

Stock Market Review

Financials reflect MIA's evolving business model



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The 2012 financial statements of Malta International Airport plc which were published last week portray the evolving business model of the airport operator. The financial statements clearly indicate that the record level of profitability (+2.9 per cent to €19.5 million) resulted from the higher income generated from the retail and property segment as opposed to the airport segment.

During a presentation to financial analysts last week, MIA's chief financial officer Austin Calleja revealed that total revenue from the retail and property segment grew by 11.9 per cent to €14.1 million, contributing 26.7 per cent to overall revenue in line with the initial objective some years ago to achieve at least a 25 per cent share from non-aviation income.

Mr Calleja attributed this increase mainly to the improved performance of the retail outlets (particularly linked with non-EU passengers) and the resultant increase in concession income (+12.9 per cent to €7.1 million) generated by the company from the higher sales performance by these outlets.

Additionally, rental income principally from the aviation parks grew by 23 per cent to €2.4 million with the CFO specifically indicating that there was a very small contribution from the Sky Parks Business Centre as the building became operational during the final quarter of 2012 and few tenants had moved in by year end. Revenue from car parking also increased by 10 per cent to €1.5 million on increased usage brought about by the higher passenger flow throughout the terminal.

The growth in income generated from the retail and property segment helped the company offset the 2.2 per cent drop in income from the airport segment. It may be surprising to some observers that the company failed to generate a higher income from this sector given the 4.1 per cent increase in passenger numbers during 2012 to yet another record.

However, this reveals the effectiveness of the company's airline incentive programme which offers lower regulated fees to airlines to seek higher passenger traffic particularly in the shoulder months. A decrease in ground handling fees was registered as the company granted improved terms to ground handlers to assist them in their operational activities.

MIA's changing business model is not something that took place suddenly but was

a strategic objective of the company quite a few years ago when the decision was taken to extend the terminal by joining the departures and arrivals lounge and creating more space for retail concessions. This investment took place in 2008/9 and the company subsequently decided in 2009 to develop the Sky Parks Business Centre.

During last week's meeting, MIA's chief commercial officer Alan Borg confirmed that Sky Parks has a committed occupancy of 80 per cent with a number of tenants still fitting out their offices and expected to move into the building in the coming weeks. Mr Borg explained that the company aims to increase occupancy to 90 per cent by the end of 2013.

He also highlighted that the importance of this investment to the overall diversification strategy of the company must not be seen solely in the light of the rental income stream from this building but also on the positive effect on other outlets from the increased number of workers within the area and the higher visitor flow to the airport that such a development creates.

This contributes positively to overall spend at various retail and catering outlets assisting tenants and ultimately the company through higher concession income.

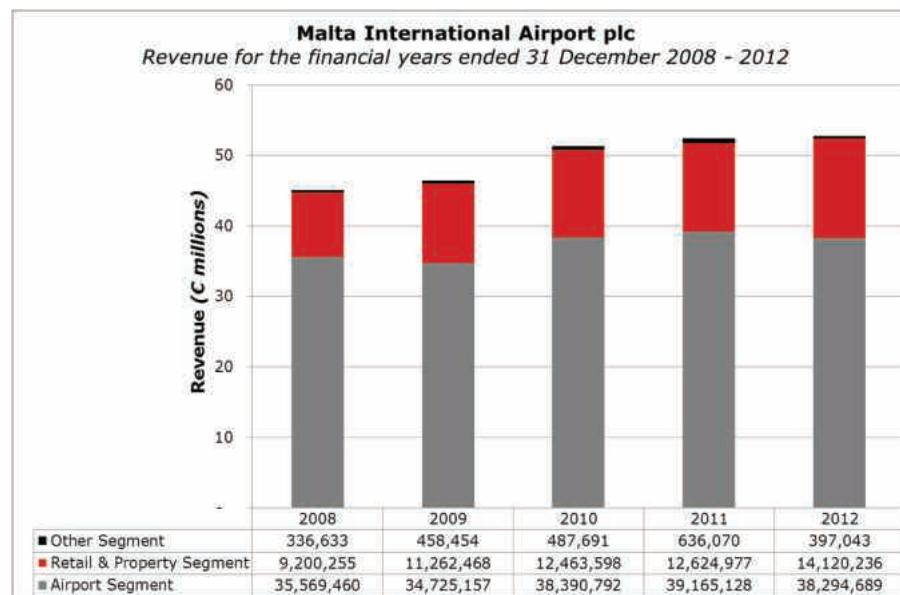
With respect to Sky Parks, MIA's CFO confirmed that the 2012 financial statements show a minor contribution to rental income although the company recognised a full six months' depreciation on the building.

