Odds in favour of big casino merger

Executives at Genting, a Malaysian conglomerate with big gaming interests, have always been fond of England.

On one visit, they were treated to a tour of the Houses of Parliament by Lord Baker, the former Conservative minister and a non-executive director at Stanley Leisure, one of the groups Genting invests in. They had lunch of roast beef and all the trimmings.

Now they are involved in a deal to strengthen their position in Britain. The Sunday Times revealed last week that Stanley Leisure, where Genting holds a 22% stake, is in merger talks with rival London Clubs International, of which Genting owns 29%.

The plan is to create a casino giant worth about GBP 700m that will be well placed to benefit from the sector's impending deregulation.

While the merger was not engineered by the Malaysians, Genting is known to be fully behind it. A deal would be good news for Justin Leong, the 28-year-old Harrow-educated executive who runs the overseas interests, coming just a few weeks after Genting lost out in the battle to win a licence to build and run a casino complex in Singapore.

A few issues still need to be resolved, not least the make-up of the board. Bob Wiper, Stanley Leisure's chief executive, would retain his post after a merger, while LCI deputy chairman Barry Hardy would probably retire. Otherwise, insiders stressed it would be "a merged board".

There is little love lost between the two sets of executives. In part, the ill-feeling stems from a previous attempt by

Stanley to buy LCI in 2003. Then, with LCI still reeling from a disastrous foray into Las Vegas that had left it with heavy debts, Liverpool-based Stanley had teamed up with private-equity firm Hg Capital to attempt a takeover bid at 30p per share.

That was seen as too low and a few days after the deal leaked in the press, it was abandoned.

Since then, LCI has been rehabilitated, selling off a number of assets and freeing itself of its debt burden.

In the past, competition issues have been an obstacle to a tie-up. Stanley owns top-end casinos Crockfords and the Colony Club via its 1998 acquisition of Capital Corporation. LCI has owned Les Ambassadeurs, which also targets the high-roller market. A decade ago, the government blocked a takeover of Capital Corporation by LCI because of the competition issues surrounding the luxury casino market.

Those receded after LCI sold Les Ambassadeurs to Philippines-based billionaire Putera Sampoerna in February, a deal that marked the latest stage in the withdrawal of the quoted groups from the London high-rollers' market.

A combination of the two makes strategic sense. Stanley's estate mainly consists of casinos in the regions. Despite refurbishing or relocating sites, some of its casinos are too small or poorly located to be able to compete with the bigger, flashier venues that will arrive with deregulation.

For its part, LCI needs capital to fully realise its expansion plans, which include a glitzy new GBP 17m site on London's Leicester Square, complete with marble floors and a VIP lounge.

The combined group, which could generate cost-savings of GBP 5m, would achieve both aims. The companies would also be better placed to bid for new licences that the government will offer next year.

A combined group may also prove an attractive bid target for one of the industry’s giants, such as Ladbrokes.