

July 30, 2008

Boyd Gaming Corporation (BYD)

Rating: Neutral, Price: \$9.48, 12-Month Target: \$11.00, Market Cap.: \$832.3 MM

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Echelon Retail Could Be Delayed; Broader Implications Possible

- ✓ **GGP announces near-term development pull-back, including High Street at Echelon.** As a part of their Q2 earnings release, General Growth Properties (GGP, Neutral, \$30.09, covered by BAS Analyst Christy McElroy) announced they are deferring certain development expenditures by 18 months given the “current retail and credit market conditions”. Included in the list of delays is the High Street at Echelon which had previously been categorized as a “definitive project” but now has moved to the “planned project” or shadow pipeline category. The project was originally listed at a \$255M cost to GGP and was originally scheduled 3Q 2010. The total project budget between Boyd and GGP is \$500M.
- ✓ **We believe a significant delay for the retail portion of the project could be possible.** Based on this announcement, we believe this means there could be a significant delay for the retail portion of the Echelon project. Assuming GGP’s 18 month delay timetable and a 1-1.5 year construction time, the retail portion might not open until mid or even late 2011, which would be a year after the current scheduled opening for the entire project in the 3rd quarter of 2010.
- ✓ **Potential larger implications? Possible, but too early to tell.** When combined with the lack of any further announcement regarding a JV partner for the MHGC JV, the GGP delay is an important topic heading into BYD’s Q2 earnings release and conference call on Friday. While the company to-date has remained fully committed to the Echelon project in its entirety, we continue to believe that other scenarios are possible given funding concerns and returns question marks on Strip developments. We think the likely scenarios include: 1) a broader JV for the entire project, 2) a scaled down version of the project, 3) a delay or slowdown of construction, or 4) cancellation or sale of the project altogether. Generally, we think all of these (with the possible exception of scaling down) would likely be near-term positive catalysts given the liquidity and returns overhang the project has on the stock.
- ✓ **As a reminder...** The retail portion of the project is for a 300K square foot retail promenade that is a part of the overall \$4.8B Echelon Place casino-resort project. The project has 3 components: 1) a \$3.3B wholly-owned portion consisting of 3 hotels and a 140K sq. ft. casino plus meeting and convention space and entertainment options, 2) a \$950M joint venture with Morgan’s Hotel Group for two additional hotels and 3) the \$500M High Street retail joint venture with GGP. Echelon construction in progress at the end of Q1 was \$400M and we estimate at the end of Q2 will be roughly \$600M. BYD is scheduled to report Q2 earnings before the open on Friday. The dial-in is 888.680.0892 the passcode is 64641695.
- ✓ **Maintain Neutral rating.** Despite seeing any change to the Echelon status as a near-term positive catalyst for the stock, we continue to remain cautious on Boyd given fundamental headwinds. With a slowing gaming consumer, increasing competition in several of BYD’s key markets and 50% of the business coming from the Las Vegas Locals market, we continue to see significant risks on the horizon. That said, based on our estimates for debt at the end of Q2, BYD is trading at 6.4x 2008E EBITDA, below the U.S. gaming peer average of closer to 8.0x.

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Medium	25%-35%	15%+	14.9%-(2.9)%	(3)% or worse
High	35%-55%	20%+	19.9%-(6.9)%	(7)% or worse
Extreme	55%+	32%+	31.9%-(14.9)%	(15)% or worse

Source for volatility: Bloomberg.

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Hold	293	51	Hold	169	58
Sell	14	2	Sell	8	57

Consumer Sector

Coverage Universe	Companies	Pct.	Investment Banking Clients	Companies	Pct.**
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Boyd Gaming Corporation (BYD)

Target Price, Valuation Method, Risk Factors

Target Price:	\$11.00
Valuation Method Used To Reach Target Price:	Our \$11 target is based on a probability weighted sum-of-the-parts analysis.

Risk Factors:

- 1 Las Vegas headwinds could be less than anticipated
- 2 U.S. macro headwinds could be less than anticipated

General Growth Properties, Inc. (GGP)

Target Price, Valuation Method, Risk Factors

Target Price:	\$39.00
Valuation Method Used To Reach Target Price:	Our \$39 target (-\$2) is based on an average of FW AFFO valuation of \$39 (13.6x 12MF AFFO of \$2.36, plus \$6.40 for land), FW NAV of \$59 and DCF of \$39.

Risk Factors:

- 1 Increase in retailer bankruptcies and store closings.
- 2 Increase in new supply growth.
- 3 Decline in consumer spending.

4 Greater than expected rise in interest rates.

Boyd Gaming Corp. (BYD)

Stock Price Chart (rating and target price changes indicated)

U.S. Dollar (Jul 1, 2005 - Jun 30, 2008)

Current Analyst: Kelley S.

Rating System

Buy, Neutral, and Sell



B=Buy, N=Neutral, S=Sell, CIT=Coverage in Transition

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General Growth Properties Inc. (GGP)

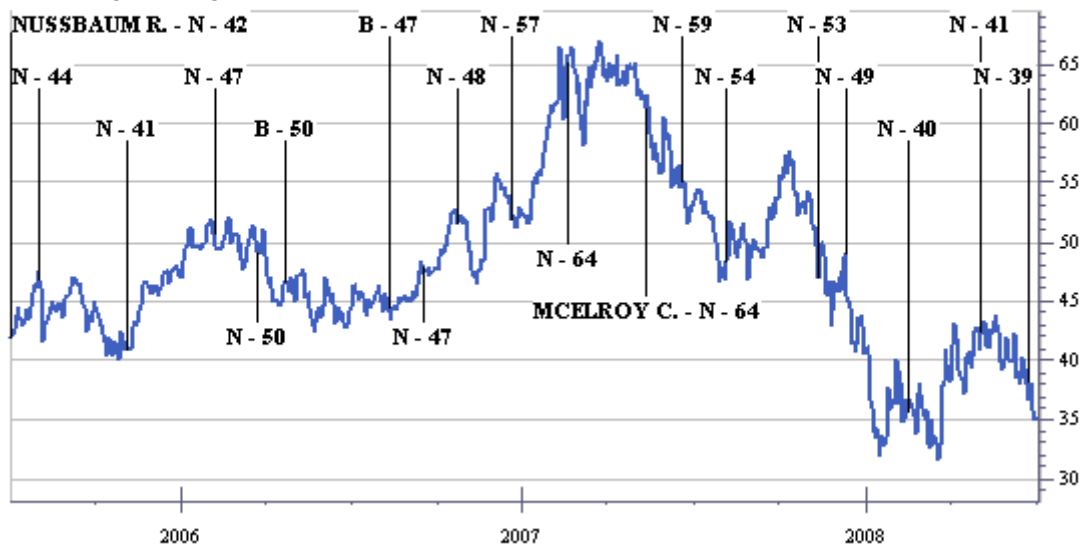
Stock Price Chart (rating and target price changes indicated)

U.S. Dollar (Jul 1, 2005 - Jun 30, 2008)

Current Analyst: Mcelroy C.

Rating System

Buy, Neutral, and Sell



B=Buy, N=Neutral, S=Sell, CIT=Coverage in Transition

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