MIDI p.l.c.

Executive Summary:

We are initiating our coverage on MIDI p.l.c. with a Buy recommendation and a 12-month price target of €0.81. We are of the opinion that the shares have the potential to trade at higher levels once the development works relating to the Manoel Island project gets closer towards commencement, which management envisage to start in Q1 2020 and complete by 2025.

Our Price Target is derived as follows:

Manoel Island Project	€0.49
Tigné Point development (Q3)	€0.29
Value of current operations + Cash- Debt	€0.03
Price Target	**€0.81**

Our buy recommendation is based on the following:

- We value the Manoel Island project at €104 million, equivalent to €0.49 per share.
  - We implemented a WACC of 30% specifically on the Manoel Island project until all development works are completed and a WACC of 25% thereafter. The applied discount rates take into account all the risks involved concerning the project; primarily funding risk, given that the Group does not yet have a strategic partner.
  - Our model is sensitive to the discount rate being applied, and what is ultimately interpreted by the market. If we had to reduce the discount rate to 15% until all development works are completed and utilise a discount rate of 10% thereafter, the value of the Manoel Island project would more than double to €224 million.
- The other segment of our price target relates to the final phase of Tigné Point development (Q3), in which we value at €63 million, equivalent to €0.29 per share.
  - We attached a discount rate of 10% relating to Q3 development given that the development permit submitted by the Group is yet to be approved by the Planning Authority.
  - The applied discount rate also relates to the Group's high degree of funding risk the Group is exposed to as explained above.
- The Group's current operations mainly comprise the sale of the remaining Q2 apartments and rental income derived from the Group's commercial property.
  - In terms of the Group's current operations we used a WACC of 7.75%. The applied WACC reflects MIDI's high exposure to the Maltese property market and is in line with the discount rate utilised by the Group in terms of its investment property.

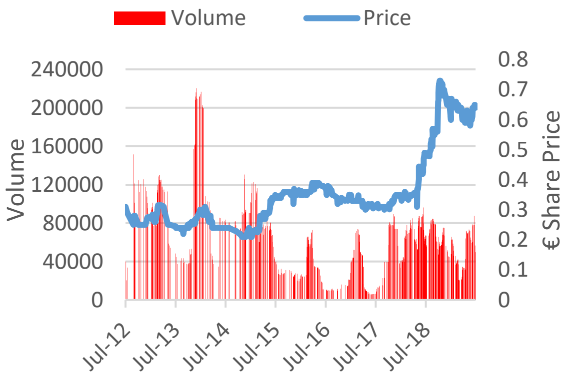
Stock Rating — Buy

Price target (1Yr) — €0.81

Country	Malta
Industry	Real Estate
Ticker	MDI
Price (as at 29/07/2019)	€0.64
Price Target (1 Year)	€0.81
Upside / downside to PT	+26.6%
Market Cap	€137.1 million
Shares Outstanding	214.2 million
Free Float	59%
Dividend Yield	1.25%
Current P/E*	11.8x
Forward P/E	39.1x

* Based on the results for December 18

Price and Volume Movement	Exchange: Malta Stock Exchange (''MSE'')
1 year Range (10 day moving average)	€0.48 - €0.73



Source: Bloomberg

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Company Overview:

MIDI p.l.c. ("MIDI" or the "Group") is a leading developer and administrator within the high-end segment of the property market in Malta.

The Group's principal activity is the development, disposal and management of immovable property situated in Malta at Tigné Point, Sliema and Manoel Island, Gzira.

The Group was originally set up as a consortium to submit a proposal to the Government of Malta ("GoM") which resulted in the acquisition of the Emphyteutical Land at Tigné Point and Manoel Island by title of emphyteusis for a period of ninety-nine years which commenced in June 2000.

The Group also provides heating and cooling systems to various residential and commercial components at Tigné Point through Solutions and Infrastructure Services Limited (SIS), a 100% owned subsidiary.

The Group has two major real estate projects to implement in the near and medium term – the final phase of Tigné Point development (Q3) and the Manoel Island project.

Company Update:

Dividends – In 2018, the Board declared the payment of a final net dividend of €1,713,279 or €0.008 per share. (2018: €1,499,119 or €0.007 per share).

Disposals:

Car park

The Group sold a total of 132 car park spaces to Tigné Mall p.l.c. (TML) during 2018 for a consideration of €4.6 million. In the year under review, the Group decided to transfer the operations of the remaining car parking facilities to a third party operator. Given that the daily operation of the Group does not constitute the car park operation any longer, the asset comprising the whole parking facility amounting to €16.3 million was transferred from property, plant and equipment (PPE) to investment property.

