Zmachynski & Clementi
EQUITY RESEARCH

April 17, 2017

Company Overview

Red Rock Resorts, Inc.

NASDAQ: RRR-US

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Company Report

Recommendation:
BUY

Current Stock Price: $22.35
As of 4/16/17

Target Stock Price: $26.57
(Range: $26.55-$30.66)

Upside potential: **~19%**

Buy – Target Price $26

- ***Mixed first half of 2017, but 2018 onward looks positive***
  Mixed 4Q16 results should not derail above-average top-line growth beginning 2H17 due to the strong growth of the Las Vegas Local market, the $316 million addition of the Palms in 2016, and completion of renovation at Palace Station.

- ***Domestic revenue expected to grow***
  2016 revenue up 7.4% in 2016 driven by boom in Native American casinos, with increases of 25.7% and a steady 6.1% in EBITDA growth in Las Vegas market. Las Vegas employment is up 2.7% in 2016, which is an all-time high, with housing prices increasing y/y. YTD gaming revenue is up 4.7% from previous year.

- ***Renovations and New Properties to boost EBITDA***
  RRR began $115 million improvements on The Palace Station in October 2016, expected to be completed by 2018. Expansion to boost food & beverage and gaming revenues by an additional 2-3% and 4-5% respectively in 2018-2019; Palms' integration is to boost EBITDA further

- ***Peer Comparison Indicates Attractive Play***
  Named competitors of RRR are trading at 11.65x EV/EBITDA. RRR currently trades at 10.65x EV/EBITDA, representing 19% upside.

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Report Outline –

A. Company Overview
    a. Legal Structure
B. Key Takeaways
    a. 4Q2016 Results
    b. Local Las Vegas Market
    c. Development Opportunities
    d. Balance Sheet Glance
    e. Management Agreements
C. Investment Case
D. Risks
E. Valuation
    a. Comparison
    b. Discounted Cash Flow
F. Conclusion

Company Overview

Red Rock Resorts, Inc. ("RRR" or the "Company") owns, develops, operates and manages hotel, casino and gaming properties. These include Red Rock Casino, Green Valley Ranch, Sunset Station, Palace Station, The Palms, Boulder Station, and others primarily in the Las Vegas, Nevada, area. In addition to its Las Vegas properties, Red Rock Resorts manages two Native American properties in California and Michigan. The company was formerly known as Station Casinos.

Approximately 80% to 85% of the casino revenue is generated from slot play

Its portfolio includes 21 casino and entertainment properties, 20,300+ slot and video poker machines, 4,750 hotel rooms, 350+ table games, 53 bars and lounges, 113 food and beverage venues, 96 movie screens, 26 live entertainment venues, and 282 bowling lanes. Approximately 80% to 85% of the casino revenue is generated from slot play. RRR's revenue is heavily dependent on Las Vegas residents, with 90% of residents living within 5 miles of RRR's casinos. The Company also controls seven highly desirable gaming-entitled development sites consisting of approximately 398 acres in Las Vegas and Reno, Nevada.

Institutional Investors own 101.69% of outstanding shares. Insiders own 1.19%.

Station Casinos, founded in 1976, became a publicly traded company in 1993 and, following a significant period of development and expansion between 1993 and 2007, were taken private in 2007 in a management-led buyout. Impacted by the financial crisis between 2008 and 2011, the Company completed a restructuring in June 2011 reducing its debt obligations by $4 billion. The Fertitta brothers (Frank J. Fertitta III and Lorenzo J. Fertitta), whose father founded Station Casinos, emerged as controlling shareholders following the restructuring. In May 2016, the Company completed an initial public offering ("IPO") of approximately 29.5 million shares of Class A common stock at an offering price of $19.50 per share raising net proceeds of approximately $541 million. The IPO proceeds went largely to the Fertitta family. Since the IPO, the stock has grown about 12%.

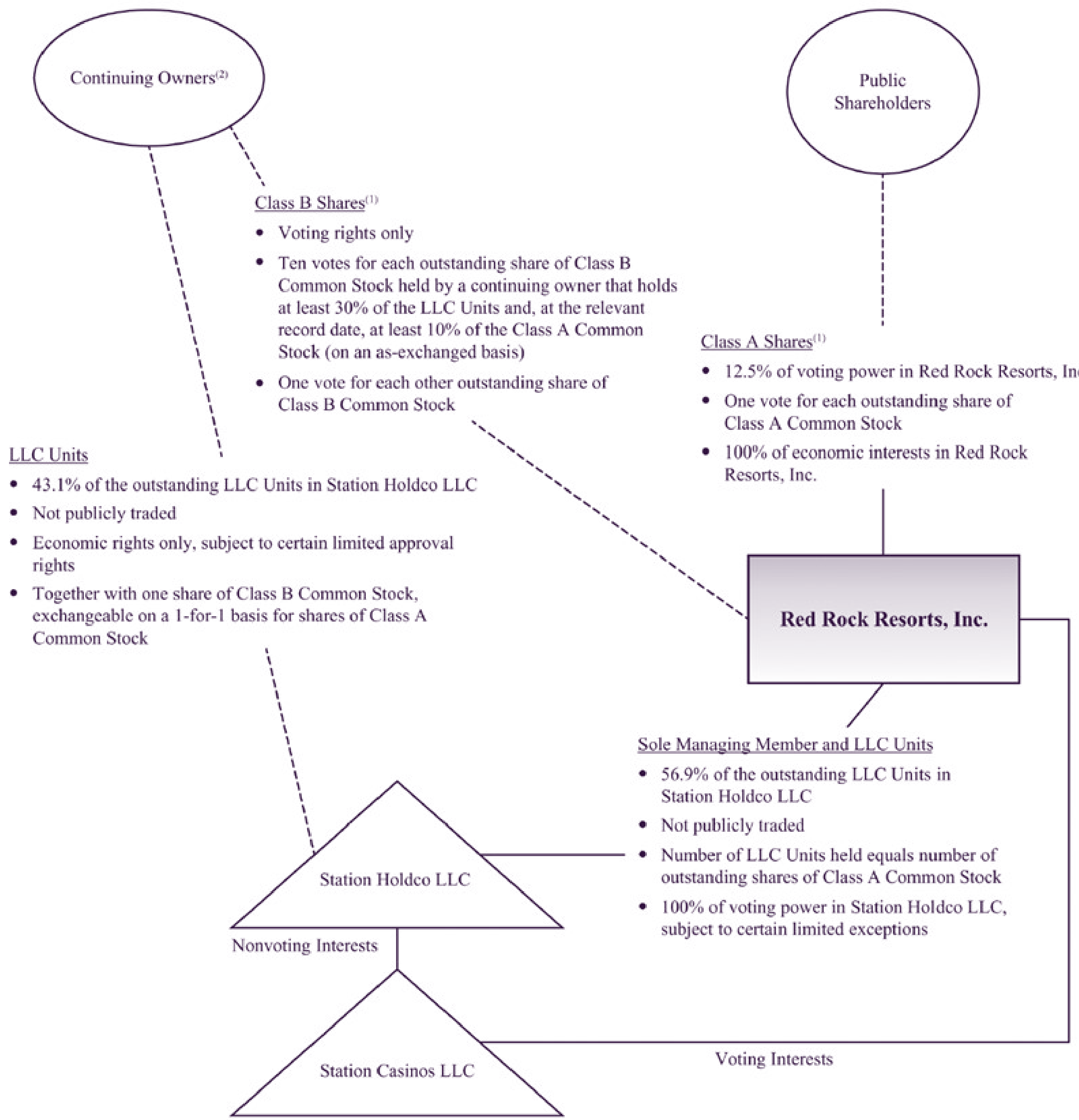
The Fertitta brothers (Frank J. Fertitta III and Lorenzo J. Fertitta), whose father founded Station Casinos, are controlling shareholders in the Company

Legal Structure

The Company manages and owns interest in Station Casinos LLC, which is the provider of gaming and entertainment. Affiliates of

Frank Fertitta III and Lorenzo Fertitta hold all of the Company's issued and outstanding shares of Class B common stock that have ten votes per share. As a result, Fertitta brothers control any action requiring the general approval of the Company's stockholders, as well as 86% of the voting power to Red Rock. Additionally, Red Rock is required to pay 85% of tax benefits, if any, to the Controlling Owners (Fertitta Brothers), which can amount to $1-15 million per year. The Controlling Owners also own 50 million LLC units that can be converted to Class A shares at any time and could significantly impact RRR's stock price.

