14th August 2019

Calamatta Cuschieri
INVESTMENT ADVISORS & STOCKBROKERS

Plaza Centres p.l.c.

Stock Rating Hold
Price target (1Yr) €1.04

Executive Summary:

"Subsequent to the publication of the 2019 interim financials by Plaza Centres plc, we are maintaining our Hold recommendation on the stock with a 12-month price target of €1.04. As was anticipated, the Group's occupancy level increased and now currently stands at 91% (2018: 88%). In 2018, the Group completed the refurbishment of Tigne Place, which consequently led to an improvement in the Group's occupancy and revenue generation. The interim results as of June 2019 are mainly in line with our 2019 forecast, accordingly we have maintained the same valuation as presented in our last report on PZC.

Moving forward we expect the Group to marginally improve its occupancy levels and this has been reflected in our valuation. Our model already reflects the improved rental rates that the Group is generating from the Tigne Place following the renegotiation of the expired lease contracts with rental rates aligned with that of the market. Despite our price target catering for both the estimated increases in the Group's occupancy levels (2019: 94% vs June 2019: 91%) and the rental rates (2019: €264/sqm vs 2018: €250/sqm) the upside is limited, consequently we are of the opinion that PZC is fairly priced at its current value. This is substantiated by the fact that the Company has no planned projects in the pipeline, which could help boost profitability and revenue in the medium term. Albeit, we believe that our price target also captures the positive outlook of the Maltese economy.

Nonetheless, we like the Company because PZC has for the last five years maintained a dividend distribution, with the current net dividend yield based on the LTM June 2019 standing at 3.0%. Our model demonstrates that in the foreseeable future, the Group will be in a position to distribute 70% of its earnings, which translates to a healthy forward net dividend yield of 3.4%."

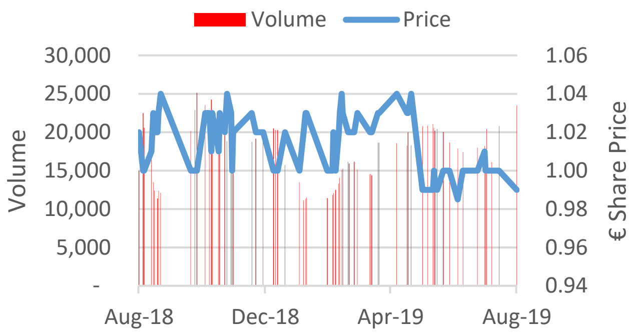
Company Overview:

Plaza Centres plc ("**PZC**" or the "**Company**") owns and operates 'The Plaza Shopping Centre' located in the heart of Sliema. The Plaza Commercial Centre is spread over an area of 10,500 sqm hosting a mix of retail, catering and office spaces over nine floors built around a central atrium. The shopping centre host both local and international brands. The office space is occupied mainly by betting companies and small financial / investment firms. Rental agreements for retail tenants have a long-term nature (an average of 16 years in 2016) whilst the agreements for the office space are much shorter (on average 2.4 years). Most of the operating and maintenance costs for common areas are recharged to tenants.

Country	Malta
Industry	Real Estate (Commercial)
Ticker Symbol	PZC
Price (as at 13/08/2019)	€0.99
Price Target (1 Year)	€1.04
Upside / Downside to PT	5.1%
Market Cap	€28.0 million
Shares Outstanding	28.2 million
Free Float	71.6%
Net Dividend Yield *	3.0%
Current P/E *	22.3x
Forward P/E **	20.5x

*** Based on the last twelve months (LTM) as of June 2019**
**** CC estimates**

1-Year Range: Price Movement and Volume Movement (20 day moving average)	Exchange: MSE Lowest Price: 0.99 Highest Price: 1.07



Source: Bloomberg

Market Research

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In 2016, PZC acquired Tigne Place located in Triq Tigne, Sliema, through its fully owned subsidiary Tigne Place Limited (the "**Group**"). The acquisition was financed partly through a bank loan (€4.5 million) and partly through the issue of a bond (€5 million). The property spreads over a total area of 4,001 sqm and comprises of two floors and a mezzanine level of office space and the ground floor which is occupied by retail outlets and a language school. The property also includes 100 car spaces in the underground levels.

