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Updates from local bond issuers (4)

This week's article provides an overview of the five issuers that have their bonds listed on the Alternative Companies List, the second tier market of the Malta Stock Exchange. This market is normally associated with those companies which have a limited track record and therefore a higher investment risk compared to the more established companies.

Bay Street Finance plc

The bonds issued by Bay Street Finance plc are guaranteed by the parent company Bay Street Holdings Limited. During 2010, Bay Street Holdings registered a marginal decline in revenue to €2.8 million with earnings before interest, tax, depreciation and amortisation (EBITDA) falling by 11.6 per cent to €1.5 million. Compared to net finance costs of €0.83 million, the interest cover works out at 1.8 times. The company posted a loss before tax of €177,918. In the balance sheet, the land on which the complex is built was revalued to €13.6 million in 2010. This helped the overall equity position of Bay Street Holdings to improve to €21.2 million. Consequently this also led to an improved gearing ratio to 0.8 times.

The 2010 Annual Report of Bay Street Holdings Ltd also makes reference to a merger that took place as recently as March 17 between the holding company and Bay Street Company Ltd, the owner and operator of the 101-room hotel within the complex. Bay Street Company owed Bay Street Holdings a total of €8.4 million. Following the merger, this receivable will be cancelled through the acquisition of the hotel and accumulated losses over the years amounting to €6 million.

An important development in 2010 was the restructuring of the company's debt and new financing arrangements from its bankers, HSBC Bank Malta plc and Bank of Valletta plc. As a result, Bay Street obtained new banking facilities to seek an early redemption of its bonds. In fact, in October 2010, Bay Street Finance plc wrote to all bondholders offering to repurchase their bonds at the price of 102 per cent. This resulted in a total of €4.8 million being repurchased and cancelled leaving an outstanding balance of €2.8 million for final redemption in June 2012.

Bay Street also obtained additional bank facilities of €10.5 million to repay prior borrowings and extended the repayment date of these borrowings to June 2020. Despite the new facilities in place, the company's auditors Vincent Curmi & Associates noted in the 2010 audit report, that although their opinion was not qualified, the financial statements were prepared on an ongoing basis assuming the continued support of the company's shareholders (George Muscat, Chris Grech and Paul Camilleri), the company's bankers as well as the cash flows from current operations.

Hotel San Antonio plc

During the year ended December 31, 2010 Hotel San Antonio plc registered a 1.2 per cent decline in revenue to €5.76 million (2009: €5.8 million). The company held a meeting with the financial community to provide further insight into the financial performance and their strategy going forward. While revenue from accommodation was marginally unchanged at €3 million income from food and beverage declined by 3.4 per cent to €2.5 million. Tony Zahra claimed that this resulted from the changing trends within the industry with less visitors opting for half-board packages.

Hotel San Antonio posted a 7.6 per cent decline in gross profits to €1.6 million and a 6.5 per cent drop in EBITDA to €1.8 million due to increased costs in the form of higher electricity rates which came into effect in 2010. Average room rates increased during 2010 over 2009 and further improvements are expected in 2011. Despite the decline in EBITDA, the interest cover in 2010 was of 2.3 times. Moreover, the company's gearing ratio continued to improve on lower borrowings and profit retention.

Over the years, Hotel San Antonio actively worked on reducing the overall indebtedness of the company. During 2010, Hotel San Antonio plc obtained a bank loan facility to cover both the redemption of the bond (due in May 2012) as well as to carry out further improvements to the hotel. In January the company repurchased €0.6 million worth of bonds leaving a balance of €5.1 million due for maturity in May 2012. During the recent meeting, the company announced that it will be redeeming its bonds in full on May 30 2012 via a cash payment to all investors.

Gap Developments plc

Gap Developments plc published its 2010 financial results on May 25. The financial statements reveal a €6.9 million loss mainly due to a downward revaluation of €6.6 million in the book value of the property held for development and resale following an independent architects' valuation.

Sales enquiries continued to be encouraging during 2010. Nonetheless, Gap revealed that sales prospects to foreigners dropped significantly following the government's surprise decision to stop granting residency permits to non-EU residents. During 2010, Gap received a total of €23.2 million in second stage deposits in accordance with the preliminary agreements signed.

