Calamatta Cuschieri
INVESTMENT ADVISORS & STOCKBROKERS

Mariner Finance p.l.c.

Credit Opinion Positive

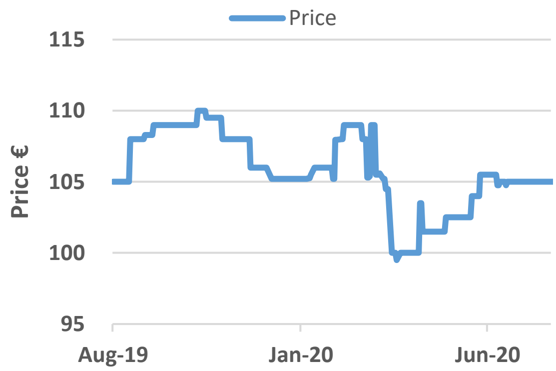
Country	Malta
Industry	Maritime

5.3% MRN 2024

Security	Unsecured
Nominal	€35.0m
Ticker	MRN
Price (as at 10/08/20)	€105.00
Recommendation	**Hold**
Yield to Maturity (YTM)	3.9%

Exchange	Malta Stock Exchange (MSE)
52-week range	€99.50 - €110.00

1-Year Price Movement



Source: Malta Stock Exchange

Research Analysts

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Executive Summary:

"The Group's leverage increased during recent years, with net debt in the last three years increasing at a CAGR of 17.8%. This, combined with a lower EBITDA in FY19, when compared to FY17, resulted in the Group's gearing to jump to 5.2x in FY19 (FY17: 3.4x).

Nonetheless, the Group's coverage ratio remained healthy, with this standing at 4.0x in FY19. Despite the current stressed economic environment, the Group expects its coverage to fall to 3.4x this year, which we deem as healthy. Based on this, together with our opinion that the Issuer has sufficient resources at its disposal to honour all of its financial obligations, including its bond interest payment obligations, we are issuing a **Positive** credit opinion on MRN.

MRN is currently trading at a YTM of 3.9%, which is lower than the respective local average of 4.1%. Notwithstanding the positive credit fundamentals, we believe that at the current price levels the bond does not provide an attractive entry point for investors. Accordingly, we recommend a **Hold** on MRN 24."

Debt securities issued by the Group:

The Group, through its financing vehicle Mariner Finance plc (the "**Issuer**" or "**MRN**"), which acts also as the 'Parent' company of 'Mariner Group', issued a €35m unsecured bond issue in 2014. Out of this issue, €20m were earmarked for bank loans refinancing, while the remaining proceeds were utilised for investment within the Group's port operations.

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. Mariner Group is mainly involved in the investment, development and operation of sea terminals, namely in Riga, Latvia. Additionally, the Group owns and operates real estate in Latvia, which it leases to third parties.

The Group operates the Riga Free Port No. 48 under a port concession licence which expires on 22 March 2047. Apart from the licence, MRN owns all yards within the boundaries of the terminal (excluding the quay), together with all underlying communications, warehousing facilities, parking and paved areas surrounding said warehouses, and covered rail ramps. The real estate property in Latvia consist of a five storey commercial and office building having circa 3,880m^2 of rentable space. As at FY19, the property was valued at €5m.

COVID-19 implications on the Group's operations

The impact of the COVID-19 pandemic is far-reaching. Nonetheless, in line with the Group's FAS (dated 27 May), Mariner reported that it continued to operate normally despite the current unprecedented situation. Given that the magnitude of the impact brought about by the outbreak is not yet fully known, the Group noted that it is not in a position to accurately forecast the extent of the impact such events will have on its operations.

However, in view of the economic downturn caused by the pandemic, the Group revised its projections for FY20 and based these revisions on a stressed scenario. Despite this, the Group is still expected to operate at satisfactory profitability levels and generate sufficient liquidity to honour all of its financial obligations.

