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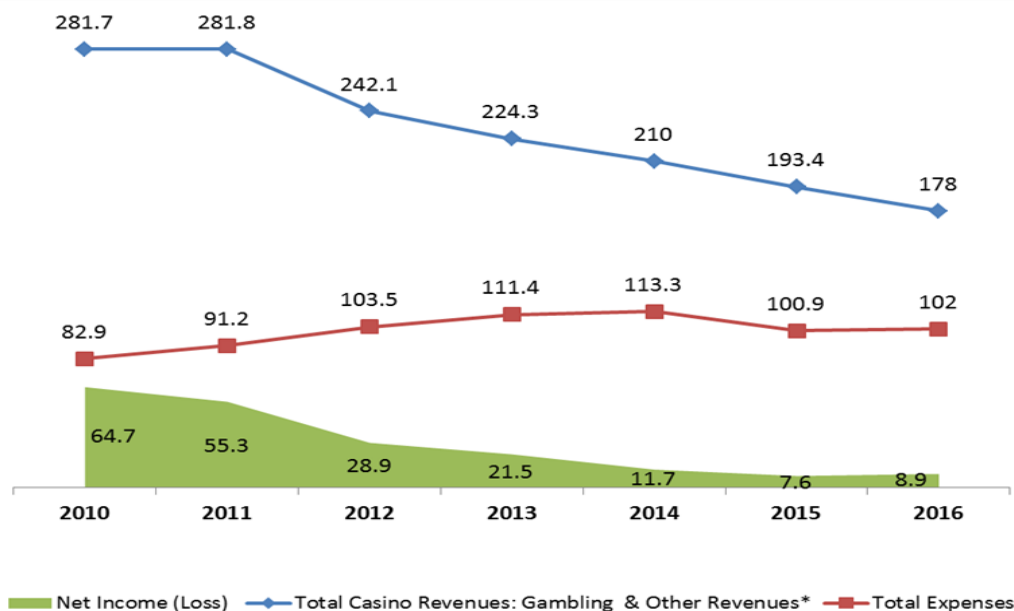
"Casino gaming has wider social and economic implications. [...] The profile and tourism revenues generated by casino gaming can bring major benefits to cities and entire regions." (PWC Gaming Outlook 2011-2015, 2011)

Casino du Liban (CdL or the Casino hereafter) was founded on October 8, 1957 in accordance with the presidential mandate number 16694. It is a gambling entity that signed an agreement with the national government in 1995, enabling it to offer exclusive gambling (entertainment) services within the tourism industry until 2026. Intra Corp. s.a.l., affiliated with Banque du Liban (BDL), owns 52.32% of CdL, while the remaining 47.68% are distributed among investors and board members.

Unfortunately, from 2010 to-date, the Casino' s profitability declined for a number of external challenges and internal setbacks. On a macroscopic scale, the Lebanese economy has undoubtedly reduced the number of tourists since 2011, which slashed the number of gamblers and the Casino' s revenues too, as the study explores. Microscopically, the report digs further into CdL' s profitability, providing a detailed financial analysis of the entity' s performance from 2010 to 2016. It analyzes key internal impediments constraining the casino' s income from gambling and proposes ways to boost revenues also from alternate sources, such as: Food and Beverages (F&B aka restaurants), Theater, and Parking.

Room for improvement is vast to create an additional source of revenue for a country as highly leveraged as Lebanon. With support summoned from the government, the private sector, the entity's corporate governance and its new management's transparency, Casino du Liban possesses the potential to reclaim its past profitability, caliber, and to become a game changer on the Lebanese tourism sector, Beirut's capital market, and the country's budget-constrained economy.

Casino du Liban: Profitability and Trends 2010 - 2016 (in \$M)



Graph: Blom Invest Bank, Data: CdL Financial Reports 2016

Other Revenues: include distinctive Revenues from Food & Beverages, Theatre, Parking*

When confidence was lost in the Lebanese economy post-2011, entertainment, a discretionary consumer spending within the tourism and hospitality industry, was exposed.

