

ASX : DNA

asx release



31 August 2020

Pragmatic cost control and balance sheet protection strategy executed in FY20

Highlights

- Statutory loss of A\$58.95 million, compared to a restated loss of A\$198.0 million in FY19
 - This includes an impairment charge of A\$50.5 million. The underlying loss before impairment charge is A\$8.4 million
- COVID-19 impacted FY20 revenue of A\$53.49 million (FY19: A\$86.3 million) and EBITDA of A\$10.34 million (FY19: A\$29.6 million)
- EBITDA growth of 7% in H1 FY20 offset by COVID-19 travel restrictions during H2 FY20
- New Board has executed a prudent cost control strategy to manage financial impacts from COVID-19
- Successful settlement of all legal cases reached with Thai Vendor resulting in an outcome that preserves shareholder value
- Support received from principal lender Mega Bank, with the deferral of certain repayments and waiver on covenants to December 2020
- Aristo is set to operate on a limited basis at management discretion for at least the short-term future as the Vietnam-China border remains closed, while Star Vegas is currently closed as the Cambodia-Thailand border is closed. The two casinos are ready to reopen as and when conditions ameliorate
- Successfully completed A\$14.41 million capital raising to provide immediate capital relief post-FY20
- Cash balance of A\$12.6 million as at 30 June 2020, increasing to A\$26.7 million pro forma post 30 June 2020 following the successful completion of a A\$14.41 million rights issue in July 2020
- Donaco is relying on the ASIC Relief to extend the lodgement date for its audited/reviewed accounts, and the Company will advise the market if there is a material difference between its FY20 unaudited accounts and its FY20 audited accounts to allow the auditors to complete their work.

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Donaco International Limited (“**Donaco**” or “**the Company**”) has announced its results for the financial year ended 30 June 2020 (FY20).

Donaco posted a strong result for 1H FY20, with EBITDA of A\$13.8 million (1H FY19: A\$12.9 million), on the back of operational improvements at both Aristo International Hotel (Aristo) and DNA Star Vegas (Star Vegas). However, the full year financial results were significantly impacted by the onset of the COVID-19 pandemic during the second half of the fiscal year and the subsequent restrictions on casino operations and border closures. As stated previously, the closure of both casinos for an extended period of time has had a material impact on Donaco’s operations. FY20 revenue was A\$53.49m (FY19 A\$86.3 million) and EBITDA of A\$10.34 million (FY19: A\$29.6 million).

Aristo in Vietnam has been allowed to open since 8 May 2020 and is operating on a limited basis from time to time, as the border with China, where most of its patrons originate from is currently closed. Aristo will continue to adapt to border changes with local management having the discretion to tailor operations to local conditions.

Star Vegas in Cambodia is anticipated to remain mostly closed, as the border with Thailand, where most of the casino’s patrons originate from is also currently closed. Local management will also have discretion to tailor operations to local conditions.

The two casinos are ready to ramp up to higher patron capacity when the situation ameliorates which will likely occur when borders reopen, and once cross border travel flows recommence.

As a result, Donaco has proactively implemented cost control strategies at both casinos, maintaining a monthly cash burn rate of approx. US\$800,000 to US\$900,000 while the operations are at limited operating capacity.

Donaco recorded a statutory net loss after tax of A\$58.95 million in FY20, a 70% improvement on the prior corresponding period. FY19’s result was primarily due to a non-cash impairment charge of the Star Vegas casino license following from COVID-19 related reduction in earning capacity.

In March 2020, all legal matters relating to the Thai Vendors were resolved in an outcome that provides a stable platform for business continuity and long-term growth at Star Vegas.

During the year, Donaco was also pleased to receive support from its principal lender Mega Bank with the deferral of all principal payments and waiver granted on all June covenants to December 2020.

The Company successfully completed a A\$14.41 million entitlement offer in July 2020 and in conjunction with the implementation of prudent cost control measures at its operations, Donaco bolstered its cash position to A\$26.7 million post FY20.

Non-Executive Chairman Mel Ashton said: “COVID-19 has presented significant challenges for Donaco, as it has for the vast majority of businesses which have a large customer base of international travellers, and this is reflected in our FY20 results.”

“However, we have pragmatically reduced our operating costs substantially, and have received the support of our primary lender being able to strengthen our balance sheet. This has enabled us to maximise the preservation of shareholder value during this challenging and volatile period. Our two casinos are set to operate on a limited basis for at least the short term, until the situation is normalised.

“Additionally, the strong underlying earnings result for the first half of FY20 provides the refreshed and stabilised Board with confidence that Donaco is pivoted for stabilisation of the business and is ready to reopen once the COVID-19 situation improves and once cross border travel flows recommence.”

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Financial and Operational Performance

DNA Star Vegas

DNA Star Vegas in Poipet, Cambodia has been temporarily closed since 1 April 2020 in adherence to the Cambodian Government mandating the temporary closure of all casinos. On 29 July 2020, Donaco confirmed that the Cambodian Government lifted the temporary closure of casinos, contingent on receiving approval from the Ministry of Health (MOH) and implementing certain preventive measures against COVID-19. The MOH has not yet confirmed when it will visit Star Vegas to assess approval, however the Company anticipates for the casino to remain closed as the border with Thailand, where most of the casino's patrons originate from is also currently closed. Local management will have discretion to tailor operations to local conditions.

The closure caused a significant decrease in average daily visitations in FY20 compared to the prior corresponding period, which cascaded through to VIP turnover decreasing by 66% relative to FY19. This subsequently resulted in net revenue and EBITDA declining by 45% and 63% compared to the prior corresponding period. However, operating expenses declined by 33% from FY19 as the Company proactively implemented cost reduction measures to minimise the COVID-19 financial impact.

