Station Casinos gets buyout offer

New York (Reuters) – Station Casinos Inc. said on Monday it received a management-led buyout offer from a group including its Chairman and Chief Executive Frank Fertitta for USD $ 82 per share, or USD 4.7 billion.

The offer marks the third buyout offer this year received by major casino operators, including Kerzner International and Harrah's Entertainment Group , as executives move to operate their businesses out of the public market amid a flood of private equity interest.

The offer represents a 19 percent premium over Station's closing price on Friday of USD 69.10 on the New York Stock Exchange and is above the company's 52-week high of USD 81.46 on April 5. Shares were trading at USD 81.95 at midday and helped lift the gaming sector.

„There had been some speculation that Station could be a target for private equity," Majestic Research analyst Matthew Jacob said. „It seems to be a trend in the industry."

Station's shares jumped in early November and options were active, with analysts saying that a leveraged buyout might be in the offing.

The company was an attractive target because of its plans for growth and its real estate holdings in Las Vegas, Jacob said.

„This is a kind of a takeover defense. They know with the consolidation in the gambling industry, it may be just a matter of time before someone made a play for them," said Tim Biggam, options strategist at Man Securities, an options brokerage firm in Chicago.

Station, which opened the Red Rock casino earlier this year, operates casinos catering to Las Vegas residents.

The company established a special committee of independent directors to review the bid as well as any alternative proposals. It said the committee received the proposal on December 2 and had not reached a decision yet.

The price represents 11.8 times 2007 earnings before interest, taxes, depreciation and amortization, or EBITDA, a measurement of cash flow. In combination with the 19 percent premium, analysts said it was not outside of expectations.

„It’s pretty much in line with where it has traded in the past. It’s not grossly overvalued or outside the norm at that valuation range,“ said Charles Norton, a portfolio manager of the Vice Fund, a mutual fund focused on gaming, tobacco, alcohol and defense.

But the company may be looking for a higher offer, with management having discussed the stock being worth USD 90 to USD 100, according to a Morgan Stanley research note.

Morgan Stanley added the move has positive implications for Boyd Gaming , which it said has lagged the group. Boyd shares gained USD 4.14, or nearly 10 percent, to USD 46.15 in midday New York Stock Exchange trading.

Harrah’s was up 23 cents at $ 79.08 while MGM shares picked up USD 1.02 to USD 54.69. Kirk Kerkorian has launched a tender offer at USD 55 for 15 million MGM shares to up his stake.

Aztar was up 5 cents at USD 53.99 and Pinnacle Entertainment was up USD 1.84, or 6 percent, at USD 34. Penn National Gaming , which a source familiar with the situation told Reuters last week is considering a bid for Harrah’s, rose USD 2.08, or 6 percent, to USD 39.43.

The bid from Fertitta’s investor group, called Fertitta Colony

Partners LLC, includes Fertitta and his brother, Lorenzo, who is president of Station. The group also includes Los Angeles-based real estate investment firm Colony Capital, LLC.

The investors said they have received sufficient financing commitments to complete the deal, according to the company. Frank and Lorenzo Fertitta, Blake and Delise Sartini, and Colony have provided equity funding commitments. Colony has previously invested in the casino industry.

Delise Sartini is Frank Fertitta’s sister and Blake Sartini – former chief operating officer at Station Casinos – is his brother-in-law.

Deutsche Bank Trust Co. Americas and German American Capital Corp. have provided debt financing commitments.

Though Fertitta does not say why he launched the offer, many executives prefer to take their companies private because they are tired of Wall Street pressure and financing is abundant thanks to the growth of private equity.

Such deals have raised concerns among analysts and investors as it could create a conflict of interest because it puts management in a position of both evaluating the best bid and being a bidder itself.

While management typically recuses itself from committees formed to mull the offers, critics say their presence in the bid still presents the potential for conflict of interest.

Kerzner International Ltd. said in March that an investor group led by its chairman and chief executive would pay about USD 3 billion to take the company private.