

Chairman's message

Board of directors  
Executive management

Chief executive's review

Our strategy

Operational reviews



# CHIEF EXECUTIVE'S REVIEW

**ANTHONY LEEMING**  
Chief executive

## INTRODUCTION

Thanks are usually reserved for the closing of a chief executive's message, but this year I want to lead straight away with my deep gratitude to all the passionate and dedicated people who make a difference to this business every day. Despite the challenges of the environment we operate in, the resilience and forbearance of our people have ensured that we remain a thriving business that continues to make memorable experiences for our guests. Our new Sun Stars reward and recognition programme will shine a light on those who go above and beyond the call of duty.

On the back of an excellent performance in the first half of 2022, Sun International continued to deliver exceptional results in the second half of the year. Income for the year was up 44% from the prior year to R11.3 billion. Sustainable cost savings contributed to the South African adjusted EBITDA being up by 96% to R3.3 billion. Adjusted headline earnings improved from R110 million to earnings of R1.1 billion with adjusted headline earnings of 439 cents per share, up from 44 cents per share in the prior year. Sun International's performance reflects the quality of its operating businesses and disciplined execution on strategy, which continues to drive shareholder value.

Gaming income from casinos, Sun Slots and SunBet, which makes up 80% of group income, showed a significant recovery with income up 36%. The group was able to successfully defend and grow market share in all provinces, while income generated from Sun Slots recovered to pre-Covid-19 levels. SunBet generated record income during the year under review and is well on its way to achieving our aggressive growth targets for this business.

As a result of sustainable cost savings, the South African operations' adjusted EBITDA margin improved from 28.2% in 2019 to 29.7% in 2022. Without the impact of the net diesel costs of R53 million, due to loadshedding, the group would have achieved its targeted 30% adjusted EBITDA margin.

As at the end of 2022, the group acquired 22.6% of the issued share capital (equivalent to 24.7% of issued share capital net of accounting treasury shares) in Grand Parade Investments Limited (GPI) for R374 million. In addition, Sun International repurchased 1.9 million of its shares for R58 million. Even with these investments, the group is in a strong financial position with South African debt (excluding IFRS 16 lease liabilities) at R5.9 billion, down from R6.4 billion as at 31 December 2021 and debt to adjusted EBITDA at 1.84 times. As a result of the significantly improved financial position and strong cash generation, the group resumed dividend payments in 2022, with an interim cash dividend of 88 cents per share and a final cash dividend of 241 cents per share, bringing the total cash dividend to 329 cents per share for the year, which represents a dividend payout of 75% of adjusted headline earnings per share.

## OVERVIEW

The 2022 calendar year was the first in which operations were largely unimpacted by trading restrictions since the onset of the Covid-19 pandemic. Sun International has emerged from this period a de-gearred, more focused and higher margin business, with a distinctive omnichannel customer proposition across urban casinos, Sun Slots, SunBet as well as the group's resorts and hotels, demonstrating resilience of earnings, attractive opportunities for growth, and strong cash generation to support consistent return of capital to shareholders going forward.

## OPERATIONAL HIGHLIGHTS

### Urban Casinos

Our urban casino strategy is anchored on three core focus areas namely customer acquisition and retention, customer experience and margin improvement. Income has proven resilient and is swiftly recovering from the effects of the pandemic. Overall, urban casino operations generated adjusted EBITDA of R2 445 million for the year under review, up 71% from R1 433 million in 2021, with adjusted EBITDA margin at 36.4% reflecting a 200-basis point improvement on 2019 margins.

### Sun Slots

The Sun Slots business proved remarkably resilient, with a strong recovery in trading. It swiftly reactivated closed sites, resulting in 5 160 of the Limited Payout Machines (LPMs) being active for play during the year under review, and an increase of 508 machines relative to 2021. We continue to engage with the regulators to increase the roll out of LPMs to the 6 500 LPM positions that have been allocated. Sun Slots income increased 20% from R1 242 million to R1 491 million, with adjusted EBITDA up 17% from R313 million to R367 million for the year under review, notwithstanding the impact that escalated loadshedding had on LPM operations in the last quarter of the year.

### SunBet

SunBet has continued its strong growth trajectory and remains an exciting prospect, with long-term transformational growth potential for the group. Overall, income was up 86% on the same period in 2021 with growth of 135% in the second half of the financial year. Active players on our rapidly expanding online sports betting and gaming platform continued to grow, with additional games being offered and the overall player experience being enhanced. SunBet offers the group significant and exciting growth potential and we continue to invest in people, systems and marketing to significantly increase our share of the fast-growing online gaming market.

At the end of the year under review we achieved substantial growth in our key performance indicators against 2021, which included:

Active players up	Sports turnover up	Deposits up
<b>50%</b>	<b>23%</b>	<b>130%</b>

Strategically, we continue to leverage the Sun International brand, presence and loyalty offering to attract and retain players while positioning SunBet to be the most trusted and responsible gaming operator in South Africa. In a highly commoditised online industry, our competitive advantage lies in our ability to add value to the offering through the wider Sun International group.

