

DIAMOND HILL

INVESTED IN THE LONG RUN

Small Company Monthly Musings

A Dollar in the Ground

Apr 2025

Where can we seek resiliency for our portfolio in an investing environment where uncertainty is the only certainty? An area we have found increasingly compelling is trusted companies with dollars in the ground on domestic soil that, regardless of which direction tariffs break or the potential path of inflation, are set up to deliver real returns over the long term. Dollars in the ground can serve as a distinct, tangible asset advantage. If things do break in a more inflationary way, these barriers become more expensive to replicate and create a longer duration of outsized return potential.



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Portfolio Manager

The recent equity market pullback spurred by higher interest rates and uncertainty has provided compelling prices to acquire stakes in these types of businesses. Two prominent examples of this now lead the portfolio, and while not new to the portfolio, we have been accumulating additional shares as of late: Red Rock Resorts (RRR) and Ryman Hospitality (RHP).

Those familiar with our Small Cap strategy undoubtedly have heard us discuss Red Rock Resorts. This Las Vegas locals casino operator owns its properties, has a land bank of optimal development opportunities in the Vegas Valley and has been a top holding for quite some time.

This business checks a lot of boxes in terms of the qualitative aspects we tend to seek: great alignment with the owners, long-term opportunities and competitive moat supported by SB 208 (legislation that restricts development location in Vegas), astute operators delivering some of the top margins in the industry and one of the best loyalty programs in the Valley keeping their customers engaged.

Red Rock can utilize these advantages to develop properties like Durango Casino Resort, which opened a little over a year ago with much success and added to its network of touchpoints in Las Vegas. When you put dollars in the ground like that, you don't want someone to see your success and try to replicate that next door — that is where the combination of SB 208 and their land bank comes in — no one can put that money in the ground next door which reinforces Red Rock's ability to deliver long-term for its shareholders.

Yet, shares have declined 20-25% in the past couple of months, such that the company is trading at well over a 9% free cash flow yield on trailing and double-digits in the future, which is quite attractive for those focused on the long term.

Ryman Hospitality is another domestic property-focused business we have been adding to and is now the second-largest holding in the portfolio. A similar story — Ryman owns five of the country's largest convention and group-focused resorts, and it manages the business with an owner's mindset and deploys capital with a strict return discipline.

In a world that has become more digital and isolated, large events where humans can count on seeing each other have become of even greater importance, and Ryman is uniquely positioned to fill those needs. Like Red Rock, Ryman demonstrated its resiliency and ability to be opportunistic during the challenging times of the pandemic, achieving strong margin growth in the subsequent years.

Not only does Ryman own event properties, but it is also a major name in country music, being the majority owner of Opry Entertainment Group with such properties as The Grand Ole Opry, Ryman Auditorium and Ole Red. This is an excellent collection of domestic properties that once again delivers on the concept of dollars in the ground that may become more expensive to replicate going forward.

Last year, the business generated over \$8.50 in adjusted funds from operations (AFFO – a proxy for free cash flow for real estate investment trusts), more than doubling its AFFO over the past decade, and it currently trades at just under a 9% AFFO yield.

As of 28 February 2025, Diamond Hill owned shares of Red Rock Resorts Inc and Ryman Hospitality Properties Inc.

Securities referenced may not be representative of all portfolio holdings. The reader should not assume that an investment in the securities was or will be profitable.

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