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CAMBODIA MARKET





Cambodia

Crumbling Foundations

Ethically and morally Cambodia's past attempts to build an empire have been questionable whilst its gambling sector has always lacked a strong legal framework to establish secure foundations for what has become a huge market.

Despite a significant number of casinos, Cambodia has failed to attract global gaming brands and so when the online gambling ban was introduced last year, the market slumped as more than 400,000 Chinese left the country, practically overnight. Not long after, Covid-19 arrived and added an extra nail in an already closed coffin. Today, Cambodia is struggling to recover from this series of setbacks.

There is a positive side, however. As the market re-opens after lockdown, and a new gaming law gets the green light, the Cambodian market is once again looking interesting and this flurry of activity could see Cambodia return to its status as a prime candidate for a successful tourism, leisure and gambling industry.

Cambodia is one of the fastest growing economies in Asia with around 7.6 per cent growth rate over the last decade. Although agriculture is still a key sector, textiles, construction and tourism have all helped to increase foreign trade and investment.

Cambodia is bordered by Thailand, Laos, Vietnam and the Gulf of Thailand. The country gained independence from France in 1953. After the Cambodian Coup of 1970 the Khmer Rouge emerged as a major power which sent more than 300,000 Cambodians rushing into exile, whilst two million lost their lives. The violence that dominated the country for almost four years killed one in five of the population.

The Vietnamese invaded in 1978 and overthrew the Khmer Rouge and civil war raged. In 1991 a cease fire was called and by 1993 some normality had returned under a coalition government. Factional fighting in 1997 ended this government, but another was formed a year later with renewed political stability. The last remaining Khmer Rouge surrendered in early 1999.

In 2004, King Norodom Sihanouk abdicated the throne and his son Prince Norodom Sihamoni took over and still holds this position today. The parliamentary constitutional democracy government is headed by Prime Minister Samdech Techo Hun Sen.

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Hun Sen, who fled to Vietnam during Pol Pot's regime, returned to Cambodia when the Vietnamese installed a new government in 1979 and became Minister of Foreign Affairs. He became Prime Minister in 1985 and has served in this role for 35 years.

Hun Sen was just 33 when he took power and has vowed to rule until he is 74 (in 2026). The

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The UK is the second largest foreign investor in Cambodia after China, whilst the US is Cambodia's biggest trading partner and export destination. These links helped propel Cambodia into one of the fastest growing economies after the 1970s genocide. Despite this around 40 per cent of Cambodians still live below or close to the poverty line.

Cambodia People's Party is the sole dominant party in Cambodia and since 2018 has commanded all but four seats in parliament.

Supporters say he has ensured relative peace and prosperity. After years of civil war and almost four years of genocide at the hands of the Khmer Rouge, this is something they are keen to keep in place.

However, his government is consistently listed

as one of the most corrupt administrations in the world. There has been much controversy during his leadership and he has been accused of ignoring human rights and instigating political oppression, including murder, torture and imprisonment of those who oppose him.

In 2017, Hun Sen managed to abolish the opposition leaders to lessen their party's influence when he passed a law granting the ruling party the right to dissolve political parties.

He's been implicated in corruption relating to Cambodia's oil wealth and mineral resources and with many family members acting as 'gatekeepers' with positions in politics, the military, the police, the media, electricity companies and even charities, he also has near total control and power. Around 15 radio stations were banned from broadcasting the Voice of America and Radio Free Asia programmes in 2017 and the Cambodia Daily newspaper was forced to close down that same year with unpaid tax allegations. It later re-launched as a digital version and is now run offshore after Sen's government ordered Cambodian ISPs to block the webpage.

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cent of Cambodians still live below or close to the poverty line.

Many remain impoverished and stranded trying to make a life in the new areas they fled to during the Khmer Rouge rule. Many Cambodians who managed to survive this period had migrated to the coast and built new homes there or on the various islands.

Serious redevelopment began in the mid-2000s. When Hun Sen came into power, land previously seized by Khmer Rouge, was sold off. By 2006, it was said some 40,000 Cambodians had been made homeless in Phnom Penh alone. Homes were flattened and hotels were being built along the coast and on islands where villagers had begun to re-start their lives.

It has been likened to a frenzied land grab as politicians and wealthy businessman laid claim to land, cities and even paddy fields, later sold to

foreign investors. There was a saying that the rich were eating the country.

In 2006, some 1.5 million tourists arrived in Cambodia and this new cash cow was being milked to the max. The government changed the designation of the southern islands so they could also be sold and Cambodia set out to challenge Thailand to become a top tourism destination. To achieve this goal, residents were forceably removed. Some jailed or beaten.

In 2007, up to US\$2bn in foreign finance entered Cambodia, whilst 150,000 people were facing eviction and 45 per cent of the country's entire landmass was sold off.

Many said Hun Sen had put the country up for sale. Investors could form 100 per cent foreign-owned companies to buy land and real estate – a unique system no other country has instigated. With no money laundering law in place at that

time, there was a flood of investors building condos, hotels and casinos.

