

(NV) Airfare hikes, capacity cuts start to pinch Las Vegas

Contributed by William Spain
Monday, 16 June 2008

That cut was far higher than anticipated, McGill noted, as "previously, we believed that the capacity [cuts] coming out of Las Vegas could be 12% across the entire industry."

But now, "it is quite possible it could eventually be greater than a 15% capacity reduction into Las Vegas."

Rather than capacity cuts, which can be offset by increased loads, more flights by discounters and other factors, Deutsche Bank analyst Bill Lerner wrote in a recent note that "the real issue could be the related inflation in airline ticket prices' impact on spend per visit in the resort corridor."

"In our view, the real risk . . . appears to be a redistribution of visitors' budgets following airline ticket price increases," he said. "As the cost of transport to Vegas increases we suspect visitors will continue to come at similar levels as 2007, as we have seen year-to-date, but simply spend less during their stay or shorten their visit."

Total visitation to Vegas was up 0.4% through March, although revenue on the Strip was down in the mid single digit percentage range.

At Boyd Gaming (BYD), "the bigger issue is the rising airline ticket prices [that are] more likely to impact visitor spending patterns or trip duration," said spokesman Rob Stillwell. "We don't think capacity cuts will have a material impact because there's already excess capacity."

Last week, the Nevada Gaming Control Board reported that April gambling revenues were down 5% statewide to \$1 billion, with a 1.3% drop on the Strip to \$524.1 million - but the latter saw a nearly 6% decline in total drop that would have hurt more if hold percentages had not increased 40 basis points.

It was down on both the high and low ends of the market, with Strip slot revenue off 6.7% on a handle decrease of 6.4%. April table win was up 6.7% on a 150 basis point increase in hold that mitigated the 4.2% decrease in table drop. Baccarat win was down 0.5%, also with an increase in its hold overcoming an 8.1% decrease in drop.

Drop is the total amount of money wagered at a casino; hold is what it wins.

The airfare hikes and general economic malaise is having an impact off the casino floor as well, as operators are forced to cut prices on hotel rooms to make up for shortfall in visitor budgets. There are plenty of rooms at mid-tier resorts to be had for under \$100 - and even the luxe end is paring back rates to boost occupancy levels.

And that can really start to pinch as most casinos on the Strip now garner at least half, and often more, of their revenue from non-gambling spend. Hotel rooms, once essentially given away to encourage people to stay and play, have become an important source of income on both the top and bottom-lines.

"Whenever capacity cuts or increased fares have occurred in the past, they have put price pressure on our hotel rooms," said Alan Feldman, a spokesman for MGM Mirage (MGM). "This current circumstance is no different."

He noted that when the company reported its first quarter earnings, it said that occupancy was flat with rates down slightly.

"This will likely continue through the end of the year," he said.

According to a J.P. Morgan's Morgan survey, average daily room rates (ADRs) on the Strip in the second quarter were 13% over the same period in 2007, with weekdays off 10% and weekends down 17%. That comes on top of an overall 6% fall in the first three months of the year.

"The results of the survey reflect the impact of a slowing economy on travel to and spend on the Strip," wrote Joe Greff, along with "aggressive pricing/discounting of room rates."

There is no end in sight, he added: "When it stops is tough to forecast with any great precision, though we think this continues through the summer."

As result, shares of the top operators have been reeling over the last few months. While gambling stocks have long been volatile, the downward movement this time has been steady - and dramatic.

MGM Mirage is down from the low \$60s in April to the low \$40s this weeks; Las Vegas Sands (LVS) is off from north of

\$80 to barely \$60 (It was \$150 in November); and Wynn Resorts (WYNN) has slipped from \$100 to \$95 since the start of Spring. Boyd has been holding steady in the teens for the last few months but at this time last year, it was over \$50.