MGM Resorts (MGM)

$18.46 (As of 08/06/20)

Price Target (6-12 Months): **$17.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/20/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: D | Growth: F | Momentum: F	**3-Hold** VGM:F

Summary

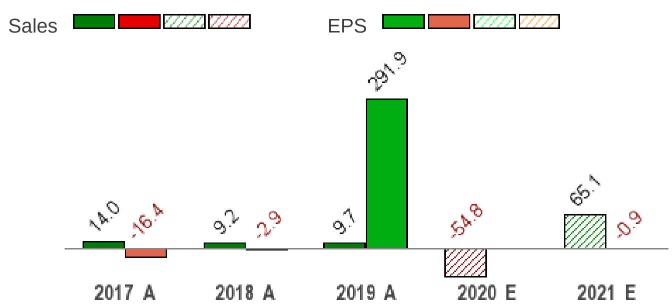
Shares of MGM Resorts have underperformed the industry so far this year. The dismal performance can be primarily attributed to the coronavirus related woes. Recently, the company reported second-quarter 2020 results, wherein both earnings and revenues declined sharply year over year. Moreover, increased competition in the Macau and Las Vegas markets are negatively impacting business. Although casinos in Macau properties have reopened, the company is witnessing low visitation. Moreover, the company has cut dividend and decreased non-essential spending to maintain sufficient liquidity. Notably, earning estimates for 2020 have declined over the past 30 days. However, increased focus on asset light strategy, non-gaming activities and digital initiatives are likely to sustain the company going forward.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$34.64 - $5.90**
20 Day Average Volume (sh)	**22,309,072**
Market Cap	**$9.1 B**
YTD Price Change	**-44.5%**
Beta	**2.12**
Dividend / Div Yld	**$0.01 / 0.1%**
Industry	**[Gaming]**
Zacks Industry Rank	**Bottom 19% (204 out of 252)**
Last EPS Surprise	**7.9%**
Last Sales Surprise	**-34.5%**
EPS F1 Est- 4 week change	**-6.7%**
Expected Report Date	**11/04/2020**
Earnings ESP	**-8.1%**
P/E TTM	**NA**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**1.0**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	2,209 E	2,257 E	2,526 E	2,491 E	9,633 E
2020	2,253 A	290 A	1,298 E	1,815 E	5,835 E
2019	3,177 A	3,223 A	3,314 A	3,185 A	12,900 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-$0.52 E	-$0.40 E	-$0.23 E	-$0.25 E	-$1.07 E
2020	-$0.45 A	-$1.52 A	-$1.04 E	-$0.70 E	-$1.06 E
2019	$0.12 A	$0.23 A	$0.31 A	$0.08 A	$3.88 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/06/2020. The reports text is as of 08/07/2020.

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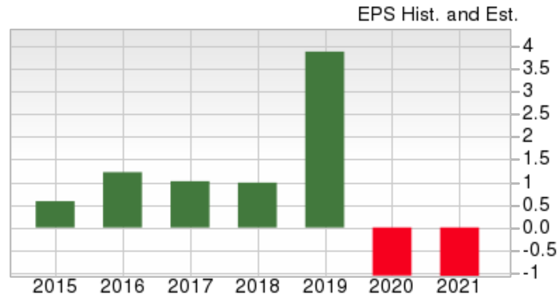
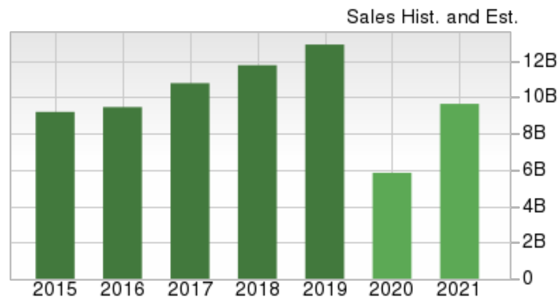
Overview

MGM Resorts International is a holding company and primarily owns and operates casino resorts through wholly owned subsidiaries. The company's resorts portfolio incorporates 30 unique hotel offerings, including some of the most familiar resort brands in the industry such as Bellagio, MGM Grand, Mandalay Bay and The Mirage.





