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Half Year 2021 Suncity Group Holdings Ltd Earnings Call

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**Purdy Ho** *CITIC Securities Co., Ltd.*

## PRESENTATION

### Operator

Greetings, everyone. Thank you for participating in the Suncity Group Holdings Limited, 1383, and Summit Ascent Holdings Limited, 102, 2021 Interim Results Conference Call. Copies of our media release, stock exchange announcement and PowerPoint presentation files are available on Suncity and Summit Ascent's websites, respectively, which also include our disclaimers.

(Operator Instructions) As this call is going to be recorded, please note that we will only discuss the two listed companies, 1383 and 102, on this call rather than the non-listed junket operations. On that note, I'd like to turn the call over to Winnie.

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### Winnie Lei *Suncity Group Holdings Limited - IR Senior Director*

Thank you, Kate. This is Winnie, Senior Director, Investor Relations, in Suncity and Summit Ascent. If there's one message that you may wish to take away from today's call, here it is. In Suncity, the good, we are creating in progress. The bad, we are sustaining.

Right. You've seen our future plans and then there's COVID. You've seen our execution from afar from flat ground to a fully fledged integrated resort in Vietnam. You've also seen the downside protection effect from the local Russian market in Vladivostok. Now with hardware and software ready, when borders reopen, I probably don't need to tell you the rest because our numbers will. So the focus for now is how to sustain through the storm. No one knows for sure how long the pandemic will last. But even if it lasts for another year, we are not afraid because under Summit Ascent, we have the power to sustain it through.

Now a piece of good news and a piece of not-so-good news. Good news, unlike other Asian gaming locations, such as Cambodia, Philippines or Singapore, all of Suncity's integrated resorts were open for business during the first half of 2021. As vaccination continues, the risk of having to shut our doors again is relatively unlikely to happen. Because as long as our doors are open, Tigre de Cristal doesn't just breakeven, it makes a positive EBITDA. So Summit Ascent does not have to worry about closing down or not being able to sustain.

The not-so-good news, well, you might probably need to dial in this call again in March because we're still hanging around. Well, the real not very exciting news is that without tourists, our business will not be as good as it could have been. For now, we just have to wait until tourists come back.

Right, enough of the bad. Now let's talk about the slightly brighter side of things. First of all, in the first half of 2021, with COVID as the backdrop and having 0 tourists, adjusted EBITDA in Tigre de Cristal grew by 1.3x sequentially to HKD 17.2 million. Yes, indeed, this figure may look minimal. But it sends two important messages. Number one, downside protection effect is apparent with local mass and slots businesses. And number two, cost-cutting is starting to work. Looking ahead, Suncity's strategy to develop in the North, in the South and in the East of Asia remains unchanged. We are continuing our endeavors in the fastest-growing regions in Asia gaming.

In the North, in Russia, together with other competitors, Tigre de Cristal is going to form a gaming cluster known as Primorye Integrated Entertainment Zone in the Far East. No Japan? No problem. How about Vladivostok? The uncertainty in Japanese IR actually poses a great opportunity for nearby Vladivostok as long as we do the marketing to the right audience correctly. And by the way, marketing has been the bread and butter for Suncity. And that is exactly what Suncity knows how to do it well.

Koreans and Japanese are the two biggest undertapped segments in North Asia. In the East, in the Philippines, the construction of the

USD 1 billion Westside City Project continues even though Metro Manila was in mandatory lockdown. Around 900 workers are working on site. Because of the lockdown, COVID has affected some progress. But our team is working creatively to catch up. Cranes are now erected, working vertically and others simultaneously horizontally to make things go faster.

Now as you can see in this update picture, the site is in good progress and the project is targeted to be ready in 2023. We are putting in other fun elements into the project, combining trendy, fashionable elements, electrifying pool party and fun concepts in our design and transforming it to be the next stylish location for Filipino celebrities and alike. We are also continuing to move forward with our diving and our skiing hotels in Japan in Miyako Islands, Okinawa and in Niseko, Hokkaido. And in the South of Asia, we have a joint venture, Hoiana, in Vietnam.

Currently, we have also been supporting several governments in their vaccination efforts. In Russia, over 380,000 Primorye residents have already been vaccinated, which is around 50% of the Primorye population. Russia Deputy Prime Minister said that Russia is aiming 80% herd immunity by November. Russia is blessed because it has plenty of supply of Sputnik V and Sputnik Light vaccines. In Tigre de Cristal, our staff gets a day off and a cash bonus if they decided to vaccinate. Right now, over 60% of our staff are fully vaccinated. In Vietnam, not only do we target finished vaccination for all our staff by the end of 2021, we are also helping to source vaccines globally to donate to the Vietnamese government to show solidarity to Vietnam to combat the virus together.

