Stock Market Review

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Midi set to become sixth largest company on MSE

Following a highly successful bond issue in January 2009, Midi p.l.c. is now tapping the market with a share issue. During a recent briefing for all stockbrokers, Midi's CEO Ben Muscat immediately highlighted the fact that this is not an offer of shares whereby existing shareholders are selling part of their stake but this exercise is a new issue of shares expanding the capital base of the company ahead of the substantial development that has yet to take place to complete the remaining phases of Tigne Point and the commencement of the regeneration of Manoel Island.

All existing shareholders are increasing their shareholding in the company by the equivalent of a further €10 million through the conversion of a shareholders' loan into new shares.

This contrasts with most of the previous IPOs in Malta which all included an element of a sale of shares by existing or founder shareholders. The most recent offer was made by Island Hotels Group Holdings plc in September 2009 when one of the founder shareholders, Vassallo Builders Group Ltd, disposed of its entire shareholding. Previously, RS2 Software plc and Crimsonwing plc each conducted a combined new issue and offer of shares by the existing shareholders while the government of Malta sold its entire shareholding in MaltaPost plc (January 2008) and a large part of its shareholding in Malta International Airport plc in October 2002 and November 2005.

Midi p.l.c. is issuing €30 million worth of new shares at a price of €0.45 per share (equivalent to 66,666,666 shares) out of which existing shareholders are subscribing to €10 million worth of new shares at the same price of €0.45 per share. This is a very important aspect of the issue since the consortium of existing shareholders composed of some of Malta's leading family companies and financial institutions are confirming their faith in the future prospects of the company. Prior to the new share issue, the company changed its Memorandum and Articles of Association since it felt that it was appropriate to decrease the number of directors from a maximum of 11 persons to a more manageable maximum of 8 persons. This entailed three of the incumbent directors and shareholders having to relinquish their directorship. Despite the fact that they are no longer sitting on the board of directors, chairman Albert Mizzi explained to stockbrokers that all three persons are taking up their pro-rata entitlement of new shares on offer to existing shareholders.

MIDI plc Share Valuation	
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Manoel Island and Tigne Point Property Value as per Architects Valuation	311,000,000
Other assets	19,000,000
Total Company Value	**330,000,000**
Total Liabilities (including bank borrowings and bonds in issue)	(226,000,000)
Illustrative Fair Value as at 30 June 2010	**104,000,000**
New Share Issue (excluding €10 mln over-allotment)	**30,000,000**
Illustrative Fair Value post IPO	**134,000,000**
Number of shares in issue post-IPO	**213,456,666**
Equivalent Illustrative Fair Value per share post-IPO	**0.624**
Market Capitalisation (excluding over-allotment)	**96,000,000**
Share Issue Price	**0.45**
Price to Illustrative Fair Value	**0.72x**
Illustrative discount to share issue price	**28%**

Excluding the over-allotment option of a further €10 million worth of shares, Midi p.l.c. will debut on the Official List of the Malta Stock Exchange with a total of 213,456,666 shares at a price of €0.45 per share giving a market capitalisation of €96 million. Midi will therefore be the sixth largest company by market capitalisation to be listed after HSBC Bank Malta plc, Bank of Valletta plc, International Hotel Investments plc, Go plc and Malta International Airport plc.

The property valuation prepared by Alex Torpiano of architects aoM Partnership adds up to €311 million and is made up of €174.5 million attributed to Tigne Point and €136.5 million to Manoel Island. A comprehensive breakdown of the individual components comprising the valuation is disclosed in Sections 12.2 and 12.3 of the Prospectus and Section 4.6 of the Information Memorandum.

A major part of the valuation of Tigne Point is attributable to The Point shopping mall which has been valued at €55.9 million. Although this was only opened in March 2010, the complex already enjoys a high occupancy rate of 98 per cent and this investment will contribute to a large part of the rental income in the coming years until other long-term assets become operational, namely the Pjazza commercial outlets and the T14 office facilities. A valuation of €37.9 million was given to the recently completed block of 59 apartments known as T10.

