

Raising the stakes in Africa

Gambling outlook: 2014 – 2018

South Africa • Nigeria • Kenya



3rd Annual Edition

November 2014



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Gambling outlook: 2014-2018

South Africa • Nigeria • Kenya

Third annual edition

PwC's team of gambling specialists provide an unbiased overview of how the gambling industry in South Africa, Nigeria and Kenya is expected to develop over the coming years. The publication focuses on the following major industry segments in South Africa: casino gambling, limited payout machines, sports betting, bingo and the National Lottery. It details the key trends observed and challenges facing these industry sectors as well as considering their future prospects. For Nigeria and Kenya, we cover only casino gambling.

Gambling outlook: 2014-2018 provides deep knowledge of the local gambling market and is a powerful tool for understanding critical business issues. To learn more about the challenges and opportunities that lie ahead for the gambling industry in South Africa, please visit www.pwc.co.za/gambling

About PwC's gambling industry group

Every day, PwC plays a significant supporting role in gambling businesses across the world. With our local knowledge of culture, laws and business needs, we help clients make the most of changing market scenarios. Because we understand how developments in the broader gambling environment are affecting our clients, we can work with them as a trusted advisor to provide solutions that help improve their organisation's effectiveness and long-term success.

More significantly, we focus on the issues and challenges that are of utmost importance to our clients. These include restructuring, talent management, compliance, regulatory changes, changing gambler requirements and managing capital spend. We are committed to understanding the forces that have an impact on these issues and continue to develop and deliver solutions to help our clients achieve their financial, operational and strategic objectives.



Gambling outlook: 2014-2018

South Africa • Nigeria • Kenya

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Photo courtesy of Sun International, Monticello Grand Casino, Sala de Juego (slots area)



Johannesburg
20 November 2014

To our clients and friends in the gambling industry:

Welcome to the third edition of the *Gambling outlook: 2014-2018 (South Africa, Nigeria, Kenya)*. This publication focuses on segments within the gambling industry, with detailed forecasts and analysis. For each segment, we give details about the key trends we have noted as well as key challenges and future prospects we have identified.

The gambling industry is often associated with glamour, high rollers, opulent settings and the trappings of wealth. As a business, however, the margins are low, a large portion of the costs are fixed, regulatory compliance is stringent and profitability depends on volume.

Of the three countries included in our analysis, South Africa has by far the largest overall gambling market as well as the largest land-based casino gambling market. Gross land-based casino gambling revenues totalled R16.5 billion (USD1.6 billion) in South Africa in 2013 compared with only R428 million (USD40 million) in Nigeria and R195 million (USD18 million) in Kenya.

We at PwC continue to stay on top of trends and developments that may impact gambling companies, now and in the future, and we look forward to sharing our thoughts with you once again. We appreciate your feedback and ask that you continue to tell us what we can do to make our publications more relevant and useful to you.

If you would like clarification on any matters covered in this publication, or you believe we can be of service to your business in any way, please contact one of our industry specialists listed on page 44 of this report.

Finally, we thank you for your support and wish you an exciting and rewarding year ahead.

Sincerely,

Nikki Forster
Partner
Gambling Industry Leader
PwC South Africa

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Gambling outlook: 2014-2018

South Africa • Nigeria • Kenya

Research methodology

Figures for South Africa are expressed in rands and figures for Nigeria and Kenya are shown in US dollars (USD). Tables showing comparisons between countries are in rands. We use a constant exchange rate for the 2009-2018 period.

Exchange rates used in the report

Currency	Exchange rate
Rand: USD	10.587
USD: Naira	159.665
USD: Shilling	85.436
Naira: Rand	14.924
Shilling: Rand	8.070

South Africa

The National Gambling Board of South Africa is our source for historical data for South Africa. Its fiscal year covers the period from 1 April to 31 March. As the fiscal year overlaps the calendar year, for our purposes figures represent the year that accounts for a majority of the activity. Thus, our figures for 2013 correspond to the National Gambling Board of South Africa's 2014 financial year, which covers the period from 1 April 2013 to 31 March 2014.

The economic environment that has affected or is anticipated to impact the market, as used in our forecasts in South Africa is shown below.

Economic and consumer price growth in South Africa (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Nominal GDP	6.7	11.0	9.7	7.0	7.8	7.1	7.4	8.2	9.4	9.3	8.3
Real GDP	-1.3	3.1	3.6	2.5	1.9	1.3	1.5	2.2	3.3	3.2	2.3
Consumer price inflation	7.1	4.3	5.0	5.6	5.7	6.2	6.3	6.5	6.5	6.4	6.4

Sources: Statistics South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Nigeria

With respect to Nigeria, figures are derived and extrapolated from selected company information. In cases where the fiscal year ends on 30 June 2013 or later, figures are included in 2013 totals. The economic environment that has affected or is anticipated to impact the market as used in our forecasts in Nigeria is shown below.

Economic and consumer price growth in Nigeria (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Nominal GDP	17.6	19.7	14.9	13.9	11.6	9.0	8.0	9.0	10.5	12.5	9.8
Real GDP	7.0	8.0	7.2	7.1	7.2	5.5	4.5	5.5	6.5	8.0	6.0
Consumer price inflation	9.2	12.4	11.7	13.9	7.7	6.5	6.0	6.2	6.5	7.0	6.4

Sources: Nigeria National Bureau of Statistics, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Kenya

With respect to Kenya, figures are derived and extrapolated from casino taxes. In this case, the data are consistent with calendar years. The economic environment that has affected or is anticipated to impact the market as used in our forecasts in Kenya is shown below.

Economic and consumer price growth in Kenya (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Nominal GDP	12.3	7.7	18.6	11.7	11.6	11.0	10.0	11.0	12.5	13.5	11.6
Real GDP	2.7	5.8	4.4	4.6	4.7	3.5	3.0	4.0	5.5	6.5	4.5
Consumer price inflation	10.5	4.1	14.0	9.4	5.7	7.2	6.0	6.2	6.5	6.7	6.5

Sources: Kenya National Bureau of Statistics, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



The Gambling Market



Photo courtesy of Tsogo Sun

This report covers gambling in South Africa, Nigeria and Kenya. In South Africa, we include casino gambling, limited payout machines (LPMs), sports betting, bingo and the National Lottery. In Nigeria and Kenya, we include only casino gambling. This report provides data on gross gambling revenues (the amount wagered minus the amount returned to players as winnings); turnover (the total amount wagered by players including winnings which are wagered again by the players); and gambling taxes and levies, which is the amount levied and collected by provincial licensing authorities from legal gambling. In the case of the National Lottery in South Africa, contributions are made from lottery tickets to the National Lottery Distribution Trust Fund.

Overview

Of the three countries, South Africa has by far the largest overall gambling market as well as the largest land-based casino gambling market. Gross land-based casino gambling revenues totalled R16.5 billion (USD1.6 billion) in South Africa in 2013, compared with only R428 million (USD40 million) in Nigeria and R195 million (USD18 million) in Kenya.

There are 37 licensed operating casinos in South Africa compared with 13 in Kenya and only three in Nigeria. Beyond the casino count itself, casinos in South Africa generally are larger and have more slot machines and table games than casinos in Kenya and Nigeria.

There are also differences in the regulatory climates in each country. Casinos are well regulated and long established in South Africa. In Nigeria, casino regulation is relatively recent and there are many unlicensed casinos that compete with licensed operations. In Kenya, gambling is encouraged, but a dispute has emerged between the Betting Control and Licensing Board and the Council of Governors for the counties as to who has authority to issue licences.

With respect to online gambling, it is permitted in Kenya, prohibited in Nigeria except for lotteries, and still illegal in South Africa except for sports betting.

Gross casino gambling revenues continued to grow at healthy rates in Nigeria (19.6%) and Kenya (7.7%) in 2013, in both cases rising faster than in 2012, reflecting the strength of these economies. In South Africa, however, growth dropped to only 0.6%, the result of a weakening economy and an increase in the payout rate to 93.4% in 2013 from 93.2% in 2012.

We expect slower economic growth to lead to slower gross casino gambling revenues in Nigeria and Kenya and continued slow growth in South Africa over the next two years. We then look for a pick-up in growth in each country as economic conditions improve. We do not expect the recent Ebola outbreak in West Africa to have a significant impact on casino gambling in any of the three markets.

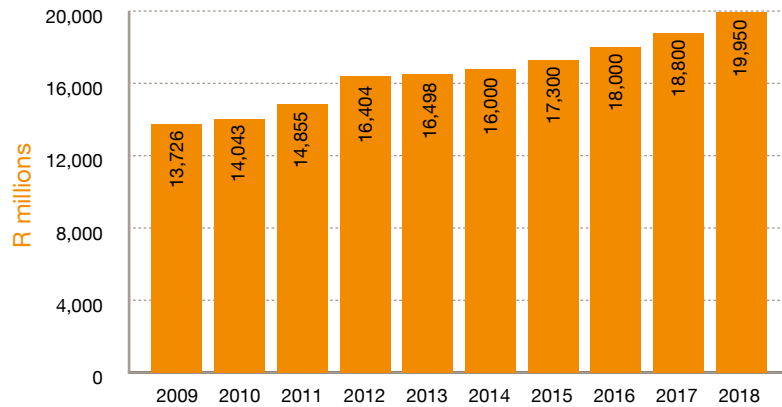


Photo courtesy of Sun International, Lesotho Sun, Casino (slots)

South Africa

South Africa will be the slowest growing of the three countries, reflecting its slower-growing economy. We project gross casino gambling revenue in South Africa to increase at a 3.9% compound annual rate to R20 billion (USD1.9 billion) in 2018.

