

The Street

Gaming & Entertainment

Casino Stock Mailbag: Is Vegas Worth the Gamble?

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NEW YORK (TheStreet) -- A question about the health of Las Vegas kicks off this installment of Casino Stock Mailbag.

As always, your questions and comments are appreciated, so keep e-mailing or Tweeting.

Richard Collins asks: What's a better casino play: a regional operator like Penn National Gaming (PENN<http://www.thestreet.com/quote/PENN.html>) or one of the Las Vegas stocks?

We have been given every indication this month that a recovery in Las Vegas is not imminent. Last week, we saw yet another decline in gaming revenues on the Strip, as well as the announcement that the 55-year-old Sahara Casino will shutter.

Alex Calderone, who provides turnaround and crisis management services for the gaming sector at Conway MacKenzie, says he expects to see more supply taken off the market in Las Vegas, and until that happens, to steer clear of Sin City.

And Sterne Agee analyst David Bain says there isn't sufficient evidence of a significant turn to support higher valuation or a re-look at consensus estimates for Vegas-centric companies like MGM Resorts.

The recent opening of the Cosmopolitan on the Strip only pressures supply, which could hurt MGM and it's newest City Center development. "There is far less risk in regional operators," Calderone says.

Penn National Gaming is one of the top regional stock picks among analysts.

Bain says he likes the company since it is less reliant on a significant consumer turn for higher consensus numbers. Penn National also recently implemented table games in West Virginia and Pennsylvania, and a new casino in Maryland will likely lead to growth through much of 2011.

The company's pipeline is also strong, as Bain believes Ohio expansion has been undervalued.

Still, Calderone suggests remaining on the sidelines for all casino stocks. "I would even suggest removing some chips from the table" until

there is further evidence of the economic outlook and Japan's effect on the market.

Collins also asks: What is your timetable regarding Las Vegas Sands' investigation by the SEC and Justice Department? How will it affect the stock price?

It looks like the probe into Las Vegas Sands' Macau practices could be resolved with the next six to 12 months, Bain predicts.

Of course, this will still remain an overhang on shares, but Bain says first-quarter earnings should reduce this overhang.

"In our view, Macau has performed above most investor and sell-side expectations in the first-quarter," he says. "In addition, we believe Singapore results have been strong into March."

This potential strength, coupled with a backlog in Macau with respect to Sites 5 & 6, which will likely come to market in the middle of 2012, will be difficult to ignore.

Many investors have written in expressing their resentment over the actions of Steve Jacobs, the former CEO of Sands China who filed the suit against the company.

J. Shore writes: "Can you explain to me why the word of a disgruntled employee is worthy of the SEC, Justice Department AND the FBI investigating.... In America, people are presumed innocent until tried. This seems like a concerted effort to cause the stock to go down and shareholders (other than shorts) to be hurt. It also is a fine example of why there is TOO MUCH GOVERNMENT IN THIS COUNTRY! Why doesn't anyone in your organization question this and the downgrades by an analyst today because of the 'investigation'?"

Eric Wilson is concerned about Las Vegas Sands: It looks as though everyone is still upbeat on Sands. I've lost a lot of money waiting for the return, should I dump it or will it climb back to that \$45 per share outlook?

Currently, 18 analysts have a buy rating on Las Vegas Sands, eight say to hold and one rates it an underperform.

Sands was the best performing stock in 2010, rallying 176%. So far this year, shares of the casino operator have fallen nearly 17%.

As Bain says (see above), strength from Macau and Singapore as well as its growth opportunities should ultimately lift shares higher in the long-term.

Have questions or comments about casino stocks? Drop an e-mail or Tweet <http://twitter.com/jpoggi>.

--Written by Jeanine Poggi in New York.