THE GAMBLING MARKET

Gambling was prohibited during the Khmer Rouge dictatorship during the 1970s, although it was legalised again in the 1990s when the first casino licence was granted to Naga World in 1994.

In 1996, the Law on Suppression of Gambling was introduced and several casinos in Phnom Penh, except for Naga World, were closed and it also prohibited almost all forms of gambling for Cambodian residents. Meanwhile, the government allowed the casinos to relocate out to border towns and along the coastal resorts.

At the end of 2019 there were around 133 casinos in operation in Cambodia and with very little strategy to govern or regulate the gaming industry the country became one of fastest



growing gambling resorts. Naga World is the most high profile casino, with most other casinos border neighbouring countries in order to lure players from regions where gambling is illegal. These casinos are located mostly in the border towns of Poipet (near Thailand) and Bavet (bordering Vietnam) and others in the coastal tourism destinations in Koh Kong and Sihanoukville.

Poipet is a big growth area. Back in 2017 there were 12 casinos and by 2019 there were 17. Thai nationals can enter Poipet without having to pass through immigration and this area is easily accessible from Siem Reap by car or bus, whilst tourists can pop over for day trip excursions. It's a three to four hour drive from Bangkok.

Thai tourists account for 95 per cent of Poipet's customers and in a good year it is said the area's gaming revenue reaches US\$400m.

Only Donaco International's Star Vegas provides a quality gaming and hotel experience, whilst

the rest are more basic. Star Vegas has 150 gaming tables and 1,000 slots with a 385 room hotel. It is the largest of the Poipet casino hotels. The Star Vegas didn't have such a great year in 2019 with a 9.9 per cent decline in net gaming revenue to THB1.34bn, whilst non-gaming revenues fell by 19 per cent to THB124.2m. This fall in revenues has mostly been attributed to stiff competition from nearby Windsor, Paramax and new Galaxy casinos in Poipet.

VIP turnover had increased by 76 per cent thanks to junkets brought in but offset by an increase in junket commissions and profit sharing. Slot machine revenue however declined by 24.5 per cent following a changeover to new slots. The casino has also been involved in a litigation which was settled in April.

The Covid-19 pandemic has also had a major effect during the first quarter of 2020 (ending March), which has seen VIP turnover decrease by around 70 per cent, whilst average daily visitors dropped to 2,584 for the quarter

compared to 4,237 for the same period the year before.

Rolling Chip VIP turnover for the quarter was \$195.9m compared to \$642.9m for the same period in 2019. Net revenue was \$5.5m compared to \$13.9m for the same quarter in 2019.

The second quarter (ending July) saw zero Rolling Chip VIP income and no visitors. Total net revenue was \$0.2m compared to \$9m for this quarter in 2019. There was an average monthly cash burn rate of \$300,000 for payroll and utilities expenses.

A company statement from Donaco on July 29 stated: "The government of Cambodia has lifted the temporary closure of casino operations in the country. Casinos in the country may now resume operations, contingent on receiving approval from the Ministry of Health and implementing certain preventive measures against Covid-19.



Essential information and facts about Cambodia:

Capital	Phnom Penh
Total Area	181,035sq.km
Population	16.9 million
Religion	Buddhist (official)
Ethnic Groups	Khmer (97%), Cham, Chinese, Vietnamese
Languages	Khmer (official)
Currency	Riels (KHR)
Unemployment	1.1 per cent
Tourism	6.6m (2019)
Government type	Parliamentary Constitutional Monarchy
Chief of State	King Norodom Sihamoni (since 2004)
Head of Government	Prime Minister Hun Sen (since 1985)
Elections	Monarch chosen by nine member Royal Council of the Throne among eligible males of royal descent. Following elections member of the majority party of majority coalition named Prime Minister

Back in 2015, Sihanoukville had nine casinos licences, a handful of hotels and several hostels. By 2018 the skyline was filled with high rise hotels and condominiums. These have mostly been funded by Chinese investors and as such workers from China also flooded into the area which in turn saw a growth in the online gambling and casino sector. At its peak there were 91 casinos in the area.

The sea port is also a major transit point for goods produced in Cambodia and this has boosted development of the Special Economic Zone, which houses around 90 factories with a grand plan for 300 in the future. The area began to flourish, but as more tourists and businesses arrived, so too did the demand for more hotels and housing. The city struggled under the weight of the extended population – its roads, sewage and water infrastructure needed upgrading.

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A new \$300m road infrastructure project began to be developed to help turn the city into a 'multi purpose commercial hub' and also to connect the city to the airport.

In 2005, the Kang Keng airport had very few flights, but over the last three years there has been a huge increase in air travel mostly aided

by casino and construction activity for the fast growing tourism sector. Around 20 flights a day now arrive from China.

