

## Silver Heritage Group (SVH)

### RECOMMENDATIONS

Rating	<b>BUY ▲</b>
Risk	Speculative
Price Target	A\$0.60
Share Price	A\$0.30

### BUSINESS DESCRIPTION

SVH was established in 2003 with the aim of gaining a foothold in Asian gaming markets through the supply of gaming equipment and expertise. The business has now involved to incorporate the operation and management of casino properties and more recently the construction of its own casino in Nepal.

### RESEARCH ANALYST

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### Disclosure

The author owns no shares in SVH.

Baillieu Holst Ltd has acted in a corporate advisory role for Silver Heritage Group (SVH) and earned fees in relation to that activity in the past 12 months.

### COMPANY REPORT – INITIATION OF COVERAGE

#### Tabling a Tiger

- Coverage:** We initiate coverage of Silver Heritage Group (SVH) with a BUY call, Speculative rating, DCF valuation of US\$0.43 (A\$0.58) and price target of A\$0.60. SVG listed on the ASX on August 29, 2016, raising A\$25m at A\$0.40 per share.
- History and business:** SVH was founded in 2003 by current CEO, Mr Mike Bolsover and current executive, Mr Tim Shepherd. The group was established with the original intention of supplying gaming expertise and equipment to venues in countries in Asian markets that were deemed to exhibit strong demand for gaming but were immature. SVH's strategy has been to enter new markets on a revenue sharing or other partnership arrangement to gain a better understanding of the market over time and has subsequently entered a range of Asian countries on such a basis: 1) Laos (2004); 2) Cambodia (2005); 3) Vietnam (2010); and 4) Nepal (2012). Operations are now classified as: 1) operation/management of casinos; 2) development of casino properties; and 3) operation of electronic gaming machines (EGMs) and other businesses.
- Tabling a Tiger:** SVH is now at an inflection point where it is ready to own and operate its own casino in the region. To that end, SVH acquired a 100,000 m<sup>2</sup> site in the Nepalese city of Bhairahawa in May 2014 with the intention of building a hotel and casino complex called Tiger Palace Resort. The proposed casino is scheduled to be completed in late 2016 with an early 2017 expected. The property is situated 12 km for the Indian border (Uttar Pradesh and Bihar states) and near a regional domestic airport in Nepal. Upon completion the property will have: 1) 2,471m<sup>2</sup> gaming floor of which 462m<sup>2</sup> will be high limit; 2) 52 gaming tables and 200 EGMs; and 3) a 100 room five-star hotel and two villas together with meeting, convention, exhibition facilities and retail shops.
- Bordering on greatness:** Whilst the Nepalese casino industry may seem somewhat exotic, we view the future of SVH as not being new in terms of arbitraging gambling restrictions in certain Asian countries by providing cross border access e.g. China/Macau, China/Vietnam, Thailand/Cambodia, India/Nepal, Thailand/Laos etc. We view SVH as a relatively unique proposition in that this is the first scale project which looks to service the emerging middle class in the north of India.
- Investment view:** Our BUY call is supported by: 1) an established track record in the Asian gaming region; 2) a significant lift in earnings from FY17 post the opening of the initial Tiger Palace Resort in Nepal; 3) uniqueness of the proposition in terms of leveraging the emerging Indian middle-class whilst at the same time providing the stability of mass market grind in the absence of VIP/junket play; 4) operating in low tax/low cost operating regimes; and 5) further growth opportunities from expanding the operations of the Tiger Palace in Nepal, development of an additional property at Jhapa in Nepal and also seeking further opportunities in Asian gaming. Our Speculative rating will be reviewed once we are in a position to evaluate early trading data from Tiger Palace Resort in Nepal.

#### INVESTMENT SUMMARY

Year End: Dec 2016		2014 (A)	2015 (A)	2016 (E)	2017 (E)	2018 (E)
Revenue	\$USm	9.2	16.8	19.6	41.1	50.4
EBITDA	\$USm	2.2	2.0	4.1	12.5	18.5
EBIT	\$USm	0.2	-0.4	1.8	9.7	15.0
Reported Profit	\$USm	-3.3	-3.0	-4.8	4.2	8.2
Adjusted Profit	\$USm	-1.3	-0.4	-0.7	4.2	8.2
EPS (Reported)	US¢	n/a	-3.3	-3.0	2.2	4.3
EPS (Adjusted)	US¢	n/a	-1.3	-0.4	2.2	4.3
EPS Growth	%	n/a	n/a	n/a	n/a	95.0
PER (Reported)	x	n/a	Neg	Neg	10.1	5.2
PER (Adjusted)	x	n/a	Neg	Neg	10.1	5.2
Dividend	A¢	n/a	0.0	0.0	0.0	0.0
Yield	%	n/a	0.0	0.0	0.0	0.0
Franking	%	n/a	n/a	n/a	n/a	n/a

