

# COMM 421 Presentation

*Analysis and Valuation for*

## Cedar Fair Entertainment Company (FUN)

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# Industry Analysis

# Stock Summary



## History

- Before Financial Crisis: slowly and steadily
- During Financial Crisis: dropped to \$6
- After Financial Crisis: rose to \$72
- During Covid-19: dropped to \$13
- After Covid-19: recovering

# Forecasting

## PEST

- **P:** positive employment law; negative tax rate
- **E:** inflation; rising Fed rate; rising unemployment
- **S:** wide distribution in North America
- **T:** free Wifi; elevating roller coaster technology



# Peer Group, System Classification, and Life Cycle

Step 1: Examine Commercial Classification Systems

Step 2: Review Cedar Fair's Annual Report

Step 3: Review Cedar Fair's competitor's annual reports

Step 4: Review Industry Trade Publications

Step 5: Confirm comparability with potential peers

## Peer Groups under NAICS

- Six Flags Entertainment Corp
- Seaworld Entertainment Inc
- Cedar Fair LP
- Disneyland International
- Seaworld Parks and Entertainment Inc
- Parc Management LLC
- Santa Cruz Seaside Company
- Six Flags Theme Parks Inc
- Apex Parks Group LLC
- G P Holding Inc

# Peer Group, System Classification, and Life Cycle

## Confirming Comparability for Peer Group

Company Name	Industry Classifications	Total Revenue [CY 2021] (\$USDmm, Historical rate)	Business Segments: Amusement And Recreation Services % of Revenue [LTM]
SeaWorld Entertainment, Inc. (NYSE:SEAS)	Amusement And Recreation Services (Primary)	\$1,503.7	100%
Six Flags Entertainment Corporation (NYSE:SIX)		\$1,496.9	100%
Cedar Fair, L.P. (NYSE:FUN)		\$1,338.2	100%
Vail Resorts, Inc. (NYSE:MTN)		\$2,175.4	87.6%
Oriental Land Co., Ltd. (TSE:4661)		\$1,943.6	79.2%

### Peer Group

- SeaWorld Entertainment Inc.
- Six Flags Entertainment Co.
- Oriental Land Co.
- Cedar Fair

### System Classification

#### NAICS System

- Amusement and Theme Parks

### Life Cycle

At the **mature** stage of the industry life cycle

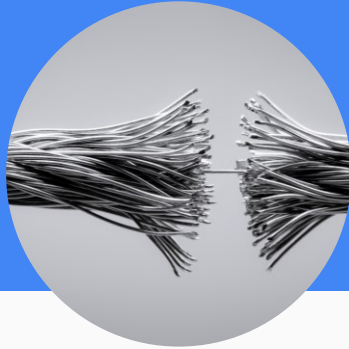
# SWOT Analysis



## Strengths

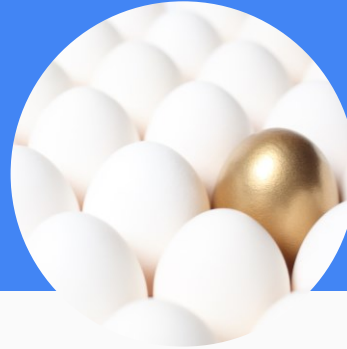
### Industry position

- Reputation
- Customer satisfaction



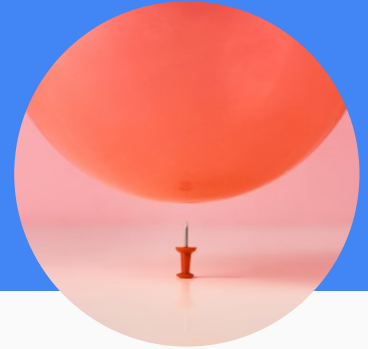
## Weaknesses

- Points of differentiation
- Pricing strategies



## Opportunities

- Business segment
- Cooperation with suppliers



## Threats

### Market share

- Traditional competitors
- Local net sales

# Porter's Five Analysis

## Threats of New Entrants (weak)

- Large barrier to entry
- Dominated by old established players

## Rivalry among Existing Competitors (strong)

- Geographical location (17 amusement parks)
- Keep innovations (rides, shows, coupons)

## Bargaining Power of Suppliers (strong)

- New attractions - main force for revenue growth
- Licensing agreement - usage of cartoon characters

