

Stock Market Review

Public share offering of The Point



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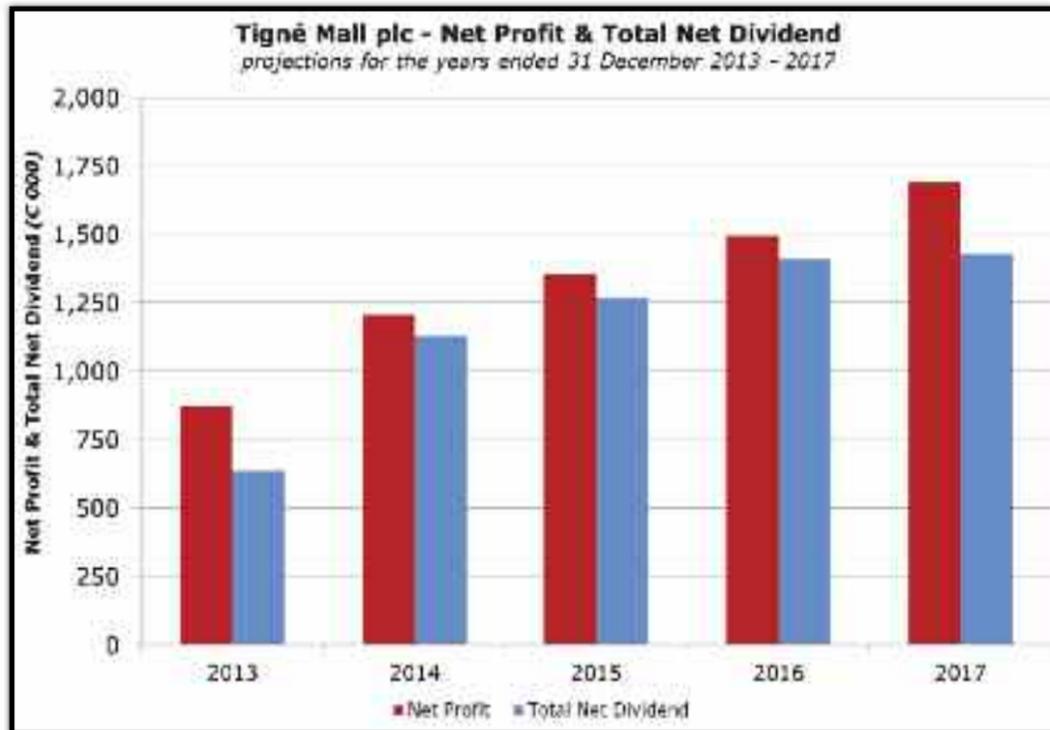
Tigné Mall plc, owner and operator of The Point shopping complex, will soon be among the companies listed on the Malta Stock Exchange's Official List. The share offering's details were made available on March 25, but the market was informed on February 22, when Midi plc formally announced its intention to dispose of all its shareholding in The Point. However, at the time, this transaction was still subject to approval by the Malta Financial Services Authority and Midi shareholders through an extraordinary general meeting on March 22.

The MFSA approved the prospectus submitted by Tigné Mall plc on March 18 while the large majority of Midi's shareholders also voted in favour of the sale of the shares in The Point at the EGM four days' later.

This is the first new equity offering since the issue of shares by Malita Investments plc last summer which had been well-received by the market. Tigné Mall plc will also feature among the property-related companies and this equity offering has similar characteristics to Malita since the company will also be adopting an attractive and sustainable dividend to shareholders (payable on a semi-annual basis) which is a much-sought-after requirement of many local investors.

Tigné Mall's closest peer as well as the major competitor is Plaza Centres plc, which has been listed on the Malta Stock Exchange for 13 years. Since then, Plaza increased its rentable area by circa 50 per cent and improved its profitability and dividends to shareholders almost annually. However, while Plaza has a mix of retail and office facilities, The Point is solely focused on the retail and catering sector as it does not have any office space for rent.

The combined share offering is predominantly an exit strategy for Midi plc to realise its investment in the mall in order to raise funds and qualify for additional bank borrowings to continue the remaining development phases at Tigné Point. The disposal of the 42.4 million shares at a price of €0.50 per share will raise a total of €20.9 million for Midi. The combined offering launched last week also entails the issuance by Tigné Mall plc of an additional 14 million new



shares which will enable the company to partially reduce its existing borrowings from €33.9 million as at December 31, 2012, to €27.4 million. This will reduce the yearly interest payment commitments thereby allowing the company to adopt an aggressive dividend policy favouring income-oriented investors.

The high dividend distribution is being projected in the light of the company's straightforward business model with visible and stable revenue streams given the fact that lease agreements are contracted for the long term (typically between 15 and 20 years) with annual rental increments which as a minimum compensate for inflation. A number of lease agreements also cater for additional rental income for the company should a tenant's turnover exceed a certain level. As such, Tigné Mall plc offers potential for revenue growth from the annual rent revision as well as from those tenants that register improved performances.

