



Boyd Gaming Corporation (NYSE: BYD)

Analyst: Annalisa Eramo

We recommend an overweight position on BYD's 4.750% 2027 senior unsecured notes. Boyd Gaming Corporation is an American gaming and hospitality company that currently owns and operates 29 gaming properties in ten states. BYD's three main reportable business segments include Las Vegas Locals, Downtown Las Vegas, and the Midwest & South. Due to expectations of EBITDAR margins being surpassed in the last two quarters, and anticipation of continued strong performance in the future, we believe BYD will be more than capable of generating consistent cash flows and paying down its debt. We believe this will assist BYD in achieving its target leverage ratio of ~4.5x by 2021. BYD efficiently maintains a well-diversified portfolio and will outperform competitors by expanding into new markets and attaining a significant increase of cash from operations through future acquisitions. BYD's 27s are currently trading tight relative to its peers, but we believe that the 27s will be trading ~15-30 bps closer to par because of a continued leading performance in the industry with strong q/q EBITDAR margins and expansion into new markets to generate an increased level of cash flow to reduce its debt.

Figure 1: Capitalization Table

Boyd Gaming Corporation						
LTM EBITDA (\$mm)		935.8				
Outstanding Debt Metrics & Leverage						
Type of Debt	Maturity	Rate	Debt Outstanding (MM)	Leverage	Price	Yield
1st Lien Sec'd Loans						
BYD REV 1L USD	6/16/23	2.734%	865		--	--
BYD TL B 1L USD	9/15/23	2.475%	765.55		97.5	3.408%
BYD TL A 1L USD	6/16/23	2.720%	137.31		97.13	4.559%
Total 1st Lien Secured Loans			1767.85	1.89x		
Sr Unsecured Bonds						
BYD 6 3/8 04/01/26	4/1/26	6.375%	749.85		104.36	3.310%
BYD 6 08/15/26	8/15/26	6.000%	1.55		104.27	4.181%
BYD 6 08/15/26	8/15/26	6.000%	698.45		104.27	4.181%
BYD 8 5/8 06/01/25	6/1/25	8.625%	600		110.65	4.221%
BYD 4 3/4 12/01/27	12/1/27	4.750%	999.76		98.64	4.980%
BYD 6 3/8 04/01/26	4/1/26	6.375%	0.15		104.36	3.310%
BYD 4 3/4 12/01/27	12/1/27	4.750%	0.25		98.64	4.980%
Total Senior Unsecured Bonds			3050.00	3.26x		
Municipal Bonds						
263844BF8	6/1/37	7.500%	18.99		100.55	0.651%
Total Municipal Bonds			18.99	0.02x		
Total Debt			4836.84	5.17x		
Market Capitalization			3,702.50			
Less: Cash			1308.3			
Enterprise Value			7,231.04	7.73x		

Source: Bloomberg, Company Filings, MFIF Analysis

Security Data

Bond Maturity: 12/01/2027

Rating: B-/Caa1

Rank: Senior Unsecured

Price: \$98.64

YTW: 5.141%

Security Type: Callable

Next Call: 12/01/2022

Coupon: 4.750%

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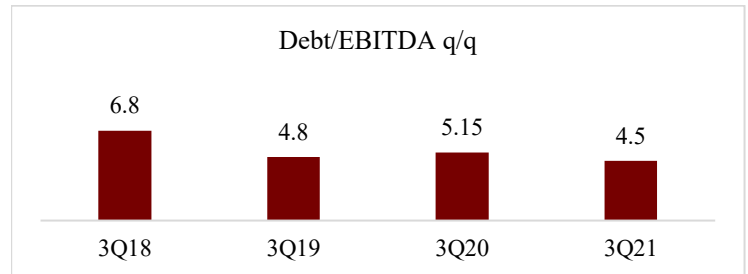
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Expansion into Additional Markets Strengthens Operating Margins

