SeaWorld Entertainment Inc.

NYSE:SEAS

Analyst: Remy Fields
Sector: Consumer Discretionary

BUY

Price Target: $24.99

Key Statistics as of 04/21/2015

Market Price:	$24.87
Industry:	Amusement Parks
Market Cap:	$1,861.4M
52-Week Range:	$15.11 – 31.46
Beta:	1.11

Thesis Points:

- Industry outlook
- Blackfish
- SEAS' Orlando market share bottoming
- Upside to multiple
- New management

Company Description:

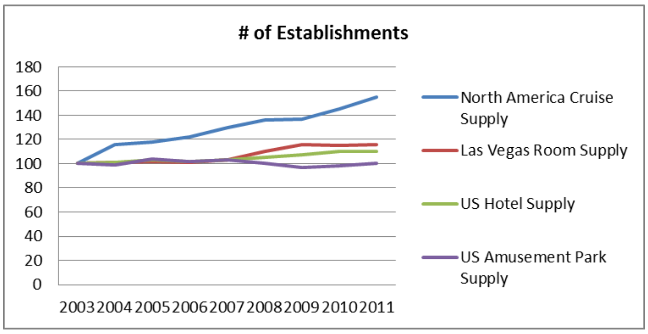
SeaWorld Entertainment, Inc. operates as a theme park and entertainment company in the United States. The company operates marine-life theme parks under the SeaWorld brand name in Orlando, San Antonio, and San Diego; Busch Gardens theme parks, which are family-oriented destinations with foreign geographic settings in Tampa and Williamsburg; Discovery Cove marine-life theme park in Langhorne; and Sesame Place, a seasonal park in Langhorne. It also operates water parks under the Aquatica brand name in Orlando, San Antonio, and San Diego; under the Adventure Island name in Tampa; and under the Water Country USA name in Williamsburg. In addition, the company operates its theme park under Shamu and Sea Rescue brand names. It owns and operates 11 destination and regional theme parks. The company was formerly known as SW Holdco, Inc. and changed its name to SeaWorld Entertainment, Inc. in December 2012. SeaWorld Entertainment, Inc. was founded in 1959 and is headquartered in Orlando, Florida.

Thesis

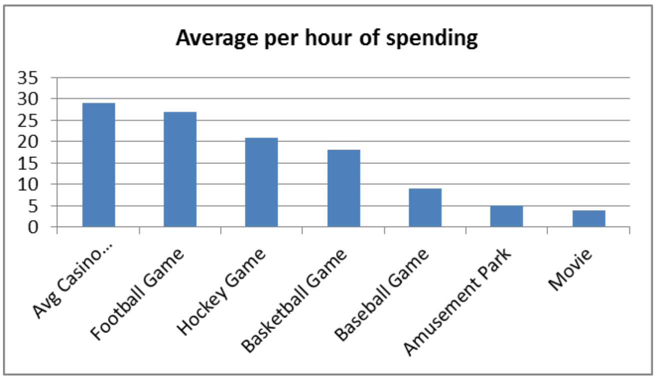
SeaWorld Entertainment, Inc. is a BUY because they are currently undervalued. SEAS is undervalued because of the Blackfish documentary, which has imaged the brand of SeaWorld Entertainment, Inc. SEAS will also see its price driven up because their market share is bottoming and the multiple they trade at has upside due to their poor performance against competitors, since their IPO. In addition, the new CEO Joel Manby has a good understanding of the challenges SeaWorld's brand is facing. Finally, the amusement park industry is attractive because it is set up to do well due to the positive outlook on the economy, which will help SEAS even more.

Industry Overview

When thinking about the amusement park business it is important to realize that there are large barriers of entry. People are not very likely to enter the business due to the large amount of CAPEX spending necessary to have a large innovative park. This can be seen in the stable supply of theme parks. When you compare this supply to cruise ships, Las Vegas room supply, and the US hotel supply they are truly lagging. This means that consumers have a limited number of options, which means it is more likely for them to end up at one of SEAS' parks. Another barrier of entry is that 85% of the industries revenue is made up of the top four competitors.



The bargaining power of the customers has decreased due to the positive economy. Look over the past four years; theme parks have been able to increase prices. This will continue going further because the economy is improving. Also, when looking at the average spending rate per hour at amusement parks you will notice it is much lower than other alternatives, such as, Casinos, football games, hockey games, and other sporting events.



