

Main Street Complex p.l.c.



Executive Summary:

“We are initiating our coverage on Main Street Complex plc (“MSC” or the “Company”) with a Sell recommendation and a 12-month price target of €0.52.

MSC is currently trading at 31.4x earnings (2019 LTM). Based on our 2019 projected earnings and the current price, the forward P/E ratio is at an elevated level of 28.2x, which is higher in comparison to peers (TML: 21.6x and PZC: 22.3x). Nevertheless, we are of the view that the Company’s share price of €0.60, which is below IPO price of €0.65, already reflects the rental income expected to be generated by MSC in the foreseeable future.

A major concern associated with the Company’s overall operations stems from the increasing popularity of e-commerce which may negatively impact the performance of retail outlets. This concern is sustained through the mall’s location and through the threat of new entrants in the shopping mall sector.

Current net dividend yield as per 2019 LTM results stands at 3%. MSC’s dividend pay-out ratio is in line with the director’s intentions to make the entire annual distributable profits to its shareholders (2018: 100% and 2019 LTM: 95%), leaving little in reserve to take advantage of any potential growth opportunities.

Given today’s share price of €0.60, we are of the opinion that the Company’s share price is overvalued. In line with MSC’s limited growth opportunities, sectoral risks, the high pay-out ratio and small market cap for which we would expect a premium, we are of the view that MSC’s current dividend yield offering is relatively on the low side and as such, we rate the shares a Sell.

Our sell recommendation is based on our view that the shares at current price levels are expensive. We would expect the price to adjust to a dividend yield of around 4% given the risk highlighted above. Our price target factors this, together with the expected dividend per share as a result of an improved performance in FY2019.

Company Overview:

MSC is engaged in the leasing and managing of Main Street Complex, a shopping and entertainment mall in Paola, Malta.

MSC opened in 2004 and includes a number of retail, catering, services and entertainment outlets spread over five floors with more than 7,000 sqm of internal space. The diversified mix of shops available at the complex vary from fashion wear to jewellery, gadgets, novelties, toys, hair salon and beauty products together with a 450 sqm Laser Tag amusement area, a cafeteria and a Bingo hall on the top floor.

MSC is located in Paola and is recognised as the leading commercial centre in the south of Malta. The complex is easily accessible to

Stock Rating

Sell

Price target (1Yr)

€0.52

Country
Industry

Malta
Real Estate (Commercial)

Ticker Symbol

MSC

Price (as at 15/10/2019)

€0.60

Price Target (1 Year)

€0.52

Upside / downside to PT

-13.8%

Market Cap

€11.6 million

Shares Outstanding

19.4 million

Free Float

65.9%

Net Dividend Yield

3.0%

Current P/E*

31.4x

Forward P/E

28.2x

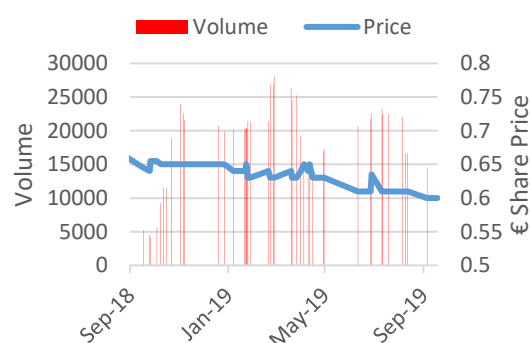
* Based on the 2019 LTM results

1-Year Range:

Exchange: Malta Stock Exchange (“MSE”)

Price Movement and Volume Movement (20 day moving average)

Lowest Price: €0.68
Highest Price: €0.60



Source: Bloomberg

Market Research



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residents, students and visitors of the south of Malta with direct bus routes to Antoine de Paule Square.

The Company also operates a 22 vehicle car park with direct access into the complex. As from FY 2019, MSC started charging a fee of €1/hr for anyone accessing the mall car park. During FY 2019, MSC also started receiving additional income derived from a solar photovoltaic system which was installed during FY 2018.

Company Update:

- *Dividends* – As at 30 June 2019, the Board declared an interim dividend of €161,000 or €0.008 per share (2018: €121,787 or €0.006 per share). During FY 2018, the Group issued a total dividend payment of €311,950 or €0.016 per share.

