

Iao Kun Group Holding Co. Ltd.

Raising estimates and price target; Reiterate buy

Our Call

Following IKGH's 4Q13 earnings call, first two months of rolling chip turnover ("RCT"), and hold results, we raise our CY14/CY15 EPS estimates to \$0.40/\$0.52 from \$0.29/\$0.51, and our target price to \$5.50 from \$5.00. We are encouraged by IKGH comments and our own channel checks suggesting improving Company specific results into its HK (Hong Kong) dual-listing later this year.

IKGH cited its RCT performance as "beginning to turn a corner" in its latest earnings release. Our checks continue to cite solid VIP (very important person) volumes, both Island-wide and specific to IKGH. IKGH RCT is benefiting from cash agent acquisition momentum, in our view.

The company's February RCT result of \$1.73b was its best since April 2012, and it turned over its cage capital ~6.5x in the month, versus an average of 4.9x in CY13 and 5.0x in January (velocity of capital increasing).

We are forecasting March RCT of \$1.4b, representing 5.6x turns of cage capital. While we would consider this result solid, we also believe it may prove slightly conservative based on IKGH's recent success in cash agent acquisition.

We continue to believe IKGH's HK listing by introduction (no capital raise), slated for 3Q14, will be a catalyst for shares. At the time of the HK dual-listing, IKGH will be looking to broaden its investor base via a marketing roadshow throughout Asia, including Mainland China and HK, Taiwan, and Singapore. While we acknowledge the lack of "clean" HK-listed comparisons where all promoter profits flow through a single public entity, or where transparency is great enough to release monthly RCT results, or pay a dividend and/or repurchase stock – all of which applies to IKGH - our sampling of "partial" comparisons trade at higher multiples than IKGH.

IKGH trades for 6.6x CY15E EPS and offers a 20% gross free-cash-flow yield. Reiterate Buy.

Buy

IKGH

Price: Close \$3.41

Price Target \$5.50

Leisure & Entertainment

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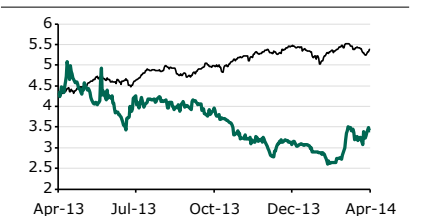
Company Data

Rating	Buy
Price: Close	\$3.41
Price Target	\$5.50
52-Week Range	\$2.57 - \$5.18
Market Capitalization (M)	\$208.9
Shares Outstanding (M)	60.0
Avg. Daily Vol. (000)	181.0
Dividend	\$0.28
Dividend Yield	8.2%
Assets (M)	\$411.8

FYE Dec	2013E (Prev)	2013E (Curr)	2014E (Prev)	2014E (Curr)	2015E (Prev)	2015E (Curr)
EPS (\$)						
Q1 (Mar)		0.32A	0.12	0.24	0.10	0.11
Q2 (Jun)		0.21A		0.04	0.13	0.12
Q3 (Sept)		0.12A		0.05		0.14
Q4 (Dec)	(0.13)	(0.09)	0.08	0.06		0.15
FY EPS	0.41	0.46	0.29	0.40	0.51	0.52
P/E		7.4x		8.5x		6.6x

Source: Sterne Agee and FactSet

Price Performance



Source: FactSet

Any Important Disclosures regarding Price Target Risks, Valuation Methodology, Regulation Analyst Certification, Investment Banking, Ratings Definitions, and any potential conflicts of interest begin on Page I of the Appendix Section. Past performance is no guarantee of future results.

