

## Maryland Casino Will Fuel Domestic Gaming Growth For MGM Resorts

Written by Administrator  
Friday, 17 July 2015 08:42 -

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Gaming at the Las Vegas Strip has seen uneven trends in the recent past and gross revenues have been hovering around \$6 billion for the past few years. Given the challenging environment, [MGM Resorts](#) has seen slow growth in its gaming revenues and they are still below the pre-recession levels. We don't expect any significant change in the overall gaming environment in Las Vegas in the coming years as other states are also legalizing casinos, and Macau has become a more popular gaming destination with gross revenues seven times that of the Strip. However, we believe that MGM's new casino project in Maryland will have a meaningful impact on its domestic gaming operations, especially slot gaming. Better-than-expected growth in the company's domestic casino operations could further add incremental revenues of around \$500 million over our current forecast. This could trigger a 5% upside to the stock, in our opinion.

- Trefis has a [\\$23 price estimate for MGM Resorts's shares](#) , translating into a \$13 billion market cap. This is roughly 20% ahead of the market price of around \$19.
- We estimate the company's 2015 gross revenues to be around \$10 billion for an earnings per share of \$0.61, compared to a consensus of \$0.48, according to Reuters.

[See our complete analysis of MGM Resorts' stock here](#)

### Sustained Growth In Las Vegas Gaming Market Is Unlikely

Gaming trends at the Las Vegas Strip have been uneven in the recent past as it saw an 8% uptick in gaming revenues for the month of April. However, looking at the first five months of 2015, revenues are up only 2%. The Las Vegas Strip saw over 1% growth in gaming revenues for the month of May despite a tough comparison with the prior year period, which benefited from an 86% surge in baccarat, which in turn led to a 17% jump in gaming revenues at the Strip. The casinos likely benefited from increased travel in May due to the Pacquiao-Mayweather match in Las Vegas. However, looking at annual revenues, they have been hovering around \$6 billion for the past few years. Given the legalization of casinos in other states, any significant growth at the Strip is unlikely.

### MGM's Growth Has Also Suffered

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We estimate that the domestic casino operations account for close to 20% of MGM's stock price. MGM offers slot machines and table games, which include blackjack, baccarat, craps, and roulette, among others. The casino earns revenues on the hold over the amount of money being wagered at the gaming tables. The company's expected table games win percentage in Las Vegas is 18% to 22% while that of slots is 8.0% to 8.5%.

The overall domestic casino revenues have grown at an average annual rate of only 2% since 2010, and the figure stood at \$2.65 billion in 2014. We expect the growth rate to be in low single digits but higher than 2% in the coming years, primarily driven by the Maryland casino project and a better macroeconomic environment in the U.S., which will fuel increased disposable personal income. U.S. per capita disposable income is expected to grow from \$37,410 in 2014 to \$44,521 in 2021, according to a research by IBISWorld. As the U.S. economy recovers and per capita disposable income increases, consumer spending on leisure activities, including gaming and entertainment, will also rise. Furthermore, the Maryland project will be operational by late 2016 and will boost the company's domestic operations. In light of the above factors, we expect MGM's casino revenues to continue to grow and be north of \$3.50 billion by the end of our forecast period. An [estimated EBITDA margin of 18%](#) will translate into EBITDA of \$650 million, representing 13% of company-wide EBITDA by 2021. However, higher than expected growth in Maryland casino operations could translate into a 5% upside to our price estimate for MGM. Here, we estimate the domestic casino revenues to be close to \$4 billion by 2021. Profit growth will not only come from higher revenues but also from higher EBITDA margins.

### How Maryland Casino Can Drive The Growth

We believe that this growth will partly be fueled by the Maryland casino project. The resort casino will comprise a 308-room hotel, various dining options, 160 table games and 3,600 slot machines. This compares with its 1,300 table games and over 22,000 slot machines at the Las Vegas Strip. It makes sense for MGM to expand its operations in other domestic markets. The legalization of gaming in other U.S. states and strong growth of Macau have adversely affected Las Vegas' gaming industry and the rebound after recession has been slower. Looking at Maryland, it is an important location as it is the richest state in the U.S. with a [per capita income that is \\$7,993](#)

higher than the average U.S. per capita income.

Also, the location at Prince George's County will attract visitors from nearby places, especially Virginia and Washington, D.C. While MGM will benefit from the casino operations in the region, the new resort will also be a large source of non-gaming revenues driven by the hotels, retail, food & beverage, entertainment and other activities—a trend seen in other casino properties in the U.S.

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