

## Weaker-than-expected 4Q18 results

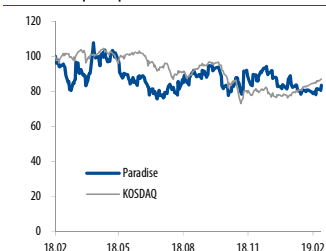
Share price (KRW, Feb 20)	18,850
Upside (%)	48.5
Market cap (KRW bn)	1,714
Shares outstanding ('000)	90,943
Paid-in capital (KRW bn)/ Face value (KRW)	47/500
52-week high/low (KRW)	24,350/17,100
60-day avg. daily T/O (KRW bn)	14
Foreign ownership (%)	4.38
Major shareholders (%)	Paradise global and 7 others 45.64

Price performance	1M	3M	6M
Absolute (%)	3.6	-3.1	-7.6
Relative (%p)	-3.9	-10.8	-5.2

K-IFRS, consolidated

(KRW)	18F EPS	19F EPS	TP
Previous	-24	351	28,000
Revised	-159	357	28,000
Consensus	-22	804	30,000
Difference	608.8%	-55.6%	-6.7%

12-month price performance



Source: WiseFn, Hyundai Motor Securities

### 1) Investment highlights

- We maintain BUY and our target price of KRW28,000 on Paradise.
- The overall drop increased on the back of year-end promotions.
- Yeongjongdo Paradise City recognized massive costs associated with Fun City.
- Higher occupancy rates at Paradise City and Paradise Busan helped boost sales.

### 2) Major issues and earnings outlook

- Paradise posted 4Q18 sales of KRW216.8bn (+14% YoY) and an operating loss of KRW13.4bn (-143% YoY), missing the consensus estimate by a wide margin.
- Casino promotions at the end of 2018 helped boost the drop to over KRW1.6tn. Separate divisions (Walkerhill, SPA, Paradise Busan and Jeju Casino) posted a combined operating profit of KRW6.1tn.
- The overall hold ratio remained in double digits at 10.4%. Paradise City's quarterly drop hit a new high in 4Q18 after growing 51% YoY. However, Paradise City saw an operating loss of KRW22.4bn due to higher fixed-cost burdens coming from the opening of Fun City which opened in last September.
- Paradise City's hotel room occupancy rate was 56.5% in 4Q18, an increase of 31.5%, with an average daily rate (ADR) of KRW283,000. Paradise Busan enjoyed an occupancy rate of 77% (KRW282,000 in ADR) which led to an operating profit of KRW840mn.
- With its multi-complex resort, Paradise is set to benefit greatly from the rapid recovery in Chinese tourists visiting Korea recently.

### 3) Share price outlook and valuation

- This year we expect to see a meaningful rebound in Chinese inbound travelers. With Yeongjongdo Paradise City almost fully operational, we believe earnings and share prices will gradually gain momentum.

### Earnings forecasts and valuations

	Sales (KRW bn)	OP (KRW bn)	NP (KRW bn)	EBITDA (KRW bn)	EPS (KRW)	Growth (%YoY)	P/E (x)	P/B (x)	EV/EBITDA (x)	ROE (%)	Div. yield (%)
2016	695	66	55	98	606	-15.5	20.0	1.1	16.6	5.3	2.5
2017	668	-30	-35	28	-388	TR	N/A	2.1	103.2	N/A	0.4
2018F	788	2	-14	76	-159	RR	N/A	1.8	36.3	N/A	0.5
2019F	995	58	32	139	357	TB	51.0	1.7	19.3	3.3	1.1
2020F	1,200	86	66	169	725	103.2	25.1	1.6	15.5	6.5	2.7

Note: K-IFRS, consolidated

Fig 1. 4Q18 earnings review

(KRW bn)	Earnings			Growth		HMS estimates		Consensus	
	4Q18P	4Q17	3Q18	(YoY)	(QoQ)	4Q18F	%difference	4Q18F	%difference
Sales	216.8	189.6	777.6	14.3	-72.1	212.0	2.3	216.6	0.1
Operating profit	-13.4	-5.5	10.8	RR	TR	-8.0	RR	-11.9	RR
Operating margin (%)	-6.2	-2.9	1.4			-3.8		-5.5	
Pretax profit	-28.5	-16.6	6.8	RR	TR	-11.5	RR	-12.5	RR
Net profit (C)	-20.6	-11.8	4.7	RR	TR	-8.3	RR	-7.9	RR

