

Paradise

(034230 KQ)

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Rating **BUY**
maintain

6M TP (₩) **22,000**
reduce

CP (₩)
(19.05.14) **16,900**

Entertainment

Betting on the upside

BUY maintained; 6M TP cut 4% to W22,000

- The new target price is derived using the residual income model, reflecting the company's strong long-term growth potential driven by its integrated resort P-City and a 39% NP CAGR over the next five years. We lower our 2019E OP for the company to W11.5bn (up 379% yoy) as growth in fixed costs stemming from capex investments is projected to weigh down earnings over the short haul.

1Q19 revenue W201.7bn (up 12% yoy), OP -W6.3bn (TTR)

- The casino operator swung to an operating loss of W6.4bn in 1Q19, missing our estimate (OP of W9.0bn), as weaker-than-expected March performance weighed on the consolidated quarterly results. That, however, came in line with the recently lowered consensus. Revenue breakdown by business: casino W86.7bn (down 6% yoy), hotels W19.6bn (up 12% yoy), integrated resort W90.7bn (down 39% yoy), others W4.7bn (up 7% yoy).

- Drop (the amount of money exchanged for chips) grew 19% yoy to W1.62tn, the highest it's been since the THAAD issue. Drop growth by site: Grand Walkerhill Hotel up 4% yoy, P-City up 35% yoy, Busan up 22% yoy, Jeju up 76% yoy. But a slight 0.8%p yoy dip in hold rate moderately pushed down revenue.

- On a non-consolidated basis, Paradise saw revenue contract 6% yoy to W91.2bn and an operating loss of W1.6bn compared to a profit a year earlier. Casino revenue came in weak, affected by the low hold rate at Grand Walkerhill Hotel and negative operating leverage due to heavy fixed costs. The introduction of IFRS 16, which resulted in a decrease in rents (by 98% yoy to W4.4bn) and higher depreciation costs (by W3.1bn) and financial expenses (by W1.1bn), also had an impact.

- Paradise Segasammy, the operator of P-City, reported an operating loss of W7.1bn (TTR) on revenue of W90.7bn (up 39% yoy), achieving record quarterly drop amount (up 35% yoy to W648.9bn) and casino revenue (up 34% yoy to W74.8bn) in 1Q19. On a negative note, growth in fixed costs from recent renovations is expected to weigh on earnings in the near term. Revenue from its hotels rose 38% yoy to W13.2bn in that quarter as an increase in casino visitors and higher domestic demand drove up the occupancy (by 15%p yoy to 59%) and average daily room rate (by 5% yoy to W277,000).

April earnings results and forecasts

- Drop increased 35% yoy to W622.3bn in April, its highest-ever monthly figure. Drop was up 37% yoy at Grand Walkerhill Hotel and up 42% yoy at P-City. Hold rate climbed 0.9%p yoy, pushing up casino revenue by 50% yoy to W57.1bn.

- Paradise saw yoy growth across all segments: Chinese VIPs (81%), Japanese VIPs (25%), other VIPs (7%), and mass market (24%). Considering Japan's Golden Week in May and an easy yoy comparison for Chinese VIPs, we expect the casino to see growth in inbound customers from all regions in 2Q19.

- The stock is undervalued, trading near the lower end of its historical P/B band, when considering its revenue and earnings which are projected to grow led by junket marketing (P-City) and increased mass market traffic. Having hit a trough in 1Q19, quarterly earnings will improve quarter after quarter. Consolidated OP will swing into positive territory in 3Q19.

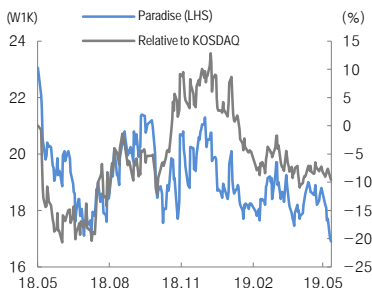
- For the whole of 2019, revenue and OP are forecast to grow 20% to W942.0bn and 379% yoy to W11.5bn, respectively.

