

## MGM Resorts (MGM)

**\$29.70** (As of 02/24/20)

Price Target (6-12 Months): **\$31.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/05/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:F

Value: C

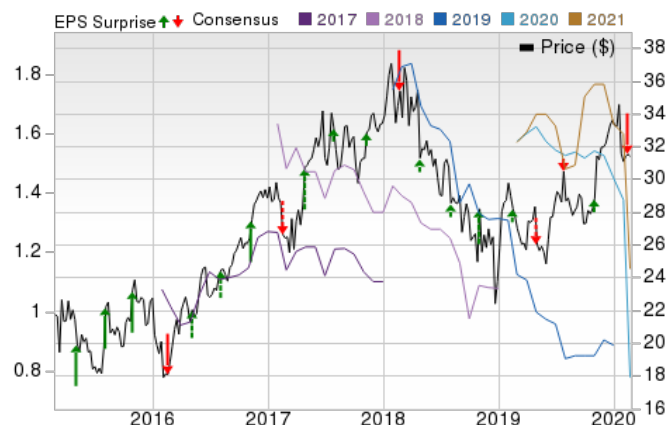
Growth: F

Momentum: D

## Summary

Although shares of MGM Resorts have outperformed the industry in the past year, lower-than-expected fourth-quarter results and outbreak of coronavirus remain significant concerns. Notably, the top line missed the consensus mark in the trailing three quarters. Further, the company's baccarat business has been grappling with certain headwinds for quite some time. The coronavirus outbreak in China continues to hurt gaming stocks and MGM Resorts is no exception. Of late, earnings estimate for current quarter have witnessed downward revisions. However, strong portfolio, resort openings, other entertainment offerings in the pipeline and focus on non-gaming activities bode well for long-term growth. An increase in visit in the Las Vegas market and solid long-term prospects of the Macau business are expected to boost revenues in the days ahead.

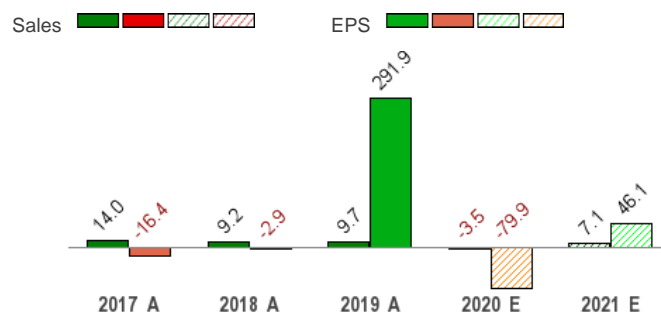
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$34.64 - \$23.68
20 Day Average Volume (sh)	7,116,707
Market Cap	\$15.5 B
YTD Price Change	-10.7%
Beta	1.50
Dividend / Div Yld	\$0.60 / 1.8%
Industry	<a href="#">Gaming</a>
Zacks Industry Rank	Bottom 18% (209 out of 255)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-66.7%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	-43.6%
Expected Report Date	05/04/2020
Earnings ESP	0.0%
P/E TTM	40.1
P/E F1	38.1
PEG F1	4.6
P/S TTM	1.2

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,288 E	3,379 E	3,388 E	3,268 E	13,334 E
2020	2,816 E	3,075 E	3,319 E	3,222 E	12,445 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	\$0.41 E	\$0.40 E	\$0.46 E	\$0.34 E	\$1.14 E
2020	\$0.08 E	\$0.20 E	\$0.29 E	\$0.21 E	\$0.78 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 02/24/2020. The reports text is as of 02/25/2020.

