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Who Should Buy Station Casinos?

By Jeanine Poggi 03/29/10 - 07:22 AM EDT

NEW YORK (TheStreet) -- Station Casinos has announced that it is looking to sell 14 of its casinos in bankruptcy court, and several companies are expected to bid on these assets.

According to a Securities and Exchange Commission filing, Station plans for investment banks Deutsche Bank and J.P. Morgan(JPM) to take over four of its debt ridden casinos: Red Rock Casino Resort Spa, Palace Station, Boulder Station and Sunset Station. The debt on the four properties would be reduced from \$2.48 billion to \$1.6 billion.

Owners Frank Fertitta III and Lorenzo Fertitta plan to retain a 46% stake in the four casinos. Under the proposal, the brothers will pay \$85.6 million in cash for a 50% stake and then sell 4% of that stake to Colony Capital. Colony currently holds 75% of Station.

Station's remaining properties, which include Santa Fe Station, Texas Station, Fiesta casinos and 50% stakes in Green Valley Ranch Resort Spa Casino and Aliante Station, among others, would be sold.

Station filed for bankruptcy last summer with about \$5.6 billion in debt, and since then Boyd Gaming(BYD) has been the most vocal in its desire to obtain its assets.

Sterne Agee analyst David Bain says Boyd is the frontrunner for the Station assets, with enough liquidity to get the deal done. "We also believe it is best positioned to enhance certain Station operations quickly in the local Vegas market, given obvious synergies with its own local Las Vegas portfolio in terms of marketing and management."

Last year, Station rejected Boyd's offer of \$950 million for 14 casinos. Boyd upped its bid in December to \$2.45 billion, but that too was rejected.

However, Boyd's interest in Station Casinos is also dependent upon its plans for MGM Mirage's(MGM) stake in the Borgata. If Boyd decided to purchase MGM's 50% share, it

could illuminate capital it would have used for Station, says Alex Calderone, who provides turnaround and crisis management services for the gaming sector at Conway MacKenzie.

While Boyd is the clear leader for the assets, this doesn't mean other potential buyers won't come out of the woodwork.

Penn National Gaming(PENN), for one, has been eyeing the Las Vegas market. It made a bid for the bankrupt Fontainebleau, but lost out to billionaire investor Carl Icahn.

While Penn does not comment on assets that may be of interest, spokesperson Joe Jaffoni says "it is reasonable to assume that the company evaluates nearly all gaming assets that are being offered for sale based on a strategic fit and potential return on invested capital."

But Claderone says that while Penn National will look at almost any investment opportunity, it has been smart in its investment decisions and probably would not make a bid on Stations' casinos. "In order for Penn to do anything the valuation would have to make a lot of sense."

There is also the chance that the Fertitta brothers or Colony Capital will want to acquire these other assets, Calderone says. Creditors may also want to convert its debt into equity given how low valuation multiples have been and the weak sale environment.

And don't count out Icahn, who in recent months has been gobbling up casino assets, Calderone says.

It is unlikely any of the bigger players like Las Vegas Sands(LVS), Wynn Resorts(WYNN) or MGM will take an interest in Station, Calderone says. Sands has made it very clear that its future is outside the U.S.; Wynn operates high-end casinos; and MGM already has a huge stake in the Las Vegas market.

Anyone who does pick up some of Stations properties will have to contend with the Las Vegas local market, which has been especially hurt amid the recession.

In January, however, the market began to see a turnaround, as gaming revenue grew 3.7% to \$181.7 million, receiving a big boost from the Boulder Strip, where a bulk of Station's casinos are located.

Long-term, Bain believes in the market. But in order for it to rebound, he believes the Las Vegas Strip will need to show enhanced results.

That being said, which company -- Boyd, Penn National, Isle of Capri(ISLE), or even one of the larger names like Las Vegas Sands or MGM Mirage -- would you most like to see pick up some of Stations' assets? Take the poll below to see the consensus of TheStreet, and feel free to leave a comment in an attempt to sway the world to your point of view.