Despite the huge amount of investment the Chinese pumped into the Sihanoukville area, in recent years Cambodians have become increasingly concerned over unscrupulous business practices, crime and sanitation issues. Last year there were warnings about rising crime with an increase in kidnappings and murders involving Chinese nationals in the city.

In April last year, officials closed down the Sunshine Bay Hotel and Casino, which was reportedly flushing sewage from the hotel into the sea at Sihanoukville's Independence Beach.

The Chinese owned hotel and casino is the second hotel to be shut with similar reports. The Jin Ding Hotel and Casino on Koh Rong Samloem island was closed in mid-March last year.

The Jin Ding only opened in early 2019 and was also reported for loud music on the beach and the illegal operation of online gambling and apparently opened without a licence. The island lies off the coast of Sihanoukville, which is

"The MoH has not yet confirmed when it will visit Donaco's Star Vegas Resort & Club in Poipet to assess approval, however Donaco anticipates it will be within a few weeks (August 2020)."

Neighbouring Thailand however extended its state of emergency to August 31, which will undoubtedly impact any potential easing of border restrictions between the two countries.

Over in Bavet, on the border of Vietnam, there were 12 casinos in 2017 and 13 in 2019. The border closes at night so is less convenient however it is just two hours drive from Ho Chi Minh City.

Sihanoukville, meanwhile, sits on the Gulf of Thailand and has been a key development area funded mostly by Chinese investment and has become one of the fastest growing gaming jurisdictions. A port city, it was once a backpacker haven and lured in Westerners with its low priced accommodation and pristine beaches.

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Cambodia adopted a State of Emergency in early April despite Hun Sen's initial reaction to downplay the virus. Despite this Cambodia has one of the lowest number of cases in Southeast Asia although this is said to be down to luck and culture rather than good management of the virus.





being transformed into the 'Macau of the Southeast' with around 70 casinos, many of which opened over the last two years.

Cambodian activists are calling for the demolition of the casino fearing it could just re-open and continue to damage the environment.

WHAT GOES UP...

Right now there is a huge black cloud of uncertainty hanging over Cambodia.

First came the online gambling ban at the end of 2019 introduced by the Prime Minister. Many new licences issued in Cambodia were Live-Dealer Online Casinos (LDO), a hybrid form of wagering where clients can gamble from remote locations in other countries at the Cambodian casinos. But in August 2019, Hun Sen issued a

comply and simply shut the sector down.

This decision had a huge detrimental affect on the gambling sector as this particular industry had grown significantly providing employment to thousands. An exodus of people occurred leaving a weakened economy.

This mainly affected Chinese residents and from the beginning of this year thousands of workers were being laid off, forcing thousands of Chinese workers to leave Cambodia in the weeks after the ban. It is said around 7,000 Cambodians working in the sector also lost their jobs and many casinos closed down.

The Cambodia immigration department said some 447,000 Chinese left Cambodia after the online gambling ban, whilst the Finance

Cambodia's solar plexus. As the country went into lockdown casinos were also required to close their doors.

In Sihanoukville there are now unfinished buildings and many shuttered shops and despite the fact China has now lifted its travel restrictions it is uncertain if Chinese business owners and investors will return any time soon. The city is in limbo. Foreign direct investment into Cambodia reached around \$3.5bn last year of which 43 per cent came from China.

Cambodia adopted a State of Emergency in early April despite Hun Sen's initial reaction to downplay the virus. Despite this, Cambodia has one of the lowest number of cases in Southeast Asia, although this is said to be down to luck and culture rather than good management of the virus.

Apparently, the Chinese government sent a team of medical experts to Cambodia to aid the fight against Covid-19 bringing with them PPE and other medical clothing and equipment.

The country was, however, slow to act. In mid February a cruise ship, turned away from other five other ports, eventually docked in Sihanoukville, whilst there were still flights from China open long after others closed down borders and a military exercise gathering with the Chinese army was still permitted in March.

In mid-March Hun Sen introduced a series of stricter measures including the closure of schools and entertainment locations. By the beginning of August there were 241 confirmed Coronavirus cases and no deaths have been logged, although testing is limited.

All casinos in Cambodia were ordered to temporarily close down on April 1 by order of the government and they were permitted to resume business at the end of July after obtaining permission from the country's Ministry of Health to meet certain requirements and health measures.

Operators have to make an official request to the Ministry of Health, which includes a list of Coronavirus prevention measures, before being allowed to reopen.

Cambodia is a key country for China's Belt and Road initiative which aims to provide more links between China and Central Asia and Europe and has driven extra business visitors into Cambodia which doubled between 2018 and 2019 to 1.29m business visitors. With promises of financial support to help areas such as Sihanoukville, Cambodia was in theory forced to comply and simply shut the sector down.

directive to ban all online gambling by the end of the year "to safeguard security and public order" and announced it would not renew any online gaming licences when they expired.

