

9 February 2018

North American Research

Rating: Buy

Price Target: \$40.00

Price	\$33.22
52wk Range	\$30.22 - \$39.32
Shares Outstanding (MM)	212.5
Market Capitalization (MM)	\$7,252.0
Enterprise Value (MM)	\$11,774.0
30D Avg Volume (000s)	1,142.9
Short Interest/Float	2.1%
Dividend Yield	6.4%
YTD % Chg	(5.1)%
YTD % Chg Relative to Index	(5.4)%
Total Implied Return to PT	26.8%
Pricing Date	February 8, 2018



Gaming and Leisure Properties, Inc. Casino REITs

GLPI | NASDAQ | \$33.22

Company Update

4Q recap, dividend yield still attractive amid rising rates

While shares of GLPI (similar to most REITs) have been negatively impacted by the recent spike in US treasury yields and market volatility, we contend the dividend yield on GLPI shares is still attractive. It is this reason we are maintaining our Buy rating and \$40 price target. The shares currently trade with a 6.4% LTM dividend yield and a projected 8.2% yield based on our 2019 pro forma dividend per share estimate of \$2.72, which is quite compelling in our view. Our \$40 price target is based on our 2019 PF dividend per share estimate which represents a target yield of 6.8% and a 14.0x multiple of our 2019 PF EBITDA estimate of \$936m.

Getting comfortable with spread compression in the hunt for yield. Although the 10-year treasury yield is on the rise (2.85% today), we believe there is room for spread compression relative to GLPI (and other Gaming REITs and dividend paying stocks) given the strength of the US economy and underlying business trends. While GLPI's ~1.8x rent coverage is lower than its Gaming REIT peers, we maintain a favorable regional gaming outlook overall. This is to say that we believe the underlying tenants of GLPI's real estate are in strong financial condition with improving cash flow profiles. We have little concern regarding the security and stability of the dividend over the near and medium terms. With an improving economic backdrop in the US, we believe investors will keep hunting for yield in riskier asset classes (relative to treasuries). While risk-free yields are rising, improving tenant quality and fundamentals are derisking GLPI (and its peers) allowing for spread compression in the near term relative to government bond yields.

Opportunity for dividend growth via M&A. While competition in the Gaming REIT sector has stepped up with three publicly-traded market participants now, we believe the industry is fragmented enough that there are still plenty of acquisition opportunities to go around. We believe GLPI's existing relationship with PENN (and now BYD) will continue to be a source of potential acquisition opportunities.

Still room for valuation improvement. We believe Gaming REITs are still in their infancy, and traditional REIT investors are still learning the underlying business. While a third publicly-traded Gaming REIT represents incremental competition, we also see an opportunity for greater acceptance of the new asset class among the real estate community. We believe casino real estate is extremely attractive, with a durable and predictable revenue stream and high barriers to entry. As the sector continues to evolve, we suspect there could be some incremental head room for valuation across the board.

Analysts

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Year to Dec	Net Revenue	Adjusted EBITDA	AFFO	EV/EBITDA	Net Debt/EBITDA
2018E	1,021	886	3.18	13.3x	5.0x
Prior	996	900	3.30	13.1x	4.9x
2019E	1,044	890	3.22	13.2x	4.9x
Prior	994	902	3.30	13.1x	4.8x

*Please see analyst certification and required disclosures starting on page 4 of this report.