Table 1: RRR Organizational Structure (Annual filings)



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Key Takeaways

FYE Dec

Income Statement (M)	2015A	2016A
Revenue	1,352.2	1,452.4
Operating Income	265.6	302.0
Net Income	129.5	148.5
EPS ($)	0.00	2.03
Diluted Shares Outstanding (mm)	0.0	42.0
EBITDA ($M)	451.4	484.4
Dividend/Share	0.00	0.20
Margins and Returns (%)	**2015A**	**2016A**
Operating Margin	19.6	20.8
Net Income Margin	9.6	10.2
EBITDA Margin	33.4	33.4
Cash Flow (M)	**2015A**	**2016A**
Cash flow from Operations (CFO)	212.9	127.4
CAPEX	(100.0)	(141.3)
FCF	112.9	(43.7)
FCF/Share ($)	0.00	(1.04)
Maintenace CapEx	(40.6)	(43.6)
Depreciation & Amortization	137.9	156.7
Balance Sheet (M)	**2015A**	**2016A**
Cash & Equivalents	115.1	85.5
Total Debt	2,082.4	2,411.6
Enterprise Value	1,967.2	3,225.6
Book Value/Share	0.00	4.58
Goodwill	195.7	195.7
Select Financial Data ($)	**2015A**	**2016A**
CapEx/Depreciation (%)	(72.5)	(90.2)
Valuation Ratios	**2015A**	**2016A**
FCF Yield (%)	0.0	(4.9)
EV/EBITDA(x)	7.3	10.2
P/E(x)	22.8	15.2

Q416 Recap

The Company reported mixed fourth-quarter and full-year 2016 earnings. RRR reported 4Q'16 adjusted EBITDA, post corporate expense, of $124.8 mm and adjusted EBITDA Margin of 31.6%, down ~453 bps y/y. The EBITDA was 8% below Street Consensus. The quarter was impacted by several factors, such as: 1) low sports book hold, 2) Palace Station construction disruption, 3) Palms integration costs, 4) increased food and beverage expenses and 5) an unfavorable holiday calendar.

- **Palace Renovation to persist:** Management expects disruption related to the renovation /expansions to negatively impact FY2017 EBITDA by $10-15 million, with the headwind persisting throughout 2017. Palace Station gets 70-75% of its gaming business from local customers and given construction work will take place on parking areas, we anticipate an impact to revenues.
- **Palms:** Since acquiring Palms Casino Resort ("Palms") in October, 2016, for over $300 mm, the Company completed major operating systems implementations, started café remodel and about to begin buffet remodel. EBITDA at Palms remains 60% below the prior peak, but will steadily improve over the next several quarters.
- **StationPlay:** Red Rock and GAN plc announced the launch of StationPlay, a Station-branded digital social casino application. The apps will launch in 2Q'17 and will allow players to earn points that can be spent at Red Rock's casinos. Historically, GAN has demonstrated an ability to improve player productivity on app and in brick-and-mortar.

Las Vegas Local Gaming Market

Las Vegas Locals gaming market continues to show signs of steady growth in low- to mid- single digits (2016 LV Locals gross gaming revenue (GGR) +1.7% y/y). RRR has largely maintained to modestly grown share, as measured by RRR casino revenue as a percentage of market GGR. We believe that Las Vegas Locals market continues to be well positioned to drive continued organic growth in the 3%-5% range.

Table 2: Quarterly LV Locals Market GGR & Y/Y % Chg.

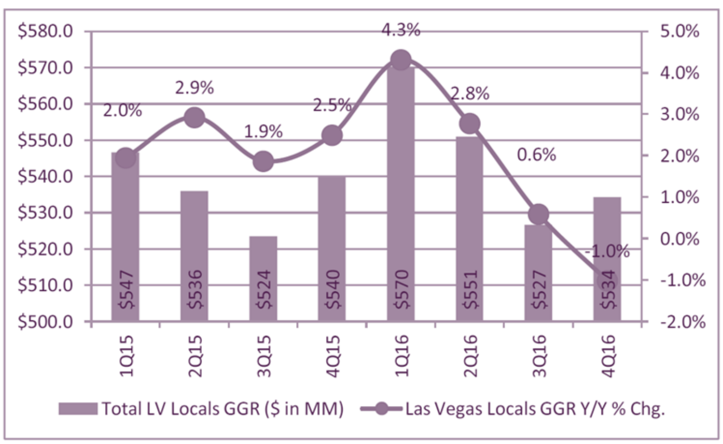


Table 3: Quarterly LV Locals Market Y/Y % Chg. in GGR

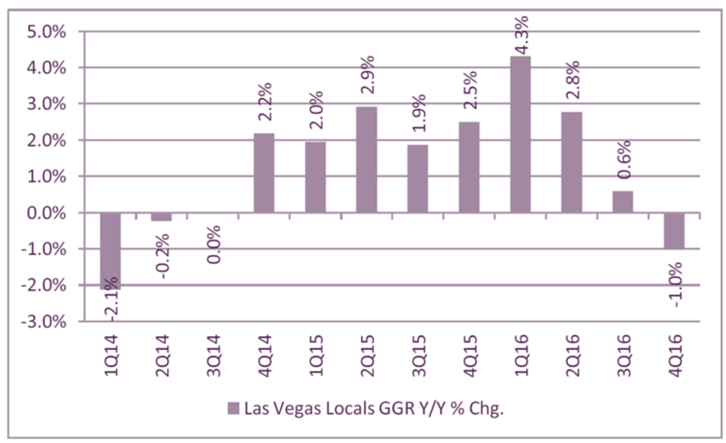


Table 4: RRR Casino Revenue as a % of LV Locals GGR

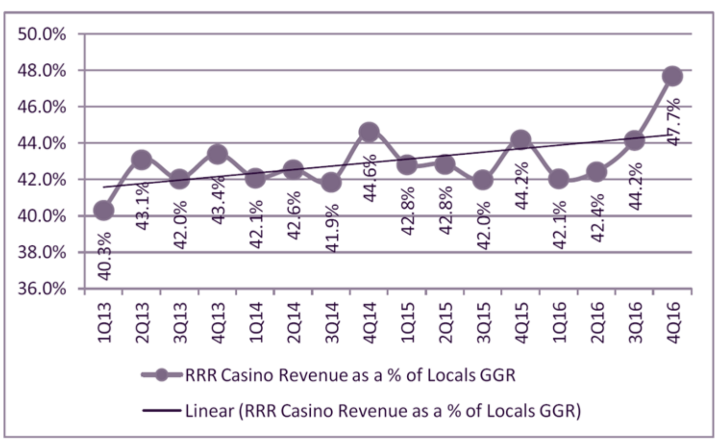
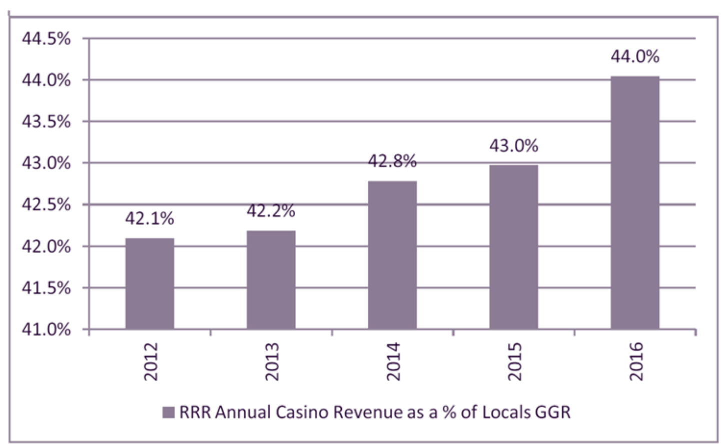


Table 5: Annual RRR Casino Revenue as a % of LV Locals GGR



Source: Company reports, Nevada Gaming Commission, and Deutsche Bank

Generally, LV locals is perceived as the best performing gaming market in North America today. There have been very little new supply & overall economic conditions continue to improve with declining unemployment, wage growth, and rising existing home prices. The lack of a state income tax & caps on property tax increases also make the region a favorite for retirees.