Casino gaming is a universal and unique source of entertainment and government revenue; yet, according to PricewaterhouseCoopers' (PWC) Global Gaming Outlook which highlighted trends by 2015, gaming is dangerously "exposed to changes in economic confidence and conditions" .

In turn, investors' and tourists' confidence in Lebanon was shattered with the outbreak of the Syrian crisis in 2011 and an Arab travel ban starting 2014.

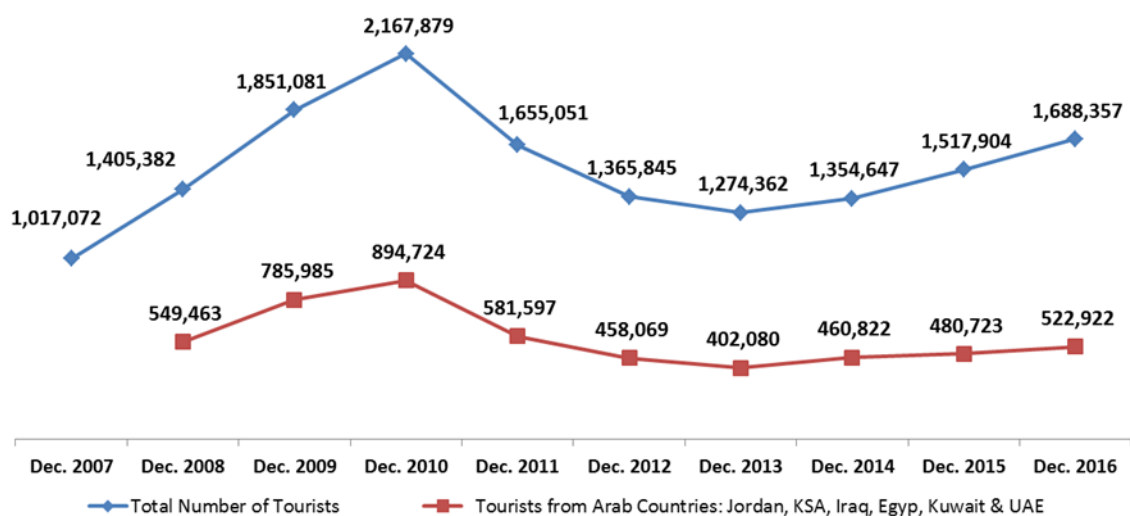
The major external factor inhibiting the Casino from generating sustainable revenue in the past years is the political uncertainty in the country and regional geopolitical tensions. The Lebanese economy had recorded a solid growth averaging 9% between 2007 and 2010; activity in the tourism and real estate sectors, key drivers of the Lebanese economy, had picked up. In parallel, Casino du Liban's management was able to distribute a record high of \$215 per share to its investors by 2011 as a result of revenues accumulated from the 4-year optimistic drive.

However, in 2011, growth rates retreated to 1-2% according to the IMF and a regional, local economic deterioration loomed.

Worsening economic conditions in addition to the ban imposed by GCC governments discouraging nationals from visiting Lebanon since 2014 in fear of political instabilities prevented the distribution of profits to the Casino's stakeholders during 2012 - 2016.

Lebanon is the only country in the Arab region with no cultural restrictions on gambling, which constitutes a main tourist attraction to relax, have fun, and unwind. Yet, total casino revenues (from gambling and other activities) fell by 14.1%, 7.4%, 6.4%, and 8% in 2012, 2013, 2014, and each of 2015 and 2016, respectively, to settle at \$178M by 2016. The combined effect of these external factors slashed total tourist arrivals. Thus, tourist spending, including spending on casino gaming, contracted.

