

Packer's Macau casino faces costs nightmare

Costs on James Packer's City of Dreams casino project continue to rise, with the estimate outlay now at USD 2.1 billion (AUD 2.26 billion) compared with USD 1.85 billion in June and USD 1.5 billion last December.

The new costs for the casino/hotel project, now under construction, are given in a 190-page filing to the US Securities and Exchange Commission by the US-listed Melco PBL Entertainment, which is seeking to raise USD 563.8 million in new shares.

Packer's Macau casino business is being undertaken as a joint venture with the Hong Kong-listed Melco, run by Lawrence Ho, son of Macau casino veteran Stanley Ho.

The latest SEC filing, made this week, estimates the City of Dreams casino project, which is now being built by the Leighton group, will cost USD 2.1 billion excluding the cost of the land. This is in addition to the USD 330 million cost of an apartment hotel project which it also plans for the site.

In June, Melco PBL announced a City of Dreams „project review“ which put the cost at USD 1.85 billion – 23 per cent higher than the estimated USD 1.5 billion in the prospectus issued late last year when the company listed on the US market.

The cost of the project, on Macau's Cotai strip, has been hit by a combination of design changes and higher construction costs.

This week's SEC filing says the apartment hotel complex will involve 800 apartments compared to 650 units in the June announcement – itself an expansion of previous plans.

The SEC filing also reveals that Melco PBL still has not reached an agreement with the Macau Government over the cost of the land. „We are developing City of Dreams on land for which we have not yet been granted a ... concession by the Macau Government on terms acceptable to us,“ it says.

„If we do not obtain a land concession on terms accessible to us, we could forfeit all, or 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 filing also notes the joint venture partners have also yet to receive approval from the Government on their plans to expand the gross floor area of the site.

The first phase, which includes the casino, retail space and two hotels, is set to open by the end of March 2009. But this week's filing warns potential investors that the current plans may face further cost blowouts and delays.

The partners opened their first casino/hotel project in Macau, the smaller Crown Macau pitched at VIP gamblers, in May, although it was not fully operational until July. The prospectus says revenues from the Crown Macau rose in July and August but were hit in September by „a substantial fall in the hold rate“ on its VIP gaming operations.