Recent developments:

The Centre office block

The development of The Centre office block was completed during 2017, through a joint venture the Group has with Mid Knight Holdings Limited (MKH). The Centre is fully owned by the latter, except for one floor which was sold during 2017. Total cost relating to this development amounted to approximately €25 million. Management confirmed that this office block is currently fully tenanted.

Q2

During the course of 2018 the Group completed the development of the Q2 residential block comprising 60 apartments and 3 commercial units. Management confirmed that in 2018 the Group delivered 45 Q2 apartments, in addition to a penthouse which was delivered during 2016. The value of the stock relating to the remaining 14 apartments and the 3 commercial units as at the end of 2018 amounted to €26.5 million.

During 2019, the Group delivered 2 Q2 apartments and entered into a promise of sale agreement relating to another 3 apartments. Additionally, the 3 commercial units have been sold with 1 unit already delivered and the other two being subject to a promise of sale agreement. These are expected to be delivered during 2019.

Projects pipeline:

Q3

During 2018, the Group has submitted a development application to the Planning Authority for the final phase of the Tigné Point development. This phase will consist of a residential block comprising 63 apartments and 4 levels of car parking, a 2,453 square meter commercial block and landscaping, paving and embellishment of the Garden Battery and adjoining areas.

Management is envisaging that the permit is approved towards the latter part of 2019 with works commencing in Q1 2020. The Q3 development is budgeted to cost in the region of €35 million and is to be funded through proceeds expected to be generated from the sale of the remaining Q2 apartments and through bank funding.

Manoel Island

The Manoel Island project has been identified as MIDI's principal focus. This project includes the restoration of historical buildings and the development of residential apartments, a five star hotel, green / family park space, a shopping mall, a sports facility complex, a yacht marina together with underground parking facilities.

In 2017, the Group submitted a revised masterplan to that which has already been approved in 1999. The amended masterplan envisage more open public spaces, but includes an addition of 100 apartments to those included in the 1999 masterplan. The revised masterplan also specifies that 8,000 sqm of floor space from Manoel Island will be transferred to MIDI's development at Tigné (Q3).

During 2019, the Planning Authority has approved the revised masterplan and the revised outline permit for the restoration and development of Manoel Island. This approval relates to amendments to the outline development permit originally issued in 1999 and provides a gross developable area of 127,178 sqm. This permit is subject to an appeal lodged by an NGO, however in July 2019, the Planning Authority approved Manoel Island's development excavation permit. Given that the outline permit has been approved, the Group is planning to commence preparatory works by the third quarter of 2019 with development works commencing in early 2020. Management expect the whole development to be completed by 2025.

The Manoel Island project is budgeted to cost in the region of €400 million. In line with a company announcement dated 21st June 2018, MIDI announced that they entered into discussions with Tumas Group Company Limited relating to the possibility of establishing a joint venture concerning the development of Manoel Island. The discussions are ongoing, however to date no transaction has been completed. Management also confirmed that the Group are currently also exploring a number of alternative opportunities.

A detailed overview of the proposed Manoel Island development, highlighting the main differences between the approved 1999 master plan and the 2017 amended masterplan is demonstrated in the table below. overleaf

Table 1: Manoel Island development breakdown

Approved masterplan 1999		Amended masterplan 2017	
Land Use	**Area (sqm)**	**Land Use**	**Area (sqm)**
Residential	79,023	Residential:	
Commercial	17,754	Apartments	80,854
Sports Facilities	3,800	Serviced Apartments	2,228
Fort Manoel	6,100	**Total Residential Area**	**83,082**
Lazzaretto	28,501	Commercial	9,000
		Sports Facilities	3,695
		Public Amenities	1,156
		Fort Manoel	6,100
		Lazzaretto:	
		Commercial	2,266
		Serviced Apartments	4,432
		Hotel	17,447
		Total Lazzaretto Area	**24,145**
		Car park (car spaces)	2,600
		Yacht Marina (berths)	183
Total Area	**135,178**	**Total Area**	**127,178**

Source: Manoel Island Masterplan, Outline Development Application Project Description Statement

Table 2: MIDI's recent developments and projects pipeline

Property	Expected Completion Date	Expected CAPEX
The Centre	Completed Q4 2017	€25 million
Q2	Completed Q1 2018	[1]€21 million
Q3	Q4 2022	€35 million
Manoel Island	Q4 2026	€400 million

