

Company Report

Dynam Japan (6889 HK)

Visit takeaways: higher hopes to pass gaming bill

■ We recently met with Dynam Japan mgmt and Mr. Tsukasa Akimoto, a pro-gaming Diet member. Discussion on gaming legalization is expected to start during mid-July to end-August.

■ The current Diet session has been extended to Sep 27, and the hope to pass the bill is high as long as the discussion is raised.

■ Dynam is one of the Hong Kong-listed beneficiaries from the improving visibility in gaming legalization, trading at 13.3x FY15 P/E.

Gaming is not a priority but has higher chance this year

The security bill is the priority, which is the major reason for the decision on Jun 22 to extend the current Diet session for 95 days to Sep 27. However, Mr. Tsukasa Akimoto, a Diet member in Japan from Liberal Democratic Party (pro-gaming), highlighted the gaming bill is unlikely to be impacted by the security bill: the gaming bill was submitted through the cabinet committee, different from the security committee which discusses the security bill. After two bills are discussed in cabinet committee in the coming days, the gaming bill will be raised during mid-July to end-August.

Plan on resort construction begins to crystallize

Dynam's long term plan appears more positive: the company plans to build a resort in Yamaguchi Prefecture, no matter the gaming bill can pass or not. With a construction budget of JPY15-20bn, Dynam will work with Japan Tourism Bureau (JTB) to promote the place to bring more tourists and the detailed construction plan will solidify in a year. We believe it is a good step for Dynam to diversify its business towards inbound tourism.

Valuation

Among the HK-listcos, we reiterate our view that Dynam is the major beneficiary of potential unlocking of Japan gaming market: Niraku (1245 HK, Non-rated), another HK-listed Japanese pachinko operator, has not spoken publicly about its interest in gaming. Dynam is now trading at 13.3x P/E with 6.9% yield for FY15 (Mar-YE), vs. Niraku's 7.6x P/E for FY15 (Mar-YE).

Financials

JPYmn (Mar YE)	FY11	FY12	FY13	FY14	FY15
Revenue	169,637	165,078	163,961	165,754	154,556
Growth (%)	3%	-3%	-1%	1%	-7%
Net profit	16,191	15,898	20,925	21,255	11,303
Growth (%)	-20%	-2%	32%	2%	-47%
EPS (JPY)	25.7	25.2	29.7	28.6	15.2
DPS (JPY)	-	-	13.0	14.0	14.0
P/E (x)	5.4	5.5	5.4	6.1	13.3
P/B (x)	1.0	0.9	0.9	0.9	1.1
Dividend yield (%)	0.0%	0.0%	8.2%	8.1%	6.9%
ROE (%)	18.9%	17.0%	16.6%	15.0%	8.4%

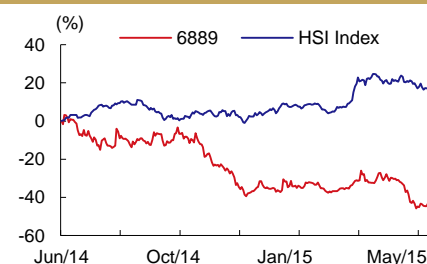
Source: Bloomberg

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NON RATED

Previous	NON RATED
Price	HK\$13.06
12-month Target Price (Potential up/downside)	NA
Previous	NA

Price Performance



Source: Bigdata

%	1m	6m	12m
6889 HK	(18.5)	(4.9)	(43.6)
HSI	(3.4)	15.8	15.5

Gaming	
Hang Seng Index	27081
HSCEI	13186

Key Data	
52-week range (HK\$)	12.5-24.45
Market cap (US\$ mn)	2,085
Avg. daily volume (mn)	0.88
BVPS (JPY)	192.2

Shareholdings Structure	
Sato family	62%
One Asia Foundation	11%
No. of shares outstanding	743mn
Free float	27%

Related Research

1. Dynam Japan (6889 HK) –Gaming legalization back on the table 2015/04/30
2. Dynam Japan (6889 HK) –NDR takeaways: dividend yield play with casino odds 2014/10/20

Other takeaways

Timeline of developing gaming market in Japan

- 1) Lawmakers **pass the fundamental law**. The gaming bill has been submitted for discussion during the current Diet session. Mr. Tsukasa Akimoto and Dynam mgmt expect it to pass by **the end of August 2015, if raised successfully**.
- 2) **Practical law will be discussed**. It takes **c. 1 year** to finalize details such as 1) whether Japanese should be allowed to go in casinos and 2) whether junket business should be allowed.
- 3) **Interested local assemblies apply to the central government**. It was mentioned that among the well-known cities in Japan, Yokohama has interest in introducing casino into the city. Tokyo, Osaka and Nagoya are still in doubt. Local assembly members in Yamaguchi are supportive for gaming, where Dynam plans to build an integrated resort.
- 4) **The central government reviews and approves** the local assemblies which have applied.
- 5) **Local assembly screens and contracts companies to build IR**. The criteria to choose companies have not been discussed yet.

Dynam's edge in gaming market

- 1) It currently operates pachinko halls with good **local customer knowledge** (2mn loyalty members).
- 2) It is a **public company** with higher transparency and stronger capital base than other pure family businesses.
- 3) It has **better gaming knowledge** than others by investing in and cooperating with Macau Legend (1680 HK).

Plan B resort plan is to be crystallized

Resort with budget of JPY15-20bn. No matter whether the gaming bill can pass or not, Dynam is determined to take a share of the growing pie - Japan's inbound tourism industry. Dynam plans to build a resort in its self-owned land in Yamaguchi, with 300-500 4- or 5-star hotels (Phase 1). While infrastructure is relatively under-developed (1.5 hour bus trip from Fukuoka airport), we believe a number of factors will provide a good growth opportunity: 1) proximity from China (90-min flight to Shanghai), 2) expansion of yacht harbour and fishing port (potential opportunity for cruise business), and 3) cooperation with Japan Tourism Bureau (JTB) to bring more inbound tourists.

Pachinko business

Consumer tax rise impacted the business. In April 2014, Japan's consumer tax was raised to 8% from 5%, impacting the whole local consumer market. By way of **shifting business towards low-end JPY1 machines**, Dynam has been less impacted than other pachinko hall operators. Moreover, there has been tightening from the central government on pachinko business recently prior to the potential passing of gaming bill.

Another consumer tax rise in April 2016 is a double-edged sword: tougher business environment but M&A opportunity. Consumer sentiment has been under pressure, which is likely to deteriorate further after the tax rise to 10% from the current 8%. With the tough time coming for consumer sector including pachinko hall operation business, we believe smaller players will keep running out of business and/or be acquired by larger operators. With its second largest market share in Japan, we believe Dynam's acquisition time is approaching.

Existing business is unlikely to bring market interest unless M&A could help Dynam improve operating efficiency. Major upside from M&A for Dynam is cost-efficiency through the bulk purchase of equipment from suppliers.

Investment Ratings

Rating	Definition
BUY	Expected to outperform the market index by >10% over the next 12 months
NEUTRAL	Expected to outperform or underperform the market index by 10% or less over the next 12 months
SELL	Expected to underperform the market index by >10% over the next 12 months

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