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Sector: Consumer Cyclical	Investment Highlights
Industry: Gaming	?? Estimated P/E of 13.7 below industry average of 22
Recommendation:	?? Impressive small-cap leader, prime target for future buyout
Fully allocate the Investments Committee Cyclical Sector with a holding in Station Casinos	?? 25 Consecutive Quarters of Year over Year Cash Flow Growth
Current Price: \$17	?? Company traditionally earns returns of 20%-plus and receives multiple of at least 8.0x EBITDA for its investments in Las Vegas
12 month Price Objective: \$21	

Business Summary

Station Casinos, Inc. is a multi-jurisdictional gaming enterprise that owns 4 large hotel-casino facilities and 2 smaller ones in the Las Vegas metropolitan area. The company has been able to break through the high cost entrance barriers of the casino industry by providing diverse and quality service to the local population of Las Vegas and its residential gamblers. Station operates its Palace Station Hotel and Casino, Boulder Station Hotel and Casino, Texas Station Gambling Hall and Hotel, and Sunset Station Hotel and Casino in Las Vegas. Station recently acquired the smaller Santa Fe Hotel and Casino as well as the Fiesta Casino Hotel. Two properties in Missouri, St. Charles Station and Kansas City Station, are currently being acquired by Ameristar Casinos. In addition, Station had agreed to purchase the Reserve Hotel and Casino, located in a Las Vegas suburb, from Ameristar.

While Station is considered a smaller cap company, its monopolization of the local market in Las Vegas has allowed it to grow to be the sixth largest company in its industry. Station's plans for growth are also well fueled by its undeveloped property holdings in the Las Vegas metropolitan area. As of their 1999 annual report, Station boasted owning or leasing 448 acres of property zoned for casino development in the Las Vegas area at ten different sites, with options to expand those sites by an additional 66 acres. The company's master-planned expansion projects are unique to its industry. While Station does seek to enhance profitability by opening new casinos, its ability to reserve space in existing properties to provide opportunity for future amenities, a stronger competitive position and produce same-store growth has been a vital characteristic that has set the company apart from its peers. Station also serves a slot machine route manager for small recreational and commercial businesses in southern Nevada.

Industry Outlook

The Gaming Industry, or Gambling Industry, is composed of companies that profit from Casino, Hotel, and Entertainment resorts nationwide. Gaming revenues have exceeded this cyclical sector average by 15% YTD. The Gaming Industry is expected to show an EBITDA growth of 5-10% and an EPS growth of at least 15-20% in 2000. Though the industry is present in Atlantic City and several locations along the Mississippi river, the conditions of the industry in Las Vegas determine the health of the industry.

One of the main drivers of this industry is the transition, already underway, to same-store growth. The strong inflow of visitors to Las Vegas has created high room occupancy rates and has allowed hotels to keep their room rates high. Although (as seen in chart below) visitor and hotel growth are expected to drop in 2001, net demand in Las Vegas will be at its highest point in recent history.

Net Demand in Las Vegas, 1997-2001E

	Visitor Growth	Average Hotel Growth	Net Demand
1997	2.8%	9.7%	-6.9%
1998	0.5%	3.0%	-2.5%
1999	10.5%	10.2%	0.2%
2000E	6.5%	3.8%	2.7%
2001F	4-5%	1.00%	3-4%

Investing in the Gaming Industry will also help diversify our Consumer Cyclical holdings because of the total capacity increase of 15% since late 1998. This increase has expanded the entertainment value to attract more amenities-oriented tourists and seek more stability, less cyclical. Also, the industry's recent consolidations have created oligopolies in Atlantic City and Las Vegas, giving major players in the market increased pricing power and the ability to gain ground in stronger same store gains.

Increased earnings in the Gaming Industry also prove to be a major driver of investing. Improving and updating current hotels and resorts, while expanding existing property will help increase sales. Opening new units is not the favorable choice under a slowing economy because of the debt it creates from the purchase of land, building, and the leasing of equipment. The increase of free cash flow from concentrating on quality and not quantity will decrease the debt incurred from the recent industry expansion. More visitors are being drawn by the resorts' new ability to attract the entire family with prevalent entertainment upgrades. Acquisitions play a large role by increasing market share, yet the costs may cut into the sales of existing units. In the past, acquisitions have shown positive results in a moving industry towards same sales growth.