## Overview

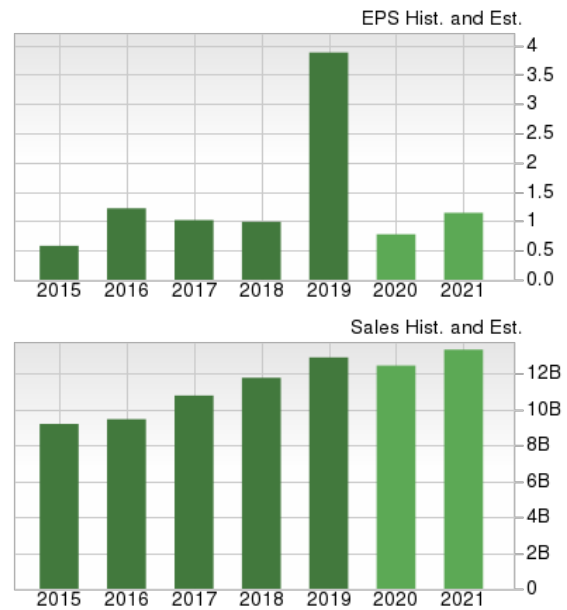
MGM Resorts International is a holding company and primarily owns and operates casino resorts through wholly owned subsidiaries. The company's resorts portfolio incorporates 30 unique hotel offerings, including some of the most familiar resort brands in the industry such as Bellagio, MGM Grand, Mandalay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

▲ **Strong Brand Recognition:** MGM Resorts' shares have outperformed the industry in the past year. 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.

An increase in visitation in the Las Vegas market, solid long-term prospects of Macau business and the company's focus on non-gaming activities is likely to aid growth

MGM Resorts undertook a growth initiative called MGM 2020 last year and has been realizing material savings in labor, sourcing and revenue enhancement opportunity. The plan will help the company in delivering EBITDA growth. The company is confident of beating its target of achieving \$200 million adjusted EBITDAR. It remains committed toward reducing consolidated net leverage to 3-4 times by the end of 2020.

▲ **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.

▲ **Various Domestic Ventures:** The company's properties are well diversified within the United States. Particularly, the company's Las Vegas business is likely to perform well on the back of an improving economic scenario and increased tourism numbers. Moreover, the company is executing across all segments of its business therein including hotel, casino, food and beverage and entertainment. Meanwhile, the company continues to make important investments wherever it sees an opportunity. It is in a solid position with The Park, The Plaza, T-Mobile and New York-New York that are likely to continue drawing more people to Las Vegas. The company believes that concerts and events hold the key to increasing visitation and profits, and with a strong lineup of the same coming up, traffic in the region is expected to increase. The company revamped Monte Carlo, which was named Park MGM. Additionally, MGM Resorts is seeking to capitalize on the surge in demand for tourism, convention business and sports-related entertainment in Las Vegas, along with many such developments in the pipeline. Moreover, these projects also demonstrate the company's commitment to diversifying business that is not solely meant for gaming. MGM Resorts is continuing to maximize performance in the domestic resort portfolio. The company expects moderate revenue growth for the remaining of the year due to its continuous improvement efforts and an ongoing disciplined approach to control cost.

▲ **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. The top line has been improving over the trailing 11 quarters.

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.

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.

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## Reasons To Sell:

- ▼ **Coronavirus to Hurt Results in Short Run:** MGM Resorts' financial in 2020 is likely to be impacted by the outbreak of Coronavirus. Apparently, the company has closed operations in its Macau casinos and gaming areas. Also, it is closely working with the local authorities there to ensure the wellbeing of its customers and employees. Owing to the shutdown, the company is incurring operating expenses of approximately \$1.5 million per day, majority being the payroll. Nonetheless, the company expects to manage the situation given its well poised diversification as a global company. The company has withdrawn 2020 outlook due to headwinds like coronavirus as well as the market-wide weakness in Far East baccarat in Las Vegas.
- ▼ **Trade War:** The trade war between Beijing and Washington continues to hurt gambling stocks, and MGM Resorts is no exception. Moreover, the flagging China property price has adversely impacted the high-end VIP segment. MGM Resorts has been offering various promotional allowances and undertaking initiatives to attract gambling patrons in Macao. The companies face substantial threat on the face of a potential outbreak of a trade war.
- ▼ **Macau/China Regulatory Issues:** The Macau government has joined forces with mainland authorities to tackle money laundering and terrorism financing and beefed up its anti-money laundering framework with a much wider scope and stringent compliance measures. In sync with this, new security measures including facial recognition at ATM machines are also being rolled out. Earlier, the government had put withdrawal limit on each ATM transaction to stem the recent increase in overseas ATM withdrawals. While these policies might be helpful in the long run, they are likely to restrict gaming revenues in the near term.