Source: Audited Financial Statements and 2019 Financial Analysis Summary

[1] Excluding the commercial space and penthouses

SWOT Analysis

Strengths

- ✓ The property sector in Malta has experienced strong growth over the recent years, and has proven to be a resilient market.
- ✓ The Group's properties are located in prime locations which attracts high-end demand in terms of both buyers and tenants.
- ✓ The Group is successful in identifying appropriate projects for development and in applying its know-how of the property market industry to develop such projects.
- ✓ The majority of the Q2 apartments were delivered in 2018, with half of the remaining apartments already subject to promise of sale agreements.
- ✓ The initiation of operations of The Centre office block enhanced the Group's profitability and strengthened MIDI's position within the real estate industry in Malta.
- ✓ A constant track record of dividend distribution.
- ✓ The Group arguably has an element of goodwill which is not being captured in the financial and/or our valuation model.

Weaknesses

- ✗ No business and geographical diversification. The Group is highly dependent on the real estate industry in Malta.
- ✗ Low liquidity relating to the Group's stock.
- ✗ Highly volatile cash flows depending on the sale of properties.
- ✗ The Manoel Island project requires a significant cash outflow in the short – medium term, whilst it is expected to be profitable in the long term.
- ✗ A high level of funding risk, given the high capital expenditure involved to fund the Manoel Island development.
- ✗ A high degree of construction risk and execution risk given the nature of the Group's projects.

Opportunities

- o The office block within the Q3 development is expected to provide the Group with a higher level of constant rental income receivable. Otherwise, the sale of the Q3 apartments is expected to equip the Group with a significant cash injection which might be utilised to partly finance the Manoel Island development.
- o The development of the Manoel Island is expected to significantly boost the profitability potential of the Group going forward.

Threats

- ! A potential downturn in the Real Estate industry in Malta.
- ! The Group's inability to find a strategic partner relating to the development of Manoel Island might put the whole development on hold given the high capital expenditure involved.
- ! Manoel Island's development permit is subject to an appeal lodged by an NGO. Adverse outcome from this appeal might hinder the development of Manoel Island.
- ! Additional shareholders' capital might be required to finance the development of Manoel Island.
- ! Increase in finance costs, should additional finance be required.
- ! A fall in occupancy rates relating to the Group's commercial property due to increasing competition.
- ! Possible dilution from a potential rights issue.

Investment Stance

We are initiating our coverage on MIDI p.l.c. with a Buy recommendation and a 12-month price target of €0.81.

Given today's share price of €0.64, we are of the opinion that the shares have the potential to trade at higher levels once the development works relating to the Manoel Island project gets closer towards commencement, in which management envisage works to start in Q1 2020. The main difference between our price target and today's share price is the fact that the Group's share price has not yet factored in the full benefits expected to be generated once the Manoel Island Project is fully completed.

We implemented a WACC of 30% specifically on the Manoel Island project until all development works are completed (2026) and a WACC of 25% thereafter. Despite applying discount rates which are relatively on the high side, these take into account all the risks involved concerning the project from now until completion.

Funding risk is deemed to be the largest risk concerning the Manoel Island development. Given the high level of capital expenditure required to fund the whole development (approximately €400 million), the Group's inability to find a strategic partner to fund the project might put the whole development on hold. Our concern of funding risk is sustained through the Group's plan to simultaneously develop the last phase of the Tigné Point (Q3) while works on Manoel Island are expected to be still ongoing. The Q3 development is budgeted to cost around the region of €35 million.

Furthermore, the Group has not yet issued tenders for contracts of work. Delays in the issuance of these tenders may jeopardize the Group's ability to complete the construction works within the expected timeframes. Other elements of risk attached to the Manoel Island development relate to the high degree of construction risk and execution risk involved, the length of time until completion, together with the fact that any delays in finding buyers and suitable tenants can have a significant adverse impact on the Group's financial condition and cash flows.

In line with the above assumptions we value the Manoel Island project at €104 million, equivalent to a value of €0.49 per share. Although we attached a high discount rate to the project, our estimated value still represents 60% of our price target. This solidifies our view that this project has a crucial role to play in terms of the Group's growth going forward.

Our model is sensitive to the discount rate being applied, and what is ultimately interpreted by the market. If we had to reduce the discount rate to 15% until all development works are completed and utilise a discount rate of 10% thereafter, the value of the Manoel Island project would more than double to €224 million.

With regards the final phase of the Tigné Point development, we have assumed that the residential apartments, the office block, together with all car parking spaces will be all sold out once completed at €9,000 per sqm and at €25,000 per parking space. We have utilised a discount rate of 10% relating to this specific project given that the development permit submitted by the Group is yet to be approved by the Planning Authority. The applied discount rate also relates to the Group's high degree of funding risk the Group is exposed to, as explained above. Management is envisaging that the permit is approved towards the latter part of 2019 with works commencing in Q1 2020. The Q3 development is budgeted to cost in the region of €35 million. In line with these assumptions, we value the Q3 development at €63 million, equivalent to a value of €0.29 per share.