Figure 1. Gaming & Leisure Properties Summary Financial Model

\$ in millions, FYE December.	FY16A	1Q17A	2Q17E	3Q17A	4Q17A	FY17A	1Q18E	2Q18E	3Q18E	4Q18E	FY18E	FY19E
Rental revenue	684.2	204.7	207.1	209.5	207.9	829.2	209.1	225.3	224.9	222.0	881.3	897.3
Gaming	138.6	39.3	37.5	36.2	33.9	146.9	39.0	36.0	35.0	34.0	144.0	152.0
Food, beverage and other	11.1	-	-	-	-	-	-	-	-	-	-	-
Gross revenue	\$833.9	\$244.0	\$244.6	\$245.7	\$241.8	\$976.1	\$248.1	\$261.3	\$259.9	\$256.0	\$1,025.3	\$1,049.3
Promotional Allowance	(5.7)	(1.3)	(1.2)	(1.2)	(1.1)	(4.8)	(1.3)	(1.2)	(1.2)	(1.1)	(4.8)	(5.1)
Net revenue	\$828.2	\$242.7	\$243.4	\$244.5	\$240.7	\$971.3	\$246.8	\$260.1	\$258.7	\$254.9	\$1,020.5	\$1,044.3
y/y % growth	44.0%	63.1%	17.4%	4.8%	0.8%	17.3%	1.7%	6.9%	5.8%	5.9%	5.1%	2.3%
Net income	289.3	94.0	96.3	97.0	93.3	380.6	98.7	112.8	111.2	112.3	434.9	456.1
(Gain) loss on disposals	(0.5)	0.1	(0.0)	0.4	0.0	0.5	-	-	-	-	-	-
Real estate depreciation	96.1	24.9	25.1	25.3	25.3	100.6	24.6	24.6	24.7	24.7	98.6	98.6
Funds from operations	\$384.9	\$119.0	\$121.4	\$122.7	\$118.5	\$481.7	\$123.3	\$137.4	\$135.9	\$137.0	\$533.5	\$554.7
Straight line rent adjustment	58.7	16.2	16.5	16.6	16.6	66.0	16.3	11.7	11.7	11.7	51.4	46.8
Direct financing lease adjustments	48.6	17.6	18.2	18.6	18.6	73.1	18.2	9.0	9.0	9.0	45.2	36.0
Other depreciation (from TRS)	13.5	3.4	3.3	3.3	2.9	12.9	2.9	2.9	2.9	2.9	11.6	11.2
Amortization of land rights	6.2	2.3	2.6	2.7	2.7	10.4	2.7	2.6	2.5	2.4	10.2	9.2
Debt issuance costs amortization	15.1	3.3	3.3	3.3	3.3	13.0	3.3	3.3	3.3	3.3	13.2	13.2
Stock based compensation	18.3	4.5	3.8	3.7	3.7	15.6	4.1	4.1	4.0	4.0	16.2	16.4
Maintenance capex	(3.1)	(0.5)	(1.2)	(0.5)	(1.0)	(3.2)	(1.2)	(1.0)	(1.0)	(1.0)	(4.2)	(2.0)
Adjusted Fund from Operation (AFFO)	\$542.2	\$165.8	\$167.8	\$170.5	\$165.3	\$669.5	\$169.6	\$170.0	\$168.3	\$169.3	\$677.1	\$685.5
Interest, net	183.8	53.5	54.2	54.0	53.5	215.1	52.7	52.7	52.7	52.6	210.8	207.8
Income tax expense	7.5	2.5	2.2	1.7	3.4	9.8	1.9	1.7	2.0	1.7	7.4	7.6
Maintenance capex	3.1	0.5	1.2	0.5	1.0	3.2	1.2	1.0	1.0	1.0	4.2	2.0
Debt issuance costs amortization	(15.1)	(3.3)	(3.3)	(3.3)	(3.3)	(13.0)	(3.3)	(3.3)	(3.3)	(3.3)	(13.2)	(13.2)
Adjusted EBITDA	\$721.4	\$219.0	\$222.2	\$223.4	\$219.9	\$884.6	\$222.1	\$222.1	\$220.7	\$221.3	\$886.2	\$889.8
EBITDA Margin %	87.1%	90.2%	91.3%	91.4%	91.4%	91.1%	90.0%	85.4%	85.3%	86.8%	86.8%	85.2%
y/y % growth	63.9%	93.4%	23.1%	6.6%	0.8%	22.6%	1.4%	(0.0%)	(1.2%)	0.6%	0.2%	0.4%
PER SHARE												
Diluted EPS	\$1.56	\$0.45	\$0.46	\$0.46	\$0.44	\$1.81	\$0.46	\$0.53	\$0.52	\$0.53	\$2.04	\$2.14
AFFO	\$3.00	\$0.79	\$0.80	\$0.80	\$0.78	\$3.18	\$0.80	\$0.80	\$0.79	\$0.79	\$3.18	\$3.22
LTM AFFO	\$3.00	\$3.09	\$3.16	\$3.19	\$3.18	\$3.18	\$3.18	\$3.18	\$3.17	\$3.18	\$3.18	\$3.22
Dividend	\$2.32	\$0.63	\$0.63	\$0.63	\$0.63	\$2.52	\$0.65	\$0.65	\$0.65	\$0.65	\$2.60	\$2.60
Annualized Dividend	\$2.40	\$2.52	\$2.52	\$2.52	\$2.52	\$2.52	\$2.60	\$2.60	\$2.60	\$2.60	\$2.60	\$2.60
Capitalization Summary												
Revolver (\$700m)	165.0	70.0	15.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unsecured Term Loan A	300.0	300.0	300.0	240.0	230.0	230.0	230.0	230.0	230.0	230.0	230.0	230.0
Unsecured Term Loan A-1	825.0	825.0	825.0	825.0	825.0	825.0	825.0	825.0	825.0	825.0	825.0	825.0
4.375% Senior Notes due 2018	550.0	550.0	550.0	550.0	550.0	550.0	550.0	550.0	550.0	550.0	550.0	550.0
4.875% Senior Notes due 2020	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
5.375% Senior Notes due 2023	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0
4.375% Senior Notes due 2021	400.0	400.0	400.0	400.0	400.0	400.0	400.0	400.0	400.0	400.0	400.0	400.0
5.375% Senior Notes due 2026	975.0	975.0	975.0	975.0	975.0	975.0	975.0	975.0	975.0	975.0	975.0	975.0
Total debt	\$4,715.0	\$4,620.0	\$4,565.0	\$4,490.0	\$4,480.0	\$4,480.0	\$4,480.0	\$4,480.0	\$4,480.0	\$4,480.0	\$4,480.0	\$4,480.0
Cash	36.6	114.3	29.5	43.6	29.1	29.1	42.8	47.8	59.4	67.6	67.6	125.1
Net debt	4,678.4	4,505.7	4,535.5	4,446.4	4,450.9	4,450.9	4,437.2	4,432.2	4,420.6	4,412.4	4,412.4	4,354.9
LTM EBITDA	721.4	827.2	868.9	882.8	884.6	884.6	887.7	887.6	884.9	886.2	886.2	889.8
Total debt/EBITDA	6.5x	5.6x	5.3x	5.1x	5.1x	5.1x	5.0x	5.0x	5.1x	5.1x	5.1x	5.0x
Net debt/EBITDA	6.5x	5.4x	5.2x	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x	5.0x	4.9x