Moreover, Macau's Gaming Inspection and Coordination Bureau ("DICJ") is increasing its audits of the junket industry, owing to worries of money laundering. This, in turn, may weigh down on the company's performance in the region. That said, recent numbers published by The Macau Gaming Inspection and Coordination Bureau raised concerns for the short term.
- ▼ **Debt Pressure:** MGM Resort's heavy reliance on debt financing remains a concern. As of Dec 31, 2019, cash and cash equivalents were \$2,329.6 million, while long-term debt of \$11,168.9 million was much higher. However, any severe slowdown in future macroeconomic and credit market conditions can affect the company's ability to pay or refinance debt.
- ▼ **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.

High-debt burden, increased competition and coronavirus outbreak in China raise concerns.

## Last Earnings Report

### MGM Resorts Misses Earnings & Revenue Estimates in Q4

MGM Resorts reported fourth-quarter 2019 results, with earnings and revenues missing the respective Zacks Consensus Estimate. Notably, the top line missed the consensus mark in all of the trailing three quarters.

Adjusted earnings of 8 cents per share missed the consensus mark of 24 cents by 66.7%. However, the company had reported a loss of 3 cents in the prior-year quarter.

Total revenues were \$3,185.1 million, which missed the Zacks Consensus Estimate of \$3,208 million by 0.7%. Nonetheless, the top line increased 4.3% year over year. The improvement was backed by robust performance of MGM China and Regional Operations.

#### MGM China

MGM China's net revenues increased 6% year over year to \$727.4 million, owing to net revenue contribution of \$346.2 million from MGM Cotai.

The opening of 25 new-to-market tables at MGM Cotai led to a 31% year-over-year increase in main floor table game wins. However, VIP table game wins also declined 20% from the prior-year quarter's figure, primarily due to 33% fall in turnover at MGM Macau.

MGM China's adjusted property EBITDAR (Earnings before interest, taxes, depreciation, amortization, and restructuring or rent costs) increased 10% to \$185.1 million from \$168.3 million in the prior-year quarter. Moreover, adjusted property EBITDAR margin was 25.5%, up 100 basis points (bps) from the year-ago quarter's figure.

#### Domestic Operations

Net revenues at Las Vegas Strip Resorts during fourth-quarter 2019 were \$1,429.1 million, up 3.9% year over year. However, adjusted property EBITDAR declined 5% year over year and EBITDA margin contracted 256 bps compared with the prior-year quarter's figure.

During quarter under review, net revenues from the company's regional operations amounted to \$899.9 million, up 15% from the prior-year quarter's tally. The upside can be attributed to revenues of \$50 million from Empire City Casino and \$68 million from MGM Northfield Park's operations. Adjusted property EBITDAR was reported at \$228 million, up 14% from the year-ago quarter's figure. However, adjusted property EBITDAR margin declined 28 bps to 25.4% year over year.

Casino revenues in the quarter under review fell 4% year over year at the company's Las Vegas Strip Resorts primarily due to 18% decline in table games win driven by Far East baccarat. This was partially offset by a 2% increase in slots win. However, the same increased 18% at its Regional Operations owing to the acquisition of Empire City Casino and the merger of MGM Northfield Park's operations.

At the Las Vegas Strip Resorts, food and beverage revenues rose 9% from the prior-year quarter's level. The uptick was backed by the ramp-up of newly opened outlets at Park MGM as well as NoMad Las Vegas.

#### Balance Sheet

MGM Resorts ended the fourth quarter with cash and cash equivalents of \$2,329.6 million as of Dec 31, 2019 compared with \$1,526.8 million on Dec 31, 2018.

The company raised its quarterly dividend by 15.4% to 15 cents. The increased dividend will be paid out on Mar 16, 2020 to its shareholders on record as of Mar 10, 2020. In the reported quarter, the company repurchased 12 million of shares for \$393 million.