Company Update:
Following the refurbishment works carried out at Tigne Place during 2018, the subsidiary is now contributing higher to the Group's revenue. This, combined with the conversion of a number of shops into a food hall on level 0 of the Plaza centre that was also completed in 2018, resulted in the Group's occupancy to improve to 91% as at June 2019, an increase of 3% when compared to 31 December 2018. The refurbishment program of the Plaza centre is expected to be maintained throughout 2019.

Dividends - The Board of directors of PZC did not propose the payment of an interim dividend for June 2019. The latest net dividend paid relates to financial year 2018, which amounted to €831,115 or €0.029 per share (2017: €831,115 or €0.029 per share).

SWOT Analysis

Strengths

- ✓ The Shopping Centre is located in an attractive area of the Sliema shopping district.
- ✓ Long-term nature of rent agreements for retail spaces at the Shopping Centre.
- ✓ Diversified tenants' base.
- ✓ Constant dividends distribution during the last five years.

Weaknesses

- × No sector and geographical diversification – the Group is only exposed to the Maltese commercial property market.
- × The Plaza Shopping Centre does not offer parking facilities.
- × Short-term nature of rent agreements for the office spaces.
- × The Group operates in a very competitive area, with some of its peers benefiting from a superior strategic location than that of the Group's property.

Opportunities

- o The ongoing refurbishment works at the Plaza centre will boost the attractiveness of the property, which should enable the Company to improve both its occupancy levels and its bargaining power in securing new leases with higher rates.
- o Positive outlook of the Maltese economy sustaining the growth in the rental rates, especially within prime locations like the Sliema area.

Threats

- ! A fall in the occupancy rates of Plaza's outlets might undermine the revenue and profitability potential of the Company
- ! Overheating of the commercial property market in Malta.
- ! New entrants in the shopping mall sector can negatively affect the Company's footfall, which will hinder the bargaining power of the Company with its customers, being the retail tenants.
- ! Online shopping hampering traditional shopping.

Investment Stance

Subsequent to the publication of the 2019 interim financials by Plaza Centres plc, we are maintaining our Hold recommendation on the stock with a 12-month price target of €1.04. As was anticipated, the Group's occupancy level increased and now currently stands at 91% (2018: 88%). In 2018, the Group completed the refurbishment of Tigne Place, which consequently led to an improvement in the Group's occupancy and revenue generation. The interim results as of June 2019 are mainly in line with our 2019 forecast, accordingly we have maintained the same valuation as presented in our last report on PZC.

Moving forward we expect the Group to marginally improve its occupancy levels and this has been reflected in our valuation. Our model already reflects the improved rental rates that the Group is generating from the Tigne Place following the renegotiation of the expired lease contracts with rental rates aligned with that of the market. Despite our price target catering for both the estimated increases in the Group's occupancy levels (2019: 94% vs June 2019: 91%) and the rental rates (2019: €264/sqm vs 2018: €250/sqm) the upside is limited, consequently we are of the opinion that PZC is fairly priced at its current value. This is substantiated by the fact that the Company has no planned projects in the pipeline, which could help boost profitability and revenue in the medium term. Albeit, we believe that our price target also captures the positive outlook of the Maltese economy.

Nonetheless, we like the Company because PZC has for the last five years maintained a dividend distribution, with the current net dividend yield based on the LTM June 2019 standing at 3.0%. Our model demonstrates that in the foreseeable future, the Group will be in a position to distribute 70% of its earnings, which translates to a healthy forward net dividend yield of 3.4%. The Company is currently trading at a price to earnings ratio ("P/E ratio") of 22.3x, which is lower than its five years historical average of 25x. Based on our forecasted earnings for 2019, we expect PZC to be trading at a forward P/E of 20.5x.