SWOT Analysis

Strengths

- ✓ The mall is regarded to be one of the leading shopping mall in the south of Malta
- ✓ Stable revenue streams due to the long term nature agreements with the respective tenants
- ✓ A track record of high occupancy of outlets within the mall
- ✓ Tenants within the mall operate in various lines of business including clothing, electronics and catering
- ✓ Constant distribution of dividends since IPO.

Opportunities

- A potential acquisition/addition to the mall might increase and boost MSC's profitability potential moving forward
- The new solar photovoltaic installed during FY 2018 is recognised to provide the Company with an additional source of income

Weaknesses

- ✗ The Company is highly dependent on the real estate industry in Malta
- ✗ Very low liquidity relating to the Company's stock
- ✗ Limited internal growth opportunities
- ✗ The mall is not considered to be located in a prime location

Threats

- ! A potential downturn in the tourism industry and the property market in Malta. This may possibly lead to a depreciation of the Company's assets
- ! A fall in occupancy rates of outlets might undermine the revenue and profitability potential of the Company
- ! Online shopping might hinder traditional shopping

Investment Stance

We are initiating our coverage on Main Street Complex plc with a Sell recommendation and 12-month price target of €0.52.

In line with management's confirmation, we have assumed full occupancy within the mall from FY 2019 onwards. Our model also takes into account MSC's new revenue streams concerning the operation of the mall car park and income generated from the solar photovoltaic system which was installed during FY 2018.

A major concern associated with the Company's overall operations stems from the increasing popularity of e-commerce which may negatively impact the performance of retail outlets. This concern is sustained through the mall's location and through the threat of new entrants in the shopping mall sector.

Current net dividend yield as per 2019 LTM results stands at 3%. MSC's dividend pay-out ratio policy is in line with the director's intentions to make the entire annual distributable profits to its shareholders (2018: 100% and 2019 LTM: 95%), leaving little in reserve to take advantage of any potential growth opportunities.

The Company is currently trading at 31.4x earnings (2019 LTM). Based on our 2019 projected earnings and the current price, the forward P/E ratio is at an elevated level of 28.2x.

Given today's share price of €0.60, we are of the opinion that the Company's share price is overvalued. In line with MSC's limited growth opportunities, the sectoral risks, high pay-out ratio and small market cap for which we would expect a premium, we are of the view that current MSC' dividend yield offering is relatively on the low side and as such, we rate the shares a Sell.

Valuation

Our 1-year price target is €0.52. The price target is calculated using a Free Cash Flow to Firm ("FCFF") model and a discount rate (WACC) of 7.8%. The applied discount rate reflects the high exposure of MSC to the Maltese property market. We applied a 2.5% terminal value growth rate. We also applied a dividend yield comparability analysis with similar listed companies on the Malta Stock Exchange (MSE).

€'s unless otherwise indicated	FY 2017	FY 2018	LTM2019	FY2019F	FY2020P	FY2021P
Revenue	734,292	742,341	784,346	830,468	850,824	871,688
Operating expenses	(81,914)	(81,072)	(84,579)	(90,696)	(92,920)	(95,198)
Administrative expenses	(37,437)	(77,133)	(98,744)	(100,721)	(103,190)	(105,720)
EBITDA	614,941	584,136	601,023	639,050	654,715	670,770
Depreciation	(88,914)	(99,331)	(100,413)	(100,882)	(101,602)	(102,322)
EBIT	526,027	484,805	500,610	538,168	553,112	568,447
Finance Income	1,614	253	253	253	253	253
Finance Costs	(111,697)	(45,687)	(1,242)	(1,000)	(1,000)	(1,000)
Profit Before Tax	415,944	439,371	499,621	537,421	552,365	567,700
Income tax expense	(85,601)	(127,201)	(129,698)	(124,570)	(127,624)	(130,753)
Profit Available to Ordinary Equity holders	330,343	312,170	369,923	412,851	424,742	436,947
<i>Earnings Per Share</i>	<i>0.017</i>	<i>0.016</i>	<i>0.019</i>	<i>0.0213</i>	<i>0.0219</i>	<i>0.0225</i>

