Stock Market Review

Bond redemptions due in 2013

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As the year is quickly coming to an end, it is the time for financial commentators and other journalists not only to look back at what happened over the past 12 months but also to comment on what's in store for next year.

Among the corporate issuers, there are three bonds that will be redeemed, namely the seven per cent GAP Developments plc bonds on April 30, the 4.25 per cent Fimbank plc bonds on November 30, and the four per cent AX Investments plc bonds on December 15.

It is worth recalling that another two issuers which were due to redeem their bonds in 2013 decided to bring forward their bond redemptions. These were Dolmen Properties plc who repaid all their outstanding bonds of €5.47 million one year in advance and International Hotel Investments plc who issued a new €20 million bond to finance the redemption of their two bonds totalling €22.5 million which were due for redemption on February 15, 2013.

Although IHI offered bondholders a rate substantially below the maturing bonds and it was also the first corporate bond (other than those of the two major banking institutions) which came out at below the six per cent level, demand was once again very strong. The take-up announcement by IHI indicated that a substantial amount of existing bondholders accepted to switch into the new bond offering while new investors also applied to invest in these bonds. As a result, new investors were only allocated a fractional amount of their application leaving many disappointed.

The first corporate bond redemption on April 30 next year is of GAP Developments plc. Although the company repurchased and cancelled a total of €7.15 million of its bonds in recent months as the company successfully completed a number of final contracts with apartment owners following completion of the project, GAP still has a balance of almost €29.5 million due for repayment. GAP has not yet indicated whether it will be opting for a new bond issue to finance the redemption or whether financing will be sought from other means possibly also including a further equity injection by shareholders. Following the introduction of Tigne Skies Ltd (Azzopardi brothers) as new shareholders in the project in April 2009, a number of cash injections by shareholders took place over the years as indicated in the recent reports published by the company.

The other two corporate bond redemptions take place in the final weeks of the year. On November 30, Fimbank plc will be redeeming its two tranches of the 4.25 per cent bonds which had been issued in October 2010 – one is denominated in US dollar with a total amount of $18.05 million and another tranche is denominated in euro with an outstanding amount of €19.26 million. The bank's decision whether to offer new bonds to replace the maturing ones or to repay the bonds will undoubtedly be influenced by the imminent developments related to the recent joint offer by Burgan Bank of Kuwait and United Gulf Bank of Bahrain to acquire a controlling stake in Fimbank.

As part of the overall proposed transaction, Fimbank announced on November 22 that it will receive new funding of $60 million which, subject to shareholders' approval at the extraordinary general meeting scheduled for January 31, 2013, may be converted into new shares. Meanwhile, Fimbank last week also obtained funding of $30 million from the International Finance Corporation (a fully owned subsidiary of the World Bank), also a shareholder in Fimbank. These new funding opportunities may well permit Fimbank to simply repay all bondholders without the need to resort to additional borrowings from retail investors. Furthermore, the developments at shareholder level as well as the agreed funding programme may also enable Fimbank to consider the early redemption of the seven per cent bonds which had also been issued in two currency denominations. Although the final redemption date is on April 30, 2019, Fimbank has the option of redeeming part or all of these bonds on any date from May 1, 2012.

Interestingly too, AX Investments plc also recently repurchased and cancelled some of its four per cent bonds. These are due to mature on December 15 and given the rather small amount in issue of €1.7 million (although these are to be redeemed at 140 per cent of nominal value), it is highly probable that the company will resort to a cash repayment to all bondholders and not issue new substitute bonds.

> **"The strong appetite for fixed interest rate investments by retail and institutional investors continues to show the need for suitable investment opportunities"**

With respect to Malta Government Stock redemptions, a total of €370.26 million are due to mature throughout the year. This amount is less than the original amount of €516.77 million following the recent successful switch auction which the Treasury conducted for the second successive year. The Treasury will be resorting to new bond issues next year to finance the upcoming redemptions and also to finance the expected 2012 budget deficit of €95 million.

In the Budget presented to Parliament on November 28, it had been estimated that the Treasury will need to resort to a maximum amount of €500 million in new issues during the coming 12 months. However, the timing of the new MGS issues will be impacted by the upcoming general election to be held on March 9 and the subsequent approval of Budget 2013 in the new legislature.

Despite the low interest rate environment, bond issues remain very much in demand by retail as well as institutional investors. This was again very much in evidence both during the last MGS issues which took place at the end of October as well as in the more recent bond issue by IHI.

Demand from retail investors during the short subscription period for the new MGS's during the final week of October exceeded €120 million and crowded out most of the tenders lodged by a number of institutional investors. Moreover, IHI reported demand of over €26 million for its 5.8 per cent bonds with barely any form of advertising and marketing taking place by the company and financial intermediaries.

The strong appetite for fixed interest rate investments by retail and institutional investors continues to show the need for suitable investment opportunities to be presented to investors. Unfortunately, a very limited number of new bond issues were launched during the last two years mainly as a result of the Listing Policies published in August 2010.

Recent declarations by both the Prime Minister as well as the Minister of Finance indicate that amendments to these policies are likely in the near term as a result of recommendations that were made by a financial services think tank set up in connection with discussions before the formulation of the 2013 national Budget.

Prospective issuers, market participants and investors alike would welcome some positive initiatives to enable the new issuance bond market to come to life again as from 2013.

The unlisted bonds that have been selectively placed in recent months offered no solution to satisfy the outstanding demand from investors mainly in view of the lack of a public listing and official trading facility for such securities on the Malta Stock Exchange. Such instruments are naturally more illiquid than those that have a listing on the MSE, making it more difficult for anyone to sell such bonds before maturity.

Best wishes to all readers for a healthy and profitable 2013.