Dolphin Capital Investors

Q3 update and €50m fund raising

Funded for development phase

Real estate

12 December 2012

Price	26p
Market cap	£167m

€1.198/£ (31 December 2011)

Shares in issue	642.4m
Free float	78%
Code	DCI
Primary exchange	AIM
Other exchanges	N/A

Share price performance

%	1m	3m	12m
Abs	(5.9)	45.1	1.5
Rel (local)	(8.4)	41.9	7.0)
52-week high/low		28.2p	16.5p

Business description

Dolphin is a leisure and residential property developer with 14 large scale projects in Cyprus, Greece, Croatia, Turkey, the Dominican Republic and Panama, and over 60 smaller residential holiday home projects in Cyprus/Greece via subsidiary Aristo.

Next events

Final results	March 2013

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Edison profile page

The recent €50m equity issue is a game changer, as it helps finance Dolphin Capital Investors' (DCI) short-term business plan, should enable it to progress developments and improves potential to generate revenues from partnership deals and villa sales. Its plans for the initial phases of four advanced residential and leisure schemes attracted a new investor which contributed €30m of equity, as well as strong demand; four times oversubscription for available shares from existing shareholders. Sensitivities, other than construction risk, remain exposure to the Greek economy and international demand for luxury villas and leisure, although Aristo just reported its best quarter since 2007. New money will help secure two years of development, reduce potential for further NAV dilution, help unlock the value of early projects and provide breathing space to negotiate with JV investors. Adjusted for new shares and cash, Q3 NAV/share, net of deferred tax was 81p (101c), well above the current share price.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	NAV/ share (p)	Disc. to NAV (%)
12/09	90.8	(93.0)	(13.2)	0.0	193	87
12/10	69.9	(53.5)	(7.6)	0.0	175	85
12/11	32.8	(76.1)	(8.6)	0.0	139	81

Note: *PBT and EPS are normalised, excluding non-cash adjustments to investment and trading properties, intangible amortisation and exceptional items.

Strong endorsement from new and existing investors

The commitment by new and existing investors is an endorsement of the business plan. At the core is completion of the first phases of four schemes under way in Greece, Cyprus, Panama and the Dominican Republic. If DCI can deliver these to budget and schedule, and hit sales targets revised for the current market, revenues should generate cash to finance subsequent phases of these developments.

Modest visibility, but financed for two years of development

DCI's revenues are unpredictable, as they relate to sales of high-end apartments and villas, investment by partners and exits from existing schemes. However, the new equity provides valuable certainty regarding finance for its first four developments, which target distinct country markets and high-end buyers of luxury second homes.

Valuation: Share rebound reflects lower-risk outlook

The c 60% share price improvement since the equity issue was announced reflects improved potential to deliver short-term development plans and achieve sales to second-home buyers, JV partners and other exits. However, the shares are still 68% below adjusted NAV/share, a substantial discount for risks associated with country (especially Greece) weighting and luxury second home markets. New funds reduce the risk of further dilutive issues and DCI will progress other projects through zoning, permitting, design and branding to bring them to advanced status and improve potential for cash returns. The strategy aims to bring DCI to cash flow positive status and enable it to return capital to shareholders via share buy-backs and dividends.

Dolphin Capital Investors is a research client of Edison Investment Research Limited

Investment summary: Unlocking the upside

€50m equity issue to finance early project portfolio

In our view DCI's recent equity issue, which raised €45m cash (another €5m covered accrued IM fees), alters the investment case positively. It reduces uncertainty over its ability to fund the development of its luxury villas and leisure developments over the next couple of years and should help switch attention to progress in the selling of its luxury residential villas/apartments, hotels, golf and leisure.

DCI issued 204.44m new shares on 25 October at 19.5p/share to raise £39.87m or €50m at the €1.24/£ prevailing exchange rate. The terms were NAV dilutive. As at end September 2012 NAV/share was 122p including deferred tax, or 109p adjusted for the potential liability, vs 126p and 113p respectively at end June. Including the capital raise, the pro-forma NAV/share figures fall to 89p and 81p respectively. The issue was underwritten by new shareholder US-based Third Point LLC, allocated €30m of the offer, with €15m to existing shareholders (significantly scaled down due to a 4x oversubscription) and €5m to the investment manager, Dolphin Capital Partners, in lieu of accrued management fees.

Short-term business plan; focus on four advanced projects

The equity issue addresses uncertainty over DCI's ability to execute its short-term business plan. According to the interims it now has resources, cash, debt and JV investment to progress the initial phases of its first four schemes. These are identified for potential to generate sales or other income in the short term. The cash will also help it negotiate deals with potential purchasers/JV project investors.

