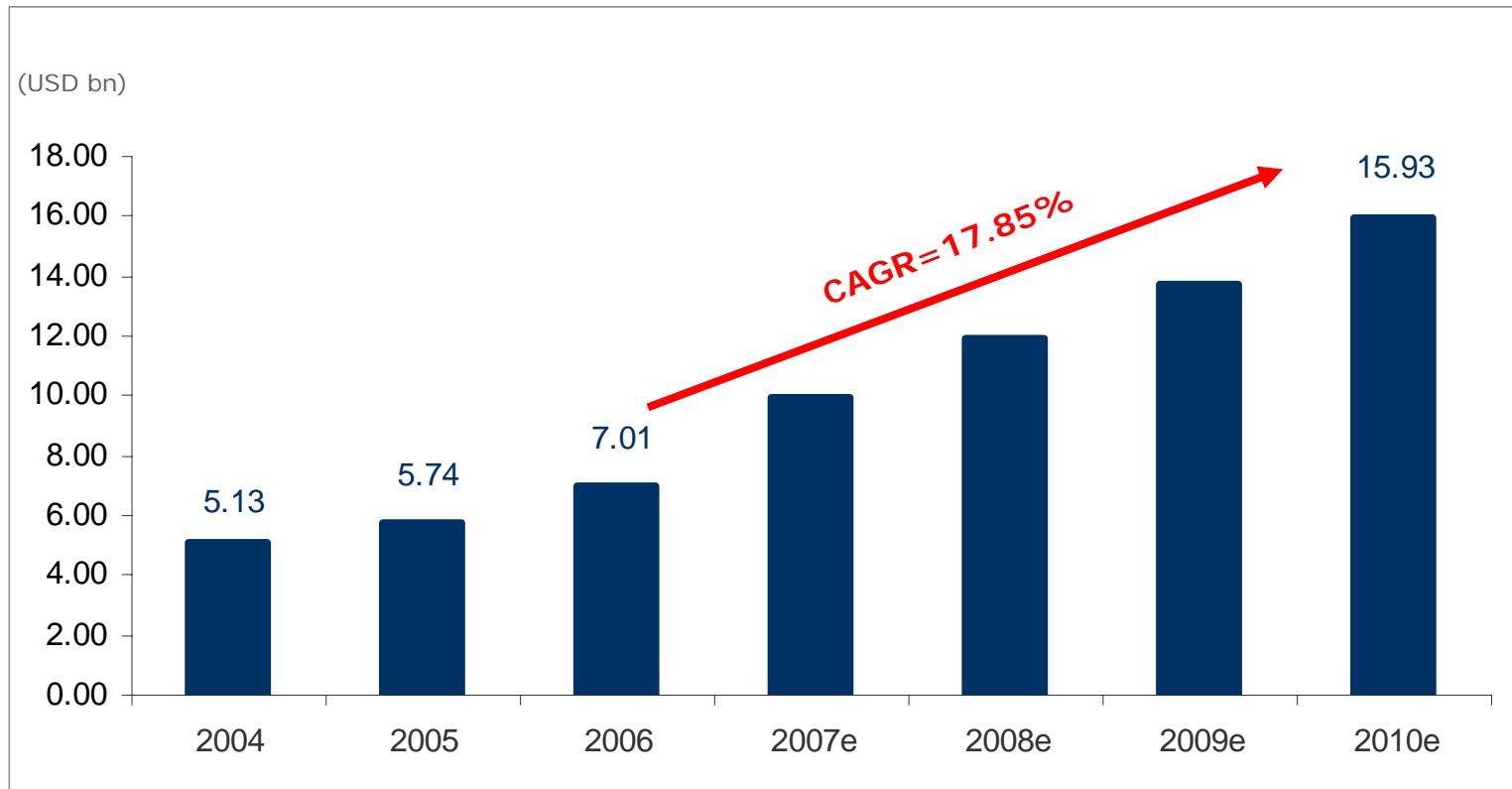


Transportation infrastructure

- ❖ New ferry terminal in Taipa
- ❖ Surface light rail in Macau
- ❖ Expansion of Macau International Airport
- ❖ Utilization of the Lotus Bridge cross-border point
- ❖ Improved connections to Zhuhai Airport and Hong Kong Airport
- ❖ Highway and railway systems in Guangdong Province
- ❖ Bridge Hong Kong-Macau

Development of the Tourism & Gaming Industry¹⁵

Gaming Revenue



Gaming Revenue

- ❖ High growth rates are being forecast by many analysts. In 2007, gaming revenue is expected to rise by more than 40%.
- ❖ Macau's gaming revenue is higher than in the Las Vegas Strip
- ❖ Gaming revenue may rise at a rate of 17,8 % (CAGR) in the period 2007-2010.
- ❖ Higher relative importance of the mass market - Mass market share to increase from 32% in 2007 to 40% in 2010.
- ❖ Significant increase in the number of gaming tables and slots - Total number of tables to increase from 3.500 in 2007 to 7.600 in 2010 and number of slots to increase from 9.000 in 2007 to 20.000 in 2010.
- ❖ Revenue per gaming table is expected to decrease.