Note: K-IFRS, consolidated

Source: Company data, FnGuide, Hyundai Motor Securities

Fig 2. Quarterly earnings trends

(KRW bn)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18P	2017	2018P	2019F
Sales	142.4	139.9	196.1	189.6	179.5	181.1	210.5	216.8	668.0	787.9	994.7
Operating profit	-7.7	-27.3	10.2	-5.5	4.8	-0.1	10.8	-13.4	-30.4	2.1	58.3
Pretax profit	7.9	-27.5	2.9	-12.4	3.7	-6.4	6.8	-28.5	-33.5	-26.4	45.0
Net profit	8.1	-16.8	4.2	-28.2	2.6	-13.3	4.7	-20.6	-19.0	-14.5	32.5
Operating margin (%)	-5.4	-19.5	5.2	-2.9	2.7	0.0	5.1	-6.2	-4.5	0.3	5.9
Pretax margin (%)	5.6	-19.7	1.5	-6.5	2.1	-3.6	3.2	-13.2	-5.0	-3.3	4.5
Net margin (%)	5.7	-12.0	2.2	-14.9	1.5	-7.4	2.2	-9.5	-2.8	-1.8	3.3

Note: K-IFRS, consolidated

Source: Hyundai Motor Securities

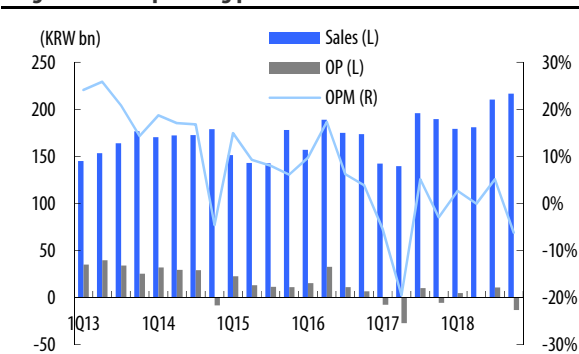
Fig 3. Earnings revisions

(KRW bn)	Revised		Previous		%change	
	2018F	2019F	2018F	2019F	2018F	2019F
Sales	787.9	994.7	783.1	988.6	0.6	0.6
Operating profit	2.1	58.3	7.5	58.7	-71.4	-0.7
Pretax profit	-26.4	45.0	-9.3	44.2	RR	1.7
Net profit	-14.5	32.5	-2.2	31.9	RR	1.8

