

## NEWS

# A new AX to grind

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THE AX Group is shortly expected to give details of its offer to Suncrest shareholders, who have the option of taking cash at the last traded price of Lm0.267 (October 30) or converting them to new 10-year bonds with early repayment options, issued by AX Investments. The coupon rate will be 6.7 per cent. The offer is expected to raise Lm5 million, Lm4.16 million of which will go to AX Holdings (Lm1.37 million will be directed to new projects), with the balance to go towards Capua Palace, which generates over Lm150,000 a year in rental income, which would go towards the bond repayment.

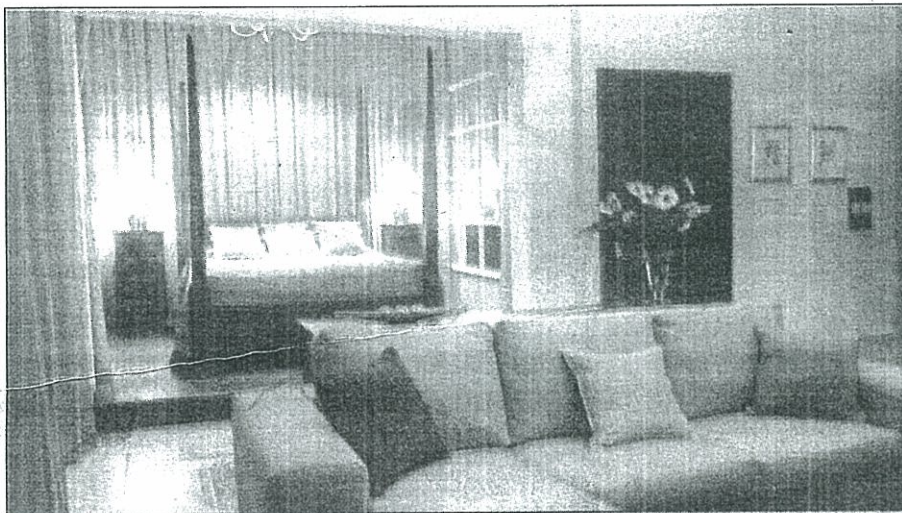
In an extremely frank interview, group finance director Michael Warrington said that the share conversion offer marked the culmination of an effort to get rid of non-performing assets and put the group onto a firm cashflow footing, following a rapid expansion in the 1990s.

"There were a number of investments made which went over budget, such as General Precast Concrete in 1991 which was well over at Lm2 million," he said.

"Other investments simply took too long to come onstream as revenue generators, such as the Duke of Edinburgh in Victoria, the Verdala Hotel and the Naxxar complex for the elderly whose building permits dragged on for years. And of course, there was Albania..."

"Things were fine while the Suncrest and construction activities churned out cash to meet the group's expansion commitments – like Capua Hospital, built in 1995 – but when these revenue streams started to dry up, the group was overstretched. This is the picture that I found in 2000."

The Suncrest Hotel used to give annual profits of around Lm500,000 until 1998, when a flurry of new five-star hotels opened, competing for the Qawra hotel's lucrative conference business. Spanish chain Sol Melia took over its management in November 2001 and was immediately



affected by the post-September 11 downturn and failed to live up to its own expectations. It also failed to understand the Maltese way of doing business and eventually pulled out.

"We did not have to pay any termination fee but we did have to win back the confidence of the trade," Mr Warrington nodded.

"We are now suffering the same problems as any other hotel in the area, with low winter occupancy. And we cannot compete with the five-star hotels for conferences. We have the added disadvantage of being large which means that we have a very large staff complement to maintain."

Nevertheless, the group remains committed to the Suncrest and will be spending Lm650,000 in the first quarter of 2007 on the hotel's infrastructure and public areas.

"This will ensure that it has another 10 years to offer. We want it to remain in the group and we still rely on the revenue it generates," he said.

Mr Warrington believes that the psychological turnaround started when the group managed to raise money for Verdala Mansions through a private

placement bond, offering a nine per cent coupon rate, which was repaid a year before maturity. Verdala Mansions is now nearly sold out.

"This signaled a return to our core operations: property development," he said.

The group was still, however, faced with high gearing costs resulting from its hefty leveraging. Between 2003 and 2004, it sold General Precast Concrete and Capua Hospital – at a profit – using the money to pay off debts.

"This made the situation much more liquid and we can now once again consider investing – but without overstretching our resources," he stressed.

"Anglu Xuereb is of course still the creative force behind the group, backed by a strong team that studies projects before his ideas are put into action. The executive board regularly meets division heads and we have our own in-house lawyer, as well as accountants for each business unit."

The group can now look ahead. It is planning two outlets at the Valletta Waterfront, in which AX Holdings has a stake, although it is still waiting for a permit for the Verdala Hotel.

It is also waiting for a full development permit for the Simblija retirement complex in Naxxar. Within two years of the permit, it would have 250 units in a village-style arrangement, which the company says will offer the peace of mind of a community but with independent living.

The five-star 155-room Palace Hotel in Sliema will also be completed next summer, complementing the excellent performance of the four-star Victoria Hotel.

"The Victoria has some of the highest four-star room rates in the industry – nearly double the average – because of its business mix. It also has very high occupancy rates," he said.

"We did not want the new hotel to dilute the Victoria's clientele and this is why we decided on a five-star that would complement it rather than compete with it in any way."

The Capua Palace conference centre and five duplex suites will serve both hotels, as will ample parking and a central garden.

"We want to enter the international weddings market. People love the idea of getting married in a palace," he said.

The group is also looking at property investment overseas, with an eye on Sicily and Tunisia.

"We have looked at sites and would be working with local partners, perhaps as well as other Maltese companies. But it is a very cautious investment based on real estate rather than development. These projects have taken precedence over projects in Libya, which remain in the pipeline," he said.

The company now has well over Lm30 million on its balance sheet, which Mr Warrington believes to be a conservative accounting valuation. The profit before taxes for 2006 is Lm606,000, with a turnover of Lm9 million.

"We can now see all the parts of the group working well," he said.

"And we want the shareholders to receive a fair return on their capital. The offer we will make to investors will reflect this philosophy."