Siena Market Line
2nd week of March 2015

Cedar Fair, L.P.

NYSE:FUN

Analyst: Remy Fields
Sector: Consumer Discretionary

BUY

Price Target: $60.80

Key Statistics as of 03/12/2015

Market Price:	$54.81
Industry:	Amusement Parks
Market Cap:	$3.07 B
52-Week Range:	$42.75 – 56.81
Beta:	0.82

Thesis Points:

- Will easily surpass comparisons in Quarter 2 and 3 from last year due to arbitrary events
- Fully based in North America, which will allow them to benefit from the strong macro
- Potential to introduce a new membership program
- Undervalued compared to other high dividend yielding securities

Company Description:

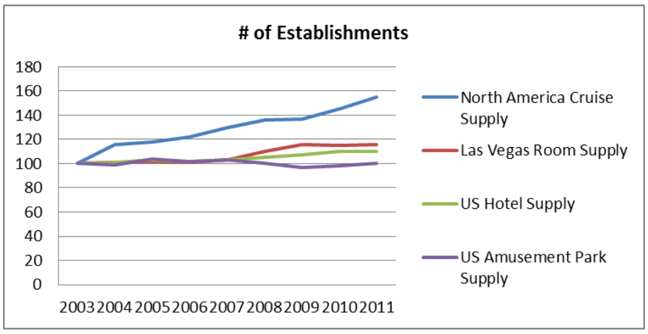
Cedar Fair, L.P. owns and operates amusement parks, water parks, and hotels in the United States and Canada. The company operates approximately 11 amusement parks, 3 outdoor water parks, 1 indoor water park, and 5 hotels. They are geographically diverse and harbor locations throughout all of North America. The company also manages and operates Gilroy Gardens Family Theme Park in Gilroy, California; and owns and operates the Castaway Bay Indoor Waterpark Resort in Sandusky, Ohio, as well as three gated outdoor water parks. Cedar Fair Management, Inc. serves as the general partner of Cedar Fair, L.P. The company was founded in 1983 and is based in Sandusky, Ohio.

Thesis

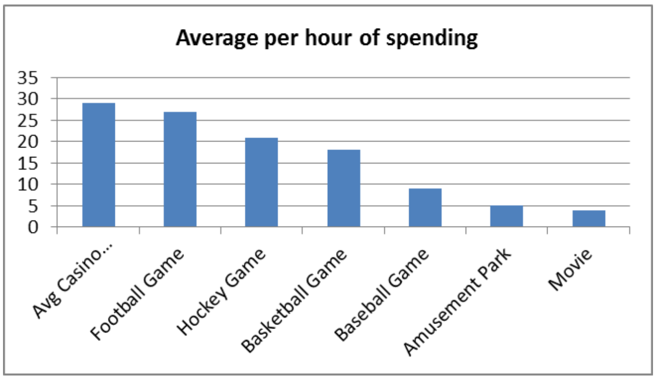
Cedar Fair L.P. is a BUY because they are a leading company in the amusement park business. Amusement parks have a lack of supply growth and they are able to increase prices consistently. FUN is also fully exposed to North America, which will benefit them due to the positive macro outlook. In addition, FUN will easily beat its 2nd quarter and 3rd quarter comparisons from 2014 because of unforeseen events that disrupted operations. FUN may also introduce a membership program, which is stickier and has higher margins than season-passes. Finally, FUN provides a 5.7% dividend yield, which is hard to find at their value.

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 FUN's parks'. The barrier of entry is that 85% of the industries revenue is made up of it's top four competitors.



The bargaining power of the customers has decreased due to the positive economy. Looking over the past four years the theme parks have been able to increase prices. Also, when looking at the average spending rate per hour at amusement parks 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. Debuting new attractions, such as, Cedar Fair's new FunTV, all-season dining, and new rides (Fury325, Voyage to the Iron Reef) keep the bargaining power on the side of the suppliers. They have done so by adding these different attractions and offerings that consumers engage with. Another reason suppliers have an edge is because there is no at-home experience that is comparable.

This industry is made up of five major competitors, whom are Cedar fair, Six Flags, Merlin Entertainment, Universal, and Disney. Each rival offers their own experience, which helps them differentiate themselves from one another. FUN differentiates themselves by owning eleven amusement parks in different geographic locations throughout North America. This large footprint mitigates the regional economic risk, which other companies do not do as well. FUN has high repeat customer (9 out of 10 guests) that is balanced between families and thrill seekers.