## Bargaining Power of Buyers (strong)

- Low switching cost - based on preference
- Price sensitivity

## Threats of Substitutes (strong)

- Many substitutes - parks, movies, sports, etc.
- low switching cost



# Relative Valuations

# Price Ratios: P/E

## Q1 Why not choose P/B? - Negative Book Value

Book Value / Share	
Cedar Fair, L.P.	
FY 2022 - Dec-31-2022 - USD (abs)	
Consolidated - US GAAP	
Consensus Mean (Nov-04-2022)	(6.05)

## Q2 Why use Trailing P/E? - High confidence in historical data

## Q3 Why use median P/E as Normal? - Cedar Fair is a medium performer - P/E for Oriental Land is too high

Trailing P/E for Peer Group (LTM EPS)	Nov. 25, 2022
SeaWorld Entertainment Inc.	18.97
Six Flags Entertainment Corporation	13.51
Oriental Land Co.	134.91
Cedar Fair	24.49x
Average	47.97x
Median	21.73x
Stock Price using average	141.5115
Stock Price using median	64.1035

## Conclusion

- **EPS Forecast = 2.95**
- **Normal P/E = 21.73**
- **Intrinsic Value= 64**
- **Current price = 41.36**
- **Bullish**



EPS (GAAP)		
Cedar Fair, L.P.		
NTM - Sep-30-2023 - USD (abs)		
Consensus as of Nov-13-2022		
FQ4 2022	Dec-31-2022	(0.13)
+ FQ1 2023	Mar-31-2023	(1.72)
+ FQ2 2023	Jun-30-2023	1.08
+ FQ3 2023	Sep-30-2023	3.71
= Total		2.95

## Enterprise-Based Ratios:

### EV/EBITDA   EV/EBIT

Better gauge –  
company valuation

EBITDA → Positive  
EPS → Negative

New Q: Why still using median?

- Cedar Fair is a medium performer
- Oriental Land ratios are too high

	EV/EBITDA (LTM)	EV/EBIT (LTM)
SeaWorld	9.76x	13.48x
Six Flags	10.60x	14.88x
Oriental Land	101.20x	174.22x
Cedar Fair	16.15x	25.16x
Average	34.43x	56.94x
Median	13.38x	20.02x
Stock Price using median	87.48	90.89

## Conclusion

$$EV = (Median) \times EBITDA = 13.38 \times 517.8 = 6925.58$$

$$Equity\ value = EV - Net\ debt = 6925.58 - 2061.60 = 4863.98$$

$$Stock\ price = Equity\ value / Tot\ shares\ out. = 4863.98 / 55.6 = 87.48$$



# Ke and WACC

# Cost of Equity (Ke)

## Step 1: Risk-Free Rate

- ❖ Spot U.S. 10-year treasury rate of 3.654% as of November 27, 2022

## Step 3: Expected Risk Premium

- ❖ Long-term annualized average return of 10.18% for the S&P 500
- ❖ U.S. 10-year treasury spot rate

## Assumptions

- **CAPM general assumptions:** risk averse; mean-variance optimization; only systematic risk
- **Risk-free rate:** Long-term 10-year US treasury rate matches forecast horizon
- **Market proxy:** S&P 500 (captures the systematic risk of the overall market)

## Step 2: Five-Year Beta

- ❖ 5-year beta of 1.377 (2017 to 2022)
- ❖ S&P 500 as the market proxy

## Step 4: Cost of Equity

- ❖  $K_e = E(R_{FUN}) = R_F + \beta_{FUN}[E(R_M) - R_F] = 12.635\%$

# Weighted Average Cost of Capital (WACC)

## Market Value of Common Equity

- ❖ Last Close Market Cap: **50.04%**  
\$ 2,354 Million USD

## Cost of Debt (After-Tax)

- ❖ Average YTM of existing long-term debt: 5.60%
- ❖ Corporate Tax Rate: 21%

$$WACC = \frac{MVD}{MVD + MVE} \times r_d(1 - t) + \frac{MVE}{MVD + MVE} \times r_e = 8.53\%$$

