

# Wynn rides high on growth prospects in Vegas, Macau

New York (Reuters) – At Wynn Resorts Ltd., it isn't just the casino patrons who are hoping to hit it big.

Investors have bid up shares of the company some 41 percent this year, enthused by the company's plans in the booming Chinese gambling resort of Macau and its prospects in Las Vegas, where it opened its first and only casino last April.

The stock comes with its share of risks. The company has only one open casino, its future rests on just two markets, and it relies heavily on its chief executive, Steve Wynn, for his acumen and his ability to attract high rollers – and to run the business despite a degenerative eye condition.

But analysts said the hype around the Las Vegas-based company's stock is justified, with room for further gains.

Wynn shares are trading near their 52-week high of USD 80.19 set earlier this month. The stock trades at about 96 times its estimated earnings for 2006, compared with an industry average of about 27, according to Reuters Analytics.

The multiple dips to about 34 times 2007 estimated earnings as more projects are expected to come online, but Wynn remains one of the most expensive gambling stocks, second only to Las Vegas Sands Corp., owner of the luxurious Venetian Resort Hotel Casino.

„Wynn gets premium valuation because of its growth prospects, which are arguably better than its peer set, excluding Las Vegas Sands,“ Deutsche Bank analyst Marc Falcone said.

One such growth prospect is Macau, the former Portuguese colony located about an hour's ferry ride from Hong Kong,

where the company expects to open a casino this fall, followed by an expansion next year. It recently sold a gaming subconcession there, raising \$ 900 million in a move that pushed its stock up more than 12 percent in a day.

The other is Las Vegas, where Wynn is working on a USD 1.74 billion, 2,054-room hotel tower and casino project, dubbed „Encore,“ next to its USD 2.7 billion Wynn Las Vegas resort.

As these projects are completed, Wynn's earnings per share, excluding special items, would make leaps from the 16 cents it made in 2005 – to 82 cents in 2006, USD 2.22 in 2007, USD 2.70 in 2008 and USD 3.25 in 2009, analysts polled by Reuters Estimates predict.

### **Gambling Risks**

But analysts warn that investors betting on future earnings should account for bumps in the road. Wynn's fourth-quarter 2005 results missed analyst expectations, even though the company narrowed its loss.

„I would be more cautious near term,“ said Joseph Fath, portfolio manager with T. Rowe Price Associates, referring to Wynn as well as Las Vegas Sands. „There's a lot more risk in these stories. There's a lot more that can go wrong.“

Wynn's exclusive focus on two markets makes it more vulnerable to a slowdown and geopolitical risks than other more diversified companies such as Harrah's Entertainment Inc., the world's largest casino operator.

In Macau, Wynn will be taking on Las Vegas Sands' existing casino, as well as other gaming majors, including MGM Mirage, that are poised to enter the market.

„There is absolutely a massive amount of supply being built there right now,“ said Fath, whose company owns Wynn and Las Vegas Sands shares. „The question is, ,Is there enough

demand?'“

Moreover, the company draws heavily on the image of CEO Steve Wynn, the casino magnate who in a previous incarnation as the chief of Mirage Resorts helped revive Las Vegas' fortunes with a series of opulent properties like the Mirage and Bellagio.

Remove Wynn, 64, and investors could expect a pull-back in the company's shares. „This is probably one (company) where that risk is the greatest,“ Schmitt said.

Wynn suffers from retinitis pigmentosa, an inherited degenerative eye condition, but a company spokesperson said his condition does not now limit his activities except that he cannot drive.

Wynn executives were not available for comment.

These risks, though, are dwarfed by the lure of a jackpot that promises to keep growing, analysts said.

Wynn's stock „may never trade where the rest of the sector is trading,“ said Falcone, who rates it „buy.“

He pointed to the company's 142 acres of land behind the Wynn Las Vegas. With some land on the Las Vegas Strip recently valued at more than \$ 20 million an acre, the parcel is an extremely valuable asset, and Wynn is planning to build more hotels and entertainment facilities there.

Wynn also has further growth opportunities in Macau, where it has applied for another 54 acres of land on the Cotai Strip, which is envisioned as the resort's answer to the Las Vegas Strip.

„You are not buying here on trailing earnings,“ said CIBC World Markets' analyst William Schmitt, who rates the stock as „sector outperformer.“ „You are buying it on future earnings.“