The larger players in this industry are constantly looking to improve their customer profiling techniques. Most companies have developed techniques such as Harrah's "Frequent Gambler" Total Rewards program which creates consumer loyalty while helping businesses follow high rollers and target audiences. Marketing plans benefit from the information collected by these types of profiling programs.

Economic Outlook:

How will the Gaming Industry be affected by a slowing economic trend? Even with this irreplaceable factor, analysts believe GDP growth remains strong enough to support visitation increases. Companies should not need to alter business strategies or be unable to meet earnings estimates. Unemployment levels rising seem to be more of a concern in this labor-intensive industry. However, estimates into 2001 predict no significant change in employment levels that would cause problems within the gaming industry. We have also found no statistically significant correlation between oil prices and resort visitation numbers. Surprisingly, resorts that been in business more than a year now have still continued to generate higher demand for Las Vegas despite the recent increases in gasoline and oil prices in 2000.

Slow Speed Ahead?

Outlook at a Glance . . .

%	1Q00	2Q00	3Q00	4Q00	1Q01	2Q01	1999	2000	2001
Real GDP	4.8	5.6	2.7	3.7	3.7	3.9	4.2	5.2	3.8
Domestic final sales	7.6	4.9	2.9	4.5	3.9	4.1	5.8	5.9	4.1
Inventories	-1.8	1.7	0.1	-0.3	0.2	0.0	-0.4	0.2	0.1
Net trade	-0.9	-1.0	-0.3	-0.5	-0.4	-0.2	-1.2	-0.9	-0.4
Unemployment rate	4.1	4.0	4.0	4.1	4.2	4.3	4.2	4.0	4.3
Consumer prices	3.2	3.3	3.5	3.7	3.3	2.9	2.2	3.4	2.7
Fed funds	6.00	6.50	6.50	6.50	6.50	6.50	5.50	6.50	6.50
TSY 2-year note	6.53	6.56	6.18	6.00	6.00	5.90	5.94	6.00	5.85
TSY 10-year note	6.48	6.18	5.87	5.65	5.65	5.65	6.14	5.65	5.65
TSY 30-year bond	6.30	5.98	5.78	5.60	5.60	5.60	6.25	5.60	5.60
Corporate 2-year note	7.20	7.51	7.12	6.95	6.95	6.80	6.59	6.95	6.75
Corporate 10-year note	7.66	7.90	7.58	7.40	7.35	7.35	7.19	7.40	7.35

Notes: Real GDP and its contributions are seasonally adjusted annual rates. Unemployment is measured as a percentage of the labor force. Inflation and employment costs are year-on-year percentage changes. Interest rate forecasts are end-of-period. Corporate yields are derived from the approximate spreads of the 20 largest issuers in the Lehman Brothers Corporate index. Table last revised October 27.

Las Vegas Growth:

Las Vegas and Southern Nevada are emerging as one of the dynamic business centers in the Southwest, with strong economic and employment growth. Nevada has also been rated high for having the most favorable entrepreneurial climate in the nation. According to the Census Bureau, Las Vegas grew 62% in the past 10 years, making the city the nation's fastest-growing metropolitan area. The latest statistics say that 1.3 million people live in the Las Vegas Valley alone and 1.5 million in Clark County. Top reasons for relocating into the Las Vegas area include: the growing economy, low overall taxes, favorable cost of living, favorable quality of life, and pleasant climate. Las Vegas has consistently maintained the highest new job growth in United States. Of the 25 cities likely to have the country's highest employment growth over the next five years, Las Vegas ranked sixth in a *Forbes Magazine* study, with an estimated 79,000 new jobs created by the year 2001.

The strong economy of Las Vegas will provide an attractive contrast to the predicted state of the national economy. Regardless of much the country's economy slows, Las Vegas is positioned well so that its exposure to the national slowdown will be felt much less severely than in other areas of the country. For this reason, companies whose business is concentrated within the Las Vegas market present an appealing opportunity for investment. In summary, with the increasing results and efficiency at new locations and the careful redeployment of increasing capital, the Gaming Industry has a firm grasp on the near future. Increasing ROI potential through internal project investments and the successful integration of recent mergers creates a perfect opportunity to enter this market.

