

29 August 2017

## **Donaco meets FY17 earnings guidance and announces new capital management initiatives**

Donaco International Limited (ASX:DNA) is pleased to announce its results for the 12 months ended 30 June 2017 (FY17).

### **Result highlights**

- Underlying net profit after tax (NPAT) of A\$54.6 million in line with A\$54.6 million in FY16, with strong H2 recovery at Star Vegas and continuing growth at Aristo<sup>1</sup>
- Statutory NPAT of A\$31.0 million versus A\$78.7 million in FY16
  - Both venues performed consistently with market guidance provided
  - Current NPAT result includes a net negative contribution of A\$23.6 million of non-recurring items
  - Previous result included a net positive contribution of A\$24.1 million of non-recurring items
- Group Revenue of A\$136.4 million compared to A\$143.4 million in FY16
  - Star Vegas revenue A\$110.2 million (down from A\$120.1 million), impacted by mourning period for the late King of Thailand
  - Aristo revenue A\$26.2 million (up from A\$23.2 million), with growth from mass market focus and slot machines
- Group EBITDA of A\$65.3 million versus A\$55.5 million in FY16
- Underlying Group EBITDA of A\$84.4 million versus A\$87.9 million in FY16
- Strong balance sheet with net debt of A\$42.4 million
  - Net debt to equity ratio reduced to 8.7% from 15.4% last year
  - New debt facility signed and completed with Mega Bank
- Active capital management initiatives announced
  - New dividend policy declared of paying out 10-30% of NPAT, with the intention to provide regular half-yearly dividend payments
  - Announcement of final dividend of 0.5 cents per share unfranked
  - On-market buy back planned to commence in October 2017

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<sup>1</sup> Underlying figures are prior to non-recurring items

Reported NPAT was A\$31.0 million, which included non-recurring items totalling negative A\$23.6 million. In contrast, FY16 included non-recurring items totalling positive A\$24.1 million.

The non-recurring items in FY17 were due to the final A\$19.0 million payment to the Star Vegas vendor (vs. A\$20.5 million in FY16). In addition, there was positive non-cash warrant revaluation income of A\$1.1 million (vs. A\$2.6 million in FY16); a net foreign exchange loss of A\$1.1 million (vs none in FY16); and amortisation and other costs associated with a working capital facility, totalling negative A\$4.6 million (vs. negative A\$1.4 million in FY16). The working capital facility has now been repaid and fully amortised, and no further expense will be incurred in future periods.

In FY16 there was also a valuation uplift of A\$55.2 million for Star Vegas, offset by A\$11.8 million of M&A fees, which did not recur in this period.

Excluding the non-recurring items, underlying NPAT for the Group was A\$54.6 million, in line with A\$54.6 million in FY16.

Commenting on the FY17 result, Donaco CEO Mr Joey Lim said:

“FY17 was a busy year for Donaco, as we laid the foundations for the transition to full management control of Star Vegas, and launched a number of international marketing initiatives. All key management appointments at Star Vegas have now been made, and we are implementing new marketing initiatives to attract new junkets and additional players to the venue. In addition to the deals announced with Vivo Tower, Poker King Club and the Asian Poker Tour, and building on our association with Manchester United, we have already engaged a number of new Thai junket operators after assuming management control of Star Vegas on 1 July 2017.

“Aristo continues its strong performance, improving across all operational aspects, as our strategy to target the mass market and move away from high end VIP play has delivered strongly over FY17.

“Our high-margin businesses continued to generate strong cashflows from operations, recording A\$47.4 million for the period, and demonstrating an excellent ability to convert EBITDA into cash flow.”

## **Venue Performances**

### **Star Vegas v FY16**

- Net Gaming Revenue down 8.2% to THB 2,747.6 million
- Non-Gaming Revenue up 31.7% to THB 149.3 million
- EBITDA down 6.3% to THB 2,107.9 million
- Property Level NPAT down 7.3% to THB 1,465.7 million
- VIP Gross Win rate 3.54%

Star Vegas performed consistently with the market guidance provided, and recorded an EBITDA of US\$60.5 million to trigger the final management fee payable to the vendor. The business produced a strong June half performance assisted by the high win rate achieved on junket play, and the seasonal benefits which feature in the June half. Overall, for the full 12 month period, the EBITDA at Star Vegas declined by 6.3% in local currency terms to THB 2,107.9 million, due to weaker consumer sentiment and economic conditions in Thailand, following the passing away of the late King.

Commenting on the performance at Star Vegas, Mr Lim said:

“Despite subdued consumer sentiment and economic climate in Thailand, the Star Vegas venue experienced only a moderate reduction in revenue, down 6.8% to THB 2.9 billion, supported by an increase in the VIP gross win rate, which was 3.54%, up from 3.16% in FY16. Pleasingly our non-gaming revenue continued to show strong growth, up 32% in FY17 as management initiatives to improve utilisation of the facility were implemented.

“Star Vegas is a world class gaming and entertainment property and having transitioned to full management control, we have additional flexibility to implement initiatives to increase visitation and performance. We are now able to expand our reach to attract new sets of international customers, and are excited about the prospect of holding additional VIP events, following the recent successful South-East Asian leg of the Asian Poker Tour, which we hosted at Star Vegas on 1–7 July 2017.

