

Trident Estates plc



Update following Rights Issue:

Rights Offer:

- 2 new ordinary shares for every 5 ordinary shares held by existing shareholders (12 million new ordinary shares in total)
- Offer Price: €1.25 per new ordinary share
- The Rights Issue was offered to existing shareholders appearing on the Issuer's register as at close of business on the 4th October 2019
- Theoretical Ex-Rights Price works out to be €1.73, which is calculated on the closing price as at 4th October.

The Rights Issue, if fully taken up, will increase the issued share capital by 40% to €42 million. Existing shareholders who accept their proportionate entitlement of rights in full, will suffer no dilution to their interests in the Issuer.

However, those shareholders who do not take any of their rights to subscribe for the new shares will, if the Rights Issue is fully taken up, will suffer an immediate dilution of 29% in their interests in the Company.

Update to Price Target and Recommendation:

Following on from our price target of €1.46 issued on 3rd July 2019, which already modelled the proceeds of the rights issue, the equivalent rights issue adjusted, theoretical price target is €1.04. We are increasing our 12-month price target to €1.21 after adjusting our model inputs following the published prospectus. We maintain our sell recommendation on Trident Estates plc ("Company" or "Trident").

Our valuation is based on a FCFE model which takes into account the equity injection and full duration on the loan taken up by the Company to fund the Trident Park project.

Given today's share price of €1.92, we are of the opinion that the shares are overvalued despite accounting for optimistic rental rates and high occupancy levels in our model.

We are also conscious of the challenges concerning Trident Park, mainly in the forms of potential delays in the development of the project, uncertainty over rental rates achievable upon completion and occupancy risk.

We rate the shares a sell. Nonetheless, investors should keep in mind that not participating in the rights issue will result in a dilution of their interest in Trident.

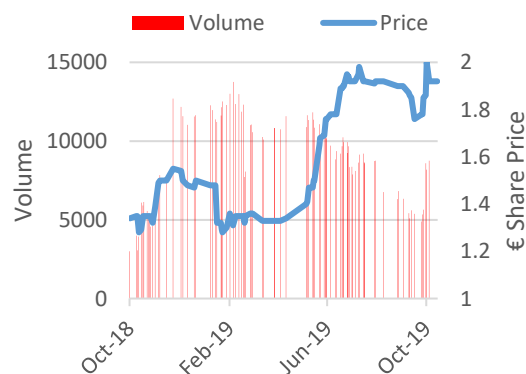
Stock Rating
Price target (1Yr)

Sell
€1.21

Country	Malta
Industry	Real Estate
Ticker	TRI
Price (as at 14/10/2019)	€1.92
Theoretical Ex-Rights Price	€1.73
Price Target (1 Year)	€1.21
Upside / downside to PT	-30%
Market Cap	€57.6million
Shares Outstanding (including rights issue)	42million
Free Float	25%
Net Dividend Yield*	0.35%
Current P/E	101.3x
Forward P/E	n/a
*Based on the results as at LTM 2019	

1 year Range:
Price and Volume
Movement (20 day
moving average)

Exchange: MSE
 Lowest Price: €2.00
 Highest Price: €1.28



Source: Bloomberg

Market Research



Simon Psaila
 Capital Markets and
 Research Manager
 +356 25 688 141
simonpsaila@cc.com.mt



Andrew Fenech
 Financial Analyst
 +356 25 688 133
andrewfenech@cc.com.mt

Company Update:

- *Dividends* – As at 30 June 2019, the Board did not declared an interim dividend payment (2018: Nil).

Valuation

Our one year price target is €1.21. The price target is calculated using a Free Cash Flow to Equity (“FCFE”) model and a cost of equity of 8%. Our valuation is based on the assumption that current shareholders will participate in the rights issue, hence avoiding dilution¹. We applied a 3% terminal growth rate.