Management

Station Casino started out back in 1976 when, as a teenager, Frank Fertitta III assisted his father with the running of a small hotel in Las Vegas that had a 5,000 square foot casino and an 8,000 square foot bingo hall. By 1978 the Bingo Palace, later renamed Palace Station in 1983, tripled in size and now became a full casino. Fertitta worked his way up in the casino, and in 1984; he became vice president and director of it. As the casino continued to expand and Fertitta was named president and the property's CEO in 1992. A little while later the company reorganized under the name Station Casinos, with a new game plan to expand. Boulder, Texas, and Sunset Stations were added to the Las Vegas community between 1994 and 1997. These casinos focus on the local market more than the tourist sector. Station Casinos also ventured out to riverboat gaming in St. Charles and Kansas City, Missouri.

Glen Christenson came to the company in 1989 and has held various positions; vice president 1989-1993, CFO since 1989, Treasurer since 1992, and as a director since 1993. Before coming to Station, Christenson was a partner of Deloitte Haskins & Sells, was on the Board of Directors of the Nevada Resort Association and he was also the Chairman for the Nevada Resort Association's IRS Liaison Committee. According to Christenson, Station's master plan is to meet customer demand through constant additions to existing properties while keeping the competition in check by land acquisitions and strategic moves. Christenson furthers this statement by saying, "Each of our properties is designed so that they can expand. By doing so, we can build exponentially with the growth and still have a successful, working product we can add to down the road. Our competitors, many times, don't have that option."

Blake Sartini is the Executive Vice President since 1994 and the COO since 1997. His other previous titles include: President of the Nevada Operations for the Company, Vice President of Gaming Operations, a Director, various others. Sartini also has 14 years of experience in the hotel and casino industry.

- ?? Gaming analyst Daniel Davila says, "Pretty much everything Station Casinos has done, they have done right. There is an extremely remote chance at this point for competitors. You would have to make the all-out commitment that the management at Station Casinos has made. They are very good at what they do and have built up a customer base that will be very hard to depose."
- ?? Prudential Securities analyst Joe Coccimiglio is favorable of Station Casinos' "highly lucrative local market" which gives it the highest returns among all land based casino operations.
- ?? Bear Stearns analyst Jason Ader stated, "Management of Station Casinos has shown that they are very capable of capitalizing on the continued growth of the Las Vegas Valley and placing that

revenue back into their properties in a way that allows continued success.” Ader is also highly favorable of Fertitta, Christenson, and Sartini, in that he holds them responsible for the strategic moves that caused Stations success.

Company Assets

	<i>Palace Station</i>
	<i>Fiesta Casino Hotel</i> ?? Recently acquired for \$185 million. ?? Eliminates competition in locals market while allowing creation of a second brand in Las Vegas ?? Opportunities for cash flow enhancement
	<i>Santa Fe Station</i> ?? Acquired in October for \$205 million ?? \$40 million renovation and expansion project to introduce hotel as Santa Fe station to be completed in December 2000 ?? Renovation to provide 400 slots by December 2000, new buffet, café, and garage by July 2001, and theaters, child care, expanded casino floor at future date
	<i>Sunset Station</i>
	<i>Boulder Station</i>
	<i>Texas Gambling Hall & Hotel</i> ?? Undergoing a \$72 million expansion to be complete by December 2000 intended to extend brand strategy and solidify market position

  	St Charles Riverfront Station and Kansas City Station ?? Recently agreed to sell to Ameristar Casinos for \$475 million
	The Reserve Resort and Casino ?? Station agreed to acquire from Ameristar for \$70 million on condition that St. Charles and Kansas City Station Transactions are successfully completed ?? Opened in February 1998 ?? Location in fast-growing Henderson, Nevada, a prime location for the Las Vegas locals market ?? Disappointing earnings under Ameristar management expected to more than triple in first year of Station control. ?? 20% cash-on-cash- return to be generated from expansion opportunities

1999 Gaming Revenue Statistics					<i>Compounded Annual Growth rate since inception</i>			
Market	Market size	99 vs. 98 STN revenue	99 vs. 98	Market Share	Market	STN	Competition	
Boulder Strip	556	0.09	279	13%	50%	17%	32%	8%
North Las Vegas	222	0.17	107	26%	48%	15%	21%	10%
Kansas City	517	0.08	169	16%	33%	9%	18%	5%
St. Louis	621	0.16	112	2%	18%	12%	-1%	16%

STATION CASINOS, INC.

