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SkyCity confirms profit forecast

Casino operator expects to make up to $110m before cinema writedown

SkyCity yesterday confirmed a net profit guidance for the 2008 year of between $108 million and $110 million after tax, but before its $60 million cinema writedown earlier this year.

The casino operator's share price has suffered after a big writedown in its cinema assets and a period without a chief executive last year, but a revamp by new chief executive Nigel Morrison has been concentrating on revenue growth.

He expected to achieve its targets within an 18-month timeframe.

"We will retain tight control over capital and not expend capital unless we are very confident of healthy returns for shareholders."

SkyCity has also been assigned an investment grade BBB-minus rating with a stable outlook by credit rating agency Standard and Poor's.

S&P said the rating reflected a favourable licensing environment which limited direct competition against its casinos and its good quality assets.

"SkyCity's credit profile came under some pressure in fiscal 2007 because of debt-funded capital expenditure and weaker-than-expected returns from key assets, resulting in a weakening in financial metrics beyond that expected for the BBB-minus rating," the agency said.

"However, recent debt reduction, a slowdown in discretionary capital expenditure, and improved earnings have led to a rebound in SkyCity's financial metrics."

Morrison, who joined the company in March, said he had no reason to believe profit guidance in February would change.

The annual results, due on August 25, excluded a $60 million writedown on its cinema business, which sliced SkyCity's interim profit by 97 per cent to $1.3 million.

He considered the company's debt structure to be sound and not putting it under any pressure.

It currently owed $1 billion, and in February the company completed the renegotiation/extension of its $500 million revolving senior debt facility. About $370 million remains undrawn.

Summing up the current climate, Morrison said he did not expect a major downturn in earnings as had been predicted for other tourism-linked businesses.

"There have been a number of commentators who have linked the anticipated performance of SkyCity to that of major airlines suffering in this economic slowdown and also the recent softening in business experienced by casinos in Las Vegas," he said. "Our view is that our businesses are very different to these."

Urban-based casinos like SkyCity's were primarily servicing the locals, and the Australian casinos were continuing to benefit from the commodities boom.

Morrison's core focus would be on the Auckland casino, which represented 70 per cent of the group and had not achieved "satisfactory" revenue growth in recent years.

He also believed the group's ailing cinema business could be improved, although the poorly performing Adelaide casino was still in a marginal position.

SkyCity's annual meeting will be held in Auckland on October 31.

Shares in SkyCity closed up 2c at $3.02 compared with a high of $5.40 in March. They hit a year low of $2.95 earlier in the session. — *NZPA*

NEW DEAL: CEO Nigel Morrison's core focus will be on the Auckland casino, which represents 70 per cent of the group. PICTURE / GLENN JEFFREY

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