

# Paradise (034230 KS)

## May sales growth led by Japanese VIPs

**BUY** (Maintain)

CP (Jun. 5)	KRW16,300
TP (6 months)	KRW23,500
Upside	44.2%

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KOSPI	2,069.11p
KOSDAQ	707.75p
Market cap	KRW1,482.4bn/USD1,300.3mn
Par value	KRW500
Outstanding shares	90.9mn
Free float	42.8mn(47.1%)
52-week high/low	KRW21,400/KRW15,250
60-day avg. trading volume	568,853shrs
60-day avg. turnover	KRW10,154mn
Foreign ownership	5.23%
Major shareholders	
Paradise Global and 11 others	46.57%
Absolute performance	3M -17.3%
	6M -21.1%
	12M -18.3%
Relative performance	3M -12.6%
to KOSDAQ	6M -21.8%
	12M 1.3%

- ◆ May table drop KRW609.1bn (-2.1% MoM), sales KRW61.4bn (+7.5% MoM)
- ◆ 2019 outlook: Consolidated OP KRW10.9bn, Paradise City operating loss KRW26.5bn
- ◆ Retain BUY for a target price of KRW23,500 (based on 2020F EV/EBITDA)

### May table drop KRW609.1bn (-2.1% MoM), sales KRW61.4bn (+7.5% MoM)

Paradise recorded table drop of KRW609.1bn (-2.1% MoM, +28.2% YoY on low base effect from gambling-related investigation by Chinese police) and net sales of KRW61.4bn (+7.5% MoM, +18.5% YoY) for May. Table drop of Chinese VIP visitors decreased 20.3% MoM to KRW168.3bn. In contrast, table drop of Japanese VIP visitors increased 9.3% MoM to KRW227.7bn thanks to the Golden Week in Japan (from end-April to early May). We need to check the numbers for June when there is no public holiday. Walkerhill (Seoul) saw a downturn in table drop after six months of uptrend, while Paradise City (Incheon) delivered a long-awaited growth. Walkerhill registered a 54% MoM fall in table drop of Chinese VIPs, vs. a 12% MoM rise in that of Japanese VIPs. Paradise City's table drop from Chinese and Japanese VIPs climbed 30% and 9% MoM, respectively. It is notable that table drop of Japanese VIPs grew at both branches.

### 2019 outlook: Consolidated OP KRW10.9bn, Paradise City operating loss KRW26.5bn

For 2019, consolidated operating profit is forecast at KRW10.9bn (vs. KRW2.4bn in 2018). The market consensus has been revised down, but is still high at around KRW20bn. The company's guidance is even higher at KRW37bn. Paradise City is projected to post operating loss of KRW26.5bn for 2019 (vs. loss of KRW21.8bn in 2018). By quarter, its operating loss stood at KRW7.1bn in 1Q, and should amount to KRW9.3bn in 2Q, KRW1.3bn in 3Q, and KRW8.3bn in 4Q.

### Retain BUY for a target price of KRW23,500 (based on 2020F EV/EBITDA)

Our target price for Paradise is based on 2020F EBITDA and a target EV/EBITDA of 19x. We applied a high multiple in view of the growth in table drop (valuation levels of 2014-2016 when Chinese VIPs increased sharply). We keep our BUY rating given that: 1) downside is seen limited with a PBR of 1x translating to a share price of KRW17,000 following revaluation of assets (or KRW13,600 for controlling interests, vs. previous KRW11,000); and 2) sales will likely pick up from 2H, with expenses growing at a slower pace after a sharp increase in 1H.

Year to	Sales	OP	Pre-tax	NP	EPS	Growth	BPS	PER	EV/EBITDA	PBR	ROE	Net debt
December	(bn KRW)	(bn KRW)	(bn KRW)	(bn KRW)	(KRW)	(%)	(KRW)	(x)	(x)	(x)	(%)	ratio (%)
2017	668.0	(30.0)	(33.5)	(39.9)	(208)	TR	10,932	(107.0)	96.1	2.0	(1.9)	44.4
2018	787.6	2.4	(42.9)	(44.1)	(231)	RR	13,989	(81.4)	37.8	1.3	(1.9)	46.0
2019F	886.7	10.9	(51.8)	(54.2)	(276)	RR	13,620	(59.1)	23.7	1.2	(2.0)	48.0
2020F	954.1	51.3	(16.0)	(20.4)	(69)	RR	13,738	(237.7)	16.6	1.2	(0.5)	47.8
2021F	1,049.4	74.9	4.0	3.4	(23)	TB	13,590	(694.3)	13.7	1.2	(0.2)	41.7

Source: Company data, Shinhan Investment Corp. / Note: TB = turn black, TR = turn red, RR = remain red