On 1 August 2022, the Western Cape Gaming and Racing Board licensed the operation of slots-styled games. Since then, average monthly revenue has more than doubled and continues to grow rapidly. Based on international precedents, we believe online slots has immense potential for SunBet, and supporting our omnichannel strategy between land-based and online gaming. With our award winning Most Valued Guest (MVG) loyalty programme, this will allow SunBet to attract high-value customers at a very attractive cost of acquisition. SunBet's growth has been entirely self-funding, and strategically we remain focused on scaling the business and capturing meaningful market share in this fast-growing business.

We are on a focused journey to grow our current operating market and launch into new markets. We have concluded a 70% investment in SunBet Africa Holdings, for a consideration of USD3.2 million (R52.4 million). This company has online sports betting and casino licences to operate in Ghana, Zambia and Kenya. We are in the early stages of rolling out the SunBet operating model and brand in these markets, which have attractive long-term growth potential.

### Resorts and Hotels

Following a difficult start to the year with the closure of borders due to the Omicron Covid-19 variant, we have experienced a strong recovery in our resorts and hotels business. Domestic leisure, conferencing and sports and events revenues exceeded 2019 levels, while international leisure business recovered strongly in the second half of the year.

Total resorts and hotels income was up 65% on the prior year, to R2 571 million. Total revenue was in line with 2019 levels, while casino income exceeded 2019 as a result of us leveraging the Sun City Resort and Wild Coast Sun for the benefit of our MVG and SunBet customers. Overall, our resorts and hotels generated an adjusted EBITDA of R450 million, making a complete turnaround from the loss of R56 million in the prior year and adjusted EBITDA of R300 million in the 2019 year. The adjusted EBITDA margin of 17.5% reflects a substantial improvement from the adjusted EBITDA margin of 11.7% achieved in 2019 and represents meaningful progress towards achieving our margin targets.

### Nigeria

Trading in the hospitality and casino segments of the Federal Palace remains subdued. We continue to engage with the relevant authorities to ensure that we can exit our investment in Nigeria.

Chairman's message

Board of directors  
Executive management

Chief executive's review

Our strategy

Operational reviews

## STRATEGY IN ACTION

Our group strategy continues to stand us in good stead and our strategic objectives (shown below) are focused on delivering value to our stakeholders, through our people.

Progress against these strategic objectives is detailed on [Page 9](#)



The heart of our business will always remain the same: looking after our people, who in turn look after our guests so that they have memorable experiences at our properties. During the year, we delivered some exciting strategic innovations and changes as discussed below.

The strategic expansion of the Sun Vacation Club development comprising 258 units at a cost of R850 million has commenced on a phased basis. The initial phase of 58 units (48 three-bedroom and 10 four-bedroom units) will cost R295 million, of which R45 million was incurred during the 2022 year with the balance to be incurred in 2023. Gross sales to end February 2023 of R39 million have been achieved, which are well ahead of our feasibility. The demand and success of this phase will inform the timing and rollout of the remainder of this expansion. The refurbishment of 323 rooms at The Palace at Sun City, and the addition of a spa, were completed in November 2022 at a total cost of R187 million, of which R133 million was incurred during 2022. Following the refurbishment we are achieving higher rates and occupancies.

Phase 1 of the Boardwalk Mall opened at the end of the first quarter of 2022 and the remaining components opened in the fourth quarter of 2022. The mall has enhanced the overall precinct, is fully let and driving footfall to the property.

In Cape Town, GrandWest is undergoing an exciting expansion where the hotel will be expanded from 39 keys to 103 keys at a cost of R125 million, of which R19 million was incurred during 2022. The opening is anticipated to be in the third quarter of 2023. The existing

39-room hotel achieves an occupancy of 99% and can only accommodate a limited number of our top-end customers. These additional rooms will ensure that we can fully implement our out-of-town strategy and offer an enhanced customer experience, which will impact positively on gaming income.

The bounce-back this year through tournaments and activations has been fantastic. Black Opal, Black Pearl, Slots Royale and the SunBet Poker Tour all highlighted Sun International as an industry leader in gaming. Outside the casino floor, we also hosted numerous successful events, including a memorable 40th Nedbank Golf Challenge and several live concerts with international performers, with an equally impressive line-up for 2023.

In the background, a lot of hard work is going into driving the transition from Bally to Playtech Neon, with Carnival City expected to go live in August 2023. I look forward to the difference this will make in creating improved marketing capability and more efficient processes for our people and our guests.

Having the right people with the correct skillsets in the right positions is critical in our industry, as skills are scarce. During the year, several new senior appointments were made to bolster our strategic leadership team, including a chief executive officer of SunBet, chief marketing and sales officer and a director of finance for Sun International Management Limited. We continue to upskill employees through our various learning and development programmes and manage talent and succession within the group.

