Las Vegas Sands (LVS) Report

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I. Introduction

Las Vegas Sands Corp. (LVS) is an international chain of resorts and casinos that was founded in 1988 and went public in 2004. The company was founded by Sheldon Adelson who remains the company's Chairman and CEO. The rest of the company's executive leadership consists of Robert G. Goldstein, the COO and President, Patrick Dumont, the Executive Vice President and CFO, and Lawrence Jacobs, the Executive Vice President and Global General Counsel. Goldstein has been with the company since 1995 and both Dumont and Jacobs have extensive experience in their respective fields, showing that the company has sustained, steady, and experienced leadership. Las Vegas Sands initially solely owned property in Las Vegas, when they purchased the Sands Hotel in 1989 and opened the Sands Expo and Convention Center adjacent to the hotel in 1990. They demolished the Las Vegas Sands, replacing it with the Venetian Las Vegas in 1999 and opened the Palazzo Las Vegas in 2007. They plan on bringing a 18,000 seat, 400,000 square foot venue for music and entertainment to Las Vegas by 2020. Elsewhere in the United States, they opened the Sands Casino Resort Bethlehem in Pennsylvania in 2009 and decided to sell it in March 2018. The company extended its presence internationally in 2004, building the Cotai Strip in Macau that consists of The Venetian Macau (opened 2007), The Plaza Macau (opened 2008), The Sands Cotai Central (completed in 2015), and The Parisian Macau (opened 2016). They plan on renovating, expanding, and rebranding the Sands Cotai Central into a luxury destination resort called "The Londoner Macau" by 2020. They also opened the Marina Bay Sands Resort in Singapore in 2010.

Las Vegas Sands is an intriguing firm as it owns many high profile properties both in the United States and internationally. These properties offer many sources of entertainment that are met with high demand. The biggest one of those is gambling, one of the most popular ways to spend extra income. Almost ⅔ of the adult population in America has gambled in the last two years (https://www.ncpgambling.org/help-treatment/faq/). This gives LVS the opportunity to cash in on spending habits of individuals with various levels of income, and from different backgrounds and geographic regions. This massive diversity of consumers provides LVS with a cushion regardless of the overall health of the economy. This is especially true due to the fact that gambling is a vice habit some level of demand will always be present regardless of the economic conditions. Outside of casinos Las Vegas Sands also provides entertainment in the form of boxing matches, Broadway shows, concerts, and other performances. These forms of entertainment will be met with interest regardless of individuals appetite for gambling. LVS properties also provide non-entertainment amenities, such as retail malls. Both the entertainment and non-entertainment non-gambling amenities help to further expand their consumer base and attract an even more diverse group of people than gambling alone attracts. The most exciting feature of Las Vegas Sands is their large presence in Macau, where they have the largest market share of any western casino at 35%. Macau is the world's largest gaming market, with $33.2 billion of gaming revenue in 2017 and is still rapidly growing. Macau is a primary destination for Chinese and Middle Eastern high-rollers along with tourists as Chinese tourism continues to grow. Las Vegas Sands continuous expansion in Macau along with Macau's strong continued growth leads to exciting growth opportunities for the company. Another important facet of LVS's Macau locations is this international presence is crucial for diversifying risk away from the United States. If there is an economic downturn in the United States LVS's earnings will have a buffer.

Las Vegas Sands is a company that delivers strong shareholder value. Through operating luxury resorts and casinos they produce high margins and strong cash flows that allows the company to distribute high dividends to shareholders. They will deliver a dividend of $3.00 per share paid out in quarterly increments in 2018. This is increase from $1.00 in 2012 representing a 20.1% compound annual rate of growth in the dividend (https://s21.q4cdn.com/635845646/files/doc_presentations/LVS-March-2018-Update-JPM.pdf). Their dividend yield is constantly around 4%, approximately twice the S&P 500's average dividend yield. As well as this they have experienced high gross profit margins, Return on Equity, and Return on Assets as of late. In 2017 they had a gross profit margin of 49.7%, Return on Equity of 43.1%, and Return on Assets of 11.7%. This shows rapid improvement in these categories since 2010 from 43.5%, 10.3%, and 3.7% respectively. With Las Vegas Sands strong deliverance of shareholder value along with owning many properties with the potential for growth we believe Las Vegas Sands is a very appealing firm.

