

Tigné Mall p.l.c.

Update following issuance of interim financials 2019:

The principal activity of Tigné Mall plc (“TML” or the “Group”), which is unchanged since last year, comprises the ownership and management of The Point Shopping Mall and its car park.

The marginal improvement registered by the Group during H1 2019 is attributable to an increase in rental revenue and contribution from the operation of the car park. The Group’s results for H1 2019 were impacted by an increase in finance costs, as a consequence of the additional bank financing during the latter part of FY 2018 to purchase the additional 132 car parking spaces (355 spaces in total).

As at 30 June 2019, the Board declared the payment of an interim dividend of €740,675 or €0.0131 per share (2018: €726,150 or €0.0128 per share).

Update to Price Target and Investment Stance:

We have reviewed our model and maintain our Buy recommendation on TML with a 12-month price target of €1.17.

TML has a strong track record of full occupancy within the mall, and as such we have assumed that due its strategic location, the mall will continue to be fully occupied going forward.

TML is currently trading on 21.1x FY2019F earnings, which is below its five-year historical average of 23.7x. We deem such P/E offering as attractive and expect the share price to reflect such reality moving forward.

We are of the view that despite the expected positive performance of TML, there are no major growth opportunities or projects in the Group’s pipeline.

On a positive note we like TML due to its constant track record of dividend distribution, whereby the current net dividend yield based on the LTM June 2019 results stands at 2.8%. Our model demonstrates that the Group has the potential to distribute up to 70% of its earnings in the foreseeable future, which translates into an attractive forward dividend yield of 3.3%.

Given TML’s positive outlook and consistent improvement in revenue and profitability potential, coupled with TML’s attractive dividend yield offering, we are of the view that the main reason to buy the stock primarily relates to TML’s constant dividend distribution and its potential to increase this further in the near term.

Stock Rating
Price target (1Yr)
Buy
€1.17

Country	Malta
Industry	Real Estate (Commercial)
Ticker	TML
Price (as at 01/10/2019)	€0.94
Price Target (1 Year)	€1.17
Upside / downside to PT	+24.5%

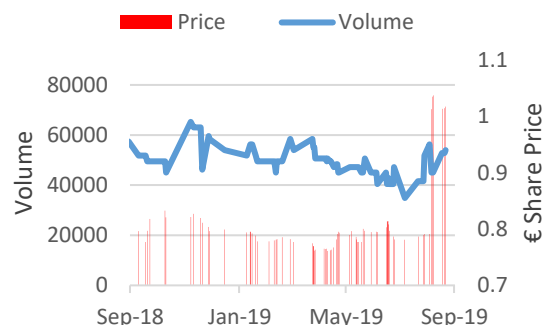
Market Cap	€53.02million
Shares Outstanding	56.4million
Free Float	33.18%

Net Dividend Yield* 2.8%

Current P/E 21.6x
Forward P/E** 21.1x

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

1 year Range:	Exchange: MSE
Price and Volume	Lowest Price: €0.86
Movement (20 day moving average)	Highest Price: €0.99



Source: Bloomberg

Market Research

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Valuation

Our one year price target is €1.17. The price target is calculated using the Free Cash Flow to the Firm (FCFF) model and a discount rate of 7.8%. The applied discount rate reflects the high exposure of TML to the Maltese property market and is deemed to be in line with the discount rate utilised by the Group relating to their properties that are held for long-term rental yields. We applied a 3% terminal value growth rate.

