

FINANCIAL REVIEW

SE Perspective
HD **PACKER FORCED TO TRY PLAN B**
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Gambling

In quitting the Macau and Las Vegas projects Crown is selling the family silver, but it may be a sensible move, writes Michael Smith.

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James Packer was about as far away from Macau as you can get this week as he wound up his 12-year partnership with Chinese gaming tsar Lawrence Ho.

The globe-trotting Australian billionaire oversaw the latest shake-up of his Crown Resorts empire from the Ellerstina polo ranch outside of Buenos Aires. The sultry Argentinian capital has provided some geographical isolation from the storm of publicity surrounding his split from pop star Mariah Carey and one of the most volatile years of Packer's life.

With the world's media focused on the broken engagement for the past two months, Packer was on the phone regularly with his team of executives and bankers in Australia and Hong Kong working on another separation - extracting Crown Resorts from the Macau casino joint venture it established with the Ho family to much fanfare in 2004.

The surprise move, which was announced to the markets on Thursday morning, will see Crown raising almost \$2 billion to exit the bulk of its stake in Melco Crown Entertainment, which owns casinos in Macau and Manila. Packer also canned the \$2 billion development of a new casino hotel in Las Vegas, the second time he has had to fold up his US plans. Crown's plans, announced in June, to spin off the company's international assets have been scrapped.

It was the final chapter in an extraordinary year for Packer, who has been unable to avoid the limelight thanks to his relationship with Carey, his friendship with Israel's Prime Minister Benjamin Netanyahu and the arrest of 17 Crown staff in China on charges of promoting gambling, which is illegal in China.

It's believed Packer plans to spend a lot more time in Australia in 2017, dividing his time between Sydney and his existing bases in Israel and Los Angeles. Packer has been mostly absent from his home country over the past two years, distracted by the opportunities in Israel's technology sector and mixing with Hollywood's entertainment elite.

One way of looking at the Macau exit is that it will give Packer more time to focus on the core Australian assets, particularly his long-held ambition of opening a casino in Sydney.

The other view is that the decision is another strategic retreat forced on Crown by the downturn in gaming revenues in Macau - complicated by China's anti-corruption crackdown and the detention of

Crown's staff in Shanghai. It's also a blow to Packer's dream of owning a global network of high-end hotel-casinos.

"He is selling the family silver," says one well-placed source of the Melco deal. "This is not erratic behaviour though. This is a completely rational and sensible move.

"Once the spin-off failed, Plan B was always to sell out. No-one really knows what the impact on VIP revenues will be and they needed to raise money. The China thing is really worrying."

The contrast between Crown's announcement to raise \$1.6 billion selling a 13.4 per cent stake in Melco to Ho this week could not have been greater than October last year when a relaxed Packer hosted a lavish party for hundreds of VIP guests at the opening of Macau's Studio City, his seventh casino.

"I think the most important thing in a political sense is that Lawrence and I are a model joint venture in how an Australian company and a Chinese company should work. And there are not that many," Packer told journalists at the time. Packer also revealed it was his father Kerry who initiated the relationship with the Ho family before his death in December 2005. Publishing & Broadcasting spent \$211 million taking a 50 per cent stake in the joint venture in 2004 following a long campaign by the Packers to break into Asia's lucrative gaming market.

While some in the industry say they are surprised by the shift in strategy, noting Packer's previous unwavering confidence about the company's prospects in Macau, people close to him praise a pragmatism which allows him to move on and adjust to commercial realities.

"What they are doing is the right way forward. They need to degear the balance sheet ahead of the capital project that is coming in Sydney," Perpetual's head of Australian equities, Paul Skamvougeras, said on Friday. Perpetual is Crown's third-largest shareholder.

While he leaves Macau with a substantial profit on his original investment, the slowing Chinese economy and uncertainty created by constant regulatory shifts in China has been taking its toll as VIP gaming revenues fell two-third since peaking in 2013.

It's believed Crown was looking to sell down before the arrest of its staff in China, a move which analysts warn will hurt its ability to attract high-rollers from Asia's most important market to its Australian casinos. Ho is believed to have approached Crown executives with an offer to acquire the stake, giving Crown the opportunity to bail out and address investor concerns about its debt and ability to fund the Barangaroo project in Sydney.

Crown shares rose 2 per cent yesterday after the stock came out of a trading halt. Crown sold another 2.8 per cent of Melco overnight, raising an additional \$300 million. This was on top of the 14 per cent sold to Ho, raising \$2.6 billion and leaving Crown with an 11.2 per cent of their original stake in the Macau casino business. Crown said on Friday the proceeds will be used to pay down \$800 million in debt, fund a special distribution of \$600 million and enable a \$500 million share buyback.

While Crown retains a residual stake in Melco and will retain its brand in Macau and Manila, the deal significantly reduces its global footprint. It will still own its upmarket but smaller casino in London's West End, a share in some regional casinos in Britain and the United States and stakes in online investments.

The focus is clearly back on Perth - where it opened its new Crown Towers Hotel this week, Melbourne and of course Packer's legacy six-star hotel-casino at Sydney's Barangaroo which is due to open in 2021. Crown is also believed to be in talks with a Chinese-backed ASF Consortium about teaming up on a casino and residential project on the Gold Coast.

It's understood he's not given up on plans to take the luxury Crown brand global. Packer talked passionately to a small group of journalists in Sydney last year about his plan to build a worldwide tourism and gaming brand.

At the time he also wanted to extend his business interests into the technology sector with a focus on cyber security and online gaming.

Packer's next big gamble is unclear, but it is unlikely to involve China. P

Shrinking globe

Crown Resorts' operations and investments

KEEPING

LONDON

Will keep Crown Aspinalls, London, the smallest casino in the Crown portfolio.

PERTH

Just opened 500-room hotel Perth Crown Towers this month above Burswood casino.

ONLINE BUSINESSES

Stakes in CrownBet, Betfair Australia and US-based SGN Games.

OTHER Nobu restaurants (20% stake)

MELBOURNE

Currently building a fourth hotel at One Queensbridge in a joint venture with the Schiavello Group.

SYDNEY

Barangaroo: \$2b hotel-casino on Sydney's foreshore due to open in 2021 aimed at Chinese high roller market.

GOING

MELCO CROWN

Includes assets in Macau and Manila. (Crown sold a further \$300m stake in Melco overnight, reducing its stake to 11.2%.)

LAS VEGAS Aaxed plans for \$2b Alon casino development.

CO crncas : Crown Resorts Limited

IN i97912 : Gambling Industries | ilea : Leisure/Arts/Hospitality

NS cspin : Demergers | nedc : Commentaries/Opinions | ccat : Corporate/Industrial News | c02 : Corporate Changes | c11 : Plans/Strategy | c18 : Ownership Changes | cactio : Corporate Actions | cncc : New Companies Creation | ncat : Content Types | nfact : Factiva Filters | nfcpx : C&E Executive News Filter | nfcpx : C&E Industry News Filter

RE macao : Macau | china : China | austr : Australia | manil : Manila | sydney : Sydney | waust : Western Australia | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRICS Countries | chinaz : Greater China | devgoz : Emerging Market Countries | dvpcz : Developing Economies | easiaz : Eastern Asia | nswals : New South Wales | phlins : Philippines | seasiaz : Southeast Asia

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