

## Malita Investments p.l.c.



### Update to Price Target and Investment Stance:

We have reviewed our model and maintain our Hold recommendation on Malita Investments plc (“MLT” or the “Group”) with a 12-month price target of €0.97.

During H1 2019, the revenue and profitability potential of the Group has been primarily boosted through the commencement of additional lease income following the completion of a number of improvements to the Parliament Building.

The Group is in line with their schedule of completion in terms of the housing project and expect the whole project to be completed during FY2022. Management also confirmed that development works concerning the Cospicua project are now back on track. The capitalised cost to date on this development amounts to €7.5 million.

We are of the view that the Affordable Housing Project will play a crucial role in enhancing and improving MLT’s existing revenues, whereby it is projected that from FY2023, revenue derived from the housing project will approximately amount to 37% of MLT’s total revenue, thus increasing the possibility of a growth in dividend distribution moving forward.

Although we like the business model of the Group, we believe the current share price of €0.925 already reflects large portions of future rental income expected to be generated from future disclosed projects (P/E FY2018: 29.6x and P/E FY2020: 26.8x). However, given MLT’s low risk business model, the maintained dividend yield of 2.5%, together with a potential partial upside in share price, we rate the shares a Hold.

Upon receiving additional positive updates concerning the Affordable Housing Project, we will revise our model accordingly.

### Update following issuance of 2019 interim financials:

MLT continued receiving ground rents concerning MIA and VCP in respect of properties on which the Group owns the beneficial ownership. In addition, the Group continued receiving lease income in respect of the Open Air Theatre in Valletta.

Following the issuance of the Parliament Building’s certificate of completion in January 2019, MLT started receiving lease income in respect of the Parliament Building in City Gate, Valletta. Moreover, MLT is receiving additional rental income in relation to a number of improvements to the Parliament Building.

During H1 2019, the Group continued with the development of 680 apartments, 270 garages and 350 car parking spaces, otherwise known as the Affordable Housing Project.

**Stock Rating**  
**Price target (1Yr)**

**Hold**  
**€0.97**

<b>Country</b>	Malta
<b>Industry</b>	Real Estate
<b>Ticker</b>	MLT
<b>Price (as at 12/11/2019)</b>	€0.925
<b>Price Target (1 Year)</b>	↑€0.97 – previous PT €0.86
<b>Upside / Downside to PT</b>	+4.9%
<b>12 Month Cash Dividend</b>	€0.02
<b>12 Month TSR</b>	7.3%

<b>Market Cap</b>	€137.0million
<b>Shares Outstanding</b>	148.1million
<b>Free Float</b>	20.3%

**Net Dividend Yield\*** 2.5%

**Current P/E\*** 29.6x

**Forward P/E\*\*** 26.8x

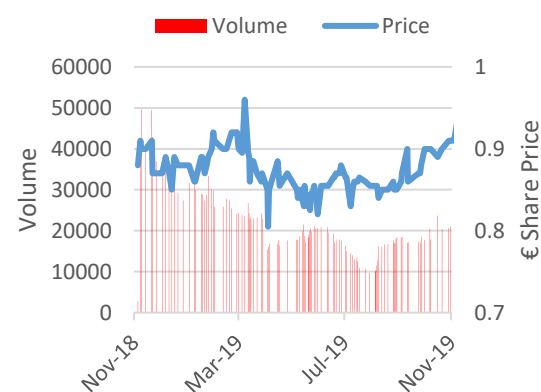
\*Based on the normalised results for FY 2018

\*\* CC estimates on FY 2020

**Exchange**  
**52-week range**

Malta Stock Exchange(MSE)  
 €0.81 - €0.96

### Price and Volume Movement (20 day moving average)



Source: Bloomberg

### Market Research



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As at 30 June 2019, the Board declared the payment of an interim dividend of €1,270,767 or €0.00858 per share (2018: €1,270,767 or €0.00858 per share).