Estimated Development Capital Expenditures (\$ in millions)

	2000	2001
Texas Station Expansion	\$45	\$27
Green Valley Ranch Equity	30	20
Land Transactions, Net*	10	24
Santa Fe Renovation/Expansion	25	15
Other	15	14
Development Capital Expenditures	\$125	\$100

*Net of Land Sales

Note: Excludes maintenance capital expenditures and stock repurchases

Company Outlook

- ?? Station's strategy of building moderate-sized projects to test their initial value, and expanding them—if necessary—at a later date, controls the company's debt and allows revenues to grow.
- ?? Growth opportunities in Las Vegas build momentum for increased EPS long-term
- ?? According to Lehman Brothers analysts, Fiesta properties can be developed at a lower cost than a Station branded property, probably in the \$100 million–\$150 million range instead of the \$250 million–\$300 million range typical of a Station development. A good location would be the land on Boulder Highway across from Sam's Town that Station already owns. This acquisition will be modestly accretive to 2001 earnings, about \$0.05–\$0.06 in EPS, which will serve to slightly offset the dilution of the Missouri sale.

Fiesta Accretion Analysis (\$ in Millions, Except Per-Share Data)

2001

Fiesta EBITDA (1)	\$30.0
Less Depreciation	(6.0)
Less Interest Expense	<u>(18.5)</u>
Pre Tax Earnings	5.5
Taxes @ 35.5%	<u>(1.9)</u>
Accretion to Earnings	3.6
Accretion per Share	\$0.06

(1) Pro forma for full year of Fiesta.

Source: Lehman Brothers.

- ?? Though most analysts describe the litigation instigated by the Missouri Gaming Commission against one of Station's former councils, Michael Lazaroff, as a non-issue, investors have shown concern over the sustainability of Station's riverboat licenses in Missouri. After completing its own internal investigation, Station has denied any wrongdoing. On November 29, Station Although denying any wrongdoing, the Company agreed to pay an administrative penalty of \$1 million to the MGC as part of the settlement after the closing of the pending sale of the Company's Missouri properties to Ameristar Casinos, Inc. In the event that the sale to Ameristar does not close by December 27, 2000, the MGC agreed to renew the licenses of the Company's Missouri subsidiaries and its officers.
- ?? The sell of the company's Missouri properties will allow the company to focus on its Las Vegas franchise and help end the Missouri controversy. The return on invested capital on the company's Las Vegas properties is well over 20% and only half that in Missouri. In addition, as a result of the passage of Missouri SB 902, the company would be required to invest an additional \$100 million–\$150 million in its Missouri properties. This capital will have more profitable benefits being invested in Station's Las Vegas properties.

2001 Valuation Scenarios (\$ in Millions, Except Per-Share Data)

Valuation with Missouri (Pre-Fiesta) (1)				Valuation without Missouri (Post-Fiesta) (1)			
	2001 EBITDA	Multiple	2001 Enterprise Value		2001 EBITDA	Multiple	2001 Enterprise Value
Nevada Properties	\$259.2	8.0x	2073.6	Nevada Properties	\$283.6	8.0x	2,268.8
Missouri Properties	92.5	5.1x	471.8	Other	4.0	5.0x	20.0
Other	4.0	5.0x	20.0	Corporate	(20.9)	7.9x	<u>(165.1)</u>
Corporate	(27.4)	7.2x	<u>(197.3)</u>	Enterprise Value			2,123.7
Enterprise Value			2,368.1	Net Debt			<u>(793.0)</u>
Net Debt			<u>(1,032.9)</u>	Equity Value			1,330.7
Equity Value			1,335.2	Shares Outstanding			63.7
Shares Outstanding			63.7	Equity Value per Share			\$21
Equity Value per Share			\$21				

(1) Both valuations include the Santa Fe Hotel & Casino.

Source: Lehman Brothers.