The company reported 2019 results under three operating segments: Las Vegas Strip (45.2% of total revenues in 2019), Regional Operations (27.5%), MGM China (22.5%) and Management and other operations (4.8%). Notably, City Centre Operations also had accountability to total revenues. MGM China's operations consist of the MGM Macau resort and casino (MGM Macau) and the company is currently developing an integrated casino, hotel, and entertainment resort on the Cotai Strip in the region. Meanwhile, in Oct 2015, MGM Resorts created a controlled real estate investment trust (REIT) named MGM Growth Properties LLC (MGP), which began trading in April 2016.

MGM Resorts International holds 73% interest in MGM Growth Properties LLC (MGP), a premier real estate investment trust engaged in the acquisition, ownership and leasing of large-scale resorts. It also owns 56% stake in MGM China Holdings Limited, which owns MGM MACAU and 50% of CityCenter in Las Vegas.

MGM Resorts recently acquired the operations of Empire City Casino in New York and Hard Rock Rocksino in Ohio, which was rebranded as MGM Northfield Park. In 2018, MGM Resorts opened MGM Springfield in Massachusetts, MGM COTAI in Macau, and the first Bellagio-branded hotel in Shanghai.

The company's superior business model, extensive non-gaming revenue opportunities, high-quality assets and attractive property locations are the primary growth drivers. In the past few years, it has taken various initiatives to align every recognized brand into one global entertainment brand. This resulted in a disciplined business model, with a unified view of strategy.

Reasons To Sell:

> The coronavirus pandemic, dismal top and bottom line performance and increased competition remain concerns.

- **Dismal Top & Bottom Lines Performance in Q2:** MGM Resorts reported second-quarter 2020 results, wherein both earnings and revenues declined sharply year over year. The company reported adjusted loss per share of $1.52, against adjusted earnings per share of 23 cents reported in the prior-year quarter. Total revenues were $289.8 million, down 91% year over year. The downside can primarily be attributed to the temporary shutdown of the company's domestic operations and other restrictions in Macau owing to the coronavirus pandemic. Closure of the company's properties owing to the coronavirus crisis negatively impacted the results. Although the company has reopened most of its properties, traffic is likely to be dismal due to the social distancing norms.

- **Coronavirus to Hurt Future Results:** MGM Resorts' financial numbers in 2020 is likely to be impacted by the outbreak of coronavirus. The company's domestic operations were temporarily closed to contain the spread of the coronavirus. Although casinos in Macau properties are now open, the company is witnessing low visitation. In Las Vegas, revenues of reopened properties declined 50% year over year, while adjusted property EBITDAR decreased 44%. Moreover, the company had reduced domestic CapEx by 50% this year to approximately $200 million due to the pandemic. The company believes that recovery in Las Vegas will depend on return of conventions, entertainment and air travel.

- **Withdraws Dividend:** In an effort to maintain sufficient liquidity, the company has cut dividend and decreased non-essential spending. Moreover, due to COVID-19 distress, MGM Resorts announced the termination of its previously announced modified Dutch auction tender offer. As a result of this termination, the company withdrew the purchase of $1,250,000,000 issued and outstanding shares of its common stock.

- **Weak Baccarat Business Hurts:** MGM Resorts' baccarat business has been facing some headwinds from fourth-quarter 2018. In 2019, the business was affected by fewer visits from certain Far East players and a lower hold. The company is not anticipating material recovery in the near term.

- **Heightened Competition:** MGM Resorts operates in the highly competitive markets of Las Vegas and Macau. Increased hotel openings and promotional activities have made these markets highly competitive. Thus, excess supply, especially in the Macau market, might reduce the company's market share. The company's upcoming projects are expected to face extreme peer pressure from several Chinese casino operators as well as The Parisian Macao and the Sands Cotai Central project of Las Vegas Sands Corp.

