

**Grand Harbour
Marina p.l.c.**
GRAND HARBOUR MARINA
 VITTORIOSA * MALTA

Stock Rating
Price target (1Yr)
Sell
€0.49
Update to Price Target and Investment Stance:

We have revisited our valuation model on Grand Harbour Marina plc (“GHM” or the “Company”) and we maintain our Sell recommendation, with a downgraded 12-month price target of €0.49 from our previous target of €0.64.

The liquidity risk on the stock remains our major concern, where during the past year the stock only traded 23 times, the volume of which represents 1.2% of the current market cap. This is substantiated by the current bid-ask spread of around 17%.

In our valuation model, we are pricing in a substantial increase in net profit, increasing by 2.7x by FY 2022 from the LTM 2019 financial results. This is attributable to the Company’s Grand Harbour marina reconfiguration project, which will enable GHM to better utilise the marina in terms of berths space.

GHM’s foreign investment is underperforming and the situation is unlikely to improve in the short term given Turkey’s political and economic turmoil. Consequently, our valuation model does not factor in any profits from IC Cesme.

Our valuation model accounts for a WACC of 9.5%, which is debatably low bearing in mind the current employed leverage (adjusted Net Debt/Equity) is 488%.

The Company has not distributed any dividend during the last five years, except for a one-off dividend of €0.5 million in 2016. Additionally, GHM is currently trading at a P/E multiple of 53.4x, which is excessive in view of the limited foreseeable growth of the Company. Subsequently, we are of the opinion that GHM is overvalued at the current price and accordingly, we rate the stock as a Sell.

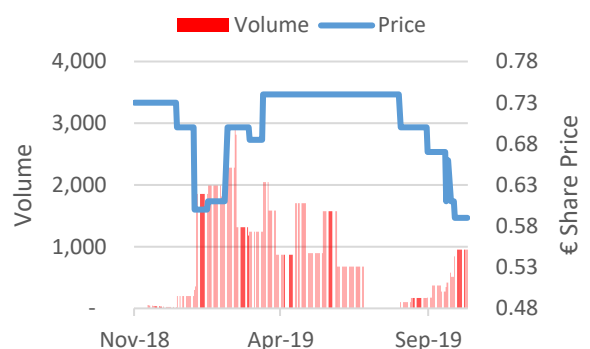
Company update following issuance of 2019 interim financials:

GHM is principally involved in the acquisition, development, operation and management of marinas. GHM currently owns the Grand Harbour Marina located in Malta and also holds a 45% interest in IC Cesme, a company which owns a marina located in Turkey. GHM’s majority shareholder (79.2%) is the internationally acclaimed Camper & Nicholsons Marinas Limited.

Based on the LTM 2019, GHM’s revenue decreased by 7.1% to €4.4 million, from €4.7 million in FY 2018. This reflects the lower demand for superyacht annual and visitor contracts experienced during the first half of 2019, which correspondingly decreased revenue from utilities. Due to this, the Company’s profitability in the LTM 2019

Country	Malta
Industry	Yacht Marinas
Ticker	GHM
Price (as at 25/10/2019)	€0.59
Price Target (1-Year)	↓€0.49 – previous PT €0.64
Upside / downside to PT	-16.9%
Market Cap	€11.8 million
Shares Outstanding	20.0 million
Free Float	20.8%
Net Dividend Yield*	Nil
Current P/E*	53.4x
Forward P/E**	47.7x
* Based on the last twelve months (LTM) as of 30 Jun 2019	
** CC estimates	

Exchange	Malta Stock Exchange (MSE)
52-week range	€0.59 - €0.74

Price and Volume Movement (30 day moving average)


Source: Bloomberg

Market Research


Simon Psaila
 Capital Markets and
 Research Manager
 +356 25 688 141
simonpsaila@cc.com.mt



Rowen Bonello
 Financial Analyst
 +356 25 688 305
rowenbonello@cc.com.mt

decreased to €0.2 million, representing a decrease of 47.3% from the profitability achieved during FY 2018 of €0.4 million.

Valuation

Our one-year price target is €0.49. This is calculated using a Free Cash Flow to the Firm model with a weighted average cost of capital of 9.5% and a 1.5% terminal growth rate. Based on our FY 2019 earnings, the Company is trading at a forward price to earnings (P/E) multiple of 47.7x.