As reported by RRR, there are approximately $13B-$14B in new infrastructure projects and developments in the LV area. These planned developments and investments will bolster the construction jobs, and ultimately provide full-time jobs to residents in the region once completed.

That said, given construction disruptions at Palace Station, as well as the costly integration of the Palms, we expect aggregate margins to remain under pressure in the coming two quarters and anticipate 2017 margins will be down year over year, with the most meaningful headwinds coming in the 1Q'17.

We find that the Palms acquisition improves Red Rock Resorts positioning in Las Vegas as it offers better access to the growing Las Vegas Strip. Currently, all of the Companies properties are off of the Strip and cater more to Las Vegas locals.

Development Opportunities

We favorably see the current potential of the land owned by RRR, which is comprised of seven gambling-entitled development sites, a total of about 398 acres in Las Vegas and Reno, that it could still build on. Particularly, there remains an additional opportunity for greenfield development at the Durango location in the Las Vegas locals market and in Reno, near the convention center. On these items, the company is opting, for now, to wait as they adhere to a more disciplined leverage target.

As sites become farther and fewer between, RRR will have a significant advantage compared to its peers and have multiple options that other operators cannot match. It will be able to 1) Develop these sites 2) Sell off these sites in order to raise capital to fund future renovations and improvements of current properties, and 3) Enter potential JV agreements with other developers and operators. Although we have no insight into future plans for these sites, these are a few potential options.

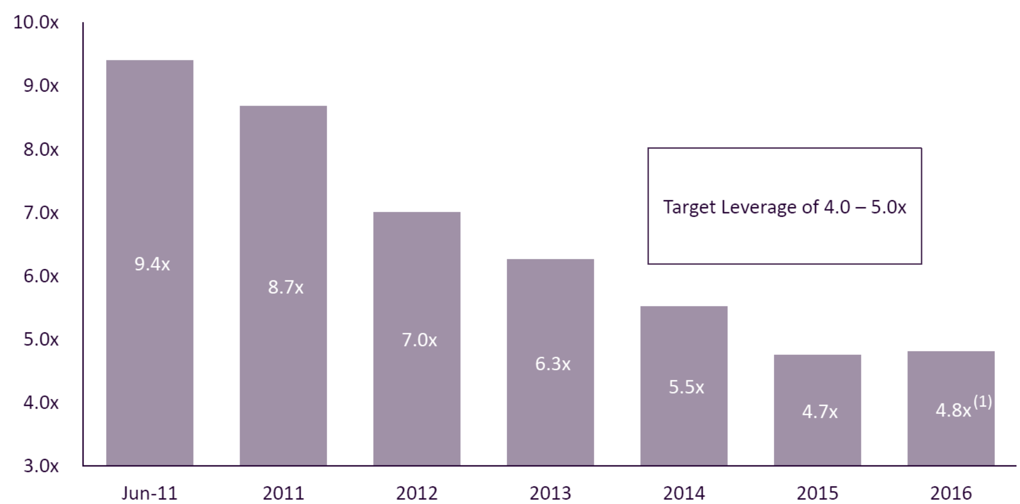
The company could also develop more properties within its Native American segment, though Las Vegas operations still make up about 93% of total revenue.

Considerably Cleaner Balance Sheet

Restructuring that the Company underwent prior to the IPO substantially improved RRR's balance sheet. Looking forward, management's targeted leverage is in the 4.0x-4.5x range of debt to EBITDA, which is consistent with the past two years' leverage ratio. Additionally, the company has sufficient liquidity with its \$134 million cash reserve as well as access to a \$685 million revolver credit facility. A recent goodwill test indicated that the fair value of properties exceeded their carrying value by 35%.

As of December 31, 2016, the principal amount of total outstanding debt, including \$115.9 million non-recourse Restructured Land Loan, totaled approximately \$2.48 billion.

Table 6: Balance Sheet Leverage (Annual filings)



(1) Consolidated leverage. Includes purchase of Palms Casino Resort.

Management Agreements

Per the U.S. government Department of Interior, tribal casino management deals are only allowed to last seven years. Typically, at the end of the term, the tribal operator will either terminate the management contract completely or retain its management responsibilities (often, following a sizable reduction in management fees). Historically, the first seven years are especially lucrative for the operator.

Gun Lake Casino

RRR owns 50% of the management of Gun Lake Casino, in which it receives roughly 30% of Gun Lake's net income. The contract terms dictate that RRR receive 50% of its net income up to the first $24 million, followed by 38% up to $48 million, and 93% of the net income in excess of $48 million. The contract expires in 2018 and is unlikely to be renewed. Revenue streams for this property are projected to be zero in and after 2019.

Grafton Casino

The management contract with Grafton Casino and Resorts will carry on through 2020. The terms dictate that RRR receive 24% of the net income of Grafton Casino through 2017, followed by 27% of the net income through the term end in 2020. We do not anticipate for the management contract to continue and thus do not predict a revenue stream for this property after 2020.

North Fork Casino

The property is still in the design and approval stage. In December, an appellate court invalidated the governor's approval of gaming activities on land taken into trust, and the tribe submitted the decision to the California Supreme Court for review with the decision expected by end of April. If the property is built within the expected timeframe, its revenue stream will replace the revenue from Gun Lake.

Management fees from managing Gun Lake Casino and Graton Resort were $111.0 million and $88.3 million for the years ended December 31, 2016 and 2015, respectively. All in all, we expect a strong $80M-$90M in Native American property level EBITDA through 2018, at which point, we would expect the Native America EBITDA to decline considerably, unless North Forks development comes to fruition.

Investment Case

- Disregarding Q4'16 soft results, we continue to believe that Red Rock is well positioned, as fundamentals in the Las Vegas Locals market continue to improve and, as we move toward the back-half of 2017, slowdown caused by property investments and low book hold will accelerate revenue growth. RRR is the ultimate path for exposure the Las Vegas North America today. RRR derives almost 100% exposure to the market.
- Red Rock is well positioned to grow EBITDA across its portfolio of properties as job/wage growth and lower energy prices create a favorable consumer-spending environment in the Las Vegas Valley (85% of current EBITDA).
- The acquisition of the Palms adding $30M-$40M to EBITDA over the next 12-18 months, with a longer-term opportunity of $60M-$70M, post capital investment.
- Red Rock's focused footprint in an attractive market makes it a potential takeout target for a strategic or a gaming REIT.

Risks

Legal structure: RRR's dual-class share structure is not optimal for investors in publicly traded securities and has historically been an impediment to valuation optimization. Controlling Owners of the 43.1% of Station Holdco have the option to convert their 50 million LLC units into Class A shares at any time, which could significantly impact the share price of RRR. Additionally, the Controlling Owners own 86.6% of the voting power of RRR, which can mean uncertain future outcomes at the whim of one family.

