

Maltbie's Mix

Long: Inrawest; Short: Harrah's

Robert Maltbie, 07.25.03, 5:00 PM ET

Each week Robert Maltbie, money manager and chief executive of [Stockjock.com](#), selects a pair of stocks--one he recommends investors to go long on and the other that they should short. In a slightly different take this week, [Lyron L. Bentovim](#), managing director of [Skiritai Capital](#), wrote the recommendation on the long and Maltbie wrote the short.



Robert Maltbie

The Long

Inrawest Corporation (nyse: [IDR](#) - news - people)

Recent price: \$13

Target price: \$20

The Short

Harrah's Entertainment (nyse: [HET](#) - news - people)

Recent price: \$40

Target price: \$35

The Thinking

Vancouver-based Inrawest develops and operates village-centered resorts, including some of the most prestigious resorts in North America. Its portfolio includes nine mountain ski resorts, a golf resort and golf courses. Inrawest's income comes from two main sources: resort operations (ski passes, tickets, retail, etc.) and sales of residential units developed at the resorts. Inrawest's growth strategy is simple, the company purchases undercapitalized resorts and, leveraging its experience and know-how, converts them into attractive destinations. As the resorts become more popular the demand for residential units grows, which leads to a further increase in resort popularity and visits. During the next decade Inrawest should benefit from large increases in resort home sales as wealthy baby boomers move toward retirement. Inrawest should also benefit from the decision to award the 2010 Winter Olympics to Vancouver with many events hosted in Inrawest's Whistler resort.

Harrah's operates hotel casinos in Nevada and New Jersey and riverboat, dockside and Indian reservation casinos. For the three months ended March 31, revenue rose 10% to \$1.07 billion. Harrah's is vulnerable along several fronts. Increased taxes by cash-strapped states are taking a bite out of its profits and it's difficult to pass these costs along to consumers in today's slow economy. Increased taxes on casinos in Illinois and Indiana are soon to be followed by similar initiatives in Iowa, Missouri and even Nevada. Harrah's has experienced decelerating earnings growth, from 24% to 6% to 1% over the last few quarters. Wall Street analysts have been trimming back earnings projections.

Additionally, Harrah's stock has been one of the weakest in its industry. Competitors such as **Marriott International** (nyse: [MAR](#) - news - people) and **Four Seasons Hotel** (nyse: [FS](#) - news - people) have been performing much better. Finally, insider selling has topped buying by an 8-to-1 margin over the last six months. However, shorts must be on guard for a cash dividend initiation by Harrah's. Similar moves by **Microsoft** (nasdaq: [MSFT](#) - news - people), **International Game Technology** (nyse: [IGT](#) - news - people), **Mandalay Resort Group** (nyse: [MBG](#) - news - people) and **Cendant** (nyse: [CD](#) - news - people) have caused short-term rallies in these stocks.

Disclosure:

Skiritai is long Inrawest and Maltbie's firm has no current position in Harrah's.

Lyron L. Bentovim is managing director of San Francisco based Skiritai Capital. Prior to that, he was president and chief operating officer of WebBrix, which provided physical space and services for online retailers. Bentovim has a MBA from Yale School of Management and a Law degree from the Hebrew University in Jerusalem. Robert Maltbie is a principal of California-based Millennium Asset Management.