That's an overview of how Suncity Holdings on what we have been doing and our plan for the future. Now let me dive into each of our listed companies' results into more details. I will use each of the two listed companies' reporting currencies as well as U.S. dollars to report on the financial results of 102, 1383 and our casinos that uses various currencies, respectively. So please bear with me as I might be jumping around quoting Hong Kong dollars, renminbi or U.S. dollars.

Now I'm going to talk about Summit Ascent's financial results first. 102 has a solid and liquid balance sheet without any bank borrowings. As of 30th of June 2021, our cash position was HKD 635 million. As mentioned just now, TdC's EBITDA continued trending positively in the first half 2021 to HKD 17.2 million, growing 131% sequentially. It is quite an achievement considering that we are still in the middle of the pandemic with just local mass and slot businesses only. In the first half, mass table drop and total electronic gaming volume per month have already recovered to 87% and 100% of the pre-pandemic level. Mass and slots each contribute roughly 50-50 to the total HKD 139 million of GGR.

OpEx in Tigre de Cristal has been cut to approximately USD 2.4 million per month in the first half. So we effectively turned some temporary cost-cutting measures into permanent cuts, like cutting some staff costs, security expenses and travel expenses. We also recorded interest income of nearly HKD 38 million from banks, a loan and a convertible bond to SunTrust. Interest is not part of EBITDA, but it has almost covered 1/3 of TdC's OpEx, in some essence, P&L accounts.

Now let's discuss about the financial results in 1383. Let me start with 1383's liquidity and cash position. In the first half, our bank balances and cash were at CNY 1.9 billion in aggregate. Total bank and other borrowings were at CNY 965 million. We have also completed the disposal of the legacy property development and leasing business in China, which generated total proceeds of CNY 675 million, which will improve the group's liquidity and allows the group to focus on integrated resort development in the future. You may also notice that 1383 turned from a loss position into a profit position in its bottom line. But the caveat is that this is noncash in nature. Net profit attributable to equity holders was CNY 320 million.

Moving to Vietnam. Now our joint venture, Hoiana, has also been running at its lowest cost ever. For a foreigner-only casino when borders are closed, indeed, there is not much for us to talk about. It's the business environment that forced us to think out of the box, staycation packages for locals, targeting local expats living in Vietnam, working with airlines, chamber of commerce, et cetera. But you will know that these are definitely not the sweeter spots that we are after. Sustaining is the key word here. Make no mistake, Hoiana is a beautiful property by the seaside and definitely something our customers love.

In short, Hoiana is roughly making an average of over USD 2.2 million in GGR every month, utilizing just 3% of the 1,000 hotel rooms that we have in total. At this stage, we're not in a rush to put all rooms to be into operations. Hoiana has gone through a series of stringent cost-cutting exercises. Overall, OpEx in Hoiana was approximately USD 3.7 million per month in the first half. This was almost halved

compared to the highest point in 2020. So some of the cost-cutting measures taken include cutting staff costs, offering (inaudible), controlling overheads and managing external contractors carefully. Hoiana's GGR in the first half was USD 13 million.

In summary, we are long-term cautiously optimistic, and we remain hopeful that as the rollout of vaccination globally continues, the market will offer more clarity. For one thing, we know that the worst days at Tigre de Cristal, that was required to be closed, are already over. We are also glad to see strong economic recovery signs. And the pent-up travel demand that we have observed is real. When borders is reopen, the Suncity advantage, leveraging our database of customers across the network, could be observed. Last but not the least, currently the market cap for both 1383 and 102 are trading lower than their respective net asset value today. So bargain hunters, you know where to look for.

With that, Kate, let's open the line up for Q&A.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) As this call is being recorded, you are reminded to ask about 1383 and 102 only and no junket-related questions. First questions come from Billy Ng at Bank of America.

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### Billy Ng *BofA Securities, Research Division - Research Analyst*

Sure. I have a couple of questions. First of all, just want to get some updated information in Hoiana and Vladivostok. I think you guys did a great job maintaining positive EBITDA in the first half. But what's the situation in the second half? Do you think it will get worse before it get better?

Or in terms of the COVID situation, because we see that in the region, a lot of countries are still having lockdown and suffering from the Delta variant impact, and as a result, like the activities and traffic actually lower than the first half, do you see that the risk and what kind of expectation we should have for the second half of the year? And then I will ask the second question.

