

Tigre de Cristal eyes non-gaming to lure local crowds

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Tigre de Cristal, Russia's biggest casino, is focusing on its non-gaming attractions to boost revenue following lower-than-expected demand from locals for its casino offering.

While the resort is primarily targeting visitors from Northern China for growth, at present the tourism infrastructure is lacking, forcing a greater focus on the domestic market, experts say.

The property is owned by G1 Entertainment, a unit of Oriental Regent in which Summit Ascent has a 60 percent stake. It held its gala opening in the Primorye Integrated Entertainment Zone near Vladivostok last November.

Among Russia's gaming zones, the Primorye area is seen as having the most potential given its proximity to the northern Chinese and Korean markets. In results released this week, the company said its VIP rolling volume has been steadily rising from HK\$258.0 million in November 2015 to HK\$2.2 billion in August (\$283.5 million). Oriental Regent generated an adjusted EBITDA of HK\$35.2 million for the six months to June.

However, at present about 60 percent of the resort's client base is local and they are not showing the same propensity to gamble.

“Initially our expectation was much higher on the local market from a gaming perspective but non-gaming attractions have always been part of our game plan,” Craig Ballantyne, chief operations officer of G1 Entertainment told AGB.

The property has 650 gaming machines and 67 gaming tables (25 VIP tables and 42 mass market tables) including Blackjack and Roulette. According to Ballantyne, over half of the VIP tables are in regular use but the gaming revenue is mainly from the mass market and the average number of players per day is between 60 and 80.

Unlike Macau, which has a cap on the number of gaming tables, operators in the Primorye IEZ have the flexibility to decide on numbers based on market demand, Ballantyne added.

Although the casino is only operating at half capacity, the hotel part of Tigre de Cristal is often full at the weekend and almost half-full during the week, Ballantyne said.

Attracting talent

Entertainment events are playing a major role in driving visitation, according to Ballantyne. For instance, Tigre de Cristal is running a talent show, Broadway, in which the winner will be awarded with 1 million rubles (about \$15,000). Ballantyne said that the show has been instrumental in bringing in local visitors.

Currently Tigre de Cristal is operating 121 hotel rooms and the basic room rate ranges from 22,000 rubles (\$340) to 110,000 rubles (\$1,715) per day. In addition to a spa and two restaurants, there will be also be a golf simulator area, a jewelry store, travel agency and convenience store which will be opened in the near future.

While Tigre de Cristal enjoys a first-mover advantage in the zone until the next property opens in 2018, Ballantyne concedes that more properties will help to create a critical mass.

Diamond Fortune Holdings Prim is working on a second resort, the Selena complex, that will take up to 10 hectares of land with an investment of \$900 million. The first phase will include a four-star hotel with 250 rooms, a casino with 100 tables and 500 machines as well as restaurants and bars. Construction began last summer.

Once fully complete by 2020, the Selena will include two hotels, 515 gaming tables and 2,590 machines.

Hong Kong-listed Nagacorp, the operator of Cambodia’s Nagaworld, also began work on its casino in the zone last summer. The company has been preparing foundation work for the future hotel complex with a casino and an aqua park, with a pledged investment of not less than \$350 million.

Critical mass

“Opening of other properties can create a critical mass and make the [Primorye Integrated Entertainment] zone a more attractive package. We certainly don’t mind being competitive and I don’t see the likelihood of cut-throat competition in terms of pricing,” Ballantyne said.

In a recent press briefing in the IEZ, Andrei Varfolomeev, general director of Primorsky Krai Development Corp said that the local authority is also in talks with another investor regarding an investment of \$500 million, without disclosing further details.

At present the zone has one of the most favorable tax rates globally when it comes to gaming at about 1.3 percent. However, there are rumors about possible changes after the Russian government introduced a federal bill this year that includes tax amendments that relate to online bets and wins.

Ballantyne remains cautious about the ongoing regulatory uncertainties in Russia.

“We lobby the government and make our statement clearly: It is key for the Russian government to ensure that they will not arbitrarily implement any laws that are negative to the gaming industry and ruin the investment environment.”

“Tax level has to be stable otherwise there will be no further investment.”

Taxing concerns

Steven Gallaway, managing partner of Global Market Advisors, who conducted a study in 2012 to recommend how to develop the zone, agreed on the importance of government relations.

"Every government, whether it be a state in the US, country in Asia, or anywhere else in the world loves to look to gaming for increased tax revenue. One can only hope that the local operators are close enough to the federal government to explain rationally how to handle taxes."

"As the tax rate is based on the gaming laws from pre 2009 (the year that the casinos of yore were forced to close), a refreshed code directly approved by the Putin administration in this new gaming environment would give a heightened sense of security to the investment community. However it must be a rational fee or rate, one that does not equate to more than 10-15 percent of gaming revenue. If a revised code were to be much greater than this rate, the IEZ would die."

In the next phase of development, Summit Ascent plans two hotels - one four-star and one five-star - with a gaming floor two to three times bigger than the current one, more retail offerings and conference facilities.

The company in August reached an accord with Kangwon Land, the operator of the only casino in Korea where locals are allowed to gamble, for possible project finance investment in the second phase of development.

The possible link-up with Kangwon Land includes "potential hotel management and operation" of one of Summit Ascent's hotels in phase two of Tigre de Cristal, "by Kangwon Land or its designated hotel management company".

Further expansion of the gaming element will be subject to improvements in legislation and more regulatory clarity.

Visa help

That said, there have been some positive developments on the regulatory front, such as visa liberalization for Chinese tourists into Russia.

Last month Russian media cited Gui Tsunyu, the head of Department for Europe and Central Asia of China's Ministry of Foreign Affairs as saying that China has a goal to establish visa-free travel between Russia and China.

According to Administration of Primorsky Krai, the province ranks second after Moscow in terms of the number of Chinese tourists. For the first five months this year, Primorsky Krai has seen over 38,000 visitors from Mainland China, 20,000 more than the same period the previous year.

In view of the rise of Chinese tourists in Primorsky Krai, Gallaway highlighted the need to have additional hotel rooms.

He said: "Growth in Chinese tourism was always the number one assumption for a successful IEZ. Tourism will continue to grow as facilities continue to develop. Most importantly, additional hotel rooms need to be built to fuel growth as there is a dearth of rooms in the IEZ, and the entire Primorsky region."