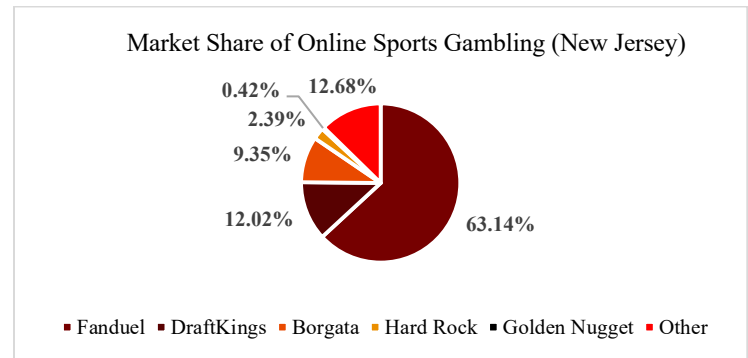
In order to maintain high EBITDA margins and a competitive advantage over peers in the industry, BYD is focusing on the expansion into new markets including internet gaming and online sports betting. Access to these markets is initiated by the partnership between Boyd Gaming and FanDuel Group, in which these collaborative efforts have given BYD access to online platforms in 15 states (36% of the U.S. population). The global online gambling market is projected to grow at a CAGR of 11.5% from 2020 to 2027, while BYD has grown its shares ~31.8% just in the last quarter. Total adjusted EBITDAR during the reported 3Q20 indicated ~12% y/y growth and we expect this margin to push our total EBITDA to a projected ~\$471.3mm for FY20. With strong growth margins from expansion into the progressive online gambling and sports betting markets we believe that BYD will generate enough profit to continuously pay down debt and reduce their leverage from 5.15x to its anticipated 4.5x by 2021. While achieving its leverage target BYD commits to pursuing a balanced capital allocation strategy, reinvesting into the most valuable and strategic opportunities for its shareholders. Recently towards the end of 2Q20, BYD launched its all-new B Connected Sports App, offering bettors one of the widest selections of in-gaming betting options, and in the future looking to have wagering on horse racing become available. Currently, sports betting holds ~70% of global gambling revenue in New Jersey and is expected to grow at ~9.99% CAGR between 2020-2027. The FanDuel Sportsbook has an online leadership position in Pennsylvania and is one of the top retail sportsbooks in Iowa, contributing heavily to the higher than expected gaming revenue, driving total revenue growth at ~43% above expectations. We see BYD's online gaming platform to keep expanding consistently above industry averages and will aid in our projected ~\$571.993mm in gaming revenue and ~\$695.135mm in total revenue for 4Q20. Just in 1Q20, FanDuel generated ~\$35mm in sports gambling revenue, specifically in NJ where FanDuel has a lead market share of 63.14%, trailing behind is DraftKings with a 12.02% market share. New Jersey was the first state to legalize sports betting and through BYD's strong partnership with FanDuel, it plans on maintaining its expectations of the passage of new authorizing legislation for online gambling in various states, in order to capitalize on an even greater share in this market. Its expansion into profitable markets will help in generating a high free cash flow and allow BYD to deleverage.

Risks

- Master lease rent could increase which would adversely affect its ability to seek additional development or investment opportunities
- Energy price increases may negatively affect cost of operations and the gains it has been able to capitalize on through cost restructuring
- Continued travel restrictions could limit a strong Hawaiian tourism community in Las Vegas

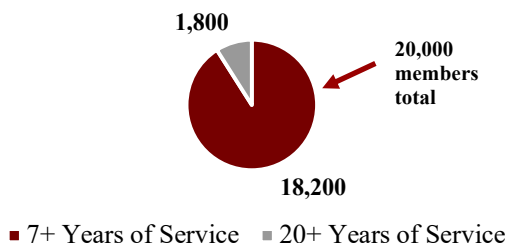


Source: Company Filings, MFIF Analysis



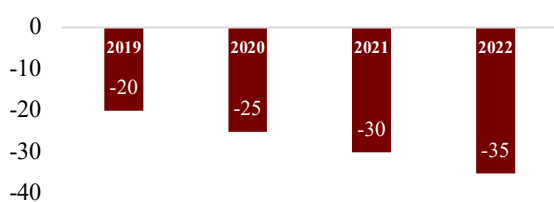
Source: Company Filings, MFIF Analysis

BYD's Workforce Engagement



Source: Company Filings, MFIF Analysis, BYD CSR Report

Annual Electricity Usage Decrease (kWh)



