

**Grand Harbour
Marina p.l.c.**

GRAND HARBOUR MARINA
VITTORIOSA * MALTA

Executive Summary:

"We are initiating our coverage on Grand Harbour Marina plc with a Sell recommendation and a 12-month price target of €0.64." Our Sell recommendation is based on:

- Out of €14.8 million market cap the Company only has a free float of 20.8%, thus making the share extremely illiquid. In fact, during the past year the shares has traded only 18 times, the total volume of which represents 1% of the market cap.
- GHM is currently trading on a high P/E multiple of 35.3x pricing in any potential future improvements. Our model assumes that the Company will in the short-term, be able to maintain its average growth achieved during the past 5 to 7 years.
- The shares are trading at a projected earnings yield of 3.4% (2021P), which we deem as unsatisfactory compensation for the risks associated with the Company.
- The Company's foreign investment is currently not yielding any return and the situation is not anticipated to improve given the political turmoil in Turkey.
- GHM has not distributed any dividends during the last five years, except for a one-time payment of €0.5 million in 2016.
- Our model accounts for a cost of equity 9%, which is debatably low despite our Sell recommendation.

Company Overview:

Grand Harbour Marina plc ("GHM" or the "Company") and its group is principally involved in the acquisition, development, operation and management of marinas. GHM currently owns the Grand Harbour Marina located in Malta by way of a 99-year emphyteusis entered into on June 1999 with the Maltese Government and also holds a 45% interest in IC Cesme, a company which owns a marina located in Turkey. The marinas are operated and managed in association with the internationally well-known Camper & Nicholson's Marinas Limited ("CNML"), a company largely involved in the management and operation of marinas worldwide.

GHM's majority shareholding is held by CNML, where the latter acts as the parent of the CNML group of companies. CNML owns 79.2% of the total shareholding of the Company with the remaining 20.8% of the shares being publicly traded on the MSE.

Company Update:

Towards the end of 2018, an agreement was reached with the Turkish Government that the Build-Operate-Transfer (BOT) contract, under which IC Cesme operates the marina, would be extended by 33 years such that the contract now ends in early 2067. The initial cost of this extension is a one-off fee of €2.1 million, with the Company's 45% share amounting to €0.9 million.

**Stock Rating
Price target (1Yr)**
Sell
€0.64

Country Malta
Industry Yacht Marinas

Ticker Symbol GHM
Price (as at 17/04/2019) €0.74
Price Target (1 Year) €0.64
Upside / Downside to PT -13.5%

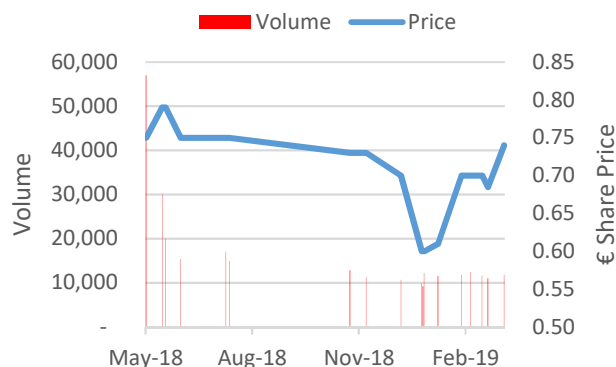
Market Cap €14.8 million
Shares Outstanding 20.0 million
Free Float 20.8%

Net Dividend Yield * N/a
Current P/E * 35.3x
Forward P/E ** 41.2x

* Based on the year-end results of December 2018
 ** CC estimates

1-Year Range:
**Price Movement and
Volume Movement (20
day moving average)**

Exchange: MSE
 Lowest Price: 0.60
 Highest Price: 0.79



Source: Bloomberg

Market Research


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This extension will positively impact the associate performance, however this hugely depends on the recovery of the Turkish Lira, which has severely weakened in recent years.

Dividends - The Board of directors of GHM has not proposed to pay any dividends in respect of the year ended 2018 (2017: Nil).

