

# Is Genting playing a long game with its new stake in Rank?

Rank will tell investors this week that it is to slash its dividend after a profits warning in October lopped 25 per cent off the stock price. But the question teasing investors is why Genting, the Malaysian owner of Stanley Leisure, has acquired a 10 per cent stake in Rank, which operates casinos and the Mecca bingo chain.

There are two theories. One says that Genting is planning a full-scale bid, the second that it has bought shares ahead of a bid by somebody else, possibly Harrah's Entertainment, the world's biggest casino group, and owner of the Caesars and Horseshoe brands.

Analysts believe the latter is more likely; if Genting owned Stanley and Rank it would speak for around 55 per cent of UK casinos and would be blocked by competition authorities.

Observers point out that Genting has played a long game before, buying a stake in London Clubs International many months before it was acquired by Harrah's in October 2006.

Rank's shares have collapsed as the company has been hit by the impact of the smoking ban, a rise in gaming duty and new rules that limit the winnings on gaming machines.

Gordon Brown's move in his last budget as Chancellor to dramatically hike up casino tax rates was a bitter blow to the company – Rank was already reeling from the introduction of the smoking ban.

In recent weeks, the company has been engaged in a frantic lobbying effort to persuade Chancellor Alistair Darling to

reduce bingo tax. Bingo is the most heavily taxed of all gambling activities, though its supporters believe it helps to bring together deprived communities.

Rank was once one of Britain's largest companies and the proud owner of businesses that spanned the Pinewood film studio, Butlins holiday camps, Odeon cinemas and Deluxe video copying. But the City forced it to streamline its operations as conglomerates such as Rank went out of fashion and investors believed it was more lucrative to focus on just one or two activities.

According to one analyst: ,Over the years, Rank has been the victim of bad luck and poor judgment. The smoking ban and increased taxes on gaming operators were developments beyond its control.

,But Rank made a big mistake in the Nineties by not selling Deluxe before the business nose-dived when DVDs were introduced, and arguably it should have sold bingo and held on to its Hard Rock cafes, sold to the Americans a year ago.'

Bingo has been hardest hit by the smoking ban, with punters leaving halls for a smoke rather than staying put and playing fruit machines. At the last count, admissions were down 22 per cent against just 7 per cent for casinos, which are still viewed as a growth business.

Rank is moving many of its casinos into town centres, expanding the floor space and researching ways to persuade punters to spend more.

Harrah's is not the only company that could bid for Rank. If the credit markets improve, private equity could launch a break-up bid as the company has three parts: bingo, casinos and an online bookmaker. Apart from Harrah's, possible trade buyers include Ladbrokes, William Hill and Guoco, owner of the Clermont Club.

Genting, whose founder Lim Goh Tong died in October, is Asia's biggest listed gaming firm. Lim built Genting into a multinational corporation with interests in leisure, hotels, oil and gas exploration, cruises and plantations. It employs 40,000 and its five listed offshoots are together valued on international stockmarkets at USD 22bn.

Rank also has a proud past. J Arthur Rank diversified his family flour milling business. A devout Methodist, he railed against the pernicious influence of both American and English films. When challenged to do something about it, he produced, in 1935, a film called Turn of the Tide.

But he discovered that making the film was nothing compared with the difficulty of distributing and exhibiting it. Within six years Rank was a dominant force in the film studio, distribution and cinema business, but it wasn't to last.