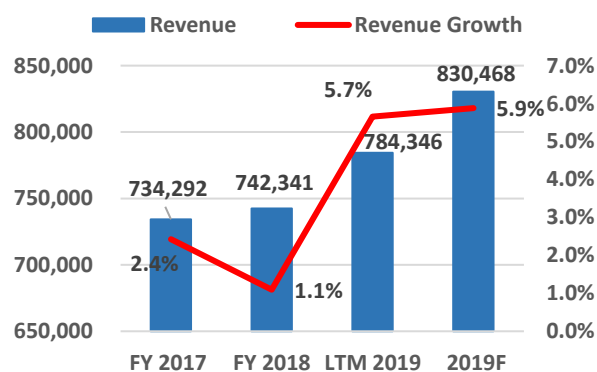
Source: Audited Financial Statements and CC estimates

Investment Thesis Variables

• Revenue

The Company's revenue is principally derived from concession income charged to tenants for the management and short term lets of retail outlets within the mall. As at June 2019, the Company confirmed that the outlets within the mall were fully occupied.

As per 2019 LTM results, revenue increased by 5.7% to €784,346 in line with full occupancy experienced during H12019. As from FY 2019, MSC started charging a fee of €1/hr for anyone accessing the mall car park. In the year under review, MSC also started receiving additional income derived from a solar photovoltaic system which was installed during FY2018.



Source: Audited Financial Statements and CC Estimates

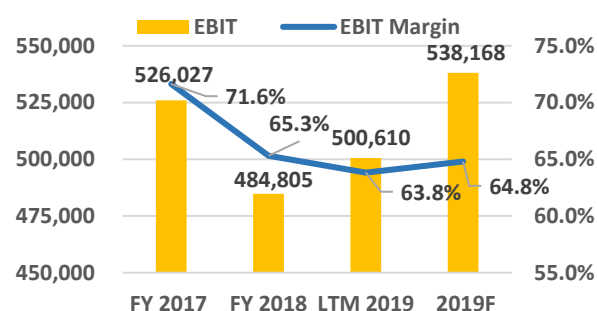
In line with our view that the mall will continue operating at full occupancy, we anticipate rental income to increase by 2.5% in 2019 and amount to €809,468. Thereafter, we expect rental income to increase by 2.5% on

a yearly basis. As from FY2019 we anticipate that MPC will generate €12,000 and €9,000 per annum from the car park and the solar photovoltaic system respectively. Revenue derived from the operation of the car park is expected to increase by 1% annually.

Revenue - €	FY2017	FY2018	2019F	2020P	2021P
Rental Income	734,292	742,341	809,468	829,704	850,447
Car Park	-	-	12,000	12,120	12,241
Solar Photovoltaic System	-	-	9,000	9,000	9,000
Total Revenue	734,292	742,341	830,468	850,824	871,688
% Growth - Rental Income	2.4%	1.1%	9.0%	2.5%	2.5%
% Growth - Car Park	0.0%	0.0%	100.0%	1.0%	1.0%
% Growth - Solar Photovoltaic System	0.0%	0.0%	100.0%	0.0%	0.0%
Total - % Growth	2.4%	1.1%	11.9%	2.5%	2.5%

Source: Audited Financial Statements and CC Estimates

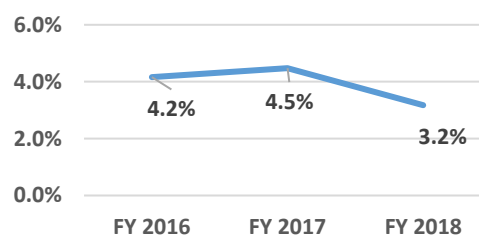
- EBIT** – The increase in administrative expenses (28%) and in operating expenses (4.3%) as per 2019 LTM results, increased at a higher rate than revenue (5.6%), which eventually led to a fall in EBIT margin from 65.3% in 2018 to 63.8% as at 2019 LTM. We expect EBIT margin to improve to 64.8% in 2019, in line with the increase in revenue expected to be generated by MSC moving forward.