## Quarterly Income Statement

(Millions, except per share data)	DEC CY12	Mar 13 Q1:13	Jun 13 Q2:13	Sep 13 Q3:13	Dec 13 Q4:13	DEC CY13	Mar 14 Q1:14E	Jun 14 Q2:14E	Sep 14 Q3:14E	Dec 14 Q4:14E	DEC CY14E	Mar 15 Q1:15E	Jun 15 Q2:15E	Sep 15 Q3:15E	Dec 15 Q4:15E	DEC CY15E
<b>REVENUE</b>																
Cage Capital Est.	262.35	300.58	302.96	279.72	255.10	255.10	251.44	255.52	255.08	254.46	254.46	238.99	245.76	247.95	251.38	251.38
Turns per month Est.	5.79	4.83	4.93	4.58	5.30	4.91	5.69	5.43	5.63	5.90	5.66	5.97	6.20	6.20	6.37	6.18
<b>Rolling Chip Turnover</b>	<b>18,196.0</b>	<b>4,070.0</b>	<b>4,460.0</b>	<b>4,115.0</b>	<b>4,370.0</b>	<b>17,015.0</b>	<b>4,428.1</b>	<b>4,141.1</b>	<b>4,308.4</b>	<b>4,507.2</b>	<b>17,384.8</b>	<b>4,499.2</b>	<b>4,526.7</b>	<b>4,596.3</b>	<b>4,778.5</b>	<b>18,400.8</b>
% seq.	-9%	-1%	10%	-8%	6%	-6%	1%	-6%	4%	5%	2%	0%	1%	2%	4%	6%
% yoy.	-9%	-24%	-5%	2%	7%	-6%	9%	-7%	5%	3%	2%	2%	9%	7%	6%	6%
<b>Fixed Commission Operation</b>																
Roll from fixed commission operation	15,628.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% of total rolling chip win	117%	0%	0%	0%	0%	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Revenue from fixed Commission	160.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% commission rate	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
<b>Revenue Share Operation</b>																
Win from revenue share operation	na	4,070.0	4,460.0	4,115.0	4,370.0	17,015.0	4,428.1	4,141.1	4,308.4	4,507.2	17,384.8	4,499.2	4,526.7	4,596.3	4,778.5	18,400.8
% of total rolling chip win	na	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Gross Revenue from revenue share	na	60.4	63.5	61.0	50.2	235.1	71.9	56.6	58.8	61.6	248.7	61.8	62.2	63.3	65.8	253.2
% VIP hold	3.19%	3.33%	3.15%	3.26%	2.44%	3.05%	3.51%	2.95%	2.95%	2.95%	3.09%	2.95%	2.95%	2.95%	2.95%	2.95%
% revenue share rate	45.0%	45.6%	45.2%	45.5%	47.0%	45.0%	46.3%	46.3%	46.3%	46.3%	46.3%	46.6%	46.6%	46.7%	46.7%	46.7%
<b>Gross Revenue Est.</b>	<b>216.6</b>	<b>61.9</b>	<b>63.5</b>	<b>61.0</b>	<b>50.2</b>	<b>235.1</b>	<b>71.9</b>	<b>56.6</b>	<b>58.8</b>	<b>61.6</b>	<b>248.7</b>	<b>61.8</b>	<b>62.2</b>	<b>63.3</b>	<b>65.8</b>	<b>253.2</b>
Adjustment, including Service Revenue	0.0	2.5	0.0	0.0	2.0	4.5	2.9	2.3	2.4	2.5	10.0	2.5	2.5	2.5	2.6	10.1
% of gross revenue	0%	4%	0%	0%	4%	2%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
<b>Revenue from VIP gaming operations</b>	<b>236.3</b>	<b>64.4</b>	<b>63.5</b>	<b>61.0</b>	<b>50.2</b>	<b>239.6</b>	<b>74.8</b>	<b>58.8</b>	<b>61.2</b>	<b>64.0</b>	<b>258.6</b>	<b>64.3</b>	<b>64.7</b>	<b>65.9</b>	<b>68.5</b>	<b>263.4</b>