Figure 1: Casino gross gambling revenue in South Africa (R millions), 2009-2018

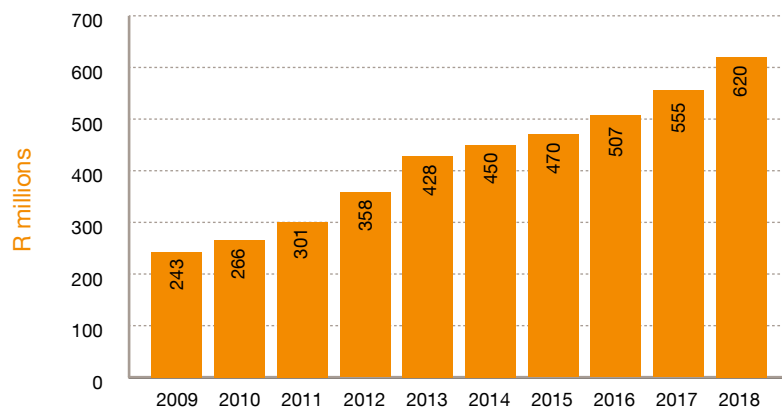


Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Nigeria

Nigeria has the strongest economy of the three and we look for faster growth compared with South Africa and Kenya. We project gross casino gambling revenues in Nigeria to average 7.7% growth on a compound annual basis rising to R620 million (USD58 million) in 2018.

Figure 2: Casino gross gambling revenue in Nigeria (R millions), 2009-2018

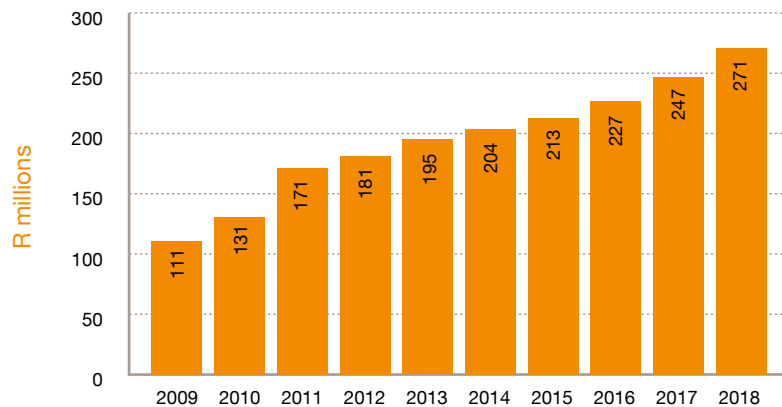


Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Kenya

The Kenyan economy is not expected to grow as fast as Nigeria's, but is expected to outperform the South African economy. We expect a similar pattern for casino gambling with gross gambling revenue projected to rise to R271 million (USD26 million) in 2018, a 6.8% compound annual increase from 2013.

Figure 3: Casino gross gambling revenue in Kenya (R millions), 2009-2018



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

For the three countries taken together, casino gross gambling revenues will total an estimated R20.8 billion (USD2.0 billion) in 2018, a 4.0% compound annual increase from R17.1 billion (USD1.6 billion) in 2013.

Casino gross gambling revenue in South Africa, Nigeria and Kenya (R millions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
South Africa	13 726	14 043	14 855	16 404	16 498	16 800	17 300	18 000	18 800	19 950	
% change	1.6	2.3	5.8	10.4	0.6	1.8	3.0	4.0	4.4	6.1	3.9
Nigeria	243	266	301	358	428	450	470	507	555	620	
% change	13.5	9.7	12.9	19.2	19.4	5.0	4.5	8.0	9.5	11.8	7.7
Kenya	111	131	171	181	195	204	213	227	247	271	
% change	16.7	17.1	31.7	5.6	7.6	4.9	4.1	6.5	9.3	9.4	6.8
Total	14 080	14 440	15 327	16 943	17 121	17 454	17 983	18 734	19 602	20 841	
% change	1.9	2.6	6.1	10.5	1.1	1.9	3.0	4.2	4.6	6.3	4.0

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Photo courtesy of Tsogo Sun



Gambling in South Africa



Photo courtesy of Tsogo Sun

Gross gambling revenues

Definition: Amount wagered less winnings paid to players

Gambling growth in South Africa moderated in 2013, reflecting higher payout rates for casinos, limited payout machines (LPMs) and sports betting. Gambling turnover rose 7.5% in 2013, but gross gambling revenue increased only 4.3%. In 2012, by contrast, payout rates declined and gross gambling revenue rose 13.6%, exceeding the 10.0% increase in turnover. The slowdown in gross gambling revenue in 2013 was centred on casinos, the largest category at R16.5 billion in 2013.

Casinos posted a modest 0.6% advance. Some casino operators in certain locations believe the slowdown in 2013 was due in part to growing competition from electronic bingo terminals, LPMs and sports betting shops, which are becoming more prevalent. LPMs located in the catchment area of casinos are considered to be an issue, as it is possible to play consolidated games at one time which results in the bet being increased from the R5 maximum, which in turn increases the potential payout.

Several years ago a proposal to introduce machines with high payout rates at racetracks, bingo halls and other non-casino venues was challenged by the Casino Association of South Africa (CASA). CASA argued that machines offering high stakes and high payouts would attract high rollers away from casinos, demonstrating the belief in the casino industry that other forms of gambling are potential competitors to casinos. LPMs located outside casino catchment areas, by contrast, are not considered to be an issue. Bingo gross gambling revenues rose 67.5%, LPMs increased 17.8% and sports betting grew 9.1%.

Bingo, the smallest category at only R732 million, continued to be the fastest-growing category in 2013, fuelled by the proliferation of sites. Between April–June 2013 and January–March 2014, revenue nearly doubled in Gauteng and Mpumalanga as sites were added, while bingo was introduced in the North West and Eastern Cape in the latter part of the year.

Sports gambling consists of horse racing and betting on sporting events. Online wagering is permitted. Currently, horse racing is the dominant category, comprising 65% of the total in 2013, but that share is down from 88% in 2009. Betting shops are opening in all provinces except the Eastern Cape and rising broadband penetration is contributing to growth in online sports betting.

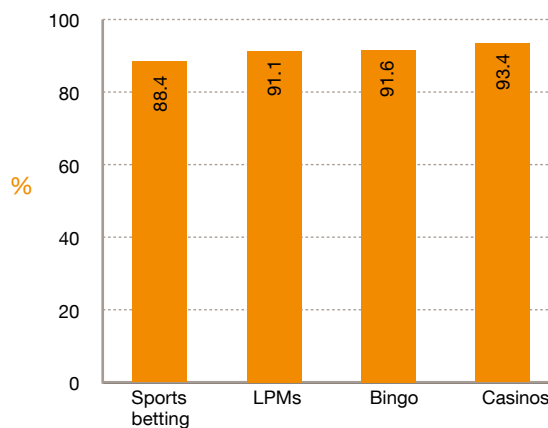
Sports betting rose 18.5% in 2013 compared with 4.6% growth for horse racing. It is expected that within the next five years, wagering on sporting events will overtake horse racing. In addition to these underlying trends, sports betting will have been boosted in 2014 by the FIFA World Cup and will be enhanced again in 2018. We also expect betting associated with the Cricket and Rugby World Cup events to contribute to growth in 2015.



Casinos on average retained 6.6% of the amount wagered (or turnover) in 2013. For the gambling categories as a whole, the payout rate in 2013 averaged 92.8%. Gambling is a low-margin business, which means that gambling operators need high volumes to be profitable.

Consequently, the economy and competition from other gambling outlets play a large role as even small declines in turnover can have a large adverse impact on profitability.

Figure 4: Gambling payout rates by category, 2013 (%)



Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We project casino gross gambling revenues will rise from R16.5 billion in 2013 to R20 billion in 2018, a 3.9% compound annual increase. We expect LPMs gross gambling revenues to average 10.0% compounded annually to R2.8 billion in 2018 from R1.7 billion in 2013.

Sports betting gross gambling revenues will increase at a projected 12.0% compound annual rate from 2.8 billion in 2013 to R5 billion in 2018.

We project bingo gross gambling revenues to continue to be the fastest-growing category with a projected 19.0% compound annual increase, rising to R1.8 billion in 2018.

Gross gambling revenues as a whole will expand from R21.8 billion in 2013 to R29.5 billion in 2018, a 6.2% compound annual increase.

National Lottery gross revenues (ticket sales or turnover less payouts to winners) was the only category to decline in 2013, falling by 1.5%. This category has been the weakest segment of the market since 2010 and we expect it will remain the slowest growing, rising at a 1.1% compound annual rate to R2.5 billion in 2018 from R2.3 billion in 2013.

