

30 March 2015

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PARADISE ENTERTAINMENT (1180:HK)

Financial summary and valuation

	2013	2014	2015E	2016E	2017E
Revenue (HK\$m)	1030	1192	1341	1461	1635
YoY (%)	41%	16%	12%	9%	12%
Recurring net income (HK\$m)	97	93	122	212	332
YoY (%)	-31%	-4%	31%	73%	57%
EPS (HK\$)	0.09	0.06	0.12	0.20	0.31
Recurring EPS (HK\$)	0.09	0.09	0.12	0.20	0.31
ROE (%)	8%	8%	10%	15%	20%
Debt/asset (%)	21%	16%	15%	14%	12%
Dividend Yield (%)	3%	4%	4%	6%	10%
PE (x)	20.1	34.4	16.4	9.5	6.1
PB (x)	1.7	1.7	1.6	1.4	1.2
EV/Ebitda (x)	8.5	8.3	5.7	3.4	1.8

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

收入与预期一致，利润低于预期。 汇彩控股公布 2014 年业绩，总收入 11.9 亿港元，与我们 12 亿港元的预测一致。然而，净利润仅实现 0.58 亿港元，低于我们此前预测 15%。去除由于提前赎回承兑票据导致的一次性非现金亏损，公司经常性净利润 0.93 亿港元，同比下跌 4%。来自赌场经营收入同比增长 20%，主要由于金碧汇彩娱乐场同比实现增长约 17%，以及新加入的华都和赛马会娱乐场带来的收益。

成本大幅增长。 我们认为盈利弱于预期主要是由于华都和赛马会娱乐场成本大幅增加。公司从 2014 年 4 月开始经营赛马会娱乐场，从 2013 年下半年开始经营华都娱乐场。因此在 2014 年录得了大量的开业相关费用。同时，为了推广上述两个娱乐场，额外增加了大量的促销费用，尤其是在 2014 年下半年。根据我们的预测，上述两个新加入的娱乐场导致公司 2014 年 EBITDA 亏损近 6000 万港币。

股息分派成唯一亮点。 公司宣布每股 7 港仙的派息，总计派息 0.74 亿港元，同比增长 40%，派息率达到 127%。由于公司 2014 年净利润中包含 0.35 亿港元的非现金一次性亏损，以及 0.66 亿港元的无形资产摊销费用，因此实际可支配自由现金流量充裕，可以支撑长期的高比例派息。

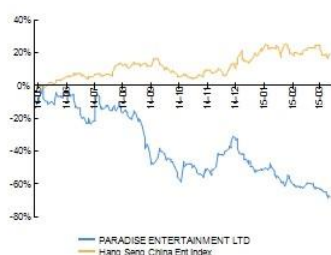
2015 上半年赌场经营不容乐观。 公司已经从 1 月开始实施了成本控制计划，主要是在赠送房间，餐饮方面加以控制。同时，由于去年新赌场开业而产生的一些推广费用今年也不会发生。然而，我们预计华都的经营情况好转仍然会慢于我们此前的预期，2015 年很可能会继续录得亏损，尽管亏损幅度会有所收窄。

下调盈利预测。 我们把 2015 年，2016 年盈利预测从 0.15 和 0.23 下调至 0.12 和 0.2，同时引入 2017 年的 EPS 预测为 0.31。盈利预测下调主要反映我们对赌场经营业务的更悲观预期。2015 年全年 GGR 预测从此前的 4% 下调为 0%。而对公司的机器销售和租赁业务我们仍然保持乐观，维持此前的销量预测。我们下调目标价至 2.09 港币，对应为增持评级。我们认为随着公司成本控制策略逐步显现成效，机器订单陆续公布，公司的投资机会或在下半年出现。

Market Data: Mar 27

Closing Price (HK\$)	1.90
Price Target (HK\$)	2.09
HSCEI	11,920
HSCCI	4,515
52-week High/Low (HK\$)	7.05/1.90
Market Cap (USD Mn)	293
Market Cap (HK\$ Mn)	2,269
Shares Outstanding (Mn)	1,056
Exchange Rate (RMB-HK\$)	1.26

