

28 August 2019

## **Donaco clears the decks under new management**

Donaco International Limited (ASX:DNA) has announced its results for the financial year ended 30 June 2019 (FY19).

### **Result Summary**

- Statutory loss of \$194.0 million compared to a loss of \$124.5 million in the pcp
  - Current period includes \$200.1 million non-cash impairment charge (\$143.9 million in pcp), which includes the impairment in value of the Star Vegas casino license, interactive gaming platform, and trade and other receivables
  - Group revenue of \$86.3 million compared to \$92.6 million in previous financial year
  - Underlying NPAT of \$9.2 million, with both Star Vegas and Aristo continuing to operate profitably at a venue level and produce positive cash flows
- New CEO, Paul Arbuckle, commenced on 12 June 2019 and has begun implementing operational changes at both venues to improve performance
  - July 2019 results showing early signs of significant improvement at both venues
- Litigation continues to proceed against former Thai vendor
  - Cambodian lease arbitration being appealed in Phnom Penh Appeals Court
  - Singapore arbitration proceedings to continue in November 2019
- Board renewed and strengthened with regulatory, gaming and management experience
  - David Green and Yugo Kinoshita appointed as independent non-executive directors
  - Leo Chan and Kurkye Wong appointed as non-executive directors
  - Joey Lim and Ben Lim formally removed as directors at the recent EGM
- Group financial position remains solid
  - Mega Bank loan refinanced with improved terms and covenants. Remaining debt reduced to USD 22.8 million
  - Positive operating cash flow of \$26.2 million in FY19
  - Net tangible assets of 14.3 cents per share
- Star Vegas results show early signs of improved performance under new management in July 2019
  - Star Vegas FY19 EBITDA down 37.2% to THB 610.2 million, reflecting lower VIP win rate, lower slot machine revenue and increased costs
  - Gaming machine rental arrangements and VIP junket terms being reviewed and restructured. Operating expenses already reduced by new management
- Aristo results have produced solid June half year, overcoming disruption experienced in the December half year
  - June half 2019 EBITDA of RMB 38.7 million matched the results of the June half 2018 RMB 38.7 million, showing the business has recovered to previous levels of trading
  - Strong results in June and July 2019 bode well for further rebound in FY20

Donaco has reported a statutory net loss after tax of (\$194.0) million for the 12 months ended 30 June, primarily resulting from a non-cash impairment charge of the Star Vegas casino license. This is partially due to an increased risk premium applied by the auditor, and partially due to a more conservative approach applied by the new Board.

The impairment charge comprises of the impairment on the carrying value of the Star Vegas casino license (\$186.6 million), interactive gaming platform (\$3.7 million), and trade and other receivables (\$9.8 million).

The group recorded a reported EBITDA of \$29.6 million (\$42.4 million in pcp) and generated an Underlying NPAT of \$9.2 million (\$18.3 million in pcp), which excludes the \$200.1 million for the non-cash impairment charge, plus \$2.5 million of legal costs, and a net exchange loss of \$0.6 million.

Group revenues of \$86.3 million were recorded, compared to \$92.6 million in the pcp, and the group recorded operating cash flow of \$26.2 million (\$34.6 million in pcp).

## **Group Performance**

Commenting on the FY19 result, Donaco Chairman Stuart McGregor said:

“We have had an extremely challenging year with significant management disruption, and the full year results reflect that lack of professional management at the casino venues. The results also reflect the fact that the Board was distracted by ownership and control issues, including the appointment of receivers over the Lim family shares; the termination of Joey Lim’s executive position; the application made by Joey Lim to the Takeovers Panel; and the removal of Joey Lim and Benjamin Lim as Directors.

