

30 August 2016

Donaco exceeds guidance and announces maiden dividend

Donaco International Limited (ASX:DNA) is pleased to announce its results for the 12 months ended 30 June 2016 (FY16), a period which saw the group transform and significantly grow in scale with the addition of the Star Vegas.

Result highlights

- Group Revenue of \$143.4 million with a \$120 million contribution from Star Vegas
- Adjusted Group EBITDA¹ of \$97 million exceeded guidance of \$90-95 million
- Reported Net Profit After Tax (NPAT) \$77.2 million includes non-recurring items:
 - \$55.2 million valuation uplift at Star Vegas
 - (\$20.5 million) management fee paid as Star Vegas exceeded targets
 - (\$11.8 million) of M&A costs
- Underlying NPAT \$54.4 million (excluding non-recurring items)
- Star Paradise expansion successfully negotiated with no capital commitment required
- Strong balance sheet with \$78.2 million of Cash
 - Available cash of \$29.6 million allowing for bank and working capital requirements
- Maiden dividend of 1 cent per share with intended payment in October

Reported net profit after tax was \$77.2 million, and included a valuation uplift at Star Vegas of \$55.2 million following an independent valuation by Colliers. The valuation was required by Australian and international accounting standards for the purpose of annual impairment testing, and purchase price allocation. As the valuation exceeded the original acquisition price, the accounting standards require the acquisition to be treated as a bargain purchase, and the uplift is required to be shown as income in the reported results.

The results also included the previously announced non-recurring acquisition costs of \$11.8 million, and a management fee payment of \$20.5 million, which resulted from Star Vegas exceeding its targeted performance levels.

Both venues produced strong operational performances. Star Vegas contributed to earnings from 1 July 2015 for the full 12 months following its acquisition, and achieved a 21% increase in EBITDA in local currency terms to THB 2.2 billion under Donaco ownership, compared to the previous year. Star Vegas exceeded its USD 60 million EBITDA target by USD 3.3 million. The Aristo International Hotel also recorded impressive growth, with EBITDA increasing by 61% in local currency terms to RMB 51 million.

¹ Adjusted EBITDA is prior to non-recurring items, and using normalised results for the Aristo International Hotel, consistent with the market update and guidance provided on 18 May 2016.

Commenting on the FY16 result, Donaco Managing Director Mr Joey Lim said:

“FY16 was a year of transformation for Donaco, with the Star Vegas acquisition substantially increasing the scale of our gaming operations. The integration of Star Vegas into the Donaco group was seamless, and it was pleasing to see the increase in visitations at both venues, with increases in both gaming and non-gaming revenues. We are pleased to have delivered a strong operational result from both of our gaming assets, with a major part of our earnings this year coming from Star Vegas, which contributed \$120 million in revenue and \$87 million in underlying EBITDA.

“Our business is also producing strong cash flow, generating \$48.7 million of cash flow from operations and demonstrating our ability to convert EBITDA into cash flow. Our excellent financial performance has enabled us to announce our intention to pay a maiden dividend of 1 cent per share, whilst maintaining our strong capital position and healthy balance sheet.”

Venue Performances

Star Vegas

- Net Gaming Revenue up 15.8% to THB 3,014.9 million
- Non-Gaming Revenue up 30.0% to THB 113.4 million
- EBITDA up 21.1% to THB 2,245.5 million
- Property Level NPAT up 22.0% to THB 2,103.2 million
- VIP Gross Win rate 2.97%

Star Vegas performed strongly during its first year within the Donaco group, generating a profit of THB 2,103.2 million.

Commenting on the performance at Star Vegas, Donaco Deputy CEO Mr Att Asavanund said:

“In local currency terms Star Vegas performed strongly, with revenue up 16.3% to THB 3.1 billion, driven by an increase in the VIP gross win rate to 2.97%, up from 2.72% in FY15. Cost control initiatives implemented during the year helped to manage operating expenses and resulted in a 21.1% increase in EBITDA.

“We are focused on driving growth at Star Vegas, which is a world class gaming facility. Marketing initiatives are in place to increase visitation numbers and generate additional revenue in future periods, including our brand partnership with Manchester United, and VIP promotions.

