Calamatta Cuschieri
INVESTMENT ADVISORS & STOCKBROKERS

Endo Finance p.l.c.

Executive Summary:

"Despite the Group experiencing a delay in its issuing its bond which subsequently delayed the acquisition of its vessels, the Group reported strong performance for FY19 with an EBITDA margin of 40.3%. In addition, credit metrics at this juncture are satisfactory with an attractive interest coverage ratio of 3.4x, manageable leverage and adequate liquidity.

The Group's performance was resilient despite the pandemic, with ENDO forecasting an improvement in its fundamentals for FY20. The Group expects its gearing to fall to 4.1x in FY20 (FY19: 6.4x), while interest coverage should improve to 4.5x. Based on this coupled with our view that the Group will generate sufficient resources to honour all of its financial obligations, we are issuing a **Positive** credit opinion.

Endo's 2029 bond is currently trading at a YTM of 4.5%, thus at a premium to the local average bond index of 3.9%, in the respective maturity bracket. However, given the liquidity risk shadowing the credit, the premium might be justified, even when one considers the cyclical nature of the sector. Nonetheless, we are cognisant of the positive fundaments of the Group and we believe the bond could be well suited for diversified portfolios. Therefore, we recommend a **Hold** recommendation on EN29."

Debt securities issued by the Group:

The Group, through its financing vehicle Endo Finance plc (the "**Issuer**" or "**ENDO**"), issued an unsecured bond of €13.5m in 2019. Out of this issue, €12.6m were earmarked for the acquisition of two vessels, while the remaining €0.5m was retained by the Group as part of its general corporate funding.

Business Overview:

The Issuer was set up as a financing vehicle, consequently it does not carry out significant operations, apart from that of providing financing to its subsidiaries. The Group consists of several subsidiaries, which mainly are clustered into four operations being, the chartering of vessels, ship-to-ship services, ship management services and property leasing.

Both International Fender Providers Ltd and IFP International Fender Providers Ltd carry out the ship-to-ship services, while Endo Properties Ltd is responsible for property leasing. These three companies act as joint and several guarantors of the 2029 bond.

Group's Developments:

The Bond was issued to enhance the Group's chattering of vessels. In May 2019, the Group acquired M/T Endo Breeze, being a medium-range (MR) vessel as described in the bond's prospectus. Additionally, on 11 September, the Group announced that it acquired the third vessel, Endo Sirocco.

Credit Opinion — Positive

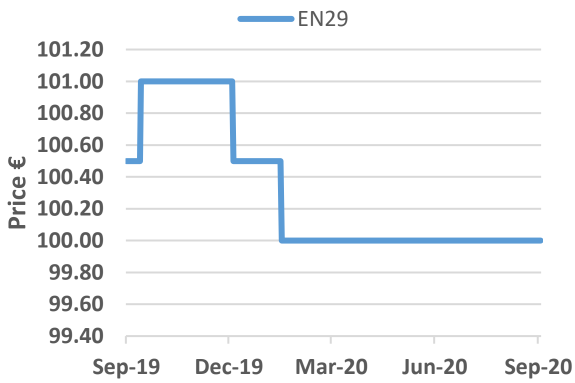
Country	Malta
Industry	Maritime/Shipping

4.5% ENDO 2029

Security	Unsecured
Nominal	€11.5m
Nominal value per bond	€50k
Ticker	EN29
Price (as at 18/09/20)	€100.00
Recommendation	**Hold**
Yield to Maturity (YTM)	4.5%

Exchange	Malta Stock Exchange (MSE)
52-week range	€100.00 - €101.00

1-Year Price Movement



Source: Malta Stock Exchange

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COVID-19 implications on the Group's operations

Notwithstanding the severe impact of the pandemic on both local and global economies, the tanker shipping market has been one of the few industries that has been positively affected by the COVID-19 pandemic, and the drastic fall in oil price which was conditioned twofold, COVID-19 and the supply glut.

The Group's largest vessel, Endo Breeze, is currently under a fixed time charter of 3 years (2 years remaining) with Team Tankers International Ltd, a company listed on the Oslo Stock Exchange. Moreover the other two vessels, despite the recently imposed travel ban which in reality provided an exemption in relation to cargo ships and tankers carrying essential fuels, are expected to continue operations during FY20. Both vessels are chartered to Palm Group, being a related group to ENDO.