Development of the Tourism & Gaming Industry¹⁷

Gaming Operators & Market Share

Concessionaires

Sociedade de Jogos de Macau, S.A.



1

Galaxy Casino, S.A.



4

Wynn Resorts (Macau), S.A.



3

MGM Grand Paradise, Ltd.



MGM Grand Paradise to open the first property in late 2007

grupo Caixa Geral de Depositos

Sub-Concessionaires

Venetian Macau, Limited



2

Melco PBL (Macau), Ltd.



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BNU

Banco Nacional Ultramarino
大西洋銀行

Market Share Ranking

Source: Macau Business Magazine, October 2007

Development of the Tourism & Gaming Industry¹⁸

Some of the Projects Financed in the Market

(in million USD)

Project	Investment	Bank financing
WYNN RESORTS, S.A.		
Phase I (Wynn Hotel & Casino)	1,086.00	744.00
Phase II (Wynn Hotel Diamond Suites)	1,700.00	1,250.00
VENETIAN RESORTS, S.A.		
Sands Macao		
Initial Investment	260.00	120.00
Venetian COTAI Strip		
Phase I	3,700.00	2,500.00
MGM GRAND PARADISE,S.A.		
MGM Grand Macau (Hotel & Casino)	1,060.00	700.00
MELCO PBL JOGOS (MACAU), S.A.		
City of Dreams (COTAI)	4,300.00	1,750.00

Development of the Tourism & Gaming Industry¹⁹

Profitability

- ❖ High level of profitability when compared with other locations and economic sectors, and ability, in particular, of large integrated hotel/casino/resorts to generate free cash flow.
- ❖ High EBITDA margin and ROIC due to strong rise in revenues and relatively low operating costs.
- ❖ Non-gaming revenue (Retail, F&B, entertainment) will gradually give an higher contribution to earnings growth.
- ❖ Macau market to represent a significant share of global revenues and earnings of some of the international operators in the Territory.
- ❖ Financial and management resources.
- ❖ For some of international gaming and hotel operators an important strategic issue is how, not if, to expand their activity to Macau.

Development of the Tourism & Gaming Industry²⁰

Tourism & Entertainment Industry

INVESTMENT
MAY REACH
USD 12 BILLION



Financing



- Local banks
- International & regional banks
- Equity
- Debt markets
- Internal funds

Development of the Tourism & Gaming Industry²¹

- ❖ Financing amount channeled to Macau in such short period of time is quite outstanding. Great diversity of funding sources, geographically and by type of institutions.
- ❖ Financing this new stage of the growth of Macau turns out to be less of a constraint than envisaged in the beginning of the process of deregulation.
- ❖ By some estimates, the total amount of investment made or committed destined to the tourism industry, in several projects by all the concessionaires, may reach USD 12 billion, a large amount given the size of Macau's economy.
- ❖ Local banks participate with 20-30 per cent in the financing of some major projects. We expect they will continue to have a relevant role on an individual basis.
- ❖ Sources of finance for the development of the sector are now diversified, including syndicated loans organized by international banks, with the participation of many regional banks, investment and hedge funds as well as capital raised from stock markets and channeled through private equity funds.
- ❖ The market capitalization of some operators soared given their involvement in Macau, helping their capital raising activities.
- ❖ We also expect internal funds generated by some of the concessionaires and sub-concessionaires to gain additional importance as a source of funding for new projects given they are generating significant cash flows.