Tigné Mall plc €'s (unless otherwise indicated)	FY 2017	FY 2018	LTM 2019	FY2019F	FY2020P
Total revenue	6,145,238	6,496,537	6,720,281	6,811,518	7,053,097
Cost of sales (excluding dep)	(159,024)	(167,101)	(224,114)	(272,461)	(282,124)
Gross profit	5,986,214	6,329,436	6,496,167	6,539,058	6,770,973
Administrative Expenses	(436,490)	(508,117)	(556,440)	(548,374)	(567,822)
EBITDA	5,549,724	5,821,319	5,939,727	5,990,684	6,203,151
Depreciation & Amortisation	(1,450,068)	(1,698,231)	(1,750,557)	(1,777,248)	(1,799,313)
EBIT	4,099,656	4,123,088	4,189,170	4,213,436	4,403,839
Finance Income	1,804	743	5,473	6,000	6,000
Finance Costs	(720,789)	(634,849)	(675,720)	(682,031)	(611,460)
Profit Before Tax	3,380,671	3,488,982	3,518,923	3,537,405	3,798,378
Income tax expense	(1,062,296)	(1,029,396)	(996,837)	(1,021,728)	(1,057,965)
Profit Available to Ordinary Equity holders	2,318,375	2,459,586	2,522,086	2,515,678	2,740,414
Earnings Per Share	0.041	0.044	0.045	0.045	0.049

Source: Financial Statements / CC Estimates

Investment Thesis Variables Update

- Revenue** – The 2019 LTM revenue figures demonstrate an increase in revenue of 3.4% to €6.7 million. This has been primarily initiated through an increase in the overall footfall within the mall and a consequent upsurge in tenant sales experienced throughout H1 2019. Revenue was also positively impacted as a result of the contribution brought about by the additional 132 parking spaces acquired at the latter part of FY 2019.

We expect the mall to continue to be fully occupied throughout our forecasted period. In line with a yearly rental increase included in the tenants' contracts together with the inclusion of variable rents payable to TML depending upon tenant sales performance, we expect the rental income derived from retail outlets, to increase at an average rate of 3.6% per annum. We expect TML's car park operation to generate €0.24 million during 2019 also expect revenue under this segment to increase by 2.5% per annum.

Tigné Mall plc Revenue - €	2017	2018	2019	2020
Revenue:				
Operating lease income	6,145,238	6,348,822	6,576,367	6,812,067
Car park rental income	-	147,715	235,152	241,030
Total Revenue	6,145,238	6,496,537	6,811,518	7,053,097
Operating lease % Growth	3.86%	3.31%	3.60%	3.60%
Car Park % Growth	0.00%	100.00%	59.19%	2.50%
Total - % Growth	3.86%	5.72%	4.85%	3.55%

Source: Financial Statements / CC Estimates

- **EBIT** – The increase in administrative expenses (9.5%) and in cost of sales exclusive of depreciation (34.1%) as per 2019 LTM results, increased at a higher rate than revenue (3.4%), which eventually led to a fall in EBIT margin from 63.5% in 2018 to 62.3% as at 2019 LTM. We expect EBIT margin to remain constant at 62% during 2019 and improve thereafter in line with the increase in revenue expected to be generated by TML moving forward.
- **Operating Expenses** – These mainly consist of cost of sales and administrative expenses. Cost of sales as per 2019 LTM results increased by 34.1% to €0.2 million, in line with the increase in revenue experienced throughout the corresponding period. We expect cost of goods sold to increase to €0.3 million in 2019, reflecting the increase in revenue which is anticipated to be generated by TML.

The LTM 2019 results illustrate an increase in administrative expenses of 9.5% to €0.6 million. This increase is deemed to be in line with the higher activity conducted by TML and is mainly attributable to advertising and business promotion expenses. We expect administrative expenses to increase on a yearly basis in line with TML's revenue generation.

- **Depreciation** – The shopping mall is treated as property plant and equipment under the requirements of IAS 16 rather than investment property under IAS 40. Following the acquisition of the additional 132 car parking spaces, depreciation is expected to increase to €1.8 million in 2019.
- **Finance Costs** – Following the undertaking of an additional €4.1 million increase in bank facilities to finance the purchase of the 132 car parking spaces, we expect finance costs to increase to €0.7 million in 2019 from €0.6 million in 2018. Given that TML is repaying large portions of its existing loan on a yearly basis, lower levels of finance costs are forecasted from 2020 onwards.
- **Net Profit and Earnings per Share** – Net profit increased by 2.5% to €2.5 million, translating into an EPS of €0.045 as per 2019 LTM results. We expect net profit to remain at this level during 2019. Given TML's year-on-year improvement in turnover and profitability, we expect net profit and EPS to increase €2.7 million or €0.049 per share during 2020.
- **Taxation** – As it is deemed to be more beneficial, we have assumed that from 2019 onwards, TML will opt to tax their gross ground rental income together with the revenue generated from the car park at a final withholding tax of 15%.

