

Penn National(PENN)

\$15.47 (As of 03/13/20)

Price Target (6-12 Months): **\$13.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 09/30/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: B

Summary

Shares of Penn National have underperformed the industry in the past year. The dismal performance can be primarily attributed to intense competition from various casinos, video lottery, gaming at taverns and other Internet wagering services and weather-related downturns. Notably, the company's operations, therefore, are facing heightened competition with new entries in the already high-supply market. However, the company's partnership with DraftKings, PointsBet, theScore and The Stars Group bodes well. It has also reached an agreement to acquire 36% interest in Barstool Sports. It continues to focus on sports betting expansion. Notably, earnings estimates for 2020 has increased over the past 60 days, depicting analysts optimism regarding the stock's future growth potential.

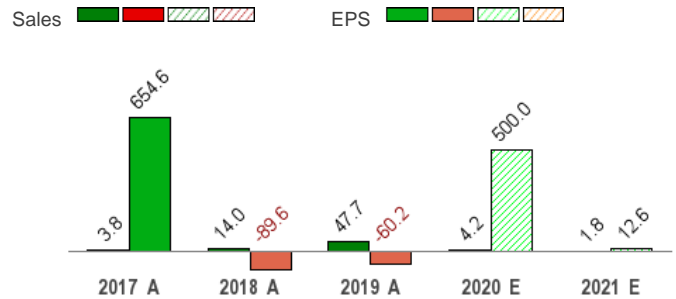
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$39.18 - \$9.41
20 Day Average Volume (sh)	4,541,596
Market Cap	\$1.8 B
YTD Price Change	-39.5%
Beta	1.62
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Gaming
Zacks Industry Rank	Bottom 23% (195 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-316.2%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/07/2020
Earnings ESP	9.2%
P/E TTM	41.8
P/E F1	7.0
PEG F1	0.7
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,413 E	1,420 E	1,409 E	1,414 E	5,623 E
2020	1,381 E	1,393 E	1,380 E	1,371 E	5,525 E
2019	1,283 A	1,323 A	1,355 A	1,341 A	5,301 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.63 E	\$0.65 E	\$0.62 E	\$0.56 E	\$2.50 E
2020	\$0.61 E	\$0.60 E	\$0.57 E	\$0.48 E	\$2.22 E
2019	\$0.35 A	\$0.44 A	\$0.38 A	-\$0.80 A	\$0.37 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 03/13/2020. The reports text is as of 03/16/2020.

Overview

Penn National Gaming was incorporated in Pennsylvania in 1982 as PNRC Corp. The company's current name was formulated in 1994 when it became a publicly-traded company. Penn National is a leading, multi-jurisdictional owner and manager of gaming and racing facilities with video gaming terminal operations, and a focus on slot machine entertainment. The company is geographically widespread with a vast portfolio.

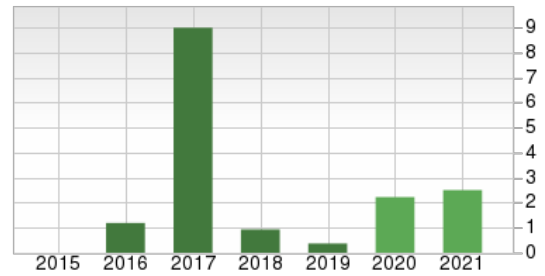
With the acquisition of Charles Town property in 1997 and introduction of video lottery terminals in West Virginia, Penn National began its transition from a pari-mutuel to a diversified gaming company. Ever since then, the company expanded its gaming portfolio through strategic acquisitions, greenfield projects and property expansions.

As of Feb 6, 2020, the company operated 41 facilities in 19 jurisdictions. In total, Penn National Gaming's facilities feature approximately 50,500 gaming machines, 1,300 table games and 8,800 hotel rooms.

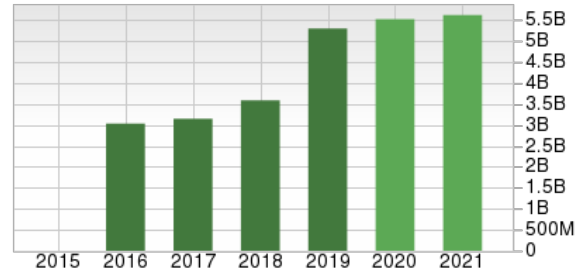
In 2017, the company entered an agreement to acquire Pinnacle Entertainment, Inc., a leading regional gaming operator. This transaction closed on Oct 15.

During the fourth quarter of 2018, the company made revisions to its reportable segments upon the consummation of the Pinnacle acquisition. Apart from the addition of the properties, the most significant change was dividing the South/West segment into two separate reportable segments.

EPS Hist. and Est.



Sales Hist. and Est.



