Stock Market Review

Dolmen Properties to opt for early bond redemption

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On August 31, Dolmen Properties plc published its 2012 interim results but more importantly it also issued a separate announcement informing the market that it will be redeeming the outstanding balance of its six per cent secured bonds on November 20, 2012.

Dolmen is therefore going for its early redemption option prior to the final maturity date of November 20, 2013. The company had already utilised the early repayment option mechanism two years ago when it redeemed €5.48 million in November 2010 (representing 50 per cent of the original €10.95 million bond issue). It carried out this exercise utilising the excess cash available within the company representing accumulated profits over the years.

Dolmen will now be redeeming the remaining balance of €5.47 million from its available funds within the Sinking Fund as well as new bank financing facilities required to carry out a further refurbishment of the property.

In view of the forthcoming redemption, trading in the bonds will no longer be permitted from October 31, 2012 and bondholders will then receive the final interest payment and the nominal amount of the bonds on November 20, 2012.

Dolmen Properties plc, which is ultimately fully owned by the holding company of the Tumas Group, had launched its bond issue in October 2003. A total of €10.95 million was raised in order to repay the company's bank borrowings at the time and fund a major refurbishment project including the construction of a new floor housing timeshare units.

When the bond was launched nine years ago, it was the first local corporate bond issue which offered a hypothec over property in favour of bondholders. Since then other bond issues were launched with property as security such as those of Pavi Shopping Complex plc and Gap Developments plc.

The financial performance of the Dolmen Hotel has been strong especially in the most recent years. The commencement of operations by the major low-cost carriers to the island as from late 2006 must have helped to contribute to the strong revenue growth over the years. In fact, from a mere 46,000 passenger movements involving low-cost carriers in 2006, this increased to over 1.2 million in 2011 with the market share growing to over 34 per cent of overall passenger volumes.

The enhanced route network both by the legacy airlines and the low-cost carriers would have contributed positively towards the ever-increasing passenger numbers and tourists visiting the island and hotel revenue growth generally. The Dolmen hotel achieved a 10 per cent revenue growth in 2007 to €10.6 million with pre-tax profits rising by 21 per cent to €1.3 million. Since then, overall revenue grew by a further 11.5 per cent over the past four years to a record of €11.8 million in 2011 in line with the record number of passengers travelling to Malta which helped the hotel achieve an occupancy level of over 80 per cent throughout the last financial year.

Profitability also increased over the years but the pre-tax profit of €1.6 million in 2011 is still 30 per cent below the profitability record of 2008 of €2.3 million. The reduced profitability over the past three years is largely due to the higher costs incurred, primarily related to the spike in utility rates. The company also clarified that despite lower consumption over the years through increased efficiency measures, Dolmen still incurred a 30 per cent increase in utility costs since 2009. It is also worth highlighting that utility costs would have shot up by 75 per cent since 2009 had the increased efficiency measures not been put into place by the company.

These included some substantial investments into solar systems as well as replacement of air-conditioning units and boilers. The higher costs evident at Dolmen are also being seen by other tourism establishments and should be taken into consideration when analysing a company's financial performance over recent years. This does not only relate to utility costs but also to fuel costs. Since 2009, Dolmen has also had to incur a 25 per cent increase in fuel costs again despite the efforts made by management to achieve lower consumption.

The strong financial performance and the profit retention policy over the years helped Dolmen consistently rank among the most robust bond issuers. The interest cover was consistently well above 3.5 times since 2006 peaking at over 11 times in 2011 as finance costs declined following the partial bond redemption in late 2010. Likewise, the gearing ratio measuring the extent of debt compared to the company's equity base was consistently stronger than most other local bond issuers. As at December 31, 2011, Dolmen's net debt figure of only €4.9 million compared to shareholders' funds of €25.4 million produced a gearing ratio of 0.2 times or 24 per cent.

While no dividends were distributed to shareholders in the initial years following the bond issue, a small dividend of €82,000 was declared for the 2009 financial year and dividends increased to more substantial figures of over €2.1 million in each of the last two years. The strong performance and the reduced debt burden following the cash accumulation over the years provided the company with the ability to reward its shareholders with healthier dividends in the past two years.

Dolmen Properties is yet another good case study on the advantages of using the bond market as a means of financing. When it launched the bond in 2003, Dolmen diversified away from full exposure to bank borrowing and this increased flexibility also came about by achieving a fixed coupon on a large part of its overall borrowing requirement. The company performance was strong throughout the lifetime of the bond and holders of the Dolmen bond also had the added comfort of a hypothec over the hotel property in the event that the company ran into financial difficulties.

While it is unfortunate that investors will not be given a further possibility of maintaining an exposure to Dolmen Properties since the company will be opting for a cash payment rather than a bond rollover, the early cash redemption is a further indication of the strength of the Tumas Group. This also reflects positively on the other bonds of the Tumas Group in the local financial market. In fact, through Tumas Investments plc, the Tumas Group had issued two bonds totalling €50 million in support of its Portomaso property. The Dolmen success story is tangible evidence of the Tumas Group's ability to consistently honor its annual interest obligations and a capital repayment ahead of schedule.

Such a development at the Dolmen is positive news, generally speaking; however, the early cash redemption poses a problem for investors since they are currently finding it difficult to invest in the bond market due to a lack of supply. As such, a further €5.9 million will become available on November 20 for re-investment elsewhere presumably in lower-yielding investment instruments either locally or overseas.

> **"The early cash redemption is a further indication of the strength of the Tumas Group"**

Dolmen Properties plc

	2006	2007	2008	2009	2010	2011
	€000	€000	€000	€000	€000	€000
Income Statement Extracts						
Revenue	9,641	10,617	11,217	9,933	10,929	11,839
EBITDA	2,693	2,858	3,791	2,867	3,329	2,905
Profit before tax	1,077	1,304	2,334	1,220	1,642	1,584
Profit for the year	890	940	1,645	1,366	1,164	1,428
Balance Sheet Extracts						
Total Assets	44,264	45,693	48,211	50,677	46,705	47,672
Total Cash	2,643	3,986	5,290	6,487	1,999	3,147
Shareholders' Funds	22,959	23,898	25,543	26,826	25,908	25,392
Key Financial Ratios						
EBITDA margin (%)	27.9	26.9	33.8	28.9	30.5	24.5
Interest Cover (times)	3.88	4.46	6.88	4.60	5.12	11.40
Debt to Equity Ratio (times)	0.38	0.30	0.24	0.24	0.23	0.20