More positively, as a result of high demand in the tankers shipping market, the Group recorded a one-off surge in revenue from its ship-to-ship services. This resulted in the interim 2020 revenue of International Fender Providers Ltd in jumping to €2.1m (H1 19: €0.7m), with an operating profit of €140k (H1 19: €79k).

Given that the impact of the COVID-19 pandemic on ENDO's operations is expected to be minimal, the Group based its FY20 forecasts (as per FAS) on historical performance and agreements in place, or in the process of being signed. In view of this, the Group is expected to operate at satisfactory profitability levels and generate sufficient liquidity to honour all of its financial obligations.

SWOT Analysis

Strengths

- ✓ The Group's largest vessel is currently being leased on a 3 –year charter with a reputable company
- ✓ Minimal impact of COVID-19 on the Group's operations and financial performance
- ✓ The Group has illustrated its ability to acquire and charter its vessels
- ✓ In FY19, the Group's owners transferred several properties to Endo Properties Ltd, in total having a market value of €3m
- ✓ Apart from its vessels, the Group owns several other properties, in total amounting to circa €10m

Weaknesses

- ✗ Limited financial history given that the Group was recently incorporated during 2019
- ✗ The Group is exposed to foreign currency risk, as the charter agreements of vessels is generally denominated in US dollar
- ✗ Chartered agreements can't be renegotiated if market rates are improving on possible demand/supply imbalances

Opportunities

- ○ The Group charters its vessel to a listed strong company which will aid management in securing new opportunities, such as the acquisition and subsequent charter of other vessels
- ○ Management is seeking attractive opportunities through gathered years of experience within the industry

Threats

- ! Following the expiry of the current 3-year lease of Endo Breeze, the Group might not be able to secure a new lessee or maintain the same time charter rates
- ! Further deterioration of the COVID-19 situation, might ultimately impact the Group, especially if there is a global economic fall-out resulting in a lower demand and supply of oil, which consequently might negatively impact the demand for the tanker shipping industry

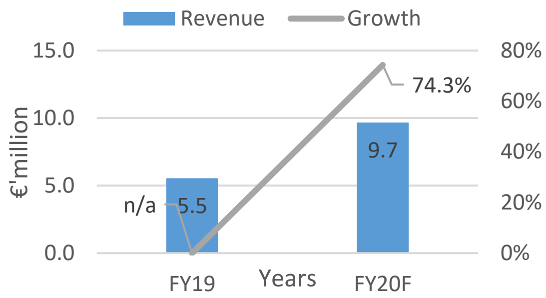
Financial Summary

Endo Ventures Ltd	FY19A €'000s	FY20F €'000s
Income statement		
Revenue	5,545	9,666
Cost of Sales	(2,927)	(5,639)
Gross Profit	2,618	4,027
Administrative expenses	(492)	(557)
Other operating income	108	-
EBITDA	2,234	3,470
Depreciation	(1,226)	(1,393)
EBIT	1,008	2,077
Movement in revaluation of investment property	2,237	-
Finance costs	(662)	(767)
Profit before tax	2,583	1,310
Taxation	(330)	(165)
Net income	2,253	1,145
Cash flow		
Net cash from operations (CFO)	1,451	2,279
Capex	(11,355)	(2,079)
Free cash flows (CFO – Capex)	(9,904)	200
Balance sheet		
Cash and cash equivalents	3,103	3,082
Current assets	4,616	4,655
Non-current assets	26,836	27,551
Total assets	31,452	32,206
Current liabilities	4,906	3,920
Non-current liabilities	16,095	15,904
Total liabilities	21,001	19,824
Total Financial debt	17,502	17,372
Net debt	14,399	14,290
Total equity	10,451	12,382
Ratios		
Growth in Total Revenue (YoY Revenue Growth)	n/a	74.3%
Gross profit margin (Gross profit / Revenue)	47.2%	41.7%
EBITDA margin (EBITDA / Revenue)	40.3%	35.9%
Operating (EBIT) margin (EBIT / Revenue)	18.2%	21.5%
Net margin (Net income / Revenue)	40.6%	11.8%
Return on common equity	21.6%	10.0%
Return on assets	7.2%	3.6%
Current ratio (Current assets / Current Liabilities)	0.9x	1.2x
Interest coverage ratio (EBITDA /Cash interest paid)	3.4x	4.5x
Gearing level 1 (Net debt / Net Debt and Total Equity)	57.9%	53.6%
Gearing level 2 (Total Liabilities / Total Assets)	66.8%	61.6%
Net debt / EBITDA	6.4x	4.1x
Cash from Operations / EBIT	1.4x	1.1x

