18th April 2019

Tigné Mall p.l.c.

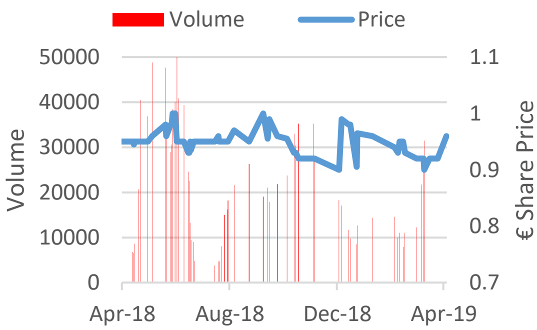
THE POINT SHOPPING MALL

Stock Rating Buy
Price target (1Yr) €1.17

Country	Malta
Industry	Real Estate (Commercial)
Ticker	TML
Price (as at 14/04/2019)	€0.96
Price Target (1 Year)	€1.17
Upside / downside to PT	+21.9%
Market Cap	€54.14million
Shares Outstanding	56.4million
Free Float	33.18%
Net Dividend Yield	2.68%
Current P/E	22.0x
Forward P/E*	20.5x

* CC estimates

1 year Range:	Exchange: MSE
Price and Volume Movement (20 day moving average)	Lowest Price: €0.90
	Highest Price: €1.00



Source: Bloomberg

Executive Summary:

''We have reviewed our model and maintain our Buy recommendation on Tigné Mall p.l.c. with a 12-month price target of €1.17, reflecting an increase from the previous price target of €1.15. Following the first full year of operations from the opening of The Centre office block at piazza Tigné, together with the commencement of Sunday trading, tenants within the mall have benefited from the increase in the overall footfall whereby tenant sales have registered an increase over 2017.

We like TML because it has a strong track record of full occupancy within the mall, and as such we have assumed that due to its strategic location within the Tigné peninsula and Sliema centre, the Mall will continue to be fully occupied going forward.

The Company's revenue growth is deemed to be greater than the forecasted growth in expenses, thus leading to a consequent improvement in EBIT Margin. The revenue and profitability potential of the Company in 2018 has also been boosted through the acquisition of an additional 132 car parking spaces within the proximity of the mall.

What makes TML more attractive to shareholders is the fact that the Company also benefits from a favourable tax rate in relation to its gross rental income (being the lowest of either the 15% on revenue instead of 35% on profit before tax), which ultimately has resulted into higher levels of profits available to shareholders.

Although in 2018 TML has registered an increase in net profit, the Company has maintained the current levels of dividends, thus illustrating the potential that the Company might be in a position to increase dividends in the future.

The main 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. However, we expect the Company to continue achieving positive financial results due to the strategic position of The Point Shopping Mall.

TML is currently trading at 22.0x 2018 earnings and at 20.5x 2019F earnings, which is below its five year historical average of 23.7x. We are of the view that despite the expected positive performance of TML, there are no major growth opportunities or projects in the Company's pipeline.

Therefore, given TML's positive outlook and constant improvement

Market Research

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in revenue and profitability potential, together with the aforementioned limited growth opportunities, we are of the view that the main reason to hold to the stock primarily relates to the Company's attractive dividend distributions. The net dividend yield in 2018 currently stands at a healthy level of 2.68%.''

Company Overview:

Tigné Mall p.l.c. (TML) engages in the ownership and management of 'The Point Shopping Mall', which is renowned as being Malta's largest retail centre.

The mall consists of 14,349 square meters of retail floor space and comprises 50 retail units which are distributed over three floors, in addition to a number of kiosks and two ATMs.

MIDI p.l.c. acquired the mall through a temporary emphyteutical concession for a period of 99 years, expiring in 2099. The property was transferred to TML during 2010 through a sub-emphyteutical deed with MIDI p.l.c. for the remaining period.

In 2013, MIDI p.l.c. and Tigné Contracting Limited effectively disposed of their shareholding in Tigné Mall p.l.c.

The Company's revenue is principally derived from operating lease rental income attributable to retail outlets in 'The Point Shopping Mall' together with the provision of related services, which operation constitutes the sole operating segment of the Company.

During 2018, the Company acquired 132 car parking spaces from MIDI p.l.c. within The Point Shopping Mall's proximity for a consideration of €4.6million. By virtue of this transaction, the car park spaces available to the Company increased from 223 to 355. Moreover, the 355 car parking spaces constituting TML's own car park are operated by TML through a management agreement with a car park operator.