## Valuation

Our one year price target is €0.97. The price target is calculated using a Free Cash Flow to the Firm ("FCFF") model and a Free Cash Flow to the Equity ("FCFE") model applied separately to the MLT's current operations and to the affordable housing project respectively. The consolidated results are demonstrated through the projections below. In terms of MLT's current operations and the housing project we used a weighted average cost of capital (WACC) of 6.7% and a cost of equity of 6.5%.

€'000s unless otherwise indicated	FY2017	FY2018	2019LTM <sup>1</sup>	FY2019F <sup>2</sup>	FY2020P	FY2021P	FY2022P	FY2023P
Rental Income	7,473	8,012	8,046	8,253	8,500	8,755	9,018	9,288
Affordable Housing Project	-	-	-	-	-	-	-	5,376
<b>Total Revenue</b>	<b>7,473</b>	<b>8,012</b>	<b>8,046</b>	<b>8,253</b>	<b>8,500</b>	<b>8,755</b>	<b>9,018</b>	<b>14,664</b>
Net service concession agreements charge <sup>3</sup>	-	-	206	284	485	485	485	-
Administrative Expenses (less depreciation)	(389)	(506)	(414)	(512)	(527)	(543)	(559)	(752)
<b>EBITDA</b>	<b>7,083</b>	<b>7,506</b>	<b>7,838</b>	<b>8,025</b>	<b>8,459</b>	<b>8,698</b>	<b>8,944</b>	<b>13,913</b>
Depreciation & Amortisation	(2)	(3)	(45)	(4)	(4)	(4)	(4)	(4)
<b>EBIT</b>	<b>7,081</b>	<b>7,503</b>	<b>7,793</b>	<b>8,021</b>	<b>8,455</b>	<b>8,694</b>	<b>8,941</b>	<b>13,909</b>
Finance Income <sup>3</sup>	1	0.7	234	484	926	2,131	3,421	4,804
Finance Costs	(1,271)	(1,426)	(1,616)	(1,397)	(1,464)	(2,286)	(2,191)	(2,083)
Fair value gain on investment property	16,687	7,661	31,561	-	-	-	-	-
<b>Profit Before Tax</b>	<b>22,499</b>	<b>13,739</b>	<b>37,972</b>	<b>7,108</b>	<b>7,917</b>	<b>8,539</b>	<b>10,171</b>	<b>16,631</b>
Income tax expense	(9,515)	(2,064)	(3,974)	(1,485)	(1,530)	(1,576)	(1,623)	(1,941)
<b>Profit Available to Ordinary Equity holders</b>	<b>12,984</b>	<b>11,675</b>	<b>33,998</b>	<b>5,623</b>	<b>6,387</b>	<b>6,963</b>	<b>8,547</b>	<b>14,690</b>
<i>Earnings Per Share</i>	<i>0.088</i>	<i>0.079</i>	<i>0.230</i>	<i>0.038</i>	<i>0.043</i>	<i>0.047</i>	<i>0.058</i>	<i>0.099</i>
<i>Normalised Per Share<sup>4</sup></i>	<i>0.032</i>	<i>0.031</i>	<i>0.034</i>	<i>0.038</i>	<i>0.043</i>	<i>0.047</i>	<i>0.058</i>	<i>0.099</i>

Ratio Analysis	FY 2017	FY 2018	2019LTM	FY2019F	FY2020P	FY2021P	FY2022P	FY2023P
Revenue Growth (YoY)	7.1%	7.2%	0.4%	3.0%	3.0%	3.0%	3.0%	62.6%
EBIT Margin	94.8%	93.6%	96.9%	97.2%	99.5%	99.3%	99.1%	94.8%
Net Margin	64.0%	57.7%	61.7%	68.1% <sup>5</sup>	75.1%	79.5%	94.8%	100.2%

Source: Financial Statements / CC Estimates

## Investment Thesis Variables Update

- Revenue** – The 2019 LTM revenue figures demonstrate a partial increase in revenue of 0.4% to €8 million. In line with a yearly rental increase included in the tenants' contracts, together with the fact that MLT started receiving additional lease income following both the issuance of the Parliament Building's certificate of completion (January 2019), together with the completion of a number of improvements to

