Stock Market Review

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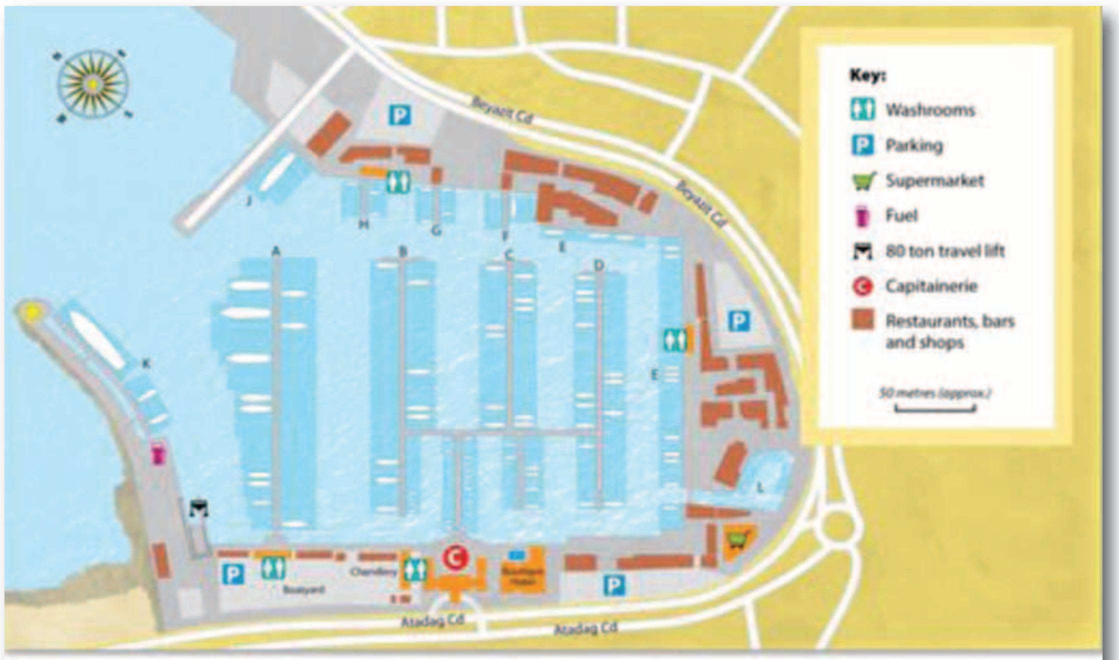
GHM expands into Turkey



Layout of Cesme Marina in Turkey

Grand Harbour Marina plc recently announced its first investment outside Malta through a 45 per cent acquisition in the Cesme Marina in Turkey. GHM had successfully raised €12 million through the local bond market in January 2010 in order to substitute its shorter-term floating rate funding of €3.8 million into longer-term fixed rate bonds and to obtain additional funding to enable the company to grow within and outside of Malta.

Locally, GHM had indicated a number of potential investments within its existing marina and also in the vicinity of the marina and in other parts of Malta.

While it was unsuccessful in its bid for the privatisation of the Msida and Ta' Xbiex marinas GHM is still seeking planning permission for a reconfiguration of the superyachts berths to increase the rentable area.

Moreover, the company also intends to expand the number of pontoon berths in its immediate vicinity through the upcoming concession being offered by the Malta Maritime Authority of Dock No 1. Internationally, GHM had indicated in recent months that it had been shortlisted for the 50-year concession of the Rhodes Mandraki Marina in Greece.

GHM's recent announcement that its board of directors approved the entry into an agreement with its majority shareholder Camper & Nicholsons Marina Investments Limited (CNMI) to acquire a 45 per cent shareholding in the Cesme Marina in Turkey is considered a related party transaction since CNMI holds 79.2 per cent of the shares of GHM. The company noted that this was approved by the independent members of its audit committee to ensure that the terms of the transaction are fair and reasonable for both parties concerned.