SWOT Analysis

Strengths

- ✓ GHM forms part of the larger Camper and Nicholsons brand, which is a worldwide renowned brand.
- ✓ The marina is located in the Grand Harbour, a 500 year-old architecture which is recognised as an UNESCO World Heritage site.
- ✓ Malta is located in the heart of the Mediterranean and benefits from a great climate all year round.
- ✓ The Grand Harbour marina is one of the largest marinas to accommodate superyachts in Malta.
- ✓ Malta provides a favourable tax treatment for pleasure yacht leasing.

Weaknesses

- ✗ The Company has not distributed any dividend during the last five years, except for one-time payment of €0.5 million in 2016.
- ✗ The Maltese market is highly competitive due to the numerous marinas located in the Maltese Islands.
- ✗ The Company has a high financial leverage.
- ✗ Exposed to the Turkish Lira, a very sensitive currency due to the current political situation in Turkey.
- ✗ As from 31 October 2018 all pricing by IC Cesme had to be converted into the Turkish Lira and as such the exposure to the local currency increased.
- ✗ The Company's revenue is fully dependent on the number of yachts that berth at the marina, the quantity of which is inherently volatile.

Opportunities

- Rising number of yachts registered in Malta thanks to the favourable tax treatment and relatively low expenses.
- Boat utilisation has increased and during previous recessions passion for boats did not disappear.
- Increase in the demand for yacht chartering.

Threats

- ! Further political instability in Turkey.
- ! A potential downturn in the yachting industry.
- ! Changes in the regulation and tax treatment of the yachting industry.
- ! Increase in the environmental and boating safety regulations will make it more difficult for marinas to cater for the facilities to the needs of their clients.
- ! Extreme weather conditions

Investment Stance

We are initiating our coverage on Grand Harbour Marina plc with a Sell recommendation and a 12-month price target of €0.64. GHM has a small market cap of €14.8 million out of which only 20.8% is listed on the exchange, thus making the shares extremely illiquid. This is substantiated by the number of days that the share traded during the past year, which amount to only 18 days, the total volume of which represents 1% of the market cap. Moreover, despite the improved performance registered in 2018, we believe that the Company is overpriced at its current value. GHM's shares are trading at a projected earnings yield of 3.4% (2021P), which we deem as unsatisfactory compensation for the risks associated with the Company. Additionally, the foreign investment made by the Company in IC Cesme is currently not yielding any return and the situation is not anticipated to improve in the short-term. GHM is currently trading on a high Price to Earnings (P/E) multiple of 35.3x pricing in any potential future improvements.

It is important to note that our model assumes that no profits will be realised from the investment in IC Cesme given the current political uncertainty of Turkey and the volatility of its local currency. This goes in line with management's prudent approach in its forecasts as presented in the Financial Analysis Summary issued for FY2017. Hence, should the performance of IC Cesme improve to or exceed the level achieved in 2014, it will significantly alter the conclusion of our analysis.

Valuation

Our one-year price target is €0.64. The price target is calculated using a Free Cash Flow to Equity model with a cost of equity of 9.0%. This translates to a forward PE of 41.2x earnings. The cost of equity is based on the local equity risk premium and also incorporates the inherent volatility risk of the yacht marinas industry.

