

MIDI p.l.c.**Update to Price Target and Investment Stance:**

We have reviewed our model and maintain our Buy recommendation on MIDI and 12-month price target of €0.81.

We revisited the model inputs in terms of the Manoel Island development and value the whole project at €120.9 million, equivalent to €0.56 per share. The element of funding risk concerning this project is sustained as the Group is still in the process of establishing a joint venture regarding the whole development. On a positive note, the Group started issuing tenders for contracts of work, thus being in line with their schedule of completion in relation to the Manoel Island development.

Another segment to our price target relates to the final phase of Tigné Point development (Q3), which is expected to be completed in 2023. We value Q3 at €63 million, equivalent to €0.29 per share.

As previously anticipated, the Group continued with the ongoing delivery of the Q2 apartments and continued receiving rental income from the leasing and management of retail space at Pjazza Tigné and the catering units situated at Tigné Point.

Upon taking the above factors into consideration, coupled with the demand we are seeing for the high-end real estate developments, we continue to see potential upside in MIDI's share price. Also, once the Manoel Island development commences and a potential partner is found, we expect the valuation to continue to improve from the current level. We rate these shares a Buy.

Update following issuance of interim financials 2019:

The principal activity of MIDI plc ("MIDI" or the "Group") comprises the development of Tigné Point and the Manoel Island project. H1 2019 was characterised by the ongoing delivery of a number of Q2 apartments, however on a reduced scale when compared to 2018.

In terms of the Manoel Island project, the Group confirmed that the first works contract relating to site enabling works has been awarded and works are now underway. The Group has also commenced the process of identifying a principal contractor to undertake the works associated with phase 1 of the project. This process is envisaged to be concluded by the end of FY19, whereby the construction of the first residential clusters is earmarked to commence in Q1 2020.

During H1 2019, the Group also submitted a full development application for the final phase of Tigné Point development (Q3). Provided that the permit is issued by the end of FY 19, the Group plans to commence works during 2020.

Stock Rating
Price target (1Yr)
Buy
€0.81

Country	Malta
Industry	Real Estate
Ticker	MDI
Price (as at 07/10/2019)	€0.69
Price Target (1 Year)	€0.81
Upside / downside to PT	+17.4%

Market Cap	€147.8million
Shares Outstanding	214.2million
Free Float	59%

Net Dividend Yield*	1.2%
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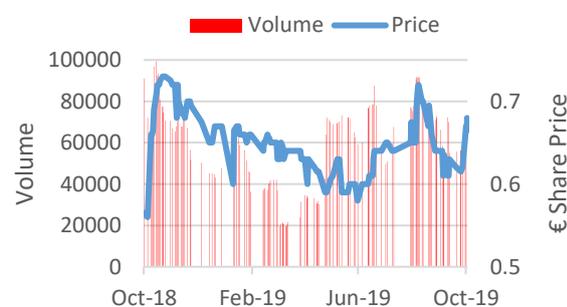
Current P/E*	36.4x
Forward P/E**	38.4x

*Based on the results as at LTM 2019

** CC estimates

1 year Range:
Price and Volume
Movement (20 day
moving average)

Exchange: MSE
 Lowest Price: €0.56
 Highest Price: €0.73



Source: Bloomberg

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As at 30 June 2019, the Board did not declared an interim dividend payment (2018: Nil). The Group typically pays an annual dividend (2018: €1.7 million).

Valuation

Our one year price target is €0.81. The price target is calculated using a Free Cash Flow to Firm ("FCFF") model applied separately to the Group's current operations and to the Manoel Island project respectively. Furthermore, we applied a Discounted Cash Flow (DCF) approach to estimate the value of the Q3 development. We maintained the same discount rates as implemented in our previous coverage based on FY2018 (Manoel Island: WACC 30%, Q3: Discount rate 10%, Current Operations: WACC 7.75%).