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- ?? Joint development of the \$300 million Green Valley Ranch Project with GCR Gaming in Henderson, Nevada. Station will provide a \$50 million equity contribution. The new local is expected to follow suit with Sunset, Texas, and Boulder Station's ROIs of 20% in the first year of its opening, which will be by 2002.
 - ?? Acquisition of Ameristar's Reserve Casino to further monopolize control of local market
 - ?? Station's initiative for involvement in the development of Native American casinos in California gives the company a head start in monopolization of new California market. The company will join the United Auburn Indian Community to develop a casino in Sacramento to open in 2002. Off balance sheet financing grants Station a management fee of 22.5% of pre-tax income.
 - ?? Though Station had not opened a property for almost three years at the end of 1999, operating cash flow had trended up sequentially in each of the last ten quarters. Cash flow margin grew from 21.5 percent in 1997, to 23.7 percent in 1998, and 25.8 percent in 1999. Thus, history proves Station's ability to expand EBITDA without unit expansion.
 - ?? The Station Casinos Boarding Pass, the company's player rewards program, was introduced in April 1999 to strengthen the company's leadership position in the Las Vegas local's market. The Pass allows customers to redeem points earned after slot play for merchandise, food, lodging, movie passes, child-care, concert tickets, and other events at any of the Station properties in Las Vegas. The Boarding Pass unifies the different properties as it replaces individual programs that were previously in place at each Station property. The program builds brand recognition as well as allowing management access to consumer information to help in investment, development, and day-to-day operational decisions.

Strategic Positioning for a Strong Future

Station Casinos is the model of consistency in an inconsistent market. Purely catering to the locals of Las Vegas has provided Station with a constant demand from a constant supply of consumers. Yet, it starts at the top. Management at Station Casinos has taken the smart approach of improving operations and halting capital expenditure when risks arrive. Historical performance along with the recent spate of consolidations in the gaming industry has Station sitting at the sixth largest chair at the gaming table. Some analysts even argue that Station's latest balance sheets outperform Mandalay Resort Group, currently fifth in line. Station only carries half of Mandalay's EBITDA, but has only one third of their debt. Management says that the strategy of building moderate-sized projects to test their initial value, and expanding them, if necessary, at a later date, controls the company's debt and allows revenues to grow.

Merger mania seems to be the theme of late among casino operations and some gaming analysts predict that Station Casinos could be the next target for a buyout. Crescent Real Estate Equities had, at one point, a merger agreement with Station, but backed out at the last minute due to shareholders' payout arguments.

Talk of mergers does not come as a surprise to Station because of their unique market niche. While recent predictions forecast a downturn in the economy and the slowing of spending in the entertainment arena, the majority of Station's consumers will not be affected by a gradual recession. The local elderly population is a prime target for revenue, with their disposable income and gambling obsessions. Big time players like MGM Mirage and Park Place, whose futures depend on that of tourism, would love to pick up the consistent Station Casinos in order to even out their consumer base and increase security during slow economic times.

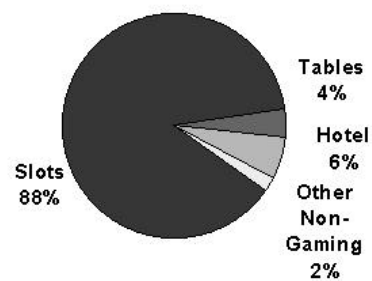
Current Analysts' Consensus Estimates

Fiscal years	Avg.	High	Low	S&P Est.	No. of Est.	Estimated P-E Ratio	Estimated S&P 500 P-E Ratio
2000	1.23	1.30	1.20	—	13	13.8	23.2
2001	1.24	1.41	1.15	—	13	13.7	21.3
4Q'00	0.25	0.30	0.23		11		
4Q'99	-1.20 Actual						

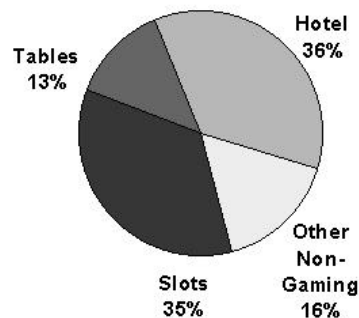
Competitive Analysis and Ratios

With the recent merger of industry leader MGM and Mirage, many investors deem MGM Mirage as the most attractive company in the industry. Indeed, MGM Mirage is predicted to post steady returns on account of its new monopolistic security and determination to efficiently reduce costs. However, MGM's broader exposure to the national economy, presents higher investment risk. In addition, larger market cap companies rely on the hotel industry just as heavily as they consider their profits from slot machines, the most profitable source of gambling revenue. This leaves such companies in vulnerable positions if the predictions of rising hotel demand and stability of tourism are not realized. Station's stronghold on the local market keeps its prospects strong regardless of decrease in the nation's entertainment spending. 85% of Station profit comes from the local market while only 20% of the downtown Las Vegas revenue and 3% of the Strip revenue is attributed to local residents.

