

## Stock Market Review



**Edward Rizzo**

Mr Rizzo is director of Rizzo, Farrugia & Co. (Stockbrokers) Ltd.

# IHI seeking to dispose of non-core assets

**I**nternational Hotel Investments plc convened a meeting for the financial community following the recent publication of their 2010 Annual Report. The meeting was very well attended possibly in view of the current political unrest in Libya and the importance of obtaining first-hand information on how IHI is dealing with this major challenge.

IHI has full ownership of six hotels situated in Budapest, St Petersburg, Prague, Lisbon, Malta and Tripoli and a 50 per cent shareholding in the flag-ship London hotel which opened its doors only very recently. The Tripoli hotel has been a major contributor to profitability and cash flow for IHI in prior years.

The management of the group's cash flow situation has therefore become a major priority for IHI and this message was very evident during the presentations made by chairman Alfred Pisani and managing director Joseph Fenech.

Mr Pisani explained that since mid-February when the Libya crisis erupted, a major challenge has been to keep the Tripoli hotel open by a handful of Maltese individuals. Another huge challenge was to maintain all other IHI-owned hotels also operational following the UN and the EU sanctions against the Libyan regime, and all this when the London hotel was nearing completion and preparations were in full swing to start accepting guests.

While the Libya crisis could have also delayed the momentum achieved in respect of the issue of new equity to investors via a private placement and the subsequent listing of the company's shares on a major international stock exchange, in the 2010 Annual Report Mr Pisani claimed that "work on preparing the company for a second listing is proceeding well".

In an effort to maintain a strong cash flow, IHI's chairman revealed that successful discussions have taken place with the two banks that have an outstanding loan covering the Tripoli hotel. In fact, the two banks have agreed to allow IHI to postpone capital repayments due in 2011 by one year on the outstanding amounts due for full settlement by 2018, totalling €48.25 million as at December 31, 2010.

Furthermore, in line with its business plan, IHI is considering the sale of certain properties which are not central to the attainment of



Corinthia's apartments on Whitehall Place in London.

the company's ultimate objective of investing and operating upscale hotels. These 'non-core assets' comprise the 12 luxury apartments in London and the retail and commercial centre adjacent to the hotel in St Petersburg.

The 12 apartments in London are adjacent to the hotel at Whitehall Place and formed part of the whole property acquired from the Crown Estate in the UK. IHI had always intended to eventually sell these apartments and during the recent meeting with the financial community, Mr Pisani noted that once the sale of these apartments is finalised, it will provide a tangible example of how IHI can realise value for shareholders. The apartments will be selectively marketed in certain markets such as China and the Gulf states.

Mr Pisani claims that in view of the large size of these lavish apartments ranging from 250 sqm to 1,000 sqm, a selective marketing approach together with top UK up-market property specialists will be undertaken. Mr Pisani indicated that IHI is seeking to complete this exercise in late 2011 or early 2012. He anticipates a strong cash inflow once the sale is finalised and the first priority will be to repay the outstanding bank loan of £41 million on these apartments. How-

ever, the sale of the London apartments should also enable IHI to consider the payment of an initial cash dividend to shareholders while retaining a healthy cash balance to also seek further growth in its drive to continue to expand the portfolio of hotel properties around the world.

The commercial centre in St Petersburg is also adjacent to the 400 room five-star Corinthia Hotel on the main street of the city centre. In January 2002 IHI had also purchased two vacant properties on either side of the hotel. After refurbishing the hotel, one property was developed as an extension to the hotel including conference facilities and the other building was converted into a mixed-use commercial centre featuring a retail mall and offices for rental. An eventual sale of this non-core property would also demonstrate the capital growth element of IHI's business model. The sale of 15,000 sqm of commercial prime real estate in St Petersburg should also strengthen IHI's cash flow position.

A further opportunity to shore up cash flow was also being explored. With the hotel in St Petersburg being free and unencumbered, taking out a loan in Russia to further enhance the

operating cash flow of the IHI Group was also possible.

Meanwhile, all IHI's operating hotels (except Libya) are reporting improved operational performance especially the one in St Petersburg which is benefiting from increased room stock. This trend is also evident in Lisbon and Prague. This recovery is also helping the IHI Group to sustain its cash flow until the situation in Libya improves and this important property could also start to recover from the current business downturn. In the 2010 IHI Group Annual Report the chairman acknowledges that Libya "remains an important neighbour to Malta, with immense natural resources, a unique coastline and climate", and that with its track record in Libya and its significant investments in the country, IHI "is best poised to play a major role in the renewed economic development of the country".

The size and diversification of the IHI property portfolio is important when assessing the impact of the current political developments in Libya on the IHI Group. An eventual sale of two non-core assets (in London and St Petersburg) should demonstrate the group's strength in such challenging times.

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