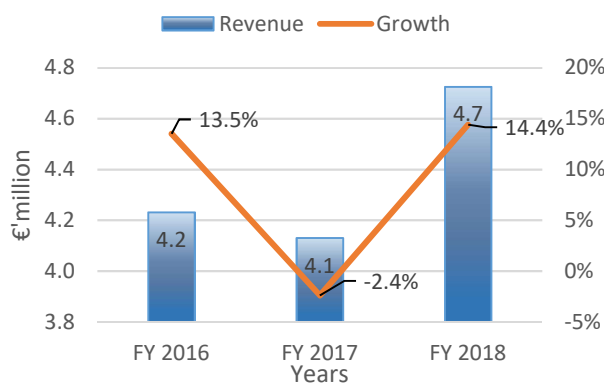
€'000s unless otherwise indicated	FY 2017	FY 2018	2019F	2020P	2021P
	€	€	€	€	€
Revenue	4,130	4,725	5,161	5,465	5,788
Direct Costs	(906)	(1,192)	(1,342)	(1,421)	(1,505)
Gross Profit	3,224	3,533	3,819	4,044	4,283
Selling and Marketing Expenses	(90)	(89)	(100)	(100)	(100)
Administrative and Other Expenses	(1,616)	(1,860)	(1,567)	(1,620)	(1,720)
EBITDA	1,518	1,584	2,152	2,325	2,464
Depreciation	(320)	(211)	(418)	(421)	(423)
EBIT	1,198	1,373	1,734	1,904	2,040
Impairment Losses	-	(6)	-	-	-
Finance Income	67	71	44	31	31
Finance Costs	(905)	(709)	(1,056)	(1,051)	(1,046)
Share of Associate	48	20	-	-	-
Profit Before Tax	408	749	722	884	1,025
Income Tax Expense	(357)	(330)	(363)	(444)	(515)
Net Income	51	419	359	439	510
Earnings Per Share – in (€)	0.003	0.021	0.018	0.022	0.025
Ratio Analysis:					
Revenue Growth (YoY)	-2.4%	14.4%	9.2%	5.9%	5.9%
EBITDA Margin	36.8%	33.5%	41.7%	42.5%	42.6%
Net Margin	1.2%	8.9%	7.0%	8.0%	8.8%

Source: Audited Financial Statements and CC Estimates

Investment Thesis Variables

- Revenue**

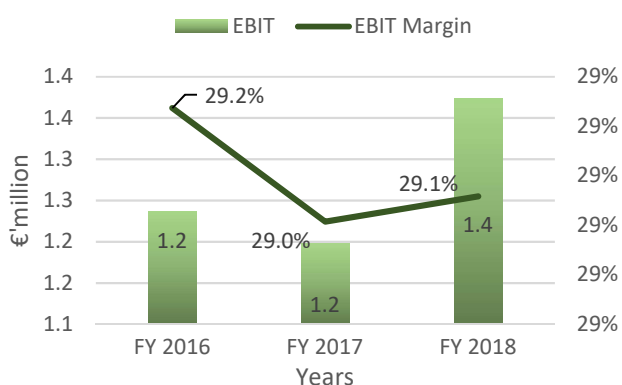
In 2018, revenue increased by 14.4% or €0.6 million from the revenue generated in 2017 that amounted to €4.1 million. GHM's revenue comprises of two services being berthing income and ancillary services. Berthing income has mainly increased by the growth in the revenue generated from superyachts visitors. The revenue trend for 2018 shows that the marina visitors are more likely inclined to opt for short-term contracts rather than long-term contracts. Ancillary services increased by 28.2% in 2018 when compared to prior year which reflects the tendency for superyachts to require additional services when compared to normal yachts. Thus the increase in superyachts positively affected the revenue generated from ancillary services.



Source: Financial Statements / CC Workings

Total revenue in 2019 is expected to increase by 9.2%. This is based upon a growth of 7.5% from berthing income and a growth of 13.5% from ancillary services. It is pertinent to note that the revenue generated by GHM is very volatile and as such is difficult to forecast.

- EBIT** - The EBIT has increased from €1.2 million in 2017 to €1.4 million in 2018, with the EBIT margin also registering a marginal improvement from 29.0% in 2017 to 29.1% in 2018. The Company experienced an increase both in its direct costs and selling/administrative expenses, where the former increased by €0.3 million or 31.6% and the latter increased by €0.2 million or 14.2% in 2018 when compared to 2017. Consequently, the increase in costs nearly netted-off the increase in revenue, in-fact EBITDA experienced an increase of 4.3% in 2018 compared to the prior year. However, the EBIT experienced an improvement of 14.6% in 2018 as a result of reduction in the depreciation expense of €0.1 million when compared to 2017.