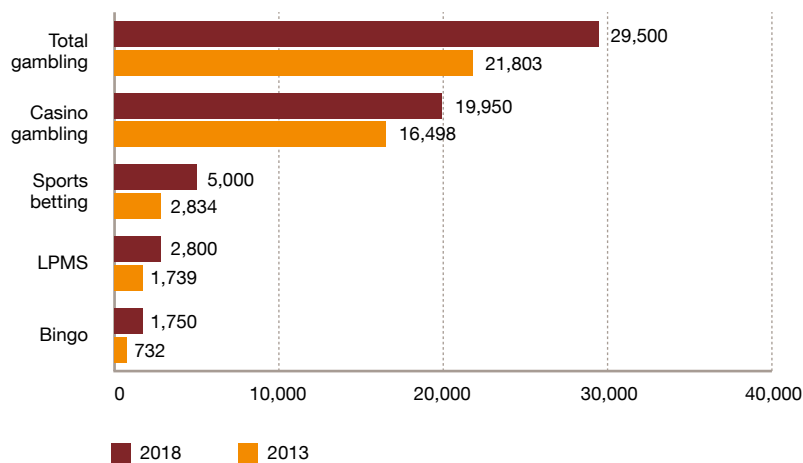
Gross gambling and National Lottery revenues in South Africa (R millions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Casino gambling	13 726	14 043	14 855	16 404	16 498	16 800	17 300	18 000	18 800	19 950	
% change	1.6	2.3	5.8	10.4	0.6	1.8	3.0	4.0	4.4	6.1	3.9
Limited payout machines	740	899	1 174	1 476	1 739	2 010	2 250	2 475	2 650	2 800	
% change	11.6	21.5	30.6	25.7	17.8	15.6	11.9	10.0	7.1	5.7	10.0
Sports betting	1 605	2 003	2 153	2 597	2 834	3 600	3 900	4 050	4 200	5 000	
% change	-1.7	24.8	7.5	20.6	9.1	27.0	8.3	3.8	3.7	19.0	12.0
Bingo	197	196	235	437	732	990	1 235	1 420	1 600	1 750	
% change	62.8	-0.5	19.9	86.0	67.5	35.2	24.7	15.0	12.7	9.4	19.0
Total gambling	16 268	17 141	18 417	20 914	21 803	23 400	24 685	25 945	27 250	29 500	
% change	2.2	5.4	7.4	13.6	4.3	7.3	5.5	5.1	5.0	8.3	6.2
National Lottery*	2 162	2 195	2 288	2 355	2 320	2 280	2 300	2 325	2 375	2 450	
% change	6.7	1.5	4.2	2.9	-1.5	-1.7	0.9	1.1	2.2	3.2	1.1

*Lotto and PowerBall

Sources: National Gambling Board of South Africa, National Lottery Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 5: Gross gambling revenues (R millions), 2013 vs 2018



Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Gambling turnover

Definition: Value of money wagered including 'recycling', which refers to amounts that are staked on more than one occasion.

Gambling turnover rose 7.5% in 2013, down from the 10.0% rise in 2012 and the smallest increase since 2009. Gains in excess of 20% for bingo, sports betting and LPMS were partially offset by a 4.0% rise for casinos. We expect growth to continue to moderate over the next five years, averaging 6.3% compounded annually to R413.7 billion in 2018 from R304.6 billion in 2013.

Bingo was the fastest-growing category in 2013 with a 58.9% increase, followed by LPMs at 25.9% and sports betting at 21.3%. We expect these three categories to continue to average double-digit gains during the forecast period, but as these markets mature, growth will moderate.

We project bingo turnover to grow at 17.6% compound annual rate, LPM turnover to average 16.0% compounded annually, while sports betting, fuelled principally by wagering on sporting events, will grow by a projected 12.2% on a compound annual basis, benefiting from a pick-up in betting related to the FIFA World Cup in 2018.

Casinos are by far the largest component of the market with turnover at R251.2 billion in 2013, 82% of total gambling turnover. The 4.0% increase in casino turnover in 2013 was down from the 7.6% increase in 2012 and the smallest gain since 2009.

We expect casino turnover to continue to weaken in the near term, averaging 3.1% growth during the next two years, and then improving during the latter part of the forecast period as the economy strengthens and facilities are upgraded. For the forecast period as a whole, casino turnover will increase at an estimated 4.2% compound annual rate to R308 billion in 2018.



National Lottery ticket sales, or turnover, fell 1.5% in 2013. We expect a further decline in 2014 followed by a modest rebound in 2015 and somewhat faster increases thereafter. The National Lottery will remain a slow-growing category with turnover rising by only 1.1% on a compound annual basis.

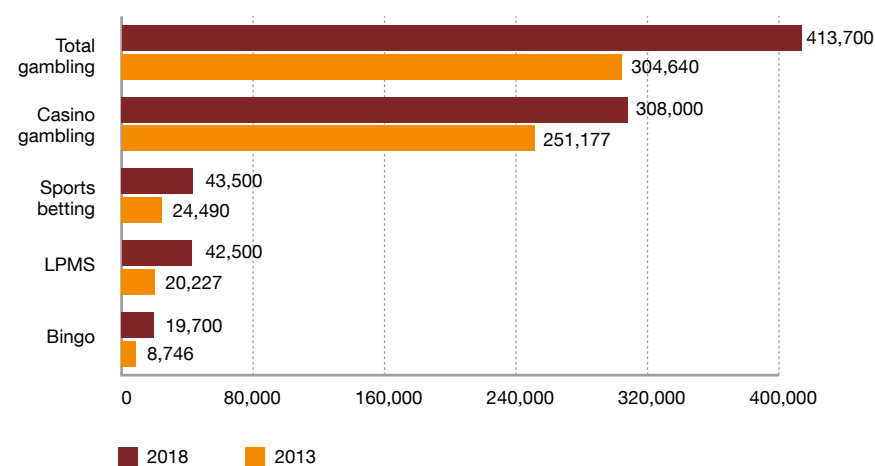
Gambling and National Lottery turnover in South Africa (R millions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Casino gambling	196 778	209 263	224 563	241 576	251 177	258 500	267 000	277 500	290 000	308 000	
% change	1.0	6.3	7.3	7.6	4.0	2.9	3.3	3.9	4.5	6.2	4.2
Limited payout machines	6 932	8 653	11 953	16 070	20 227	25 000	30 000	35 000	39 000	42 500	
% change	11.0	24.8	38.1	34.4	25.9	23.6	20.0	16.7	11.4	9.0	16.0
Sports betting	10 211	12 643	17 699	20 186	24 490	31 000	33 500	35 000	36 100	43 500	
% change	7.9	23.8	40.0	14.1	21.3	26.6	8.1	4.5	3.1	20.5	12.2
Bingo	1 905	2 426	3 372	5 504	8 746	11 500	14 000	16 000	17 900	19 700	
% change	27.1	27.3	39.0	63.2	58.9	31.5	21.7	14.3	11.9	10.1	17.6
Total gambling	215 826	232 985	257 587	283 336	304 640	326 000	344 500	363 500	383 000	413 700	
% change	1.7	8.0	10.6	10.0	7.5	7.0	5.7	5.5	5.4	8.0	6.3
National Lottery*	4 323	4 390	4 575	4 710	4 640	4 560	4 600	4 650	4 750	4 900	
% change	6.7	1.5	4.2	3.0	-1.5	-1.7	0.9	1.1	2.2	3.2	1.1

*Lotto and PowerBall

Sources: National Gambling Board of South Africa, National Lottery Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 6: Gambling turnover by type (R millions), 2013 vs 2018



Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Gambling taxes and levies

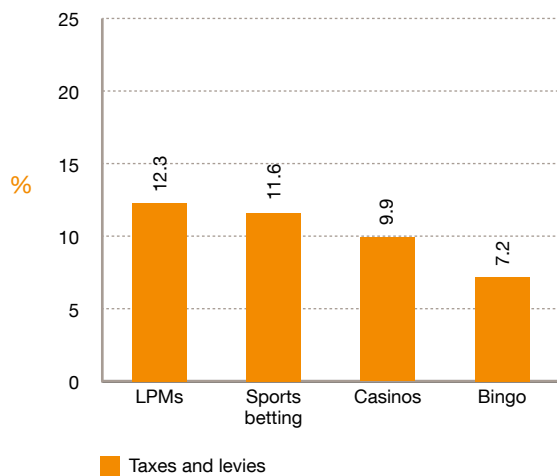
Definition: The amount levied and collected by provincial licensing authorities from legal gambling. Corporate tax and VAT on gambling revenues are excluded from our analysis.

Gambling taxes and levies totalled R2.2 billion in 2013, up 6.6% from 2012. As is the case with payout rates, tax rates vary by category, ranging from 12.3% for LPMs to 7.2% for bingo and averaging 10.3% for the market as a whole. These taxes and levies are paid to the provincial gambling boards.

Casinos also pay deemed output VAT to the National Treasury on the gross gambling revenues that they have earned. This is a direct cost to the casino operators and any increase in the VAT rate would reduce a casino's income.

The estimated deemed output VAT collected on gambling revenues from casinos in 2013 amounted to R1.8 billion, or 11% of gross gambling revenue. Gambling taxes and levies represented 9.9% of casino gross gambling revenues. When VAT is included, the share of all taxes for casinos rises to nearly 21%.