The Group's current operations mainly comprise the sale of the remaining Q2 apartments and rental income derived from the Group's commercial property. In line with discussions with management, we expect the Group to deliver half of the remaining apartments in 2019 with the other half expected to be delivered in 2020. Given that all payments relating to these apartments were settled in full in prior years, the consequent transfer from inventory to cost of sales was re-classified as working capital within our valuation.

In terms of the Group's current operations we used a WACC of 7.75%. The applied WACC reflects MIDI's high exposure to the Maltese property market and is in line with the discount rate utilised by the Group in terms of its investment property. We applied a 3% terminal growth rate.

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.

Given that development works relating to both the Q3 development and the Manoel Island project are expected to commence in 2020, and are anticipated to be completed by 2023 and 2025 respectively, the below figures exclude these projects and only include the Group's current operations.

In terms of the Group's current operations we used a weighted average cost of capital (WACC) of 7.75%. The applied WACC reflects MIDI's high exposure to the Maltese property market and is in line with the discount rate utilised by the Group in terms of its investment property. We applied a 3% terminal growth rate.

	FY 2017	FY 2018	FY2019F	FY2020P	FY2021P
	€	€	€	€	€
Revenue	4,636,488	52,469,028	17,200,531	17,014,547	4,031,984
Cost of Sales	(3,050,649)	(29,931,681)	(7,568,234)	(7,486,401)	(1,774,073)
Gross Profit	**1,585,839**	**22,537,347**	9,632,298	**9,528,146**	**2,257,911**
Other operating income / expenses	134,147	173,997	173,997	173,997	173,997
Administrative Expenses	(3,933,080)	(3,672,936)	(3,612,112)	(3,573,055)	(2,500,000)
EBITDA	**(2,213,094)**	**19,038,408**	6,194,183	**6,129,089**	**(68,092)**
Depreciation & Amortisation	(573,007)	(586,594)	(351,286)	(355,853)	(360,487)
EBIT	**(2,786,101)**	**18,451,814**	5,842,897	**5,773,235**	**(428,579)**
Movement in fair value of investment property	-	-	-	-	-
Finance Income	243,338	512,947	485,050	485,050	485,050
Finance Costs	(2,497,981)	(2,454,958)	(2,310,000)	(2,000,000)	(2,000,000)
Share of profit/ (loss) of investment accounted for using the equity method of accounting	26,281,077	1,348,806	1,375,782	1,403,298	1,431,364
Impairment charge on investment in subsidiary	-	-	-	-	-
Profit Before Tax	**21,240,333**	**17,858,609**	5,393,730	**5,661,583**	**(512,166)**
Income tax expense	(465,320)	(6,224,069)	(1,887,805)	**(1,981,554)**	**-**
Profit Available to Ordinary Equity holders	**20,775,013**	**11,634,540**	3,505,924	**3,680,029**	**(512,166)**
Earnings Per Share	*0.097*	*0.054*	0.016	*0.017*	*-0.002*

Source: Audited Financial Statements and CC estimates

Key Assumptions – Manoel Island

- Management expect development works to commence in early 2020 and anticipate the whole development to be completed by 2025. However, in line with the high level of capital expenditure involved and given that the discussions relating to the possibility of finding a strategic partner have not yet resulted into a material transaction, we have assumed that development works will commence in 2021 and expect the whole project to be finalised by 2026.

- In line with the management's confirmation that the project will be completed in clusters, the below table specifies our expected completion date concerning all developments within the Manoel Island project. This table also includes rental rates achievable at Manoel Island. The rental rate assumptions are based on similar high-end real estate developments across several locations in Malta.

Table 3: Manoel Island development's expected completion date timeline and expected rental rates

Development	Expected Completion Date	Purpose	Rental / Sales Rate - €
Residential - South Cluster	Q4 2022	For Sale	9,000/sqm
Serviced Apartments	Q4 2022	To Let	400/sqm
Car Park	Q4 2022	To Let	1,000/parking space
Residential - North Cluster	Q4 2023	For Sale	9,000/sqm
Retail Complex	Q4 2024	To Let	380/sqm
Sports Facility Complex	Q4 2024	To Let	360/sqm
Yacht Marina	Q4 2025	To Let	18,000/ berth

Source: Presentation to Financial Intermediaries 28th May 2019 and CC Estimates

- The Manoel Island project also includes the development of the Lazzaretto which is envisaged to be restored and converted into a leading 5 star hotel with the possibility of a Casino. Given that the Lazzaretto development is expected to be the last phase of the Manoel Island project, and given the lack of information concerning this specific development, we have excluded the Lazzaretto development from our valuation. As a result we reduced the overall level of capital expenditure, thus only including the capital expenditure expected to be incurred specifically on the developments depicted in the above table. However, we consider this to be a further reinforcement of our investment stance.

