

Sky City Soars to Record One-Day Gain on Takeover Bid

(Bloomberg) – Sky City Entertainment Group Ltd. headed for a record one-day gain on New Zealand's stock exchange, valuing the nation's largest casino operator at about USD 1.8 billion, after saying it received a takeover offer.

The price indicated by the suitor, which Sky City declined to name, would be a „significant premium,“ the Auckland-based company said before trading began today. The stock jumped 22 percent to NZD 5.27 at 1:51 p.m. in Wellington.

The approach comes a month after Sky City announced the possible sale of its Adelaide casino in Australia and a cinema chain in New Zealand to halt a slide in earnings after Chief Executive Officer Evan Davies left the company in June. Possible bidders include Australian gaming operators Tattersall's Ltd. and Publishing & Broadcasting Ltd., as well as international buyout firms, Citigroup Inc. analyst Andy Bowley said.

„The approach offers the board and investors a potentially attractive exit,“ Wellington-based Bowley said in a report after the announcement. A bidder may expect to pay 11 times future earnings based on similar Australasian deals, implying a bid price of NZD 5.70 a share, he said. He rates Sky City a „buy.“

The potential bidder's proposed price was subject to conditions, Sky City said, without elaborating. No decisions have been made on the takeover proposal and there is no certainty a transaction will result, Sky City said in a statement to the New Zealand stock exchange.

Seven-Month High

Sky City shares today rose as much as 28 percent to a seven-month high, valuing the company at NZD 2.5 billion (USD 1.8 billion).

The stock traded as low as NZD 4.16 on Aug. 20 when the company reported a 13 percent drop in second-half earnings. The decline came after competition increased in Adelaide and a refurbishment of the Auckland casino took longer than expected, becoming disruptive to revenue.

Davies quit after earnings fell at Sky City's Auckland casino and hotel, the company's biggest investment. The 11-year old complex accounted for about half the company's sales and 65 percent of the group's NZD 297 million profit before interest, tax and depreciation in the year ended June 30.

Sky City Adelaide, acquired for AUD 180 million (USD 156 million) in 2000, accounted for 19 percent of sales and 9 percent of earnings.

Takeover „potential was always there whilst the company was destabilized in terms of searching for a CEO, under-performing and looking for a new direction,“ said Rob Bode, an analyst at First NZ Capital Ltd. in Auckland. „The earnings outlook isn't particularly good in the next 12 months.“

Darwin, Hamilton

The Darwin casino, bought in 2004, contributed 13 percent of sales and a matching share of earnings. The balance of the company's profit comes from Sky's cinema arm and stakes it holds in New Zealand provincial casinos in Hamilton, Christchurch and Queenstown.

The company is targeting NZD 33 million in savings by reducing management, procurement and corporate overheads during the next two years.

They reached a record NZD 5.80 on May 10, 2006, adjusting for

share splits. About 8.8 million shares changed hands so far today, the biggest daily volume in a year and more than six times the daily average the past six months.

Tabcorp Holding Ltd. and other international casino operators were also potential buyers of Sky City, Citigroup's Bowley said. Tabcorp spokesman Bruce Tobin said in a telephone interview hasn't approached Sky City.

„The company currently has no CEO, it lacks full board representation and is undergoing a costly and disruptive refurbishment of its key profit centre – Auckland's main gaming floor,“ Bowley said.