GHM Financials - €'000s (unless otherwise indicated)	FY2017	FY2018	LTM2019¹	FY2019F	FY2020P	FY2021P
	€	€	€	€	€	€
Revenue	4,130	4,725	4,389	4,590	4,720	5,091
Direct Costs	(906)	(1,192)	(1,004)	(1,010)	(1,038)	(1,120)
Gross Profit	3,224	3,533	3,385	3,580	3,682	3,971
Selling and Marketing Expenses	(90)	(89)	(88)	(100)	(100)	(100)
Administrative and Other Expenses	(1,616)	(1,860)	(1,765)	(1,587)	(1,595)	(1,674)
EBITDA	1,518	1,584	1,532	1,893	1,986	2,198
Depreciation	(320)	(211)	(242)	(420)	(451)	(504)
EBIT	1,198	1,373	1,290	1,473	1,535	1,694
Impairment Losses	-	(6)	(6)	-	-	-
Finance Income	67	71	108	81	81	81
Finance Costs	(905)	(709)	(921)	(1,056)	(1,051)	(1,046)
Share of Associate	48	20	14	-	-	-
Profit Before Tax	408	749	485	497	565	729
Income Tax Expense	(357)	(330)	(264)	(250)	(284)	(367)
Net Income	51	419	221	247	281	362
Earnings Per Share – in (€)	0.003	0.021	0.011	0.012	0.014	0.018

Ratio Analysis:	FY2017	FY2018	LTM2019	FY2019F	FY2020P	FY2021P
Revenue Growth (YoY)	-2.4%	14.4%	-7.1%	-2.9%	2.8%	7.9%
EBITDA Margin	36.8%	33.5%	34.9%	41.2%	42.1%	43.2%
Net Margin	1.2%	8.9%	5.0%	5.4%	6.0%	7.1%

Source: Audited Financial Statements and CC Estimates

Investment Thesis Variables Update

- **Revenue** - As per 2019 LTM results, revenue decreased by 7.1% or €0.3 million from €4.7 million in FY 2018. GHM's revenue comprises of two services being berthing income and ancillary services. During the first half of 2019, GHM experienced a lower demand for superyacht annual and visitor contracts, which correspondingly decreased revenue from utilities. In line with this decrease in occupancy during H1 2019, we are forecasting revenue to decrease to €4.6 million in FY 2019, representing a decrease of 2.9% from the LTM 2019.

In accordance with the 2017 GHM's prospectus for the €15.0 million unsecured bonds 2027, €3.5 million out of the proceeds were earmarked for the reconfiguration of the Grand Harbour marina. As per management guidelines, the reconfiguration project will be undergone to utilise the marina to its full capacity, by analysing the market demand for the size of berths required by their clients. This is inherently difficult in view of the seasonality

¹ LTM 2019 is calculated by adding the interim results (H1) of 2019 with the audited results of financial year 2018, less H1 2018.

of the business and the volatile mix of yachts that berth at the marina annually. The permit approval is taking longer than expected, however we assume that this capex will be carried out during FY 2020 and FY 2021.

In our valuation model, we factored in aggressive revenue growth due to the expected reconfiguration capital investment, with revenue anticipated to increase to €4.7 million (2.8% annual growth) and €5.1 million (7.9% annual growth) in FY 2020 and FY 2021, respectively.

- **EBITDA** - In the LTM 2019, EBITDA has remained stable at €1.5 million, as generated in FY 2018, albeit experiencing a marginal decline of less than €0.1 million. Direct costs decreased in line with the decrease in revenue, with administrative costs decreasing as a result of the new IFRS 16, where a majority of operational leases were capitalised as from 1 January 2019, which resulted in a decrease in operational leases expense and accordingly, an increase in the depreciation and finance costs. The decrease in revenue coupled with the decrease in operating costs during H1 2019, resulted in the EBITDA margin to improve to 34.9% in LTM 2019 from 33.5% in FY 2018.

We are anticipating EBITDA to improve to €1.9 million in FY 2019, mainly due to IFRS 16. Subsequently, we expect the increase in revenue to boost up EBITDA to €2.0 million and €2.2 million in FY 2020 and FY 2021, respectively.

