

## Stock Market Review

# MIH generates €20.7 million in pre-tax earnings in 2012



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Last Monday, Mediterranean Investments Holding plc (the joint venture company between the Corinthia Group and the National Real Estate Company of Kuwait) published its financial statements for 2012. This was immediately followed by a meeting with the financial community during which MIH chairman Alfred Pisani provided details of the financial performance and the company's objectives.

Mediterranean Investments Holding currently has only one operational asset (the Palm City Residences in Jazour) and the financial statements reflect the income and expenditure from this lifestyle development in Libya.

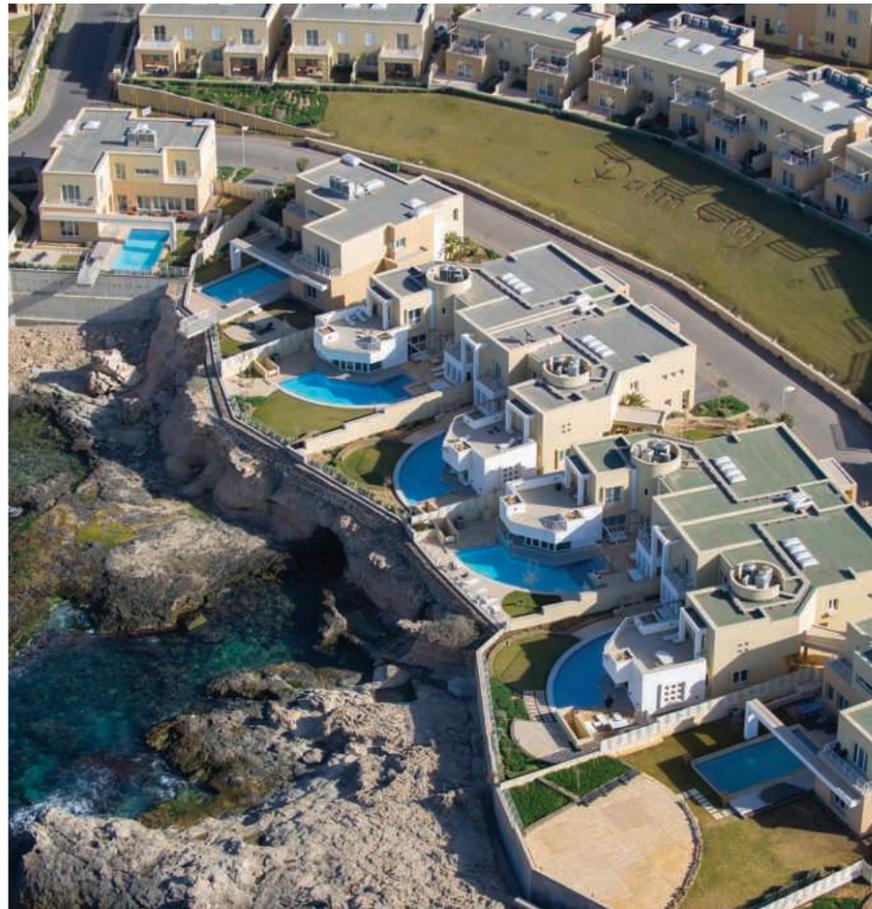
The Palm City Residences development is made up of 413 units (ranging from one-bedroom apartments to four-bedroom detached villas) and the revenue derived by the company comprises the rental income stream from the various residences and income from the other amenities including the restaurant, supermarket and other recreational facilities.

The Palm City residential units are leased to multinational companies and other organisations operating in Libya. During 2012 the average occupancy rate was 79 per cent and the average monthly rate per unit amounted to €6,541 – a significant increase from the level of €4,192 in 2011. The average monthly rate per residence achieved throughout 2012 is also above management projections before the Libyan revolution.

The indications at the time of the last bond issue conducted by MIH in July 2010 indicated an average rate of €5,169. The above-average rates achieved in 2012 reflect the short-term nature of the initial contracts following the revolution and the higher rates that could be justified in view of the lower level of competition as well as some higher costs to manage the complex such as insurance, security personnel etc.

Mr Pisani explained that the level of occupancy increased gradually throughout the year from 71 per cent in the first three months to 93 per cent during Q4 2012 as clients relocated slowly into Libya, reflecting the cautious approach by some international players after the revolution.