There is an element of concern stemming from the increasing popularity of the online shopping business, which may negatively impact the performance of the retail outlets. In addition to, the threat of loss of market share to existing local competitors and the threat of new entrants in the shopping mall sector. However, these are partly offset by the favourable location of the Group's properties and the popularity of the Plaza Shopping Centre.

Valuation

Our one-year price target is €1.04. This price is calculated using a Free Cash Flow to the Firm model with a weighted average cost of capital of 7.8% and a terminal growth rate of 3%. This translates to a forward P/E of 20.5x. The discount rate is in line with that of PZC's peers and factors in the risk of the local property market.

€'000s unless otherwise indicated	FY 2017	FY 2018	LTM 2019[1]	2019 F[2]	2020 P	2021 P
	€	€	€	€	€	€
Revenue	3,276	3,270	3,426	3,638	3,822	3,962
Marketing & maintenance costs and Administrative expenses	(591)	(686)	(675)	(753)	(787)	(816)
EBITDA	**2,685**	**2,584**	**2,751**	**2,885**	**3,035**	**3,146**
Depreciation	(506)	(552)	(557)	(516)	(520)	(524)
EBIT	**2,179**	**2,032**	**2,194**	**2,368**	**2,515**	**2,621**
Investment & other Related Income	31	-	37	-	-	-
Net Finance Costs	(471)	(461)	(457)	(418)	(406)	(393)
Profit Before Tax	**1,739**	**1,571**	**1,775**	**1,950**	**2,109**	**2,228**
Income Tax Expense	(470)	(476)	(523)	(584)	(621)	(647)
Net Income	**1,269**	**1,095**	**1,252**	**1,366**	**1,488**	**1,581**
Earnings Per Share – in (€)	0.045	0.039	0.044	0.048	0.053	0.056

[1] LTM 2019 is calculated by adding the interim results (H1) of 2019 with the audited results of financial year 2018, less H1 2018.

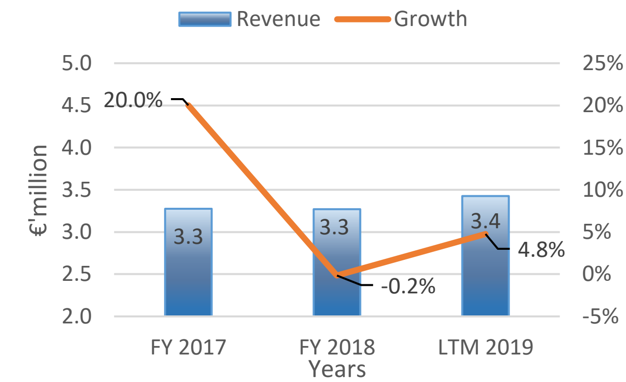
[2] Our forecasted figures do not take into account the implications brought about by the adoption of IFRS 16, where all leases will be capitalised as from 1st January 2019.

Ratio Analysis:	FY 2017	FY 2018	LTM 2019	2019F	2020P	2021P
Revenue Growth (YoY)	20.0%	-0.2%	4.8%	11.2%	5.1%	3.7%
EBITDA Margin	82.0%	79.0%	80.3%	79.3%	79.4%	79.4%
Net Margin	66.5%	62.1%	64.0%	65.1%	65.8%	66.2%

Source: Audited Financial Statements and CC Estimates

Investment Thesis Variables

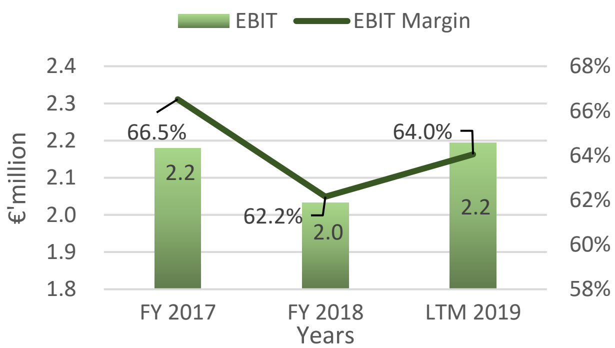
- **Revenue** - As of the LTM 2019, revenue generated amounted to €3.4 million, an increase of €0.1 million or 4.8%, from 2018 where revenue stood at €3.3 million. During 2018, the Group carried out refurbishment works on both of its properties and this consequently led to the Group's increase in occupancy in the first 6-months of 2019. Where, the Group's occupancy level stood at 91% as of June 2019, representing an increase of 3% from 2018. Apart from the improved occupancy, the Group's revenue was positively affected by the renegotiating of Tigne Place lease contracts with rates in-line with the current market rates, rather than the previously understated rates of older contracts, most of which expired by 2018



