

# Paradise (034230 KS)

## Hotel/leisure



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Rating	<b>STRONG BUY (M)</b>
Target price	<b>W30,000 (M)</b>
Current price (Jan 7)	<b>W20,100</b>
Upside potential	<b>49%</b>

Market cap (Wbn)	1,828
Shares outstanding	90,942,672
Avg daily T/O (2M, Wbn)	17
Avg daily volume (2M, shrs)	865,411
52-week high (won)	25,600
52-week low (won)	17,100
Foreign ownership (%)	4.6
Major shareholders (%)	
Paradise Global & others	45.6

### Stock performance

(%)	1M	3M	12M
Absolute	(2.0)	7.5	(8.4)
Relative	(0.1)	23.6	12.7
Abs (US\$)	(1.8)	8.6	(13.0)

## Focus on casino indicators, not earnings

### December casino indicators

- Paradise's December parent drop rose to W300.7bn (+15% YoY, +9% MoM), the fifth highest in 2018, with hold ratio of 10.3% (+0.1%p YoY, +1.2%p MoM). Casino sales came to W33.4bn, close to parent BEP sales. By nationality, Chinese VIP drop came to W104.4bn, Japanese W77.0bn, and other W61.2bn. It is encouraging that Chinese VIP drop surpassed W100bn for the second time in 2018. Japanese VIP drop was weaker than in 1H19.
- P-City's drop came to W222.3bn (+39% YoY, -9% MoM). It grew MoM for five straight months from Jul 2018, but failed to continue the MoM growth streak in December due to base effect (November drop was very high). **We believe the overall drop uptrend remains intact.** Hold ratio came to 9.5% (-4.6%p YoY, +0.5%p MoM), falling below 10% for a second month straight. By nationality, Chinese VIP drop came to W62.6bn, Japanese W81.5bn, and other W44.6bn.

### 4Q18 preview

- Paradise's consolidated sales likely came to W217.9bn (+15% YoY), OP -W14.8bn (remaining in red YoY), and net profit -W9.1bn (remaining in red YoY).** By division, parent OP came to -W0.3bn, Paradise Hotel Busan W1.5bn, and Paradise SegaSammy (P-City operator) -W16.0bn.
- **Parent:** Combined drop at three casino branches rose to W918.8bn (+4% YoY) and hold ratio improved to 10.7% (+0.7%p YoY). It is positive that parent hold ratio has been rising since early-2018. Parent hold ratio hit a record-low in 2017, when the firm offered promotion chips to overcome dire market conditions. Given 4Q18 casino indicators, **we estimate parent sales at W107.8bn (+10% YoY) and OP at -W0.3bn (remaining in red YoY).** ► **P-City:** Drop increased to W687.3bn (+51% YoY, +16% QoQ) in 4Q18, with hold ratio of 10.0% (-2.9%p YoY, -0.9%p QoQ). **P-City sales likely came to W89.5bn (casino W72.5bn + hotel W14.0bn + other W3.0bn) and OP -W16.0bn.** We assume P-City's phase I-2 cost at W32.0bn for 4Q18. P-City's loss likely exceeded our previous estimate, given that casino sales were likely weak in November~December on low hold ratio and the delayed opening of restaurants and stores in the phase I-2 building likely led to lower-than-expected sales.
- P-City's phase I-2 facilities will fully open in Mar 2019. **In 4Q18 and 1Q19, investors need to focus on the uptrend in casino drop and visitor numbers, rather than earnings.**

### Quarterly earnings

(Wbn)	4Q18E	% YoY	% QoQ	Consens	vs consens (%)
Sales	218	14.9	3.5	224	-2.9
OP	-15	RR	TTR	-5	-226.7
Pre-tax net profit	-23	RR	TTR	-11	-102.4
Net profit, CI	-9	RR	TTR	-4	-143.2
OPM (%)	-6.8	RR	TTR	-2.0	-4.8 %pt
NPM (%)	-4.2	RR	TTR	-1.7	-2.5 %pt