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

<sup>2</sup> Our forecasted figures do not take into account the implications brought about by IFRS16, where most leases have been capitalised as from 1<sup>st</sup> January 2019

<sup>3</sup> The Group adopts IFRIC 12 in terms of service concession arrangements concerning the affordable housing project

<sup>4</sup> Normalised earnings exclude fair value movements on investment property

<sup>5</sup> From FY 2019 onwards, MLT's net margin is positively impacted through the adoption of IFRIC 12

the building, we expect current rental income excluding the affordable housing project to increase at an average rate of 3% per annum.

We have assumed that these new residential units (680), garages (270) together with the car parking spaces (350), will be rented out at an average annual rate of €7,200 per apartment, €1,000 per garage and €600 per car parking space. The rental rate assumption was based on the subsidy available to the individuals who are in possession of the required certificate granted by the Housing Authority.

Management confirmed that MLT will start receiving rental income in terms of this project during FY2022. In an attempt to factor in for any construction delays that may be present throughout such development, we expect rental income derived from the housing project to amount to €5.4 million during FY2023. We expect this line of revenue to increase by 1.5% per annum from FY2024 onwards.

- **Net service concession agreements charge** – In line with the adoption of IFRIC 12, during the construction phase of the affordable housing project, the Group determines the stage of completion of works as a percentage of cost incurred up until the end of the reporting period relative to the total estimated cost. As a result, income of €7.1m from the construction activity was recognised during the period ended June 2019. Costs in relation to construction amounted to €6.9m. The difference between revenue and cost amounting to €0.2 million represents, in substance, project management fees concerning the project. We expect the net service concession agreements charge to amount to €0.3 million during FY2019 and to €0.5 million until completion of the affordable housing project (FY2022).
- **Administrative expenses** – These consist of ground rent payments, directors' emoluments, professional fees, printing and advertising expenses and other expenses respectively. As per H1 2019 results, the latter decreased by 31.4% in comparison to the previous corresponding period. We expect a yearly marginal increase in administrative expenses, in line with the increase in revenue expected to be generated by the Group moving forward. We also expect a further upsurge in administrative expenses from FY2023 onwards upon commencement of operations of the affordable housing project. It is pertinent to note that we have excluded the implications of IFRS 16 given the limited information presented in the interim financial statements.
- **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. The increase in depreciation as per 2019 LTM results is mainly attributable to the capitalisation of leases (IFRS 16) as discussed in the administrative expenses context. Given that our valuation excludes the implications of IFRS 16, low levels of depreciation are forecasted.
- **EBIT** – The decline in administrative expenses as per 2019 LTM results (-18.2%), coupled with the marginal improvement in revenue (+0.4%) together with the inclusion of the net service concession charge, eventually led to an increase in EBIT margin from 93.6% in FY2018 to 96.9% as per 2019LTM results. We expect EBIT margin to further improve to 97.2% during FY2019, in line with the projected improvement in revenue and the expected increase in net service concession charge.
- **Finance Income** – In continuation to the adoption of IFRIC 12, finance income is calculated on the basis of the effective interest method. In such respect we expect finance income to increase on a yearly basis and amount to €4.6 million during FY2023.
- **Finance Costs** – Finance costs incurred as per 2019 LTM results relate to a loan facility that MLT has with the European Investment Bank in part satisfaction of the acquisition of the Parliament Building and the Open Air Theatre. Due to the fact that the Affordable Housing project will be financed entirely through

debt, primarily with the €53.7 million credit facility from the European Investment Bank and the Council of Europe Development Bank together with the €4.3 million VAT loan from a local bank, going forward we expect the Company to incur additional finance costs.

