

28 February 2018

## **Donaco records \$19.4 million EBITDA for 6 months to December**

Donaco International Limited (ASX:DNA) has announced its results for the 6 months ended 31 December 2017 (H1 18).

### **Result Summary**

- Statutory NPAT of A\$(133.8) million compared to A\$14.8 million in previous corresponding period (pcp)
  - Includes a non-cash impairment of \$143 million on the Star Vegas casino license due to the vendor breaching non-compete provisions
  - Donaco obtained an injunction to close down the competing casinos, which has now been upheld on appeal. One further appeal is available to the vendor
  - Donaco has also commenced arbitration proceedings in Singapore seeking USD120 million in compensation
- Group EBITDA of A\$19.4 million compared to A\$33.3 million in previous corresponding period
- Group Revenue of A\$43.9 million compared to A\$59.0 million in pcp, primarily due to lower VIP turnover at Star Vegas
- Star Vegas EBITDA down 40% to THB 484.7 million:
  - Reduction in VIP turnover due to disruption caused by the vendor conducting competing operations, in breach of non-compete clauses
  - Significant associated reduction in junket commissions and operating costs
  - Higher VIP win rate of 3.32%, compared to win rate of 2.75% in pcp
  - Subdued domestic demand and consumer sentiment in Thailand, due to royal mourning period and strict military government regime
- Rebuilding of the VIP business continues, with three Thai VIP junkets commencing operations in the December half, using 43 VIP tables. Three more junkets using 40 VIP tables have now been added in January/February 2018
- Testing of online gaming platform at Star Vegas has commenced
- Marketing agency Vivo Tower Limited engaged to fill unused space at Star Vegas, and is now paying a minimum fee of USD3 million per year, commencing January 2018
- Roll-out of improved slot machine portfolio with 900 new slot machines is underway, and will continue during the June half
- Aristo EBITDA down 22% to RMB 33.1 million:
  - Primarily due to a single VIP loss of RMB 22.6 million in July-August
- Strong balance sheet maintained with net debt to equity reduced to 8.6%

Commenting on the H1 FY18 result, Donaco CEO Mr Joey Lim said:

“Our group result was impacted by the impairment charge of \$143 million at Star Vegas, due to the vendor breaching his non-compete clauses and operating a competing casino at Star Paradise, and another casino concealed behind a nearby supermarket operation.

“This has impacted our VIP business at Star Vegas, which saw turnover decline to THB 18,148 million from THB 50,836 million in the previous corresponding period.

“We are working to actively restore the VIP business, and are making strong inroads by signing new junkets and opening new junket halls, which has accelerated in January and February 2018. We have also taken legal action to have the vendor cease the illegal operations, and provide us with financial compensation.

“The business has also been affected by subdued domestic demand in Thailand, where the economy was affected by the royal mourning period and the strict military government regime. However, we have put in place initiatives to drive main floor revenues, by introducing 900 new gaming machines to replace underperforming machines, upgrading our non-gaming facilities to attract more visitors, and adding a second main floor targeting non-Thai players.

“International marketing agency Vivo Tower Limited was appointed to fill unused capacity at the property, and is now paying a minimum fee of USD3 million per year, commencing January 2018. We expect all these actions to be reflected in future results.

“At Aristo our underlying performance was solid, despite our results appearing weaker. We chose to selectively pursue junket business when attractive opportunities presented themselves, and a lucky customer had a large RMB 22.6 million win in July-August. That is the nature of our business, but if we remove this from our performance we would have been ahead of the previous corresponding period. Visitation was down because we stopped a marketing initiative used last year that was not meeting its objectives.

“Our balance sheet and cash flow remain strong. Our debt is well under control, with a principal repayment of USD20.8 million made in August 2017, and a further principal repayment of USD8.5 million made in February 2018. Our debt to equity reduced to 8.6% at the end of December. However, the non-cash impairment charge means that we will need to revisit our near term buy-back and dividend intentions, due to our debt covenants”.

## **Venue Performances**

### **Star Vegas**

- Net Gaming Revenue down 31.5% to THB 775.2 million
- Non-Gaming Revenue down 15.8% to THB 57.7 million
- EBITDA down 39.7% to THB 484.7 million
- Normalised EBITDA down 53.3% to THB 399.3 million
- VIP Gross Win rate 3.32% compared to 2.75% in pcp

Star Vegas produced weaker results, due primarily to lower VIP turnover, which was partially offset by a significant reduction in junket commissions and operating costs. Revenue was THB 832 million compared to THB 1,200.4 million in the previous corresponding period, with a higher VIP win rate of 3.32%, compared to the win rate of 2.75% recorded in the prior period. EBITDA of THB 484.7 million was down 40%, with the normalised venue EBITDA down 53% to THB 399.3 million, when adjusting to the theoretical win rate of 2.85% in both periods.

The weaker operating performance at Star Vegas caused the auditors to inform the Company of the presence of indicators of impairment to the carrying value of the Star Vegas casino licence. Although the Board believes it is open to question whether the impairment is permanent, it has adopted a conservative approach by applying an impairment charge of \$144 million.