It expects the robust Las Vegas market and successful implementation of MGM 2020 to drive EBITDA and free cash flow growth. Meanwhile, the company successfully realized material savings in labor, sourcing and revenue enhancement opportunity leading to greater efficiencies and faster decision making, throughout the organization.

#### 2019 Highlights

In 2019, total revenues amounted to \$12,899.7 million, up 9.7% year over year.

Adjusted EPS for the year ended Dec 31, 2019 was reported at \$0.77 compared with \$0.95 in 2018.

Total Adjusted EBITDAR was reported at \$3,016.1 million compared with \$2,837.7 million in 2018.

Quarter Ending **12/2019**

Report Date	Feb 12, 2020
Sales Surprise	-0.72%
EPS Surprise	-66.67%
Quarterly EPS	0.08
Annual EPS (TTM)	0.74

## Recent News

### MGM Resorts Announces Partnership With Las Vegas Raiders - Jan 23, 2020

MGM Resorts International has announced a new partnership deal with Las Vegas Raiders — becoming the official gaming partner of the NFL team. The company has also become the founding partner of Allegiant Stadium to bring best in class expertise to the entertainment experience in Southern Nevada.

Per the deal, MGM Resorts will have prominent signage throughout Allegiant Stadium, including in-stadium branding and naming rights to the west VIP entry and drop-off zone. It will also gain naming rights to the exclusive MGM Club at the still-under-construction venue.

### MGM Resorts Partners With NLL to Push Up Sports Betting - Jan 15, 2020

MGM Resorts International continues to focus on sports betting to drive growth. Roar Digital, LLC, a joint venture between MGM Resorts and GVC Holdings, has reached an agreement with National Lacrosse League (NLL). Roar Digital's sports betting brand, BetMGM, has become the official and exclusive gaming partner of the NLL.

### MGM Resorts Agrees to Sell Properties in Las Vegas - Jan 14, 2020

MGM Resorts International recently 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.

Following the transaction, 50.1% will be owned by MGP and 49.9% by BREIT. Also, the joint venture will acquire MGM's Mandalay Bay resorts. MGM Resorts will pay an initial annual rent of \$292 million for both the properties.

## Valuation

MGM Resorts' shares are up 7.3 over the trailing 12-month period. Over the past year, the Zacks sub-industry is down 2.3%, but the sector is up 6.2%.

The S&P 500 index is up 14.6% in the past year.

The stock is currently trading at 35.7X forward 12-month earnings, which compares to 24.79X for the Zacks sub-industry, 19.58X for the Zacks sector and 18.44X for the S&P 500 index.

Over the past five years, the stock has traded as high as 48.59x and as low as 16.72x, with a 5-year median of 23.43x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$31 price target reflects 37.34x forward 12-month earnings.

The table below shows summary valuation data for MGM.

Valuation Multiples - MGM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	35.7	24.79	19.58	18.44
	5-Year High	48.59	29.8	23.34	19.34
	5-Year Low	16.72	15.41	16.15	15.18
	5-Year Median	23.43	21.6	20.05	17.47
P/B TTM	Current	1.22	4.03	3.39	4.66
	5-Year High	1.94	5	5.04	4.9
	5-Year Low	1.08	2.22	3.13	2.85
	5-Year Median	1.49	3.62	4.26	3.62
EV/EBITDA TTM	Current	8.48	12.7	12.22	12
	5-Year High	28.57	24.16	17.61	12.87
	5-Year Low	8.48	10.53	10.77	8.48
	5-Year Median	11.1	13.13	12.37	10.77

As of 02/24/2020

## Industry Analysis Zacks Industry Rank: Bottom 18% (209 out of 255)



## Top Peers

Boyd Gaming Corporation (BYD)	Neutral
Churchill Downs, Incorporated (CHDN)	Neutral
Full House Resorts, Inc. (FLL)	Neutral
Las Vegas Sands Corp. (LVS)	Neutral
Melco Resorts & Entertainment Limited (MLCO)	Neutral
Penn National Gaming, Inc. (PENN)	Neutral
Century Casinos, Inc. (CNTY)	Underperform
Wynn Resorts, Limited (WYNN)	Underperform