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Monthly table drop by nationality and branch															
(bn KRW)	Mar18	Apr18	May18	Jun18	Jul18	Aug18	Sep18	Oct18	Nov18	Dec18	Jan19	Feb19	Mar19	Apr19	May19
<b>Total</b>	<b>502.8</b>	<b>462.0</b>	<b>475.0</b>	<b>449.4</b>	<b>460.9</b>	<b>501.0</b>	<b>489.2</b>	<b>562.7</b>	<b>520.3</b>	<b>523.0</b>	<b>557.7</b>	<b>522.2</b>	<b>540.9</b>	<b>622.3</b>	<b>609.1</b>
VIPs	433.2	391.2	398.7	377.5	383.8	423.6	407.3	474.9	423.2	431.3	470.2	444.0	451.6	534.7	509.0
<b>China</b>	<b>109.3</b>	<b>116.7</b>	<b>103.4</b>	<b>119.0</b>	<b>125.2</b>	<b>132.2</b>	<b>144.5</b>	<b>223.7</b>	<b>150.6</b>	<b>167.0</b>	<b>186.6</b>	<b>184.7</b>	<b>155.5</b>	<b>211.2</b>	<b>168.3</b>
Japan	213.6	166.9	185.7	149.5	162.5	187.9	170.6	152.6	163.4	158.5	167.2	158.6	179.3	208.2	227.7
Others	110.4	107.6	109.6	109.0	96.1	103.5	92.2	98.6	109.1	105.9	116.3	100.6	116.8	115.3	113.0
Mass visitors	69.6	70.7	76.3	71.9	77.0	77.4	82.0	87.9	97.1	91.7	87.5	78.2	89.2	87.6	100.1
<b>Walkerhill</b>	<b>249.2</b>	<b>191.6</b>	<b>213.6</b>	<b>188.5</b>	<b>180.4</b>	<b>209.0</b>	<b>189.8</b>	<b>230.0</b>	<b>194.1</b>	<b>217.5</b>	<b>232.2</b>	<b>223.0</b>	<b>235.0</b>	<b>263.3</b>	<b>219.3</b>
VIPs	211.4	157.7	176.1	151.7	143.7	171.8	150.1	187.5	151.5	174.7	190.3	186.4	193.9	224.4	177.2
China	42.7	43.4	40.7	43.5	40.9	44.6	45.4	84.8	53.8	68.0	82.1	81.6	74.9	105.1	48.6
Japan	112.0	54.8	77.9	53.1	54.2	68.3	61.4	55.2	49.1	56.0	56.0	50.8	62.8	66.4	74.6
Others	56.7	59.6	57.4	55.0	48.6	58.9	43.4	47.4	48.6	50.7	52.2	53.9	56.2	52.8	54.0
Mass visitors	37.8	33.8	37.5	36.8	36.7	37.1	39.7	42.6	42.6	42.8	41.9	36.6	41.1	38.9	42.1
<b>Incheon (Paradise City)</b>	<b>177.6</b>	<b>174.8</b>	<b>172.2</b>	<b>185.7</b>	<b>187.8</b>	<b>198.9</b>	<b>204.4</b>	<b>219.6</b>	<b>245.3</b>	<b>222.3</b>	<b>229.3</b>	<b>202.3</b>	<b>217.3</b>	<b>248.4</b>	<b>279.4</b>
VIPs	156.4	150.5	145.7	162.3	161.8	172.0	177.5	189.9	206.2	188.8	197.2	174.1	186.7	215.6	240.4
China	39.3	33.6	33.1	48.3	44.0	47.2	56.4	78.8	62.1	62.6	60.9	55.3	47.7	58.8	76.6
Japan	70.4	76.7	67.8	66.8	81.0	87.7	78.9	68.5	92.0	81.5	83.8	80.3	87.6	103.7	113.5
Others	46.7	40.2	44.8	47.2	36.8	37.2	42.3	42.7	52.1	44.6	52.5	38.6	51.3	53.1	50.2
Mass visitors	21.2	24.3	26.5	23.4	26.1	26.9	26.9	29.7	39.1	33.5	32.0	28.1	30.7	32.7	39.0

Source: Company data

Monthly consolidated table drop and sales															
(bn KRW)	Mar18	Apr18	May18	Jun18	Jul18	Aug18	Sep18	Oct18	Nov18	Dec18	Jan19	Feb19	Mar19	Apr19	May19
<b>Table drop</b>	<b>502.8</b>	<b>462.0</b>	<b>475.0</b>	<b>449.4</b>	<b>460.9</b>	<b>501.0</b>	<b>489.2</b>	<b>562.7</b>	<b>520.3</b>	<b>523.0</b>	<b>557.7</b>	<b>522.2</b>	<b>540.9</b>	<b>622.3</b>	<b>609.1</b>
<b>Hold percentage (%)</b>	<b>9.6</b>	<b>7.7</b>	<b>10.0</b>	<b>12.1</b>	<b>12.7</b>	<b>9.5</b>	<b>9.9</b>	<b>12.0</b>	<b>9.0</b>	<b>9.8</b>	<b>9.3</b>	<b>9.8</b>	<b>8.7</b>	<b>8.6</b>	<b>9.5</b>
<b>Sales (1+2)</b>	<b>51.5</b>	<b>38.2</b>	<b>51.8</b>	<b>57.3</b>	<b>62.4</b>	<b>50.9</b>	<b>52.0</b>	<b>70.2</b>	<b>51.3</b>	<b>54.9</b>	<b>56.1</b>	<b>55.4</b>	<b>49.9</b>	<b>57.1</b>	<b>61.4</b>
-Table (1)	48.0	35.5	47.4	54.3	58.4	47.4	48.4	67.3	47.1	51.5	52.1	50.9	46.9	53.5	57.8
-Slot machine (2)	3.4	2.7	4.4	3.0	4.0	3.5	3.6	3.0	4.2	3.4	4.0	4.4	3.1	3.6	3.7
(% YoY)															
Table drop	28.3	31.0	19.5	20.5	(3.4)	6.0	6.0	15.1	20.4	24.3	27.2	24.6	7.6	34.7	28.2
Sales	32.1	(1.3)	24.7	55.3	25.5	(3.8)	(5.0)	38.6	(5.5)	6.2	4.5	27.3	(3.0)	49.5	18.5

Monthly table drop by branch															
(bn KRW)	Mar18	Apr18	May18	Jun18	Jul18	Aug18	Sep18	Oct18	Nov18	Dec18	Jan19	Feb19	Mar19	Apr19	May19
<b>Paradise total</b>	<b>502.8</b>	<b>462.0</b>	<b>475.0</b>	<b>449.4</b>	<b>460.9</b>	<b>501.0</b>	<b>489.2</b>	<b>562.7</b>	<b>520.3</b>	<b>523.0</b>	<b>557.7</b>	<b>522.2</b>	<b>540.9</b>	<b>622.3</b>	<b>609.1</b>
Walkerhill	249.2	191.6	213.6	188.5	180.4	209.0	189.8	230.0	194.1	217.5	232.2	223.0	235.0	263.3	219.3
Jeju Grand	12.7	16.0	14.9	17.0	25.5	18.4	23.8	30.0	21.7	16.3	28.0	26.0	19.8	34.0	35.0
Incheon (Paradise City)	177.6	174.7	172.2	185.7	187.8	198.9	204.4	219.6	245.3	222.3	229.3	202.3	217.3	248.4	279.4
Busan	63.3	79.6	74.4	58.3	67.2	74.7	71.2	83.1	59.2	67.0	68.2	70.8	68.7	76.7	75.3

Monthly table sales by branch															
(bn KRW)	Mar18	Apr18	May18	Jun18	Jul18	Aug18	Sep18	Oct18	Nov18	Dec18	Jan19	Feb19	Mar19	Apr19	May19
<b>Paradise total</b>	<b>48.0</b>	<b>35.5</b>	<b>47.4</b>	<b>54.3</b>	<b>58.4</b>	<b>47.4</b>	<b>48.4</b>	<b>67.3</b>	<b>47.1</b>	<b>51.5</b>	<b>52.1</b>	<b>50.9</b>	<b>46.9</b>	<b>53.5</b>	<b>57.8</b>
Walkerhill	26.2	19.2	23.8	21.2	24.8	19.9	18.5	34.1	18.9	22.3	21.5	21.2	19.1	23.6	22.5
Jeju Grand	1.8	0.8	1.6	1.1	3.0	2.5	1.7	2.3	2.5	2.2	0.8	2.9	2.3	2.2	2.7
Incheon (Paradise City)	16.0	9.4	14.2	26.5	24.8	17.3	22.4	25.3	22.1	20.7	26.5	22.6	21.0	19.7	25.4
Busan	4.0	6.1	7.8	5.5	5.9	7.7	5.8	5.5	3.5	6.3	3.3	4.3	4.5	7.9	7.1