Trident Estates plc €'s (unless otherwise indicated)	FY 2018	FY2019	LTM2020	FY2020F ²	FY2021P	FY2022P
	€'000	€'000	€'000	€'000	€'000	€'000
Revenue	796	1,076	1,120	1,108	1,142	4,866
Cost of Sales	(74)	(186)	(91)	(199)	(205)	(487)
Gross Profit	722	890	1,030	909	936	4,379
Administrative Expenses	(461)	(592)	(569)	(598)	(616)	(876)
EBITDA	261	298	461	310	320	3,503
Depreciation & Amortisation	(5)	(10)	(47)	(4)	(4)	(4)
EBIT	256	288	414	307	316	3,500
Fair value gain on investment property	165	803	803	-	-	-
Loss/Gain on acquisitions and share of associate	11	-	-	-	-	-
Finance Income	41	-	-	-	-	-
Finance Costs	(56)	-	(98)	(456)	(888)	(840)
Profit Before Tax	417	1,091	1,119	(149)	(572)	2,660
Income tax expense	76	(316)	(323)	-	-	(730)
Profit Available to Ordinary Equity holders	493	775	796	(149)	(572)	1,930
<i>Earnings Per Share</i>	<i>0.016</i>	<i>0.026</i>	<i>0.027</i>	<i>-0.004</i>	<i>-0.014</i>	<i>0.046</i>

Source: Financial Statements / CC Estimates

Investment Thesis Variables Update

- **Revenue** – Following the renegotiation of the lease agreement relating to Scotsman Pub and inflationary adjustments, revenue generated from rental income as per LTM 2020 increased by 4.1% to €1.1 million. Going forward, we expect rental income to increase by 3% per annum.

In terms of Trident Park, management confirmed that the Company is in line with their schedule of completion concerning the whole development. We have assumed a 75% occupancy level for FY 2022, reflecting both the timing of completion and demand from potential tenants. Thereafter we are assuming fully occupancy, at a rental rate of €260 per sqm (approx. 15,000 sqm in total).

We anticipate revenue generated from Trident Park during FY 2022 to amount to €3.7 million. Assuming that a predetermined yearly rental increase will be included in the tenants’ contracts, we are forecasting a further

¹ Our price target takes into account the rights issue and is based on the proposed share capital of 42 million shares.

² Our forecasted figures does not take into account the implications brought about by the adoption of IFRS 16, where most leases have been capitalised as from 1st January 2019.

growth of 3% from 2023 onwards, relating to the revenue generated from Trident Park. We have also assumed that the parking spaces (700 spaces) and the gymnasium will also be fully rented out once the project is completed and the offices are occupied by the respective tenants.

Revenue (€'000)	FY 2018	FY2019	FY2020P	FY2021P	FY2022P
Rental Income	796	1,076	1,108	1,142	1,176
Revenue - Trident Park	-	-	-	-	3,690
Total	796	1,076	1,108	1,142	4,866
% Growth - Rental Income	9.5%	35.2%	3.0%	3.0%	3.0%
% Growth - Trident Park	-	-	-	-	100%
Total Growth	9.5%	35.2%	3.0%	3.0%	326.2%

Source: Financial Statements / CC Estimates

- **EBIT** – The decline in administrative expenses (3.9%) and in cost of goods sold (51.3%), together with the increase in revenue (4.1%) as per 2020 LTM results, led to an improvement in EBIT margin from 26.8% in FY 2019 to 37% as at 2020 LTM. This improvement is attributable to the Company's adoption of IFRS 16 as from FY 2020 onwards.

Given that our forecasts do not take into account the implications brought about by the adoption of IFRS 16, we expect EBIT margin to amount to 27.7% in 2020 and 2021 and grow to 71.9% in 2022 following the commencement of operations of Trident Park.

- **Administrative expenses** - These mainly comprise employee benefit expense and other related expenses. We expect administrative expenses to increase to €0.6 million in FY 2020 due to additional costs expected to be incurred upon the €15 million rights issue which is currently being undertaken by the Company. Thereafter, we expect a yearly marginal increase in administrative expenses reflecting the increase in revenue in which the Company is expected to generate once the Trident Park project is fully finalised.
- **Finance Costs** – As part of the Group's plan to finance Trident Park, we have assumed that half of the bank facilities in which the Group has secured during 2019, will be utilised in 2020 while the other half will be utilised in 2021. Consequently, we expect the Group to incur finance costs amounting to €0.5 million in FY 2020 and €0.9 million in FY 2021. It is expected that the latter will be reduced within the following years once the Group's available cash will be utilised to repay such bank loan facility.
- **Net profit** – Net profit increased by 3% to €0.8 million, translating to an EPS of €0.019 as per 2020 LTM results. Given that Trident's principal focus is the development of Trident Park, we expect net profit to diminish until completion of the project. Thereafter, we expect net profit to increase on a yearly basis from € (0.1) million or € (0.04) per share in FY 2020 to €1.9 million or €0.063 per share in FY 2022.