Figure 7: Gambling taxes & levies and casino VAT as a share of gross gambling revenues, 2013 (%)



Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Most of the gambling taxes and levies in 2013 were generated in Gauteng (R848 million), KwaZulu-Natal (R535 million) and the Western Cape (R459 million), which together accounted for 82% of the total. Eastern Cape at R122 million was the only other province above R100 million in 2013. The Western Cape, North West and Mpumalanga each recorded double-digit gains in 2013, together accounting for 54% of the total increase in taxes and levies.

Gambling taxes and levies by province (R millions)

	2012	2013	% change
Gauteng	836	848	1.4
KwaZulu-Natal	494	535	8.3
Western Cape	402	459	14.2
Eastern Cape	112	122	8.9
North West	86	96	11.6
Mpumalanga	67	74	10.4
Limpopo	46	48	4.3
Free State	40	40	0.0
Northern Cape	16	15	-6.3
Total	2,099	2,237	6.6

Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The Western Cape and KwaZulu-Natal have the highest share of taxes and levies as a percentage of gross gambling revenues. This reflects their dominance in the LPM market, which has the highest gambling tax rates. Their shares of gross gambling revenues also rose reflecting faster growth in the LPM market compared with casino gambling.

Taxes/levies as a % of gross gambling revenues

	2012	2013
Gauteng	9.2	9.2
KwaZulu-Natal	12.5	12.9
Western Cape	12.6	13.4
Eastern Cape	7.9	8.0
North West	7.8	8.1
Mpumalanga	7.6	7.7
Limpopo	7.9	7.6
Free State	7.8	7.6
Northern Cape	7.6	7.5

Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Photo courtesy of Tsogo Sun

An increase in the tax rate for casinos in the Western Cape from September 2013 will have their full impact in 2014, leading to a 3.7% rise in tax and levies for casinos in 2014.

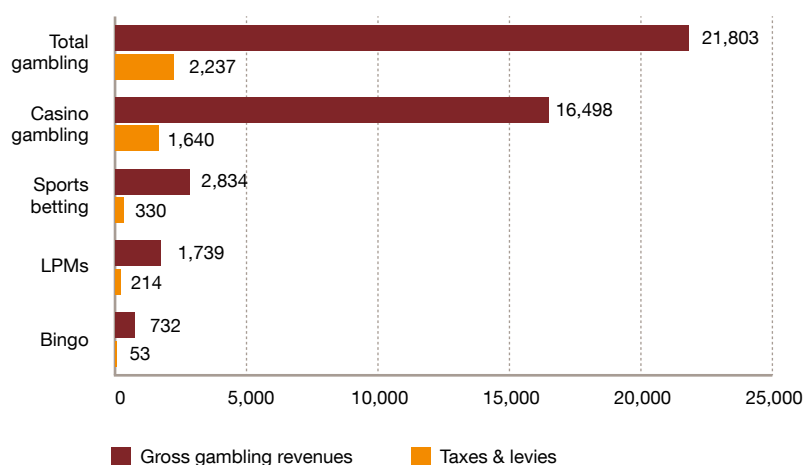
For the forecast period as a whole, overall taxes and levies will expand by 6.6% compounded annually to R3.1 billion in 2018.

Gambling taxes and levies in South Africa (R millions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Casino gambling	1 263	1 318	1 405	1 579	1 640	1 700	1 750	1 820	1 900	2 020	
% change	1.0	4.4	6.6	12.4	3.9	3.7	2.9	4.0	4.4	6.3	4.3
Limited payout machines	83	105	140	181	214	250	285	320	350	375	
% change	13.7	26.5	33.3	29.3	18.2	16.8	14.0	12.3	9.4	7.1	11.9
Sports betting	207	223	259	294	330	400	430	455	475	550	
% change	3.0	7.7	16.1	13.5	12.2	21.2	7.5	5.8	4.4	15.8	10.8
Bingo	22	23	29	45	53	75	94	110	125	135	
% change	46.7	4.5	26.1	55.2	17.8	41.5	25.3	17.0	13.6	8.0	20.6
Total gambling	1 575	1 669	1 833	2 099	2 237	2 425	2 559	2 705	2 850	3 080	
% change	2.3	6.0	9.8	14.5	6.6	8.4	5.5	5.7	5.4	8.1	6.6

Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 8: Gambling taxes & levies vs gross gambling revenues (R millions), 2013

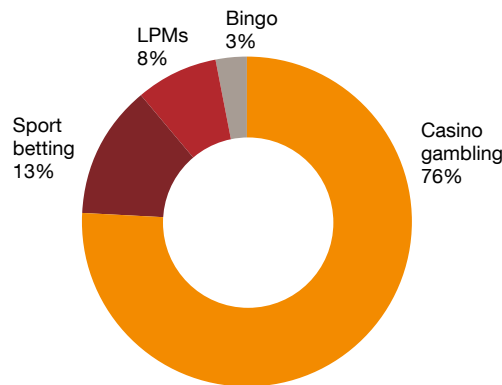


Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Casino gambling

Figure 9: Gross gambling revenue shares by type (%), 2013



Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Casinos are by far the largest component of the gambling market with gross gambling revenues at R16.5 billion in 2013, 76% of total gross gambling revenue. That share, however, was down from 78% in 2012.

The National Gambling Act permits 40 licensed casinos in South Africa. A total of 38 are currently licensed and 37 are in operation. The Tsogo Sun Group, Sun International and PeerMont Global Group are the largest casino companies in South Africa, together accounting for 35 of the 38 licensed casinos.

Casino gambling is concentrated in Gauteng, KwaZulu-Natal and the Western Cape provinces. Gauteng has seven casinos and KwaZulu-Natal and the Western Cape both have five, in each case the maximum permitted. No other province has more than four casinos.

Casino group licensed casinos by province

	Tsogo Sun Group	Sun International	PeerMont Global	London Clubs International	Northern Cape Casino Consultants	Leitlho	Total
Gauteng	3	2	1	1			7
KwaZulu-Natal	3	1	1				5
Western Cape	3	2					5
Eastern Cape	2	2					4
North West		2	2				4
Free State	1	2	1				4
Mpumalanga	2		1				3
Limpopo		1	2				3
Northern Cape		1			1	1	3
Total	14	13	8	1	1	1	38

Source: Casino Association of South Africa

Gauteng was the leading province in casino gross gambling revenues at R7.0 billion in 2013, down from R7.2 billion in 2012. KwaZulu-Natal and the Western Cape were next at R3.1 billion and R2.5 billion, respectively, each up from 2012. These three provinces accounted for 76.4% of total casino gross gambling revenues.

The Eastern Cape and North West were the only other provinces to generate more than R1 billion in gross gambling revenues. Declines in Gauteng, Limpopo and the Northern Cape were barely offset by increases in the other provinces.

Gross gambling revenues earned by casinos by province (R millions)

	2012	2013	% change
Gauteng	7 229	6 988	-3.3
KwaZulu-Natal	2 967	3 073	3.6
Western Cape	2 393	2 536	6.0
Eastern Cape	1 108	1 171	5.7
North West	1 015	1 042	2.7
Mpumalanga	709	729	2.8
Free State	419	420	0.2
Limpopo	373	352	-5.6
Northern Cape	191	187	-2.1
Total	16 404	16 498	0.6

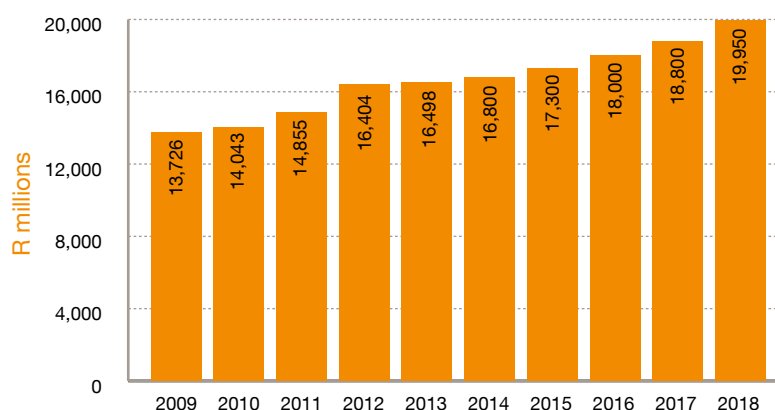
Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

While we do not expect an increase in the number of casinos, casino upgrades and expansions should have a positive impact. Sun International's bid to relocate its Morula Sun casino in Mabopane to Menlyn was approved by the Gauteng Gambling Board in 2014. This approval, however, has been challenged by another operator and that appeal is scheduled to be heard by the courts in 2015. Until the legal challenge is resolved, work on the project cannot begin. At its earliest, the new casino is not expected to open until 2018.

Morula Sun is in an unfavourable location and its revenues have been declining. If the project goes forward, Sun International plans to build a R3-billion entertainment destination, Menlyn Maine, that will include a hotel, conference centre and concert hall. The casino will be considerably larger than the existing Morula Sun facility with 2 000 slot machines and 60 gambling tables.

Menlyn is a more affluent area that is easier to access and faces less competition from non-casino gambling than Mabopane. Menlyn Maine is projected to generate R2.7 billion in gambling taxes in its first five years of operation.

Figure 10: Casino gross gambling revenue (R millions), 2009-2018



Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In 2014, Tsogo Sun received approval to expand its Suncoast Casino in Durban and will spend R1.8 billion over three years to double the size of the existing facility, adding 900 gambling machines and 16 gambling tables. The new casino will have 2 350 gambling machines and 80 gambling tables. Tsogo Sun has commenced work on the R560 million redesign and expansion of the Silverstar Casino in Krugersdorp and the R630 million redevelopment of the Gold Reef City Casino and Theme Park south of Johannesburg.

