

Stock Market Review

Highly profitable year for MIH



Edward Rizzo

Edward Rizzo is a director at Rizzo, Farrugia & Co. (Stockbrokers) Ltd.

Mediterranean Investments Holding plc, the joint venture between the Corinthia Group and the National Real Estate Company of Kuwait, is set to generate substantial profits in 2012 from its Palm City development.

After completing the extensive development of Palm City residences in 2010, the company had reached an encouraging occupancy level before the start of the Libyan political turmoil in February 2011. Although various tenants had been contracted for a number of years, the 'force majeure' situation enabled tenants to cancel their contracts with Palm City leading to a very challenging situation for the company. The length of the conflict was difficult to predict and as the situation on the ground became more dangerous, Palm City was also faced with a number of employee resignations. However, a core team led by general manager Melvin Bonnici remained in Libya despite the precarious situation with the aim of securing the valuable asset for the two shareholders of MIH plc.

Thankfully the conflict ended in August 2011 and an extensive marketing strategy for Palm City started in October with an immediate positive response from new tenants as well as some of the older tenants who were determined to return to Libya, especially those involved in the oil and gas sector. By maintaining a human presence during the conflict and securing the property, Palm City clearly had first mover advantage once again as all other competing complexes had been ransacked and left in a very bad state.

MIH tapped the local bond market on three occasions since 2007, with the first two bond issues used to partly fund the Palm City development and the third issue in July 2010 was earmarked to finance the participation in the new Medina Tower high-rise development. The securities market was understandably very concerned about the impact of the political conflict in Libya on the financial position of the company.

Shortly after the start of the conflict on February 17, 2011, the

bond prices of MIH and also those of Corinthia Finance plc and International Hotel Investments plc had dropped well below par value. Some of the MIH bonds traded down to a low of below 80 per cent in April 2011. In view of concerns about the company by many retail and institutional investors, MIH stepped up its communication efforts to keep its bondholders and the market abreast of developments in Libya and the situation at Palm City which was vital for the cash generation of the company to honour its obligations.

With rental income declining rapidly during the conflict, MIH shareholders injected a total of €13.2 million through shareholder loans to enable the company to meet its obligations with some remaining capital creditors of the Palm City development, the banks and also to honour interest payments to bondholders.

Following the publication of its 2011 financial statements on April 26, the company issued an announcement on June 4, updating the market on its performance during the first quarter of 2012. MIH stated that it registered a very significant improvement in performance with revenue of €5.39 million, an operating profit of €4.1 million and a net profit of €2.3 million. MIH noted that the improved performance was a direct reflection of the increased occupancy at the Palm City Residences (which had reached 79 per cent by April).

On June 11, MIH convened a meeting for the 7.15 per cent bondholders to obtain their approval to apply part of the 2010 bond issue proceeds towards the partial reduction of the shareholders' loan of €13.2 million which had been injected towards the end of 2011 in view of the challenging financial situation. The resolution had been approved by bondholders. During the meeting, MIH's managing director Reuben Xuereb provided an update on Palm City and indicated that Palm City is expected to reach revenues of €22 million for the year with an EBITDA generation of €17 million.

MIH published its 2012 half-year results on August 16, revealing a net profit of €4.4 million as revenue climbed to €12.3 million following a surge in occupancy within Palm City which had increased to 82 per cent by the end of June.

To maintain this renewed dialogue with market practitioners, MIH convened a meeting with the financial community earlier this month to provide an update on the financial situation of the company. Mr Xuereb provided unaudited financials for the 10-month period to October 31 and also provided an estimate for company's performance for 2012 as a whole indicating that MIH registered revenues of €21.9 million from Palm City



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during the first 10 months of 2012 and pretax profits of €8.7 million after accounting for finance costs of €7.4 million. Mr Xuereb also indicated that occupancy was expected to reach 95 per cent by the end of the year and the management team estimate that this will enable Palm City to reach overall revenues of over €26.5 million and EBITDA of over €20.5 million throughout 2012. MIH expects to register an improved financial performance in 2013 on practically full occupancy for an entire year as opposed to a gradual increase in occupancy during 2012. This should lift revenues to €31.5 million in 2013 with a forecasted

EBITDA contribution of €25 million.

Mr Xuereb also provided an update on the present tenant mix at Palm City. Long-term tenants with contracts ranging from three to five years now constitute 67 per cent of overall occupancy providing attractive recurring revenue for MIH to meet its bank loan repayments and bond obligations. Almost half of the tenants are involved in the oil and gas sector which is the main industry that has recovered following the end of the revolution. Palm City tenants also include NGOs, diplomats and other companies involved in financial services, airlines, construction, hospitality and others.

MIH chairman Alfred Pisani delved into the company's next project - the Medina Tower development. He confirmed that following the conclusion of the contract with a Turkish company, the final negotiations are now taking place on the M&E tender and with a syndicate of banks for funding of €208 million. The chairman indicated that this project will take four years to complete and he believes that the timing should be ripe for substantial demand for property and commercial activities as the Libyan economy becomes more developed.

MIH are also seeking to carry out a further development in Tripoli, the Palm City Waterfront, on a large tract of land adjacent to the current gated compound. While the residences with the current Palm City complex are presently only for lease, the apartments to be

constructed in the new project are earmarked for sale. The new complex is aimed to be complementary to the Palm City Residences since it will include a boutique hotel, an entertainment centre as well as a 60-berth yacht marina. This new project is estimated to cost a total of €230 million and to fund this investment, MIH is currently conducting presentations with some international institutional investors the aim of which is an equity injection of €100 million.

Given the success of the Corinthia Group with its various activities in Libya over the years, Mr Pisani believes MIH is perfectly positioned to expand in Libya and play a central role in this upcoming vibrant economy. The vast amount of resources available to the country will spearhead the economic development over the coming years. The chairman also mentioned the opportunity for Malta as it is fortunate to be strategically positioned in close proximity to Libya. This presents a huge window of opportunity for the local economy.

The meeting called by MIH proved very fruitful. The strong progress achieved in 2012 should be very comforting to the thousands of bondholders who maintained their loyalty towards the company despite the challenging situation in 2011. Such a frequent and open dialogue should be emulated by all public companies (including bond issuers) to ensure continued loyalty and support from members of the financial community as well as from retail investors.

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