1923 Investments p.l.c.

Executive Summary:

"Following sustained losses in prior years, the Group's performance in FY19 improved, with 1923 registering a profit after tax. Despite the pandemic, 1923 still expects an improvement in its financial performance for FY20. The Group is forecasting an improvement of 86 basis points in its EBITDA margin on a comparative basis, with revenues expected to grow by 18.2%. Such improvement is also attributable to the newly acquired STS business, which mainly was financed through new debt.

The contribution of the newly acquired STS operations, coupled with the organic growth of both the IT and retail segments, is expected to offset the above mentioned increase in leverage, with both the interest coverage and gearing forecasted to remain constant to FY19. Nonetheless, the extent of the impact from the pandemic both on the logistics and STS operations are not yet fully known, therefore we believe that a **Neutral** credit opinion on 1923 is justified.

1923 – This bond is currently yielding a YTM of 5.0%. This yield is comparable to the average yield for local issuers maturing in 2024 and 2025. In view of this, coupled with the unsecured characteristic of the bond and the relatively close maturity, especially during such turbulent times, we are issuing a **Hold** recommendation 1923."

Debt securities issued by the Group:

In 2014, 1923 Investments plc (the "**Issuer**" or "**1923**"), which is the holding company of a diversified group, issued a €36m 5.1% bond with a 10-year term maturity. The majority of this issue (€29.2m) was utilised to refinance existing borrowings, while the remaining €5.6m was used to settle the acquisition of APCO and the Apple resellers business in Poland, with €0.5m allocated to working capital.

Business Overview:

1923 Investments plc holds activities engaged in innovation for businesses, retail of Apple products, the mobility of goods and cargo across regions, global ship-to-ship operations and the servicing of major oil companies and their fleets. The Issuer holds four groups of companies – Harvest Technology, iSpot, Hili Logistics, and STS Marine Solutions.

Group's Developments:

During 2019, 1923 sold 37% of the investment it holds in Harvest through an Initial Public Offer, generating a profit of €5.9m.

In late April 2020, 1923 completed the acquisition from Teekay Tankers Limited of a portion of its oil and gas ship-to-ship transfer support business (STS Marine Solutions), which also provides LNG terminal management and LNG consulting services, for approximately $26m. Following the COVID-19 outbreak, the Group took the strategic decision to wind down the freight forwarding operations in Malta with effect from August 2020.

Credit Opinion — Neutral

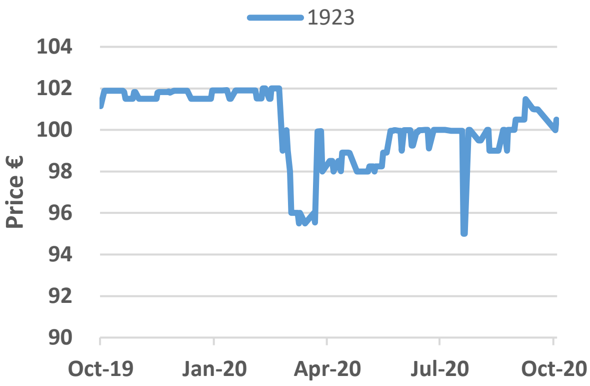
Country	Malta
Industry	Technology, Apple Resellers and Logistics

5.1% INV 2024

Security	Unsecured
Nominal	€36m
Ticker	1923
Price (as at 29/10/20)	€100.50
Recommendation	**Hold**
Yield to Maturity (YTM)	5.0%

Exchange	Malta Stock Exchange (MSE)
52-week range	€95.00 - €102.00

1-Year Price Movement



Source: Malta Stock Exchange

Research Analysts

Rowen Bonello
+356 25 688 305
rowenbonello@cc.com.mt

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

COVID-19 implications on the Group's operations

The effects of the COVID-19 pandemic are far-reaching, however a diversified revenue stream may mitigate this unprecedented situation. In fact, 1923 investments reported that as a consequence of the outbreak its IT segment reported a surge in demand, as consumers acquired IT products for home entertainment and educational purposes, or to implement remote business operations.