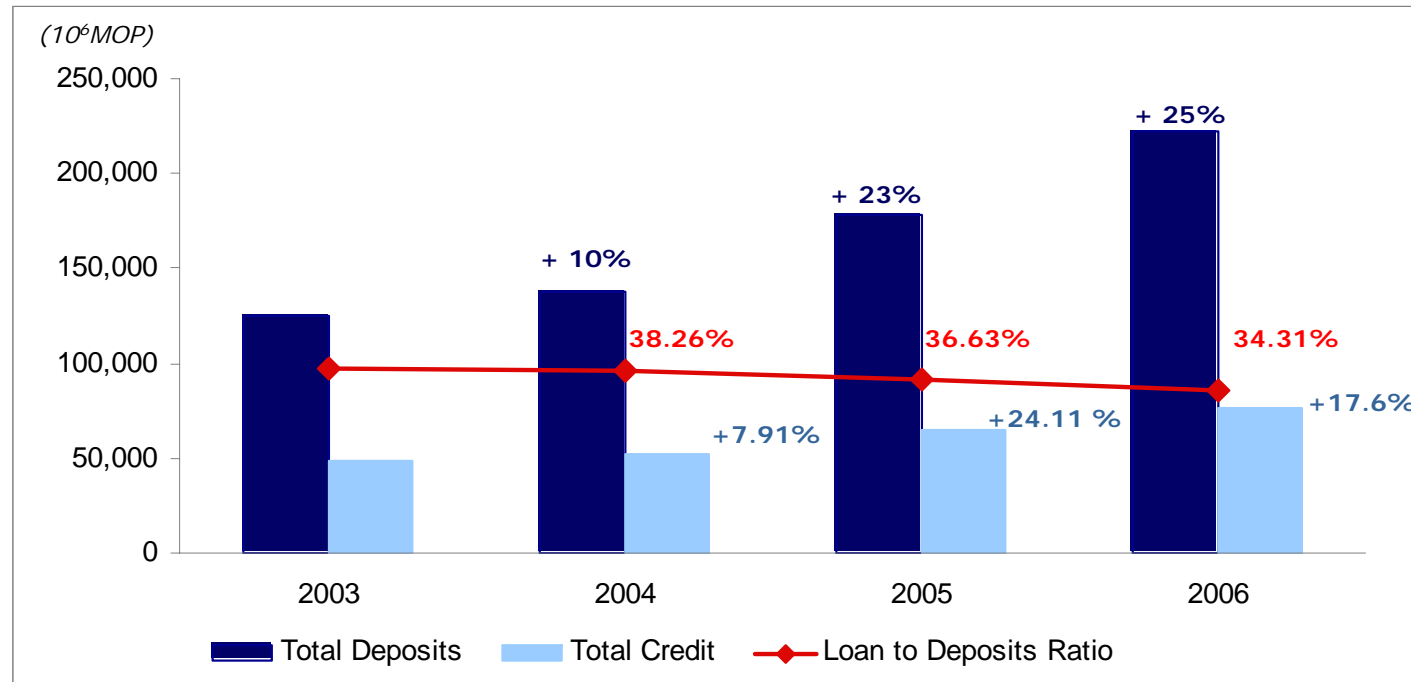
Development of the Tourism & Gaming Industry²²

Effect of subprime crisis

- ❖ The indications that we have is that the interest of lenders and investors for financing and investing in projects in Macau remain unchanged.
- ❖ Since the beginning of the subprime crisis at the end of July, some major financing operations and large investments were announced: a syndicated loan to Melco/PBL, the acquisition of a 20% stake in Galaxy Entertainment Group by Permira, a private equity fund; a syndicated loan to finance the Grand Lisboa Hotel; the acquisition by Harrah's of a property in the Cotai Strip.
- ❖ There is significant liquidity available in the region for financing tourism related integrated resorts projects.
- ❖ Credit spreads have widened from record lows. Financial covenants have become more restrictive.
- ❖ Given that credit cycles normally take several years to unfold, the trend for higher spreads in international credit markets may last a few more years.