Company Update:

Dividends – In 2018, the Board declared the payment of a final net dividend of €726,150 or €0.012875 per share, in addition to the interim net dividend of €726,150 or €0.012875 per share, equating to a total net dividend of €1,452,300 or €0.02575 per share. The latter represents an equal dividend distribution when compared to the previous financial year.

SWOT Analysis

Strengths

- ✓ The Point Shopping Mall is situated in a strategic location within the Tigné peninsula and close to the Sliema centre
- ✓ The Mall is regarded to be the best shopping mall in Malta in terms of footfall and size
- ✓ Stable current revenue streams due to the long term nature agreements with the respective tenants
- ✓ A track record of full 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

Weaknesses

- × No business and geographical diversification. The Company is highly dependent on the real estate industry in Malta
- × Very low liquidity relating to the Company's stock
- × Concentration risk and exposure to tenants within the Mall.

Opportunities

- ✓ Given TML's strategic location, any developments within the vicinity of the Mall, might result into a consequent increase within the Mall's overall footfall.

Threats

- × A potential downturn in the Real Estate industry in Malta. This may possible lead to a depreciation of the Company's assets
- × A fall in the occupancy rates of outlets might undermine the revenue and profitability potential of the Company
- × Online shopping might hinder traditional shopping
- × Opening of similar competing mall in other parts of the island

Investment Stance

We have reviewed our model and maintain our Buy recommendation on Tigné Mall p.l.c. with a 12-month price target of €1.17. Following the first full year of operations from the opening of The Centre office block at piazza Tigné, together with the commencement of Sunday trading, tenants within the mall have benefited from the increase in the overall footfall whereby tenant sales have registered an increase over 2017.

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

The Company's revenue growth is deemed to be greater than the forecasted growth in expenses, thus leading to a consequent improvement in EBIT Margin. The revenue and profitability potential of the Company in 2018 has also been boosted through the acquisition of an additional 132 car parking spaces within the proximity of the mall. What makes TML more attractive to shareholders is the fact that the Company also benefits from a favourable tax rate in relation to its gross rental income, which ultimately has resulted into higher levels of profits available to shareholders.

Although in 2018 TML has registered an increase in net profit, the Company has maintained the current levels of dividends, thus illustrating the potential that the Company might be in a position to increase dividends in the future.

The main 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. However, we expect the Company to continue achieving positive financial results due to the strategic position of The Point Shopping Mall.

TML is currently trading at 22.0x 2018 earnings and at 20.5x 2019F earnings, which is below its five year historical average of 23.7x. We are of the view that despite the expected positive performance of TML, there are no major growth opportunities or projects in the Company's pipeline.

Therefore, given TML's positive outlook and constant improvement in revenue and profitability potential, together with the aforementioned limited growth opportunities, we are of the view that the main reason to hold to stock primarily relates to the Company's constant dividend distributions, whereby dividend yield in 2018 currently stands at a healthy level of 2.68%.

Valuation

Our one year price target is €1.17. The price target is calculated using an average of the Free Cash Flow to the Firm (FCFF) model combined with the Price to Earnings (P/E) model, utilising 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 Company relating to their properties that are held for long-term rental yields. We applied a 3% terminal value growth rate.

€'s unless otherwise indicated	FY 2017	FY 2018	FY 2019F[1]	FY 2020P	FY 2021P
Operating lease income	6,145,238	6,348,822	6,558,333	6,774,758	6,998,325
Car park rental income	-	147,715	235,152	241,030	247,056
Total revenue	**6,145,238**	**6,496,537**	**6,793,485**	**7,015,789**	**7,245,381**
Cost of sales (excluding depreciation)	(159,024)	(167,101)	(183,424)	(189,426)	(195,625)
Gross profit	**5,986,214**	**6,329,436**	**6,610,061**	**6,826,362**	**7,049,756**
Administrative Expenses	(436,490)	(508,117)	(531,342)	(548,729)	(566,687)
EBITDA	**5,549,724**	**5,821,319**	**6,078,718**	**6,277,633**	**6,483,069**
Depreciation & Amortisation	(1,450,068)	(1,698,231)	(1,730,659)	(1,752,186)	(1,773,993)
EBIT	**4,099,656**	**4,123,088**	**4,348,059**	**4,525,447**	**4,709,076**
Finance Income	1,804	743	700	700	700
Finance Costs	(720,789)	(634,849)	(682,031)	(611,460)	(548,191)
Profit Before Tax	3,380,671	3,488,982	3,666,728	3,914,687	4,161,585
Income tax expense	(1,062,296)	(1,029,396)	(1,019,023)	(1,052,368)	(1,086,807)
Profit Available to Ordinary Equity holders	**2,318,375**	**2,459,586**	**2,647,705**	**2,862,319**	**3,074,778**
Earnings Per Share	*0.041*	*0.044*	*0.047*	*0.051*	*0.055*