Paradise: Earnings trend and outlook (K-IFRS consolidated; Paradise City opened in Incheon in April 2017)															
(bn KRW)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19F	3Q19F	4Q19F	1Q20F	2Q20F	3Q20F	4Q20F	2018	2019F	2020F
Table drop	1,360.4	1,386.4	1,451.1	1,606.1	1,620.7	1,797.9	1,819.2	1,876.0	1,900.2	1,994.2	2,043.8	2,095.4	5,804.0	7,113.8	8,033.7
- Walkerhill	666.1	593.7	579.2	641.7	690.2	704.7	697.7	722.8	737.3	757.9	776.1	791.6	2,480.6	2,815.5	3,062.9
- Jeju Grand	41.9	47.9	67.7	68.0	73.8	101.1	96.0	94.6	95.9	97.8	99.8	100.8	225.5	365.4	394.3
- Incheon	<b>481.7</b>	<b>532.6</b>	<b>591.2</b>	<b>687.3</b>	<b>648.9</b>	<b>765.7</b>	<b>804.0</b>	<b>841.0</b>	<b>846.9</b>	<b>906.1</b>	<b>933.3</b>	<b>966.0</b>	<b>2,292.7</b>	<b>3,059.6</b>	<b>3,652.3</b>
- Busan	170.8	212.2	213.0	209.2	207.8	226.4	221.5	217.6	220.2	232.3	234.6	237.0	805.2	873.3	924.1
Hold percentage (%)	10.1	9.9	10.6	10.3	9.3	9.5	9.3	9.1	9.0	9.1	8.9	8.8	10.2	9.3	9.0
<b>Sales</b>	<b>179.5</b>	<b>181.1</b>	<b>210.5</b>	<b>216.6</b>	<b>201.7</b>	<b>225.7</b>	<b>231.6</b>	<b>227.7</b>	<b>224.7</b>	<b>239.4</b>	<b>247.8</b>	<b>242.2</b>	<b>787.6</b>	<b>886.7</b>	<b>954.1</b>
Casino	92.6	93.5	97.1	104.2	86.7	106.6	101.3	100.7	98.8	104.8	104.2	103.9	387.3	395.2	411.7
- Table	137.9	137.2	154.2	165.9	150.0	170.6	169.2	171.1	171.9	181.2	182.0	183.7	595.2	660.8	718.8
- Slot machine	10.8	10.1	11.1	10.6	11.4	13.4	12.9	13.1	13.5	14.2	13.9	14.1	42.6	50.8	55.7
Hotel	17.4	19.4	23.1	21.5	19.6	19.5	23.7	21.9	17.1	19.9	23.9	21.7	81.4	84.7	82.7
Resort complex	65.0	64.3	84.3	87.3	90.7	95.7	100.5	101.4	104.0	110.7	113.5	112.6	388.3	440.8	
Others	4.4	3.9	6.0	3.6	4.7	4.0	6.1	3.8	4.8	4.0	6.2	3.9	18.0	18.6	18.9
COGS	159.2	161.7	180.3	207.9	190.5	201.1	199.1	202.8	198.6	206.2	207.6	211.2	709.0	793.5	823.6
Casino	80.6	80.9	91.3	82.5	81.2	91.8	86.7	86.3	85.6	90.8	89.3	89.0	335.4	346.0	354.7
- Excise tax	3.5	3.6	3.7	4.0	3.3	4.1	3.8	3.8	3.8	4.0	4.0	3.9	14.7	15.0	15.6
Hotel	17.0	18.8	13.7	25.0	17.4	15.2	15.2	15.0	13.7	14.6	15.4	16.2	74.5	62.9	59.9
Resort complex	58.3	58.6	71.4	96.7	88.7	90.9	92.7	98.6	95.7	97.6	98.5	102.9	370.9	394.7	
Others	3.3	3.3	3.9	3.7	3.2	3.1	4.4	3.0	3.6	3.1	4.5	3.1	14.1	13.7	14.3
Gross profit	20.3	19.4	30.2	8.7	11.2	24.7	32.5	24.8	26.1	33.2	40.2	31.0	78.6	93.2	130.5
SG&A	15.5	19.5	19.4	21.8	17.5	25.8	18.6	20.5	20.0	20.2	18.8	20.2	76.2	82.3	79.2
<b>OP</b>	<b>4.8</b>	<b>(0.1)</b>	<b>10.8</b>	<b>(13.1)</b>	<b>(6.3)</b>	<b>(1.1)</b>	<b>13.9</b>	<b>4.4</b>	<b>6.1</b>	<b>13.1</b>	<b>21.4</b>	<b>10.8</b>	<b>2.4</b>	<b>10.9</b>	<b>51.3</b>
OPM (%)	2.7	(0.0)	5.1	(6.1)	(3.1)	(0.5)	6.0	1.9	2.7	5.5	8.6	4.4	0.3	1.2	5.4
Other income	6.5	6.8	6.0	8.6	6.6	6.2	6.5	6.3	6.8	6.4	6.7	6.4	27.9	25.7	26.2
Other expenses	4.0	5.6	3.8	29.6	10.4	11.4	12.4	13.5	12.3	12.4	13.2	14.4	43.0	47.7	52.3
Financial income	1.1	0.8	0.9	1.2	1.0	1.0	0.9	0.9	1.0	1.0	1.0	1.0	3.9	3.9	3.9
Financial expenses	8.4	6.5	6.2	11.8	11.1	11.1	11.1	11.1	11.3	11.3	11.3	11.3	33.0	44.5	45.1
Equity method gains	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	(0.0)	(4.6)	6.8	(45.0)	(20.2)	(16.4)	(2.1)	(13.1)	(9.8)	(3.3)	4.5	(7.5)	(42.9)	(51.8)	(16.0)
Income tax	(1.1)	(0.0)	1.6	0.8	(0.1)	1.6	(0.6)	1.5	0.4	0.8	1.6	1.6	1.3	2.4	4.4
<b>NP</b>	<b>1.1</b>	<b>(4.6)</b>	<b>5.2</b>	<b>(45.8)</b>	<b>(20.1)</b>	<b>(18.0)</b>	<b>(1.5)</b>	<b>(14.6)</b>	<b>(10.2)</b>	<b>(4.1)</b>	<b>2.9</b>	<b>(9.1)</b>	<b>(44.1)</b>	<b>(54.2)</b>	<b>(20.4)</b>
NPM (%)	0.6	(2.5)	2.5	(21.2)	(10.0)	(8.0)	(0.6)	(6.4)	(4.5)	(1.7)	1.2	(3.8)	(5.6)	(6.1)	(2.1)
- Controlling interests	<b>3.1</b>	<b>(1.7)</b>	<b>4.7</b>	<b>(27.1)</b>	<b>(12.8)</b>	<b>(9.6)</b>	<b>3.3</b>	<b>(5.9)</b>	<b>(5.7)</b>	<b>(1.4)</b>	<b>4.6</b>	<b>(3.8)</b>	<b>(21.0)</b>	<b>(25.1)</b>	<b>(6.2)</b>
- Non-controlling interests	(2.0)	(2.9)	0.5	(18.7)	(7.3)	(8.4)	(4.8)	(8.6)	(4.5)	(2.6)	(1.7)	(5.4)	(23.1)	(29.1)	(14.2)
<% YoY growth>															
Sales	26.0	29.4	7.3	14.2	12.4	24.7	10.0	5.1	11.4	6.1	7.0	6.4	17.9	12.6	7.6
OP	TB	RR	3.5	RR	TR	RR	28.4	TB	TB	TB	54.0	145.2	TB	350.7	372.7
NP	(11.3)	RR	265.5	RR	TR	RR	TR	RR	RR	RR	TB	RR	RR	RR	RR

