

**Iao Kun Group Holding Co. Ltd.  
IKGH – Progress on HK listing by introduction**

*Our Call*

Yesterday, IKGH announced it had submitted its application form to the Hong Kong Stock exchange for a listing “by introduction” (no new shares issued). We continue to believe a dual-listing will unlock value for US shareholders by – potentially significantly – broadening IKGH’s investor base.

IKGH’s application submission indicates it has now been audited by two firms – its current auditor in the US and RSM (listed as the seventh largest network of audit, tax and advisory firms). The application additionally indicates its sponsor bank has completed its necessary verification and due diligence.

IKGH’s application is subject to an initial 3-day review where regulators will determine all documents are in order – we view this as formality. From there, we expect the full Hong Kong Exchange review process to last ~2.5 to 3 months.

In tandem with a successful dual-listing, we believe IKGH will introduce itself to Hong-Kong Exchange investors via a road-show in Hong-Kong, Mainland China, Taiwan, Singapore and Europe. A successful dual-listing also opens up a potential shareholder base opportunity for its network of ~1,700 agents, some of which have expressed interest in investing in shares.

While we expect 2Q14 EPS disruption from low hold/luck (previously released April/May win rate of 2.32%/1.90% versus 2.85% theoretical), as well as a negative rolling chip turnover (“RCT”) impact in June from the World Cup, we continue to be encouraged by IKGH’s overall RCT/top-line increases into its Hong-Kong dual listing later this year.

**Buy**  
**IKGH**  
Price \$3.06  
**Price Target \$5.90**

**Leisure & Entertainment**

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**Company Data**

52-Week Range	\$2.57 - \$4.37
Market Capitalization (M)	\$181.2
Shares Outstanding (M)	57.9
Avg. Daily Vol. (000)	126.0

Estimates	Q2	2014E	2015E
EPS	(0.03)	0.39	0.59

For the latest company report:  
[IKGH Company Report](#)

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.

## 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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Sterne, Agee & Leach, Inc. provided and received compensation for providing non-investment banking securities related services for the following subject company within the past 12 months: Iao Kun Group Holding Co. Ltd..

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#### Price Target Risks & Related Risk Factors:

Investment risks associated with the achievement of the price target include, but are not limited to, a company's failure to achieve Sterne, Agee & Leach, Inc., earnings and revenue estimates; unforeseen macroeconomic and/or industry events that adversely affect demand for a company's products or services; product obsolescence; changes in investor sentiment regarding the specific company or industry; intense and rapidly changing competitive pressures; the continuing development of industry standards; the company's ability to recruit and retain competent personnel; and adverse market conditions. For a complete discussion of the risk factors that could affect the market price of a company's shares, refer to the most recent Form 10-Q or 10-K that a company has filed with the Securities Exchange Commission.

#### 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	255	49.13%	34	13.33%
Neutral	250	48.17%	25	10.00%
Underperform	14	2.70%	0	0.00%

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

*Other Disclosures:*

Opinions expressed are our present opinions only. This material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Past performance is no guarantee of future results.

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