Our ESG strategy aims to embed the principles of ESG across all facets of our business to ensure that we deliver sustained value creation. Our holistic ESG focus allows us to measure, monitor and evaluate our contribution towards minimising our impact on the natural and social environments within which we operate, while ensuring sustainable value creation for all our stakeholders. A key focus during 2022 and going forward will be implementing our renewable energy plan, to address ongoing loadshedding, significant electricity tariff increases and increased diesel costs to run our back-up generators.

## BALANCE SHEET STRENGTH

### Debt

In December 2022, we successfully concluded the refinancing of our group debt, achieving an extension of tenure and more favourable pricing, given significant strengthening of the group's balance sheet. A key aspect of the refinancing was the incorporation of three ESG related key performance indicators (KPIs), further demonstrating Sun International's commitment to being a responsible corporate citizen. The sustainability KPIs relate to increased procurement by Sun International, across its supply chain, from companies with black-women ownership of at least 30%, as well as the increased use of renewable energy in powering the group's operations, and increasing its recycling

of general and hazardous waste. Approximately 40% of our debt has these KPIs attached to their terms. These KPIs will be independently measured annually for the next four years and on achievement of these KPIs we will receive a pricing reduction. In the unlikely event that we do not achieve all of these KPIs there will be a small pricing increase.

Sun International is the first listed company in the gaming and leisure sector in South Africa to implement a sustainability linked debt-refinancing programme, demonstrating the group's commitment to leadership in ESG and responsible business practices within the sector.

The group is in a strong financial position, with group debt (excluding IFRS 16 lease liabilities) having reduced from R7.1 billion at 31 December 2021 to R6.6 billion at 31 December 2022. Our South African debt reduced from R6.4 billion at 31 December 2021 to R5.9 billion at 31 December 2022, after allocation of cash generated to capital expenditure, investments, share buy-backs and dividends. Our South African debt to adjusted EBITDA and interest cover of 1.84 times and 6.51 times respectively is well within our lenders' covenants of 3.25 times and 3.0 times respectively. Our statement of financial position is in a strong position with unutilised facilities of R2.5 billion. We continue to prioritise increasing free cash flows and disciplined capital allocation to maximise shareholder value within a set of fundamental capital allocation principles.

Sun International's dividend strategy is to provide its shareholders with an appropriate, sustainable payout over the long term. With the significantly lower debt levels and as the business returns to pre-pandemic levels, we anticipate that our debt to adjusted EBITDA ratio will continue to improve. This enabled the board to resume the payment of dividends for the first time since 2016 at our June 2022 interim reporting period.

Going forward the group will target a debt-to-adjusted EBITDA ratio, excluding acquisitions, of two times and a dividend pay-out ratio of 75% of adjusted headline earnings per share on a sustainable basis.

### Share buy-back

Given the inherent value that the Sun International shares offer, the company embarked on a share buy-back programme during the last quarter of 2022. The company acquired and cancelled 1.9 million of its own shares at an average price of R31.14 per share for a total purchase consideration of R58 million. The board is committed to returning capital to its shareholders through dividends or share buy-backs, whilst remaining cognisant of the limited liquidity of Sun International shares.

## REGULATORY ENVIRONMENT

We continually monitor our regulatory environment and engage proactively with the gambling boards on casino-related legislation to ensure we maintain our licence to operate. Online gaming legislation is increasing as this market continues to grow. Key legislation that will impact our business includes GrandWest's licence exclusivity, the proposed smoking legislation and ongoing changes in casino licence conditions.

Detail around how the group is addressing these regulatory matters is in the enterprise risk management section on [Pages 29, 31](#)

## OUTLOOK

The group's urban casino properties and LPM operations are demonstrating continued resilience despite the tough operating environment. SunBet is achieving record numbers in terms of revenue and all key indicators and will deliver another step change this year. Our resort and hotel properties have continued to perform exceptionally well, and we anticipate another good year from them in 2023.

Loadshedding is impacting our costs, with diesel expenses of between R12 million and R14 million being incurred per month, with an approximate 20% offset saving in electricity. We have accelerated our programme to explore all options around a comprehensive energy plan which will not only solve this challenge, but also achieve good returns on capital.

Our balance sheet remains strong and guided by our clearly laid out capital allocation framework. Going forward, we will continue to be disciplined with capital allocation, targeting a 2 times net debt to adjusted EBITDA and paying out 75% of adjusted headline earnings per share as dividends.

## APPRECIATION

A special thanks to our chairman and our non-executive directors who provide unwavering support and guidance and have set the group on a clear and well-defined strategy. Thanks to my management team, employees and our suppliers who continue to live up to our purpose of creating great memories for our guests. I am excited about what the future holds for Sun International and look forward to a busy and rewarding year ahead.

### ANTHONY LEEMING

Chief executive  
31 March 2023