At first, the Group reported that the majority of Apple Premium Resellers operating under the iSpot brand have ceased in-store operations and customers were being directed to the iSpot's website. However, management recently reported that the pandemic has positively driven demand for iSpot's offerings, which this momentum expected to be maintained for at least the remainder of FY20. Management argued that COVID-19 has accelerated the transformation to a digital world which is driving the sale of Apple products - schools are innovating to make remote learning easier for students; businesses are encouraging working from home by providing equipment to enable employees to operate efficiently; and people are spending more time online for entertainment and shopping during lockdowns periods.

As opposed to the other segments, the Group's logistics operations have not been immune to the pandemic and has been negatively affected by the restrictions imposed by countries on movement and flow of goods causing supply chain disruptions. Furthermore, the loss of demand and consumption of non-essential goods has reduced manufacturing output thereby impacting volumes of cargo. As mentioned earlier, the Group took the decision to transfer the freight forwarding business to CMA CGM Malta Agency Ltd as from August 2020.

The newly acquired ship-to-ship service business (STS Marine Solutions), has also been adversely impacted by the confinement measurers implemented worldwide. Management explained that the situation was further exacerbated by the sharp fall in the price of oil caused by the imbalance between supply and real demand, with the overall impact depending on the duration of the crisis and on how quickly STS operations can recover.

Despite the pandemic, the Group still expects to achieve satisfactory results with an anticipated increase in revenue of 18.2% or €24.6m and an EBITDA generation of €6m (FY19: €3m). It is worthy to note that these figures capture the operations of the newly acquired STS business, which is expected to contribute €11.8m in revenue and an EBITDA of €1.8m. Therefore if the latter is excluded, the organic growth of 1923 in terms of revenue and EBITDA for FY20 is €12.8m and €1.2m, respectively.

SWOT Analysis

Strengths

- ✓ A diversified Group, both in terms of business operations and geographical positioning
- ✓ Potential support from the wider Hili Group, should the fundamentals of 1923 deteriorate
- ✓ Despite the considerable impact of COVID-19, the Group expects to remain profitable in FY20
- ✓ The partial sale of Harvest Technology plc provided the Group with excess liquidity prior to the outbreak

Weaknesses

- × The Group is exposed to exchange rate movements
- × Being the investment arm of the wider Hili Group, inherently makes 1923 a risky business

Opportunities

- ○ Interesting growth prospects for the Group's technology business
- ○ The diversified businesses of the wider Hili Group across several geographies might present 1923 with additional attractive investment opportunities

Threats

- ! The extent of the impact from COVID-19 is not yet fully known, thus there might be a potential downturn if the situation deteriorates further. Especially, in the case of STS, where 1923 undertook additional debt to fund this new venture
- ! The threat that a new acquisition fails to generate satisfactory returns

