

21 February 2018

North American Research

Rating: Buy

Price Target: \$32.00

Price	\$26.40
52wk Range	\$23.63 - \$29.57
Shares Outstanding (MM)	70.9
Market Capitalization (MM)	\$1,871.7
Enterprise Value (MM)	\$10,930.4
30D Avg Volume (000s)	861.7
Short Interest/Float	5.3%
Dividend Yield	6.4%
YTD % Chg	11.7%
YTD % Chg Relative to Index	10.1%
Total Implied Return to PT	27.6%
Pricing Date	February 21, 2018



MGM Growth Properties LLC

Casino REITs

MGP | NYSE | \$26.40

Company Update

Casino REITs - Not a Zero-Sum Game - Maintain Buy

While shares of REITs have been under some pressure due to the recent spike in interest rates, we remain bullish on the Casino REIT sector overall.

We are maintaining our Buy rating on the shares of MGP but are revising our price target modestly to \$32 (from \$33) which is based on a 15.3x multiple of our 2019 Adjusted EBITDA estimate of \$775M and a 14.0x multiple of our 2019 AFFO estimate of \$2.29.

Casinos a compelling real estate play. We prefer the casino real estate asset class for a number of reasons, including the iconic and irreplaceable nature of Las Vegas Strip real estate; the high barriers to entry in casino markets (particularly Las Vegas); the fact that the gaming business is not "Amazonable"; and the predictability and durability of the underlying revenue streams. In Las Vegas specifically, about 35% of revenue is generated by casino gaming with the remaining 65% of revenue coming from non-gaming, which is segmented into hotel, retail, F&B, and entertainment. Casino resorts are in their nature diversified in how they capture consumer wallet share.

A Casino REIT for everyone. With three publicly-listed Casino REITs now in the market, investors have seemingly "picked their pony" but we contend the sector is not a zero-sum game. We believe each of the three public Casino REITs offer investors slightly different appeal, but see opportunity across the board.

Las Vegas real estate for the traditionalist. MGP has the greatest mix of Las Vegas real estate, which we find particularly compelling. We believe the Las Vegas Strip assets appeal to traditionalists focused on asset quality as each of MGP's Las Vegas properties are one of a kind. This asset-quality play for MGP is one of the key contributing factors to our valuation. Further, the company's regional gaming assets (i.e. Beau Rivage, MGM Grand Detroit, Borgata, MGM National Harbor) are best-in-class resorts in their respective markets as well. While these regional assets aren't quite as compelling as the Las Vegas Strip, they are high-quality, one-of-a-kind properties.

More growth to come. Although MGP hasn't partnered with an operator away from MGM yet, we do believe it is only a matter of time. Further, we aren't convinced there should be much of a rush to do a deal away from MGM given the depth of the pipeline at home. With MGM Springfield and the Monte Carlo re-branding both scheduled to open later this year, along with other MGM assets such as CityCenter, Circus Circus, and the MGM Grand, we see no issue with long-term growth opportunities for MGP. We would also call out that the 2% annual rent escalator is fixed through 2021 which should provide just enough rent growth for MGP to keep the dividend growing at least in line with modest interest rate increases.

Analysts

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Year to Dec	Net Revenue	Adjusted EBITDA	AFFO	EV/EBITDA	Net Debt/EBITDA
2019E	887	775	2.29	14.1x	4.3x

*Please see analyst certification and required disclosures starting on page 3 of this report.