- **Taxation** – The Group is subject to multiple tax rates on its gross rental income. Our tax rate assumption is based on the following: MIA & VCP: 15%, Parliament Building and Open Air Theatre: 35% and Affordable Housing Project: 5%.
- **Net Profit** – Net profit increased from €11.7 million during FY2018 to €34 million as per 2019 LTM results, translating into an EPS of €0.08 and €0.23 respectively. It is key to note that under both scenarios, MLT have benefited from a positive fair value gain on investment property. Excluding such fair value gains, normalised EPS would decrease to €0.03 during FY2018 and as per 2019 LTM results. We expect net profit to increase on a yearly basis from €5.6 million or €0.04 during FY2018 to €14.7 million or €0.1 during FY2023. The main reason why the net profit and EPS are forecasted to be lower than in previous years, is due to our assumption that there will be no fair value movement in our valuation.
- **Fair Value Movements** – We assumed that there will be no fair value movements on investment property in our valuation.

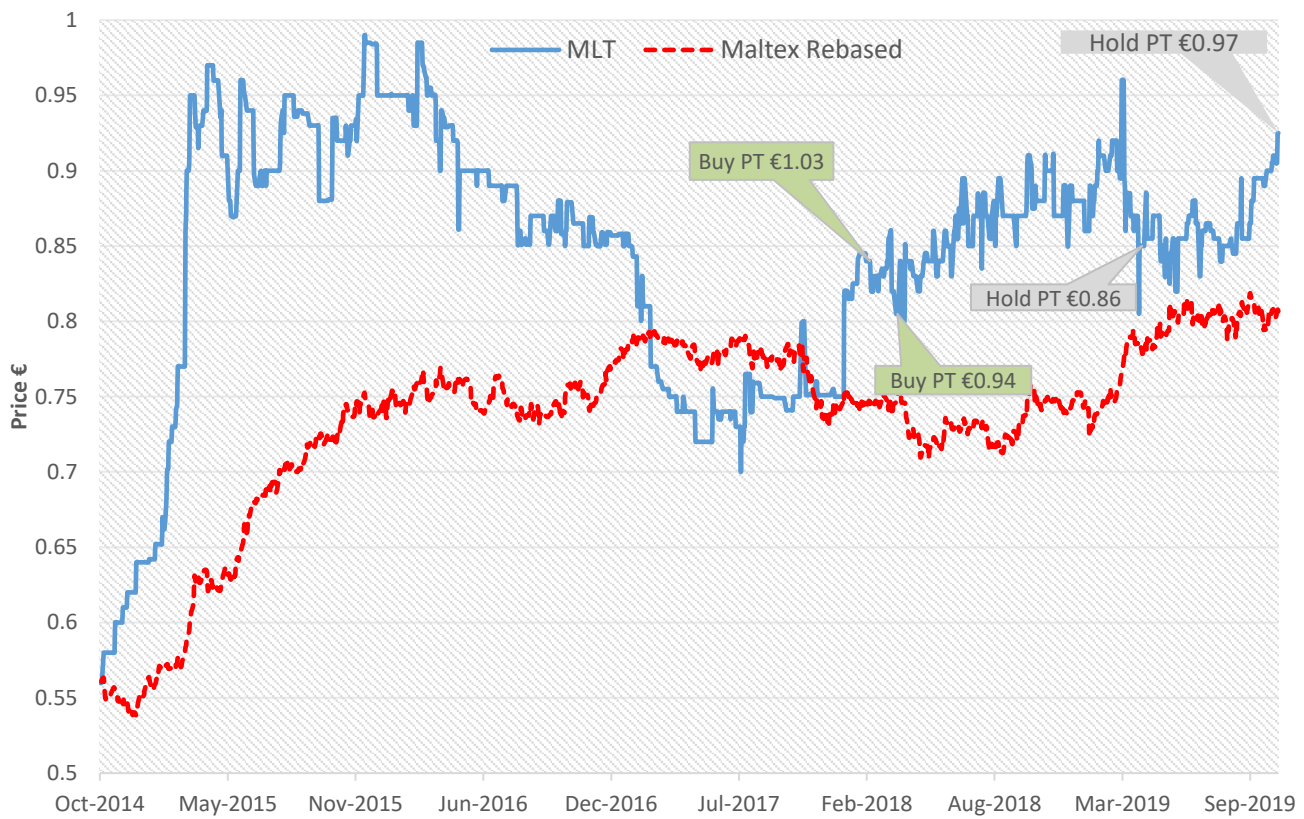
## Key Financial Indicators

€'s unless otherwise indicated	2017	2018	2019 LTM
<b>Income Statement</b>			
Revenue	7,472,533	8,012,326	8,045,659
<i>Growth in Revenue (YoY)</i>	7.1%	7.2%	0.4%
EBITDA	7,083,191	7,506,433	7,837,629
EBITDA Margin (EBITDA / Revenue)	94.8%	93.7%	97.4%
Operating Income (EBIT)	7,081,399	7,503,343	7,792,576
Operating (EBIT) Margin (EBIT / Revenue)	94.8%	93.6%	96.9%
Net Income	12,984,114	11,674,651	33,997,658
Net Margin (Net Income / Revenue)	173.8%	145.7%	422.6%
Earnings per Share (EPS)	0.0877	0.0788	0.2295
<i>Growth in EPS (YoY)</i>	102.1%	-10.1%	191.2%
Dividend per share	0.028	0.023	0.023
Sustainable Growth Rate in Dividends	7.7%	6.7%	21.9%
<b>Balance Sheet</b>			
Cash and Cash Equivalents	1,049,421	-	-
Current Assets	2,120,187	780,647	280,448
Non-Current Assets	177,743,321	189,482,161	224,378,332
