Call Spread Sees New Highs for Regional Casino Operator with Promising Pipeline

Ticker/Price: RRR ($41.70)

Analysis:

Red Rock Resorts (RRR) with 1500 October $45/$55 call spreads bought for $1.60 with shares looking to clear a narrow channel. RRR had a buyer recently of the Aug. $45/$50 call spread while the April 2022 $40 calls remain in OI 1000X from 4/8. Shares are trading in a narrow weekly channel and set to break out above $42 with room to run back to new highs. The longer-term measured target is $57. The $5B company trades 21.7X earnings, 3.4X sales, and 42.65X cash. RRR is a regional casino operator in the US with locations in Las Vegas and smaller facilities in Northern California. They are benefitting from higher travel rates domestically while recent divestitures and a better operating profile are driving record high EBITDA and margins. RRR has a sizable development pipeline including a new project in the Southwest LV valley, the fastest-growing area in the region and no gaming competitors within five miles of the project. Analysts have an average target for shares of $40.50 and a Street High $60 from Truist. The firm raising estimates on 7/29 citing earnings and expecting its elevated trends to continue in the New Normal as margins hold even with the return of more amenities. JP Morgan positive on Las Vegas in May noting that it is benefitting from population growth in the market but what is still relatively underappreciated is that this is comprised of higher income population growth. Short interest is 3.3%, the lowest in over three years. Hedge fund ownership fell 5%. Eminence Capital a notable buyer of stock adding another 650k shares and now with 6.4M. Insiders active in 2020 with both CEO Frank Fertitta and VP Lorenzo Fertitta buying over $10M in stock around $16.

Hawk Vision:

Hawk's Perspective: RRR looks great coming out of this current pullback and room to make a move back to recent highs with a promising project outlook

Confidence Ranking: $$