

FINANCIAL REVIEW

Features - Rear Window

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Star placement Cantonese for dead loss

In honour of Morgans private client adviser James Chandler, who can, in moments of weakness, be awfully protective of his Brisbane Inc mates at Blue Sky Alternative Investments, here goes:

Jimmy C accused us (a fair way closer to midnight than midday) on Thursday of "[reading] a short research thesis last week" from which we "learned what the company does for the first time".

Perhaps uncharitably, we felt compelled to direct the pride of Churchie's Old Boys' Association to our pre-Christmas prediction that Blue Sky was headed for an unhappy (calendar) 2018.

While we're stuck in gloating mode (not the most painful gear to be stuck in for a megalomaniac), forgive us for exhuming another prophecy made in that same sentence of December 21: that we'd be "keeping a gimlet eye on Star Entertainment (a recent convert to aggressive accounting)." For context, Star only met its FY17 guidance by booking \$12.8 million to the underutilisation of its private jet fleet and by capitalising an additional \$17.5 million of IT expenses. Without those two "extraordinary items", it missed forecast NPAT by 11 per cent.

This year so far, Star is down 14.3 per cent while the ASX200 is down 3.4 per cent and its nearest peer Crown Resorts (itself hardly shooting the lights out) is down 2.45 per cent (all excluding dividends). Though remember, we've got nearly eight months to be proven monstrously wrong.

Don't get us wrong now: Star was never a business in any kind of existential trouble; it was a solid business (despite a taut balance sheet loaded with debt and capex and a stubbornly low win rate) whose tapering growth prospects jarred with management's strenuous rhetoric.

A fortnight back, Star issued 91.65 million new shares to its two largest (Hong Kong-based) shareholders, Chow Tai Fook and Far East Consortium at \$5.35 per share (the analysts' average target price - whatever their opinions are worth these days - is \$5.98), raising \$490 million and thus nearly halving net debt (net of transaction costs) to \$553 million (or back to just south of 1x EBITDA).

Whether Star could ever have traded itself into better fiscal shape is now irrelevant. Two Chinese investors now hold a blocking stake for which they paid almost no premium. Both will have to send a shedload of their countrymen to Sydney, Brisbane and Surfers before those properties' facelifts will ever stack up, even though they were already incentivised to do so by their joint ventures on Queen's Wharf and the Gold Coast.

But to us, the maddening bit is the terms chairman John O'Neill and his board have afforded their Asian confederates - whose grins, even two weeks later, must still be Cheshire-like. Page 19 of the Subscription Agreement between the three parties holds Star, should it wish to raise further capital at a later date, to offer both Chow Tai Fook and Far East "Top-Up Right", or "an opportunity to participate" guaranteeing either can "maintain its shareholding percentage".

The double standard here is truly staggering: two investors contractually ring-fenced from dilution in the very transaction that dilutes the rest of their fellow shareholders (who must all wish such rights were so compliantly afforded them). This of course requires a waiver from the ASX of its listing rule 6.18 (that "an option must not

be exercisable over a percentage of the entity's capital"), though show me a company that paid its listing fees on time but didn't get a waiver from the bourse's compliance chief Kevin Lewis, in his absolute discretion, and we'll have you all over for dinner with Elvis and a Tasmanian Tiger.

This solvency play is no Halley's Comet - this side of Christmas, Lewis has already nodded through anti-dilution rights for Eastern Goldfields, Genesis and Orocobre. And that's only to February 28 (while requiring its platform lemmings to live in real time, the ASX operates a carrier pigeon network on a six-week lag). But it is contrary to the spirit of property rights unchallenged since Hobbes and Locke. Hey it's late, so forgive the hyperbole.

Thomson, Penn join cricket tussle?

Well this cricket rights commotion really is getting to the pointy end now!

In Sydney on Monday meeting with Ten Network chief Paul Anderson was Cricket Australia chief executive James Sutherland and his sidekick Ben Amarfo (AKA Johnny Rivers - we sure hope he had himself a hot breakfast on the Qantas flight from Melbourne).

News Corp's global co-chairman Lachlan Murdoch arrived in Sydney on Tuesday.

But also visiting the Emerald City is News Corp's New York-based, Melbourne-raised (and Essendon-barracking) chief executive Robert Thomson. Two executive chairmen and a chief executive - and that's before you count local management. Hey, we warned you they were top heavy. On Monday evening, he joined Telstra chief executive Andy Penn for dinner at John Fink's Otto Ristorante on the Woolloomooloo Finger Wharf (try the barramundi fillets; no really). News, of course, speaks for 65 per cent of the newly-merged Foxtel-Fox Sports, which is loosely in the IPO pipeline, while Telstra is down to 35 per cent (while still holding the streaming rights to AFL and NRL).

On Friday last week, Foxtel's chiefs, all 20 of them, noisily walked away from negotiations with Cricket Australia while remaining in discussions with Cricket Australia. Que? There really is no one like them. After all, this is the mob that blew its brains out paying \$2.5 billion for (2017-2022) AFL rights to spite the Rugby League Commission (which had just spurned Fox Sports for a deal with Nine), only to turn around and buy NRL matches back from Nine anyway. Forget winning the lottery - you'd do better selling the Murdochs your house!

While News has explicit management rights over Foxtel, it's safe to assume Thomson would give Penn the courtesy of an advance peek at an \$850 million splurge (still a fluid figure, and co-funded by Kerry Stokes' Seven) on five or six years of the nation's summer sport. Which might be precisely what just happened.

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