Penn National(PENN)

$30.87 (As of 01/30/20)

Price Target (6-12 Months): **$32.00**

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:A
	Value: A	Growth: B	Momentum: A

Summary

Although shares of Penn National have outperformed the industry in the past six but intense competition from various casinos, video lottery, gaming at taverns and other internet wagering services along with weather-related downturns are concerns for the company. Nonetheless, earnings estimate in the past 30 days for 2020 have witnessed upward revision, depicting analyst's optimism regarding the performance of the company. However, favorable performance can be primarily attributed to revenue-boosting and cost-saving initiatives along with focus on sports-betting expansion. Moreover, the acquisition of Pinnacle also bodes well for Penn National. The company's EBITDAR margin continues to gain from the ongoing refinements in procurement, marketing and labor management.
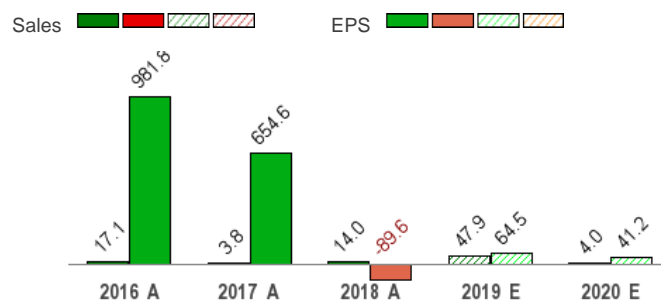
Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$31.99 - $16.72**
20 Day Average Volume (sh)	**2,204,544**
Market Cap	**$3.6 B**
YTD Price Change	**20.8%**
Beta	**1.72**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Gaming**
Zacks Industry Rank	**Bottom 34% (168 out of 255)**
Last EPS Surprise	**-7.3%**
Last Sales Surprise	**-1.1%**
EPS F1 Est- 4 week change	**1.2%**
Expected Report Date	**02/06/2020**
Earnings ESP	**6.4%**
P/E TTM	**38.6**
P/E F1	**14.3**
PEG F1	**1.4**
P/S TTM	**0.7**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	1,390 E	1,394 E	1,373 E	1,365 E	5,519 E
2019	1,283 A	1,323 A	1,355 A	1,345 E	5,306 E
2018	816 A	827 A	790 A	1,155 A	3,588 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$0.60 E	$0.59 E	$0.54 E	$0.49 E	$2.16 E
2019	$0.35 A	$0.44 A	$0.38 A	$0.37 E	$1.53 E
2018	$0.48 A	$0.57 A	$0.38 A	-$0.37 A	$0.93 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 01/30/2020. The reports text is as of 01/31/2020.

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 Sep 30, 2019, the company operated 41 facilities in 19 jurisdictions. In June 2015, the company opened Plainridge Park Casino, an integrated racing and slots-only gaming facility in Plainville, Massachusetts. Later in August and September that year, Penn National acquired Tropicana Hotel and Casino ("Tropicana Las Vegas") in Las Vegas, Nevada and Illinois Gaming Investors LLC, respectively.

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

EPS Hist. and Est.

Sales Hist. and Est.

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.
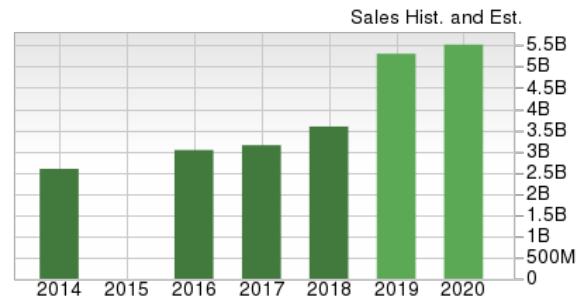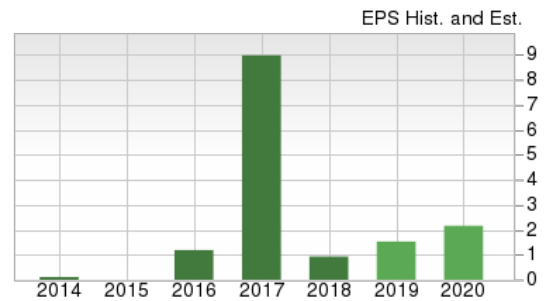
Reasons To Buy:

▲ **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 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.