STATION CASINOS, INC. Profit Centers



STATION NEVADA PROPERTIES

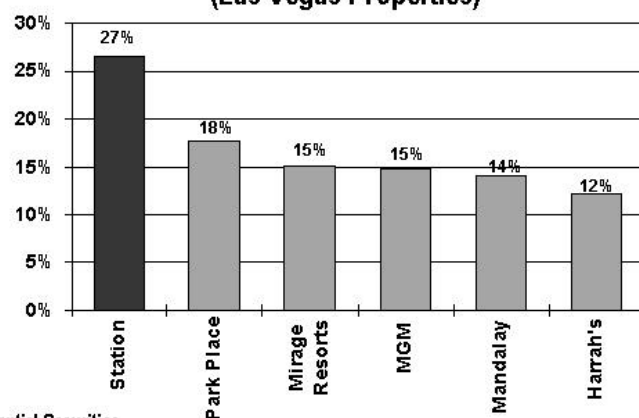


MAJOR LAS VEGAS STRIP PROPERTIES

Source: Nevada Gaming Control Board Abstract 6/99

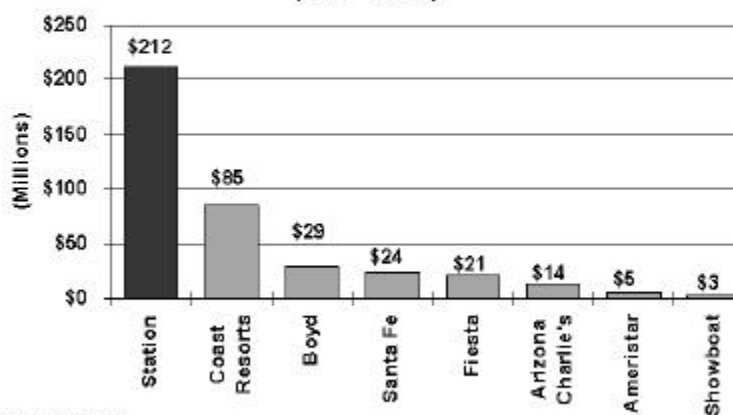
STATION CASINOS, INC.

1999 Est. Return on Invested Capital (Las Vegas Properties)



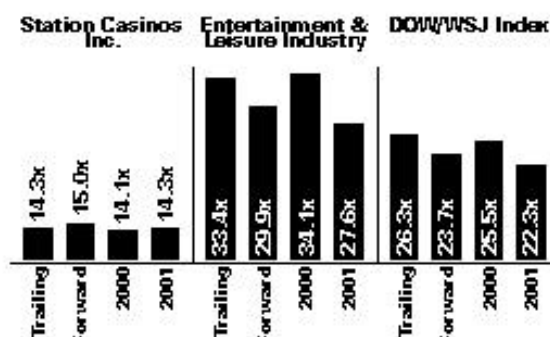
Source: Prudential Securities

STATION CASINOS, INC. Cash Flow - Las Vegas Locals' Casinos (LTM - 09/00)



*Source: Company SEC Filings
Cash flow equals EBITDA plus Operating Leases.
Coast, Arizona Charlie's, Ameristar, & Showboat Estimated

P/E ANALYSIS



CURRENT CONSENSUS RECOMMENDATION

Opinion	Analysts with Opinion	
Strong Buy		6
Buy - 1.6		6
Hold		1
Underperform		
Sell		
Analysts Included in Consensus		13

