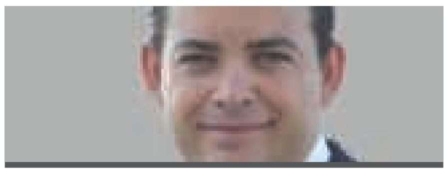
## Stock Market Review

# Continued growth in revenue, profits at PAVI



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| PAVI Shopping Complex plc | Y/E 30.04.08 €000 | Y/E 30.04.09 €000 | Y/E 30.04.10 €000 | Y/E 30.04.11 €000 | Y/E 30.04.12 €000 |
|---|---|---|---|---|---|
| ***Income Statement Extracts*** | | | | | |
| Revenue | 24,395 | 24,948 | 27,665 | 28,832 | 29,873 |
| EBITDA | 1,420 | 1,749 | 1,989 | 2,657 | 2,986 |
| Profit before tax | 388 | 373 | 582 | 1,195 | 1,640 |
| Profit for the year | 237 | 264 | 383 | 786 | 1,071 |
| ***Balance Sheet Extracts*** | | | | | |
| Total Assets | 28,593 | 28,309 | 28,115 | 27,855 | 27,770 |
| Net Debt | 11,918 | 12,622 | 12,527 | 11,882 | 10,691 |
| Shareholders' Funds | 8,520 | 8,783 | 9,121 | 9,155 | 9,128 |
| ***Key Financial Ratios*** | | | | | |
| EBITDA margin (%) | 5.82 | 7.01 | 7.19 | 9.22 | 9.99 |
| Interest Cover (times) | 3.39 | 2.37 | 2.63 | 3.12 | 3.84 |
| Debt to Equity Ratio (times) | 1.40 | 1.44 | 1.37 | 1.30 | 1.17 |

The April 2012 full-year financial statements published by PAVI Shopping Complex on August 31 show a continuing improvement in the company's financial performance.

Unfortunately, companies which had tapped the bond market rather than the equity market get less coverage in the media on developments and trends in financial performance and seem to be given less importance also by bondholders.

However, bondholders and the market at large should also regularly analyse and understand the financial statements of bond issuers to gauge a company's ability to continue to honour its commitments. As such, following the recent articles on GAP Developments plc and Dolmen Properties plc, a brief overview of the financial performance and overall developments at PAVI should provide some useful information to the company's 850-odd bondholders.

PAVI started operating in late 2006 and due to its brief trading record at the time of the launch of the bond issue in October 2007, the bonds were admitted to the Alternative Companies List (the second tier market reserved for younger companies to which a higher degree of risk is normally attached).

The company's financial year runs from May 1 to April 30 and PAVI has now been in operation for five full financial years. The table provides some key figures over the past five years showing a consistent increase in revenue especially as from the 2009-10 financial year. Moreover, the five-year analysis also shows a strong improvement in profitability most notably in the past two years.

During the 12 months ended April 30, 2012, total revenue was just under €30 million with earnings before interest, tax, depreciation and amortisation amounting to almost €3 million. After accounting for depreciation, interest payable to bondholders amounting to €776,000 and taxation of €568,000, the company registered a profit during the year of just over €1 million – a significant improvement compared to the initial years of operation. PAVI's financial performance must also be viewed in the light of the ever-increasing aggressive competition within the supermarket sector which was further accentuated in recent years by the widespread expansion on the popular Lidl chain in Malta in five separate locations.

Over the past two financial years, the company's focus was on seeking to maximise revenue through a number of planned initiatives while maintaining a strict focus on costs. PAVI's management team sought to achieve higher revenue by exploiting the potential of the large shopping complex by enhancing the popular loyalty scheme and improving the customer experience through a focus on added value with an emphasis on pricing. PAVI rolled out various promotional offers on branded products and launched a growing range of 'own label' products through international agreements with the French hypermarket brand Auchan.

The increased footfall experienced by PAVI and the growth in revenue results from the success of these initiatives and other important attributes of the complex. The location of the supermarket which is close to a main arterial road and the ample parking spaces available are two important attributes that must have also contributed to the increased success of the operation. Few supermarkets in Malta can boast more than 500 parking spaces. Moreover, the width of the aisles and the large variety of almost all popular brands provides an important shopping experience to customers.

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PAVI also recently came out with another innovative scheme for the local market by launching its own credit card which was co-branded with Banif Bank (Malta) plc. In a further drive to enhance revenue generation and customer loyalty, users of the card are entitled to double the points on the company's loyalty scheme during the first 12 months from the date of issue providing further benefits to the growing list of PAVI customers. Moreover, unlike other traditional credit cards, no annual fee is applicable on the PAVI credit card.

It is also worth highlighting that the overall income generation of the company was boosted by the rental income from the third-party outlets. However, this is classified as 'other income' and not included in the revenue figures. The various areas available for leasing within the complex proved to be successful over the years as tenants took up the available space attracted by the strong footfall as well as the competitive rates when compared to substantially higher rates of the main shopping districts around the island. Rental income from such areas grew consistently over the years and amounted to over €640,000 in the last full financial year compared to €250,000 in 2008.

Although the company's overall cost base has increased in conjunction with the improved income generation, PAVI also achieved some good progress in reducing operating costs without resorting to any staff redundancies. PAVI's management team embarked on several cost rationalisation efforts, including a review of certain procedures for improved efficiency, outsourcing of certain services as well as utility savings after having performed an energy audit to identify certain key elements for greater utility efficiencies.

Given the size of the property, PAVI is also actively considering a substantial investment in photovoltaic panels to continue to minimise the overall utility costs of running such an operation. However, no final decision has yet been taken by the company's board of directors.

The strong increase in profitability over the years ought to be very comforting for bondholders as the interest cover improved to over 3.8 times in the last financial year. Additionally, the overall level of debt dropped to under €10.7 million giving a gearing ratio of 1.17 times. The improved level of leverage came about from the strong cash flow generation of the company and the success in repurchasing some of the company's bonds.

During the year ended April 30, 2011, PAVI bought back a total of €1.3 million of its bonds reducing the outstanding amount to €10.3 million. However, no further bond repurchases were conducted since then as the bonds remain tightly held and no supply was forthcoming despite the sharp increase in the price.

In view of company's inability to repurchase any further bonds over recent months, the April 30, 2012, annual report indicates that PAVI invested some of its idle cash in just over €300,000 worth of Malta Government Stocks as part of the reserve account set up for the eventual maturity of the bonds.

While some investment services providers may have been somewhat wary of recommending the PAVI bonds at the initial public offering five years' ago possibly also as a result of the demise of the Price Club only a few years earlier, PAVI proved them wrong as the company's focused management team delivered an encouraging and improving financial performance over the years. PAVI bondholders should therefore be pleased by such an improving trend in the financials as this augurs well for the company to continue to honour its commitments also in the coming years.