Source: Company data, Shinhan Investment Corp.

Note: 1) Table drop refers to the amount spent on game chips by customers

2) Hold percentage refers to the casino's win to customer's drop (average 10-13%)

Earnings forecast revision (K-IFRS consolidated)						
(bn KRW)	2019F			2020F		
	Previous	Revised	Change (%)	Previous	Revised	Change (%)
Sales	884.6	886.7	0.2	978.1	954.1	(2.5)
OP	12.5	10.9	(13.2)	65.8	51.3	(22.0)
NP	(52.8)	(54.2)	R	(5.9)	(20.4)	R

Source: Shinhan Investment Corp.

Paradise City: Earnings trend and outlook (Grand Hyatt Incheon casino operated through 1Q17, casino resort opened in 2Q17)															
(bn KRW)	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19F	3Q19F	4Q19F	1Q20F	2Q20F	3Q20F	4Q20F	2018	2019F	2020F
Table drop	481.7	532.6	591.2	687.3	648.9	765.7	804.0	841.0	846.9	906.1	933.3	966.0	2,292.7	3,059.6	3,652.3
Hold percentage (%)	10.8	9.4	10.9	9.9	10.8	9.4	9.3	9.2	9.5	9.3	9.1	9.0	10.2	9.6	9.2
Table sales	52.2	50.1	64.5	68.1	70.1	72.0	74.8	77.4	80.5	84.3	84.9	86.9	234.8	294.3	336.6
Slot machine sales	3.9	3.8	3.7	4.0	4.6	5.4	6.0	6.2	6.0	6.3	6.8	7.0	15.5	22.2	26.1
<b>Sales</b>	<b>65.2</b>	<b>64.3</b>	<b>84.4</b>	<b>87.7</b>	<b>90.7</b>	<b>95.7</b>	<b>100.5</b>	<b>101.4</b>	<b>104.0</b>	<b>110.7</b>	<b>113.5</b>	<b>112.6</b>	<b>301.6</b>	<b>388.3</b>	<b>440.8</b>
Casino	55.7	53.5	67.7	71.8	74.8	77.4	80.8	83.6	86.5	90.6	91.7	93.9	248.6	316.5	362.7
Hotel & others	9.6	10.9	16.7	15.9	15.9	18.3	19.8	17.8	17.5	20.1	21.7	18.7	53.0	71.8	78.1
COGS	58.3	58.6	72.6	96.2	88.7	90.9	92.7	98.6	95.7	97.6	98.5	102.9	285.5	371.4	394.7
Casino	36.3	36.6	40.7	47.9	44.5	45.8	47.4	51.6	50.1	52.0	52.6	55.8	161.7	189.8	210.6
Comp expense	5.6	5.3	6.1	6.6	7.0	7.2	7.5	7.8	8.0	8.4	8.5	8.7	23.6	29.4	33.7
Labor	6.5	6.5	6.5	11.5	9.0	9.0	9.0	12.0	9.4	9.4	9.4	11.4	31.0	39.0	39.6
Tourism Promotion & Development Fund	5.5	5.3	6.6	7.1	7.1	7.4	7.8	8.1	8.2	8.7	8.9	9.3	24.5	30.5	35.1
Excise tax	1.9	1.8	2.5	2.5	2.8	2.9	3.1	3.2	3.4	3.6	3.6	3.8	9.0	12.6	14.4
Promotion expense	5.0	4.8	6.1	6.5	6.4	6.6	6.9	7.1	7.4	7.7	7.8	8.0	22.4	27.0	30.8
Rent	3.0	3.0	3.0	3.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	12.0	4.0	4.0
Depreciation	0.4	0.4	0.4	0.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	1.4	9.4	9.4
Others	8.4	9.5	9.6	10.3	9.0	9.3	9.7	10.0	10.4	10.9	11.0	11.3	37.8	38.0	43.5
Hotel & others	22.0	22.0	31.9	48.4	44.2	45.1	45.4	47.0	45.5	45.6	45.9	47.1	123.8	181.6	184.1
Labor costs	12.0	12.0	16.0	25.0	22.7	23.0	23.0	25.0	23.9	23.2	23.2	25.0	65.0	93.7	95.4
Depreciation	8.0	8.0	9.2	13.8	14.1	14.3	14.3	14.3	14.1	14.3	14.3	14.3	38.9	57.0	57.0
Others	2.0	2.0	6.3	9.6	7.4	7.8	8.1	7.7	7.5	8.0	8.3	7.7	19.9	30.9	31.6
Gross profit	7.0	5.8	11.7	(8.6)	2.0	4.8	7.8	2.8	8.3	13.1	15.0	9.7	16.1	16.8	46.1
GPM (%)	10.7	9.0	13.9	(9.8)	2.2	5.0	7.7	2.7	8.0	11.9	13.2	8.6	5.3	4.3	10.5
SG&A	6.1	8.1	9.9	13.9	9.1	14.1	9.1	11.1	9.2	9.2	9.2	10.4	37.9	43.4	37.9
Labor	2.2	2.2	2.8	4.5	2.0	2.0	2.0	4.0	2.1	2.1	2.1	3.3	11.6	10.0	9.5
Depreciation	0.4	0.4	0.4	0.4	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	6.4	6.4
Ads	2.8	2.8	3.5	5.0	0.5	7.0	3.5	3.5	3.5	3.5	3.5	3.5	14.1	14.5	14.0
Others	0.7	2.7	3.2	4.0	5.0	3.5	2.0	2.0	2.0	2.0	2.0	2.0	10.7	12.5	8.0
<b>OP</b>	<b>0.9</b>	<b>(2.3)</b>	<b>1.8</b>	<b>(22.5)</b>	<b>(7.1)</b>	<b>(9.3)</b>	<b>(1.3)</b>	<b>(8.3)</b>	<b>(0.8)</b>	<b>4.0</b>	<b>5.8</b>	<b>(0.7)</b>	<b>(21.8)</b>	<b>(26.5)</b>	<b>8.2</b>
OPM (%)	1.3	(3.6)	2.2	(25.6)	(7.9)	(9.7)	(1.3)	(8.2)	(0.8)	3.6	5.1	(0.7)	(7.2)	(6.8)	1.9
<b>EBITDA</b>	<b>9.6</b>	<b>6.9</b>	<b>11.8</b>	<b>(7.9)</b>	<b>10.9</b>	<b>9.0</b>	<b>16.9</b>	<b>9.9</b>	<b>17.2</b>	<b>22.2</b>	<b>24.1</b>	<b>17.5</b>	<b>20.5</b>	<b>41.9</b>	<b>81.0</b>
EBITDA margin (%)	14.7	10.7	14.0	(9.0)	12.0	9.4	16.9	9.8	16.6	20.1	21.2	15.6	6.8	10.8	18.4
Non-operating profit/loss	(5.4)	(6.0)	(3.3)	(21.3)	(10.6)	(11.1)	(10.8)	(12.6)	(10.7)	(11.2)	(10.9)	(12.7)	(36.1)	(45.3)	(45.3)
Other income	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	21.2	21.2	21.4
Other expenses	5.5	6.1	3.5	8.1	7.8	8.3	8.0	9.8	7.9	8.4	8.1	9.9	23.2	33.9	34.2
Financial income	2.0	2.0	3.1	3.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	10.1	8.0	8.1
Financial expenses	7.2	7.2	8.2	21.5	10.1	10.1	10.1	10.1	10.1	10.1	10.1	10.1	44.2	40.5	40.5
Pre-tax profit	(4.6)	(8.4)	(1.5)	(43.8)	(17.8)	(20.4)	(12.2)	(21.0)	(11.5)	(7.2)	(5.1)	(13.4)	(58.0)	(71.8)	(37.1)
Income tax rate (%)	10.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.6	3.0	3.0
Income tax	(0.5)	(0.3)	(0.0)	(1.3)	(0.5)	(0.6)	(0.4)	(0.6)	(0.3)	(0.2)	(0.2)	(0.4)	(2.1)	(2.1)	(1.1)
<b>NP</b>	<b>(4.1)</b>	<b>(8.1)</b>	<b>(1.5)</b>	<b>(42.5)</b>	<b>(17.2)</b>	<b>(19.8)</b>	<b>(11.8)</b>	<b>(20.3)</b>	<b>(11.1)</b>	<b>(7.0)</b>	<b>(4.9)</b>	<b>(13.0)</b>	<b>(55.9)</b>	<b>(69.7)</b>	<b>(36.0)</b>
NPM (%)	(6.3)	(12.6)	(1.7)	(48.4)	(19.0)	(20.7)	(11.7)	(20.1)	(10.7)	(6.3)	(4.3)	(11.6)	(18.5)	(17.9)	(8.2)
NP of controlling interests (55%)	(2.3)	(4.5)	(0.8)	(23.4)	(9.5)	(10.9)	(6.5)	(11.2)	(6.1)	(3.8)	(2.7)	(7.2)	(30.7)	(38.3)	(19.8)
NP of non-controlling interests (45%)	(1.8)	(3.6)	(0.7)	(19.1)	(7.8)	(8.9)	(5.3)	(9.1)	(5.0)	(3.1)	(2.2)	(5.9)	(25.2)	(31.4)	(16.2)