“We have dealt with these issues by strengthening the composition of the board, with appointments of experienced directors with experience in gaming, regulation and management. We have added two independent directors, being David Green, who is very experienced in Cambodia and Vietnam, and advised the Macau SAR Government on its casino liberalisation and regulation; and Yugo Kinoshita, the Global CEO of Aruze Gaming America, a global slot machine gaming and device business. We have recently welcomed Leo Chan and Kurkye Wong of Argyle Street Management as non-executive directors, and they bring a wealth of experience in Asian investments and consulting advice.

“We were also very pleased to able to secure the services of Paul Arbuckle as the Group CEO. He has 30 years of gaming experience across Australia and Asia, including positions as the Chief Operating Officer at The Star Entertainment Group, and senior roles at Resorts World Sentosa, amongst a number of major gaming businesses where he has held senior positions. Whilst he has only commenced on 12 June, we are already seeing the benefits of changes he is implementing across the group, and his vision for the future of our venues.

“We have also recently been frustrated by the Cambodian lease arbitration decision; but I wish to assure investors that we have taken swift action in appealing that decision to the Phnom Penh Appeals Court, and we still expect that our position will be vindicated in due course. We are also progressing with the Singapore arbitration claim, which has been set

down to continue in late November. Two expert valuation witnesses have now valued our claim at approximately USD240 million.

“We are disappointed to present another significant loss at the statutory level as we seek to resolve the litigation issues with the vendor of Star Vegas, but we are encouraged that both our businesses continued to operate profitably and produce positive cash flows, and our financial position continues to remain solid with further debt reduction, and improved terms and covenants secured for our Mega Bank debt.

“Over the 2020 financial year the Board’s main priority will be to resolve and pursue the outstanding litigation issues, and we are now confident that Paul will be able to focus on his role of improving the operational performance at our properties.”

### **Group Performance**

Commenting on the operational performance of the group, CEO Paul Arbuckle commented:

“After my initial assessment of the casino businesses in Vietnam and Cambodia, I am excited by the opportunities to introduce established casino practices to improve performance and management at both properties.

“Star Vegas is an exceptional business, and even with the recently increased level of competition it remains a premier venue in the Poipet strip. Despite difficulties during the year, the business still had a profitable baseline performance and that provides me with great encouragement on what can be achieved over a relatively short period of the next few years.

“We have straightforward opportunities to rework our gaming machine arrangements, and utilise our ample space to introduce retail outlets, and to restructure our junket arrangements to bring them into a more manageable and uniform set of arrangements with our junket operators. We have started work on these issues, and simple early adjustments to some of our partnership agreements with service providers in both gaming and non-gaming operations. For example, a doubling of the monthly rental for the night club operators, a more accurate allocations of utilities expense previously borne by Star Vegas, and a close monitoring over labour and procurement expenses have already produced encouraging signs with a positive result in July 2019.

“Star Vegas is also pleased to announce the appointment of Mr P.H. Chow as Executive General Manager of Electronic Gaming operations, Mr Chow has extensive experience in the Indo Chinese market, having previously held the position of Regional General Manager for Silver Heritage. Mr Chow has a very strong gaming machine product knowledge and analytical capabilities and will join us in September. I look forward to a significant increase in gaming machine revenues, and profitability under his leadership.

“Aristo is also operating at a reasonable baseline level, with strong momentum in the past two months. I can see a significant revenue and profit opportunity with the managed introduction of a revamped mix of table games and slot machines. The venue offers an attractive casino and entertainment destination in the north of Vietnam.

“I see significant growth potential at both businesses, and look forward to delivering improved performance from both of them.”

### **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 Cambodian lease arbitrator ruled that Lee Hoe Property was entitled to terminate the lease due to unpaid rent, despite the fact that Lee Hoe Property acted to prevent Donaco from paying the rent. Despite this, Donaco continued to approve and set aside the monthly rent, and has paid it in full to the Banteay Meanchey Court of First Instance for collection by Lee Hoe Property. This decision needs to be registered with a court before it can be enforced, and it can be set aside. Donaco has appealed to the Appeal Court in Phnom Penh. Donaco believes the arbitration decision contravenes Article 250 of the Cambodian Civil Code, which provides that perpetual leases can only be cancelled if rent remains unpaid for three years. If the decision is upheld, the lease provides that Donaco must receive compensation for the value of buildings and fixtures on the land, and these have a current carrying value of USD33 million.