Annual Number of Tourists by December



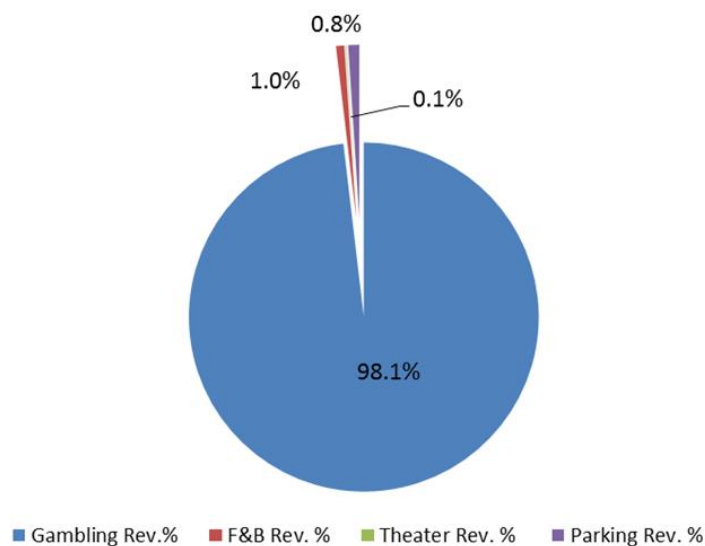
Graph: Blom Invest, Data: Ministry of Tourism in Lebanon

it also struggled to break even on the F&B operations and Theatre services as elaborated in the next sections.

Casino du Liban’s income structure involves four sources of revenue, but management’s reliance on one main source may prove unhealthy and require urgent reform.

Similar to the conventional operations of casinos in the USA and Europe, CdL’ s income from Gambling is substantial.

Sources of CdL Revenues in 2016 (in % of total gross revenues)



Graph: Blom Invest; Data: CdL Financial Reports 2016

However, in the context of improving the Casino’ s efficiency and contribution to national GDP, this income-structure today is questionable. CdL’ s gross gambling revenues stood at \$174.7M in 2016, revealing a contraction of 36.4% from 2010’ s. Such returns from the largest income contributor in CdL’ s return model, are insufficiently fueling the entity’ s net profits, let alone assisting to cover the substantial losses generated by the F&B and Theater services.

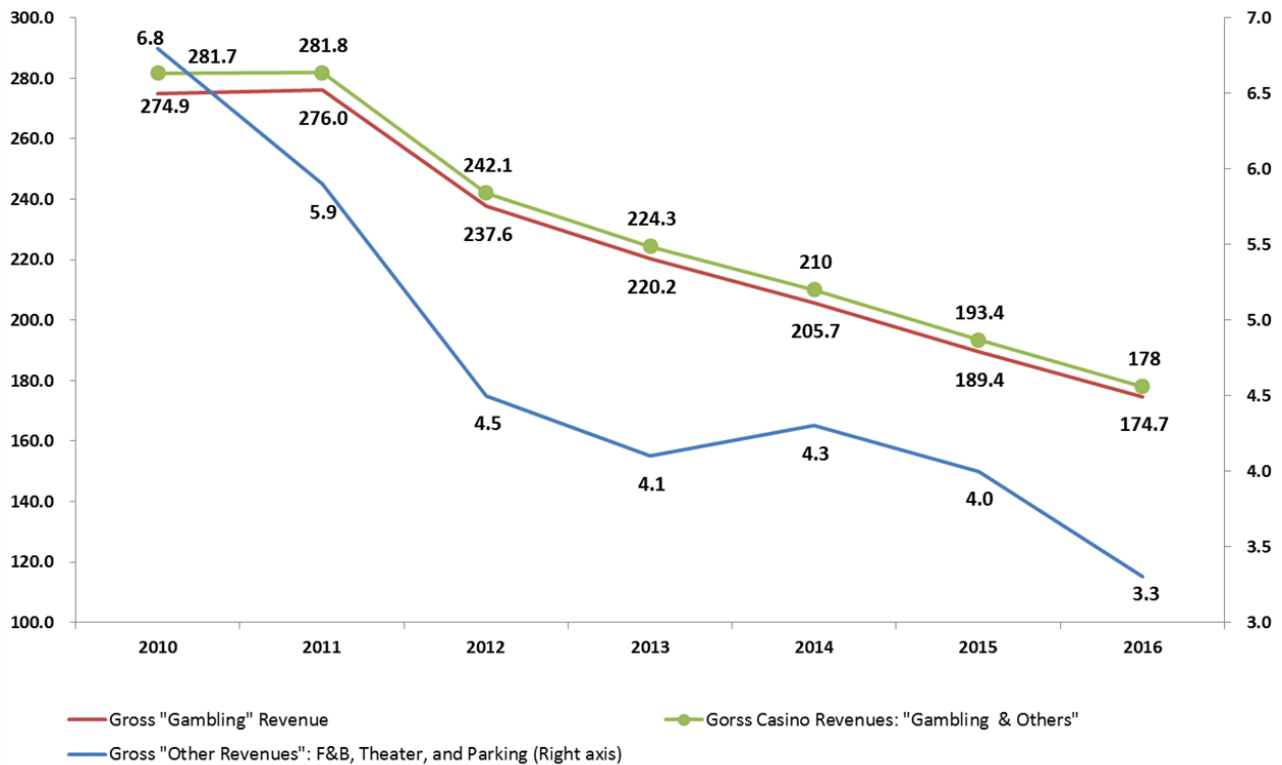
Casino du Liban’s key operations and secondary revenue-generators are on a downward trajectory because of multiple “internal” challenges.