DNA Star Vegas	FY2020	FY2019
Net Gaming Revenue	THB 747.8m	THB 1,368.5m
Non-Gaming Revenue	THB 68.4m	THB 124.2m
Property level EBITDA	THB 223.8m	THB 610.2m
Impairment losses	THB 3.9m	THB 299.3m
Average daily visitation	3,471 *	4,494
VIP win rate	3.45%	2.69%

* 9 months (July 19 to March 20) daily average as the property is temporarily closed w.e.f. 1 April 2020

Aristo International Hotel

The Aristo International Hotel in Lao Cai, Vietnam was temporarily closed from 1 April 2020 in adherence to the Vietnamese Government mandating the temporary closure of all casinos. On 8 May 2020 the Vietnamese Government lifted the temporary closure of casinos, however Aristo operated through the rest of FY20 on a limited basis as the border with China where most of its patrons originate from remains closed. Aristo will continue to adapt to border changes with local management having the discretion to tailor operations to local conditions.

The closure and limited resumption of operations had an adverse effect on financial and operational performance similar to that of Star Vegas. Average daily visitations in FY20 decreased by 40% visitors relative to FY19. Compared to the fiscal year prior, VIP turnover declined by 28%, net revenue by 37% and EBITDA by 54%. As with Star Vegas, the management team implemented robust cost reduction measures which saw operating expenses decrease by 19% from FY19.

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The COVID-19 impact on the FY20 result was mitigated by some extent as Aristo delivered a strong result for the first half of the fiscal year, with net gaming revenue up 42% and EBITDA up 71% compared to the prior corresponding period.

The Board is pleased to report that in FY20 Aristo remained cash flow positive from operations, thanks to the first half performance.

Aristo International Hotel	FY2020	FY2019
Net Gaming Revenue	RMB 38.7m	RMB 60.5m
Non-Gaming Revenue	RMB 28.0m	RMB 45.3m
Property level EBITDA	RMB 24.2m	RMB 52.2m
Average daily visitation	292 players	487 players
VIP win rate	2.32%	2.09%

Corporate Activity

Star Vegas Settlement

On 17 April 2020, Donaco announced reaching a pragmatic settlement with the Thai Vendor of the Star Vegas business in Cambodia.

The settlement maximises the preservation of shareholder value, with no net change to the cash position of the Company eventuating from the settlement, and the settlement retired over 80% of Donaco's current liabilities as at the end of H1 FY20.

Crucially, the settlement provides continuity for the Star Vegas business, which historically has been the Company's primary cash and profit generating asset.

Mega Bank Support

On 15 June 2020, Donaco confirmed that its principal lender, Mega Bank, agreed to the deferral of the Company's principal US\$5 million payment, alongside a waiver granted on all June covenants to 31 December 2020.

The covenants included that the aggregate amount of cash and cash equivalents investments of the Donaco group to not be less than AUD\$20 million at any time on or after 30 June 2020.

The lender support received preserves shareholder value, secures agreeable lease terms and boosts Donaco's balance sheet at a critical time.

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Capital Raising

During the period, Donaco sought liquidity measures and sources of capital to guarantee the business remains in a healthy position during the unprecedented COVID-19 pandemic.

Donaco explored multiple avenues to raise additional liquidity and post-FY20 the Company undertook a A\$14.41 million underwritten rights issue to provide immediate capital relief. The raise was on the basis of 1 new share for every 2 existing shares at an issue price of \$0.035 per new share with the funds underwritten by Mr Lee Bug Huy and Lee Bug Tong who currently hold a relevant interest of 42.12% in the Company.

The financing provides Donaco with the ability to assist with the repayment of its US\$5 million principal payment to Mega Bank, and stabilise the Company's immediate financial position.

Further funding requirements will be needed in the short term for working capital purposes and to meet repayments and covenants under the Mega Bank facility.

Board Changes

Over the past 12 months Donaco has been substantially transformed with a new Board in place.

Non-Executive Chairman Mel Ashton and Non-Executive Director Simon Vertullo joined the Board on 9 December 2019, while Rod Sutton joined the Board as an independent Non-Executive Director on 2 December 2019.

Kurkye Wong and Leo Chan were appointed as Executive Directors of the Company on 11 February 2020, after being appointed to the Board as Non-Executive Directors of the Company on 13 August 2019. Mr Wong and Mr Chan joined the Board after the departure of Mr Joey Lim and Mr Benjamin Lim from the Company on 18 July 2019.

Marika White was appointed Company Secretary on 7 February 2020.

Following the completion of the capital raising, the Company appointed Lee Bug Huy and Paul Porntat Amatavivadhana as Non-Executive Directors on 3 August 2020.

Former Company Secretary Ben Reichel, Non-Executive Chairman Stuart James, Non-Executive Director David Green and Non-Executive Director Yugo Kinoshita departed from the Board during the financial year.

A CEO search to replace former CEO Paul Arbuckle is at final stages with an appointment imminent.

FY21 Outlook

Due to the dynamic nature of COVID-19, Donaco has resolved to take a conservative approach and not issue financial guidance for FY21.

Mr Ashton said Donaco's operational and financial performance in FY21 would be closely aligned to the global COVID-19 condition.

"We are optimistic that the COVID-19 situation will improve in FY21. There has been significant progress towards the reopening of international borders broadly across South East Asia, so we are optimistic that the situation will continue to improve in the region.

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“We remain flexible and we will adapt to the border changes. Our casinos are ready to fully reopen when the situation warrants and we will update the market when there are significant changes to patron numbers which will likely be in conjunction with borders reopening.

“In the meantime, we will continue to implement our pragmatic cost control strategy, which has pivoted us to successfully navigate through COVID-19”, he concluded.

[ENDS]

Authorised for release by the Board.

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