Note: RR = remain in red, TTR = turn to red, Source: Yuanta Securities

### Forecasts and valuations (K-IFRS, consolidated)

	FY ends Dec	2016A	2017A	2018E	2019E
Sales		695	668	789	1,079
OP		66	-30	1	156
Net profit, CI		55	-19	-3	63
P/E (x)		25.0	-77.0	-572.8	28.8
P/B (x)		1.2	1.4	1.6	1.7
EV/EBITDA		19.4	77.3	36.7	11.0
ROE (%)		5.3	-1.9	-0.3	6.3

Source: Yuanta Securities

## Paradise (034230 KS) pro forma financial statements (K-IFRS, consolidated)

## Statement of comprehensive income

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
<b>Sales</b>	<b>695</b>	<b>668</b>	<b>789</b>	<b>1,079</b>	<b>1,206</b>
Cost of sales	556	598	711	830	844
Gross profit	138	70	78	249	362
SG&A	73	100	78	92	94
<b>Operating profit</b>	<b>66</b>	<b>-30</b>	<b>1</b>	<b>156</b>	<b>268</b>
EBITDA	98	30	78	254	366
Non-op profit/loss	10	-4	-22	-36	-21
Forex gain/loss	2	-1	0	0	0
Net interest income	6	-19	-29	-44	-29
Equity-meth gain/loss	0	0	-1	0	0
Other	2	17	8	9	9
Net profit before income tax	75	-34	-21	121	247
Income tax	18	6	-5	29	60
Net profit from continuing ops	58	-40	-16	91	187
Net profit from discontinued ops	0	0	0	0	0
Net profit	58	-40	-16	91	187
<b>NP for controlling interest</b>	<b>55</b>	<b>-19</b>	<b>-3</b>	<b>63</b>	<b>135</b>
Total comprehensive income	55	-45	-17	90	186
Total comprehensive income, CI	53	-24	-26	137	282

Note: Operating profit calculation same as K-GAAP (sales - COGS - SG&A exp)

## Statement of financial position

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
<b>Current assets</b>	<b>492</b>	<b>345</b>	<b>475</b>	<b>566</b>	<b>360</b>
Cash & cash equivalents	182	172	400	479	268
Accts rec & other	23	19	24	33	37
Inventory	2	5	7	9	11
Non-current assets	1,816	2,091	2,306	2,268	2,233
Tangible assets	1,337	1,624	1,844	1,806	1,768
Investment in affiliates	0	0	0	0	3
Other non-current	44	33	41	41	41
<b>Total assets</b>	<b>2,308</b>	<b>2,435</b>	<b>2,781</b>	<b>2,834</b>	<b>2,594</b>
Current liabilities	290	253	352	364	378
Accts payable & other	204	191	244	244	245
ST financial liabilities	60	44	88	100	113
Liquid LT liabilities	11	8	3	3	3
Non-current liabilities	708	889	1,107	1,107	707
LT financial liabilities	636	722	827	827	427
Debentures	0	100	200	200	200
<b>Total liabilities</b>	<b>998</b>	<b>1,142</b>	<b>1,459</b>	<b>1,472</b>	<b>1,086</b>
Equity, controlling interest	1,044	994	982	1,023	1,132
Paid-in capital	47	47	47	47	47
Capital surplus	295	295	295	295	295
Retained earnings	727	680	668	710	819
Equity, non-controlling interest	266	299	339	339	376
<b>Total equity</b>	<b>1,310</b>	<b>1,293</b>	<b>1,322</b>	<b>1,363</b>	<b>1,508</b>
<b>Net debt</b>	<b>260</b>	<b>574</b>	<b>696</b>	<b>629</b>	<b>452</b>
Total debt	709	874	1,119	1,131	743