## Financial summary

Silver Heritage Group Ltd										
<b>Analyst:</b>	Nick Caley					<b>Rating:</b>	BUY			
<b>Date:</b>	11-September-2016					<b>Price Target (A\$)</b>	\$0.60			
<b>Share Price (A\$)</b>	\$0.30					<b>Valuation (A\$)</b>	\$0.58			
<b>Year End:</b>	31 December					<b>Upside/(Downside):</b>	100.0%			
<b>Mkt Cap (A\$m)</b>	\$57m					<b>Risk:</b>	Speculative			
<b>PROFIT &amp; LOSS (US\$m)</b>	<b>FY14A</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>	<b>EARNINGS</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>
<b>Gross Gaming Revenue</b>	<b>36.6</b>	<b>45.4</b>	<b>40.1</b>	<b>58.8</b>	<b>72.0</b>	EPS - Reported UScps	-3.3	-3.0	2.2	4.3
<b>Total Operating Revenue</b>	<b>9.2</b>	<b>16.8</b>	<b>19.6</b>	<b>41.1</b>	<b>50.4</b>	EPS - Normalised UScps	-1.3	-0.4	2.2	4.3
Other Revenue	0.7	0.4	0.7	2.6	3.6	EPS - Reported Acps	-4.4	-4.1	3.0	5.8
<b>Total Revenue</b>	<b>9.9</b>	<b>17.2</b>	<b>20.3</b>	<b>43.7</b>	<b>54.0</b>	EPS - Normalised Acps	-1.7	-0.6	3.0	5.8
Direct Operating Costs	4.1	10.9	11.5	26.1	29.9	EPS Growth (%)	n/a	n/a	n/a	95%
<b>Gross Profit</b>	<b>5.7</b>	<b>6.3</b>	<b>8.7</b>	<b>17.6</b>	<b>24.1</b>	DPS	0.0	0.0	0.0	0.0
Overheads	3.5	4.3	4.6	5.1	5.6	Franking (%)	0	0	0	0
<b>EBITDA</b>	<b>2.2</b>	<b>2.0</b>	<b>4.1</b>	<b>12.5</b>	<b>18.5</b>	Payout Ratio (%)	0%	0%	0%	0%
Depreciation & Amortisation	2.0	2.4	2.3	2.9	3.5	<b>VALUATION (A\$ basis)</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>
<b>EBIT</b>	<b>0.2</b>	<b>-0.4</b>	<b>1.8</b>	<b>9.7</b>	<b>15.0</b>	P/E - Reported (x)	Neg	Neg	10.1	5.2
Interest Expense	0.4	1.1	1.8	2.9	2.9	P/E Normalised (x)	Neg	Neg	10.1	5.2
<b>Net Profit Before Tax</b>	<b>-0.1</b>	<b>-1.4</b>	<b>0.0</b>	<b>6.8</b>	<b>12.1</b>	EV/EBIT (x)	-119.8	24.6	4.0	1.8
Income Tax Expense	0.0	0.2	0.6	1.9	2.8	EV/EBITDA (x)	22.0	10.6	3.1	1.5
Minority Interests	0.0	0.0	0.1	0.7	1.1	Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
<b>Net Profit After Tax - Norm.</b>	<b>-0.2</b>	<b>-1.7</b>	<b>-0.7</b>	<b>4.2</b>	<b>8.2</b>	Price/Book (x)	1.1	0.9	0.8	0.7
Normalisation Adjustments	-3.7	-2.6	-4.1	0.0	0.0	Price/NTA (x)	2.1	1.1	1.0	0.8
<b>Net Profit After Tax - Stat.</b>	<b>-3.9</b>	<b>-4.2</b>	<b>-4.8</b>	<b>4.2</b>	<b>8.2</b>	Price/Cash/Flow per Share (x)	13.8	61.4	9.0	4.7
<b>BALANCE SHEET (US\$m)</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>	<b>GROWTH (US\$ basis)</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>	
<b>Assets</b>					Gross Gaming Rev.Growth (% pcp)	24%	-11%	46%	22%	
Cash	6.0	10.7	15.8	26.9	Operating Revenue Growth (% pcp)	83%	17%	110%	22%	
Receivables	1.6	2.0	4.6	5.3	EBITDA Growth (% pcp)	-10%	104%	204%	47%	
Inventories	2.0	2.4	5.5	6.4	EBIT Growth (% pcp)	n/a	n/a	445%	55%	
Other	1.8	1.8	1.8	1.8	<b>MARGINS &amp; RETURNS (US\$ basis)</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>	
<b>Total Current Assets</b>	<b>11.5</b>	<b>17.0</b>	<b>27.6</b>	<b>40.4</b>	EBITDA Margin (%)	12%	21%	30%	37%	
Property, Plant & Equipment	16.1	47.8	46.2	43.8	EBIT Margin (%)	-2%	9%	23%	30%	
Receivables	1.8	1.8	1.8	1.8	NPBT Margin (%)	-9%	0%	17%	24%	
Intangibles	11.4	11.4	11.4	11.4	ROIC (%)	n/a	-4%	11%	17%	
Other	1.3	1.3	1.3	1.3	ROE (%)	n/a	-2%	8%	14%	
<b>Total Non Current Assets</b>	<b>30.6</b>	<b>62.3</b>	<b>60.7</b>	<b>58.3</b>	ROA (%)	n/a	-1%	5%	9%	
<b>Total Assets</b>	<b>42.1</b>	<b>79.3</b>	<b>88.3</b>	<b>98.7</b>	Effective Tax Rate (%)	-16%	-4018%	28%	23%	
<b>Liabilities</b>					<b>GEARING &amp; Cash Flow (US\$ basis)</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>	
Payables	4.2	4.1	8.3	9.2	Net Debt (A\$m)	7	15	10	-1	
Loans & Borrowings	0.0	0.0	0.0	0.0	Net Debt/Equity (%)	28%	31%	19%	-2%	
Provisions	0.1	0.1	0.1	0.1	Int. Cover (x) - EBITDA/Net Int.	1.9	2.3	4.4	6.5	
<b>Total Current Liabilities</b>	<b>4.3</b>	<b>4.2</b>	<b>8.3</b>	<b>9.3</b>	<b>Segmental (US\$ basis)</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>	
Loans & Borrowings	13.0	25.9	25.9	25.9	<b>Gross Gaming Revenue</b>					
Provisions	0.0	0.0	0.0	0.0	Laos	19.1	11.1	8.3	8.5	
<b>Total Non Current Liabilities</b>	<b>13.0</b>	<b>25.9</b>	<b>25.9</b>	<b>25.9</b>	Vietnam	18.1	21.9	24.7	27.0	
<b>Total Liabilities</b>	<b>17.3</b>	<b>30.1</b>	<b>34.3</b>	<b>35.2</b>	Nepal	5.3	6.8	25.8	36.4	
Contributed Capital	38.9	63.9	63.9	63.9	Cambodia	2.6	0.5	0.0	0.0	
Reserves	0.9	0.9	0.9	0.9	Macau	0.0	0.0	0.0	0.0	
Retained Earnings	-15.0	-15.7	-11.5	-3.3	Tinian	0.3	0.0	0.0	0.0	
Minority Interests	0.0	0.1	0.8	1.9	<b>Total Gross Gaming Revenue</b>	<b>45.4</b>	<b>40.1</b>	<b>58.8</b>	<b>72.0</b>	
<b>Total Equity</b>	<b>24.8</b>	<b>49.1</b>	<b>54.1</b>	<b>63.4</b>	<b>EBITDA (Pro-Forma)</b>					
					Laos	0.0	0.7	0.5	0.5	
					Vietnam	5.6	5.9	6.9	7.6	
					Nepal	0.4	2.0	10.2	16.0	
					Cambodia	0.4	0.1	0.0	0.0	
					Macau	0.0	0.0	0.0	0.0	
					Other	0.0	0.0	0.0	0.0	
					Corporate Costs	3.3	3.6	4.0	4.4	
					Public Company Costs	1.0	1.0	1.1	1.2	
<b>CASH FLOW (US\$m)</b>	<b>FY14A</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>	<b>Total EBITDA</b>	<b>2.0</b>	<b>4.1</b>	<b>12.5</b>	<b>18.5</b>
<b>Cash at Start</b>	<b>n/a</b>	<b>n/a</b>	<b>6.0</b>	<b>10.7</b>	<b>15.8</b>					
Cash Flow from Ops	-2.6	2.8	0.8	6.4	12.2					
Cash Flow From Investing	-6.2	-15.9	-34.0	-1.3	-1.1					
Cash Flow From Financing	27.8	3.6	37.9	0.0	0.0					
Net Cash Flow	19.0	-9.6	4.7	5.0	11.1					
<b>Cash At End</b>	<b>n/a</b>	<b>6.0</b>	<b>10.7</b>	<b>15.8</b>	<b>26.9</b>					