CdL is a historical touristic attraction, and above all, a fixed contribution to the government’ s budget. The licensing agreement between CdL and the government grants this last takes a fixed 30%, 40%, and 50% of the casino’ s Gambling profits in

Monte Monte Carlo of the Middle East: Can Casino du Liban Reclaim its Throne?

the first, second, and third decade of its operations, respectively, noting the base year is 1996.

Breakdown of Casino Revenues in (\$M)



Graph: Blom Invest, Data: CdL financial statements

First, the Casino has been a victim of a violated gambling “exclusivity”.

The contract between Casino du Liban and the Lebanese government is based on Law 320, which licensed CdL as a gambling entity for 30 years starting from 1996, when the Casino was back into operation following the damage caused by the Lebanese civil war.

The entity was also granted the right to exclusively administer gambling activities, not only in the region of Keserwan where it is located, but throughout all of Lebanon.

However, the Casino today finds itself in direct competition with countless illegal, small-to-medium-sized casinos it was never equipped to fight, by law or by business strategy. Since 2010, the revenue generated from gaming (97.6% of CdL’ s Gross total revenues) fell from \$274.9M to \$174.7M in 2016. At the same time, no action was

taken to boost or improve "Other Revenues" , namely from restaurant services and theater.

The national Laws 697 and 1139 enacted by the ministry of interior in June 2012 suppressed hopes to improve gambling revenues, as they permitted gambling in "illegal" casinos.

Over the years, loose regulatory systems in Lebanon and widespread corruption dethroned Casino du Liban, stripping it from its legal monopoly status in the casino gaming market.

This 'healthy monopoly' would allow CdL to contribute dynamically to national tourism and budgets via percentages agreed upon with the government. Nonetheless, permits were granted to individuals desiring personal gambling businesses that do not have fixed financial contributions negotiated with the authorities. These Casino-imitations are spread across Lebanon, even in the proximity of the Casino du Liban.

Additionally, illegitimate lenders wander around CdL, lending large sums of money to gamblers.

These last would resort to the politically-covered middlemen offering unregulated borrowing services, instead of opting for a centralized, legal, and organized lending procedure CdL can run profitably, were it granted the right to initiate an internal corporate lending "fund" .

Second, the new Law 174 banned smoking in all public places in Sept.2012 and the Casino was not exempt from the legislation's detrimental repercussions.

The majority of the Casino' s clients, especially gamblers, are adult smokers. When the law was enforced, CdL could not apply for "special licenses" to dilute the repercussions of the new law on its gambling clients as well as its restaurants' customers. So, it had no choice but to abide or pay the expensive penalties. Despite the nature of its agreement to work through and with the authorities and share profits from operations, CdL failed to earn the deserved national support on this matter to-date, which could financially benefit the entity itself and the country' s afflicted budget.

The non-smoking law weighed down heavily on the financial performance of the Casino despite internal restructuring.