II. Formal Report on LVS

As previously mentioned, Las Vegas Sands Corp. holds properties in Macau, Singapore, and Las Vegas. These properties include The Venetian Macao Resort Hotel, Sands Cotai Central, The Plaza Macao and Four Seasons Hotel Macao, the Sands Macao, the Marina Bay Sands, The Venetian Resort Hotel Casino, The Palazzo Resort Hotel Casino, and the Sands Expo and Convention Center. The company relies on three main areas to drive revenue on its properties: gaming, hotel rooms, and retail. Each of these segments complement each other to increase the experience of guests and encourage return trips and longer stays.

Las Vegas Sands Corp. owns properties directly on the Las Vegas Strip, only 20 minutes from the airport in Singapore, and within a five-hour flight of 3 billion people in Eastern Asia in Macau. The company trusts that by providing first-class accommodations, it can entice visitors to these locations to stay the night at its resorts and visit other, more profitable business areas. The company targets conventions and trade shows to fill rooms during slow weeks, and relies on business from leisure travelers on the weekends. Rooms are also often complementary for high net-worth players to attract them to the property and inevitably the gaming tables, where the casino group collects its highest revenues. In order to increase revenues drawn from its hotels, Las Vegas Sands Corp. is currently building additional rooms at multiple properties. The company is working on two projects which will add 645 additional rooms across two properties by 2020. This is a sign of strong growth and that the company believes in increasing visits continuing for the foreseeable future.

Las Vegas Sands Corp. also owns retail malls at The Venetian Macao, Sands Cotai Central, The Parisian Macao, The Plaza Macao and Four Seasons Hotel Macao, and Marina Bay Sands, which total to around 3.0 million square feet of gross retail space. The stores here are designed to cater to the high-paying players and their families. 38% of retail is occupied by fashion stores, while an additional 18% belongs to restaurants. While the rents from these malls and other retail operations do generate revenue (about 9% of total revenue in 2017), the success of this segment is undoubtedly driven by the attraction of customers through gaming activities. The retail sections of Las Vegas Sands Corp. resorts complement the casinos, and provide diversions to keep players and their acquaintances on the properties for longer periods of time.

Gaming activities represented 78% of total revenues in 2017. In Asia, the majority of gaming revenue comes from what Las Vegas Sands Corp. refers to as “Rolling Chip Players.”

These are VIP, or high net-worth players who bet large sums in table games. The win percentages for these players are usually around 3%, and the casino makes significantly higher revenues off these players due to the fact that they usually bet much larger sums thank the average gambler. The casinos also cater to players who bet smaller sums in more traditional gambling scenarios. The win percentages of these players are very important due to the nature of gambling. If the casino does not properly estimate the win percentages for its gaming activities, the casino may pay out more in winnings than it earns from player bets. Las Vegas Sands Corp. expects the win percentage for non-Baccarat table games to be 16-24%, and 18-26% for Baccarat. The win percentage for slots is usually around 5%. The financial reports for each casino around the world, show that each individual casino has been effective at maintaining these approximate win percentages for its games.

The company also sees the work of its top management as essential to its continued success. In the 2017 10K, the company writes that "Our ability to maintain our competitive position is dependent to a large degree on the services of our senior management team, including Sheldon G. Adelson and our other executive officers." The senior management that has built the company, has effectively found and exploited growth opportunities for gaming operations in multiple markets across the globe to establish and grow the highly profitable properties it operates today.

III. Future Growth Prospects

Las Vegas Sands Corp. is primed to outperform in the future based on several key strategies laid out in the Company's first quarter earnings report as well as the recent sale of the Sands Bethlehem. In early March, LVS entered into an agreement to sell Sands Bethlehem, a Pennsylvania based casino and resort, to an affiliate group of the Creek Indian Nation for $1.3

billion. The $1.3B sale price is a multiple of approximately 9 times earnings before interest, taxes, depreciation and amortization (EBITDA) generated by the asset in 2017. This was widely viewed as a competitive multiple for the asset and the market responded positively to the news. In addition, a research update published after the sale by Stifel Financial Corporation predicts that LVS will return the proceeds of this deal in the coming quarters via a special dividend, growth in the Company's regular dividend, and/or an extension of its share repurchase plan (Wieczynski and Boyer, 2018). In short, the sale of Sands Bethlehem reaffirmed Stifel's buy rating with a price target of $88 (previous close $72.33).