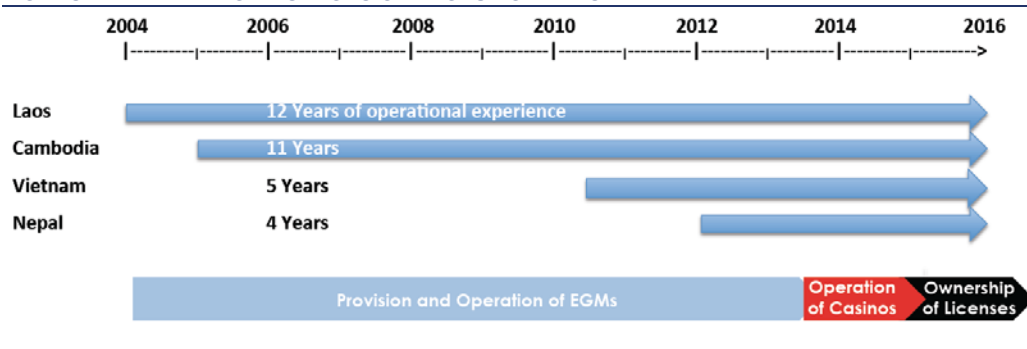
## Investment view

- **Coverage:** We initiate coverage of Silver Heritage Group (SVH) with a BUY call, Speculative rating and price target of A\$0.60. Our Speculative rating will be reviewed once the Tiger Palace Resort in Nepal is opened in early 2017 and we are in a position to evaluate early trading data. SVH listed on the ASX on August 29, 2016, raising A\$25m at A\$0.40 per share.
- **Valuation:** We value SVH at US\$0.43 per share (A\$0.58) on a DCF basis with the major assumptions being: 1) a risk discount rate of 15% per annum (will be reviewed in conjunction with our current Speculative rating), terminal growth rate of 3%; 3) long-term revenue growth of 10% per annum; 4) long-term EBITDA margin of 36%; and 5) \$A/\$US exchange rate of 0.75.
- **Tabling a Tiger:** Post gaining over ten years' experience in the region, SVH is now at an inflection point where it is ready to own and operate its own casino. To that end, SVH acquired a 100,000 m<sup>2</sup> site in the Nepalese city of Bhairahawa in May 2014 with the intention of building a hotel and casino complex in the name of Tiger Palace Resort. The proposed casino is scheduled to be completed in late 2016 with an early 2017 opening expected. The property is situated 12 km from the Indian border (Uttar Pradesh and Bihar states) and near a regional domestic airport in Nepal. Upon completion the property will have: 1) 2,471m<sup>2</sup> gaming floor of which 462m<sup>2</sup> will be high limit; 2) 52 gaming tables and 200 EGMs; and 3) a 100 room five-star hotel and two villas together with meeting, convention, exhibition facilities and retail shops.
- **Bordering on greatness?** Whilst the Nepalese casino industry may seem somewhat exotic we view the future of SVH as not a new concept in terms of arbitrating gambling restrictions in certain Asian countries by providing cross border access e.g. China/Macau, China/Vietnam, Thailand/Cambodia, India/Nepal, Thailand/Laos etc. We view SVH as being in a relatively unique position in that this is the first scale project which looks to service the emerging middle class in the north of India. We also view the border between India and Nepal as porous with no visa restrictions.
- **Investment view:** Whilst Speculative at this time, our BUY call is supported by: 1) an established track record in the Asian gaming region; 2) a significant lift in earnings from FY17 post the opening of the initial Tiger Palace Resort in Nepal; 3) uniqueness of the proposition in terms of leveraging the emerging Indian middle-class whilst at the same time providing the stability of mass market grind in the absence of VIP/junket play; 4) operating in low tax/low cost operating regimes; and 5) further growth opportunities from expanding the operations at the Tigers Palace in Nepal, development of an additional property at Jhapa in Nepal and also seeking further opportunities in Asian gaming. Our Speculative rating will be reviewed post the receipt and analysis of early trading data from Tiger Palace in Nepal.
- **Investment risks:** 1) loss of licence in Nepal as a casino owner/operator; 2) termination of the contract to operate a casino in Vietnam; 3) development risk in Nepal for the properties at Bhairahawa and/or Jhapa; and 4) border risks in terms of any tensions which may develop between India and Nepal.
- **Growth strategy:** SVH's stated growth strategy is: 1) to develop and open the Tiger Palace Resort at Bhairahawa in Nepal; 2) to look to develop a further casino property at Jhapa in Nepal; and 3) to seek more opportunities to own casino assets in the region with Vietnam highlighted as exhibiting particular appeal.
- **Reporting:** SVH reports its financial statements on a December year-end basis in \$US. The IPO prospectus only covers forecasts to end FY16 – this understates the SVH story with the hard opening of The Tiger Palace in Nepal scheduled for early 2017. Our forecasts estimate that The Tiger Palace will account for around 60% of group EBITDA in FY17.
- **Dividends:** SVH views itself as a growth story with a desire to add further properties to the stable in the coming years. As such it is not planning a dividend in the short to medium term with investment/debt reduction taking priority.

