



SKYCITY ENTERTAINMENT GROUP

Company bucks downward trend

Andrew Janes

Cash-strapped consumers still have enough money for a drink and a flutter if SkyCity Entertainment Group's re-affirmation of its profit guidance is anything to go by.

In line with guidance issued in February, the listed Auckland casino firm said yesterday it was on track to achieve an annual net profit of \$108 million to \$110m ended June 30, not including a \$60m write down in the value of its cinema business. SkyCity achieved \$98m in 2007.

"There's a lot of concern that in this environment there are a lot of companies contemplating earnings downgrades, and we wanted to confirm that we weren't," SkyCity chief executive Nigel Morrison said.

SkyCity generates about 70 per cent of its earnings from its flagship Auckland casino.

Because it mainly served the local community, the Auckland casino was not seeing as much of a downturn as tourism-dependent casinos in Las Vegas were, Morrison said. The company's Australian casinos – in Adelaide and Darwin – were continuing to benefit from the commodities boom, he said.

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Nigel Morrison
SkyCity chief executive

analyst Marcus Curley said he was encouraged that SkyCity was able to meet expectations. "We've seen some of the retailers fall out of bed recently so, assuming it's a reasonable quality result, it's reassuring in terms of how the business is tracking."

"Most people are expecting negative news," said Tyndall Investment Management joint equities manager Rickey Ward said. "So anybody who re-affirms previous guidance in this environment – it's not a bad thing."

SkyCity was confident it could achieve earnings and revenue growth in 2008-09, Morrison said. Softening tourism and companies reducing spending on events would be offset by greater efficiencies and initiatives such as increasing occupancy rates in the SkyCity Grand Hotel, he said.

"And we think people still want to get out and have fun. So

we think our bars and gaming will continue to do well."

Curley said he was forecasting a \$119m after-tax profit for SkyCity in 2008-09.

SkyCity put any major new investment in its Adelaide Casino – including \$30m earmarked for a new car park – on hold while it tries to negotiate an easing of the regulatory environment in South Australia, Morrison said. "We're in dialogue with the (South Australian) Government but it doesn't make sense for us to invest any significant capital in Adelaide unless we can get them to be a bit more flexible."

Mint Asset Management portfolio manager Shane Solly said that was prudent. "I think it's important that they take a step back," he said.

SkyCity also announced it had received a BBB- investment grade credit rating with a stable outlook from ratings agency Standard & Poors. It's the first time SkyCity has publicly disclosed its credit rating, although BBB- is S&P's lowest investment grade rating. S&P said recent debt reduction, a slowdown in discretionary capital expenditure and improved earnings had led to a rebound in SkyCity's financial position.



Flagship: a bank of pokie machines wait for gamblers at SkyCity Entertainment Group's Auckland casino
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