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### Winnie Lei *Suncity Group Holdings Limited - IR Senior Director*

Thank you, Billy. Well, as we could say on the ground in Vietnam, like Vietnam is the country that we think has the best controlling COVID. So the government has been quite straight in different types of measures to control COVID, which is why we observed that the number of cases in Vietnam is actually quite low compared to other Southeast Asian countries. But the biggest thing that we are actually looking after is whether the border is going to be reopened. So without the border reopening, for us to be able to look into the type of growth that we were expecting previously is actually quite -- and it's not that sort of level.

So right now, our team on the ground, say, in Vietnam and Vladivostok, they are working to target the local market. So Vladivostok is a much more lucky location than in Vietnam because Tigre de Cristal is always open for business or the doors are open. And basically, as long as it's open, because there is a local market nearby, so the people living in Vladivostok, they still need staycation, they still need to entertain -- need entertainment packages.

So basically, when we have all these concerts being held in May and we have this spike, as you maybe noticed that, indeed, the number of people who attend Tigre de Cristal actually increased. And it actually helps us to boost the visitation over there and subsequently, GGR. But a trend -- but what we know, even in Vladivostok, for now is that the rules have been tightened. It's not as easy to organize mass events, like we have seen in May. So basically, looking towards July, August is -- we just can't have that type of big concerts being held in Vladivostok anymore.

So well, yes, but people still come in. So we're looking -- we're still trending positively even in July and August. And Tigre de Cristal, EBITDA is still positive. And it's quite stable, I would say. But it's definitely not the sort of level that we were hoping that Suncity could bring in. Just remember one thing, right now, as of today, Suncity's proposition is that we have a big database of customers. We have 190,000 people in our database. And 0 of these customers is being brought over to Vladivostok. So I guess, the potential is there. But what we have to do right now is to sustain. And TdC is just being more lucky than Hoiana in that sense.

**Billy Ng BofA Securities, Research Division - Research Analyst**

All right. And my second question is actually a bit on the longer term. And if the COVID situation remain the same for the next 12 months, will you guys consider to change your CapEx plan or delay the project for Hoiana Phase 2 and/or for the Philippine project? Will you adjust your CapEx pace and CapEx budget for the next 12 months?

**Winnie Lei Suncity Group Holdings Limited - IR Senior Director**

Thanks, Billy. Well, I guess, overall in Suncity, what we do here is we always prioritize the investment that offers the fastest returns. And we do have a number of projects onboard, Hoiana, Tigre de Cristal, Westside City Project and 2 hotel projects in Japan. So we definitely prioritize what we want to do first. So right now, as you can see from the picture just now, so Westside is definitely going on full steam. So with Westside City Project, CapEx over there is USD 1 billion.

What we see on the ground is that, well, because of COVID, essentially some of things become slower. But we are working to catch up that lost progress because, well, we've -- right now, in Manila, it's under MECQ. So basically, we just -- with the people can't get in and out of Manila and our workers on site, they basically -- they have to work there and they can't go back home as well. So we are working to maintain that schedule. And yes, Westside City Project is definitely something going on full steam.

And for Hoiana, Phase 1 is almost done. It's almost built. It's -- well, we were just unlucky because the opening of Hoiana is supposed to be a grand event last year. But yes, last year, we just managed to have it as a preview. And it's not fully opened. So Phase 1, we don't have a lot of CapEx left. And for Phase 2, we are preparing the land plots, ready for them to be sold. Because we, in Suncity, what we are after is the dollar on the table. And we want to work as a primary developer.

And we're introducing other quality developers coming in as secondary developers. So good thing for us is that they come in, take the land and build hotel rooms for us. We need the hotel room. So this is our plan, how we're developing Phase 2, Phase 3, 4, 5, 7. So it's not going to cost us a lot of CapEx because we're selling the land to them and they will be the one who's going to develop it. Yes, I hope that answered your question.

**Operator**

Next question comes from Angela Han Lee at Bloomberg.

**Angela Han Lee Bloomberg Intelligence - Equiry Research Analyst**

I have two questions to ask. Firstly, could you share more about the operating expenses at Hoiana and Tigre de Cristal? I understand you have done some cost reduction already. But do you anticipate room for further cost-cutting going forward? And for Hoiana, how much gaming revenue shall we expect in order to break even at an EBITDA level?

And the second question is you -- given that the Chinese authorities may be tightening control over overseas gambling activities, does management expect any impact on gaming demand from the Mainland Chinese tourists when borders reopen? And what's the view on this going forward?