Risks

- **Strong Brand Recognition:** MGM Resorts, one of the leading companies in the gaming and lodging industry, is well poised to grow on high brand awareness. The company's superior business model, extensive non-gaming revenue opportunities, high-quality assets and attractive property locations are the primary growth drivers. In the past few years, the company has taken various initiatives to align every recognized brand into one global entertainment brand. This resulted in a disciplined business model with a unified view of strategy. Meanwhile, with a gradual economic recovery in the United States, the company's business seems to improve further. Moreover, a few other new entertainment offerings in the pipeline are expected to deliver increased profitability across the company's properties. The company's core strategies include optimizing its customer mix, leveraging the casino database in a targeted way and driving more profitable business. MGM Resorts undertook a growth initiative called MGM 2020 last year and has been realizing material savings in labor, sourcing and revenue enhancement opportunity.

- **Asset Light Strategy:** Instead of being a capital intensive, brick & mortar real estate business, the company intends to be a developer, manager and operator of major gaming, hospitality and entertainment properties. The company wants to focus on sports and live entertainment. Of late, the company is focusing on asset light strategy. Recently, MGM Resorts announced that it has signed a definitive agreement to sell its Las Vegas Properties. To this end, MGM Growth Properties LLC ("MGP") and Blackstone Real Estate Income Trust ("BREIT") formed a joint venture to acquire the MGM Grand Las Vegas for $2.5 billion. Earlier, the company had announced two separate deals. Firstly, MGM Resorts International and Blackstone Real Estate Income Trust will form a 95%/5% BREIT-led joint venture to acquire MGM Resorts' Bellagio for $4.25 billion and then lease it back to a unit of MGM Resorts for annual rent of $245 million. Secondly, the company has entered into a definitive agreement with an affiliate of Treasure Island owner Phil Ruffin to sell Circus Las Vegas for $825 million.

- **Macau Business to Spur Growth over the Long-term:** MGM derives a solid share of its revenues from Macau — the largest gaming destination in the world. It is undertaking initiatives to increase revenues and junket productivity in Macau, and anticipates a positive trend, buoyed by upgrades to main gaming floor products and marketing initiatives. Notably, revenues at MGM China improved 19% on a year-over-year basis in 2019. Despite the coronavirus pandemic, the company is confident about prospects in Macau and will continue to invest. The company announced that the market will bounce back quickly after the Visa scheme and other restrictions are lifted.

  Also, the government of China is considering measures to support Macau's economy in all aspects and introduce favorable policies, which is expected to improve visitation pattern and boost tourism and traffic in the region. These include the approval of Macau's maritime expansion plans that are expected to aid shipping and tourism. Also, the government has enabled mainland Chinese cities to offer multi-entry permits. Moreover, the opening of the world's longest sea-crossing bridge and tunnel in the prior year, which connects Macau to Hong Kong, as well as mainland China's Pearl River Delta, is likely to prove beneficial for casino operators.

- **Digital initiatives:** MGM Resorts utilizes various types of technology to maximize revenues and efficiency in operations. The company continues to adopt ways that drive bookings. MGM Resorts has an M life Rewards program for its customers at domestic resorts. M life provides access to rewards, privileges and members-only events. MGM Resorts and GVC Holdings' joint venture, Roar Digital's sports betting brand, BetMGM and The Denver Broncos recently entered into a multi-year agreement. Per the deal, BetMGM and MGM Resorts will become an official sports betting partner of the Broncos. However, the financial terms of the deal has been kept under wraps.

  MGM Resorts continues to focus on sports betting expansion. Recently, BetMGM and GVC Holdings — announced second round of investment. This brings the total investment to $450 million. In the first round, both the companies have invested $200 million. Ever since its launch in 2018, the company has done extremely well and is on track to operate in 11 states by the end of 2020.