Total revenue generated by MIH during 2012 amounted to €27.3 million with earnings before interest, tax, depreciation and amortisation (EBITDA) of €20.8 million. Compared to overall net finance costs of €8.2 million, the interest cover of 2.5 times should be comforting for bondholders especially in view of the structure of lease agree-



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ments, predominantly for the medium- to long-term.

The directors of MIH commented in the 2012 annual report that during the year there was a shift from short-term leases to agreements of a longer-term nature. Clients from the oil and gas sector represent 46 per cent of the overall tenancy mix at Palm City, followed by non-governmental organisations at 27 per cent and embassies at nine per cent. Palm City also has tenants operating within the banking industry, airlines, hospitality, energy, beverage and construction sectors.

### **"MIH should register further growth in revenue and EBITDA during 2013"**

While the presence of NGOs may be considered short-term as the situation in Libya gradually improves following the end of the revolution, MIH managing director Reuben Xuereb explained that Palm City has a strong waiting list with two multinational companies recently requesting up to 85 units for lease should some residences be vacated in the coming months.

The 2012 financial performance was also boosted by a significant uplift to the value of the Palm City Residences. The annual report published by MIH earlier this week indicates that PricewaterhouseCoopers was commis-

sioned to advise on the valuation of Palm City Residences. The value attributed to this development amounted to €310.4 million and the directors opted to recognise the fair value gain and reflect this value in the company's balance sheet as at December 31, 2012. The uplift in the valuation of €56.8 million, reduced to a net amount of €36.1 million after accounting for deferred tax provision of €20.7 million, resulted in MIH reporting a profit after tax for 2012 of €49 million.

The property uplift of Palm City and the strong operational performance also boosted the balance sheet of MIH, with shareholders' funds now amounting to €152.4 million. The higher valuation of the property naturally positively impacted MIH's gearing ratio (net debt divided by net debt plus shareholders' funds), with this now at 45.1 per cent.

Given the build-up in occupancy levels during 2012 and the medium-to-long-term structure of lease agreements, it is evident that MIH should register further growth in revenue and EBITDA during 2013.

The MIH chairman also delved into the immediate priorities for the company. With Palm City now performing very well and the company's executives seeking operational efficiencies to achieve improved profitability levels, the focus has turned to the future business development pipeline.

Development works at the Medina Tower (in which MIH has a 25 per cent equity participation) should commence later this year, with Mr Pisani expecting completion of the

high-rise structure within 40 months. Since the development will be fully funded before construction begins, the chairman explained that none of the 238 apartments will be sold on plan despite the enquiries that have already started to materialise. Mr Pisani stated that this will enable Medina Tower to take advantage of the healthy property prices in Tripoli which have already been evident since the end of the revolution.

MIH will also be focusing on its third project in the coming months. The Palm Waterfront development is intended as a complementary extension to the Palm City Residences and to achieve this, MIH engaged the same Palm City architects for the new project.

The apartments within the Palm Waterfront development will not be leased but are intended to be sold mainly to locals and foreigners alike who have also expressed an interest in purchasing property within Palm City Residences over the years.

The waterfront development also comprises a boutique hotel, a 60-berth yacht marina and entertainment facilities which can also be used by tenants of Palm City Residences. Mr Pisani indicated that the development is expected to cost a total of €220 million and MIH is seeking to raise additional capital and subsequently banking facilities to support this project.

The chairman explained that the relevant planning applications have been submitted and discussions are ongoing with the local authorities with the aim to mobilise preliminary site excavation and construction works by the end of this year.

The MIH chairman also referred to the strength of the two shareholders of MIH (Corinthia Group and the National Real Estate Company of Kuwait) and their commitment to supporting the company during the very challenging times in 2011.

Mr Pisani referred to the additional funding provided by the two shareholders which enabled MIH to honour its commitments with bondholders and other capital creditors who were engaged on the Palm City development.

Part of the shareholders' loan was repaid following the bondholders' meeting convened in June 2012. At last year's meeting, Mr Pisani had also promised that a meeting for all bondholders would take place annually to provide an update on the financial performance of the company and future plans to keep the market updated with ongoing developments in Libya.

The chairman believed that such an initiative was beneficial to make bondholders aware of the company's performance and overall objectives. The meeting which is being held today is expected to be very well attended based on the response received from the bondholders.

Given the successful development and profitable track record to date of the Palm City Residences, coupled with the experience of the Corinthia Group operating in Libya for a long number of years, MIH has the right credentials to remain the leading property development company in Libya.

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