We project gross gambling revenue to remain sluggish with a 1.8% advance in 2014 followed by a 3.0% rise in 2015, reflecting moderate economic growth. We then expect improving economic conditions, casino upgrades by Tsogo Sun and a possible upgrade by Sun International will lead to somewhat faster increases during 2016-18. For the forecast period as a whole, growth will average 3.9% compounded annually to R20 billion in 2018.

Taxes and levies will total an estimated R2 billion in 2018, up from R1.6 billion in 2013, growing at a 4.3% compound annual rate. The deemed output VAT on gross gambling revenue is forecast to be R2.19 billion in 2018. This, together with gambling taxes and levies, is expected to account for 21.13% of gross gambling revenue in 2018, up from 20.9% in 2013.

Casino gambling in South Africa (R millions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Gross gambling revenue	13 726	14 043	14 855	16 404	16 498	16 800	17 300	18 000	18 800	19 950	
% change	1.6	2.3	5.8	10.4	0.6	1.8	3.0	4.0	4.4	6.1	3.9
Taxes and levies	1 263	1 318	1 405	1 579	1 640	1 700	1 750	1 820	1 900	2 020	
% change	1.0	4.4	6.6	12.4	3.9	3.7	2.9	4.0	4.4	6.3	4.3

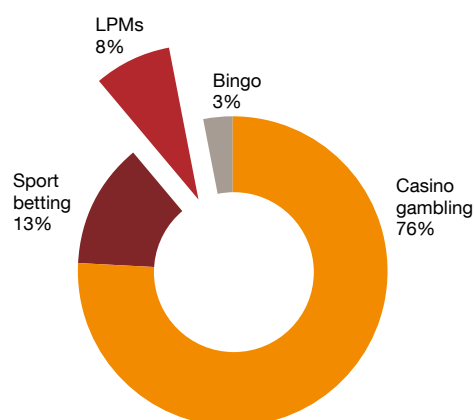
Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Photo courtesy of Tsogo Sun

Limited payout machines

Figure 11: Gross gambling revenue shares by type (%), 2013



Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

LPMs, principally located in bars, clubs and restaurants, accounted for 8% of gross gambling revenues in 2013, up from 7% in 2012. LPMs are monitored by the Central Electronic Monitoring System (CEMS) and are licensed to route operators who manage and operate LPMs in conjunction with site operators.

The introduction of new machines and new sites is expanding the market. On the supply side, the market is consolidating with Grand Parade Investments having acquired Hot Slots (Bohwa 1 Gaming) and the licence of Zimie Slots Mpumalanga in 2013 and looking to expand.

In contrast with the casino market where Gauteng dominates, that province ranked only third in LPM gross gambling revenues at R287 million in 2013, representing, 16.5% of the total. Western Cape had the largest LPM market in 2013 at R551 million with KwaZulu-Natal next at R404 million. Eastern Cape at R190 million, Limpopo at R145 million, and Mpumalanga at R110 million were the other provinces above R100 million. LPMs have not yet been introduced in Northern Cape. Except for Mpumalanga, each province with LPMs recorded double-digit revenue growth in 2013.

LPM gross gambling revenues by province (R millions)

	2012	2013	% change
Western Cape	481	551	14.6
KwaZulu-Natal	339	404	19.2
Gauteng	242	287	18.6
Eastern Cape	161	190	18.0
Limpopo	119	145	21.8
Mpumalanga	101	110	8.9
North West	15	28	86.7
Free State	18	24	33.3
Total	1 476	1 739	17.8

Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Continued installation of LPMs in new locations will expand the market. However, with bingo expanding rapidly into new areas, some of which are likely to be in proximity to LPMs, we expect growing competition from electronic bingo terminals to lead to slower LPM growth during the latter part of the forecast period, as these outlets compete for the same customers.

Limited payout machines (R millions)

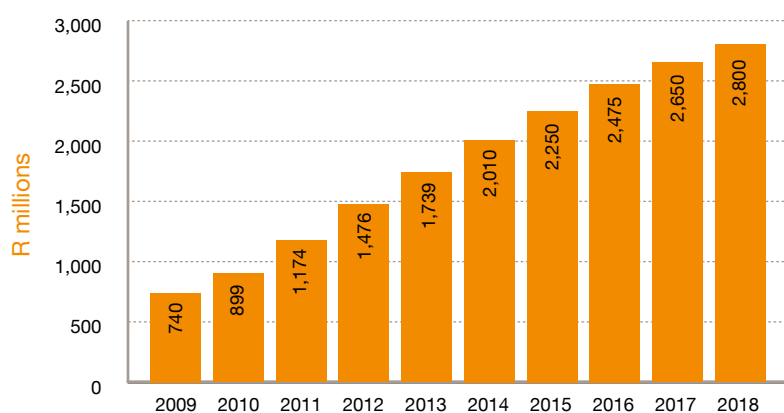
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Gross gambling revenue	740	899	1 174	1 476	1 739	2 010	2 250	2 475	2 650	2 800	
% change	11.6	21.5	30.6	25.7	17.8	15.6	11.9	10.0	7.1	5.7	10.0
Taxes and levies	83	105	140	181	214	250	285	320	350	375	
% change	13.7	26.5	33.3	29.3	18.2	16.8	14.0	12.3	9.4	7.1	11.9

Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

We expect double-digit growth in gross gambling revenues to continue for the next three years before dropping to single-digit gains in 2017-18. For the forecast period as a whole, we project LPM gross gambling revenue to expand at a 10% compound annual rate to R2.8 billion in 2018 from R1.7 billion in 2013.

Taxes and levies will increase from R214 million in 2013 to a projected R375 million in 2018, an 11.9% compound annual increase.

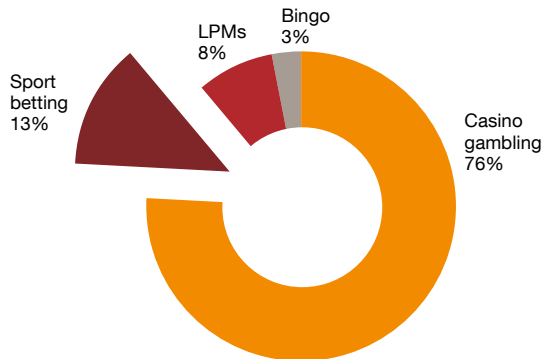
Figure 12: Limited payout machines gross gambling revenue (R millions), 2009-2018



Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Sports betting

Figure 13: Gross gambling revenue shares by type (%), 2013



Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Sports betting, the second largest category comprising 13% of total gross gambling revenues, up from 12% in 2012, includes bookmaking and pari-mutuel wagering on horse racing and other sports events. This is the only category where online wagering is permitted.

Horse racing is the dominant component of the market at R1.8 billion gross gambling revenues in 2013 compared with R1.0 billion for sports events. Horse racing is controlled by two companies, Phumelela Gambling and Leisure and Gold Circle. Phumelela Gambling and Leisure operates in the Free State, Northern Cape, Eastern Cape and Gauteng, while Gold Circle controls wagering in KwaZulu-Natal and the Western Cape.

Horse racing is a relatively mature market with growth during the past three years at less than 5% annually. Sports betting, on the other hand, has been expanding rapidly, rising by 18.5% in 2013 and more than quintupling since 2009. The proliferation of sports betting shops and online wagering is driving this component of the market. We expect sports betting to overtake horse racing within the next five years.

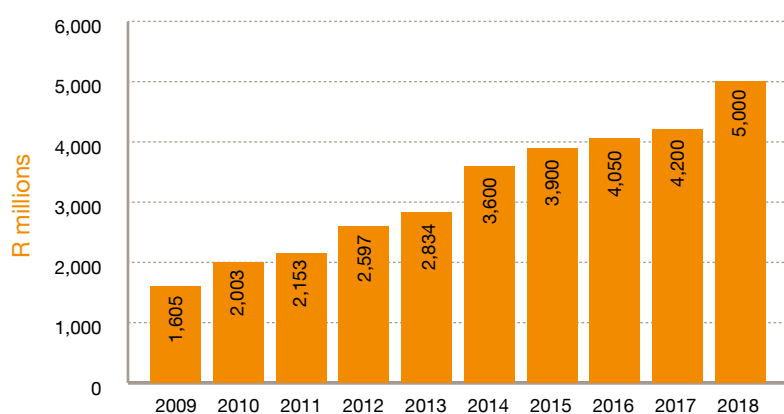


Total sports betting (R millions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Gross gambling revenue	1 605	2 003	2 153	2 597	2 834	3 600	3 900	4 050	4 200	5 000	
% change	-1.7	24.8	7.5	20.6	9.1	27.0	8.3	3.8	3.7	19.0	12.0
Taxes and levies	207	223	259	294	330	400	430	455	475	550	
% change	3.0	7.7	16.1	13.5	12.2	21.2	7.5	5.8	4.4	15.8	10.8

Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 14: Sports betting gross gambling revenue (R millions), 2009-2018



Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Gauteng is the leading horse racing province with R646 million in gross gambling revenues in 2013. KwaZulu-Natal was next at R564 million. Together, the two provinces generated 66.1% of total horse racing gross gambling revenues. The Western Cape at R192 million and Eastern Cape at R164 million were the only other provinces with revenues of more than R100 million in 2013.

