

# Mossberg's Investor Digest

## Best Idea Profile:

## MGM Resorts International (NYSE:MGM)

### DESCRIPTION:

Headquartered in Las Vegas, Nevada; MGM Resorts International owns and operates casino resorts that include activities such as gaming, hotel, dining, entertainment, retail and other resort amenities. Over half of the company's revenue is derived from non-gaming activities. The company uses a portfolio approach and selectively acquires, invests in and develops resorts in markets with a stable regulatory environment. MGM targets markets with growth potential and invests in both gaming and non-gaming resorts. MGM is an international franchise with a strong position in the Las Vegas market (nearly 80% of 2010 EBITDA comes from Vegas). According to the Las Vegas Convention and Visitors Authority, there were approximately 149,000 guestrooms in Las Vegas at the end of 2010. MGM operated approximately 28% of these guestrooms. The number of visitors in Las Vegas last year was 37.3 million a 3% increase from the 36.4 million reported for 2009.

### KEY INVESTMENT CONSIDERATIONS:

**Convention Base Focus** – MGM's focus on building its convention business is having a positive impact on results. The company saw a 5% YOY increase in convention bookings for the first quarter of FY2011 with convention rooms representing 20% of the company's room occupancy mix. The convention business helped drive YOY increases in RevPar (Las Vegas Strip RevPar up 16%), and all of the company's retail segments such as Food and Beverage revenues (up 7%) and Entertainment/Retail/other revenues (up 4%). Convention bookings have continued to remain positive during the second quarter.

**Cyclical recovery** – MGM is benefiting from the cyclical recovery. Q1FY2011 RevPar (Revenue per available room) was up 3% on a YOY basis. MGM is currently experiencing a stronger event calendar at its properties than seen in recent years. Retail activity continues to increase at the company core Las Vegas properties. Q1FY2011 EBITDA increased 40% on a YOY basis. Event bookings to date have nearly doubled this year at the Mandalay and MGM Garden properties vs. 2010. These events will drive additional spending at these company properties.

**A weak U.S. dollar is good for Vegas** – As a significant debtor, MGM stands to benefit from potential inflation. In addition, a weak dollar could bring foreign tourists to Vegas.

**New Loyalty Program** – MGM rolled out a new loyalty/reward program called M-Life over the last 18 months. MGM has enrolled over 1 million customers in the program and is seeing double digit increases in both program activation and trips from higher reward levels. This program is also driving strategic marketing relationships with other companies such as Avis Budget and Dover Downs.

**Operating Leverage** – MGM has significant operating leverage in its business model. First quarter margins increased 160 basis points to 38% despite a lower than normal table games hold percentage.

**Risks** – MGM is highly leveraged with \$12.3 billion of indebtedness which includes \$2.6 billion of borrowings outstanding under its senior credit facility. It currently has borrowing capacity under a senior credit facility of \$826 million. However, current cash flow trends and asset sales are mitigating much of this risk.

### VALUATION:

MGM has tremendous leverage in its business model both in terms of fixed cost leverage as well as financial leverage. The company has reduced financial risk by extending the majority of its long-term debt last year. As the economic cycle continues to improve, we should see the 15%-20% returns on equity that the company experienced prior to the recession. This equates to over \$1.20 per share in earnings power over the next couple of years and with a reasonable multiple, significant upside for a long-term investor.

#### (MGM Resorts - NYSE: MGM)

Investment Data (as of 5/23/11)

<b>Recent Price</b>	<b>\$14.93</b>
52-Week Range	\$8.92 - \$16.94
Fiscal Year End	Dec
Shares Outstanding	489MM
Average Trading Volume (3 mos)	21MM
Market Capitalization	\$7B
Cash	\$431MM
Long Term Debt	\$2B
Enterprise Value (EV)	\$19B
BV/ Share	\$5.98
TTM Revenue	\$6B
P/ Revenue	1.24x
TTM EPS	\$(3.09)
P/ EPS	NA
TTM EBITDA	\$1B
EV/ EBITDA	19x

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