## History

- History:** Silver Heritage Group (SVH) was founded in 2003 by current CEO, Mr Mike Bolsover and current executive, Mr Tim Shepherd. The group was established with the original intention of supplying gaming expertise and equipment to venues in countries in Asian markets that were deemed to exhibit strong demand for gaming but were immature. SVH's strategy has been to enter new markets on a revenue sharing or other partnership arrangement to gain a better understanding of the market over time. SVH subsequently entered a range of Asian countries: 1) Laos (2004); 2) Cambodia (2005); 3) Vietnam (2010); and 4) Nepal (2012). We discuss each country on a property basis below however operations are now categorised as: 1) Operation/management of casinos; 2) development of casino properties; and 3) operation of electronic gaming machines (EGMs) and other businesses.

**FIG.1: SILVER HERITAGE – STAGES OF EVOLUTION IN ASIA**



Source: Silver Heritage Group

## The businesses

### Operation and management of casinos

- Nepal:** SVH initially entered Nepal in 2012 by supplying EGM's and management services to a small casino in Dhangadhi near the Indian border. In 2015 SVH gained the licence in its own right to operate and manage The Millionaire's Club & Casino (TMC) in Kathmandu, Nepal. TMC is located in the grounds of the Shangri-La Hotel (not related to the Shangri-La Hotel & Resorts Group) which has leased the casino space to SVH under a 10 year agreement expiring in 2024 with an option for a further 10 years. TMC has gaming floor space of 1600m<sup>2</sup> and currently operates 22 gaming tables and 36 EGMs on a 24 hour a day/seven days a week basis. The citizens of Nepal are not permitted by law to attend casinos in their own country – as such TMC's patronage largely comes from India and China. SVH owns the licence to operate TMC through a subsidiary, Happy World in which it owns 90% with the balance owned by its strategic local partners, Mr Rajendra Bajgain and his brother, Mr Nabaraj Bajgain. SVH has also entered into an agreement with Mr Raj Bajgain to act as a consultant for Happy World for which he is paid a monthly retainer and is entitled to a share of profits.

**FIG.2: THE MILLIONAIRE'S CLUB, KATHMANDU**



Source: Silver Heritage Group

**FIG.3: THE MILLIONAIRE'S CLUB, KATHMANDU**



Source: Silver Heritage Group

- **Vietnam:** SVH has been the manager of The Phoenix International Club (Phoenix) in Vietnam since 2010. Phoenix is owned by a Vietnamese company chaired by Mr Nguyen Van Hung and is one of seven legal casinos in Vietnam. SVH's management agreement with the owner runs until March 2025. Under the agreement SVH receives a set percentage of gross gaming revenue from which it must meet agreed costs. The property is situated in the city of Bac Ninh which is 40km from Hanoi and 60km closer to Hanoi than any other casino in Vietnam. The casino, which operates on a 24 hour a day/7 days a week basis, has 1500m<sup>2</sup> of gaming floor which houses 12 gaming tables (licensed up to 30) and 54 EGMs (licensed up to 100). The citizens of Vietnam are not permitted by law to attend casinos in their own country – much of the patronage comes from Koreans which either live in Bac Ninh or visit Bac Ninh and/or Hanoi for business. Customers also come from Taiwan, Japan and China – Phoenix is a two hour drive from the Chinese border with the province of Guangxi.

**FIG.4: PHOENIX INTERNATIONAL CLUB, VIETNAM**



Source: Silver Heritage Group

**FIG.5: PHOENIX INTERNATIONAL CLUB, VIETNAM**



Source: Silver Heritage Group

**FIG.6: PHOENIX INTERNATIONAL CLUB, VIETNAM**



Source: Silver Heritage Group

### Casinos under development

- **Nepal:** In 2014 SVH acquired land in the Nepalese city of Bhairahawa in May 2014 totalling 100,000 m<sup>2</sup> with the intention of building a hotel and casino complex called Tiger Palace Resort. The proposed casino is scheduled to be completed in late 2016 with an early 2017 opening scheduled. The property is situated 12 km for the Indian border (Uttar Pradesh and

Bihar states) and the regional domestic airport in Nepal. The summary details of the property when completed are:

- **Casino and hotel:** 2,471m<sup>2</sup> gaming floor of which 462m<sup>2</sup> will be high limit containing 52 gaming tables and 200 EGMs. A 100 room five-star hotel (room rate expected to be US\$50-70/night) and two villas will be constructed as part of the casino complex together with meeting, convention and exhibition facilities. There are currently only ten five star hotels in Nepal. The site will also include entertainment facilities, food and beverage outlets and retail shops. Management of the casino will be undertaken by SVG's subsidiary, Happy World as is the case with TMC.
- **Hotel JV's:** In a JV with its existing strategic partner in Nepal (Mr Nabaraj Bajgain) it is intended that two further hotels be built on land adjoining the Tiger Palace Resort. The hotels, The Forrest Hotel (200 room) and The Village Hotel (100 rooms) will be both four-star offerings. It is intended that further hotel developments will be undertaken at a later date.
- **Further casino development in Nepal:** SVH plans to develop a second resort near the India-Nepal border, Tiger Palace Resort Jhapa and has identified land for this purpose. In September 2015, SVH entered an agreement with its local partner Mr Nabaraj Bajgain to arrange for the purchase of identified plots of land located along the Eastern part of the India - Nepal border. SVH may notify Mr Nabaraj Bajgain whether it wishes to acquire land sized at 115,000 m<sup>2</sup> or 149,000 m<sup>2</sup> at any time before 31 March 2018.

FIG.7: TIGER PALACE RESORT, BHAIRAHAWA NEPAL



Source: Silver Heritage Group – Artist Impression

FIG.8: TIGER PALACE RESORT, BHAIRAHAWA NEPAL



Source: Silver Heritage Group – Artist Impression

## Other businesses

- **EGM Management:** Since 2004 SVH has provided and managed EGMs to casinos and slot clubs in South East Asia on a revenue sharing basis. The intention has been to learn about various foreign markets on a low-risk basis. SVH's preference now is to own/manage casino assets in its own right with any new EGM provision agreements to be looked at on an opportunistic basis particularly if that leads to SVH taking a subsequent equity interest in that venue.
  - **Dansavanh Nam Ngum Resort & Casino, Laos (DNNR):** DNNR is located one hour's drive north of Vientiane in Laos. SVH has been providing EGMs to DNNR on a revenue share basis since 2004. It currently provides 206 EGMs at the property and also provides a player loyalty and promotions program. The owner of DNNR Syuen-Lao Resort Development has an exclusive casino licence at DNNR until 2029. SVH is remunerated via a fixed lease with the owner based upon GGR. SVH previously involved a third party in the ownership of the EGMs but this has been terminated in exchange for SVH paying the third party 10% of its share of GGR until end c2016.
  - **ST Vegas Slot Club, Laos:** St Vegas is located 100m from a border crossing between Laos and Thailand. The property is owned by ST Group although SVH's relationship with the property is through IPG International which supplies gaming equipment to the venue. SVH traditionally provided EGM's (currently over 200) to the property on a revenue share basis although this has now been amended to a fixed monthly lease payment.
  - **NagaWorld, Cambodia:** SVH has been providing EGM's to the NagaWorld Casino in Cambodia since 2008. SVH provides EGMs on a revenue share of GGR although the current agreement expires in September 2016.