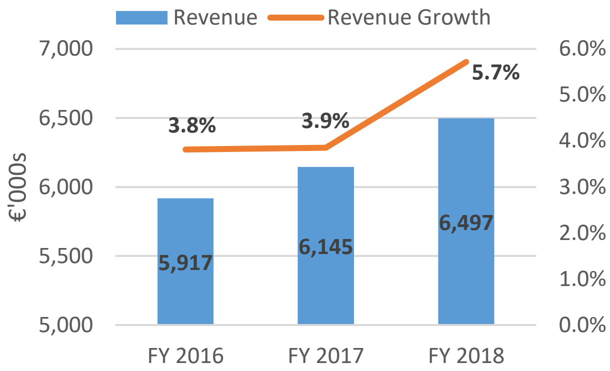
Source: Financial Statements / CC Estimates

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

Investment Thesis Variables

- **Revenue**

The Company's revenue is principally derived from operating lease rental income attributable to retail outlets in the shopping mall, together with the provision of related services, which operation constitutes the sole operating segment of the Company. In 2018, the Company acquired an additional 132 car parking spaces within the mall, thus increasing their parking spaces from 223 to 355.



Source: Financial Statements

Year	Number of Parking Spaces
2017	223
2018	132
Total	**355**

Source: 2018 Financial Statements

The Company's latest financial results (31st December 2018) demonstrate a growth in revenue of 5.7% or €351,299 from €6,145,238 in 2017 to €6,496,537 in 2018. This increase is mainly attributable to the increase in footfall generated from Sunday trading.

Given the track record of full occupancy of outlets within the Mall, we expect the mall to continue to be fully occupied throughout our forecasted period. Moreover, in line with a yearly rental increase included in the tenants' contracts together with the inclusion of variable rents payable to the Company depending upon tenant sales performance, we expect the rental income derived from retail outlets, to increase at an average rate of 3.3% per annum throughout the forecasted period.

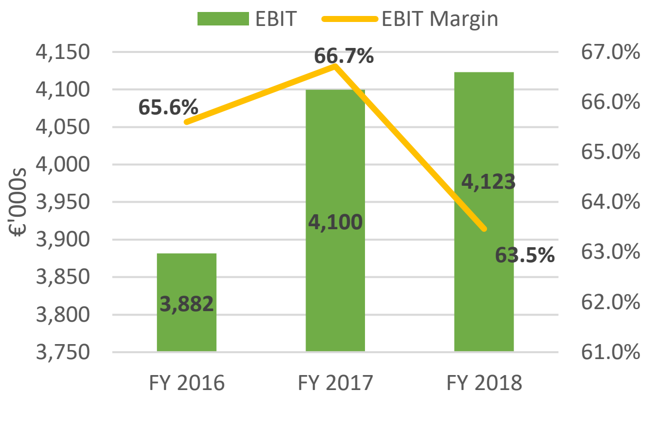
As the additional 132 car parking spaces were acquired at the end of 2018, revenue generated from the car park in 2018, which amounted to €147,715, only reflects revenue generated from 223 car parking spaces. Of note, the 355 car parking spaces constituting TML's own car park are operated by TML through a management agreement with a car park operator. In furtherance, the Company generates €662 annually in revenue per parking space. Going forward, we expect revenue from the car park to increase at an average rate of 2.5% per annum.

Revenue - €	2017	2018	2019	2020	2021
Revenue:					
Operating lease income	6,145,238	6,348,822	6,558,333	6,774,758	6,998,325
Car park rental income	-	147,715	235,152	241,030	247,056
Total Revenue	**6,145,238**	**6,496,537**	**6,793,485**	**7,015,789**	**7,245,381**
Operating lease % Growth	3.86%	3.31%	3.30%	3.30%	3.30%
Car Park % Growth	0.00%	100.00%	59.19%	2.50%	2.50%
Total - % Growth	**3.86%**	**5.72%**	**4.57%**	**3.27%**	**3.27%**

Source: Financial Statements / CC Estimates

- **EBIT –** The increase in administrative expenses (16.4%) and in cost of sales exclusive of depreciation (5.1%) incurred in the year under review, increased at a higher rate than revenue (5.7%), which eventually led to a fall in EBIT margin from 66.7% in 2017 to 63.5% in 2018.