GHM will be purchasing CNMI's participation in IC Cesme for €4.4 million which is made up of approximately €1.9 million for the 45 per cent equity stake and €2.5 million advanced to the Turkish company in the form of subordinated shareholders' loans.

The transfer of shares from CNMI to GHM is subject to the approval of the competent authorities in Turkey and to the banks financing the development of the marina operated by IC Cesme.

GHM is also required to guarantee IC Cesme's bank financing of approximately €6.5 million.

The remaining shareholding in IC Cesme is held by a Turkish Group, Ibrahim Cecen Investment Holding AS – one of the leading companies in Turkey involved in construction, industrial, tourism and the energy sector.

The marina is held by IC Cesme under a build, operate and transfer (BOT) agreement with the Turkish Ministry of Transportation which expires on 22 April 2034.

The Cesme marina comprises 373 berths for yachts up to 60 meters in length giving a total lettable water area of 31,700 sqm. CNMI reported in its announcement via the London Stock Exchange that as at 4 March 2011 it had already succcessfully entered into 208 berthing contracts representing an occupancy rate of 56 per cent. CNMI also reported that despite the 25 per cent introductory discount being offered to accelerate occupancy levels, the average rental being achieved amounts to €69 per square metre.

This compares favourably to the rate of €65 being achieved by GHM in Malta.

The marina in Turkey was officially opened in July last year following an extensive construction and development programe costing €14 million.

Unlike GHM, which has a larger part dedicated to superyachts berths which are leased normally for 25-year periods, the marina in Turkey is solely dedicated to short-term rentals. Apart from the berths, the marina has a shopping village with circa 6,000 square metres of retail and commercial space.

The 59 outlets are fully leased out and during 2010, the average rental income per square metre amounted to €200. Moreover the Cesme marina also has a boatyard with a capacity of up to 100 yachts.

During a recent meeting convened by GHM to explain this acquisition, Camper & Nicholsons CEO Nick Maris delved into the characteristics of Turkey indicating that the number of berths within the various marinas presently amount to only 11,500 compared to a yacht fleet of 62,000.

The low level of berth supply normally leads to waiting lists and an increase in rates over a number of years.

This was also evident at GHM as revenue from pontoon berths have grown from €0.6 million to €1.8 million over the past 5 years as rental rates increased on a yearly basis.

Moreover, Mr Maris indicated that the Turkish company operating the Cesme marina is seeking to obtain approval to construct a small breakwater in the nearby vicinity which would enable the creation of up to 43 super-yacht berths.

These can then be offered for long-term leases similar to GHM's business model.

Mr Maris views the acquisition in Turkey as an opportunity for GHM to benefit from the likely increase in pontoon rates in Turkey and the possibility of expansion through the super-yacht berths.

Following this Turkish acquisition, GHM will retain a cash balance of circa €3 million which should enable the company to pursue some of the other investments required for its continued expansion programme in Malta and possibly overseas.

The 2010 financial statements of GHM also published on the same day of the announcement of the Turkish acquisition, reveal that revenue from pontoon berths grew by 14 per cent to €2.3 million.

Unfortunately, for the second successive year, the company did not register any superyacht berth sales.

According to CNMI, two transactions on which commercial terms were agreed for a value of €3.8 million in sales failed to materialise during the year despite the advanced stage of negotiations and the more attractive terms offered.

Grand Harbour Marina's existing stock of super-yacht berths held for sale covers 13,800 square metres.

A reassuring indicator for shareholders is that GHM registered an EBITDA of €315,408 during the year ended December 31, 2010 despite the lack of any berth sales materialising.

This level of EBITDA is substantially higher than the €152,602 recorded in 2009 reflecting the tariff increases and higher occupancy levels.

The loss reported in 2010 by GHM is mainly due to the interest cost of the bonds in issue.

This clearly indicates that the company depends on sales of super-yacht berths for profitability and payments of dividends to shareholders.

While the timing of such sales is difficult to envisage, the acquisition of the 45 per cent stake in the Cesme marina in Turkey should help to enhance profitability levels in the coming years once this marina achieves operational maturity.

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