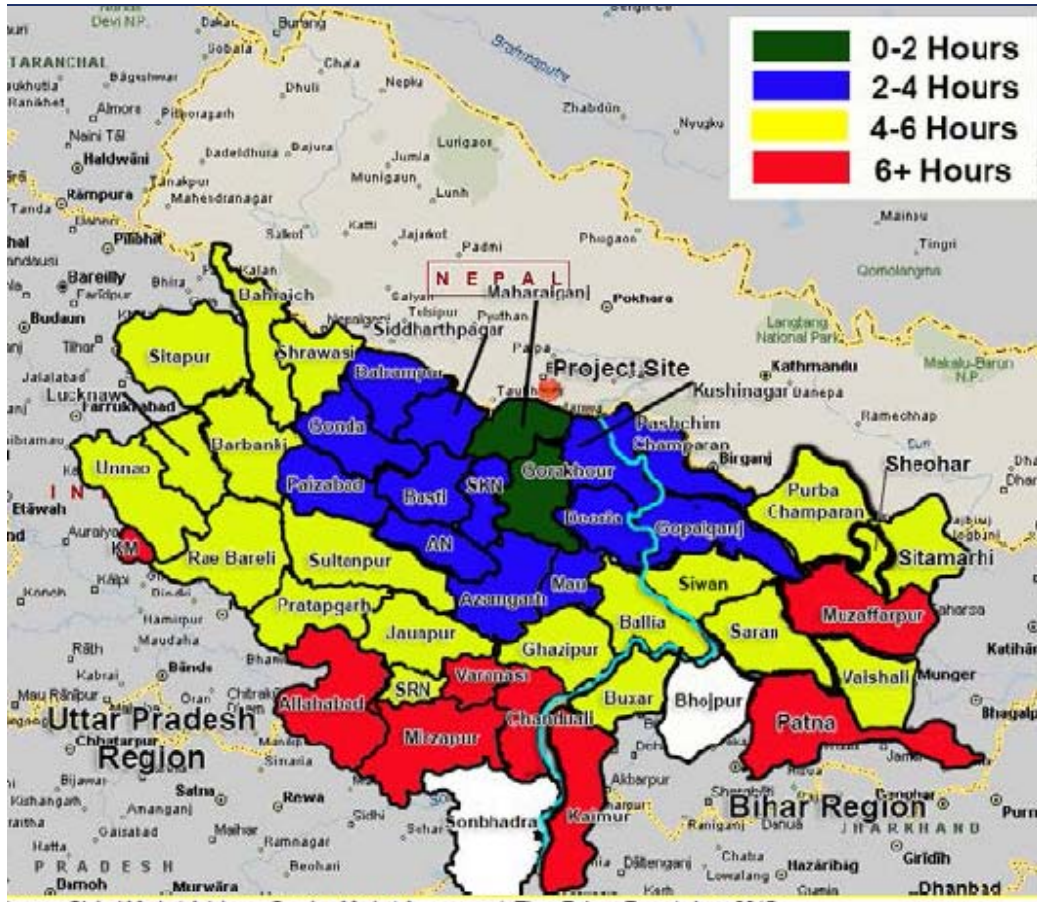
- **Gaming Concepts:** SVH holds 50% equity interest in Gaming Concepts Group, a Belize incorporated company, which sources and provides products from Europe, UK, Australia and the United States, including essentials for table games, cage, surveillance, security, VIP services and EGMs to gaming operations throughout Asia.