Note: K-IFRS, consolidated

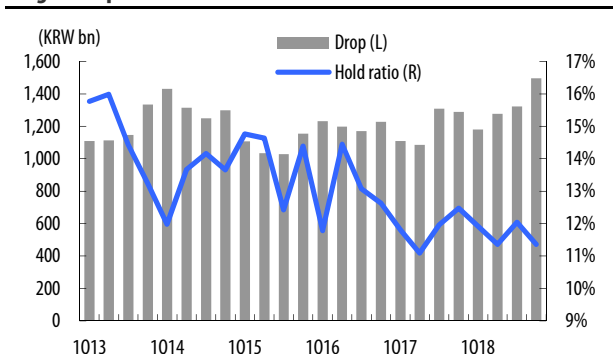
Source: Hyundai Motor Securities

Fig 4. Sales & operating profit

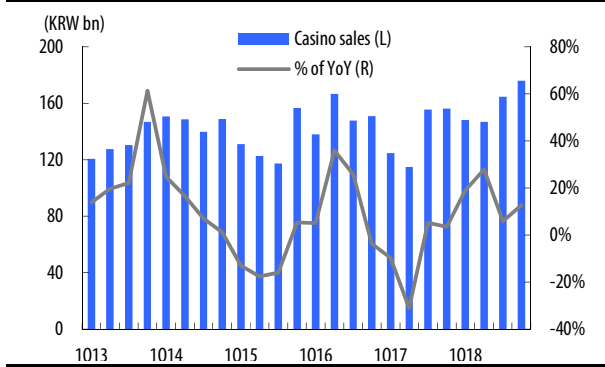


Source: Company data, Hyundai Motor Securities

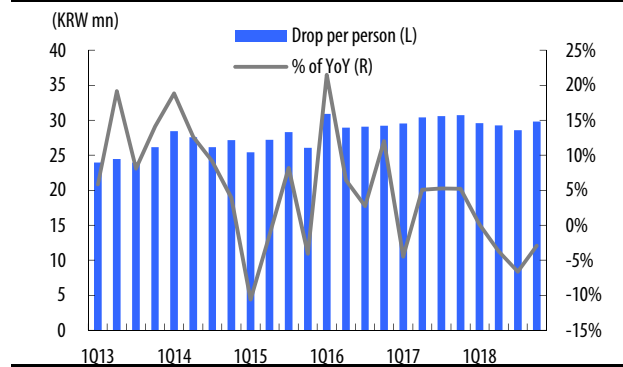
Fig 5. Drop & hold ratio



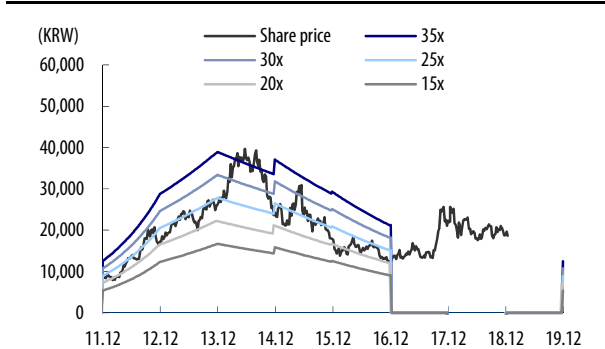
Source: Company data, Hyundai Motor Securities

**Fig 6. Casino revenue**

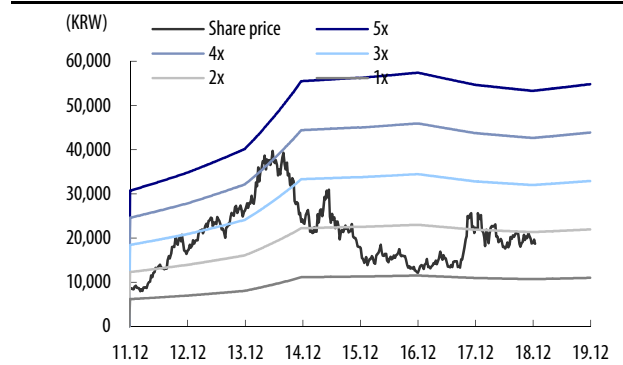
Source: Company data, Hyundai Motor Securities

**Fig 7. Drop per person**

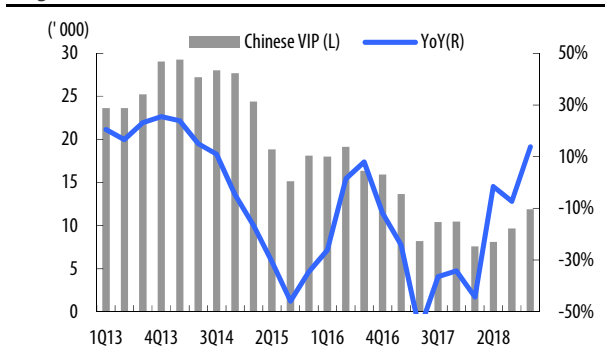
Source: Company data, Hyundai Motor Securities

**Fig 8. Historical P/E bands**

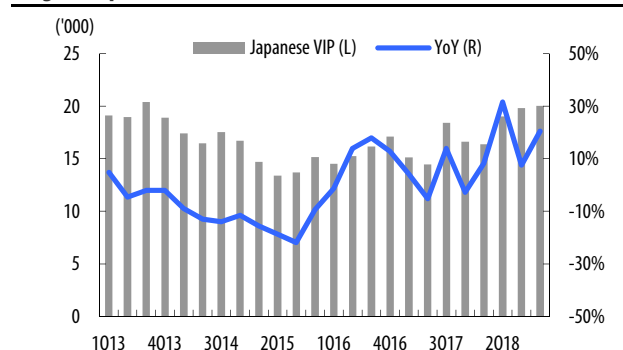
Source: DataGuide, Hyundai Motor Securities