Figure 1. MGM Growth Properties Summary Financial Model

\$ in millions, FYE December.	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18E	2Q18E	3Q18E	4Q18E	2018E	2019E
PROFIT AND LOSS												
Revenue												
Rental income	419.2	163.2	163.2	163.2	185.6	675.1	186.6	191.8	193.9	193.9	766.2	779.3
Property taxes reimbursed	48.3	20.7	21.3	19.6	29.0	90.6	27.0	27.0	27.0	27.0	108.0	108.0
Property insurance reimbursed	0.0	-	-	-	-	0.0	-	-	-	-	0.0	0.0
Total revenues	\$467.5	\$183.9	\$184.5	\$182.8	\$214.5	\$765.7	\$213.6	\$218.8	\$220.9	\$220.9	\$874.2	\$887.3
<i>Estimated Annual Rent Coverage</i>	<i>4.0x</i>					<i>3.9x</i>					<i>3.2x</i>	<i>3.5x</i>
Operating Expenses:												
Depreciation	169.2	61.7	60.2	68.7	69.9	260.5	69.9	69.9	69.9	69.9	279.5	279.5
Property transactions, net	3.8	6.9	10.6	1.7	14.9	34.0	1.5	2.0	3.0	2.0	8.5	6.0
Reimbursable expenses (property tax)	51.9	20.5	20.6	19.0	28.1	88.3	27.0	27.0	27.0	27.0	108.0	108.0
Property insurance	0.6	-	-	-	-	0.0	-	-	-	-	0.0	0.0
Other general and administrative	10.5	2.7	2.7	2.9	4.0	12.2	3.5	3.0	3.5	3.0	13.0	14.1
Total operating expenses	\$245.8	\$91.9	\$94.3	\$93.4	\$133.3	\$412.9	\$103.0	\$102.0	\$104.5	\$102.0	\$411.4	\$408.0
Operating income	\$221.7	\$92.0	\$90.2	\$89.4	\$81.2	\$352.8	\$110.6	\$116.8	\$116.4	\$118.9	\$462.8	\$479.2
Interest expense, net	(115.4)	(44.0)	(43.9)	(44.1)	(48.3)	(180.3)	(47.3)	(47.7)	(48.1)	(48.0)	(191.1)	(178.5)
Income before tax	105.5	47.9	45.1	45.2	32.7	170.9	63.0	68.8	68.0	70.6	270.5	299.6
Provision for income tax	(2.3)	(1.2)	(1.2)	(1.5)	(1.0)	(4.9)	(1.2)	(1.2)	(1.2)	(1.2)	(4.8)	(4.8)
Net income (loss)	\$103.3	\$46.7	\$43.9	\$43.7	\$31.7	\$166.0	\$61.8	\$67.6	\$66.8	\$69.4	\$265.7	\$294.8
Net income (loss) attributable to non-controlling	73.4	35.3	33.2	32.7	23.0	124.2	45.3	49.5	48.9	50.8	194.6	215.9
Net income (loss) attributable to MGP Class A	29.9	\$11.3	\$10.7	\$11.0	\$8.7	\$41.8	\$16.5	\$18.1	\$17.9	\$18.6	\$71.1	\$78.9
Basic EPS	\$0.52	\$0.20	\$0.19	\$0.18	\$0.12	\$0.69	\$0.23	\$0.25	\$0.25	\$0.26	\$1.00	\$1.11
Diluted EPS	\$0.52	\$0.20	\$0.18	\$0.18	\$0.12	\$0.69	\$0.23	\$0.25	\$0.25	\$0.26	\$1.00	\$1.11
AFFO/Share	\$1.304	\$0.49	\$0.50	\$0.49	\$0.52	\$2.01	\$0.53	\$0.55	\$0.55	\$0.56	\$2.19	\$2.29
Dividend/Share	\$1.038	\$0.388	\$0.395	\$0.395	\$0.395	\$1.573	\$0.420	\$0.420	\$0.420	\$0.420	\$1.680	\$1.760
Annualized Dividend/Share	\$1.038	\$1.550	\$1.580	\$1.580	\$1.580	\$1.580	\$1.680	\$1.680	\$1.680	\$1.680	\$1.680	\$1.760
KEY FINANCIAL METRICS												
Net income	103.3	46.7	43.9	43.7	31.7	166.0	61.8	67.6	66.8	69.4	265.7	294.8
Real estate depreciation	169.2	61.7	60.2	68.7	69.9	260.5	69.9	69.9	69.9	69.9	279.5	279.5
Property transactions, net	3.8	6.9	10.6	1.7	14.9	34.0	1.5	2.0	3.0	2.0	8.5	9.0
FFO	\$276.3	\$115.2	\$114.7	\$114.0	\$116.5	\$460.5	\$133.2	\$139.5	\$139.7	\$141.3	\$553.7	\$583.3
FFO	276.3	115.2	114.7	114.0	116.5	460.5	133.2	139.5	139.7	141.3	553.7	583.3
Amortization of financing costs	7.2	2.8	3.7	3.0	3.0	12.5	3.0	3.0	3.0	3.0	12.0	11.2
Non-cash compensation	0.5	0.2	0.4	0.4	0.4	1.3	0.4	0.4	0.4	0.4	1.4	1.4
Net effect of straight-line rents	(1.8)	(0.9)	1.6	1.6	1.8	4.1	1.8	1.8	1.8	1.8	7.0	7.0
AFFO	\$294.3	\$118.7	\$121.7	\$121.7	\$139.1	\$501.2	\$140.6	\$145.9	\$147.1	\$147.7	\$581.4	\$608.2
AFFO/Unit	\$1.30	\$0.49	\$0.50	\$0.49	\$0.52	\$2.01	\$0.53	\$0.55	\$0.55	\$0.56	\$2.19	\$2.29
<i>OP Units</i>	<i>224.6</i>	<i>243.1</i>	<i>243.1</i>	<i>246.1</i>	<i>265.8</i>	<i>249.6</i>	<i>265.8</i>	<i>265.8</i>	<i>265.8</i>	<i>265.8</i>	<i>265.8</i>	<i>265.8</i>
AFFO	294.3	118.7	121.7	121.7	139.1	501.2	140.6	145.9	147.1	147.7	581.4	608.2
Interest expense, net	115.4	44.0	43.9	44.1	48.3	180.3	47.3	47.7	48.1	48.0	191.1	178.5
Amortization of financing costs	(7.2)	(2.8)	(3.7)	(3.0)	(3.0)	(12.5)	(3.0)	(3.0)	(3.0)	(3.0)	(12.0)	(11.2)
Adjusted EBITDA	\$402.5	\$159.9	\$161.9	\$162.8	\$184.4	\$669.0	\$184.9	\$190.6	\$192.2	\$192.7	\$760.5	\$775.4
Credit Statistics												
Total debt	3,683.3	3,666.5	3,628.1	3,999.8	3,991.4	3,991.4	3,983.0	3,974.6	3,966.3	3,957.9	3,957.9	3,924.4
Cash	360.5	368.3	376.8	1,138.8	259.7	259.7	428.7	454.4	480.3	507.7	507.7	610.6
Net debt	3,322.8	3,298.2	3,251.3	2,860.9	3,731.7	3,731.7	3,554.3	3,520.2	3,486.0	3,450.2	3,450.2	3,313.8
Total leverage		6.5x	5.7x	6.2x	6.0x	6.0x	5.7x	5.5x	5.3x	5.2x	5.2x	5.1x
Net leverage		5.9x	5.1x	4.4x	5.6x	5.6x	5.1x	4.9x	4.6x	4.5x	4.5x	4.3x