MIDI plc €'s (unless otherwise indicated)	FY 2017	FY 2018	LTM 2019	FY2019F	FY2020P
Revenue	4,636,488	52,469,028	26,588,960	16,700,000	16,499,000
Cost of Sales	(3,050,649)	(29,931,681)	(14,441,147)	(6,680,000)	(6,599,600)
Gross Profit	1,585,839	22,537,347	12,147,813	10,020,000	9,899,400
Administrative Expenses and other expenses/income (exl. dep)	(3,798,933)	(3,498,939)	(3,330,783)	(3,299,603)	(3,257,795)
EBITDA	(2,213,094)	19,038,408	8,817,030	6,720,397	6,641,605
Depreciation & Amortisation	(573,007)	(586,594)	(430,202)	(351,286)	(355,853)
EBIT	(2,786,101)	18,451,814	8,386,828	6,369,111	6,285,752
Net Finance Costs	(2,254,643)	(1,942,011)	(1,800,312)	(1,824,950)	(1,514,950)
Share of profit/ (loss) of investment accounted for using the equity method of accounting	26,281,077	1,348,806	1,384,902	1,375,782	1,403,298
Profit Before Tax	21,240,333	17,858,609	7,971,418	5,919,944	6,174,100
Income tax expense	(465,320)	(6,224,069)	(3,914,568)	(2,071,980)	(2,160,935)
Profit Available to Ordinary Equity holders	20,775,013	11,634,540	4,056,850	3,847,963	4,013,165
<i>Earnings Per Share</i>	<i>0.097</i>	<i>0.054</i>	<i>0.019</i>	<i>0.018</i>	<i>0.019</i>

Source: Financial Statements / CC Estimates

Investment Thesis Variables Update

- **Revenue** – Given that the majority of the Q2 apartments were delivered during FY 18, the 2019 LTM revenue figures demonstrate a decline in revenue of 49.3% to €26.6 million. During H1 2019, MIDI continued to deliver the remaining Q2 apartments and as such, we expect revenue under the 'development and sale of property' division to reach €13.4 million and €13.1 million in FY 19 and FY 20 respectively.

Following the transfer of operations of the remaining car parking facilities to a third party together with the sale of 132 car parking spaces to Tigné Mall plc, we expect revenue under 'rental and management of commercial property' segment to taper down to €3.3 million during FY 19. We expect this line of revenue to increase by 3% thereafter.

MIDI plc Revenue - (€'000)	FY 2017	FY 2018	FY2019P	FY2020P
Development and sale of property	184	48,851	13,400	13,100
Rental income	4,452	3,888	3,300	3,399
Total	4,636	52,739	16,700	16,499
% Growth – Sale of property	-96.7%	26378%	-72.6%	-2.2%
% Growth – Rental Income	44.7%	-12.7%	-15.1%	3.0%
Total Growth	-46.6%	1037.5%	-68.3%	-1.2%

Source: Financial Statements / CC Estimates

- **EBIT** – The decline in operating expenses (46.9%) as per 2019 LTM results, declined at a lower rate than revenue (49.3%), which eventually led to a fall in EBIT margin from 35.2% in FY 18 to 31.5% as at 2019 LTM. We expect EBIT margin to improve to 38.1% during FY 19 and FY 20, in line with lower levels of operating expenses forecasted to be incurred by the Group.
- **Operating Expenses** – These mainly comprise of cost of sales and administrative expenses. Cost of sales as per 2019 LTM results decreased by 51.8%, in line with a lower number of Q2 apartments being delivered during H1 2019 as opposed to FY 18. We expect cost of goods sold to amount to €6.7 million and €6.6 million in FY 19 and FY 20 respectively, in line with the projected sales of the remaining Q2 apartments.

