



## THE WORLD IS NOT ENOUGH

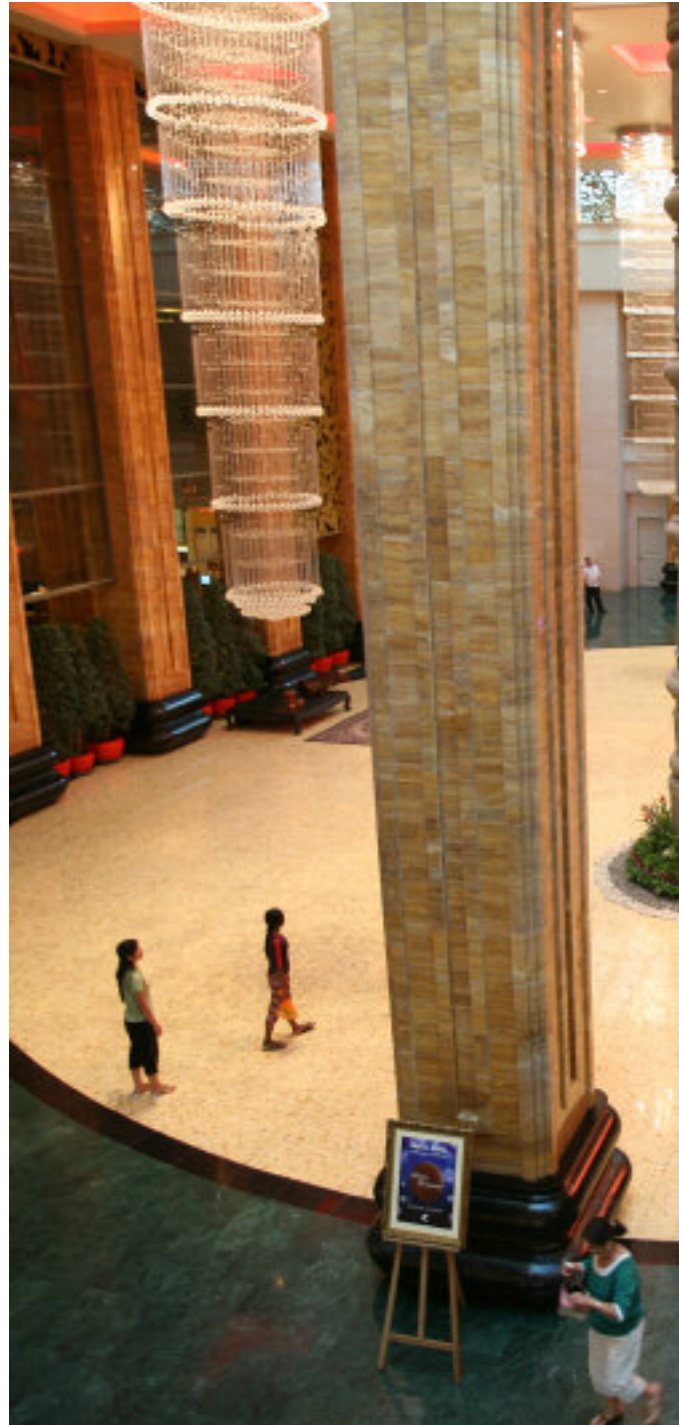
Naga Corp. is to invest US\$369m as part of its NagaWorld 2 expansion phase in Phnom Penh. An equivalent build in Macau or Singapore would cost US\$2bn, such is the scale of this project

In the late 1980s, Tan Sri Dato' Dr Chen Lip Keong, the Chief Executive Officer of NagaCorp, visited Phnom Penh from Malaysia as part of a strategic investment programme to stimulate tourism and trade in Cambodia. Currently the 26th richest Malaysian, Dr. Chen is not only the founder and controlling shareholder in NagaCorp, but he is Economic Advisor to the Prime Minister of Cambodia and an Advisor to the Royal Government of Cambodia with Ministerial status - he is also an actual medical doctor. Dr Chen was involved in the initial casino tender bid offered by the government through Ernst & Young in Australia, which came with provisos to invest in the infrastructure of the country as part of the licence. In 1995, NagaCorp was incorporated and began as a casino barge operator before eventually operating land-based facilities. NagaCorp's licence granted the company the right to operate casino activities in Cambodia for 70 years commencing from January 2, 1995 and for around 41 years on an exclusive basis within a 200-km radius of Phnom Penh (except the Cambodia-Vietnam border area, Bokor, Kirirrom Mountains and Sihanoukville). The company is incorporated in the Cayman Islands and has its principal place of business at NagaWorld, South of Samdech Decho Hun Sen Park, Phnom Penh, Kingdom of Cambodia.

