

HD Echo steals a bit of Crown's thunder

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t makes for a bit of a change to see Echo Entertainment enjoying a resurgence in performance and investor popularity, and its Melbourne-based nemesis, the James Packer-controlled Crown Resorts, viewed through a more negative lens. Echo so famously lost its monopoly in the Sydney market last year to a triumphant Crown. Soon afterwards, Echo lost its right to operate Brisbane uncontested, and earlier this year its chief executive, John Redmond, left the **company**. Meanwhile, Crown's fortunes were boosted earlier this year when its investment in Melco Crown in Macau began to pay dividends, literally, and in doing so provided a handsome earnings bankroll to the Melbourne gaming **company**. It seemed Packer was on a roll, but concerns about weakness in Melco Crown's earnings have taken some of the gloss off Packer's empire in recent months. Since March- April, Crown Resorts' share price has taken a nasty tumble from more than \$17 to less than \$15. This week both Echo and Crown released results that showed the underdog, Echo, is financially starting to hit its straps. Earnings from its casinos are improving and the tight attention to costs is finally beginning to pay off. In the six months to June 30, Echo's normalised revenue rose by 12.8 per cent, demonstrating that the improvement is not just about costs. On a normalised basis, net profit for the year rose by 24.6 per cent. By way of contrast, Crown's Australian properties declared more modest improvements. Normalised revenue for the year was up by 1.4 per cent; VIP program play turnover was down by 1.5 per cent; main-floor gaming revenue was up by 1.4 per cent. It was a result that Crown's chief executive officer, Rowen Craigie, declared satisfactory. He blamed

weak consumer sentiment and structural challenges in the West Australian and Victorian markets. Anecdotally, there is much talk by companies about softness in Victoria; in Western Australia, there is no doubt the hangover from the resources boom is causing plenty of headaches. The **company**-wide results were sensationally buoyed by Melco Crown. Crown's share of Melco Crown's full-year net profit was an **equity** accounted profit of \$287.6million. This is despite the fact that Melco Crown's most recent quarter was adversely affected by the **Chinese** government's crackdown on illegal funds being used in the casinos. (Apparently this has not affected **Chinese** players in Australia because the funds spent in Australia at casinos have to be transferred by reputable financial institutions.) That said, the results from the

two Australian casino groups appear to show that Echo has taken some market share from Crown in the international VIP market, and possibly even a little in the interstate VIP market, which is heavily dominated by Crown. Ironically, the market reacted very favourably to Crown's result, primarily because it was better than analysts had expected. To be fair to Crown, its performance has, for several years, been better than Echo's, whose recent improvement is, therefore, coming off a lower base. The contest between the two listed companies is certainly getting more interesting. Both have been shortlisted in the competition to win the rights to develop an integrated casino in Brisbane. And, interestingly, both have teamed up with joint-venture partners to defray the costs and bring in more expertise.

Investors get jittery at the large licks of capital needed to build these massive integrated resorts. While Echo potentially has Brisbane on its investment radar and is already spending \$345 million to revamp Jupiters casino on the Gold Coast, Packer's list of potential casino investments is long. Some will be developed by Melco Crown, others by Crown Resorts. They probably will not all get done, and we do not yet know how they all will be structured, but the sheer number is testament to Packer's lust for growth and his appetite for risk. The latest and most sensational move is a return to investing in Las Vegas, the scene of a \$2 billion wipeout during the global financial crisis. This historic heart of the world's casino market is, however, in the early stages of a recovery and Packer wants a piece of the action, with a little financial help from private equity group Oaktree. There is plenty more already in Packer's pipeline. Melco Crown will open a casino in the Philippines this year; its third in Macau next year, and its fifth Macau hotel tower in 2017. Barangaroo in Sydney will cost Crown Resorts \$1.5 billion, plus the cost of building a new hotel for Crown in Perth. The company has also signalled spending \$US400 million (\$430million) on a resort in Sri Lanka, and it is a shortlisted bidder, in a consortium with Chinese developer Greenland, for Brisbane, which is speculated to cost more than \$1 billion. Melco Crown has also said it will spend \$US5 billion in Japan, if the country legalises casinos. If Crown and Melco commit to the last three projects, its total development pipeline, even without Vegas, will stretch to \$13 billion. While some of these projects are up to five years away, indigestion must be a risk, if all of them get the go-ahead.

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