

A Low Roller's High-Stakes Gamble

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ing glamorous. It plans to stick with its formula of extending little credit, shunning big-name entertainment and cultivating slot machine players, who provide 75 percent of the company's revenues.

If successful, Showboat's shareholders could win big. Since Showboat has only five million shares outstanding, analysts estimate the company's earnings could zoom to \$5 a share from the current \$1 a share, even if the casino is only modestly successful.

Visions of another Resorts International or Golden Nugget dance in the heads of both Showboat executives and investors. Both were small gambling houses — about the same size as Showboat is today — that skyrocketed to the top of the industry after opening Atlantic City casinos. Resorts' earnings increased twentyfold in the first year of its Atlantic City operation, the city's first casino, and Golden Nugget's revenues tripled from its Atlantic City investment.

The Gamble

"Showboat's bitten off a great deal," said Mark Manson, an analyst with Donaldson, Lufkin & Jenrette, the company's investment banker. "But there are few situations where the proportional gain is as large as with Showboat's stock, if things go right."

That is a big if. The flip side, however, is bleak. Should construction costs soar or the casino open behind schedule, the debt could strain Showboat to the breaking point. "They could have to sell the company or go into bankruptcy," Mr. Isgur said. Adding more risk is the fact that Showboat, which has operated in Las Vegas for three decades, is not licensed in New Jersey. And the decision last March to deny a license to the Hilton Hotels Corporation, after it had built a \$300 million casino, shows that even the best-known companies in the business can be rebuffed.

Showboat's Las Vegas operation is hardly the flashiest. Its big draw is its 106-lane bowling center, the second largest in the world. It is not even on Las Vegas's famed Strip, but is several miles away near a shopping mall. The company was started by a small group of Las Vegas businessmen, and its chief executive, Joseph H. Kelley, rarely leaves Las Vegas and has delegated the Atlantic City project to others in the company. Insiders own 32 percent of the company, institutions another 20 percent.

The company has never built anything close to the size of Ocean Showboat, the only casino now under construction in Atlantic City. Yet it is undertaking a huge project — without any partners — in a city notorious for cost overruns and where such experienced developers as Donald Trump and Hilton have suffered multimillion-dollar cost increases. Few casinos have been spared: The Golden Nugget, Caesars Atlantic City and The Sands Hotel and Casino all came in significantly over budget. And the specter of the Tropicana Hotel and Casino looms over all. That project swelled to \$330 million from \$130 million before it was finished in 1981, nearly bankrupting its owner, Ramada Inns Inc.

Revenues Flat

Atlantic City itself has been under pressure as revenue growth has plummeted from the stratospheric levels of seven years ago when the first gaming houses opened. The revenue slowdown is expected to continue. September revenues are flat from a year earlier and some houses are likely to report losses this winter. Casino operating costs are rising, while capacity is full, making it difficult for casinos to find new funds to cover rising expenses.

A proposed convention center is still on the drawing boards. Hotel rooms are in short supply, making the city unattractive to gamblers living outside the New York and Philadelphia markets. There is no scheduled rail service, no scheduled commercial jet service, and Atlantic City remains mainly a day-trip market. Airlines say they will continue to stay away until more hotel rooms are built, while casino operators say jet service is needed to justify hotel expansion. More fundamentally, the promise of a gambling-induced economic boom has yet to become evident on the city's dismal streets.

And Ocean Showboat has its own unique problems. It is situated at the most distant, and least desirable, end of the Boardwalk. Accessibility from the area's highways is poor; gamblers must drive past nearly all other casinos to reach it. The much-discussed convention center was to be built next door, but now has been relocated several miles away.

Yet Showboat executives have a

fresh enthusiasm, arguing that Atlantic City's potential has yet to be tapped. Their Las Vegas casino is not in prime real estate and still makes money, they say. And, they are confident that their fixed-price contract will protect them against cost overruns.

"We thought long and hard about coming to Atlantic City," said Mr. Modica, who supervises the project from a cluttered office. "We felt there was no risk, if we put together our own team. We are confident of ourselves and what we are doing."

Showboat executives may be confident, but they have never faced a

challenge like this before. "This will test Showboat's management capability," said Saul F. Leonard, a gambling analyst for Laventhol & Horwath. "It's much larger than anything they've handled before. But the people running it have extensive experience and nothing leads me to believe they can't extend it to a larger operation."

Right now, all eyes are on the pace — and the price — of Showboat's construction. Costs have already risen slightly, to \$215 million from an initial price of \$200 million, due to higher-than-anticipated taxes and design changes mandated by government

regulations.

The project is financed by a \$130 million construction loan from a group of New Jersey banks, a \$30 million credit line from a Nevada bank and the proceeds of a recent \$57 million stock and bond offering. Land for the project is being leased from Resorts International. The construction loan is at two percentage points above prime.

Showboat executives are confident the fixed-price contract is ample insurance against cost overruns and note that the builder faces stiff penalties if the project falls behind its December 1986 opening date. "We're as secure as you can become," said G. Clifford Taylor Jr., Showboat's finance vice president.

But many say there is no such thing

as a fixed-price contract in Atlantic City. Any design change — for instance, if the state requires more security systems than initially planned — can open the whole project up for rebidding. In addition, analysts say that most cost overruns do not appear at the outset of the project, but rather in the last phases of construction.

"Showboat is naive," Mr. Isgur said. "If the state says something's got to be moved, suddenly a fixed-price contract goes out the window." Added Drexel's Mr. Lee: "My guess is that the project will not come in on budget and that Showboat will really have to scramble to find additional money. You could wind up with another empty superstructure along the Boardwalk."

And it may not be easy to find new

partners, given Atlantic City's woes, and Showboat may be unable to attract enough money to finish. Or, it could be forced to give away so much equity that the project will yield only minimal returns.

Investors already have shown some skepticism. Showboat had planned to issue some 1.25 million shares at \$15 a share last October. But, investor reaction was lukewarm and the company was able to sell only 900,000 shares at \$13 a share.

None of that skepticism has seeped into Showboat's executive offices. "All we need is our fair share of the market for it to be super for us," Mr. Modica said. "The casino doesn't have to be extraordinary to be good. And if it's better than that, it would be wonderful."

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Coca-Cola Test Of Plastic Cans

ATLANTA, Oct. 14 (AP) — Coca-Cola U.S.A. said today that it will begin testing a plastic soft-drink can this week in Columbus, Ga.

The announcement said plastic cans of Coca-Cola, Coca-Cola Classic, Diet Coke and Sprite would be delivered to selected food stores. It said no other soft drink in the United States is sold in a plastic can.

Dan Haas, packaging manager for Coca-Cola U.S.A., said in a statement that use of the plastic can "is a market test, and we have made no firm decision on the long-term commercial application of the can in the soft-drink market."

An important aspect of the test will be to study collection methods for recycling the plastic cans, the company said. Vending machines that collect, crush and pay consumers for returned plastic cans will be at various Columbus locations.

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