Macau Banking Sector – Liquidity

Loan-to-Deposit Ratio

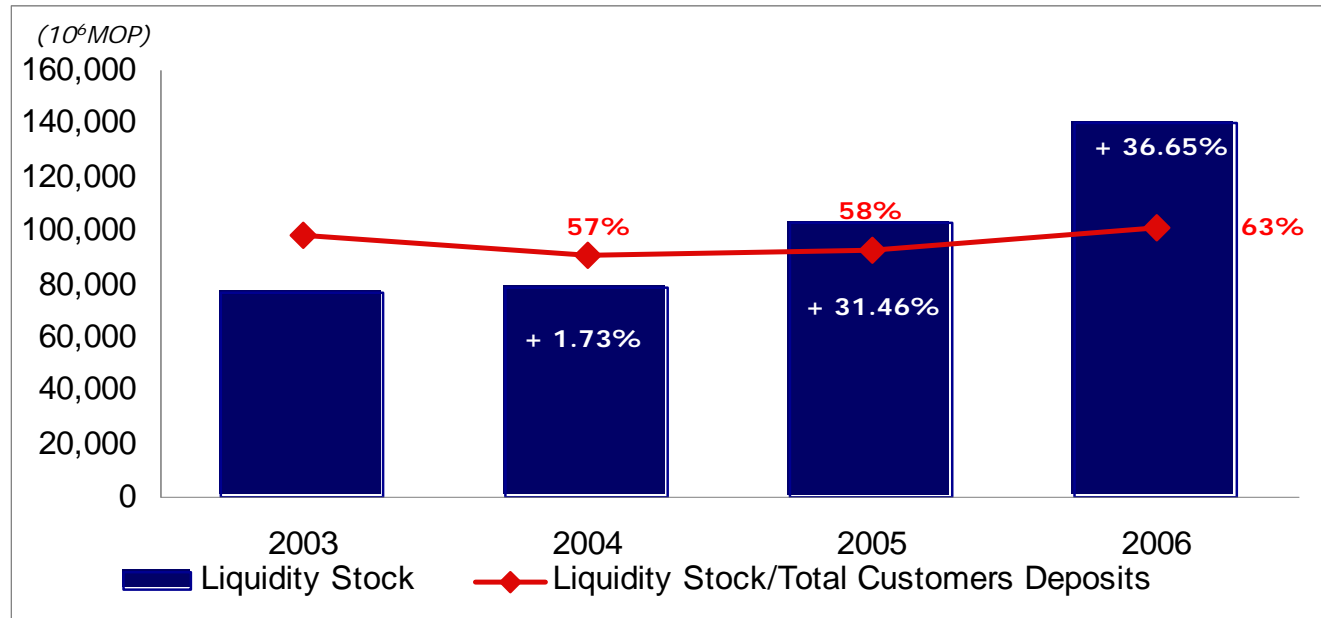


	2003	2004	Change yoy 04/03 (%)	2005	Change yoy 05/04 (%)	2006	Change yoy 06/05 (%)
Total Deposits	124,977	137,368	9.91%	178,059	29.62%	222,560	24.99%
Residents	108,728	118,174	8.69%	132,686	12.28%	165,171	24.48%
Non Residents	16,249	19,194	18.12%	45,373	136.39%	57,389	26.48%
Total Credit	48,704	52,558	7.91%	65,230	24.11%	76,358	17.06%
Corporate	21,190	21,069	-0.57%	27,498	30.51%	30,050	9.28%
Retail	27,515	31,489	14.44%	37,732	19.83%	46,308	22.73%
Loan to Deposits Ratio	38.97%	38.26%	-1.82%	36.63%	-4.25%	34.31%	-6.35%

Source: Monetary Authority of Macau.

Macau Banking Sector – Liquidity

Liquidity Stock



	2003	2004	Change yoy 04/03 (%)	2005	Change yoy 05/04 (%)	2006	Change yoy 06/05 (%)
Claims on Banks Abroad (net)	56,598	56,284	-0.56%	78,168	38.88%	108,455	38.75%
Monetary Bills	17,076	18,157	6.33%	20,327	11.95%	26,640	31.06%
Others	3,235	3,802	17.53%	4,360	14.68%	5,456	25.14%
Liquidity Stock	76,909	78,243	1.73%	102,855	31.46%	140,552	36.65%
Liquidity Stock/Total Customers Deposits	62%	57%	-7%	58%	1%	63%	9%

Source: Monetary Authority of Macau.

* Values for October, annualised.

