

## Penn National(PENN)

**\$29.65** (As of 05/21/20)

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

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/10/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**4-Sell**

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: F

### Summary

Shares of Penn National have outperformed the industry so far this year. However, of late, shares of the company have declined sharply on account of the the coronavirus pandemic. It reported first-quarter 2020 results, wherein earnings and revenues not only missed the Zacks Consensus Estimate but also declined year over year. The company has withdrawn 2020 guidance and has suspended its dividend payouts. Despite the current crisis, the company announced that it will continue to invest in the projects, which will help generate EBITDA growth in the short term. The company remains confident about its long-term prospects, which will be supported by differentiated omni-channel approach. Notably, earning estimates for 2020 have declined over the past 30 days, depicting analysts concern regarding the stock growth potential.

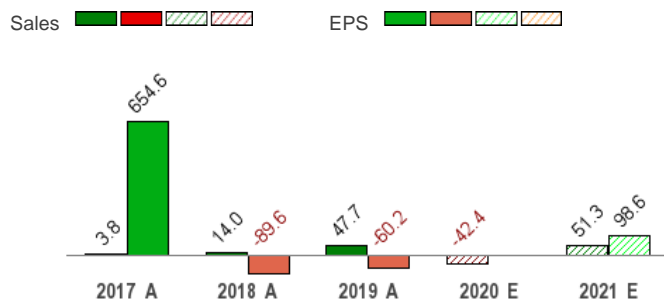
### Price, Consensus & Surprise



### Data Overview

|                            |                          |
|----------------------------|--------------------------|
| 52 Week High-Low           | \$39.18 - \$3.75         |
| 20 Day Average Volume (sh) | 16,458,070               |
| Market Cap                 | \$3.5 B                  |
| YTD Price Change           | 16.0%                    |
| Beta                       | 2.31                     |
| Dividend / Div Yld         | \$0.00 / 0.0%            |
| Industry                   | <a href="#">Gaming</a>   |
| Zacks Industry Rank        | Top 47% (120 out of 254) |

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



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | -70.0%     |
| Last Sales Surprise       | -12.6%     |
| EPS F1 Est- 4 week change | -630.4%    |
| Expected Report Date      | 08/06/2020 |
| Earnings ESP              | 0.0%       |
| P/E TTM                   | 370.6      |
| P/E F1                    | NA         |
| PEG F1                    | NA         |
| P/S TTM                   | 0.7        |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2021 | 984 E   | 1,091 E | 1,199 E | 1,205 E | 4,623 E |
| 2020 | 1,116 A | 211 E   | 693 E   | 967 E   | 3,056 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 | -\$0.43 E | -\$0.19 E | -\$0.01 E | \$0.12 E  | -\$0.12 E |
| 2020 | \$0.06 A  | -\$2.26 E | -\$0.79 E | -\$0.24 E | -\$8.64 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 05/21/2020. The reports text is as of 05/22/2020.

## Overview

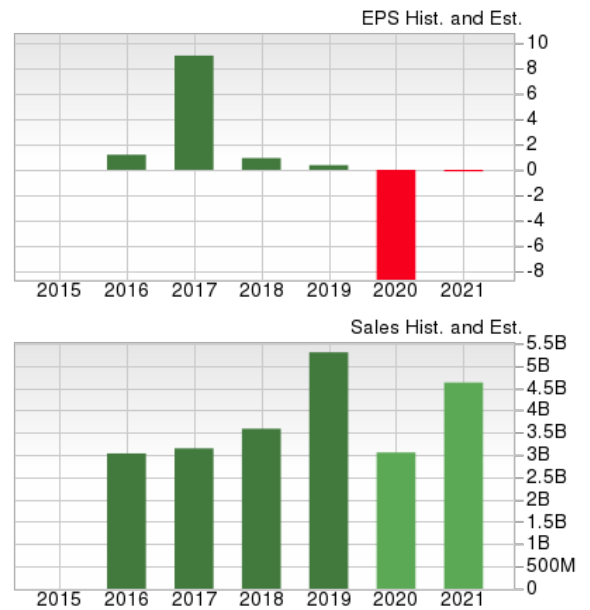
Penn National Gaming was incorporated in Pennsylvania in 1982 as PNRC Corp. The company's current name was formulated in 1994 when it became a publicly-traded company. Penn National is a leading, multi-jurisdictional owner and manager of gaming and racing facilities with video gaming terminal operations,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



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## 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. During the reported quarter, 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.

