

Entertainment

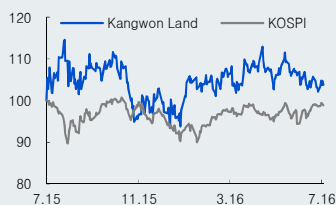
Results Comment

August 1, 2016

(Maintain)	Buy
Target Price (12M, W)	52,000
Share Price (07/29/16, W)	41,000
Expected Return	27%

OP (16F, Wbn)	635
Consensus OP (16F, Wbn)	652
EPS Growth (16F, %)	13.3
Market EPS Growth (16F, %)	19.5
P/E (16F, x)	17.5
Market P/E (16F, x)	10.6
KOSPI	2,016.19
Market Cap (Wbn)	8,772
Shares Outstanding (mn)	214
Free Float (%)	52.4
Foreign Ownership (%)	29.0
Beta (12M)	0.40
52-Week Low	36,900
52-Week High	45,250

(%)	1M	6M	12M
Absolute	-0.1	-0.5	1.0
Relative	-3.1	-5.6	2.1



Mirae Asset Daewoo Co., Ltd.

[Internet/Game/Entertainment]

Chang-kwean Kim
+822-768-4321
changkwean.kim@dwsec.com

Jeong-yeob Park
+822-768-4124
jay.park@dwsec.com

Kangwon Land

(035250 KS)

Second Yeongdong Expressway to temporarily open for Chuseok holiday

2Q16 review: Earnings slightly above expectations

For 2Q16, Kangwon Land announced revenue of W411.8bn (+5.9% YoY) and operating profit of W160.3bn (+8.4% YoY). Non-casino revenue (golf courses, etc.) and casino revenue grew 5.8% and 5.9% YoY, respectively, with the number of visitors up 1.2% YoY.

The number of casino visitors—the company's most important earnings indicator—grew for a seventh consecutive quarter, proving casino demand remains robust. Revenue from the VIP segment, which tends to be volatile, declined 2.7% YoY, but revenue from mass tables and slot machines, which tend to be more consistent, expanded 5.5% and 11.6% YoY, respectively. Mass tables and slot machines continued to be on the rise.

Cost of goods sold grew 2.9% YoY, while SG&A expenses fell 2.1% YoY, reflecting the government's efforts to rein in costs at state-run companies. One-time items (donations, additional taxes, etc.) that were recorded in 2Q15 were no longer applicable this year, leading to an increase in net profit of 27.1% YoY to W123.7bn.

Factors to improve earnings in 2017 and 2018

With the number of visitors trending higher, we believe there is still potential for top-line growth. Around 80% of tables are running during the weekdays. The introduction of electronic tables (which can seat 48 players each) should have a similar impact as capacity expansion.

The second Yeongdong Expressway currently under construction to prepare for the Pyeongchang 2018 Winter Olympics is expected to be completed in November 2016 and is scheduled to temporarily open for the upcoming Chuseok holiday. As a result, the driving time between the Seoul capital area and Kangwon Land will be reduced by roughly 30 minutes in 2017. Furthermore, the KTX Winter Olympics line (due for completion in 2018) is likely to include a stop near the company's casino, which would enhance accessibility by public transportation.

Kangwon Land is expected to officially open its water park in the summer of 2018 (following the opening of indoor swimming pools during the 2017 winter season). This should draw new visitors to the casino, just as the opening of the golf course and ski resort did in the past.

Maintain Buy and TP of W52,000

The latest earnings results point to stable growth in 2016. Improved accessibility and the opening of the water park are likely to push up casino attendance, boosting top line in 2017-2018.

We revised up our 2016-17 EPS estimates by 3.0% and 1.9%, respectively, reflecting several variables confirmed in the 2Q16 report. We estimate the stock's 2016 and 2017 dividend yield at 2.7% and 2.9%, respectively, above historical average levels. We think the stock offers an attractive dividend yield. We maintain our Buy rating on Kangwon Land with the target price of W52,000.