## Cash flow statement

FY ends Dec (Wbn)	2016A	2017A	2018E	2019E	2020E
<b>Operating cash flow</b>	<b>112</b>	<b>4</b>	<b>111</b>	<b>210</b>	<b>315</b>
Net profit	58	-40	-16	91	187
Depreciation & amortization	26	51	70	98	98
Forex gain/loss	0	0	0	0	0
Affiliate invest gain/loss	0	0	0	0	0
Inc (dec) in net working cap	-1	-37	25	-1	8
Other	30	29	32	21	21
<b>Investing cash flow</b>	<b>-499</b>	<b>-207</b>	<b>-161</b>	<b>-46</b>	<b>-46</b>
Investment	42	-4	-7	-3	-3
Inc in tangible assets	-490	-357	-260	-60	-60
Dec in tangible assets	0	18	0	0	0
Other	-51	136	106	18	18
<b>Financing cash flow</b>	<b>230</b>	<b>194</b>	<b>278</b>	<b>-9</b>	<b>-413</b>
Inc (dec) in ST fin liab	22	-13	43	12	12
Inc (dec) in LT fin liab	240	178	198	0	-400
Inc (dec) in equity	0	54	45	0	0
Cash dividend	-32	-26	-9	-21	-26
Other	0	0	0	0	0
Other cash flow	0	0	0	-76	-66
<b>Inc (dec) in cash &amp; equivalents</b>	<b>-157</b>	<b>-10</b>	<b>228</b>	<b>79</b>	<b>-211</b>
Beginning cash & equivalents	339	182	172	400	479
Ending cash & equivalents	182	172	400	479	268
<b>NOPLAT</b>	<b>66</b>	<b>-36</b>	<b>1</b>	<b>156</b>	<b>268</b>
<b>FCF</b>	<b>-408</b>	<b>-369</b>	<b>-156</b>	<b>155</b>	<b>249</b>

Note: CI = controlling interest

EPS, BPS, P/E and P/B are based on controlling interest

For valuation metrics such as P/E, historical figures are based on annual average prices and estimates, on current price

For ROA or ROE, assets and equity are averages of end-of-year figures for the given year and the year prior

Source: Yuenta Securities

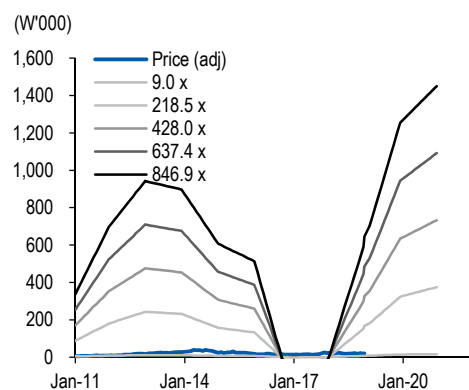
## Valuation

FY ends Dec	2016A	2017A	2018E	2019E	2020E
EPS (won)	606	-208	-33	697	1,481
BPS (won)	12,257	11,671	11,530	12,013	13,294
EBITDA/shr (won)	1,080	332	859	2,794	4,021
SPS (won)	7,641	7,346	8,675	11,865	13,258
DPS (won)	300	100	250	300	300
<b>P/E (x)</b>	<b>25.0</b>	<b>-77.0</b>	<b>-572.8</b>	<b>28.8</b>	<b>13.6</b>
<b>P/B (x)</b>	<b>1.2</b>	<b>1.4</b>	<b>1.6</b>	<b>1.7</b>	<b>1.5</b>
<b>EV/EBITDA (x)</b>	<b>19.4</b>	<b>77.3</b>	<b>36.7</b>	<b>11.0</b>	<b>7.3</b>
<b>P/S (x)</b>	<b>2.0</b>	<b>2.2</b>	<b>2.2</b>	<b>1.7</b>	<b>1.5</b>

