Premier Capital p.l.c.

Executive Summary:

"Over the years Premier continued its expansionary model through geographical diversification which proved to be crucial for the Group's success. We believe that the adopted business model which operates under the McDonalds franchisee, will continue to hold a strong foothold in the current positioning, in addition to the prospect of expanding further in selective regions.

More specifically, despite the recent expansionary phase, Premier grew organically, which proves to be an important consideration given the recent new avenues of revenue generation.

From a credit sanity perspective, we believe Premier Capital is well positioned with very respectable leverage metrics, interest coverage, and more importantly the cash generation through operating activities. On this basis we are issuing a **Positive** credit opinion on Premier.

As possible risks, we believe that a second wave might condition negatively the operations of Premier given the lower flow of customers as experienced in the initial days of the second quarter. Additionally, the reliance on Romania also poses another risk, however the geographical capacity, attractive demographics and the more attractive tax regime assist the Group in registering higher margins.

We view that Premier Capital holds a strong ability to service and sustain its debt. All in all, when considering all the aforementioned aspects, both from a macro and micro dynamics, we are issuing a **Buy** recommendation on Premier.

In conclusion, we deem Premier's relatively lower yield offering to be in line with the superior credit profile of the Group, which given the current pandemic circumstances we believe is an attractive opportunity for investors."

Debt securities issued by the Group:

During FY16, the Group, through Premier Capital plc (the "**Issuer**" or "**Premier**"), issued an aggregate principal amount of €65m, having a nominal value of €100 each, bearing interest at the rate of 3.75% per annum. These bonds are unsecured and redeemable at their nominal value in FY26.

Business Overview:

The Group is engaged in the operations of McDonald's restaurants in Estonia, Greece, Latvia, Lithuania, Malta and Romania. The Issuer acts as an investment company and service provider to its subsidiary undertakings.

Group's Developments:

The Group recently withdrew a €20m bond application, which proceeds were expected to be utilised in relation to the acquisition of the remaining 10% minority shareholding in Premier Capital SRL (Romania) in addition to other capital expenditure purposes. However, as per recent announcements, the Group informed the investing public that it will fund the acquisition through internally generated funds.

Credit Opinion Positive

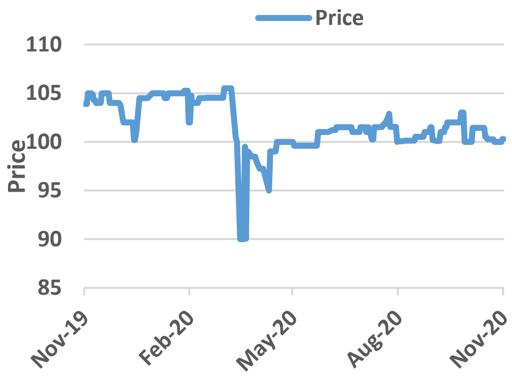
Country	Malta
Industry	Fast Food Restaurant

3.75% PRC 2026

Security	Unsecured
Nominal	€65m
Ticker	PC26
Price (as at 05/11/20)	€100.00
Recommendation	**Buy**
Yield to Maturity (YTM)	3.75%

Exchange	Malta Stock Exchange (MSE)
52-week range (PC26)	€90.00 - €105.5

1-Year Price Movement



Source: Malta Stock Exchange

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COVID-19 implications on the Group's operations:

The current events stemming from the COVID-19 outbreak have had an impact on the Group during 2020 as all restaurants had to adapt to the restrictive measures imposed by governments. Management explained that McDrive and McDelivery were required to operate only as restaurants and lobbies were ordered to close by local authorities to avoid contact between customers.

Management further explained that the FY20 results are expected to be impacted with adverse implications on the profitability of the Group. Each market was impacted differently, with the countries mostly impacted being those that rely heavily on the tourism sector.

In the face of such an unprecedented pandemic, management also clarified that in order to safeguard its liquidity, the Group decided to reduce its capital expenditure plans to only committed expansionary and necessary maintenance, with non-essential capital expenditure put on hold until FY21. Management teams also revised their respective market operating costs and retained only essential expenditure on the plans. Where possible, full time employees were asked to avail themselves of vacation leave and part-timers were stopped being scheduled for shifts. Local teams also took the initiative to negotiate a temporary suspension of lease agreements as well as a revision of rates in service agreements. Subsidiary companies benefitted from different government aids and assistance provided at local level intended to support hard hit businesses.