Favoured by its geographic location in SE Asia, a liberal visa policy with neighbouring countries that bolster tourist inflows, net profit of the Hong Kong listed

NagaCorp rose by 109 per cent to \$92m in 2011 from \$44m a year earlier. The nation of 15 million people has more than 25 casinos, but most are small affairs in rough-and-tumble border towns that cater to hard-core Thai, Chinese and Vietnamese gamblers. Only NagaWorld has a central position in the Cambodian capital thanks to its monopoly licence. Cambodia currently enjoys strong and stable relations with China, Vietnam, the US and other major trading partners. Its border problems with Thailand have diminished compared with one year ago, while its relations with other ASEAN members are supporting Cambodia's development efforts. Cambodia's economy is not immune to the economic problems of the euro-zone and the US, but its GDP growth is holding up better than in most other Asian countries in 2012 thanks to continuing strong foreign investment and special treatment by major foreign markets that have helped sustain export growth. There could be a slowdown in tourism growth due to weaker travel by Americans and Europeans, but the bulk of Cambodia's inbound tourists are not from these areas, but from neighbouring Asian countries, where the growth of tourism is likely to be much less affected by global conditions.

G3 interviewed NagaCorp Chairman Timothy McNally at the G2E Asia exhibition in May, following a conference at which he spoke about the issues and opportunities facing the Asian gaming market. A lawyer by trade and formerly



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head of compliance for the Hong Kong Jockey Club following a 24 year tenure with the FBI, Mr. McNally is not your typical gaming industry executive. His appointment has been an integral part of the formidable managerial team Dr. Chen assembled from across multiple disciplines and areas of expertise, putting in place all the essential ingredients for NagaCorp's listing on the Hong Kong Stock Exchange in 2006. At that time, NagaCorp was the only gaming company listed on the HK Exchange. Mr. McNally joined the company prior to the listing in 2005. "There have been a lot of changes since joining the company, mostly in the



social environment within Cambodia,” commented Mr. McNally. “Dr. Chen has patiently developed this company, incrementally building the business and prudently making sure that he didn’t need to borrow a single cent. There’s a lot of expertise and experience within NagaCorp, which culminates in the skills Dr. Chen has as a businessman and entrepreneur. However, what’s really impressive is the fact that he’s been such a student of where Cambodia needed to go. He has made a real impact on the development of Phnom Penh. For a company such as NagaCorp to have operated from the outset without any

debt, totally nil gearing, shows how prudent and experienced he is as a businessman - this is a company with 3,500 employees after all.”

Since 2004, Nagaworld has grown to encompass 600 hotel rooms, 425 slots and 131 table games, offering an array of restaurants covering every type of cuisine. Financial results filed with the Hong Kong Stock Exchange show that Naga Corp’s net profit of \$92m in 2011 was the highest recorded by the company since it went public in 2006. Revenues totalled \$223.8m, a 49 per cent increase on the previous year. According to the results,

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Cambodia is still unfolding, politically and economically with the help of foreign direct investment. Investment from China and Japan, building roads, bridges and infrastructure has been essential. The promotion of tourism has also been a top priority. As the first public listed company in Cambodia, the government treated us differently, as we have helped other companies to see Cambodia as a legitimate and viable market to enter.”

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the largest portion of revenue, \$80m, was made from the junket market. A total of \$3.2bn was gambled at junket tables in the casino by 16,019 visitors, an average of more than \$200,000 per player. It’s this junket business that has enabled NagaCorp to flourish, but it’s a model that the company is looking to carefully balance in the future. “In the early stages we relied totally on the junket business, with the barges paying ever higher fees to junket operators,” stated Mr. McNally. “These early relationships with junket operators in Singapore and Malaysia established NagaCorp’s business, but having seen the volume of play in Genting’s Highland Resort, Dr. Chen believed that this ‘mom and pop’ business model would work in Cambodia too. His own operations had developed in the same trajectory as Macau in the old days, with hardcore gambling at the centre of the business model. However, Dr. Chen’s vision for NagaCorp was to offer a broader based business model that would encourage large public participation.”

