

ASX : DNA

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24 November 2016

Annual General Meeting – Chairman’s Address and Managing Director’s Address

In accordance with Listing Rule 3.13.3, Donaco International Limited lodges the attached Chairman’s address and Managing Director’s address, to be delivered at today’s Annual General Meeting of shareholders.

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

24 November 2016

Chairman's address – Stuart McGregor

On behalf of the Board I am pleased to welcome you to the 2016 Annual General Meeting of Donaco International Limited. I am your Chairman, Stuart McGregor, thank you for being with us today. I confirm that the meeting is properly constituted, and that a quorum is present. I declare the meeting open for business.

I would like to begin by introducing our board of directors:

- Our Managing Director and CEO, Mr Joey Lim,
- Executive Director and Company Secretary, Mr Ben Reichel;

Non-executive directors,

- Mr Benjamin Lim,
- Mr Rob Hines;

Our two Directors from Thailand:

- Mr Ham Techatut Sukjaroenkraisri,
- Mr Paul Porntat Amatavivadhana.

Also in attendance are the following members of senior management:

- Deputy CEO, Mr Att Asavanund,
- CFO, Mr Chong Kwong Yang, and our
- Deputy CFO, Mr Kenny Goh.

We also welcome Ms Michele Neville from the Company's auditors, William Buck.

I am delighted to have the opportunity to speak to you today about the 2016 financial year, which was a period of transformation and significant progress for our company. The period saw the successful integration of the newly acquired DNA Star Vegas in Poipet, situated on the Thailand and Cambodian border. This venue has become the dominant contributor to Donaco's revenue and earnings.

While the acquisition of DNA Star Vegas resulted in a seven-fold increase in Group revenues during the 2016 financial year, the acquisition did not distract management away from also improving the performance of the Aristo International Hotel, in Lao Cai in Vietnam, which experienced strong growth in both gaming and non-gaming revenue.

The Board was pleased to see management's efforts in driving strong performance from both operating businesses, while also integrating the DNA Star Vegas business into the Donaco Group. The complexity of integrating this much larger business should not be underestimated, but management has worked tirelessly to complete the task in an efficient and effective manner.

In addition to the success of the DNA Star Vegas acquisition, I was also pleased that we were able to deliver on the financial objectives that we outlined at last years' Annual General Meeting. We have successfully reduced debt during the period following the acquisition, and commenced on our capital management initiatives with the payment of our maiden dividend to our shareholders. This was possible due to the strong earnings and cash flow generated from the DNA Star Vegas acquisition, which allowed us to strengthen our financial position.

The Board and management continue to be focused on building shareholder value via the combination of strong financial management and underlying earnings growth. We will be focused over the next 12 to 18 months on ensuring that our debt is paid down, in order to ensure that shareholders reap greater benefits from the strength of our cash flows in the future. It is worth noting that our balance sheet is strong, with net debt to equity of only 15%, however we remain focused on paying down the remainder of our acquisition financing as a priority.

To further align the interests of our management with shareholders, and as a further sign of the strength of our cash flows, we have recently taken the opportunity to purchase \$1m worth of shares on market for our newly established long-term incentive scheme. This will see the future long term incentives provided to our senior management aligned to our share price performance.

A key feature of the Donaco business is the strength of our corporate governance practices, and we are widely recognised by governments and our customers as a Group which operates with high standards of probity and governance. We firmly believe that our adherence to strong corporate governance principles provides us with a competitive advantage in pursuing further growth opportunities as they arise.

While the Board is culturally and geographically diverse, we are operating cohesively and effectively in overseeing the Group operations. I would also note that our Board has deep operational expertise in the gaming industry, and expertise in operating in Asia, which sets us apart from other ASX-listed gaming operators.

As Chairman of the Group I am pleased that Donaco continues to be engaged in a number of charitable activities in the local communities in which we operate. Our community initiatives during the 2016 financial year provided practical immediate benefits to the local communities, such as: donating bicycles to financially disadvantaged students in the Lao Cai province in Vietnam, the supply of uniforms and shoes for students at local schools, holding fundraising events for disadvantaged youth in Hanoi, and delivering financial assistance to the orphans and teachers at the Lao Cai orphanage.

I would like to summarise by saying that the 2016 financial year was operationally and financially a successful year for Donaco. The group delivered A\$143 million in revenue, A\$55.9 million in underlying NPAT and A\$48.7 million in cash flow. The balance sheet was strengthened, debt reduced and a maiden dividend of 1 cent per share was declared and paid.

I would now like to invite Chief Executive Officer Joey Lim to present more detail regarding Donaco's operational highlights in the 2016 financial year and our performance so far in the current financial year.