SWOT Analysis

Strengths

- ✓ The Group's terminal is located in a strategic location to meet container traffic from the main industrial centres of Russia
- ✓ Minimal COVID-19 impact on the Group's financial and operational performance
- ✓ Largest and fastest growing container terminal in the Baltic States
- ✓ The Group's terminal is the only specialised container terminal within Riga Port
- ✓ The Group owns and operates a commercial property in Riga, valued at circa €5m

Weaknesses

- × No geographical and sectoral diversification. The Group is mainly exposed to the terminal industry in Riga
- × Strong competition by other specialised container terminals which are located in the neighbouring Baltic States and other eastern Baltic countries

Opportunities

- ○ Largest and fastest growing container terminal in the Baltic States
- ○ Capacity to increase volumes, with the addition of a ship-to-shore gantry crane during FY20

Threats

- ! Further escalation of the COVID-19 outbreak might result in further deterioration of the Group's fundamentals
- ! Changes in the regulatory environment
- ! Geopolitical risks, especially given Russia is an important market for the Group

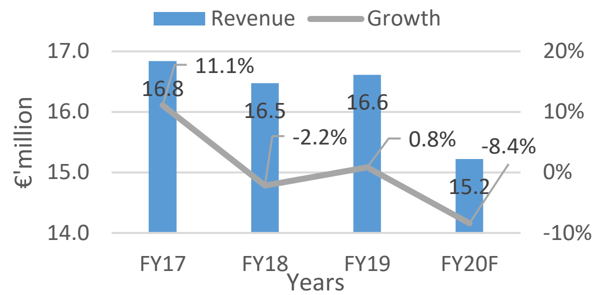
Financial Summary

Mariner Finance plc	FY17A €'000s	FY18A €'000s	FY19A €'000s	FY20F €'000s
Income statement				
Revenue	16,838	16,475	16,614	15,219
Cost of Sales	(7,263)	(7,851)	(7,695)	n/a
Gross Profit	9,575	8,623	8,919	n/a
Other operating income	559	556	588	417
Operating costs	(675)	(655)	(923)	n/a
EBITDA	9,459	8,524	8,584	7,570
Depreciation	(1,513)	(1,482)	(1,579)	(2,201)
EBIT	7,946	7,043	7,005	5,369
Net interest income/(cost)	(1,983)	(1,545)	(1,785)	(1,888)
Profit before tax	5,963	5,498	5,220	3,481
Tax expense	130	(21)	(316)	(233)
Net income	6,093	5,477	4,904	3,248
Cash flow				
Net cash from operations (CFO)	6,009	7,464	5,600	5,870
Capex	(481)	(3,927)	(7,073)	(6,615)
Free cash flows (CFO – Capex)	5,529	3,538	(1,473)	(745)
Balance sheet				
Cash and cash equivalents	3,701	1,163	615	1,113
Inventories	371	381	465	488
Current assets	7,438	4,679	4,537	4,249
Non-current assets	69,651	78,545	90,773	95,187
Total assets	77,088	83,223	95,310	99,436
Current liabilities	3,801	3,445	8,713	3,975
Non-current liabilities	34,587	35,600	39,498	45,113
Total liabilities	38,387	39,045	48,210	49,088
Total Financial debt	36,098	35,855	45,596	46,802
Net debt	32,397	34,692	44,981	45,689
Total equity	38,701	44,178	47,100	50,348
Ratios				
Gross profit margin (Gross profit / Revenue)	56.9%	52.3%	53.7%	n/a
EBITDA margin (EBITDA / Revenue)	56.2%	51.7%	51.7%	49.7%
Operating (EBIT) margin (EBIT / Revenue)	47.2%	42.7%	42.2%	35.3%
Net margin (Net income / Revenue)	36.2%	33.2%	29.5%	21.3%
Return on common equity (Net Income / Common Equity)	17.6%	13.2%	10.7%	6.7%
Return on assets (Net Income / Total Assets)	8.2%	6.8%	5.5%	3.3%
Current ratio (Current assets / Current Liabilities)	2.0x	1.4x	0.5x	1.1x
Quick ratio (Current assets - Inventory / Current Liabilities)	1.9x	1.2x	0.5x	0.9x
Interest coverage ratio (EBITDA /Cash interest paid)	4.4x	4.2x	4.0x	3.4x
Gearing level 1 (Net debt / Net Debt and Total Equity)	45.6%	44.0%	48.8%	47.6%
Gearing level 2 (Total Liabilities / Total Assets)	49.8%	46.9%	50.6%	49.4%
Net debt / EBITDA	3.4x	4.1x	5.2x	6.0x
Cash from Operations / EBIT	0.8x	1.1x	0.8x	1.1x

