

## Stock Market Review



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# Palm City signing up new lease agreements

**A**t a meeting with the financial community held last week, the managing director of Mediterranean Investments Holding plc, Reuben Xuereb, provided an update on the situation at the Palm City Residences complex in Janzour, Libya and the new lease agreements being signed up.

Interviewed shortly after the meeting, Mr Xuereb, who had just returned from Libya, explained that a 28 hour journey was necessary to get to Tripoli together with a number of other colleagues. He said that the decision to charter a fishing trawler was taken after the initial option to travel by air to Djerba in Tunis and driving to Tripoli was not possible.

After passing through a series of Nato checkpoints at sea, they reached Tripoli harbour and visited the Corinthia Hotel in Tripoli before making their way to Palm City to take stock of the situation and prepare to gear the place up again for the expected influx of clients.

During the few weeks in Libya, Mr Xuereb explained how their Libyan employees had started returning to work. The first task was to prioritise the areas that needed attention in order to be in an immediate position to increase the occupancy levels at Palm City.

While Palm City had remained open and operational throughout the six month period of conflict, a number of facilities were shut down due to the reduced levels of occupancy. A group of people from Corinthia's head office in Malta together with a number of workers made their way to Tripoli to assist the team on the ground to work on various aspects to restore full operations at Palm City.

While dismissing certain media reports on widespread looting and substantial damage to the complex, he acknowledged that "a number of doors had been broken and TV units had been stolen". Mr Xuereb also remarked that competing complexes had sustained extensive damage and explained that thanks to the constant presence of a core team of people from Palm City on the ground, the damage was limited. "This is providing a head start for both Palm City and the hotel against our competitors".

Earlier on during the Libyan conflict which was evidently taking longer than the uprisings in Tunisia and Egypt, Mediterranean Investments Holding plc trimmed its staff complement to ensure a lean operation commensurate with operational requirements. In view of this, the management team was reduced and Mr Xuereb explained that the focus was now also on recruitment of additional personnel to ensure that the personal attention to detail that the Palm City Residences was renowned for, can be restored once again. He was pleasantly surprised at the inflow of requests for employment. "We are receiving numerous applications from Maltese workers who are willing to work in Libya." He attributed this to people gaining confidence that Libya is now back in business and the short distance away from our shores could present interesting alternatives to those seeking employment away from Malta.

On August 19 as the rebels were entering Tripoli, Mediterranean Investments Holding issued its half-yearly financial statements reporting overall revenue of €5.1 million (+57 per cent), an operating profit of €3.2 million (2010: €1.5 million) and a pre-tax profit of €0.1 million. In the announcement MIH stated that 162 of the 282 contracts in force before the conflict had been cancelled. Mr Xuereb claimed that in subsequent days following that announcement, a further 15 contracts had been terminated leaving a total of 105 units still under lease.

"However, following the Tripoli uprising and the restoration of order in the vicinity of the complex, a number of new contracts are again being signed and we expect 50 new leases to be concluded by the end of this month. Numerous NGOs and other international organisations who are assisting the Libyan population on several day-to-day aspects of life and giving the much needed humanitarian aid, have taken up residency at Palm City. Apart from the new clients, a number of previous clients are returning back and indications are that a good number of units could be re-occupied in the coming weeks as companies move back to Tripoli".

When asked on the security aspect within the gated compound, Mr Xuereb was quick to

explain the "visit by highly qualified security personnel from one of the international organisations who certified Palm City as a safe place and provided a certificate to the area". He also indicated that an international professional security company had been engaged by Palm City Residences to ensure that the complex is well guarded.

Apart from these international organisations, the managing director made references to embassies and other large multinational companies signing up new lease agreements that were introduced at Palm City.

Speaking with a renewed air of optimism, Mr Xuereb indicated that some of Palm City's prior tenants were also seeking to reinstate their terminated contracts as the large multi-nationals are seeking to enter Libya once again. Oil and gas companies have been informed by the NTC that the contracts signed with the National Oil Corporation during the Gaddafi regime will be honoured and Palm City is therefore "seeing the large international oil companies making contact once again to ensure facilities are in good shape to restore production".

Prior to the conflict in February 2011, Palm City was running at an occupancy rate of 70 per cent and full occupancy was expected to be reached by mid-2011 as "most of the unoccupied units had been reserved for future rentals starting in 2011". When questioned on future occupancy levels, Mr Xuereb stated that once law and order prevails and Libya becomes a safer place, "Palm City could achieve 35 per cent to 40 per cent occupancy within the next three months". He also went on to provide longer-term forecasts claiming that "the pre-crisis occupancy rate of 70 per cent could possibly be achieved by mid-2012".

On the financial situation at MIH following the significant change in the business landscape, Mr Xuereb referred to the 2011 interim financial statements where despite the conflict for a large part of the period, revenue of over €5 million was generated.

"Many of the leases entered into pre-February 2011, were for a period between one and five years with an upfront rental payment of between six months and one year. This is the business model of Palm City and the new

agreements being signed up now will ensure a good operational cash flow going forward."

Additionally, as the crisis broke out and a number of contracts were being cancelled, Palm City had agreed with their bankers to suspend the capital payments on the outstanding balance of their €55 million loan for a 6-month period. "We are now also seeking to extend the final repayment of the bank loan from five years to seven years in view of changing market conditions and in line with expectations for real estate developments to ensure that the Company maintains a strong cash flow also in future years."

This increasingly positive sentiment was also reflected on the stock market as the market prices of the various fixed-interest securities issued by MIH in recent years recovered strongly from their recent lows.

The 7.5 per cent MIH 2014 bonds and the 7.5 per cent MIH 2015 bonds rebounded to 98 per cent and 98.99 per cent respectively after they had plunged to a low of 80 per cent earlier this year. The 7.15 per cent MIH 2017 USD bonds have reached parity (100 per cent) after they had sunk to the 83 per cent level on 13 May whilst the 7.15 per cent MIH 2017 EUR bonds recovered from the 74 per cent level (14 April) to close at 99 per cent. Similarly, the GBP denominated 7.15 per cent bonds maturing in 2017 also closed at par (100 per cent) after having touched the 83 per cent level on April 29. This is undoubtedly a reflection of the renewed optimism surrounding the much improved business climate and prospects in Libya which has also helped to calm investors' concerns.

When asked about the wider possibilities for the overall Corinthia Group and its subsidiaries, Mr Xuereb echoed the optimistic tone of the Corinthia Group chairman Alfred Pisani who earlier in the day had told members of the financial community that "Corinthia and its subsidiaries have a lot to gain from the Libya reconstruction and other service areas are already being actively pursued". Making more specific reference to MIH, Mr Xuereb claimed that "discussions amongst the strategic shareholders are already underway to consider reactivating the Medina Towers development."

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