Online gambling was particularly popular with the Chinese. However, the move to ban the practice was seen as a courtesy to China. Cambodia is a key country for China's Belt and Road initiative which aims to provide more links between China and Central Asia and Europe and has driven extra business visitors into Cambodia, which doubled between 2018 and 2019 to 1.29 million business visitors. With promises of financial support to help areas such as Sihanoukville, Cambodia was in theory forced to

Ministry said the number of licensed casinos dropped from 163 in June 2019 to 136 in January 2020. There were 91 casinos that had operated online gambling and these have now ceased.

As of February 2020 there were 118 casino licences in Cambodia with 56 in Sihanoukville.

The prediction is that annual tax revenue from the casino sector will drop by 12.5 per cent because of the ban, whilst the exodus will also have a knock-on effect on other areas such as retail and restaurants in Sihanoukville.

The subsequent arrival of the Coronavirus pandemic was effectively a double whammy to



At NagaWorld, for example, all employees and visitors must wear a mask and are required to have their body temperatures checked before entering. The company has installed infrared body temperature sensors with sanitisers inside and at every gaming table. Plus there are scheduled disinfection cleaning schedules for public areas. Social distancing is practised with tables in restaurants spaced.

THE FUTURE OUTLOOK

On the positive side the new gambling law, which was drafted nine years ago, is slowly making its way through the various procedures and was approved at cabinet level at the beginning of July and now goes through to Parliament for rubber stamping.

The Law on Management of Integrated Resorts and Commercial Gambling (LMIRCG or LMCG) aims to ensure the gaming industry can be developed in the correct manner, as up until now these regulatory standards have fallen on individual operators. The key elements of the LMIRCG will:

- Divide Cambodia into three zones – Prohibited, Promoted and Permitted/Favoured. The construction of Integrated Resorts will only be allowed in Promoted zones such as Sihanoukville and Koh Kong and adjacent islands. Casinos in Permitted locations such as

Around 100 factories have since closed down their businesses with 100,000 workers laid off, about 16 per cent of total garment workers. On the other hand small and medium enterprises are re-starting their operations and the country is now heavily reliant on local consumption with little or no foreign money entering the country.

border casinos will be grandfathered, but will have to undertake certain reforms, whilst the rest of the Prohibited areas will be preserved for cultural and religious reasons.

- The LMIRCG will also create an Integrated Resorts Management and Commercial Gambling Committee (GMC) to regulate the sector. These will be in charge of licensing, collecting taxes

and approvals. Licensing will separate the development and ownership of the property from the operation of the casinos.

- Junkets or Gaming Trade Promoters can operate subject to registering, whilst Cambodian nationals will still not be permitted to gamble or enter casinos. Taxes will be paid on GGR.

Riu Pinto Proença, a partner with the Macau based law firm of MdME was part of a team, together with experts Peter Cohen and David Green, advising the government in matters of gaming policy and legislation. He outlines in more detail aspects of the changes and what they will involve in his column on page 102.

Although the government has not revealed the draft approval by Cabinet, it is reported to be extremely similar to the one presented for industry consultation back in 2016.

This law could help Cambodia rebuild its gambling industry. Over the last two years Cambodia has gone through a transition reaching lower middle income status in 2015.

The economy is driven by garment exports, construction, real estate, agriculture and tourism with an average growth rate of eight per cent between 1998 and 2018. Per Capita GDP was around \$1,500 last year.



NAGAWORLD REVENUES 2018/2019

SECTOR	REVENUES 2018	REVENUES 2019	GROSS PROFIT 2018	GROSS PROFIT 2019
Mass market	\$365m	\$476.4	\$355.1m	\$470.1m
Tables	\$235.7m	\$318.3m		
EGMs	\$129.2m	\$158m		
VIP market	\$1.07bn	\$1.24bn	\$286.3m	\$346.5m
Non Gaming	\$39.9m	\$36m	\$32.1m	\$29.7m
TOTAL	\$1.47bn	\$1.75bn	\$673.5m	\$846.3m

Prior to the Covid-19 outbreak the Cambodia Development Council approved 268 investment projects worth \$6.8bn during the first 10 months of 2019, an increase of 33 per cent compared to the same period in 2018. Investment from China amounted to \$1.32bn during the first half of 2019 with more factories, restaurants, property development projects with a construction boom in the city and overall tourism.

After two decades of strong performance Cambodia's economic growth is expected to shrink by 1.9 per cent this year due to the pandemic. Previously the IMF predicted that Cambodia's real GDP would see a growth of 6.8 per cent in 2020. This will be the country's first negative year since 1994. It is predicted, however, to rebound to 5.7 per cent by 2021 assuming economic activity normalises.

The garment export and tourism sectors have been hit the hardest with around 1.76 million jobs in construction, tourism and manufacturing

with account for more than 70 per cent of the growth and 40 per cent employment.

