

23 February 2017

## Donaco records \$33.3 million EBITDA for 6 months to December

Donaco International Limited (ASX:DNA) has announced its results for the 6 months ended 31 December 2016 (H1 17).

### Result Highlights

- Group EBITDA of A\$33.3 million compared to A\$39.1 million in previous corresponding period (pcp)
- Statutory NPAT of A\$14.8 million compared to A\$14.1 million in previous corresponding period
  - A\$3.7m of non-recurring expenses relating to non-cash amortization of warrants included in current period
  - A\$11.8 million of non-recurring M&A costs included in pcp
- Group Revenue of A\$59.0 million compared to A\$68.9 million in pcp, primarily due to:
  - lower VIP win rate at Star Vegas,
  - lower VIP turnover at Star Vegas, and
  - the Australian dollar strengthened in the period against local currencies
- Aristo EBITDA up 19% to RMB 42.6 million:
  - benefitting from focus on main floor play and improved VIP performance
- Star Vegas EBITDA down 17% to THB 803 million, with normalised EBITDA down 1.7%:
  - lower VIP win rate of 2.75%, compared to above theoretical win rate of 3.01% in pcp
  - only one special VIP event held in current period, compared to two in the pcp
  - weaker economic conditions and consumer sentiment, following the passing of the late King of Thailand
  - significant reduction in junket commissions and operating costs
- Launch of online gaming at Star Vegas is planned for fourth quarter of FY2017
- Corporate costs reduced by A\$1 million, compared to pcp
- Strong balance sheet with net debt to equity reduced to 14.1%
- Board maintains intention to continue with prudent capital management, including further reduction of debt and full year dividend

Reported net profit after tax was up 5% to A\$14.8 million, with the current period including A\$3.7 million of non-recurring expenses relating to the non-cash amortization of warrants, and the previous result including A\$11.8 million of non-recurring M&A expenses associated with the Star Vegas acquisition.

The Aristo International Hotel produced strong operational performance with a 15% increase in revenue to RMB 69.4 million, and a 19% increase in EBITDA to RMB 42.6 million, together with strong growth in visitations up 63% to 100k patrons per day.

Star Vegas produced weaker results, due primarily to a lower VIP win rate, which was partially offset by a significant reduction in junket commissions and operating costs. Revenue was THB 1,200.4 million compared to THB 1,426.1 million in the previous corresponding period, with a lower win rate on VIP play of 2.75%, compared to the above theoretical win rate of 3.01% recorded in the prior period. Venue EBITDA of THB 803.4 million was down 17%, but the normalised venue EBITDA was down only 1.7% to THB 854.2 million, when adjusting to the theoretical win rate of 2.85% in both periods.

Commenting on the H1 17 result, Donaco CEO Mr Joey Lim said:

“Our group net profit after tax for the 6 months was up on the prior period to A\$14.8 million, but operationally the results were mixed with a strong result from Aristo and weaker performance from Star Vegas, which was impacted by tough trading conditions in the period. The strengthening of the Australian dollar against the Thai Baht and the Chinese Renminbi also had a negative impact on the results reported in Australian dollars, after currency conversion.

“At Aristo it was pleasing to see the strong improvements in venue performance following management actions to focus on the main floor and away from the VIP segment of the market. Accordingly whilst our VIP turnover was down 23%, our overall local currency revenues increased by 15%, and EBITDA improved by almost 20%.

“Star Vegas however faced difficult trading conditions with a weakening in the Thai economy and in Thai consumer sentiment, following the passing of the late King of Thailand. We also had one less VIP event in the period, with other events cancelled due to the late King’s passing, leading to a reduction in patronage and turnover during the period. The normalised EBITDA was down slightly by 1.7%, as the previous period had an above theoretical win rate, compared to a slightly below theoretical win rate in the current period. In recent weeks we have had an improving trend in turnover, which is starting to return to more normal levels, and improved performance is expected in the second half.

“Management maintained its focus on tight cost control during the half, with a reduction in corporate costs of approximately A\$1 million compared to the December 2015 half. As a result, the Group’s industry leading EBITDA margin was maintained at 56%, despite the lower revenues.”