The LTM 2019 results also illustrate a decline in administrative expenses net of other operating income, of 4.8% to €3.3 million. We expect administrative expenses to remain at this level during FY 19 and FY 20 in line with the continued delivery of the Q2 apartments and the leasing and management of retail space at Pjazza Tigné and the catering units situated at Tigné Point.
- **Depreciation** – Property that is held by the Group for long-term rental yields or for capital appreciation or both, is classified as investment property and is measured at fair value. Annual depreciation charge is incurred on the Group's land and buildings, plant and integral assets, office equipment and on furniture and fittings respectively. Subsequently, lower levels of depreciation are forecasted.
- **Net Finance Costs** – The Group's finance income is principally composed of amounts owed from joint ventures and income receivable from bank deposits and debt securities investments. We expect the Group to receive a yearly payment amounting to €0.5 million. MIDI's finance costs are mainly composed of interest payable on bank loans and overdrafts and on the Group's €50 million bond. We expect the Group to incur finance costs amounting to €2.3 million in FY 19 and €2 million from FY 20 onwards.
- **Net Profit and Earnings per Share** – Net profit decreased to €4.1 million, translating to an EPS of €0.019 as per 2019 LTM results. We expect net profit to marginally decline to €3.8 million during 2019, mainly reflecting the delivery of a number of Q2 apartments. We anticipate an improvement in net profit during FY 20, in line with lower finance costs being incurred by the Group.
- **Taxation** – A corporate tax rate of 35% on the Group's gross rental income is applied in our valuation.

