

Written by Administrator  
Tuesday, 19 October 2010 00:34 -

---

October 19, 2010, 1:22 AM EDT

By Sarah McDonald and Lisa Pham

Oct. 19 (Bloomberg) -- Investors should buy protection on Crown Ltd. bonds as the cost of the contracts would surge if

Australia's largest casino operator bought assets from Tabcorp Holdings Ltd., according to Nomura Holdings Inc.

Credit-default swaps insuring Crown debt against default cost 77.9 basis points as of yesterday, 31.8 basis points cheaper than the benchmark Markit iTraxx Australia index, according to CMA prices. The gap may narrow after Tabcorp announced plans yesterday to spin off its casino business, making it easier for Crown to buy the unit, Nomura analyst Ben Byrne wrote in a note to clients today.

"The prospects of an event involving increased leverage at Crown have increased," the analyst wrote. Tabcorp's separation plan "would make an acquisition much cleaner and easier to execute from Crown's perspective."

Tabcorp owns the only casino in Sydney, Australia's most populous city, while Crown owns the only property in Melbourne, the second biggest. Australians gamble more than A\$17 billion (\$16.8 billion) a year, or about A\$1,123 per person, according to the Queensland state government's Office of Economic and Statistical Research.

Tabcorp's casinos are "key strategic assets with significant upside potential," Royal Bank of Scotland Group Plc analysts including Harry Theodore and Alexander Beer wrote in a research note dated yesterday. "Crown is a potential acquirer of those assets, with private equity also potentially interested."

Crown may raise about A\$2 billion of debt to help buy Tabcorp's casinos, which are worth about A\$4 billion, Nomura's Byrne said.

"Under this scenario, we expect Crown credit-default swaps would widen markedly" due to

Written by Administrator

Tuesday, 19 October 2010 00:34 -

---

higher levels of debt and a lower credit rating, he wrote.

### Packer Stake

Crown chairman James Packer's move to increase his stake in the company last week may also suggest he is planning to privatize the company, an additional reason to buy bond protection, Byrne said.

Credit-default swaps pay the buyer face value if a borrower fails to meet its obligations, less the value of the defaulted debt. A basis point equals \$1,000 annually on a contract protecting \$10 million of debt.

--Editors: Ed Johnson, Garfield Reynolds

To contact the reporters on this story: Sarah McDonald in Sydney at smcdonald23@bloomberg.net; Lisa Pham in Sydney at lpham14@bloomberg.net.

To contact the editor responsible for this story: Will McSheehy at wmcshreehy@bloomberg.net.

[Powered by WizardRSS](#) | [Webmaster Forum](#)

**Source:** <http://news.google.com/news/url?sa=t&fd=R&usg=AFQjCNFXXYtpfxHZkTnCTmgNB50UQ7iJg&url=http://www.businessweek.com/news/2010-10-19/buy-crown-default-swaps-on-risk-of-tabcorp-purchase-nomura-says.html>