Source: Company data, Shinhan Investment Corp.

Note: 1) Paradise City's depreciation expenses are estimated at KRW25.9bn in 2017, KRW42bn in 2018, KRW72.8bn in 2019, and KRW72.8bn in 2020.

2) Interest expense is estimated at KRW19.7bn in 2017, KRW44.2bn in 2018, KRW40.5bn in 2019, and KRW40.5bn in 2020.

3) Paradise City in Yeongjongdo, Incheon opened on April 20, 2017. We thus assume that costs incurred from April (55% stake owned by Paradise, 45% stake by Japan-based SegaSamy).

**2020F EV/EBITDA valuation: Target price of KRW23,500**

(bn KRW)	Value	(bn KRW)	Value	(bn KRW)	Value
2020F EBITDA	150.6	2020F total shareholders' equity	1,534.4	2019F NP of controlling interests	(6.2)
Applied EV/EBITDA (x)	19	BPS (KRW)	16,872	EPS (KRW)	(69)
Operating value	2,861.4	Applied PBR (x)	1.4	Applied PER (x)	(340.6)
Net debt (-)	733.7	Current price (KRW)	16,300	Current price (KRW)	16,300
Enterprise value	2,127.7	Target price (KRW)	23,500	Target price (KRW)	23,500
No. of shares	90,942,672	Upside (%)	44.2	Upside (%)	44.2
Current price (KRW)	16,300				
<b>Target price (KRW)</b>	<b>23,500</b>				
Upside (%)	44.2				

Source: Shinhan Investment Corp.

Note: Target price based on a target EV/EBITDA of 19x

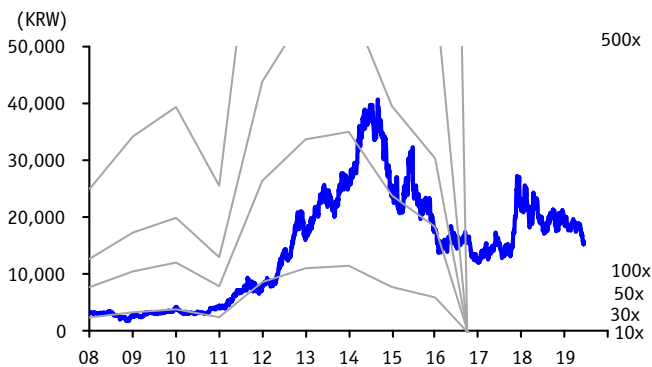
**Target valuation multiple**

(x)	Current multiple			Past average (x)	Premium (%)	2019F target (x)
	SHIC 2019F	SHIC 2020F	Global peers 2018F			
EV/EBITDA	23.7	16.6	13.5	18.1	5	<b>19.0</b>
PBR	1.2	1.2	10.1	1.8	0	1.4
PER	(59.1)	(237.7)	20.2	22.7	0	-340.6

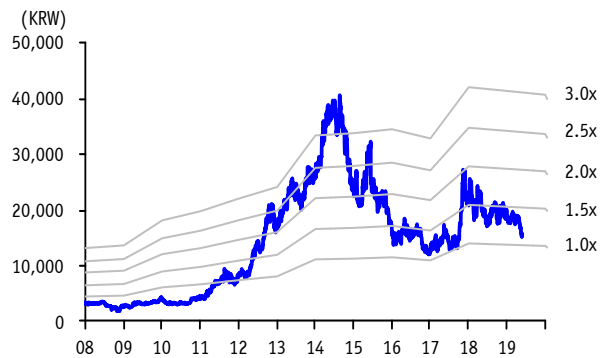
Source: Bloomberg, Shinhan Investment Corp.

