

Casino Stocks Could Test First Quarter Lows

Written by Administrator
Thursday, 17 September 2020 10:29 -

Shares of casino and resort operators Wynn Resorts, Limited ([WYNN](#)) and Las Vegas Sands Corp. ([LVS](#)) fell to four-week lows on Wednesday in reaction to negative commentary from analyst David Bain at Roth Capital and potentially shady dealings at Marina Bay Sands, a major Sands property in Singapore. The bearish catalysts added to recent Goldman Sachs downgrades of Wynn Resorts and rival MGM Resorts International ([MGM](#)).

Key Takeaways

- Summer visitation at Las Vegas and Macao casino properties has been exceptionally weak.
- Wall Street analysts are having second thoughts about sector upgrades issued after the March low.
- Wynn Resorts and Las Vegas Sands shares could test their first quarter lows if they fail to hold summer [support levels](#) .

Roth cut Wynn Resorts and Las Vegas Sands from "Buy" to "Neutral," citing over-dependence on Macao at a time that the venue's visitation has crashed to multi-year lows in response to COVID-19 and the loss of Hong Kong VIPs following China's crackdown. The analyst also warned that operators could lose Las Vegas concession contracts when they come up for renewal due to chronic "softness" in the Nevada city, also triggered by the pandemic.

Sector components have ticked higher in recent weeks, underpinned by a series of Wall Street upgrades, despite horrific numbers in Macao and Las Vegas. The Macao Gaming Commission and Coordination Bureau recently reported that August gross revenue fell an astounding 94.5% year over year, while the Las Vegas Strip July gaming win rate fell 39.9 % year over year, according to the Nevada Gaming Board.

Meanwhile, Singapore authorities and the U.S. Department of Justice are investigating \$1.36 billion in transfers of high-roller capital to third parties that may have violated anti-money laundering laws in both countries. Las Vegas Sands, which books nearly one-third of total revenues from the Singapore property, has hired a lawyer to address the charges. The company recently settled a 2019 lawsuit filed by a gambler who alleged that \$91 million was transferred without his permission.

Money laundering is the illegal process of making large amounts of money generated by a criminal activity, such as drug trafficking or terrorist funding, appear to have come from a legitimate source. The money from the criminal activity is considered dirty, and the process "launders" it to make it look clean.

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Wynn Resorts stock posted an all-time high at \$249.31 in 2014 and sold off, finding support in the lower \$50s in 2016. A strong uptick into 2018 fell short, posting a lower high, ahead of a modest [pullback](#) that ended in the upper \$80s in 2019. The stock crushed that support level and the 2015 low during the first quarter's pandemic swoon and bounced strongly, remounting the lower level before stalling at the upper level in June.

The subsequent pullback reinforced [resistance](#) in the low \$90s before settling near \$70 in July. It tested that level for six weeks and turned higher, stalling at 200-month [exponential moving average](#) (EMA) resistance at the end of August. The stock fell to the lowest low since Aug. 10 on Wednesday and could head into another test at the summer low. A breakdown could be catastrophic, raising the odds that selling pressure stretches into March's 11-year low.

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Las Vegas Sands has underperformed its rival in the past decade, nearly going bankrupt in 2009 and recouping about half of the bear market losses before topping out in the upper \$80s in 2014. That marked the highest high in the past six years, ahead of a decline that ended in the mid-\$30s in the first quarter of 2016, followed by a slow-motion recovery wave that stalled under the prior high in the second quarter of 2018.

The stock undercut the 2016 low by less than two points in March 2020 before turning higher in a bounce that stalled at the 2019 low and the 200-month EMA in the \$50s in June. It settled in the low \$40s in July and turned higher once again, reversing well below the June high this week. As with Wynn, Las Vegas Sands needs to hold summer support to avoid a larger-scale decline that could reach and potentially break the March low.

If an investment is underperforming, it is not keeping pace with other securities. In a rising market, for example, a stock is underperforming if it is not experiencing gains equal to or greater to the advance in the S&P

[500 Index](#)

. In a down market, a stock that is a falling faster than the

[broader market](#)

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is an underperformer.

Las Vegas and Macao casino operators are selling off after weak summer visitation triggered key analyst downgrades. *Disclosure: The author held no positions in the aforementioned securities at the time of publication.*

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