Stock Market Review

GAP Developments issues long-overdue annual report

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The long-overdue 2011 annual report of GAP Developments plc was published last week. GAP has been in the market limelight after trading in the company's bonds was suspended twice following a new MFSA policy that came into force a few weeks ago.

On July 14, the Malta Financial Services Authority issued a new policy stipulating that companies listed on the Malta Stock Exchange which fail to publish their financials or interim directors' statements within the timeframe stipulated in the Listing Rules, will have their securities (shares or bonds) suspended from trading for 10 days.

This period would be extended by a further 10 days should the company fail to publish the information by the time the suspension expires. Loqus Holdings plc was the first company to be suspended under this new policy on July 17.

Subsequently on July 27, trading in GAP bonds was also suspended due to the delay in the publication of the 2011 financial statements. Although the company quickly issued an announcement on July 28 stating that a board meeting was being held on August 2 to consider and approve the 2011 annual report (which was meant to be published by April 30), no further announcement was issued and on August 10 the MFSA extended the suspension on trading.

After these announcements, the publication of the annual report was eagerly awaited by the market principally on two counts: firstly, to have the suspension lifted enabling investors to trade in the bonds again, and secondly, to have an update on the company's financial position given that the bonds are due for redemption in eight months' time.

The MFSA lifted the suspension immediately after the annual report was published last week and as expected, the report made interesting reading. The company's performance during 2011 shows a loss of €3.98 million. Total revenue of €13.3 million was generated in 2011 from an undisclosed number of apartment sales which were concluded during the year. Cost of sales amounted to €16.98 million leading to a loss of €3.6 million before accounting for any administrative expenses and other costs.

In addition to the operational performance in 2011, the annual report describes various noteworthy developments within the company. These include the change in shareholding structure and the new financial commitments provided by the shareholders.

In this respect, it is revealed that in 2011, GAP Developments capitalised €9 million of previous shareholders' loans through the issuance of 6.8 million ordinary "B" shares with a nominal value of €2.50 each in favour of Tigne Skies Ltd. The conversion of the shareholder loan into equity brought a change in the shareholding structure of the company. In the annual report, it was revealed that from December 26, 2011, Tigne Skies Ltd became the largest shareholder in GAP Developments plc with a 75 per cent stake and the holders of the 'A' shares (GAP Holdings Ltd and George Muscat) were diluted accordingly to a 25 per cent ownership.

Tigne Skies Ltd, jointly owned by Charles and Anthony Azzopardi of the Azzopardi Fisheries Group, had become shareholders of GAP in April 2009 when they injected €8 million as new equity into the company after the project fell behind schedule as a result of the delay of the issuance of the Full Development Permit by MEPA. Apart from the €8 million equity injection, at the time the Azzopardi brothers had also provided a further €7 million in additional funding for the company through shareholder loans bearing interest at seven per cent per annum, which is similar to the interest paid on the listed bonds in issue.

Rumours of majority ownership by the Azzopardi brothers had been doing the rounds in recent months but these were never officially confirmed by the company through a stock exchange announcement. The annual report also reveals that shareholders granted additional loans during 2011 amounting to another €7.2 million to the company. However, no mention is made as to which of the shareholders (whether Tigne Skies or GAP Holdings) provided this additional funding.

The report states that the shareholders have already committed to provide additional funding amounting to €12 million by March 2013. The shareholders have already provided €5.85 million in loans in 2012. The notes to the financial statements indicate that this fresh commitment by the shareholders was linked to an extension of the bank borrowings totalling €37 million which now fall due in staggered payments over the course of 2012 and 2013.

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The annual report also reveals that the main sub-contractor of the Fort Cambridge development registered a special privilege on the project for an amount of €8.1 million. This represents the balance due to this sub-contractor as at June 11, 2012. However, this special privilege ranks below the security attached to the bank loans and the bonds.

The company discloses that it received a number of judicial letters from prospective apartment owners who had signed 'promise of sale' agreements with the company in the initial years. These are now requesting a refund of the deposits made together with interest on the basis that the apartments had not been completed by the date stipulated in the agreements. However, the 2011 annual report does not disclose the potential amount of such damages.

The report further states that GAP has outstanding commitments amounting to €14.25 million in relation to the emphyteutical grant entered into with the government for the development of the Fort Cambridge area, in addition to the amounts owed to banks and bondholders in respect of the bonds coming up for redemption within the next 12 months.

Additionally, an update on the status of the reserve account which was originally set up to cover the redemption of the bonds is given. The directors explain that due to delays in the issuance of the development permits, the projections with respect to the reserve account which were set out in the bond prospectus dated March 21, 2007, could not be reached. It was previously estimated that the entire redemption amount of €34.9 million was to be set aside in the reserve account by December 31, 2011, based on the financial projections at the time. However, only €3.6 million had been transferred to the reserve account by the end of last year and €2.2 million of these funds were used to re-purchase bonds on the secondary market. These were subsequently cancelled by the company. Since the start of 2012, a further €4 million bonds have been re-purchased and cancelled, bringing the outstanding bonds in issue and due for redemption on April 30, 2013, to €28.68 million.

The report also reveals that construction works on the 341 apartments was at advanced stage of completion by end of 2011. The South block and East Blocks 1 and 2 were completed in all respects, while only 16 apartments forming part of the West Block and Blocks East 3, 4 and 5 were still being constructed at the time. In December 2011, finishing works on the other apartments were underway. No update has been provided as at the date of the publication of the report in this respect.

However, passersby can see that construction work seems complete and finishes on most of the apartments also seem in the final stages.

Last week's announcement does not provide information on the number of apartments that have been sold and successfully delivered to their owners as well as the number of apartments which are subject to a promise of sale agreement and those which remain unsold.

In previous announcements, the company had indicated that over 215 promise of sale agreements had been entered into. As the company's bonds are coming up for redemption next April, it ought to provide more detailed and timely information to the market as well as its bondholders (amounting to more than 2,200) on the timing of sales, any new developments and the company's bond redemption plans.