

Gold Reef Resorts revitalises casinos to boost growth

Gold Reef Resorts has maintained its positive growth cycle with strong interim results for the six months to June 2007. Robust trade and expansion developments at most of Gold Reef Resort's casinos boosted revenue 17,9% to ZAR 839,2 million, generating bottom line profitability of ZAR 138,2 million which was 25,4% higher than June 2007. The group earlier this month announced an acquisition offer which may see it acquired and de-listed by a private equity consortium including its own management and BEE shareholders.

Following landmark BEE transactions concluded during the period, the group now boasts a direct black shareholding in excess of 25,1% made up of former black partners in its casino operations.

Headline earnings per share (HEPS) for the interim period grew by 21,0% to 68,6 cents from 56,7 cents in the previous comparative period. EBITDA of ZAR 358,1 million, which was up by 22,9%, represented a 42,7% margin on revenue.

CEO Steven Joffe says upbeat market conditions and new developments were the key revenue drivers. However he highlights that strict processes and controls by management were critical, with all expansion programmes concluded on time and within budget.

Flagship Gold Reef City Casino grew revenue 13,7% to 505,2 million despite the disruption to trade caused by its revamp and upgrade. Joffe says the long-term benefits outweigh the short-term minor sacrifice of market share. "The new smoking casino hosting 570 slot machines and 15 tables, is already experiencing significantly higher trading levels." He adds that the expansion programme should be complete by October

2007, bringing on stream new restaurants, a 1 100-seater theatre and a ceiling over the main casino floor. In addition the casino should have introduced a completely cashless casino floor by that time, bringing Gold Reef City in line with international standards.

He is confident that the ongoing revitalisation of the Theme Park has started to pay off for the group, with a pleasing financial performance.

Garden Route Casino was the group's star performer, with a 21,3% leap in revenue to ZAR 81,2 million from ZAR 67,0 million. A 24,7% increase in EBITDA to ZAR 40,6 million reflected a healthy EBITDA: Revenue ratio of 50,0%. Gold Reef Financial Director Jarrod Friedman attributes the casino's growth partly to the opening of an adjacent signature golf course that is attracting new and higher-spend patrons. Additional slot machines and tables helped support the increase in footfall.

Revenue at Golden Horse Casino in Pietermaritzburg, which saw the completion of renovations worth ZAR 8,9 million in the period, was up 15,3% to ZAR 111,5 million on the back of robust trading. In the Western Cape Mykonos Casino managed to post a 16,6% increase in revenue to ZAR 57,7 million off a high base. "Management is currently considering expansion proposals to deal with capacity constraints due to thriving demand," says Friedman.

During the period Goldfields Casino was upgraded to a permanent casino and still achieved a 15,9% increase in revenue to R51,7 million, with EBITDA of R24,1 million representing a 46,6% margin on revenue. The existing facilities were refurbished and new facilities added. The permanent casino now offers 250 slots and nine tables.

Gold Reef's newest casino Silverstar, set to garner a greater share of the lucrative Gauteng gaming market for the group, is

under construction. "To date the development has cost the group ZAR 281 million with a total anticipated cost of ZAR 1,2 billion on completion in early 2008," says Friedman. He is confident the casino will start impacting positively on the group's results from next year.

New developments that will further extend Golf Reef's footprint and position the group to exploit new markets, are in progress. The group is invested in the licence holder for the Queenstown Casino in the Eastern Cape and holds a controlling stake in the Vaal River Casino Company, which will expose Gold Reef to the Sasolburg area.

Looking ahead Joffe says the revitalisation of the portfolio with refurbishments and new properties has positioned the group for considerable growth. "The Silverstar and Queenstown casinos under development, the new permanent Goldfields Casino and the upgraded Gold Reef City Casino represent the majority of Gold Reef's portfolio and are effectively like new properties." He adds that as ongoing development projects are being funded partly through external debt, the earnings growth should strengthen further going forward as the subsequent de-gearing impact starts to take effect. In addition, the group will benefit further from the positive impact of the Theme Park's revitalisation programme.

Gold Reef continues to trade under cautionary, pending an expected announcement by the consortium of a firm intention to acquire Gold Reef at ZAR 34,00 a share. Gold Reef shares closed yesterday at ZAR 30,75.