

Tabcorp to spend over AUD 300m on Star City

Tabcorp Holdings Ltd will spend more than the AUD 300 million originally planned for the expansion and refurbishment of its Star City casino in Sydney, after reporting a dip in underlying profit.

The gaming company's reported first half net profit was AUD 273.4 million – up 22 per cent.

But normalised net profit before non-recurring items was down 3.1 per cent to AUD 261.9 million, crimped by the impact of equine influenza (EI) and smoking bans in New South Wales.

Tabcorp chief executive Elmer Funke Kupper said negotiations with the New South Wales government had allowed Tabcorp to „rethink“ the investment in Star City and plan for a bigger investment.

Mr Funke Kupper, who declined to specify how big the investment would be, said Star City would get a bigger gaming floor and expanded restaurant and retail facilities.

„We are going to have a crack at it and build the best casino in this country,“ Mr Funke Kupper told reporters.

The Tabcorp board was likely to approve the larger investment in the next few months.

Star City generates half of the business of Tabcorp's casino division and represents 20 per cent of the company's business.

Mr Funke Kupper also said that Tabcorp was „on track“ to turn around its disappointing performance of recent years.

Tabcorp had contained growth in costs to within the inflation rate, after growth in expenses had blown out in the previous

two consecutive half-years.

The company had been more successful than expected in containing the adverse impact of last year's outbreak of equine influenza that led to the suspension of thoroughbred racing in some states.

Tabcorp said that in September last year it had expected that EI would have an adverse impact of AUD 25 million to AUD 30 million before tax for the full year, but it was now expected be around AUD 20 million before tax.

But Mr Funke Kupper cautioned that the economic environment in Australia was getting tougher.

„More interest rate rises and higher petrol prices should have an impact going forward, and we'll continue to watch consumer confidence carefully,“ he said.

Mr Funke Kupper said that in fiscal 2009, the headwinds that were affecting Tabcorp in fiscal 2008 – equine influenza and smoking bans – will have passed.

„So we look forward to a much clearer run next year and a much better performance next year in what will be a somewhat tougher environment.“

Priorities for the next 12 months remained unchanged, with a focus on core operations.

„This will include the redevelopment of Star City Casino, the expansion of Keno in New South Wales and continued investment in our wagering retail network,“ Mr Funke Kupper said.

Tabcorp said that in the first half each of its three divisions – gaming, wagering and casinos – had improved cost controls but revenue performance was mixed.

In the casinos division, earnings before interest and tax (EBIT) lifted 0.4 per cent to AUD 190.0 million as the three

Queensland casinos recovered from last year's smoking bans.

The international rebate business (high rollers) had lower turnover due to the absence of a small number of large players.

In the wagering division, EBIT fell 8.9 per cent to AUD 130.8 million as equine influenza reduced earnings by AUD 16 million.

But the division significantly improved its operational and customer service performance, especially during the Spring Racing Carnival.

In the gaming division, EBIT rose 1.6 per cent to AUD 138.7 million, up 1.6 per cent, following the transition to a 100 per cent smoke-free indoor environment in Victoria and an increase in the levy on electronic gaming machines by AUD 6.7 million for the half year.

Tabcorp's reported revenue for the six months to December 31, 2007, lifted 1.8 per cent to AUD 2.03 billion.

The company declared an interim dividend of 47 cents per share, fully franked, in line with the dividend of the prior corresponding period.

Tabcorp shares were AUD 1.03 higher at AUD 15.00.