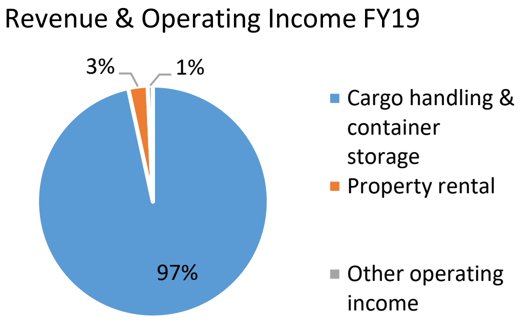
Source: MRN's Group Audited Financial Statements and FY20 Financial Analysis Summary

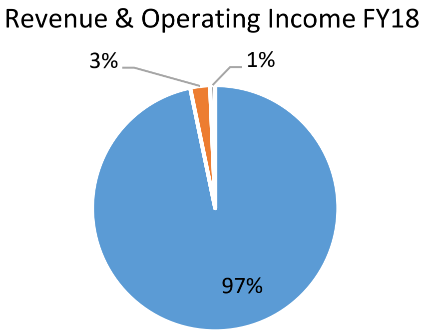
Investment Considerations

- **Revenue** – The Group's revenue grew marginally by 0.8% in FY19 to €16.6m (FY18: €16.5m). Given that mariner's terminal specialises on container handling, revenue generated is correlated to the volume of containers TEUs (twenty-foot equivalent unit) that pass through the terminal. The Group handled 302,080 TEUs in FY19, an increase of 3.3% over FY18 (292,206 TEUs). The rental income generated from the retail property in Latvia (circa €0.5m annually) is not material to the Group and only represents circa 3% of the Group's total income.



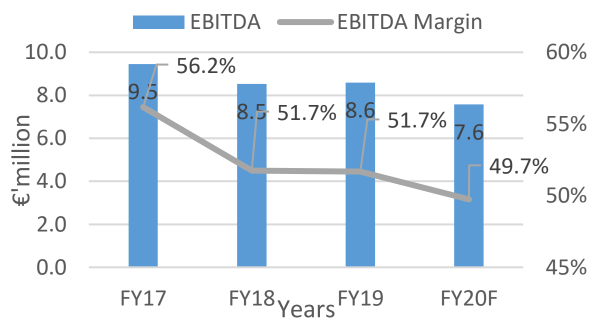
In view of the economic downturn caused by the COVID-19 pandemic, the Group anticipates that revenue will fall by circa 8.4% to €15.2m in FY20.



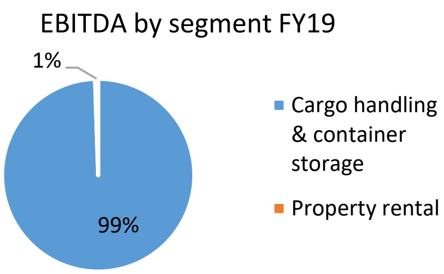


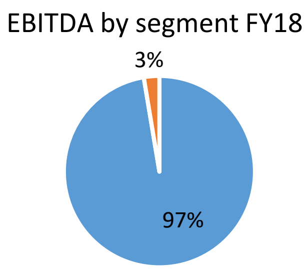
Source: MRN's Group Audited Financial Statements and FY20 Financial Analysis Summary

- **EBITDA –** Operating expenses were fairly stable in FY19, which resulted in EBITDA to increase slightly to €8.6m (FY18: €8.5m). Given that the increase in revenue resulted in a corresponding growth in EBITDA, the EBITDA margin remained stable at 51.7%.



