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Vietnam

Bricks & Mortar

Gambling on locals

Vietnam is taking a step towards lifting a ban on locals gambling, but the experiment is limited to two casinos, leading to question marks over whether it will be the game changer that many foreign investors had hoped.

The draft gaming decree, now waiting for final approval, opens the market for locals to gamble at two yet-to-be-built integrated resorts in the Van Don Special Economic Zone in the North and Phu Quoc Island in the South. The move was hailed as a major breakthrough for the country's gambling industry. But there are a number of caveats that give cause for concern.

The decision will be assessed over a three-year trial period, and those wanting to enter casinos to wager will be subject to a number of conditions; they must be at least 21 years of age, make around USD$500 per month, have no criminal convictions, and no objections from family members. They will have to pay an entry fee of $45 per 24-hour visit or $1,100 for a monthly pass, can only wager and receive winnings in the local currency, and will be issued an account card to monitor their visits and activity.

A propensity to play

There is little doubt there is a strong gambling culture in Vietnam. Many already frequent the Cambodian border casinos, as well as resorts in Singapore and Malaysia. There is also a large and thriving black market. Michael Zhu, VP of operations planning and analysis at The Innovation Group, says the average gaming propensity for Vietnam locals ranges from 6 percent to 12 percent, but can be as high as 15 percent among the urban population.

He also says the fact Vietnamese gamblers are prepared to travel to Cambodia proves they have a strong appetite for gambling. “It cannot be a pleasant experience for them to say the least. The onerous logistics, the lack of safety and transparency at small gambling joints, the absence of casino regulations and measures to protect consumers are to name just a couple of the hurdles they have to clear in order play their favourite casino games.”

According to estimates, the Vietnamese government loses about $800 million a year in tax revenue from locals travelling to Cambodia to gamble.

Connecting the dots

But will allowing locals into just two casino resorts at opposite ends of the country really have a significant impact on growing the market?

Ben Lee, managing director of iGamingX Consulting, says yes it will. Speaking at the MGS Entertainment Summit, he said allowing locals to gamble in Vietnam changes the mathematical equation for foreign investors, making it a highly attractive market.

“Vietnam is a fantastic opportunity as it has the one thing that Macau has that very few other countries have, not Japan, not Korea, not the Philippines, it has a common border with China,” he said. “The mass market can literally walk across the border and they do.”

Lee estimates gross gaming revenue in the country at present is about $300 million to $400 million, not including the pari mutuels. The addition of just two proposed resorts -- Van Don and one in Hoi An, which won’t permit locals -- could add a further $1 billion in annual GGR. Lee is working with both projects and the estimates follow a recently completed feasibility study.

However, there are other issues that may act as limiting factors. Both resorts earmarked for the locals trial are relatively remote.

The infrastructure linking the two properties – due for completion in late 2017 – to the grid is yet to be put into place. The revenue stream generated by locals, certainly in the near-term, is also unlikely be enough on its own to offset the huge development costs operators will have to outlay up front.

But Augustine Ha Ton Vinh, president and CEO of Stellar Management, says the government is aware of this and when it comes to infrastructure at least is doing all it can to ensure locals can get to the new IRs. “The central and provincial governments have invested substantially in infrastructure projects.

International airports, highways and bridges are all being completed in order to connect the Van Don and Phu Quoc IRs to national road networks and international destinations.

"The new and dedicated highways will link the Van Don IR to the China border in the North, while the Van Don International Airport will allow visitors from many parts of Asia to get to the integrated resort in two to three hours. Several international hotels and convention centres are also being built," he adds.

Cast the net wide

These measures make it clear that the resort operators will not rely on locals alone, and in fact are gearing their properties towards foreign visitors, with their sites set on drawing gamblers away from Cambodia, Singapore and Malaysia. But that's not to say locals cannot make a major impact on the market once the resorts have found their feet and bolstered their non-gaming offerings.

"In the long run, we believe the local gaming option will have a large impact on the market and the wider industry," says Zhu. "That will certainly be the case as the two new properties evolve over time and enhance their hospitality offerings, leisure amenities, infrastructure, accessibility and so on. It is also worth pointing out that with the emergence of legal gambling establishments for locals, their gaming propensity and frequency can be expected to grow organically."

This was something the Grand Ho Tram development was bargaining on when it committed $4 billion to establishing an integrated resort in the region – which many at the time considered to be far too large for the market. After spending around $500 million the project was issued a gambling licence by the government, so threw its hat into the ring to be a participant in the locals pilot scheme. But the latest decree suggests it has been unsuccessful, an outcome that could seriously impact its long-term potential.

A major setback

"The decision not to select the Grand Ho Tram for the pilot site did not come as a surprise to me," says Vinh. "After three years of research, soul searching, and policy debates, the government has decided to move ahead with a new gaming industry. Since Van Don is near the China border in the North and Phu Quoc is close to Thailand and Cambodia in the South, they believe allowing Vietnamese locals into the pilot casinos will help attract much needed foreign investment and help expedite the creation of two special economic zones."

It seems the Grand Ho Tram development has been snubbed in favour of a new initiative that will broaden the scale and scope of Vietnam's gambling industry.

But has the government missed a trick? Zhu seems to think so: “The Grand Ho Tram Resort, the flagship property, is truly a leading IR property in Vietnam from many perspectives, and the non-gaming amenities have already gained popularity among locals from Ho Chi Minh City and other provinces, especially over weekends and holidays.

“We believe the development has the potential to present significant economic and social benefits, targeting high-value Asian gaming and tourists from the region’s burgeoning and increasingly wealthy middle class. We think the base is well established, and the local gaming license could have been a strong booster,” he adds.

The two new IRs have the potential to shift the Vietnamese gaming industry up a gear, attracting foreign investment and visitation in equal measure. And while locals may not be the driving force behind their success, they will certainly have been a major factor.

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