Around 100 factories have since closed down their businesses with 100,000 workers laid off, about 16 per cent of total garment workers. On the other hand small and medium enterprises are re-starting their operations and the country is now heavily reliant on local consumption with little or no foreign money entering the country. By July, the Ministry of Labour announced it paid out of work monthly allowances to workers providing a total of \$3.9m to 169,000 suspended workers.

To make matters worse, Cambodia also looks set to lose its EU duty-free benefits on some garment and footwear products and travel goods from August 12 via the Everything But Arms (EBA) initiative. This could be the last chance for Cambodia's dying garment industry.

The sector, already hit hard by the Coronavirus

pandemic, faces further set backs after the EU said it would not change its decision to curb trade privileges because of human rights violations. The new tariffs will hit about 20 per cent of the country's exports or some \$1.19bn. The EBA grants developing countries duty free access to products (except weapons and ammunition). The Cambodian garment industry is worth around \$9.5bn and employs 900,000 workers. More than 250 factories have closed down as demand has dropped.

As for tourism, Cambodia became a popular destination in the 1960s, but due to unrest in the area this eventually decreased. Growth began again in the 1990s and today tourism is the country's second biggest source of income after the textile industry. There were around 6.6 million visitors in 2019 and the majority of visitors (2.3 million) were Chinese. Tourism receipts amounted to more than \$4.92bn in 2018 which was 10 per cent of the country's GDP and accounts directly for 13.6 per cent of jobs.



The temporary ban on international travel has now been lifted although the government has introduced a complicated set of rules post-Covid including tests, medical certificates, health insurance and new visa for future tourists. There are quarantine rules in place for anyone on board a flight if someone tests positive and foreign visitors must also deposit \$3,000 into a local bank account to cover any costs.

There were some 894 weekly scheduled in-bound international flights into Cambodia last year, of which over 400 originated from Chinese cities.

The pandemic has, of course, affected figures tremendously. The temporary ban on international travel has now been lifted although the government has introduced a complicated set of rules post-Covid, including tests, medical certificates, health insurance and new visas for future tourists. There are quarantine rules in place for anyone on board a

flight if someone tests positive and foreign visitors must also deposit \$3,000 into a local bank account to cover any costs. This is refundable, but the obstacles could hinder the appeal of Cambodia as a tourism destination for years into the future.

During the first three months of 2020, total international tourists reached 1.15 million, a drop of 38 per cent compared to the same period last year, mainly due to the decline in Chinese tourists, which fell by 70 per cent compared to the same period in 2019, whilst April saw only

The NagaWorld complex, when Naga3 is completed, will include 5,000 hotel rooms, 1,300 gaming tables and 4,500 EGMs. Naga3's City Room will include 800 tables and 2,500 gaming machines. The inspiration to provide so many additional hotel rooms is based on the Tourism Ministry's estimate that Chinese visitors will exceed 5.5 million by 2025.

The inspiration to provide so many additional hotel rooms is based on the Tourism Ministry's estimate that Chinese visitors will exceed 5.5 million by 2025. The Minister of Tourism had estimated that Cambodia would require an extra 100,000 extra hotel rooms by 2028, of which 60,000 are for the luxury high-end sector.

South East Asian countries are also a core target market. Visitors to Cambodia from Indonesia and Thailand, for example, have increased by 22 per cent and 25 per cent respectively during 2019. Business related travel from Thailand, Indonesia and Malaysia into Cambodia increased by 77 per cent, 65 per cent and 57 per cent respectively last year.

NagaWorld (now called Nagal) offers a total of 755 rooms and suites. Owned by Hong Kong's NagaCorp Ltd, the casino has a 70-year licence that runs until 2065 and has exclusivity on gaming operations within a 200km radius of Phnom Penh, which runs until 2045.

The Naga2 complex, which opened in 2017, provides an additional 900 hotel rooms and suites plus gaming space for 300 tables and 2,500 gaming machines. The development includes the Naga City Walk, which became the first downtown duty free shopping mall to open in 2016.

NagaWorld contributed 1.2 per cent to the nation's GDP in 2016 and contributed around 27 per cent of local GDP tourism growth. The two sites currently employ around 8,600 people rising to 18,000 when Naga3 is completed.

NagaWorld group saw revenues increase by 20 per cent in 2019 to \$1.75bn with gross profits of \$846.3m. The VIP market accounts for 70 per cent of revenues, whilst public floor table gaming has an 18 per cent share and slots nine per cent. Non-gaming makes up the remaining.

Both public table games and slots also saw increases in revenue by 33 per cent and 25 per cent respectively and this was mostly attributed to the increase in visitors to Nagal and Naga2 as a result of the rise in tourism last year.

The competitive overseas junket incentive programme was introduced in 2013 and the VIP market has seen an increase of 31 per cent in rollings to \$46.6bn – its revenue has increased by 16 per cent to \$1.24bn in 2019.

Meanwhile, hotel room revenue increased by seven per cent to \$16m and on average there is an 84 per cent daily occupancy rate up from 75 per cent in 2018. Retail income also increased by 63 per cent due to strong sales at Naga City Walk.

