

28 February 2019

Donaco records \$12.9 million EBITDA for 6 months to December

Donaco International Limited (ASX:DNA) has announced its results for the 6 months ended 31 December 2018 (H1 FY19).

Result Summary

- Statutory NPAT of A\$(36.8) million compared to A\$(133.8) million in the pcp
- Current period includes A\$38.2 million non-cash impairment charge in value of Star Vegas casino license, per advice from the auditor
- Prior corresponding period included A\$143.9 million non-cash impairment charge in value of Star Vegas casino license, following vendor's breaches of contract
- Management continued to rebuild the Star Vegas business:
 - Rolling chip VIP turnover increased by 103% following the successful introduction of new junkets
 - 30.7% increase in average daily visitation
 - Star Vegas EBITDA down 35% to THB 314.7 million, reflecting lower VIP win rate, lower slot machine revenue and costs associated with setting up online gaming
 - Introduction of new mass market tour groups from China and Korea is expected to generate meaningful revenue in the June 2019 half
 - Online gaming platform currently being enhanced, prior to relaunch with new partners
- Aristo results showing improving trends in the December quarter following disruption from Chinese crime syndicate early in the half
 - Management worked with law enforcement agencies to control the issue and business is now returning to normal early in Calendar Year 2019
 - VIP and Premium revenue down 79%, VIP turnover down to RMB 1.2 billion (6.9 billion in pcp) and EBITDA down 59% to RMB 13.5 million
 - Performance has significantly improved since September
- Donaco financial position remains solid
 - Positive operating cash flow of A\$2.5 million (A\$17.5 million in pcp)
 - Net debt up slightly to A\$27.4 (A\$23.3million in pcp), impacted by currency movements
 - Further repayment of USD8.55 million in February 2019 has reduced Mega Bank debt to USD31 million

Donaco has reported net loss after tax of A\$(36.8) million for the 6 months ended 31 December, primarily resulting from a non-cash impairment charge of the Star Vegas casino license, per advice from the auditor.

The Company's underlying results were consistent with the trading updates provided at the 2018 AGM and in January 2019. Group revenue declined to A\$39.7 million from A\$43.9 million in the pcp due to the lower VIP win rate at Star Vegas and temporary disruptions caused by a Chinese crime syndicate at the Aristo.

The group recorded a reported EBITDA of A\$12.9 million (A\$19.4 million in pcp) and generated an Underlying NPAT of A\$2.7 million (A\$8.2 million in pcp), which excludes the impairment charge of A\$38.2, net exchange loss of A\$0.5 million and legal costs of A\$0.8 million.

Operational Performance

Commenting on the H1 FY19 result, Donaco Interim CEO Mr Ben Lim said:

"It has been a busy period for the group, as we successfully implemented initiatives to significantly increase turnover at Star Vegas as we rebuild the VIP business. We also invested in an online gaming platform at Star Vegas. At the Aristo, management acted quickly to address issues caused by the activities of a Chinese crime syndicate early during the half.

"Management focused on implementing improvements that will generate long-term growth at Star Vegas, including directing marketing spend towards attracting both VIP junkets and mass market tour groups. We have been investing in our online business and recent deals signed are expected to result in higher revenues in future periods. At the Aristo we responded to disruptions by engaging with authorities, reducing corporate costs, and increasing marketing initiatives to drive increased visitation.

"Due to the challenges experienced, group revenue declined 9.6% to A\$39.7 million, while EBITDA fell to A\$12.9 million (A\$19.4 million in pcp). Despite these challenges, we still recorded an underlying Net profit after tax of A\$2.7 million (A\$8.2 million in pcp) and generated positive operating cashflow of A\$2.5 million (A\$17.5 million in pcp).

"Our group balance sheet remains strong, with our debt to equity increasing only slightly to 7.8% as at 31 December 2018. "

Update on Legal Matters

The board continues to pursue legal proceedings against the Thai vendor to enforce its legal rights and receive financial compensation for the losses incurred.

The Thai vendor has tried to terminate the long term (50 year) lease of the land on which the Star Vegas casino is located. Donaco has obtained an injunction order to prevent this, and the matter has gone to arbitration in Cambodia. The hearing has been set for 28 February 2019.

Donaco's primary legal claim is in the Singapore arbitration, where the company is seeking damages of USD \$190 million. The claim will be heard in July 2019 and is supported by the freezing order Donaco obtained over the vendor's shares in the Company, which has now been extended to 4 October 2019.