- ▲ **Enough Liquidity to Tide Over Coronavirus Pandemic:** Penn National has enough liquidity to survive a zero-revenue scenario for some time. As of Mar 31, 2020, the company's cash and cash equivalents totaled nearly \$730.7 million. The company said cash burn will be \$83 million per month if all of its properties remain closed for the rest of the year. So, the company has enough cash to survive the current scenario. Although the company's long-term debt (net of current maturities) at the end of first-quarter 2020 stood at \$2.8 billion, compared with \$2.3 billion as of Dec 31, 2019, it has no debt maturing prior to 2023.
  - ▲ **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. 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.
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## Reasons To Sell:

- ▼ **Impact of Coronavirus Outbreak:** 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. Moreover, the CEO and the board of directors have agreed to a pay cut for 2020. The board has also decided to temporarily furlough part of its corporate workforce. Moreover, to protect its business from this crisis, Penn National entered into an agreement with Gaming and Leisure Properties to divest its Tropicana Las Vegas property as well as a land in Morgantown, Pennsylvania. The transaction was valued at \$337.5 million in rent credits.
- ▼ **Q1 Results Decline Sharply:** Penn National reported first-quarter 2020 results, wherein both earnings and revenues missed the Zacks Consensus Estimate. While the top line missed the consensus mark for the fifth straight quarter, the bottom line missed the same for the third consecutive quarter. Moreover, revenues declined 5.4%, while earnings decreased 82.5% year over year. The downtrend can be primarily attributed to the coronavirus pandemic. The company commenced 2020 on a strong note, with sports betting witnessing robust growth. Introduction of sports betting at different properties drove both gaming and non-gaming revenues. However, temporary closure all 41 properties of the company in mid-March due to the coronavirus pandemic hurt the first-quarter results.
- ▼ **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 16.8. The S&P 500 composite market's ratio stands at 10.9.
- ▼ **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.

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

## Last Earnings Report

### Penn National Q1 Earnings & Revenues Miss Estimates

Penn National Gaming reported first-quarter 2020 results, wherein both earnings and revenues missed the Zacks Consensus Estimate. While the top line missed the consensus mark for the fifth straight quarter, the bottom line missed the same for the third consecutive quarter. Moreover, both the metrics declined year over year on account of the coronavirus-induced shutdowns. The company has already withdrawn its guidance due to the coronavirus outbreak.

The company commenced 2020 on a strong note, with sports betting witnessing robust growth. Introduction of sports betting at different properties drove both gaming and non-gaming revenues. However, temporary closure all 41 properties of the company in mid-March due to the coronavirus pandemic hurt the first-quarter results.

Despite the pandemic, the company remains confident about its long-term growth, which will be supported by differentiated omni-channel approach. Management stated that it continues to develop Barstool Sportsbook app and is on schedule for launch in third-quarter 2020.

Jay Snowden, president and CEO, said "Upon the reopening of our casinos, we believe Penn National is very well-positioned to resume its positive momentum. Our geographic diversification across 19 states - with no more than 15% of our revenues being derived from any single state - should be a significant benefit as states begin to open casinos on a sequential basis. We expect our regional gaming markets to rebound sooner than destination markets by virtue of our casinos being located in suburban areas that are more easily accessible by car from key population centers."

### Earnings & Revenues Discussion

Adjusted earnings came in at 6 cents per share, lagging the Zacks Consensus Estimate of 20 cents. Notably, the figure declined 82.5% year over year. Net revenues totaled \$1,116.1 million, which missed the consensus mark of \$1,277 million and declined 13% from the year-ago quarter.

The Northeast segment reported revenues of \$520.7 million, down 5.4% year over year. The West, Midwest and South segments' revenues came in at \$126.6 million, \$228.1 million and \$223.3 million, down 20.2%, 15.9% and 23.5%, respectively, year over year. Meanwhile, the Other segment reported revenues of \$20.3 million, up 99% year over year.

### EBITDAR Declines

Adjusted EBITDAR decreased 35.5% from the year-ago quarter to \$252.3 million. Moreover, adjusted EBITDAR margin contracted 790 basis points to 22.6%.

Penn National's loss from operations in the first quarter totaled \$560.6 million, against income from operations of \$182.4 million in the prior-year quarter.

### Other Financial Information

At the end of the first quarter, cash and cash equivalents decreased to \$730.7 million compared with \$437.4 million at the end of Dec 31, 2019. Further, the bank debt as of Mar 31, 2020, were \$2,416.7 million, up from \$1,896.5 million at the end of Dec 31, 2019.