The Board has taken action to enforce its legal rights against the vendor and seek compensation for the losses incurred. A Cambodian court has issued an interim injunction to close down the competing gaming operations, which was further upheld upon appeal on 19 February. There is one appeal remaining available for the vendor. In addition, Donaco has commenced arbitration proceedings in Singapore claiming damages of USD120 million, and has also withheld the FY17 management fee of A\$19 million which would have been payable to the vendor.

Donaco CEO Joey Lim said:

“Following the disruption caused by the vendor’s breach of contract, Donaco has begun to successfully rebuild the junket business. Three Thai junkets were signed up in the December half, operating across 43 VIP tables. An additional three junkets operating across a further 40 VIP tables were added in January and February 2018.

“Our VIP turnover increased ten-fold from the low point in July, to THB6.2 billion in October, before dipping to THB3 billion in November and December. It has now begun to grow again, reaching more than THB8 billion in February to date.

In addition, a second main hall has opened targeting non-Thai players, with 16 tables currently, which will increase to 48 tables when in full operation. The tables in this hall include Macau-style “no commission” baccarat, which is popular with the non-Thai players. We are working with tour agents to bring in mass market players from Bangkok and Siem Reap.

“The replacement of 900 older underperforming machines with new slot machines has begun and will continue over the June half. We have also commenced a pilot of online gaming operations, using tables fitted out with cameras for live dealer gaming.

“Non-gaming facilities at the property have been upgraded to attract more visitors, and to appeal to the international market, including refurbishment of 99 hotel rooms, a new café and Chinese restaurant, a video arcade, and entertainment facilities.

“Vivo Tower has worked with us to fully utilize available space at the property, and is now paying a minimum fee of USD3 million per year, commencing in January 2018. We are confident that this relationship will add significant value to our operations.”

### **Aristo International Hotel**

- Net Gaming Revenue down 31% to RMB 29.7 million
- Non-Gaming Revenue up 17% to RMB 30.7 million
- EBITDA down 22% to RMB 33.1 million
- VIP Gross Win rate 1.70%, below the theoretical rate, compared to 3.18% in the pcp

The Aristo International Hotel produced lower operational performance, with a 13% decrease in revenue to RMB 60.4 million, and a 23% decrease in EBITDA to RMB 32.2 million. The result was impacted by the VIP win rate, with a single VIP player winning RMB 22.6 million (USD3.4 million) in July-August 2017. Casino visitation was down 23% to 77,000 patrons, due to cancellation of a marketing initiative that was used last year but which was not meeting its objectives.

Commenting on the performance at Aristo, CEO Joey Lim said:

“Table game turnover increased by 97%, driven by management’s decision to allow selected new VIP junkets into the property.

“The overall decrease in constant currency revenue of 13% and EBITDA of 22% was driven by a lower VIP win rate, partially offset by improved non-gaming revenues and cost control measures. We had an improvement in EBITDA over the December quarter, with the VIP gross win rate stabilising.

“In line with our strategy, management successfully implemented initiatives to control operating costs, and increase property utilisation, as reflected in the average room occupancy increasing to 84.2% compared to 72.0% in the previous corresponding period. We had an increase in local visitation and spending in the non-gaming areas, and held additional events including a Halloween party, Christmas party, wedding events, charity dinners, concerts amongst other events.

“The slot machine revenue was up 50% to RMB 7.6 million due to 10 new machines being installed to capitalise on strong demand, although we had a dip in slot machine revenues in December 2017, which was due to a lucky customer having a jackpot strike.”

### **Capital Management**

Cash flow from operations was A\$17.5 million for the period, compared to \$25.4 million previously.

Total debt continues to decline to A\$76.5 million at the end of December, down from A\$108.5 million as at 30 June 2017. A further USD8.5 million debt repayment was completed in February 2018.

Due to the non-cash impairment charge, any additional dividends in FY18, or an extension of the current buy back program, will be subject to approval from Mega Bank.



## Outlook for FY18

Mr Lim concluded, “Management is confident that Star Vegas has turned the corner, following the disruption caused by the Thai vendor’s breaches of contract. Our VIP business has been rebuilt in the December half, and has now grown further, with additional VIP junkets introduced in January and February 2018. Our marketing deal with Vivo Tower will add a minimum of USD 3 million per annum from January 2018. Our second main hall has opened, with games catering for non-Thai players. We have improved the slot machine portfolio, with new machines being rolled out during the June half. The testing of our online gaming services has commenced, and our non-gaming facilities have been substantially expanded and improved during the December half.

“No further management fees are payable to the Thai vendor, and the litigation against him continues, with USD120m being sought in the Singapore arbitration, in addition to the injunction against the vendor received from the Cambodian court.

“Our marketing strategies for Aristo continue to be focused on increasing the number of mass market players visiting the property, to reduce the volatility in win rate and earnings. Our VIP win rate has stabilised in recent months and our non-gaming revenues continue to grow strongly.

“The new debt facility is being repaid as planned, but further capital management strategies, including any extension of the current buyback, will require discussion with our lender.

“We are also actively looking to strengthen the Board, by seeking to appoint two new independent directors, to replace the former representatives of the Thai vendor who departed the Board last year.

“We remain confident that we on track to deliver stronger performance into the future as we seek to generate more value in our operations.”

## 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](http://www.donacointernational.com)

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