Source: Company Filings, MFIF Analysis, BYD CSR Report

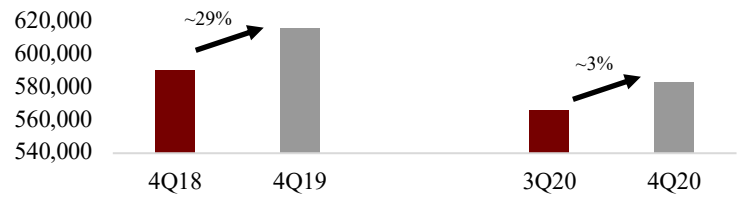
Committed Corporate Social Responsibility Efforts aid in Boosting Workforce Engagement

BYD has a strong mission to give back to its communities and values its worker engagement within the company. BYD has ~20,000 team members and together average 7+ years of service with the company and ~9% have been working for 20+ years. BYD has been an industry leader for 43+ years by contributing to thousands of non-profit organizations nationwide, having a strong dedication to diversity, and taking profound sustainability measures that have positively impacted both the company and society. BYD's strong focus on supporting communities nationwide has been reflected in their electrical savings. BYD reduced its annual electricity usage by ~20mm kWh over the last three years. Going forward they expect to lower annual consumption by ~5mm kWh each year, these electrical savings are equal to the annual electrical usage of 1,800+ homes. Additionally, BYD has revitalized its utility water chemical treatment programs at 8 properties, which has been reducing water consumption by ~50mm gals per year and is projected to continue at this rate in the future. These savings are not only providing more communities with sustainability nationwide, but allocating costs more efficiently, helping BYD effectively lower its overall expenses and build up adequate cash flow. It is estimated that BYD has ~14 months of liquidity at its current cash burn rate, largely because the company owns ~85% of its properties. BYD provides \$14+mm a year to 1,000+ non-profit organizations, making a positive impact on the lives of its neighbors, and encourages its workers to give back to their community as well. BYD team members collectively contribute ~\$1mm through United Way each year and regularly participate in volunteer events coordinated by the company. By promoting lifechanging investments in its surrounding community and efforts to protect the environment, BYD encourages workers to maintain this same level of initiative for many years at the company.

Acquisitive Tendencies Drive Individual Segment Growth Alongside Favorable Cost Restructuring

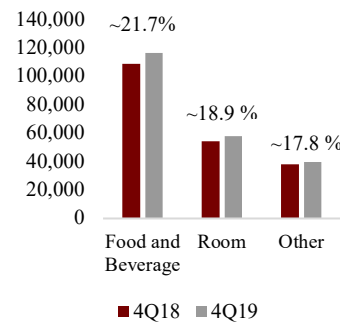
During FY19, the increase in revenue for each business segment was traceable to the company's acquisitions. Gaming revenues saw ~29% increase, ~21.7% for food and beverage, ~18.9% for room, and ~17.8% for other. Management highlighted BYD taking advantage of growth opportunities in the future and taking on strategic investments that will take the form of expanding and enhancing offerings or acquisitions. We believe these strong acquisitive tendencies will drive the gaming segment by an additional ~3%, food and beverage by ~1.44%, room by ~6.20%, and other by ~1.52% in 4Q20 alone. On Oct. 15, 2018, BYD completed the acquisition of the Pinnacle Properties, utilizing mortgage financing from a subsidiary with GLPI. The Pinnacle Properties were a strong addition to BYD's most profitable property segment: Midwest & South, and in 2Q20 accounted for ~75% of this total revenue. BYD capitalized on liquidity and a high positive cash flow from operations to effectively enhance its cost structure through the company shutdown due to COVID-19. BYD has effectively decreased marketing and overhead labor costs and it believes the current cost model is a permanent change, which ultimately implies ~770-800 bps of improvement in the Las Vegas Locals and Midwest & South property segments by 2022. Historically, BYD has been able to maintain a 5x-7x leverage ratio, and the year following its biggest acquisition the company reported a 6.80x debt/EBITDA ratio, and decreased this number to 4.7x by the end of FY19. BYD's current debt/EBITDA is 5.15x and we believe through capitalization of its cost restructuring plan and high positive cash flow from operations from acquired properties, BYD will reach its target leverage of 4.5x.

