

Stock Market Review



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GHM first to tap the bond market in 2010

€10 million bond issue at a coupon of 7% per annum

Grand Harbour Marina plc, which became a public company on January 12, 2007 ahead of its initial public offering in February 2007, is the first company to tap the bond market in 2010 through an offering of €10 million bonds at a coupon of seven per cent per annum. The bonds, which will be listed on the official list of the Malta Stock Exchange, are redeemable between 2017 and 2020 and interest is payable semi-annually on February 25 and August 25.

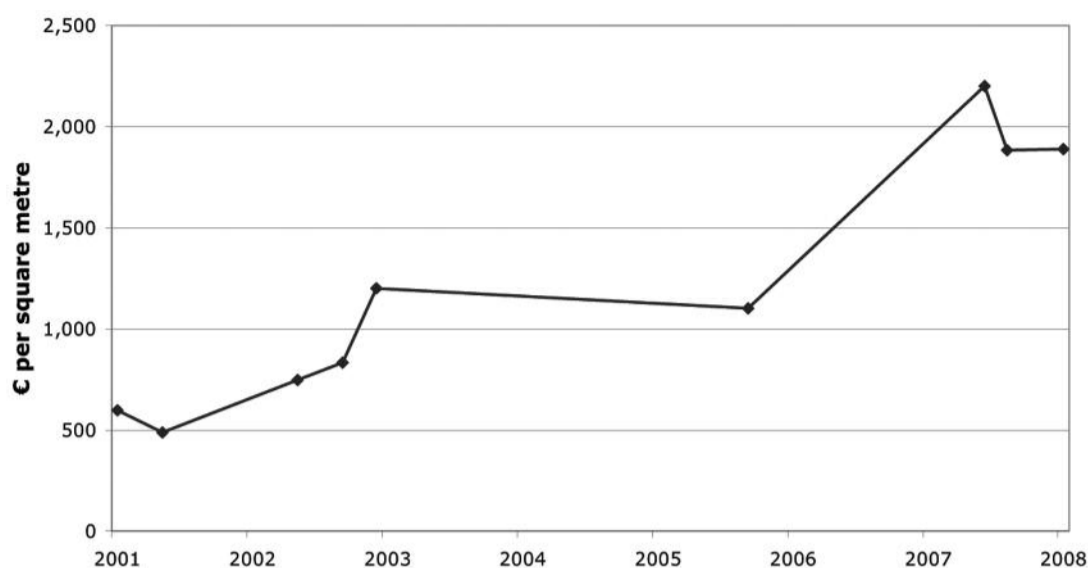
Following the 2007 IPO and the acquisition of majority control by Camper & Nicholson's Marina Investments Ltd (CNMI) shortly afterwards, the company is now offering investors an opportunity to invest in the company through a bond offering.

The bond issue proceeds are earmarked to repay the company's outstanding bank loan with HSBC Bank Malta plc amounting to €3.8 million, with the balance to be used for reconfiguring some of the super-yacht berths within the marina (subject to planning approval), further investment in the surrounding areas and potentially new marina initiatives either locally or internationally, possibly in conjunction with its majority shareholder.

Although GHM was not successful in the recent government privatisation of the Ta' Xbiex and Msida marinas, the Malta Maritime Authority recently issued tenders for temporary marinas in others parts of the Maltese islands, including Kalkara bay which is in very close proximity to the Vittoriosa marina. Through its association with a world-renowned brand in the yachting industry, Camper & Nicholson's, GHM could also have the opportunity of investing internationally, either in one of the marinas already under the C&N ownership or in other projects which are presented to C&N on a regular basis.

CNMI is listed on the Alternative Investment Market of the London Stock Exchange. In addition to the shareholding in GHM, CNMI's portfolio consists of two other marinas as well as the Camper & Nicholson's marina management company and consultancy business.

CNMI fully owns a marina in Port Louis, Grenada West Indies, and has a 45 per cent equity stake in a marina located in Cesme, Turkey. Camper & Nicholson's Marinas Ltd manages the marinas owned by CNMI as well as third-party-owned marinas in Italy, Turkey, Cyprus, Egypt and St Kitts in



the Caribbean. Camper & Nicholson's also provides consultancy work to marinas in various other countries. In 2008 Camper & Nicholson's moved its operational headquarters to Malta from where it carries out various functions including operations, human resources, business development, technical services, financial and sales as well as marketing.