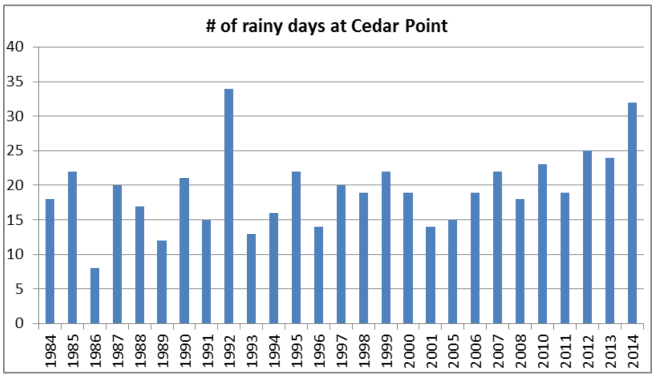
The threat of substitutes is the largest threats that the owners of theme parks face. Consumers decide where they want to spend their money and if they prefer to go to sporting events, casinos or another theme park. Once again to entice the consumer to come to a theme park over the substitutes the amusement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

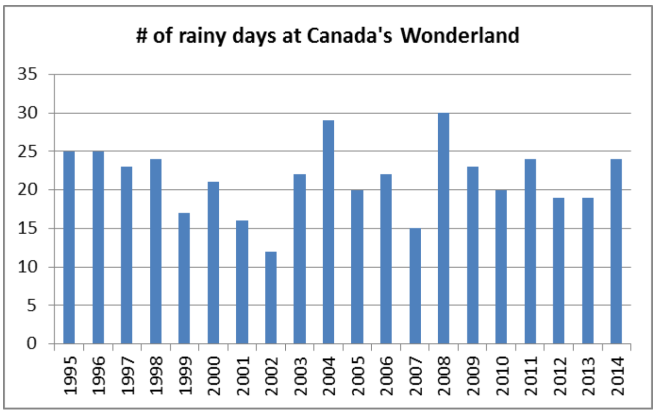
Easy Q2 & Q3 Comps

Cedar Fair will have an easy time beating Quarters two and three comparisons due to a multitude of different events. In the second quarter their largest park Cedar

Point closed for a weekend due to a water main break. Valleyfair park's operations were disturbed for a week due to flooding. School calendars also hurt attendance because students were in classes later than usual. With the school calendar being favorable this year they are likely to see families coming to the parks earlier. In addition, if they do not face the random external factors causing them to shut down a park for a period of time their attendance will not be diminished.

Furthermore, the bad cold front that North America faced last year impacted FUN's revenues. Early on when the parks were opening in March and April they were facing many days of snow and rain. Below shows the number of rainy days in Cedar Point's and Canada's Wonderland over the past 20 years. They both were challenged with a greater number of rainy days than the average over the past 20 years. The number of rainy days decreased the number of people that would have been at the park otherwise, which will make it much easier for FUN to beat estimates if they receive an average number of rainy days.





North America Macro Outlook

The positive macro outlook in North America is a positive the theme park industry as a whole because it will generate significant revenue growth and expanding margins. Over the past five years consumers have experienced an improving market, which has led to them to increase their leisure spending. This has increased attendance in amusement parks resulting in greater in-park spending. This growth will continue as due to improving tourist dollars, the decline of the global unemployment rate, and as consumers continue to increase their spending on experiences. Investors will begin willing to pay more for FUN's stock because the positive economy is in the favor of the theme park business.

Potential Membership Program

The reason that there is a high potential that there will be a new membership program created in the upcoming year is because FUN's actions in the past. FUN has been known to introduce initiatives after a competitor has proven that they can be successful. Management has not mentioned anything about the possibility of this program, but if there is anything that can be learned from the past is that they would not be against introducing something like this. Some examples of FUN doing this in the past are its recent all-season dining, which they introduced a year after Six Flags did. They also followed Six Flags by announcing installment pay a year after they did.

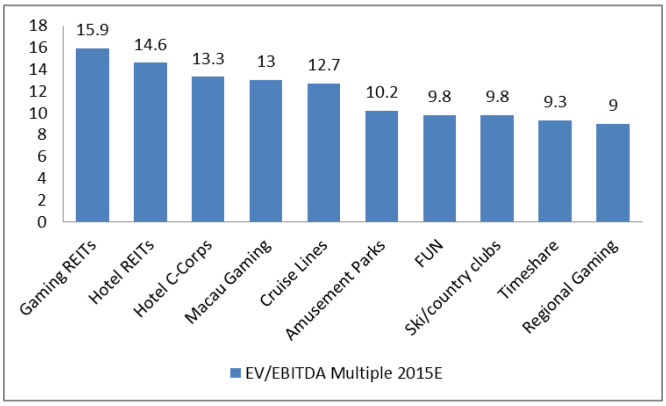
To have a better understanding of how lucrative seasonal memberships have been for other companies we will look at some. The best way to do this is to compare Six Flag's season pass to similar membership programs. Six Flags has an automatic renewal for season pass holders who prefer monthly payments, but it is a manual renewal for annual subscribers. Looking at membership programs from ClubCorp and Netflix show a retention rate of over 75%. These companies have an automatic renewal for their members that pay monthly. The automatic renewal makes the payment less noticeable to the consumer. It is something that they do not feel as much because they are not paying for it with cash. Psychologically this is a better way to deal with the consumer. Costco has an annual membership, which must be renewed manually, and are able to keep their renewal rate between 85% - 95%.