Industry Comparison Industry: Gaming				Industry Peers		
	MGM Neutral	X Industry	S&P 500	LVS Neutral	MLCO Neutral	WYNN Underperform
<b>VGM Score</b>	<b>F</b>	-	-	<b>D</b>	<b>D</b>	<b>F</b>
Market Cap	15.49 B	2.56 B	23.50 B	47.51 B	9.65 B	12.90 B
# of Analysts	6	4	13	7	3	7
Dividend Yield	1.75%	0.00%	1.83%	4.95%	3.34%	3.33%
<b>Value Score</b>	<b>C</b>	-	-	<b>C</b>	<b>D</b>	<b>F</b>
Cash/Price	0.14	0.10	0.04	0.08	0.15	0.12
EV/EBITDA	10.81	11.05	13.56	10.00	10.72	16.31
PEG Ratio	4.55	1.77	2.02	7.42	1.10	4.01
Price/Book (P/B)	1.22	2.94	3.20	7.34	3.07	7.76
Price/Cash Flow (P/CF)	9.04	12.36	13.05	12.71	8.76	14.27
P/E (F1)	37.46	22.65	18.56	22.19	21.94	40.11
Price/Sales (P/S)	1.20	1.62	2.60	3.46	1.70	1.95
Earnings Yield	2.63%	4.16%	5.38%	4.50%	4.56%	2.50%
Debt/Equity	1.20	0.89	0.70	1.91	1.51	5.75
Cash Flow (\$/share)	3.28	1.68	7.03	4.89	2.23	8.42
<b>Growth Score</b>	<b>F</b>	-	-	<b>C</b>	<b>C</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	11.64%	6.02%	10.85%	5.65%	17.45%	5.42%
Proj. EPS Growth (F1/F0)	-79.98%	15.89%	6.90%	-14.02%	-5.02%	14.78%
Curr. Cash Flow Growth	-3.93%	15.43%	6.78%	-0.77%	7.96%	-29.73%
Hist. Cash Flow Growth (3-5 yrs)	9.43%	8.28%	8.38%	-1.30%	0.23%	-4.24%
Current Ratio	1.26	1.18	1.22	1.65	1.24	1.09
Debt/Capital	54.73%	54.41%	42.37%	65.62%	60.15%	85.18%
Net Margin	15.89%	0.90%	11.57%	19.64%	6.48%	1.86%
Return on Equity	3.50%	2.32%	16.80%	38.61%	15.06%	15.43%
Sales/Assets	0.41	0.47	0.55	0.61	0.60	0.50
Proj. Sales Growth (F1/F0)	-3.53%	2.68%	4.03%	-7.55%	-4.86%	-5.04%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>F</b>	<b>F</b>	<b>D</b>
Daily Price Chg	-5.38%	-3.10%	-2.98%	-5.17%	-4.08%	-6.08%
1 Week Price Chg	-0.41%	0.00%	-0.94%	-3.63%	-4.86%	-3.17%
4 Week Price Chg	-2.14%	0.00%	-0.94%	-1.68%	-2.93%	-3.00%
12 Week Price Chg	-7.07%	1.33%	1.75%	-0.77%	-9.42%	0.65%
52 Week Price Chg	7.22%	1.87%	10.97%	1.87%	-14.60%	-6.99%
20 Day Average Volume	7,116,707	54,907	2,001,782	4,827,533	3,427,846	2,799,986
(F1) EPS Est 1 week change	0.87%	0.00%	0.00%	-5.13%	-76.31%	-11.37%
(F1) EPS Est 4 week change	-43.57%	-1.20%	-0.05%	-15.54%	-75.34%	-43.05%
(F1) EPS Est 12 week change	-49.10%	-3.22%	-0.21%	-16.37%	-75.81%	-46.91%
(Q1) EPS Est Mthly Chg	-74.75%	0.00%	-0.49%	-47.28%	-89.04%	-121.22%

## 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	C
Growth Score	F
Momentum Score	D
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.

## Disclosures

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