% yoy.	-6%	-4%	9%	13%	-11%	1%	16%	-7%	0%	27%	8%	-14%	10%	8%	7%	2%
<b>EXPENSES</b>																
<b>Commission to Junket agents</b>	<b>223.0</b>	<b>40.3</b>	<b>47.7</b>	<b>45.3</b>	<b>46.9</b>	<b>180.2</b>	<b>48.9</b>	<b>45.0</b>	<b>46.8</b>	<b>49.0</b>	<b>189.7</b>	<b>48.1</b>	<b>47.5</b>	<b>47.6</b>	<b>49.2</b>	<b>192.5</b>
% of Rolling Chip Turnover	0.83%	0.99%	1.07%	1.10%	1.07%	1.06%	1.10%	1.09%	1.09%	1.09%	1.09%	1.07%	1.05%	1.04%	1.03%	1.05%
SG&A	18.3	5.9	6.3	5.1	6.4	23.7	6.6	6.6	6.6	6.6	26.4	6.6	6.6	6.6	6.6	26.4
% of Rolling Chip Turnover	0.101%	0.145%	0.142%	0.124%	0.146%	0.139%	0.149%	0.159%	0.153%	0.146%	0.152%	0.147%	0.146%	0.144%	0.138%	0.143%
Special Rolling Tax	1.8	0.4	0.4	0.4	0.4	1.7	0.6	0.5	0.5	0.5	2.0	0.5	0.5	0.5	0.5	2.1
% of total revenue	0.8%	0.6%	0.7%	0.7%	0.9%	0.7%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
<b>EBITDA</b>	<b>61.6</b>	<b>15.3</b>	<b>11.9</b>	<b>11.0</b>	<b>\$ (3.5)</b>	<b>34.7</b>	<b>18.7</b>	<b>6.8</b>	<b>7.3</b>	<b>7.9</b>	<b>40.7</b>	<b>9.1</b>	<b>10.1</b>	<b>11.1</b>	<b>12.1</b>	<b>42.4</b>
% margin	26%	24%	19%	18%	-7%	14%	25%	12%	12%	12%	16%	14%	16%	17%	18%	16%
% of Rolling Chip	0.34%	0.38%	0.27%	0.27%	-0.08%	0.20%	0.42%	0.16%	0.17%	0.18%	0.23%	0.20%	0.22%	0.24%	0.25%	0.23%
D&A	6.6	2.4	2.5	4.0	4.1	13.1	4.1	4.1	4.1	4.0	16.3	2.4	2.4	2.4	2.4	9.6
Income including pre-acquisition profit	55.0	12.9	9.4	7.0	(7.6)	21.6	14.6	2.7	3.2	3.9	24.4	6.7	7.7	8.7	9.7	32.8
Prior owners' interest in pre-acquisition profit*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income Attributable to ordinary shareholders	55.0	12.9	9.4	7.0	(5.5)	23.7	14.6	2.7	3.2	3.9	24.4	6.7	7.7	8.7	9.7	32.8
% Margin	23%	20%	15%	11%	-11%	10%	20%	5%	5%	6%	9%	10%	12%	13%	14%	12%
Other Comprehensive Loss																
Foreign Currency Translation adjustment	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<b>Adjusted Income</b>	<b>55.0</b>	<b>12.9</b>	<b>9.4</b>	<b>7.0</b>	<b>(3.5)</b>	<b>25.7</b>	<b>14.6</b>	<b>2.7</b>	<b>3.2</b>	<b>3.9</b>	<b>24.4</b>	<b>6.7</b>	<b>7.7</b>	<b>8.7</b>	<b>9.7</b>	<b>32.8</b>
<b>Adjusted EPS</b>	<b>1.30</b>	<b>0.32</b>	<b>0.21</b>	<b>0.12</b>	<b>(0.09)</b>	<b>0.46</b>	<b>0.24</b>	<b>0.04</b>	<b>0.05</b>	<b>0.06</b>	<b>0.40</b>	<b>0.11</b>	<b>0.12</b>	<b>0.14</b>	<b>0.15</b>	<b>0.52</b>
% yoy.	-29%	-21%	-38%	-63%	-137%	-65%	-24%	-79%	-55%	-170%	-13%	-56%	180%	164%	139%	30%
Ave shares outstanding	42.4	40.7	44.6	60.2	61.0	51.6	61.0	61.0	61.6	62.8	61.6	62.8	62.8	63.4	64.5	63.3

