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Packer punts on PBL split

Neil Shoebridge and Eli Greenblat

May 9 2007 10 00am

Sixteen months after the death of his father, James Packer has accelerated the transformation of Publishing & Broadcasting Ltd by splitting the $15 billion group into separate gaming and media companies.

Mr Packer said yesterday PBL would be broken into two listed companies - Crown, which will own casinos and gaming interests in Australia and overseas, and Consolidated Media Holdings (CMH).

As part of the deal, PBL will return $2 billion in cash to shareholders, of which Mr Packer's interests will receive about $770 million.

The split is the latest step in Mr Packer's strategy to move the company his father created away from its roots in free-to-air television broadcasting and magazine publishing.

Since Kerry Packer died on Boxing Day 2005, James Packer has expanded PBL's gaming interests overseas, shuffled its management team and sold a half share of some of its media assets, including Nine Network and ACP Magazines, to private equity firm CVC Asia Pacific for $4.6 billion, creating the PBL Media joint venture.

A demerger was seen as the logical next step and was driven by Mr Packer's long-held view that the old media assets, such as Nine and ACP, were depressing the valuations ascribed to PBL's Crown, Burswood and other gaming businesses and its new media interests.

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"It's time to let these two successful businesses prosper in their own right," Mr Packer, PBL executive chairman, said in a statement. "Investors will have the opportunity to invest in a strong and growing pure-play media company and also in a world-class gaming company."

PBL shareholders will receive one share in each of Crown and CMH, plus $3 for every PBL share. The latter can be taken in cash or shares and adds up to about $2 billion.

Mr Packer's private company, Consolidated Press Holdings, would retain a 37 per cent stake in both companies and receive about $770 million in cash.

The split proposal will be put to a shareholders' vote in August.

Fund managers said the $2 billion capital return reduced the chances of Crown bidding for its embattled casino, wagering and gaming rival Tabcorp.

"A demerger would never have been contemplated if Kerry Packer was still alive," said one source. "He always resisted the idea."

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PBL's push into the gaming and new media sectors was championed by James Packer; Kerry was never a fan of investments in internet companies, such as online job ads business Seek and ninemsn, and he argued strongly against acquisitions such as Burswood.

The impact of the diversification strategy was underlined last year, when PBL's 2005-06 results revealed that the gaming division had - for the first time - generated higher earnings than Nine and ACP combined.

Gaming now produces more than 60 per cent of the group's earnings.

Creating the stand-alone Crown company, which analysts have valued at $15 to $16 a share, would make it easier for analysts and investors to value the business on similar multiples to overseas gaming companies and attract international funds.

Analysts valued the media company at $4.50 to $5 a share.

PBL shares jumped $1.26 to $21.99 yesterday.

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Mr Packer will be executive chairman of Crown and deputy chairman of CMH.

PBL chief executive John Alexander will be executive chairman of CMH and deputy

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CMH will not have a chief executive. Instead, the heads of PBL Media and Ticketek will report to Mr Alexander, while the chief executives of pay TV operator Foxtel, Seek and Premier Media Group will continue to report to their respective boards.

"The gaming and media businesses have very different operating characteristics and capital requirements," Mr Alexander said.

"Separating the businesses is the best way to create shareholder value through harnessing the significant growth opportunities available to each business."

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Details such as the gearing of each company were not available.

Investors Mutual investment director Anton Tagliaferro said the split made sense.

"It means both companies are allowed to pursue growth options in their own right," he said.

Mr Tagliaferro said Crown would have a mix of mature assets, such as Crown and Burswood casinos, and interests in high-growth businesses in Macau and North America.

"We might be a bit more interested in the gaming company, although there is value in the media businesses as well," he said.

Crown will own the flagship Crown casino in Melbourne, Burswood in Perth, 41.4 per cent of the Melco-PBL joint venture with Hong Kong's Lawrence Ho, 50 per cent of Betfair Australia and British gambling group Aspinalls.

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According to a report from Bloomberg yesterday, Melco-PBL is talking to several banks about raising up to $US2.7 billion ($3.3 billion) to fund new casinos and hotels in Macau.

Crown will also include PBL's recent investments in Las Vegas casino operator Fontainebleau Resorts and Canada's Gateway Casinos.

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Ernst & Young and Gilbert & Tobin finalised the plan late last week.

Sources close to PBL said the move was driven, in part, by frustration with the low values attached to the Crown and Burswood casinos relative to similar businesses overseas and the fact that only one of the key analysts covering the stock is a gaming analyst (the rest are media analysts).

"This also silences the critics who have accused PBL of having a lazy balance sheet since the deal with CVC," said one source.

The $2 billion payment to PBL shareholders will be funded, in part, from the $4.6 billion received from CVC and through the sale of PBL's 50 per cent stake in the Hoyts cinema chain and its 25.4 per cent of the American movie and TV program producer New Regency.

Analysts estimated the Hoyts and New Regency stakes would raise a combined $400 million.

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