## The markets and regulatory environment

### Nepal

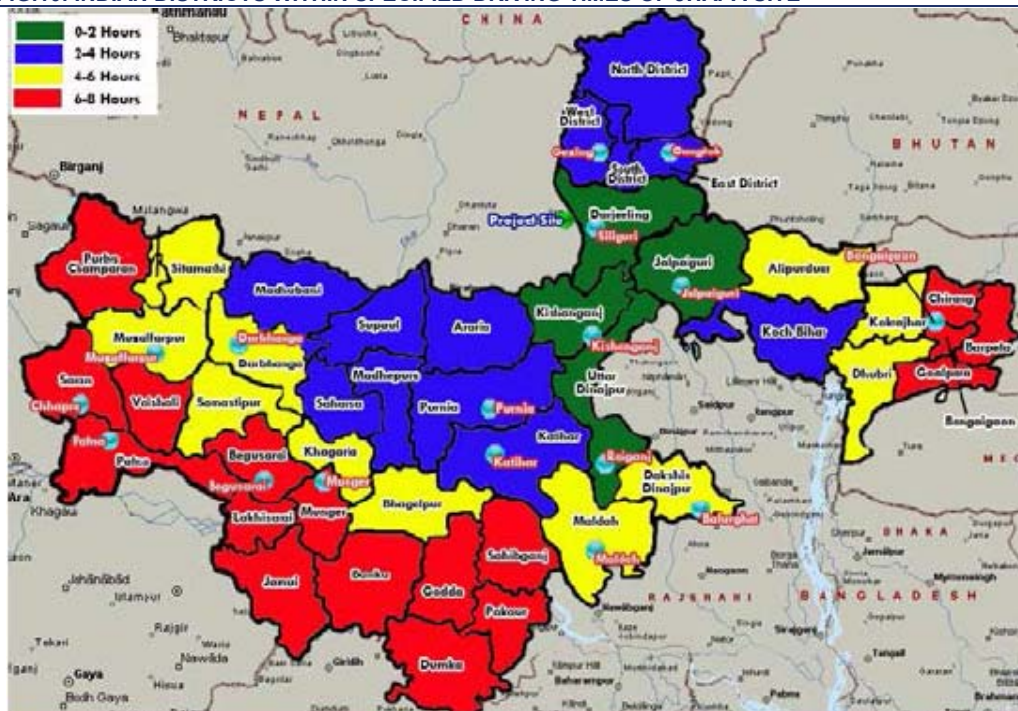
- **The market:** Casinos have been operating in Nepal for over 40 years although the Nepal Casino Rules introduced in 2013 resulted in a number of closures due to operators not meeting minimum property standards. There are now only three licensed casinos operating in Nepal, all of which are located in the capital city, Kathmandu – one of which is The Millionaire’s Club Casino operated by SVH. SVH is not presently aware of plans by any other parties to either develop or open casinos in Nepal at this stage but recognise that a number of existing five-star hotels do have capacity to house gaming. There are currently no casinos operating in Nepal outside of the capital although this will change with the proposed opening of SVH’s Tiger Palace Resort Bhairahawa in 2017 and potentially the further construction of SVH’s Tiger Palace Resort Jhapa.
- **Patronage:** With Nepalese citizens prohibited from attending casinos in their own country, the market (including SVH’s properties) is reliant upon international visitors and Nepal based expatriates. Whilst visitors will naturally include international tourists to the region, the main focus of Nepalese casinos is to target emerging middle-class customers from Indian states that are in proximity to the India-Nepal border. Gambling in India is regulated at the state level and at present only three states allow casinos – Goa (south), Daman (west) and Sikkim (small state in north-west). SVH is currently operating a casino in Kathmandu, and plans to operate two additional casinos in Nepal that are located close to the Indian border, and whose primary market will be Indians. At present no visa is required for an Indian visitor to Nepal. The Bhairahawa site is located less than 10 km from the Indian border, adjacent to a Special Economic Zone planned for major development. The Jhapa site is located approximately 12km from the Indian border in what is the main East-West corridor on the Indian-Nepal transport network. SVH’s proposed casinos in Nepal are adjacent to the Indian states of Bihar (pop. 103m), Uttar Pradesh (pop. 215m) and West Bengal (pop. 92m) - three of the four most populous states in India. As per FIG.9 and FIG.10 below much of the population of these states resides within four hours’ drive of the properties to be developed by SVH. A 2016 report to the Independent Directors of SVH by Frost & Sullivan projected that the middle and upper class population within eight hours drive of SVH’s properties by 2020 will be 20m for Bhairahawa and 15m for Jhapa. Both the Bhairahawa and Jhapa sites are serviced by Nepali and Indian airports. A further international airport is being constructed at Bhairahawa. FIG.10 also shows the history of Indian visitation to Nepal. FIG.11 and FIG.12 show international visitors to Nepal from 1991 to 2005 and the composition of tourists in terms of India versus other. Clearly visitation to Nepal was negatively impacted by the earthquake in 2014. Excluding 2015 CAGR tourist growth for 1991-2014 was 4.0%.

**FIG.9: INDIAN DISTRICTS WITHIN SPECIFIED DRIVING TIMES OF BHAIRAHAWA SITE**



Source: Silver Heritage Group

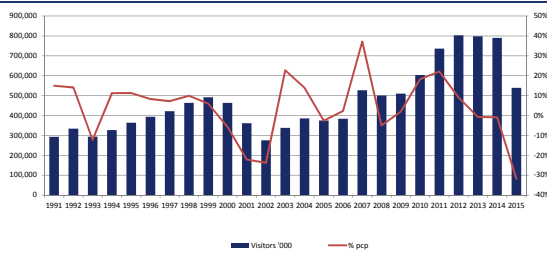
**FIG.10: INDIAN DISTRICTS WITHIN SPECIFIED DRIVING TIMES OF JHAPA SITE**



Source: Silver Heritage Group

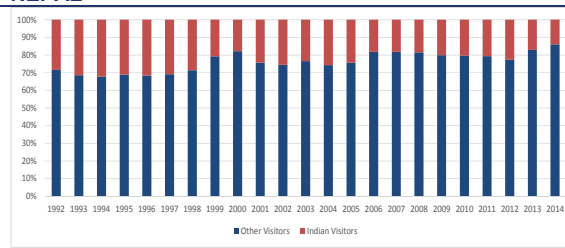


**FIG.11: INTERNATIONAL VISITATION TO NEPAL**



Source: Nepal Ministry of Tourism

**FIG.12: MIX OF INTERNATIONAL VISITATION TO NEPAL**



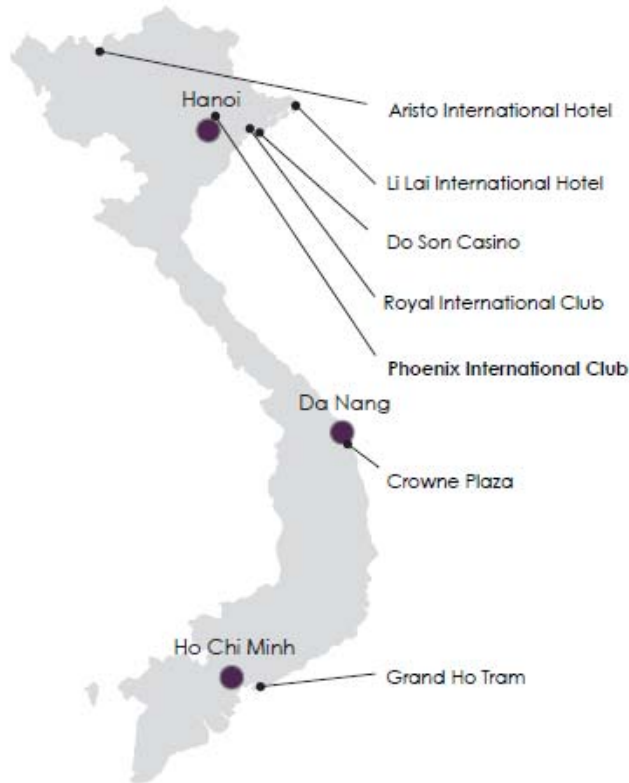
Source: Nepal Ministry of Tourism

- Regulatory environment:** The regulatory framework of the casino industry in Nepal is governed by the Nepal Casino Rules which was introduced in July 2013. A casino operator must first be licensed by the Ministry of Culture, Tourism and Civil Aviation (the “Nepal Ministry of Tourism”) with the licence renewed annually thereafter. SVH (through its operating subsidiary) was the first company to be granted a licence to operate a casino under the Nepal Casino Rules in February 2015. To gain and maintain a licence one must meet a range of conditions such as: 1) the operating company must be registered as a company under the laws of Nepal; 2) the casino must be located within the premises of a five-star hotel or other deluxe resort of a comparable quality; 3) casinos with only EGMs can be operated within the premises of four star hotels; 4) minimum paid up capital rules apply; 5) the casino must not be located within areas which are sensitive from religious and cultural perspectives; and 6) the casino must not be located within five kilometres of an international border.
- Taxation and royalties:** Casino royalties payable by a licence holder are contained in Nepal’s Finance Bill, which is updated annually. At present a licence holder operating live gaming tables is required to pay an annual royalty of NPR 30 million (approximately US\$280k).