Source: Audited Financial Statements and CC Estimates

- Operating and administrative Expenses** – These mainly comprise maintenance costs, cleaning costs, utility and security costs, together with other advertising and promotion costs. We expect operating expenses to amount to €90,696 during 2019. Administrative expenses comprise directors' fees, professional fees, listing fees together with other corporate and general expenses required to sustain the operations of the complex. We anticipate administrative expenses to amount to increase to €100,721 during FY 2019.
- Depreciation** – Annual depreciation charge is incurred on the Company's land and buildings, on plant, machinery and equipment and on furniture, fixtures and fittings. In line with the Group's annual recurring capital expenditure, we expect annual depreciation to increase to marginally increase to €100,882 during FY2019.
- Finance Costs** – During 2018 MSC utilised the proceeds derived from the IPO to fully settle the Company's bank loan facilities. Subsequently, low levels of finance costs are forecasted.
- Net Profit** – Net profit increased by 18.5% to €369,923, translating into an EPS of €0.019 as per 2019 LTM results. This improvement has been initiated through the decline in finance costs following MSC's full settlement of the respective bank loan facilities as discussed above. In line with MSC's anticipated improvement in turnover, we expect net profit and EPS to increase to €412,851 or €0.021 per share during 2019.

Return on Common Equity



Source: Audited Financial Statements and CC Estimates

- Tax** – The Company is subject to a tax rate of 15% on MSC's gross rental income, whilst income generated from the solar photovoltaic system is taxed at 35%.

