Edward Rizzo

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Island Hotels Group 'going public'

Offer of 8.3 million shares at €1 each and €14 million 10-year bonds at 6.5%

The Island Hotels Group undertook a restructuring exercise in recent months and as part of its plans to list on the Malta Stock Exchange investors have the opportunity to participate in a €14 million 10-year bond at a rate of 6.5 per cent per annum and an offer of 8,383,300 shares by one of its founder shareholders Vassallo Builders Group. Essentially following the Initial Public Offering and the bond offer, Vassallo Builders Group will be realising its investment in the group and the proceeds estimated at circa €24 million will be applied to its benefit.

On the other hand, the other founder shareholders, the Zahra family, will increase their equity stake in the group from 50 per cent to 75 per cent. The remaining shares will be held by Gary Neville and Ryan Giggs who have subscribed to a 3.1 per cent shareholding each with the balance of 17.5 per cent (6.1 million shares) in the hands of public subscribers.

IHG Holdings plc Key Figures & Financial Indicators	RESTATED 12 months 31 Oct 2006 €000	RESTATED 12 months 31 Oct 2007 €000	RESTATED 12 months 31 Oct 2008 €000
Revenue	**28,726**	**34,896**	**37,510**
EBITDA	**5,925**	**9,565**	**10,930**
Net Interest Expense	(2,306)	(2,526)	(2,574)
Profit /(Loss) before tax	**464**	**4,287**	**4,840**
Profit/ (Loss) for the year	**667**	**3,431**	**3,948**
Restructuring Adjustments	0	0	(1,100)
Profit/ (Loss) for the year after restructuring	**667**	**3,431**	**2,848**
Earnings per Share	€0.019	€0.097	€0.081
Total Assets	90,049	91,285	126,306*
Total Cash	1,285	1,862	5,692*
Net Debt	48,338	45,753	60,323*
Shareholders' Funds	16,886	19,954	35,269*
EBITDA margin	20.6%	27.4%	29.1%
Return on Equity	3.9%	17.2%	8.1%
Return on Assets	0.5%	4.7%	3.8%
Interest Cover (times)	**1.40**	**2.58**	**3.02**
Gearing (Net Debt/Equity)	2.86	2.14	1.71
Offer Price per Share	€1.00	€1.00	€1.00
Price to Earnings Ratio	**52.9**	**10.3**	**12.4**
Price to Book Value	**2.09**	**1.77**	**1.00**
Enterprise Value	83,607	78,022	95,592
EV / EBITDA	**14.1**	**8.2**	**8.7**

**Adjusted to also reflect the impact of the restructuring exercise in July and August 2009*

ISLAND HOTELS
GROUP HOLDINGS PLC

The Island Hotels Group has been operating for 22 years and today owns and manages three hotels namely: (i) the Coastline Hotel, (ii) Radisson BLU St.Julians and (iii) the Radisson BLU Golden Sands. While the Coastline and the St Julians properties are fully owned by the group, the Golden Sands is jointly owned with an international specialist in vacation ownership. Island Hotels also has a 50 per cent equity stake in Azure Group which focuses on the selling of vacation ownership (time-share). The group also fully owns Island Caterers Limited which operates in the events catering market. As part of the restructuring exercise a new holding company, Island Hotels Group Holdings plc, was created on August 21, 2009 and essentially investors will be acquiring shares in this holding company.

The group's focus is currently on vacation ownership channeled to the Golden Sands Resort. Their flagship property and the revenue from vacation ownership are the most important contributors to the group and in the last full financial year ended October 31, 2008, these revenue items accounted for almost half of IHG's total revenue of €37.5 million. The attractiveness of vacation ownership is the annual fee structure which provides a stable source of revenue to the group. IHG plans to extend the success of this specialised market activity to the Ħal Ferħ development, which is in very close proximity to the Golden Sands Resort.

The Island Hotels Group were the only bidders for the development of land and property at Ħal-Ferħ following a tender issued by the Government of Malta on March 20, 2009. The prospectus dated August 28, 2009 published in connection with the IPO does not disclose whether the group was finally awarded this tender. In this eventuality, IHG will increase the room stock and at the same time enhance room choice and holiday type for the vacation ownership business.

Over the coming years, IHG also plans to fully refurbish and extend the Coastline Hotel by 100 rooms and relaunch the hotel under an international brand. Works are expected to commence once the current fixed contracts expire in December 2011. The Coastline Hotel has a three-year contract with a leading international tour operator SAGA Holidays Limited and two local language schools. These contracts are securing a stable source of income to the group since they established a certain occupancy level throughout the year and these contracts have reportedly resulted in a strong upturn in the contribution from this hotel. The Coastline Hotel extension is expected to be completed by December 2012 with a total investment of €11 million.

IHG also plans to refurbish the main areas of the Radisson BLU St Julians and extend its conference facilities which will include a new car park for an estimated cost of a further €6 million. These capital expenditure requirements are aside from the possible Ħal Ferħ tender and the redevelopment of the area together with future opportunities for expansion as detailed in the document published in connection with the IPO. Given that IHG has a gearing ratio of 1.6 times as at July 31 2009 (€35.3 million in share capital and €60.3 million as net debt), this future capital expenditure would require Island Hotels to increase its equity capital base as well as its overall debt.

The jewel in the group's crown is the Golden Sands Resort and its focus on vacation ownership business. Since the opening of the Golden Sands in November 2005, the Island Hotels Group saw its pre-tax profits jump to €4.3 million in 2007 and €4.8 million in 2008 from only €0.46 million in 2006. Meanwhile in the first six months of their current financial year to April 30, 2009, IHG generated total revenue of €11.6 million (-15.5 per cent) and incurred a pre-tax loss of €1.3 million. As with all tourism-related companies, IHG's financials are very seasonal and are dependent on the numbers during the second half of their financial year.

While the current tourism downturn has impacted the St Julian's property, the contracts at the Coastline Hotel and the steady source of income from vacation ownership and the Golden Sands helped mitigate the full extent of the decline in tourism. The effect on the St Julians Hotel was particularly felt since it was mainly dependent on tour operator business while its conference facilities were weaker than those of its various competing properties in close proximity.

The group has been attributed a value of €95.6 million and as indicated above this is represented by €35.3 million in share capital and €60.3 million as net debt. Compared to last year's EBITDA of €10.9 million, the EV/EBITDA multiple (a common indicator used in the industry) works out at 8.7 times.

During a presentation made by IHG explaining this flotation exercise, CEO Winston Zahra Jr highlighted the importance of the new public status of the company and their reasons for obtaining a listing on the Malta Stock Exchange. The new CEO of IHG remarked that becoming a plc will enable the group to tap the market in the future when suitable opportunities for growth arise helping Island Hotels to expand further both locally and internationally. In the process this will provide investors with additional opportunities to share in the success of the company. The shift from a traditional family company to a more open corporate entity is imperative when seeking potential future international strategic investors.

In our view, the public status of the Corinthia Group subsidiary International Hotel Investments plc was instrumental when it succeeded in attracting a number of Middle Eastern high net worth individuals as well as the Dubai-based Nakheel Hotels. Other reasons mentioned by Mr Zahra included the introduction of appropriate corporate governance structures which can only be beneficial to the long-term growth for the company and its various stakeholders.

The success achieved by Island Hotels in converting the group to public status and listing its equity and bonds on the Malta Stock Exchange should attract other local family owned companies to move in this direction. This will not only be for their long-term benefit but will also provide more depth and new investment opportunities for the local investment community.

> **"The jewel in the group's crown is the Golden Sands Resort and its focus on vacation ownership business."**