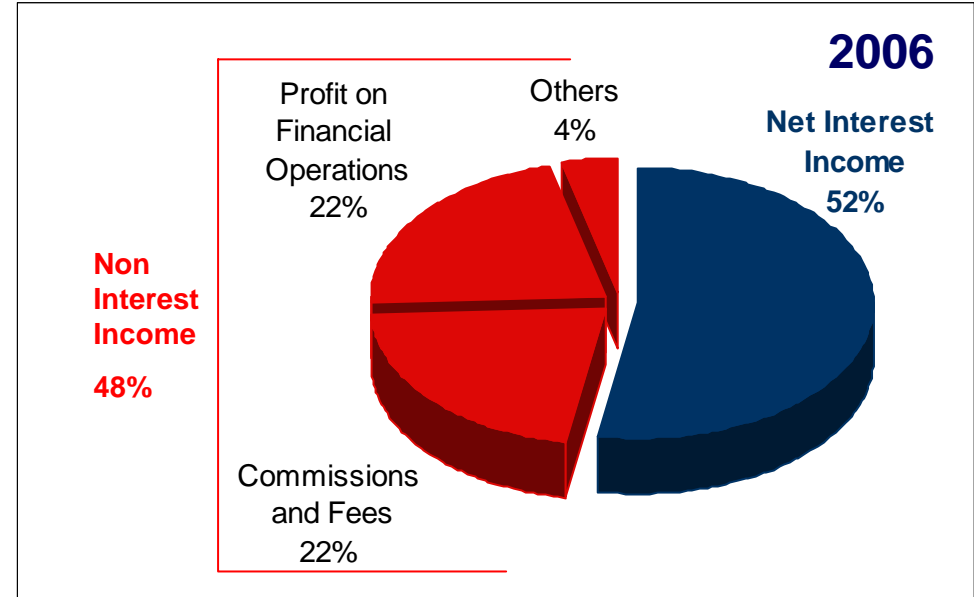
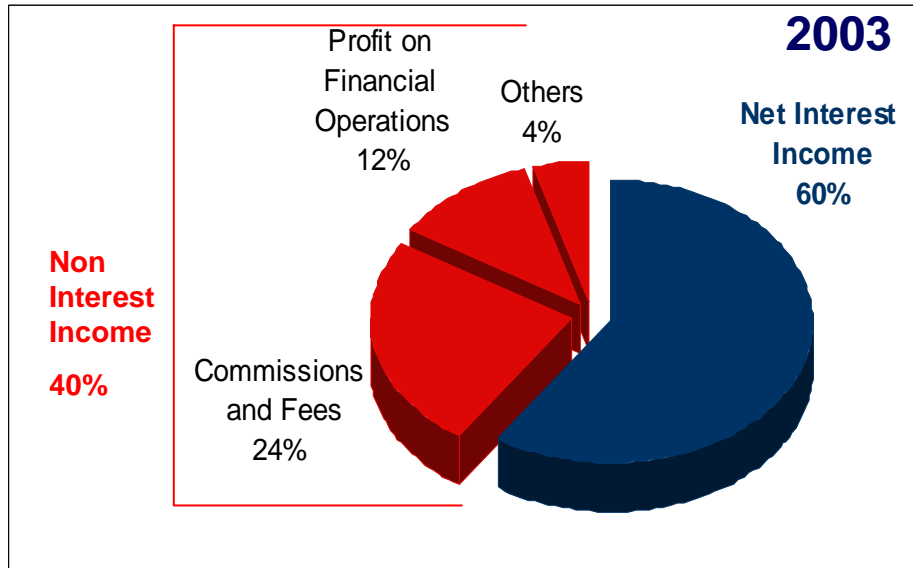
Note: Liquidity Stock defined as the result of monetary bills plus claims on banks abroad (net) plus others (reserves & foreign exchange).

Macau Banking Sector

- ❖ The operating environment for the banking sector in the last few years has been very positive benefiting from the expansion of the economy experiencing marked improvements in liquidity, asset quality and profitability.
- ❖ Although credit demand from individuals and companies surged there was also a strong rise in customer deposits.
- ❖ In the 2006-2003 period credit expanded by 11.88% (CAGR) and customer deposits by 15.53% (CAGR).
- ❖ The loan-to-deposit ratio trended down to reach a level of 34.3 per cent by the end of 2006.
- ❖ The structure of the loan portfolio will reflect more the increased weight of the hotel/casino/resort sector in the economy as several loan commitments already made materialize and loan demand for that sector continues to rise.
- ❖ The liquidity in the system, as measured by the portfolio of monetary bills (short-term debt from Macau Monetary Authority) plus net interbank placements and other liquidity assets, rose sharply and represents now a large proportion of customer deposits.