	1Q18	4Q18	Previous estimate	Result	1Q19			2Q19		
					YoY	QoQ	Consensus	Daishin estimate	YoY	QoQ
Revenue	180	217	218	202	12.4	-6.9	205	226	25.0	12.2
OP	5	-13	1	-6	TTR	CL	-7	-2	CL	CL
NP	3	-27	-1	-13	TTR	CL	-5	-2	CL	CL

Industry 4.0 safety rating ■ Neutral Green

KOSDAQ	710.16
Market cap (Wbn)	1,537
Market cap portion (%)	0.63
Paid-in capital (common; Wbn)	47
52w high/low (₩)	21,400 / 16,900
120d avg. trading volume (Wbn)	13.0
Foreign ownership (%)	5.08
Major shareholder	Paradise Global+11: 46.57%

(%)	1M	3M	6M	12M
Abs. return	-9.4	-7.9	-10.1	-14.6
Rel. return	-2.0	-3.7	-15.0	3.2



Operating results and major financial data

(Wbn, W, x, %)

	2017A	2018A	2019F	2020F	2021F
Revenue	668	788	942	1,058	1,137
OP	-30	2	12	54	87
Pretax profit	-34	-43	-5	38	70
NP	-40	-44	-4	29	54
NP (controlling int.)	-19	-21	-3	23	44
EPS	-208	-231	-33	257	478
PER	NA	NA	NA	65.7	35.3
BPS	10,932	13,989	13,863	14,027	14,412
PBR	2.0	1.3	1.0	0.9	0.9
ROE	-1.9	-1.9	-0.2	1.8	3.4

Note: EPS, BPS, and ROE are based only on the controlling interest.
Source: Paradise, Daishin Securities Research Center

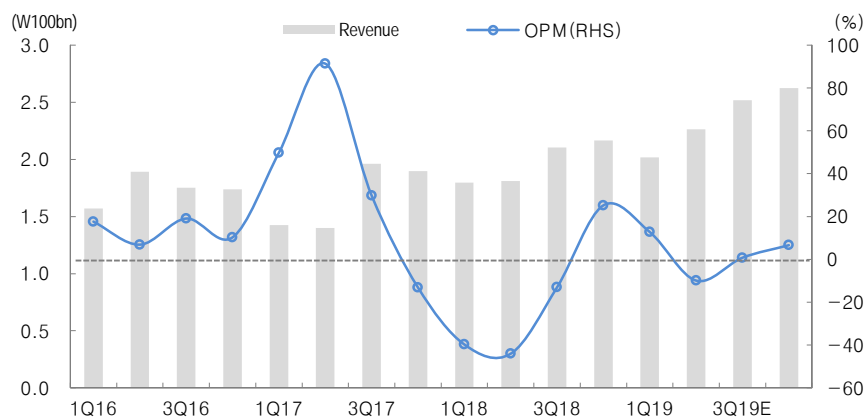
Yearly earnings forecast revisions

(Wbn, W, %, %p)

	Previous		Revised		Chg	
	2019F	2020F	2019F	2020F	2019F	2020F
Revenue	958	1,055	942	1,058	-1.7	0.3
SG&A expense	97	99	78	80	-19.8	-19.3
OP	20	58	12	54	-43.2	-6.2
OP margin	2.1	5.5	1.2	5.1	-0.9	-0.4
Non-operating profit	-17	-14	-17	-16	CL	CL
Pretax profit	3	44	-5	38	Reduced loss	-12.0
NP (controlling int.)	2	28	-3	23	Reduced loss	-12.0
NP margin	0.2	3.3	-0.5	2.8	Reduced loss	-0.5
EPS (controlling int.)	17	303	-33	257	Reduced loss	-12.0

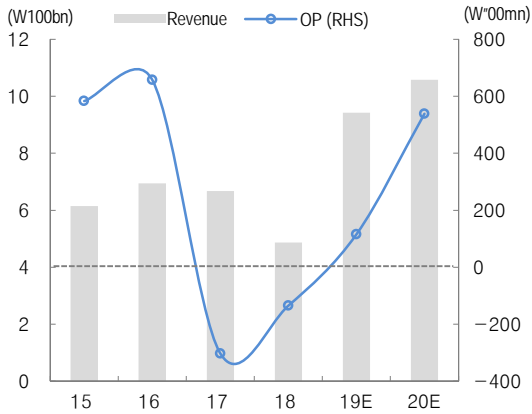
Source: Paradise, Daishin Securities Research Center