Throughout the pandemic, management reported that the Baltic countries were the least impacted and were the first to register more benevolent results. In fact, in the said region, the Group is expected to end the year at close levels registered in FY19. Likewise, after being impacted severely during first months of the pandemic, Romania is recovering well and expectations are that the turnover level will reach circa 96% of FY19. Greece and Malta are expecting to struggle to increase their volumes to pre-COVID levels as a result of the low tourism inbound when compared to previous years. Nonetheless, the new stores which opened in late 2019 in Greece, are expected to help this market to achieve close to last year's turnover volumes, with FY20 revenue expected to decrease by 1% over last year. On the other hand, Malta is expected to register a drop in turnover of 12% when compared to FY19. With the costs containments measures still in place and non-essential capital expenditure on hold, the Group is expected to register net profit before tax of €15.7m compared to €28m in FY19.

In furtherance, the directors have assessed the reserves and financing available to the Group and are confident that these are adequate to support the Group in the foreseeable future. More importantly, management has also confirmed that the Issuer has sufficient resources at its disposal to honour its existing interest payment obligations.

SWOT Analysis

Strengths

- ✓ Strong geographical diversification. The Group operates the Mc Donald's franchise in Malta, Romania, Greece, Lithuania, Latvia and Estonia
- ✓ The Group expects to finance the acquisition of the remaining 10% minority shareholding in Premier Capital SRL (Romania) through internally generated funds. This signifies Premier's positive track record of strong cash reserves.
- ✓ An established history of profitability and constant improvement in financial performance
- ✓ Operates in a cash rich industry
- ✓ Successful in identifying appropriate projects for growth and in applying its experience to implement such strategies
- ✓ The Group has a strong asset base
- ✓ Despite the considerable impact of COVID-19, the Group expects to remain profitable in FY20

Weaknesses

- × No sector diversification. The Group predominantly operates within the restaurant industry
- × The Group's strategic expansion plans are subject to the approval of the international Mc Donald's franchise, which may result in delays.
- × Romania holds the lion's share in terms of revenue streams, and thus may pose geographical idiosyncratic risks.

Opportunities

- ○ The recent Government aid packages aimed towards containing the negative effects of the COVID-19 outbreak might benefit the overall operation of the Group
- ○ Further expansion within other countries and regions might boost the revenue and profitability potential of the Group

Threats

- ! Further escalation of the COVID-19 outbreak might negatively impact the operations of the Group through the re-imposition of strict governmental measures which might ultimately result in the closure of the Group's restaurants.

Financial Summary

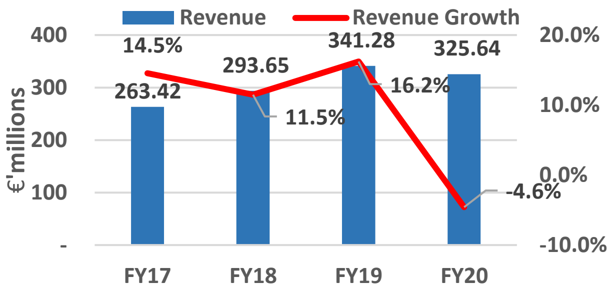
Premier Capital plc	FY17 €'000s	FY18 €'000s	FY19 €'000s	Pro-forma FY20F* €'000s
Income statement				
Revenue	263,420	293,650	341,281	325,638
Net operating expenses	(228,357)	(255,222)	(285,065)	(279,151)
EBITDA	**35,063**	**38,428**	**56,216**	**46,487**
Depreciation	(11,645)	(12,387)	(21,959)	(23,568)
EBIT	**23,418**	**26,041**	**34,257**	**22,919**
Net Finance costs	(3,453)	(3,043)	(6,254)	(7,080)
Profit before tax	**19,965**	**22,998**	**28,003**	**15,840**
Tax expense	(4,075)	(5,117)	(2,299)	(1,866)
Net income	**15,890.00**	**17,881**	**25,704**	**13,974**
Cash flow				
Net cash from operations (CFO)	24,652	37,681	45,820	26,609
Capex	(12,628)	(20,491)	(20,237)	(15,633)
Free cash flows (CFO – Capex)	**12,024**	**17,190**	**25,583**	**10,976**
Balance sheet				
Cash and cash equivalents	21,222	33,572	32,498	18,515
Current assets	31,693	47,103	50,674	31,486
Non-current assets	129,437	132,348	222,558	234,596
Total assets	**161,130**	**179,451**	**273,232**	**266,082**
Current liabilities	31,444	44,625	53,444	50,612
Non-current liabilities	82,079	86,125	162,706	168,634
Total liabilities	**113,523**	**130,750**	**216,150**	**219,246**
Total Financial debt	84,569	89,804	174,235	185,401
Net debt	63,347	56,232	141,737	166,886
Total equity	**47,607**	**48,701**	**57,082**	**46,836**
Ratios				
EBITDA margin (EBITDA / Revenue)	13.3%	13.1%	16.5%	14.3%
Operating (EBIT) margin (EBIT / Revenue)	8.9%	8.9%	10.0%	7.0%
Net margin (Net income / Revenue)	6.0%	6.1%	7.5%	4.3%
Return on assets	9.9%	10.5%	11.4%	5.2%
Current ratio (Current assets / Current Liabilities)	1.0x	1.1x	0.9x	0.6x
Interest coverage ratio (EBITDA /Cash interest paid)	8.0x	10.4x	8.0x	6.6x
Gearing level 1 (Net debt / Net debt and Total equity)	57.1%	53.6%	71.3%	78.1%
Gearing level 2 (Total Liabilities / Total Assets)	70.5%	72.9%	79.1%	82.4%
Net debt / EBITDA	1.8x	1.5x	2.5x	3.6x

