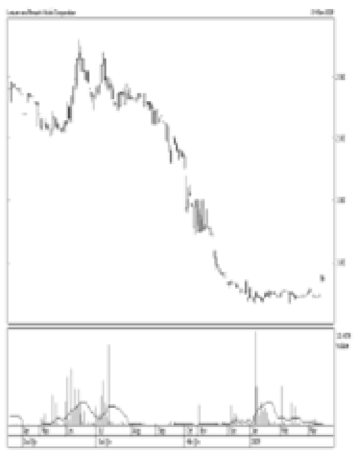
AB Capital Securities, Inc.

March 19, 2009

Leisure and Resorts World Corporation (LR)

BUY

Price	0.86
Target Price	1.80
52 week high	2.80
52 week low	0.68
Shares O/S (M)	773
Freefloat (M)	471
Market Cap (M)	664
Daily Turnover (M)	1.05
Dividend Yield	6.98%



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Underappreciated

Leisure and Resorts is a holding company that derives most of its income from two main subsidiaries. ABLE is in the bingo business and operates both traditional bingo, electronic, and other variants of the game. Meanwhile FCLRC is the master licensor in CEZA courtesy of PAGCOR. LR also owns other subsidiaries that have yet to contribute significantly.

Investment Highlights:

Net income has grown in the past 4 years and the company has achieved 16 straight quarters of profitability.

ABLE is a strong player in the Bingo industry and continues to expand and innovate.

FCLRC is the master licensor in CSEZFP and partakes in the profits/revenues of all gambling proceedings in the area.

In a tie-up to develop an airport in order to boost tourism in CSEZFP.

Joint venture with AsianLogic is very promising and broadens LR's horizon and increases profitability.

Under the radar company that does not garner much attention despite strong performance.

Illiquidity necessitates a discount in valuation but still offers significant returns.

After numerous periods of profitability, company has given cash dividends in two straight years.

Leisure and Resorts World Corporation (LR)

BUY

Consistency

As of the end of 2008, LR is working on 16 consecutive quarters of profitability, something that is not easy to do especially given today's economic situation. Starting in 2005, the company has steadily grown net income. Although year on year growth has slowed down, the Compounded Annual Growth from 2005 to 2008 is an impressive 42.42%. Given the consistency and stability in earnings that the company has shown in the past years, it is reasonable to expect similar results moving forward.

	Mar 2005	Jun 2005	Sept 2005	Dec 2005
Qtr	6.68	18.51	21.46	17.47
YTD	6.68	25.19	46.65	64.12
	Mar 2006	Jun 2006	Sept 2006	Dec 2006
Qtr	17.29	24.73	55.27	29.26
YTD	17.29	42.02	97.29	126.55
	Mar 2007	Jun 2007	Sept 2007	Dec 2007
Qtr	41.41	49.77	33.32	43.40
YTD	41.41	91.18	124.50	167.90
	Mar 2008	Jun 2008	Sept 2008	Dec 2008 F
Qtr	39.30	55.98	43.63	46.30
YTD	39.30	95.28	138.91	185.21

net income in Php millions

Source: Technistock

Stable ABLE

AB Leisure Exponent Inc. (ABLE) is a wholly owned subsidiary of LR. ABLE is the pioneer in professional bingo gaming in the Philippines. Popularly known as Bingo Bonanza Corporation, the subsidiary operates 36 bingo parlors, of which 6 are fully owned. Traditional bingo remains the dominant product and accounts for slightly over two-thirds of total revenue. However, E-bingo games (EBG), launched in 2002, and Rapid Bingo, launched in 2005, are starting to increase their respective contributions.

Although ABLE's contribution to LR's bottom line dipped for the nine months from Jan 2008 to Sept 2008, the subsidiary remains LR's biggest contributor. It is largely responsible for the stability and consistency of LR's net income. Bingo parlors of ABLE also serve as centers for entertainment as well as a source of revenue for the government. These parlors also function as sponsors for fund raising activities that are connected to social and educational programs. In the course of making money, ABLE also gives valuable contributions to both the community and the government.

As of now, the focus is for expansion and efficiency. The higher the number of parlors that is being operated, the higher the revenues generated. Special focus is given to increasing the number of EBG machines, which stood at 1,449 as of Sept 2008. ABLE is also looking at other avenues to deliver bingo. The internet and television are being viewed as possibilities but are still awaiting regulatory approval. As of now, bingo is being offered through the traditional channel, electronically, and via scratch cards.

Leisure and Resorts World Corporation (LR) BUY

FCLRC Growth

First Cagayan Leisure and Resort Corporation (FCLRC) is a 69.68% owned subsidiary. The Cagayan Economic Zone Authority (CEZA) has authorized FCLRC as the master licensor of the Cagayan Special Economic Zone and Free Port (CSEZFP). As the master licensor, FCLRC is tasked to license, regulate, and supervise registered online gaming enterprise operations in CSEZFP. FCLRC receives half of the gaming levies that are imposed. The bulk of FCLRC's revenue comes from hosting fees from restrictive and interactive gaming locators.

If ABLE is giving LR stability, then FCLRC is the source of its growth during the past year. FCLRC's net income in the first three quarters of 2008 increased by 72.4% to P83.9 million from the previous year. The huge increase is attributable to lower costs but higher revenues. The number of operational locators was higher last year while total cost and operating expenses dropped by 21.5%. Several cost cutting measures in terms of marketing and sponsorship were undertaken and their effects and benefits should continue to be evident moving forward.

