New rules to trigger consolidation

By **Admin** May 18, 2017

Cambodia's long-awaited gambling legislation is likely to be published mid-year and could herald the start of a dramatic shake out of the country's 65 casinos.

A draft copy of the bill was circulated for industry feedback in December. It is expected to set out a new system of taxation, as well as formalizing a system for licensing; regulation of junkets; accounting and reporting procedures; greater disclosures and anti money laundering rules.

According to operators on a panel at the recent ASEAN Gaming Summit, the regulation is viewed as a highly positive development for the industry in Cambodia, which is very fragmented, consisting mostly of small clusters of casinos grouped along the borders with neighboring Vietnam and Thailand.

Although details of the new bill have yet to be finalized, there is expected to be a minimum investment requirement of between $50 million to $100 million over ten years. According to Rhys Jones, managing director of Ha Tien Vegas Resort, this requirement is likely to slash the number of casinos in the country by about two thirds to just 20 or so properties.

"There are a lot of small casinos which are not working for the better of Cambodia, or for customers," he said. "If we can centralize, it will be a lot better."

Loren Stout, CEO of Pixil Asia, agreed that some consolidation would be a good thing for the industry, which has become overly competitive in some of the border areas. However, he said that based on feedback from his talks with many of the smaller operators in the country he expects some push back.

"The regulations are being perceived as a framework for larger casinos, but there are concerns as to how the locals will benefit too," he said. "I think you will see some revisions of the bill made to cater to the local market."

One of the key issues in the new legislation will be its taxation of the gambling industry. Operators until now have enjoyed competitive rates, though the system has been onerous and difficult to explain to foreign investors and shareholders.

Donaco International CEO Joey Lim, which operates the Star Vegas property in Poipet, said the company is required to pay normal corporate taxes and then a fee based on the number of tables and the number of slot machines. It also has to negotiate a separate gaming tax fee based on historic earnings, rather than actual earnings in the past year.

In 2016, government tax revenue from the casino industry jumped 38 percent to $48 million, mostly due to the addition of back taxes on non-gaming revenue from dominant player Nagacorp, whose NagaWorld resort has a monopoly on a 200 km radius around the capital Phnom Penh until 2035.

Ben Lee, managing director of IGamiX Management & Consulting, said there has been discussion of the introduction of a two-tier system for taxation similar to that used in Singapore, with a rate set at between 3 percent and 5 percent for the first tier, which will be VIP and at about 7 percent to 8 percent for the second mass market tier. However, operators stressed nothing has been officially communicated from the government.

"From our conversations with government, Cambodia is keenly aware of competition across the region," said Timothy McNally, chairman of NagaCorp, which has enjoyed a flat tax rate. "Cambodia is certainly mindful to remain competitive and they will be on the lower end."

Although the tax rate for casino operators in Cambodia has been low so far, the operators have played a part in helping to develop and rebuild infrastructure in the country in the wake of the devastation wrought by the Khmer Rouge and subsequent political turmoil.

"In Poipet we have built schools, water supply, electricity, housing and all of that, more than the tax is important on a local and provincial level," Lim said. "Now on a national level we are ready and mature enough to contribute on a national level," he said, referring to the planned new taxation system.

The Cambodian economy enjoyed robust 7 percent gross domestic product growth in 2016, with a slight increase to 7.1 percent forecast by the Asian Development Bank for 2017. Tourism arrivals rose 5 percent to just over five million.

Visitors from China increased by 19.5 percent over the same period to 0.8 million visitors. The government is now offering three-year, multiple-entry visas to Chinese, South Korean and Japanese investors.

Although the gambling legislation bill is expected to be passed later this year, operators do not expect full enforcement immediately, given the limited experience and resources of the government.

COMPANIES NagaCorp HaTien Vegas Donaco International

PEOPLE Loren Stout Ben Lee rhys jones Joey Lim

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