Penn National(PENN)

$56.58 (As of 08/20/20)

Price Target (6-12 Months): **$60.00**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Neutral**
	(Since: 05/10/20)	
	Prior Recommendation: Underperform	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:F
	Value: C Growth: F Momentum: D	

Summary

Shares of Penn National have outperformed the industry so far this year. The company reported second-quarter 2020 results, wherein earnings and revenues beat the Zacks Consensus Estimate. However, the top and the bottom line declined on a year-over-year basis. Nonetheless, the company is confident about its long-term prospects, which will be supported by differentiated omni-channel approach. Also, partnership with Barstool Sports is likely to drive revenues during the upcoming periods. Notably, earning estimates for 2020 have moved up over the past 30 days, depicting analysts optimism regarding the stock's growth potential. However, coronavirus-induced woes persist. If the virus is not contained, further chances of temporary suspension of operations cannot be ruled out.
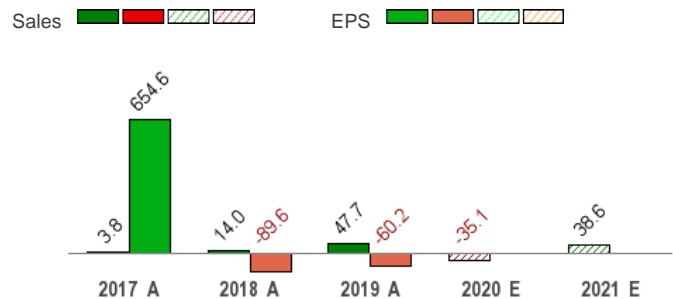
Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$57.09 - $3.75**
20 Day Average Volume (sh)	**9,935,374**
Market Cap	**$7.8 B**
YTD Price Change	**121.4%**
Beta	**2.59**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Gaming**
Zacks Industry Rank	**Top 44% (110 out of 252)**
Last EPS Surprise	**18.0%**
Last Sales Surprise	**31.3%**
EPS F1 Est- 4 week change	**45.7%**
Expected Report Date	**10/29/2020**
Earnings ESP	**0.0%**
P/E TTM	**NA**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**1.9**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,045 E	1,123 E	1,181 E	1,158 E	4,770 E
2020	1,116 A	306 A	955 E	1,038 E	3,442 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	-$0.32 E	-$0.06 E	$0.06 E	$0.07 E	$0.99 E
2020	$0.06 A	-$1.69 A	-$0.07 E	$0.09 E	-$6.53 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 08/20/2020. The reports text is as of 08/21/2020.

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 Jun 30, 2020, the company operated 41 facilities in 19 jurisdictions. In total, Penn National's facilities feature approximately 50,000 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.

In February 2020, Penn National entered into a strategic partnership with Barstool Sports, whereby Barstool will exclusively promote the company's land-based and online casinos and sports betting products, including the Barstool Sportsbook mobile app. The company's omni-channel approach is bolstered by the mychoice loyalty program, which rewards and recognizes more than 20 million members for their loyalty to both retail and online gaming and sports betting products.
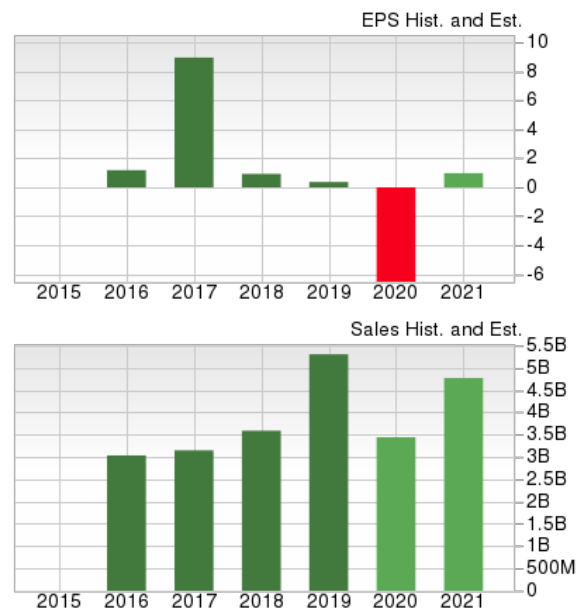
Reasons To Buy:

▲ **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 has been gaining popularity in Ameristar Casino Council Bluffs, courtesy of 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 2019. During the first quarter 2020, 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.

During the coronavirus-induced shutdown, the company introduced real money iCasino product called Hollywoodcasino.com. Since then, 20,000 customers have been engaged on this online platform. Going forward, the company intends to make it part of the Barstool Sportsbook app, thereby providing significant organic customer acquisition and cross-sell opportunities.