  Due to higher levels of revenue forecasted to be generated by the Company, we expect EBIT margin to improve to 64% in 2019 and eventually reach 65.0% in 2021.



Source: Financial Statements

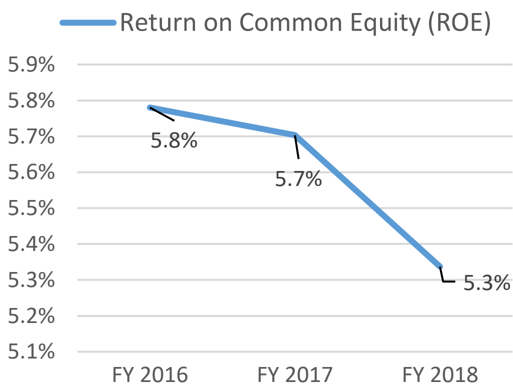
- **Administrative Expenses** – These comprise employee benefit expenses, directors' fees, advertising and business promotion expenses together with other expense. The latter increased by 16.4% or €71,627 from €436,490 in 2017 to €508,117 in 2018. This increase is deemed to be in line with the higher activity conducted by the Company and is mainly attributable to advertising and business promotion expenses.

- **Depreciation –** The shopping mall is treated as property plant and equipment under the requirements of IAS 16 rather than investment property under IAS 40. Subsequently, depreciation is expected to increase to €1.7 million in 2019 and reach a level €1.8 million in 2021.

- **Finance Costs –** Finance costs incurred in 2018 decreased by 11.9% or €85,940 from €720,789 in 2017 to €634,849 in 2018. This decline in finance costs was primarily initiated after the Company renegotiated loan repayment arrangements with the bank enabling the Company to effect larger repayments at more advantageous terms.

  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 by €47,182 or 7.43% to €682,031 in 2019. Given that the Company 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 from €2,318,375 in 2017 to €2,459,586 in 2018. This translates to an EPS of €0.044 in 2018 in comparison to €0.041 in 2017. Given the Company's year-on-year improvement in turnover and profitability, we expect net profit and EPS to increase from €2.6 million or €0.047 per share in 2019 to €3.3 million or €0.058 per share in 2022. As demonstrated in the ROE chart, return on common equity marginally declined from 5.8% in 2016 to 5.3% in 2018.



Source: Financial Statements / CC Estimates

- **Taxation –** As it is deemed to be more beneficial, we have assumed that from 2019 onwards, the Company 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%.

