

MARKET INSIGHT

Andrew Klebanow, a partner at Global Market Advisors, explains why Cambodia continues to be a market to watch for the gaming industry.

Land of Opportunity: Cambodia's casino industry continues to develop

Casino Review: Casinos have expanded dramatically in Cambodia during the past year with a 53 percent rise in licenses issued in 2018. What's driving this?

Andrew Klebanow: There are a number of factors driving the increase in licenses. The first is the continued growth of Live Dealer Online (LDO) wagering. LDO allows someone in another country to place wagers on a live table game using a mobile device or computer. Casinos throughout Cambodia have allocated space on their gaming floors for LDO wagering. Banks of table games are fitted with cameras that allow players to select a dealer/table and place wagers remotely. Junket operators have been moving into this space.

During my most recent visit in 2018, I did not see any increase in the number of casinos in Poipet and Bavet so the growth in casino development is taking place in other regions, primarily Sihanoukville.

CR: Much of this growth has been centred around ongoing Chinese investment in Sihanoukville. Why is the city so appealing for Chinese investors?

AK: Sihanoukville is undergoing unprecedented growth. In 2015, I counted nine properties in and around the city centre. In 2018, I visited 17 casinos in central Sihanoukville, with more properties in outlying areas. Most of these properties were modest in size but the real story is what is under construction today. No less than a dozen high-rise hotel/condominium/casino resorts are in various stages of construction. The first of this new wave of con-

struction, the Xihu Resort, with 507 lodging keys and a three level casino opened in October. More properties are expected to open in 2019 and 2020. The largest of these will have over 2,000 lodging keys and a casino capable of accommodating over 500 table games.

Sihanoukville holds unique appeal to Chinese, both as a vacation destination and place to live and work. The economic driver is the Sihanoukville Special Economic Zone (SSEZ). The SSEZ affords Chinese manufacturers certain economic benefits. The SSEZ's proximity to Sihanoukville's port also allows factories to ship finished goods abroad. Currently, there are about 100 factories in the SSEZ with plans to expand to 300 factories. While those factories employ thousands of Cambodians, they also employ Chinese accounting personnel, supervisors, managers and generate visitation from vendors, advisors, logistics personnel and other business people. Those people have created demand for quality lodging, condominium development and casino gaming. That demand will continue to grow as the SSEZ expands.

There is also tourism. Sihanoukville offers some of the most beautiful beaches in southeast Asia. Airlift into Sihanoukville Airport from Chinese cities is growing and with it, a robust tourism market.

CR: In your view, is this nationwide growth sustainable or are we seeing a bubble? How vulnerable is the Cambodian market to wider economic factors such as the trade

war between the US and China?

AK: I believe that Cambodia's economic growth is sustainable and it is actually well protected from the widening rift between the US and China. As an emerging economy, Cambodia is afforded certain economic benefits, including protections from tariffs. In fact, should tensions between the US and China rise, it would benefit those products produced in kingdom. The Belt & Road Initiative will continue to benefit the Cambodian economy. As an example, a new four-lane highway, connecting Phnom Penh to Sihanoukville, built at a cost of \$2bn, is expected to be completed within four years. That highway will connect the nation's capital to the country's deep water port.

CR: The government is currently in the process of drafting new gaming bill. Where are we in terms of the legislative process for this?

AK: The Law of the Management of Integrated Resorts and Commercial Gaming (LMIRCG) includes 113 Articles. It has already been reviewed by the Ministry of Economy and Finance and the Ministry of the Interior. It is now being reviewed by the Council of Jurists of the Council of Ministers. Then it must be approved by the National Assembly and Senate. Final passage is expected sometime in 2019.

CR: What are some of the key aspects of the new gaming legislation and what are some of the principal features of the proposed tax framework and capital requirements?

AK: The LMIRCG divides the country into three zones: Prohibited, Promoted and Favored. Construction of new integrated casino resorts will only be allowed in Promoted zones, such as Sihanoukville and Koh Kong. Existing casinos located in Favored zones, such as Bavet and Poipet, will need to undertake certain reforms to meet the requirements of the LMIRCG. Development of casinos in the rest of the country will be prohibited to preserve cultural and religious roots. This effectively prohibits casino gaming in Siem Reap.

The terms of the licenses will also vary, based on where a casino is located. Casinos in Favored zones can apply for licenses up to twenty years while casinos in Promoted zones will have five year renewal periods.

The LMIRCG includes the creation of a new regulatory body, the Integrated Resorts Management and Commercial Gaming Committee. It would be accountable for licensing, tax collection and oversight.

Gaming taxes will be based as a percentage of gross gaming revenue. Different tax rates will apply to those casinos operating in Promoted zones and those in Favored zones.

Tax rates on mass market revenue and junket revenue will also differ, and it is expected that junket commissions will be deductible from headline tax rates. While those tax rates have not been made public, it is the government's intent to use integrated resort development as a tool for economic and tourism growth. As such, it is expected that Cambodia will offer some of the most attractive gaming tax rates in Asia.