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

Venue Performances

Star Vegas

- Net Gaming Revenue down 10% to THB 699.9 million
- Non-Gaming Revenue up 20% to THB 69.4 million
- EBITDA down 35% to THB 314.7 million
- Normalised EBITDA down 17% to THB 331.0 million
- VIP Gross Win rate 2.81% compared to 3.32% in pcp

Donaco Interim CEO Ben Lim said:

“During the December 2018 half our rolling chip turnover more than doubled after we introduced new junkets, and average daily visitation increased by 30.7%. We also introduced new mass market tour groups from China and Korea, and we expect to generate meaningful revenue from these initiatives in the June 2019 half.

“The decline in net gaming revenue was driven by the lower win rate of 2.81%, as the prior win rate was an above theoretical 3.32%. On a normalized basis our net Revenue was 5.1% higher than the pcp, despite paying higher junket commissions due to higher turnover. Slot machine revenue declined by 23% following the changeover to newer slot machines, while non-gaming revenue was up 20%, due to higher visitation and management initiatives to improve utilisation of non-gaming assets.

“Our EBITDA decline was due to a combination of the lower win rate, higher staff count required for operation of the online gaming business, and higher marketing costs related to our events program, which drove the strong increase in visitation.

“Our online gaming operations are still at an early stage and turnover has been generated in line with our expectations. We have signed deals to assist with revenue growth, including with one of Asia’s largest online betting companies, who will also operate an upgraded sports betting and online lottery outlet at Star Vegas. The online gaming platform is currently being enhanced prior to being relaunched with the new partners.”

Aristo International Hotel

- Net Gaming Revenue down 36% to RMB 19.0 million
- Non-Gaming Revenue up 41% to RMB 18.1 million
- EBITDA down 59% to RMB 13.5 million
- VIP Gross Win rate 2.20%, compared to 1.70% in pcp

Commenting on the performance at Aristo, Interim CEO Ben Lim said:

“It has been a challenging period at Aristo, which was impacted by a Chinese crime syndicate in July and August, which threatened VIP junkets and customers on the Chinese side of the border and significantly impacted results in those months. We addressed the situation,

including working with law enforcement agencies on both sides of the border, and we are confident that the authorities have the situation under control. We are encouraged by the strong increase in turnover experienced since October 2018, as we saw more junkets and players returning over the December quarter, and the business is now returning to normal.

“Net gaming revenue fell 36% to RMB 37.0 million during the December 2018 half, due to the lower VIP table game turnover, while non-gaming revenue fell 41% to RMB 18.1 million, primarily due to lower hotel spending by VIP players. EBITDA was down 59% to RMB 13.5 million due to the lower VIP Turnover in the September quarter and the property recorded a net loss after tax of RMB 2.2 million, compared to an NPAT of RMB 16.5 million in the pcp.

“With the temporary decline in Chinese VIP business in the period, we focused our marketing efforts on junkets from other areas of China and south-east Asia, with several Malaysian junket groups visiting the property from September. We also increased proxy betting services available to VIP players choosing to remain at home. Other initiatives including marketing of Sapa tour packages to expats from Hanoi and Ho Chi Minh City, and the commencement of tour packages for international tourists to visit the venue.

“Pleasingly, marketing efforts started to show results from September, with casino visitation reaching 17,264 in December, an increase of 32% over the same month last year. However, these were primarily mass market players. There was a 3% increase in overall casino visitation during the half, and a 2% increase in net gaming revenue from mass market players. Increasing numbers of junket trips in December resulted in a 45% increase in total gaming turnover in the month, which was particularly encouraging. The business almost returned to normal in January 2019, with unaudited EBITDA of USD0.8 million for the month.”

Outlook for FY19

Mr Ben Lim concluded, “We are confident of achieving a recovery from both Star Vegas and Aristo over the remainder of FY19, given the initiatives put in place at both venues. Turnover at Star Vegas significantly improved, and having signed deals to improve the performance of our online gaming facilities, we are optimistic that revenue will continue to build over time. Having seen the Aristo improve over the December quarter and into January, we are confident that results will continue to improve over the June half.

“There are two main legal actions in progress involving the Star Vegas vendor and we believe our position is strong, with an injunction still in force preventing the vendor’s attempt to terminate the Star Vegas lease. The arbitration in Singapore for the USD190 million damages claim continues to progress, with a hearing due to commence on 29 July 2019.

“In relation to capital management, the Mega Bank debt has fallen to USD 31 million, following a repayment of USD 8.55 million made in February 2019. We are currently actively engaged in discussions with Mega Bank to extend the tenor of the loan, which will significantly reduce the annual principal repayments from USD17 million to around USD8 million per year.

“Our strategic review also continues to progress, with a number of options under active consideration, and we expect to conclude this process in the coming weeks.



“Overall we expect to see significantly improved performance from both Star Vegas and the Aristo over the remainder of FY19, as a result of management initiatives put in place to drive a recovery in performance.”

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
