

Sun International takes necessary steps to address underperforming operations

Sun International has released its year-end results, reporting revenue growth of 12%, with an increase in EBITDA - earnings before interest, taxes, depreciation, and amortisation - of 13%. The revenue's growth is attributed to the inclusion of the Sun Dreams (from 1 June 2016), Sun Slots (from 1 April 2016) and Time Square (from 1 April 2017) results.



Image via [Sun International](#) - Boardwalk Casino & Entertainment World

Focused cost control and enhanced efficiencies in South Africa helped grow EBITDA from a 9% decline in the first half to 15% growth in the second half, resulting in an EBITDA increase of 3% for the year.

South African revenues improved in the second half compared to the first half, from a 1% decline to a 2% growth, resulting in flat revenues for the year – Sibaya, Sun City, Sun Slots and the Table Bay produced results with growth in revenue and EBITDA. Time Square's results were disappointing, while GrandWest's revenue was in line with the year before, with an EBITDA drop of 2%.

Addressing underperforming operations

Operational performance in Latam was subdued largely due to a low growth economy and the tragic shooting which took place at Monticello in July 2017. The group incurred a number of once-off or abnormal items that have been adjusted for in headline and adjusted headline earnings, both of which were 41% below the prior year.

Sun International's group CE, Anthony Leeming said: "We have taken decisive action to address underperforming operations and to focus on both cost control and increasing efficiencies. We've made significant investments over the last few years in both South Africa and Latam. The refurbishment of Sun City and the acquisition of Sun Slots have met expectations. However, other developments have fallen well short, increasing our debt and debt ratios significantly. Economic growth in South Africa and Latam has slowed, political uncertainty has increased and social challenges, particularly in South Africa, are at an all-time high. Together, this has created the perfect storm, putting pressure on consumer spending and slowing gaming revenue growth."

"That said, our business has proved its resilience and we remain cash generative and positive around future opportunities. In these difficult times, we've shifted our focus, realigned our strategy and we're committed to getting the basics right as well as operating at optimal efficiency and ensuring we exceed our guests' expectations.

"We have closed loss-making operations including the Fish River Sun, Sun Nao Casino in Colombia and the International VIP Businesses in both South Africa and Panama. We have also downscaled the Ocean Sun Casino by closing the 66th-floor casino and significantly reduced staff. We have applied to the Eastern Cape Gaming Board to restructure the Boardwalk and are in the process of addressing the performance of the Carousel," added Leeming.

Progress on other business initiatives

- Time Square hotel opening on time and within budget in March this year
- Shareholding in Sun Dreams will increase from 55% to 65%
- Sun Dreams submitted bids for the two municipal casino licences in Chile that it currently holds and for an additional three licences – decisions on the licence bids are due in June 2018
- Sun Dreams awaiting regulatory approval regarding its acquisition of Thunderbird Resorts in Peru for S\$27m – this will strengthen the group's position in Peru and diversify its asset base in Latam
- Draft legislation in the Western Cape affecting SunWest's exclusivity is being assessed

As previously announced to shareholders, the company is looking to embark on a capital raise exercise to de-risk its balance sheet, with the proceeds aimed at repaying debt and reducing its interest charge. A stronger balance sheet and capital structure will also provide management with the headroom to focus on the business.

Given the need to reduce the high debt levels, the board has decided not to declare a dividend for the year ended 31 December 2017.

Managing operational efficiencies

Looking ahead, Leeming added: "The mood in South Africa has definitely lifted. However, we don't expect this to translate immediately into an increase in discretionary spend or spend on gaming but should have a positive effect in the medium term.

"Closing loss-making entities will have a positive impact, as will the interventions we've put in place at the Ocean Sun Casino, the Boardwalk and the Carousel. We are anticipating much-improved performances from these operations."

"We're also expecting increased footfall and thus improved revenue and EBITDA at Time Square, following the opening of the arena a few months ago and the imminent opening of the hotel. The major refurbishment at Sun City will continue to deliver benefits, although a stronger rand and the drought may deter some tourists and put pressure on The Table Bay in

Cape Town.

"The Chilean economy is also showing signs of recovery, assisted by the recent change in government. Gaming revenues have stabilised and Monticello is starting to reflect revenue growth compared to the prior year. The addition of Thunderbird Resorts in Peru will contribute positively, A successful outcome for Sun Dreams in the municipal licence bidding process in Chile will also have a significant impact.

"This is not an easy economic environment in which to trade. However, we have the right plan in place. We've taken the necessary steps and we're completely focused on the job at hand," concluded Leeming.

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