Sun International Media Release
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Sun International

SUN INTERNATIONAL LIFTS EBITDA 11% AND ADJUSTED HEPS 18%

Latin American Expansion Making Good Progress

Revenue+8% **EBITDA+11%**

Adjusted HEPS +18% **Final dividend 155 cps**

Sun International has reported a revenue increase of 8% to R10.3-billion for the year ended 30 June 2013. While group trading was very encouraging during the first few months of the financial year, the market has slowed and gaming revenue from the core South African operations only grew 3% in the second half compared to 7% in the first half. Revenue from offshore operations (which has been growing strongly) was negatively impacted by the introduction of the smoking ban in Chile with effect from 1 March 2013.

EBITDA at over R2.9 billion was 11% higher than last year, with the EBITDA margin increasing from 27.8% to 28.6%. A weakening Rand resulted in foreign exchange profits of R57 million (R79 million). Net interest paid of R455 million was 6% below last year due primarily to lower interest rates.

The tax charge of R477 million increased in line with the higher profits, offset in part by the abolition of STC from 1 April 2012. The effective tax rate, excluding non-deductible preference share dividends, STC and CGT, was 29% (28%). Adjusted headline earnings of R740 million and diluted adjusted headline earnings per share of 715 cents were 20% and 18% ahead respectively. Excluding the impact of foreign currency movements and STC, adjusted headline earnings per share increased by 14%.

Capex for the year amounted to R1.3-billion, of which R557-million was for expansion, R73-million refurbishment and R670-million on-going asset replacement (predominantly gaming equipment).

In light of the subdued second half trading and the number of expansion projects under consideration the board declared a final dividend of 155 cents per share bringing the total dividend for the 2013 financial year to 265 cents, a 10% increase on the prior year.

Group CEO, Graeme Stephens, said that in broad terms, the hospitality side of the South African business (in particular rooms) had shown significant improvement but the gaming operations were reflecting growth more in line with that of the economy – which seemed to be a trend facing the gaming and hospitality market generally. The performance of the non-South African operations was good and endorsed the strategy to seek growth in offshore markets. Whilst the impact of the smoking ban in Chile was disappointing, a recovery was expected in the medium term – and the learning curve would be useful in the event of more stringent anti-smoking legislation being introduced in South Africa.

South Africa continues to contribute around three quarters of group revenue with 83% coming from gaming. Rooms' revenue grew strongly, assisted by the opening of the Boardwalk and Maslow hotels in December 2012 and January 2013 respectively. On a comparative basis rooms' revenue was up 11% for the year. Room nights sold increased by 7.3% leading to occupancies of 62.7% (on the increased rooms' inventory) at an average daily rate (ADR) of R1 075 (6% up on last year).

At the group's largest property, GrandWest, revenue was only 5% ahead of last year at R1 866 million. Good cost control, however, lifted the EBITDA margin to 42.3% and EBITDA by 6% to R789 million. The potential to relocate a second casino licence to Cape Town continues to be the subject of debate in the

Western Cape. Stephens said that based on its extensive database of guests derived after 12 years of operating in the region, as well as the recent low growth experienced at GrandWest, the group did not believe that there was any significant untapped gaming revenue in the region and certainly nothing that could justify the establishment of another large casino. In recognition of its on-going exclusivity, GrandWest had not objected to a recent 2% increase in gaming tax proposed by the province.

Carnival City's revenue slowed in the second half, with full year growth up 4% to R1 061 million - driven primarily by 13% growth in tables' revenue. Carnival City's gaming revenue growth is below the Gauteng market due to increased competition from Electronic Bingo Terminals (EBTs) and Limited Payout Machines (LPMs) which have proliferated in the area. Despite this, Carnival City increased its EBITDA 6% to R316 million and its EBITDA margin improved by 0.5% to 29.8%.

Sibaya's revenue and EBITDA grew 6% to R1 040 million and R362 million respectively. Sibaya's share of the KZN gaming market of 35.3% was 0.4% lower than last year, attributable mainly to an increase in the number of gaming positions at a competitor facility.

At the Boardwalk in Port Elizabeth, the 140 room 5 star hotel, conference centre, parkade, retail complex and musical water extravaganza were all completed during the period and opened successfully in December 2012. Total project expenditure remains R1 billion. Boardwalk's revenue increased 10% to R496 million but increased costs from the larger property and disruptions during construction caused EBITDA to decline 3% to R143 million and the EBITDA margin by 3.8% to 28.8%. As the newly opened components of the property start to operate efficiently we can expect better growth and EBITDA in the second half of the financial year was up 7%.

Sun City's revenue at R1.3 billion was up 5%. International room nights sold improved by 14% but local room nights sold declined 6%. Gaming revenue was up 3% at R446 million. Excellent cost containment and process improvements lifted EBITDA 45% to R168 million. Plans are well advanced to re-launch the Vacation Club timeshare and the proceeds from this, together with operating cash flows of the property are earmarked for a self-funded improvement plan for the property which will include enhanced convention facilities to assist in improving local occupancies and midweek business, as well as better gaming facilities.

Wild Coast Sun revenue increased 26% to R389 million and EBITDA 109% to R67 million. Room nights sold increased by 35% but occupancies were 6.3% lower than last year as a result of the significant increase in rooms from 271 to 396 on completion of the redevelopment in June 2012. The increased room inventory assisted the Wild Coast Sun achieving growth of 17% in gaming revenue to R294 million.