- **Depreciation** - The depreciation expense in the LTM 2019 was slightly higher than FY 2018, albeit remained at €0.2 million level. We project the depreciation expense to increase to €0.4 million in FY 2019 mainly as a result of IFRS 16, as explained above.
- **Finance Costs** - In the LTM 2019, GHM's financial debt increased to €18.9 million from €14.6 million in FY 2018, predominantly as a result of the recognition of a lease liability amounting to €4.2 million, relating to the capitalisation of operating leases under the new IFRS 16, as highlighted above. Consequently, we are projecting finance costs to increase to €1.1 million in FY 2019 from €0.9 million in the LTM 2019 (FY 2018: €0.7 million).
- **Share of Associate** - IC Cesme is being significantly affected by the Turkish political environment and the lack of yacht traffic to the Turkish coast. This is clearly shown in the contribution from the associate, which on average declined by 45% per annum during the last five years. Consequently, our valuation model assumes that there will be no contribution from this investment, which corresponds with management's prudent approach in its forecasts as presented in the Financial Analysis Summary issued for FY 2018.
- **Net Income and Earnings per share (EPS)** - In the LTM 2019, net income decreased to €0.2 million from €0.4 million due to the fall in revenue as reported in H1 2019. We are forecasting net income in FY 2019 to remain broadly at the same level of the LTM 2019. Net income is anticipated to increase to €0.3 million and €0.4 million in FY 2020 and FY 2021, respectively.
- **Dividends** - The Company has not distributed any dividends during the last five years, except for a one-time payment of €0.5 million in 2016. We are of the opinion that GHM is not distributing any dividends in order to accumulate its equity and to generate enough cash to be in a position to redeem its financial debt. Hence, we are forecasting that for the foreseeable future GHM will not distribute any dividends.