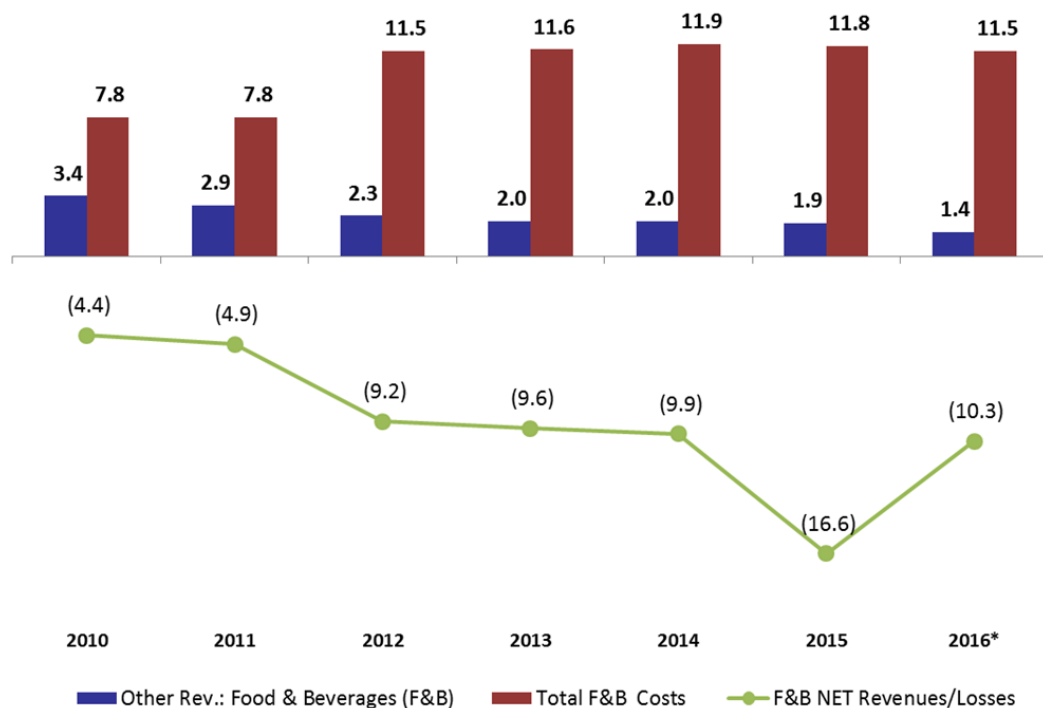
Monte Monte Carlo of the Middle East: Can Casino du Liban Reclaim its Throne?

CdL's gambling revenues continued their decline despite the managing committee's actions to keep up with the industry's trends and changes. Internally, the casino was striving to boost gambling revenues. It still expanded the gaming lounge, added 145 new slot machines, and by 2016, CdL offered clients access to 602 machines. Furthermore, all slot machines which accepted change were replaced with the digital, modern, international Ticket-In Ticket-Out (TITO) system. Lastly, a new "reform" management was appointed this mid-April 2017, headed by Mr. Roland Khoury.

The F&B (restaurants) department was not breaking even for the past 6 years.

In addition to the effect of the smoking law on the already cost-burdened Food and Beverages of Casino du Liban, the F&B costs were magnified over the years. Gambling revenues dropped, but the greatest chronic burden weighing down on operations' revenue is the substantial Salaries Bill of the outlets, which constituted on average 91% of total F&B costs from 2010-2016.

Profitability (Loss) of F&B Services at CdL (in \$M)



Graph: Blom Invest; Data: CdL financial reports

2016*: Total F&B Costs include Raw Materials & Salaries; Salaries expense is estimated at \$10.9M as the exact figure is unavailable in 2016's reports

CdL's performance on Theater and spectacles indicates no recent efforts to nurture this 'other' casino enterprise.

CdL was a worldwide attraction pre-1975, renowned for hosting high-caliber, phenomenal spectacles, such as *Hello, Mais Oui*, and the *Miss Europe election* (this last held over six consecutive years from 1960 - 1965). Paris-based producer Charlie Henchis showcased the national possession of technical resources to stage extravagant shows in CdL's 'theatre', attracting distinguished foreign companies to Lebanon. The shows explicitly placed the country on the touristic map.

Unfortunately, post-1990, CdL's theater enterprise ceased to contribute to the Casino's profits.

