Packer dealt a dead hand in Vegas

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- **Michael West**
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Just when his Crown Macau casino is coming good, James Packer's US game plan has been dealt a dead hand. The Crown chairman had planned to build one of the world's tallest buildings on an old waterworks site on Las Vegas's famed "Strip".

But the site earmarked for the $US5 billion Las Vegas Towers resort project is now up for sale. For a $7.5 billion company, the looming loss of an option for another casino development is small beer, in fact - apart from the discomfort of a dud deal - it may be a blessing in disguise. Packer spent and borrowed big at the top of the market last year, and like many others on a debt-fuelled buying streak, now appears to be reconsidering his pace of expansion.

There's a lot of debt in some of the Crown joint venture projects, and while Crown Macau is enjoying an impressive rise in market share there are substantial joint venture debts to service before the group's big ticket casino developments such as the Macau City of Dreams come on stream and deliver cashflow. That said, the debt is mostly in the subsidiaries and the assets rather than the head stock where cash exceeds bank debt thanks to the private equity deal with PBL last year.

If you put a sensible multiple on the cash cows, Perth's Burswood Casino and Melbourne's Crown, then add in the other group investments at cost you get to a valuation of roughly $14 a share for Crown. A casino business is hard to beat, but casinos are expensive to build in the first place and the discount in the stock is reflecting some development and financing risk.

Crown chairman Packer split his gaming and media businesses last year into Consolidated Media and Crown. Calling the market's bluff, he faked a lack of interest in media assets then turned about and lobbed a bid for Consolidated Media earlier this year with Lachlan Murdoch. Contrary to reports, and countervailing the Consmedia share price which has all but written off the takeover, there is no deadline this Friday for the deal. Murdoch is believed to remain in talks with an offshore private equity fund to replace the departed privateer SPO.

Back to Crown, though. Some investors have expressed concern that Crown has been a bit headstrong on expansion. The leveraged deal to buy Harrahs, for one, came out of the blue. Again, $200 million won't break the Crown bank but the market didn't care for the surprise. Elsewhere, Citigroup pulled back its earnings forecasts by 9% last week citing debt in the Canadian JV, renovations disruption at Crown in Melbourne and a higher than expected tax effect.

It kept a "buy" on the stock, with a price target at $14.80 but dubbed Crown a "medium risk" play. "CWN's near-term earnings are sourced from principally grind properties, where gaming has proven to be defensive in downturns. Longer-term growth is offered through Macau market growth and the Cannery acquisition in CY09".

On Canada, where Crown has a joint venture with Macquarie Bank, funding is a mix of equity and debt. The debt instrument carries a coupon of 13% - that's high - and Citigroup noted the ramp up of two casinos "will see likely lower early contribution than we had forecast".

The problem with a hiatus between development and cashflow is that the market tends to value cashflow on a higher multiple than projected future earnings, especially this market, and while development and financing risk remains Crown's price may remain depressed. Mind you, it has outperformed the market since the meltdown.

There was good news this week when Crown reported an impressive rise in market share and revenue at its Crown Macau casino after hiring a junket operator to get more Chinese gamblers into the venue. Crown Macau had had a lackluster start to life. The latest reported market share of 18% though was a fillip to the stock. What may continue to dog the Macau properties though is the Chinese Government's visa policies. China likes to show who’s boss and the spectre of the government moving at any time to choke off junkets to Macau will remain an issue.

On the Las Vegas deal, James Packer and his US partner in the project, Chris Milam, had already made around $A100 million in payments to Archon Corp which owns the site on the Vegas "Strip." Real estate agent, CBRE confirmed today the site was up for sale. Some $US63 million has been reported to be non-refundable and some $US30 million was not going to the purchase price, according to Crikey's Glenn Dyer, who had been following the story.

A spokesman for Crown said there had been a strategic review of the asset which was still underway.

The pending sale, though, may be viewed positively by the market given the credit climate and concerns about subsidiaries' debt levels. Although gaming is a defensive business, the Las Vegas economy has been slugged hard by the housing crisis and faces the prospect of a US recession later this year.

Packer had originally been proposing to build one of the world's tallest buildings - at some 1800 feet - but local concerns over the site's proximity to the airport saw the plans scaled back to a height of 1063 feet.

Milam had taken an option over the site in June 2006. Packer tipped in $US22.5 million for a 37.5% interest in the project.

Crown is also funding the Fontainebleau Hotel Casino in Vegas with US group Turnberry. The Fontainebleau is under construction next door to the site Packer has with

Milam.

mwest@fairfax.com.au

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