Source: Financial Statements / CC Workings

Moving forward we anticipate that the Group can marginally increase its occupancy, where we are anticipating the Group's overall occupancy level to improve to 94% by end of 2019. For the projected period as shown above, we assumed a 95% occupancy level at the Plaza centre with rental rates experiencing a 4% growth Year-on-Year ("YoY"). With respect to Tigne Place, we expect the rental rates to experience an abnormal increase of around 10% in 2019, with a 90% occupancy level. Moreover, for the period 2020-2021 we anticipate a growth of 3% in the rental rates with a 95% occupancy level in line with that of the Plaza centre. Accordingly, we expect total revenue in 2019 to increase by 6.2% or €0.2 million over the revenue generated in LTM 2019 and for revenue to experience an additional increase of 5.1% and 3.7% in 2020 and 2021 respectively.

- **EBIT** - The EBIT experienced an increase of €0.2 million in LTM 2019 when compared to 2018, where the EBIT stood at €2.0 million. In addition to the increase in the revenue during H1 2019, as explained above the EBIT was also positively impacted by a marginal decrease in expenses a lower contribution by the Group towards marketing and maintenance costs, given the improved occupancy rates. The decrease in expenses during H1 2019, is not material to the Group and amounts to less than €0.1 million



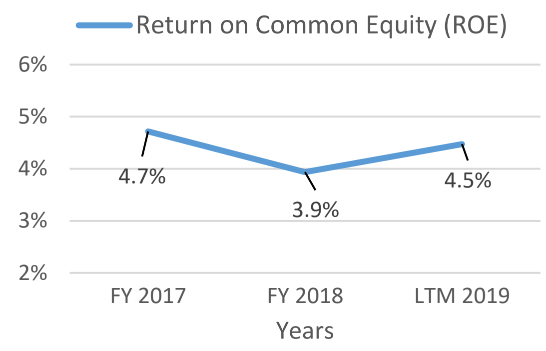
Source: Financial Statements / CC Workings

During our forecasted period expenses are forecasted to increase in line with the anticipated increase in the revenue generation of the Group. In 2019, the EBIT is expected to amount to €2.4 million, representing an increase of 7.9% or €0.2 million from the EBIT generated in LTM 2019 of €2.2 million.

- **Depreciation -** The depreciation expense has averaged at the €0.5 million level for the period 2017 to LTM 2019. In our valuation, we assumed the deprecation to be at 1% of the total asset cost, which is aligned with the historic depreciation rate. In the short term, we expect the Company to incur relatively high capex at €0.4 million annually, as management continues with its refurbishment exercise of the Plaza shopping centre.

- **Finance Costs -** Based on the audited financials for 2018, PZC's financial debt is made up of a €8.5 million unsecured bond incurring a fixed interest rate of 3.9% redeemable in September 2026, in addition to €3.6 million bank loan facility incurring variable interest rates the average of which stood at 2.75% in 2018. Moving forward we anticipate that in the foreseeable future the Group will have sufficient cash reserves to annually contribute €0.5 million to its outstanding bank loans. In accordance to our workings this debt will, for the forecasted period presented, result in €0.4 million finance costs annually, albeit experiencing a marginal decline each year.