**Fig 9. Historical P/B bands**

Source: DataGuide, Hyundai Motor Securities

**Fig 10. Chinese VIP trend**

Source: Company data, Hyundai Motor Securities

**Fig 11. Japanese VIP trend**

Source: Company data, Hyundai Motor Securities

## COMPANY NOTE

### Income statement

(KRW bn)	2016	2017	2018F	2019F	2020F
<b>Sales</b>	695	668	788	995	1,200
Change (%)	12.9	-3.9	17.9	26.2	20.6
<b>Cost of goods sold</b>	556	598	709	877	1,042
% of sales	80.1	89.5	90.0	88.2	86.9
<b>Gross profit</b>	138	70	79	117	158
Gross margin (%)	19.9	10.5	10.0	11.8	13.1
Change (%)	12.9	-49.2	12.1	48.7	34.3
<b>SG&amp;A expenses</b>	73	100	77	59	71
% of sales	10.5	15.0	9.7	5.9	5.9
<b>EBITDA</b>	98	30	76	139	169
EBITDA margin (%)	14.1	4.5	9.7	14.0	14.1
Change (%)	14.3	-69.3	152.6	82.4	21.3
<b>Operating profit</b>	66	-30	2	58	86
Operating margin (%)	9.5	-4.5	0.3	5.9	7.2
Change (%)	12.8	TR	TB	2,611.2	48.2
<b>Non-operating profit</b>	10	-4	-28	-13	5
Interest income	10	6	4	4	5
Interest expenses	4	25	28	27	28
Other non-operating income	4	15	-4	10	28
Subsidiaries/affiliate income	0	0	-1	0	0
<b>Pretax profit from cont ops</b>	75	-34	-26	45	91
Pretax margin (%)	10.9	-5.0	-3.3	4.5	7.6
Change (%)	-4.7	TR	RR	TB	103.2
Income tax	18	6	-6	11	22
Profit from continuing ops	58	-40	-20	34	69
Profit from discontinuing ops	0.0	0.0	0	0	0
<b>Net profit</b>	58	-40	-20	34	69
Net margin (%)	8.3	-6.0	-2.5	3.4	5.8
Change (%)	-19.8	TR	RR	TB	103.2
NP from controlling interest	55	-19	-14	32	66
NP from non-controlling interest	2	-21	-5	2	3
Other comprehensive income	-3	-5	0	0	0
Total comprehensive income	55	-45	-20	34	69

### Cash flow

(KRW bn)	2016	2017	2018F	2019F	2020F
<b>Operating cash flow</b>	112	4	110	210	246
<b>Net profit</b>	58	-40	-20	34	69
Depreciation on tangible assets	26	51	65	71	73
Amortization on intangible assets	7	9	9	9	9
FX-related profit	0	0	0	0	0
Dec (inc) in working capital	-1	-37	36	83	82
Others	23	21	20	12	12
<b>Investing cash flow</b>	-499	-207	-184	-150	-150
Dec (inc) in investment assets	6	9	-8	-12	-12
Decrease in tangible assets	0	18	0	0	0
Increase in tangible assets	-490	-357	-275	-120	-120
Others	-16	123	98	-18	-19
<b>Financing cash flow</b>	230	194	187	6	2
Increase (decrease) in debt	266	67	159	40	40
Increase (decrease) in bond	0	100	0	0	0
Increase in capital	0	0	0	0	0
Dividend	-32	-26	-9	-34	-38
Others	-4	53	37	0	0
<b>Other cash flow</b>	0	0	0	0	0
<b>Increase (decrease) in cash</b>	-157	-10	114	66	98
Beginning cash	339	182	172	286	352
Ending cash	182	172	286	352	449

Note: K-IFRS, consolidated

### Balance sheet

(KRW bn)	2016	2017	2018F	2019F	2020F
<b>Current assets</b>	492	345	362	449	567
Cash and cash equivalents	182	172	286	352	449
Short-term investment assets	267	128	23	30	36
Accounts receivable	19	13	21	27	33
Inventory assets	2	5	7	8	10
Other current assets	21	26	25	32	39
<b>Non-current assets</b>	1,816	2,091	2,326	2,377	2,426
Tangible assets	1,337	1,624	1,865	1,913	1,960
Intangible assets	285	290	285	276	267
Investment assets	44	33	42	54	65
Other non-current assets	150	144	134	134	134
Other financial assets	0	0	0	0	0
<b>Total assets</b>	2,308	2,435	2,688	2,826	2,993
<b>Current liabilities</b>	290	253	359	434	507
Short-term debt	60	44	88	88	88
Accounts payable	2	3	3	3	4
Current portion of long-term debt	11	8	3	3	3
Other current debt	218	198	265	339	413
<b>Non-current liabilities</b>	708	889	1,020	1,083	1,145
Bonds	0	100	100	100	100
Long-term debt	636	722	837	877	917
LT financial debt (incl. lease)	2	0	0	0	0
Other non-current debt	70	67	82	105	128
Other financial liabilities	0	0	0	0	0
<b>Total liabilities</b>	998	1,142	1,378	1,516	1,653
<b>Owners of parent equity</b>	1,044	994	971	969	997
Paid-in capital	47	47	47	47	47
Capital surplus	295	295	295	295	295
Capital adjustment, etc.	-26	-26	-26	-26	-26
Other accumul earnings and comp income	1	-2	-1	-1	-1
Retained earnings	727	680	657	655	683
<b>Non-controlling interest</b>	266	299	338	340	343
<b>Total equity</b>	1,310	1,293	1,309	1,309	1,340