Quarter Ending **03/2020**

| Report Date      | May 07, 2020 |
|------------------|--------------|
| Sales Surprise   | -12.60%      |
| EPS Surprise     | -70.00%      |
| Quarterly EPS    | 0.06         |
| Annual EPS (TTM) | 0.08         |

## Recent News

### Penn National To Reopen Casinos In Mississippi – May 20, 2020

Penn National recently announced that it will reopen five properties in Mississippi. On May 18, the company reopened five casino properties in Louisiana, representing 25% of its portfolio of regional casino assets. It will be reopening the 1st Jackpot Casino Tunica, Ameristar Casino Hotel Vicksburg, Boomtown Casino Biloxi, Hollywood Casino Gulf Coast and Hollywood Casino Tunica properties on May 21. However, the reopening is subject to regulatory approval.

### Penn National Revokes 2020 Outlook due to Coronavirus Scare – Mar 29, 2020

The devastating impact of the novel coronavirus outbreak (COVID-19) on the global economy has compelled Penn National Gaming to withdraw its previously announced 2020 guidance.

To mitigate the financial impact of the COVID-19 pandemic, the company initiated certain actions to reduce its operating expenses. Notably, the CEO and the board of directors have agreed to a pay cut effective from Apr 1, 2020. Moreover, the board has decided to furlough part of its corporate workforce, beginning from the aforementioned date.

Moreover, to protect its business from this crisis, Penn National entered into an agreement with Gaming and Leisure Properties to divest its Tropicana Las Vegas property as well as a land in Morgantown, Pennsylvania. The transaction was valued at \$337.5 million in rent credits.

### 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 up 16% year-to-date, and 42.3% in the trailing 12-month period. Stocks in the Zacks sub-industry is down by 30.1% and the Zacks Consumer Discretionary sector is down by 16.2% in the year-to-date period. Over the past year, the Zacks sub-industry and sector were down by 20.9% and 8.3%, respectively.

The S&P 500 index is down by 8.3% in the year-to-date period, but up by 4.4% in the past year.

The stock is currently trading at 0.94X forward 12-month sales, which compares to 2.41X for the Zacks sub-industry, 2.08X for the Zacks sector and 3.33X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.04X 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 \$31 price target reflects 0.98X 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       | 0.94  | 2.41         | 2.08   | 3.33    |
|                            | 5-Year High   | 1.04  | 2.89         | 3.2    | 3.44    |
|                            | 5-Year Low    | 0.1   | 1.4          | 1.67   | 2.53    |
|                            | 5-Year Median | 0.49  | 2.29         | 2.53   | 3.01    |
| P/CF                       | Current       | 6.29  | 11.56        | 13.12  | 15.13   |
|                            | 5-Year High   | 8.32  | 19.81        | 16.43  | 22.71   |
|                            | 5-Year Low    | 0.74  | 6.28         | 9.11   | 11.68   |
|                            | 5-Year Median | 4.98  | 12.03        | 13.5   | 16.36   |
| EV/EBITDA TTM              | Current       | 16.8  | 11.04        | 9.75   | 10.9    |
|                            | 5-Year High   | 106.6 | 24.43        | 17.62  | 12.86   |
|                            | 5-Year Low    | 5.34  | 7.67         | 8.26   | 8.26    |
|                            | 5-Year Median | 11.86 | 13.22        | 12.32  | 10.79   |

As of 05/21/2020

## Industry Analysis Zacks Industry Rank: Top 47% (120 out of 254)



## Top Peers

| Company (Ticker)                        | Rec          | Rank |
|---|--------------|------|
| Boyd Gaming Corporation (BYD)           | Neutral      | 3    |
| Caesars Entertainment Corporation (CZR) | Neutral      | 4    |
| Eldorado Resorts, Inc. (ERI)            | Neutral      | 3    |
| International Game Technology (IGT)     | Neutral      | 3    |
| Ubisoft Entertainment Inc. (UBSFY)      | Neutral      | 2    |
| WILLIAM HIL ADR (WIMHY)                 | Neutral      | 3    |
| Wynn Macau Ltd. (WYNNF)                 | Neutral      | 3    |
| FLUTTER ENT PLC (PDYPY)                 | Underperform | 4    |

