



the Palms. While we believe that the investment at the Palms could generate an attractive ROI, we believe that the ramp of the property will be slow and the overall investment quite high.

With this report, we are reaffirming our buy rating on Red Rock Resorts 5.0% Senior Unsecured Notes 2025 (\$100.2, 5.0%YTW, 279bps STW) with a Buy rating given our belief that these bonds offer investors an attractive total return opportunity compared to the DB HY Gaming Index, which is currently trading at 4.6%.

For 2017, we estimate Red Rock will report adjusted EBITDA of \$505 million (+4.5% versus \$484 million) on revenue of \$1.64 billion (+12.5% versus \$1.45 billion). After factoring the impact of \$270 million of capital expenditures, \$120 million in land acquisition, \$121 million of cash interest, \$9 million of cash taxes, \$45 million in distributions, \$27 million in dividends and \$5 million in other cash flow items, we project Red Rock total cash burn of \$85 million in 2018. Using our projection of \$2.69 billion of debt and a \$104 million cash balance, we estimate Red Rock will end 2017 with total leverage of 5.3x and a net leverage of 5.1x.

For 2018, we estimate Red Rock will report adjusted EBITDA of \$525 million (+4.0% versus \$505 million) on revenue of \$1.66 billion (+1.5% versus \$1.64 billion). After factoring the impact of \$560 million of capital expenditures, \$108 million of cash interest, \$65 million of cash taxes, \$45 million in distributions and \$27 million in dividends, we project total cash burn to be \$280 million. Using our projection of \$2.97 billion of debt and a \$104 million cash balance, we estimate Red Rock will end 2018 with total leverage of 5.6x and a net leverage of 5.5x.

Exhibit 7: Red Rock Resorts (\$ Millions)

	2015 (A)	2016 (A)	LTM	2017 (E)	2018 (E)
Consolidated EBITDA	\$451	\$484	\$499	\$505	\$525
Less: Capital Expenditures	\$130	\$162	\$211	\$270	\$560
Less: NA development costs	2	3	3	3	0
Less: Acquisitions	0	306	329	120	0
Less: Cash interest	122	116	118	121	108
Less: Cash taxes	0	10	5	9	65
Less: Distributions	222	126	43	45	45
Less: Dividends	0	11	27	27	27
Plus: Distributions from JV	3	2	2	3	0
Plus: Asset sales	26	11	4	2	0
Free Cash Flow	\$4	(\$235)	(\$231)	(\$85)	(\$280)
Total Debt	\$2,100	\$2,367	\$2,687	\$2,687	\$2,967
Cash	116	134	222	104	104
Leverage	4.7x	4.9x	5.4x	5.3x	5.6x
Net Leverage	4.4x	4.6x	4.9x	5.1x	5.5x
Coverage	3.7x	4.2x	4.2x	4.2x	4.9x

Source: Company Filings and Deutsche Bank

Downside risks include deterioration in Las Vegas Locals market, which may lead to free cash flow coming in below our expectations.

Wynn Resorts Post a modest EBITDA beat our investment thesis remains unchanged, as we continue to expect Wynn to be the biggest beneficiary of the second phase of the VIP recovery in Macau.