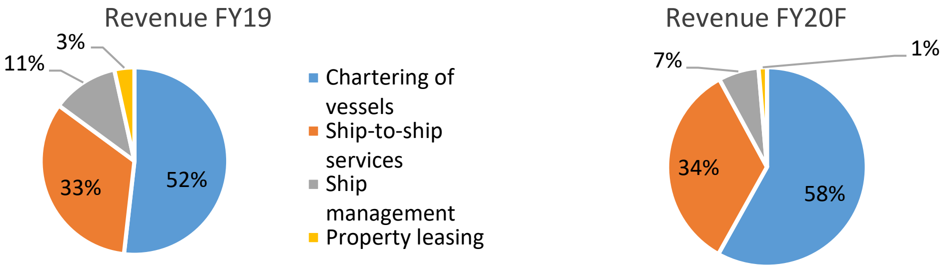
Source: ENDO's Group Audited Financial Statements and FY20 Financial Analysis Summary

Investment Considerations

- **Revenue** – Operations commenced in FY18, however the Group kick-started its full operations in FY19, where it reported €5.5m revenues. The majority of the Group's revenue was generated from the chartering of vessels (52%), namely the charter of Endo Breeze (€2.6m). The ship-to-ship services contributed 33% to total revenue, while ship management services and property leasing contributing 11% and 3%, respectively.



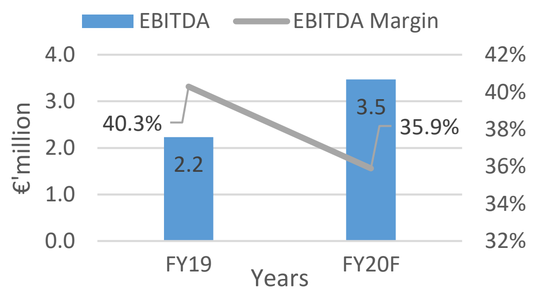
In FY20, the Group is forecasting sales to increase to €9.7m, representing an increase of 74.3% over FY19. This improvement is mainly attributable to a full year performance of Endo Breeze in FY20, given that the vessel was acquired on 22 May 2019. Additionally, as explained earlier the Group's ship-to-ship services reported a surge in activity H1 2020, therefore this is expected to increase by €1.4m. The Group's revenue from the chartering of vessels will be further improved during FY20 by the acquisition of Endo Sirocco. In total, revenue from chartering is expected grow by €2.7m.

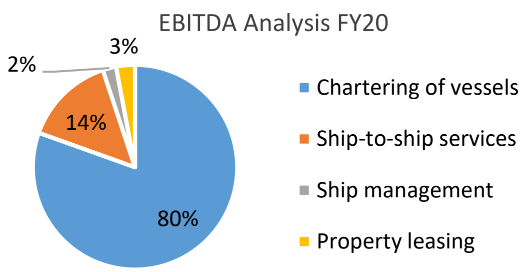


Source: ENDO's Financial Statements and FY20 FAS

- **EBITDA –** Cost of sales mainly relate to costs incurred in managing the ships, in addition to the crewing and direct costs incurred in providing ship-to-ship services. The Group generated an EBITDA of €2.2m in FY19, translating into an EBITDA margin of 40.3%.

  The Group's EBITDA segregation according to each operation is only available for forecasted FY20. This chart clearly shows that the Group's EBITDA is skewed towards the chartering of vessels at 80%, despite this representing 58% of total revenue in FY20. Based on the expected improvement in revenue, the Group's forecasts EBITDA for FY20 to amount to €3.5m. The EBITDA margin is expected to fall to 35.9% and this is mainly due to the surge in operations of the Group's ship-to-ship services, which impacted margins in H1 2020.