Fig 1. Consolidated quarterly revenue and OP



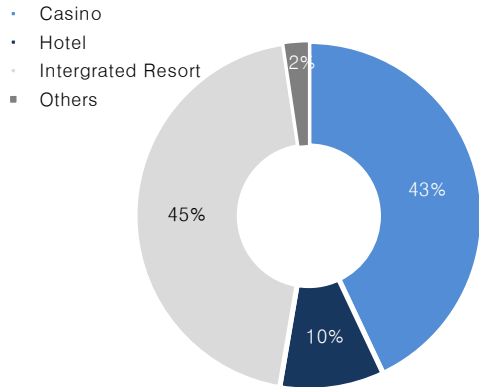
Source: Paradise, Daishin Securities Research Center estimates

Fig 2. Yearly revenue and OP



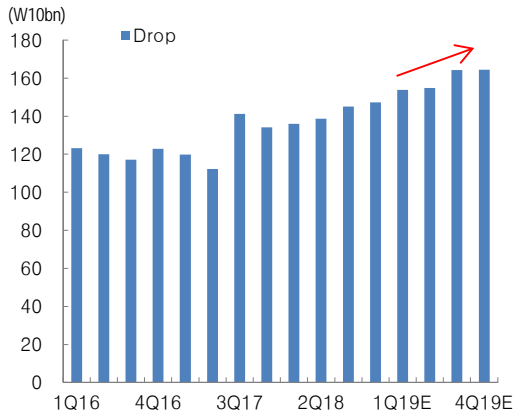
Source: Paradise, Daishin Securities Research Center

Fig 3. Revenue breakdown by business (1Q19)



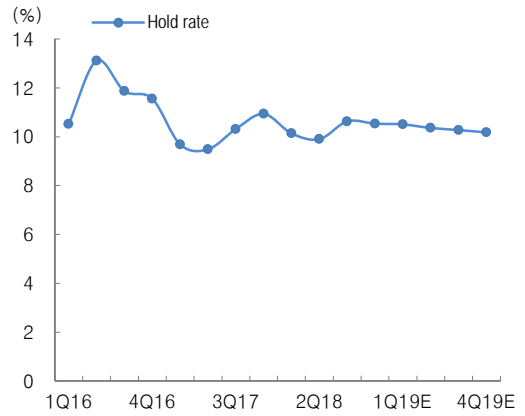
Source: Paradise, Daishin Securities Research Center

Fig 4. Quarterly drop



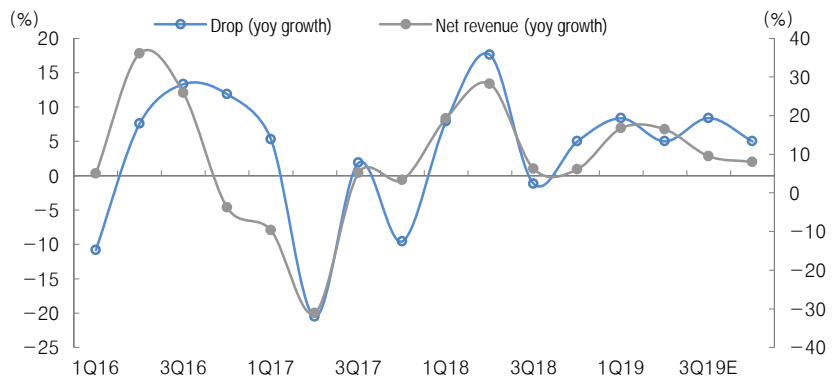
Source: Paradise, Daishin Securities Research Center estimates

Fig 5. Quarterly hold rate



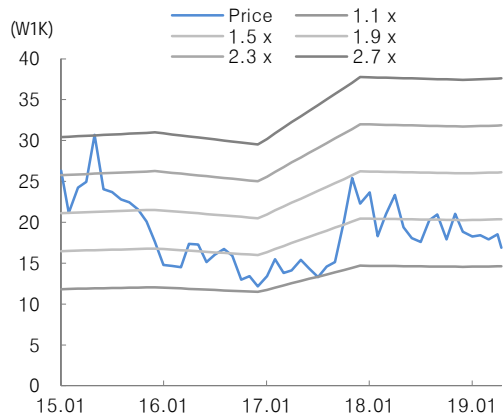
Source: Paradise, Daishin Securities Research Center estimates

