

November 7, 2007

Stock Rating
Equal-weight-V

Industry View
In-Line

Morgans Hotel Group

Quick Comment: In-Line Quarter, No Guidance Changes

Quick Comment: Morgans Hotel Group reported 3Q results broadly in-line with the Street's estimates: adjusted EBITDA came in at \$24.0 million compared with consensus \$23.1 million (although its not clear what the Street reflected for the Royalton). MHGC reported strong RevPAR increases over 3Q06, up 11.5% at comparable hotels. Food and beverage revenues also came in above our expectations; however, Morgans reported disappointing flow-through on the additional revenue, as adjusted EBITDA margins increased by only 100 bps. With the exception of non-comparable properties, the Shore Club experienced the strongest RevPAR growth, up 18.9% over 3Q06, followed by the Delano at 15.9%, and the Morgans Hotel at 13.9%. Additionally, MHGC capitalized the operating costs of the Royalton when it was closed during the renovation, which we had reflected (MHGC would have otherwise missed our EBITDA estimate by \$1 million), impacting their quarter positively relative to our estimates as a loss of ~\$4 million.

What's New: One of the most interesting topics discussed on the call was the unlevered petro-dollar interest in hotels. Based on management's comments, it appears that there is some petro-dollar interest in MHGC assets, which is consistent with some of our prior commentary: we believe the petro-dollar buyer will seek super-luxury hotels.

Outlook: MHGC maintained 2007 guidance of 9-11% and Adjusted EBITDA in excess of \$110 million. This is slightly disappointing, following the success MHGC has had throughout the year. No 2008 guidance was provided.

Key Ratios and Statistics

Reuters: MHGC.O Bloomberg: MHGC US
Gaming & Lodging / United States of America

Price target	\$21.00
Shr price, close (Nov 7, 2007)	\$20.80
Mkt cap, curr (mm)	\$671
52-Week Range	\$25.93-12.76

Fiscal Year (Dec)	2006	2007e	2008e	2009e
EPS adj for consensus (\$)	(0.41)	0.26	0.43	0.86
ModelWare EPS (\$)*	(0.38)	0.26	0.43	0.86
Revenue, net (\$mm)	279	314	333	376
P/E	NM	79.4	47.9	24.2

* = Please see explanation of Morgan Stanley ModelWare later in this note.
e = Morgan Stanley Research estimates


Quarterly EPS adj for consensus

Quarter	2006	2007e Prior	2007e Current	2008e Prior	2008e Current
Q1	(0.47)	-	0.06a	-	-
Q2	0.11	-	0.03a	-	-
Q3	(0.02)	-	(0.06)	-	-
Q4	(0.03)	-	0.23	-	-

e = Morgan Stanley Research estimates, a = Actual company reported data

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(as of October 31, 2007)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	958	42%	313	44%	33%
Equal-weight/Hold	989	43%	312	44%	32%
Underweight/Sell	328	14%	85	12%	26%
Total	2,275		710		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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Industry Coverage: Gaming & Lodging

Company (Ticker)	Rating (as of)	Price (11/07/2007)
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Ashford Hospitality (AHT.N)	E (05/17/2007)	\$7.95
Boyd Gaming (BYD.N)	E (11/07/2007)	\$39.78
Harrah's Entertainment (HET.N)	++	\$86.62
Hospitality Properties Trust (HPT.N)	U (09/17/2007)	\$36.08
Host Hotels & Resorts (HST.N)	U (06/20/2006)	\$19.83
IGT (IGT.N)	O (10/27/2006)	\$43.79
Las Vegas Sands Corp. (LVS.N)	E (07/11/2005)	\$108.88
MGM Mirage (MGM.N)	E (08/03/2007)	\$90.44
Marriott International (MAR.N)	O (09/17/2007)	\$36.93
Morgans Hotel Group (MHGC.O)	E-V (09/17/2007)	\$20.8
Scientific Games Corp. (SGMS.O)	O (04/07/2004)	\$33.26
Starwood Hotels & Resorts (HOT.N)	O (01/17/2006)	\$52.54
Station Casinos (STN.N)	E (04/06/2006)	\$90
Sunstone Hotels (SHO.N)	E (05/19/2006)	\$24.75
WMS Industries (WMS.N)	O (07/18/2006)	\$35.05
Wynn Resorts, Limited (WYNN.O)	E-V (06/19/2007)	\$138.43

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