

Packer flirts with „Macau mania“

James Packer's bold AUD 1.2 billion throw of the dice in Macau this week has tied PBL's long-term fortunes to a possible Asian El Dorado.

The deal to buy a full casino concession from legendary Las Vegas casino operator Steve Wynn could see Macau outstripping PBL's other interests such as the Nine Network, its magazines and two Australian casinos over the next decade.

But the high-priced deal also exposes the company to the shifting sands of Macau government policies, the success of its plan to become the Las Vegas of the east and intense competition from some of the world's biggest casino players.

Packer is now dancing with the stars of the international casino and hotel business who are eagerly pumping more than AUD 30 billion into a tiny enclave less than a 20th the size of Singapore.

Sheldon Adelson's Las Vegas Sands group is already operating the hugely profitable Sands in Macau and is powering ahead with the massive AUD 3 billion, 3000-room Venetian casino and hotel project on Macau's new Cotai strip.

Others are circling.

Harras of the US and Malaysia's Genting group are also believed to be talking to Wynn about buying his sub-concession.

Others believed to have an interest in Macau include South African-born international casino magnate Sol Kerzner and Las Vegas players Caesars Palace and Station Casinos.

Finalised suddenly last weekend after months of talks between

James Packer and Steve Wynn, who knew Kerry Packer from his days as one of Las Vegas's largest „whales“, the arrangement has taken the international casino industry by surprise.

Having stepped up into the big league of international casino players, Packer is expected to move fast to bring his organisation up to speed on Macau.

A PBL board meeting has already been mooted for the city in September, when the deal is set to be finalised.

The meeting will come at about the same time as Packer's new ally, Steve Wynn, is set to open his first casino in the city, housed in a AUD 1 billion, 600-room luxury hotel development being built by Leighton Asia.

Macau opened its casino market to international players in 2002, ending the 40-year monopoly of the colourful Stanley Ho, whose son Lawrence runs Packer's Hong Kong-based joint venture partner, Melco.

The former enclave was handed back to the Chinese by the Portuguese in 1999 and is under a similar hands-off arrangement to Hong Kong. It is already set to surpass Las Vegas in terms of gambling turnover with only a fraction of its gaming tables.

With only one new foreign-owned casino in operation – the money-minting Sands, which opened in 2004 – gaming revenue in Macau has already jumped by 60 per cent since 2003 to almost \$ 8 billion last year.

PBL is already committed to two casinos in Macau. Under construction, its AUD 300 million six-star Crown Macau is expected to open next year while the start date for the more ambitious \$ 1.5 billion City of Dreams is 2008.

Its neighbour, the Venetian, situated opposite the idle City of Dreams site, is already 20 storeys and has just pushed back

its start date to December 2007.

Initial promises by the PBL-Melco consortium that the City of Dreams would feature an expensive underwater casino were quietly dropped last month.

Meanwhile, international hotel operators such as the Four Seasons, the Shangri-La, Traders, the Intercontinental, the Sheraton, the Holiday Inn and St Regis have already lined up to take space in the Cotai strip – reclaimed land between two islands which promises to out-Las Vegas the Las Vegas strip.

Macau observers this week said the Packer deal was being admired for its boldness but eyes were raised at the AUD 1.3 billion price tag.

While the upside of cashing in on a catchment area of hundreds of millions of increasingly wealthy middle-class Chinese is huge, there are also high risks in what research house CLSA calls „Macau mania“.

Just as Macau residents and foreign property owners woke up recently to find their water views were to be affected by yet another major land reclamation project, so, too, could the economics of Packer’s investment be affected by the shifting sands of Macau politics. These include the possible issue of new casino licences after 2009.

Macau and Hong Kong-based observers say the Macau Government is keen to get at least one other world-class casino operator to come to the city.

While Packer’s high price was paid for what is being described as the „last“ sub-concession for gambling in Macau, observers predict that if the Government wants to hand out new licences to attract more high-class foreign operators, it will find a way.

Asked how The Australian could find out the Government’s long-

term policy on casinos, one Australian executive in Macau this week howled with laughter.

Even under the current policy, it is open to existing casino licence holders – including Stanley Ho, his daughter Pansy, who has a joint venture with MGM Grand which is being built next to Wynn's Macau, the Galaxy group and the PBL-Melco consortium – to open as many new casinos as they like in Macau.

The Macau Government's initial policy of issuing licences to three casino operators in 2002 has already become a „three-plus-three“ policy, with each concession holder able to sell off one sub-concession.

Hong Kong casino analyst Gavin Ho, of CLSA, argues that the Macau Government is generally seen as friendly to foreign investment but notes that „there is room for improvement in terms of transparency and efficiency“.

Discussing the Government's land reclamation policy, which has prompted angry protests from irate property owners affected by the news, Hong Kong's Standard newspaper noted that the outlook for clarity was poor.

PBL is set to put USD 240 million (AUD 326 million) directly into the deal, with Melco putting up another USD 160 million.

The remaining USD 500 million will be borrowed by PBL Macau, which will be 60 per cent owned by PBL and 40 per cent by Melco.

While the loan is non-recourse to PBL it could be tough for the company to walk away from PBL Macau if it could not meet its financial obligations.

Ideally, PBL and Melco should be able to pay for their debt from the extra revenue they will be able to take out of the casinos from being a full casino licence holder, rather than

paying a commission to licence holder Stanley Ho under the original arrangement. Hong Kong analyst Peter Drolet, of OUB, estimates that the deal will mean PBL now gets 33 per cent of the gross gaming revenues of its Macau casinos, compared with only 12 per cent under the original arrangement.

The question is whether, over time, that extra slice of the gaming revenues will be enough to cover the cost of the full licence.

The Macau expansion is also a defensive play to protect the company's highly profitable Crown and Burswood casinos from the inevitable loss of Asian high-rollers from Australia.

PBL's gaming operations now make up almost 49 per cent of earnings before interest and tax, easily oustripping those from its television and magazine divisions.

In the six months to the end of December, earnings before interest, tax and depreciation from its gaming operations contributed AUD 265 million to the group's total earnings of \$ 538 million.

UBS analyst Nola Hodgson estimates that the deal will save the PBL-Melco consortium USD 250 million a year in management fees which would have had to be paid to Stanley Ho's company, SJM, from the 2009 financial year onwards.

But to make the best of its investment, Packer will also have to look at more casino developments in Macau – either directly through its venture with Melco or alongside third parties in the same way the PBL-Melco consortium originally planned under the Stanley Ho licence.

Packer is likely to find himself an attractive potential partner for international investors, particularly those from the US who are extremely wary of any links with Stanley Ho.

Indeed, there are strong rumours that the Hyatt, which owns a

casino in Las Vegas, pulled out of the first PBL-Melco hotel-casino project under construction as it did not want to run the gauntlet of a probity check by Nevada gaming authorities because of the links with Stanley Ho.

MGM Mirage, which is building a casino in Macau as part of its joint venture with Ho's daughter, Pansy, is now facing probity investigations by gaming authorities in Nevada and New Jersey.

But any extra financial commitment to Macau will also involve additional risk for PBL.

While Kerry Packer gambled tens of millions in Las Vegas, his son is gambling hundreds of millions on the hope that Macau truly will be a City of Dreams come true.