This new bond issue also offers a new sectoral exposure for their overall bond holdings. GHM's business can be segregated into two main areas, the rental of pontoon berths for yachts up to 25 metres in length and the sale of super-yacht berths for vessels between 30 metres and 100 metres in length. The marina situated in Vittoriosa, which is held by GHM under a 99-year sub-lease, has 197 pontoon berths and 33 super-yacht berths.

An important characteristic of the marina sector is that it enjoys a supply-demand imbalance. There are many more yachts in circulation as opposed to available berthing space and new marina developments are normally restricted due to geographical limitations, development costs and environmental issues. The lack of marina capacity enables operators like GHM to achieve tariff increases on a yearly basis which exceed the rate of inflation. In fact over the last two years pontoon berth rates increased by five per cent in 2008 and a further 15 per cent in 2009. GHM's pontoons are fully occupied and revenue from this source is expected to exceed the €1.4 million level in 2009 compared to €0.9 million only two years earlier as a result of the tariff hikes.

The company has so far sold 12 super-yacht berths since 2003, generating over €18 million in revenue. The large part of this took place in 2007 when three 75 metre berths were sold on 25-year leases for a value of over €10 million. Since revenue from the sale of a berth is immediately recognised in the company's financial statements, the company's 2007 profitability surged to €3.9 million and enabled the payment of a handsome dividend of €2

million or €0.20 per share. This represented a yield of 12.3 per cent on the IPO price of €1.631 (Lm0.70) only a few months earlier.

Two smaller berths were sold in 2008, but as a result of the global economic recession GHM was unable to sell another berth since then. During the recent stockbrokers' meeting Nick Maris acknowledged the fact that the company is very much dependent on the realisation of super-yacht berth sales to achieve a meaningful level of profit. However, he also explained that GHM achieved a significant improvement in its other business activity and the company is now at an EBIDA breakeven level excluding sale of super-yacht berths.

Mr Maris also remarked that the marina sector normally recovers from an economic recession rather quickly, and this is evident from the number of enquiries being received for the super-yacht berths. Active negotiations are currently taking place with prospective buyers for some of the remaining stock of berths available (these total 21), valued at over €30 million. GHM was also capable of achieving a strong growth in super-yacht berth rates helped by the large increase in the worldwide fleet of super-yachts and the current order book which amounts to over 1,000 yachts.

A super-yacht berth is currently fetching just over €2,000 per sqm compared to €600 per sqm in 2001 when the first berths were sold off-plan. During the presentation Mr Maris displayed a graph comparing GHM's current rate to other marinas in the Mediterranean and this clearly shows that the local marina is very competitive. This underlines the optimism shown by Mr Maris on the company's ability to resume berth sales in the short term and continue achieving increases in pontoon tariffs and super-yacht berth rates in the coming years.

Although GHM is mainly dependent on the sale of super-yacht berths to achieve a healthy level of profitability, Nick Maris explained during the recent stockbrokers' briefing that

the company and its financial advisors have stress-tested the company's future projections in the preparation of the bond issue. This revealed that even in the unlikely event that no super-yacht berth sales materialise in the next three years and also assuming no return from the investments undertaken from the proceeds of the bond issue, GHM's cash resources and overdraft facility are sufficient to cover interest payments for bondholders as well as the sinking fund commitments. This confirms the robustness of the company's financial model and provides assurances on the company's ability to meet its financial obligations.

Mr Maris went on to explain that this additional funding should result in significantly improved returns for shareholders as the proceeds will be used by the company to expand its operations. The current environment provides profitable investment opportunities, and this should enable the company to achieve higher levels of profitability than would have been the case had it retained its current structure.

The bond issue prospectus includes a valuation of the marina conducted by international specialists CB Richard Ellis. This UK-based company attributed a value of €20.1 million as at December 2009 based on the company's previous years' trading performance, management forecasts and projections.

While the gearing ratio works out on the high side at 2.73 times as at June 30, 2009 (assuming a €12 million bond issue), the directors commented that while this ratio is based on the current book value of the marina (which is recorded in the balance sheet at just over €8 million), the recent valuation of €20.1 million would result in a much improved gearing ratio of 0.6 times.

The bond subscription period opens on February 11, but shareholders and berth holders are being given preferential allocation through a reserved portion of €1 million worth of bonds available on February 8 concurrently with a pre-placement exercise of a further €5 million.

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