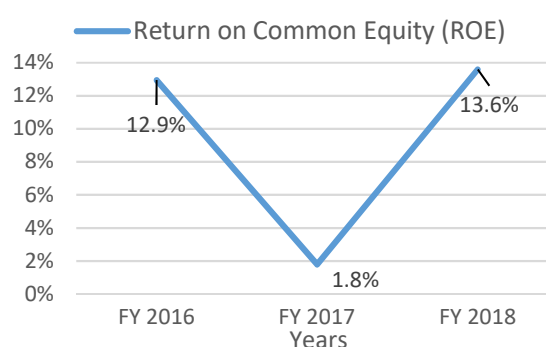


Source: Financial Statements / CC Workings

Administrative expenses are forecasted to be lower in 2019 as a result of the new IFRS 16, which will require all operational leases to be treated as finance leases as from 1 January 2019. Consequently the lease expense of €0.5 million as accounted for in 2018 will be recognised in 2019 as €0.1 million depreciation and as €0.4 million finance costs, as a result of capitalising the Grand Harbour marina lease.

- Depreciation** - The depreciation expense stood at €0.3 million in 2017 and decreased to €0.2 million in 2018. We are forecasting the depreciation to be of €0.4 million in 2019. As described above €0.1 million relates to the capitalisation of the marina lease and the remaining €0.3 million reflect the annual depreciation on the assets owned by GHM.

- Finance Costs** - GHM's current financial debt is made up of a €15 million unsecured bond incurring a fixed interest rate of 4.5% redeemable in August 2027. The forecasted finance costs for 2019 accounts for €0.7 million representing the coupon incurred on the bond and an additional finance costs of €0.4 million in relation to the finance lease liability that will be recognised as from January 2019 as a result of adopting IFRS 16.
- 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 an average declined by 18.9% during the last five years. Consequently, our valuation model assumes that there will be no return from this investment, which assumption is in line with management's prudent approach in its forecasts as presented in the Financial Analysis Summary issued for FY2017.
- Net Income and Earnings per share (EPS)** - We are forecasting net income in 2019 to remain in-line with that of 2018 at €0.4 million, albeit experiencing a marginal decrease. Net income in 2018 increased by €0.3 million when compared to 2017. The EPS is forecasted to be at €0.018 in 2019, representing the marginal decrease from 2018 where the EPS stood at €0.021. The forecasted net income for 2019 is lower than 2018 due to: (a) increase in revenue nearly netted-off by the increase in costs, (b) the recurrent depreciation charge is estimated to be at €0.3 million which is €0.1 million higher than 2018, but consistent with the historic depreciation and (c) the tax rate was taken at 50% profit before tax based on the average tax rate for the last five years (excluding outliers years), which is slightly higher to the tax rate of 2018 of around 44% of profit before tax. The Company incurs a high taxation rate on profit before tax as a result of a number of expenses that are not allowed for tax purposes, thus the taxable profit increases.



Source: Financial Statements / CC Workings

The Return on Common Equity (ROE) stood at 12.9% in 2016 and decreased to 1.8% in 2017 as a result of loss in revenue. The improved performance registered in 2018 resulted in the ROE to surpass the level of 2016 and stood at 13.6%. The ROE chart above represents the high degree of volatility and the consequent risk associated with the yachting industry.

