

SBM – Société des Bains de Mer

What's new in Monaco?

- Will the Qatari Diar fund launch another bid for the company's freefloat?
- One of the 5 remaining bidders for the ocean extension project confirms that a decision is due within next couple of months.
- Unless the world runs out of millionaires in need of a tax refuge, this share price probably only has one way to go in the longer-run.

Why the rest of 2008 should prove interesting for SBM

Dear Reader,

I could have compiled this report in two ways.

One would have involved an in-depth analysis of the company's most recent annual results for fiscal 2007/08, an extensive summary of everything that's happening in Monaco as far as the tiny country's political and economic development are concerned, and an exhaustive review of the recent failed bid for the company's outstanding shares.

It could easily have been another 50-page report...

The other way is to give you a quick-and-dirty overview of those facts that I tend to get asked about the most in readers' emails to me.

I'll take the liberty of making it rather short and sweet this time. I figured you'd rather hear more regularly about an individual share, than to have just one lengthy report thrown at you every 12 months.

Codename "Monaco Maris"

There is hardly a day that goes by without someone asking me about Monaco's project to extend its tiny landmass into the sea.

Since I first wrote about it in 2004, this has gone from being a top secret project (some called it "a pipe-dream") to being an officially tendered construction project, with 20 international consortia bidding for it and millions of Euros being invested into drafts, models and plans. It's been a lengthy affair, and the initial plan had been to publish the results of the tender process in late 2007.

We are now approaching late 2008 and the public still hasn't been shown how the offshore future of the world's second smallest country would look.

Thanks to a Lebanese company though, we now have a much clearer idea of how this is going to evolve.

Solidere is the Beirut-based company that owns most of inner Beirut. The stock market listed company also has plenty of other construction projects going on, not least thanks to the booming property markets in the Middle East.



Excerpt from Solidere annual report.
Click on the image to open the PDF file in your browser.

One of Solidere's subsidiaries was part of one of the consortia that bid for the offshore extension of Monaco. I can only guess whether Monaco authorized them to release the information in their latest annual report, but in any case, they did. To the right you can see the relevant excerpt from Solidere's recently published annual report (which I am happy to say, none of the SBM aficionados on the web had as yet spotted!). Just check the illustration on the previous page of this document to see what Solidere had to say about it all.

In a nutshell:

- The decision about which consortium will win the tender to construct the offshore extension is to be made during the remainder of 2008.
- The extension will add 275,000 square meters of building space to Monaco, of which more than 90% will be privately owned.
- This particular consortium has already secured the financing (debt and equity) for the project; which other sources estimated at €5bn to €10bn.

What this boils down to is that the offshore extension of Monaco will, sooner or later, go ahead. SBM's role is not yet clearly known. But in any case, anything that strengthens Monaco is bound to also strengthen SBM. For the company that owns the largest collection of trophy properties and key businesses in Monaco (hotels, casinos, restaurants), the offshore extension will inevitably be a boon - as it will bring more visitors, opportunities for expansion, and with a bit of luck a windfall profit from selling a casino sub-concession to an international casino operator.

Will there be another bid soon?

Amongst the bidders for the offshore extension is a Qatari company, Qatari Barwa. Why then, was it not exactly a surprise when a few months ago a fund from the very same country – Qatar – disclosed a 2.45% stake in SBM and tried to launch a bid for the entire outstanding freefloat?

The Arab world is full of mysteries, and the region is known for deals being arranged in ways, that from our perspective, seem rather unconventional. Did a Sheikh sail past Monte-Carlo and decide that he'd actually quite like to own the entire country? Did he then do the maths and figure out that all outstanding SBM shares would cost him less than refuelling his 300-meter boat?

One can only wonder, but what is known for sure, is that in July the Qatari Diar fund approached the company's board of directors regarding a €725 per share bid for those shares that aren't owned by the Principality. That would have been a 30.4% stake, if all shareholders had accepted the bid.

The board of SBM eventually turned down the request to recommend such a bid to shareholders. The reasons for this were never committed to paper, but it is nonetheless fairly safe to assume that the board members did not want the legal responsibility of recommending a bid that does not even come close to being a fair price for the vast underlying assets of the company. SBM even took out an ad in the French press calling the price "insufficient".

Subsequently, the board turned down the bid.

Quite possibly, the board (and the ruling family of Monaco) also didn't want to have a 30.4% strong shareholder on board. At the moment, the company is solely controlled by the ruling family through their 69.6% stake. Anyone with more than a 10% stake could seriously upset the existing management order. It was probably at that point, that the company's management realized that it needs to get the share price up.

SBM is gradually becoming a proper, investment-grade company

On September 19th 2008, the shareholder's meeting of SBM will decide on a 10:1 share split. Such a split had been talked about in previous years, but the timing for now actually carrying it out seems quite telling.

A share split is done to attract more interest for a share, and efforts to attract more interest are geared towards getting the share price up. Clearly, the best protection against outsiders building up a sizeable stake

in SBM, is to get the share price up. The vastly undervalued share price must have been part of the rationale for the Qatari Diar fund to bid for the freefloat.

SBM has realized that with a share price trading at maybe a third of the value of the underlying assets, it is vulnerable to such bid activity. (For a more in-depth assessment of the company's net asset value, check out my October 2007 report or the original April 2004 report, both of which are available on my website).

Getting its share price up, is now the best possible insurance against Monaco experiencing once more what it had experienced in the 1950s, when the Greek shipping tycoon Aristotle Onassis bought up large chunks of SBM and became the largest shareholder of the company (larger even than the ruling family which at the time only had a small stake).

Onassis was eventually bought out by the late Prince Rainier, who wanted to regain full control of the company. The two had fallen out with each other and Onassis bagged a massive profit upon selling his shares to the ruling family. It was a costly affair. With this experience in mind, SBM's management is bound to be more pro-active this time.

SBM shares are more likely to rise than fall

The company's share price is currently just 16% below its record high. Given the general turmoil on the world's stock markets, this investment has been holding up remarkably well.

Are the Qataris in the market buying more shares? No one knows. Though they did recently tell a French newspaper that they might return soon with another bid (check <http://www.nicematin.com/ra/monaco/138315/monaco-opa-sur-la-sbm-le-qatar-persiste-et-signe>). Dow Jones reported on August 1st 2008: "Real estate investment company Qatari Diar's CEO, Ghanim Bin Saad Al Saad said Friday his company is still ready to acquire 30.4% of Societe des Bains de Mer et du Cercle des Etrangers a Monaco's shares if the company's board approves the transaction."



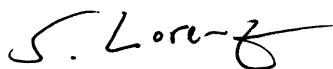
Given that they now know for sure that a €725/share bid won't succeed, they might as well buy more shares in the market for as long as it trades at its current price of €630.

Such factors are currently probably much more of a driver for the SBM share price, than the recently announced 2007 results (profit up 75% to €93.5m). After years and years of the company's assets and figures having been neglected, it now seems that bidding activity, as well as Monaco's exceptional expansion plans, have started to be an important factor behind the company's share price movements.

Given that even the current financial crisis has not really done much to dent Monaco's burgeoning property market, it seems likely that the share will continue its multi-year ascent. This super high-class asset is now starting to be appreciated by the market.

For anyone who is invested, I'd simply hold on to it and watch the show unfold. The worst that can probably happen, is that someone launches a bid that is too good for freefloat shareholders to turn down.

Your longstanding fan of Monegasque trophy assets,



Sven Lorenz
Undervalued-Shares.com

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