The company also made reference to the Reserve Account required to cover the redemption of the bonds due by April 30, 2013. No funds were placed in the Reserve Account during the past two years. However, following the commencement of the signing of deeds of sale this year, the Reserve Account is now being credited with the agreed percentage of the proceeds from the sale of every apartment in terms of the Trust Deed with Bawag Malta Ltd. Furthermore, Gap recently repurchased €406,045 (nom) of its seven per cent secured bonds at a price between 98.50 per cent and 99 per cent thus reducing the total amount of outstanding bonds to €34.5 million. In the 2010 Annual Report it was also revealed that the shareholders of Gap Developments plc injected further funds amounting to €5 million in March while a further €2 million will be injected in the near future to ensure the financial sustainability of the company. Due to the nature of the business whereby finance costs are capitalised until completion of the apartments, the interest cover cannot be estimated accurately. Meanwhile, the injection of a further €7 million from the shareholders will help to reduce the overall indebtedness of the company.

Pavi Shopping Complex plc

Pavi's financial year ends on April 30 and therefore the financial statements for the year to April 30, 2011 will be published in the coming weeks. During the first half of the 2010/11 financial year which ended on October 31, 2010, Pavi's turnover grew by 4.5 per cent to €14.2 million. Coupled with the marginal decline in overall costs, Pavi's after-tax profitability rose to €275,509 compared to a net profit of €118,894 recorded in the corresponding period last year.

It is important to highlight that these results are for the period from May 1 to October 30, 2010 and do not include the months of December and April which are considered to be busier periods for the company. As at April 30, 2010 (the latest full financial year end) Pavi had an interest cover of 2.63 times which should further improve if the profitability growth continued during the second half of the current financial year.

Moreover the company's gearing ratio continued to improve to 1.29 times as at October 31, 2010 (1.37 times as at April 30, 2010) on the back of a further reduction in the company's debt. As revealed in the announcements published on June 25, 2010 and October 14, 2010 the company repurchased and subsequently cancelled a total of €780,473 worth of bonds on the secondary market. This is a clear signal that the company is generating a good level of cash from its operations and highlights the company's healthy financial position. The Pavi bonds rank prior to all other present and future obligations of Pavi Shopping Complex plc by virtue of a first general hypothec against the issuer and a first special hypothec over the shopping complex in favour of the bondholders.

Melita Capital plc

A meeting with the financial community was convened last week to discuss the 2010 financial performance of the bond issuer Melita Capital plc. CFO Michael Maltby explained the importance for investors to gauge the overall trends of the group since the income streams of Melita Capital are dependent on the individual operating companies forming part of the Melita Group. CEO Andrei Torriani kicked-off the meeting by mentioning the group restructuring in 2010 which brought all operating companies under one holding company.

Mr Torriani also gave a brief introduction of the four shareholders of Melita led by GMT Communications Partners, a leading private equity firm focusing on investments in the European communications industry. Following the injection of €4.5 million in equity into Melita Capital plc in December 2010, a further €14 million are being invested by the current shareholders directly to support the group's mobile arm. Mr Torriani indicated that this injection signals the strong commitments by the shareholders of Melita. Moreover, Melita plc will be making available facilities of a further €14.5 million to Melita Mobile over a five year term to support its operations.

The CEO indicated that the recent restructuring exercise enables the excess cash generated by Melita plc to be used to support other companies within the group. With respect to Melita Mobile, in which Melita Capital plc has a 30 per cent shareholding, the CFO indicated that after a challenging period, subscriber numbers are increasing from the eight per cent market share as at December 31, 2010. Meanwhile, Melita Capital's fully-owned subsidiary Melita Infrastructure which owns the fibre submarine cable registered an EBITDA figure of €1.2 million in 2010.

This company is experiencing a demand for its bandwidth via Melita plc driven by higher customer numbers. Mr Maltby announced that Melita Infrastructure has successfully reduced its overall debt position to €1.9 million. The CFO indicated that once this balance is paid off in the coming years all subsequent cash generation from the leasing of the submarine cable to Melita plc will be directed to the bond issuer to sustain part of its obligations. Melita's CEO affirmed that the group is well on target to meet all its commitments to bondholders and financial institutions.

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