Key Financial Indicators

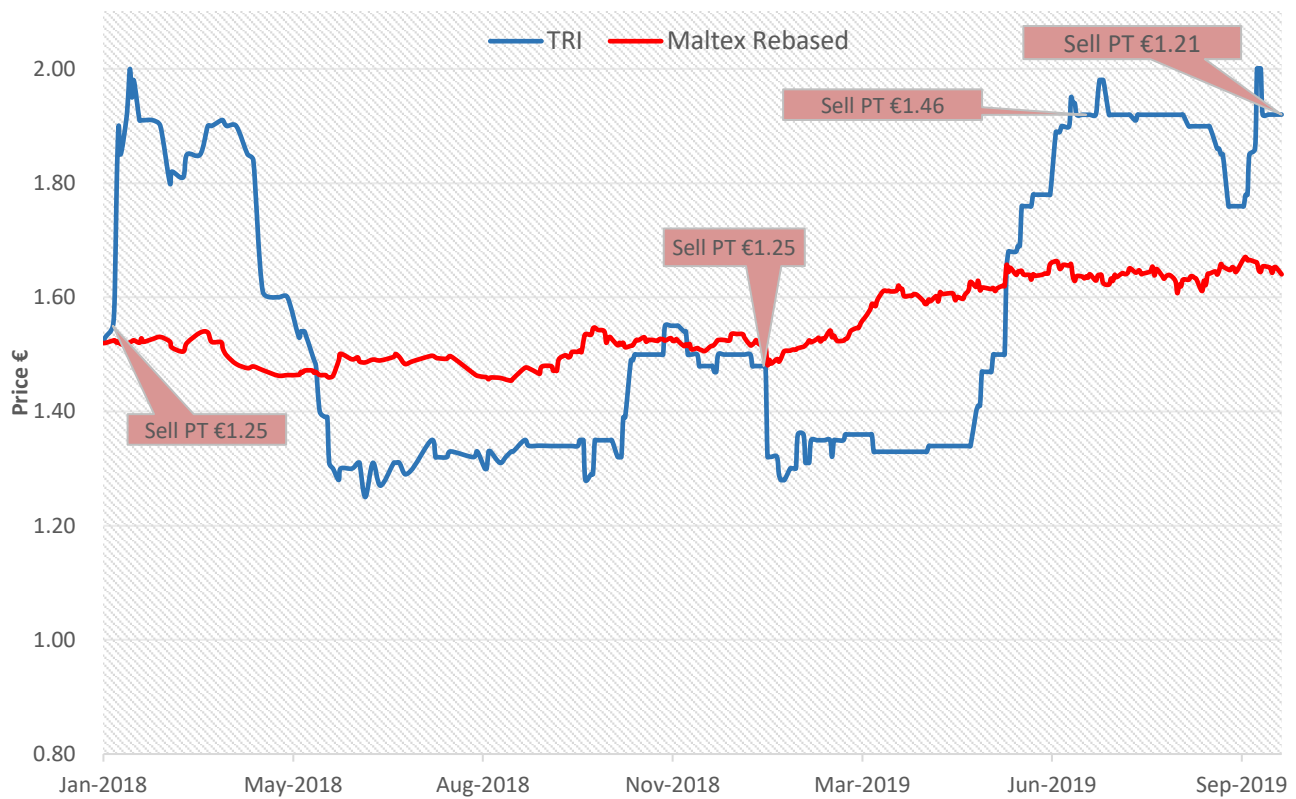
€'000s unless otherwise indicated	Jan 2017	Jan 2018	Jan 2019	2020 LTM ³
Income Statement				
Revenue	727	796	1,076	1,120
<i>Growth in Revenue (YoY)</i>	-	9.5%	35.2%	4.1%
EBITDA	575	261	298	461
EBITDA Margin (EBITDA / Revenue)	79.1%	32.8%	27.7%	41.1%
Operating Income (EBIT)	570	256	288	414
Operating (EBIT) Margin (EBIT / Revenue)	78.4%	32.2%	26.8%	37.0%
Net Income	4,357	513	755	796
Net Margin (Net Income / Revenue)	599.3%	64.4%	70.2%	71.1%
Earnings per Share (EPS)	0.15	0.02	0.03	0.02
<i>Growth in EPS (YoY)</i>	-	-88.2%	47.2%	-24.7%
Balance Sheet				
Cash and Cash Equivalents	20	6,228	4,004	839
Current Assets	6,158	6,668	4,435	1,542
Non-Current Assets	21,969	33,061	38,317	46,089
Total Assets	28,127	39,729	42,752	47,631
Current Liabilities	2,847	297	2,399	3,843
Non-Current Liabilities	1,742	2,378	2,524	6,147
Total Liabilities	4,589	2,675	4,923	9,990
Total Financial Debt	2,461	-	166	166
Total Equity	23,538	37,054	37,829	37,641
Net Debt	2,441	-	-	-
Shares Outstanding	30,000	30,000	30,000	42,000
Cash flow				
Cash Flow from Operating Activities (CFO)	(626)	2,362	912	666
Capex	-	(11,702)	(3,289)	n/a
Free Cash Flow (FCF)	(626)	(9,340)	(2,377)	n/a
Cash Flow from Investing Activities	646	(9,157)	(3,302)	(5,621)
Cash Flow from Financing Activities	-	13,003	-	(138)
Ratios				
Profitability				
Return on Common Equity (Net Income / Common Equity)	18.5%	1.7%	2.0%	2.1%
Return on Assets (Net Income / Total Assets)	15.5%	1.3%	1.8%	1.7%
Solvency				
Gearing Ratio Level 1 (Net Debt / Total Equity)	10.4%	0.0%	0.0%	0.0%
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	16.3%	6.7%	11.5%	21.0%
Net Debt / EBITDA	4.2x	-	-	-
Current Ratio (Current Assets / Current Liabilities)	2.2x	22.5x	1.8x	0.4x
Interest Coverage Ratio (EBITDA)	6.1x	4.7x	-	-
Cash from Operations / EBIT	(1.1)x	9.2x	3.2x	1.6x

