

18 May 2016

Market Update

- Normalised group EBITDA for FY16 is on track to be in line with analyst's consensus forecasts, in the range of AUD90-95 million (before non-recurring items).
- Actual group EBITDA for the 10 month period to the end of April is currently USD7.3 million below the 10 month normalised result, due to below theoretical win rates at the Aristo International Hotel.
- Star Vegas is performing well, with strong constant currency growth in revenue (+8.5%) and EBITDA (+6.4%), particularly in the most recent four months to April 2016. Despite an adverse movement in the Thai Baht exchange rate, the business remains on track to produce the expected EBITDA of USD60 million for FY16.
- Donaco is still considering expansion plans into the neighbouring Star Paradise property, which is undergoing an upgrade and construction of a new gaming hall. Any plan would involve minimal capital requirement from Donaco.
- Despite the win rates at the Aristo, actual EBITDA at the property is up 38% for the 10 month period ending April 2016, in constant currency (US dollars).
- Donaco's businesses continue to produce strong cash flows, and it maintains a healthy balance sheet, with a net debt to equity ratio of 18%.

Overall, Donaco International Limited ("Donaco" or "the Company") is performing in line with analyst's expectations at group level on a normalised basis, driven by strong performance from both the Star Vegas Resort and Club and Aristo International Hotel assets.

Star Vegas Resort and Club

The Star Vegas business is on track to produce the targeted minimum EBITDA of USD60 million for the full year. The underlying business growth in local currency terms has more than offset the decline in the Thai Baht against the US dollar during FY16 to the end of April 2016. The strong performance of the business has been driven by both gaming and non-gaming revenue, together with tight management control over all cost lines in the business.

The Star Vegas business continued to grow in the March 2016 quarter. Casino visitor numbers increased to an average of 4,938 players per day, compared to 4,426 players per day in the March 2015 quarter. For the 10 months to end of April 2016, the average visitor numbers were 5,129 per day, compared to 5,032 per day in the prior corresponding period.

VIP rolling chip turnover increased by 8% in the March 2016 quarter, compared to the March 2015 quarter. For the 10 month period to the end of April 2016, the overall increase in VIP turnover was 4%. These increases are in constant currency (Thai Baht) terms.

The win rate of 2.91% for the 10 month period to end of April 2016 was slightly higher than the casino industry theoretical win rate of 2.85%, and was also up on the prior corresponding period of 2.81%.

Total net revenues were up 8.5% for the 10 month period, and EBITDA was up 6.4%, in constant currency (Thai Baht) terms.

Update on Star Paradise Expansion

As noted at the half-year results announcement in February 2016, the Company is considering options to expand the gaming business at Star Vegas into the adjoining Star Paradise property. There is significant demand from new Thai junkets, who cannot be accommodated in the existing property, due to long-standing arrangements with existing contracted junket operators.

The upgrading of the Star Paradise property, and construction of a new gaming hall, is being undertaken by Donaco's Thai partner, at no cost to the Company. Due to a construction delay, the new gaming hall is now expected to be completed after June 2016.

Discussions are still ongoing as to the business model most suitable to all parties, including pure gaming management arrangements, or leasing the entire facility. Negotiations are expected to be completed during the December 2016 half. The gaming operations at Star Paradise will be conducted under the Star Vegas gaming licence, and any agreement would involve minimal capital requirement from Donaco.

Aristo International Hotel

The Aristo continues to post an improved financial performance, compared to last year, with improved revenues in the VIP and main hall segments, as well as non-gaming revenues, producing an overall increase of 13% in revenues (in constant currency – US dollars) for the 10 month period ending April 2016. Operating costs have also been reduced, enabling the business to post a 38% improvement in EBITDA for the same period.

Non-gaming revenue growth has been particularly strong, with hotel occupancy running at 83% for the period, compared to 63% last year. Room revenue is up 41% for the period, in constant currency (US dollars).