The arbitration hearing in Singapore commenced in late July for 2 weeks, with a further week scheduled for 25 November 2019. The details of the arbitration are bound by confidentiality, but Donaco continues to prosecute its claim with maximum efficiency and diligence.

The freezing order Donaco obtained over the vendor’s shares in the Company has 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 9.9% to THB 1368.5 million
- Non-Gaming Revenue down 19.0% to THB 124.2 million
- EBITDA down 37.2% to THB 610.2 million
- Normalised EBITDA down 17.7% to THB 741.8 million
- VIP Gross Win rate 2.69% compared to 3.00% in pcp

Donaco CEO Paul Arbuckle said:

“The results reflect a lack of senior casino management oversight for almost all of the financial year, as well as heightened competition in the Poipet area, particularly from the Winsor, Paramax and Galaxy casinos.

“The decline in net gaming revenue was partially due to a relatively low win rate of 2.69%, compared to 3.00% in the prior year. Slot machine revenue declined by 24.5% following the

changeover to newer slot machines, and this is unacceptable. Going forward we will revisit our lease arrangements on these machines and may look at revising profit-share arrangements, or purchasing these machines outright. Non-gaming revenue was down by 19%, with some further changes needed to boost the attractiveness of the non-gaming businesses.

“The EBITDA decline was due to a combination of the lower win rate, higher staff count required to replace staff that were poached by the Thai vendor, and higher marketing costs related to our events program, which drove the strong increase in visitation. We intend to look closely at the appropriateness of each these aspects of the business.

“We have introduced a range of improvements for the 2020 financial year, and the early signs are encouraging with a strong July being recorded, which is flowing through into our August results to date.”

#### Aristo International Hotel

- Net Gaming Revenue down 15% to RMB 60.5 million
- Non-Gaming Revenue down 25% to RMB 45.3 million
- EBITDA down 27% to RMB 52.2 million
- VIP Gross Win rate 2.09%, compared to 1.91% in pcp

Commenting on the performance at Aristo, CEO Paul Arbuckle said:

“The first half of the financial year was challenging for Aristo, as it was impacted by a Chinese crime syndicate in July and August 2018, which threatened VIP junkets and customers on the Chinese side of the border and significantly impacted results in those months. However, in the second half year the business returned to more normal operating conditions.

“Whilst net gaming revenue fell 15% over the year, the second half produced net gaming revenue of RMB41.5 million, in line with the previous year. Non-gaming revenues were down 25% for the year, but only 8.4% down in the second half compared to last year. The second half EBITDA of RMB 38.7 million was also in line with the previous year. So whilst the full year results reflect the disruptions that occurred in July and August 2018, the operating performance has now recovered. This provides a good baseline for us to look to improve performance, and our license allows additional slot machines to be introduced, so we are looking to see how we can take advantage of this opportunity over the next few years.”

#### **Outlook for FY19**

Chairman of Donaco, Mr Stuart McGregor concluded, “We have significant opportunities presented in both of our businesses, and we look forward to our new management introducing initiatives at both venues to extract higher returns. Early signs from July 2019 trading are encouraging.



“I am informed that our legal position remains strong in the legal actions in progress involving the Star Vegas vendor, despite the initial finding in the lease arbitration. The Board will focus on pursuing these actions, allowing our CEO Paul Arbuckle to focus on the business performance.

“In relation to capital management, the Mega Bank debt has fallen to USD 22.8 million, following the most recent repayment. We have achieved improved terms and covenants for the loan, as we continue to repay the debt over the next two years.

“Overall we expect to see significantly improved performance from both Star Vegas and the Aristo over FY20, as a result of the new Board and professional management team, and the new management initiatives that are currently being introduced.”

**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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