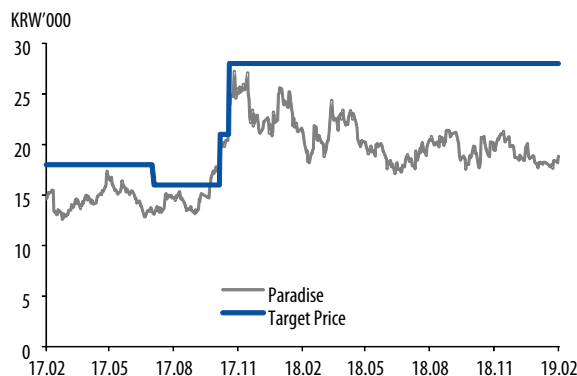
### Key financial data

(KRW, x, %)	2016	2017	2018F	2019F	2020F
<b>EPS (based on net profit)</b>	634	-438	-220	376	763
<b>EPS (based on parent net profit)</b>	606	-208	-159	357	725
<b>BPS (based on total equity)</b>	14,401	14,221	14,397	14,398	14,740
<b>BPS (based on owners of parent equity)</b>	11,481	10,932	10,677	10,659	10,963
<b>DPS</b>	300	100	400	450	500
<b>P/E (based on net profit)</b>	19.2	N/A	N/A	48.4	23.8
<b>P/E (based on parent net profit)</b>	20.0	N/A	N/A	51.0	25.1
<b>P/B (based on total equity)</b>	0.8	1.6	1.3	1.3	1.2
<b>P/B (based on owners of parent equity)</b>	1.1	2.0	1.8	1.7	1.7
<b>EV/EBITDA (reported)</b>	16.6	96.1	36.3	19.3	15.5
<b>Dividend yield</b>	2.5	0.4	2.1	2.5	2.7
<b>Growth (%)</b>					
<b>EPS (based on net profit)</b>	-19.8	-169.2	-49.9	-271.0	103.2
<b>EPS (based on parent net profit)</b>	-15.5	-134.4	-23.5	-324.0	103.2
<b>Profitability (%)</b>					
<b>ROE (based on net profit)</b>	4.4	-3.1	-1.5	2.6	5.2
<b>ROE (based on parent net profit)</b>	5.3	-1.9	-1.5	3.3	6.7
<b>ROA</b>	2.7	-1.7	-0.8	1.2	2.4
<b>Stability (%)</b>					
<b>Total liabilities/equity</b>	76.2	88.3	105.3	115.8	123.3
<b>Net debt/equity</b>	19.9	44.4	54.9	52.5	46.5
<b>Interest coverage</b>	18.7	-1.2	0.1	2.2	3.1

## Investment rating and target price history

Date	Rating	TP	Difference (%)	
			Average	High/Low
17/05/17	BUY	18,000	-17.2	-3.6
17/07/24	BUY	16,000	-14.9	-9.4
17/08/09	BUY	16,000	-10.9	-4.1
17/09/14	BUY	16,000	-8.0	14.7
17/10/26	BUY	21,000	-3.2	4.5
17/11/08	BUY	28,000	-15.2	-2.7
18/01/26	BUY	28,000	-15.3	-2.7
18/02/12	BUY	28,000	-19.5	-2.7
18/05/14	BUY	28,000	-23.9	-2.7
18/08/09	BUY	28,000	-24.4	-2.7
18/09/28	BUY	28,000	-25.2	-2.7
18/11/09	BUY	28,000	-26.0	-2.7
19/01/18	BUY	28,000	-26.6	-2.7
19/02/21	BUY	28,000	-	-

## Two-year price chart



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- This report accurately reflects the author(s)'s professional views and was written without any undue external influence or interference.

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Hyundai Motor Securities offers three sector investment ratings based on six-month forward fundamentals and share price outlook.

- OVERWEIGHT: Sector-wide fundamentals and share prices are expected to turn up.
- NEUTRAL: No meaningful fundamental improvement is expected.
- UNDERWEIGHT: Sector-wide fundamentals and share prices are expected to turn down.

Hyundai Motor Securities offers three company investment ratings based on the relative return expected in the following six months, based on the closing price on the date of rating declaration.

- BUY: Excess return of +15%p or more
- MARKETPERFORM (M.PERFORM): Excess return of between -15%p and +15%p
- SELL: Excess return of -15%p or less

## Stock ratings distribution (January 1-December 31, 2018)

Rating	Count	% of rating category
BUY	147	92.45
MARKETPERFORM	12	7.55
SELL	0	0

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