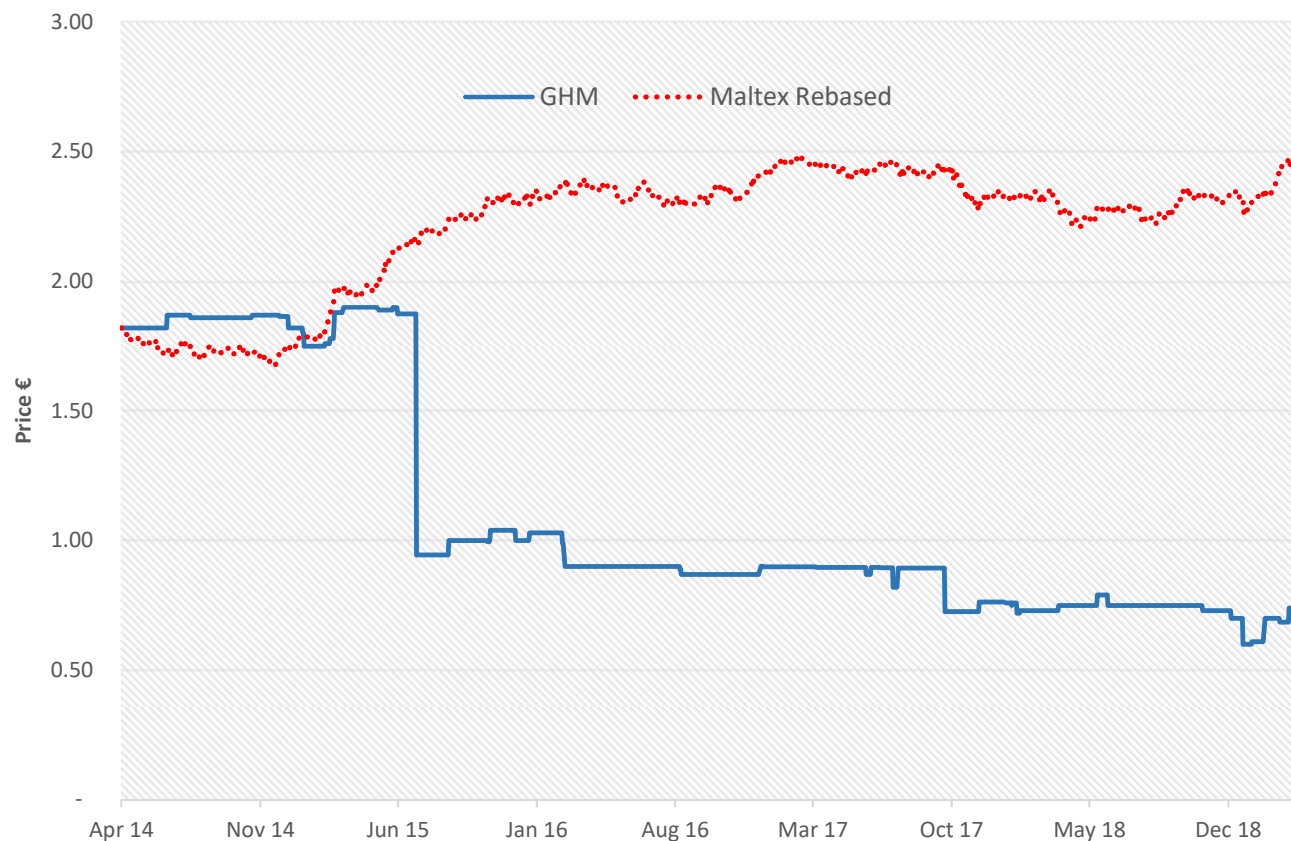
- Dividends** - The Company has not distributed any dividends during the last five years, except for one-time payment of €0.5 million in 2016. As at 31 December 2018, GHM had a cash balance of €8.3 million and a finance liability (unsecured bond) of €14.6 million, which is repayable in 2027. We are of the opinion that the Company 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 in the short-term GHM will not distribute dividends.