▲ **Solid Revenue Growth:** Penn National has impressed investors with its robust revenue growth. The company's top line had increased 14%, 3.7% and 6.9% in 2018, 2017 and 2016, respectively. The uptrend continued in first, second and third-quarter 2019 as the company's top line increased 36.4%, 28.8% and 71.5%, 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. Starting from the fourth quarter of 2018, Penn National made changes in its revenue segments. For the fourth quarter 2019, the company expects net revenues to be $1,350.7 million, indicating an improvement of 16.9% from the year-ago quarter. Full-year revenues are anticipated to be $5,310.9 million, reflecting arise 48% year over year. 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 the third quarter of 2019. In the reported quarter, the adjusted EBITDAR margin expanded 100 basis points to 30.1%. Meanwhile, Penn National remains confident about realizing $120 million of cost synergies by 2020, with at least $60 million in 2019 and $65 million 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 five of the trailing six quarters. In third-quarter 2019, net revenues totaled $1,354.5 million, which missed the consensus mark of $1,370 million by 1.1%.

▼ **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 12.5. The S&P 500 composite market's ratio stands at 12.25.

▼ **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 Q3 Earnings & Revenues Miss Estimates

Penn National Gaming, reported third-quarter 2019 results, wherein both earnings and revenues missed the respective Zacks Consensus Estimate. Notably, the top line missed the consensus mark in five of the trailing six quarters.

Quarter Ending	09/2019
Report Date	Oct 31, 2019
Sales Surprise	-1.11%
EPS Surprise	-7.32%
Quarterly EPS	0.38
Annual EPS (TTM)	0.80

Adjusted earnings came in at 38 cents per share, lagging the Zacks Consensus Estimate of 41 cents. Notably, the figure was flat year over year. The bottom line was also lower than the company's guidance of 42 cents. Net revenues totaled $1,354.5 million, which missed the consensus mark of $1,370 million but surged 71.5% from the year-ago quarter number.

The Northeast segment reported revenues of $628.9 million, up 42.5% year over year. The West, Midwest and South segments' revenues came in at $161.5 million, $275.8 million and $276.6 million, up 74.4%, 48.8% and 357.9%, respectively, year over year. Meanwhile, the Other segment reported revenues of $12.4 million, up 25.5% year over year.

Inside the Headlines

Penn National's income from operations in the third quarter totaled $180.5 million, up from $124.4 million in the prior-year quarter. Adjusted EBITDAR increased 21.8% from the year-ago quarter to $394.5 million. Moreover, adjusted EBITDAR margin expanded 100 basis points to 30.1%.

Meanwhile, the traditional net debt ratio was 2.5x, and net leverage on a lease-adjusted basis was 5.6x.

Other Financial Information

At the end of the third quarter, cash and cash equivalents decreased to $406.9 million compared with $479.6 million at the end of Dec 31, 2018. Further, the bank debt as of Sep 30, 2019, were $1,966.3 million, up from $1,907.9 million at the end of Dec 31, 2018.

Q4 and 2019 Guidance

For the fourth quarter, net revenues are expected to be $1,350.7 million, reflecting an improvement of 16.9% from the year-ago quarter. Full-year revenues are anticipated to be $5,310.9 million, down from the previously projected $5,338 million. Revenues are envisioned to rise 48% year over year.

Adjusted earnings for the fourth quarter are anticipated to be 37 cents against a loss of 37 cents in the prior-year quarter. Meanwhile, earnings for 2019 are anticipated to be $1.53, down from prior estimate of $1.57. In 2018, the company reported earnings of 93 cents.

Other Developments

Penn National, which is in the process of integrating Pinnacle properties, expects to achieve at least $120 million of cost synergies by 2020 end, with at least $60 million in 2019 and $65 million by 2020.

Moreover, 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.

Valuation

Penn National's shares are up by 24.3% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector have inclined by 0.3% and 13.1%, respectively.

The S&P 500 index has moved up 20.1% in the past year.

The stock is currently trading at 12.5x trailing 12-month EV/EBITDA, which compares to 12.55x for the Zacks sub-industry, 12.6x for the Zacks sector and 12.25x for the S&P 500 index.

Over the past five years, the stock has traded as high as 106.5x and as low as 5.34x, with a 5-year median of 12.20x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $32 price target reflects 14.67x forward12-month Price to Earnings value.