Macau Banking Sector – Profitability

Net Interest Income & Non Interest Income

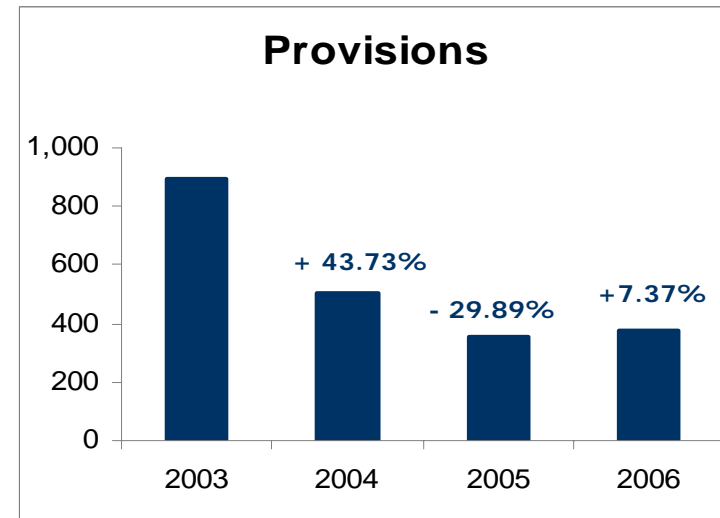
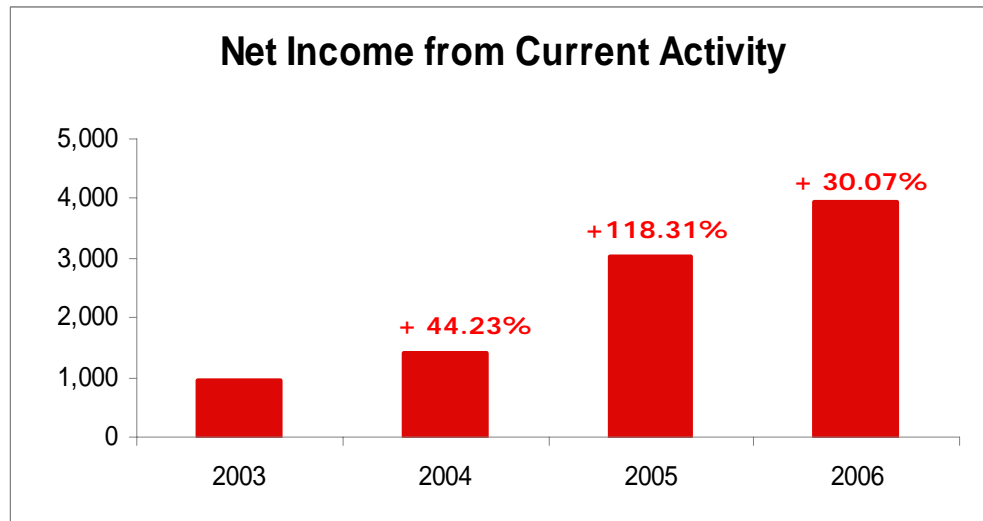


	2003	2004	Change yoy 04/03 (%)	2005	Change yoy 05/04 (%)	2006	Change yoy 06/05 (%)
Net Interest Income	2,080	1,948	-6.36%	2,553	31.05%	3,432	34.44%
Non Interest Income	1,422	1,726	21.32%	2,995	73.58%	3,080	2.81%
Commissions and Fees	858	1,164	35.70%	1,228	5.51%	1,415	15.24%
Profit on Financial Operations	413	368	-10.81%	1,363	270.37%	1,420	4.18%
Others	152	194	27.42%	405	108.82%	245	-39.54%
Net Operating Income	3,503	3,674	4.89%	5,548	51.03%	6,511	17.36%

Source: Monetary Authority of Macau.

Macau Banking Sector – Profitability

Provisions & Net Income from Current Activity



	2003	2004	Change yoy 04/03 (%)	2005	Change yoy 05/04 (%)	2006	Change yoy 06/05 (%)
Net Operating Income	3,503	3,674	4.89%	5,548	51.03%	6,511	17.36%
Operating Cash Flow	2,011	2,053	2.10%	3,558	73.30%	4,524	27.15%
Depreciation	150	156	4.21%	163	4.36%	188	15.48%
Provisions	895	504	-43.73%	353	-29.89%	379	7.37%
Net Income from Current Activity	966	1,393	44.23%	3,042	118.31%	3,957	30.07%

Source: Monetary Authority of Macau.

- ❖ The profitability of the banks has also improved markedly: significant increase in fee based income, which share in net operating income rose, and net interest income; reduction in NPLs and provisions for loan losses and a rise in provisions write-backs.
- ❖ By the end of 2006, the non-performance loan ratio of the banking system, as calculated by AMCM, dropped to 1 percent, a record low.
- ❖ These developments led to a substantial rise in the profitability of the banking system, with operating profit rising by 30.1 percent in 2006.
- ❖ The capital adequacy ratio at 14.7 percent was, at the end of 2006, significantly higher than the minimum set by the Basel Committee.

Thank you.