Total sports betting gross gambling revenues by category (R millions), 2009-2013

	2009	2010	2011	2012	2013
Horse racing	1 411	1 651	1 675	1 750	1 830
% change	-6.6	17.0	1.5	4.5	4.6
Sports betting	194	352	478	847	1 004
% change	57.7	81.4	35.8	77.2	18.5
Total	1 605	2 003	2 153	2 597	2 834
% change	-1.7	24.8	7.5	20.6	9.1

Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

On a percentage basis, there were wide swings between provinces, with the North West and Limpopo recording gains in excess of 60% in 2013 and revenues falling by more than 60% in the Northern Cape. Among the leading provinces, the Eastern Cape showed the largest gain at 10.8% while the Western Cape had the largest decline at 5.4%.

Gross gambling revenues for betting on horse racing by province (R millions)

	2012	2013	% change
Gauteng	641	646	0.8
KwaZulu-Natal	549	564	2.7
Western Cape	203	192	-5.4
Eastern Cape	148	164	10.8
Free State	62	64	3.2
North West *	55	90	63.6
Limpopo *	42	71	69.0
Mpumalanga	33	33	0.0
Northern Cape	17	6	-64.7
Total	1 750	1 830	4.6

* Betting on Table horse racing

Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Sports betting is concentrated in Gauteng, which at R596 million in 2013 accounted for 59.4% of total sports betting gross gambling revenue. The Western Cape at R133 million and KwaZulu-Natal at R117 million were well behind and the only other provinces with revenues above R100 million.

Gross gambling revenues for sports betting by province, 2013

	Gross gambling revenues (R millions)	Share of total (%)
Gauteng	596	59.4
Western Cape	133	13.2
KwaZulu-Natal	117	11.7
Limpopo	60	6.0
Mpumalanga	54	5.4
North West	18	1.8
Free State	21	2.1
Northern Cape	5	0.4
Total	1 004	

Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

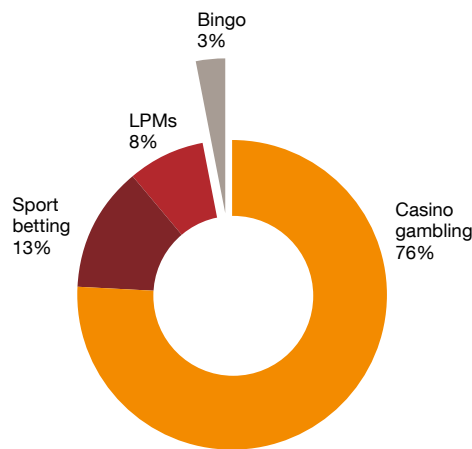
Betting associated with the FIFA World Cup boosts spending in years when the tournament is held (2014 and 2018), while we expect single-digit increases in 2015-17. The expansion of betting shops will drive underlying growth while a mature horse racing segment will limit overall increases.

Aided by a boost in FIFA World Cup wagering in 2014 and 2018, we project gross gambling revenues to expand at a 12.0% compound annual rate to an estimated R5.0 billion in 2018 from R2.8 billion in 2013. Taxes and levies will rise from R330 million in 2013 to a projected R550 million by 2018, a 10.8% compound annual increase.



Bingo

Figure 15: Gross gambling revenue shares by type (%), 2013



Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Bingo is the smallest category accounting for only 3% of total gross gambling revenue in 2013, which was, however, an increase from 2% in 2012. Previously only available in Gauteng, bingo was introduced in Mpumalanga in 2012, in the third quarter of 2013 in the North West and the fourth quarter of 2013 in the Eastern Cape.

Gross gambling revenues for bingo by province (R millions)

	2012	2013	% change
Gauteng	428	685	60.0
Mpumalanga	9	38	322.2
North West	0	5	—
Eastern Cape	0	4	—
Total	437	732	67.5

Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In July 2014, 12 shopping malls in KwaZulu-Natal, including the Southcoast Mall, Galleria Shopping Mall and Liberty Midlands Mall, applied for licences to install electronic bingo terminals. These applications have been challenged by The People’s Forum Against Electronic Bingo, which argues that access to these terminals will contribute to gambling addiction.

This view is also supported by some casino operators who believe that electronic bingo terminals in shopping malls would be a ‘convenience’ form of gambling.

Whether or not these specific applications are approved, we expect that electronic bingo terminals will be introduced in new provinces and will continue to expand in provinces where they are already available. As bingo becomes more prevalent, it will cut into growth in the catchment area for LPMs and casinos.

We expect bingo to continue to be the fastest-growing category during the next five years with a projected 19.0% compound annual increase in gross gambling revenues from R732 million in 2013 to R1.8 billion in 2018.

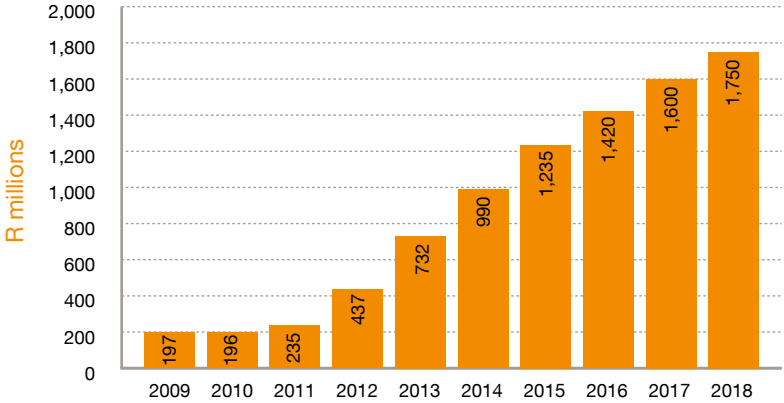
Taxes and levies generated by bingo totalled R53 million in 2013, a figure we expect will rise to R135 million by 2018, a 20.6% compound annual increase.

Bingo (R millions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Gross gambling revenue	197	196	235	437	732	990	1 235	1 420	1 600	1,750	
% change	62.8	-0.5	19.9	86.0	67.5	35.2	24.7	15.0	12.7	9.4	19.0
Taxes and levies	22	23	29	45	53	75	94	110	125	135	
% change	46.7	4.5	26.1	55.2	17.8	41.5	25.3	17.0	13.6	8.0	20.6

Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 16: Bingo gross gambling revenue (R millions), 2009-2018



Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



National Lottery

The National Lottery was established in 2000 and in 2013 generated R4.6 billion in Lotto and PowerBall ticket sales. Lotto is the more popular category, but with its high payouts, Powerball has been the faster growing in recent years. The National Lottery is operated on behalf of the Government by an appointed licensee for a term of seven years. The next term begins in mid-2015.



The National Lottery is different from other gambling categories in that it is operated with the goal of generating funds for charitable, sports, arts and other worthy causes rather than as an entity focused on maximising returns for shareholders, employees and other stakeholders. A percentage of revenue, agreed between the operator and the Government in the licence terms, is paid to the National Lottery Distribution Trust Fund (NLDTF).



Ticket sales in 2013 fell 1.5% following a 3.0% increase in 2012, reflecting a slowdown in the economy. We anticipate an additional drop in 2014 as economic conditions remain sluggish, followed by a modest pickup in 2015.



While we look for improved growth during the latter part of the forecast period as economic conditions improve, the National Lottery will remain the slowest growing category. We project gross gambling revenues to rise from R2.3 billion in 2013 to a projected R2.5 billion in 2018, a 1.1% compound annual increase.

Contributions are made from revenue to the NLDTF, which allocates funding to arts, culture, national heritage, charities, child welfare, religious, medical, sports and recreation entities. Eligible organisations seeking funding must apply to the NLDTF. As the National Lottery is operated on behalf of the Government with the specific purpose of distributing funds to needy causes, a significant portion of gross revenue (73.0% in 2013) goes to the NLDTF.

Contributions to the NLDTF will increase from R1.6 billion in 2013 to a projected R1.7 billion in 2018, a 1.2% compound annual increase. Cumulatively, the NLDTF will receive an estimated R8.8 billion from the National Lottery during the 2014 to 2018 period.

National Lottery (R millions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Turnover	4 323	4 390	4 575	4 710	4 640	4 560	4 600	4 650	4 750	4 900	
% change	6.7	1.5	4.2	3.0	-1.5	-1.7	0.9	1.1	2.2	3.2	1.1
Gross gambling revenue	2 162	2 195	2 288	2 355	2 320	2 280	2 300	2 325	2 375	2 450	
% change	6.7	1.5	4.2	2.9	-1.5	-1.7	0.9	1.1	2.2	3.2	1.1
Contribution to NLDTF	1 537	1 603	1 670	1 600	1 575	1 550	1 560	1 580	1 620	1 670	
% change	3.9	4.3	4.2	-4.2	-1.6	-1.6	0.6	1.3	2.5	3.1	1.2

Sources: National Lotteries Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Looking back: 2013

In our previous Betting on Africa report released in November 2013, we forecast overall gross gambling revenues for South Africa to grow by 5.8% in 2013, which turned out to be higher than the actual 4.3% growth, reflecting a higher payout rate for casinos, LPMs and sports betting and a weakening economy. Casinos and LPMs fell short of our projections, while sports betting and bingo exceeded our expectations.