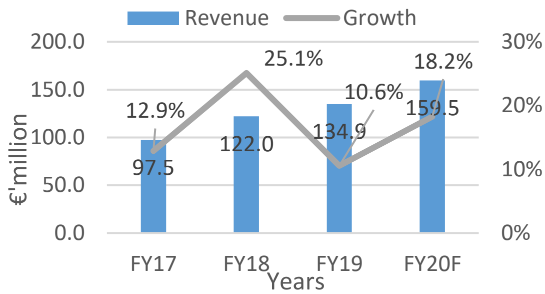
Financial Summary

1923 Investments plc - €'m (unless otherwise indicated)	FY17A	FY18A	FY19A	FY20F
Income statement				
Revenue	97.5	122.0	134.9	159.5
Cost of Sales	(89.3)	(108.5)	(116.7)	n/a
Gross Profit	8.3	13.5	18.2	
Net operating expenses	(4.3)	(9.8)	(9.5)	(147.8)
EBITDA	3.9	3.7	8.7	11.7
Depreciation and amortisation	(1.8)	(2.5)	(5.5)	(5.7)
EBIT	2.1	1.3	3.2	6.0
Other non-operating income	0.3	0.2	2.5	2.2
Net finance costs	(2.5)	(2.5)	(2.6)	(3.8)
Profit before tax	(0.1)	(1.1)	3.0	4.4
Taxation	(0.6)	(0.2)	(1.4)	(1.0)
Profit after tax	(0.7)	(1.2)	1.6	3.4
Cash flow				
Net cash from operations (CFO)	(0.4)	(1.9)	8.7	(4.3)
Capex	(2.7)	(1.7)	(1.4)	(25.1)
Free cash flows (CFO – Capex)	(3.1)	(3.6)	7.3	(29.4)
Balance sheet				
Cash and cash equivalents	3.2	3.6	18.9	11.3
Current assets	33.1	36.8	53.1	44.1
Non-current assets	85.4	84.0	84.1	101.9
Total assets	118.5	120.8	137.3	146.0
Current liabilities	33.1	32.5	43.9	38.9
Non-current liabilities	51.7	49.9	48.3	59.3
Total liabilities	84.8	82.5	92.2	98.2
Total Financial debt	56.0	51.8	63.2	70.7
Net debt	52.8	48.2	44.3	59.4
Total equity	33.7	38.3	45.1	47.8
Ratios				
Growth in Total Revenue (YoY Revenue Growth)	12.9%	25.1%	10.6%	18.2%
Gross profit margin (Gross profit / Revenue)	8.5%	11.1%	13.5%	n/a
EBITDA margin (EBITDA / Revenue)	4.0%	3.1%	6.4%	7.3%
Operating (EBIT) margin (EBIT / Revenue)	2.2%	1.1%	2.4%	3.8%
Net margin (Net income / Revenue)	-0.7%	-1.0%	1.2%	2.1%
Return on common equity (Net Income / Total Equity)	-3.5%	-3.4%	3.9%	7.4%
Return on assets (Net Income / Total Assets)	-0.6%	-1.0%	1.2%	2.4%
Current ratio (Current assets / Current Liabilities)	1.0x	1.1x	1.2x	1.1x
Interest coverage ratio (EBITDA /Cash interest paid)	1.5x	1.4x	3.1x	3.1x
Gearing level 1 (Net debt / Net Debt and Total Equity)	61.0%	55.7%	49.6%	55.4%
Gearing level 2 (Total Liabilities / Total Assets)	71.5%	68.3%	67.2%	67.3%
Net debt / EBITDA	13.4x	12.9x	5.1x	5.1x
Cash from Operations / EBIT	(0.2)x	(1.5)x	2.7x	(0.7)x

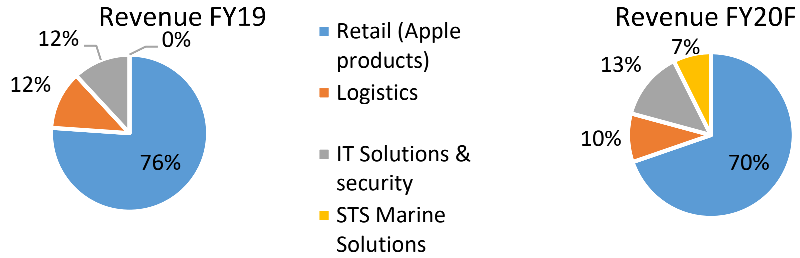
Source: 1923's Group Audited Financial Statements and FY20 Financial Analysis Summary

Investment Considerations

- **Revenue** – The Group's revenue is segregated in 3 main operations (4 as from FY20), with the largest contributor being the 'retail operations'. In FY19, the Group's total revenue stood at €134.9m, meaning an improvement of 10.6% over FY18 (€122.0m). As per FY19, retail business contributed 76.1% to total revenue, followed by logistics (12.0%) and IT solutions & security (11.9%).

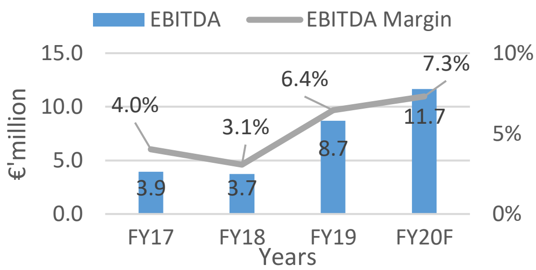


As explained earlier, the Group expects two of its segments to be positively impacted by the pandemic with retail and IT solutions in FY20 forecasted to increase by 8.3% (€8.6m) and 33.1% (€5.3m), respectively. Additionally, 1923's revenue is expected to be higher as a result of the acquisition of STS Marine Solutions, which is anticipated to generate a revenue of €11.8m. The Group's logistics segment has been materially impacted by the pandemic and its consequent measures, with an expected decrease of €1.0m or 6.4% from this business. Overall the Group's revenue is forecasted at €159.5m in FY20, meaning an increase of 18.2% over FY19.