Source: Audited Financial Statements and CC workings

³ LTM 2019 is calculated by adding the interim results (H1) of 2019 with the audited results for FY 2018, less H1 2018

Historical 1 Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
TRI	16.10.2019	€1.92	€1.21	Simon Psaila & Andrew Fenech	Sell
TRI	03.07.2019	€1.92	€1.46	Simon Psaila & Andrew Fenech	Sell
TRI	14.01.2019	€1.48	€1.25	Simon Psaila & Andrew Fenech	Sell
TRI	05.02.2018	€1.55	€1.25	Simon Psaila & Elisabetta Guadiano	Sell



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 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	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 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.

Disclaimer

This document is being issued by Calamatta Cuschieri Investment Services Ltd (“CC”) of Ewropa Business Centre, Triq Dun Karm, Birkirkara, BKR9034, Malta and bearing company registration number C13729. CC is licensed to conduct Investment Services in Malta by the Malta Financial Services Authority. This information is being provided solely for information purposes and should not be deemed or construed as investment advice, advice concerning particular investments, advice concerning investment decisions, tax, legal or any other ancillary regulatory advice. Similarly, any views or opinions expressed are not intended and should not be construed as investment, tax and/or legal recommendations or advice. CC has not verified and consequently neither warrants the accuracy nor the veracity of any information, views or opinions appearing on this document. CC does not accept liability for actions, proceedings, costs, demands, expenses, damages and losses suffered by persons as a result of information, views or opinions appearing on this document. No person should act upon any opinion and/or information in this document without first obtaining professional advice.