**Vietnam**

- The market:** There are seven casinos in Vietnam which all provide live table and EGM gaming. There are an additional estimated 25 other gaming venues in Vietnam which offer EGMs only, and are attached to four or five-star hotels. The majority of these EGM-only venues are located in Ho Chi Minh City and Hanoi. The seven existing casinos in Vietnam are spread across the country, with the most concentrated area being in the northeast where there are three in proximity to Halong Bay and Haiphong. The nearest casino to the Phoenix International Club in Bac Ninh, where SVH supplies its services, is approximately 100 kilometres away in Haiphong.

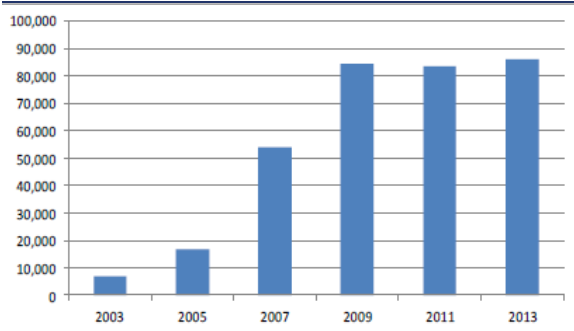
**FIG.13: LICENSED CASINOS IN VIETNAM**



Source: Silver Heritage Group

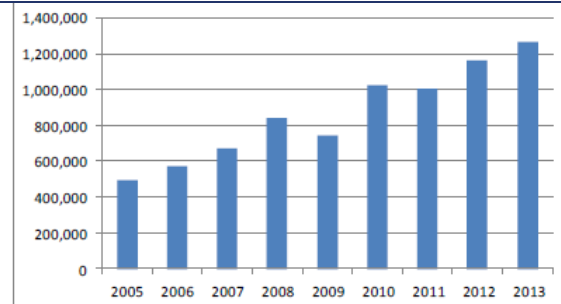
- Patronage:** Vietnamese citizens (who do not hold a foreign passport as a dual national) are prohibited from attending casinos in their own country. As such patronage at the SVH operated Phoenix International Club are mainly: 1) Vietnam-based expatriates; 2) international visitors (largely from China); and 3) Vietnamese nationals with secondary passports. The casino is approximately two hours from the Chinese border, with the Chinese province of Guangxi adjacent to the border. Guangxi has a population of approximately 47 million. The largest cities in Guangxi are the capital, Nanning (population 2.7m), Liuzhou (population 1.4m) and Guilin (population 1m). In terms of competition the travel time from Nanning in Gaungxi to Hanoi (near SVG's property at Bac Ninh) is about half the travel time compared to Nanning to Macau irrespective of the mode of transport. FIG.14 and FIG.15 highlight that visitation is underpinned by the increasing number of Korean residents in Vietnam and overall foreign business visitors to Vietnam. By way of example Samsung Electronics has a large plant at Bac Ninh which employs over 10k workers. Related company, Samsung Display is also building a major factory in the region.

**FIG.14: KOREAN RESIDENTS IN VIETNAM**



Source: Korean Ministry of Foreign Affairs & Trade – data only updated every 2 years.

**FIG.15: FOREIGN BUSINESS VISITORS TO VIETNAM**



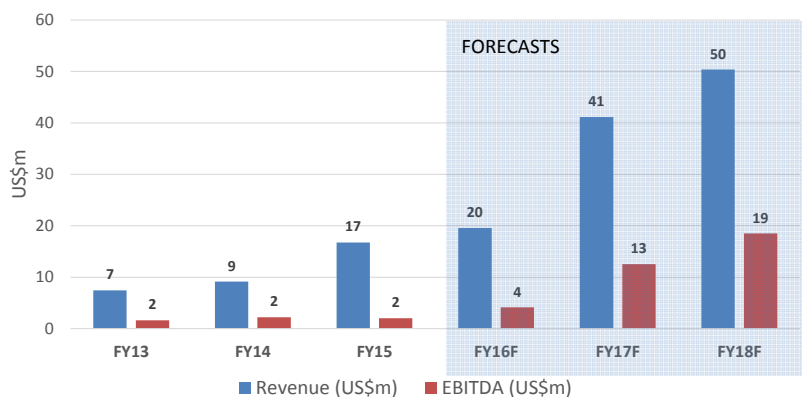
Source: General Statistics Office of Vietnam

- Regulatory environment:** To date the licensing of casinos in Vietnam has been somewhat fluid with the current seven operating casinos relying upon ad-hoc authorisations from the provincial people’s committee to operate live tables. The Vietnamese Government is currently considering a draft Casino Decree, which was originally circulated in 2012. Whilst future rules have not been announced it is anticipated that future licences will be only issued for casinos that are part of a high-value integrated resort.

