

Why Palumbo got lowest possible deal for yards

A mathematical muddle for the finance ministry leaves this 'offer' open to many questions

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THE small Neapolitan firm Palumbo SpA will be taking over the Malta Shipyards for a sum that was envisaged as the 'worst case scenario' offer by PricewaterhouseCoopers in an enterprise evaluation of the shipyards privatisation made for the Maltese government.

At first glance, the maths appears muddled. Palumbo is taking a large area of land of 160,000m² for a combined total of €90 million: that works out at €18.80/m² for the next 30 years. But then the finance ministry mysteriously stopped – for the second time – the privatisation of the lucrative Malta Superyachts, of which a reported €22 million offer by two preferred bidders would have yielded a sheer €23/m² for some 32,000m² of land in Cospicua.

News of this week's sale of the Malta Shipyards has been muddled because of a reported mistake by Finance Minister Tonio Fenech.

On Tuesday, he announced a press conference (the press was informed only 30 minutes before) that Palumbo had clinched the deal for €67.3 million.

The ridiculously low deal confirmed a report by MaltaToday last Sunday: Palumbo had offered an upfront payment of €5.7m, and some €61m in rent for the next 30 years: or €1.44 million every year.

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The finance ministry has refuted these figures, and claims Mimcol didn't even engage PricewaterhouseCoopers "to perform an evaluation. The figures you quote are completely wrong."

But this contrasts sharply with information in MaltaToday's hands, which shows the €67m offer did not even match PWC's 'worst case scenario'.

Only on Friday (just hours after questions on the deal were sent by MaltaToday), did the ministry announce a "clarification" of the deal.

It turned out that shipyards would be going for €90.6 million: €18 million paid upfront,

and €72.6m in rents, as first evaluated by PWC in its report. Strange then, that Tonio Fenech could announce an offer on Tuesday that was even lower than what the government had hoped for. The minister was cagey about any upfront payments, a detail that was only made known on Friday when the new offer was announced.

But still, with just two yards in Naples and Messina, Palumbo has managed to see off a competing offer from shipping giants CMA-CGM.

With just €10 million of net tangible worth, the small Naples shipping firm must now secure another €23 million to invest in the Malta Shipyards.

So why did the privatisation unit accept €12.4 million for the 30-year concession of Manoel Island, when the PWC evaluation put a €16 million tag on the land?



The finance minister Tonio Fenech claimed the superyacht bids, reportedly at €22m, were "unsatisfactory"

Undervalued yacht yard?

On the other hand, the Manoel Island Yacht Yard, which went to a consortium made up of Midi plc and Victor Bezzina, went for €12.4 million.

This deal is also open to questions: in the first place, the rental value of the yard was going for €9.6/m² – far less than the value of industrial space rented by Malta Enterprise.

Compare this to the high rental value of the superyachts land: at €18.2/m² it was the highest rental of all four ship-

Superyacht bids stopped

The biggest question perhaps relates to the second cancellation of the superyachts bids.

At an average €22 million offer by the two preferred bidders (Melita Group and the Hili Group), the government claimed this offer was "unsatisfactory", even though it would have generated €687 for each square metre over a period of 30 years: that is way above the €566/m² offered by Palumbo, or the €326/m² for the 30-year concession of Manoel Island.

1. Up-front payments

PricewaterhouseCoopers were appointed by the government, through MIMCOL, to evaluate all four sites of the soon-to-be privatised docks and yachtyards. This is how PWC valued the sites as going concerns (excluding annual rent).

- €28m** Malta Shipyards Ltd
- €18 MILLION 'WORST CASE SCENARIO'**
Source: PWC's 'sensitivity analysis'
- €5.3m** Manoel Island Yacht Yard
- €7.5m** Malta Superyachts
- €15m** Malta Shipbuilding

€55.8m [In total, the government expected to earn enough money in upfront payments to cover the €50 million it had already paid out in voluntary retirement payments to the former shipyard workers]

€90.6m

RENT OVER 30 YEARS
€72.6m
or €453/m² over 30 years
or €15/m² per year

NEW UPFRONT PAYMENT
€18m
Now the basic 'worst case scenario' offer as envisaged by PWC

The new 30-year offer carries an interesting twist. The MFN says that the present value (of the offer over the entire 30 years) is €52.7m, just as in the first offer: "Regrettably, the error was on the gross amount of the rental income quoted, which ignored the automatic increase of 15% every five years on the life of the concession."

2. Rent

On top of the upfront payments, which represent the value of the companies themselves with their machinery and other operational equipment, the government asked for the payment of an annual rent for the sites. MaltaToday confirmed that Malta Enterprise rents out factory space from anything between €12 to €35 per square metre – which means that the Manoel Island rental, as seen below, is already below average. The following is what government asked in rent for the sites, and the footprint of the sites themselves.

Area (m ²)	Rent requested
160,000	€1.65m (€10.3/m ²)
38,000	€250,000 (€7.63m ²)
32,000	€400,000 (€12.5m ²)
131,000	€1 million (€6.6m ²)

+15%
every 5 years

The rate at which the rents had to increase for the rest of the period the concession

RENT OVER 30 YEARS

Shipyards	€72.2m OR €15 per m ² every year
Manoel Island	€11m OR €9.6 per m ² every year
Superyachts	€17.5m OR €18.2 per m ² every year
Shipbuilding	€43.7m OR €11.1 per m ² every year

3. The offer as revealed last Tuesday by Tonio Fenech in a press conference called at 12:30pm

Palumbo of Naples chosen with a €67.3m offer. Fenech does not reveal what the upfront payment is. MaltaToday's information is that the upfront payment, as revealed last Sunday, is €5.7 million. That leaves €61.6m in rent for 30 years, or €1.44m annually – the rent which as Fenech told the press "would exceed €1m".

Fenech also says the net present value (the 'today' value of the 30-year offer) is €52.7 million, a mistake he will later recant

Manoel Island goes for €12.4m to the Manoel Island consortium, which includes Midi plc – who are also bidding for the superyachts

Superyacht bids are stopped for the second time. The two preferred bidders are not even asked to up their offers. Why?

4. Shipyards undervalued by €30 million

	OVER 30 YEARS	RENT/m ² /YEAR
Malta Shipyards Ltd <small>Failed to reach the estimated €28m plus €72m rent</small>	€67.3 million	€12.8 <small>Less than PWC's appraisal (see point 2)</small>
Manoel Island Yacht Yard <small>Failed to reach the estimated €5.3m plus €11m rent</small>	€12.4 million	rent component unknown
Malta Superyachts <small>Preferred bidders not approached to improve their offers but minister says bids are "unsatisfactory"; but at a reported average offer of €22m (upfront and rental), value of land is of €23 per square metre, higher than PWC estimates of land.</small>	€22 million*	€23/m² per year

* average offer of both preferred bidders

5. Tonio Fenech's new offer

On Friday, MaltaToday sends questions on the shipyards deal to Fenech. At 4:30pm, the ministry announces a 'clarification' of the offer – now practically equal to PricewaterhouseCooper's 'worst case scenario' €18 million offer, and €72 million in rent. At €90.6 million, the net present value is of €52.7 million (see point 3)