▲ **Enough Liquidity to Tide Over Coronavirus Pandemic:** Penn National has enough liquidity to survive a zero-revenue scenario for some time. As of Jun 30, 2020, the company's cash and cash equivalents totaled $1,244.3 million compared with $730.7 million as on Mar 31, 2020. Although the company's long-term debt (net of current maturities) at the end of second-quarter 2020 stood at 3,044.8 million, compared with 2,829.3 million as of Mar 31, 2020, it has no debt maturing prior to 2023. At the end of second-quarter 2020, the company had a debt-to-capital ratio of 0.9, which indicates that its debt levels are manageable.

▲ **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 Sates in the coming quarters and mobile sports betting app Barstool Sportsbook. Notably, the partnership provides access to a database of 66 million sports enthusiasts (or Barstool loyalist), out of which 60% are into sports betting while the remaining are avid betters. Moreover, Penn Interactive will be launching the Barstool Sports online sports betting app during the third quarter of 2020, with the first launch in Pennsylvania. Despite the coronavirus pandemic, the company announced that it will continue to invest in projects, which will generate EBITDA in the short term. The company remains confident about its long-term growth, which will be supported by differentiated omni-channel approach.

▲ **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.

▲ **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:

▼ **Impact of Coronavirus Outbreak:** The coronavirus pandemic had a material adverse impact on its business, financial condition, results of operations and cash flows in the second quarter of 2020. Notably, the pandemic has dramatically reduced travel and demand for casino gaming and related amenities. If the virus is not contained, further chances of temporary suspension of operations cannot be ruled out.

> Stiff competition and weather-related events are pressing concerns for the company.

Owing to the uncertainty and evolving nature of the crisis, the company expects its operations and cash flows for the third quarter (ended Sep 30, 2020) to be negatively impacted. Owing to the coronavirus outbreak, the company has withdrawn its 2020 guidance as well as suspended its quarterly dividend payouts. To mitigate the financial impact, the company has also taken certain actions to reduce operating expenses.

▼ **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.

▼ **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 34.88. The S&P 500 composite market's ratio stands at 12.75.

▼ **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.

Last Earnings Report

Penn National Reports Narrower-Than Expected Q2 Loss

Penn National reported narrower-than-expected loss for second-quarter 2020. Revenues also beat the Zacks Consensus Estimate, buoyed by pent-up demand in May and June.

Jay Snowden, its president and CEO, said "In addition, our geographic diversification across 19 states -- with no more than 15% of our revenues being derived from any single state -- has proven to be a significant benefit as states have reopened casinos on a staggered basis. Although visitation has yet to return to pre-COVID levels, in large part due to state mandated capacity restrictions and limited amenities, spend per visit has been notably strong, resulting in better than expected revenues."

Quarter Ending	06/2020
Report Date	**Aug 06, 2020**
Sales Surprise	**31.31%**
EPS Surprise	**17.96%**
Quarterly EPS	**-1.69**
Annual EPS (TTM)	**-2.05**

The company remains optimistic about third-quarter results, backed by impressive revenue and EBITDAR trends in July and early August despite maintaining safety protocols, including capacity restrictions and social distancing mandates. It expects a meaningful portion of the margin improvements to recur as it continues to make fundamental changes to enhance offerings and efficiencies across the organization.

Earnings & Revenues Discussion

Adjusted loss came in at $1.69 per share, narrower than the Zacks Consensus Estimate of a loss of $2.06. In the year-ago period, the company reported earnings of 44 cents per share.

Net revenues totaled $305.5 million, which beat the consensus mark of $233 million by 31.3% but declined 76.9% from the year-ago quarter.

The Northeast segment reported revenues of $102.7 million, down 82.9% year over year. The South, Midwest, and West segments' revenues came in at $121.5 million, $36 million and $17.7 million, down 56.9%, 86.6% and 89.2% year over year, respectively. Meanwhile, the Other segment reported revenues of $27.6 million, up 193.6% year over year.

EBITDAR Declines

Adjusted EBITDAR decreased 94% from the year-ago quarter to $24.5 million. Moreover, adjusted EBITDAR margin contracted 8% from 30.7% a year ago.

Other Financial Information

At second quarter-end, cash and cash equivalents increased to $1,244.3 million from $437.4 million as of Dec 31, 2019. Bank debt as of Jun 30, 2020 was $2,403.1 million, up from $1,896.5 million on Dec 31, 2019.

Valuation

Penn National's shares are up 121.4% year-to-date, and 206.4% in the trailing 12-month period. Stocks in the Zacks sub-industry is down by 20.4%, and Zacks Consumer Discretionary sector is down by 4.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 4.1%, but the sector is up by 5.6%.

The S&P 500 index is up 5.1% in the year-to-date period and 16.2% in the past year.

The stock is currently trading at 1.82X forward 12-month sales, which compares to 3.22X for the Zacks sub-industry, 2.41X for the Zacks sector and 3.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.82X and as low as 0.1X, with a 5-year median of 0.49X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $60 price target reflects 1.93X forward 12-month sales.