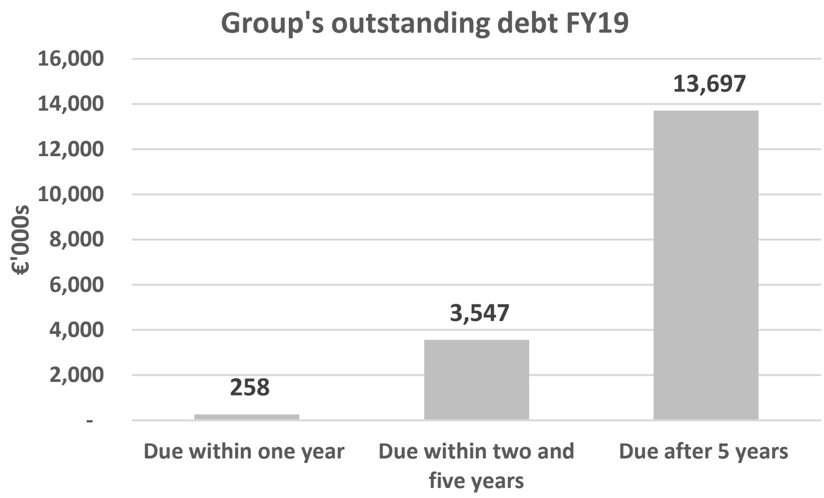
Source: ENDO's Financial Statements and FY20 FAS

- **Finance costs –** Finance costs mainly consist of the interest cost which the Issuer incurs on the bonds in issue, where the coupon rate is set at 4.5%. Additionally, finance costs include interests incurred on bank loans facilities within the Endo Group, which as at FY19 stood at €1.6m, an overdraft facility of €2.1m and related parties loans of €0.6m. Financing costs are expected to amount to €0.8m in FY20.

- **Interest cover –** In FY19, the Group's interest coverage stood at 3.4x. In view of the anticipated improvement of the Group's financial performance for FY20, the interest cover is expected to improve to 4.5x in FY20.

- **Capital Expenditure -** During FY19, the Group utilised €11.4m in CAPEX, which mainly relates to the acquisition of Endo Breeze. In FY20, the Group is forecasting capital expenditure at €2.1m, which reflects the acquisition of the third vessel, Endo Sirocco.

Debt Maturity Profile



Maturity Ladder: FY19 (€'000s)	Within 1 year	Between 2 - 5 years	More than 5 years	Total
Debt Securities in issue	30	120	13,080	13,230
Bank loans	228	801	617	1,646
Bank Overdrafts[1]	-	2,052	-	2,052
Loans with related parties	-	574	-	574
	258	**3,547**	**13,697**	**17,502**

Source: ENDO's Audited Financial Statements

- As can be noted form above, the majority of the Group's financial debt is due after 5 years, which reflects the €13.5m bond maturing in 2029 and incurring a coupon of 4.5%.
- The Group's bond is unsecured, however bondholders are granted the following collateral rights:
  - A first priority mortgage on each of the three vessels owned by the Group;
  - A pledge by Endo Tankers Ltd of all of its shares held in each of Endo One Maritime Ltd, Endo Two Maritime Ltd and Endo Three Maritime Ltd, respectively.