Source: Company reports and Sterne Agee estimates

## APPENDIX SECTION

### Company Description:

*Macau licensed casino operators grant IKGH exclusive use of VIP gaming rooms within their casino facilities and IKGH promotes and manages its own network of junket agents and players to optimize the casino gaming within the rooms. In return, IKGH is paid on volume-based commission or a share of the gaming win. ~85% - 90% of VIP player chip volume in Macau casinos is generated utilizing the room promoter system.*

### IMPORTANT DISCLOSURES:

#### Regulation Analyst Certification:

I, David Bain, hereby certify the views expressed in this research report accurately reflect my personal views about the subject security(ies) or issuer(s). I further certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this report.

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#### Company Specific Risks:

Risks to IKGH include softness in the Chinese economy; unanticipated Mainland Chinese government intervention/regulation, including visa controls or other aspects negatively impacting visitation or patron spend in Macau; unanticipated Macau Government legislation; and/or the potential for higher junket operator commissions paid by promoters.

#### Valuation Methodology:

Methodology for assigning ratings and target prices includes qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition; and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry or company-specific occurrences. Sterne, Agee & Leach, Inc., analysts base valuations on a combination of forward looking earnings multiples, price-to-revenue multiples, and enterprise-value-to-revenue ratios. Sterne, Agee & Leach, Inc., believes this accurately reflects the strong absolute value of earnings, the strong earnings growth rate, the inherent profitability, and adjusted balance sheet factors. Additional company-specific valuation methodology is available through Sterne, Agee & Leach, Inc.

#### Company Specific Valuation:

Our valuation is based on a multiple of earnings per share.

#### Definition of Investment Ratings:

**BUY:** We expect this stock to outperform the industry over the next 12 months.

**NEUTRAL:** We expect this stock to perform in line with the industry over the next 12 months.

**UNDERPERFORM:** We expect this stock to underperform the industry over the next 12 months.

**RESTRICTED:** Restricted list requirements preclude comment.

**Ratings Distribution:**

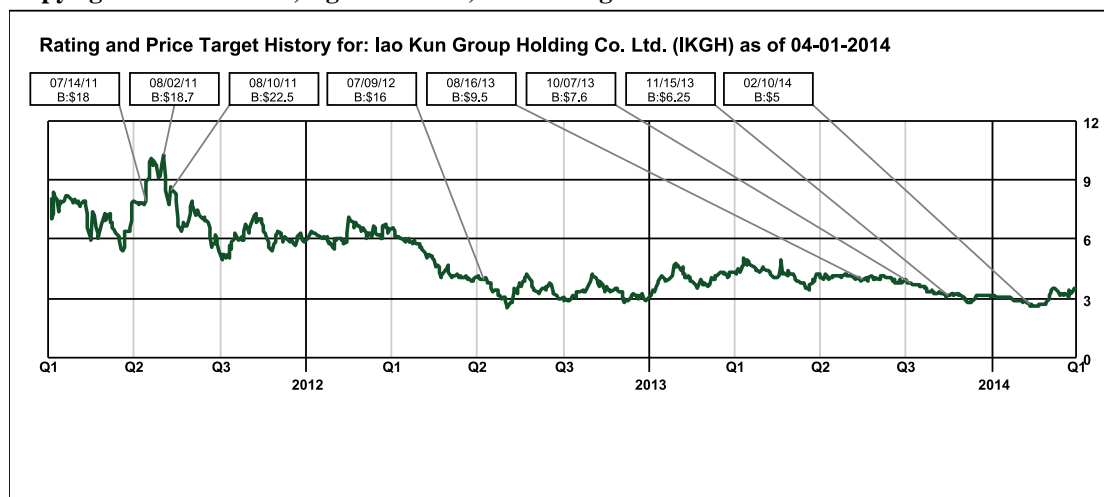
Rating Category	Count	Percent	IB Serv./ Past 12Mos.	
			Count	Percent
Buy	234	45.44%	33	14.10%
Neutral	262	50.87%	23	8.78%
Underperform	19	3.69%	1	5.26%

**ADDITIONAL INFORMATION AVAILABLE UPON REQUEST:** Contact Robert Hoehn at 1-212-338-4731.

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