FY(Dec.)	12/13	12/14	12/15	12/16F	12/17F	12/18F
Revenue (Wbn)	1,361	1,497	1,634	1,692	1,737	1,790
OP (Wbn)	388	513	595	635	669	706
OP margin (%)	28.5	34.3	36.4	37.5	38.5	39.4
NP (Wbn)	298	359	442	500	539	578
EPS (W)	1,391	1,680	2,064	2,339	2,517	2,700
ROE (%)	12.2	13.8	15.5	15.9	15.6	15.3
P/E (x)	22.2	18.1	18.6	17.5	16.3	15.2
P/B (x)	2.5	2.3	2.6	2.5	2.3	2.1

Notes: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests
Source: Company data, Mirae Asset Daewoo Research estimates

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Earnings and forecasts

Table 1. Quarterly and annual earnings

(Wbn, %)

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16P	3Q16F	4Q16F	2014	2015	2016F
Revenue	425	389	413	406	437	412	423	421	1,497	1,634	1,692
Casino	396	379	395	387	408	401	405	402	1,419	1,556	1,617
Other	30	10	18	19	28	11	17	19	78	78	75
Revenue breakdown (%)											
Casino	93.0	97.4	95.5	95.3	93.6	97.4	95.9	95.6	94.8	95.2	95.6
Other	7.0	2.6	4.5	4.7	6.4	2.6	4.1	4.4	5.2	4.8	4.4
Operating expenses	256	241	256	265	263	255	255	292	983	1,018	1,065
Comp. & losses	37	38	39	38	40	40	40	40	142	152	159
Tourism fund	39	38	39	38	40	40	40	40	142	154	160
Abandoned mine fund	46	44	42	37	49	52	45	43	143	169	190
Excise tax	20	19	20	19	20	20	20	20	71	78	81
Other	114	110	125	132	113	103	110	149	485	481	475
Operating profit	169	148	158	120	178	160	168	129	513	595	635
OP margin	39.8	38.0	38.2	29.6	40.7	38.9	39.7	30.7	34.3	36.4	37.5
Net profit	132	97	119	93	143	124	126	108	359	442	500
Net margin	31.1	25.0	28.8	22.9	32.7	30.0	29.9	25.5	24.0	27.0	29.6
YoY growth											
Revenue	14.0	9.3	5.0	8.6	2.6	5.9	2.2	3.7	9.9	9.2	3.6
Casino	14.8	9.4	5.1	9.9	3.2	5.9	2.6	4.1	11.1	9.7	3.9
Other	4.4	6.7	2.5	-12.0	-5.5	5.8	-5.3	-2.6	-7.3	-0.3	-3.2
Operating profit	23.1	19.7	18.9	0.8	5.0	8.4	6.3	7.4	32.2	16.0	6.6
Net profit	24.9	-3.2	12.8	96.3	7.9	27.1	6.2	15.7	20.8	22.9	13.3
QoQ growth											
Revenue	13.9	-8.6	6.3	-1.8	7.6	-5.7	2.6	-0.4			
Casino	12.5	-4.3	4.3	-2.1	5.6	-1.8	1.1	-0.7			
Other	36.4	-65.5	80.3	3.9	46.5	-61.4	61.3	6.9			
Operating profit	42.2	-12.7	6.7	-23.9	48.0	-9.9	4.7	-23.0			
Net profit	179.5	-26.4	22.2	-21.9	53.6	-13.4	2.2	-14.9			
Business indicators											
Number of visitors ('000 persons)	801	723	852	758	817	732	869	772	3,007	3,133	3,190
Daily visitors (persons)	8,899	7,947	9,256	8,236	8,979	7,867	9,351	8,253	8,258	8,585	8,612
Drop (Wbn)	1,704	1,637	1,733	1,666	1,778	1,762	1,838	1,833	6,224	6,739	7,210
Hold rate (%)	23.3	23.2	22.8	23.4	23.1	22.9	22.0	22.0	22.8	23.1	22.4
Spend per head (W'000)	495	525	464	498	503	551	466	521	476	496	510

Notes: All figures are based on consolidated K-IFRS; Net profit refers to net profit attributable to controlling interests

Source: Company data, Mirae Asset Daewoo Research estimates

Table 2. Earnings forecast revisions

(Wbn, W, %, %p)

	Previous		Revised		% chg.	
	2016F	2017F	2016F	2017F	2016F	2017F
Revenue	1,681	1,725	1,692	1,737	0.7	0.7
Operating profit	629	662	635	669	1.0	1.1
Pretax profit	655	718	662	726	1.1	1.1
Net profit	486	529	500	539	2.9	1.9
EPS	2,270	2,471	2,339	2,517	3.0	1.9
DPS	1,100	1,150	1,100	1,200	0.0	4.3
OP margin	37.4	38.4	37.5	38.5	0.1	0.1
Net margin	28.9	30.7	29.6	31.0	0.6	0.4