Note: 1) Target price based on a target EV/EBITDA of 19x (5% premium applied to past 7-year average of 18x; shares traded at such high premiums in the past due to visible growth in Chinese and Japanese VIP customers)

2) PER notably higher with large interest expenses driving down net profit

**12-month forward PER band**

Source: Shinhan Investment Corp.

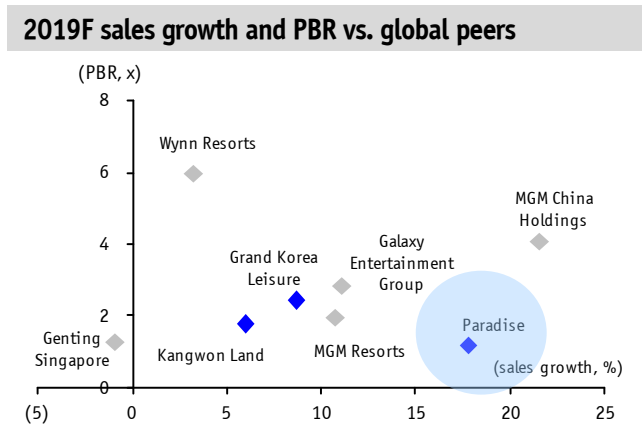
**12-month forward PBR band**

Source: Shinhan Investment Corp.

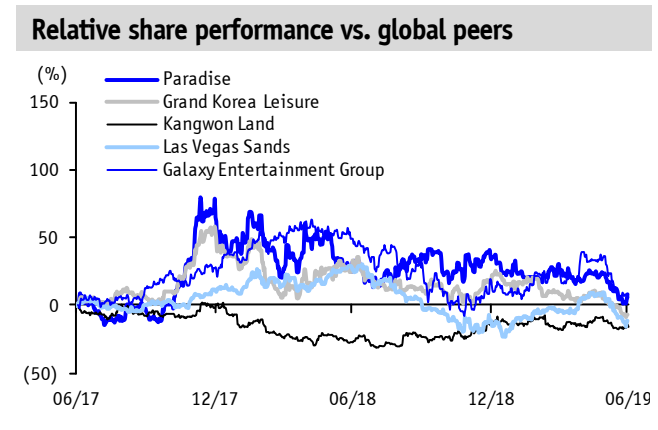
Peer group valuation														
Company	Ticker	Market cap (bn KRW)	Sales growth (%)		NP growth (%)		PER (x)		PBR (x)		EV/EBITDA (x)		ROE (%)	
			2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Kangwon Land	032520 KS	6,696.3	6.0	5.1	28.9	7.4	17.1	15.9	1.7	1.7	9.2	8.7	10.3	10.4
Paradise	034230 KS	1,482.4	17.8	16.4	122.4	638.4	307.7	37.5	1.2	1.1	21.5	14.3	0.4	3.1
Grand Korea Leisure	114090 KS	1,240.2	8.7	6.5	24.8	9.3	15.1	13.8	2.4	2.3	7.1	6.6	16.4	16.7
Las Vegas Sands	LVS US	50,675.3	2.6	2.9	(1.8)	3.9	16.6	15.6	7.2	7.2	10.2	9.8	42.8	43.3
Sands China	1928 HK	42,059.3	4.5	6.4	10.3	10.8	16.3	14.7	7.8	7.3	12.3	11.4	47.5	50.7
Galaxy Entertainment Group	27 HK	30,351.5	11.1	6.3	(0.4)	6.9	15.0	14.1	2.8	2.5	11.8	10.9	19.8	18.5
MGM Resorts	MGM US	16,238.7	10.8	3.8	0.3	50.1	23.9	15.3	2.0	1.8	10.3	9.4	7.6	11.5
Wynn Resorts	WYNN US	14,326.3	3.3	10.2	(1.1)	27.7	17.7	13.9	6.0	5.0	10.4	8.9	33.0	39.1
Wynn Macau	1128 HK	12,236.2	0.6	4.4	(4.0)	12.7	13.5	12.0	50.0	41.5	10.2	9.5	398.0	368.8
Genting Singapore	GENS SP	8,963.1	(0.9)	1.6	(4.2)	2.2	14.6	14.1	1.3	1.2	6.0	5.9	9.0	8.8
Crown Resorts	cwn au	6,851.3	(6.8)	2.8	(1.2)	7.4	21.9	20.1	1.7	1.7	9.8	9.5	7.5	8.2

Source: Bloomberg, Shinhan Investment Corp.

Note: Paradise does not look attractive vs. domestic and overseas peers at current levels, with casino resort in Yeongjongdo (Paradise City) yet to report visible growth in earnings



Source: Bloomberg, Shinhan Investment Corp.



Source: Bloomberg, Shinhan Investment Corp.