Key Financial Indicators

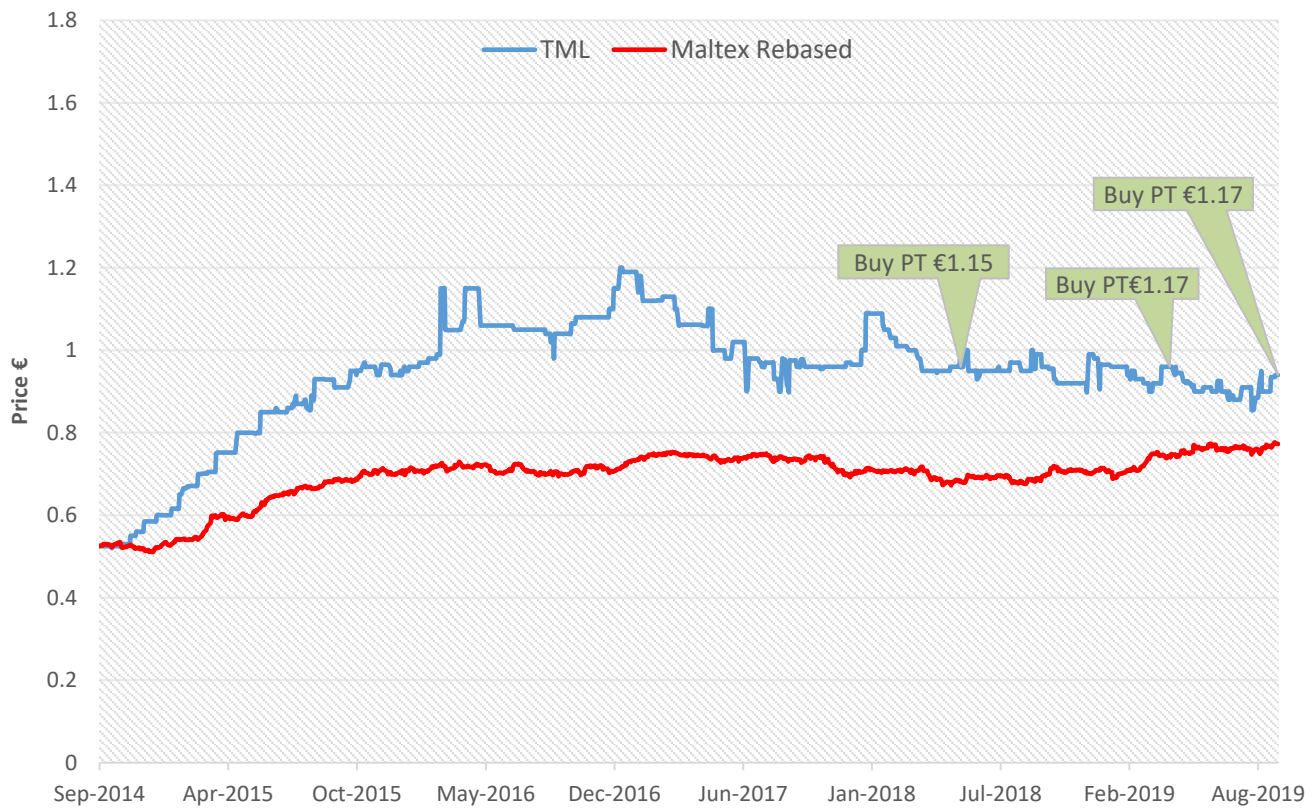
€'s unless otherwise indicated	Dec 2016	Dec 2017	Dec 2018	2019 LTM ¹
Income Statement				
Revenue	5,917,120	6,145,238	6,496,537	6,720,281
Growth in Revenue (YoY)	3.8%	3.9%	5.7%	3.4%
EBITDA	5,341,448	5,549,724	5,821,239	5,939,647
EBITDA Margin (EBITDA / Revenue)	90.3%	90.3%	89.6%	88.4%
Operating Income (EBIT)	3,881,802	4,099,656	4,123,008	4,189,090
Operating (EBIT) Margin (EBIT / Revenue)	65.6%	66.7%	63.5%	62.3%
Net Income	2,046,451	2,318,375	2,459,586	2,522,086
Net Margin (Net Income / Revenue)	34.6%	37.7%	37.9%	37.5%
Earnings per Share (EPS)	0.0363	0.0411	0.0436	0.0447
Growth in EPS (YoY)	23.7%	13.3%	6.1%	2.5%
Sustainable Growth Rate in Dividends	1.8%	2.1%	2.2%	2.3%
Balance Sheet				
Cash and Cash Equivalents	867,784	1,616,477	1,312,877	1,773,878
Current Assets	3,101,746	4,132,709	3,697,896	4,075,871
Non-Current Assets	61,756,192	74,158,938	77,751,819	77,076,409
Total Assets	64,857,938	78,291,647	81,449,715	81,152,280
Current Liabilities	3,005,230	5,740,375	6,448,173	6,875,406
Non-Current Liabilities	26,129,686	26,971,025	28,414,009	27,236,592
