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CITIC Securities issued a research report on China LotSynergy on 28th June 2012, referring the company as a fully integrated China lottery play, and initiated a BUY rating

The report is optimistic that the constant growth of lottery in China will benefit China LotSynergy. It estimates a CAGR of 27% in the country's lottery sales in the next 4 years, mainly driven by paperless lottery (at an estimated 85% CAGR in the next 4 years). The report says CLS, a pioneer in the country's lottery industry, has built comprehensive technical capabilities involving in a diverse range of lottery products; it has maintained steady growth in its system and equipment business segment, while committing resources to develop lottery e-commerce, new distribution channels as well as new lottery games. CITIC Securities initiated a BUY rating on the company.

On market penetration rate, China's 0.47% in 2011 was much lower than the average of 0.71% among the top ten lottery countries, indicating there is much room for growth. The report refers to China lottery, which is a means to raise funds for good causes, as the only legal form of gaming in China. With lottery development in China seen to incorporate elements in other forms of gaming, the reports says the country's lottery market size and penetration rate should be higher than the average among other major lottery countries (where other forms of gaming such as casinos are allowed). The report forecasts a market penetration rate of 1-1.19% in China by the end of the Twelve Five-Year Plan period.

The market of paperless lottery is expected to grow rapidly, while helping to optimize player structure as well as combat illegal lottery. CITIC Securities is of the view that:

- Development of internet-related technology in the past decade has cleared technical obstacles and paved the way for paperless lottery distribution. More

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and more countries have relaxed their regulations to launch paperless lottery distribution. Experiences in those markets suggest that paperless lottery distribution could generate sales that account for approximately 30% of total lottery sales within a few years of launch. CITIC Securities forecasts an 85% CAGR over 2012-15 for paperless lottery in China or total market size of approximately RMB 350billion.

- Developing paperless lottery distribution in China is of great significance: First, it helps to optimize player structure by developing medium to high income group as target players of Internet and telephone lottery. Second, the introduction of paperless lottery as an alternative to illegal lottery helps to combat the latter, as well as retain funds from going to overseas gaming markets.
- With its track record, close partnerships with major telecom operators and financial institutions, outstanding R&D capabilities and sound management, the Company stands a good chance of winning paperless lottery distribution related licenses and is well positioned to capture the paperless lottery boom. Paperless lottery will greatly improve the company's revenue model.

The company's system and terminal business segment is expected to maintain growth momentum

- As the exclusive provider of terminal for VLT of Welfare Lottery, the country's only video lottery product: rapid growth will maintain in line with development of VLT.
- As the exclusive provider of terminal for Welfare lottery CTG in Guangdong province, the country's largest Welfare lottery selling province: while maintaining its exclusivity status in providing CTG terminal to the province, the company looks at opportunities in other provinces for provision of CTG system and terminal.

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- As the exclusive provider of system, terminal and games for Keno, the only nationwide hi-frequency lottery game of Welfare Lottery: the growth of hi-frequency lottery games in the country in recent years is second only to that of VLT. A raise of the payout ratio from the current 50% for Keno will release its potential to turn it into another major growth engine for the company.

You may visit the websites of news providers such as Bloomberg to view the complete report.