

## Stock Market Review

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# New Gasan bonds at 6% per annum

## 5th bond issue since 1994

**G**asan Finance Company plc recently announced a new €15 million bond issue at a rate of six per cent per annum. The new bonds have a final maturity date of May 31, 2016 but the company may opt for early redemption as from May 31, 2014. Although the bonds are unsecured and not guaranteed by Gasan Group Ltd., investors should bear in mind that the issuer of the bonds, GFC, owns the Gasan Centre in Mriehel and a number of properties at Il-Piazzetta in Sliema.

The rental income received from these premises is sufficient to cover the yearly interest payments both on the bonds and on other borrowings. In fact during 2008, rental income and interest receivable amounted to over €2 million against €1.1 million in interest payments.

The interest cover is expected to rise in 2009 on increased rental income from new additional rental space at the Gasan Centre with the Directors projecting revenue from rents to rise by 58 per cent to €1.6 million in 2009. Joe Gasan, chairman of GFC and the Gasan Group, explained during the briefing for stockbrokers held on April 2 that a new additional floor was added to the Gasan Centre in the second half of 2008 to cater for the increased requirements of Melita plc.

This is the fifth bond issue by Gasan since 1994 and just over 50 per cent of the proceeds from the new bond issue will be used to repay the 6.4 per cent bonds which are earmarked for redemption in the coming weeks. The balance will be used for the general funding purposes of the Group and also to refinance part of the Group's bank borrowings.

Although the rate on the new bonds is 40 basis points lower than the current bond, a large part of the 4,000 bondholders are very likely to accept the new terms and seek to continue having an exposure to this well-respected family organization. There are currently a total of €10.8 million in issue of the present 6.4 per cent Gasan bonds, and if all bondholders maintain their exposure to Gasan, only €9.2 million will be available to new investors – a relatively small amount given the current demand for local fixed income securities.

The lucrative sale of the Group's Melita plc shareholding in 2007 which Mr Gasan recently described in a newspaper interview as the most remarkable moment of the Group's history, generated a handsome profit of €63.4 million. This transaction boosted the Group's cash position and placed it in an enviable position with a very healthy



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liquidity cushion. In fact the gearing ratio of the Gasan Group improved substantially from previous years to only 0.7 times in 2007, the least-leveraged among local corporate bond issuers.

Mr Gasan explained that although the healthy cash position would have enabled the company to repay bondholders, the decision was taken to issue another bond. The company believes that maintaining a listing will provide added flexibility in view of other projects earmarked by the Gasan Group for development - Townsquare and Il-Piazzetta, both of which are situated in the heart of Sliema.

Although the bond is being issued by GFC and does not have the corporate guarantee of the Group parent company, Mr Gasan reassured stockbrokers that the financial statements of Gasan Group Ltd. will be published on a yearly basis by the end of May so as to enable market participants and individual investors to analyse the performance of the Group in a timely manner. This is a very commendable initiative despite there not being obliged to do so by the Listing Rules.

Regrettably, other companies whose bonds are not guaranteed by their parent company choose to only publish their finance company accounts via the Malta Stock Exchange and this does not prove sufficient information to analyse the performance of the Group. Moreover, corporate bond issuers should keep the market regularly informed on their performance and strategy by organising meetings for stockbrokers and possibly also for bondholders. This will ensure maximum transparency for investors and maintain a regular flow of commu-

nication making it easier for the company to tap the market again if the necessity arises at a future date.

During the briefing on April 2, Mr Gasan gave a brief overview on the current business initiatives being undertaken. The Gasan Group is mainly involved in four sectors: (i) automotive; (ii) engineering; (iii) property; and (iv) insurance via its 50 per cent shareholding in Gasan-Mamo Insurance Ltd. Mr Gasan stressed that the aim is to remain focused on these core sectors. Apart from consolidating current investments, new initiatives include the setting up of Mazda and Volvo dealerships in Libya together with an established Austrian company and selected local joint-venture property developments.

Mr Gasan announced that together with the Tumas Group, it is currently developing an 18,000 sqm site in Marsascala into a 150-apartment complex which incorporates a shopping centre and parking facilities as well as a leisure centre and swimming pool. Tumas and Gasan also recently purchased a large plot of land next to the Gasan Centre in Mriehel. The new area, which measures over 10,000 sqm, is earmarked for development into a business centre. The Mriehel area is becoming a very sought-after location with the business community and should provide much-needed up-market offices to satisfy the growing demand from many companies

including international ones setting up in Malta.

Existing Gasan bondholders should have received an explanatory letter on April 8 together with an application form directly from Gasan to enable them to switch their bonds into the new six per cent issue. Existing holders of the 6.4 per cent Gasan bonds must submit their applications by April 22 since they are being given preference in the allocation up to the amount of bonds currently held and rounded up to the reserved portion. If existing bondholders wish to invest more than they currently own, a separate application form must be submitted either via the pre-placement on April 24 (minimum €10,000) or during the offer period as from April 27 (minimum €1,000).

Those holders of the 6.4 per cent bonds who do not opt to reinvest are expected receive the full amount of their capital in the coming weeks together with interest covering the period from the last payment date on November 31, 2008. This is the third local corporate bond issue this year indicating that 2009 may well be a very active year for the bond market with other offerings expected in the coming weeks and months. The Gasan name is among the most respected corporate names in Malta and new investors should feel comfortable in placing some of their savings in the new six per cent Gasan bonds.

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