Stock Market Review

Tigné Mall announces maiden dividend

Edward Rizzo

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

Photo: Chris Sant Fournier

Tigné Mall plc, the owner and operator of The Point shopping mall, published its 2013 annual financial statements earlier this week.

The company's shares were listed on the Malta Stock Exchange in May 2013 following a combined offering which saw its previous shareholder, the Midi Group, dispose of its entire shareholding in the company.

MSV Life plc is the single largest shareholder followed by another two institutional investors (HSBC Bank Malta plc as custodian for its life assurance arm and Bank of Valletta plc). The offering was an attractive proposition for institutional investors given the company's business model and dividend payment policy.

In line with the indications given at the time of last year's offering, Tigné Mall announced its maiden dividend to shareholders. The directors confirmed in this week's announcement that it is recommending the payment of a net dividend of €0.0125 per share (equivalent to €705,000) at the upcoming annual general meeting due on June 19. The dividend is payable to shareholders as at close of trading on May 15.

It is noteworthy that the 2013 final dividend being proposed is 10 per cent above that estimated at the time of last year's Initial Public Offering and follows from a better-than-expected financial performance. In fact, pre-tax profits of €1.9 million are 12 per cent above the projections in the prospectus published last May.

In a telephone interview conducted shortly after the publication of the company announcement, the CEO of Tigné Mall, Edwin Borg, explained that the improved performance resulted from a combination of higher revenue generated from the 'turnover top-up' mechanism at a number of outlets, lower cost of sales, and lower-than-expected finance costs.

Finance costs declined due to repayment of some debt earlier than anticipated as a result of the company's strong cashflow as well as from the reduction in interest rates. In fact, the total debt as at December 31, 2013, of €25.56 million is below projections and almost equivalent to that anticipated as at the end of 2014.

The 2013 final dividend translates into a net yield of 2.39 per cent per annum (3.68 per cent before tax) based on the current market price of €0.523. However, currently, this yield cannot be compared to other equities since this is the initial dividend and the company's policy stipulates a semi-annual dividend for shareholders. In fact, Tigné Mall plans to declare an interim dividend in August each year based on the company's performance during the first half of their financial year to June 30.

If one were to compare the dividend on Tigné Mall shares over a calendar year rather than on the basis of a financial year as is the norm, the dividend recommended earlier this week coupled with the expected dividend in August 2014 amounts to approximately €1.125 million or €0.0199 per share. This would translate into a net yield of 3.80 per cent per annum or 5.85 per cent before tax, based on the current share price.

Dividends to shareholders are expected to increase further in the coming years on the basis of higher revenue and a further decline in borrowings.

In the prospectus issued last year, the company had published its financial projections until 2017 showing pre-tax profits rising to €2.9 million (compared to €1.9 million in 2013) and dividends rising to €1.4 million in 2016 and 2017. This would produce a net yield of 4.74 per cent per annum (gross yield of 7.30 per cent) based on the current market price of €0.523 per share.

If the company manages to meet its projections, the yield on Tigné Mall's equity would be in excess of the current yields of both Malita Investments plc (6.5%) and Plaza Centres plc (6.2%) – the two property companies having similar characteristics and business models to Tigné Mall. However, from 2017 onwards, the financial performance of Tigné Mall and dividend distribution to shareholders are expected to move in line with inflationary trends.

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The CEO of Tigné Mall also confirmed that the shopping complex maintained full occupancy throughout the year. Moreover, the overall revenue registered by tenants exceeded expectations as footfall grew by 15 per cent to 2.3 million visitors.

The Point has a total rentable area covering 14,349 square metres spread across 50 retail units. Debenhams is the anchor tenant occupying 2,600 square metres. The complex also has a number of kiosks offering different products and offerings.

The bulk of revenue is generated from the leases of the retail outlets. Leases typically cover a term of between 15 and 20 years. Tenants pay an annual base rent with rates varying depending on the size and location of the outlet within the shopping mall.

Moreover, 74% of tenants are also charged turnover rents comprising an additional rental fee when a certain level of turnover generated by the respective tenant is exceeded. The base rents are subject to annual review, thereby ensuring a consistent level of growth in such rents at least in line with inflation.

Tigné Mall also derives revenue from the 253 car spaces forming part of the larger car parking facilities in Tigné Point.

Tigné Mall can best be compared to Plaza Centres given the identical business model. However, the rentable area of The Point is larger than Plaza's at 10,600 square metres, but the rental income generated per square metre of both complexes cannot be compared.

While The Point only offers leases for retail and catering outlets, the Plaza is more of a mixed-use complex also comprising a large area dedicated to office space and this is leased at a rate which is substantially below retail leases.

Both locations are, however, benefitting from the increased footfall being experienced in the Sliema area. This is expected to continue to improve in the near future with the completion of the final two blocks of residential apartments in Tigné Point and the large office complex, as well as the nearby Fort Cambridge residential block.

Increased business activity for the tenants of both shopping malls is beneficial to both companies as they have various lease agreements based on revenue generation. The tourism sector is also important for such companies and the recent boom in tourism numbers has surely played a big role in the increased footfall registered in recent years.

Organic growth opportunities are limited for both companies given physical limitations of expansion. As such, both Tigné Mall and Plaza would need to seek expansion through outright property acquisitions or management contracts of similar or complementary third party properties. Property acquisitions may require equity and/or debt funding requirements given their present financial position. Since investors are attracted towards these companies for their dividend sustainability and earnings visibility, such acquisitions should only be considered if they would not negatively impact dividends to shareholders.

The recent success stories of both Malita Investments plc and Tigné Mall plc in meeting expectations should encourage other similar property-related companies to also consider a Stock Exchange listing. A growing number of publicly-traded companies are necessary to continue to deepen our local stock exchange.

Recent statistics indicate a growing number of investors seeking alternative investment opportunities. Creating new equity and/or debt investment opportunities is therefore fundamental to encourage investors to favour local investments over those available across international markets.

On its part, the government of Malta would do well to hold discussions with the industry stakeholders and potential companies to understand the reasons for the slow progress being registered in this respect and to consider fiscal incentives to expedite this development for the benefit of the local economy.