## Financial commentary

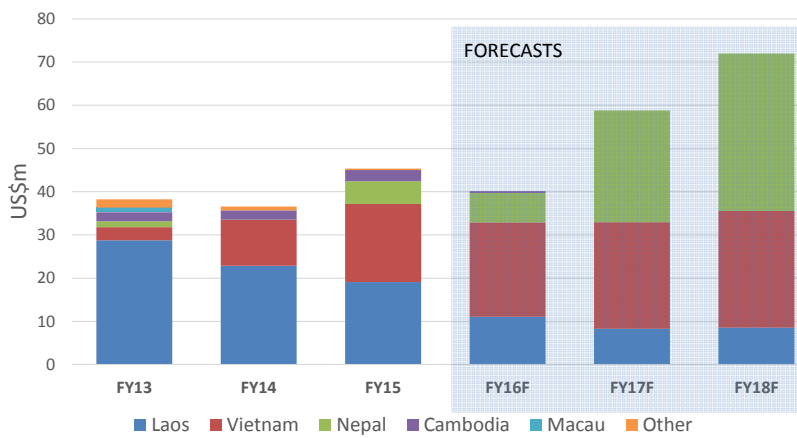
- Revenue:** SVH reports its financial statements on a December year-end basis in \$US. The IPO prospectus only covers forecasts to end FY16; this understates the SVH story with the hard opening of The Tiger Palace in Nepal scheduled for early 2017. As per FIG.16 below we estimate that The Tiger Palace will account for 60% of group EBITDA in FY17. Gross gaming revenue comprises revenue derived before gaming taxes and profit share from all properties regardless of whether that revenue is derived as operator, service fee, gross revenue share and/or EGM turnover from leased machines. Operating revenue is GGR less gaming taxes and revenue share.
- Other revenue:** Has traditionally comprised non-core revenue although from FY17 we have included a ramp-up in this line items due to accommodation and F&B at Tigers Palace.
- Changing business mix:** FIG.17 and FIG.18 below highlight the shifting geographical business mix with the launch of Tiger Palace from early FY17. Also, SVH’s contract to provide 60 EGMs to NagaWorld in Cambodia is due to expire in September 2016 and we have assumed it will not be renewed in line with the strategy to become a property owner/manager in its own right. Likewise, the revenue share contracts in Laos have two expiry tranches (December 2017 and December 2020) and we also forecast these to be phased out over time.
- Operating costs:** Consists of the direct costs associated with the management of the EGMs and casinos paid by the Group under management contracts and owned casinos, which also includes an allocation of attributable overhead.
- Overheads:** Consists of costs of the Hong Kong head office, including the executive team, audit and legal costs, and other costs not directly attributable to business units.
- Income tax:** Calculated based on the applicable statutory Group income tax rates in the jurisdictions in which the Group operates such as 22% in Vietnam to 25% in Nepal through tax incentives available to SVH.
- Minority interests:** Minority interests are forecast to increase from FY16 (and accelerate into FY17) as the equity stake of its local equity partner in Nepal increases from 1% to 10% post SVG’s IPO.

**FIG.16: SILVER HERITAGE GROUP – PRO FORMA REVENUE & EBITDA**



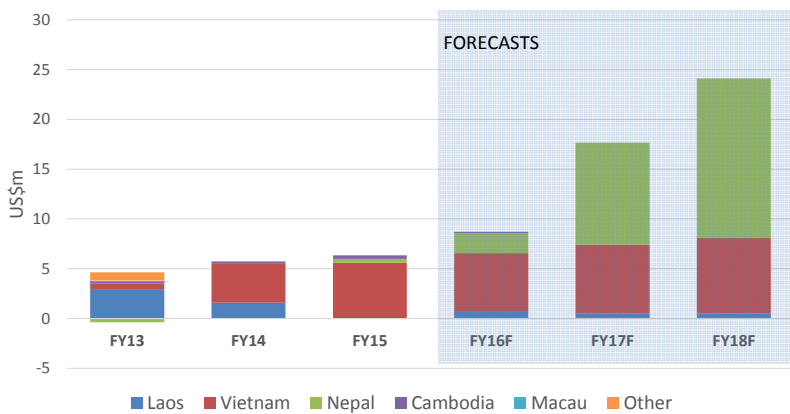
Source: SVH, Baillieu Holst forecasts

**FIG.17: SILVER HERITAGE GROSS GAMING REVENUE MIX**



Source: SVH, Baillieu Holst forecasts

**FIG.18: SILVER HERITAGE EBITDA MIX**



Source: SVH, Baillieu Holst forecasts

## Relative Valuation

**FIG.19: CURRENT ASIAN CASINO SECTOR MULTIPLES**

Casinos	P/E FY1	P/E FY2	EV/EBITDA FY1	EV/EBITDA FY2
<b>Australia</b>				
Donaco International	4.5	4.0	4.2	3.9
Galaxy Entertainment	23.3	22.0	12.1	11.6
Genting Malaysia	16.0	13.8	8.7	7.6
Genting Singapore	25.3	21.7	9.1	8.6
Melco Crown	41.4	30.3	11.5	10.3
NagaCorp Ltd	12.1	11.7	5.6	4.7
Sands China	24.8	22.3	17.3	16.4
SJM Holdings	26.5	21.1	6.1	4.3
Wynn Macau	21.1	17.4	13.4	12.5
MGM China	26.6	16.9	13.0	10.1
Crown Resorts	20.4	18.6	12.5	11.8
Star Entertainment	18.4	17.1	9.1	8.5
SkyCity	16.6	15.8	9.2	8.6
<b>Average</b>	<b>21.3</b>	<b>17.9</b>	<b>10.1</b>	<b>9.2</b>

Source: Bloomberg

## Board and Management

### **Mike Bolsover**

Chief Executive Officer & Managing Director

- Co-founder of Silver Heritage
- Born in Hong Kong, and educated in Hong Kong, UK, USA (degree in Finance from Emory University, Atlanta, GA)
- Lived and worked in Asia since 2001
- 16 years of gaming experience
- Innovation Group 'Emerging Leader Award' 2015

### **Hugh Holmes**

Executive Director – Specials Projects

- Lived and worked in Asia since 1990
- Harvard University Bachelors and Masters Degrees
- 25 years with Hilton and Intercontinental in Asia-Pacific

### **Tim Shepherd**

President – Business Development

- Co-founder of Silver Heritage
- Lived and worked in Asia since 1995
- BSc Hons in Business Studies from City University London, UK
- 17 years gaming experience

### **Martin Wright**

Chief Financial Officer

- UK Chartered Accountant
- Lived and worked in Asia since 1987
- Joined SHL in 2006
- Former Independent Non-Executive Director & Chairman of Audit Committee for HKSE Grande Holdings Ltd
- Member of ICAEW and HKICPA, BSc degree in Electrical & Electronic Engineering from Loughborough University

### **David Green**

Independent Non-executive Director

- Former chairman South Australian Gaming Authority
- Served as a partner of Deloitte Australia and PWC Hong Kong & Macau

### **Richard Barker**

Independent Non-executive Director

- Former CEO of Betcorp – ASX listed.
- Extensive experience in investment banking

### **Michael Anderson**

Independent Non-executive Director

- Independent Non-Executive Chairman of Ooh! Media
- NED of Fairfax Media

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**Hold:** The stock's total return is expected to trade within a range of  $\pm$ 10-15 percent from the current share price over the next 12 months.

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