**Winnie Lei Suncity Group Holdings Limited - IR Senior Director**

Thanks for your question. So regarding OpEx, well, as you probably know, we opened last year for preview since June 2020. So that opening -- well, mini ceremony was basically the month that we had the highest OpEx. And right now, Hoiana is running at its lowest OpEx ever. So basically, we are running at USD 3.7 million of OpEx on a per month basis, so per day is like USD 110,000. So the biggest portion for OpEx for operating integrated resorts, just like any other resorts, is the staff cost. And we are working -- looking at different ways of how we basically could cut the OpEx and to make things in a more utilized way.

So staff cost right now is, in July, the latest figure is basically less than USD 2 million per month. So we have casino and hotel and golf salary expenses. And we're also cutting the number of people that are working on site. For example, some of the expats, the more expensive expats, and using different work schemes, furlough, no-pay leaves, et cetera. And we are working very hard on costs. And at the same time, we don't want all the 1,000 rooms to be in operations. Because everything costs money in Hoiana, like even the air-conditioning, so we're controlling the costs very carefully.

In Tigre de Cristal, cost-cutting, well, we basically cut it from somewhere around \$3 million to now \$2.4 million, primarily cutting staff costs, some of the security and the outsourcing services, et cetera. So we are on a break-even level. I would say in Tigre de Cristal, we're lucky. So we are basically -- well, we have broken even right now. So as you can see from our results, we are delivering USD 2.2 million of EBITDA in the first half. So at this level of GGR, somewhere around USD 18 million, so we're making more than that.

And at Hoiana, it's a bit tricky to say. Well, it all depends on whether the border is going to be reopened. Because without any tourists coming in, we are a foreign-only casino, there's not a lot that we could do. Like we are working very hard on marketing to the local expat community already. But even going from province-to-province in Vietnam, it's a bit hard because government has been putting control. And sometimes from flying from Ho Chi Minh to Da Nang, you just don't know whether you will be putting into quarantine once you leave the province.

So that makes intercountry travel within Vietnam not as easy as it could be. But it's a beautiful property. What we -- we are quite confident in the type and the quality of the resort that we have built. And once the borders reopen, tourists are going to come back. So that's how we see things in Hoiana. And if you really need an absolute number, that's somewhere around USD 5 million to USD 6 million to break even.

And your second question is on China, right? So for our integrated resorts, at Suncity, we have a strategy in China that's the targeting the North, the East and the South of Asia. So when we go out of Macau, stepping away from being a junket integrated resort operator, we are basically working with different people in various different countries. So it's not just the Chinese that we are targeting anymore. It's a lot more people. We are working with Japanese, the Koreans. And Japan is a big market, and we still don't see any solid announcement from the Japanese government on which city they're going to allow integrated resorts. And in South Korea, there's only one casino that allows locals to gamble.

So these two markets is exactly what we are after. It's just a few hours away by plane. And it's even nearer to travel to Tigre de Cristal than, well, let's say, for example, if you're from -- going from Seoul driving all the way down to the only casino that allows local people, Kangwon Land. So it's a market that we are looking at. And we have Southeast Asians, we have Japanese, Koreans, Hong Kongers, Taiwanese, so all these different markets that we are looking at. So we are not just looking at China. So for that reason, we're not too worried about the fact that the regulation that -- saying that you've just talked about.

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#### **Operator**

Next question comes from [Purdy Ho] (corrected by the company after the call) of Citic.

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#### **Purdy Ho *CITIC Securities Co., Ltd.***

So given the pandemic is still lingering on and off, would you guys consider starting an official online business, such as sports gambling, like your peers in the U.S. or in e-sports, which is a big hit in China?

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#### **Winnie Lei *Suncity Group Holdings Limited - IR Senior Director***

Well, that's a great question, Purdy. We have a digitalization strategy here in Suncity. Well, all we focus is to do -- to help our growth. And for example, we are very focused on big data and customer big data mining, trying to know what they like and what they don't like. And that's the data that we have. And we're also working on digitalization and thinking about how we can use a digitalized integrated resort, for example.

That's what we are planning in progress. So for example, in Westside, we're thinking on it to be a very trendy, very digitalized integrated resort experience. It's going to be something like a one-stop shop, holistic, digitalized experience, for example, checking in, checking out, gaming and spending, et cetera, redeeming loyalty points, et cetera. So that's the direction that we're looking at.

With regards to sports betting or online gaming or that sort of thing, I don't think we are working on that one. But we are -- our

management team here, the good thing about them is that everyone here in Suncity are very young, very energetic. And we are very open-minded and we're ready to bring in changes. So we're happy to look into different digitalization ways or innovative ways, where we may be able to think about payments, that sort of stuff, later on.