## Capital structure

- ❖ No preferred shares

**49.96%**

## Market Value of Debt

- ❖ Last Close Market Value:  
\$ 2,350 Million USD

## Cost of Equity

- ❖ Ke from CAPM: 12.635%

# Discounted Cash Flow (DCF)

# Free Cash Flow to Firm (FCFF)

In Millions USD			Year 1	Year 2	Year 3	Year 4	Year 5	Terminal Value
	2021 Actual	Sep. 25, 2022 (LTM)	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	
Revenue	\$1,338.20	\$1,802.30	\$1,768.06	\$1,847.67	\$1,930.87	\$2,017.81	\$2,108.67	\$43,729.12
Revenue Growth Rate		34.7%	-1.9%	4.5%	4.5%	4.5%	4.5%	3.5%
Net Income			\$198.97	\$207.93	\$217.29	\$227.08	\$237.30	\$4,921.16
Depreciation			\$167.97	\$175.53	\$183.43	\$191.69	\$200.32	\$4,154.27
Interest			\$131.38	\$137.29	\$143.48	\$149.94	\$156.69	\$3,249.35
CAPEX			\$185.65	\$194.01	\$202.74	\$211.87	\$221.41	\$4,591.56
WCInv			-\$26.37	-\$27.56	-\$28.80	-\$30.10	-\$31.45	-\$652.26
FCFF			<u>\$311.45</u>	<u>\$325.48</u>	<u>\$340.13</u>	<u>\$355.45</u>	<u>\$371.45</u>	<u>\$7,703.11</u>



# FCFF Intrinsic Price Per Share

Enterprise Value \$6,447.33

Total Debt \$2,350.24

Cash and Cash Eq. \$182.50

Equity Value \$3,914.59

Outstanding Shares 57 Million

Price \$68.68



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**41.36** ▼ **-0.08 (-0.19%)**

Volume  
160,040

52 week range  
37.78 - 62.56

1D 5D 1M 3M 6M YTD 1Y 5Y ALL

+ Comparison

1m

Display

Studies

Settings

Annotations

Plots

Comparison



# Free Cash Flow to Equity (FCFE)

In Millions USD			Year 1	Year 2	Year 3	Year 4	Year 5	Terminal Value
	2021 Actual	Sep. 25, 2022 (LTM)	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	
Revenue	\$1,338.20	\$1,802.30	\$1,768.06	\$1,847.67	\$1,930.87	\$2,017.81	\$2,108.67	\$24,005.61
Net Income			\$198.97	\$207.93	\$217.29	\$227.08	\$237.30	\$2,701.53
Depreciation			\$167.97	\$175.53	\$183.43	\$191.69	\$200.32	\$2,280.53
CAPEX			\$185.65	\$194.01	\$202.74	\$211.87	\$221.41	\$2,520.59
WCInv			-\$26.37	-\$27.56	-\$28.80	-\$30.10	-\$31.45	-\$358.06
Net Borrowings			\$176.81	\$184.77	\$193.09	\$201.78	\$210.87	\$2,400.56
FCFE			<u>\$384.47</u>	<u>\$401.78</u>	<u>\$419.87</u>	<u>\$438.78</u>	<u>\$458.54</u>	<u>\$5,220.09</u>

Equity Value	\$4,356.88
Outstanding Shares	\$57.00
Price per Share	<u>\$76.44</u>

# Sensitivity Analysis

## For FCFF

Long-term Growth Rate (2012-2019): 3.54%

WACC calculated previously: 8.53%

### Conclusions:

- Most negative share price: \$19.29
- Most positive share price: \$180.19
- In the middle of the table: \$68.78 (approximately equal to \$68.68)

Enterprise Value	\$6,447.33
Total Debt	-\$2,350.24
Cash and Cash Eq.	-\$182.50
Equity Value	<u>\$3,914.59</u>
Outstanding Shares	57 Million
Price	<u>\$68.68</u>

### WACC

	<u>\$68.68</u>	7.53%	8.03%	<u>8.53%</u>	9.03%	9.53%
2.04%	\$78.08	\$62.03	\$47.03	\$32.83	\$19.29	
2.54%	\$86.57	\$69.14	\$53.07	\$38.03	\$23.81	
3.04%	\$96.95	\$77.67	\$60.21	\$44.10	\$29.04	
<u>3.54%</u>	\$109.94	\$88.11	<u>\$68.78</u>	\$51.28	\$35.14	
4.04%	\$126.65	\$101.15	\$79.26	\$59.89	\$42.34	
4.54%	\$148.94	\$117.94	\$92.37	\$70.42	\$50.99	
5.04%	\$180.19	\$140.34	\$109.23	\$83.58	\$61.57	

# Conclusions

**P/E:** \$64.10

**EV/EBITDA:** \$87.48

**FCFF:** \$68.68

**FCFE:** \$76.44

**Price Range:**

[\$64.10, \$87.48]

**Suggestion:**

**Buy**

# Q&A

**THANK YOU**