The Group expects net operating expenses in FY20 to decrease by €0.4m or 4.7%. This, combined with the forecasted decline in revenue is expected to negatively impact the Group's EBITDA for FY20 by €1m (FY19: €8.6m). As a result, EBITDA margin for FY20 is expected to fall to 49.7%.





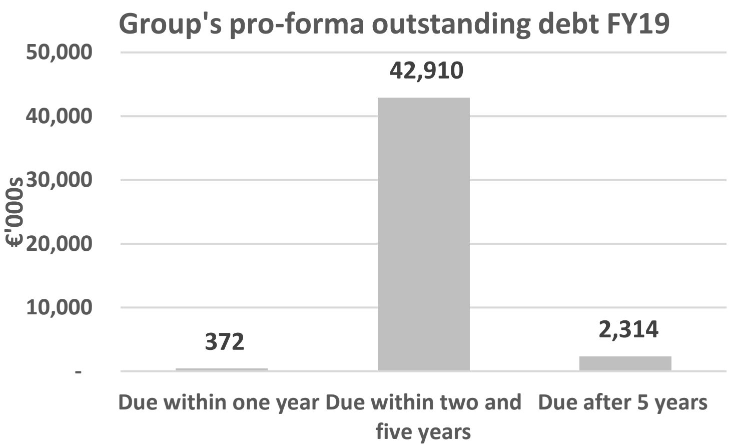
Source: MRN's Group Audited Financial Statements and FY20 Financial Analysis Summary

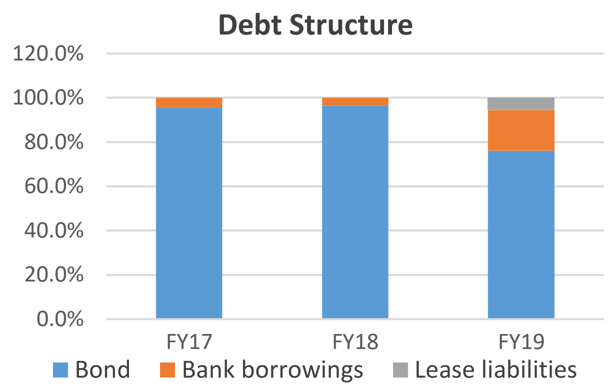
- **Finance costs –** The Issuer's bond represents the majority of the Group's financial debt, followed by bank borrowings and lease liabilities (in view of IFRS16). The Group's financial debt increased by circa €9.7m as a result of an increase in bank borrowings (€7.1m) and the adoption of IFRS16 (€2.6m). Accordingly, finance costs grew by 8.0% to €2.1m in FY19 (FY18: €2.0m).

- **Interest cover –** In view of the increase in total financial debt, the Group's interest coverage dropped to 4.0x in FY19 (FY18: 4.2x). As a result of the expected deterioration in EBITDA due to the pandemic, the interest cover is expected to fall to 3.5x in FY20.

- **Capital Expenditure –** During FY19, the Group invested €7.1m in property, plant and equipment. In FY20, the Group is forecasting a capex investment of €6.6m, which mainly reflects the acquisition of a ship-to-shore gantry crane for the Group's terminal.

Debt Maturity Profile





Pro-forma: FY19 - Maturity Ladder - €'000s	Within 1 year	Between 2 - 5 years	More than 5 years	Total
Debt Securities in issue	-	34,648	-	34,648
Bank loans and overdrafts	323	8,041	-	8,364
Lease liabilities	49	221	2,314	2,584
	372	**42,910**	**2,314**	**45,596**

Source: MRN's Audited Financial Statements

- As can be noted form above, the majority of the Group's financial debt is due between two and 5 years, which predominately reflects the €35m bond issue matring in 2024.
- The lease liabilities reflect the land lease and piers agreement with the Riga Freeport Authority which is valid until 22 March 2047.
- In view of the increased gearing experienced during FY19 (bank borrowings up by €7.1m), the debt structure of the Group changed, whereby bonds now represent 76.0% of the total debt (FY18: 96.5%). Given that the bonds are unsecured and rank below bank borrowings, the recoverability rate of bondholders decreased. Consequently, the risks for bondholders increased.