| Industry Comparison Industry: Gaming |            |            |           | Industry Peers |            |          |
|--------------------------------------|------------|------------|-----------|----------------|------------|----------|
|                                      | PENN       | X Industry | S&P 500   | BYD            | IGT        | WYNNF    |
| Zacks Recommendation (Long Term)     | Neutral    | -          | -         | Neutral        | Neutral    | Neutral  |
| Zacks Rank (Short Term)              | 4          | -          | -         | 3              | 3          | 3        |
| VGM Score                            | F          | -          | -         | F              | D          | F        |
| Market Cap                           | 3.46 B     | 1.42 B     | 20.19 B   | 2.20 B         | 1.60 B     | 9.15 B   |
| # of Analysts                        | 6          | 3.5        | 14        | 6              | 3          | 2        |
| Dividend Yield                       | 0.00%      | 0.00%      | 2.11%     | 0.00%          | 10.23%     | 0.00%    |
| Value Score                          | F          | -          | -         | D              | C          | D        |
| Cash/Price                           | 0.32       | 0.32       | 0.07      | 0.48           | 0.63       | NA       |
| EV/EBITDA                            | 13.74      | 9.44       | 12.15     | 8.65           | 5.60       | NA       |
| PEG Ratio                            | NA         | 1.72       | 2.71      | NA             | NA         | NA       |
| Price/Book (P/B)                     | 2.77       | 2.67       | 2.74      | 1.98           | 0.76       | 32.38    |
| Price/Cash Flow (P/CF)               | 7.38       | 9.09       | 10.98     | 4.22           | 1.37       | 11.17    |
| P/E (F1)                             | NA         | 21.02      | 20.17     | NA             | NA         | NA       |
| Price/Sales (P/S)                    | 0.67       | 1.01       | 2.07      | 0.69           | 0.35       | NA       |
| Earnings Yield                       | -29.14%    | -4.73%     | 4.73%     | -13.15%        | -4.73%     | -1.70%   |
| Debt/Equity                          | 9.22       | 2.25       | 0.76      | 4.67           | 4.01       | NA       |
| Cash Flow (\$/share)                 | 4.02       | 1.17       | 6.96      | 4.69           | 5.69       | 0.16     |
| Growth Score                         | F          | -          | -         | F              | C          | F        |
| Hist. EPS Growth (3-5 yrs)           | -33.64%    | 4.94%      | 10.87%    | 23.13%         | 0.72%      | NA       |
| Proj. EPS Growth (F1/F0)             | -2,434.24% | -108.57%   | -10.31%   | -245.44%       | -134.26%   | -119.23% |
| Curr. Cash Flow Growth               | 26.26%     | 1.78%      | 5.46%     | 32.88%         | 1.50%      | NA       |
| Hist. Cash Flow Growth (3-5 yrs)     | 10.03%     | 9.36%      | 8.55%     | 17.50%         | 4.73%      | -2.90%   |
| Current Ratio                        | 1.56       | 1.61       | 1.29      | 1.92           | 1.37       | NA       |
| Debt/Capital                         | 90.06%     | 69.80%     | 44.54%    | 82.38%         | 80.04%     | NA       |
| Net Margin                           | -11.80%    | -5.62%     | 10.54%    | 2.95%          | -6.71%     | NA       |
| Return on Equity                     | 0.60%      | -2.30%     | 16.27%    | 12.60%         | 8.68%      | NA       |
| Sales/Assets                         | 0.36       | 0.43       | 0.54      | 0.47           | 0.34       | NA       |
| Proj. Sales Growth (F1/F0)           | -42.36%    | -12.05%    | -2.49%    | -45.98%        | -34.30%    | -36.50%  |
| Momentum Score                       | F          | -          | -         | F              | F          | D        |
| Daily Price Chg                      | 10.61%     | -0.14%     | -0.76%    | -0.35%         | -5.67%     | -5.38%   |
| 1 Week Price Chg                     | 4.99%      | -1.90%     | -4.56%    | -10.90%        | -8.70%     | -5.19%   |
| 4 Week Price Chg                     | 118.34%    | 6.71%      | 5.52%     | 35.69%         | 20.31%     | -1.68%   |
| 12 Week Price Chg                    | 3.49%      | -21.36%    | -8.54%    | -25.76%        | -30.43%    | -16.19%  |
| 52 Week Price Chg                    | 42.34%     | -25.79%    | -6.30%    | -22.50%        | -39.75%    | -17.76%  |
| 20 Day Average Volume                | 16,458,070 | 167,449    | 2,645,192 | 2,805,558      | 3,262,624  | 17,347   |
| (F1) EPS Est 1 week change           | 0.00%      | 0.00%      | 0.00%     | -2.33%         | 29.41%     | 0.00%    |
| (F1) EPS Est 4 week change           | -630.39%   | -169.48%   | -3.80%    | -2,477.44%     | -156.25%   | -200.00% |
| (F1) EPS Est 12 week change          | -257.91%   | -122.73%   | -16.57%   | -221.91%       | -131.86%   | -122.73% |
| (Q1) EPS Est Mthly Chg               | -447.81%   | -263.01%   | -7.64%    | -2,216.54%     | -3,087.50% | NA       |

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## 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.

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### 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    | F |
| 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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### Disclosures

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