Market concentration: As with any heavily regional focused operator or company such as RRR, local economy contraction could have a serious impact. Current trends don't point towards a contraction, but rather the opposite. But market concentration remains a risk for the company.

Native American Casinos revenue: RRR need a more definitive plan on how to replace approximately ~$85 million of annual EBITDA related to management contracts for two Native American gaming facilities, where the contracts are set to expire in February 2018 and November 2020.

Valuation

Red Rock Resorts is currently trading at 9.8x our 2017 EBITDA estimate of $527.10 million, which represents a discount of 16% compared to its peers' EV/EBITDA multiple.

We conducted our valuation using a comparable approach and a discounted cash flow approach detailed below. Both valuations represent Red Rock's state of undervaluation, with upside potential of 19%-37%.

All numbers stated below are in USD$ millions except per share data, unless otherwise noted.

Comparable Approach – CY EBITDA multiple

An analysis of RRR's top ten named competitors by EV/EBITDA indicates that RRR is currently trading at a 10.54x multiple, while it's peer class is trading closer to an average of 11.65x (including the 7.73x multiple of Caesars Entertainment that is in the process of coming out of the Chapter 11 bankruptcy proceeding). Calculating RRR's enterprise value using the EV/EBITDA multiple results in an implied enterprise value of $5.715 billion, and an implied share price of $27.10.

Based on the comparable approach, RRR is trading at discount of around 21%.

Table 7: Top Ten Named Competitors (FactSet, as of 4/13/2017)

COMPARABLES (in mm)						
Company	**Price**	**Market Value**	**Sales**	**EV/EBIT**	**EV/EBITDA**	**P/E**
Boyd Gaming	$22	$2,456	$2,184	17.57x	10.78x	22.2x
Caesars Entertainment	$10	$1,406	$3,877	20.92x	7.73x	-
MGM Resorts	$28	$15,831	$9,455	24.40x	14.66x	25.3x
Eldorado Resorts	$19	$897	$893	16.49x	10.05x	32.6x
Pinnacle Entertainment	$20	$1,108	$2,379	12.72x	8.20x	8.8x
Fogo de Chao	$16	$438	$288	14.41x	10.25x	16.5x
Penn National Gaming	$19	$1,705	$3,034	11.76x	7.85x	11.6x
Wynn Resorts	$115	$11,760	$4,466	37.11x	20.90x	25.5x
Las Vegas Sands	$57	$44,869	$11,410	20.86x	14.42x	22.9x
Average	$34	$8,941	$4,221	19.58x	11.65x	20.7x
Median	$20	$1,705	$3,034	17.57x	10.25x	22.6x
Red Rock Resorts (Class A)	$22	$2,603	$1,452	**15.49x**	**10.54x**	**22.5x**

Table 8: Comparable Approach Valuation

COMPARABLES (in mm)	
2016 EBITDA	$491
Avg EBITDA Multiple	11.65x
Enterprise Value	$5,716
Less: Total Debt	($2,422)
Less: Preferred Equity	$0
Less: Minority Interest	($284)
Plus: Investments in Unconsolida	$11
Less: Pension Liabilities	($5)
Plus: Cash and Equivalents	$136
Market Capitalization	$3,152
Diluted Shares Outstanding	116.3
Price Per Share	$27.10
Upside/(Downside)	**21.05%**

Comparable Approach – 2017E and 2018E EBITDA multiple

We also calculated the enterprise value based on the comparable multiple used above of 11.65x EV/EBITDA (which is the average EV/EBITDA of RRR's named competitors), and our calculated 2017 EBITDA value of $527.10 million. This approach results in an enterprise value of $6.139 billion and a target price of $30.66, which represents an upside potential of 37%.

Table 9: Valuation using EV/EBITDA Multiple and Projected 2017 EBITDA

COMPARABLES - VALUATION (in mm)		
	2017E	**2018E**
EBITDA	$527	$581
Multiple	$12	$12
EV	$6,139	$6,767
Net Debt	($2,422)	($3,172)
Cash	$136	$150
Minority	($284)	($284)
Pension	($5)	($5)
Equity Value	$3,565	$3,457
Target Price	$ 30.66	$ 29.72
Upside (Down)	37%	33%

The street consensus on the projected 2017 EBITDA is $534.8 million, which is slightly more aggressive than our projection of $527.10 million. Therefore, we are taking a more conservative approach in earnings projections than the street.

Table 10: Street Consensus

TRADING MULTIPLES (in mm)				
		2017E		2018E
Street Consensus				
EBITDA	$	535	$	564
EV/EBITDA		9.x		8.8x
EPS	$	1	$	1
P/E		18.x		15.7x
Comparables				
EV/EBITDA		11.65x		
P/E		20.68x		
RRR Premium/(Discount)				
EV/EBITDA		*-22.7%*		
P/E		*-12.9%*		

Discounted Cash Flow Valuations

A discounted cash flow valuation, using a weighted average cost of capital as the discount rate, was also conducted. This approach provides a clearer picture of RRR's revenue streams and earnings, based on projections over the next five years. This approach results in an implied share price of $26.57 and an enterprise value of $5,656 million, representing a 19% premium to RRR's current share price.

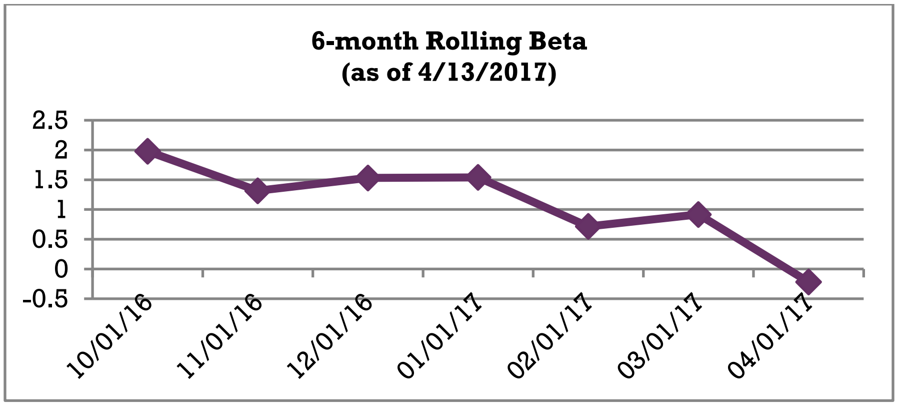
Discount Rate

The weighted average cost of capital was utilized due to RRR's current stable leverage ratio of about 4.6x. RRR's debt to equity ratio has remained relatively constant from 2015 to 2016, and management expects to keep leverage ratios consistent into the future, between 4.0x-5.0x. Therefore, a steady debt to equity ratio is a fair assumption to make for the future.

Beta

Due to RRR's recent IPO in 2016, it is difficult to measure RRR's beta by company returns against market returns. A six-month rolling beta analysis was conducted but resulted in an insignificant relationship as shown in the graph below.

Table 11: 6-month Rolling Beta of RRR as of 4/13/2017



Therefore, we projected the beta based on RRR's peers, by "un-levering" the beta of the comparable companies and "re-levering" it to account for RRR's current capital structure. Our result was a beta of 1.53.

Table 12: Beta Calculation (Financials pulled from Factset)

Comparable Companies - Unlevered Beta Calculation (in mm)						
Name	Levered Beta	Debt	Equity	Enterprise Value	Tax Rate	Unlevered Beta
Boyd Gaming	1.69	$3,230	$2,166	$5,395	19%	0.76
MGM Resorts	1.57	$13,147	$17,944	$31,090	15%	0.97
Penn National Gaming	1.16	$1,416	$890	$2,306	30%	0.55
Wynn Resorts	1.82	$10,125	$6,297	$16,422	23%	0.81
Las Vegas Sands	1.83	$9,595	$41,651	$51,246	8%	1.51
Median	1.69					0.81
RRR	1.31	$ 2,422.30	$ 2,745.26	$ 5,167.56	5%	0.81

Tax Rate

RRR's effective tax rate is 5%, as reported in its Annual 10-K. This is primarily due to RRR's ownership structure, whereby tax is filtered through to non-controlling investors representing 43% of the company and the fact that the company derives 100% of its income from an underlying LLC which is not subject to federal income tax.

