

Stock Market Review



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The Island Hotels acquisition – a case study for MSE candidates

The announcements made on May 18 and September 7 by Island Hotels Group Holdings plc related to the acquisition of a 50 per cent stake in Buttigieg Holdings Limited may not be a major development for the local financial market but it provides an interesting example of some of the advantages of being a publicly traded company.

Buttigieg Holdings Limited owns 100 per cent of the share capital of R.J.C Caterers Limited, a company which operates mainly in the retail and contract catering sector usually under the brand name Papillon Caterers.

RJC Caterers have a number of retail outlets and coffee shops in some localities around Malta. However, the catering contract for Mater Dei hospital and the outlets within the airport terminal are possibly among the larger operations of the company.

Island Hotels indicated that such an acquisition was an opportunity for its catering arm, Island Caterers, to seek further growth both locally as well as internationally.

The most interesting aspect of the acquisition is that the consideration payable by Island Hotels to the shareholders of Buttigieg Holdings was not in the form of cash but through the issue of new shares in Island Hotels Group Holdings plc.

The announcement made on September 7 revealed that a total of 1,070,960 new shares of Island Hotels Group Holdings plc were being issued to the shareholders of Buttigieg Holdings at a price of €1 each (equivalent to both the nominal value and the IPO price level of September 2009). These additional shares were allotted to John Buttigieg (642,576 shares), Pierre Bartolo (278,450 shares) and Mario Mifsud (149,934 shares).

The new shares were admitted to the Official List of the Malta Stock Exchange on September 14 increasing the total issued share capital of Island Hotels to 36,340,160 shares.

The agreement entered into between Island Hotels and Buttigieg Holdings also included an additional allotment in favour of the three shareholders of Buttigieg Holdings of a maximum of 243,500 shares. However, this further share allocation is conditional upon the eventual



satisfaction of certain conditions. These conditions were not disclosed in any of the company announcements. Moreover, Island Hotels retained an option to purchase the remaining 50 per cent of Buttigieg Holdings within a specified period under certain terms and conditions stipulated in the agreement.

Apart from the synergies and other opportunities for R.J.C Caterers from this development, the shareholders of Buttigieg Holdings would probably have also been enticed to enter into such an agreement as a result of the fact that the shares of Island Hotels are publicly traded on the Malta Stock Exchange. This will provide them with an easier exit route should they so desire in the future.

This is one of the advantages that publicly traded companies can use when conducting such acquisitions. It is a major differentiating factor when compared to the options available to private companies when considering growth via acquisitions.

Despite such benefits for public companies, mergers and acquisitions using 'share-for-share exchanges' have not been among the main strategies for companies listed on the Malta Stock Exchange. Apart from the ill-fated overseas acquisitions conducted by two prominent local companies in recent years, this financing option was also used by International Hotel Investments plc and 6pm Holdings plc.

International Hotel Investments plc had adopted this route when it had purchased a number of properties from its majority shareholder. These property acquisitions were financed through the issue of new shares to Corinthia Palace Hotel Company Limited.

More recently, 6pm Holdings plc also made use of this 'share-for-share exchange' when it

acquired the local IT company Compunet Limited.

However, 6pm also conducted a rights issue to increase its overall equity base and used the funding to pay off some debt and improve working capital. In the case of the 6pm acquisition, the majority shareholder of Compunet was allotted a total of 1,044,209 shares in 6pm Holdings as part of the rights issue following the sale of his shareholding in Compunet.

However, shareholders who are allotted shares in a publicly listed company and who may wish to avail themselves of the exit route provided by the stock exchange trading mechanism, will find that it is not that easy to sell out. Due to the illiquid nature of the market, this becomes more problematic for those investors who are allotted sizeable amounts of shares in a local company. As such, increased efforts need to be carried out by the appropriate authorities to improve market turnover thus also rendering mergers and acquisitions more enticing for both companies as well as shareholders.

A more liquid market should improve participation from local as well as international investors across a number of the publicly traded companies and in turn this may also encourage further companies to seek a listing, indirectly helping the local economy in the process.

Over recent years, there has been increased participation by companies utilising the bond market as opposed to the equity market. As such, the Malta Stock Exchange should embark on a campaign to promote the use of the equity market in view of the advantages to companies which at times may not be easily identifiable.

One which comes to mind is the increased publicity that



arises from a listing. Companies should not under-estimate this benefit.

The statutory company announcements related to the publication of half-yearly financial statements improve public awareness of a company and its products or services. This may also bring shareholder loyalty to those companies that pay dividends and provide incentive schemes.

Another advantage which should not be overlooked by private companies contemplating public status is the opportunity for improved corporate governance. Many local companies need to consider this route to ensure increased accountability and a clear distinction between the owners of a business and those entrusted with its management, whose major objective should be to obtain a good return for shareholders. The listing of a company's shares on a stock exchange is a good opportunity to carry out a thorough restructuring process in line with the recommended corporate governance principles.

Apart from advantages outlined above for companies obtaining a listing on the Malta Stock Exchange, the attractiveness of conducting acquisitions through a 'share-for-share' exchange as was recently done by Island Hotels should be looked upon more favourably by companies when considering the public route.

Additional fiscal incentives for a limited period of time should also be considered in order to entice more local and possibly also foreign companies to seek a stock exchange listing. Moreover, a faster and less onerous route to listing will help to incentivise companies to explore this option with increased enthusiasm. This will prove to be beneficial for the local economy in the long run.

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