Given the visibility over the future financial performance of the company, it was stated in the prospectus that the first dividend is planned to be distributed in April 2014 (being the final dividend for the current year ending December 31) followed by an interim dividend payable in September 2014 subsequent to the publication of the financial results for the first half of 2014.

Based on the offer price of €0.50 per share, the dividend is equivalent to a net yield starting from four per cent in respect of the 2014 financial year rising to over five per cent in respect of the 2017 financial year. The projected dividends to be distributed to shareholders compare very favourably to the current net dividend yields offered by other equities on the market,

including those of other similar property companies.

The combined share offering is supported by a commitment from a strong anchor investor. The prospectus confirms that MSV Life plc, a leading life insurance company in Malta and one of the shareholders in Midi plc, has agreed to purchase 20 million shares which will result in MSV Life holding 35.5 per cent of the eventual total issued share capital of Tigné Mall plc. Furthermore, Bank of Valletta plc has underwritten the offering up to a maximum of 14 million shares. This will materialise only in the event that institutional and retail investors fail to subscribe to the total amount on offer.

“This new offering presents another avenue for income-oriented investors to obtain increased exposure to equities offering sustainable dividends”

The Point comprises 50 retail units spread across a total rentable area amounting to 14,349 square metres. Tigné Mall plc also owns 253 public car spaces, operated by a third party, within the larger development being carried out by Midi plc at Tigné Point.

Tigné Mall plc holds a sub-empyfeutical grant over the property for the next 86 years until June 2099 and the valuation conducted by the independent valuers (KPMG and DeMicoli and Associates)

amounting to €58 million was based on the cash flows expected to be generated by the company during the remaining period of the lease.

The mall started operating in March 2010, and has since seen a consistent increase in visitor flow to the complex with most tenants reporting higher revenue levels. The attractiveness of The Point as a shopping destination is expected to improve further in the near future with the completion of nearby developments, including the residential apartments and office complex being built by Midi plc as well as the many apartments recently completed by Fort Cambridge. The final phases of Tigné Point and the Fort Cambridge development are expected to attract new residents to the area and generate more footfall for The Point in the coming years, potentially translating into more revenue for the tenants and in turn also for the company.

The 50 retail units within The Point are all presently occupied, with Debenhams being the anchor tenant. The Point also hosts a supermarket, a mix of fashion outlets and a number of catering establishments. Moreover, a number of kiosks offering different services are available around the mall, apart from two ATM machines. In a recent meeting with the financial community, during which the official details of the combined offering were disclosed, Tigné Mall plc's CEO Edwin Borg confirmed that the company has a waiting list of other potential tenants wishing to lease space at The Point.

This would enable the company to possibly maintain full occupancy even in the event of a loss of one or more tenants.

The trend within the retail sector has seen a shift from high streets to shopping complexes.

The Point occupies a prominent position beside the largest open piazza in Sliema which has become the major shopping and entertainment destination in Malta. However, the company is dependent on the overall economic well-being of its tenants (especially Debenhams as the anchor tenant which occupies 21 per cent of total rentable area) which is, in turn, linked to the level of macroeconomic activity.

The future financial performance of The Point is therefore vulnerable to any slowdown in economic activity particularly in consumer spending.

Tigné Mall plc is also exposed to interest-rate risk given the fact that the company has a relatively high level of borrowings and the interest rate on such borrowings is not fixed and as a result an increase in market interest rates could lead to higher interest costs and therefore lower profitability levels.

Following the offering of shares, Tigné Mall plc will have a total market capitalisation of €28 million ranking it as the 15th largest company on the MSE.

When compared to the other companies on the MSE operating within the property sector, Tigné Mall plc is larger than the Plaza Centres plc which is currently valued in the market at €15.5 million. On the other hand, the market cap of 'The Point' ranks below Malita Investments plc and MIDI plc valued at €75.5 million and €67.5 million respectively.

The local financial reporting season is now well under way with several companies improving or maintaining dividends to shareholders. Among the companies listed on the MSE, various equities are currently offering attractive dividends, especially when viewed in the context of the current low interest rate environment and resultant low yields on investment-grade Government securities.

As such, this new offering by Tigné Mall plc presents a further avenue for income-oriented investors to obtain increased exposure to equities offering sustainable dividends.

This investment can be considered to be inflation-protected given the annual rental increments as opposed to fixed income instruments. The local capital market needs to attract more offerings to continue to grow in size.

It needs to absorb a larger portion of wealth of Maltese investors who may be more inclined to invest in local companies which are easier to follow and understand as opposed to international companies which can be more complex and at times much more difficult to understand the full extent of the risks involved when investing in such international companies.

Rizzo, Farrugia & Co. (Stockbrokers) Ltd acted as sponsor to Tigné Mall plc.

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