Reasons To Buy:

- ▲ **Leveraging the Power of Strong Brand:** Being a leading gaming company in the United States, Penn National is known for its consistent business strategies and strong brand recognition. Through various acquisition and divestitures, the company's presence became largely widespread. Even then, Penn National is still continuing to expand and leverage its brand power.

A strong brand presence favors the top-line growth of the company, while margin-improvement initiatives and acquisitions are the key growth drivers.

Most of the gaming companies are now banking on sports betting following its legalization outside Nevada. Notably, the Supreme Court overturned the Professional and Amateur Sports

Protection Act (PASPA), which banned sports betting outside Nevada. Penn National has announced historic strategic partnerships with DraftKings, PointsBet, theScore and The Stars Group. These partnerships will help the company to maximize sport betting and iGaming across 19 states. DraftKings will cover Florida, Missouri, Ohio, Pennsylvania and West Virginia for ten years. The company also stated that sports betting is gaining popularity in Ameristar Casino Council Bluffs, thanks to the opening of a retail sports book at Ameristar Casino Council Bluffs in Iowa and two retail sports books in Indiana during the third quarter. During the third quarter 2019, it also opened retail sports book at the Meadows Casino in Western Pennsylvania. Notably, one of its skin partners recently launched online sports betting operations in West Virginia and Indiana.

- ▲ **Partnership with Barstool Sports:** Penn National has reached an agreement to acquire 36% interest in Barstool Sports for nearly \$163 million. Per the agreement, Penn National will be Barstool Sports, a leading digital sports media company's gaming partner. The company will launch Barstool Sportsbooks across the United States in the coming quarters and mobile sports betting app Barstool Sportsbook in the third quarter.
- ▲ **Solid Revenue Growth:** Penn National has impressed investors with its robust revenue growth. The company's top line had improved 14%, 3.7% and 6.9% in 2018, 2017 and 2016, respectively. The uptrend continued in first, second, third and fourth-quarter 2019 as the company's top line increased 36.4%, 28.8%, 71.5% and 16.1%, respectively, on a year-over-year basis. Given the increased demand for leisure services and the company's enormous scale, we believe that the top line will continue to grow in the near term. Moreover, the company has a leading loyalty program with over five million active customers. During the third quarter, Penn National completed the relaunch of its my choice loyalty rewards program throughout the Penn Network.
- ▲ **Margin-Expansion Strategies:** During 2017, Penn National engaged third-party consultants to help the company validate and quantify a set of strategic initiatives that are expected to improve its industry-leading property level operating margins in the coming years. This effort encompasses both revenue and cost-saving initiatives that will reap recurring benefits over the years. Through ongoing refinements in procurement, marketing and labor management, the company reported margin expansion in fourth-quarter 2019. In the reported quarter, the adjusted EBITDAR margin expanded 180 basis points to 29.8%. Meanwhile, Penn National remains confident about realizing \$120 million of cost synergies by 2020. Subsequent to the Pinnacle transaction, Penn National expects to return to its net leverage on a lease-adjusted basis of 5.0x by the end of 2020.
- ▲ **Continual Acquisition:** Penn National is known for its acquisition strategies that help the company expand its presence as well as improve revenue yields. The company's notable buyouts have been Margaritaville Resort Casino in Bossier City, LA, in January 2018 and Pinnacle Entertainment, Inc. on October 2018. Pinnacle is a leading regional gaming operator. With the Pinnacle acquisition, the company added 12 new properties to its portfolio. Meanwhile, in the first quarter 2019, the company acquired two category 4 licenses in the bidding process in Pennsylvania. Each license can have up to 750 slot machines and 40 table games.

Reasons To Sell:

- ▼ **Intense Competition Hurts:** Penn National is continuously facing intense competition from various casinos, video lottery, gaming at taverns and other internet wagering services. Not only gaming services, but any form of leisure and entertainment activities including shopping, athletic events, television and movies, concerts, and travel put the company under competitive pressure. The company's operations, therefore, are facing heightened competition with new entries in the already high-supply market.
 - ▼ **Lower-than-Expected Top-Line Performance:** Penn National's revenues have missed the Zacks Consensus Estimate in the trailing six out of seven quarters. In fourth-quarter 2019, net revenues totaled \$1,341.2 million, which missed the consensus mark of \$1,347 million.
 - ▼ **Valuation Looks Stretched:** Since the casino stocks are debt-laden, it makes sense to value them based on the EV/EBITDA (Enterprise Value/ Earnings before Interest Tax Depreciation and Amortization) ratio. This is because the valuation metric takes into account not just its equity but also the level of debt on a company's balance sheet. Penn National's trailing 12-month EV/EBITDA ratio is 12.53. The S&P 500 composite market's ratio stands at 10.05.
 - ▼ **Weather-Related Woes:** Since the company's operations are widespread, weather-related downturns affect its revenues and profitability. Having most of its properties located by waterbodies, the company is vulnerable to floods and other natural disasters. In fact, the company's operating results somewhat came in a lower-than-expected range due to weather-related nuisances.
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Stiff competition and weather-related events are pressing concerns for the company.

