Stock Market Review

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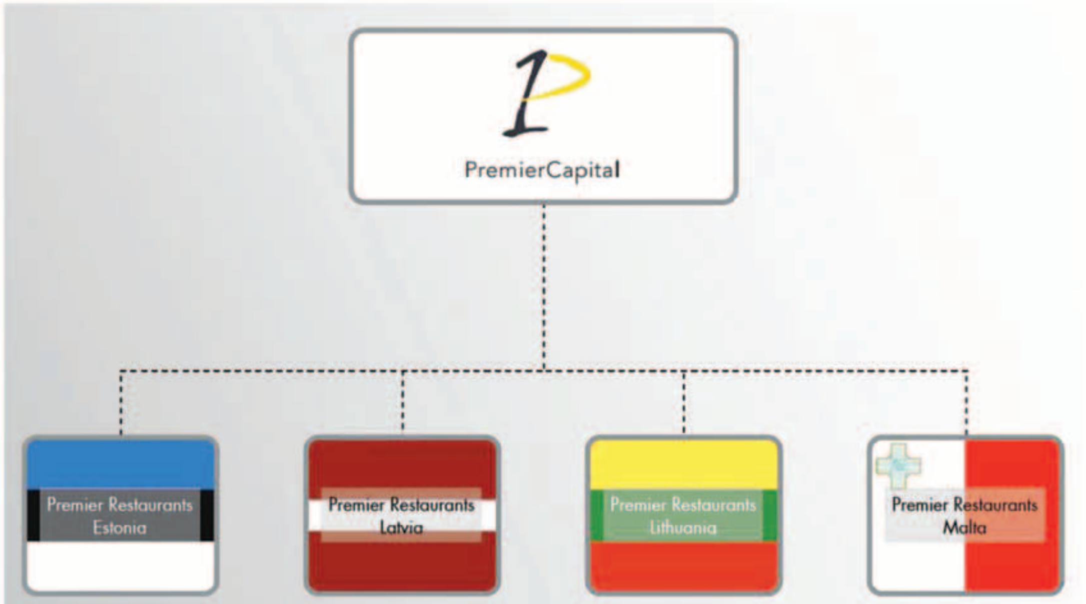
Bond issue by Premier Capital to expand McDonald's in Baltic states and Malta

Premier Capital plc have obtained approval from the Malta Financial Services Authority for a €20 million public bond issue at a coupon of 6.8 per cent per annum with interest payable annually on March 15. The bond market has been particularly busy in recent weeks with the hugely successful €150 million Malta Government Stock issue and a further two bonds by Corinthia Finance plc and Bank of Valletta plc respectively, both mainly intended to refinance bond redemptions.

The first corporate bond issue launched this year by Grand Harbour Marina plc was also very popular among investors attracting over €20 million for a total of €12 million on offer. The tentative listing calendar for the coming months published by the Malta Stock Exchange last week also reveals a continuing busy period for the bond market in the coming weeks as other issuers are also seeking to raise funds through bond issues. This follows from a hectic 2009 when just under €295 million were raised across 10 different companies.



Back to the Premier offering, the issuer (Premier Capital plc), is the development licensee of McDonald's in Malta, Latvia, Lithuania and Estonia. Premier Capital is equally owned by the three Hili brothers (Marin, Beppe and Melo). Premier Capital and its individual shareholders acquired 78.8 per cent of the McDonald's operation in Malta in 2005 and subsequently in 2007 became the development licensee also for McDonald's in Latvia, Lithuania and Estonia. Premier Capital currently operates a total of 30 restaurants split up as follows: eight in Malta, another eight in Lithuania and seven restaurants in each of Latvia and Estonia.

The bond issue proceeds are mainly intended for expanding operations in these three Baltic countries. A further eight restaurants are being planned to open in the next two years while the company aims to remodel other outlets to introduce the successful McCafe concept and offer customers an improved environment.