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**Operator**

Next questions come from Lok Kan Chan at Credit Suisse.

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**Lok Kan Chan *Crédit Suisse AG, Research Division - Associate***

So given the lockdown environment, the business is mainly driven by the local demand and now the vaccination is ongoing, so what are the key constraint for the reopening, like whether it is like the case number or the vaccination rate we would consider in like Russia and as well as in Vietnam?

And then my second question would be on a follow-up on the project CapEx. So could you remind us the budget for this year? And especially, any update in the progress of the Phase 2 in Russia? Especially, you guy makes a loan to SunTrust earlier this year. That will be my questions.

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**Winnie Lei *Suncity Group Holdings Limited - IR Senior Director***

Kan, thanks for the question. Yes, we're -- well, I guess, the biggest constraint for us is something that's completely out of our control. Because it's really when the governments decide they're going to relax the border policies. And this is something that we can't control. And I guess, that's -- that, of course, you're absolutely right, it totally depends on vaccination rates and whether the government has a zero-tolerance policy in terms of allowing people in and out of the country and whether the flights, et cetera, are going to come back.

Right now, it's just too early for us to think about when exactly this is going to happen. But I'm sure you have read a lot of news and a lot of people are talking about maybe perhaps next year. We don't know, maybe when the time -- during Winter Olympics, sometime next year or maybe 2022. We don't know. Like there's so many different variants of the various -- of the different -- of the virus for now. So we -- for the time being, we just have to wait. And under Summit Ascent, we are not afraid because of that because we have a good and solid balance sheet.

So in terms of CapEx, so Phase 2, Tigre de Cristal is going to be USD 200 million. And it's going to be funded by existing cash in 102, under Summit Ascent. So even after the short-term loan, so 102 has a cash of USD 82 million in its balance sheet. And it will also be funded by internally generated EBITDA. With regards to Westside City Project, it's a \$1 billion project, USD 1 billion project. And we have already raised over USD 450 million. And we are in the progress of talking to different bankers, creditors at the project level for the remaining portion of roughly USD 600 million to be financed by the local banks.

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**Operator**

(Operator Instructions) Next question comes from Shengyong Goh at CICC.

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**Shengyong Goh *China International Capital Corporation Limited, Research Division - Analyst***

No, you're talking about financing. And I'm just curious, like we're due to open in 2023 for Phase 2 of 102 and Westside in 2023 for -- and if COVID drags a little longer, I mean, apart from that, are there any other plans for financing? Because yes, I mean, our cash levels do not really match with CapEx. Yes, so I'm just wondering, yes, what our options are. Yes, sorry.

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**Winnie Lei *Suncity Group Holdings Limited - IR Senior Director***

Right. Like I said before, we are right now in the talks with some local banks in the Philippines. And right now, they're doing due diligence. And because of COVID, what basically progress in anything in Philippines, not just the construction or this financing or when we talk with banks, because with the quarantine requirements, the bankers are also working from home. And things just are a little bit slower, but they're moving. So we're, well, talking to the local bank guys.

And we have someone on the ground in the Philippines. And basically, we also have -- well, we have someone who has this Philippine integrated resort experience who joined our company in May. Mr. David Chua. He has been working with Travellers, Genting. And he has

this on-the-ground connections in the Philippines. So he has helped us to line up different connections down there in Philippines. And we're in talks talking to banks right now.

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**Shengyong Goh** *China International Capital Corporation Limited, Research Division - Analyst*

Okay. So I guess it's really dependent on the banks and on the timeline of our opening for Westside -- or Westside, I guess.

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**Winnie Lei** *Suncity Group Holdings Limited - IR Senior Director*

For Westside, yes. But with Tigre de Cristal Phase 2, well, there's no imminent need on cash. You have -- the schedule basically right now is somewhat like 20% for the entire USD 200 million of CapEx. And we have \$82 million of cash on the balance sheet. So that should be enough for this, this sort of next year. And even with OpEx at USD 2.4 million per month so that should be more than enough. So on that level, there's basically no imminent need for funding right now.

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**Shengyong Goh** *China International Capital Corporation Limited, Research Division - Analyst*

So okay. And so I mean, for 102, it would mean that you will have to generate quite a substantial amount of EBITDA, I mean, even higher than what we have done historically to actually meet the remaining \$100 million to \$120 million that we are outstanding. I mean, I guess that's -- I mean, I guess, we have confidence in that, yes? Okay.

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**Operator**

(Operator Instructions) If there is no more questions, this concludes today's earnings call. Thank you for participating.

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**Winnie Lei** *Suncity Group Holdings Limited - IR Senior Director*

Thank you very much.

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