Table Bay Hotel achieved good revenue growth although occupancies remain under pressure given the oversupply of inventory in Cape Town. ADR increased as a result of higher room nights sold in the FIT (Free Independent Traveller) and sports and promotion markets. Revenue of R181 million was 18% ahead, resulting in EBITDA of R22 million (2012:R7 million).

The Maslow hotel in Sandton, which opened to the public in January 2013 has been well received and is starting to operate efficiently. The group is confident that the hotel will become the preferred choice in Sandton for business and leisure travellers.

The Royal Livingstone and Zambezi Sun's revenue, ADRs and EBITDA in local currency were effectively flat. In Rand, revenue and EBITDA were 9% and 14% up on last year, respectively. The properties continue to deal with the adverse effects of the yellow fever vaccination requirement imposed on Zambia (which is not imposed on the competing properties in Zimbabwe).

The company's Botswana operations achieved revenue of R178 million, 5% up on last year due primarily to the strengthening of the Pula against the Rand. EBITDA increased 4% to R50 million with margins decreasing 0.1% to 28.1%.

In Nigeria, The Federal Palace is gaining increasing recognition in the gaming and hospitality offering of Lagos. Revenue in local currency was 10% up on last year to NGN3 765 million (R198 million) with gaming revenue up 19% to NGN1 402 million (R80 million). Costs were well contained resulting in EBITDA increasing 226% to NGN698 million (R40 million) and the EBITDA margin increasing from 6.4% to 20.2%.

Monticello's revenue, in Chilean Pesos, was flat on last year, high growth in the first eight months offset by a significant decline in the last four months of the year due to the impact of the new anti-smoking legislation. In Rand terms, Monticello represents 15% (13%) of Sun International's revenue and, due to the strong peso, it grew its reported revenue in Rands by 18% for the full year despite the smoking ban. The construction of new smoking decks is near completion which should lead to a recovery in revenues over the medium term.

Management fees and related income of R610 million was 3% ahead of last year while EBITDA of R244 million was 6% below last year. The decline in EBITDA is a result of lower project fees received, higher share based payments costs and certain once off employee restructuring costs.

Borrowings at 30 June 2013 of R6.7 billion are marginally below last year. Strong cash flows generated by operations offset the debt required for the Boardwalk and Maslow developments.

As regards the pipeline of new developments, Stephens said that Sun International announced in July that it had submitted an application to the Gauteng Gambling Board to amend its Morula casino licence and relocate the casino to Menlyn, Tshwane. This amendment would allow the group to relocate the casino from Mabopane to Menlyn, Tshwane in order to deliver the full potential of this licence to the City of Tshwane and the Gauteng Province. The public had until 16 August 2013 to submit objections to the application. The objections and concerns that have been received are currently being addressed, whereafter the gambling board will make its decision.

If successful in receiving gambling board approval the group plans to create a new R3-billion urban entertainment destination to be known as Time Square on Menlyn Maine in Tshwane's eastern suburbs. The development is part of a new large scale mixed-use "Green City" project which is currently under development, known as Menlyn Maine. This will, in its final form, be an R8-billion, 315,000m² precinct, of which R825 million is either already built or under construction. It will comprise a new shopping mall, a high-end residential component, an office park, hotels and an entertainment node – which is the component that Sun International will provide, and which includes a 110 room, 5 star hotel, 8000 seat entertainment arena, convention and exhibition facility and a casino with 2000 slots and 60 tables.

The R30 million acquisition of Powerbet Gaming (Pty) Ltd, as announced on SENS in the group's third quarter trading update, is close to completion. The last remaining condition for the acquisition is the approval of the transaction by the Western Cape Gambling and Racing Board. The entry into sports betting positions the group well in the event that online gaming is legalised in South Africa and offers our quests an additional product in a fast growing industry.

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In Panama, as previously announced, the group will acquire the casino component, the penthouse level (Salon Privé), and certain apartments in the Trump Ocean Club International Hotel and Tower in Panama City, Panama. The casino will have approximately 600 slots and 32 tables. The group has submitted a gaming licence application and is awaiting approval. Other components of the transaction are well on track and registration of the rezoned components of the building has been completed. The group is ready to proceed with the development, as soon as the licence is approved, and the property is expected to open by September 2014.

The group is in the process of applying for a casino licence in Colombia and has entered into a long term lease for the casino component in a new mixed-use development in Cartagena. The development will also include a 284, 5 star InterContinental hotel, convention centre, shops, theatres, apartments and offices. The lease is conditional on the group securing the casino licence and if awarded the group will fit-out and equip the casino, which will have 310 slot machines and 16 tables, at a cost of US$30 million. This opportunity provides the group with a low risk entry into the country's gaming market which presents a number of larger, exciting opportunities.

Stephens added "*We are also considering opportunities in other parts of Latin America including Uruguay and Peru.*"

In the forthcoming year, Stephens said that in the absence of a significant improvement in the current South African economic environment the group anticipates trading to remain subdued. Gaming revenue will be impacted by a full year's trading under the smoking ban in Chile whilst rooms revenues are expected to reflect continued good growth off fairly low levels. Given the outlook for low revenue growth there will be an increased focus on efficiencies and costs with the intent to improve margins and EBITDA.

We have recently completed three large projects in the form of Wild Coast, Boardwalk expansion and the Maslow hotel, all delivered on time, on budget and successfully opened. Looking forward Stephens said "*we have an exciting pipeline of new opportunities and whilst these will not make a significant impact on the 2014 financial year they position the group for good growth thereafter.*"