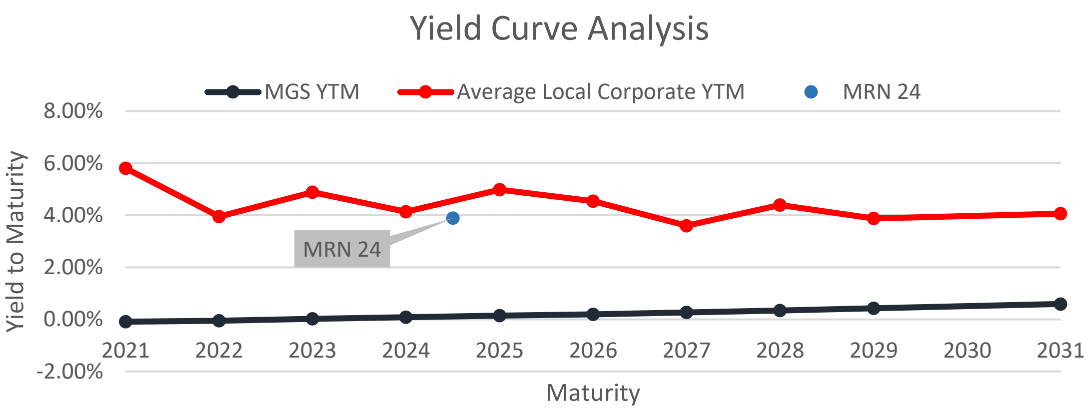
Bank loans and overdrafts:

- The Group has a loan of €1.0m which will mature in 30 April 2023.
- During FY19, a subsidiary of the Group signed a new loan agreement for the amount of €4.7m maturing on 15 January 2021. As of FY19, the subsidiary utilised €1.4m out of this loan.
- The Group has a credit line agreement and an overdraft and guarantee facility agreement with a Latvian commercial bank. The limit of credit line is €6m and limit for overdraft and guarantee is € 6m, with these maturing 31 August 2020 and 31 July 2020, respectively. As of FY19, €4.4m out of the overdraft was utilised, while €1.6m out of the credit line was used.

- The Group has an additional facility of €6m maturing in Sep 2023. In our pro-forma analysis we used this facility to refinance the €4.4m and €1.4m bank facilities which are due by 31 August and 31 July 2020, respectively. Therefore, based on this we are not concerned that the Group won't have the necessary liquidity to finance its short-term borrowings.

Investment Rationale

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



Source: Central Bank of Malta and Malta Stock Exchange (as at 05/08/2020)

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 MRN 2024.

The Group's leverage has increased during the last three years, with net debt increasing at a CAGR (compound annual growth rate) of 17.8% during this period. Conversely, during the last three years EBITDA experienced a negative CAGR of 4.7%, given that during the last two years the Group did not match the performance registered in FY17. The combined effect of these factors resulted in the Group's gearing (net debt/EBITDA) to jump from 3.4x in FY17 to 5.2x in FY19.

Despite this, the Group's coverage ratio remained healthy, with this standing at 4.0x in FY19. In view of the downturn caused by pandemic during 2020, the Group expects its coverage to fall to 3.4x this year, which we deem as healthy considering the current stressed economic environment. Based on this, together with our opinion that the Issuer has sufficient resources at its disposal to honour all of its financial obligations, including its bond interest payment obligations, we are issuing a **Positive** credit opinion on MRN.

MRN is currently trading at a YTM of 3.9%, which is lower than the local average of 4.1%, in the respective maturity bracket. Despite the positive credit fundamentals, we believe that at the current price levels the bond does not provide an attractive entry point for investors. Accordingly, we recommend a **Hold** on MRN 24.

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