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SkyCity rates on forecasts

No undue pressure from debt, assets underpin sustainability of earnings

By DENE MACKENZIE

SKYCITY Entertainment Group yesterday gave investors some good news with a profit guidance confirmation and a Standard & Poor's investment grade rating.

For several weeks, companies have been going to the market with profit downgrades, particularly those in the retail sector.

Yesterday, SkyCity chief executive Nigel Morrison said he expected the company to meet the earlier profit forecast for the year ended June 30 of $108 million to $110 million.

The company also released its debt profile which included the renegotiation and extension of its $500 million revolving senior debt facility. About $370 million remained undrawn.

"Given the company's current average interest rate of 7.8% and the structure of the existing debt facilities, SkyCity advises that it considers its debt structure to be sound and secure with the current debt level of $1 billion placing no undue pressure on the organisation," Mr Morrison said.

Standard & Poor's said it had assigned its BBB-corporate credit rating and stable outlook to SkyCity.

"The rating reflects SkyCity's good-quality casino assets in New Zealand and Australia which underpin the sustainability of earnings and provide the company with the capacity to manage its financial risk profile at a level supportive of the investment-grade rating."

The rating also recognised the favourable licensing environment for the company's casino operations which limited direct competition at each of its properties, S&P corporate ratings spokesman Peter Sikora said.

SkyCity's credit profile came under some pressure in 2007 because of debt-funded capital expenditure and weaker-than-expected returns from key assets.

That resulted in a weakening beyond that expected of a BBB-rating. However, recent debt reduction, a slowdown in discretionary capital expenditure and improved earnings had led to a rebound, he said.

"In addition, finalisation of the company's asset review and the appointment of a new chief executive [Mr Morrison] have improved clarity about the group's longer-term strategic direction and financial policies."

There was limited scope for an improved rating in the short- to medium-term, Mr Sikora said.

Although gaming expenditure in Australia and New Zealand was typically resilient through economic cycles, the tough economic environment was putting pressure on consumer discretionary spending. That could represent a challenge for SkyCity.

Mr Morrison said shareholders had made it clear they wanted the company to focus on getting the maximum performance of the assets it operated.

"This is what we will be doing. As we have said previously, we expect to achieve this 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."

What SkyCity owns

SkyCity Auckland — 70% of the group's operating earnings.

SkyCity Darwin — to be the focus for the company's international VIP business development.

SkyCity Adelaide — Difficult environment, working with South Australian Government to improve business model.

SkyCity Cinemas — Retained after negotiations with a potential purchaser fell through The largest cinema operator in New Zealand.

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Betting on good news . . . SkyCity Auckland Casino.

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