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Focus on Asia: NagaCorp’s Cambodia Gambit

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For nearly a decade, government policymakers in Cambodia have worked on developing a comprehensive law to govern the development, licensing, and operation of casinos in the kingdom. The results of those efforts culminated in the recent passage of the Law on the Management of Integrated Resorts and Commercial Gambling (LMCG).

The long sought-after goal of using casino development as a tool to grow tourism required robust regulation, accounting oversight, and a fair and stable tax regime. With the new law in place, observers waited to see which international casino operators would move to expand into the kingdom. NagaCorp was the first to announce a new major development yet one that did not include a gaming component. Rather, Naga’s gambit is to develop an integrated resort and theme park near the kingdom’s world heritage site of Angkor Wat.

This move is not without risks, but holds the promise of positioning NagaCorp as the dominant operator of both casino resorts and mixed-use tourist destinations in Cambodia, and a powerful force in Asian gaming.

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Angkor Lake of Wonder

On November 15, 2020 NagaCorp’s Board of Directors announced that the Government of Cambodia had granted a subsidiary company a 50-year lease on a 75-hectare land parcel, 500 meters south of the outer restricted zone of Angkor Wat in Siem Reap. The Company in turn

plans to develop Angkor Lake of Wonder, consisting of hotels, theme parks, conference and exhibition space, cultural attractions, and a dining and entertainment district. Since the LMCG specifically prohibits development of casinos at or near world heritage sites, there will not be a gaming component within or anywhere near the confines of this development.

The proposed development will include two five-star hotels: a 500-key, branded hotel for mass market visitors, and a 200-key branded hotel with MICE facilities. The project will also include a water theme park, an indoor hi-tech theme park, a non-motorized boating canal system, and a China Town entertainment district comprised of multiple dining, entertainment, and retail experiences. Phase I is expected to open in 2025 at a cost of US\$350 million.

Within this recent announcement was an additional plan to develop a property in Sihanoukville, one of the areas that the LMCG specifically defines as a Promoted Zone, in which casino development is encouraged.

To understand the possible synergies for these developments and the risks associated with this gambit, it is important to first understand the various markets in which NagaCorp intends to operate in.

NagaWorld Phnom Penh

NagaCorp operates Naga1 and Naga2 and Naga CityWalk in Phnom Penh, collectively known as NagaWorld. Combined, these properties offer 1,658 lodging keys, 600 table games, over 3,000 electronic gaming devices, a 2,000-seat theater and over twenty restaurant outlets. The company is also pursuing development of Naga3, a US\$4 billion hotel and entertainment complex adjacent to its current facilities. NagaCorp's casino license grants it a zone of exclusivity in and around the capital region.

While Naga2 elevated the company's ability to successfully compete for a portion of Asia's high-end junket market, the company's roots were founded in mass market gaming. The company had longstanding relationships with a number of China-based tour operators and was able to build vacation travel packages that included stops in Siem Reap with layovers at its hotel-casino in Phnom Penh. This strategy served the company well and its new development in Siem Reap will allow it to offer more complete vacation experiences to mass market Chinese tourists.

Siem Reap

Siem Reap has traditionally attracted a different kind of tourist clientele than the kingdom's other destinations. Visitors to Angkor Wat and other nearby world heritage sites tended to be eco-tourists, and admirers of ancient art and culture rather than gamers or families seeking resort experiences. Nevertheless, Angkor Wat alone generated over five million visitors in 2019, bringing in gross revenues of \$99 million in entry fees alone.

A Naga branded theme park and hotel complex holds the promise of delivering decidedly different kinds of visitors, primarily families from China seeking both educational and entertainment experiences. It is hard to keep children engaged during a day of cultural activities

visiting historic artifacts. Throw in a water park experience at the end of the day and the educational experience becomes far more palatable. Conversely, adults will also enjoy ending their daytime activities with an evening of dining and shopping in an environment similar to that offered at Downtown Disney in Orlando. Angkor Lake of Wonder will broaden the overall appeal of Siem Reap to entirely new market segments.

Sihanoukville

Sihanoukville has experienced a dramatic turn of events over the past five years. The seaside city had long served as a tourist destination that appealed to westerners and budget travelers seeking a southeast Asian resort experience. Recently, those westerners were replaced by Chinese tourists who found the city's casinos and beaches particularly appealing, and who were willing to spend more money for those experiences. What followed was a period of explosive and unchecked growth in the hotel, casino, and condominium sectors. Adding fuel to the fire was a rapid expansion of online casinos, under licenses that required that they be domiciled within bricks & mortar casinos. All that came to a halt when online gaming licenses were not granted renewals at the end of 2019, bringing the entire online gaming industry to an end. This was followed by the shutdown of the city's traditional tourism industry due to Covid-19. Today, Sihanoukville is rebooting as the government completes sorely needed infrastructure projects in preparation for a restart of tourism.

A Naga branded casino-resort in Sihanoukville makes sense, particularly as part of a larger tourism strategy. A new 200-km, four-lane highway linking Phnom Penh is scheduled for completion next year. This will reduce travel time between the two cities to less than three hours. Chinese and Malaysian expatriates residing in Phnom Penh will be able to get out of town on the weekends and those players in Naga's database would be able to afford themselves of hotel offers should a Naga branded casino resort be developed in the seaside town.

With resort properties in three distinct markets including two with gaming, NagaCorp will be in the position to build a variety of vacation travel packages for a broad range of Chinese and Southeast Asian tourists. With completion of Naga3, Angkor Lake of Wonder, and a new seaside casino resort in Sihanoukville, Naga will emerge as the dominant resort operator in the Mekong region.

For all those casino operators who had remained laser focused on developing an integrated resort in Japan while trying to keep their current operations afloat during the pandemic, they better pay close attention to the chess board that is casino gaming development in Cambodia. NagaCorp's gambit represents a very sound development strategy.