

Global credit turmoil hits Packer casino

Plans by James Packer's Macau casino business to raise USD 2.75 billion (AUD 3.5 billion) to finance its expansion plans have been hit by the turmoil in US credit markets, which has shut off new lending for the casino business in the city.

The nervousness in the US lending market has compelled the joint venture partners to shelve plans for the main USD 1.5 billion portion, which was to have been raised in the US markets in September as part of a three-tranche financing deal for their Macau investments.

The news comes as the joint venture, Melco PBL Entertainment, reported a USD 69.2 million loss for the three months to June 30.

This was more than double the USD 27.2 million loss in the first quarter – following USD 21 million in pre-opening costs for its first casino, Crown Macau.

Mr Packer's PBL is due to report its earnings in Australia this week. The PBL/Melco joint venture has plans for three casinos in Macau: the Crown Macau, which opened in May; the AUD 2.5 billion City of Dreams, which is under construction; and a smaller Macau Peninsula project, which is still under negotiation.

„The statistics coming out of Macau are phenomenal in terms of trading results,“ Melco chief executive Lawrence Ho said. „We are confident that Crown Macau is getting better every day.“

The news saw shares in the US-listed Melco PBL Entertainment, which came on last December at USD 19, plunge to a new intraday low of USD 9.95 late last week.

The shares recovered to close at USD 11.48 on Friday.

Chief financial officer Simon Dewhurst told analysts that the company was currently in the process of finalising the Asian tranche of the loan package, which he said would be completed in the next two weeks.

ANZ is one of five banks co-ordinating the loan in Asia, alongside Banc of America Securities Asia, Barclays Capital, Deutsche Bank and UBS.

„The Asian bank loan market is quite separate from the US debt market and it is currently open for business,“ Mr Dewhurst said.

„We are confident that this Asian tranche will be completed in the next two weeks.“

Company executives, on the telephone briefing for analysts, deflected questions about the problems with the proposed US fundraising, pointing to the progress in raising the Asian tranche.

Mr Dewhurst said the company did not need the whole USD 2.75 billion to complete the City of Dreams, its largest proposed project in Macau, which is currently being built by Leighton Holdings.

It is due to open in 2009.

„We're in syndication here in the Asian bank market,“ he said.

„I'm not going to go into any more specifics in relations to that. It's the first attempt to syndicate any portion of the facility and we're comfortable with the progress that we've made to date.“

Reuters news agency reported on Friday that „bankers (are) saying that Melco PBL Entertainment is struggling to find lenders for its Macau casino projects“.

Difficulties in the fundraising and the fall in the price of Melco PBL shares come as Mr Packer and Melco are trying to raise as much as USD 250 million in exchangeable bonds to prop up the share price.

PBL announced last month it was setting up a „special purpose vehicle“ with Melco to raise the money, which will be used to buy shares in the US-listed company.

Mr Packer's Crown Melbourne and the operating company of his Burswood casino in Perth will be among the guarantors of the fundraising.

Mr Dewhurst told the US analysts briefing at the weekend that this deal was due to close „in the next couple of weeks“.

He said it would be up to PBL and Melco to decide just how much of the shares in the US-listed company they would buy back.

The PBL/Melco Macau joint venture has now lost almost USD 100 million in the first six months of this year alone.

The net loss of \$US69.2 million compares with a net loss of only USD 5.2 million in the second quarter of last year.

Directors said over the weekend that the second-quarter loss increase was due to USD 21 million in pre-opening costs for Crown Macau, which had a soft opening in May but has only been fully operational in the past few weeks.

They said other cost increases were as a result of the start of the amortisation of its USD 900 million gaming sub-concession which it bought last September from Las Vegas casino operator Steve Wynn.

Other costs came from the increased amortisation of land use rights for projects under development.

Announcing the results, Lawrence Ho said the second quarter

was „a period of transition“ for the company.

He said the results at Crown Macau were „clearly not yet representative of the property’s longer-term potential“.

The company reported that Crown Macau had taken in net revenue of USD 26 million in its first 50 days of operation.

Average daily VIP chip rolling revenue increased from USD 20 million in the first 50 days of operation to USD 44 million in July and more than USD 55million since the beginning of August.

Directors said Crown Macau now had a market share of almost 5 per cent.

„Our sense is that the VIP segment remains robust in Macau,“ Mr Ho said on the conference call.

„We’d expect our market share in this segment to continue to expand.

„We estimate that our market share in table games month-to-date in August so far is north of 7 per cent.“

But the Macau market is bracing for the opening of the massive Venetian hotel/casino project, which is operated by the Las Vegas Sands group, at the end of this month.

Mr Ho said the early results from Crown Macau showed that the decision to concentrate on the VIP end of the market was „a sound one“.

He said that the company was „determined to seek opportunities to further enhance our VIP capacity at the property“ while at the same time consolidating its mass-market business.

Mr Packer, who is co-chairman of Melco PBL Entertainment, said in a statement that „the additional emphasis on Crown Macau’s premium position in the market is the right one, in our view“.

„We also believe the Crown international market network throughout the region will provide a strong advantage to Crown Macau.“

Directors also announced that King Yu Lin, a 34-year veteran of STDM, the casino company operated by Mr Ho's father Stanley Ho, would be joining Crown Macau as its head of casino operations.