Stock Market Review

MIH provides company update ahead of bondholders' meeting

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Mediterranean Investments Holding plc, the Corinthia Group 50 per cent joint venture which focuses on investments in Libya, hit the headlines in recent weeks as it was the first locally listed company to convene a meeting for bondholders of its 7.15 per cent seven year issue.

During the meeting, the approximate 5,000 bondholders will be requested to approve a resolution authorising and empowering the company to use €8 million from the bond issue proceeds to partially repay a loan of €13.2 million.

The €13.2 million loan had been provided by shareholders last year when as a result of the civil war that broke out in Libya, tenants evacuated the Palm City Residences and this placed a significant strain on the company's financial resources. The loan was provided to enable the company to honour its obligations which included the repayment of creditors related to Palm City and interest on the borrowings that had been taken out for the development of the Palm City and the eventual funding of the Medina Towers project.

Although MIH had a balance of over €31 million in liquidity from the 7.15 per cent 2010 bond issue proceeds, these could not be utilised for such purposes in view of the restrictions contained on the use of proceeds in the prospectus. In addition to the shareholders' loan, MIH also successfully negotiated and obtained a moratorium on loan repayments from its bankers. This provided added flexibility to the company in terms of its cash flow requirements.

Although bondholders are being requested by the company to vote in favour of the resolution to allow it to partially repay the shareholders' loan, the passing of the resolution placed on the agenda at next week's meeting is not a foregone conclusion. In terms of the requirements in the prospectus, firstly, for the meeting to "proceed to business", at least 50 per cent of the overall nominal value of the bonds need to be represented at the meeting next Monday (either in person or by proxy). Additionally, at least 75 per cent of those present need to vote in favour of the resolution for it to be approved. As a result, unlike many resolutions at customary annual general Meetings where the majority shareholders would have sufficient votes to pass the resolutions on the agenda, in this case the situation is very different with bondholders only (and not shareholders) having total control of the situation.

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As such, holders of the 7.15 per cent MIH bonds should do their utmost to attend and participate at next week's meeting and use this opportunity to request more information on current developments in Libya following the end of the war conflict. More importantly, bondholders should seek further information on the company's performance and future plans beyond that provided in last Monday's announcement to obtain better clarity on the company's ability to honour its obligations within the new Libyan landscape.

The rationale behind the resolution provided by the company in its explanatory circular dated May 23, 2012 is that some of the funds required for the development of the Medina Towers will not be needed before another two years in view of the delay experienced in this project following the civil war that broke out in Libya in February 2011.

As such, the company argues that rather than leaving the bond proceeds placed in low interest-bearing financial instruments, these funds would be put to better use by repaying part of the shareholders' loan in view of the higher rate of interest being charged by shareholders of five per cent per annum as opposed to the return that is being achieved from financial institutions on the funds remaining from the unutilised portion of the 2010 bond issue proceeds.

MIH also hinted that when the €8 million would be required again in around two years, the company may either consider raising a fresh loan at the time or better still, sufficient profit retention from the Palm City Residences would have accumulated over the period and the company would not require to raise further funds. This possibility is supported by the financial performance of Palm City in recent months.

In fact, in the announcement published last Monday morning, the company reported that the financial results for the first quarter of 2012 show a very strong turnaround over the first three months of last year as occupancy at the Palm City improved steadily following the end of the war conflict in October 2011. Overall revenue from the Palm City Residences amounted to €5.39 million during the first three months of 2012 with an operating profit of €4.1 million and a profit after tax of €2.3 million. MIH compared these results to the 2011 full-year financials when the company generated revenue of €10.17 million, an operating profit of €5.47 million and a loss after tax of €2.7 million after taking account of the finance costs on its bank borrowings and outstanding bonds amounting to €8.1 million.

MIH also reported earlier this week that the overall occupancy at the Palm City was of 79 per cent at the end of April 2012 (equivalent to 328 units out of the total inventory of 413 units), and the average rental per unit in 2012 is reportedly 49 per cent higher than the rates achieved during the first part of 2011 prior to the start of the Libyan revolution. The significant increase in rates could be in part due to the shorter term nature of the contracts in place and also reflective of the new scenario with less competition in view of the war and a corresponding increase in certain costs due to the new landscape.

In view of the current high level of occupancy which according to the chairman Alfred Pisani in his letter to bondholders should reach over 90 per cent by the end of next month, the financial statements for 2012 should show a significant level of profit and may be in line with the company's original expectations at the time of the 2010 bond issue.

It is worth highlighting that in 2010, the directors of MIH had projected a pre-tax profit of €13 million for 2011 rising to €14.5 million in 2012 based on an occupancy rate of 95 per cent being achieved by mid-2011. Should the 2012 actual results come close to these earlier projections, MIH would have managed to virtually return to its original forecasts after the inevitable delay as a result of the hostilities for almost eight months last year.

Although this meeting for bondholders has been called with a specific purpose in mind, I strongly believe that bond issuers should call meetings with bondholders on an annual basis to update them on company developments and the financial performance. Admittedly issuers are not obliged to call such information meetings, but they must understand that loyalty towards a company from all stakeholders (whether shareholders or bondholders) is fundamental if the company or any of its subsidiaries wish to tap the financial market again in the future. Unfortunately, bondholders have so far been updated on the performance of an issuer only when a fresh fund raising exercise was in the offing.

Furthermore, in addition to annual meetings for bondholders, bond issuers as well as their guarantors should go beyond what is required to be published by the Listing Rules and seek to be more proactive in keeping the market adequately informed. A company will enjoy the trust of investors only if it provides regular information to the financial community and to the market at large.

Minority shareholders, bondholders as well as members of the financial community should place increased pressure on all present bond and equity issuers and prospective new issuers to provide more regular detailed announcements and useful financial information similar to common practice across the more developed international capital markets. Such detailed information flow should help to achieve a higher level of trading activity and therefore increased activity across the various securities on the Malta Stock Exchange for the benefit of investors and all market participants. The other catalyst would undoubtedly be the official recognition and introduction of market makers as is the case in liquid markets overseas.