- **Net Income and Earnings per share (EPS) -** We are forecasting net income in 2019 to experience an increase of around €0.1 million compared to LTM 2019 mainly as result of the anticipated improved rates from the Tigne Place and a general improvement in the Groups' occupancy levels. The EPS is forecasted to be at €0.048 in 2019, representing the increase from LTM 2019, where the EPS stood at €0.044. The tax expense of the Group was estimated on the favourable tax option of the 15% final withholding tax on rental income generated by the Plaza Centres and the general 35% corporation tax on profits as contributed by the Tigne Place.



Source: Financial Statements / CC Workings

  The Return on Common Equity (ROE) stood at 4.7% in 2017 and decreased to 3.9% in 2018, highlighting the opportunity cost of the refurbishment exercise that the Group carried out in 2018. The ROE increased to 4.5% in the LTM 2019, following the improved occupancy levels, coupled with improved rates at the Tigne Place.

- **Dividends -** The Group has for the last five years distributed a dividend, which on average amounted to around 70% of the total earnings. Our model forecasts that the Group will, for the foreseeable future, have sufficient cash reserves to continue distributing around 70% of its earnings, which translates to a forward dividend yield of 3.4%.

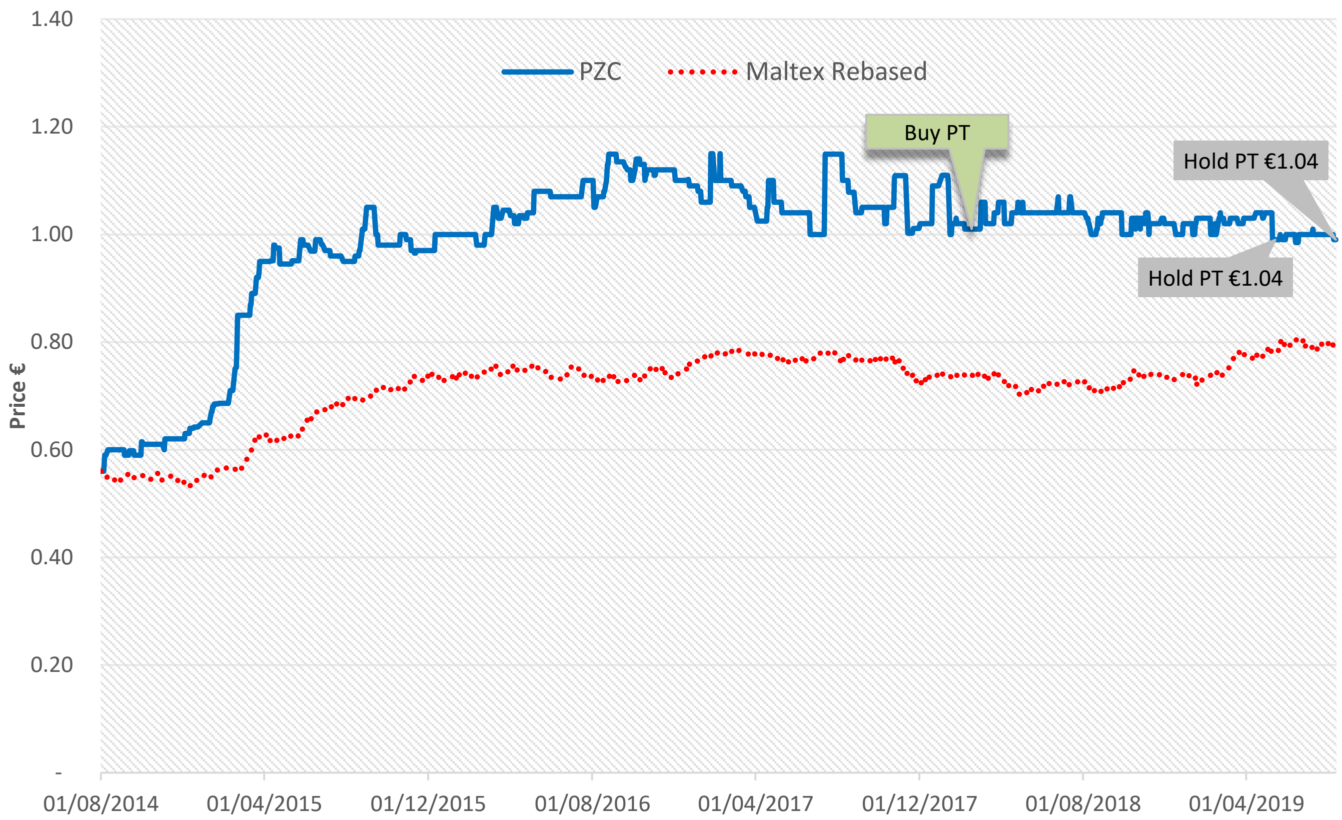
Key Financial Indicators

€'Millions unless otherwise indicated	Dec-2017	Dec-2018	LTM-2019
Income Statement			
Revenue	3.28	3.27	3.43
Growth in Revenue (YoY)	20.01%	-0.16%	4.76%
EBITDA	2.68	2.58	2.75
EBITDA Margin (EBITDA / Revenue)	81.96%	79.04%	80.30%
Operating Profit (EBIT)	2.18	2.03	2.19
Operating (EBIT) Margin (EBIT / Revenue)	66.52%	62.15%	64.05%
Net Income	1.27	1.10	1.25
Net Margin (Net Income / Revenue)	38.74%	33.49%	36.54%
Earnings per Share (EPS)	0.045	0.039	0.044
Growth in EPS (YoY)	0.18%	-13.69%	14.29%
Dividend per Share (Net Dividends / Shares Outstanding)	0.029	0.029	0.029
Dividends Yield as at Year-end (Dividend per Share / Share Price)	2.70%	2.89%	2.97%
Balance Sheet			
Cash and Cash Equivalents	0.50	0.22	0.14
Current Assets	1.05	0.99	0.84