Besides the offloading of Sands Bethlehem, LVS recently reported its first quarter 2018 earnings on April 25th. After sifting through the report in great detail it became clear how the Company expects to perform in the near future. Regarding LVS' first quarter expectations, the Company reported earnings per share (EPS) of $1.04 versus $0.85 expected and revenue of $3.58B (16% growth over last year). The revenue figure outperformed analyst expectations by around $200M. LVS reported a record high EBITDA of $1.5B, $789M of which came from the Company's Macau operations. Notably, LVS achieved an astounding 94% hotel occupancy in the first quarter, highlighting strong demand and consumer spending in the gaming, lodging, and leisure sector. This occupancy rate reaffirms LVS's decision to expand their hotels as previously discussed. Perhaps most importantly, CEO Sheldon Adelson reported that EBITDA margins expanded by 3.5% year over year to 36.4% as a result of structural tailwinds in Macau that management sees as a primary driver of growth in the future (*Seeking Alpha,* 2018).

As Adelson and his fellow executives have stressed for years, the future of Las Vegas Sands Corp. rests on making substantial investments in its Macau properties. As a reminder, these properties include but are not limited to: Venetian, Four Seasons, The Parisian, and Cotai

Central. A key catalyst that justifies these substantial investments and stands to pay dividends this year is the opening of the Hong Kong – Zhuhai – Macau bridge that will connect three major cities in the Pearl River Delta after nearly a decade of construction. The bridge serves as a growth catalyst for LVS in that it along with the addition of a rail link between the cities will make it easier for consumers living in and around the Guangdong Province to make trips and vacations to the Company's properties in Macau. LVS reported an 18% year over year increase in visitors from outside the Guangdong province, and this growth rate is expected to improve as the completion of the Hong Kong – Zhuhai – Macau will substantially stimulate travel in the Macau area.

Furthermore, LVS' diversification into non-gaming amenities and the notion of building "Integrated Resorts" in Macau will propel the Company forward in the coming years. As Adelson reported in the earnings call, sales at LVS' four retail malls were up 33% over last year. In addition, LVS has made substantial investments in non-gaming amenities particularly at the Venetian Macau. These amenities include retail malls, live entertainment, arenas, spas, and room dedicated to hosting meetings, incentives, conferences, and exhibitions (MICE). The Company's initiative to build "Integrated Resorts" such as The Londoner Macau (in progress) and the successful venture of the Marina Bay Sands (Singapore) will make LVS more attractive to mass market customers and allow the Company to outperform competitors such as Wynn and MGM Resorts in both the near and long term.

Lastly, LVS' commitment to returning capital to shareholders via dividends and share repurchases is another factor that makes the company poised for share price growth. The Company reported that share repurchases totaled $75 million in the first quarter of 2018 and reaffirmed its commitment to return excess capital in the form of dividend increases and share buybacks in the future. Adelson announced that LVS' recurring dividend will increase to $3 annually or $0.75 paid quarterly (*Seeking Alpha,* 2018). This announcement signifies that Las Vegas Sands Corp. has increased its regular dividend every year since it began paying it in 2012. As previously stated, the dividend increase along with share repurchase plan could very well be accompanied by a special dividend in 2018 as a result of the sale of Sands Bethlehem. In summary, LVS continues to be an extremely shareholder-minded company and has highlighted several growth catalysts that will help the firm outperform going forward.

IV. Financial Data and Comparisons

The major competitors of Las Vegas Sands Corp. (LVS) in Resorts & Casinos industry are MGM Resorts International (MGM), Carnival Corporation (CCL), Royal Caribbean Cruises Ltd. (RCL), and Wynn Resorts, Limited (WYNN).

The following table shows the key financial data of these firms:

Ticker	Market Capitalization	Stock Price	Beta	RoE	P/E	D/E	52-week price range	EPS
LVS	57.07B	72.33	1.88	43.10%	20.43	1.48	56.33-79.84	3.54
CCL	47.10B	64.36	1.06	11.24%	17.61	0.39	59.68-72.70	3.65
RCL	25.09B	111.82	1.38	16.40%	14.85	0.68	103.52-135.65	7.53
MGM	20.02B	31.28	1.57	19.28%	9.32	1.7	29.53-38.41	3.36
WYNN	19.84B	185.11	1.93	133.10%	25.43	10.16	119.17-203.63	7.28

From the above table, it is seen that LVS is the largest firm in Resort & Casinos industry in terms of market capitalization. With a price of $72.33, LVS currently has 788.99M shares outstanding, which is also the largest in the industry.