Despite a 4.0% increase in turnover, casino gambling revenue rose only 0.6%, which was lower than the projected 2.4% increase. LPM growth came in at a healthy 17.8% in 2013, but that was lower than our 30.4% projection, as fewer LPMs were installed than we expected.

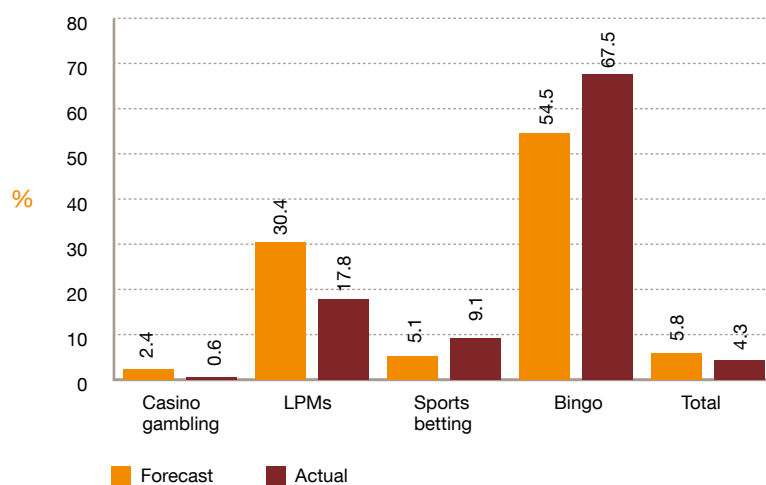
The expansion in sports betting outlets and growth in online sports wagering led to a 9.1% rise in gross gambling revenue for sports betting, which is above the 5.1% projected gain.

Bingo recorded a 67.5% gain in 2013, above the 54.5% forecast, reflecting the introduction of bingo in North West and Eastern Cape.

The shortfall in gross gambling revenues led to slower growth in taxes and levies. The 6.6% increase in 2013 was well below the 12.0% projected rise.



Figure 17: Gross gambling revenue by type, 2013 (% growth)



Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Casino gambling in Nigeria

Photo courtesy of Tsogo Sun

There are only three licensed casinos in Nigeria – the Nicon Hilton in Abuja (the first licensed casino), Le Meridien Eko Hotel & Casino in Lagos and the Sun International Federal Palace Hotel & Casino, which opened in 2009, also in Lagos.

Le Meridien Eko Hotel & Casino is relatively small with only 17 table games, including poker, and no slot machines. It is open from 10am to 6am. The Nicon Hilton is open from 9pm to 3am and has 40 slot machines and nine table games. The Sun International Federal Palace Hotel & Casino is the only licensed casino open 24 hours. It features 195 slot machines and eight table games.

Under Chapter 22 of the Criminal Code, most forms of gambling are illegal in Nigeria. In addition to the three licensed casinos, exceptions include skill-based card games, backgammon, and Lotto Nigeria, the national online lottery.

The Government is also permitted to operate betting pools and horse racing. Despite these limitations, illegal betting exchanges are widespread and there are a number of unlicensed casinos in operation.

The casino market in Nigeria has been driven by a strong energy-based economy that has been growing rapidly, with real GDP rising at rates of 7.0% or more during each of the last five years, including a 7.2% increase in 2013.

Nigeria attracts many business travellers, some of whom visit casinos. Casino gross gambling revenues have grown at double-digit rates during the past three years, including a 19.4% increase in 2013.

We expect much slower growth in 2014, in large part because of moderating economic growth. At the time of writing, Nigeria has had 20 reported cases of Ebola, including seven deaths, five in Lagos, and experienced a temporary drop in occupancy rates at luxury hotels in Lagos.

The casinos in Lagos are patronised by tourists and have been adversely affected. The Nicon Hilton Casino in Abuja, by contrast, has not experienced a drop in tourism or patronage. So far Nigeria has been successful in containing the Ebola outbreak, but the Lagos casinos could still suffer lingering effects from a drop in tourism.

As a result of a slowing economy and adverse impact on tourism of the Ebola outbreak, we expect growth to drop to 5.0% in 2014 and to 4.5% in 2015. We expect that the Ebola scare will have largely played out by year-end 2015, and helped by improving economic conditions, we look for faster growth over the 2016-18 period. For the forecast period as a whole, gross gambling revenues will expand at a projected 7.7% compound annual rate to USD58 million in 2018.

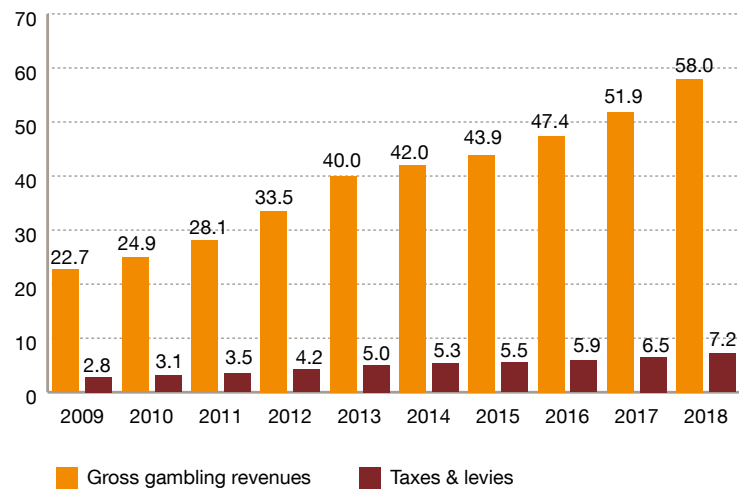
Taxes and levies will rise to an estimated USD7.2 million in 2018 from USD5 million in 2013, growing by 7.6% on a compound annual basis.

Casino gambling in Nigeria (USD millions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Gross gambling revenue	22.7	24.9	28.1	33.5	40.0	42.0	43.9	47.4	51.9	58.0	
% change	13.5	9.7	12.9	19.2	19.4	5.0	4.5	8.0	9.5	11.8	7.7
Taxes and levies	2.8	3.1	3.5	4.2	5.0	5.3	5.5	5.9	6.5	7.2	
% change	12.0	10.7	12.9	20.0	19.0	6.0	3.8	7.3	10.2	10.8	7.6

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 18: Gross gambling revenue vs taxes & levies (USD millions), 2009-2018

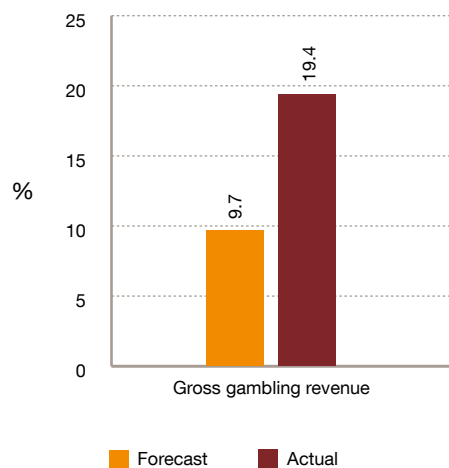


Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

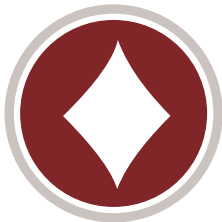
Looking back: 2013

The casino market in Nigeria outperformed our expectations as the 19.4% increase in gross gambling revenues was well in excess of the 9.7% projected increase. Growth was largely fuelled by expansion at the Federal Palace, which increased its hours and added slot machines, as well as by the strong economy. Taxes and levies also grew faster than we anticipated, rising by 19.0% compared to the 0% increase expected last year.

Figure 19: Gross gambling revenue and taxes & levies, 2013 (% growth)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates





Casino gambling in Kenya



Photo courtesy of Sun International, Wild Coast Sun Casino (Roulette)

There are 13 licensed casinos in Kenya, most of which are associated with hotel resorts. There are also standalone casinos located near airports. Six casinos are located in Nairobi, five in Mombasa and one each in Ukunda and Malindi.

Virtually all forms of gambling are permitted in Kenya, including online gambling and mobile gambling. The first online gambling site, BetKenya.com, was launched in early 2013 and EliteBet Kenya launched in January 2014. Sports betting also is permitted and a mobile phone lottery is available as well. SportPesa, an online and mobile platform that offers betting on games, was launched in February 2014.

Gambling in Kenya is regulated by the Betting Control and Licensing Board, which was established in 1966. In August 2013, the Government granted counties the authority to award gambling licenses. The Betting Control and Licensing Board argues that gambling is a security issue and therefore has full authority to issue

licenses, claiming that licenses issued by counties should be ignored. The Council of Governors countered by warning potential licensees that counties would not recognise licenses issued by the Betting Control and Licensing Board, claiming that only county governments can issue licences. At the time of writing, the issue had not been resolved.

Meanwhile, helped by sustained economic growth the casino market held up well in 2013 despite concerns about terrorism, particularly after the Westgate shopping mall attack in September 2013. Gross gambling revenue rose 7.6%, an improvement over the 5.6% increase in 2012, but well below the double-digit gains recorded in 2009-11.

