Station Casinos puts stock in planned growth

Station Casinos stock wasn’t the industry’s best performer over the past year.

But that didn’t stop executives at the company’s annual shareholder meeting last week from touting other things that matter.

The company’s profit margin (43 percent last year) is better than any of the major casino companies and its return on investment (24 percent) is also higher than the competition, bosses reminded the crowd.

Those nuggets probably got lost in the shuffle of more entertaining topics, like building new casinos.

On a smaller scale, sexier stuff was found in another slide presented to shareholders, which showed growth from 2002 through 2007 in operating cash flow—a key profit indicator in the casino industry. Unlike most competitors, Station can, with some certainty, estimate what the company will earn in future years based on a predictable model of how much locals will play the slots.

Station is betting on 16 percent growth this year and another 16 percent next year.

Those numbers don’t include development plans at the company’s five vacant casino sites in Las Vegas, including the upcoming Aliante Station in North Las Vegas and the site of the defunct Castaways. They also don’t include the 60-acre redevelopment opportunity at Wild Wild West, the company’s aging motel and casino at Tropicana and I-15.

The Station folks have long complained about how Wall Street has undervalued the company’s future development prospects. That’s especially telling given the tremendous growth of Wynn Resorts stock, which is up more than 50 percent from a year ago on speculation about the red-hot Asian gambling market centered around the still-developing Chinese province of Macau.

Station doesn’t have a Macau casino but it does have what some analysts believe is the next best thing: a dominant position in a stable, rapidly-growing locals market.

The company’s newer casinos are located in wealthier areas. Add to that a growing Las Vegas population more money to spend and the future looks bright.

Shareholders want to know what Station’s stock has done for them lately.

The stock’s 13 percent annual return isn’t setting the world on fire. But Station executives are already betting big on future growth. In the past six months the company bought back about 10 percent of its stock at a cost of about USD 540 million – an unprecedented investment for the rapidly-growing company.

Ranked against other opportunities including new casinos and redevelopment plans, the buyback investment made financial sense, according to Station’s top boss.

„Ultimately the true value of the stock comes out over the long term,“ Chief Executive Frank Fertitta III said in an interview after the shareholder meeting.

„Gaming assets have historically been undervalued versus entertainment and hotel companies. The fact is that gaming is a stable, high-return business,“ added Station President Lorenzo Fertitta.