Last Earnings Report

Penn National Q4 Earnings & Revenues Miss Estimates

Penn National Gaming, Inc. reported fourth-quarter 2019 results, with earnings and revenues missing the respective Zacks Consensus Estimate. Notably, the top line missed the consensus mark in three of the trailing four quarters.

Adjusted loss came in at 80 cents per share, lagging the Zacks Consensus Estimate of earnings per share (EPS) of 37 cents. In the prior-year quarter, the company had reported adjusted loss of 37 cents. Net revenues totaled \$1,341.2 million, which missed the consensus mark of \$1,347 million. Nevertheless, the figure surged 16.1% from the year-ago quarter figure.

The Northeast segment reported revenues of \$621.3 million, up 18.1% year over year. The West, Midwest and South segments' revenues came in at \$158.1 million, \$279.2 million and \$268.2 million, up 7.8%, 5.5% and 28.9%, respectively, year over year. Meanwhile, the Other segment reported revenues of \$15.6 million, up 57.5% year over year.

Let us take a closer look at the numbers

Inside the Headlines

Penn National's income from operations declined to \$11.3 million in the fourth quarter compared with \$124.4 million in the prior-year quarter. Adjusted EBITDAR increased 23.3% from the year-ago quarter's figure to \$399.4 million. Moreover, adjusted EBITDAR margin expanded 180 basis points to 29.8%.

Meanwhile, the traditional net debt ratio was 2.4x, and net leverage on a lease-adjusted basis was 5.5x.

Other Financial Information

At the end of the fourth quarter, cash and cash equivalents declined to \$437.4 million compared with \$479.6 million at the end of Dec 31, 2018. Further, the bank debt as of Dec 31, 2019, were \$1,896.5 million, down from \$1,907.9 million at the end of Dec 31, 2018.

2019 Highlights

In 2019, total revenues amounted to \$5,301.4 million, up 47.8% year over year.

Adjusted EPS for the year ended Dec 31, 2019 was reported at 37 cents compared with 93 cents in 2018.

Total Adjusted EBITDAR was reported at \$1,605.2 million compared with \$1043.2 million in 2018.

Adjusted EBITDAR margin inclined 120 basis points to 30.3%, compared with 29.1% reported a year ago.

2020 Guidance

For the full year, adjusted EBITDAR is expected in the range of \$1.67-\$1.70 billion. Free cash flow is expected between \$405 million to \$430 million.

Total maintenance capital expenditures are expected at \$199 million. Cash interest on traditional debt is expected at \$105 million, while cash taxes are expected to amount \$60 million.

However, the above guidance does not include any impact related to the Barstool transaction.

Other Developments

Penn National had entered into an agreement to acquire 36% stake in Barstool Sports, becoming its exclusive gaming partner. The investment is in sync with the company's strategy to evolve as a best-in-class omni-channel provider of retail as well as online gaming and sports betting entertainment. Notably, the company is optimistic regarding the potential benefits of the investment in Barstool Sports.

Meanwhile, the company's development projects in Pennsylvania, which include the \$120-million Hollywood Casino York and the \$111-million Hollywood Casino Morgantown, are on track.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	-0.43%
EPS Surprise	-316.22%
Quarterly EPS	-0.80
Annual EPS (TTM)	0.37

Recent News

Penn National Gaming Inks Deal With Barstool Sports - Jan 29, 2020

Penn National has reached an agreement to acquire 36% interest in Barstool Sports for nearly \$163 million. Per the agreement, Penn National will be Barstool Sports, a leading digital sports media company's gaming partner.

Valuation

Penn National's shares are down 39.4% year-to-date and 30.4% in the trailing 12-month period. Stocks in the Zacks sub-industry is down by 37%, and Zacks Consumer Discretionary sector is down by 25.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector were down by 31.1% and 17.4%, respectively.

The S&P 500 index is down 15.8% in the year-to-date period, and 5.3% in the past year.

The stock is currently trading at 6.79X forward 12-month earnings, which compares to 18X for the Zacks sub-industry, 15.43X for the Zacks sector and 15.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 43.82X and as low as 6.78X, with a 5-year median of 16.91X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$13 price target reflects 7.10X forward 12-month earnings.

The table below shows summary valuation data for PENN.