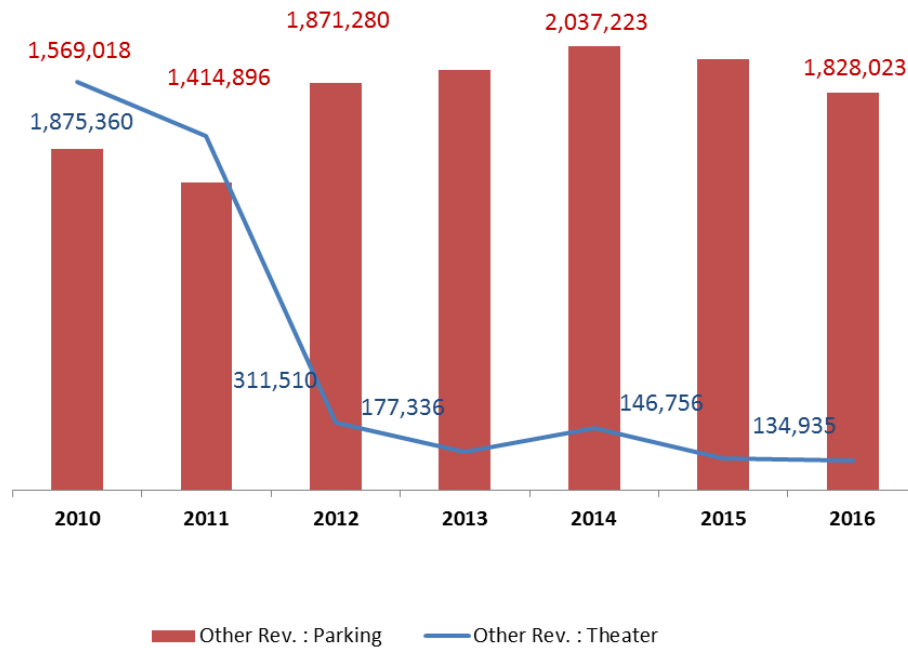
It became difficult and expensive for international artists to come into Lebanon without basic local facilities extended with the government's support. Furthermore, the technical talent and drive to manage the Casino's theater enterprise has not been modernized or renewed via the adequate initiatives or the needed dynamic human capital investments.

However, the manifesto of the new elected board promises to lead the Casino into a new era of cross-departmental, complementary successes.

Plans include picking up from key reforms the previous board conducted and seeking collaboration with Lebanon's festival organization-committees and the ministries of finance and of interior, to regain CdL's exclusivity and profitability sourced by the Casino's four-sided revenue model.

Lastly, the Casino successfully generated stable income from the revenues of its parking activity.

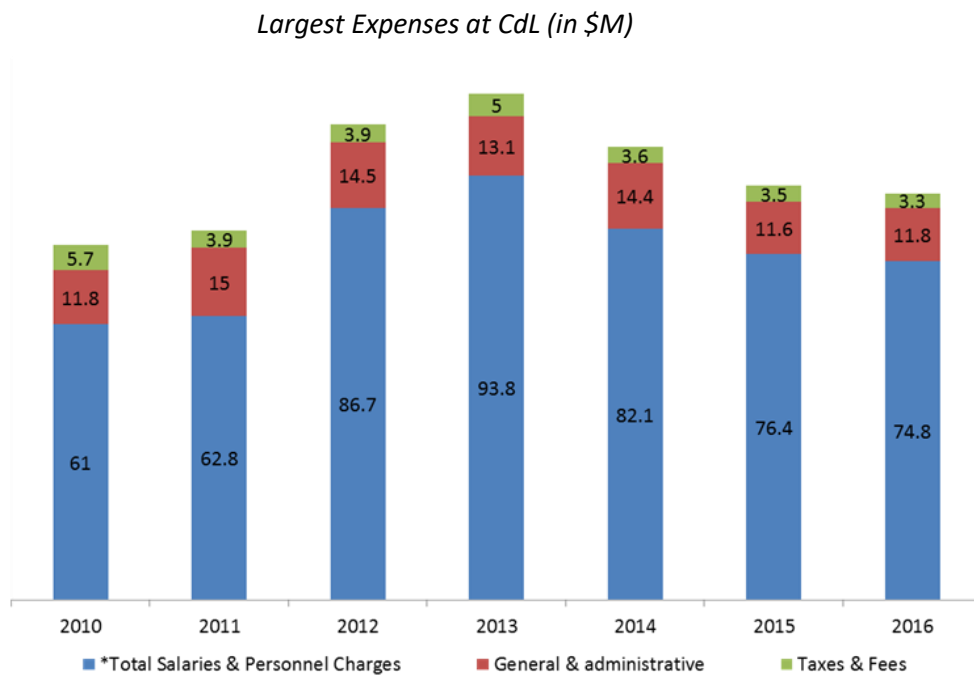
CdL's "Other Revenues": Theater and Parking