Source: Premier's Audited Consolidated Financial Statements and FY20 Financial Analysis Summary (FAS)

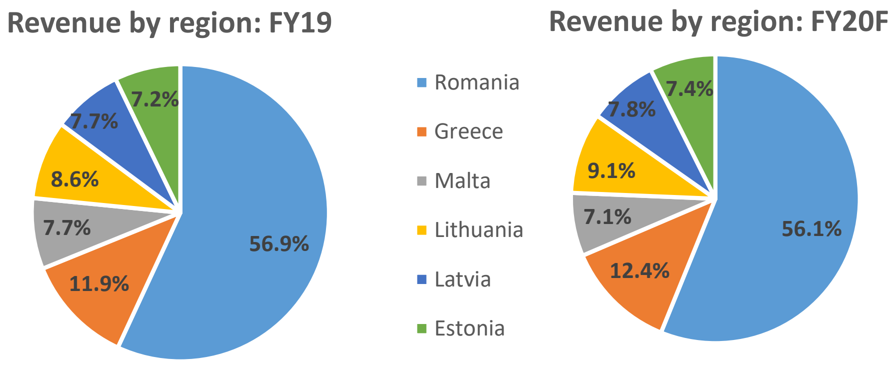
***The Group's FY20 projections which were utilised for the Group's most recent FAS (FY20), include the undertaking of a €20m bond which was anticipated to be issued by Premier in relation to the acquisition of the remaining 10% minority shareholding in Premier Capital SRL (Romania) and for other capital expenditure purposes. However, as per recent announcements, the Group withdrew the bond application and is expected to finance such acquisition through internally generated funds. In this regard, our pro-forma FY20 projected figures exclude the undertaking of the bond which figure (€20m) was deducted from 'borrowings and bonds' listed under non-current liabilities. In line with Premier's announcement that the acquisition will be done through internally generated funds, and also in line with our assumption that the other planned capital expenditure will also be done through the Group's own funds, in our pro-forma figures, we have also deducted the Group's 'cash and cash equivalents' listed under current assets by €20m.**

Investment Considerations

- **Revenue** – As could be noted from the revenue chart and the data presented below, the Group's revenue increased by 16.2% from €293.7m in FY18 to €341.3m in FY19. This improvement is mainly attributable to the positive financial performances achieved across the Group's six operating regions together with the addition of another 10 restaurants in operation to a total count of 156 restaurants as at December 2019. Apart from the opening of new stores, this improvement in revenue also represents a degree of organic growth, especially in Greece and Malta, whereby Premier reported that the increase in revenue within these jurisdictions is predominantly attributable to an increase in-bound tourists during the period.



In line with previous years, the largest contributor towards the Group's revenue is Romania, representing 56.9% of the Group's total revenue as at December 2019. Following the opening of six additional stores during the period, revenue specifically generated from Romania increased by 18.7% during FY19 to €194.2m (FY18: €163.6m).

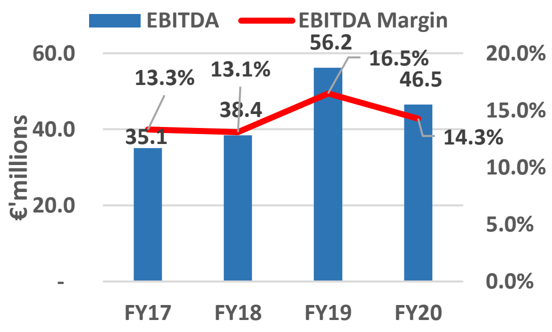


Source: Premier's Financial Statements and FY20 FAS

As evidenced from the above the Group is significantly reliant on Romania's operating performance, whereby it continues to see growth potential given the attractive demographics and more favourable tax regime for the restaurant industry. The projections provided by management and as further discussed in the 'COVID-19 Impact' above, Premier anticipates that the pandemic will result in a 4.6% year-on-year decrease in terms of FY20 revenue, despite a net increase of 3 stores during the period and the opening of 10 new stores straddling across FY19. Management explained that projections for FY20 are based on the actual results till 30 June 2020, combined with the Issuer's projections for the rest of the year, taking into account the impact of COVID-19 and the relatively quick recovery witnessed since the easing of the related social distancing measures.