## Statement of financial position

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
<b>Total assets</b>	<b>2,435.3</b>	<b>3,150.8</b>	<b>3,232.1</b>	<b>3,250.6</b>	<b>3,339.2</b>
Current assets	344.7	327.5	413.2	475.0	619.5
Cash and equivalents	172.0	207.1	277.5	329.0	459.0
Accounts receivable	12.7	22.2	25.0	26.9	29.6
Inventories	5.4	6.6	7.5	8.1	8.9
Non-current assets	2,090.7	2,823.2	2,819.0	2,775.6	2,719.6
Tangible assets	1,624.2	2,262.6	2,257.2	2,219.1	2,168.5
Intangible assets	289.6	276.2	281.3	272.1	264.5
Investment assets	33.3	23.4	19.4	23.3	25.6
Other financial assets	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities</b>	<b>1,142.0</b>	<b>1,524.7</b>	<b>1,668.8</b>	<b>1,716.2</b>	<b>1,814.2</b>
Current liabilities	252.6	421.8	515.2	557.9	632.5
Short-term borrowings	43.8	87.8	116.8	145.8	174.8
Accounts payable	2.6	3.5	4.0	4.3	4.7
Current portion of long-term debt	8.2	20.9	45.9	55.9	65.9
Non-current liabilities	889.4	1,102.9	1,153.6	1,158.2	1,181.6
Bonds	99.8	99.9	94.9	89.9	84.9
Long-term borrowings	722.2	798.7	828.7	833.7	838.7
Other financial liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total shareholders' equity</b>	<b>1,293.3</b>	<b>1,626.1</b>	<b>1,563.4</b>	<b>1,534.4</b>	<b>1,525.0</b>
Capital stock	47.0	47.0	47.0	47.0	47.0
Capital surplus	295.0	295.0	295.0	295.0	295.0
Other capital	(26.1)	(26.1)	(26.1)	(26.1)	(26.1)
Accumulated other comprehensive income	(1.8)	313.2	313.2	313.2	313.2
Retained earnings	680.1	643.2	609.6	620.3	606.9
<b>Controlling interest equity</b>	<b>994.2</b>	<b>1,272.2</b>	<b>1,238.7</b>	<b>1,249.4</b>	<b>1,236.0</b>
Non-controlling interest equity	299.1	353.9	324.7	285.0	289.0
*Total debt	873.9	1,007.3	1,086.3	1,125.3	1,164.3
*Net debt (cash)	573.8	748.6	750.6	733.7	636.5

## Statement of cash flow

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
<b>Cash flow from operations</b>	<b>4.0</b>	<b>106.4</b>	<b>115.2</b>	<b>97.8</b>	<b>167.0</b>
Net profit	(39.9)	(44.1)	(54.2)	(20.4)	3.4
Depreciation expense	51.5	62.5	85.3	89.1	91.6
Amortization expense	8.7	9.6	12.0	10.2	8.7
FX translation loss (gain)	(0.4)	(0.8)	0.0	0.0	0.0
Asset disposal loss (gain)	0.6	2.1	2.2	2.2	2.2
Equity method loss (gain)	0.0	1.1	(1.1)	(1.1)	(1.1)
Change in working capital	(27.1)	27.8	56.4	2.5	46.4
(Payment of income tax)	(15.5)	(1.1)	(2.4)	(4.4)	(0.6)
Others	26.1	49.3	17.0	19.7	16.4
<b>Cash flow from investments</b>	<b>(207.5)</b>	<b>(223.7)</b>	<b>(111.8)</b>	<b>(73.3)</b>	<b>(64.1)</b>
Increase in tangible assets	(357.3)	(271.0)	(80.0)	(51.0)	(41.0)
Decrease in tangible assets	17.8	0.5	0.0	0.0	0.0
Change in intangible assets	0.2	0.2	(17.0)	(1.0)	(1.0)
Change in investment assets	(3.7)	(0.4)	5.1	(2.8)	(1.2)
Others	135.5	47.0	(19.9)	(18.5)	(20.9)
<b>Free cash flow</b>	<b>(352.7)</b>	<b>(108.3)</b>	<b>59.4</b>	<b>111.5</b>	<b>150.2</b>
<b>Cash flow from financing</b>	<b>193.6</b>	<b>151.3</b>	<b>70.5</b>	<b>30.5</b>	<b>30.5</b>
Change in borrowings	165.4	115.1	79.0	39.0	39.0
Change in treasury stock	0.0	0.0	0.0	0.0	0.0
Dividends	(25.6)	(8.5)	(8.5)	(8.5)	(8.5)
Others	53.8	44.7	0.0	0.0	0.0
Other cash flow	0.0	0.0	(3.5)	(3.5)	(3.5)
Change in consolidated scope	0.0	0.0	0.0	0.0	0.0
Change in FX rates	(0.3)	1.0	0.0	0.0	0.0
<b>Change in total cash</b>	<b>(10.3)</b>	<b>35.1</b>	<b>70.5</b>	<b>51.5</b>	<b>130.0</b>
Beginning cash	182.3	172.0	207.1	277.5	329.0
Ending cash	172.0	207.1	277.5	329.0	459.0

Source: Company data, Shinhan Investment Corp.

## Statement of comprehensive income

Year to December (bn KRW)	2017	2018	2019F	2020F	2021F
<b>Sales</b>	<b>668.0</b>	<b>787.6</b>	<b>886.7</b>	<b>954.1</b>	<b>1,049.4</b>
Growth (%)	(3.9)	17.9	12.6	7.6	10.0
<b>COGS</b>	<b>597.7</b>	<b>709.0</b>	<b>793.5</b>	<b>823.6</b>	<b>892.7</b>
<b>Gross profit</b>	<b>70.3</b>	<b>78.6</b>	<b>93.2</b>	<b>130.5</b>	<b>156.7</b>
GPM (%)	10.5	10.0	10.5	13.7	14.9
<b>SG&amp;A</b>	<b>100.3</b>	<b>76.2</b>	<b>82.3</b>	<b>79.2</b>	<b>81.9</b>
<b>Operating profit</b>	<b>(30.0)</b>	<b>2.4</b>	<b>10.9</b>	<b>51.3</b>	<b>74.9</b>
Growth (%)	TR	TB	350.7	372.7	46.0
OPM (%)	(4.5)	0.3	1.2	5.4	7.1
<b>Non-operating profit</b>	<b>(3.6)</b>	<b>(45.3)</b>	<b>(62.7)</b>	<b>(67.3)</b>	<b>(70.9)</b>
Financial profit	(19.0)	(29.1)	(41.9)	(43.6)	(44.0)
Other non-operating profit	15.4	(15.1)	(19.6)	(22.6)	(25.8)
Equity method gain (loss)	(0.0)	(1.1)	(1.1)	(1.1)	(1.1)
<b>Pre-tax profit</b>	<b>(33.5)</b>	<b>(42.9)</b>	<b>(51.8)</b>	<b>(16.0)</b>	<b>4.0</b>
Income tax	6.3	1.3	2.4	4.4	0.6
Continuing operations	(39.9)	(44.1)	(54.2)	(20.4)	3.4
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>(39.9)</b>	<b>(44.1)</b>	<b>(54.2)</b>	<b>(20.4)</b>	<b>3.4</b>
Growth (%)	TR	RR	RR	RR	TB
NPM (%)	(6.0)	(5.6)	(6.1)	(2.1)	0.3
Controlling interest	(19.0)	(21.0)	(25.1)	(6.2)	(2.1)
Non-controlling interest	(20.9)	(23.1)	(29.1)	(39.7)	4.0
<b>Comprehensive income</b>	<b>(44.6)</b>	<b>296.4</b>	<b>(54.2)</b>	<b>(20.4)</b>	<b>3.4</b>
Controlling interest	(24.3)	286.5	(52.4)	(19.8)	3.3
Non-controlling interest	(20.3)	9.9	(1.8)	(0.7)	0.1
<b>EBITDA</b>	<b>30.2</b>	<b>74.5</b>	<b>108.1</b>	<b>150.6</b>	<b>175.1</b>
Growth (%)	(69.3)	146.7	45.1	39.3	16.3
EBITDA margin (%)	4.5	9.5	12.2	15.8	16.7