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

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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

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 02/21/2018)

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%

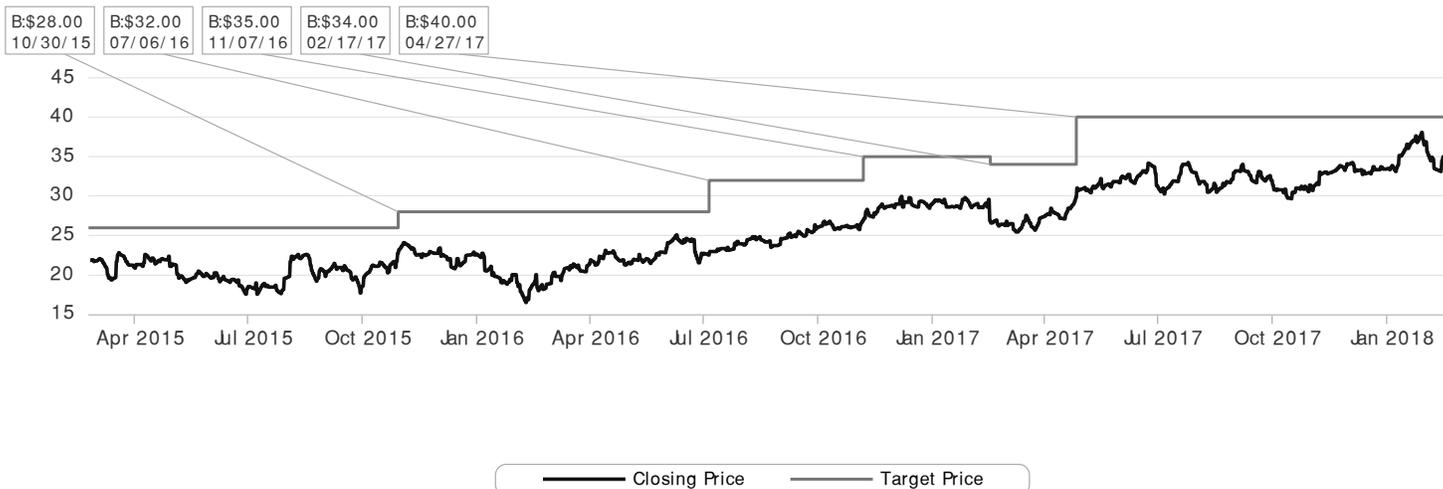
MGM Growth Properties LLC Rating History as of 02/ 20/ 2018

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MGM Resorts International Rating History as of 02/ 20/ 2018

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