- We have utilised a discount rate of 30% until the whole project is completely finalised (2026). Thereafter, we have utilised a discount rate of 25%. The implied discount rates are based on:

➔ The high level of capital expenditure involved (circa €400 million). The Group's inability to find a strategic partner to fund the project might put the whole development on hold. To date no material transaction has yet been completed. As at 31st December 2018, the Group has a cash balance of €13.5 million.

➔ During 2018, the Group has submitted a development application to the Planning Authority for the final phase of Tigné Point development (Q3). This project is budgeted to cost around the region of €35 million, thus strengthening our concern relating to the Group's high level of funding risk.

➔ The Group has not yet issued tenders for contracts of work. Delays in the issuance of these tenders may jeopardize the Group's ability to complete the construction works within the expected timeframes.

➔ The high degree of construction risk and execution risk involved.

- → The length of time until completion.

- → Delays in finding buyers relating to the residential apartments and suitable tenants concerning the other developments can have a significant adverse impact on the Group's financial condition and cash flows.

- We have applied a 3% terminal growth rate beyond 2026.

- Given the current high demand for such developments in Malta, we have assumed full occupancy in terms of the residential apartments which will be available for sale, the serviced apartments, the retail outlets, the shopping complex, the yacht marina and the parking facilities.

- In line with the above assumptions we value the Manoel Island project at €104 million, translating into a book value per share of €0.49. Although we attached a high discount rate to the project, our estimated value still represents 60% of our price target. This solidifies our view that this project has a crucial role to play in terms of the Group's growth going forward.

Key Assumptions – Q3

- Upon completion this phase will consist of a residential block comprising 63 apartments, a 2,453 square meter commercial block and 4 levels of car parking as demonstrated in the table below.

- In arriving at our value of the Q3 development, we have assumed that the residential apartments, the office block together with all car parking spaces will be all sold out once completed. The rate assumptions are based on similar high-end real estate developments across several locations in Malta.

Table 4: Q3 development's expected completion date timeline and expected rental rates

Development	Expected Completion Date	Sqm	Rental / Sales Rate - €
Residential Block	Q4 2022	12,373	9,000/sqm
Office Block	Q4 2022	2,453	360/sqm
Car Parking Spaces	Q4 2022	118 parking spaces	25,000/parking space

Source: Presentation to Financial Intermediaries 28th May 2019 and CC Estimates

- Management is envisaging that the permit is approved towards the latter part of 2019 with works commencing in Q1 2020.

- The Q3 development is budgeted to cost in the region of €35 million and is to be funded through proceeds expected to be generated from the sale of the remaining Q2 apartments and through bank funding.

- We have utilised a discount rate of 10% in terms of Q3 given that the development permit submitted by the Group is yet to be approved by the Planning Authority. The applied discount rate also relates to the Group's high degree of funding risk the Group is exposed to.

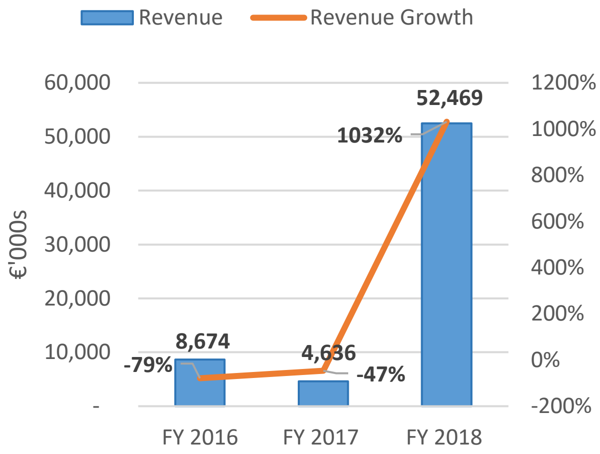
- In line with these assumptions, we value the Q3 development at €63 million, being equivalent to €0.29 per share.

Investment Thesis Variables

- **Revenue**

Rental and management of commercial property

One segment of the Group's revenue comprises rental income generated from the leasing and management of retail space at Pjazza Tigné and the catering units situated at Tigné Point, together with the management of the public car park up until November 2018. This revenue stream also represents income generated through the operations of SIS which include the provision of HVAC services.