Fig 6. Quarterly casino drop and net revenue



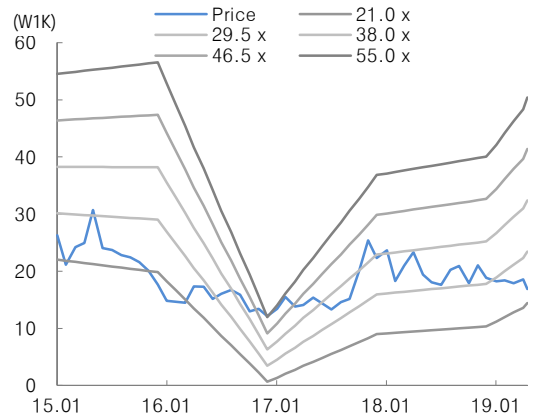
Source: Paradise, Daishin Securities Research Center estimates

Fig 7. 12MF P/B band



Source: Wisefn, Daishin Securities Research Center

Fig 8. 12MF EV/EBITDA band



Source: Wisefn, Daishin Securities Research Center

Financial statements

Income statement	(Wbn)				
	2017A	2018A	2019F	2020F	2021F
Revenue	668	788	942	1,058	1,137
Cost of goods sold	598	709	853	924	970
Gross profit	70	79	89	134	168
SG&A expenses	100	76	78	80	81
OP	-30	2	12	54	87
OP margin	-4.5	0.3	1.2	5.1	7.6
EBITDA	30	75	79	120	150
Non-OP	-4	-45	-17	-16	-16
Income from affiliates	0	-1	-1	-1	-1
Financial revenue	6	4	3	4	4
FX related gains	6	9	9	9	9
Financial expense	-25	-33	-31	-31	-31
FX related losses	0	0	0	0	0
Others	15	-15	12	12	12
Income before taxes	-34	-43	-5	38	70
Income tax expense	-6	-1	1	-8	-16
Income from cont. op.	-40	-44	-4	29	54
Income from discnt. op.	0	0	0	0	0
NP	-40	-44	-4	29	54
NP margin	-6.0	-5.6	-0.5	2.8	4.8
NP for non-contr. interest	-21	-23	-1	6	11
NP for contr. interest	-19	-21	-3	23	44
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	-5	341	5	5	5
Comprehensive income	-45	296	1	34	59
Comp. income for non-contr. Int.	-20	10	0	7	12
Comp. income for contr. int.	-24	287	1	27	48

Valuation metrics	(W, x, %)				
	2017A	2018A	2019F	2020F	2021F
EPS	-208	-231	-33	257	478
PER	NA	NA	NA	65.7	35.3
BPS	10,932	13,989	13,863	14,027	14,412
PBR	2.0	1.3	1.0	0.9	0.9
EBITDAPS	332	819	874	1,315	1,651
EV/EBITDA	96.1	37.8	32.9	21.5	16.7
SPS	7,346	8,661	10,358	11,634	12,508
PSR	3.0	2.2	1.6	1.5	1.4
CFPS	696	1,142	1,479	1,920	2,256
DPS	100	100	100	100	100

Financial ratios	(W, x, %)				
	2017A	2018A	2019F	2020F	2021F
Growth potential					
Revenue growth	-3.9	17.9	19.6	12.3	7.5
OP growth	TTR	TTB	379.4	366.6	60.6
NP growth	TTR	CL	CL	TTB	85.9
Profitability					
ROIC	-2.0	0.1	0.3	1.6	2.7
ROA	-1.3	0.1	0.4	1.6	2.5
ROE	-1.9	-1.9	-0.2	1.8	3.4
Stability					
Debt ratio	88.3	93.8	101.8	107.7	111.8
Net borrowings ratio	44.3	46.0	45.1	41.7	36.4
Interest coverage ratio	-1.2	0.1	0.4	1.7	2.8

Source: Paradise, Daishin Securities Research Center

Balance sheet	(Wbn)				
	2017A	2018A	2019F	2020F	2021F
Current assets	345	328	457	621	808
Cash & cash equiv.	172	207	338	492	670
Trade & other receive.	19	27	32	35	37
Inventories	5	7	8	9	10
Other current assets	149	86	79	85	91
Long-term assets	2,091	2,823	2,795	2,766	2,739
Tangible assets	1,624	2,263	2,247	2,224	2,201
Investments in affiliates	0	0	0	0	0
Other long-term assets	467	561	548	542	538
Total assets	2,435	3,151	3,252	3,387	3,547
Current liabilities	253	422	419	417	415
Payables & other liab.	191	300	300	301	301
Borrowings	44	88	83	79	75
Current portion of LT debts	8	21	22	23	24
Other current liabilities	9	13	14	14	14
Long-term liabilities	889	1,103	1,221	1,339	1,457
Borrowings	822	897	1,014	1,130	1,246
Convertible securities	0	0	0	0	0
Other long-term liab.	68	206	208	210	212
Total liabilities	1,142	1,525	1,640	1,756	1,872
Controlling interest	994	1,272	1,261	1,276	1,311
Capital stock	47	47	47	47	47
Capital surplus	295	295	295	295	295
Retained earnings	680	643	632	647	682
Other capital changes	-28	287	287	287	287
Non-controlling interest	299	354	351	355	365
Total shareholder's equity	1,293	1,626	1,611	1,630	1,675
Net borrowings	573	747	726	680	609