The table below shows summary valuation data for PENN.

Valuation Multiples - PENN					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	1.82	3.22	2.41	3.71
	5-Year High	1.82	3.26	2.95	3.71
	5-Year Low	0.1	1.62	1.68	2.53
	5-Year Median	0.49	2.48	2.5	3.05
P/CF	Current	27.83	36.95	13.93	15.83
	5-Year High	27.83	37.52	15.54	22.73
	5-Year Low	0.74	6.73	9.22	11.7
	5-Year Median	4.98	12.15	13.5	16.37
EV/EVITDA TTM	Current	35.66	21.91	11.17	12.81
	5-Year High	106.6	22.16	17.84	12.85
	5-Year Low	5.34	7.75	8.34	8.25
	5-Year Median	12.5	13.27	12.23	10.91

As of 08/20/2020

Industry Analysis Zacks Industry Rank: Top 44% (110 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Boyd Gaming Corporation (BYD)	Neutral	3
Caesars Entertainment, Inc. (CZR)	Neutral	3
International Game Technology (IGT)	Neutral	3
FLUTTER ENT PLC (PDYPY)	Neutral	3
UbiSoft Entertainment Inc. (UBSFY)	Neutral	3
WILLIAM HIL ADR (WIMHY)	Neutral	3
Wynn Macau Ltd. (WYNMF)	Neutral	4
Wynn Resorts, Limited (WYNN)	Neutral	4

Industry Comparison Industry: Gaming — Industry Peers

	PENN	X Industry	S&P 500	BYD	IGT	WYNMF
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	4
VGM Score	F	-	-	D	A	F
Market Cap	7.79 B	1.77 B	23.46 B	2.99 B	2.14 B	9.56 B
# of Analysts	6	3	14	6	3	2
Dividend Yield	0.00%	0.00%	1.65%	0.00%	3.81%	0.00%
Value Score	C	-	-	B	A	D
Cash/Price	0.17	0.22	0.07	0.44	0.71	NA
EV/EBITDA	17.58	10.42	13.34	9.81	5.38	NA
PEG Ratio	NA	1.14	3.00	NA	NA	NA
Price/Book (P/B)	4.46	4.06	3.12	2.97	1.19	NA
Price/Cash Flow (P/CF)	14.08	11.17	12.60	5.73	1.84	11.68
P/E (F1)	NA	27.20	21.61	NA	NA	NA
Price/Sales (P/S)	1.89	1.94	2.44	1.18	0.54	NA
Earnings Yield	-11.54%	-3.24%	4.43%	-3.24%	-5.24%	-9.24%
Debt/Equity	7.93	2.12	0.76	5.73	4.57	NA
Cash Flow ($/share)	4.02	0.68	6.93	4.69	5.69	0.16
Growth Score	F	-	-	F	C	F
Hist. EPS Growth (3-5 yrs)	-33.64%	-3.31%	10.44%	18.49%	-30.67%	NA
Proj. EPS Growth (F1/F0)	-1,865.76%	-147.05%	-5.53%	-148.79%	-151.23%	-226.92%
Curr. Cash Flow Growth	26.26%	-0.77%	5.20%	32.88%	1.50%	NA
Hist. Cash Flow Growth (3-5 yrs)	10.03%	9.19%	8.52%	17.50%	4.73%	-2.90%
Current Ratio	1.99	1.71	1.33	2.86	1.26	NA
Debt/Capital	88.65%	69.94%	44.50%	85.14%	82.04%	NA
Net Margin	-21.16%	-12.04%	10.13%	-2.48%	-14.86%	NA
Return on Equity	-15.63%	-12.40%	14.67%	-0.92%	0.04%	NA
Sales/Assets	0.29	0.39	0.51	0.37	0.29	NA
Proj. Sales Growth (F1/F0)	-35.07%	-1.06%	-1.54%	-37.99%	-29.05%	-69.83%
Momentum Score	D	-	-	C	B	D
Daily Price Chg	3.38%	0.00%	-0.59%	0.56%	2.84%	-0.54%
1 Week Price Chg	7.10%	1.96%	1.09%	5.34%	1.74%	9.25%
4 Week Price Chg	67.20%	12.59%	1.91%	22.62%	2.94%	6.36%
12 Week Price Chg	79.16%	9.91%	6.82%	23.07%	21.98%	7.60%
52 Week Price Chg	206.34%	-10.89%	1.47%	13.98%	-16.35%	-13.21%
20 Day Average Volume	9,935,374	155,735	1,873,576	1,975,374	2,424,465	15,386
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	45.71%	10.38%	1.79%	62.68%	25.23%	-3.13%
(F1) EPS Est 12 week change	59.12%	8.69%	3.35%	64.33%	26.55%	-560.00%
(Q1) EPS Est Mthly Chg	86.70%	23.44%	0.42%	100.00%	23.44%	NA

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.

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

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.

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