The bargaining power of the suppliers is based on their ability to continue innovating in the rides they make and the experiences they offer their customers. SeaWorld is the only park that has the events that they show. Having their trainers interact with Killer Whales differentiates them from any other park, whether it is in Orlando or any other location. This differentiation keeps the bargaining power on the side of the suppliers. Another reason suppliers have an edge is because there is no at-home experience that is comparable.

This industry is made up of six major competitors, whom are SeaWorld, Cedar fair, Six Flags, Merlin Entertainment, Universal, and Disney. Each rival offers their own experience, which helps them differentiate themselves from one another. As mentioned before SeaWorld differentiates itself through its different events that consumers cannot get anywhere else. Other companies have to continue to build new themes within their parks, like, Harry Potter and Frozen. These are attractive and bring consumers to your parks, but marine life transcends generations, while fans of Harry Potter will become older and outgrow the stories. This will continue to add costs to those parks because they will have to keep up with the next new thing, while SeaWorld has an experience that every generation can enjoy.

The threat of substitutes is the largest threat that the owners of theme parks face. Consumers decide where they want to spend their money and if they prefer to go to sporting events, casinos or another theme park. Once again to entice the consumer to come to a theme park over the substitutes the amusement park must offer better customer experiences through innovative rides and experiences.

Blackfish Documentary

The Blackfish documentary is a large reason why SEAS has seen attendance decrease over the past few quarters, which has driven the stock price now. This documentary has driven down attendance and has hurt the brand because it calls SeaWorld out for their treatment of their animals. The documentary uses past trainers to show evidence of the mistreatment of the Killer Whales, since the opening of SeaWorld in 1959. Wall Street has punished SEAS because this news has hurt attendance, but once Wall Street sees that this company is reestablishing its brand image and see an increase in attendance they will begin taking advantage of that.

Attendance has decreased significantly and that is why the price of the stock has taken a hit; but from 3Q14 to 4Q14, the attendance of SeaWorld branded parks increased from 200bps. I believe this uptrend will continue because people are beginning to forget about this mistreatment. In addition, the popularity of Blackfish is on a downtrend. It hit its peak in August 2014, but since then the number of Google searches per month has been decreasing. Also, the company will have easier comps during Q2 because that is when their brand image was hurt, which led to attendance decreasing.

Furthermore, SeaWorld Entertainment, Inc has developed their marketing campaign to counter the negative publicity. This new campaign will be called "Meet the Animals" and this campaign (TV ads) will focus on the different species and SEAS' focus on taking care of each individual species based off their unique needs. SEAS has also launched a print advertisement and national television advertising campaign that will be used to enlighten consumers on SEAS commitment to lead in the wellness and care of Killer Whales. These advertisements will also be used to set the record straight on the false accusations of the Blackfish documentary. Finally, SEAS is also taking advantage of the internet through a new website and different types of social media. This increase in marketing should lead to a better awareness of the brand.

SEAS' Orlando market share is bottoming

In 2014, SeaWorld faced a very competitive landscape with new attractions, such as, Universal's second installment of Harry Potter World. This year's new attractions are not as impactful as last years because Harry Potter was a huge brand, which pulled consumers away from SEAS. This year there are four new attractions, but they do not seem to be as much of a competitive threat to SeaWorld in 2015. Even looking at *USA Today's* rankings of the most-anticipated theme park attractions this year there are very few attractions coming to Orlando.

Moreover, SeaWorld has lost market share, since Harry Potter World was created in 2010. This lined up with the death of a Orlando SeaWorld trainer, which led the attendance to drop 118bps. 2014 was much like 2010 because of the Harry Potter installment launch and the Blackfish documentary becoming popular. Considering 2014 looks much like 2010 it is possible that 2015 and 2016 will look a lot like 2011 and 2012, where market share stabilized.

Upside to trading multiple

The last reason SEAS is a buy is because they pay a good dividend, which investors are craving. Investors are looking for yield because they are not able to find it in fixed income, since interest rates are so low. SEAS currently has a dividend yield of 4%, which is much higher than the yield investors are receiving through fixed income.