Fiscal Year Ending Dec. 31

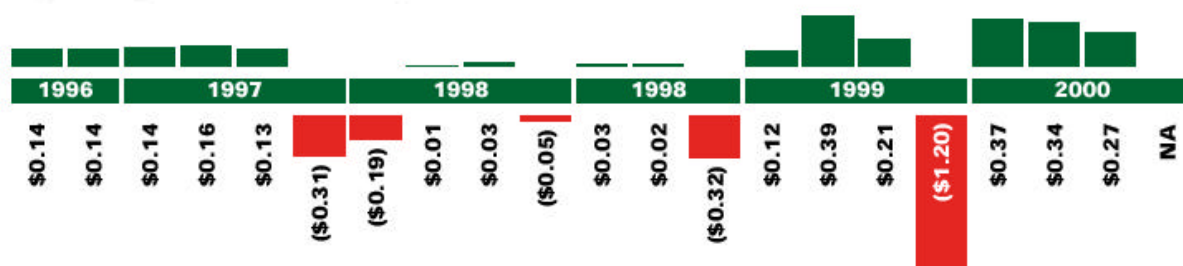
	2000	1999	1998	1997	1996	1995
Revenues (Million \$)						
1Q	254.8	229.9	204.8	173.5	135.4	95.03
2Q	244.3	235.4	235.4	194.1	138.0	119.8
3Q	249.1	237.5	213.4	197.2	133.8	122.9
4Q	—	239.6	222.5	204.8	176.3	129.9
Yr.	—	942.5	842.2	769.6	583.5	466.9
Earnings Per Share (\$)						
1Q	0.35	0.12	0.03	-0.19	0.15	0.08
2Q	0.33	0.34	0.33	0.01	0.16	0.14
3Q	0.25	0.21	-0.32	0.03	0.13	0.14
4Q	—	-1.20	-0.32	-0.32	-0.31	0.14
Yr.	—	-0.58	NA	-0.19	0.26	0.50

Next earnings report expected: late January

Institutional Ownership

Percent of Shares Owned	69.3%
Institutional Holders	215
Total Shares Held	41.7 Million
Three Month Net Purchases	0.5 Million

Quarterly EPS Primary



EPS (FY 12/31)

	1999	2000			2001			% Change	
	Actual	Old	New	St. Est.	Old	New	St. Est.	2000	2001
1Q	0.12	0.35A	0.35A	0.35A	--E	--E	0.32E	192	--
2Q	0.20	0.33A	0.33A	0.33A	--E	--E	0.33E	65	--
3Q	0.21	0.29E	0.30A	0.29E	--E	--E	0.29E	43	--
4Q	0.23	0.24E	0.24E	0.26E	--E	--E	0.30E	4	--
Year	0.77	1.21E	1.22E	1.23E	1.24E	1.24E	1.24E	58	2
P/E			13.4			13.2			