  Moreover, the company's website, mlife.com continues to generate substantial revenues. The website offers customers all the necessary information to customize a complete itinerary at one place. Management believes that its continued digital endeavors will facilitate high margins with lesser capital spending. Recently, MGM Resorts partnered Boyd Gaming to significantly enhance each company's market access and customer base throughout the United States. Under the partnership, both the companies have initiated opportunities to offer online and mobile gaming platforms – including sports betting, casino gaming and poker.

- **Enough Liquidity to Tide Over Coronavirus Pandemic:** MGM Resorts has enough liquidity, which will help it survive in a zero revenue scenario. MGM Resorts ended the second quarter with cash and cash equivalents of $4,835.5 million as of Jun 30, 2020 compared with $6,016.4 million on Mar 31, 2020. The company's cash burn has also declined due to the reopening of properties. The company has enough cash to survive the coronavirus pandemic. Although the company's long-term debt at the end of quarter stands at $11,339.6 million, compared with $11,743.3 million as of Mar 31, 2020, it has no debt maturing prior to 2022, excluding MGP and MGM China. At the end of second-quarter 2020, the company had debt-to-capital ratio of 0.5, this gives an indication that its debt level is manageable.

Last Earnings Report

MGM Resorts Posts Narrower-than-Expected Loss in Q2

Quarter Ending	06/2020
Report Date	Jul 30, 2020
Sales Surprise	-34.52%
EPS Surprise	7.88%
Quarterly EPS	-1.52
Annual EPS (TTM)	-1.58

MGM Resorts reported mixed second-quarter 2020 results, wherein earnings surpassed the Zacks Consensus Estimate but revenues lagged the same. While the bottom line beat the consensus mark after missing in the preceding two quarters, the top line lagged the estimate for the fifth consecutive quarter.

Closure of the company's properties owing to the coronavirus pandemic negatively impacted the results. The company started reopening its properties across the United States during the second quarter. Ever since then, it has witnessed better-than-expected demand. The company is optimistic regarding its long-term growth potential.

Earnings & Revenues Discussion

MGM Resorts reported adjusted loss per share of $1.52, narrower than the Zacks Consensus Estimate of a loss of $1.65. In the prior-year quarter, the company had reported adjusted earnings per share of 23 cents.

Total revenues were $289.8 million, which missed the Zacks Consensus Estimate of $443 million. Moreover, the top line declined 91% year over year. The downside can primarily be attributed to the temporary shutdown of the company's domestic operations and other restrictions in Macau owing to the coronavirus pandemic. Moreover, travel restrictions impacted the company's performance in the quarter under review.
MGM China

MGM China's net revenues declined 95% year over year to $33 million, owing to travel and entry restrictions in Macau, and other operational restrictions related to the coronavirus pandemic. VIP Table Games Hold adjusted MGM China net revenues plunged 96% year over year to $32 million.

MGM China's adjusted property EBITDAR (Earnings before interest, taxes, depreciation, amortization, and restructuring or rent costs) loss was $116 million. In the prior-year quarter, the company had reported adjusted property EBITDAR of $173 million.

Domestic Operations

Net revenues at Las Vegas Strip Resorts during the second quarter were $151 million, down 90% year over year. Adjusted property EBITDAR loss of $104 million compared unfavorably with adjusted property EBITDAR of $418 million in the prior-year quarter. However, adjusted property EBITDAR margin expanded 450 basis points year over year.

During quarter under review, net revenues from the company's regional operations totaled $89 million, down 90% from the prior-year quarter. Adjusted property EBITDAR came in at a loss of $112 million. In the prior-year quarter, the company had reported adjusted property EBITDAR of $261 million. However, adjusted property EBITDAR margin expanded 880 basis points year over year.

Casino revenues in the quarter under review fell 80% year over year at the company's Las Vegas Strip Resorts primarily due to coronavirus-induced shutdowns and other operational restrictions on account of the pandemic. Moreover, slots handle declined 83%. Notably, slots handle decreased 92% at its Regional Operations.