Source: Company documents, Union Gaming Securities.

Figure 2. Pro Forma Valuation – PENN/PNK Merger

	PF				
	2019E	Adjustments	2019E PF		
Adjusted EBITDA	\$890	\$46	\$936		
Net debt	4,355	315	4,670		
Interest expense	208	12	220		
AFFO	686	34	720		
Shares	212	0	212		
AFFO/Share	\$3.23		\$3.40	5.0%	accretive
Payout Ratio	80%		80%		
Dividend	\$2.59		\$2.72	5.0%	accretive
Target yield			6.80%		
Target price			\$39.95		
Implied equity value			8,468		
Net debt			4,670		
TEV			13,138		
TEV/EBITDA			14.0x		
Implied cap rate			7.1%		
Net leverage			5.0x		

Source: Company documents, Union Gaming Securities.

Important Disclosure

Analyst Certification

The analyst, John DeCree, primarily responsible for the preparation of this research report attests to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

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Current Ratings Definition

Union Gaming Securities LLC and Union Gaming Securities Asia Limited use a traditional ratings construct (Buy, Hold, and Sell) that is underscored by percentage upside/downside from current trading levels along with dividend yields for total return. We exclude special dividends and contemplate regular dividends only in our total return forecasts. These are absolute ratings, not relative or forced ratings. We define a Buy rating as a company whose shares exhibit total return (appreciation and dividends) potential of at least 15% within the next 12 months, and conversely a Sell rating as a company whose shares exhibit downside potential of at least 15% within the next 12 months. A Hold rating is reserved for companies whose shares exhibit total return potential between those parameters.