Source: Audited Financial Statements

Revenue generated from the rental and management of commercial property segment in 2018 decreased by €0.6 million or 12.7% to €3.9 million following the transfer of operations of the remaining car parking facilities to a third party. Going forward we expect rental income to taper down to €3.8 million during 2019 as a result of the sale of 132 parking spaces to TML in 2018. Going forward, we expect rental income to increase by 3% per annum.

Development and sale of property

The Group's other revenue stream relates to the development and sale of property, primarily consisting of the construction and sale of residential units within Tigné Point and Manoel Island. During 2018 the Group delivered 45 Q2 apartments resulting in a revenue generation of €48.9 million. The value of the stock relating to the remaining 14 apartments and the 3 commercial units as at the end of 2018 amounted to €26.5 million.

During 2019, management confirmed that the Group delivered 2 additional Q2 apartments and entered into a promise of sale agreement relating to another 3 apartments. Furthermore, management also confirmed that the 3 commercial units have been sold with 1 unit already delivered and the other 2 being subject to a promise of sale agreement. These are expected to be delivered during 2019. In this regard we expect the Group to generate a total revenue €13.4 million in 2019 from the development and sale of property.

In line with the demand for these type of apartments, we expect the rest of the Q2 apartments with a total re-sale value of €13.1 million to be delivered in 2020. Given that the Q3 development and the Manoel Island project are anticipated to be completed by 2023 and 2025 respectively, we do not expect the Group to generate any revenue from the sale of properties in 2021 and 2022.

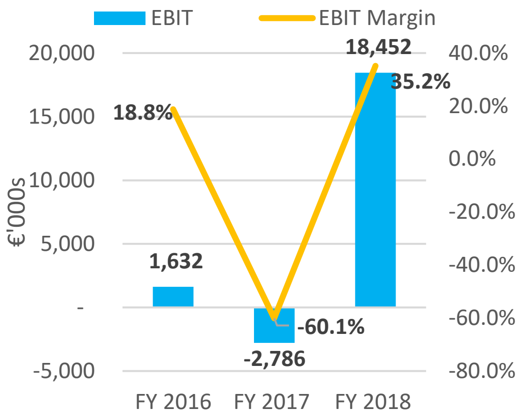
Table 5: MIDI's revenue breakdown

Revenue (€'000)	FY 2017	FY 2018	FY2019	FY2020P	FY2021P	FY2022P
Development and sale of property	184	48,851	13,400	13,100	-	-
Rental income	4,452	3,888	3,800	3,914	4,032	4,153
Total	**4,636**	**52,739**	**17,200**	**17,014**	**4,032**	**4,153**
% Growth – Sale of property	-96.7%	26378%	-73.6%	-2.2%	-100%	0.0%
% Growth – Rental Income	44.7%	-12.7%	-2.3%	3.0%	3.0%	3.0%
Total Growth	**-46.6%**	**1037.5%**	**-67.4%**	**-1.1%**	**-76.3%**	**3.0%**

Source: Audited Financial Statements and CC Estimates

- **EBIT** – EBIT in 2018 increased to €18.5 million, from negative €2.8 million in 2017. The significant increase in revenue which has been initiated through the delivery of the majority of the Q2 apartments during 2018, led to an increase in EBIT margin from negative 60.1% in 2017 to 35.2% in 2018.

  In line with the expected delivery of the remaining Q2 apartments during 2019 and 2020, we expect EBIT margin to marginally taper down to 34% in both 2019 and 2020 respectively.



Source: Financial Statements / CC Estimates

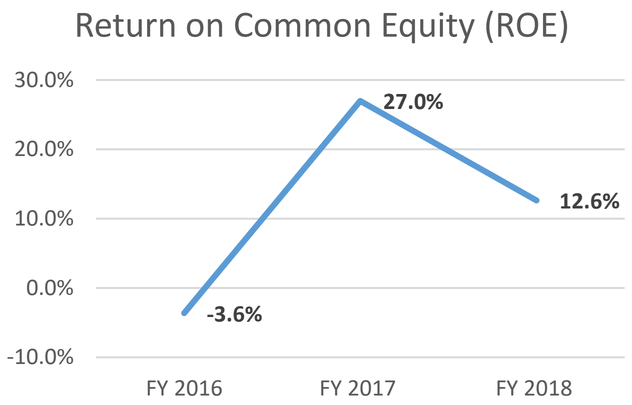
- **Administrative Expenses** – These mainly comprise employee benefit expense, directors' emoluments and other related expenses. During 2018, the latter decreased by 6.7% to €3.7 million. We assumed that administrative expenses are to remain at this level and amount to €3.6 million in both 2019 and 2020 respectively.