Cash flow statement	(Wbn)				
	2017A	2018A	2019F	2020F	2021F
Operating cash flows	4	106	134	166	191
NP	-40	-44	-4	29	54
Non-cash items	103	148	139	145	151
Depreciation	60	72	68	66	64
FX gains	0	-1	0	0	0
Equity method gain	0	1	1	1	1
Others	43	76	70	79	86
Chg in assets & liab.	-27	28	26	27	28
Other cash flows	-32	-25	-27	-36	-43
Investing cash flow	-207	-224	-59	-59	-60
Investment assets	-3	-1	5	-1	-1
Tangible assets	-340	-270	-44	-35	-35
Others	135	48	-20	-23	-24
Financing cash flows	194	151	104	105	105
Short-term borrowings	0	0	-4	-4	-4
Bonds payable	100	0	1	1	1
Long-term borrowings	66	115	115	115	115
Rights offering	54	45	0	0	0
Cash dividends	-26	-9	-9	-9	-9
Others	0	0	1	1	1
Net chg in cash	-10	35	131	154	178
Beginning cash balance	182	172	207	338	492
Ending cash balance	172	207	338	492	670
NOPLAT	-36	2	9	42	67
FCF	-333	-196	32	71	95

[Daishin House View: Industry 4.0 safety rating]

- Daishin Securities assigns safety ratings to individual sectors and companies based on analyses and discussions by our analysts.
- Depending on whether Industry 4.0 will have a positive, neutral, or negative impact, each industry and company is assigned one of three safety ratings:

Dark Gray (negative)

Neutral Green (neutral)

Sky Blue (positive)

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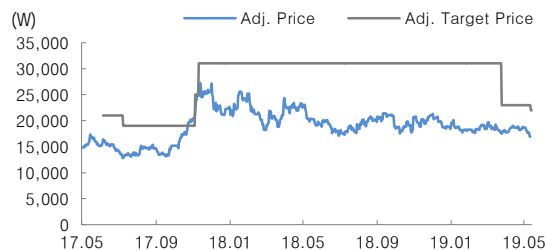
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[Investment rating & Target price history]

Paradise (034230 KQ)



Date	19.05.15	19.04.24	19.03.28	18.11.13	18.05.13	17.12.17
Rating	BUY	BUY	BUY	6M passed.	6M passed.	BUY
Target price	22,000	23,000	23,000	31,000	31,000	31,000
Diff. (avr. %)		(20.62)	(20.07)	(38.58)	(37.82)	(27.42)
Diff. (max/min., %)		(17.39)	(17.39)	(31.29)	(30.97)	(12.10)
Date	17.11.19	17.11.13	17.11.07	17.10.11	17.08.09	17.07.11
Rating	BUY	BUY	BUY	BUY	BUY	BUY
Target price	31,000	31,000	25,000	19,000	19,000	19,000
Diff. (avr. %)	(20.26)	(15.77)	(3.07)	(20.45)	(26.07)	(28.93)
Diff. (max/min., %)	(12.10)	(12.10)	(0.20)	7.37	(19.21)	(23.68)
Date	17.06.08					
Rating	BUY					
Target price	21,000					
Diff. (avr. %)	(29.52)					
Diff. (max/min., %)	(23.33)					
Date						
Rating						
Target price						
Diff. (avr. %)						
Diff. (max/min., %)						

Investment rating breakdown and framework (May 12, 2019)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	89.7%	10.3%	0.0%

Sector ratings breakdown

- Overweight: industry indicators are expected to outperform the market over the next six months.
- Neutral: industry indicators are expected to be in line with the market over the next six months.
- Underweight: industry indicators are expected to underperform the market over the next six months.

Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.