Currently, Six Flag's has a retention rate of 40%. Although this is much lower than the comparisons mentioned it due to the nature of the business. The good news is that even with the 40% retention rate the members provide better margins and cash flow. Also, members smooth out the cyclical revenue of amusement parks because of the monthly payments they make. Considering SIX's results the members pay 20% more than a season pass holder and spend the same amount of money inside the park. The gross margins of a member are also great than season pass holder by 261 bps. SIX's success leads me to believe that FUN will follow their lead. Considering this is not something that management has mentioned is a reason that the public has not priced it in. Getting into the stock before the announcement could lead to greater returns. FUN's stock price is moved driven by their revenue and operating costs, which is calculated below through a Monte Carlo simulation. The new membership program would drive revenue up and create better EBITDA margins, which are the two biggest drivers of this stock.

Sensitivity: 1 Year Target Price	
Revenue Variation	42.1%
Op. Costs Variation	26.6%
Market Risk Premium	25.2%
Terminal Value	4.2%
Long Term Growth	1.9%

Valuation in Comparison to other High Yielding Sectors

The last reason FUN is a buy is that they pay a higher dividend yield than their competitors (including substitutions, for example casinos), while being at a lower value. FUN currently has a dividend yield of 5.7%, which is in the top 15% when compared to competitors. Furthermore, when looking at the Enterprise value to EBITDA based off of the 2015 expected earnings they have a 9.8 multiple. Below you can see how it compares to competitors.



Considering FUN is cheaper than similar dividend yielding stocks investors, mutual funds, and hedge funds, will begin piling into the stock. They will be looking to get into a safe stock in which they can receive high dividend yields. This stock is the safer than others because of its cheaper relative valuation and since amusement parks are in a an environment that is suitable for them.

Forecasts

In conclusion, Cedar Fair, L.P. is a BUY because they are in a business that performs better in an economy that is expanding, since it makes their prices more elastic. The elasticity will allow them to raise prices, which will both increase EBITDA margins. They have been set up to succeed because of the easy comparisons they have from last years Q2 and Q3. In addition to a favorable economy and easy comps, they are likely to create a membership program that no one is taking into account. This will cause estimates to be lower than Cedar Fair's actual results, and if the program is announced, they will begin considering it in their forecasts. This will drive the stock price up. Finally, when comparing Cedar Fair's EV/EBITDA multiple they are cheaper valued than other high dividend yielding securities. Investors will use this as a vehicle to receive higher yields over the other securities because of its cheaper valuation.

CENTER FOR GLOBAL FINANCIAL STUDIES

Cedar Fair, L.P.	FUN	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	NEUTRAL
		Remy Fields	$54.53	$58.90	$60.76	5%	17.01%	

General Info

Sector	Consumer Discretionary
Industry	Hotels, Restaurants and Leisure
Last Guidance	Nov-06-2014
Next earnings date	NM

Market Data

Enterprise value	$4,514.05
Market Capitalization	$221.34
Daily volume	0.36
Shares outstanding	55.83
Diluted shares outstanding	229.20
% shares held by institutions	51.54%
% shares held by insiders	1.13%
Short interest	0.50%
Days to cover short interest	1.24
52 week high	$56.81
52-week low	$42.75
5y Beta	1.05
6-month volatility	19.20%

Peers	Market Cap.
Six Flags Entertainment Corporation	$4,343.81
SeaWorld Entertainment, Inc.	$1,689.14
Vail Resorts Inc.	$3,151.88
Merlin Entertainments plc	$4,290.38
Compagnie des Alpes SA	$387.10
International Speedway Corp.	$1,453.80
Dave & Buster's Entertainment, Inc.	$1,256.63
Intrawest Resorts Holdings, Inc.	$405.84
Parks! America, Inc.	$4.24
Euro Disney SCA	$971.09

Current Capital Structure

Total debt/market cap	35.12%
Cost of Borrowing	272.26%
Interest Coverage	336.55%
Altman Z	229.20
Debt Rating	CC
Levered Beta	1.34
WACC (based on market value weights)	7.99%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Ouimet, Matthew	Chief Executive Officer of Cedar	$ -	$ -	$ -
Witherow, Brian	Chief Financial Officer of Cedar F	$ -	$ -	$ -
Zimmerman, Richard	Chief Operating Officer of Cedar	$ -	$ -	$ -
Milkie, Duffield	Executive Vice President of Ceda	$ -	$ -	$ -
Bender, H.	Executive Vice President of Ope	$ -	$ -	$ -
Hoffman, David	Chief Accounting Officer of Ced	$ -	$ -	$ -

