Will Japan whet Europe's expansion appetite?

It's 15 years since Macau flung open its arms to international gaming companies and major US operators wasted little time heading to the Far East to plant their flags firmly in the ground.

Casino gaming in Macau exploded, while gleaming IR's have since sprouted up across many parts of Asia. Interestingly, though, Asian, US and Australian gaming operators have been behind most of the multibillion-dollar developments; European companies were conspicuous by their absence during this boom. And this is still the case today. One explanation is the sheer scope and cost of most projects.

"There wasn't a cadre of European companies with the experience of these multi-faceted, multi-market resorts, who could take advantage in Asia," says Fredric Gushin, managing director of Spectrum Gaming Group.

Indeed, while American operators could demonstrate that they had built and managed large-scale IR's, Europe's casinos are predominantly smaller, gaming-centric properties.

Warwick Bartlett, CEO of Global Betting and Gaming Consultants (GBGC), says: "European casinos, which are boutique in style and are not integrated resorts, have never been able to produce sufficient capital to build an integrated resort, so when the market in Macau opened up to competition they were never in the frame to be considered.

"Whereas the US operators had an impressive track record in Las Vegas, so they could explain to the authorities, 'this is what we have achieved so far and we can do this for you."

Furthermore, US gaming hubs like Las Vegas and Atlantic City have been wooing Asian players for decades and, therefore, US operators had existing relationships across Asia and were more prepared to jump into the market.

French connection

Although Europe has lagged behind the US, one key European operator demonstrated earlier this year that it is looking to muscle its way into the Far East. In March, Monaco's Société des Bains de Mer (SBM) entered into a strategic partnership with Galaxy Entertainment Corp. to pursue casino resort development opportunities in Japan and other new Asia-Pacific markets.

This deal came almost nine months after Galaxy acquired a 5 percent stake in Euronext-listed SBM for EUR42.4 million. SBM owns four gambling properties in Monaco, including the iconic 154-year-old Casino de Monte Carlo. "This was a wise move strategically for both sides," says Steven Gallaway, managing partner at Global Market Advisors.

"For Société des Bains de Mer, it provides them access to the large-scale Asian markets, such as Japan, for which they otherwise would not likely have been considered a contender to receive a license. For Galaxy, it provides them an entry into Europe, a market that I believe will begin to experience a renaissance over the next decade."

Gambling accounts for roughly 40 percent of SBM's annual revenues. This contrasts starkly with Hong Kong-listed Galaxy, which owns three flagship properties in Macau and which gets about 90 percent of its revenue from gambling. SBM is clearly seeking new opportunities to boost the gaming side of the business. And being able to get into Japan would certainly do that. When the partnership was struck, Galaxy and SBM said it was their intention to design, develop and operate an IR in Japan that would be the best of what Galaxy and SBM have to offer.

With Japan poised to be the second-largest casino market in the world after Macau, it is, of course, a highly coveted prize for international operators. "Japan is not only a wealthy economy, but it is an open democratic society and so is considered very safe from a regulatory standpoint," says Robert Heller, president and CEO of Spectrum Gaming Capital. "There is so much going for Japan it is no wonder that the big companies are going to go out of their way to try to get one of these [licenses].

Such is the interest in Japan, MGM Resorts International and Las Vegas Sands have spoken about $10 billion projects, though there is speculation that licenses will be available for smaller regional casinos. This will attract small-to-mid-sized foreign companies, says Heller. "If you have a company with EBITDA of $200 million to $400 million they don't qualify to do a $10 billion facility, but they certainly qualify to do a $1billion to 2 billion facility. For them, that would be a big step up, so it's quite a prize."

Doubters may question whether SBM has perhaps left it a little too late to throw its hat into the ring in Asia, yet Bartlett asserts that it is "never too late", particularly with Japan being virgin territory for international casino companies. As well a prime plot of land in close proximity to major population centers and with convenient transport links, a Japanese IR needs a theme that captures the public's imagination, he says. So, for example, a large-scale property that replicates the ostentatiousness of a high-roller gambling palace like Casino de Monte Carlo could prove to be a hit with locals and visitors alike. "The Japanese like all things French, particularly the luxury fashion brands, so the tie up with Société des Bains de Mer to produce a high-class French theme will play well with the Japanese and also the Chinese tourists," Bartlett suggests.

Eurovision

With the Galaxy-SBM deal offering the former a toehold in Europe and Gallaway suggesting a "renaissance" is on the horizon for the continent, Europe also offers expansion opportunities for Asian operators.

Indeed, Melco International Development, headquartered in Hong Kong, holds the majority stake in a €600 million casino resort project planned for the Mediterranean island of Cyprus. The development in the southern coastal city of Limassol is slated to open in 2020 and will be Europe's largest IR. "I think Cyprus could be a game-changer as the first real integrated resort in Europe" Gushin says. "That could mean other nations considering different types of casinos."

As it stands, most casinos across Europe are relatively small due to licensing laws or because these venues only cater for the local market rather than overseas visitors. London and Monaco are considered to be Europe's main gambling centers even though neither boasts large IR's. However, Bartlett suggests an IR in London similar to that of Singapore's Marina Bay Sands would be an appealing proposition if MICE were a key aspect. "It would become the MICE facility of Europe."

In 2015, Genting Group opened the UK's first and only IR, Resorts World Birmingham, a $230 million development on the outskirts of the city housing the UK's largest casino. The Malaysian gaming powerhouse is currently adding to its global Resorts World portfolio with the construction of Resorts World Las Vegas and Resorts Catskills in New York state.

Gallaway says that while Asian operators will continue to look to expand into Europe and elsewhere, they will tend to concentrate their efforts on building larger projects. "The reality is when a company generates billions of dollars in revenue in its backyard, it needs to identify other high value opportunities when developing on the complete opposite side of the world." On top of this, the appetite for gambling in Europe is far less than Asia, land is often costly and gambling taxes can be high. "If you were an Asian operator and wanted to invest $5 billion in a casino project," Bartlett says, "would you pick over-regulated and over-taxed Europe, where regulation creep is a constant or Asia where you have more certainty because you can determine regulation before making the investment?" He concludes: "Add that to a higher propensity to gamble versus European attitudes of persuading people not to gamble, and it's a no brainer where you put your money."