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# Payout elusive on US hedge fund's Vietnam casino bet

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BANGKOK -- The idea of putting up a string of Vegas-style casino resorts on an isolated stretch of Vietnamese coast some 120km from Ho Chi Minh City was bold and ambitious.

Already some \$750 million of a planned \$4.2 billion has been sunk into the Ho Tram Strip complex, yet returns remain elusive at a time when Asia's established gambling centers -- Macau, Singapore and South Korea -- are struggling. Construction delays, management turmoil, financing problems and jumpy U.S. business partners have taken a toll on Ho Tram, but Asian Coast Development, its Vancouver-based owner, is plowing ahead with further construction on hopes of a market turn.

Situated in Ba Ria-Vung Tau Province, Ho Tram casts a strong impression with a manicured golf course, designed by former world No.1 Greg Norman, gently rising and falling along the road leading to the 400-acre site. The Grand Ho Tram Strip, which opened in July 2013 as the first of five planned resorts, includes 541 hotel rooms and a casino with 90 tables and about 500 gaming machines.

Ho Tram's most committed backer is U.S. hedge fund Harbinger Capital, led by controversial manager Philip Falcone. Since Harbinger's latest \$50 million capital injection into Ho Tram last November, the fund group now holds a stake of about 80% in Asian Coast, according to a Harbinger spokesman. "The firm is fully committed to the project," said a person close to Harbinger who put its total investment at several hundred million dollars.

Falcone met on Sept. 8 with Vietnamese Minister for Planning and Investment Nguyen Chi Dung in New York to discuss Harbinger's commitment to Ho Tram's development. Though the U.S. Securities and Exchange Commission banned Falcone from the securities industry for five years in 2013 for misconduct including the use of client funds to pay his personal taxes, he remains a principal of Harbinger Capital.

Others have been more impatient with Ho Tram's progress. U.S. casino operator MGM Resorts International was originally to manage what is now The Grand, but pulled out in March 2013 over project delays.

Pinnacle Entertainment, another U.S. casino management company, bought a 26% stake in Asian Coast in 2011 and signed on to run Ho Tram's second casino

hotel. Yet within four months of adding to its capital contribution in 2012, Pinnacle began writing off its investment in Asian Coast because of development delays and difficulties.

By early 2013, it had taken off the full \$117.2 million value of the investment off its books. Pinnacle retains a seat on Asian Coast's board and a diluted stake, but has made no mention of Ho Tram's operations in its financial reports since the write-off and declined to comment.

### **Upping the ante**

Harbinger isn't alone though in still seeing potential in Ho Tram. NewCity Capital, a Chinese private equity firm, invested \$20 million in Asian Coast in 2014; NewCity is run by Chien Lee, co-founder of Iao Kun Group Holding, a New York-listed company that operates VIP rooms in Macau casinos and is in talks to buy a casino in Jeju Island, South Korea.

Michael Kelly, a former U.S. casino executive who joined Asian Coast as executive chairman late last year, told the Nikkei Asian Review that revenues have recently improved. "We have focused in the past 12 months...on having something for everyone," he said, indicating that gaming operations were performing "solidly." Kelly was joined on the board in September by Washington lobbyist Tony Podesta and Loretta Pickus, a former vice president of Trump Entertainment Resorts.

Ho Tram, Kelly said, "needed to find its footing and was performing below expectations" in its first two years. Recent additions include mini-golf and a 3-D cinema. Improved highway links to Ho Chi Minh City have cut travel times but officials are now seeking government support for a plan to build a private airport. The Beach Club, Ho Tram's second hotel, with 559 rooms, is under construction at an expected cost of \$75 million. Preparations have begun for a \$200 million condominium tower with 1,000 units and 60 golf villas are being developed in another \$35 million project. All would be managed by Asian Coast.

Industry observers remain dubious about Ho Tram's ability to compete for gamblers' attention with other casinos within Vietnam and abroad. Ben Lee, who acted as a consultant to Asian Coast in its early stages as managing partner of IGamiX Management & Consulting in Macau said Ho Tram has been handicapped by a failure to build strong ties with the junket agents who arrange and finance high rollers' casino outings. While NewCity has helped to remedy that, Lee estimates that Asian Coast is running operating losses of up to \$3 million a month.

Grant Govertsen, senior analyst at Union Gaming Securities Asia in Macau, also believes Ho Tram is still losing money. "The resort's target customers have better, closer and culturally similar options available to them," he said.

The Aristo International Hotel, a casino hotel which opened in Lao Cao along Vietnam's border with China in 2014, generated a net profit of 13.8 million yuan (\$2.07 million) in the year to June 30, up from a loss of 7.4 million yuan a year before, according to Australian-listed operator Donaco International. The hotel also filled its 428 rooms 81.3% of the time during the year. Analysts say

the Crown International Club in Danang, an established destination with its own international airport, is also drawing strong traffic from Chinese high-rollers.

### **An outside chance**

All of Vietnam's casino operators are keeping a close eye on a new gambling bill that has been making slow legislative progress for several years. Expectations have risen that one casino will be chosen for a pilot to allow entry for Vietnamese nationals subject to certain restrictions. Like a number of Asian nations, Vietnam currently only allows foreign passport-holders to gamble, but officials have been grumbling about Vietnamese traveling to casinos just over the Cambodian border to place bets. Some reports in the state press have estimated the tax loss to the government at \$800 million. Analysts currently expect the new law to pass by mid-2017 and that it may require locals wanting to gamble to pay an entry fee or prove their income level.

Asian Coast's Kelly claims that Ho Tram is the only casino ready to offer a local pilot. Others though aren't betting on Ho Tram. IGamiX's Lee instead sees a casino resort that local developer Vingroup is expected to open by year-end on southern Phu Quoc Island as the likely pilot site.

"It's going to benefit the locals and all the money is going to stay within the country," he said, making a contrast with Asian Coast's foreign ownership.

Shaun McCamley, a partner with gaming consultancy Global Market Advisors, thinks the winner is likely to be a casino being developed in central Quang Nam Province by a joint venture between Hong Kong's Chow Tai Fook Enterprises, Macau junket operator Suncity Group and local investment company VinaCapital. "Quang Nam is the home province of the new prime minister," Nguyen Xuan Phuc, said McCamley, who served as president of Ho Tram for a year until he was replaced in the shake-up that brought in Kelly in September 2015. "[They] will be given the pilot license."

Ho Tram will be hoping McCamley and Lee are wrong as it could use the lift local traffic would bring. Even hedge fund managers can lose their patience.