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HD **Backing a winner in casino race**

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In the Echo versus Packer-controlled Crown race the latter has been firmly in the **lead**, having snared the NSW government's second casino licence. While the cards were firmly stacked in Crown's favour it could be argued that Echo didn't play the game particularly well.

It was an expensive lesson for Echo, but one from which it appears to have learnt a lot. The bidding for Queensland's second casino is being run quite differently, with Echo playing it smarter. A few weeks ago the Queensland government announced it had shortlisted four contenders - including Echo, Crown and two Asian-based outfits, the Far East consortium and Greenland Investment.

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On Monday this number was whittled down to three. Echo teamed up with Far East and its partner Chow Tai Fook Enterprises - thus enhancing its chances of winning. These two **Hong Kong** firms bring a vast array of skills to the table, spanning property development, hotels and retail.

Far East has already undertaken multiple projects in Australia particularly around urban renewal in Melbourne and is currently building a Ritz Carlton in Perth.

Perhaps even more interesting is Chow Tai Fook Enterprises Ltd - a **Hong Kong**-based private **company** controlled by Dato Dr Cheng Yu Tung and family. The principal activities of the CTF group of companies are investment holding, property development and investment, hotel investment, jewellery and other consumer and retail businesses.

CTF is the controlling shareholder of Chow Tai Fook Jewellery Group, which is the world's largest jewellery retailer with a market capitalisation of $14.5 **billion**.

Both dwarf Echo in terms of size and financial muscle.

Aside from getting the expertise from these partners Echo will also be laying off 50 per cent of the cost of developing an integrated casino at Brisbane's vast Queen Wharf site.

The cost of going it alone was one of the big negatives for Echo's shareholders who had expressed concerns that the **company** would be outlaying between $1 **billion** and $1.5 **billion** to build the integrated casino. These included how it would be financed and whether it had to produce an acceptable return on the investment. Had Echo not entered into a joint venture to develop Brisbane it would have almost certainly needed to raise **equity**.

Even in Sydney which has a larger local and international catchment the $870 **million** upgrade of the Star casino is only now heading towards acceptable returns on this investment.

Based on the potential investment in Brisbane, Echo would now be up for $500 **million** to $750 **million**. It is still a big sum and there are still many unanswered questions about how the newly formed partnership will work. So there will be plenty of scrutiny around what Echo has had to give away to its partners.

But it's fair to say that investors will view it as a step in the right direction and the decision was rewarded with a 2.6 per cent boost in its share price.

This now raises the question around whether Crown will follow the Echo **lead** and look to find a partner in Brisbane. The most obvious choice would be the third contender Greenland Investment if for no other reason than it would further narrow the field to a two-horse race.

While Crown has been a very successful operator in its Melbourne market and Macau joint venture, its investors are staring down the barrel of a round of investment outlays with the NSW Barangaroo development in addition to several offshore casino projects Packer has been seeking approval for.

But while Echo was clever to be the first mover in the quest to find a Brisbane partner it also has more riding on the outcome given it is the incumbent monopoly operator in this market. So it needs to play defensive.

Having experienced a hellish few years Echo appears to be making a bit of headway in calendar 2014 - at least in an earnings sense. It has issued a couple of profit upgrades - in part due to stronger revenues from its properties and in part due to the cost controls undertaken by its recently appointed chief executive, Matt Bekier.

It probably is too early too say that it's on a roll, but the share price has risen by about 44 per cent since February. While analysts hold concerns about its long-term outlook given the Sydney market ultimately becomes contested and the Brisbane market might go the same way, in the short to medium term the **company**'s outlook appears to be improving with no sense that it has been impacted by the post-election slump in consumer sentiment.

Investors are also mindful that Echo is regularly highlighted as a **company** on the "most likely" list as a potential takeover target. The most often speculated suitor is Genting, which has sought approval to take its holding above 10 per cent. Plenty can happen between now and when Barangaroo opens its doors.

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