

## News

## Expensive Six Flags Prone to Wild Stock Swings

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oller coasters, investors would probably prefer less thrills in this capital-intensive industry. "%0D%0A%0D%0Ahttps://www.equities.com/news/expensive-six-flags-prone-to-wild-stock-swings)



Image via Jeremy Thompson/Flickr CC (<https://www.flickr.com/photos/rollercoasterphilosophy/5359243050>)

Investors who held onto to Six Flags' (SIX (<https://www.equities.com/companies/six>)) shares had a roller coaster ride this year right back to square one. Six flags started the year at \$60, then drop to \$57 in April, rose to a peak of \$63.50 in May, followed by sharp drop to \$52.60 in September before returning to \$60 after the latest earnings report.

While Six Flag is known for its thrilling Superman roller coaster ride, investors would probably prefer less thrills in this capital-intensive industry. Theme parks are a discretionary spending category for consumers which tends to take a back seat when disaster strikes. In the past 10 months alone, the US had suffered through 4 major hurricanes, a wild fire in California and air pollution in San Francisco and a major earthquake in neighbouring Mexico.

This is obviously bad news for the shareholders of Six Flags. Therefore, it came as a pleasant surprise to analysts and investors to know that Six Flag outperform expectations (<https://finance.yahoo.com/news/six-flags-tops-3q-profit-112531088.html?tsrc=rss>) of \$1.80/share of earnings to report \$2.11/share of earnings. This is despite a minor drop in revenue from expectations of \$583.9 million to \$580.4 million in the previous quarter.

### Food and Pricier Tickets Push Up Sales

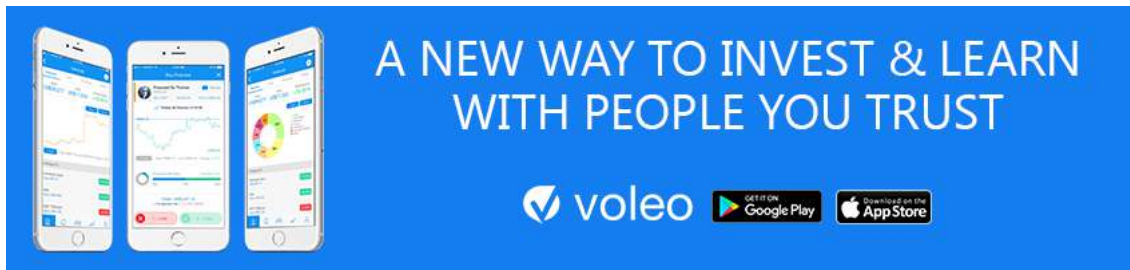
If the natural disasters had not occurred, Six Flags would probably report better revenue and target earnings of \$600 million for the full year. Six Flags pushed up earnings by focusing their attention on entry ticket prices and luring more visitors to stay for meals.

(Amounts in thousands, except per share data)	Statement of Operations Data <sup>(1)</sup>				
	Three Months Ended		Nine Months Ended		Twelve Mo
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016	September 30, 2017
Theme park admissions	\$ 331,244	\$ 311,427	\$ 604,105	\$ 585,270	\$ 734,248
Theme park food, merchandise and other	223,861	220,667	429,033	427,293	522,907
Sponsorship, licensing and other fees	20,798	20,284	56,794	53,936	69,187
Accommodations revenue	4,515	5,221	12,386	13,585	15,290
Total revenue	580,418	557,599	1,102,318	1,080,084	1,341,632

Source: *Six Flags Q3/2017 Earnings Report* (<http://investors.sixflags.com/news-and-events/press-releases/2017/10-25-2017-120129732>)

