

30 August 2018

Donaco records \$42.4 million EBITDA for FY2018

Donaco International Limited (ASX:DNA) has announced its results for the financial year ended 30 June 2018 (FY 18).

Result Summary

- The statutory loss of A\$124.5 million includes the previously announced A\$143.9 million non-cash impairment charge in the value of the Star Vegas casino license, following the vendor's breaches of contract
- Underlying net profit for the group was \$18.3 million before non-recurring items
- Management has been effective in rebuilding the Star Vegas business:
 - Five new VIP junkets signed up, to replace those poached by the Thai vendor
 - VIP turnover up by 54% in the June half, compared to the December half
 - Significant improvements in non-gaming amenities
 - New slot machine and casino management system going live
- Donaco announces today the launch of its online gaming business at Star Vegas
 - Expected to become a significant revenue contributor as the business grows
- Donaco's financial position remains solid
 - Positive operating cash flow of A\$34.6 million (A\$47.4 million in pcj)
 - Ongoing debt reduction with net debt down to A\$22.1 million from A\$42.5 million
 - Further repayment of USD8.6 million in August 2018 has reduced Mega Bank debt to USD40 million
- Star Vegas operating performance declined significantly due to the breach of non-compete clauses by the Thai vendor, which harmed the VIP business
 - Gaming revenue fell 42% primarily due to decline in VIP business
 - Despite a slight increase in main floor visitation main floor spending remained subdued due to weak domestic demand in Thailand
 - Junket commissions reduced by 48% in the period due to lower VIP turnover
 - Operating Expenses down 11% reflecting more efficient management
 - Property level EBITDA down 54%, reflecting lower VIP turnover
 - Normalised EBITDA down 38%, after adjusting for win rates
- Aristo continues to perform solidly with revenues maintained and costs controlled
 - VIP turnover up 46%, with lower win rate than the pcj
 - Net profit after tax up 19%

Donaco has reported a net loss after tax of A\$124.5 million for the 2018 financial year, including the previously advised non-cash impairment charge of A\$143.9 million in the

value of the Star Vegas casino licence. The results are consistent with the trading update provided in April.

The group recorded a reported EBITDA of A\$42.4 million (A\$65.3 million in pcp) and generated an Underlying NPAT of \$18.3 million (A\$54.6 million in pcp).

Group revenue declined to A\$92.6 million from A\$136.4 million previously due to the reduction in VIP business at Star Vegas, following the breach of non-compete clauses by the Thai vendor.

Operational Performance

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

“Although the year has presented its challenges, operationally we have taken full control of the Star Vegas casino and have introduced new facilities, new junkets and launched our online gaming operations. Star Vegas did suffer a significant drop in its VIP turnover as a consequence of the breaches of non-compete clauses by the vendor. Aristo has continued to perform solidly despite a lower win rate than last year. We have also efficiently managed the cost base, and despite the challenges, both venues have operated profitably. However, our reported financials show the impact of the A\$144 million impairment charge. We are aggressively pursuing legal action against the Star Vegas vendor and seeking USD190 million in damages to remedy the impact on our business.

“We were presented with some significant challenges at Star Vegas with the vendor illegally operating two competing casinos and poaching our Thai junkets, which had a significant impact on the full year result. The performance of our VIP business at Star Vegas was particularly impacted in the early part of the financial year, but we have worked hard to restore the junket business. Pleasingly, we have seen the second half producing a significant uplift in VIP turnover, which has continued to improve into the current financial year.

“Star Vegas did show a pick up in patronage on the main floor, however the subdued backdrop of the Thai economy continued to hold back the main floor revenues. We are seeing encouraging signs from the initiatives we have taken to drive main floor revenues, including new gaming machines, upgraded facilities, and a second main floor targeting non-Thai players.

“We are also excited by the launch of our online gaming business at Star Vegas which should provide us with medium term growth in revenue and profits.

“At Aristo our underlying performance was solid, with our VIP turnover increasing by 46% over the year, albeit with a lower win rate. Our non-gaming revenue continued to improve to now make up 46% of the revenue base at the property.

“Our group balance sheet remains strong, with our debt to equity reducing to 6.0% at the end of June, and a further principal repayment of USD8.6 million made in August. However, we have had to hold off on further dividend and buy-back initiatives until the reported statutory profit is restored”.

Update on Legal Matters

As previously announced, the Company has commenced legal proceedings against the Star Vegas vendor to enforce its legal rights and receive financial compensation for the losses incurred.

On 25 December 2017 Donaco obtained an injunction ordering the closure of the Star Paradise and Star Paramax casinos, which were illegally operated by the vendor of the Star Vegas business. Both casinos were operating without licences, and in breach of non-compete agreements. After the injunction was obtained, Star Paradise changed its name to “Winsor”, and continues to operate. The vendor’s initial arguments against the injunction were rejected by the Cambodian court. The vendor has made a further appeal to a higher court, but there is no progress with this appeal.

On 29 March 2018 Donaco obtained a freezing order on the vendor’s DNA shares from the NSW Supreme Court, and the order has now been extended until 2 November 2018.