The four advanced projects are in Greece, Cyprus, Panama and the Dominican Republic and plans include a total of 11 luxury hotels, villas, four 18-hole championship golf courses and two marinas. The development programme is well progressed through the early planning and environmental impact stages. With respect to the initial phases alone, DCI's projections are c €530m of net cash returns, c 64p/share or 37% of the projects' total estimated profitability over the next six years.

DCI sees potential to generate cash from villa sales, joint-venture investment and other exits, and improve its profile as a provider of luxury leisure and holiday homes within its target catchment. Revenues are difficult to predict due to the high-end nature of its product, but Aristo, DCI's Cyprus-based subsidiary reported its best sales period since 2007 in Q3, while January-August 2012 was 23% ahead y-o-y at average prices 9% ahead, with a 28% increase in units sold.

Exhibit 1: Project exits to date (as at 26 September 2012)

	Stake sold (%)	Original investment (€m)	Exit proceeds (€m)	Return on investment (x)
Tsilivi - Aristo	100	2.0	7.0	3.50
Amanmila	100	2.8	5.4	1.90
Kea	33	4.0	4.1	1.00
Seafront Villas	100	9.0	14.0	1.66
Kings' Avenue Mall	100	11.0	15.0	1.36
Aristo Developers Ltd	50	208.0	375.5	1.80
The Nikki Beach Resort & Spa at Porto Heli	75	4.0	6.9	1.83
Pearl Island Founders Phase	100	6.0	10.6	1.73
Total		246.8	438.5	1.78

Source: DCI interim report

The group provided a detailed breakdown of tourist market dynamics in its interim report. The data is broadly encouraging, with international tourist arrivals worldwide 5% ahead in the first four months of 2012 and solid performances by Greece, Cyprus, Panama and the Dominican Republic, with only Turkey weaker. Data for volumes of high net-worth individuals, a source of potential buyers of the group's high-end villas, was similarly positive.

Portfolio and strategy

The portfolio, business plan and strategy are set out in detail in DCI's recent interim report; we provide an overview in Exhibit 2 below. DCI identifies initiatives worth an estimated c €4.15bn of potential cash returns (c 500p/share) over the next 12 years. These should be secured from the sale of entire projects, strategic stakes at various stages of development, residential units, land parcels and residual leisure components to operators. The table shows the c €530m projected cash receipts from the first phases of the four selected projects over the next six years.

During the next two years the key issue will be DCI's ability to hit project development targets. It expects shortly to begin constructing the Nikki Beach Resort and Spa in Porto Heli, Greece and progress the Seafront Villas in Greece, Venus Rock in Cyprus, Playa Grande in The Dominican Republic and Pearl Island's Founder phase; all have received substantial funding commitments or inward investment.

The Nikki Beach has received construction permits and agreed terms for an £8m facility. Infrastructure works are underway at The Aman Resort in Playa Grande; golf course renovation and hotel infrastructure is due to commence in Q113. DCI announced plans for improvements to the Amanzoe in Porto Heli and will continue with construction and sale of further Villas on a sell and build basis and seek potential sales of components of the Porto Heli Collection. Construction work for golf course, amenities and other infrastructure at Venus Rock are progressing well; nine units sold since the mid-year update. Pearl Island (Panama) has signed a letter of intent with a regional investor for a Ritz Carlton Reserve hotel.

Exhibit 2: Project investment outlook as at 31 August 2012

		DCI stake	Residential units		Land plots	Leisure			
Advanced projects	€m		Sales	Costs	Sales	Net op. income	Terminal values	Const. costs	Projected cash
Porto Heli Collection (Phase 1)	Greece	100.0%	220	(83)	23	13	46	(42)	176
Other phases			541	(269)	33				305
Venus Rock (Phase 1)	Cyprus	49.8%	384	(196)	-	1	21	(21)	190
Other phases			211	(101)					110
Playa Grande (Phase 1)	Dominican Rep.	99.0%	146	(76)	2	11	57	(22)	118
Other phases			274	(143)	170				301
Pearl Island (Phase 1)	Panama	60.0%	49	(14)	-	6	14	(7)	47
Other phases			368	(243)	80				204
Other projects & Aristo									
Greece (seven projects)			1,853	(927)					926
Cyprus (two projects)			495	(258)					237
Croatia			143	(84)					59
Turkey			81	(31)					50
Resid. land value									1,163
Aristo Developers (Dividends and terminal value)		49.8%							269
			5,927	(2,425)	308	31	138	(92)	4,154

