Caesars lenders reveal plan as debt talks unravel

By Kimberly Pierceall, AP

Looking for cash, Caesars Entertainment officials looked no further than the company's flagship Las Vegas Strip hotel-casino Caesars Palace and saw $2.6 billion that could be raised by mortgaging the 4,250-room resort modeled after Ancient Rome.

The proposal was revealed this week after the company's bank lenders were the latest creditors to walk away from talks with the hotel-casino giant to restructure a sizable amount of its debt in order to avoid a messy bankruptcy case.

Bank lenders with a first-lien on Caesars debt posted the company's proposals online Thursday after a confidentiality agreement expired. The Caesars Palace proposal was one part of a larger proposal made to lenders to restructure Caesars' debt during talks that began in September.

Caesars is the parent company of Harrah's Lake Tahoe and Harveys at Stateline.

Financial analyst Alex Bumazhny with Fitch Ratings said he had never seen anything like it, but the document dump was likely indicative of how upset creditors might be by the process.

Caesars had previously revealed the general terms of its pitch, splitting Caesars Entertainment Operating Company division into two real estate investment trusts, one to own hotel-casinos and the other to lease and manage them.

The documents posted online provided more detail including the plan to make Caesars Palace its own real estate investment trust using it to raise $2.6 billion in cash in new financing.

Documents also revealed how much Caesars offered to make its creditors whole through cash, debt and equity: bank lenders would recover everything owed, $5.4 billion, and noteholders would recover 93.8 percent or $5.9 billion.

Caesars Entertainment was bought in 2008 with its new owners Apollo Global Management LLC and TPG issuing billions in debt to raise cash for the purchase. As of the company’s last quarterly filing, $22.8 billion in long-term debt weighed down Caesars.

Its operating division holds most of the debt making it the focus of recent lawsuits filed by some creditors claiming the company has drained that division of assets — except Caesars Palace — by moving of its money-making hotel-casino properties to other divisions, cutting guarantees to creditors and allowing debt to mount. The creditors have claimed the company is in default on its agreements.

The company has responded in financial filings calling the claims meritless.

Bumazhny said he thought the idea to raise $2.6 billion in cash by essentially mortgaging Caesars Palace represented a hefty amount of debt to saddle one property with, saying it represented 10 times the amount of the hotel-casino’s earnings before interest, tax depreciation and amortization.

He said it was hard to say why the creditors may have walked away, except to say that the process has been complex and contentious with multiple parties involved at varying levels.

Some of the operating division’s junior creditors are owed a $223 million interest payment Monday.

Fitch Ratings has speculated that the company may skip that payment in order to keep the cash it has left to pledge to its creditors first-in-line to be paid.

“It all depends on how much time Caesars wants to buy itself,” Bumazhny said.

The company said in a financial filing Friday that it’s still in discussions with its remaining bondholders.

Bumazhny said if the company feels it’s near a deal, it may pay the $223 million it owes Monday.

Caesars spokesman Gary Thompson offered no comment on the filings or whether Caesars would pay its $223 million interest payment Monday.