- **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. Following the transfer of the whole car park operation to a third party operator, the Group reclassified an amount of €16.3 million reflecting the value of the Group's whole parking facility from PPE to investment property. Subsequently, lower levels of depreciation are forecasted.

- **Finance Income** – The Group's finance income is principally composed of amounts owed from joint ventures and income receivable from bank deposits and debt securities investments. Non-current advances at Group level comprise amounts receivable from MKH. These consist of an amount of €6 million maturing in 2027 and an amount of €3.7 million maturing in 2029. These loans are unsecured and are subject to a fixed interest rate of 5%. As a result, we expect the Group to receive a yearly payment amounting to €0.5 million. Given the unpredictable nature of interest income receivable on bank deposits and on debt securities investments, we are not anticipating any income to be received by the Group in such respect.

- **Finance Costs** – During 2018 the Group incurred finance costs amounting to €2.5 million and are mainly composed of interest payable on bank loans and overdrafts and on the Group's €50 million bond. Consequently, we expect the Group to incur finance costs amounting to €2.3 million in 2019 and €2 million from 2020 onwards. The expected decline in finance costs relates to a €10 million loan which is expected to be settled within one year. The interest payable on this loan is of 3.1%, whilst the interest payable on the bond is of 4% annually.

- **Net Profit and Earnings per Share –** Net profit decreased from €21.2 million in 2017 to €17.9 million in 2018. This translates to an EPS of €0.097 in 2017 compared to €0.054 in 2018. It is key to note that net profit and EPS in 2017 have benefited from positive results derived from MIDI's joint venture with MKH following the commencement of operations of The Centre office block and from a one-time fair value gain on MKH's immovable property. Given that the Group is not expected to deliver additional properties in the short-term other than the remaining Q2 apartments, we expect net profit to taper down to €3.5 million, €3.7 million in 2020 and decline to negative €0.5 million in 2021.



Source: Audited Financial Statements

- **Taxation –** A corporate tax rate of 35% on the Group's gross rental income is applied in our valuation.

- **Fair Value Movements –** We assumed that there will be no fair value movements in our valuation.

