

Poser over Hong Leong's bet on UK gaming

Kuala Lumpur: Hong Leong Company (Malaysia) Bhd's strategy in buying into UK casino and bingo-club operator, Rank Group plc, remains unclear even as it moves closer towards a 30% shareholding threshold requiring a takeover offer, industry observers said.

As of Aug 12, Hong Leong, controlled by billionaire Tan Sri Quek Leng Chan, had increased its stake in Rank to 22.3% from 18.1% on July 22. Now the largest shareholder in Rank, Hong Leong began buying shares in the gaming operator in January, prompting speculation of a takeover.

An analyst at a local research house said: "Hong Leong seems intent on buying into Rank. Although the shares are at an attractive level, it is unclear what their strategy is. It is hard to see where they are going and how they could succeed."

Hong Leong's interest in Rank is held via units of Hong Kong-listed Guoco Group Ltd, which is controlled by Hong Leong, whose listed entities in Malaysia include Hong Leong Financial Group Bhd.

Incidentally, Genting Bhd has also acquired an 11% stake in Rank since late last year, but it has been reported that Genting rejected claims it would make a bid for Rank.

Rank's share price slumped last year following a profit warning issued in October. Although the UK's second-largest casino and bingo-club operator, the gaming company has seen sales declining since the introduction of UK's indoor smoking ban.

Its share price rose 2.2% to 82.75 pence on Aug 12 after Hong Leong raised its interest in the company that day. The price

has since retreated, and was down 0.25p to 79.75p as of 6pm last Friday.

Meanwhile, the analyst said Hong Leong's initial venture into UK's gaming industry, the Clermont Club casino, had not been doing well due to the economic downturn and its continued investment in the sector was questionable. The company had bought the casino from Rank for GBP 31 million (RM193.52 million) in 2006 through its hospitality and leisure arm, Guoco Leisure Ltd.

A gaming market watcher said that although Hong Leong had aggressively applied for casino licences in the UK, most had been rejected. According to Guoco Leisure's 2007 annual report, it had secured three casino licences.

"Although Rank was a cheap buy, gaming is not Hong Leong's expertise. We are uncertain why Hong Leong is continuing to pursue the business," the market watcher said.

For the six months to June 30, 2008, Rank reported a revenue of GBP 257 million, against GBP 284.6 million a year earlier, while profit before tax was halved to GBP 17.6 million.

Rank chief executive Ian Burke had said: "During the first half of 2008, we succeeded in stabilising the group's financial performance, following a very difficult end to last year.

"Although group revenue and operating profit were substantially lower than in the first six months of last year, our performance reflects a significant improvement compared with the second half of 2007. The trading environment for all of our businesses remains challenging, with rising operating costs and increased financial pressures on our customers."