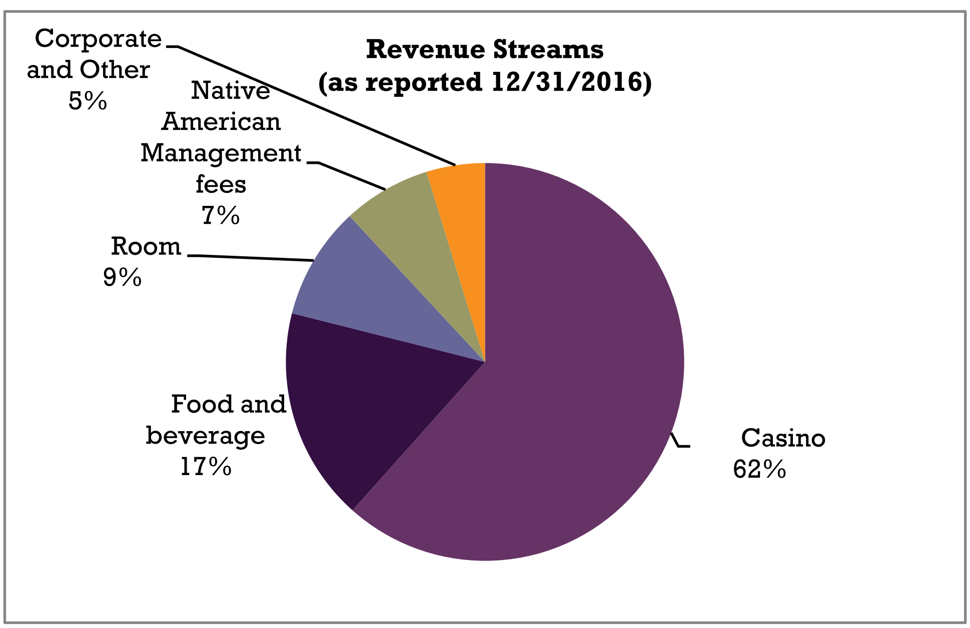
Weighted Average Cost of Capital

The cost of equity was calculated using the capital asset pricing model, comprised of the 5-year Treasury rate of 2%, an estimate of the beta described above, and an equity risk premium of 7%, based on market averages. The resulting cost of equity was 12.72%. Using the current debt-to-equity structure, as it remains constant into the future, and the cost of debt of 3.75% as listed in RRR's 10-K, results in a weighted average cost of capital of 8.43%.

Revenue Projections

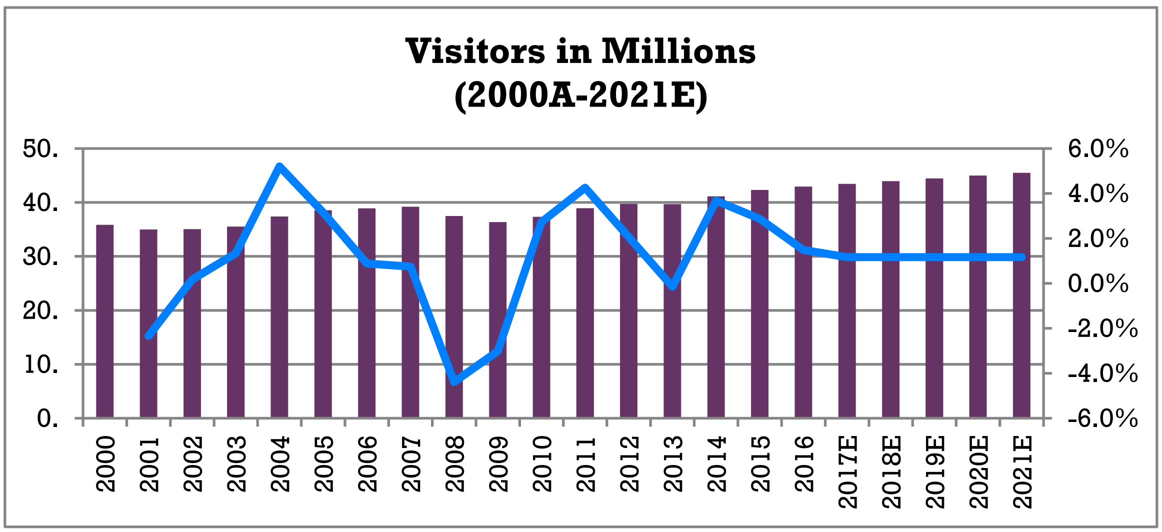
RRR receives its revenue through five main revenue streams: casinos, food and beverages, rooms, Native American management fees, and other corporate expenses. Casino, food and beverage, and room revenues all stem from the Las Vegas properties exclusively, and thus are dependent on local Las Vegas market as well as the overall general macro condition of the United States economy. We projected each of these five areas separately as detailed below.

Table 13: 2016 Revenue Streams from 12/31/16 Annual Filing



Prior to diving into our assumptions per revenue stream, it is important to note two main assumptions we used to conduct our analysis of each revenue stream. First, we assumed that the number of visitors to Las Vegas would improve based on the historical trend and the historical growth rate of 1.2% year over year, as shown below based on statistical information from the Las Vegas Convention and Visitor Authority.

Table 14: Las Vegas Visitors, in millions (Source: LVCVA.com)

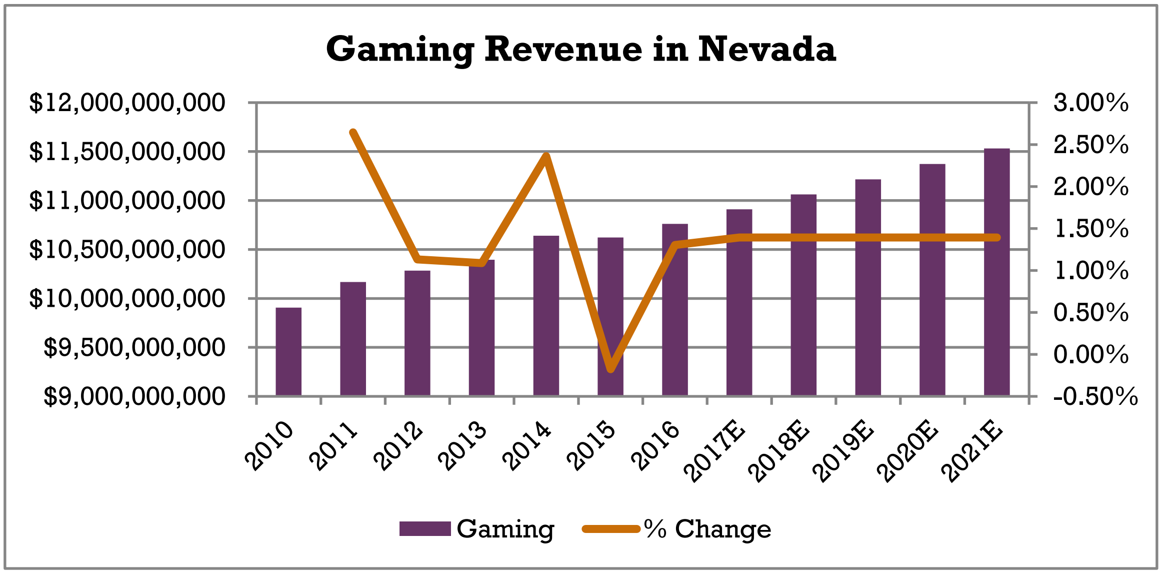


Second, we assumed that the economy of Las Vegas would continue to improve, as housing prices continue to rise and unemployment remains at an all time low. Revenue streams are dependent on Las Vegas's residents and the local economy.