Valuation Multiples - PENN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	6.79	18	15.43	15.72
	5-Year High	43.82	29.8	23.23	19.34
	5-Year Low	6.78	15.41	15.43	15.18
	5-Year Median	16.91	21.57	19.88	17.42
P/S F12M	Current	0.33	1.57	1.73	2.9
	5-Year High	1.04	2.82	3.19	3.43
	5-Year Low	0.33	1.57	1.73	2.54
	5-Year Median	0.49	2.25	2.53	3
EV/EBITDA TTM	Current	12.53	9.45	9.28	10.05
	5-Year High	106.6	24.47	17.59	12.88
	5-Year Low	5.34	8.99	8.84	8.31
	5-Year Median	9.37	13.08	12.28	10.78

As of 03/13/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (195 out of 253)



Top Peers

Boyd Gaming Corporation (BYD)	Neutral
Eldorado Resorts, Inc. (ERI)	Neutral
International Game Technology (IGT)	Neutral
FLUTTER ENT PLC (PDYPY)	Neutral
Amaya Inc. (TSG)	Neutral
Ubisoft Entertainment Inc. (UBSFY)	Neutral
WILLIAM HIL ADR (WIMHY)	Neutral
Wynn Macau Ltd. (WYNNF)	Neutral

Industry Comparison Industry: Gaming				Industry Peers		
	PENN Neutral	X Industry	S&P 500	BYD Neutral	IGT Neutral	WYNNF Neutral
VGM Score	C	-	-	A	B	F
Market Cap	1.81 B	1.31 B	19.05 B	1.71 B	1.31 B	8.37 B
# of Analysts	7	4	13	7	4	2
Dividend Yield	0.00%	0.00%	2.31%	1.83%	12.48%	0.00%
Value Score	B	-	-	B	B	C
Cash/Price	0.16	0.13	0.05	0.11	0.52	NA
EV/EBITDA	11.96	8.19	11.57	7.95	5.09	NA
PEG Ratio	0.43	1.29	1.68	0.72	0.56	NA
Price/Book (P/B)	0.97	1.34	2.56	1.35	0.53	NA
Price/Cash Flow (P/CF)	3.85	7.09	10.18	3.27	1.13	10.22
P/E (F1)	4.27	18.81	14.94	7.64	5.56	23.00
Price/Sales (P/S)	0.34	0.99	2.02	0.51	0.27	NA
Earnings Yield	14.35%	5.24%	6.67%	13.10%	17.94%	4.35%
Debt/Equity	5.99	0.85	0.70	3.62	3.18	NA
Cash Flow (\$/share)	4.02	1.42	7.01	4.69	5.69	0.16
Growth Score	D	-	-	A	C	F
Hist. EPS Growth (3-5 yrs)	-15.41%	6.02%	10.85%	34.13%	0.72%	NA
Proj. EPS Growth (F1/F0)	500.38%	15.83%	5.99%	12.21%	6.71%	-41.67%
Curr. Cash Flow Growth	26.26%	7.96%	6.15%	32.88%	1.50%	NA
Hist. Cash Flow Growth (3-5 yrs)	10.03%	8.20%	8.52%	17.50%	4.73%	-2.90%
Current Ratio	0.71	1.18	1.24	0.72	1.07	NA
Debt/Capital	85.70%	53.65%	42.57%	78.35%	76.10%	NA
Net Margin	0.83%	1.35%	11.64%	4.74%	-0.40%	NA
Return on Equity	2.33%	2.33%	16.74%	16.63%	8.55%	NA
Sales/Assets	0.38	0.45	0.54	0.50	0.35	NA
Proj. Sales Growth (F1/F0)	4.21%	2.72%	3.54%	1.30%	-1.46%	-17.15%
Momentum Score	B	-	-	B	C	F
Daily Price Chg	0.26%	1.16%	8.21%	5.50%	5.78%	-3.88%
1 Week Price Chg	-19.14%	-7.53%	-0.67%	-16.40%	-21.05%	-3.52%
4 Week Price Chg	-59.59%	-29.50%	-22.67%	-54.13%	-55.58%	-28.67%
12 Week Price Chg	-40.09%	-33.96%	-20.46%	-50.16%	-57.32%	-31.49%
52 Week Price Chg	-29.23%	-28.57%	-10.79%	-45.95%	-51.70%	-27.80%
20 Day Average Volume	4,541,596	112,651	3,061,271	2,029,585	4,354,582	15,663
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.22%	0.00%
(F1) EPS Est 4 week change	0.00%	-3.48%	-0.32%	1.22%	1.99%	-41.67%
(F1) EPS Est 12 week change	3.97%	-8.72%	-0.65%	2.55%	0.44%	-53.33%
(Q1) EPS Est Mthly Chg	1.88%	-1.07%	-0.62%	0.14%	-16.36%	NA

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	B
Growth Score	D
Momentum Score	B
VGM Score	C

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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