Total Liabilities	29,134,916	32,711,400	34,862,182	34,111,998
Total Financial Debt	19,977,566	17,635,625	19,486,602	18,373,268
Total Equity	35,723,022	45,580,247	46,587,533	47,040,282
Net Debt	19,109,782	16,019,148	18,173,725	16,599,390
Shares Outstanding	56,400,000	56,400,000	56,400,000	56,400,000
Cash flow				
Cash Flow from Operating Activities (CFO)	3,569,331	4,662,176	4,588,835	4,767,030
Capex	(14,838)	(52,814)	(5,291,112)	n/a
Free Cash Flow (FCF)	3,554,493	4,609,362	(702,277)	n/a
Cash Flow from Investing Activities	(14,838)	(52,814)	(5,291,112)	(5,291,112)
Cash Flow from Financing Activities	(3,393,290)	(3,860,669)	398,677	440,274
Ratios				
Profitability				
ROE (Net Income / Common Equity)	5.8%	5.7%	5.3%	5.4%
ROA (Net Income / Total Assets)	3.2%	3.0%	3.0%	3.1%
Solvency				
Gearing Ratio Level 1 (Net Debt / Total Equity)	53.5%	35.1%	39.0%	35.3%
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	44.9%	41.8%	42.8%	42.0%
Net Debt / EBITDA	3.6x	2.9x	3.1x	2.8x
Current Ratio (Current Assets / Current Liabilities)	1.03x	0.72x	0.57x	0.59x
Interest Coverage Ratio (EBITDA)	0.10x	0.11x	0.11x	0.11x
Cash from Operations / EBIT	0.92x	1.14x	1.11x	1.14x