Source: DCI interim report

Exhibit 3: Interim results summary

	H1 2011	H1 2012
Valuation loss on investment property	(20,057)	(2,812)
Share of (loss)/profit on equity accounted subsidiaries	3,882	(56)
Gain on disposal of investment in subsidiaries	1,958	44,668
Other operating profits	1,350	3,938
Total operating profit/(loss)	**(12,867)**	**45,738**
Investment manager fees	(8,945)	(8,970)
Professional fees	(2,770)	(3,131)
Other expenses	(10,757)	(12,274)
Total operating or other expenses	**(22,472)**	**(24,375)**
Results from operating activities	**(35,339)**	**21,363**
Finance income	1,593	2,167
Finance costs	(16,819)	(15,235)
Net finance costs	**(15,226)**	**(13,068)**
Impairment loss on trading properties	(11,082)	(2,570)
Impairment loss on property, plant and equipment	(39)	(18,302)
Reversal of impairment loss on property, plant and equipment	1,048	0
Total net non-operating losses	**(10,073)**	**(20,872)**
Loss before tax	**(60,638)**	**(12,577)**
Tax	4,306	1,743
Loss for the period	**(56,332)**	**(10,834)**

Source: DCI interim report

Exhibit 4: Financial summary

€'000s	2009	2010	2011
Year end 31 December	IFRS	IFRS	IFRS
PROFIT & LOSS			
Revenue	90,843	69,912	32,782
Cost of Sales	(94,276)	(60,018)	(27,859)
Gross Profit	(3,433)	9,894	4,923
EBITDA	(71,318)	(37,108)	(46,143)
Operating Profit (before amort. and except.)	(72,884)	(39,052)	(47,984)
Goodwill & intangible Amortisation	(628)	0	0
Other income	38,056	181	0
Gain/(loss) on portfolio revaluation/other impairment	(131,153)	(24,918)	(106,197)
Operating Profit	(166,609)	(63,789)	(154,181)
Net Interest	(20,111)	(14,418)	(28,151)
Profit Before Tax (norm)	(92,995)	(53,470)	(76,135)
Profit Before Tax (FRS 3)	(186,720)	(78,207)	(182,332)
Tax	19,518	5,940	16,238
Profit After Tax (norm)	(73,477)	(47,530)	(59,897)
Profit After Tax (FRS 3)	(167,202)	(72,267)	(166,094)
Average Number of Shares Outstanding (m)	583.2	627.4	636.1
EPS - normalised (p)	(13.2)	(7.6)	(8.6)
EPS - normalised and fully diluted (c)	(13.2)	(7.6)	(8.6)
EPS - (IFRS) (c)	(29.3)	(11.6)	(25.3)
Dividend per share (p)	0.0	0.0	0.0
Gross Margin (%)	-3.8	14.2	15.0
EBITDA Margin (%)	-78.5	-53.1	-140.8
Operating Margin (before GW and except.) (%)	-80.2	-55.9	-146.4
BALANCE SHEET			
Fixed Assets	1,469,749	1,387,002	1,321,390
Intangible Assets	0	0	0
Tangible Assets	1,380,457	1,275,974	1,201,933
Investments	89,292	111,028	119,457
Current Assets	395,884	402,655	373,343
Stocks	284,107	339,461	298,964
Debtors	48,860	33,412	43,311
Cash	62,917	29,782	31,068
Other	0	0	0
Current Liabilities	(164,233)	(157,413)	(234,156)
Creditors	(83,188)	(63,478)	(55,189)
Short term borrowings	(81,045)	(93,935)	(178,967)
Long Term Liabilities	(447,936)	(447,867)	(428,927)
Long term borrowings	(289,423)	(293,444)	(274,548)
Other long term liabilities	(158,513)	(154,423)	(154,379)
Net Assets	1,253,464	1,184,377	1,031,650
CASH FLOW			
Operating Cash Flow	(120,239)	(48,211)	(44,676)
Net Interest	(18,523)	(18,396)	(25,048)
Tax	(1,147)	(2,558)	(1,130)
Capex	0	0	0
Acquisitions/disposals	81,410	18,776	(3,358)
Financing	850	0	8,500
Dividends	(1,305)	0	0
Net Cash Flow	(58,954)	(50,389)	(65,712)
Opening net debt/(cash)	248,597	307,551	357,597
HP finance leases initiated	0	245	228
Other	0	98	634
Closing net debt/(cash)	307,551	357,597	422,447

Source: Company data, Edison Investment Research

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