Valuation Multiples - PENN

		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	12.5	12.55	12.6	12.25
	5-Year High	106.5	24.16	17.76	12.86
	5-Year Low	5.34	10.53	11.07	8.48
	5-Year Median	12.2	13.1	12.4	10.7
P/S F12M	Current	0.65	2.26	2.27	3.49
	5-Year High	1.04	2.82	3.19	3.49
	5-Year Low	0.33	1.77	1.81	2.54
	5-Year Median	0.48	2.27	2.54	3
P/E F12M	Current	14.13	20.41	19.78	18.8
	5-Year High	43.82	29.8	23.35	19.34
	5-Year Low	8.51	15.41	16.16	15.18
	5-Year Median	17.18	21.6	20.07	17.45

As of 01/30/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (168 out of 255)

Top Peers

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

Industry Comparison Industry: Gaming / Industry Peers

	PENN Neutral	X Industry	S&P 500	BYD Outperform	IGT Neutral	WYNMF Neutral
VGM Score	A	-	-	A	B	F
Market Cap	3.58 B	2.62 B	23.94 B	3.43 B	2.80 B	10.97 B
# of Analysts	5	4	13	6	3	2
Dividend Yield	0.00%	0.00%	1.77%	0.91%	5.84%	0.00%
Value Score	A	-	-	A	A	C
Cash/Price	0.14	0.10	0.04	0.08	0.27	NA
EV/EBITDA	15.84	11.81	14.14	13.03	5.84	NA
PEG Ratio	1.39	1.56	2.01	1.13	1.19	NA
Price/Book (P/B)	1.84	2.85	3.25	2.75	1.07	38.82
Price/Cash Flow (P/CF)	9.95	10.70	13.56	8.84	2.44	13.39
P/E (F1)	13.91	21.45	18.90	15.54	11.94	17.58
Price/Sales (P/S)	0.70	1.60	2.64	1.05	0.58	NA
Earnings Yield	7.00%	4.46%	5.28%	6.44%	8.39%	5.69%
Debt/Equity	5.75	0.89	0.72	3.70	2.97	NA
Cash Flow ($/share)	3.10	1.79	6.92	3.49	5.61	0.16
Growth Score	B	-	-	A	B	D
Hist. EPS Growth (3-5 yrs)	-5.06%	6.08%	10.68%	67.19%	1.35%	NA
Proj. EPS Growth (F1/F0)	41.27%	28.45%	7.59%	14.42%	11.05%	4.35%
Curr. Cash Flow Growth	-66.83%	13.18%	10.81%	13.25%	-14.79%	NA
Hist. Cash Flow Growth (3-5 yrs)	-8.71%	6.61%	8.78%	6.63%	6.58%	-2.90%
Current Ratio	0.72	1.09	1.22	0.71	1.03	NA
Debt/Capital	85.19%	55.94%	42.99%	78.74%	74.83%	NA
Net Margin	1.85%	0.87%	11.69%	4.76%	0.97%	NA
Return on Equity	5.88%	4.10%	17.33%	15.34%	7.80%	NA
Sales/Assets	0.39	0.46	0.55	0.51	0.35	NA
Proj. Sales Growth (F1/F0)	4.03%	4.03%	4.12%	1.27%	0.98%	1.21%
Momentum Score	A	-	-	C	F	F
Daily Price Chg	6.37%	0.00%	0.36%	3.52%	-0.15%	-2.77%
1 Week Price Chg	-0.15%	-1.50%	-1.09%	0.85%	-6.12%	-10.77%
4 Week Price Chg	18.09%	-0.35%	-0.22%	2.76%	-9.15%	-19.59%
12 Week Price Chg	41.06%	4.10%	4.08%	9.89%	1.71%	-4.68%
52 Week Price Chg	27.35%	6.38%	16.06%	13.03%	-16.26%	-11.35%
20 Day Average Volume	2,204,544	63,149	1,808,632	804,316	1,421,082	10,261
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.16%	0.00%	0.00%	1.46%	0.00%	-20.00%
(F1) EPS Est 12 week change	0.84%	-3.27%	-0.09%	2.13%	-30.67%	-20.00%
(Q1) EPS Est Mthly Chg	2.87%	0.00%	0.00%	0.33%	0.00%	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	A
Growth Score	B
Momentum Score	A
VGM Score	A

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.

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