

Stock Market Review



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IHI launches its sixth bond issue since its inception 10 years ago

International Hotel Investments plc, the 59 per cent owned subsidiary of the Corinthia Group, launched a new €25 million bond issue last week – its sixth bond offering since the company’s inception 10 years ago.

The Corinthia Group set up IHI in March 2000 as its principal vehicle for the group’s development, acquisition and operating strategy. At inception IHI had full ownership of the five-star San Gorg Hotel in Malta, 100 per cent of the derelict site in Budapest and a 20 per cent shareholding in each of CHI Ltd – the hotel management company as well as QPM Ltd – the construction project management company.

The expansion by IHI over the past 10 years has been extraordinary. Today IHI has full ownership of six five-star hotels (Malta, Hungary, Portugal, Russia, Libya and Czech Republic), a 50 per cent shareholding in the hotel being developed in London and a 75 per cent shareholding in a property that is undergoing development in Libya’s second largest city, Benghazi.

Although IHI retained a 20 per cent shareholding in QPM Ltd, it increased its shareholding in CHI Ltd to 70 per cent with the balance of 30 per cent now in the hands of the Wyndham Hotel Group International of the United States. The steep rate of growth in the IHI Group is also evident in the increase in the asset base from €58.8 million in April 2000 to €1.04 billion as at September 30, 2009. In May 2007, two important events that reshaped IHI’s future were the €178 million capital injection by Istithmar Hotels of Dubai and the acquisition of the Corinthia Bab Africa Hotel and Commercial Center in Tripoli and the Corinthia Hotel in Prague.

These events followed an equally significant joint venture that was announced in December 2006, wherein IHI increased its stake in the hotel management company CHI Ltd concurrently with Wyndham Hotel Group’s acquisition of the remaining 30 per cent equity in the company.

These events also brought about a change in IHI’s strategy. In recent years IHI has focused on achieving an increased contribution from third-party hotel management contracts through CHI and the acquisition of mature properties together with the new strategic investors. Following the acquisition of the prestigious property in London (initially equally owned by IHI, the Libyan Foreign Investment Authority and Istithmar but now owned by IHI and the Libyans only following Istithmar’s disposal of their shareholding), IHI’s Chairman has publicly stated on var-



ious occasions that the Group is seeking to identify investment opportunities in major cities like New York, Paris and Rome principally to increase the brand awareness of CHI as a management company.

Although the September 2009 balance sheet published in the recent Prospectus reveals the conservative debt level of the IHI Group (total net borrowings of only €216 million compared to equity of €618 million), this €25 million bond issue does not increase the overall debt level. €11.6 million from the total proceeds will be used to repay the five per cent convertible bonds due to be redeemed on May 29, 2010 and €12 million will be used to repay an outstanding loan with an Austrian bank.

During last week’s stockbrokers’ meeting IHI’s managing director Joe Fenech explained that since this loan provided the lending bank with a full hypothec on the property in St Petersburg, the repayment of this bank loan will benefit the company and its stakeholders since the property will become free and unencumbered.

The hotel in St Petersburg was recently extended by an additional 105 rooms as a number of floors in one of the properties acquired by IHI adjacent to the hotel were converted into additional room-stock. Meanwhile, the ground floor area was converted into retail space for lease while the building on the other side of the hotel was similarly developed into a 3,500 sqm office facility and 7,500 sqm retail area. This development was completed at the peak of last year’s global economic crisis and as a result the renting out of these retail

and office areas is taking longer than originally expected. Mr Fenech explained that in the circumstances IHI preferred to wait for better times before committing itself to long-term leases at the depressed rates of last year.

In fact IHI is now currently negotiating the lease of the entire office area together with a portion of the retail area. The focus on rental income from such developments is another of the new focus areas of IHI. Apart from this dedicated area in Russia, the commercial area beside the hotel in Tripoli is fully leased out contributing circa €6.6 million per annum, while the new property in Benghazi will also have an area for retail and commercial use. While this rental income will enable the group to achieve superior cash generation from their properties, IHI aims to achieve higher returns on their investments to enable the group to commence the much-awaited yearly cash dividends to the many local shareholders.

With this in mind, the property adjacent to the Metropole Building in London (Whitehall Place) is being converted into 12 luxury apartments which will be sold. Likewise, in Benghazi apart from the hotel and the commercial area, IHI and its partner LFICO are also planning to construct 30 residential apartments for eventual sale. These will provide part of the cash flow necessary for the commencement of a cash dividend.

The prospectus published last week in connection with the new bond issue contains IHI’s unaudited financial statements for the nine-month period to September 30, 2009.

The income statement reveals that the economic downturn which impacted the tourism sector in most regions across the world led to a 21 per cent decline in turnover to €76.6 million with EBITDA decreasing by 24.7 per cent (€8 million) to €24.1 million. However IHI’s geographical spread mitigated the full extent of the downturn mainly due to the continued strong performance of the hotel in Tripoli.

This property remains an important contributor to the IHI Group. Although the recent political issues between Libya and Switzerland have been of concern to some IHI shareholders and bondholders in recent weeks, the important economic ties between Libya and a number of other Schengen countries including Malta should shortly result in a lifting of the current ban on Schengen area travelers to the relief of all investors.

The strength and diversity of the IHI Group is very evident from the group’s nine-month results. Despite the strong challenges faced during 2009, IHI’s interest cover during the period is of 2.5 times and should please the many IHI bondholders who have provided valuable support to the group in recent years. While these results reassure bondholders on the company’s ability to honour its interest obligations, on the other hand shareholders may have further to wait before a regular cash dividend policy is implemented. While this is disappointing, shareholders should benefit from the higher asset base accumulated over the years which will eventually reflect in a higher share price.

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