



RAM Ratings lifts Rating Watch, reaffirms Dreamgate's ratings

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RAM Ratings has lifted the Rating Watch (with a negative outlook) and has reaffirmed the respective long- and short-term ratings of Dreamgate Corporation Berhad's (Dreamgate or the Group) RM200 million Commercial Papers/Medium-Term Notes Programme (2007/2014) ("CP/MTN"), at A1 and P1; the long-term rating has a stable outlook. Dreamgate is involved in sales and marketing, and the provision of technical support as well as maintenance and management services vis-à-vis gaming and amusement machines/equipment.

The Rating Watch had initially been placed on 4 March 2009, prompted by concerns that recent changes in Cambodia's gaming regulations could adversely affect Dreamgate's credit profile, as the Group's technical support and management services ("TSM") concessions in that country contribute about 80% of the Group's TSM revenue. In December 2008, the Cambodian government had issued a directive to ban its citizens from slot-machine gaming. At the time, slot-machine operators had been directed to remove their gaming machines from entertainment clubs by June 2009; such machines could thereafter only be located in licensed casinos and hotels. Another directive was subsequently issued in February 2009, requiring all slot machines in hotels to cease operations immediately, pending a full review of their licences and compliance with the earlier directive. About 3,300 of Dreamgate's slot machines had been affected by these rulings.

Meanwhile, the reaffirmation of the ratings reflects Dreamgate's quick progress in replacing the lost income from its Cambodian operations. "Besides relocating some 90% of the affected slot machines to new and existing concessions, the Group has also secured 3 new TSM contracts while finalising 8 additional concessions. These new TSM concessions, which run for an initial period of 5 years, are expected to generate consistent income to the Group over the longer term," says Kevin Lim, RAM Ratings' Head of Consumer and Industrial Ratings.

Although we expect Dreamgate to experience a blip in its financials in FY Dec 2009, the Group is well poised to rebound next year, once the machines have been fully redeployed and the new locations start contributing consistent income after an initial gestation period. Dreamgate's credit profile is anticipated to recover swiftly by FY Dec 2010, with its funds from operations debt coverage ratio recovering to above 0.40 times.

In the meantime, the ratings are also supported by Dreamgate's improving geographic diversity, with more balanced contributions from the Philippines, Cambodia, Macau and Laos going forward. In particular, prospects in the Philippines and Macau are encouraging due to their more regulated operating environments and higher average gross revenue per slot machine. Also, Dreamgate's established relationships with its customers and suppliers are expected to give the Group an edge over the longer term.

On the other hand, the ratings remain moderated by the Group's exposure to political and regulatory risks; the bulk of Dreamgate's business emanates from outside Malaysia. Furthermore, the sensitive nature of the gaming industry means the Group is subject to various regulatory controls from time to time. Besides, given that Dreamgate needs to bear the upfront costs of slot machines placed under its TSM concessions, the Group's business remains highly capital-intensive.

Media contact
Evelyn Khoo
(603) 7628 1075
evelyn@ram.com.my

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