In the Finance Act of 2013, the Kenyan Government imposed a 20% withholding tax on gambling winnings. The tax was challenged by the Association of Gambling Operators on the grounds that such a tax would discourage wagering. In March 2014, the High Court

stayed the imposition of the tax until the suit was resolved. The High Court subsequently dismissed the petition, finding that the tax did not infringe on the constitutional rights of casino operators.

Reflecting the impact of the withholding tax and slower economic growth, we expect casino gambling revenue growth to drop to 4.9% in 2014 and to 4.1% in 2015. We then expect the market to pick up with gains averaging 8.4% compounded annually between 2015 and 2018.

For the forecast period as a whole, gross gambling revenue growth will average 6.8% on a compound annual basis, rising from USD18.4 million in 2013 to USD25.6 million in 2018.

Casino taxes and levies will total an estimated USD4.1 million in 2018, up 7.2% on a compound annual basis from USD2.9 million in 2013.

Casino gambling in Kenya (USD millions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2014-18 CAGR
Gross gambling revenue	10.5	12.3	16.2	17.1	18.4	19.3	20.1	21.4	23.4	25.6	
% change	16.7	17.1	31.7	5.6	7.6	4.9	4.1	6.5	9.3	9.4	6.8
Taxes and levies	1.7	2.0	2.6	2.7	2.9	3.1	3.2	3.4	3.7	4.1	
% change	21.4	17.6	30.0	3.8	7.4	6.9	3.2	6.3	8.8	10.8	7.2

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Figure 20: Gross gambling revenue vs taxes & levies (USD millions), 2009-2018

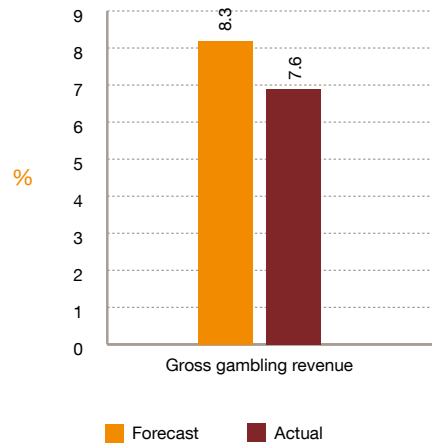


Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Looking back: 2013

The casino market in Kenya grew 7.6% in 2013, slightly slower than the 8.3% projected gain. Taxes and levies, however, grew faster than we anticipated, rising by 7.4% compared to a 0% projected increase last year.

Figure 21: Gross gambling revenue and taxes & levies, 2013 (% growth)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

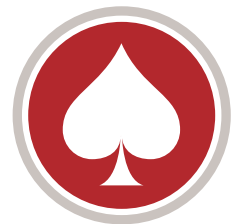
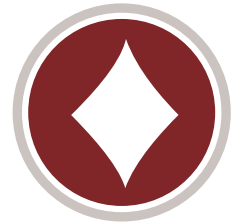
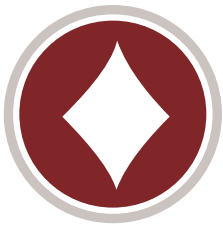


Photo courtesy of Tsogo Sun

Conclusion



The gambling industry in Nigeria and Kenya will grow more slowly during the next two years as economic growth slows. We then expect improving economic conditions to lead to accelerating growth over the latter part of the forecast period. In South Africa, growth will improve somewhat in the next two years, but will remain sluggish. We then look for a stronger economic growth, expanded casinos and new hotels to lead to faster growth in casino gambling.



In the three market regions as a whole, casino gross gambling revenues will total an estimated R20.8 billion (USD2.0 billion) in 2018, a 4.7% compound annual increase from R17.1 billion (USD1.6 billion) in 2013.





Casinos never sleep, nor should digital

*By Veneta Eftychis and
Marthie Crafford*

Photo courtesy of Tsogo Sun

South Africans find themselves attracted to land-based casinos and shopping malls, largely because of the perceived safety and alternative entertainment opportunities. This, together with a rise in the number of shopping centres, has resulted in a convergence in the retail, restaurant and gambling industries. For example, in just the last year, Gauteng and KwaZulu-Natal have seen the following developments which will impact on the growth of the industries:

- The newly approved R3 billion Sun International development in Menlyn, Pretoria;
- The Mall of Africa in Waterfall City, Gauteng, a shopping mall which is planning to cost R3.5 billion;
- Significant expansion of the Suncoast Casino and Entertainment World in Durban, which will include a retail mall, restaurant area, rooftop swimming pools, 2 000-seat multipurpose venue and extension of the casino floor;
- Licence applications to the KwaZulu-Natal Gaming and Betting Board requesting approval for electronic bingo terminal installations on the premises of 12 shopping malls in KwaZulu-Natal however, objections have been raised against these applications; and
- An injection of R2 billion into the improvement of Menlyn Park shopping mall, Pretoria, which sees more than 1.5 million people walk through its doors every month.

The advancement in the industry is clear and so is the continuing trend to consolidate both casino and retail experiences in one destination such as Montecasino and Emperors Palace. This lifestyle experience encourages shopping enthusiasts to seek different forms of pleasure and offers not only impulse purchases and gambling, but also shows, exhibitions, food and festivals.

There is therefore a heightened need for casinos to find the best ways to gain competitive edge on their rivals and ultimately increase revenues. Research by Lee Resources shows that attracting a new customer can cost five times as much as keeping an existing one. The number one asset that casinos have is their customers and losing a single customer can cost casinos revenue every year.

Currently, loyalty cards and social media have helped gambling establishments understand the art of collecting customer information, but casinos can do more in order to thrive in their digital landscape and drive themselves forward.

Nowadays it's essential that casinos are 'on'. Being 'on' means creating 24/7 virtual open networks in the form of free Wi-Fi spots that connect people on the floor to the casinos. This encourages customers to engage in a free, positive and energetic way which is relevant to the casino brand.

For example, casinos can use wireless access points dotted around the casino to track Wi-Fi-enabled mobile devices, find out where customers are spending most time and which areas of the casino are more popular.

This would facilitate the collection, monitoring and tracking of customer data from the traffic on and off their casino floors. It would assist casinos to cater for customer's personal preferences, both for gambling and non-gambling activities (such as dining and entertainment), with the primary objective of driving the casino's bottom line.

Casinos need to adopt a scientific approach to their marketing and customer service strategies by analysing and identifying their 'key players' and understanding how best to engage with them. Once customer information is collected, predictive analytics and data mining technology can be applied so that highly customised marketing and business research can be done.

These analytics solutions can help casinos to:

- Analyse and discover customer spending patterns and behaviours, which can be leveraged to predict customer value, redesign service offerings and increase customer value on their next trip;
- Increase customer loyalty and enhance customer experience;
- Identify their most valuable patrons;
- Deliver powerful personalised advertisements at the right time and in the right place; and
- Ultimately, control and optimise operating costs and thereby increase profits.

Such solutions can help ensure that operational and marketing decisions are based on fact rather than intuition. Secondly, they offer insight, together with marketing experiments, to develop and implement service-delivery strategies that are finely tuned to customer needs that can meaningfully build the casino's brand.

Customer data derived from these solutions begins the process of building the casino's data mine. For example, a customer's activity can be identified at various points of sale, including slot machines, restaurants, and shops. Soon, the database contains millions of transactions and valuable information about customer preferences and spending habits.

Furthermore, security cameras, which capture hundreds of gigabytes of data per day, could be used for more than just surveillance. Through machine learning of video signals, casinos could start using cameras to track the number of bets, estimated value of bets and how fast a staff member is dealing cards.

Casinos already have regulatory compliance obligations to identify and report suspicious activities such as bribery, corruption, and money laundering. These obligations can be met more quickly, more affordably and more effectively through the digital collection of customer information and the use of these analytical solutions and strong KYC (know your client) programmes.

The challenge is to do this in a way that is not sinister. A data breach could have a serious adverse impact on a casino's reputation and ultimately on its entire business and therefore there is an increased need for confidentiality and security.

Privacy is also very important, as casinos are now obliged to implement organisation-wide privacy initiatives in order to comply with the conditions of the Protection of Personal Information Act (PoPI) that was signed into law in 2013. The commencement date and appointment of the Information Regulator are expected to happen towards the end of 2014.

How we can help

PwC offers multidisciplinary offerings that combine privacy, security, regulatory and compliance requirements, risk management, change management and organisational culture.

In this era of rapid digital transformation, it is important that casinos develop and maintain a digital strategy and transformation initiatives that apply customer intelligence innovation and governance to customer-focused efforts such as websites, mobile and advertising.

PwC can assist with an assessment of current digital maturity, benchmarked against local competitors as well as global leaders. The diagnostic is carried out using our benchmarking and assessment tools (including customer surveys) and recommendations are identified for action. Other services include digital strategy and roadmap as well as programme governance and execution.

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Glossary of abbreviations



CAGR	Compound annual growth rate
CASA	Casino Association of South Africa
CEMS	Central Electronic Monitoring System
EMEA	Europe, the Middle East and Africa
FIFA	Fédération Internationale de Football Association
GGR	Gross gambling revenue
KYC	Know your client
LPMs	Limited payout machines
NLDTF	National Lottery Distribution Trust Fund
PoPI	Protection of Personal Information Act
R	Rands
USD	US dollars
VAT	Value-added tax

PwC Africa

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