Balance Sheet

MGM Resorts ended the second quarter with cash and cash equivalents of $4,835.5 million compared with $2,329.6 million on Dec 31, 2019. The company's long-term debt at the end of quarter stands at $11,339.6 million, compared with $11,168.9 million as of Dec 31, 2019.

Recent News

MGM Resorts' BetMGM-Denver Broncos Tie Up for Sports Betting – Jul 9, 2020

MGM Resorts and GVC Holdings' joint venture, Roar Digital's sports betting brand, BetMGM and The Denver Broncos recently entered into a multi-year agreement. Per the deal, BetMGM and MGM Resorts will become an official sports betting partner of the Broncos. However, the financial terms of the deal has been kept under wraps.

MGM Resorts & GVC Holdings Increase Investment in BetMGM – Jul 8, 2020

MGM Resorts continues to focus on strengthening sports betting platform to drive growth. Roar Digital, LLC that operates as BetMGM — a joint venture between MGM Resorts and GVC Holdings — announced second round of investment. This brings the total investment to $450 million. In the first round, both the companies have invested $200 million. Ever since its launch in 2018, the company has done extremely well and is on track to operate in 11 states by the end of 2020

MGM Resorts Bellagio Error Likely the Largest Sportsbook Loss – Jul 4, 2020

MGM Resorts is likely to have witnessed largest sportsbook loss in Las Vegas history on bets made after an event is underway according to reports. Approximately quarter-million dollars have been lost as bets were made following the event commencement.

MGM Resorts to Reopen Mississippi Casinos With Safety Plans - May 19, 2020

Following the closure of properties in mid-March due to the COVID-19 outbreak, MGM Resorts recently announced that it will reopen two properties in Mississippi. It also stated that these will be the first of the company's U.S. properties to reopen amid the pandemic.

MGM Resorts will be reopening Gold Strike Casino Resort in Tunica on May 25. This will be followed by the reopening of Beau Rivage Resort & Casino on Jun 1. Notably, each property will be allowing guests on an invitation-only basis.

Valuation

MGM Resorts' shares are down by 43.4% in the year-to-date period and 34.9% over the trailing 12-month period. Stocks in the Zacks sub-industry is down by 23.5%, and Zacks Consumer Discretionary sector is down by 3.9% in the year-to-date period. Over the past year, the Zacks sub-industry was down by 9.4%, while sector was up by 4.8%.

The S&P 500 index is up by 4.1% in the year-to-date period and 14.3% in the past year.

The stock is currently trading at 1.05x forward 12-month sales, which compares to 2.96x for the Zacks sub-industry, 2.39x for the Zacks sector and 3.66x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.8x and as low as 0.28x, with a 5-year median of 1.28x. Our Underperform recommendation indicates that the stock will perform worse-than the market. Our $17 price target reflects 0.97x forward 12-month sales.

The table below shows summary valuation data for MGM.

Valuation Multiples - MGM

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	1.05	2.96	2.39	3.66
	5-Year High	1.8	3.26	2.95	3.66
	5-Year Low	0.28	1.62	1.68	2.53
	5-Year Median	1.28	2.47	2.5	3.04
EV/EBITDA TTM	Current	11.22	13.1	10.79	12.98
	5-Year High	29.06	19.74	17.81	12.98
	5-Year Low	4.86	7.75	8.34	8.24
	5-Year Median	11.04	13.18	12.24	10.89
P/CF	Current	9.22	17.63	14.47	19.6
	5-Year High	16.67	19.62	16.01	22.73
	5-Year Low	2.03	6.73	9.22	11.7
	5-Year Median	9.65	12.1	13.51	16.42

As of 08/06/2020

Industry Analysis **Zacks Industry Rank:** Bottom 19% (204 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Boyd Gaming Corporation **(BYD)**	Neutral	3
Churchill Downs, Incorporated **(CHDN)**	Neutral	3
Century Casinos, Inc. **(CNTY)**	Neutral	4
Caesars Entertainment, Inc. **(CZR)**	Neutral	3
Las Vegas Sands Corp. **(LVS)**	Neutral	4
Penn National Gaming, Inc. **(PENN)**	Neutral	3
Wynn Resorts, Limited **(WYNN)**	Neutral	3
Melco ResortsEntertainment Limited **(MLCO)**	Underperform	5