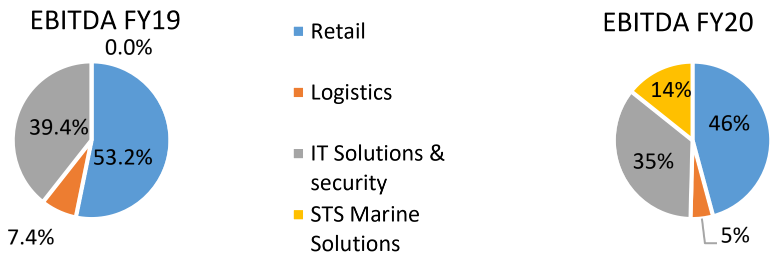


Source: 1923's Financial Statements and FY20 FAS

- **EBITDA** – In FY19, EBITDA jumped to €8.7m (FY18: €3.7m). This was predominantly as a result of the implementation of IFRS 16, which if excluded results in an adjusted EBITDA of €3.8m, meaning a marginal increase of 0.3%. In view of these developments, the EBITDA margin improved to 6.4% in FY19, however on an adjusted basis this amounts to 2.8% (FY18: 3.1%).



As can be analysed from the below chart, the majority of the Group's EBITDA is generated from the retail segment, however despite this representing 76.1% of total revenue it generates 53.2% of total EBITDA. This implies that the EBITDA margin on retail is low (FY19: 5.2%) when compared to other segments such as the IT solutions & security, which had an EBITDA margin of 24.4% as at FY19. In FY20, consolidated EBITDA is forecasted at €11.7m, meaning a growth of €3m over FY19. This growth predominantly consist of the EBITDA contribution of the newly acquired STS business which is expected to generate circa €1.8m, coupled with circa €1m organic growth contributed equally by the retail and IT solutions operations.



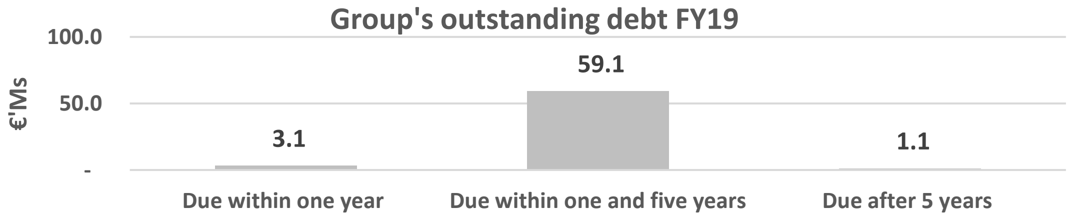
Source: 1923's Financial Statements and FY20 FAS

- **Finance costs** – Finance costs mainly consist of interest incurred on the Group's bond currently in issue, in addition to finance costs on bank borrowings and finance lease liabilities (IFRS 16). In FY19, the Group incurred €2.9m in financing expenses, an increase of €0.2m over FY18. This was mainly as a result of the implementation of IFRS16, which was partial offset by a reduction in bank borrowings.

- **Interest cover –** In FY19, the Group's interest coverage stood at 3.1x. The forecasted growth in 1923's EBITDA for FY20, will be offset by the additional interest that will be incurred on the new debt utilised in funding the acquisition of STS Marine Solutions, Consequently, the interest cover is expected to remain constant at 3.1x.

- **Capital Expenditure -** During FY19, the Group invested €1.4m in plant and equipment, and intangible assets. In FY20, 1923 is forecasting a capex investment of circa €25m, the majority of which reflects the acquisition of STS Marine Solutions for $26m.