Gaming Segment Revenue Growth



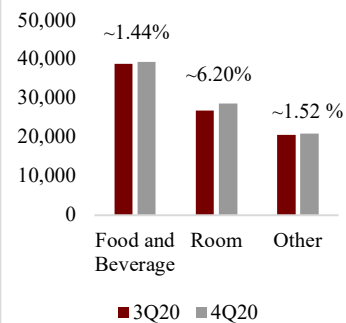
Source: Company Filings, MFIF Analysis

Individual Segment Growth y/y



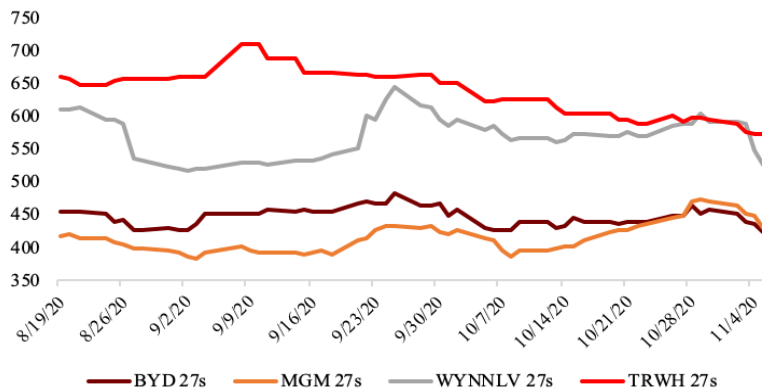
Source: Company Filings, MFIF Analysis

Projected Individual Segment Growth q/q



Source: Company Filings, MFIF Analysis

Comparable Z-Spreads



Source: Bloomberg

(\$mm)	BYD 27s	MGM 27s	WYNNLV 27s	TRWH 27s
Revenue (LTM)	2,380.0	6,600.0	4,340.0	358.1
Market Cap	3,627.0	10,590.1	8,209.4	854.9
Total Debt	4,836.84	19,909.80	12,929.60	994.80
EV	8,197.1	30,805.5	16,996.0	1,734.7
EBITDA (LTM)	935.8	542.2	382.7	83.5
Z-Spread (bps)	436	443	514	588
Rating	B-	BB-	BB-	B-
FCF	341.4	-1,229.10	-835.3	9.5
EBITDA/Interest	3.94x	6.52x	4.12x	4.27x
Debt/EBITDA	5.15x	3.9x	6.89x	6.05x
Debt/FCF	14.17x	-16.20x	-15.48x	104.72x
Spread/xLeverage	92.92x	104.10x	80.99x	97.19x

Source: Bloomberg, Company Filings, MFIF Analysis

Relative Value

BYD's 27s are currently trading at ~436 bps, with a strong placement among competitors through the focus on cost restructuring and capitalizing on acquisitions that provides an abundance of cash from operations. WYNN's 27s and TRWH's 27s are trading at ~514 bps and ~588 bps which we see to likely widen for both against BYD's 27s. WYNN is currently operating at a high negative FCF due to continued inability to recover from COVID-19 and in an attempt to conserve cash the company has utilized dividend cuts and suspensions. Similarly, TRWH's management team has guided that their business is sensitive to reductions in discretionary consumer spending, which has posed a huge problem amidst the COVID-19 outbreak. Compared to BYD they have a very weak cash flow from operations.