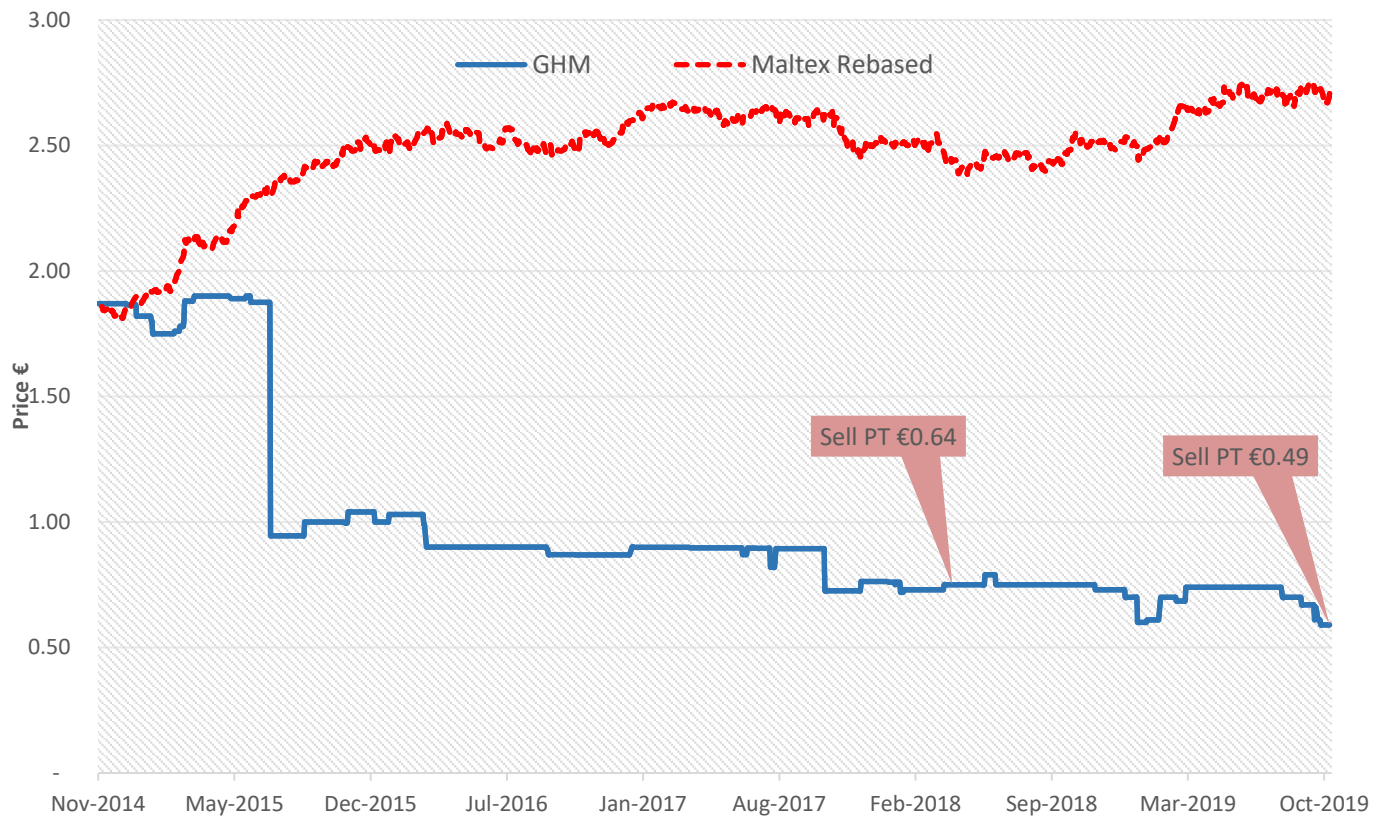
Key Financial Indicators

GHM plc - €'Millions (unless otherwise indicated)	Dec-2017	Dec-2018	LTM 2019
Income Statement			
Revenue	4.13	4.73	4.39
<i>Growth in Revenue (YoY)</i>	-2.4%	14.4%	-7.1%
EBITDA	1.52	1.58	1.53
EBITDA Margin (EBITDA / Revenue)	36.8%	33.5%	34.9%
Operating Profit (EBIT)	1.20	1.37	1.29
Operating (EBIT) Margin (EBIT / Revenue)	29.0%	29.1%	29.4%
Net Income	0.05	0.42	0.22
Net Margin (Net Income / Revenue)	1.2%	8.9%	5.0%
Earnings per Share (EPS)	0.003	0.021	0.011
<i>Growth in EPS (YoY)</i>	-86.4%	721.6%	-47.3%
Dividend per Share (Net Dividends / Shares Outstanding)	-	-	-
Dividends Yield as at Year-end (Dividend per Share / Share Price)	N/A	N/A	N/A
Balance Sheet			
Cash and Cash Equivalents	7.67	8.33	6.32
Current Assets	8.74	10.52	8.74
Non-Current Assets	12.31	11.73	17.47
Total Assets	21.05	22.25	26.21
Current Liabilities	2.73	3.15	2.80
Non-Current Liabilities	15.45	15.81	20.06
Total Equity	2.88	3.29	3.35
Shares Outstanding	20.00	20.00	20.00
Cash flow			
Cash Flow from Operating Activities (CFO)	0.90	1.36	1.68
Capex	(0.20)	(0.23)	(0.10)
Free Cash Flow (FCF)	0.70	1.13	1.58
Cash Flow from Investing Activities	2.06	(0.70)	(2.77)
Cash Flow from Financing Activities	3.63	-	(0.30)
Ratios			
Profitability			
Return on Common Equity (Net Income / Common Equity)	1.8%	13.6%	6.7%
Return on Assets (Net Income / Total Assets)	0.2%	1.9%	0.8%
Solvency			
Gearing Ratio Level 1 (Net Debt / Total Equity)	241.4%	192.1%	374.6%
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	86.3%	85.2%	87.2%
Net Debt / EBITDA	4.6x	4.0x	8.2x
Current Ratio (Current Assets / Current Liabilities)	3.2x	3.3x	3.1x
Interest Coverage Ratio (EBITDA / Cash Interest Paid)	2.0x	2.3x	1.7x
Cash from Operations / EBIT	0.7x	1.0x	1.3x

Source: Audited Financial Statements and CC workings

Historical 1 Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
GHM	28.10.2019	€0.59	€0.49	Simon Psaila & Rowen Bonello	Sell
GHM	18.04.2019	€0.74	€0.64	Simon Psaila & Rowen Bonello	Sell