Buy – the total forecasted return is expected to be greater than 15% within the next 12 months

Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 15%

Sell – whose shares exhibit downside potential of at least 15% within the next 12 months

Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

Valuation and Risks

Valuation

Valuation Methodology for Price Target: Enterprise Value-to-EBITDA, Sum-of-the-Parts Analysis, Price-to-Earnings Ratio, Discounted Cash Flow Analysis, Price-to-AFFO, Net Asset Value.

Risks

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Ratings Distribution (as of 02/09/2018)

Coverage Universe

Ratings	Count	Pct.
BUY	16	64%
HOLD	9	36%
SELL	0	0%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
BUY	7	44%
HOLD	1	11%
SELL	0	0%

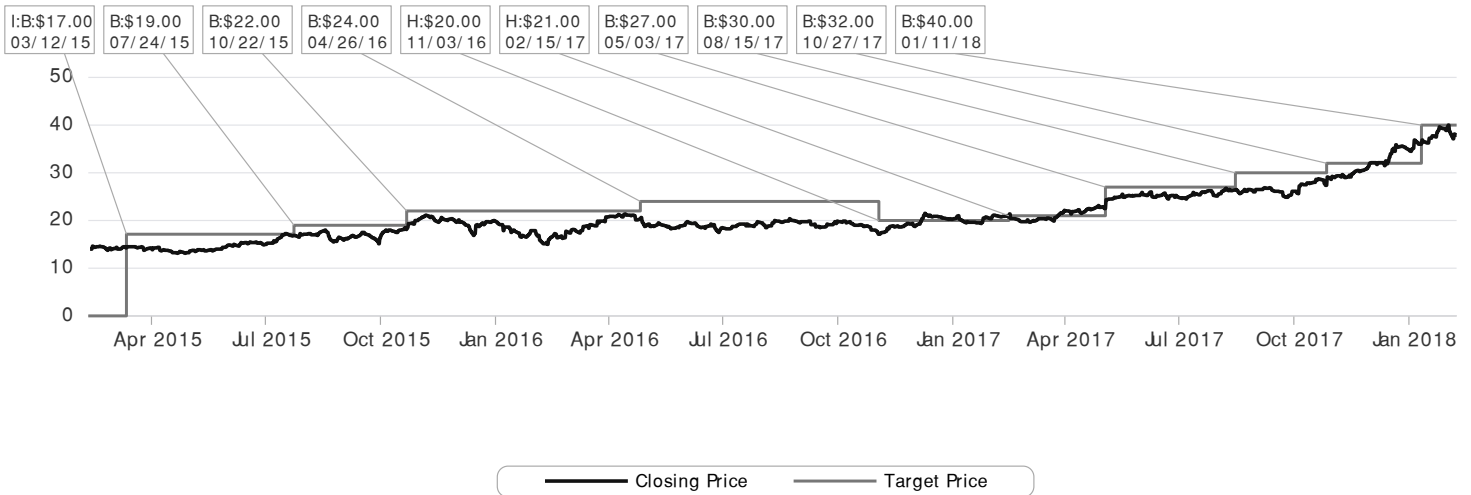
Gaming and Leisure Properties, Inc. Rating History as of 02/07/2018