Price Performance Chart:



Source: Bloomberg

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"PARADISE ENTERTAINMENT (1180:HK)—Slowly but surely" Mar 16, 2015

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Topline in line, bottom line miss. Paradise reported 2014 total revenue of HK\$1.19bn, in line with our forecast of HK\$1.2bn. However, net profit was only HK\$58.4m, 15% lower than our forecast, on higher than expected costs. Excluding a one-off non-cash loss from early redemption of promissory notes, recurring net profit was HK\$93.3m, down 4% YoY. Revenue from casino operations increased 20% YoY, thanks to robust growth from *Casino Kampek* (+17% YoY) and its two newest casinos under management, *Casino Waldo* and *Casino Macau Jockey Club*.

Costs run out of control amid tough environment. Despite the higher revenue contribution, rising costs at *Waldo* and *Macau Jockey Club* are the main reason for Paradise's lower-than-expected earnings. The company started to operate *Macau Jockey Club* in April 2014 and *Waldo* in 2H13. In order to ramp up the business under current soft market conditions, the company incurred a greater promotional expense than expected, particularly in 2H14 as well as some expenses associated with opening the casino. We estimate that Ebitda for the two casinos in 2014 was negative HK\$60m.

Dividend bright spot. The company announced a HK\$0.07/share dividend, totalling HK\$74m (+40% yoy), representing a 127% payout ratio. Considering the company's bottom line includes a HK\$35m one-off non-cash expense and HK\$66m non-cash amortisation expense, the company's free cash flow remains strong and we believe the company can maintain a high payout ratio in future.

Tough 1H15 for casino operations. The company is implementing some cost saving efforts starting from January 2015, for example cutting food & beverage promotions, and the lack of pre-opening expenses this year will help boost growth. However, we expect the pace of business ramp up in *Waldo* will be slower than we previously forecast due to the tough market environment and promotional cutbacks. We expect Paradise to continue to book a net loss from the casino in 2015.

Revise down earnings. We revise down our gross gaming revenue growth expectation in 15E from +4% YoY to flat YoY, and maintain our forecast for its machine business of total deployment of 1,850 machines in 15E. We revise down our EPS forecasts from HK\$0.15 to HK\$0.12 in 15E, from HK\$0.23 to HK\$0.20 in 16E and forecast 17E EPS of HK\$0.31, and cut our target price accordingly from HK\$2.50 to HK\$2.09. With 10% upside, we downgrade our rating from BUY to Outperform. We believe investment prospects may improve in 2H15 when the company sells more machines and the effects of cost controls may begin to show.

APPENDIX

Table 1: Consolidated Income Statement

(HK\$m)	2013	2014	2015E	2016E	2017E
Revenue	1,030.5	1,192.3	1,341.1	1,460.9	1,635.2
LT Macau: Paradise	662.0	760.9	748.4	770.9	794.0
Waldo	191.6	253.3	248.7	258.9	279.3
Lisboa	0.8	12.3	14.7	17.7	21.2
LT Game: Revenue share	89.3	134.1	144.2	152.1	161.0
Machine sale/lease	95.2	23.6	173.4	248.5	365.6
EBITDA	197.7	203.7	289.9	416.7	583.8
LT Macau	160.1	162.4	157.0	210.6	261.9
LT Game	54.5	67.2	162.9	239.2	358.4
Corporate expense	-20.7	-24.9	-30.0	-33.1	-36.5
Depreciation	-36.0	-49.3	-57.8	-71.5	-84.4
Amortization	-41.8	-66.1	-66.9	-66.9	-66.9
EBIT	119.9	88.3	165.3	278.3	432.4
Finance cost	-16.1	-8.5	-2.0	-2.0	-2.0
Other gain/loss	0.0	-34.9	0.0	0.0	0.0
Profit before tax	103.8	44.9	163.2	276.3	430.4
Income tax expense	0.0	21.7	-19.6	-33.2	-51.7
Minority interests	7.0	8.1	21.2	31.1	46.6
Recurring net profit	96.7	93.3	122.5	212.0	332.2
Net profit	96.7	58.4	122.5	212.0	332.2