Source: Bloomberg

Glossary and Definitions

Income Statement	
Revenue	Total revenue generated by the Group/Company from its principal business activities during the financial year.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. It reflects the Group's/Company's earnings purely from operations.
Operating Profit (EBIT)	EBIT is an abbreviation for earnings before interest and tax.
Depreciation and Amortisation	An accounting charge to compensate for the decrease in the monetary value of an asset over time and the eventual cost to replace the asset once fully depreciated.
Net Finance Costs	The interest accrued on debt obligations less any interest earned on cash bank balances and from intra-group companies on any loan advances.
Net Income	The profit made by the Group/Company during the financial year net of any income taxes incurred.
Profitability Ratios	
EBITDA Margin	EBITDA as a percentage of total revenue.
Operating (EBIT) Margin	Operating margin is the EBIT as a percentage of total revenue.
Net Margin	Net income expressed as a percentage of total revenue.
Return on Common Equity	Return on common equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing the net income by the average common equity (average equity of two years financial performance).
Return on Assets	Return on assets (ROA) is computed by dividing net income by total assets.
Earnings per Share (EPS)	Earnings per share (EPS) is the amount of earnings per outstanding share of a Group's/Company's share capital. It is computed by dividing net income by total shares outstanding as at the statement of financial position date.
Dividends Ratios	
Dividend per Share	Dividend per Share is the amount of dividends per outstanding share of a Group's/Company's share capital. It is computed by dividing net dividends by total shares outstanding as at the statement of financial position date.
Sustainable Growth Rate in Dividends	This ratio indicates the sustainable growth rate of dividends given the profitability of the Group/Company and the respective level of dividends distribution.
Dividends Yield as at year-end	This ratio indicates how much a Group/Company pays out in dividends each fiscal year relative to its share price. It is computed by the dividing the Dividend per Share by the share price as at year-end.
Cash Flow Statement	
Free Cash Flows (FCF)	The amount of cash the Group/Company has after it has met its financial obligations. It is calculated by taking Cash Flow from Operating Activities less the Capex of the same financial year.
Balance Sheet	
Total Debt	All debt obligations inclusive of long and short-term debt.
Net Debt	Total debt of a Group/Company less any cash and cash equivalents.
Shares Outstanding	Outstanding shares refer to the Group/Company stock currently held by all its shareholders.
Financial Strength Ratios	
Current Ratio	The Current ratio (also known as the Liquidity Ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares current assets to current liabilities.
Quick Ratio (Acid Test Ratio)	The quick ratio measures a Group's/Company's ability to meet its short-term obligations with its most liquid assets. It compares current assets (less inventory) to current liabilities.
Interest Coverage Ratio	The interest coverage ratio is calculated by dividing EBITDA of one period by cash interest paid of the same period.
Gearing Ratio	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance total assets. Is calculated by dividing Net Debt by Total Equity.
Gearing Ratio Level 1	Is calculated by dividing Total Liabilities by Total Assets.
Gearing Ratio Level 2	
Net Debt / EBITDA	The Net Debt / EBITDA ratio measures the ability of the Group/Company to repay its debt through EBITDA generation.
Cash from Operations / EBIT	This ratio measures the ability of the Group/Company to convert its earnings into cash.

Explanation of Equity Research Ratings

Buy: Based on a current 12- month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, we do not recommend either a Buy or Sell. Current shareholders should consider buying on dips and selling on peaks.

Newly issued research recommendations and target prices supersede previously published research.

Disclaimer

This document is being issued by Calamatta Cuschieri Investment Services Ltd (“CC”) of Ewropa Business Centre, Triq Dun Karm, Birkirkara, BKR9034, Malta and bearing company registration number C13729. CC is licensed to conduct Investment Services in Malta by the Malta Financial Services Authority. This information is being provided solely for information purposes and should not be deemed or construed as investment advice, advice concerning particular investments, advice concerning investment decisions, tax, legal or any other ancillary regulatory advice. Similarly, any views or opinions expressed are not intended and should not be construed as investment, tax and/or legal recommendations or advice. CC has not verified and consequently neither warrants the accuracy nor the veracity of any information, views or opinions appearing on this document. CC does not accept liability for actions, proceedings, costs, demands, expenses, damages and losses suffered by persons as a result of information, views or opinions appearing on this document. No person should act upon any opinion and/or information in this document without first obtaining professional advice.