The majority of the properties hosting the McDonald's outlets are held under long-term lease contracts or concession agreements. The Premier Group owns only one of the restaurants in Lithuania and it has a further four properties in Latvia and Estonia which are rented out to other companies within the group. Premier's next McDonald's outlet will be in a shopping mall in Estonia which is earmarked for opening next month. Although the Prospectus issued by Premier Capital plc in conjunction with this bond issue does not provide the geographic spread of these eight new openings, the document states that the Premier Group has already identified two potential opportunities in Malta and Estonia.

The Maltese operating company, Premier Restaurants Malta Ltd, has reportedly identified premises in the south of Malta for redevelopment as a drive-through McDonald's restaurant. In Malta, there are currently eight McDonald's outlets and the drive-through restaurant situated at Malta International Airport, is reportedly the highest revenue contributor to the group. Meanwhile in Estonia, apart from the imminent inauguration of the shopping mall outlet, a plot of land has been identified for the construction of another McDonald's restaurant.

The recent financial performance of the Premier Group has been very encouraging especially in the light of the economic difficulties in the Baltic States. Earnings before interest, tax, depreciation and amortisation increased from €1.5 million in 2007 to €5.5 million in 2009 as turnover similarly grew from €45.7 million in 2007 to €52 million in 2009. An analysis of the revenue figures for 2009 reveals the extent of the impact of the international financial crisis across the three Baltic countries. While sales generated from the eight Maltese restaurants in 2009 increased by 3.3 per cent to €16.6 million (31.9 per cent of total group revenue), the group suffered declines in each of the other three countries. In Latvia, turnover declined by 10.8 per cent to €13.2 million with a similar 10.5 per cent decrease in Lithuania to €12.5 million. Revenue from the seven restaurants in Estonia dropped by 9.8 per cent to €9.8 million. The declines in revenues in each of the Baltic states is not surprising given the way all three countries were severely hit by the international financial crisis.

While in Malta the Gross Domestic Product is expected to have contracted by 2.2 per cent in 2009, all of the three Baltic states suffered steep declines in GDP ranging between 14 per cent and 18 per cent. The worst hit of the three nations was Latvia which was on the verge of default in 2008. The International Monetary Fund, the European Union and the World Bank provided a €7.5 billion loan to Latvia in December 2008. The IMF and the EU are keeping a close watch on Latvia's government finances to ensure that the deficit is kept under control.

The severe economic conditions in the Baltics have raised further doubts on the respective countries abilities of adopting the euro. Currently only Estonia is well placed to adopt the single currency in January 2011 while Latvia and Lithuania are not expected to qualify for membership before 2014 at the very earliest. All three Baltic currencies (the Latvia Lats; the Lithuanian Litas and the Estonian Kroon) are pegged to the euro in preparation for eventual euro area membership and speculation on the possibility of a currency devaluation in these countries was rife in recent months especially in Latvia as their government was battling with a severe contraction in GDP and a steep rise in the budget deficit.

However, despite an overall decline in Premier Group's turnover in 2009 (-6.5 per cent to €52.1 million), the group improved its EBITDA by 11 per cent to €5.5 million on increased cost efficiencies. According to the company, the Maltese outlets accounted for almost 50 per cent of this contribution in 2009.

Despite the adverse economic conditions in the Baltics and with no signs of a return to economic growth in the current year, Premier intends to increase its investment in these three countries. The Hili family has over 10 years experience in the Baltic states in the shipping and ports sector and the knowledge of these markets coupled with a successful operation of the McDonald's franchise since 2007 are probably key factors behind their planned expansion. Premier's managing director Melo Hili explained in a recent stockbrokers briefing that the current economic climate provides opportunities to acquire real estate at favourable levels and this will enable the company to increase market penetration ahead of an eventual economic turnaround.

Following the bond issue, Premier Capital will have total equity of €16.6 million compared to borrowings of €41.1 million (assuming the bond issue is increased to €25 million). This gives a gearing ratio of 2.5 times while the interest cover is projected at 2.6 times on the forecasts prepared by the company for 2010.

This is the second bond issue by the Hili family following the €13 million bond issue by Mariner Finance plc in June 2003 to fund the acquisition of two seaport terminals in Latvia and Venice in Italy. The Mariner bonds are due for redemption on July 15, 2010.

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