Last year, non-gaming revenue increased 23 per cent to US\$12.3m from US\$10m in 2010. The business represents hotel, food and beverage and entertainment services to both gaming and non-gaming patrons. The increase in non-gaming revenue was largely due to the increase in the company’s overall casino volume and foot traffic into the property. “Since my involvement with NagaCorp we have been following a broad business strategy,” said Mr. McNally. “We targeted the mid-size junket players, but no longer sought the high-end business as the volatility was too high. We still have a conservative policy in which we don’t extend credit to junkets. We are a blue-collar casino, whereby we don’t see the Marina Bay Sands, Venetian or Wynn as competition. We have invested US\$260m in the facility to date, while a similar-sized property built in Macau or Singapore would have cost at least \$1.4bn. Our tax and labour costs provide us with a good competitive environment for our business. Cambodia has had to start again from zero and remains a work in progress. Cambodia is still unfolding, politically and economically with the help of foreign direct investment. Investment from China and Japan, building roads, bridges and infrastructure has been essential. The promotion of tourism has also been a top priority. As the first public listed company in Cambodia, the government treated us differently, as we have helped other companies to see Cambodia as a legitimate and viable market to enter.”

Dr. Chen was already a successful businessman at the time he started investing in Cambodia. Back in the 1980s,



there was a lot of uncertainty as to the direction Cambodia would take and a lot of risk during this nation building process. Dr Chen didn't just invest in casinos, he invested in the country itself. He could see the opportunities, the political and social stability that would come. He set a course and stuck with it and has kept a clean balance sheet and created year-on-year profit ever since. The Asian appetite for gaming is significant, but the desire for additional amenities has always been called into question by foreign commentators. Providing facilities for the mass market became Dr. Chen's focus, whereby the strength of NagaCorp's licence proved the significant asset. In 1996 there were a series of court challenges that Dr. Chen successfully fought down, and while there continues to operate dozens of border casinos and several in the mountains, as Mr. McNally underlines, NagaCorp is the biggest by far and the only one he considers as giving back to the country and its people.

"NagaCorp is a socially responsible operator. We are not just gaming centric," stated Mr. McNally. "Our celebrations for New Year are spectacular and we host a number of major festivals that have become a tradition with the company. Tourism does not come about accidentally. We have combined with the Ministry of Tourism to attend foreign

### **TOURISM DOES NOT COME ABOUT ACCIDENTALLY. WE HAVE COMBINED WITH THE MINISTRY OF TOURISM TO ATTEND FOREIGN TRADE SHOWS.**

trade shows to promote the country on the international stage. We see the private and public sectors working together to help one another. It was a self-imposed policy not to allow locals to participate in gaming, unless they have a foreign passport. As a company we are always sensitive to the environment in which we operate. In Phnom Penh there had been nothing like our entertainment offer. We have blended into the social fabric of the city. We are part of much of what is happening in the general development of the city itself. This is a young, vibrant country in which the average age of the population is 22-23 years old. This is a generation that is plugged into the rest of the world. There's a lot of optimism in Cambodia for the future and we are part of that."

Current foreign tourists account for 75 per cent of the overall customers to NagaWorld's casino, with the majority from Vietnam, Malaysia and Singapore. NagaCorp expects that the proportion of Vietnamese customers to the casino is likely to increase from the current 40 per cent to 60 per cent of all foreign customers by the end of this year.

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According to a government survey, around 3,600 Vietnamese visit Cambodia to gamble every day, and on Saturdays the figure increases to 5,000. In 2011, Vietnamese ranked first in terms of the number of tourists visiting Cambodia, accounting for about 21 per cent of international tourist arrivals to Cambodia or about 600,000 Vietnamese tourists. In the first quarter of 2012, the number of tourist arrivals into Cambodia increased by 27.8 per cent to 955,210 visitors as compared to the first quarter of 2011. Travelling by road is by far the most popular means of transportation. Among the favourite destinations for Vietnamese travellers in the country are the Angkor Wat Temples located in Siem Reap province, the beaches of Sihanoukville city of Kampong Som province, Phnom Penh capital and the NagaWorld entertainment complex.

The newly launched, reasonably priced, Nagaworld luxury bus tour package



means that more Vietnamese will be able to visit Phnom Penh, Siem Reap and Sihanoukville for leisure and business and more Cambodians can travel to Vietnam for medical, education, business and leisure purposes. The company has also invested heavily in a tour package from Hong Kong, which includes shuttle transportation, accommodation and dining packages.