Cagayan Airport

Aside from the operations of the two subsidiaries, LR has signed up to be the co-developer of an international airport in Sta. Ana, Cagayan. The airport will cost P4 billion and is expected to be finished in 2010. The primary reason in entering into such an undertaking is the boost in tourism that an international airport will bring. The company believes that the airport is essential in unlocking the full business potential of CSEZFP. The boost in tourism will in turn boost the number of players in the gaming industry of CSEZFP.

Developed along with CEZA on a 79-hectare property, the airport will feature a 1.7 kilometer runway. The airport will be a strong growth driver for FCLRC in 2010 especially if economies worldwide start to recover. A big boost in the number of players not only increases FCLRC's share of gaming revenues but may also drive an increase in the number of operators. The greater the number of operators and the greater the number of players, the better for FCLRC. 2009 might not present an impressive growth but 2010 has a high probability of doing so.

Joint Venture

Recently, LR signed a Memorandum of Agreement (MOA) with AsianLogic (ALL) to form a joint venture that will engage in land-based sportsbook operation services. Initially the deal called for LR to issue shares to ALL in six separate transactions over the course of three years. The shares were supposed to be in payment to ALL with the condition that the sportsbook operation hit a predetermined level of net income. The share swap has since been canceled with the consent of both LR and ALL. LR will now receive a percentage of the net wins of the operation.

ALL is a firm incorporated in the British Virgin Islands and is into development, operation, management and marketing of online casinos, online poker, multiplayer P2P and Asian Games, online and land-based sports betting, land-based slot machine and server-based gaming, and live video stream of casino gaming in Asia. Asia-Pacific is seen to have the highest spending on gaming. The joint venture allows both LR and ALL to take advantage of this fact. Although there have been delays, the joint venture is expected to start full operations by the 2nd quarter of 2009.

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Currently awaiting final approval from PAGCOR (Philippine Amusement and Gaming Corporation), the joint venture should significantly affect LR's bottom line once it starts. As an example of how profitable the joint venture can be, the initial net income requirement for the issuance of shares was $5 million. Although the share swap has since been canceled, it represents a probable figure as to how much the joint venture can make. The joint venture will be a source of growth for LR's net income for this year and the next, which is the first full year of operations.

Financials

LR has been steadily growing the past few years and it shows in their financial statements. Net income has gone up in each of the past four years and so have total assets and shareholders equity. Liabilities have also gone up but have stayed below one-third of total assets. Meanwhile, Return on Equity has stayed within 15% and should continue to do so. The company has been wisely spending their money for expansion in order to increase profitability but have not resorted to piling on debt, instead depending on internally generated cash flows.

With favorable performances in 2007 and 2008, LR was able to give out cash dividends of P0.03 and P0.06 respectively. Dividends make the company more attractive as an investment and there is no reason for the company not to continue in future years. LR has healthy cash flows and the joint venture will only serve to bolster it. As such, it would not be a surprise if LR continues to give out dividends in the succeeding years. At a conservative assumption of P0.06 per shares, that would be a dividend yield of approximately 7% (current price of P0.86).

	2006	2007	2008 F	2009 F	2010 F
Net Income	126.55	167.90	185.21	247.71	319.47
EPS	0.16	0.22	0.24	0.32	0.41
EPS Growth		32.66%	10.32%	33.75%	28.97%
Assets	1,455.33	1,765.58	2,040.13	2,287.84	2,607.31
Liabilities	390.19	531.54	656.49	732.11	834.34
Equity	1,032.52	1,177.24	1,383.63	1,555.73	1,772.97
Book Value/share	1.34	1.52	1.79	2.01	2.29
ROE	12.26%	15.20%	14.46%	16.85%	19.19%
P/E	11.60	10.22	3.00	2.68	2.08
P/B	1.42	1.46	0.40	0.43	0.37

in Php millions except per share data

Source: Technistock

Leisure and Resorts World Corporation (LR)

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Underappreciated

Towards the end of 2008, share prices of LR started to plunge and it has stayed below P1.00 since then. However, looking at its earnings, operations, financial statements, and possible future earnings, there should be no reason for it to be trading at such a low level. Using the projected full year 2008 earnings of P185.21 million, LR is trading at a P/E of 3.59, way below the market average and its historical average. Furthermore, its net income is projected to increase in 2009. Even if its current businesses experience zero growth, there will still be additional earnings from its joint venture. While its joint venture has yet to start operations, it can be ascertained that it will start contributing this year unless it is scrapped altogether. 2010 will be an even better year as the joint venture will have its first full year of operations and the new airport in Cagayan will start bringing in more customers. On book value basis, shares in LR are currently trading below book value. Using the book value per share as of September 2008, LR is currently trading at a P/B value of 0.48. Even more, as mentioned above, if the company gives out dividends equal to that of 2008's, it would be a dividend yield of 7%, higher than what is routinely found in the market. Of course, there are also reasons why the stock is not trading at exceptionally high valuations. One would be due to its illiquidity. LR is not traded as frequently and the spread between bid and ask quotes reach more than one fluctuation. But the bigger reason that the stock is undervalued is that it is under the radar of institutional investors and even retail investors.

Even if given a discount for illiquidity, stocks in LR should be trading near P1.80. This would translate to a 2009 P/E of 5.60 and a 2009 P/B of 0.89. It is below historical P/E and LR's 52-week high but it represents a price target that is achievable. Currently at P0.86, the stock is 26.47% from its 52 week low. The fact that it is under the radar of most investors is what makes it undervalued. LR is a clear buy at P0.86, with a dividend yield of 7% and possible capital gains of over 100%. Perhaps most investors are awaiting word that its joint venture has started before investing in the stock but it is best to invest now and enjoy the price appreciation when it comes.