The marketing strategies for this business are based on increasing the number of mass market players visiting the property, in order to reduce the historical over-exposure to VIP players, which can cause high volatility in win rate and earnings.

These marketing strategies have been successful in the 10 month period ending April 2016, with the number of casino visitors increasing by 61%. The months of March and April 2016 saw new record visitation numbers of 12,881 players and 17,108 players respectively. However as these were mainly lower denomination players, the average bet size has declined, and as a result, turnover is 21% lower than last year, in constant currency terms.

Aristo has taken actions to reduce the volatility of its earnings, especially in the VIP section, and these have been in effect since January. However, Aristo continues to operate twelve premium tables under its traditional arrangements. For the 10 month period ending April 2016, the premium tables have recorded a below theoretical win rate, running at 1.62%, primarily due to some significant player wins in the March 2016 quarter.

Full Year FY16 Outlook

Normalised group EBITDA for FY16 (after payment of all corporate costs, but excluding non-recurring items)¹ is currently on track to meet analyst's expectations, in the range of AUD90-95 million. This is based on the following assumptions:

1. Aristo International Hotel records normalised EBITDA for the full 12 months at the current run rate for the 10 month period ending April 2016. This would result in normalised EBITDA for the full 12 months of USD16.1 million.
2. Star Vegas achieves its expected operational target EBITDA of USD60 million, which is the minimum amount guaranteed by the vendor and manager of the property.
3. An average USD:AUD conversion rate of 0.72 for the full year.
4. Corporate costs for the full 12 months of AUD12 million, in line with analyst's forecasts.

Due to the win rate fluctuations at the Aristo International Hotel, actual group EBITDA is expected to be lower than the normalised result. The difference between normalised and actual EBITDA at the Aristo for the 10 month period ending April 2016 was USD7.3 million. The Company does not make any forecast for actual EBITDA, as it will depend on any further win rate fluctuations, as well as exchange rate fluctuations, in May and June.

Investors should note that forecasts for the Company prepared by external analysts use normalised results, based on the theoretical win rate, which is the usual approach to forecasting gaming businesses. Variations between the theoretical and the actual win rate are normal, and are to be expected in future periods. Actual results can be both above and below the theoretical position.

Capital Management

Donaco's businesses continue to produce strong cash flows, and it maintains a healthy balance sheet, with a net debt to equity ratio of 18%. The business remains in a growth phase, and aims to retain sufficient cash to pursue further growth opportunities and to repay debt as its main priorities.

¹ Non-recurring items include Star Vegas acquisition costs of \$11.84m (already expensed in full during 1H16), and any management fee that may become payable to the vendor of that business should it exceed the US\$60 million EBITDA target.



The Board continues to give active consideration to capital management initiatives, including share buy backs and dividends, and will make a decision at the appropriate time. Any capital management program adopted will be subject to the final results and cash flows from the Company's businesses, and the working capital and financing requirements of the business.

Donaco expects to announce its full year results on 29 August 2016.

For further information:

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ABOUT DONACO INTERNATIONAL LIMITED (ASX: DNA)

Donaco International Limited operates leisure and entertainment businesses across the Asia Pacific region.

Our major business is the Star Vegas Resort and Club, a successful casino and hotel complex in Poipet, Cambodia, on the border with Thailand. Star Vegas was established in 1999, and is the largest and highest quality of the Poipet casino hotels. The property has more than 100 gaming tables, more than 1400 slot machines, and 385 hotel rooms.

Our flagship business is the Aristo International Hotel, a successful boutique casino in northern Vietnam, located on the border with Yunnan Province, China. Established in 2002, the property has recently been expanded to a brand new five star resort complex with 400 hotel rooms. Donaco is a pioneer casino operator in Vietnam, and owns a 95% interest in the business, in a joint venture with the Government of Vietnam.

To learn more about Donaco visit www.donacointernational.com
