

Lotte Tour Development (032350 KS)

Target price: **n.a.**Share price (30 Jun): **KRW20,150** | Up/downside: -

5 4 3 2 1

No Rating

A new casino operator on Jeju island

- LTD hopes to capture a pent-up demand for gaming and travelling
- Business growth drivers: a ramp up in utilisation of its casino and hotel
- Aiming to improve profitability by increasing scale of IR operations

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Background: Lotte Tour Development (LTD) is an integrated leisure-service provider in Korea, offering tour packages, hotel accommodation, and casino tables. By acquiring LT Entertainment (unlisted) in 2018, it commenced its casino business on Jeju and began its hotel accommodation service under the Grand Hyatt brand.

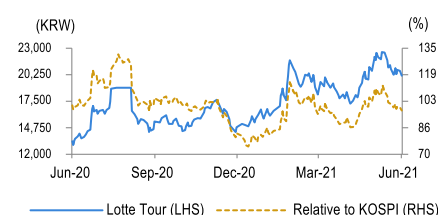
Highlights: LTD expects to see a solid recovery in domestic travel from 2Q21, while still facing difficulties in luring inbound travellers to the region due to the 2-week self-quarantine regulation in Korea. With relatively high occupancy rates (around 87% of available rooms), LTD targets to attract more visitors to its resort and increase the operation scale of both its hotel and casino. As Korea continued to relax social-distancing measures in 2Q21, we believe more local travellers will visit Jeju and likely increase spending on luxury hotels and integrated resort (IR) offerings in 2H21. LTD recorded hotel revenue of KRW10.9bn (+1,368% QoQ) in 1Q21: rooms (53%) and F&B (47%). It plans to open an additional 850 rooms in Tower 2 once it sees greater demand for accommodation in 2H21 and 2022E.

The company opened the Dream Tower Casino at its hotel on 11 June, consisting of casino tables (148), and slot machines and electronic table games (ETGs, 261). Its casino competes with 7 other foreigner-only casinos in Jeju, including the Landing Casino at Shinwha World and Paradise Casino Jeju Grand. While LTD targets all type of gamers, it hopes to attract more high rollers by offering 25 junket VIP tables (16% of total casino tables). Although its main gamers come from other cities in Korea currently, the operator expects solid visitor traffic from the Pan-Asia region after the start of travel bubbles among Asian countries, especially from Greater China, bolstered by improving accessibility for cruise liners, enhanced IR attractions and a wider range of tour packages. In 2020, we estimate that while foreigner-only casinos in Korea experienced a 51% YoY decline in casino revenue, casinos on Jeju Island experienced a sharper decline due to geographical reasons.

Prior to the pandemic, LTD targeted to generate casino revenue of KRW0.4-1.2tn per year with an EBITDA margin of 25-30%, based on full utilisation of its casino floor. Although it should continue to record interest expenses for total outstanding debts (KRW0.865tn, net debt-to-equity ratio of 435.6% as of 1Q21) and additional depreciation cost for new facilities, the company believes the ramp up of its casino and other IR facilities could improve its business visibility and financials from 2H21 onward.

Valuation: LTD recorded an operating loss of KRW37.8bn and net loss of KRW54.5bn in 1Q21. It currently trades at a 2020 PBR of 4.53x.

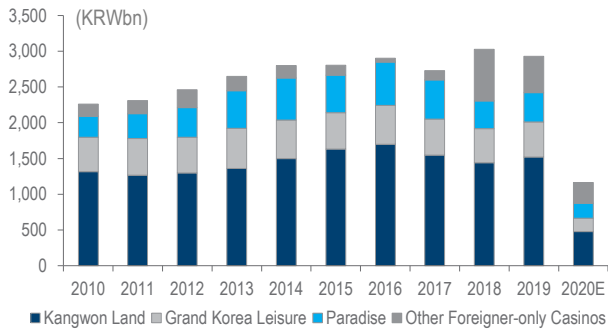
Share price performance



12-month range	13,000.00-22,800.00
Market cap (USDbn)	1.24
3m avg daily turnover (USDm)	14.32

Source: FactSet, Daiwa forecasts

Korea casino gaming: market opportunity (2010-20E)