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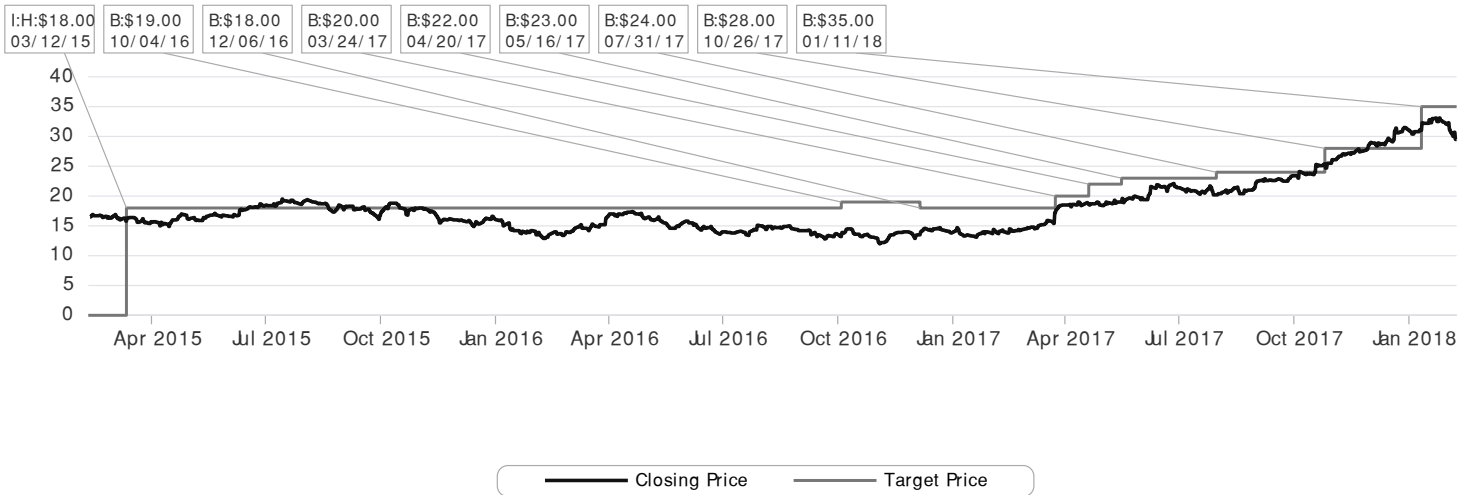
Boyd Gaming Corporation Rating History as of 02/07/2018

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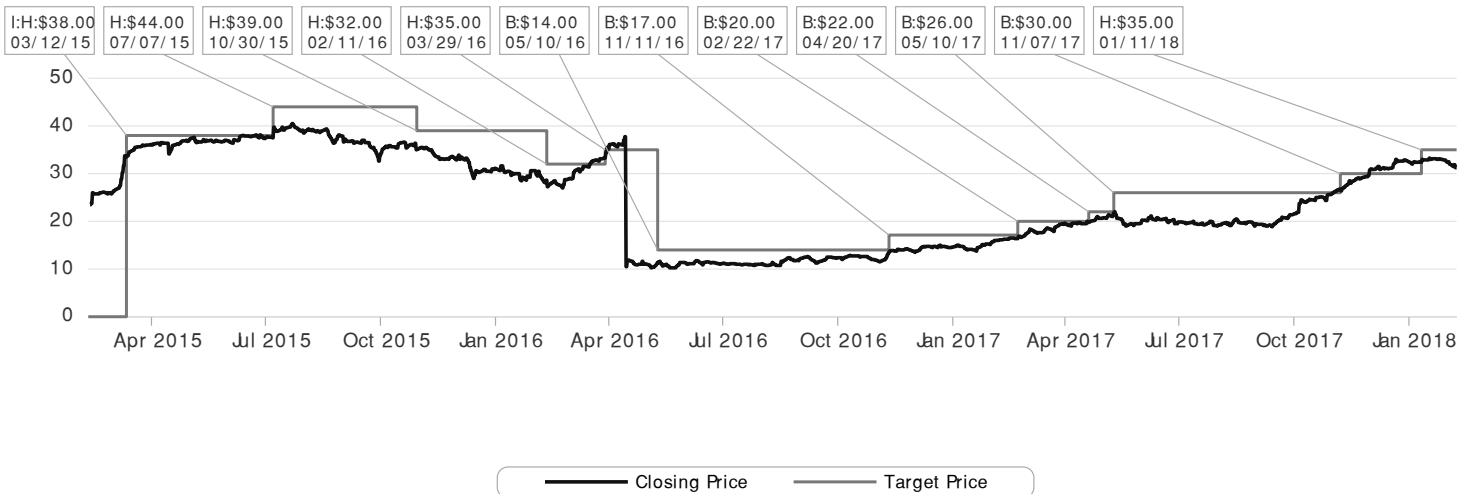
Penn National Gaming, Inc. Rating History as of 02/07/2018

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Pinnacle Entertainment, Inc. Rating History as of 02/07/2018

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Additional information is available upon request.

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