Casino Revenue

Casino revenue represents over 62% of RRR's sales. Gaming revenue in Nevada has grown an average of 1.39% year over year from 2010-2016 based on Las Vegas statistics. We project that the total revenue for Nevada will remain on an upward trajectory as the local economy continues to improve growing at the modest 1.39% rate.

Table 15: Total Gaming Revenue Historical Statistics (gaming.unlv.edu)



Currently, RRR captures 0.0089% of the Las Vegas Market. We anticipate through the acquisition of the Palm in 2016 and the completion of the Palace Station expansion in late 2017/2018, a modest increase in market share acquisition to 0.0097% through 2019 and then assume a stabilization rate of 0.0097% going forward. Using our projected market share rate and the growth of the gaming revenue of Nevada, we calculated the anticipated casino revenue RRR should expect to capture.

This resulted in a modest growth in RRR's casino revenue of 4.5% in 2017 and 5.3% in 2018, again due to the Palms and Palace effect on casino revenue, followed by a 1.4% growth from 2019 onward. We feel these calculations are conservative and achievable based on management's expectations and our analysis of the Las Vegas market.

Table 16: Casino Revenue Projections

CASINO REVENUE	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Visitors to Las Vegas	41,126,512	42,312,216	42,936,109	43,437,331	43,944,404	44,457,397	44,976,378	45,501,418
Total Gaming Revenue Nevada (Actual)	$ 10,641,153,886	$ 10,622,398,628	$ 10,760,756,016	$ 10,910,573,029	$ 11,062,475,876	$ 11,216,493,595	$ 11,372,655,631	$ 11,530,991,839
% Gaming Growth LV		*-0.2%*	*1.3%*	*1.4%*	*1.4%*	*1.4%*	*1.4%*	*1.4%*
% of Las Vegas Revenue Captured by RRR		*0.0087%*	*0.0089%*	*0.0092%*	*0.0095%*	*0.0097%*	*0.0097%*	*0.0097%*
Casino Revenue (thousands)	$ 897,361	$ 922,154	$ 960,992	$ 1,001,466	$ 1,054,312	$ 1,091,424	$ 1,106,619	$ 1,122,026
% RRR Casino Growth		*2.8%*	*4.2%*	*4.2%*	*5.3%*	*3.5%*	*1.4%*	*1.4%*
Casino Revenue (millions)	**$ 897.36**	**$ 922.15**	**$ 960.99**	**$ 1,001.47**	**$ 1,054.31**	**$ 1,091.42**	**$ 1,106.62**	**$ 1,122.03**

For food and beverage revenue streams, we again looked towards the overall trends in the Nevada market. From 2010-2016, the average growth in food revenue in casino related facilities grew 3.88% per year. Similarly, the average growth in beverage revenue related to casino facilities grew 1.4% year over year.

Based on these growth rates due to our conviction on the continued improvement of the Las Vegas market, we took a weighted average of the percent of revenue RRR receives through food and beverage. RRR receives on average 69% of its combined food and beverage revenue from food, and 31% from beverages. The weighted average of the food and beverage growth rates on RRR's breakdown, results in a combined weighted average growth rate of 3.11%.

Due to the completion of the Palace Station in 2018 and the acquisition of the Palms, which are expected to significantly improve food and beverage revenue, we added and additional growth rate of 2%. Management has noted in their earnings report for 2016, that the construction on the Palace Station significantly hurt their revenue for food, but will subside as the construction minimizes in 2017 and completes in 2018. We feel the modest boost in revenue is conservative.

Therefore, our growth rate in the food and beverage sector is set to grow at 5.11%.

Table 17: Food Revenue Projections

FOOD REVENUE	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Food and Beverage Revenue (in mm)	$ 239	$ 251	$ 271	$ 284	$ 299	$ 314	$ 330	$ 347
% Revenue Growth		*5.03%*	*7.72%*	*5.11%*	*5.11%*	*5.11%*	*5.11%*	*5.11%*
Food / Food + Beverage % Revenue	69%							
Beverage / Food + Beverage % Revenue	31%							
Average Growth Food (2014-2016)	3.88%							
Average Growth Beverage (2014-2016)	1.41%							
Combined Weighted Average	3.11%							
Adjustment for Palms/Palace	5.1%							

Room Revenue

Room revenue was calculating by looking at the revenue per available room (REVPAR) growth of historical data and management's expected continued growth. In 2016, REVPAR grew 5% from the previous year. Management expects similar growth, and we feel a more conservative 4.5% growth is appropriate given the comparable projection by similar firms on the Las Vegas strip.

Therefore, we projected the REVPAR per year at a growth rate of 4.5% times the number of revenue generating rooms. On average, only 48% of RRR's 4,700 hotel rooms generate revenue. This has increased from 41% in years previous to 2016 due to RRR's acquisition of the Palms. We adjusted for an increase in hotel rooms for the completion of the Palace Station, and computed the revenue generated, based on the rooms generating revenue, the occupancy rate, and the REVPAR.

Table 18: Room Revenue Projections

ROOM REVENUE	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Occupancy	90.60%	93.50%	92.80%	92.80%	93.30%	93.80%	93.80%	93.80%
Average Occupancy 2014-2016			*92.30%*					
Average Daily Rate	$ 74.53	$ 79.11	$ 86.52	$ 90.44	$ 94.00	$ 97.70	$ 102.10	$ 106.70
Daily Rate % growth		*6.15%*	*9.37%*	*4.53%*	*3.94%*	*3.94%*	*4.50%*	*4.50%*
Revenue per available Room	67.49	73.93	80.31	$ 83.92	$ 87.70	$ 91.65	$ 95.77	$ 100.08
RevPar % growth		*9.54%*	*8.63%*	*4.50%*	*4.50%*	*4.50%*	*4.50%*	*4.50%*
Number of Hotel Rooms	4,041	4,041	4,754	4,754	4,754	4,754	4,754	4,754
Palace under Construction			(1,011)	(1,011)	-	-	-	-
Total Available Rooms			3,743	3,743	4,754	4,754	4,754	4,754
Complimentary Rooms (non-revenue)			1,964	1,964	2,494	2,494	2,494	2,494
% of Complimentary			*52.5%*	*52.5%*	*52.5%*	*52.5%*	*52.5%*	*52.5%*
Revenue generating rooms	1,669	1,662	1,779	1,779	2,260	2,260	2,260	2,260
% of Rooms generating Revenue	*41.3%*	*41.1%*	*47.5%*	*48.0%*	*47.5%*	*47.5%*	*47.5%*	*47.5%*
Revenue from Rooms (thousands)	**$ 112,664**	**$ 122,888**	**$ 142,858**	**$ 149,301**	**$ 198,161**	**$ 207,078**	**$ 216,396**	**$ 226,134**
Revenue from Rooms (millions)	**$ 112.66**	**$ 122.89**	**$ 142.86**	**$ 149.30**	**$ 198.16**	**$ 207.08**	**$ 216.40**	**$ 226.13**

Management Fees

RRR receives management fees from two Native American properties: Gun Lake and Graton Resorts. We projected the revenues for Gun Lake at a historical rate of 7.4% based on the management contract and continued growth of the property, until 2018, when the management contract is expected to expire.

Similarly, we projected the management fee from Graton Resorts to grow at a conservative 3% rate, consistent with the growth of the United States economy based on Graton's location in California and its overall potential going forward. Revenue streams will end in 2020 as the contract expires.

