

Stock Market Review



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Updates from local bond issuers (2)

In my column last week, I indicated that over a number of weeks my intention was to provide highlights on some of the companies that have their bonds listed on the Malta Stock Exchange to help investors understand the performance of such companies and improve the flow of communication between bond issuers and the market.

This week's article deals with another two companies, namely Tumas Investments plc and Corinthia Finance plc.



Tumas Investments plc

The bonds issued by Tumas Investments plc are guaranteed by Spinola Development Company Ltd, the owner and operator of the Portomaso site – undoubtedly, one of Malta's most successful property developments to date.

The currently advanced stage of the Portomaso development is such that revenue from property sales has slowed substantially since most apartments have been sold and the development is nearing completion. However, revenue from the long-term operations, namely the Hilton Malta and the rental income from the commercial outlets as well as the Business Tower have been increasing steadily and are providing a healthy cash flow.

During 2010, the revenue generated by Spinola Development Co Ltd (SDC), edged 0.3 per cent higher to €33.3 million, and although this increased marginally, the 2010 Annual Report of SDC reveals a marked shift in contribution from property development operations to hotel and ancillary operations.

In fact, revenue from hotel and ancillary operations rose by 8.4 per cent to €25.9 million during 2010 (2009: €23.9 million) accounting for 78 per cent of the group's total revenue as the Hilton hotel achieved higher occupancy levels and superior room rates following the record number of tourist arrivals. The 2010 Annual Report of SDC also

reveals that the return achieved by the Hilton Malta was superior to that of other local five star establishments. On the other hand, revenue from property development was lower as fewer apartments remain available for sale at Portomaso. Furthermore, a low number of deliveries took place during the year as the final development block was still in completion stage.

Revenue from property development, in fact, was 49.3 per cent lower at €2.2 million (2009: €4.4 million). Meanwhile, SDC continued to generate a steady contribution from the rental income on the commercial properties as well as the office facilities within the Business Tower as these rental units remained fully occupied. Indirect costs and other expenses increased due to higher electricity rates which came into effect in 2010. This led to a 17 per cent drop in operating profit to €4.4 million.

During the year, the overall level of EBITDA generated by SDC dropped by 7.6 per cent to €9.5 million. While the hotel and ancillary services registered an improvement in EBITDA over the previous year, the property development side of the business registered a decline in EBITDA as a direct result of the lower sales during the year. The interest cover at 2.3 times, although lower, remains at an adequate level of comfort for bondholders.

The 2010 financial statements of SDC reveal a 76 per cent decline in the group's profit before tax to €0.5 million (2009: €2.2 million) and as at December 31, 2010, net debt amounted to €62.4 million. Although this has been increasing in line with additional borrowings (bond issues) required for longer-term financing requirements and the development of the new property extension to Portomaso, SDC aims to reduce this level in the coming years from the sale of remaining apartments as well as the ongoing cash flow from operations.

In fact, SDC explained that during 2011, property sales should improve markedly as the new stock of apartments are completed and all units currently under 'promise of sale' agreements are delivered to their new owners. While the level of indebtedness has increased over the recent years, the gearing ratio of 1.59 times compares favourably

with that of other bond issuers. Total SDC shareholders' funds amounting to €39.3 million include share capital of €13.7 million and accumulated profits over the years of over €18 million.



Corinthia Finance plc

The bonds issued by Corinthia Finance plc are guaranteed by the parent company of the Corinthia Group, namely Corinthia Palace Hotel Co Ltd (CPHCL). The parent company of the Corinthia Group also owns a majority stake in International Hotel Investments plc (currently 59 per cent) and therefore the financial performance of CPHCL largely reflects that of IHI since the results of IHI are consolidated with those of CPHCL. The 2010 Annual Report of CPHCL reveals an overall turnover level of €152.4 million, representing a decline of 4.7 per cent from the previous year.

As was evident in the financial statements of IHI, the drop in revenue registered in 2010 at the parent company level was due to the lower income generation from the Corinthia Hotel in Tripoli following the Schengen dispute in the first half of 2010 and lower room rates as a result of the onset of competition in the market. Earnings before interest, tax, depreciation and amortisation (EBITDA) declined by 15 per cent to €27.6 million. With net finance costs amounting to €21.1 million, the interest cover dropped to 1.3 times during 2010.

Due to the nature of the group's activity, annual revaluations of its investment properties heavily impinge on the overall profitability level of CPHCL. In fact, over the past five years, CPHCL recognised substantial uplifts to the overall value of its properties resulting in the group reporting annual pre-tax profits ranging between €20.5 million and €46.2 million. During 2010, however, the lower revenue from the Tripoli hotel coupled with a revaluation of only €2.7 million led to a pre-tax loss of €22 million. This pre-tax loss excludes the uplift to the value of the Corinthia

Hotel London (50 per cent owned by IHI) of €38.4 million as well as an impairment of €15.2 million related to the Corinthia Hotel Tripoli.

The balance sheet shows total assets now at €1,240 million compared to total borrowings amounting to €425.8 million. The net debt position as at December 31, 2010 amounts to €388.5 million after taking into consideration the cash position of €37.3 million. With total shareholders' funds of €646.7 million, the ratio of debt to equity of the Corinthia Group comes out at 0.6 times and compares very well with the gearing ratios of most other local bond issuers. The 2010 Annual Report of CPHCL dated May 2, 2011 also makes reference to the unrest in Libya and the overall negative effect that is expected on the financial position of the group.

Note three to the financial statements makes reference to the various measures being taken to ensure that the Group has sufficient cash to sustain its operations. These measures include the sale of non-core assets which has been a declared policy of CPHCL for a long number of years and is part of a process which commenced with the sale of the Mistra Village as well as the disposal of a number of regional hotels in the Czech Republic. A few months ago (March 2011), the Corinthia Group raised €7 million from the sale of a 35 per cent shareholding in a Turkish property company and the Annual Report also indicates that "other sales are expected to generate between €35 and €50 million".

Moreover, the Corinthia Group states that "discussions with financial institutions are also at an advanced stage to refinance one of the hotels and this is envisaged to raise about €45 million". In the opinion of the directors, these measures together with the continued improvement in the operating performances of the group's properties in other markets are expected to generate sufficient funds to enable the group to meet its financial obligations including the redemption of the €14.6 million 6.75 per cent Corinthia Finance plc bonds due on 8 April 2012.

An analysis of the financial performances of Gasan Finance Company plc and Mizzi Organisation Finance plc will be carried next week.



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