Comparing to CCL, RCL, and MGM, LVS has a relatively high beta of 1.88. This high beta states that the share price of LVS is more volatile than the three others, but it also implies that LVS has greater chances to outperform the market than its competitors. WYNN is the only firm that has a higher beta than LVS. Combining with its high return on equity of 133.10% and high EPS of 7.28, it seems that WYNN is more profitable and in very good shape. However, when looking at its D/E ratio, it is clear that WYNN is a an extremely highly levered firm. It is 5.98x more levered based on the D/E ratio than any other comparable firm. Due to its capital structure, WYNN can earn higher profits than the others, but at the same time, the increased leverage implies that it takes on more risks than the other firms. If its financial performance doesn't go as well as it has in the previous few years that will make it harder to pay back its debts which opens the door for WYNN to be crushed due to its heavily leveraged capital structure.

With a return on equity of 43.10%, LVS provides a strong return for investors comparing to CCL, RCL, and MGM. As discussed in the previous section, LVS is a shareholder-minded firm. These decisions to return capital to shareholders will very likely lead to an even higher return on equity in the future.

A P/E ratio of 20.43 implies LVS's stock price neither wildly undervalued nor overvalued as it is in the middle of the industry P/E ratio range. WYNN, which has a P/E ratio of 25.43, combining with its high D/E ratio, high return on equity, and high EPS, makes us worry about an overvaluation of its stock price. On the other hand, MGM, which only has a P/E ratio of 9.32, might indicate its stock price is undervalued due to previous poor performances or low expectations from investors, who don't believe it can outperform in the future.

Finally, from the 52-week price range, it can be seen that only LVS and WYNN are currently staying at the top half of the price range while all three others have current stock prices at the lower half of the range. This indicates that only LVS and WYNN are in upward trends, which are good signals to attract investors.

In conclusion, by looking at the key financial data across different firms in Resorts & Casinos industry, LVS and WYNN are the two firms that have huge growth prospects while LVS is a much safer investment choice than WYNN due to the high leverage and recent scandals plaguing WYNN which will likely negatively impact their share price..

V. DCF Analysis and Recommendation

Price	$72.33 (April 27)
Price Target	$88.32
Market Cap	$57.07B (April 27)
Beta	1.88
52 Week Range	$56.33-$73.39
Expected Rev Growth	10%
P/E	20.43
2016 EPS	3.54
Expected EPS Growth	25%
EBIT	$3,379,000
RoE	43.1%

Historic Growth Rates:	1 year	3 year	5 year	10 year
Revenues	12.9%	-4.05%	2.96%	15.88%
EPS	68.57%	0.19%	13.86%	26.78%

After completing a DCF on Las Vegas Sands Corp. (LVS) the target share price for LVS is $88.32. The current share price at close of market April 27 is $72.33. If LVS shares hits the target share price this will elicit a 22% return. This is in line and even slightly below LVS's 10 year return on equity. The target price of $88.32 is well within the range of analysts expectations based on the 17 analysts currently covering the stock. The analysts have given LVS an average rating of 2.2 on a scale of 1-5 which indicates their cumulative belief that people should buy the stock because LVS is poised for growth. This growth in share price will be fueled by both the strategic moves the company has made recently as well as their increasingly strong financials. The biggest recent play by LVS is the selling of their Bethlehem, PA property which happened in Q1 2018 and the expansion of the non-gambling areas of their resorts. Also, LVS has been demonstrating extremely high EPS growth of 58.57% in the last year and 26.78% over the last 10 years. This will act as another catalyst for the increased stock price going forward. Lastly, LVS has been increasing their dividend from $1 in 2012 to $3 in 2017 at a compound annual rate of growth of 20%. The increase in dividend shows LVS's confidence in continued strong growth and earnings which will be driver of the stock price up.

LVS is off to a good start thus far this year due to many of the above mentioned catalysts. Year to date LVS's shares are up more than 4.6% which is especially impressive when considering the Dow Jones Industrial Average is down 1.65% year to date and the S&P 500 is down 0.14% year to date. All of these valuation factors coupled with the aforementioned structural elements of LVS make it a strong stock with a lot of potential for increased valuation and continued growth in the future.

References

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