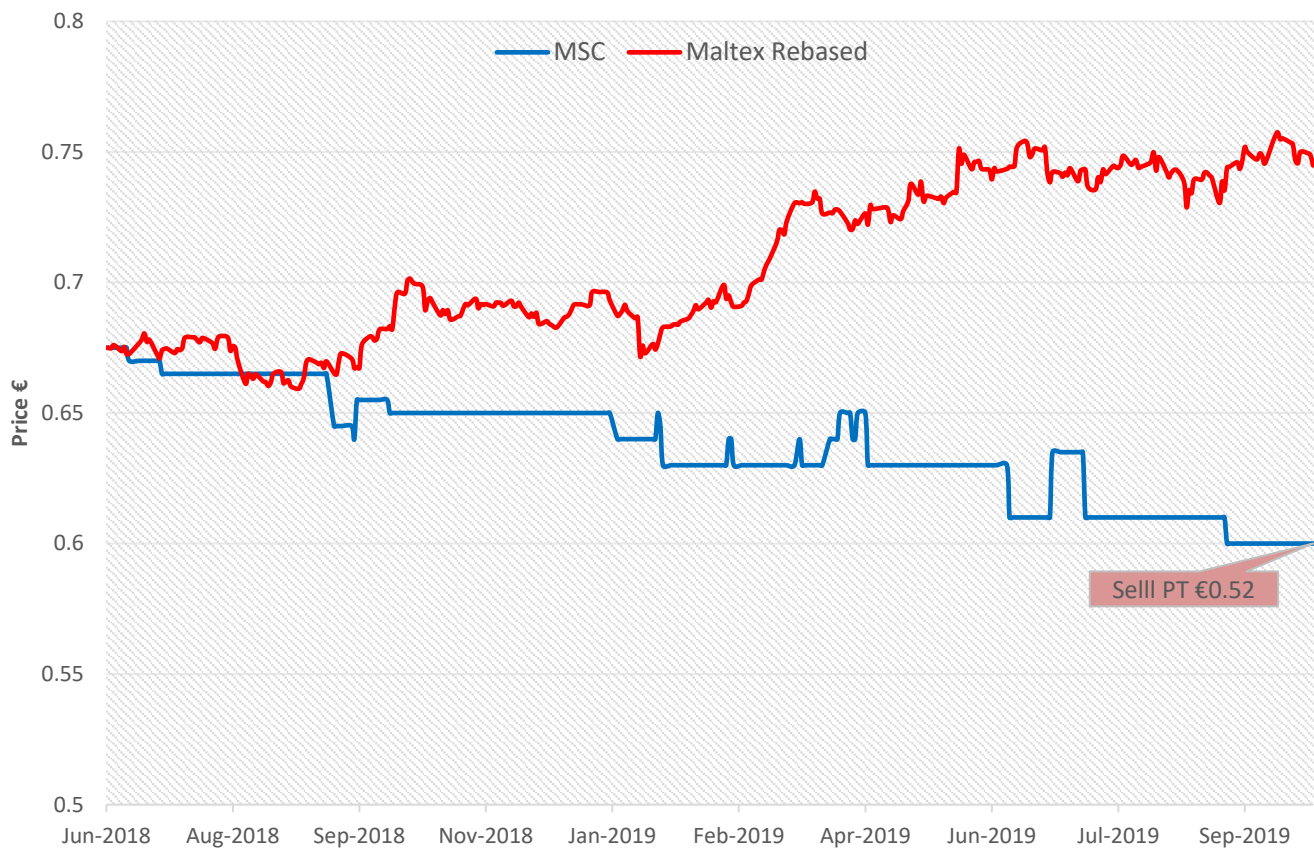
Key Financial Indicators

For the years ending 31st December	2016	2017	2018	2019 LTM
	€	€	€	€
Income Statement				
Revenue	716,930	734,292	742,341	784,346
<i>Growth in Revenue (YoY)</i>	4.0%	2.4%	1.1%	5.7%
EBITDA	594,942	614,941	584,136	601,023
EBITDA Margin (EBITDA / Revenue)	83.0%	83.7%	78.7%	76.6%
Operating Income (EBIT)	478,624	526,027	484,805	500,610
Operating (EBIT) Margin (EBIT / Revenue)	66.8%	71.6%	65.3%	63.8%
Net Income	205,291	330,343	312,170	369,923
Net Margin (Net Income / Revenue)	28.6%	45.0%	42.1%	47.2%
Earnings per Share (EPS)	0.0106	0.0170	0.0161	0.0191
<i>Growth in EPS (YoY)</i>	78.2%	60.9%	-5.5%	18.5%
Sustainable Growth Rate in Dividends	4.2%	4.5%	0.0%	0.2%
Balance Sheet				
Cash and Cash Equivalents	58,187	17,564	120,284	109,900
Current Assets	404,007	438,753	313,699	343,465
Non-Current Assets	12,000,000	13,000,000	12,990,826	12,940,252
Total Assets	12,404,007	13,438,753	13,304,525	13,283,717
Current Liabilities	711,506	647,965	390,015	363,518
Non-Current Liabilities	4,970,843	4,750,807	1,284,127	1,284,127
Total Liabilities	5,682,349	5,398,772	1,674,142	1,647,645
Total Financial Debt	3,387,210	3,036,226	-	-
Total Equity	6,721,658	8,039,981	11,630,383	11,636,072
Net Debt	3,329,023	3,018,662	-	-
Shares Outstanding	19,384,619	19,384,619	19,384,619	19,384,619
Cash flow				
Cash Flow from Operating Activities (CFO)	378,933	285,221	623,163	150,143
Capex	-	-	(90,157)	-
Free Cash Flow (FCF)	378,933	285,221	533,006	150,143
Cash Flow from Investing Activities	-	-	(90,157)	-
Cash Flow from Financing Activities	(370,934)	(325,844)	(430,286)	(160,527)
Ratios				
Profitability				
ROE (Net Income / Common Equity)	4.2%	4.5%	3.2%	3.2%
ROA (Net Income / Total Assets)	1.7%	2.5%	2.3%	2.8%
Solvency				
Gearing Ratio Level 1 (Net Debt / Total Equity)	49.5%	37.5%	0.0%	0.0%
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	45.8%	40.2%	12.6%	12.4%
Net Debt / EBITDA	5.6x	4.9x	-	-
Current Ratio (Current Assets / Current Liabilities)	0.57x	0.68x	0.80x	0.94x
Interest Coverage Ratio (EBITDA)	4.93x	5.51x	12.79x	-
Cash from Operations / EBIT	0.79x	0.54x	1.29x	0.30x

Source: Audited Financial Statements

Historical 1 Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
MSC	16.10.2019	€0.60	€0.52	Simon Psaila & Andrew Fenech	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	
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 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 Group/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 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.
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 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 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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