Industry Comparison Industry: Gaming

Industry Peers

	MGM	X Industry	S&P 500	LVS	MLCO	WYNN
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	4	5	3
VGM Score	F	-	-	D	F	F
Market Cap	9.11 B	1.58 B	23.20 B	34.54 B	8.24 B	8.26 B
# of Analysts	2	3	14	5	3	6
Dividend Yield	0.05%	0.00%	1.78%	0.00%	1.82%	3.92%
Value Score	D	-	-	C	F	D
Cash/Price	0.61	0.23	0.07	0.09	0.21	0.37
EV/EBITDA	4.76	9.89	13.21	8.13	8.42	10.71
PEG Ratio	NA	1.91	2.94	NA	NA	NA
Price/Book (P/B)	0.74	2.65	3.12	7.63	3.19	8.32
Price/Cash Flow (P/CF)	5.49	9.24	12.27	9.24	7.89	8.81
P/E (F1)	NA	28.88	21.69	NA	NA	NA
Price/Sales (P/S)	1.01	1.42	2.48	4.00	1.60	1.90
Earnings Yield	-5.74%	-3.34%	4.39%	-3.30%	-7.92%	-17.50%
Debt/Equity	1.60	1.93	0.77	3.04	1.93	11.37
Cash Flow ($/share)	3.36	0.68	6.94	4.89	2.27	8.69
Growth Score	F	-	-	D	F	F
Hist. EPS Growth (3-5 yrs)	-5.41%	0.54%	10.46%	-3.87%	23.66%	8.38%
Proj. EPS Growth (F1/F0)	-127.32%	-147.17%	-6.80%	-145.58%	-251.90%	-613.49%
Curr. Cash Flow Growth	-1.74%	-0.77%	5.39%	-0.77%	9.54%	-27.48%
Hist. Cash Flow Growth (3-5 yrs)	9.93%	9.19%	8.55%	-1.30%	0.60%	-3.64%
Current Ratio	2.47	1.71	1.33	1.59	1.53	1.81
Debt/Capital	61.56%	68.14%	44.50%	75.26%	65.87%	91.92%
Net Margin	21.28%	-11.04%	10.13%	3.95%	-2.19%	-25.71%
Return on Equity	-6.64%	-7.98%	14.39%	7.46%	-1.04%	-77.19%
Sales/Assets	0.26	0.37	0.51	0.39	0.54	0.31
Proj. Sales Growth (F1/F0)	-54.77%	-2.86%	-1.51%	-64.31%	-46.56%	-57.37%
Momentum Score	F	-	-	B	C	F
Daily Price Chg	10.41%	2.16%	-0.04%	4.34%	6.29%	7.42%
1 Week Price Chg	1.90%	0.00%	0.14%	-1.62%	7.93%	-1.33%
4 Week Price Chg	15.38%	9.08%	7.78%	1.21%	17.74%	7.65%
12 Week Price Chg	36.54%	15.87%	17.48%	-1.01%	16.67%	-2.21%
52 Week Price Chg	-36.13%	-12.55%	0.68%	-18.27%	-11.85%	-31.33%
20 Day Average Volume	22,309,072	80,687	2,057,775	6,080,367	3,280,156	5,312,273
(F1) EPS Est 1 week change	-5.38%	0.00%	0.00%	0.00%	0.00%	-13.40%
(F1) EPS Est 4 week change	-6.66%	0.00%	1.36%	-312.78%	0.00%	-14.66%
(F1) EPS Est 12 week change	-14.64%	-11.12%	1.57%	-458.65%	-53.46%	-14.59%
(Q1) EPS Est Mthly Chg	-36.15%	0.00%	0.54%	-299.07%	-45.16%	-89.65%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	F
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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