The financial performance of the company during 2012 was also negatively impacted by the increased interest costs related to the project which had been capitalised in previous years. As such, the 2013 financial performance will show a much higher rental income contribution from Sky Parks and the CFO indicated that this should reach circa €2.3 million once the building is fully occupied.

"MIA's aim is to obtain approval on the new master plan which will then enable the company to actively consider the construction of a second property"

To continue to grow the retail and property segment, Mr Borg confirmed that the company is discussing an updated master plan for the entire area surrounding the terminal with the Malta Environment and Planning Authority. MIA's aim is to obtain approval on the new master plan which will then enable the company to actively consider the construction of a second property.

MIA aims to become a focal point for the south of the island and the CFO argued that there is scope for developing another



building. This was also referred to by MIA's chairman Michael Hoeffler during the inauguration of the Sky Parks Business Centre last September. In a recent interview with the online international portal Air Transport News, CEO Markus Klaushofer stated that the company is "considering a second Sky Parks, if we can get the right equation from a business case perspective, to continue building on the excellent decision taken in 2009 to go for the first business centre".

Naturally, the airport operator is not only focusing on the retail and property segment to fuel growth in revenue and profits. The airport segment remains the most important contributor with a contribution over 72 per cent to total revenue. MIA therefore continues in its airline marketing efforts. Such targeted initiatives have been successful over the years and further confirmations for 2013 should contribute to another record in passenger traffic as the company is projecting growth of a further 1.5 per cent.

While existing airlines such as Ryanair have launched new routes, a notable achievement for the company is the confirmation of the new airlines which have started operating to Malta this year. The commencement of operations by Turkish Airlines, Wizzair and Air Baltic are important in the overall strategy of MIA as it seeks growth from Scandinavia, the Baltic countries and eastern Europe. Mr Borg confirmed that Wizzair is the largest low cost carrier in eastern Europe and the company aims to assist this airline to add on further destinations in the coming years.

In the interview, the CEO highlighted eastern Europe and Scandinavia as being two regions "where we see huge potential". Mr Klaushofer explained that while Malta's biggest markets at the moment are the UK, Italy, Germany, France and Spain, increased focus should be placed on eastern Europe, Russia and Ukraine especially in the shoulder months. The difficult weather conditions in such areas contrast with the mild winters in Malta which can

be used to attract increased number of travellers from such regions. However, MIA firstly needs to increase connectivity to such destinations to enable it to take advantage of this situation.

Moreover, it was also revealed last week that ongoing discussions are taking place with cruise operators including TUI to expand the cruise and fly traffic. Mr Borg indicated that besides the current schedule of one home porting activity by TUI, discussions are already taking place with TUI for another cruise ship to use Malta as its home port for summer 2015.

Although some shareholders may be somewhat disappointed that the slight increase in profits was not reflected in higher dividends to shareholders, this decision must be viewed in the context of the significant investments undertaken in recent years mainly to the air terminal and the Sky Parks. The company funded such initiatives through additional bank borrowings which have increased from €52 million in 2008 to €64 million.

However, it was these investments that contributed in a large manner to the higher profitability over recent years. As such, the directors' decision to reduce the dividend payout ratio from as high as 91 per cent in 2008 to 76 per cent in 2012 was a conscious one as the additional retained earnings helped the company achieve a more balanced level of leverage.

Notwithstanding the lower dividend payout ratio, MIA remains among the most consistent dividend-paying companies. The company has distributed dividends to shareholders semi-annually ever since its listing on the Malta Stock Exchange in 2002. Despite the unchanged dividend to shareholders for 2012, positive investor sentiment towards the company translated into strong support for the equity and a new record level for the share price in recent weeks.

The Maltese securities market requires additional success stories of this nature to entice more investors to consider increasing their allocation to quality Maltese companies in their investment portfolios.

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