## **Venue Performances**

### ***Star Vegas***

- Net Gaming Revenue down 16.2% to THB 1,131.8 million
- Non-Gaming Revenue down 9.4% to THB 68.6 million
- EBITDA down 17% to THB 803.4 million
- Normalised EBITDA down 1.7% to THB 854.2 million
- VIP Gross Win rate 2.75% compared to 3.01% in pcp

Donaco Deputy CEO Mr Att Asavanund said:

“The business was primarily impacted by normal fluctuations in the VIP win rate, which was slightly below theoretical in the current period, compared to an above theoretical rate last year. There was also a tougher economic environment and poorer Thai consumer sentiment during the mourning period following the passing of the late King, which translated into lower patronage and turnover during the period. In the previous period we also had held two major VIP events, in contrast to only having one in the past six months, with other events, including a major launch of our Manchester United partnership in Thailand, cancelled during the mourning period.

“We are seeing some signs of normality returning to the business over recent weeks, as some VIP players chose not to visit our venue during a 100 day mourning period, which has now ended. As a result we anticipate a stronger second half, which has started well.

“Of course, we have an element of protection built into our results, in that if Star Vegas does not record at least US\$60 million in EBITDA during the current financial year, there will be a top up to that level from the vendor of the business, and we will not be required to make the final earn-out payment (which totaled A\$20.5 million last year).

“We are still in discussions with our Thai partner for his continued involvement in the business beyond FY17, and these discussions are progressing well.

“With respect to Star Paradise, subject to the demand from junkets increasing, we will continue to evaluate the option to acquire the business. We continue to manage the business for our monthly fee of THB 5 million plus expenses.

“We are also actively looking to utilise the Star Vegas online casino license, and expect to launch our online gaming operations during the fourth quarter of FY17. We are in the final stages of testing and evaluating a software platform which supports live dealer tables and automated gaming, and plan to joint venture with junkets for an initial trial period.”

### ***Aristo International Hotel***

- Net Gaming Revenue up 11.9% to RMB 43.1 million
- Non-Gaming Revenue up 20.6% to RMB 26.3 million

- EBITDA up 19% to RMB 42.6 million
- VIP Gross Win rate 3.18% compared to 2.15% in the pcp

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

“All the main performance measures improved at Aristo as we focused on the main floor. The VIP win rate also significantly improved, despite the lower turnover from this segment. We recorded a 3.18% win-rate compared to 2.15% in the previous period and whilst win rates will fluctuate, we believe that we have moved the business to a higher quality profit stream. It would appear that the normalised results declined at the venue, however this is largely attributable to the refocus of the business away from the VIP segment, with our strategy resulting in lower turnover but more stable earnings. By deliberately moving away from VIP play and by putting strategies in place to improve win rates from this segment, there will be a temporary negative impact on normalised results until the business has rebased. However, we are very pleased with the strongly improved profitability at the venue in local currency terms, driven by increased patronage and higher main floor and non-gaming contributions.

“Non-gaming revenues were up 19.5% on 1H16, following management initiatives to diversify revenue streams and increase property utilisation, including conferences, events, retail and rejuvenation of food & beverage.

“In a significant development, the Vietnamese government has announced a liberalisation of gambling for locals in Vietnam. This could provide potential growth options for Donaco into the future, as one of the pioneers of casino gaming in Vietnam, and we will look to explore our options as the situation develops.”

## **Capital Management**

Cash flow from operations was A\$25.4 million for the period, which represents a healthy cashflow conversion of 76% of EBITDA for the six month period.

Despite the payment of the maiden dividend in the period, the net debt position continued to improve with net debt of A\$69.8 million as at 31 December 2016, down from A\$73.6 million at the end of 30 June 2016. The net debt to equity ratio reduced to 14.1% at the end of December 2016.

The business remains in a growth phase, with the short term priority being to repay debt. However, as previously flagged, the board also maintains its intention to pay regular dividends, and will consider this along with other capital management initiatives with the full year results.

## **Outlook for FY17**

Mr Lim concluded, “Whilst we were faced with difficult trading conditions at Star Vegas in the first six months of the year, we do anticipate improved performance over the balance of FY17.



We also are excited by the imminent launch of our online gaming operations at Star Vegas, which should start to contribute during the fourth quarter of FY17.

“Aristo continues its strong operational improvement and we expect to see that extend into the second half, with improved quality and sustainability of its revenue and earnings in local currency terms. We also will look to explore opportunities with the liberalisation of gambling for Vietnamese locals that has been flagged by the Vietnamese government.

“As the economy improves in Thailand and we see a return to normal play at Star Vegas, we will look to introduce new games and refocus efforts to grow from the VIP gaming at that venue. Subject to the demand from junkets increasing, we will continue to evaluate the option to acquire the Star Paradise business.

“We see our balance sheet continuing to strengthen, providing us scope to continue to grow into the future. The Board retains its focus on prudent capital management, with the short term priority being to reduce debt, while maintaining our intention to pay a dividend for the full year.”

**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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