Total Assets	179,863,508	190,262,808	224,658,780
Current Liabilities	6,718,488	6,961,321	8,907,706
Non-Current Liabilities	52,396,524	54,893,549	64,098,892
Total Liabilities	59,115,012	61,854,870	73,006,598
Total Financial Debt	44,073,957	44,802,031	43,721,102
Total Equity	120,748,496	128,407,938	151,652,182
Net Debt	43,024,536	44,802,031	43,721,102
Shares Outstanding	148,108,064	148,108,064	148,108,064
<b>Cash flow</b>			
Cash Flow from Operating Activities (CFO)	4,146,249	5,434,446	5,348,283
Capex	(4,623,460)	(6,296,659)	(7,781,306)
Free Cash Flow (FCF)	(477,211)	(862,213)	(2,433,023)
Cash Flow from Investing Activities	(4,623,460)	(6,296,659)	(3,894,253)
Cash Flow from Financing Activities	(1,900,618)	(1,071,406)	(4,336,448)
<b>Ratios</b>			
<b>Profitability</b>			
Return on Common Equity (Net Income / Common Equity)	11.2%	9.4%	24.3%
Return on Assets (Net Income / Total Assets)	7.2%	6.1%	15.1%
<b>Solvency</b>			
Gearing Ratio Level 1 (Net Debt / Total Equity)	35.6%	34.9%	28.8%
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	32.9%	32.5%	32.5%
Net Debt / EBITDA	6.1	6.0	5.6
Current Ratio (Current Assets / Current Liabilities)	0.32	0.11	0.03
Interest Coverage Ratio (EBITDA)	5.5	5.2	2.8
Cash from Operations / EBIT	59%	72%	69%

Source: Audited Financial Statements

### Historical 1 Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
MLT	13.11.2019	€0.925	€0.97	Simon Psaila & Andrew Fenech	Hold
MLT	09.04.2019	€0.85	€0.86	Simon Psaila & Andrew Fenech	Hold
MLT	22.03.2018	€0.805	€0.94	Simon Psaila & Elisabetta Guadiano	Buy
MLT	07.02.2018	€0.84	€1.03	Simon Psaila & Elisabetta Guadiano	Buy



Source: Audited Financial Statements

## Glossary and Definitions

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

## Explanation of Equity Research Ratings

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**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.

## Disclaimer

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