Debt Maturity Profile



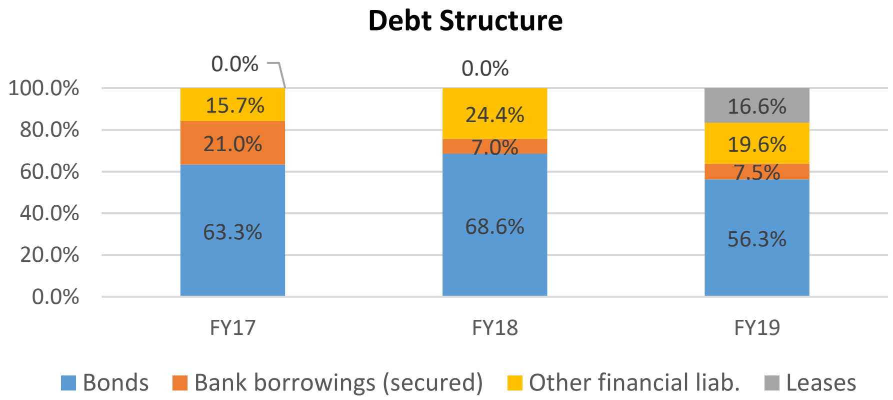
Maturity Ladder: FY19 (€'Ms)	Within 1 year	Between 1 - 5 years	More than 5 years	Total
Debt Securities in issue	-	35.6	-	**35.6**
Bank loans and overdrafts[1]	0.1	4.7	-	**4.8**
Lease liabilities	3.0	6.4	1.1	**10.5**
Other financial liabilities[2]	-	12.4	-	**12.4**
	3.1	**59.1**	**1.1**	**63.2**

Source: 1923's Audited Financial Statements

- As can be noted from above, the majority of the Group's financial debt is due between 1 after 5 years, which mainly reflects the Issuer's €36m unsecured bonds maturing in 2024.

Bank loans and overdrafts – These are secured by first and second general and special hypothecary guarantees over the assets of companies forming part of 1923 Group.

- 1923 has overdraft facilities in Malta and Poland, bearing a variable interest rate of 5.14% and 3.13%, respectively.
- The Group also has €0.2 bank loan bearing an interest rate of 3.5% and payable in full by 31 December 2021.



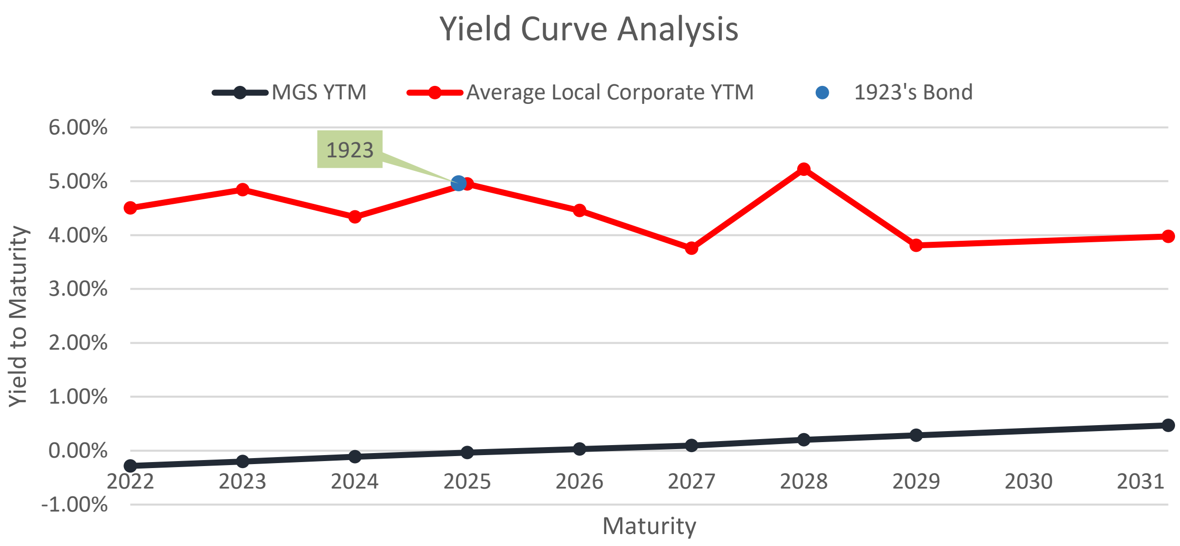
Source: 1923's Audited Financial Statements

[1] As per financials bank overdrafts are included as due within 1 year, however given that the Group's overdrafts have no date of repayment, we classified this debt as due between 1-5 years.