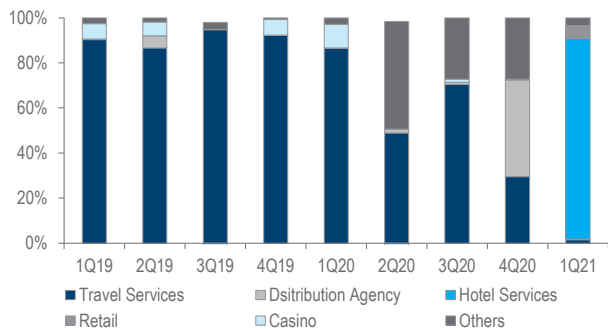
Source: National Gambling Control Commission, Companies, Daiwa estimates

Korea casino gaming: competitive landscape in Jeju (KRWbn)

Casino	Operator	2019 Revenue
Jeju Dream Tower Casino *	LT Entertainment *	4.7
Gongzi Casino	Gilsang Changhui	32.2
Paradise Casino Jeju	Paradise (034230 KS)	40.4
Yalanwan Casino	Chunghae	7.7
Royal Palace Casino	Geonha	16.8
Jeju Sun Casino	Golden & Luxury	8.2
Landing Casino	Landing Entertainment	62.5
Mega Luck Casino	Megaluck	17.9
Jeju Total		190.3

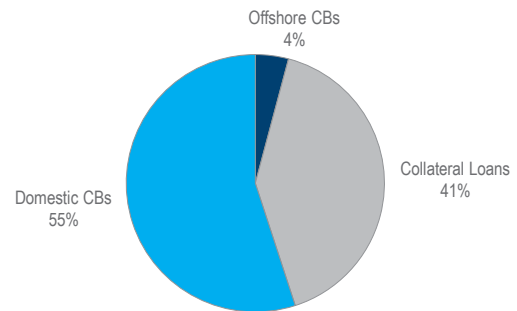
Source: Korea Casino Association, 2019 White Paper on Gambling Industry
Note: * Lotte Tour Development acquired a 100% stake in LT Entertainment in 2018. LT Casino was renamed as Jeju Dream Tower Casino and opened in June 2021

LTD: quarterly revenue mix (1Q19-1Q21)



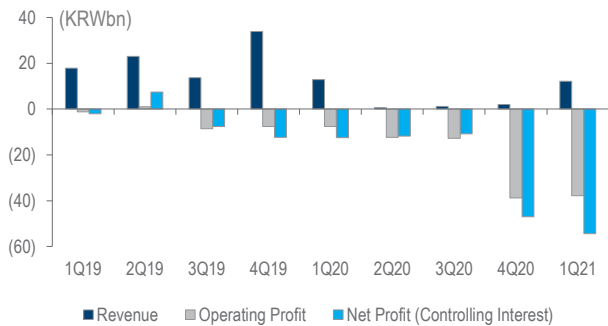
Source: Company

LTD: interest-bearing debt composition (as of end-1Q21)



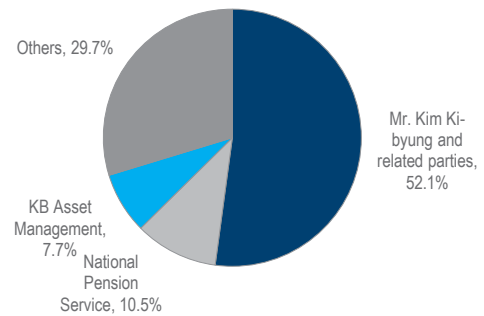
Source: Company

LTD: quarterly earnings trend (1Q19-1Q21)



Source: Company

LTD: shareholding structure (as of end-1Q21)



Source: Company
Note: Mr. Kim Ki-byung is the CEO and chairman of the company

LTD: Jeju Dream Tower overview

Facility	Detail
Hotel	1,600 suite-grade hotel rooms
Casino	148 tables, 261 Slot Machines & ETGs
- Junket/VIP	25 tables (16% of total tables)
Recreational	10 conference facilities, 14 F&B outlets
Land Area	23,300m ² site area, of which 5,368m ² for casino

Source: Company

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