Sun International

SUN INTERNATIONAL KEEPS FOCUS ON COSTS, INCREASING EFFICIENCIES

- Group income for the year rises by 4%; EBITDA by 6%
- Back to basics strategy working in SA with EBITDA holding steady despite muted comparable income growth
- Time Square performance improving
- Business remains resilient, cash generative

Sun International released its half year results today, reporting income growth of 4% and an increase in EBITDA of 6%

A decisive shift in focus and a strategic realignment plus getting the basics right by improving efficiencies and reducing costs over the past year, helped the SA operations hold comparable EBITDA in line with the previous corresponding period. This was achieved notwithstanding consistently challenging economic pressure, relatively flat revenue and an increase in VAT, which impacted EBITDA by approximately R21-million.

The company is dealing resolutely with loss making entities and plans are underway to restructure both the Boardwalk and Carousel operations.

Sun International concluded a R1.6 billion equity raise in June, using the proceeds to reduce South African debt. Group CE Anthony Leeming remarked: "*While gearing remains high, we are confident that consistently strong cash generation will continue to reduce debt levels over time*."

In South Africa, income increased by 5% with EBITDA up by 6%, both primarily driven by Time Square. EBITDA was positively affected by the closure of Fish River and the International VIP business. Given the interest impact of the debt levels and increased depreciation attributable to Time Square, adjusted headline earnings decreased by 44% with adjusted headline earnings per share down by 47%.

The casino business felt the pressure of a stagnant economy, with comparable casino income increasing by 2%. Sun Slots, however, performed well, with income up by 12% and EBITDA up by 11%. Room's revenue was down by 3%, affected by the drought in Cape Town and pressure on disposable income.

Time Square experienced a significant increase in activity although income for the comparable period (April-June) is only marginally up on the prior corresponding period. Trading in July and August 2018 has been encouraging, with gaming income up by 32% and 33% respectively. The company is working hard to maintain this momentum.

In Latam, income from Chile grew by 2%, with EBITDA decreasing by 3%. Monticello benefitted from its new arena and a refresh of its restaurant offering. This helped drive footfall and income, which was up

by 6%, while EBITDA increased by 10% Income from the Peruvian operations increased by 13% and EBITDA by 67%. While the closure of the International VIP Business and the 66th floor of the Ocean Sun Casino in Panama led to a decrease in income, this was accompanied by a significant reduction in costs. The property is moving closer to a breakeven and opportunities to sell the 65th and 66th floors of the Towers are being pursued. The Sun Nao Casino in Colombia was closed, with the gaming machines and tables being used to open a few small low-cost slot halls. This model is proving more appropriate for this market.

In May, the company concluded its acquisition of an additional 10% interest in Sun Dreams in Latam, increasing its interest to approximately 65%. Other acquisitions included Thunderbird Resorts in Peru and the Park Hyatt Hotel and Casino in Argentina, in April and July respectively. Both were concluded at attractive valuations and will contribute positively to the group's performance. Disappointingly, we only secured one of the five municipal licences, which we bid for in Chile. While our bids all met the minimum criteria, we lost out to a competitor whose economic offer (additional tax) was substantially above ours and at levels which would not generate satisfactory returns.

According to Group CE, Anthony Leeming: "*Decisive steps taken to control costs, increase efficiencies and get back to basics have proven the right strategy. We've held EBITDA steady in South Africa despite the weak economic environment plus an increase in VAT*.

"*Our equity raising has served to reduce our debt and while this remains high, our business is still strongly cash generative*.

"*We remain focused on the loss-making entities and already, our costs are down significantly following the restructure of Panama and the closure of Fish River. Restructuring the Boardwalk and Carousel will further stem losses arising from these operations*.

"*Maximising efficiencies and reducing costs will help protect our margins in this environment*."

Given the need to reduce the high debt levels, the board has decided not to declare an interim dividend for the review period.

Looking ahead, Leeming highlighted that: "*Trading is expected to remain under pressure given the lack of economic growth in both South Africa and subdued growth in Chile. That said, we are encouraged by trading at Time Square, Monticello, Sun Slots and our Peruvian operations*.

"*A further positive factor includes hospitality forward bookings which have improved, and which will assist both Sun City and the Table Bay Hotel. We expect our new operations in Peru and Argentina to contribute positively in the second half, although interest costs in Latam will increase following these acquisitions and the acquisition of the minority interest in Sun Dreams*."

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