Notes: All figures are based on consolidated K-IFRS; Net profit refers to net profit attributable to controlling interests

Source: Mirae Asset Daewoo Research estimates

Kangwon Land (035250 KS/Buy/TP: W52,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Revenue	1,634	1,692	1,737	1,790
Cost of Sales	760	764	774	785
Gross Profit	874	928	963	1,005
SG&A Expenses	279	293	293	299
Operating Profit (Adj)	595	635	669	706
Operating Profit	595	635	669	706
Non-Operating Profit	-1	27	57	67
Net Financial Income	41	51	62	72
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	594	662	726	773
Income Tax	152	161	188	196
Profit from Continuing Operations	442	500	539	578
Profit from Discontinued Operations	0	0	0	0
Net Profit	442	500	539	578
Controlling Interests	442	500	539	578
Non-Controlling Interests	0	0	0	0
Total Comprehensive Profit	465	500	539	578
Controlling Interests	465	500	539	578
Non-Controlling Interests	0	0	0	0
EBITDA	670	705	735	768
FCF (Free Cash Flow)	535	594	622	660
EBITDA Margin (%)	41.0	41.7	42.3	42.9
Operating Profit Margin (%)	36.4	37.5	38.5	39.4
Net Profit Margin (%)	27.1	29.6	31.0	32.3

Cash Flows (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Cash Flows from Op Activities	575	594	622	660
Net Profit	442	500	539	578
Non-Cash Income and Expense	223	180	192	185
Depreciation	74	69	65	61
Amortization	1	1	0	0
Others	148	110	127	124
Chg in Working Capital	22	23	18	21
Chg in AR & Other Receivables	1	0	0	0
Chg in Inventories	0	0	0	0
Chg in AP & Other Payables	-4	0	0	0
Income Tax Paid	-156	-161	-188	-196
Cash Flows from Inv Activities	-399	-70	-53	-64
Chg in PP&E	-40	0	0	0
Chg in Intangible Assets	0	0	0	0
Chg in Financial Assets	-349	-70	-53	-64
Others	-10	0	0	0
Cash Flows from Fin Activities	-172	-199	-223	-243
Chg in Financial Liabilities	0	0	0	0
Chg in Equity	0	0	0	0
Dividends Paid	-172	-199	-223	-243
Others	0	0	0	0
Increase (Decrease) in Cash	4	323	344	352
Beginning Balance	102	106	429	773
Ending Balance	106	429	773	1,125

Source: Company data, Mirae Asset Daewoo Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Current Assets	1,750	2,132	2,521	2,926
Cash and Cash Equivalents	106	429	773	1,125
AR & Other Receivables	5	5	5	5
Inventories	2	2	2	2
Other Current Assets	1,637	1,696	1,741	1,794
Non-Current Assets	1,940	1,885	1,831	1,782
Investments in Associates	53	55	56	58
Property, Plant and Equipment	1,354	1,284	1,219	1,158
Intangible Assets	3	2	2	1
Total Assets	3,691	4,017	4,352	4,709
Current Liabilities	665	688	706	728
AP & Other Payables	100	104	106	110
Short-Term Financial Liabilities	0	0	0	0
Other Current Liabilities	565	584	600	618
Non-Current Liabilities	28	29	30	31
Long-Term Financial Liabilities	0	0	0	0
Other Non-Current Liabilities	28	29	30	31
Total Liabilities	693	718	737	759
Controlling Interests	2,998	3,299	3,615	3,949
Capital Stock	107	107	107	107
Capital Surplus	129	129	129	129
Retained Earnings	2,935	3,237	3,553	3,887
Non-Controlling Interests	0	0	0	0
Stockholders' Equity	2,998	3,299	3,615	3,949

Forecasts/Valuations (Summarized)