Table 2: Consolidated Cash Flow Statement

(HK\$m)	2013	2014	2015E	2016E	2017E
Net profit	97	58	122	212	332
Plus : Depr. and amortisation	78	115	125	138	151
Finance cost	-16	-8	-2	-2	-2
Tax paid	0	22	-20	-33	-52
Change in working capital	-88	46	-96	-9	-12
Others	37	83	44	68	102
CF from operating activities	107	315	173	374	520
CAPEX	-127	-57	-41	-41	-41
Other CF from investing activities	0	0	0	0	0
CF from investing activities	-127	-57	-41	-41	-41
Equity financing	95	-95	0	0	0
Net change in liabilities	0	-59	0	0	0
Dividend and interest paid	-5	-60	-76	-88	-129
Other CF from financing activities	0	0	0	0	0
CF from financing activities	90	-214	-76	-88	-129
Net cash flow	70	45	56	246	350
FCFF	-153	74	5	119	148
FCFE	-137	24	7	121	150

Source : SWS Research

Table 3: Consolidated Balance Sheet

(HK\$m)	2013	2014	2015E	2016E	2017E
Current Assets	529	524	667	920	1,281
Bank balances and cash	267	321	367	613	963
Trade and other receivables	249	159	256	265	277
Inventories	15	46	46	46	46
Other current assets	-1	-2	-3	-4	-5
Long-term investment	1	2	3	4	5
PP&E	183	186	170	139	96
Intangible and other assets	769	703	636	569	502
Total Assets	1,482	1,415	1,475	1,632	1,884
Current Liabilities	169	156	156	156	156
Trade and other payables	153	152	153	153	153
Other current liabilities	16	4	4	4	4
Long-term liabilities	138	68	68	68	68
Total Liabilities	307	224	224	224	224
Minority Interests	28	29	50	82	128
Shareholder Equity	1,148	1,162	1,201	1,327	1,532
Share Capital	1	1	1	1	1
Reserves	1,147	1,151	1,200	1,326	1,531
Total Equity	1,175	1,192	1,251	1,408	1,660
Total Liabilities and equity	1,482	1,415	1,475	1,632	1,884

Source: SWS Research

Table 4: Key Financial Ratios

	2013	2014	2015E	2016E	2017E
Ratios per share (HK\$)					
EPS	0.09	0.06	0.12	0.20	0.31
Recurring EPS	0.09	0.09	0.12	0.20	0.31
Operating CF per share	0.10	0.30	0.16	0.35	0.49
Dividend per share	0.05	0.07	0.08	0.12	0.19
Net assets per share	1.15	1.13	1.18	1.33	1.57
Key Operating Ratios (%)					
ROIC	7%	7%	9%	14%	19%
ROE	8%	8%	10%	15%	20%
EBITDA Margin	19%	17%	22%	29%	36%
EBIT Margin	12%	7%	12%	19%	26%
Growth rate of Revenue(YoY)	41%	16%	12%	9%	12%
Growth rate of Profit(YoY)	-31%	-4%	31%	73%	57%
Debt-to-asset ratio	21%	16%	15%	14%	12%
Turnover rate of net assets	130%	101%	110%	110%	107%
Turnover rate of total assets	98%	82%	93%	94%	93%

Effective tax rate (%)	0%	0%	12%	12%	12%
Dividend yield (%)	2.6%	3.7%	4.3%	6.3%	9.9%
Valuation Ratios (X)					
P/E	20.1	34.4	16.4	9.5	6.1
P/B	1.7	1.7	1.6	1.4	1.2
EV/Sale	1.6	1.4	1.2	1.0	0.6
EV/EBITDA	8.5	8.3	5.7	3.4	1.8

Source: SWS Research

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