

Kerkorian in New Move in Las Vegas

Last month Kirk Kerkorian, the 89-year-old billionaire who buys and sells large positions in corporations like few others on Wall Street, offered USD 4.5 billion to buy Chrysler from DaimlerChrysler, only to lose out to another bidder.

Yesterday, Mr. Kerkorian put cars aside and switched back to casinos.

His holding company, the Tracinda Corporation, said in a regulatory filing that he intended to enter into negotiations with MGM Mirage to buy the Bellagio, a premier Las Vegas casino-hotel, and also the partly built CityCenter, another Las Vegas property that many consider the most expensive privately financed project in American history.

The final price tag for the two properties, analysts said, could exceed USD 12 billion.

The question, they say, is whether Mr. Kerkorian truly plans to stop at the two properties, or this is an opening move to take MGM private. It could also be, analysts said, an effort to put the huge casino company into play.

In a sense, Mr. Kerkorian is bidding to buy the two properties largely from himself.

He is the majority stakeholder in MGM – which owns, in addition to the Bellagio and CityCenter, the MGM Grand, the Mirage, Luxor, Mandalay Bay and New York New York, all in Las Vegas, among other properties.

According to the filing with the Securities and Exchange Commission, “Tracinda also wishes to pursue alternatives with respect to its investment in MGM Mirage, which may include

financial restructuring transactions involving all or a substantial portion of the remainder of the company.”

That is just the kind of opaque statement prompting speculation that Mr. Kerkorian’s 56 percent ownership stake in MGM might be in play.

“This opens up a wide range of possible outcomes,” said Harry Curtis, a J. P. Morgan analyst, who owns no shares of MGM. “This could be a case of Kerkorian simply buying two MGM assets. But it’s also possible he’s interested in other MGM assets all the way up to him putting together a private equity deal for the whole company.”

This could mean that Mr. Kerkorian is seeking other investors so he can take the company private, as Harrah’s Entertainment, one of its chief rivals, recently elected to do. Or, if the price is right, Mr. Curtis said, he may choose to sell his entire stake.

The Bellagio, where Mr. Kerkorian likes to stay when he is in town, is the better known of the two properties. But Las Vegas insiders say the CityCenter is the real prize. MGM is spending USD 7 billion to build the project, a miniature city bordering the Las Vegas Strip that will have 2,700 condominium units, a 4,000-room hotel, a convention center and half a million square feet of retail space. It is scheduled to open in November 2009.

Real estate prices in Las Vegas have soared in the last several years, leaving some to conclude that casino stocks with large Las Vegas holdings are undervalued.

At MGM, the general sentiment is that Wall Street has failed to appreciate the potential value of the CityCenter project, which even the rival casino owner Stephen A. Wynn said was “as ambitious a project as this town has ever seen.”

The MGM board, which includes Mr. Kerkorian, will consider his

offer today at a regularly scheduled meeting. The board is expected to appoint a special committee to explore a possible deal with Mr. Kerkorian.

In December, Mr. Kerkorian tried to increase his stake in MGM, to 61.3 percent of the company from 56 percent.

Though he was unsuccessful, the offer helped persuade at least one Wall Street investment firm, the Prudential Equity Group, to upgrade its rating on MGM to overweight.

“Placing Our Bet With Captain Kirk,” a headline over a recent Prudential research report said.

There has been more than USD 40 billion in merger and acquisition activity in the casino industry since the start of 2006, said Joel H. Simkins, a Prudential analyst who follows gambling.

That includes last year’s USD 17 billion blockbuster private equity deal to take Harrah’s, the world’s largest casino company, private.

“This is a trend that’s been going on for the last seven or eight years,” Mr. Simkins said, “but we’ve seen the pace of activity pick up significantly in this sector.”

Shares of MGM Mirage soared in after-hours trading yesterday, up nearly 16 percent to USD 73.01.