Key Financial Indicators

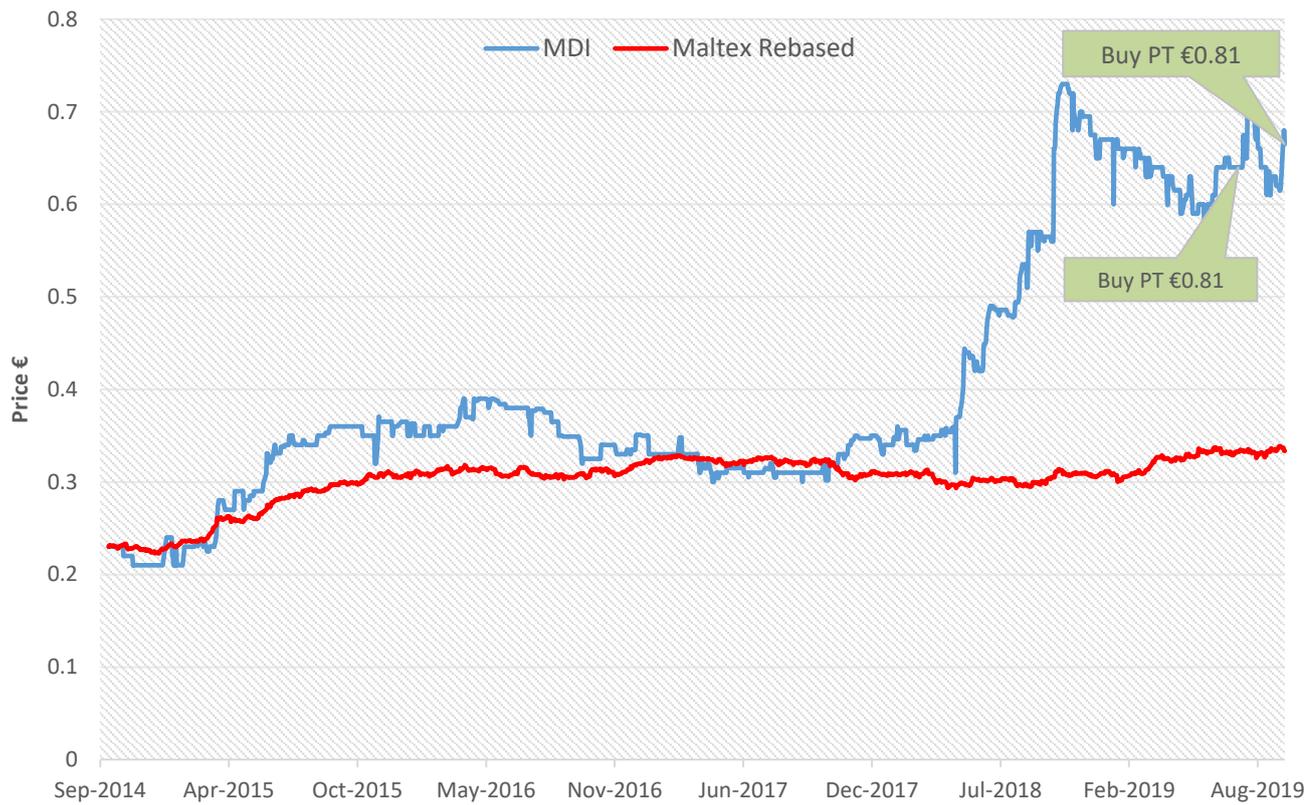
€'000s unless otherwise indicated	Dec-16	Dec-17	Dec-18	2019 LTM ¹
Income Statement				
Revenue	8,674	4,636	52,469	26,589
<i>Growth in Revenue (YoY)</i>	-78.9%	-46.5%	1031.7%	-49.3%
EBITDA	2,205	(2,213)	19,038	8,717
EBITDA Margin (EBITDA / Revenue)	25.4%	-47.7%	36.3%	32.8%
Operating Income (EBIT)	1,632	(2,786)	18,452	8,387
Operating (EBIT) Margin (EBIT / Revenue)	18.8%	-60.1%	35.2%	31.5%
Net Income	(2,516)	20,775	11,635	4,028
Net Margin (Net Income / Revenue)	-29.0%	448.1%	22.2%	15.1%
Earnings per Share (EPS)	(0.012)	0.097	0.054	0.019
<i>Growth in EPS (YoY)</i>	-125.4%	-925.9%	-44.0%	-65.4%
Sustainable Growth Rate in Dividends	-5.8%	25.0%	11.0%	2.6%
Balance Sheet				
Cash and Cash Equivalents	14,173	10,135	13,496	8,397
Inventories	127,077	140,726	123,627	127,408
Current Assets	147,577	154,575	140,278	138,780
Non-Current Assets	56,203	83,834	80,335	80,569
Total Assets	203,780	238,409	220,613	219,349
Current Liabilities	42,547	63,540	51,607	54,028
Non-Current Liabilities	93,873	88,249	71,566	66,614
Total Liabilities	136,420	151,789	123,173	120,642
Total Financial Debt	60,448	66,137	59,303	59,349
Total Equity	67,359	86,621	97,440	98,707
Net Debt	46,275	56,002	45,806	50,952
Shares Outstanding	214,160	214,160	214,160	214,160
Cash flow				
Cash Flow from Operating Activities (CFO)	(3,721)	(8,242)	7,327	(8,799)
Capex	(1,341)	(295)	(141)	n/a
Free Cash Flow (FCF)	(5,062)	(8,538)	7,186	n/a
Cash Flow from Investing Activities	917	107	4,459	4,105
Cash Flow from Financing Activities	10,637	4,190	(8,395)	(6,188)
Ratios				
Profitability				
ROE (Net Income / Common Equity)	-3.6%	27.0%	12.6%	4.1%
ROA (Net Income / Total Assets)	-1.2%	8.7%	5.3%	1.8%
Solvency				
Gearing Ratio Level 1 (Net Debt / Total Equity)	68.7%	64.7%	47.0%	51.6%
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	66.9%	63.7%	55.8%	55.0%
Net Debt / EBITDA	21.0	(25.3)	2.4	5.8
Current Ratio (Current Assets / Current Liabilities)	3.47	2.43	2.72	2.57
Quick Ratio (Acid Test Ratio)	0.48	0.22	0.32	0.21
Interest Coverage Ratio (EBITDA)	0.7	(1.0)	10.3	9.7
Cash from Operations / EBIT	-228%	296%	40%	-105%

Source: Audited Financial Statements and CC workings

¹ LTM 2019 is calculated by adding the interim results (H1) of 2019 with the audited results for FY 2018, less H1 2018

Historical 1 Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
MDI	08.10.2019	€0.69	€0.81	Simon Psaila & Andrew Fenech	Buy
MDI	23.07.2019	€0.64	€0.81	Simon Psaila & Andrew Fenech	Buy



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 share-holder 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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