[2] Similarly other financial liabilities do not have a fixed date of repayment, thus we classified them as debt due between 1-5 years.

Investment Rationale

We have compared the securities yield of 1923 Investment plc against local issuers, as currently there are no local issuers with a comparable business model of the Issuer.



Source: Malta Stock Exchange, Central Bank of Malta and Calamatta Cuschieri Workings

The above graph illustrates the average yearly yield of all local issuers as well as the corresponding yield of MGSs (Y-axis) vs the maturity of both Issuers and MGSs (X-axis), in their respective maturity bucket, to which the spread premiums can be noted. The graph illustrates on a stand-alone basis, the yield of 1923's 2024 bond.

The Group's performance in FY19 improved over prior years, with the Group registering a profit after tax following sustained losses in prior years. It's important to note that FY19 captures two one-off events being the gain of €5.9m on the sale of Harvest less the impairment losses on; the logistics business (€3.5m) and an indirect subsidiary in Romania (€0.3m). From a credit sanity perspective, the sale of Harvest provided the Group with excess liquidity prior to the COVID-19 outbreak.

Despite the pandemic, 1923 still expects an improvement in its financial performance for FY20. The Group is forecasting an improvement of 86 basis points in its EBITDA margin on a comparative basis, with revenues expected to grow by 18.2%. Such improvement is also attributable to the newly acquired STS business, which mainly was financed through new debt. Notwithstanding the increase in debt, the interest coverage is still expected to remain unchanged at 3.1x. Similarly, the gearing (net debt / EBITDA) is predicted to remain constant at 5.1x in FY20. Based on the capacity of servicing its debt, we are of the opinion that the Group will generate sufficient resources to honour its financial obligations. Nonetheless, the extent of the impact from the pandemic both on the logistics and STS operations are not yet fully known, therefore we believe that a **Neutral** credit opinion on 1923 is justified given the information in hand.

1923

1923's bond is currently trading at €100.50, translating into a YTM of 5.0%. The average yield for local issuers maturing in 2024 and 2025 is 4.34% and 4.95%, respectively. Taking into account that the yield of 1923 is comparable to other issuers maturing within the same timeframe, the fact that the bond is unsecured and the relatively close maturity, especially during such turbulent times where the Group might need more working capital investment, we are of the opinion that a **Hold** recommendation is merited on 1923.

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 the average total assets (average assets of two years financial performance).
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 interest bearing debt obligations inclusive of long and short-term debt.
Net Debt	Total debt of a Group/Company less any cash and cash equivalents.
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 Net Debt and Total Equity. 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 refinance its debt by looking at the EBITDA.
Cash from Operations / EBIT	This ratio measures the ability of the Group/Company to convert its earnings into cash.
Other Definitions	
Yield to Maturity (YTM)	YTM is the rate of return expected on a bond which is held till maturity. It is essentially the internal rate of return on a bond and it equates the present value of bond future cash flows to its current market price.

Explanation of Ratings

Credit Opinion
Positive indicates expectations of a general improvement of the fundamentals / market sector / asset class / credit rating over the next 6 to 12 months.

Neutral indicates expectations of a general stable trend of the fundamentals / market sector / asset class / credit rating over the next 6 to 12 months.

Negative indicates expectations of a general deterioration of the fundamentals / market sector / asset class / credit rating over the next 6 to 12 months.

Issue specific recommendations
The recommendations below are with respect to existing debt securities issued on the Malta Stock Exchange.

Buy indicates our favourable view from a total return perspective with respect to the credit considering yield-to-maturity / fundamentals / maturity bucket / credit rating over the next 6 to 12 months.

Hold indicates our neutral view from a total return perspective with respect to the credit considering yield-to-maturity / fundamentals / maturity bucket / credit rating over the next 6 to 12 months.

Sell indicates our negative view from a total return perspective with respect to the credit considering yield-to-maturity / fundamentals / maturity bucket / credit rating over the next 6 to 12 months.

Newly issued research recommendations supersede previously published research.

Disclaimer