On 6 July 2018 the vendor made claim for security rights over certain assets of Star Vegas, relating to his claim for the unpaid FY17 management fee, which was rejected by the Cambodian court. Three days later, a different firm of lawyers acting for the vendor filed an essentially identical claim. Donaco has argued that this is an abuse of process, and should also be rejected.

Donaco obtained an injunction to prevent the vendor’s threatened termination of the Star Vegas lease. The vendor has now commenced arbitration proceedings in Cambodia, which are in early stages and Donaco is hopeful of a positive resolution of this matter within the next six months.

The vendor has commenced defamation proceedings in Thailand against Donaco and two of its directors, seeking damages of THB1 million (approx. \$41,000). The claim relates to Donaco’s ASX releases, which Donaco is legally required to issue.

Donaco has commenced arbitration proceedings in Singapore with a claim for USD190m relating to the vendor’s breaches of the sale agreements for Star Vegas. Due to unavailability of lawyers and the arbitrator, the hearing date is currently set for 29 July 2019, despite Donaco’s best efforts to obtain an earlier hearing date.

Donaco will provide updates on these matters as they develop and are resolved.

Property Performances

Star Vegas

- Net Gaming Revenue down 44.7% to THB 1,519.7 million
- Non-Gaming Revenue up 2.7% to THB 153.3 million
- EBITDA down 53.9% to THB 971.1 million
- Normalised EBITDA down 38.2% to THB 901.3 million
- VIP Gross Win rate 3.00% compared to 3.54% in pcp

Donaco CEO Joey Lim said:

“Our management team has been focused on rebuilding the Star Vegas business, following the disruptions caused by the vendor’s contract breach. During FY18 we signed up five new junkets to replace those lost in the management transition, consequently VIP turnover in the June half improved by 54% on the December half and we are encouraged by strong turnover experienced in August 2018. We also have an agreement in principle with a Chinese tour group operator to fill a second main hall, with new tour groups expected to commence from September. We reinvigorated our slot machine inventory during the year, which we expect to increase revenue during FY19.

“We originally engaged Vivo Tower to fill unused space at star Vegas, by marketing it to non-Thai junket operators and players, and to bring in tenants to operate non-gaming facilities. Following the breach of the sale agreement by the Thai vendor, Vivo was re-directed to bring in new Thai junkets. Now that Donaco has taken full operational control of Star Vegas, the contract with Vivo has been terminated. Donaco will receive direct rental payments from tenants brought in by Vivo, which will substantially replace the fixed fee previously payable by Vivo. Under a new agreement, Vivo have now been engaged to market and manage the Donaco online gaming platform, for a revenue share.

“Online gaming operations have launched, with an advanced software platform that has been optimized for both mobile and desktop devices. The platform has a live dealer casino and sportsbook, supports multiple languages and currencies, and will be offered to downstream partners, who will market to their own customer bases.”

Aristo International Hotel

- Net Gaming Revenue down 10.8% to RMB 71.4 million
- Non-Gaming Revenue up 12.7% to RMB 60.4 million
- EBITDA down 4.1% to RMB 71.8 million
- VIP Gross Win rate 1.91%, compared to 2.28% in pcp

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

“We were pleased with Aristo’s performance, with the property level NPAT growing by 19% on last year, assisted by lower finance costs and depreciation & amortisation. Whilst the property level EBITDA fell 4% to RMB 71.8 million due to the lower win rate, the normalised EBITDA, using the theoretical win-rate, improved by 37.8% to RMB 151.3 million. Our VIP turnover improved significantly and our non-gaming revenue continued to grow. In constant currency our turnover increased by 46%, as we selectively allowed new VIP junkets into the property. Overall revenues slightly reduced, with net gaming revenue 10.8% below last year entirely attributed to the lower win rate of 1.9%, compared to 2.3% in FY17. Visitation was down 12% compared to last year, but this was due to the cancelling of a marketing initiative which was not meeting our objectives. Despite this, slot machine revenue was only down slightly and non-gaming revenue increased by 12.7%, to now make up 46% of total revenue, reflecting initiatives put in place to diversify the business.”



Outlook for FY19

Mr Lim concluded, “We are continuing to rebuild and improve the Star Vegas business, with multiple initiatives in progress. Over the medium term we expect to drive growth from the newly launched online gaming platform, new Chinese mass market tour groups, and improved slot machines and systems. In relation to Aristo, we are aiming to further increase the number of mass market players visiting the property, and will selectively allow junket play when appropriate. At both venues we are focused on growing non-gaming revenues to diversify earnings streams.

“There are multiple legal actions in progress involving the Star Vegas vendor and we believe our position is strong, as shown by favourable court decisions issued to date. There is an injunction in force which prevents the vendor’s attempt to terminate the Star Vegas lease and we are hopeful of a positive resolution of this matter within the next six months. The arbitration in Singapore for the USD190 million damages claim is likely to exceed 12 months, with a hearing due to commence on 29 July 2019.

“In relation to capital management, we have been focused on reducing Mega Bank debt, which has fallen to USD40 million, following a repaying of USD8.6 million made in August 2018. Due to the impairment charge there will be no FY18 dividend payable, as dividends are restricted to 100% of NPAT, and any extension of the current buyback will require approval from Mega Bank.

“Overall we do expect to see significantly improved performance at Star Vegas, further improvement at Aristo, and a strong return to reported profitability at group level.”

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