Source: Audited Financial Statements

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

Historical 1 Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
TML	02.10.2019	€0.94	€1.17	Simon Psaila & Andrew Fenech	Buy
TML	15.04.2019	€0.96	€1.17	Simon Psaila & Andrew Fenech	Buy
TML	25.05.2018	€0.96	€1.15	Simon Psaila & Elisabetta Guadiano	Buy



Source: Audited Financial Statements

Glossary and Definitions

Income Statement	
Revenue	Total revenue generated by the Company/Company from its principal business activities during the financial year.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. It reflects the Company's/Company's earnings purely from operations.
Operating Profit (EBIT)	EBIT is an abbreviation for earnings before interest and tax.
Depreciation and Amortisation	An accounting charge to compensate for the decrease in the monetary value of an asset over time and the eventual cost to replace the asset once fully depreciated.
Net Finance Costs	The interest accrued on debt obligations less any interest earned on cash bank balances and from intra-group companies on any loan advances.
Net Income	The profit made by the Company/Company during the financial year net of any income taxes incurred.
Profitability Ratios	
Growth in Revenue (YoY)	This represents the growth in revenue when compared with previous financial year.
EBITDA Margin	EBITDA as a percentage of total revenue.
Operating (EBIT) Margin	Operating margin is the EBIT as a percentage of total revenue.
Net Margin	Net income expressed as a percentage of total revenue.
Return on Common Equity	Return on common equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing the net income by the average common equity (average equity of two years financial performance).
Return on Assets	Return on assets (ROA) is computed by dividing net income by total assets.
Earnings per Share (EPS)	Earnings per share (EPS) is the amount of earnings per outstanding share of a Group's/Company's share capital. It is computed by dividing net income by total shares outstanding as at statement of financial position date.
Growth in EPS (YoY)	This represents the growth in Earnings per Share (EPS) when compared with previous financial year.
Dividends Ratios	
Net Dividends	Net dividends represent the net amount of dividends in respect of a Group's/Company's fiscal year.
Dividend per Share	Dividend per Share is the amount of dividends per outstanding share of a Group's/Company's share capital. It is computed by dividing net dividends by total shares outstanding as at statement of financial position date.
Growth in Dividends (YoY)	This represents the growth in dividends when compared with previous financial year.
Sustainable Growth Rate in Dividends	This ratio indicates the sustainable growth rate of dividends given the profitability of the Company/Company and the respective level of dividends distribution.
Dividends Yield as at year-end	This ratio indicates how much a Group/Company pays out in dividends each fiscal year relative to its share price. It is computed by the dividing the Dividend per Share by the share price as at year-end.
Cash Flow Statement	
Cash Flow from Operating Activities (CFO)	Cash generated from the principal revenue producing activities of the Company/Company.
Cash Flow from Investing Activities	Cash generated from the activities dealing with the acquisition and disposal of long-term assets and other investments of the Company/Company.
Cash Flow from Financing Activities	Cash generated from the activities that result in change in share capital and borrowings of the Company/Company.
Capex	Represents the capital expenditure incurred by the Company/Company in a financial year.

Free Cash Flows (FCF)	The amount of cash the Company/Company has after it has met its financial obligations. It is calculated by taking Cash Flow from Operating Activities less the Capex of the same financial year.
Balance Sheet	
Total Assets	What the Company/Company owns which can be further classified into Non-Current Assets and Current Assets.
Non-Current Assets	Assets, full value of which will not be realised within the forthcoming accounting year
Current Assets	Assets which are realisable within one year from the statement of financial position date.
Inventory	Inventory is the term for the goods available for sale and raw materials used to produce goods available for sale.
Cash and Cash Equivalents	Cash and cash equivalents are Group/Company assets that are either cash or can be converted into cash immediately.
Total Equity	Total Equity is calculated as total assets less liabilities, representing the capital owned by the shareholders, retained earnings, and any reserves.
Total Liabilities	What the Company/Company owes which can be further classified into Non-Current Liabilities and Current Liabilities.
Non-Current Liabilities	Obligations which are due after more than one financial year.
Total Debt	All debt obligations inclusive of long and short-term debt.
Net Debt	Total debt of a Group/Company less any cash and cash equivalents.
Current Liabilities	Obligations which are due within one financial year.
Shares Outstanding	Outstanding shares refer to the Company/Company stock currently held by all its shareholders.
Financial Strength Ratios	
Current Ratio	The Current ratio (also known as the Liquidity Ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares current assets to current liabilities.
Quick Ratio (Acid Test Ratio)	The quick ratio measures a Group's/Company's ability to meet its short-term obligations with its most liquid assets. It compares current assets (less inventory) to current liabilities.
Interest Coverage Ratio	The interest coverage ratio is calculated by dividing EBITDA of one period by cash interest paid of the same period.
Gearing Ratio	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance total assets.
Gearing Ratio Level 1 Gearing Ratio Level 2	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 share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

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

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

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

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