RRR is also in ongoing discussions with North Fork Casinos, another Native America property, but has yet to agree on a contract and thus will not receive revenue in the foreseeable future.

Other Revenue

Corporate revenue and promotional allowances were projected an average historical growth rates of 3% and 5% respectively. We do not see any foreseeable changes to these steady growth rates.

OTHER REVENUE	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Native American Management fees	$ 69	$ 89	$ 112	$ 118	$ 118	$ 73	$ 75	$ 77
% Change		*29.2%*	*25.5%*	*5.7%*	*0.3%*	*-38.0%*	*2.6%*	*2.4%*
Average of 2014-2016 % Change	27%							
Gun Lake	$ 33.3	$ 37.7	$ 40.5	$ 44	$ 47	$ -	$ -	$ -
% Change		*13.2%*	*7.4%*	*7.4%*	*3.0%*	*3.0%*	*3.0%*	*#DIV/0!*
Average of 2014-2016 % Change	10%							
Graton Resorts	$ 27.3	$ 43.0	$ 58.4	$ 60.15	$ 61.96	$ 63.82	$ 65.73	$ -
% Change		*57.5%*	*35.8%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*
Average of 2014-2016 % Change	47%							
North Fork							$ -	$ -
% Change								
Average of 2014-2016 % Change								
Reimbursable Fees	$ 7.5	$ 7.3	$ 8.9	$ 9.76	$ 7.50	$ 7.50	$ 7.50	$ 75.00
% Change		*-2.7%*	*21.9%*	*9.6%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
Average of 2014-2016 % Change	10%							
Other Management Fees	$ 0.1	$ 0.2	$ 3.3	$ 4.45	$ 2.00	$ 2.00	$ 2.00	$ 2.00
% Change		*35.3%*	*2066.1%*	*35.3%*	*-55.0%*	*0.0%*	*0.0%*	
Average of 2014-2016 % Change	1051%							
Corporate and Other	$ 70.5	$ 69.7	$ 74.2	$ 76.17	$ 78.19	$ 80.26	$ 82.39	$ 84.57
% Change		*-1.1%*	*6.4%*	*2.6%*	*2.6%*	*2.6%*	*2.6%*	*2.6%*
Average of 2014-2016 % Change	3%							
Promotional Allowances	-$ 96.9	-$ 102.7	-$ 107.8	-$ 113.64	-$ 119.83	-$ 126.36	-$ 133.24	-$ 140.50
% Change		*6.0%*	*4.9%*	*5.4%*	*5.4%*	*5.4%*	*5.4%*	*5.4%*
Average of 2014-2016 % Change	5%							

Expenses

Expenses were projected starting at historical profit margin %, or in the case of SG&A, preopening, and depreciation expenses as a % of revenue. We project a slight decrease in expenses as percentage of revenue as economies of scale take effect.

Table 20: Expense Projections

EXPENSES (in mm)	2012A	2013A	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Gross Revenues	$1,330	$1,351	$1,389	$1,455	$1,560	$1,629	$1,748	$1,766	$1,811	$1,857
Operating costs and expenses	($1,060)	($1,041)	($1,055)	($1,065)	($1,143)	($1,154)	($1,234)	($1,261)	($1,288)	($1,334)
Casino	($355)	($340)	($341)	($348)	($369)	($385)	($415)	($441)	($458)	($476)
% Margin			*61.9%*	*62.3%*	*61.6%*	*60.6%*	*59.6%*	*58.6%*	*57.6%*	*57.6%*
Food and beverage	($161)	($162)	($157)	($163)	($185)	($195)	($205)	($215)	($226)	($238)
% Margin			*34.3%*	*35.2%*	*31.6%*	*30.0%*	*29.0%*	*29.0%*	*27.0%*	*27.0%*
Room	($43)	($43)	($45)	($47)	($55)	($57)	($76)	($80)	($83)	($87)
% Margin			*59.6%*	*62.1%*	*61.5%*	*61.5%*	*61.5%*	*61.5%*	*61.5%*	*61.5%*
Other	($27)	($27)	($29)	($25)	($27)	($28)	($30)	($30)	($31)	($32)
% Revenue	($0)	($0)	($0)	($0)	($0)	($0)	($0)	($0)	($0)	($0)
Selling, general and administrative	($308)	($328)	($320)	($328)	($326)	($326)	($350)	($336)	($326)	($334)
% Revenue			*24.8%*	*24.2%*	*22.4%*	*20.0%*	*20.0%*	*19.0%*	*18.0%*	*18.0%*
Preopening	($0)	($0)	($1)	($1)	($1)	($1)	($1)	($1)	($1)	($1)
% Revenue	*0.0%*	*0.0%*	*0.0%*	*-0.1%*	*0.0%*	*-0.1%*	*-0.1%*	*-0.1%*	*-0.1%*	*-0.1%*
Depreciation and amortization	($129)	($129)	($128)	($138)	($157)	($163)	($157)	($159)	($163)	($167)
% Revenue	*-9.7%*	*-9.5%*	*-9.2%*	*-9.5%*	*-10.0%*	*-10.0%*	*-9.0%*	*-9.0%*	*-9.0%*	*-9.0%*

Debt Expense

The company is expected to maintain their current leverage ratio of 4.6x EBITDA. Therefore, we calculated the debt payments as 4.6x projected EBITDA times the average interest on debt of 3.75%.

Table 21: Debt Interest Expense Projections

Debt Interest Schedule (in mm)	2017E	2018E	2019E	2020E	2021E
EBITDA	$527	$581	$563	$589	$598
Leverage Ratio	4.6	4.6	4.6	4.6	4.6
Total Debt	$2,422	$2,670	$2,587	$2,708	$2,748
Interest on Debt	3.75%	3.75%	3.75%	3.75%	3.75%
Debt Expense	**$90.84**	**$100.12**	**$97.03**	**$101.57**	**$103.05**

Capital Expenditures

The company is anticipated to spend $150 million on capital expenditures for the improvements of its properties in 2017, including the large construction costs on the construction of the

Palace Station. Similarly, $110 million is budgeted for the continued improvements and completion of construction of the Palace Station in 2018. We anticipate modest capital expenditures improvements of $60 million in 2019 and reducing down to historical past levels of $25 million in years without significant property construction. We anticipant conservative levels of CapEx in 2020 and beyond due to RRR's focus on low and middle income gamers. Therefore, capital expenditures are much lower than other luxury casino operators, as such expenditures will be used for general maintenance and small improvement projects.

Table 22: Capital Expenditure Expense Projections

CapEx Schedule (in mm)					
	2017E	2018E	2019E	2020E	2021E
Project CapEx	$150	$110	$60	$25	$25
Maintenance Capex	$40	$40	$45	$45	$50
Total CapEx	**$190**	**$150**	**$105**	**$70**	**$75**

Valuation Analysis

We used a terminal growth rate of 2.5% in line with the growth of the United States' economy and inflation rate, due to the maturity of the casino industry and RRR's casino portfolio. This represents an implied terminal multiple of 7.7x.

Our discount cash flow analysis results in an enterprise value of $5.656 billion. Once we adjust for debt, minority interest, pension liabilities, cash and investments in unconsolidated subsidiaries, we reach an equity value of $3.090 billon. The number of diluted shares outstanding is 116.3 million. This results in an implied price per share of $26.57, which represents a premium of 19%.