Graph: Blom Invest; Data: CdL financial reports

In turn, the Casino's total expenses remained on an upward trajectory whilst total revenues declined.

In 2010, total expenses accounted for 29.4% of total revenues; they subsequently grasped shares of 32.4%, 42.8%, 49.7%, and 54% from 2011 – 2014 as spending peaked in 2014. Even though total spending was tightened by 2015, expenses still earned a stake of 52.2% of total revenues. In 2016, expenditures climbed back up, grasping 57.3% of total revenues.



Graph: Blom Invest; Data: CdL financial reports

*Total Salaries & Personnel Charges: include F&B-salaries & benefits.

The alarming trends in CdL’s expenses called for tightening the belt on the largest annual costs incurred.

The Casino’s total expenses in 2010 stood at \$82.9M and peaked at \$113.3M in 2014, primarily fueled by the spikes in Salaries and Personnel charges (S&Ps) including F&B salary bills. In fact, salaries expenditures increased from \$69M in 2010 to highs of \$93.8M in 2013.

They constituted 75.9% of total expenses on average from 2010-2016. In the same line of analysis, General and administrative charges grasped a share of 13.1% of the casino’s total expenses on average since 2010, while Taxes and fees to the government accounted for 4.7% of total expenses over the same period.

Nepotism across the Casino’s employments obstructed the tightening of S&P costs.

Chronic political interferences and corruption in the assigning of employees at CdL encouraged favouritism and inflated personal benefit-bills for approximately 300 employees characterized by: low productivity, inadequate skills, and/or inefficient performance.

The swelling in S&Ps may also be attributed to payments owed by the Lebanese National Social Security Fund (NSSF) to the Casino.

By 2016, the NSSF owed CdL \$25.6M in the form of accumulated suspended payments, which forced the Casino to account for \$8.31M allocation expense.

Efforts to reduce spending, particularly employees' costs, emerged beginning 2014.

S&Ps constituted approximately 84% of total expenses in 2012 and 2013. However, starting 2014, employee costs composed 72.5% of total expenses, before increasing back to 75.7% in 2015, and they went back down to 73.4% in 2016.

The Casino's management implemented an "employee reform plan" in January 2015 through which it settled an exceptional payment of \$27.1M in one lump sum. The expense came in the form of "Employee termination indemnities" for 133 'inefficient' workers who were sacked that year. As a result, the Casino's Board limited its losses and disciplined the salaries expense.

The Casino's General and administrative expenses (G&As) showed mixed trends.

Utilities and Professional fees made up 20% and 19% respectively, of total G&A sub-components during the six-year period. From 2010 to 2011, G&As rose by 27.3% to \$15M, after which they slipped by 3.3% in 2012 and by 9.5% to stand at \$13.1M in 2013. They picked up by 10.3% in 2014 yet plummeted by 20% to \$11.6M in 2015. G&As returned back to their 2010 levels at \$11.8M by end 2016.

Meanwhile, Cyprus, the closest regional rival of Lebanon in tourism, is preparing to launch the first multi-themed casino in Europe by 2018.

The initial bid for Cyprus' legislated casino stood at €600 million. The global Melco and US Hard Rock was awarded the bid and it expects launching and revenue-generation by 2018. Leaders expect the attraction to bring in millions of euros to the Cypriot government in the first years of operation as the casino is promoted abroad, attracting tourists from Europe, Russia, and the Middle East.