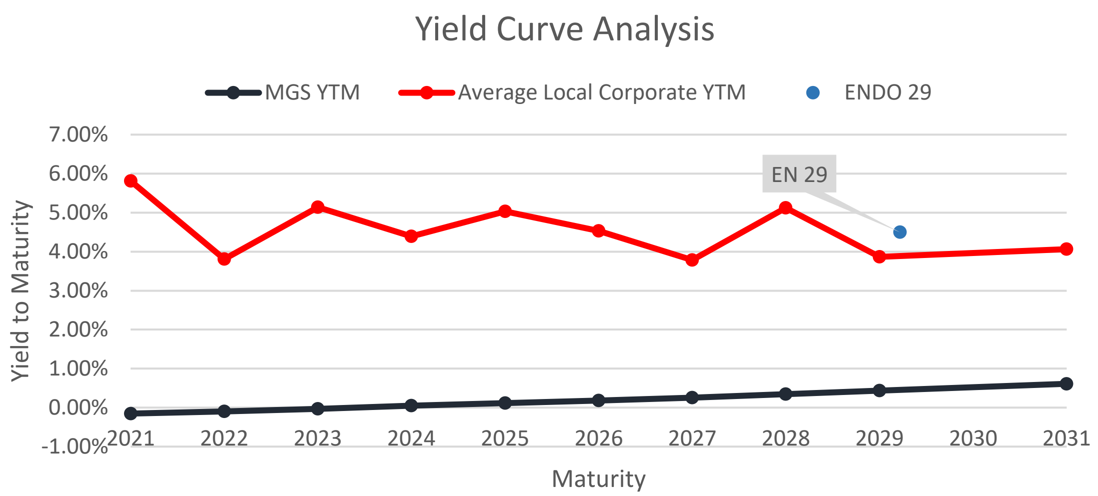
Bank loans and overdrafts:

- The Group, through one of its subsidiaries has an overdraft facility of €2.2m (as FY19: €2.0m utilised). This facility is secured by a general hypothec over the subsidiary's assets, by a special hypothec over property in Sliema and by guarantees given by a related company. It bears interest at 5.512% per annum. This overdraft facility is repayable on demand.
- Two of the subsidiaries have five bank loans. The loans are secured by a general hypothec over the subsidiaries' assets, by a special hypothec over property owned in Mosta, Marsa and Sliema, by pledges taken over various insurance policies, by guarantees of the parent company, and by personal guarantees of the shareholders. They bear interest between 4.85% and 5.35% per annum and are repayable by total monthly instalments of €25,669 inclusive of interest.
- The Group's loans with related parties are unsecured, interest-free and have no fixed date of repayment.

[1] The bank overdraft was classified as due within 1 year in the audited financial statements, however following discussions with the Group, this overdraft is repayable on demand and to date, it is not expected to fall due within the next 12 months. Therefore, we classified this debt as due between 2-5 years.

Investment Rationale

We have compared the securities yield of Endo Finance plc against local issuers, as companies similar to the business model of the Issuer do not exist locally.



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

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 ENDO's 2029 bond.

The Group experienced a delay in issuing its bond, which resulted in the net proceeds being made available on 1 April 2019 as opposed to the target planned date of 1 January 2019. This resulted in the delay for the acquisition of Endo Breeze. The acquisition of Endo Sirocco was delayed for reasons beyond Endo Group's control, including COVID-19 outbreak. Notwithstanding these delays, the Group reported strong performance for FY19 with an EBITDA margin of 40.3%. In addition, credit metrics at this juncture are satisfactory with an attractive interest coverage ratio of 3.4x, manageable leverage given the relatively quantifiable revenue stream, while liquidity seems to be adequate given the low working capital requirements of the business model per se

The Group's performance was resilient despite the pandemic, with ENDO forecasting an improvement in its fundamentals for FY20. The Group expects its gearing (net debt/EBITDA) to fall to 4.1x in FY20 (FY19: 6.4x), while interest coverage should improve to 4.5x. Revenue is expected to jump through the deployment of an additional vessel, furthermore the company is also expecting to register some form of organic growth given the positives brought about by COVID-19 specifically for the industry. EBITDA is expected to increase by 55%, while the operating margin is expected to register a 331bps improvement. Based on the resilience of ENDO's business model to the current stressed scenario, combined with an expected improvement in its metrics, we are of the view that the Group will generate sufficient resources to honour all of its financial obligations. Consequently, we believe that a **Positive** credit opinion on Endo is justified given the information in hand.

The Issuer's bond is currently trading at a YTM of 4.5%, thus at a premium to the local average bond index of 3.9%, in the respective maturity bracket. However, given the liquidity risk shadowing the credit, the premium might be justified, even when one considers the cyclical nature of the sector. Nonetheless, we are cognisant of the positive fundaments of the Group and we believe the bond could be well suited for diversified portfolios. Therefore, we recommend a **Hold** recommendation on EN29.

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.

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