SEAS went through an IPO in 2013, and since they have significantly underperformed the market and competitors. This is because of the hit their brand took and their aggressive pricing. Their aggressive pricing limited the EBITDA growth, which disappointed investors. Since IPO, the shares are down 36%, compared to an increase of SIX (43%.) and FUN's (36%) stock prices. During this time SEAS multiple contracted 2.5x, while SIX and FUN's multiple expanded 1x. They were able to expand their multiple because of the pricing power they have, improvement in capital allocation, and their long-term strategies. This leaves room for SEAS multiple to expand as they see a turnaround. Finally, there is no need to be worried about their ability to pay their dividend because they have enough cash on hand to maintain their dividend.

New management

After the past CEO stepped down because of performance SEAS was left without a true leader. SEAS management and set expectations well by saying it would take anywhere from 6-months to a full year to find a new CEO. Luckily they were able to find a CEO that fit their criteria in under 2-months, which should help speed short and long-term strategies being made. Joel Manby is the new CEO and has already begun talking to investors. Mr. Manby understands the challenges that the brand will face and has a passion for the company and product.

Mr. Manby has previous career experience in the industry. He has also worked to turnaround companies and he has a great record of accomplishment doing so. In the past, he was the CEO of Saab in the 90's. During that time the company was 30thin J.D Power Quality and he was able to move them to 5th before he left. He also has experience as CEO of an amusement park. HE ran Herschend Enterprises during a time of transition for the company. He was able to help the company transition from a family run company to an outside run company and doubled EBITDA through organic growth. Mr. Manby believes that SeaWorld has the ability to really differentiate its brand because of its relaxed feel in comparison to Universal and Disney. In the situation that SEAS is in he believes they must show to their customers a crisp brand that provides a different type of experience from the parks nearby, which should lends itself to SEAS unique experience. Based off everything mentioned above Mr. Manby has the experience and passion to help turnaround SEAS and bring returns to investors.

Forecasts

SeaWorld Entertainment, Inc. is a BUY based off their valuation. There is over 23% upside because they are being incorrectly valued. This valuation is very conservative because they only increase their EBITDA margin by 5bps after 8 years, while estimates having them increase that margin by 160bps within 3 years. I also have their revenue increase at a more conservative rate than the current estimates, but I believe that revenues can increase more quickly then estimated because their brand will rebound, increasing attendance at parks.

CENTER FOR GLOBAL FINANCIAL STUDIES

SeaWorld Entertainment, Inc.	SEAS	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	NEUTRAL
		Remy Fields	$20.98	$24.01	$24.99	4%	1-y Return: 23.12%	

General Info

Sector	Consumer Discretionary
Industry	Hotels, Restaurants and Leisure
Last Guidance	Feb-26-2015
Next earnings date	5/7/2015

Market Data

Enterprise value	$3,428.67
Market Capitalization	$2,032.29
Daily volume	0.25
Shares outstanding	89.23
Diluted shares outstanding	87.48
% shares held by institutions	99.58%
% shares held by insiders	3.07%
Short interest	5.58%
Days to cover short interest	4.21
52 week high	$31.46
52-week low	$15.11
5y Beta	0.12
6-month volatility	31.29%

Peers	Market Cap.
Six Flags Entertainment Corporation	$4,628.28
Cedar Fair, L.P.	$3,159.98
The Walt Disney Company	$183,926.71
Merlin Entertainments plc	$4,594.30
Parks! America, Inc.	$4.46
The Hershey Company	$21,687.52

Current Capital Structure

Total debt/market cap	85.85%
Cost of Borrowing	4.67%
Interest Coverage	1.5x
Altman Z	1.54
Debt Rating	C
Levered Beta	0.79
WACC (based on market value weights)	5.12%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Heaney, James	Chief Financial Officer	$779,436	$988,148	$0
Taylor, G.	Chief Legal & Corporate Affairs O	$0	$794,801	$0
Brown, Daniel	Chief Parks Operations Officer	$983,517	$1,010,093	$0
Mills, Donald	President of Orlando Park	$505,789	$993,357	$0
Manby, Joel	Chief Executive Officer, President	$0	$0	$0
Swanson, Marc	Chief Accounting Officer	$0	$0	$0