4,840 visitors compared to 537,000 the same month last year. Angkor Wat, the world's top tourist attraction has seen visitor figures drift off. Last year, the complex received 2.2 million visitors who paid out \$100m to enter the gates of the 12th century temple.

It is proving hard to encourage visitors back.

NAGAWORLD GROWTH

Despite the pandemic, the Naga3 development is still ongoing and is expected to be completed by 2025. This huge project is made up of three

uniquely shaped towers – one 75 storey hotel and two 61 storey hotels. The \$3.5bn project will cover 544,801 sq.m and towers will be connected via an Upper Podium on the 13th floor with pool areas, retail, restaurant, hi tech theme park and conference halls.

The NagaWorld complex, when Naga3 is completed, will include 5,000 hotel rooms, 1,300 gaming tables and 4,500 EGMs. Naga3's City Room in Tower One will stretch across four floors and will be used for VVIP gaming and will include 800 tables and 2,500 gaming machines.

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When NagaWorld closed due to the pandemic, around 200 employees submitted a petition to the Ministry of Labour requesting their \$40 payment per month allotted to workers in sectors hit hard by the lock down. Around 90 per cent of NagaWorld's 9,000 staff had to take out loans to cope during the closure. The employees demonstrated outside the Ministry building to protest a decision by NagaCorp to halt the partial salary payment it began to make from April.

On April 1, NagaWorld closed its doors temporarily due to the pandemic. Nagal Hotel operated with reduced occupancy rates and limited food and beverage facilities, whilst Naga2 was closed.

Previously, average monthly expenditures based on the first quarter of 2020 were around \$18.4m with run-rate operating costs of \$13.9m.

A company announcement on June 22 by Lam Yi Lin, Company Secretary said: "We have undertaken and expect to continue undertaking a series of actions to minimise our cash expenditures, including scaling back of hotel and food beverages operations, reducing payroll expenses by limiting staff on site and reducing employee pay since April 2020 and the closure of facilities to reduce utilities expenditure.

"After giving effect to these initiatives we expect that our monthly run-rate operating costs will be \$3.9m. As of March 31 2020 and May 31 2020 we had cash and deposits of \$464.9m and \$527.1m respectively. Although we have no other existing facilities to provide further liquidity we believe that after giving effect to the application of proceeds of the Proposed Notes Issue, our liquidity could support approximately 18 months of operating expenditure and interest expenses, with minimal revenue. Our actual level of cash operating expenses in coming periods could be impacted by unanticipated developments of events beyond our control."

During the first quarter of 2020 NagaWorld's GGR had risen by 15 per cent year on year to \$368.9m with a 25 per cent growth in the VIP GGR (\$270.2m) on a turnover of \$9.69bn.

On July 18 NagaCorp was granted permission by the Ministry of Health to re-open all casino



operations at Naga World. It resumed limited VIP and slot operations from July 8 after restrictions were eased, but resumed full mass gaming operations from July 21 in both Nagaland and Naga2.

Making the news worldwide, there were staff strikes earlier this year after casino union leader Chhim Sithar was suspended over a campaign for higher wages. Employees were asking for a monthly wage increase to \$300 for hotel staff and \$500 for casino floor workers. The staff are currently paid \$200 maximum and \$300 maximum respectively.

They returned to work in January after a deal was arranged between the reinstated union president and NagaWorld. Workers salaries were increased by 18-30 per cent. A previous strike over wages in September resulted in a 'no deal' after NagaCorp secured an injunction declaring the strike illegal and workers were



forced to return to work with no salary increase. When NagaWorld closed due to the pandemic, around 200 employees submitted a petition to the Ministry of Labour requesting their \$40 payment per month allotted to workers in sectors hit hard by the lockdown. Around 90 per cent of NagaWorld's 9,000 staff had to take out loans to cope during the closure.

The employees demonstrated outside the Ministry building to protest a decision by NagaCorp to halt the partial salary payment it began to make from April. NagaCorp initially

paid 50 per cent of their salaries, but this was halted in June leaving most staff with no income. Workers in the garment and tourism industry were still receiving a \$40 a month government payment.

Union leader Sithar had suggested several options, including a 30 per cent wage amount and a 20 per cent loan on future salaries, enabling staff to lend \$300 a month until work resumed or a loan to swap for future holidays, whilst staff would repay any loans from future salaries at a 10 per cent deduction rate.



Andrew Klebanow,
Principal, Klebanow Consulting

Andrew Klebanow is the Principal of Klebanow Consulting. He brings nearly 40 years experience in the casino industry with the past 12 years spent as a gaming consultant. He has completed assignments in jurisdictions throughout North America as well as in 15 countries. Over the course of his career he has visited nearly 1,000 casino properties. Andrew has authored over 120 articles for trade publications; contributed academic papers and is a periodic lecturer at Cornell University's School of Hotel Administration and has taught classes at the University of Nevada Reno's School of Continuing Education.