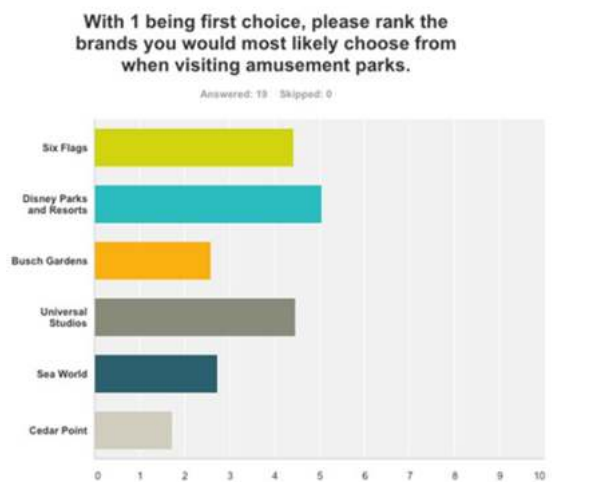
Theme park admission accounts for 56% of revenue and dependent on this foot traffic, Six Flags upsells their food/merchandise offerings which brings in another 38.6% of revenue. In other words, the ability of Six Flags to attract thrill seekers is critical to its success and it had been constantly upgrading its product offering.

This includes introducing new thrill rides such as Wonder Woman, embedding latest technology such as virtual reality in its offering and cultural events such as Fright Fest. Six Flags is taking advantage of the popularity of its product offerings to raise the price of its admission tickets through lesser discounts and tiering of its product. They are also introducing dining passes to attract visitors to try out its meals which increases their spending.



## Wait Patiently for Licensing Contribution

For 56 years, Six Flags had largely stayed within the confines of the United States with the sole exception of its venture into Mexico and Canada with 18 theme parks. Mexico happens to be a major success except during the recent earthquake season.



Source: Slide Player (<http://slideplayer.com/slide/7926064/>)

Six Flags has strong name recognition which brings it on par with Universal Studios and just behind **Disney (DIS)** (<https://www.equities.com/companies/dis>) as the top choice for consumers. Six Flags is now leveraging on its international brand recognition to venture in Vietnam, Saudi Arabia and China. While the current licensing revenue is small at \$20 million or 3.6% of revenue, it is expected to increase significantly once these theme parks goes into operation.

In China (<http://variety.com/2017/biz/asia/six-flags-to-double-theme-parks-in-china-1201993690/>), Six Flags is competing with Walt Disney in Beijing, Universal in Shanghai and they had 2 locations in Zhejiang and Chongqing in 2019 and 2020 respectively. Six Flag would also be opening a theme park and a water park in Ho Chi Minh City Vietnam (<http://www.attractionsmanagement.com/detail.cfm?pagetype=detail&subject=news&codeID=322819>) in 2021 while Saudi Arabia (<https://www.reuters.com/article/us-saudi-leisure-six-flags-entmt/six-flags-aiming-to-open-first-saudi-park-by-2021-idUSKBN13A2Q1>) will add another 3 theme parks by 2021. Each of these parks will cost \$500 million to build which requires extensive funding (<https://www.xn--lnutensikkerhetguide-wzb.no/>) and government support.

According to Six Flag's management, they are confident in their partners and would avoid costly over-runs which is not uncommon in the industry. Overseas engagement often entails risk which is why it is important to partner with credible international accounting network like 3E Accounting (<https://www.3ecpa.com.sg/about-us/our-international-network/>). Even if they are right, we would not see significant revenue until 2019 at the earliest.

## Competent but Expensive

The theme park industry can be very lucrative because of its high barriers to entry but also dangerous as it is subjected to the force of nature and the preference of consumers. In the previous year, they made \$423 million of earnings and they are aiming for \$600 million this year but it fell short due to natural disaster.

The management had been competent to enhance the attractiveness of their theme parks, expand overseas and kept a tight lid on cost while taking more money from consumers. At 56 times earnings, Six Flag is expensive but management had promised to deliver better results. This also explains the roller coaster ride in the market as the market has periodic doubts over its ability to deliver whenever something goes wrong.

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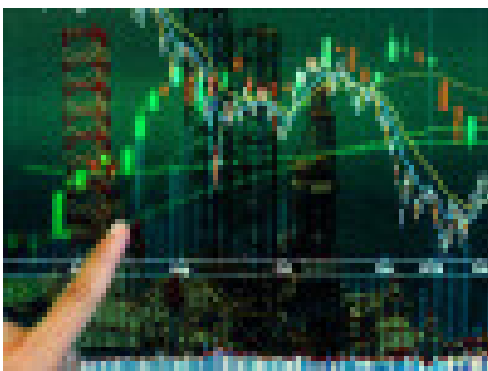
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