The Cypriot project will be a more modern version of what Casino du Liban used to be to European and Arab tourists pre-1975: Le Monte Carlo.

The Cypriot 'mega casino' will comprise of an estimated 500 hotel rooms, 100 gaming tables, more than 1,000 gaming machines, in addition to conference, leisure and event facilities: restaurants, theme parks, waterparks, bars, cafeterias, gyms, shops and spas. In reality then, Lebanon's share of tourists who chase the activities and benefits of the Mediterranean Sea and the attractive moderate climate stands highly jeopardized today. Entering in direct competition with a similar investment/entity, such as the Casino du Liban, becomes a priority.

Against this backdrop, the Lebanese government and CdL' s management share the responsibility to diversify CdL' s revenue sources, across F&B and shows, rather than rely on gambling alone.

In Deloitte's 2017 global travel and hospitality industry outlook report,

"Sustaining gambling revenue is proving to be a challenge—even [in] premier properties. For major players in gaming, attracting visitors may require [...] traditional attractions like slot machines and table games [to] share more of the limelight with other entertainment culture elements such as high-end restaurants, nightclubs, and shows."

A chunk of regaining CdL's competitiveness and boosting the national economic returns it contributes relies on the privatization of Casino du Liban.

Before the 1996 re-opening of the Casino following the damages of the 1975 civil war, it operated efficiently as a privately owned entity not only generating profits, but also attracting worldwide talents and tourists to its outlets and shows. Given the nature of Lebanon' s challenging infrastructure, its burdened government budget and widespread corruption, an orderly privatization of CdL would better guarantee the entity hires the right talent in the right place, to restore the image of Casino du Liban regionally and internationally as the government already has its hands full.

It is crucial that Lebanon also joins the race against Cyprus and other neighboring countries to attract new segments of tourists and remain the region's key attraction.

Tourism is a primary industry capable of kick starting the Lebanese economy. It contributes largely to the national GDP. In face of the external competition highlighted, the CdL range of services must be enhanced to create new segments for tourism.

For instance, the Casino can benefit from its prime location on the sea for the next 10 years of operation.

Casino du Liban falls right by the sea, overlooking the bay of Jounieh. Opening an entrance into CdL from the sea (shore) and ensuring shuttle services via simple, organized logistics can take tourists to- and from CdL, luring more tourists and thus boosting profits.

Besides, Lebanon is renowned for its nice weather almost 9 months per year.

Therefore, we also propose the gambling customer experience be complemented with a “gambling terrace” that offers CdL’ s clientele a chance to play outdoors, enjoy the weather as well as the panoramic sea view of the entity on the Mediterranean.

Hotel rooms over the already existing premises of Casino du Liban may also boost the F&B revenues and create a new source of “room revenues” for CdL by offering competitive rates or special packages for the casino’ s clients.

CdL’s management may also collaborate and partner up with major summer festival destinations in Lebanon to boost revenues from the F&B and theater enterprises of CdL. National events like Jounieh’ s, Beiteddine’ s, or other summer festival destinations all share the common goal to: advertise Lebanon abroad and support the Lebanese heritage. Enriching the whole customer experience via Casino du Liban’ s existing strengths will attract international artists and production companies. In turn, these will provide employment opportunities for Lebanese artists and graduates. With the right talent in place, the shows will attract an audience, and thus begin to generate profits again and finance itself.

On the longer term, Casino Du Liban has the potential to create a major shift in the capitalization of the Beirut Stock Exchange (BSE).

The Euromoney conference held at Phoenicia Hotel on May 15, 2017 confirmed that the Capital Market Authority (CMA) has recently legislated, in collaboration with the World Bank, the legal and professional development of Lebanon’ s capital market, beginning with the privatization of the Beirut Stock Exchange. Casino du Liban can be that entity that attracts investors and creates a major shift in the BSE capitalization when listed.

Lastly, the governance of the Casino is the responsibility of the entity’s newly-elected board.

More efficient internal monitoring techniques and reformed management strategies must be in place, to limit inefficiency and corrupt employee attitudes, to work hand-in-hand with the government’ s support. CdL’ s governance structure should become more transparent.

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