Table 23: Discounted Cash Flow Analysis

DCF ANALYSIS (in mm)	2017E	2018E	2019E	2020E	2021E
EBIT	$364	$424	$404	$426	$431
Less: Taxes	($5)	($6)	($7)	($8)	($9)
EBIT After Tax	$359	$418	$397	$418	$422
Plus: D&A	$163	$157	$159	$163	$167
Less: Capex	($190)	($150)	($105)	($70)	($75)
Less: Change in Working Capital	($21)	($2)	($2)	($1)	($1)
Unlevered FCF	**$311**	**$423**	**$449**	**$510**	**$513**
Discount Periods	*1.00*	*2.00*	*3.00*	*4.00*	*5.00*
Discounted Cash Flows	$286	$360	$353	$369	$342
Terminal Value	$5,914				
WACC	8.43%				
Terminal Growth Rate	2.5%	CF/TV split			
PV of CF	$1,710	30.23%			
PV of TV	$3,946	69.77%			
Implied Terminal Multiple	7.70				
Enterprise Value	**$5,656**				
Less: Total Debt	($2,422)				
Less: Minority Interest	($284)				
Plus: Cash and Equivalents	$134				
Plus: Investments in Unconsolidated Subsi	$11				
Less: Pension Liabilities	($5)				
Equity Value	**$3,090**				
Common Shares Outstanding (millions)	116.30				
Implied Price per Share	**26.57**				
Premium / (Discount)	*19%*				

Conclusion

We believe RRR is currently undervalued in the market. Our target price is $26.57 and recommend that investors buy RRR, to achieve an upside potential of 19%. We see RRR as a concentrated play on macro improvements in the Las Vegas Locals market, capitalized on current casino portfolio, which will be complemented over time by acquisition related growth (Palms) and incremental project capex driving incremental EBITDA.

Our valuation is for a year horizon, however. Our concern on the legal structure and voting interest by the Fertitta Brothers makes this stock a short-term play, and not necessarily a long-term growth opportunity. Nonetheless, there is a 19% upside potential to be made as the stock price is currently undervalued in the near future and we recommend investors with a year-horizon to buy.

Table 24: Cash Flow Projections

INCOME STATEMENT AND CASH FLOW		2012A	2013A	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Net revenues		**$1,230**	**$1,256**	**$1,292**	**$1,352**	**$1,452**	**$1,516**	**$1,628**	**$1,640**	**$1,678**	**$1,717**
Gross revenues		$1,330	$1,351	$1,389	$1,455	$1,560	$1,629	$1,748	$1,766	$1,811	$1,857
Las Vegas											
Casino		$886	$882	$897	$922	$961	$1,001	$1,054	$1,091	$1,107	$1,122
Food and beverage		$238	$236	$239	$251	$271	$284	$299	$314	$330	$347
Room		$106	$106	$113	$123	$143	$149	$198	$207	$216	$226
Native American Management fees		$31	$60	$69	$89	$112	$118	$118	$73	$75	$77
Corporate and Other		$70	$67	$71	$70	$74	$76	$78	$80	$82	$85
Promotional allowances		($100)	($95)	($97)	($103)	($108)	($114)	($120)	($126)	($133)	($141)
Total Revenue		**$1,230**	**$1,256**	**$1,292**	**$1,352**	**$1,452**	**$1,516**	**$1,628**	**$1,640**	**$1,678**	**$1,717**
Operating costs and expenses		**($1,060)**	**($1,041)**	**($1,055)**	**($1,065)**	**($1,143)**	**($1,151)**	**($1,204)**	**($1,236)**	**($1,251)**	**($1,286)**
Casino		($355)	($340)	($341)	($348)	($369)	($385)	($405)	($419)	($425)	($431)
Food and beverage		($161)	($162)	($157)	($163)	($185)	($195)	($205)	($215)	($226)	($238)
Room		($43)	($43)	($45)	($47)	($55)	($55)	($57)	($76)	($80)	($83)
Other		($27)	($27)	($29)	($25)	($27)	($28)	($30)	($30)	($31)	($32)
Selling, general and administrative		($308)	($328)	($320)	($328)	($326)	($326)	($350)	($336)	($326)	($334)
Preopening		($0)	($0)	($1)	($1)	($1)	($1)	($1)	($1)	($1)	($1)
Depreciation and amortization		($129)	($129)	($128)	($138)	($157)	($163)	($157)	($159)	($163)	($167)
Management fee expense		($16)	--	--	--	--	-	-	-	-	-
Impairment of goodwill		$0	($1)	--	--	--	-	-	-	-	-
Asset impairment		($10)	$0	($12)	($6)	$0	-	-	-	-	-
Write-downs and other charges, net		($10)	($12)	($21)	($10)	($25)	($10)	($12)	($21)	($10)	($25)
Operating income (EBIT)		$170	$215	$237	$287	$309	$364	$424	$404	$426	$431
EBIT Margin %		*14%*	*17%*	*18%*	*21%*	*21%*	*24%*	*26%*	*25%*	*25%*	*25%*
Plus: Depreciation and Amortization		$129	$129	$128	$138	$157	$163	$157	$159	$163	$167
EBITDA		**$300**	**$344**	**$365**	**$425**	**$466**	**$527**	**$581**	**$563**	**$589**	**$598**
EBITDA Margin %		*24%*	*27%*	*28%*	*31%*	*32%*	*35%*	*36%*	*34%*	*35%*	*35%*
EBITDA Growth %				*15%*	*6%*	*16%*	*10%*	*13%*	*10%*	*-3%*	*5%*
CAGR 2012-2016	12%										
Earnings from joint ventures		$2	$2	$1	$1	$2	$1	$1	$1	$1	$1
Operating income and earnings from joint ventures		$172	$217	$238	$288	$311	$336	$363	$392	$424	$457
Other expense / income		($140)	($296)	($107)	($145)	($147)	($237)	($252)	($255)	($266)	($274)
Interest expense, net		($190)	($165)	($152)	($144)	($140)	($146)	($152)	($158)	($164)	($171)
Loss on extinguishment and modification of debt		($52)	($147)	($4)	($0)	($7)	($91)	($100)	($97)	($102)	($103)
Gain on Native American development		$103	$17	$49	$0	$0	-	-	-	-	-
Change in fair value of derivative instruments		($1)	($0)	($0)	($0)	$0	-	-	-	-	-
Income(Profit) before income tax		**$33**	**($79)**	**$131**	**$143**	**$164**	**$100**	**$111**	**$137**	**$158**	**$184**
Provision for income tax		--	--	$0	$0	$8	$5	$6	$7	$8	$9
Effective tax rate %	5%										
Income / loss from continuing operations		$33	($79)	$131	$143	$156	$95	$106	$131	$150	$175
Discontinued operations		($13)	($25)	($43)	($0)	$0	-	-	-	-	-
Net income / loss		**$20**	**($104)**	**$89**	**$143**	**$156**	**$95**	**$106**	**$131**	**$150**	**$175**
Net Margin %											
Net income / loss attributable to noncontrolling interests		$2	$9	$12	($6)	($64)	($41)	($46)	($56)	($65)	($75)
Net income / loss attributable to Red Rock Resorts, Inc.		$21	($95)	$101	$138	$92	$54	$60	$74	$85	$99
Common Shares Out (mm)											
Earnings per Share (common)											
Net income		$20	($104)	$89	$143	$156	$95	$106	$131	$150	$175
Plus: D&A		$129	$129	$128	$138	$157	$163	$157	$159	$163	$167
Less: Capex		($62)	($87)	($103)	($130)	($162)	($190)	($150)	($105)	($70)	($75)
Less: Increase in Working Capital				$28	($9)	($23)	($21)	($2)	($2)	($1)	($1)
Free Cash Flow to Equity		**$87**	**($62)**	**$142**	**$142**	**$127**	**$46**	**$111**	**$183**	**$242**	**$266**
Total Debt	$2,422										
Cash and Equivalents	$134										
Net Debt	$2,289										
Total Debt/EBITDA	4.6x										
Net Debt/EBITDA	4.6x										
EBITDA/Interest	3.62x										
(EBITDA - Capex)/Interest	2.31x										

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