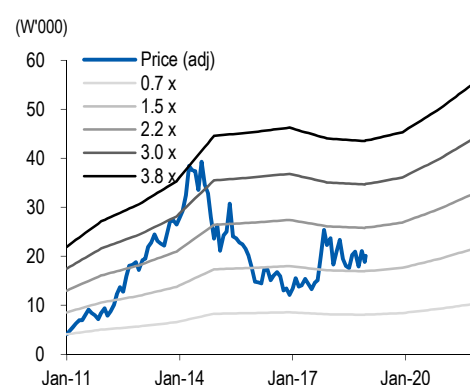
## Key financial data

FY ends Dec	2016A	2017A	2018E	2019E	2020E
<b>Sales (% YoY)</b>	<b>12.9</b>	<b>-3.9</b>	<b>18.1</b>	<b>36.8</b>	<b>11.7</b>
<b>Operating profit (%YoY)</b>	<b>12.8</b>	<b>TTR</b>	<b>TTB</b>	<b>20,818.0</b>	<b>71.4</b>
<b>Net profit, CI (%YoY)</b>	<b>-15.5</b>	<b>TTR</b>	<b>RR</b>	<b>TTB</b>	<b>112.5</b>
Gross margin (%)	19.9	10.5	9.9	23.0	30.0
<b>Operating margin (%)</b>	<b>9.5</b>	<b>-4.5</b>	<b>0.1</b>	<b>14.5</b>	<b>22.2</b>
Net margin, CI (%)	7.9	-2.8	-0.4	5.9	11.2
EBITDA margin (%)	14.1	4.5	9.9	23.5	30.3
ROIC (%)	4.2	-2.2	0.0	6.2	10.8
ROA (%)	2.6	-0.8	-0.1	2.3	5.0
<b>ROE (%)</b>	<b>5.3</b>	<b>-1.9</b>	<b>-0.3</b>	<b>6.3</b>	<b>12.5</b>
Debt-to-equity (%)	76.2	88.3	110.4	108.0	72.0
Net debt-to-equity (%)	24.9	57.7	70.9	61.5	39.9
OP/financing cost (x)	18.7	-1.2	0.0	3.2	8.2

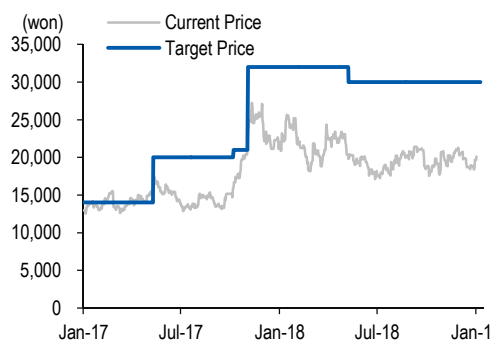
P/E band chart



P/B band chart



Paradise (034230 KS) ratings and target price history



Date	Rating	TP (won)	TP time frame	Difference (%)	
				vs avg price	vs high (low)
2019/01/08	Strong Buy	30,000	1 yr		
2018/05/14	Strong Buy	30,000	1 yr		
2017/11/08	Strong Buy	32,000	1 yr	-29.53	-14.84
2017/10/12	Strong Buy	21,000	1 yr	-10.32	4.52
2017/09/25	Strong Buy	20,000	1 yr	-27.23	-13.25
2017/05/16	BUY	20,000	1 yr	-27.30	-13.25
2017/03/27	HOLD	14,000	1 yr	3.57	-
2016/05/06	HOLD	19,000	1 yr	-22.87	-

Note: Difference = (actual price\* - target price) / target price x 100

\* 1) The average price until the day target price was suggested

2) The highest (lowest) price until the day target price was suggested

Source: Yuanta Securities

Current distribution of Yuanta Securities Korea ratings

Rating	Share (%)
STRONG BUY	1.6
BUY	85.3
HOLD	12.6
SELL	0.5
Total	100.0

Note: As of Jan 5

Excluding reports written or published by overseas affiliates

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- **Stock ratings** include an Investment Rating (Strong Buy, Buy, Hold, Sell) based on the expected absolute return of a stock over the next 6 -12 months.
- - Strong Buy: Expected to return 30% or more
- - Buy: Expected to return between 10% and 30%
- - Hold: Expected to return between -10 and +10%
- - Sell: Expected to return -10% or less
- **Sector ratings** suggest 6 to 12 - month forward investment weighting of a given sector compared to its market capitalization weighting.
- - Overweight: Investment weighting is higher than the market capitalization weighting
- - Neutral: Investment weighting is equal to the market capitalization weighting
- - Underweight: Investment weighting is lower than the market capitalization weighting

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