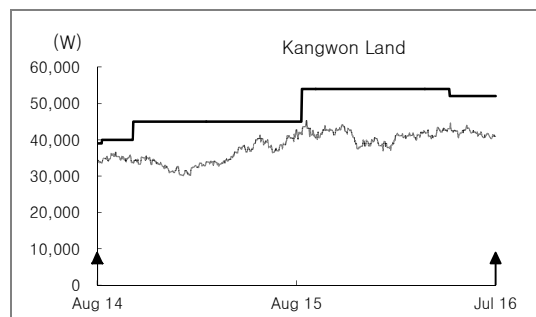
	12/15	12/16F	12/17F	12/18F
P/E (x)	18.6	17.5	16.3	15.2
P/CF (x)	12.4	12.9	12.0	11.5
P/B (x)	2.6	2.5	2.3	2.1
EV/EBITDA (x)	9.7	9.5	8.6	7.7
EPS (W)	2,064	2,339	2,517	2,700
CFPS (W)	3,105	3,180	3,414	3,565
BPS (W)	14,824	16,235	17,710	19,273
DPS (W)	980	1,100	1,200	1,300
Payout ratio (%)	45.0	44.6	45.2	45.6
Dividend Yield (%)	2.6	2.7	2.9	3.2
Revenue Growth (%)	9.2	3.5	2.7	3.1
EBITDA Growth (%)	13.8	5.2	4.3	4.5
Operating Profit Growth (%)	16.0	6.7	5.4	5.5
EPS Growth (%)	22.9	13.3	7.6	7.3
Accounts Receivable Turnover (x)	322.4	342.7	341.1	341.8
Inventory Turnover (x)				
Accounts Payable Turnover (x)	221.1	208.1	204.5	201.6
ROA (%)	12.5	13.0	12.9	12.8
ROE (%)	15.5	15.9	15.6	15.3
ROIC (%)	56.2	68.2	80.4	98.6
Liability to Equity Ratio (%)	23.1	21.8	20.4	19.2
Current Ratio (%)	263.4	309.7	356.9	402.0
Net Debt to Equity Ratio (%)				
Interest Coverage Ratio (x)				

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Kangwon Land(035250)	05/08/2016	Buy	52,000
	08/11/2015	Buy	54,000
	10/06/2014	Buy	45,000
	08/10/2014	Buy	40,000
	07/17/2014	Buy	39,000



Stock Ratings

Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

Industry Ratings

Overweight	: Fundamentals are favorable or improving
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (—), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

* Although it is not part of the official ratings at Mirae Asset Daewoo Co., Ltd., we may call a trading opportunity in case there is a technical or short-term material development.

* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Equity Ratings Distribution

Buy	Trading Buy	Hold	Sell
70.73%	17.56%	11.71%	0.00%

* Based on recommendations in the last 12-months (as of June 30, 2016)

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Mirae Asset Daewoo Co., Ltd. (Seoul) Head Office 34-3 Yeouido-dong, Yeongdeungpo-gu Seoul 150-716 Korea Tel: 82-2-768-3026	Daewoo Securities (Hong Kong) Ltd. Two International Finance Centre Suites 2005-2012 8 Finance Street, Central Hong Kong, China Tel: 85-2-2845-6332	Daewoo Securities (America) Inc. 320 Park Avenue 31st Floor New York, NY 10022 United States Tel: 1-212-407-1000
Daewoo Securities (Europe) Ltd. 41st Floor, Tower 42 25 Old Broad St. London EC2N 1HQ United Kingdom Tel: 44-20-7982-8000	Daewoo Securities (Singapore) Pte., Ltd. Six Battery Road #11-01 Singapore, 049909 Tel: 65-6671-9845	Tokyo Representative Office 7th Floor, Yusen Building 2-3-2 Marunouchi, Chiyoda-ku Tokyo 100-0005 Japan Tel: 81-3- 3211-5511
Beijing Representative Office 2401A, 24th Floor, East Tower, Twin Towers B-12 Jianguomenwai Avenue Chaoyang District, Beijing 100022 China Tel: 86-10-6567-9299	Shanghai Representative Office Room 38T31, 38F SWFC 100 Century Avenue Pudong New Area, Shanghai 200120 China Tel: 86-21-5013-6392	Ho Chi Minh Representative Office Suite 2103, Saigon Trade Center 37 Ton Duc Thang St, Dist. 1, Ho Chi Minh City, Vietnam Tel: 84-8-3910-6000
Daewoo Investment Advisory (Beijing) Co., Ltd. 2401B, 24th Floor, East Tower, Twin Towers B-12 Jianguomenwai Avenue, Chaoyang District, Beijing 100022 China Tel: 86-10-6567-9699	Daewoo Securities (Mongolia) LLC #406, Blue Sky Tower, Peace Avenue 17 1 Khoroo, Sukhbaatar District Ulaanbaatar 14240 Mongolia Tel: 976-7011-0807	PT. Daewoo Securities Indonesia Equity Tower Building Lt.50 Sudirman Central Business District Jl. Jendral Sudirman Kav. 52-53, Jakarta Selatan Indonesia 12190 Tel: 62-21-515-1140