Historical Median Performance

	SEAS	Peers	Industry	All U.S. firms
Growth	-5.7%	5.6%	8.2%	7.4%
ROIC	4.9%	9.1%	11.5%	14.3%
NOPLAT Margin	8.8%	12.4%	11.4%	10.4%
Revenue/Invested Capital	0.56	0.73	1.01	1.37
Excess Cash/Rev.	N/A	8.4%	13.5%	12.9%
Total Cash /Rev.	3.2%	8.4%	12.3%	15.2%
Unlevered Beta		0.51	0.99	0.95
TEV/REV	2.5x	2.3x	2.6x	2.5x
TEV/EBITA	15.2x	20.1x	14.3x	13.1x
PE (normalized and diluted EPS)	36.0x	17.8x	28.3x	23.5x
P/BV	3.2x	2.4x	2.5x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	4.5%	-1.8%	NM
Last Quarter-1	-0.1%	-6.2%	-12.2%
Last Quarter -2	-9.8%	-15.5%	-28.3%
Last Quarter -3	-2.3%	NM	NM
Last Quarter -4	0.2%	-0.7%	NM

Non-GAAP Adjustments in estimates computations

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	0%	N/A	N/A
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	4%	Straightline	10 years

Proforma Assumptions

Money market rate as of today	0.54%
Annual increase (decrease) in interest rates	0.1%
Yield Spread acceleration	1.2
Marginal Tax Rate	37.5%
Risk-Free rate	2.6%
Tobin's Q	0.80
Op. Cash/Rev.	7%
Growth in PPE	NPPE Growth follows Revenue Growth
Long term Growth	3.5%
Base Year Unlevered Beta	is equal to 0.51
Long term Unlevered Beta	0.51

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	-5.6%	74.5%	$2,447.17	9%	5.0%	5.1%
NTM	0.0%	74.4%	$2,374.89	9%	5.1%	5.2%
NTM+1	1.5%	74.4%	$2,444.27	9%	5.0%	5.3%
NTM+2	2.5%	74.3%	$2,519.94	8%	4.9%	5.4%
NTM+3	3.6%	74.3%	$2,600.30	8%	4.8%	5.5%
NTM+4	4.0%	74.2%	$2,684.12	8%	4.9%	5.6%
NTM+5	4.5%	74.2%	$2,769.55	8%	5.0%	5.7%
NTM+6	5.0%	74.1%	$2,852.72	8%	5.1%	5.8%
NTM+7	4.0%	74.1%	$2,935.33	8%	5.2%	5.9%
NTM+8	3.5%	74.0%	$3,020.43	8%	5.3%	6.0%
Continuing Period	3.5%	74.0%	$2,516.61	12%	8.5%	6.1%

Valuation

Period	Invested Capital x (ROIC-WACC)	Total Debt	Other non-interest bearing claims	Shares Outstanding
LTM	$0.00	$1,604.08	$227.15	89.23
NTM	-$2.82	$1,624.21	$174.61	89.23
NTM+1	-$6.81	$1,672.76	$177.23	89.23
NTM+2	-$13.78	$1,725.68	$181.66	89.23
NTM+3	-$17.47	$1,778.99	$188.20	89.23
NTM+4	-$19.76	$1,836.02	$195.73	89.23
NTM+5	-$20.32	$1,890.54	$204.54	89.23
NTM+6	-$18.90	$1,935.82	$214.76	89.23
NTM+7	-$19.55	$1,979.48	$223.36	89.23
NTM+8	-$21.20	$2,024.72	$231.17	89.23
Continuing Value	$2,619.77			

Pricing Model

DCF (Weight = 100%)	Relative (Weight = 0%)	Distress (Weight = 0%)	Weighted Average Price Per Share
$24.97	$14.36	$18.39	$24.97
$25.74	$14.73	$19.06	$25.74
$26.95	$14.68	$20.38	$26.95
$28.38	$14.92	$21.84	$28.38
$29.98	$15.56	$23.49	$29.98
$31.81	$16.34	$25.29	$31.81
$33.63	$17.39	$27.75	$33.63
$35.70	$18.81	$30.58	$35.70
$37.92	$19.94	$33.79	$37.92
$39.54	$20.91	$37.64	$39.54

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Op. Costs Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Country Risk Premium	**6%**	**N/A**	**5%**	**7%**	**Triangular**
Long term Growth	**4%**	**N/A**	**-6%**	**8%**	**Triangular**

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$24.97	$25.74
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$24.01	$24.99
Current Price	$20.98	
Analysts' median est.		$21.00