

## Stock Market Review



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# Simonds Farsons Cisk and Eden Finance launch new bond issues

**E**arlier this week Simonds Farsons Cisk plc and Eden Finance plc confirmed that the Listing Authority approved their respective €15 million bond issues. These two new bond issues will also coincide with three new Malta Government Stock issues. Last week the Treasury announced that it is seeking a total of €100 million with an over-allotment option of up to a further €50 million. While two of the stocks being issued had already been offered to investors in the past (and as a result will eventually be amalgamated with the existing issues), interestingly the Treasury has opted to issue a new 20-year bond.

The rate has been established at 5.25 per cent per annum but the price at which it is being offered has yet to be determined and is expected to be announced this afternoon. Overseas sovereign bond prices and likewise Malta Government Stocks have been very volatile in recent weeks mainly due to the severe crisis in Greece and the risk of contagion among other European states.

Prices of Malta Government Stocks are established on a daily basis by the Central Bank of Malta as market maker. These fluctuate in line with international bond market developments, more specifically with the 10-year European benchmark (the German Government Bund). As a result of the escalating crisis in Greece last week, the yield on the 10-year German Bund dropped to 2.77 per cent per annum (the lowest level since 1990), and this sent the prices of Malta Government Stocks climbing close to their all-time highs.

On the other hand, following the news early Monday morning of the emergency rescue package by the EU, the yield on the 10-year German Bund climbed towards 2.95 per cent per annum and this had the effect of a sharp decline in the prices of MGS. In fact, the indicative Central Bank of Malta bid price in the five per cent MGS 2021 declined by 193 basis points from 107.96 per cent to 106.03 per cent only to partly recover on Tuesday morning.

These volatile prices are surely being monitored closely by the Treasury. Hopefully a fair price will be established for the three new offerings and a successful take up by local investors will materialise.

Meanwhile, Tumas Investments plc has also announced that it obtained approval for a €20 million bond offering which will carry a rate of 6.2 per cent per annum. Their Prospectus will be published in due course and the offering is likely to take place once the two other issues by Farsons and Eden are over.

All three corporate bond issues are mainly being launched to refinance existing bonds due for maturity during 2010. However, in the case of Farsons, the company is seeking additional borrowing in order to partly fund its investment in the new brewhouse. This is the final phase of the masterplan which also incorporated the new soft drinks packaging hall and the logistics centre. The latter two projects were completed in early 2008 and the new brewhouse is expected to be finalised by summer 2012.

The remaining part of the frontage in Mriehel will then be released for development. In recent years Farsons had indicated that it aims to exploit this valuable and sizeable tract of land in the best way to maximize shareholder value. The intention is to transfer this land to their subsidiary Trident Developments Ltd which will then seek a separate equity listing on the Malta Stock Exchange.

The final use of the land is still being discussed with local and international consultants, however it is likely to be developed into office facilities, retail, food and beverage as well as leisure outlets to be leased out thus creating a new revenue stream for Farsons and its shareholders in the form of rental income. The recent financial performance of the Farsons Group has been encouraging with a pre-tax profit of €3.1 million during their last financial year to 31 January 2010. Although this represents a substantial improvement from the previous year, one must note that the Group had a very disappointing performance in the year ended January 31, 2009.

On the other hand, it is worth highlighting that the profitability achieved during the last financial year is in line with the record profits generated in the year to January 2008 when excluding the profit on sale of property of €1.1 million. The return to more meaningful profitability levels is an important message to shareholders in the light of the challenging economic con-

ditions and increasingly competitive landscape.

This improved performance also shows that the Farsons Group managed to overcome the initial problems with the new soft drinks packaging hall and logistics centre which had negatively impacted the previous year's profitability level. While the financial performance this year will be hit by the significant increase in utility rates, Farsons should benefit from the expected increase in tourism numbers with airline capacity rising as a number of new routes will be operational in the coming months.

Farsons bondholders should feel comfortable that the EBITDA generation provides a very high interest cover. In the last financial year, the Group registered total EBITDA of €10.2 million compared to net finance costs of €1.8 million. Although finance costs are expected to increase due to the additional borrowing from the new bond issue as well as the new loan of €7.5 million to finance the brewhouse, the interest cover will remain at a sufficiently comfortable level and well above that of many other local bond issuers.

Moreover, another important indicator for bondholders is the gearing ratio which compares the total level of debt to shareholders' funds. Following the €15 million bond issue (but before the additional €7.5 million bank financing), the net debt of the Farsons Group amounts to just under €43 million and this compares favourably to the overall level of shareholders' funds of €83.9 million.

With respect to Eden Finance plc the amount being raised is solely being used to re-finance the maturing bonds as no further developments are being planned by the hospitality and entertainment group. Eden had first launched a public bond issue in August 2000 to partly finance the construction of Malta's largest hotel (the InterContinental) and other facilities. Unfortunately, the issue had not attracted sufficient interest from the General Public 10 years ago and the underwriters had taken up a sizeable portion of the €23.3 million offering. Although the new bond issue amounts to €15 million, Eden will be converting the remaining €8.9 million in outstanding bonds into additional bank funding which has already been agreed to.

The €15 million bonds are being guaranteed by the parent company Eden Leisure Group Ltd which in 2009 derived approximately 51 per cent of its total EBITDA of €4.1 million from its entertainment businesses (mainly comprising the Eden Cinemas, SuperBowl, Bay Radio and the car park) and the balance of 49 per cent from its tourism related businesses (mainly the hotel).

During a recent stockbrokers' meeting, Ian De Cesare interestingly mentioned that during the past 6 years, the Eden Leisure Group managed to reduce its overall level of borrowings and creditors by €26.3 million through total cash generation of €42 million. This is encouraging and indicates that the Group should be able to continue reducing its overall debt in future years.

The downturn in tourism numbers has undoubtedly left its impact in recent years as the overall EBITDA from the hospitality sector (the InterContinental Hotel and the Diamond Suites timeshare operation) declined from a peak of €4.5 million in 2007 to €2 million in 2009. The occupancy level of the InterContinental Hotel decreased from 69% in 2007 to 60 per cent in 2009. Furthermore the average achieved room rate declined from €88 in 2007 to €73 in 2009.

However, the hotel is seeing an improving trend with a significant increase in conference business. Mr De Cesare's more encouraging outlook is underpinned by the additional airline capacity to Malta following Ryanair's introduction of six new routes as from next week. Eden Leisure Group however estimates that only in 2012 will it manage to generate the same level of EBITDA as that of 2007 before the downturn. The gearing ratio of the Eden Leisure Group has improved over recent years following the reduction in debt and the property revaluation exercise in 2008 which increased the level of equity in the balance sheet by €14.4 million.

During the first quarter of this year the total issuance on the bond market amounted to €297 million, with all issues being heavily over-subscribed. Following a one-month pause in April, the level of demand from the investing public in these two new corporate issues and the Malta Government Stocks during May is undoubtedly keenly awaited by other prospective issuers seeking to tap the market in the months ahead.

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