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Cambodia cautiously restarts its casino gaming industry



After a government mandated three-month closure, Cambodia's casino industry has begun the process of re-opening. The central government had previously implemented aggressive measures to control the Covid-19 outbreak, essentially closing its overland borders and implementing quarantine measures for international arrivals.

Casinos will be subject to a gaming tax of 7.0 per cent on mass market gaming revenue and 4.0 per cent on junket revenue. These rates would be the lowest in Asia, making Cambodia particularly attractive to casino developers and investors.

THE LMIRCG

Coinciding with the re-start of the gaming industry, the Council of Ministers approved new legislation governing the country's casino industry. The Law on the Management of Integrated Resorts and Commercial Gambling (LMIRCG), nine years in development, will now go before the National Assembly and the Senate; the final step before the law's implementation will require a proclamation by the King.

The LMIRCG is essential if the Cambodian gaming industry is to attract international casino operators and additional foreign investment. Until now, the burden of regulation and adherence to international regulatory standards fell on individual operators. NagaCorp and Donaco are two publicly traded companies that developed their own regulatory regimens that adhere to those international standards. It is expected that LMIRCG will drive the future development of integrated casino resorts, particularly in the country's tourism regions.

The LMIRCG calls for the establishment of a regulator, the Integrated Resort Management and Commercial Gambling Committee (GMC). The GMC will issue regulations, collect gaming taxes, audit casino operations, investigate gaming license applicants, and

issue licenses to casino operators and suppliers.

The law also divides the country into three distinct zones: Promoted, Permitted and Prohibited. Promoted zones include the coastal provinces of Sihanouk, Koh Kong, and nearby islands where central planners intend to stimulate international tourism, and are the only areas where future integrated resort development will be allowed. Permitted zones refer to the border districts where casinos are in operation today, notably Bavet and Poipet. Licensees in Permitted zones will have to submit to more frequent re-licensing than those in Promoted zones. Prohibited zones are those areas that house religious sites. It protects the world heritage sites such as those near Siem Reap from future casino development. The law also acknowledges NagaWorld's zone of exclusivity in and around Phnom Penh. As with previous regulations, Cambodian citizens will be prohibited from gambling in any of the nation's casinos.

Most important, the LMIRCG establishes tax rates based on a percentage of gaming revenue. Casinos will be subject to a gaming tax of 7.0 per cent on mass market gaming revenue and 4.0 per cent on junket revenue. These rates would be the lowest in Asia, making Cambodia particularly attractive to casino developers and investors.

NAGA RESTARTS OPERATIONS

NagaWorld was the first casino in Cambodia to be granted permission to re-open and that property's health and safety protocols, prepared with the Ministry of Health, will form the standard operating



procedures for other casinos as they re-open. Safety protocols mandate that all patrons and employees wear masks; a maximum of three players per table, 50 per cent of electronic gaming devices will be turned off, and cigarette smoking and drinking will be prohibited on the casino floor.

In addition, casino capacity will be limited to 30 per cent. That may gradually increase if it does not negatively impact the health and safety of patrons and employees. NagaWorld opened its VIP gaming tables and electronic gaming areas on July 7 and was granted permission to resume mass market table game operations on July 18.

The government continues to maintain restrictions on international arrivals, thus constraining NagaWorld's ability to reach pre-pandemic business volume. As of now, the casino is dependent on expatriates residing in Phnom Penh as well as a limited number of VIP gamers from fly-in markets.

SIHANOUKVILLE AND BORDER MARKETS

The casinos in the coastal city of Sihanoukville are wholly dependent on international visitation arriving by air. As air traffic resumes, hotels are

once again resuming operations. As of July 29, 21 casinos requested permission to resume operations and those were forwarded to the national government for review. Permission to re-open will fall on the Ministry of Health as well as local health authorities. Health and safety protocols developed at NagaWorld will form the foundation for safety procedures at those casinos.

The casinos in the border districts remain closed. Overland border traffic is restricted to the movement of goods. Since Vietnam and Thailand remain under strict quarantine, there is no tourism traffic crossing those borders. Given the recent and unexpected surge in infections in Vietnam, the border crossing to Bavet is expected to remain closed. The Kingdom of Thailand also remains extremely vigilant and has yet to fully open their border with Cambodia, allowing only Thais to return home.

THE EMERGENCE OF TRAVEL BUBBLES

It remains to be seen how quickly Thailand, Vietnam and Cambodia re-open their borders to tourism traffic. What is expected, once each country's ministries of health have a high degree of assurance that their neighbours have

extinguished the virus, is the development of travel bubbles. These bubbles will allow for the relatively free movement of citizens to and from Thailand, Vietnam and Cambodia. Nevertheless, any sudden increase in rates of infections will force one or more countries to close their borders until the threat is abated.