“Although there were some staff members and junkets who left the business at 30 June, we have made a number of key management appointments to rejuvenate operations. We are pleased to announce today that Mr Kenny Bee Meng Chuan has been appointed as General Manager at Star Vegas. Mr Bee is an accomplished gaming executive, with extensive experience gained from senior roles at Wynn Macau and the Genting Group.

“As part of the management transition, our Deputy CEO Att Asavanund will leave the business on 31 August 2017. I would like to thank Att for his contribution over the past two years, and wish him well for the future.

“We have also made good progress in signing up additional junket operators, with new customers joining us during August 2017, and further deals signed for more junkets to commence in September 2017. The main hall and slot machine business has remained robust during the transition period, and the VIP business is rebuilding well.

“Some of our new junket customers will commence offering online gaming in September 2017, as new facilities are built out. In addition, we have brought in a number of professional third party operators to build new entertainment facilities, at their own cost, for our VIP guests. The new facilities include a nightclub, karaoke rooms and a new café, which are planned to open in September and will help to generate additional visitation to the property.”

### **Aristo International Hotel v FY16**

- Net Gaming Revenue up 36.3% to RMB 80.0 million
- Non-Gaming Revenue up 11.6% to RMB 53.6 million
- EBITDA up 39.6% to RMB 74.8 million
- Property Level NPAT up 130.9% to RMB 31.8 million
- VIP Gross Win rate 2.28%

The Aristo International Hotel continued to grow substantially, with the strategy to focus on mass market continuing to provide benefits to the group. EBITDA increased by 39.6% in local currency terms to RMB 74.8 million.

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

“Aristo continues to grow strongly, with impressive EBITDA growth driven by increases in both gaming and non-gaming revenue, while tight cost management resulted in outstanding NPAT growth of 130.9% to RMB 31.8 million. Visitor numbers continued to grow, up 18% to 175k over FY17, including a new monthly record of 18,356 players in August 2016. Marketing strategies were focused on increasing lower volatility mass market play, which drove strong growth in net gaming revenue of 36%, while non-gaming revenue grew 12%. The average VIP gross win rate achieved of 2.28% was an improvement on last year’s 2.20%.

“We recorded particularly strong growth in slot machine revenues, up 62% for the year to RMB14.9 million. To capitalise on this growth, we added 10 new Aruze slot machines to the gaming floor in April 2017, which resulted in particularly strong growth of 238% in slot machine revenue in the fourth quarter.”

### **Capital Management**

Donaco’s businesses continue to produce strong cash flows, and it maintains a strong balance sheet with a net debt to equity of 8.7%, down from 15.4%. The FY17 finance expense of A\$20.1 million was comfortably covered by EBITDA of A\$65.3 million.

The refinancing of the USD 57 million term loan facility with Mega International Commercial Bank Co., Limited (Mega Bank), announced to the market on 15 August 2017, will provide more financial flexibility to Donaco. All conditions precedent to the new debt facility have now been satisfied, and funds were drawn down under the new facility on 28 August 2017.

The new facility extends the repayment term to 3 years from the drawdown date of 28 August 2017. Under the terms of the new debt facility, buy-backs are now permitted, but cannot be formally declared and launched until the audited accounts for FY17 are signed off at the end of September 2017. Further, dividends and buybacks combined cannot exceed 30% of net profit after tax until the outstanding balance falls below USD50 million, which is expected to occur in February 2018.

Donaco remains in a growth phase, and the Board aims to retain sufficient cash to pursue growth opportunities and repay debt as priorities.



However, with the strong cash generated by the business and no imminent acquisition opportunities, the Board is pleased to announce a new dividend policy of paying out 10-30% of net profit after tax in the form of dividends.

In addition, the Board intends to implement more regular half-yearly dividend payments, and has announced an intention to pay a final dividend of 0.5 cents per share, unfranked. The planned record date for the dividend is 6 October 2017, and planned payment date is 20 October 2017.

The Board is also pleased to announce that it intends to commence an on-market share buyback program in October, following the sign-off of the audited accounts.

### **Positive outlook for FY18**

Mr Lim concluded, "Donaco anticipates that the Group will gain momentum during FY18, with activity at Star Vegas expected to increase following the conclusion of Thailand's 12-month period of mourning in October. While VIP earnings at Star Vegas are expected to be lower in the September quarter of FY18 versus the corresponding period last year due to the transition to in-house management, the main hall and slot machine business is robust, and VIP revenues are already rebuilding well as new junket operators enter the property. We also expect to benefit from the deal with Vivo Tower, as new entertainment facilities are built out and offered to our guests, which will help to utilise the full capacity of the venue. At the Aristo, management will continue to focus on the mass market and slot machines, to further increase earnings from both the gaming and non-gaming assets.

"Our announcement of a new dividend policy, and a regular dividend program, along with the planned share buy back, are all testament to the sustainable cash flow that Donaco generates and our commitment to building shareholder value."

### **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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