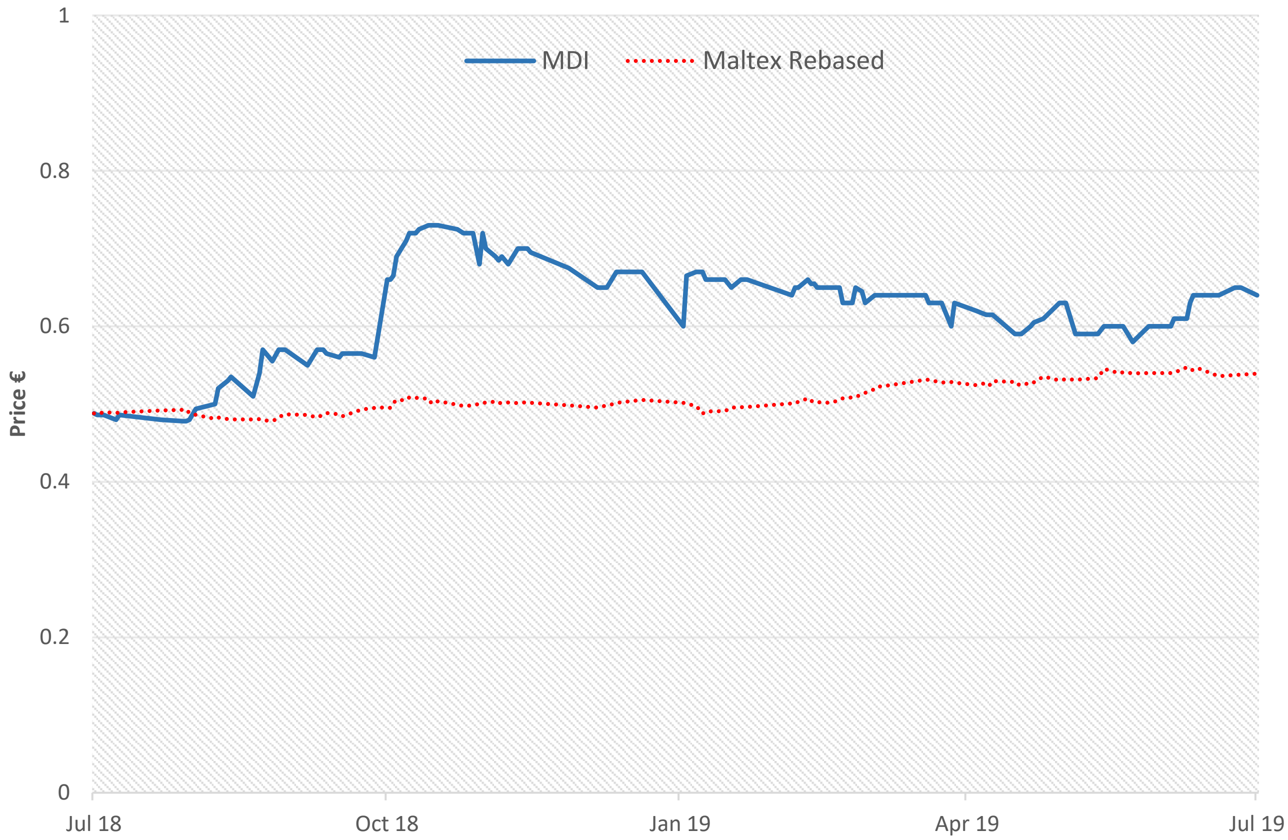
Key Financial Indicators

For the years ending 31st December	2016 €'000	2017 €'000	2018 €'000
Income Statement			
Revenue	8,674	4,636	52,469
Growth in Revenue (YoY)	-78.9%	-46.5%	1031.7%
EBITDA	2,205	(2,213)	19,038
EBITDA Margin (EBITDA / Revenue)	25.4%	-47.7%	36.3%
Operating Income (EBIT)	1,632	(2,786)	18,452
Operating (EBIT) Margin (EBIT / Revenue)	18.8%	-60.1%	35.2%
Net Income	(2,516)	20,775	11,635
Net Margin (Net Income / Revenue)	-29.0%	448.1%	22.2%
Earnings per Share (EPS)	(0.012)	0.097	0.054
Growth in EPS (YoY)	-125.4%	-925.9%	-44.0%
Sustainable Growth Rate in Dividends	-5.8%	25.0%	11.0%
Balance Sheet			
Cash and Cash Equivalents	14,173	10,135	13,496
Inventories	127,077	140,726	123,627
Current Assets	147,577	154,575	140,278
Non-Current Assets	56,203	83,834	80,335
Total Assets	203,780	238,409	220,613
Current Liabilities	42,547	63,540	51,607
Non-Current Liabilities	93,873	88,249	71,566
Total Liabilities	136,420	151,789	123,173
Total Financial Debt	60,448	66,137	59,303
Total Equity	67,359	86,621	97,440
Net Debt	46,275	56,002	45,806
Shares Outstanding	214,160	214,160	214,160
Cash flow			
Cash Flow from Operating Activities (CFO)	(3,721)	(8,242)	7,327
Capex	(1,341)	(295)	(141)
Free Cash Flow (FCF)	(5,062)	(8,538)	7,186
Cash Flow from Investing Activities	917	107	4,459
Cash Flow from Financing Activities	10,637	4,190	(8,395)
Ratios			
Profitability			
Return on Common Equity (Net Income / Common Equity)	-3.6%	27.0%	12.6%
Return on Assets (Net Income / Total Assets)	-1.2%	8.7%	5.3%
Solvency			
Gearing Ratio Level 1 (Net Debt / Total Equity)	68.7%	64.7%	47.0%
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	66.9%	63.7%	55.8%
Net Debt / EBITDA	21.0	(25.3)	2.4
Current Ratio (Current Assets / Current Liabilities)	3.47	2.43	2.72
Quick Ratio (Acid Test Ratio)	0.48	0.22	0.32
Interest Coverage Ratio (EBITDA)	0.7	(1.0)	10.3
Cash from Operations / EBIT	-228%	296%	40%

Source: Audited Financial Statements

Historical 1 Year Price Target

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



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	
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 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	
Cash Flow from Operating Activities (CFO)	Cash generated from the principal revenue producing activities of the Group/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 Group/Company.
Cash Flow from Financing Activities	Cash generated from the activities that result in change in share capital and borrowings of the Group/Company.
Capex	Represents the capital expenditure incurred by the Group/Company in a financial year.
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 Assets	What the Group/Company owns which can de 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 Group/Company owes which can de 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 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 Gearing Ratio Level 1 Gearing Ratio Level 2	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. Is calculated by dividing Total Liabilities by Total Assets.
Net Debt / EBITDA	The Net Debt / EBITDA ratio measures the ability of the Group/Company to refinance its debt by looking at the EBITDA.

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 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, 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