

FINANCIAL REVIEW

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HD **Can Redmond turn the tide for Echo in 2014?**
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Gaming When the casino operator named a CEO, it seemed things were looking up.

When John Redmond took the reins of Echo Entertainment Group last January pundits thought the embattled casino operator was at its lowest point.

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Even The Australian Financial Review named the experienced American operator as a chief executive to watch in 2013, saying "things can't get worse than 2012 for Echo".

In 2012 Echo had lost its chairman while its CEO quit after a series of scandals, including allegations of sexual harassment against the boss of Echo's flagship casino The Star in Sydney. Echo's outlook was beginning to improve, as a \$870 million facelift of The Star was completed in early 2013.

And yet looking back over the past year it is tough to imagine how 2013 could have been more grim for Redmond and the Echo board, lead by former rugby union boss John O'Neill. But as the former gaming regulator's one year anniversary on January 18 approaches, investors worry that uncertainties weighing on their minds and the share price may not be resolved in the coming year.

Echo shares plunged 28 per cent in 2013, compared to a 58 per cent climb at James Packer's Crown Resorts and a 15 per cent rise in the wider market. Weak consumer spending plagued Echo's four casinos and underpinned the stock's weakness, but it was big news events that really pummelled the \$2 billion casino company.

As Citi analyst Michael Goltsman says, Redmond "had his hands full" battling bad news on multiple fronts, while trying to turn performance around. The final nail

Echo's share price first began to fall in late 2012 when the NSW government said Crown's bid to build a \$1.3 billion casino and hotel in Barangaroo had moved to stage two of its unsolicited proposals process, Goltsman says. "It was really just a matter of putting the final nail in the coffin in 2013," he says.

In July Redmond was told Echo would lose its monopoly grip on Sydney's casino market from 2019 after Crown's bid to build across the water from The Star in the Barangaroo precinct was approved. And in Queensland, where the company operates casinos in Brisbane, Townsville and the Gold Coast, the state government said it was keen for more casinos in the state, despite Redmond's refrain that a 'one casino, one city' model was most appropriate for the Australian market.

Expressions of interest to build a casino and entertainment complex on the banks of the Brisbane River are due in March. A shortlist will be announced in June, but the successful bidder will not be known until 2015. Redmond has said Echo will spend over \$1 billion in Brisbane if it is successful.

Perpetual's head of equities Matt Williams, who controls the largest stake in Echo, says the company comes from a "reasonable starting position" in its bid for Brisbane, given it already has three venues in the state that have long licences. Crown has flagged its interest in the city and the state government

has said international operators could be in the running, too. For its part, Echo is believed to be looking to partner up with a foreign operator in a move that would ease its capital expenditure.

The still unknown intentions of Genting **Hong Kong**, which holds 6.6 per cent of Echo and for 18 months has been waiting clearance to increase its **stake**, are as always, hotly debated.

Williams says the two main issues weighing on Echo's share price are underperforming capital expenditure projects and a poor track record on government relations. Poor relations

"Echo have not handled their licenses and their relations with their respective governments in NSW and Queensland as well as Crown has and I think that's been the difference," he says. "The capex spend at The Star has certainly underperformed our expectations and management is now working hard to try and rectify that. I think that will continue to take time."

Nonetheless Perpetual has pounced on Echo's plunging share price to build up its **stake** to 14.79 per cent, from under 10 per cent, over the past year. Williams says the market is "quite pessimistic" on Echo, with some brokers capturing only a value for The Star and nothing for the Queensland properties in their estimates of its market value.

Citi's Goltsman, who has a "buy" call on Echo says he sees value while the share price is "ignoring the opportunity for operational improvements".

It is here where many in the market see Redmond's strengths. One of the seasoned casino operator's first moves, back in February, was to announce a doubling of a cost-saving program to \$60 **million**. "He has stabilised the ship," one fund manager said, "but he needs to try and get some wins, small ones initially, and give the market confidence."

Aurora Funds Management fund manager Andrew Ward, says Echo presents "too many uncertainties". The long wait for a winner in Brisbane hangs a cloud over Echo's horizon and Redmond is yet to articulate a strategy of how The Star would boost performance over the next six years before Crown Sydney opens its doors.

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