Managing Director's Presentation – Joey Lim

Thank you Stuart. Good afternoon and thank you all for attending.

As Stuart commented, the 2016 financial year was a year of significant progress for Donaco, as we successfully integrated DNA Star Vegas into the Donaco Group. Overall, the Group generated A\$143.4 million of revenue, of which DNA Star Vegas contributed A\$120 million with an underlying EBITDA of A\$66.6 million.

Our reported net profit after tax was A\$78.7 million, which included a positive non-recurring item of A\$55.2 million relating to an uplift in the valuation of the DNA Star Vegas business.

A better reflection of the Donaco's ongoing earnings is the underlying net profit after tax, which was A\$55.9 million in the 2016 financial year. Pleasingly we also produced a strong level of operating cashflow which was A\$48.7 million during the period. This cash flow enabled us to focus on capital management initiatives of reducing our debt, which had increased following the DNA Star Vegas acquisition. We finished the year with a net debt to equity ratio of 15%.

Our finance expenses of A\$20.5 million were comfortably covered by EBITDA of A\$55.5 million. Accordingly, as our Chairman noted, our strong cash flow and healthy balance sheet allowed us to declare our maiden dividend of one cent per share.

We were also able to renegotiate and refinance our debt facility in July on more attractive terms, which will allow us to further reduce financing costs over the next 2 years.

Turning to the operational aspects of our business, as we know the casino business is subject to luck as well as good management, and this is most notable in the VIP segment of our business, which experiences greater volatility in its results compared to the mass market segments.

As outlined at our AGM last year, we have put in place a number of strategic initiatives to strengthen and reduce the volatility of earnings. For example, at Aristo, our stated strategy to deliberately target more mass market players has been showing positive signs in improving the stability of our earnings at that venue. Whilst the luck factor cannot be eliminated, we are aiming to deliver more stable earnings in future periods.

We were particularly pleased with the operational performance at DNA Star Vegas, which experienced an increase in patronage, and in gaming and non-gaming revenue during the 2016 financial year, leading to impressive earnings growth of 21.1%. These strong results were achieved by the introduction of new games, promotions and new facilities at the venue, as well as tight cost control. We are optimistic about the prospect for further growth at DNA Star Vegas from leveraging our Manchester United relationship, VIP promotions and our recent expansion into the neighbouring Star Paradise property, where we have commenced managing the gaming floor for a monthly fee from the start of September.

We also have the rights to an exclusive option to purchase the Star Paradise operation. The decision to pursue this option will only be made after we have the opportunity to see how this business develops. At this stage it is too early to determine whether we will exercise that option. It should be noted that Donaco has not incurred any costs in the development of the Star Paradise gaming operation, and we will have all operating expenses recovered under the management arrangements in addition to the monthly fee.

At Aristo, we were very pleased to have driven a strong improvement at this venue in local currency terms. This was the combination of both gaming and non-gaming revenue growth and tight cost control measures. Overall, these contributed to outstanding EBITDA growth of 61.4%. As I mentioned, our strategy at Aristo was to focus on the mass market and premium play, away from the VIP segment, which is inherently more volatile. The result of this initiative was an increase in patronage, up 63% during the 2016 financial year, with a lower average bet size and consequently less volatility. The win rate from our VIP play was 2.2%, which was an improvement on the 2015 financial year.

Growth in non-gaming revenue was driven by new facilities, including a nightclub and a steakhouse, which attracts local patronage to the venue and provides Donaco with a source of attractive rental income. Overall our non-gaming revenue represented 45% of the total revenue generated by Aristo during the 2016 financial year, in line with our objectives.

Turning to the current financial year, it has been a mixed start over the first 4 months to the end of October 2016. Whilst the Aristo has been off to a very strong start, with high growth in visitation and a strong VIP win rate, DNA Star Vegas results are lower than a very strong comparative period from last year.

In the first four months of FY16, DNA Star Vegas recorded an exceptionally high VIP win rate of 3.31%. In contrast, the first four months of FY17 have recorded a VIP win rate of 2.87%, which is still very solid, but nevertheless significantly lower than last year. As we have consistently stated to the market, this is a normal feature of gaming operations, and the VIP win rate can be expected to fluctuate in future periods.

In addition, the turnover at DNA Star Vegas in the first four months of FY16 was exceptionally high, with two VIP events held during the period, including a party in July 2015 and a baccarat tournament in October 2015. In contrast, while we had a successful baccarat tournament in October 2016, there was no special event in the month of July, and accordingly turnover in that month and for the four-month period was lower than last year.