MGM is another competitor of BYD's who's struggling with an extensive amount of negative free cash flow which is prohibiting the pay down of its debt. We believe MGM's 27s will widen relative to BYD's 27s, as BYD has been able to capitalize on owning ~85% of its properties, helping generate a high cash from operations and preserve liquidity especially during COVID-19. MGM only owns ~55% of its properties giving it ~8 months of liquidity on its operational runway, which is about half of BYD'S built up liquidity.

In the future we see BYD tightening ~15-30 bps relative to its competitors because of leading EBITDA margins in the industry as well as expansion into additional markets that will allow BYD to take advantage of its cash flow and service its debt. We expect BYD to tighten past market expectation because of the undervaluing of BYD's strategic partnership to dominate the online gaming market and its complete cost restructuring plan alongside its efforts to give back to its communities.

Figure 11. Summary Model

BYD Summary Model, November 9, 2020										
	2017	2018	2019	1Q20	2Q20	3Q20E	4Q20E	2020E	2021E	2022E
Revenues										
Gaming	1,972,422	1,925,424	2,483,293	509,765	185,111	565,965	582,944	1,843,785	2,525,838	2,846,430
Food and beverage	349,271	367,888	447,853	89,884	10,661	38,778	39,336	178,659	163,531	173,820
Room	188,689	199,500	237,187	46,727	6,918	26,925	28,594	109,164	133,265	169,430
Other	132,695	133,918	157,786	34,149	7,169	20,570	20,883	82,771	86,777	92,109
Less Promotional Allowances	259,370	-	-	-	-	-	-	-	-	-
Net Revenues	2,383,707	2,626,730	3,326,119	680,525	209,859	652,238	671,757	2,214,379	2,909,411	3,281,788
Cost of Sales										
Total COGS	(1,247,115)	(1,371,379)	(1,736,217)	(372,971)	(100,772)	(272,415)	(349,515)	(1,095,673)	(1,511,834)	(1,699,763)
Gross Profit	1,136,592	1,255,351	1,589,902	307,554	109,087	379,823	322,242	1,118,706	1,397,577	1,582,025
Expenses										
Selling, general, administrative	(362,037)	(369,313)	(459,583)	(113,430)	(60,268)	(86,983)	(109,429)	(370,110)	(470,103)	(523,007)
Master lease rent expense	-	(20,682)	(97,723)	(24,665)	(25,413)	(25,914)	(24,069)	(100,061)	(96,276)	(96,276)
Maintenance and utilities	(109,462)	(127,027)	(154,673)	(33,146)	(21,654)	(33,751)	(32,367)	(120,918)	(117,281)	(103,640)
Depreciation and Amortization	(217,522)	(229,979)	(276,569)	(66,965)	(69,213)	(69,320)	(69,035)	(274,533)	(300,134)	(340,466)
Corporate Expense	(88,148)	(104,201)	(105,139)	(24,958)	(13,963)	(19,605)	(24,029)	(82,555)	(96,116)	(96,116)
Project development, preopening and writedowns	(14,454)	(45,698)	(21,728)	(3,508)	(3,825)	(2,249)	(6,372)	(15,954)	(25,488)	(25,488)
Impairment of assets	426	(993)	-	(171,100)	-	-	-	(171,100)	-	-
Other operating items, net	(1,900)	(2,174)	(1,919)	(7,543)	(1,099)	14,928	(1,045)	5,241	(4,180)	(4,180)