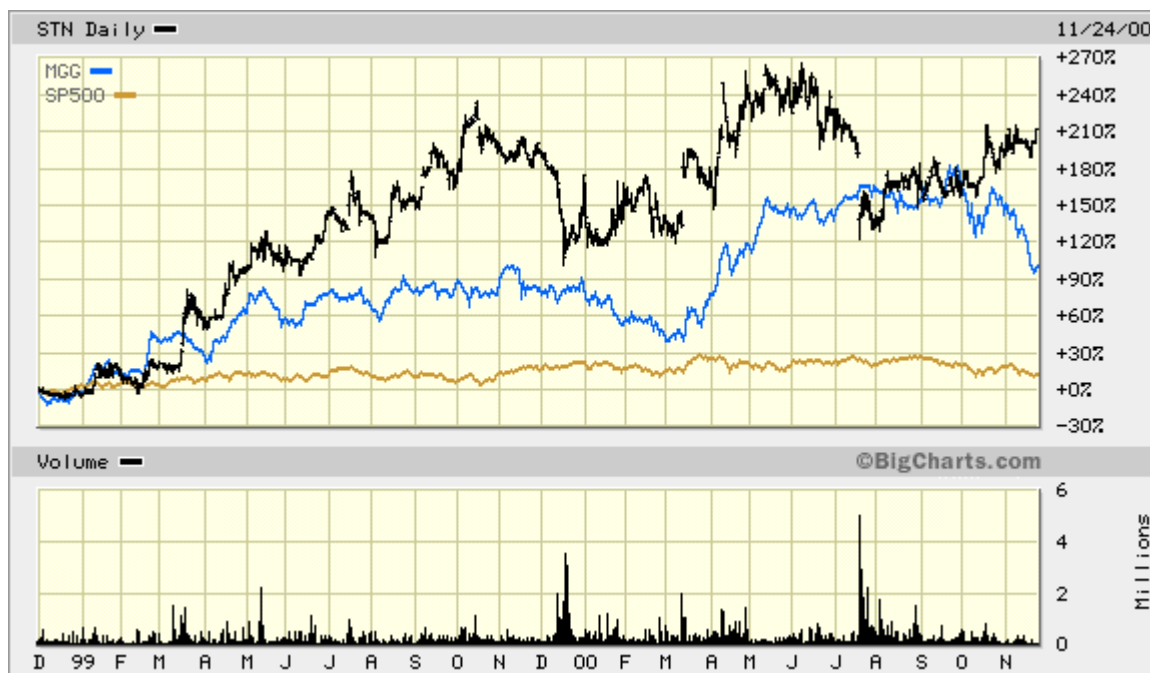
Market Data

Market Cap	\$1.0B
Shares Outstanding	62.9MM
Float	--
Dividend Yield	--
Convertible	No
52 wk Range	20 - 11

Financial Summary

Revenue FY00	\$1.0B
Five-Year EPS CAGR	15.0
Return on Equity FY00	32.6%
Current BVPS	\$3.82
Debt To Capital	79.7%
Disclosure(s)	None

	STN	ISLE	MGG	HET	PPE
Current Price	17	8.296875	28.5	28.3125	13.625
P/E	N/A	7.37	25.93	16.19	25.35
Price/Sales	1.09	0.32	1.43	1.01	0.92
Price/Book	4.08	1.69	1.86	2.22	1.07
Price/Cash Flow	20.76	3.01	9.37	7.16	6.69
EPS	-0.27	1.26	1.01	1.72	0.45
Quick Ratio	0.81	0.95	0.59	0.52	0.83
Current Ratio	1.08	1.08	1.05	0.74	1.2
Debt/Equity	3.94	5.75	2.61	2.02	1.4
Operating Margins	7.09%	16.99%	17.25%	14.91%	14.43%
Net Profit Margins	-1.66%	4.39%	5.35%	6.66%	3.62%
ROA	-1.26%	3.86%	2.33%	4.49%	1.63%
ROI	-1.39%	4.45%	2.60%	4.99%	1.74%
ROE	-6.94%	32.58%	9.05%	14.23%	4.44%
Market Cap	994 M	270 M	4.28 B	3.28 B	4.13 B
Shares Outstanding	60.2 M	30.5 M	158.9 M	116.7 M	300.2 M
Average Daily Volume	274,600	126,700	492,100	573,100	973,600



Scenarios

Positives:

- ?? Station is acquired by MGM Mirage or other large-cap company
- ?? Investments in California drive revenue higher, create edge over traditional gaming companies
- ?? Missouri properties sold quickly to Ameristar Casinos, dodging license expiration dates.
- ?? Reinvestment from Missouri properties into Las Vegas could create additional value of \$268 million, or \$4.20 per share, for Station shareholders (based on the difference between the 8.0x fair multiple and the Missouri projected multiple of 5.1x multiplied by the Missouri expected EBITDA).

Negatives:

- ?? Station management increases debt from recent transactions, unable to meet earnings
- ?? Significant decline in growth of Las Vegas residents or unpredicted vulnerability to national slowing of economy decrease slot revenue
- ?? Renovations and construction as well as interest in local competition cut revenue growth

Final Recommendation

Station has sold under performing assets, shown a willingness to reinvest in stronger markets and improved its balance sheet. We believe this stock is capable of showing a profitable increase of up to 20% within the next year. Such a return is optimal for our cyclical sector and will allow the committee more security with a profitable and fully allocated cyclical holding. While we are confident that fourth quarter earnings will be met and that the company will continue to prosper within the next two years, we do not discourage that the committee wait to purchase stock until after fourth quarter results are in and the company's ability to return on investment is backed more strongly by its numbers. Our recommendation is that the Investments Committee purchase Station Casinos for a holding of up to 3% of the portfolio to bring the cyclical sector holdings into full allocation.

Sources

BigCharts.com
Yahoo! Finance
MSN Investor
Merrill Lynch Research
Multex Investor

IndividualInvestor.com
Fidelity Investments
Lehman Brothers Research