Historical Performance

	FUN	Peers	Industry	All U.S. firms
Growth	5.8%	7.8%	7.7%	6.0%
Retention Ratio	33.9%	66.4%	52.5%	61.6%
ROIC	10.0%		10.5%	11.8%
EBITA Margin	23.7%	#VALUE!	13.4%	13.7%
Revenues/Invested capital	52.0%	38.1%	73.0%	202.3%
Excess Cash/Revenue	-3.6%	#VALUE!	10.2%	18.5%
Unlevered Beta	0.47	0.58	1.04	0.95
TEV/REV	3.0x	3.5x	2.5x	2.4x
TEV/EBITDA	8.5x	6.9x	9.3x	11.3x
TEV/EBITA	13.2x	8.9x	16.6x	15.4x
TEV/UFCF	12.7x	10.2x	27.5x	26.8x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	6.7%	19.9%	
Last Quarter-1	-1.7%	-3.7%	0.9%
Last Quarter -2	-3.8%	-6.7%	-14.0%
Last Quarter -3	7.2%		
Last Quarter -4	2.3%	-7.9%	

Non GAAP Adjustments

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

Proforma Assumptions / **Forecasted Profitability**

		Period	Rev. Growth	Adj. Op. Cost/Rev	Revenue	NOPLAT	Invested capital	UFCF
Operating. Cash/Cash	25.0%	LTM	2%	63%	$1,159.61	$211.30	$1,684.23	$211.30
Unlevered Beta	1.00	LTM+1Y	104%	66%	$2,359.80	$428.15	$1,675.63	$436.74
Rev/Invested Capital	80.0%	LTM+2Y	3%	67%	$2,440.03	$421.26	$1,669.99	$426.90
Continuing Period Revenue Growth	3.0%	LTM+3Y	3%	68%	$2,519.33	$404.63	$1,635.29	$439.33
Long Term ROIC	10.5%	LTM+4Y	3%	69%	$2,597.43	$397.91	$1,624.35	$408.85
Invested Capital Growth	Equals to Maintenance	LTM+5Y	3%	69%	$2,674.97	$403.35	$1,619.25	$408.44
Justified TEV/REV	4.0x	LTM+6Y	3%	70%	$2,755.03	$407.11	$1,670.01	$356.35
Justified TEV/EBITDA	10.0x	LTM+7Y	3%	70%	$2,836.00	$413.62	$1,671.03	$412.60
Justified TEV/EBITA	13.0x	LTM+8Y	3%	70%	$2,919.86	$421.41	$1,671.10	$421.34
Justified TEV/UFCF	30.0x	LTM+9Y	3%	70%	$3,006.67	$430.44	$1,667.94	$433.61

Valuation

	ROIC	WACC	EVA	Enterprise Value	Total Debt	Other claims	Equity	Adjusted Price
LTM	12.5%	8.0%	$76.77	$4,901.04	$1,585.29	$2.72	$3,313.03	$59.86
LTM+1Y	25.4%	8.1%	$290.38	$5,135.15	$1,585.29	$89.38	$3,460.48	$61.51
LTM+2Y	25.1%	8.2%	$282.30	$5,068.85	$1,585.29	$207.50	$3,276.06	$58.18
LTM+3Y	24.2%	8.3%	$259.75	$5,012.84	$1,671.77	$209.80	$3,131.26	$55.50
LTM+4Y	24.3%	8.4%	$257.99	$4,942.42	$1,768.81	$214.10	$2,959.51	$52.49
LTM+5Y	24.8%	8.5%	$263.71	$4,904.63	$1,877.79	$218.60	$2,808.24	$49.88
LTM+6Y	25.1%	8.6%	$275.51	$4,912.60	$1,987.63	$277.77	$2,647.20	$46.98
LTM+7Y	24.8%	8.9%	$265.20	$4,902.45	$2,096.80	$286.92	$2,518.73	$44.62
LTM+8Y	25.2%	9.0%	$271.08	$4,876.28	$2,207.17	$295.31	$2,373.80	$42.00
LTM+9Y	25.8%	9.1%	$277.87	$4,839.81	$2,317.98	$300.73	$2,221.11	$39.78

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**
Market Risk Premium	**6%**	**N/A**	**5%**	**7%**	**Triangular**
Long term Growth	**3%**	**N/A**	**3%**	**8%**	**Triangular**
Terminal Value	**0**	**0.1**	**N/A**	**N/A**	**Normal**

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$59.86	$61.51
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$58.90	$60.76
Current Price	$54.53	
Analysts' median est.		$59.57