NagaWorld is in the process of adding 220 rooms to its current total of around 600 to accommodate for the increase in visitor numbers. It is adding as many as 30 new gambling tables to its total of 131 and around 275 new slot machines. A host of further additions are to be developed for the resort as part of its NagaWorld Phase 2 project, which is expected to cost US\$369m. The plans include a NagaCity Walk, a tourist park and such retailers as Cartier, Rolex and Piaget. The expansion of NagaWorld, which is termed NagaWorld 2, will include multiple media outlets, sharing many of the retailers now commonplace in Macau. "We are attracting investment because we are a compatible fit," said Mr. McNally. It's good news for Cambodia. Our policies mirror those of the government. We are not static in Cambodia, there is a lot of room for growth and room to expand. Vietnam, Thailand and IndoChina are on our doorstep. There are a large number of

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Cambodians that left the country during its troubles, who have returned with foreign passports. We are a couple of hours out of Ho Chi Minh City, and air travel is simple right out of Phnom Penh. Our decision to create a resort offer has shifted our emphasis, whereby we would look outside Cambodia at new opportunities in Thailand and Vietnam should they arise."

"NagaWorld is currently at capacity, we need Phase 2 to satisfy demand," continued Mr. McNally. "We currently have 14 restaurants, but will be adding many more as part of the expansion of our resort offer. Before we increased the number of hotel rooms, in the period 2008-09, visitors' options were severely restricted and that's borne out in the

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visitor figures. In 2005 we saw 272,000 visitors to Phnom Pheh, but since then we've seen sequential growth, up to the current figure of 1.3 million visitors today. We are going to offer new dining and accommodation options and by the end of the year open NagaRock, a music venue with Philippines groups, local acts and regional entertainment forming an integral part of the resort offer. We offer affordable dining that includes Chinese Cantonese, IndoChina, Malay, Indonesian etc., and offer luxury coaches to the working man travelling into the country. We bought the coach companies to offer this service, and we also operate a private jet to facilitate our VIP business."

"Cambodia is a country feeling good about itself. I can sincerely say that I have thoroughly enjoyed watching the progress this country has made," described Mr. McNally. "The Cambodian people are respectful, kind, family-orientated and love music and dance. We are keen to showcase the empire too, dressing our staff in traditional dress. Dr. Chen began NagaCorp in a country with no money, no manpower, managerial know-how and zero investment. What we had was raw material. Young people who wanted to learn and work hard. We are now the biggest employer outside of the government in Phnom Penh. Dr. Chen brought in good people to provide a

competitive edge, and trained local staff to the highest level.”

NagaCorp recently opened a tourist office in Vietnam. Mindful of the prohibition on gambling and the promotion of gaming in Vietnam, the service offers information and guidance for visitors looking to travel and stay in Cambodia. The promotion of its entertainment facilities opens up new opportunities for NagaCorp, with Thailand, Vietnam, Myanmar, Malaysia, IndoChina and Laos as its neighbours, NagaWorld has over 150 million people to tap into. The NagaWorld licence comes without restrictions on games, number of tables etc. Its offer is dictated solely by market demand. “We will have another 1,100 hotel rooms as part of the expansion with Phase 2,” explained Mr. McNally. “We are building an underground road linking Phase 1 and 2 together, with a NagaWorld Tower, a hotel tower, retail shops, 4,000 seat amphitheatre and a number of private gaming rooms and more restaurants included in the expansion. We want to keep providing services to local Cambodians, whether they are able/want to play or not.”

### **WE ARE BUILDING AN UNDERGROUND ROAD LINKING PHASE 1 AND 2 TOGETHER AND ADDING 1,100 HOTELS ROOMS.**

Competition isn't a particular concern for NagaWorld, whereby the resort doesn't see the country's border casinos as competitors. Most of these locations mop up the foot traffic that passes across the borders and has very little impact on NagaWorld's custom. The government, meanwhile, is very keen to ensure that gambling is allowed to expand in Cambodia as part of controlled and sustained growth that remains publicly accountable. The Ministry of Finance has recently implemented its National Money Laundering Legislation Act, which is providing some oversight. However, dedicated legislation and regulatory controls have still to be established in Cambodia of the gaming industry. “Right now we are not sure how many licences will be offered to tender outside of NagaCorp's licence restrictions,” stated Mr. McNally of the development of Cambodia's gaming market. “A Gaming Control Board will be established eventually, which will lead to a more formalised gaming industry in the country, creating separate laws and



regulations. As a publicly listed company we would welcome those structures as they would help our business at an international level. Everything needs balance and transparency to promote international investment in Cambodia.”

