

# Packer, Ho raise stakes over Macau

James Packer and his Hong Kong-based partner, Lawrence Ho, plan to raise as much as USD 1.1 billion (AUD 1.4 billion) in a listing on the US over-the-counter market, Nasdaq, to help fund about AUD 6 billion worth of casino developments in Macau.

A joint venture between Mr Packer's Publishing and Broadcasting Ltd and Mr Ho's Melco announced the proposal in a filing with the US Securities and Exchange Commission in Washington on Friday.

The 267-page filing reveals that Mr Packer's Macau play will be a much larger than expected, highly leveraged operation – spread across at least four sites in Macau – which will cost more than AUD 5.6 billion on current estimates.

It also reveals cost blowouts on the Crown Macau project; a much higher than expected cost for the development of the City of Dreams project; plans for a second but as-yet uncoded apartment block on the same site; a third casino/hotel site which could cost as much as USD 700 million; and a deal to operate a casino on a fourth site.

The SEC filing also reveals that PBL and Melco have yet to agree on terms for the acquisition of land for their showcase City of Dreams site with the Macau Government, despite starting piling work on the project and projecting an opening date of the end of 2008 for the first stage, which includes the casino.

It also confirms that there is no guarantee that the Macau Government will not issue any further licences to casino operators after April 2009, warning that the issue of any new licences would add to the competition in Macau, which now has

six official licence-holders with 23 casinos already in operation.

Mr Packer's first Macau casino, the Crown Macau – aimed at high-rollers – is set to open in April next year, to be followed in late 2008 by the first stage of his much larger City of Dreams project on the Cotai strip in Macau – aimed at the mass gambling market.

The partners have told the SEC they plan to issue an initial 53 million American Depositary Receipts with an initial public offering price of between USD 16 and USD 18 per ADR.

Another 7.9 million could be issued to cover over-allotments, taking the total that could be raised to USD 1.1 billion.

But, due to the cost of the fundraising – being underwritten by Credit Suisse, Citigroup and UBS – the partners say they only expect to receive between USD 834 and USD 961 million from the IPO. The bulk of the funds – some USD 514 million – will go to repaying a loan taken out by the partners to fund the USD 900 million cost of the casino licence bought in September from Las Vegas casino operator Steve Wynn. The rest will help pay for the cost of building Crown Macau and the City of Dreams.

But this will still leave the operators more than USD 837 million short of the total funding needed for all the projects outlined in the prospectus.

The prospectus warns investors that the partners have no intention to „declare or pay cash dividends on our shares in the near to medium term“.

It warns that the venture „will be highly leveraged and will have substantial debt service obligations“.

The prospectus reveals that the construction cost of Crown Macau has blown out from an initial USD 185.6 million to USD

269 million as a result of „changes and improvements“ in designs for the project.

This brings the total project budget for the Crown Macau up to USD 512.6 million, which will be partly funded by a USD 164 million loan already raised.

The casino section of the project was originally scheduled to be open by now but has been delayed until the first half of next year when it will open at the same time as the hotel.

The prospectus reveals that the City of Dreams project, which will include a casino, four hotels, a theatre and an apartment block, is now expected to cost USD 2.1 billion.

The partners have already spent USD 164 million on the project but warn they are still in negotiations with the Macau Government over the land.

The prospectus notes that „we have not yet been granted a formal concession by the Macau Government on terms acceptable to us“ but does not give any further details of the outstanding issues.

It warns that „if we do not obtain a land concession on terms acceptable to us, we could forfeit all or a part of our investment in the site and the design and construction of the City of Dreams and would not be able to open and operate that facility as planned“.

The revelation of the outstanding negotiations with the Macau Government explains the slow progress on the City of Dreams site despite a formal ground-breaking ceremony in April which was attended by Mr Packer and Mr Ho.

The major source of funding for the project is a USD 1.6 billion facility already negotiated with several banks including the ANZ. But this is conditional on getting full approvals for the land from the Macau Government.

The partners say they expect to open the first phase of the City of Dreams by the end of 2008, by which time they say the casino should be „substantially completed“.

The first phase should also include two of the four proposed hotels, most of the retail and the food and beverage outlets and the performance hall.

The partners say they might build one luxury block of apartments on the site in the second phase of the project and could be looking at a second block – the cost of which has not been included in the USD 2.1 billion cost estimate.

But the prospectus warns that changes to the City of Dreams project will be limited by the covenants on its debt funding.

The prospectus reveals that Mr Packer and Mr Ho have agreed to pay USD 192 million for land on the Macau peninsula which would be used for their third hotel/casino site.

It says the project, which is expected to cost between USD 650 million and USD 700 million, including land, will be a mixed-use, casino/hotel/apartment facility aimed mainly at the day-tripper market to Macau.

The project, which has the working title of Trinity, is targeted to open in mid-2009.

The document also reveals that Mr Packer and Mr Ho have reached an agreement with a former Las Vegas casino executive, David Friedman, to operate a casino in the Macau Studio City project which is slated for development on the Cotai strip.

But it says Mr Packer and Mr Ho will not be responsible for the capital costs of the project, which is set to open in 2009.

The prospectus does not state the timing of the expected float but Mr Ho said on Friday that he expected it would not be completed until early next year.