

Stock Market Review

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Melita Capital launches seven-year bond issue

Coupon of 7.15 per cent with interest payable semi-annually

Melita Capital plc is tapping the stockmarket with a €25 million bond issue. The seven-year bond issue carries a coupon of 7.15 per cent per annum payable semi-annually in March and September.

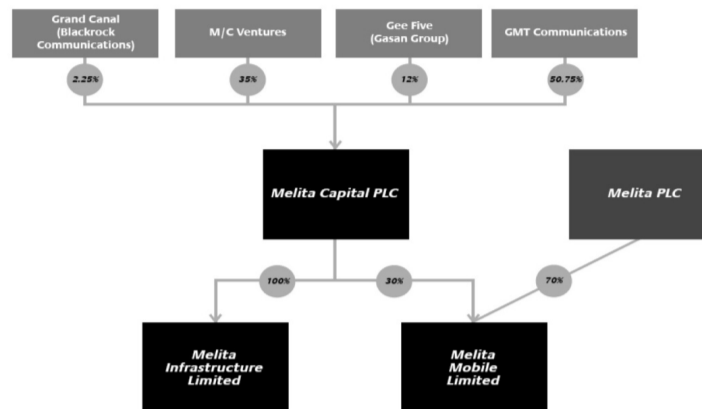
Although Melita plc (formerly Melita Cable) does not have any shareholding in Melita Capital plc, the latter company was set up in July 2009 by the same shareholders of Melita plc. The company was incorporated for the purpose of serving as the financing vehicle of this bond issue, the proceeds of which shall be utilised to fund new business initiatives, namely, 3G mobile services and wholesale voice and data services connectivity between Malta and Sicily.

The shareholders of Melita Capital plc and Melita plc include three leading investment firms in the telecoms sector. Melita plc was originally co-founded by the Gasan Group in 1992 and, following the leveraged buyout conducted in 2007, these three private equity and venture capital firms currently own 88 per cent of Melita plc and Melita Capital plc with the Gasan Group holding the remaining 12 per cent shareholding.

GMT Communications Partners is Melita's largest shareholder with a 50.75 per cent equity stake. GMT is Europe's longest-established private equity firm specialising in the telecommunications field and since inception in 1993 it has been involved in 28 investments across 18 countries. On the other hand, M/C Venture Partners owns 35 per cent of Melita and is a venture capital firm focused solely on the communications, media and IT sectors. Over the years M/C invested over \$1.8 billion. The third international investor is Blackrock Communications which specialises in mobile services. The experience of these three high-profile shareholders together with the local expertise of the Gasan Group should comfort bondholders on the company's ability to succeed in these new areas of the telecommunications sector.

The main purpose of the bond issue is to replace the project finance facilities raised by Melita and to facilitate future financing needs specifically related to the expected growth in its mobile operation.

Melita Capital fully owns Melita Infrastructure Ltd and also holds a 30 per cent shareholding in Melita



Mobile Ltd, the subsidiary set-up to act as the third mobile provider in Malta. Melita Infrastructure was responsible for the recent laying of the submarine fibre optic cable between Malta and Sicily.

Shortly after acquiring Melita plc in 2007, the new international investors decided to lay their own cable to provide the necessary bandwidth to Melita's numerous customers. Until the cable became operational a few weeks ago, Melita purchased its bandwidth requirements from the other two local providers, Go and Vodafone Malta. A total of €10 million was invested in the submarine cable and €7.5 million of the bond issue proceeds will be used to refinance the project funding loan drawn from a local bank.

The attractiveness of this submarine cable is that it provides Melita Capital with a secure and growing cash inflow which should reassure bondholders of the required funds needed to finance the twice yearly interest payments on the bond issue. The cable is leased for a seven-year term to Melita plc to provide bandwidth to its internet customers.

Melita plc is the largest internet service provider in Malta with a market share exceeding 50 per cent. While the revenues to be earned by Melita Infrastructure are dependent on the amount of bandwidth required, according to GMT's executive Sebastian Sipp, Melita Infrastructure is expected to generate €3.3 million revenue in 2010 from its current agreement with Melita based on current usage. While Melita plc currently is the only customer of Melita Infrastructure, the company intends to actively promote its services to attract other users.

In fact, during the recent stockbrokers' briefing, it was revealed that

Melita was awarded a tender to provide connectivity to the University of Malta. This tender was conducted via the Cambridge-based Dante, an EU-funded institution, enabling the university to participate in an internet network serving Europe's research and education community. The contract is in the final stages of being formally ratified which should result in a total project value of €1.5 million for the three-year term.

With respect to the mobile investment, Gary Quin, a director of Melita Capital and CEO of Blackrock Communications, explained that Malta's mobile penetration of 93 per cent currently falls below the European average at circa 128 per cent. Given the increased usage of the internet from various devices such as data phones and laptops, Mr Quin explained that Malta's penetration rate should exceed the 100 per cent level in the coming years. Since its launch in February 2009, the mobile arm experienced a higher rate of growth than envisaged and with the large majority of its 25,000 customer base having opted for a post-paid plan, the subscriber acquisition costs are greater due to the subsidisation of the handset.

The Blackrock CEO was quick to highlight the company's experience in launching similar mobile operations across the world with market dynamics similar to those in Malta. Most of the previous mobile company launches were also in markets which had been dominated by some of the more established brands such as Vodafone, AT&T and Cable & Wireless. Despite the strong presence of Malta's other mobile companies, Mr Quin confidently indicated that Melita Mobile aims to achieve a 20 per cent market share in the medium term. Although the company has only recently begun operations and will incur a loss in 2009 due to the heavy start-up costs,

Melita Mobile aims to generate a positive EBITDA of €3.6 million by 2011.

The Melita shareholders including the Gasan Group have shown a strong support to these new investments. This is represented by common equity and subordinated shareholders loans (quasi-equity) totalling €31.5 million. Meanwhile, the net debt position of Melita Infrastructure and Melita Mobile will amount to circa €26 million after the bond issue, giving a gearing ratio of 0.83 times. The borrowings of these two companies will be restricted to the €30 million bond issued by Melita Capital and banking facilities for working capital requirements of up to €6.7 million.

The Melita Capital bond will obtain a listing on the Alternative Companies List, normally associated with companies carrying a higher risk. However, the revenue from Melita Infrastructure is mostly dependent on Melita plc, which has a successful track record and is currently the largest internet service provider in Malta with a market share exceeding 50 per cent. Moreover, the recent strong levels of profitability of Melita plc with a pre-tax profit of €8.8 million in 2008 sustains the claims by the representatives of two of the private equity firms that the new businesses are backed by solid fundamentals of Melita plc.

While concluding the stockbrokers' briefing, Gary Quin stated that this new bond issue gives investors the opportunity to invest in a company which is also enabling the Maltese islands in becoming an information society, thus facilitating further foreign direct investment in certain important economic sectors. Mr Quin also mentioned that the Melita Capital bond offers investors to gain exposure to a new sector in their portfolio since these are the first bonds on the local market issued by a telecoms company.

Most recent issues came from companies operating in the tourism and property sectors. This sector diversification is important given the current economic climate since the telecoms business is normally classified as a defensive sector associated with stable revenues even during a recessionary environment. This added diversification within the corporate bond market is an important element in the further development of the local stockmarket.

Rizzo, Farrugia & Co acted as sponsor to the Melita Capital plc bond issue.

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