Galaxy Macau phases 3 and 4 are part of an estimated US$21.5 billion in new gaming property development planned for the global casino hub. (Paul Yeung/Bloomberg)

Sheldon Adelson famously declared “ten Las Vegases” may not satisfy Asia’s gaming demand. But Union Gaming analysts Grant Govertsen and John DeCree argue the current US$65 billion-plus pipeline of gaming projects may prove more than East Asia can handle, suggesting near-term development plans are “at least four times too big.” But there are still plenty of casinos putting their money on the line.

Union analysts Govertsen in Macau and DeCree in Las Vegas list more than 30 projects in the region expected to come on line by the mid-2020s. They estimate those projects will cost US$65.5 billion, roughly divided in thirds between the virgin market of Japan, global leader Macau and the rest of the region. The list doesn’t include projects that have had authorization withdrawn, such as Galaxy Entertainment’s proposed Boracay resort and Landing International’s Manila IR. Their tally also omits some projects that would seem to belong, such as Caesars Korea , a gaming addition to Laguna resort near Danang plus The Grand-Ho Tram’s expansion in Vietnam, and the Shambala casino in Russia’s Primorsky zone outside Vladivostok. Its blanket assessment of US$1 billion for Sihanoukville, where dozens of licenses have been issued, may be low. Overall, the list errs on the side of caution.

“The reality is that the current pipeline in just the existing markets (forget about Japan for now) requires Ebitda in Asia to literally double, even as the boom years in China GDP growth are behind it, and as so many of Asia’s wealthy individuals have already been captured,” the analysts write.

Union Gaming believes investments in Japan casino projects, such as Mohegan Sun's proposed Inspired Hokkaido integrated resort, stand apart from its projected Asian gaming glut.

Mohegan Gaming

They calculate major casino operators in the region totaled US$13.6 billion in Ebitda last year, drawn from primary feeder markets with GDP of US$15.5 trillion, one unit of Ebitda for every 1,141 units of GDP. Assuming “modest” annual growth of 5% for existing properties and a 20% ROI (return on investment) for new projects (ex-Japan), Ebitda for the region will need to reach US$27.7 billion by the mid-2020s, Union calculates. With no change in its ratio to Ebitda, GDP will need to growth at a compound annual growth rate of 10.7%, an unlikely prospect. (China’s annual GDP growth last topped 10% in 2010.) Viewed from the other end, annual Ebitda growth of US$1.9 billion is less than a quarter of the US$8.6 billion needed to justify projected new supply.

Goversten and DeCree separate the estimated US$22.5 billion investment in the emerging Japan casino market from their glut warning. “We view Japan as relatively insulated from the rest of Asia from an ROI perspective as 1) Japan will be a highly localized market and 2) Japan is not currently a significant contribution to GGR [gross gaming revenue] elsewhere in Asia.”

The glut argument should stimulate a thorough reassessment of gaming development across Asia. But as the authors accept regarding Japan, every development situation presents unique properties. For example, Macau can point to the city’s minuscule mainland China penetration rate–the number of visitors compared to the potential market–a fraction of the figure for U.S. gaming destinations or even regional rivals such as Manila. Moreover, even at lower rates of economic growth that depress VIP revenue, China is still minting tens of millions of middle class consumers looking for their first foreign trip, with Macau among their most logical destinations.

Phnom Penh monopoly holder NagaCorp is developing S$3.5 billion Naga3 on this site. Successful addition Naga2 is in the left background.

Muhammad Cohen

Beyond Japan and Macau, the single largest item on the region’s development menu is Hong Kong-listed NagaCorp’s Naga3 extension of its Phnom Penh integrated resort, lifting its room count above 6,000. In a new report, Morgan Stanley Asia analyst Praveen Choudhary credits Naga with the best growth prospects in Asian gaming but voices reservations about Naga3’s US$3.5 billion cost and financing.

Naga has a monopoly in Phnom Penh, but that’s no guarantee of success in a market where locals can’t play. Strong bilateral ties between China and Cambodia help, but Naga’s strategies, including targeting ASEAN markets and second tier Chinese cities, plus relationships with China International Travel Service and constantly upgrading its offerings with Naga2 and an ongoing revamp of the original NagaWorld, are its keys to success.

“For too long Asia has been an unbelievably forgiving place to be a casino operator, thanks primarily to China’s rise,” Union warns. “With a supply glut on the horizon, factors like the quality of management and physical plant have never been more important."

Naga's billionaire founder and CEO Chen Lip Keong , who financed Naga2 and may finance a large chunk of Naga3, takes inspiration from a different source. "Sheldon Adelson says Asia can support ten Las Vegases," he says. "I believe Phnom Penh can be one of them."

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