Sihanoukville and Phnom Penh's tourism markets, dependent on international visitation from China, Malaysia and Thailand, will also develop travel bubbles with those nations. Visitors from outside those countries would be subject to government supervised quarantine measures. Once again, any re-emergence of the virus will likely cause restrictions on cross border traffic.

Covid-19 remains a significant threat to the short-term health of Cambodia's tourism industry. Until there is a widely available vaccine and treatment measures for the virus, the gaming industry can expect periodic constraints to the flow of tourists into the country. The governments of the Mekong region recognize the threat that the virus poses and are prepared to re-institute measures to protect their citizens from future outbreaks.

Law on the management of IR and commercial gambling



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If played right, the LMCG could in fact play a role. Admittedly designed to foster economic growth, tourism promotion and job creation, the LMCG stands as an investor-friendly legislation, at least when compared to other regulatory frameworks in the region. Below we take a look at its most relevant features.



On July 3, the Council of Ministers of the Royal Government of Cambodia passed long-awaited legislation governing its gaming industry. The draft bill – Law on the Management of Integrated Resorts and Commercial Gambling (LMCG) – is now pending for approval by the National Assembly and the Senate.

In the making for almost nine years, the timing of the LMCG's approval could hardly have been less auspicious... With the global gaming industry coming to a halt, investments in new or emerging markets, most notoriously in Japan, are being reconsidered. Against this background, it is hard to imagine that the LMCG could start paving the way to attract the international gaming operators the Kingdom is keen to welcoming.

We do, however, live in interesting times. The introduction of travel restrictions has further politicised the cross-border movements of people. Benefiting from strong political relations with China, the Kingdom could be well placed to welcome outbound tourism from the world's largest market, as soon as public health normalises.

If played right, the LMCG could in fact play a role. Admittedly, designed to foster economic growth, tourism promotion and job creation, the LMCG stands as an investor-friendly legislation, at least when compared to other regulatory frameworks in the region. Here we take a look at its most relevant features.

Governing Scope – the LMCG applies to the management and operation of integrated-resorts, land-based casinos, online gaming and other forms of wagering, pursued with commercial purposes within the territory of the Kingdom of Cambodia. Although online gaming and sports betting fall within the LMCG's purview, the specifics of their licensing and operations are left for subsequent regulation.

Zoning – one of the most interesting features of the LMCG is the fact that it divides the Kingdom into three gaming zones: (1) a Prohibited zone; (2) a Promoted zone; and a (3) Favoured zone. All areas that are not qualified as Promoted or Favoured are, by default, Prohibited zones. In such areas, the operation of gaming is not allowed under any circumstances or form. In a predominantly Buddhist country, the creation of gaming-free areas is particularly important to safeguard respect for sacred sites, the most notorious of which is Angkor Wat, in the province of Siem Reap.

The Promoted zones are located in the coastal provinces of Sihanouk and Koh Kong and include its adjacent islands. These are the only areas where new



integrated resorts may be developed under the Gaming Law.

Licensing – the LMCG sets out a dual licence structure which allows the separation of the development and ownership of the property from the operation of its casino. A successful applicant will enter into an IR development agreement with the RGC. The maximum number of IRs and the minimum investment obligations will be determined by the RGC. A casino licence may be issued for a period of no more than five years (in a Favoured zone) or 20 years (in a Promoted zone).

Regulator – the LMCG establishes the Integrated Resort Management and Commercial Gambling Committee (“GMC”). The GMC is the government body responsible for defining gaming policy, issue regulations, approve games, collect gaming revenue, issue licences and generally supervise and enforce gaming laws and regulations. With its over-arching powers and all its seven members being ministry appointees, it is hard to describe the GMC as an independent regulator

The LMCG will not allow Cambodian nationals to participate in gaming or to enter casinos. While this restriction may deter some potential investors from entering the market, it is no different from what already exists today. Moreover, with a per capita GDP at approximately US\$1,500 per year, it is doubtful that any significant investment would base its strategy in attracting local participants.

with western-style checks and balances.

Gaming Promotion – junkets will be allowed to operate in Cambodia, subject to incorporating a local entity and registering with the GMC. As in Macau, licences will be valid for one year. The extension of credit for gaming will be permitted

for foreigners not residing in the Kingdom. In a regional context, where junket regulations are becoming increasingly stringent, a more relaxed licensing environment may help Cambodia boost its VIP business on the short term.

Participation – The LMCG will not allow Cambodian nationals to participate in gaming or to enter casinos. While this restriction may deter some potential investors from entering the market, it is no different from what already exists today. Moreover, with a per capita GDP at approximately US\$1,500 per year, it is doubtful that any significant investment would base its strategy in attracting local participants.

Tax – Casino operators will pay taxes over GGR. Although the rate has not yet been officially revealed, recent reports place it at seven per cent for operators grandfathered by the LMCG, while new integrated resorts will have a split rate of seven per cent for mass-market and four per cent for the VIP segment. If confirmed, Cambodia will be, one of the most-competitive regulated markets in Asia from a tax standpoint.