

Home › Indochina › Cambodia › Sizing up Sihanoukville

Bricks & Mortar

Sizing up Sihanoukville

By **AGBrief (Sharon)** May 10, 2019



Courtesy: Andrew Klebanow

Construction in the once sleepy seaside town of Sihanoukville is everywhere, with cranes, cement trucks, container lorries, and excavation generating clouds of endless dust.

Of all the locations in Cambodia seeing an increase in foreign casino investment, the coastal town is far and away the most buoyant. Out of the 52 new casino licenses granted in 2018, 78 percent of those went to operators seeking to set up shop in Sihanoukville.

The rapid transformation, driven by billions of dollars of Chinese investment, has inevitably led to concerns that the development is not sustainable. It's driving up prices for locals and pushing away visitors from its traditional tourism markets.

However, experts say there are a series of factors underlying the boom that should underpin the market, as long as relations with China remain stable. The changes may have scared away penny pinching backpackers, but they are being replaced by high-spending Chinese.

"In just a few years Sihanoukville, without doubt will become a transformed city," says Dominick Stenson, casino director at Queenco, one of the more established properties in the region. "All the elements will be in place for it to become a major tourist and gaming destination."

"Even now when it's in embryo stage there are thousands of new Chinese tourists visiting the casinos here. Not only Chinese, there are increasing numbers of Malaysians also coming in large numbers," he adds.

Stenson said there are big brand hotels, which are slowly putting their toes in the water with some major builds planned in the next two years. Many casinos are moving onto the second phase of development and the smaller properties that shot up to meet nascent demand are now seeing business decline as visitors migrate to the higher-quality resorts.

Queenco, which has 20 main floor tables and 10 in a junket area, is adding another 200 rooms bringing the total to 400. It is also constructing a new VIP gaming area and will begin to convert another area in the casino to an online studio.

The next step will be a mega project on Queenco's beach-side land at Otres Beach, with an investment of more than \$900 million. The five-star integrated resort will be built on nine hectares of prime beachfront, with two hotels totalling 3000 rooms and suites, a casino, shopping centre, convention centre and condominiums. The project is planned to start mid 2019.

According to Global Market Advisors partner Andrew Klebanow, who carried out on the ground checks last year, there are four main factors driving growth in Sihanoukville, mostly linked to investment under China's "Belt and Road," initiative.

The town is home to a deepwater port, which is a major hub for the export of finished goods. That port is being expanded to accommodate larger vessels, which in turn is expected to drive further growth and boost the number of expatriate workers living in the area.

Just 12km from the port lies the Sihanoukville Special Economic Zone, one of the landmark projects along the "belt and road," which currently houses about 90 factories making products ranging from garments to hardware and machinery.

The SSEZ, which is a venture between Chinese and Cambodian companies, has ambitious goals to expand that number to 300, employing between 80,000 to 100,000 people.

"Those factories will require foreign managers, logistics personnel, etc., driving demand for housing for these expatriates as well as demand for lodging from business travelers," Klebanow said.

A new \$2.1 billion super highway is being built between Sihanoukville and the capital Phnom Penh, which will cut the five-hour journey time in half, opening the area to weekend traffic from the city's expatriate workforce, while the airport is adding new destinations providing direct links to regional destinations.

Currently about 10 airlines fly from Sihanoukville, with direct flights to Macau, six Chinese cities, Kuala Lumpur and Ho Chi Minh City in Vietnam.

The airport handled over 650,000 passengers in 2018 and has experienced triple-digit growth every year since 2016.

From July, Thai AirAsia is expected to start flying between the town and Bangkok, opening the market to Thailand, whose visitors are the main clientele of Cambodia's border casino town Poipet.

"Considering that Poipet is a miserable 3 ½ hour drive from Bangkok, hopping on a 45 minute flight to Sihanoukville presents a very attractive alternative for residents of Bangkok seeking a gaming/beach vacation experience," says Klebanow. "I remain convinced that Bangkok is an underserved market, given the product offerings in Poipet and travel time via ground transport to that market."

As new resorts mushroom, the size and scale are new to anything the Cambodian market has seen before, with high rise towers, offering a mix of rooms, condominiums and casinos.

To name but a few, last October, the The Xihu Resort opened with 507 keys, three floors of gaming, a helipad and a dock.

While Hong Kong-listed Suncity Holdings last September signed a services accord to operate the \$360 million Golden Sun Sky Resort. The project will cover a gross floor area of approximately 550,000 square meters of which approximately 120,000 square meters will be allocated to the casino. It will comprise hotel accommodation, restaurants, commercial units, a residential complex and sports and meeting facilities. So is this development sustainable?

"All in all, the prospects for Sihanoukville from a tourist and gaming perspective are very bright for those who are willing to invest in a better product," Stenson says.

Klebanow agrees and adds that long-awaited legislation covering the casino industry is expected this year, which will further open the market to a different sector of investors.

"There are not a lot of new development opportunities in Asia once one gets past Japan. The barriers to entry are lower as is the amount of capital needed to develop a resort destination," he says. "I believe the LMCG (casino regulation) will be a game changer. Regional foreign casino operators will be able to enter the market with the assurance that they will not be jeopardizing their privileged gaming licenses in other jurisdictions."

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