Interest Income	1,818	3,721	2,721	439	569	990	723	2,721	5,180	9,882
Interest Expense, net of amounts capitalized	(173,108)	(204,188)	(246,971)	(51,845)	(59,208)	(62,387)	(73,531)	(246,971)	(216,988)	(216,988)
Loss on early extinguishment of debt	(1,582)	(61)	(1,413)	(175)	(412)	(413)	(413)	(1,413)	(1,652)	(1,652)
Other, net	184	276	5,093	344	(115)	4,977	(113)	5,093	5,093	5,093
Income before income taxes	170,807	155,032	(212,672)	(188,998)	(145,514)	69,718	52,122	(212,672)	376,324	526,212
Income tax benefit (provision)	(3,006)	(40,331)	59,838	41,439	36,970	(31,602)	13,031	59,838	94,081	131,553
Income from continuing operations, net of tax	167,801	114,701	(152,834)	(147,559)	(108,544)	38,116	65,153	(152,834)	470,405	657,765
Income from discounted operations, net of tax	21,392	347	-	-	-	-	-	-	-	-
Net Income	189,193	115,048	(152,834)	(147,559)	(108,544)	38,116	65,153	(152,834)	470,405	657,765
Revenue Growth										
Gaming	0.54%	32.15%	0.39%	-17.23%	-63.69%	205.74%	3.00%	3.00%	2.99%	3.05%
Food and beverage	2.58%	26.60%	7.94%	-22.94%	-88.14%	263.74%	1.44%	1.44%	1.50%	1.44%
Room	-6.35%	12.89%	-4.22%	-19.63%	-85.19%	289.20%	6.20%	6.20%	6.17%	6.20%
Other	7.79%	21.34%	13.78%	-19.55%	-79.01%	186.93%	1.52%	1.52%	1.49%	1.52%
Total Revenue	0.54%	29.31%	1.65%	-18.32%	-69.16%	210.80%	4.70%	1.52%	1.49%	1.52%
Operating Metrics										
Gross Margin	47.34%	47.46%	47.44%	45.19%	51.98%	58.23%	47.97%	47.97%	48.09%	48.25%
SG&A/Sales	14.57%	13.34%	13.27%	16.67%	28.72%	13.34%	16.29%	16.29%	15.99%	15.90%
Tax Rate	-118.25%	34.34%	5.86%	21.93%	25.41%	45.33%	25.00%	25%	25%	25%
EBITDA Reconciliation										
EBIT	561,017	585,263	749,137	(70,796)	(17,135)	226,249	124,931	263,249	588,132	733,318
(+) Depreciation and Amortization	217,522	229,979	276,569	66,965	69,213	66,891	69,035	272,103	300,134	340,466
EBITDA	778,539	815,242	1,025,706	(3,831)	52,078	293,140	193,965	535,352	888,266	1,073,784
(+) Stock Based Compensation	12,342	15,959	16,222	8,191	2,693	8,370	8,763	16,985	17,907	18,641
Adjusted EBITDA	790,881	831,201	1,041,928	4,360	54,771	301,509	202,728	552,337	906,173	1,092,426
Free Cash Flow										
Cash Flow from Ops	414,864	434,527	517,468	23,592	(76,397)	176,818	254,478	378,491	1,072,712	1,319,610
Less:										
Capex	190,464	161,544	207,637	48,046	27,870	29,161	47,023	152,100	203,659	229,725
FCF	224,400	272,983	309,831	(24,454)	(104,267)	147,657	207,455	226,391	869,053	1,089,885
Credit Ratios (LTM)										
Debt/EBITDA	3.92x	4.85x	4.7x	6.3x	9.40x	3.38x	6.41x	4.5x	5.60x	4.63x
EBITDA/Interest	4.50x	3.99x	4.15x	-0.07x	0.88x	4.70x	2.64x	2.17x	4.09x	4.95x
FCF/Debt	7.35%	6.90%	8.29%	-0.56%	-2.13%	3.73%	4.17%	4.55%	17.46%	21.90%
Cash Balance	203,104	249,417	249,977	831,246	1,308,347	506,046	366,216	365,614	873,921	1,551,617
Debt	3,051,899	3,955,119	3,738,937	4,368,097	4,893,880	3,958,367	4,976,300	4,976,300	4,976,300	4,976,300