Non-Current Assets	43.84	45.04	44.99
Total Assets	44.88	46.04	45.82
Current Liabilities	1.63	1.97	1.62
Non-Current Liabilities	15.62	16.03	16.30
Total Equity	27.62	28.03	27.90
Shares Outstanding	28.24	28.24	28.24
Cash flow			
Cash Flow from Operating Activities (CFO)	1.92	2.21	1.61
Capex	(0.57)	(0.78)	N/A
Free Cash Flow (FCF)	1.35	1.43	N/A
Cash Flow from Investing Activities	(0.58)	(1.12)	(0.73)
Cash Flow from Financing Activities	(1.10)	(1.37)	(1.12)
Ratios			
Profitability			
Return on Common Equity (Net Income / Common Equity)	4.72%	3.94%	4.48%
Return on Assets (Net Income / Total Assets)	2.83%	2.38%	2.73%
Solvency			
Gearing Ratio Level 1 (Net Debt / Total Equity)	43.33%	41.85%	42.32%
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	38.45%	39.10%	39.10%
Net Debt / EBITDA	4.46x	4.54x	4.29x
Current Ratio (Current Assets / Current Liabilities)	0.64x	0.50x	0.52x
Interest Coverage Ratio (EBITDA / Cash Interest Paid)	4.83x	4.56x	4.81x
Cash from Operations / EBIT	0.88x	1.09x	0.73x

Source: Audited Financial Statements and CC Workings

Historical 1-Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
PZC	16.02.2018	€1.01	€1.14	Simon Psaila and Elisabetta Gaudiano	Buy
PZC	14.05.2019	€0.99	€1.04	Simon Psaila and Rowen Bonello	Hold
PZC	14.08.2019	€0.99	€1.04	Simon Psaila and Rowen Bonello	Hold



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 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 Company/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 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 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 Company/Company to refinance its debt by looking at the EBITDA.
Cash from Operations / EBIT	This ratio measures the ability of the Company/Company to convert its earnings into cash.

Explanation of Equity Research Ratings

Buy: Based on a current 12- month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, we do not recommend either a Buy or Sell. Current shareholders should consider buying on dips and selling on peaks.

Newly issued research recommendations and target prices supersede previously published research.

Disclaimer

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