## Stock Market Review

# GHM to distribute excess cash

**Edward Rizzo**

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

*Photo: Enrico Formica*

Grand Harbour Marina plc held its annual meeting with the financial community immediately following the proceedings of the 2012 annual general meeting which was held on June 26. Other local companies normally organise such information sessions shortly after the publication of the full-year results. However, GHM convenes this annual event on the day of the AGM at the Maritime Museum in Vittoriosa. This provided an opportunity for members of the stockbroking community to visit the splendid marina which is usually bustling with activity on a busy summer morning. This year was no different with almost all pontoon berths visibly occupied and many superyachts moored on the outer berths below the historic bastions of Fort St Angelo.

GHM's chairman Lawrence Zammit gave a detailed explanation of the factors that impacted the 2012 financial performance with marina manager Ben Stuart providing further information on the industry in general.

2012 was a positive year for GHM as a superyacht berth sale was concluded in December for €3.1 million helping the company to register pre-tax profits amounting to €1.37 million after accounting for depreciation, finance costs and a diminishing loss from the investment in the Turkish marina.

The topic which is discussed in most detail during the annual sessions with GHM is naturally the pipeline of superyacht berth sales given the lucrative income that such transactions generate for the company. Mr Zammit indicated that the 25-year leases of such berths are viewed as investments by berth owners, similar to the property and financial instruments that such wealthy individuals are normally exposed to. In view of the international economic environment, the chairman acknowledged the difficult circumstances for concluding such deals but he confirmed that discussions with three different potential buyers are currently taking place for berths with varying sizes. Meanwhile, he also disclosed that the option granted to the prospective buyer for last year's berth sale to acquire another berth for €1.8 million was not exercised.

During a brief informal discussion shortly after our meeting with Clive Whiley, the new CEO of GHM's majority shareholder Camper & Nicholsons Marina Investments Ltd, it was evident that different marketing approaches are being studied to increase the awareness of the superyacht berths available at GHM. Mr Whiley, who immediately comes across as a very knowledgeable and experienced person (in fact the CNMIL Annual Report indicates that he is a member of the London Stock Exchange and has 30 years' experience in strategic management positions), explained to me that in his first few months in office, he conducted a strategic review of CNMIL and its different investments and operational activities.

Mr Whiley believes that the attractiveness of basing a high-value yacht within the Grand Harbour fortifications is not being fully exploited. He views the heritage potential of the marina as a major selling point. The CEO of Camper & Nicholsons believes that GHM and its majority shareholder should be adopting different approaches to increase Malta's awareness of its strategic positioning in the Mediterranean to achieve further progress on the sales of berths.

Despite the international economic environment and the length of time required to complete a berth sale, both the chairman of GHM as well as the CEO of Camper & Nicholsons argued that the policy of both GHM and its majority shareholder is to distribute excess cash to shareholders. The timing of the latest dividend is evidence of this understanding. In fact, once the berth sale was concluded in December, GHM's Board of Directors approved a €1.2 million dividend on February 27 and this was subsequently paid on March 15. GHM's Board declared this payment as an interim dividend and opted not to delay the distribution to shareholders until approval at the AGM in June. Both Mr Zammit and Mr Whiley confirmed that the Board will continue to adopt a strategy of timely cash distributions to shareholders once berth sales take place.

> **"Discussions with three different potential buyers are currently taking place for berths with varying sizes"**

Furthermore, Clive Whiley explained that minority shareholders of GHM and other local and international investors looking at such companies ought to understand the specific characteristics of this business model. He explained that, over the years, GHM was successful in this strategy and shareholders ought to be pleased with the cash distributions conducted in 2008 (€0.20 per share), 2010 (€0.075 per share) and 2013 (€0.12 per share). On his part, GHM's chairman noted that the total dividend received since the Initial Public Offering in February 2007 of €0.395 per share equates to a total return of 57.8 per cent on the initial investment when one adds up the dividends and capital growth to date. The market should therefore not overlook the statement made in the CNMIL Annual Report that the current value of the remaining berths held for sale by GHM exceeds €40 million.

While the superyacht berths are an important aspect of GHM's business model, the rental income from the pontoon berths and revenue from visiting superyachts during both the winter and summer months are also important for the company.

Shareholders should be pleased that GHM generated €2.8 million in income from pontoon fees and other ancillary services representing an 11 per cent increase over the previous year's figure and a considerable jump from the revenue of a few years before. This is due to the continued full occupancy of the pontoon berths mainly from local boat owners and the increase in rates which took place on an annual basis in recent years. While pontoon berths are likely to remain fully occupied given the current lack of space from the growing number of boat owners, GHM's chairman acknowledged the fact that it would be very difficult to continue raising pontoon fees to the same extent on a yearly basis.

On his part, Mr Stuart spoke about the efforts to improve superyacht visits for short periods of time mainly by marketing Malta as a logistical stop for refueling and maintenance works. He argued that the various repeat visitors over the years is proof of the quality of the work and the amenities available for berth owners and the crew. Mr Stuart and also GHM's chairman argued that although a phased development will possibly take place in due course on the site of the former shipbuilding company following an expression of interest by the Government, the improved ancillary services possibly including dry-stacking facilities could increase GHM's attraction for such purposes.

GHM's executives were also questioned about the utilisation of the cash resources held by the company. The chairman re-iterated that GHM would be interested in the eventuality that the Government would issue a tender for a yacht marina within Dock 1. This is a natural extension for GHM given the investment already undertaken within the Vittoriosa marina over the years.

Apart from the possibility of extending the present berths to include the water space within Dock 1, Mr Zammit indicated that there are possibly two other areas in Malta where GHM would be interested in expanding its presence and managing such marina activities. However, no further details on these specific locations were provided during the meeting.

In March 2011, GHM had diverted some of the bond proceeds to purchase a 45 per cent stake in the Cesme marina in Turkey. Although this asset is still not profitable, the operational performance is improving and the chairman expects a contribution to GHM's financial performance as from 2014 with dividends receivable in future years. Mr Zammit, however, acknowledged that the performance of this marina to date is not as initially expected mainly due to lower revenues arising from weaker-than-expected occupancy levels, higher labour costs than originally envisaged and the higher depreciation following the recent construction of an extension to the breakwater. More importantly, GHM's chairman disclosed that the two equity partners in this development are aiming to start discussions with the relevant authorities to obtain a lease extension which currently runs until 2034. Mr Zammit argued that this would be a very important development for GHM and its Turkish partner.

Given the volatility in earnings due to the timing of berth sales and hence the erratic dividend distributions, this investment must be viewed with a medium to long-term vision and the possibility of sizeable cash dividends to shareholders once superyacht berth sales materialise. GHM must seek to better promote its location and heritage value to aim to expedite such berth sales in the coming years.