Key Financial Indicators

€'Millions unless otherwise indicated	Dec-2016	Dec-2017	Dec-2018
Income Statement			
Revenue	4.23	4.13	4.73
<i>Growth in Revenue (YoY)</i>	13.52%	-2.39%	14.41%
EBITDA	1.55	1.52	1.58
EBITDA Margin (EBITDA / Revenue)	36.54%	36.76%	33.52%
Operating Profit (EBIT)	1.24	1.20	1.37
Operating (EBIT) Margin (EBIT / Revenue)	29.24%	29.01%	29.06%
Net Income	0.38	0.05	0.42
Net Margin (Net Income / Revenue)	8.86%	1.23%	8.87%
Earnings per Share (EPS)	0.019	0.003	0.021
<i>Growth in EPS (YoY)</i>	86.57%	-86.40%	721.57%
Dividend per Share (Net Dividends / Shares Outstanding)	0.024	-	-
Dividends Yield as at Year-end (Dividend per Share / Share Price)	2.76%	0.00%	0.00%
Balance Sheet			
Cash and Cash Equivalents	1.09	7.67	8.33
Current Assets	2.18	8.74	10.52
Non-Current Assets	14.61	12.31	11.73
Total Assets	16.78	21.05	22.25
Current Liabilities	2.66	2.73	3.15
Non-Current Liabilities	11.29	15.45	15.81
Total Equity	2.83	2.88	3.29
Shares Outstanding	20.00	20.00	20.00
Cash flow			
Cash Flow from Operating Activities (CFO)	0.90	0.90	1.36
Capex	(0.07)	(0.20)	(0.23)
Free Cash Flow (FCF)	0.84	0.70	1.13
Cash Flow from Investing Activities	(1.27)	2.06	(0.70)
Cash Flow from Financing Activities	(0.48)	3.63	-
Ratios			
Profitability			
Return on Common Equity (Net Income / Common Equity)	12.94%	1.79%	13.59%
Return on Assets (Net Income / Total Assets)	2.23%	0.24%	1.88%
Solvency			
Gearing Ratio Level 1 (Net Debt / Total Equity)	343.60%	241.38%	192.07%
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	83.14%	86.34%	85.21%
Net Debt / EBITDA	6.29x	4.57x	3.99x
Current Ratio (Current Assets / Current Liabilities)	0.82x	3.21x	3.34x
Interest Coverage Ratio (EBITDA / Cash Interest Paid)	2.01x	2.00x	2.34x
Cash from Operations / EBIT	0.73x	0.75x	0.99x

Historical 1-Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
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 Company/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 Company'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 Company/Company during the financial year net of any income taxes incurred.
Profitability Ratios	
Growth in Revenue (YoY)	This represents the growth in revenue when compared with previous financial year.
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 statement of financial position date.
Growth in EPS (YoY)	This represents the growth in Earnings per Share (EPS) when compared with previous financial year.
Dividends Ratios	
Net Dividends	Net dividends represent the net amount of dividends in respect of a Group's/Company's fiscal year.
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 statement of financial position date.
Growth in Dividends (YoY)	This represents the growth in dividends when compared with previous financial year.
Sustainable Growth Rate in Dividends	This ratio indicates the sustainable growth rate of dividends given the profitability of the Company/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	
Cash Flow from Operating Activities (CFO)	Cash generated from the principal revenue producing activities of the Company/Company.
Cash Flow from Investing Activities	Cash generated from the activities dealing with the acquisition and disposal of long-term assets and other investments of the Company/Company.
Cash Flow from Financing Activities	Cash generated from the activities that result in change in share capital and borrowings of the Company/Company.
Capex	Represents the capital expenditure incurred by the Company/Company in a financial year.

Free Cash Flows (FCF)	The amount of cash the Company/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 Assets	What the Company/Company owns which can be further classified into Non-Current Assets and Current Assets.
Non-Current Assets	Assets, full value of which will not be realised within the forthcoming accounting year
Current Assets	Assets which are realisable within one year from the statement of financial position date.
Inventory	Inventory is the term for the goods available for sale and raw materials used to produce goods available for sale.
Cash and Cash Equivalents	Cash and cash equivalents are Group/Company assets that are either cash or can be converted into cash immediately.
Total Equity	Total Equity is calculated as total assets less liabilities, representing the capital owned by the shareholders, retained earnings, and any reserves.
Total Liabilities	What the Company/Company owes which can be further classified into Non-Current Liabilities and Current Liabilities.
Non-Current Liabilities	Obligations which are due after more than one financial year.
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.
Current Liabilities	Obligations which are due within one financial year.
Shares Outstanding	Outstanding shares refer to the Company/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.
Gearing Ratio Level 1	Is calculated by dividing Net Debt by Total Equity.
Gearing Ratio Level 2	Is calculated by dividing Total Liabilities by Total Assets.
Net Debt / EBITDA	The Net Debt / EBITDA ratio measures the ability of the Company/Company to refinance its debt by looking at the EBITDA.
Cash from Operations / EBIT	This ratio measures the ability of the Company/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.

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