



Bulls Position in Eldorado Resorts after M&A Deal for Caesars

Ticker/Price: ERI (\$45.25)

Analysis:

Eldorado Resorts (ERI) has seen a number of bullish positions open since selling off after news it agreed to buy Caesar's (CZR) in an \$8.7B deal. Late yesterday the January \$55 calls opened 5,000X at \$1.55 on a wide bid-ask and on 7/25 the September \$55 calls were bought 3,300X. ERI also has more than 6,000 of the August \$50 calls in open interest and has seen sellers of the September \$50 puts and August \$45 puts. A longer dated play on 6/25 sold 1,000 January 2021 \$35 puts to buy the \$45/\$60 call spreads. ERI shares have pulled back near the recent lows and the \$43.50 level was supportive putting in a double bottom. Shares need to clear \$47.30 to start working higher. Insiders actively bought shares in Q4 2018 for over \$500,000 in stock. The \$3.39B gaming and hospitality Company trades 17.3X Earnings, 1.5X Sales, 10X EV/EBITDA and 23.2X FCF. ERI has grown revenues 65.8% and 38.8% the last two years with 28.4% growth seen this year and also seeing major EPS/EBITDA growth. It sees the combination with Caesar's as transformational creating the largest owner and operator of US gaming assets and increasing scale while leveraging strengths of each company. It sees \$500M in year 1 synergies with longer-term upside. Analysts have an average target of \$59 on shares while short interest has shot higher to 26.5% of the float, though a lot of that M&A arbitrage. Roth Capital was out recently with a \$65 target, noting some near-term disruptions but positive on the longer term outlook. SIG started shares Neutral with a \$50 target last week noting shares are stuck in the deal process until 2020 and sees synergy estimates as conservative. On 7/1 Deutsche Bank raised its target to \$74 seeing the combination harmonizing nicely and generating considerable free cash flow with meaningful upside for shares. Wolfe Research upgraded to Outperform on 6/25 seeing weakness after the deal news as a buying opportunity. Hedge Fund ownership fell nearly 20% in Q1 filings, a large concentrated position for Par Investment Partners.

Hawk Vision:



Hawk's Perspective: ERI has a bit of a sloppy chart but have to like the positioning and long term value at these levels. I think the 8-6 earnings call can be a positive catalyst outlining further deal details.

Confidence Ranking: \$\$