Stockbrokers were recently taken on a tour of Tigne Point including a visit to a show flat at T10. Mr Muscat explained that sales to date of the T10 apartments was highly satisfactory and a total of 52 promise of sale agreements have so far been entered into leaving only seven apartments for sale. Although the initial promise of sale agreements have been signed, Midi has not recorded this income in its profit and loss account since this is only taken once the final deed is entered into with buyers.

The large part of the final contracts for these 52 apartments are expected to be signed during the course of 2011 once the apartments are complete and handed over to the buyers. Therefore, the value of €37.9 million given to the T10 block is based on the actual selling price and should immediately show up in Midi's income statement in 2011.

A major part of the Manoel Island valuation relates to the site earmarked for the construction of the 460 residences. This area was attributed a value of €91 million. Sales of these low-rise residences overlooking the marina are expected to commence in 2014 and should represent one of the major areas of profitability in future years.

The illustrative fair value of the company disclosed in the Prospectus and explained by Midi's CEO during the presentation does not comply with the requirements of International Financial Reporting Standards. However, such an illustrative fair value of the company demonstrates how the property valuation conducted by aoM Partnership should impact the financial statements of MIDI p.l.c. going forward. Mr Muscat explained that the illustrative fair value as at June 30 of €104 million is composed of the €330 million company valuation (architects valuation of €311 million + €19 million other assets) less all the liabilities of Midi p.l.c. of €226 million made up of capital creditors, bank borrowings and the outstanding bonds in issue of €40 million.

Excluding the over-allotment option, existing shareholders and the public will be injecting €30 million in permanent capital. Therefore, the illustrative fair value of Midi following the issue rises to €134 million. Based on the total number of shares in issue of 213,456,666 shares, the equivalent illustrative fair value per share following the IPO is of €0.624.

In his concluding remarks, Mr Muscat indicated that the issue price of €0.45 per share for existing shareholders and the public represents a 28 per cent discount to the illustrative fair value per share of €0.624 adjusted to reflect the valuation uplift attributed by the architect. Mr Muscat emphasised that the company opted to establish a discount to the illustrative fair value in the hope of ensuring an element of capital growth for all investors subscribing for the shares, since unfortunately some recent IPOs have failed to perform positively after the shares were listed on the MSE. Although the recent global economic crisis did not help a number of companies to achieve their targeted profitability levels, some of the previous valuations at the time of the IPO seem to have been priced on the high side leaving little scope for capital appreciation in the share price in the short term.

Mindful of the need for shareholders to start benefiting from immediate returns also in the form of dividends, the company has adopted a policy which aims to ensure the payment of regular dividends to shareholders during the coming years despite the fact that a substantial part of the property development at Manoel Island still has to take place. The projected cash flows in the coming years indicate that the company should afford the distribution of a net dividend of four per cent based on the issue price of €0.45 per share.

This further addition to the list of shares quoted on the Malta Stock Exchange is welcome news for the market and hopefully will lead to a number of other companies also tapping the equity market in the future thereby increasing the selection of shares for investors. Although the MSE has been successful in attracting companies offering bonds, investors need to be also given the opportunity to invest in equity issues.

While many investors are right to be disappointed with the downward trend in a number of share prices especially since mid-2008, they should never lose sight of the fact that over the long-term, both local and international shares have consistently outperformed bonds. Following from the success stories of BoV and HSBC since the early years of the Borza, two of the more recent successful offerings (MaltaPost and MIA) have provided investors with a consistent attractive dividend over the years. Hopefully, Midi p.l.c. will also be placed within this category.

Rizzo, Farrugia & Co. (Stockbrokers) Ltd acted as sponsor to the Midi p.l.c. share issue.

> **All existing shareholders are increasing their shareholding in the company.**