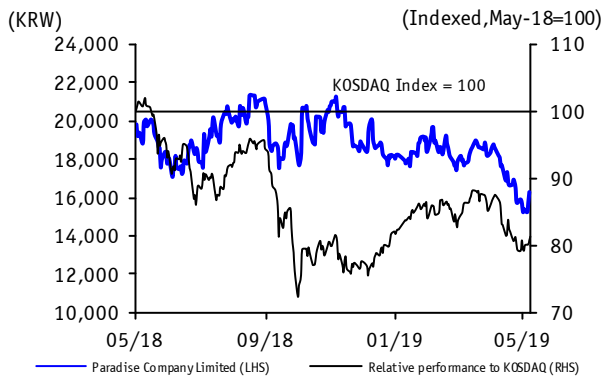
## Key ratios

Year to December	2017	2018	2019F	2020F	2021F
EPS (KRW)	(438)	(485)	(596)	(225)	37
EPS of controlling interest (KRW)	(208)	(231)	(276)	(69)	(23)
BPS (KRW)	14,221	17,880	17,191	16,872	16,769
BPS of controlling interest (KRW)	10,932	13,989	13,620	13,738	13,590
DPS (KRW)	100	100	100	100	150
PER (x)	(50.9)	(38.8)	(27.3)	(72.5)	439.6
PER of controlling interest (x)	(107.0)	(81.4)	(59.1)	(237.7)	(694.3)
PBR (x)	1.6	1.1	0.9	1.0	1.0
PBR of controlling interest (x)	2.0	1.3	1.2	1.2	1.2
EV/EBITDA (x)	96.1	37.8	23.7	16.6	13.7
Dividend payout ratio (%)	(44.9)	(40.5)	(34.0)	(136.6)	(598.5)
Dividend yield (%)	0.4	0.5	0.6	0.6	0.9
<b>Profitability</b>					
EBITDA margin (%)	4.5	9.5	12.2	15.8	16.7
OPM (%)	(4.5)	0.3	1.2	5.4	7.1
NPM (%)	(6.0)	(5.6)	(6.1)	(2.1)	0.3
ROA (%)	(1.7)	(1.6)	(1.7)	(0.6)	0.1
ROE (%)	(1.9)	(1.9)	(2.0)	(0.5)	(0.2)
ROIC (%)	(2.3)	5.3	1.3	3.1	3.7
<b>Stability</b>					
Debt to equity ratio (%)	88.3	93.8	106.7	111.8	119.0
Net debt ratio (%)	44.4	46.0	48.0	47.8	41.7
Cash ratio (%)	68.1	49.1	53.9	59.0	72.6
Interest coverage ratio (x)	(1.2)	0.1	0.2	1.1	1.5
<b>Activity (%)</b>					
Working capital turnover (times)	(4.0)	(3.9)	(3.4)	(3.5)	(3.7)
Inventory turnover (days)	2.1	2.8	2.9	3.0	2.9
Receivable turnover (days)	8.7	8.1	9.7	9.9	9.8

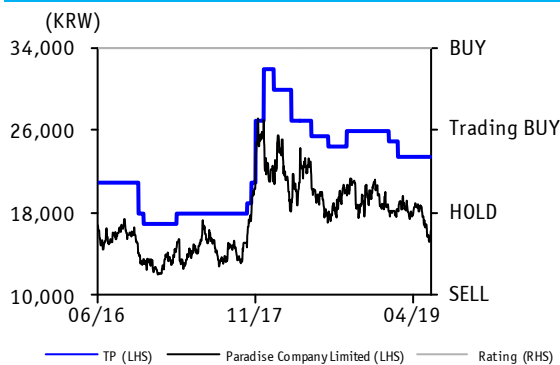
Source: Company data, Shinhan Investment Corp.

## Paradise (034230 KS)

## Share performance



## Target price



Date	Rating	Target price (KRW)	Target price gap (%)	
			Average	Max/Min
2016.05.11	BUY	21,000	(24.0)	(16.9)
2016.10.17	BUY	18,000	(24.8)	(21.1)
2016.11.03	BUY	17,000	(22.8)	(14.4)
2017.02.20	BUY	18,000	(19.6)	(3.6)
2017.08.21		6M later	(21.1)	(14.7)
2017.10.11	BUY	19,000	(9.5)	(6.3)
2017.10.25	BUY	21,000	(3.7)	4.5
2017.11.08	BUY	27,000	(5.4)	0.9
2017.12.05	BUY	32,000	(30.4)	(23.3)
2018.01.07	BUY	30,000	(25.3)	(14.7)
2018.03.06	BUY	27,000	(19.8)	(9.8)
2018.05.11	BUY	25,500	(25.1)	(20.0)
2018.07.06	BUY	24,500	(22.1)	(15.1)
2018.09.05	BUY	26,000	(24.6)	(17.7)
2019.01.22	BUY	25,000	(27.2)	(24.6)
2019.02.21	BUY	23,500	-	-

Note: Calculation of target price gap based on past 6 months

## Rating Distribution - SHIC Universe (as of 5 June 2019)

BUY (BUY)	96.70%	Trading BUY (HOLD)	0.94%	HOLD (HOLD)	2.36%	SELL (SELL)	0%
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## Rating Distribution - SHIC Investment Banking Clients (as of 5 June 2019)

BUY (BUY)	90.48%	Trading BUY (HOLD)	4.76%	HOLD (HOLD)	4.76%	SELL (SELL)	0%
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## SHIC Ratings (as of 1 April 2017)

Stock	Sector
<ul style="list-style-type: none"> <li>◆ <b>BUY:</b> Expected 6-month gain of 10% or more</li> <li>◆ <b>Trading BUY:</b> Expected 6-month gain of 10% to loss of 10%</li> <li>◆ <b>HOLD:</b> Expected 6-month loss of 10% to 20%</li> <li>◆ <b>SELL:</b> Expected 6-month loss of 20% or more</li> </ul>	<ul style="list-style-type: none"> <li>◆ <b>OVERWEIGHT:</b> Based on market cap, largest share of sector stocks under coverage is rated BUY</li> <li>◆ <b>NEUTRAL:</b> Based on market cap, largest share of sector stocks under coverage is rated Trading BUY or HOLD</li> <li>◆ <b>UNDERWEIGHT:</b> Based on market cap, largest share of sector stocks under coverage is rated SELL</li> </ul>



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