

Harrah's pursues casino deal with Gala after Rank rebuff

Harrah's Entertainment, the American casino behemoth that owns London Clubs International (LCI), is understood to have made a tentative approach to Gala Coral Group, the betting and gaming operator, about the possibility of merging LCI with Gala Casinos.

The news came as Genting, the Malaysian gaming company that owns Stanley Casinos, announced that it had lifted its stake in Rank Group, the embattled bingo and casino operator, from 10 per cent to 11.03 per cent, sparking fresh bid speculation.

A merger of LCI and Gala Casinos would create a business with 40 casinos in Britain, just one fewer than Stanley and eight more than Rank's Grosvenor Casinos division. Analysts believe that any competition issues thrown up by such a deal would be limited.

The move comes three months after Harrah's made a similar approach to Rank over the possibility of swapping its LCI business for a stake of about 28percent in the enlarged Rank. The proposal is said to have been given short shrift by Ian Burke, the Rank chief executive.

Analysts said it remained unclear whether the mooted discussions with Gala Coral, which is controlled by Candover, Cinven and Permira, the private equity firms, involved a similar assets-for-equity swap, or an outright sale of LCI. Neither party would comment last night, although a source close to Gala Coral claimed that the company was approached on a regular basis about possible deals, most of which came to nothing.

Harrah's acquired LCI in 2006 for about GBP 300 million as a platform for a wider push into the British gaming market.

However, its ambitions have been stymied by the Government's U-turn on deregulation, last year's big rise in gaming duty and the smoking ban.

The US group, which owns Caesars Palace in Las Vegas, was recently taken private by Apollo Management and TPG in a USD 27.8 billion deal, and analysts believe the private equity firms may have decided to rein back the company's stuttering European expansion plans, particularly as the credit crunch has hampered efforts by its bankers to syndicate the debt funding.

Harrah's has been pursuing several potential supercasino projects in Europe, including developments in Spain, Slovenia and Hungary. However, progress has been slow and there are question marks over its new owners' desire to fund schemes that could take years to come to fruition.

LCI has ten casinos in the UK, five of them in London. Its clubs in the capital include the Rendezvous, 50 StJames and the newly opened Casino at the Empire, in Leicester Square. It has recently opened casinos in Glasgow and Nottingham and has another in the pipeline for Leeds.

Harrah's has invested heavily in LCI since it bought the business, although the downturn in the fortunes of the UK casino industry means it could struggle to recoup its investment in the event of a sale. Observers pointed out that LCI's clubs are much smaller than the resort casinos Harrah's operates elsewhere. The difficult trading environment has sent shares of Rank crashing in recent months, prompting several potential suitors to take stakes.

This week, Guoco Group, the Malaysian owner of Thistle Hotels and the Clermont Club in Central London, raised its holding from 5.05 per cent to 6.05 per cent. The wealthy Richardson property family has built a holding of 9.3 per cent through contracts for difference.