

MGM Mirage's debt weaker on Kerkorian play

New York (Reuters) – Billionaire investor Kirk Kerkorian's play for MGM Mirage Inc. may be bad news for its debt holders, but how poorly the casino operator's bonds perform will likely depend on what shape the gambit takes.

Kerkorian's Tracinda Corp. said on Monday it is exploring options for its 56 percent stake in MGM Mirage and will enter talks to buy MGM's crown jewels, the Bellagio Hotel and Casino and its USD 7.4 billion CityCenter development on the Las Vegas Strip.

MGM Mirage, the world's No. 2 casino operator, has formed a committee to consider Kerkorian's approach, which could entail a financial restructuring for the rest of the company.

„The company has become subject to elevated event risk, and bonds could underperform other gaming credits near term,“ New York-based research firm Gimme Credit analyst Kim Noland said in a note on Tuesday.

„There's a lot of risk here,“ said a gaming analyst at a major Wall Street bank who spoke on condition of anonymity. „Any way you slice it, you're going to have a transfer of benefit from bondholders to shareholders.“

Representatives of both MGM Mirage and Tracinda said they did not have any comment.

The cost of protecting MGM Mirage's debt from default has risen 4 basis points since Monday to 180 basis points on Wednesday, which means it costs USD 180,000 annually to insure USD 10 million of debt for five years, according to the analyst.

MGM Mirage's debt protection costs jumped as high as USD 195,000 before falling back, the analyst said.

For now, MGM Mirage's credit default swaps are unlikely to widen beyond those of Harrah's Entertainment Inc., the world's largest casino operator, which was recently acquired for USD 17.1 billion by two private equity firms.

The cost of protecting Harrah's bonds with credit default swaps is around USD 200,000, the analyst said.

„There's no evidence or reason at this point for MGM to trade wider than that," he said.

But MGM's debt may face further weakness as the company's future plans become clearer.

MGM controls roughly a third of Las Vegas's famed Strip, with properties such as Luxor, Mandalay Bay and Circus Circus.

A sale or restructuring of MGM would follow a wave of mergers and private equity deals in the sector.

„It is likely any financial restructuring would adversely affect MGM's credit profile," the Fitch Ratings agency said on Tuesday.

Fitch and Standard & Poor's said on Tuesday they may cut MGM Mirage's „BB" rating, now two levels below investment grade. On the same day, Moody's Investors Service affirmed MGM Mirage's credit rating but said the company's outlook remained negative.

The casino operator's 7.5 percent notes set to mature in 2016 were flat on Wednesday but have dropped about 2 cents on the dollar to 99 cents since Friday, according to MarketAxess.

„This bond, as well as other senior notes, could underperform near-term until this saga plays out," Gimme Credit's Noland said. Some of the issues do not have change-of-control

language to protect bondholders from a buyout, she said.

For now, it remains unclear whether Tracinda's plans will include asset sales, additional leverage on the company, debt reduction or no action at all, Noland said.

Said the gaming analyst, „At the extremes, you've got nothing happens, or maybe they sell the two properties to Kerkorian. At the other end of the spectrum, you've got a complete (leveraged buyout) of the company.“

„Somewhere in between is, I think, what's actually going to happen. And it could consist of somehow monetizing the value of (MGM Mirage's) real estate,“ he said.