At Aristo, the impressive results were underpinned by a strong increase of 75% in casino visitation over the first four months of the current financial year. In addition, management has taken a number of initiatives to improve and strengthen the gaming operations. These include the introduction of a new table game, "Dragon Tiger", which has proven to be extremely popular and offers higher win rates for the house than baccarat. Management has also implemented tighter controls on bet sizes and table limits, thus forcing players to play more hands.

These factors have contributed to a robust VIP win rate of 3.41% at the Aristo for the first four months of FY17. The strong results at Aristo give us confidence that our strategies for bringing in more mass market players to the venue are working, and producing better earnings quality. Since these players are betting smaller amounts, the overall volume of gaming turnover is down, but actual revenues are much higher than last year, due to lower commissions being paid and a higher win rate being achieved.

Overall, the group has recorded revenue of A\$42.0 million during the four month period to the end of October, some \$9.8 million lower than the corresponding period last year, due primarily to the strong comparative period at DNA Star Vegas. The impact of this has been reduced to some extent by a reduction in corporate and finance costs, which were approximately A\$2 million lower in the period. The four month Group EBITDA of A\$18.0 million and the unaudited four month net profit after tax of A\$13.5 million are lower than the first four months of FY16. On a normalised basis, which corrects for the variations in VIP win rates, net profit after tax was approximately A\$1.7 million lower than the first four months of FY16.

The June half of the financial year is typically our strongest half, as our gaming assets benefit from holiday periods attracting a significant number of players, including the Thai and Chinese New Year periods, and we would expect this to remain the case in FY17.

We are expecting DNA Star Vegas to improve during the remainder of the 2017 financial year, as we implement further marketing initiatives including additional tournaments for VIP players, and leveraging off our status as the “Official Resort Partner” of Manchester United in Thailand to increase mass market visitation. We had expected to launch this initiative during October, however due to the passing of the King of Thailand, the launch has been delayed until the second half of the financial year.

We also expect to benefit from improved trading conditions in the June half, which is typically a stronger period due to a number of key public holidays in Thailand. Further, we continue to see steady growth in slot machine turnover as we roll out more machines on to the floor, with the total now reaching almost 1,600 machines. In addition we are now deriving a new revenue stream from managing the adjoining Star Paradise property. We are also exploring the possibility of similar management contracts for gaming and non-gaming assets in the region.

A further opportunity and potential source of growth for DNA Star Vegas is with respect to our online presence. Our online strategy relates to maximising our brand engagement with our customers, in particular attracting a younger demographic. We have plans for an enhanced loyalty program, including an interactive social gaming experience. We are exploring and trialing options for the utilisation of our online gaming licence and expect to make progress during the current financial year.

At Aristo, for the remainder of the financial year we expect to achieve additional synergies from utilising the purchasing power of DNA Star Vegas for acquiring more gaming machines. Currently, DNA Star Vegas enjoys substantially better purchasing arrangements than Aristo due to the higher number of gaming machines on site. We also remain focused on directing

our marketing efforts towards attracting more tour groups of mass market players to the venue. Aristo is well placed to continue to benefit from the phenomenal growth in Chinese tourists traveling to Vietnam.

In addition, we are marketing the extensive non-gaming assets of the Aristo to the local Vietnamese population, and are seeing strong growth in all forms of non-gaming revenue. There are plans for a range of low-capex initiatives to enhance the entertainment experience for locals, including concerts, restaurants, a beer garden and other entertainment facilities.

Looking beyond the 2017 financial year, we have commenced discussions with our Thai partner regarding the on-going management of DNA Star Vegas into the 2018 financial year and beyond. While these arrangements have not yet been finalized, they will be commercially based and reflective of senior executive remuneration packages. The current arrangements, for two annual management fee payments, were part of the original purchase deal for DNA Star Vegas, and include the USD\$60 million EBITDA earnings guarantee from the vendor for both the 2016 and 2017 financial years.

Ladies and gentlemen, in conclusion, I would like to thank our team and the Board for their hard work during the 2016 financial year. We appreciate your attendance with us today and will now hand you back to our Chairman to conduct the formal business of the meeting.

Chairman – Stuart McGregor

Thank you Joey. There is no question that we are in an unpredictable and challenging global environment, but with the strength and experience of the Board and our management team, we remain excited about our prospects in the Asian region and our longer-term growth aspirations.

Before commencing the formal part of our AGM I would like to reiterate the three strategic objectives the Board is seeking to pursue in the 2017 financial year and beyond, namely;

- 1) To utilise our strong cash flow to further reduce our debt;
- 2) To continue to reward our shareholders with annual dividend payments, and consider additional capital management initiatives at the appropriate time; and
- 3) To consider further value accretive opportunities to grow our business, should they arise.

On behalf of the board, I would like to thank our shareholders, staff and customers for their loyalty and support and look forward to your continued support in the years ahead.

For further information:

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