The government closed multiple illegal operations in 2009 in a crackdown that was described externally as the closure of the Cambodian market. Despite this, there continue to be dozens of reports of locations opening and the construction of hotels and gaming facilities right across Cambodia and into the 200km exclusion zone granted to NagaCorp. “Our focus is Phnom Penh and the development of our entertainment offer in the city,” underlined Mr. McNally. “We have done a lot to support the government and to raise the flag for the country at the international level. We didn't need the IPO to raise capital for the business, we did it because it was good for the country to have a company like NagaCorp listed on a foreign internationally recognised exchange. I believe that the country as a whole has really benefited from that. We offer the largest convention and MICE facilities in Cambodia and we're going to provide 700 hotel rooms by the end of

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2012. It's small fry, however, compared to the \$369m Phase 2 development. Two new towers will be built, one housing 1,000 additional rooms and 2-300 gaming tables. The extra capacity will see NagaWorld offering over 1,500 rooms. We are adding VIP gaming suites for the junket business, which are going to have gaming tables and food services combined. NagaWorld 2 will offer 1,800sq.m. of retail space with the biggest brands offered to players and visitors alike, with a mid-range offering for locals. The number of restaurant facilities to be added as part of the expansion is still to be decided. We have a number of new hotels opening in Phnom Penh providing competition and we will adjust our offer accordingly, though our nightclub will be a major draw for locals.”

The expansion of NagaCorp will be funded in its entirety through one of Dr. Chen's privately owned companies. This isn't an expansion that is relying on foreign investment or banking capital. Sustainability has been the core element in the growth of NagaCorp and its Phase 2 development is no exception. NagaWorld isn't expanding for the sake of expansion, it is organically growing to



meet market demand. Not only is this gaming demand, but a hunger for world-class entertainment facilities. "These are peaceful optimistic times in Cambodia," said Mr. McNally. "We are offering the people of this country what they want. We believe we are good for the community. I've stayed with this company because I believe in its philosophy, which is based upon striking a balance between opportunities presented by gaming and the needs to be socially responsible. This market is more than just the love of gaming - our aim is to create an entertainment hospitality industry in this country, which has such great potential. We decided to build a rooftop swimming pool as part of the convention space because we thought people would enjoy mixing business and leisure, it's not just about gaming," reiterated Mr. McNally. "Cambodia is a really exciting place right now. In Phnom Penh I see a city evolving at an amazing pace. People appreciate the new things they never had before. Our Bellagio-style fountain that is due to open as part of NagaWorld 2 is going to capture the imagination of the people here."

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first full year of operation in 2016. The two NagaWorld towers will redefine the skyline in the city, with a city walk that runs along the river, restaurants and shops protected under a covered walkway and public gardens creating a central park like zone for people to enjoy whatever their preference or income. Gaming doesn't just have to be about tax revenues, it can be a positive force in society too. Having said that, government officials have blessed the idea of adding new casinos to the landscape, as the industry generated about \$20m in tax revenue last year, up 25 per cent from the year before. That revenue is helping Cambodia develop in such areas as education and health as well as tourism.

Among the planned developments is the sprawling Thansur Bokor Highland Resort, two hours south of the Cambodian capital of Phnom Penh. The resort held a soft opening in April and is expected to open officially very soon with 418 rooms, a convention center, spa facilities, scenic trails and an edutainment center for children. Developed by a unit of Sokimex Group, a Cambodian conglomerate that controls much of the

country's oil industry, the resort is also notable for its location along a cliff's edge nearly 1,100m (3,600ft) above sea level that is often covered in clouds.

Developers are also looking to expand gambling in other parts of Cambodia, including near the southern beach resort of Sihanoukville and near what could be the most attractive site: Siem Reap, home to the Angkor Wat temple, Cambodia's most-renowned tourist attraction. However, not all developments have gone to plan to date. The Ha Tien Vegas Entertainment Resort at the Vietnamese border in Kampot province's Kampong Trach district let 500 of its 750 staff go, and is closing 130 hotel rooms and its major restaurant. The casino opened in 2010, but has failed to make its offer a success, deciding over the summer to reduce its large-scale activities as it accesses the prospect of complete closure. The nine-storey centre was opened at the end of 2010 at a cost of US\$100m. Ha Tien Vegas spokesman Holay Pao said delays by both Cambodia and Vietnam in building a road to the complex was an important factor that had discouraged guests. "Most customers don't want to struggle with the road," said Holay Pao. "The hope of the owner of Ha Tien Vegas is that the centre can continue to survive for the present and full operations will begin some time in the future." The Ha Tien Vegas's attempt to provide upmarket facilities in a remote location has proved an expensive \$100m gamble. There's an expectation that the Thansur Bokor Highland Resort could follow a similar path, located as it is, two hours from Phnom Penh on treacherous roads. The slow and steady wins the race approach of NagaCorp appears to be the only sure-footed option right now.