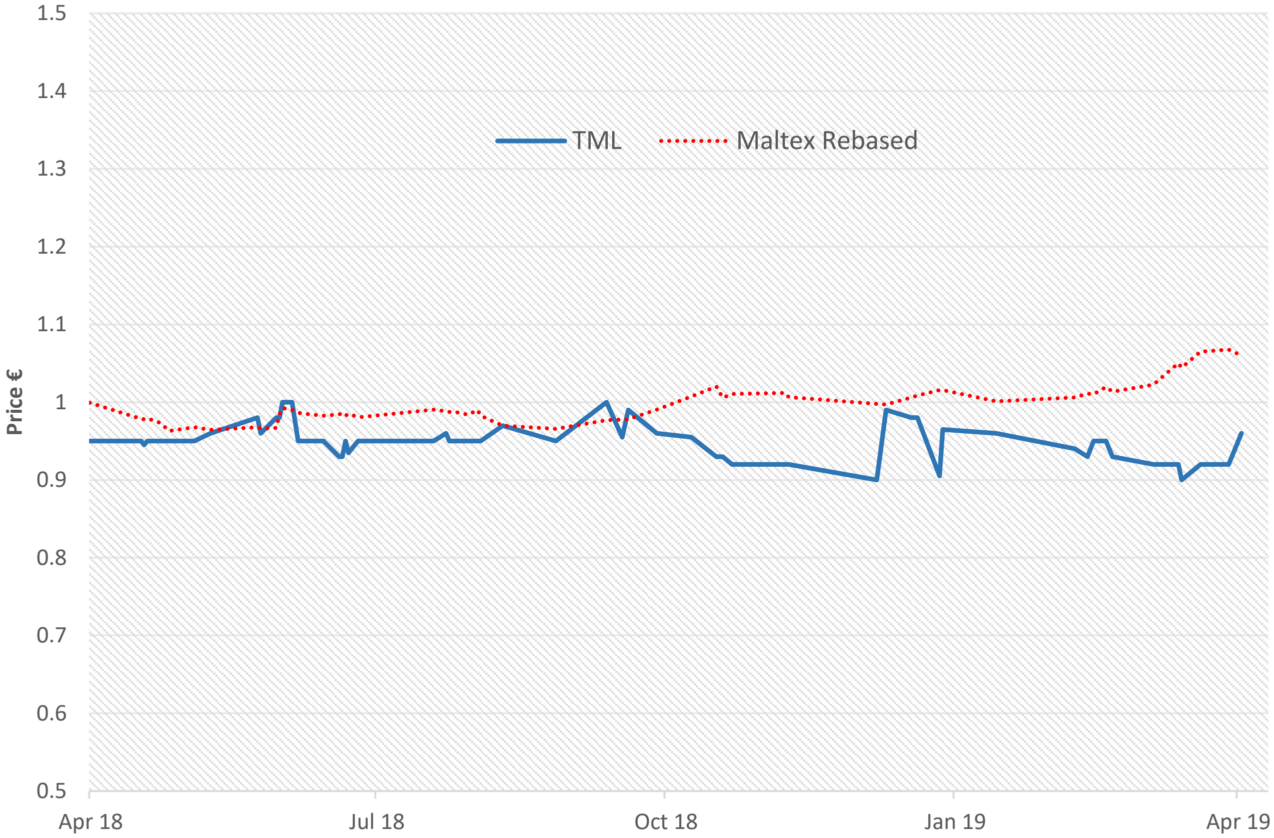
Key Financial Indicators

€'s unless otherwise indicated	Dec 2016	Dec 2017	Dec 2018
Income Statement			
Revenue	5,917,120	6,145,238	6,496,537
Growth in Revenue (YoY)	3.8%	3.9%	5.7%
EBITDA	5,341,448	5,549,724	5,821,239
EBITDA Margin (EBITDA / Revenue)	90.3%	90.3%	89.6%
Operating Income (EBIT)	3,881,802	4,099,656	4,123,008
Operating (EBIT) Margin (EBIT / Revenue)	65.6%	66.7%	63.5%
Net Income	2,046,451	2,318,375	2,459,586
Net Margin (Net Income / Revenue)	34.6%	37.7%	37.9%
Earnings per Share (EPS)	0.0363	0.0411	0.0436
Growth in EPS (YoY)	23.7%	13.3%	6.1%
Sustainable Growth Rate in Dividends	1.8%	2.1%	2.2%
Dividend Yield	2.6%	2.7%	2.7%
Balance Sheet			
Cash and Cash Equivalents	867,784	1,616,477	1,312,877
Current Assets	3,101,746	4,132,709	3,697,896
Non-Current Assets	61,756,192	74,158,938	77,751,819
Total Assets	64,857,938	78,291,647	81,449,715
Current Liabilities	3,005,230	5,740,375	6,448,173
Non-Current Liabilities	26,129,686	26,971,025	28,414,009
Total Liabilities	29,134,916	32,711,400	34,862,182
Total Financial Debt	19,977,566	17,635,625	19,486,602
Total Equity	35,723,022	45,580,247	46,587,533
Net Debt	19,109,782	16,019,148	18,173,725
Shares Outstanding	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
Capex	(14,838)	(52,814)	(5,291,112)
Free Cash Flow (FCF)	3,554,493	4,609,362	(702,277)
Cash Flow from Investing Activities	(14,838)	(52,814)	(5,291,112)
Cash Flow from Financing Activities	(3,393,290)	(3,860,669)	398,677
Ratios			
Profitability			
Return on Common Equity (Net Income / Common Equity)	5.8%	5.7%	5.3%
Return on Assets (Net Income / Total Assets)	3.2%	3.0%	3.0%
Solvency			
Gearing Ratio Level 1 (Net Debt / Total Equity)	53.5%	35.1%	39.0%
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	44.9%	41.8%	42.8%
Net Debt / EBITDA	3.6x	2.9x	3.1x
Current Ratio (Current Assets / Current Liabilities)	1.0x	0.7x	0.6x
Quick Ratio (Acid Test Ratio)	1.0x	0.7x	0.6x
Interest Coverage Ratio (EBITDA)	0.1x	0.1x	0.1x
Cash from Operations / EBIT	0.92x	1.14x	1.11x

Source: Audited Financial Statements

Historical 1 Year Price Target

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