“In addition to gaming, Star Vegas has a luxurious set of resort facilities, comprising of a hotel, restaurants and shops. Accordingly, management initiatives are also being directed at increasing our non-gaming revenue streams. We have been encouraged by a 30% increase in non-gaming revenues in FY16.”

Star Paradise expansion

Donaco is pleased to announce that it has successfully negotiated a deal to expand the Star Vegas gaming business into the adjoining Star Paradise property. Donaco will receive a monthly fee for managing the Star Paradise gaming area under the Star Vegas gaming licence

of THB 5 million (approximately AUD 2.3 million per annum), in addition to reimbursement of the operating costs incurred by Star Vegas for the venue.

The existing Star Paradise property has been upgraded with a new gaming hall constructed and financed by Donaco's Thai partner. Accordingly, there is no capital expenditure required by Donaco.

Donaco is also finalising an exclusive option to acquire the entire Star Paradise business.

Commenting on the Star Paradise expansion, Mr Lim said:

"The expansion of Star Vegas into Star Paradise is an important strategic move for Donaco, which solidifies our market-leading position in the Poipet region. The commitment of our Thai partner allows us to expand our business, with no upfront capital cost to the Company. The additional capacity will allow us to accommodate new Thai junkets and additional players, who cannot be accommodated in our existing property due to long-standing arrangements with existing junkets. The additional earnings for managing Star Paradise will complement our core earnings from Star Vegas."

Aristo International Hotel

- Net Gaming Revenue up 16.2% to RMB 58.7 million
- Non-Gaming Revenue up 31.4% to RMB 48.1 million
- EBITDA up 61.4% to RMB 51.0 million
- Property Level NPAT RMB 13.8 million (FY15: loss of RMB(7.4) million)
- VIP Gross Win rate 2.2%

Commenting on the performance at Aristo, Mr Lim said:

"The strong growth in EBITDA up 61.4% was underpinned by an impressive increase in both gaming and non-gaming revenue, together with stringent cost control measures. While visitor numbers were up by 63% to 148,107 over FY16, including a record 17,455 players in May 2016, the average bet size declined, in line with marketing strategies focused on increasing the number of 'mass market' players, to reduce the win rate volatility. While win rates will continue to fluctuate, the average VIP win rate achieved of 2.2% was an improvement on the rate achieved last year.

"We were pleased to have hotel occupancy average 81.3% during FY16, compared to 65.2% in FY15, and non-gaming revenues accounted for 45% of revenue at Aristo overall. While Vietnamese locals are not permitted to enter gaming facilities, our comprehensive five star resort facilities are very popular with local residents, and management are focused on attracting local visitors who spend in non-gaming areas."

Capital Management

Donaco's businesses continue to produce strong cash flows, and it maintains a healthy balance sheet with a net debt to equity of 16%. The FY16 finance expense of \$19.2 million was comfortably covered by EBITDA of \$55.3 million. Net debt to underlying EBITDA is 0.88x. The refinancing of a USD 20 million working capital facility announced to the market in July 2016 will save the company approximately USD 3.8 million over FY17 and FY18.



Due to the strong cash generated by the business, the Board is pleased to announce that it intends to declare a maiden dividend of 1 cent per share. The planned record date for the dividend is 5 October 2016, and payment date is 19 October 2016.

Mr Lim said: “Even though our business remains in a growth phase and the aim is to retain sufficient cash to pursue growth opportunities and repay debt, we are pleased to announce our maiden dividend today. With our strong cash flows, we expect to continue rewarding our shareholders via a sustainable dividend.”

Positive outlook for FY17

Mr Lim concluded, “Donaco expects to continue along a growth trajectory into FY17, as management implements initiatives to increase revenue and earnings. Star Vegas is expected to benefit from our planned marketing programs, as well as the expansion into the neighbouring Star Paradise venue. Marketing strategies at Aristo continue to be focused on increasing the number of mass market players visiting the property, to reduce the earnings volatility and to target non-gaming revenue growth.

“We are also well positioned to take advantage of consolidation and growth opportunities in the leisure and hospitality industry in the Asia-Pacific region. Our results announced today show that leading properties that are well managed can generate very strong returns.

“Our announcement of a maiden dividend is proof of the strong cash flow generation from the business. Donaco is well positioned to continue to drive growth into FY17 and beyond from our two blue chip gaming assets, to create long term shareholder value.”

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