- **EBITDA –** Operating expenditure represents costs directly related to the business activity of each store, and apart from raw materials, operating expenditure mainly include staff costs, advertising, utilities and other administrative expenses.

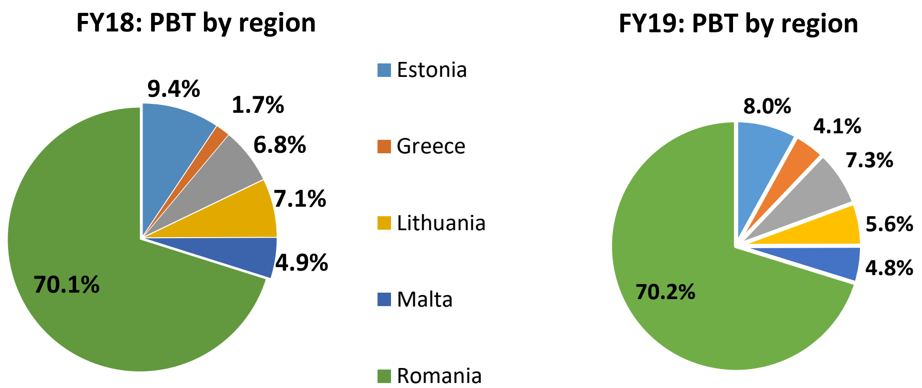
  In addition to the increase in revenue generated from FY17 to FY19, the increase in operating expenditure throughout this period is also attributable to increases in salaries and crew incentives and is also in line to the Group's



Source: Premier's Financial Statements and FY20 FAS continuous investments in quality of services and ordinary inflationary pressures. Premier's net operating expenditure as at FY19 results, amounted to €285.1m and are expected to decline to €279.2 in FY20.

In view of the above, the Group generated an EBITDA figure of €56.2m during FY19, translating into an EBITDA margin of 16.5%. In addition to the implications brought about by the COVID-19 pandemic, the Group expects EBITDA and EBITDA margin to decline to €46.5m and 14.3% during FY20.

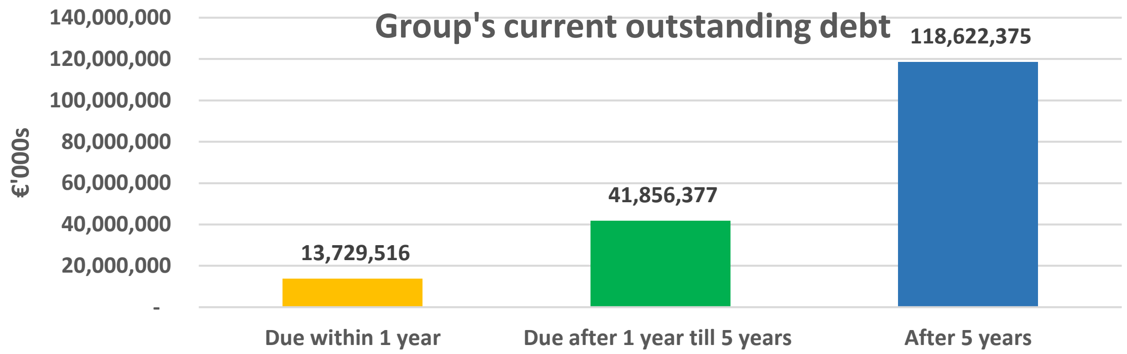
- **Depreciation and amortisation –** During FY19, the Issuer adopted IFRS16 to account for lease obligations, and as a result, depreciation and interest costs associated with the lease contracts have replaced the previous rental charge cost. The depreciation and interest costs on lease contracts amounted to €11.2m in FY19 which approximately equals the rent for the year.
- **Net finance costs –** Premier's finance costs are composed of interest on bank borrowings, interest on bonds and interest expense for leasing arrangements. The interest expense relating to the Group's leased assets for FY19 stood at €3.3m alone, thus being the main reason for the uplift in net finance costs during FY19 (€6.3m).
- **Profit before tax** – Upon taking the above into consideration, Premier registered a profit before tax of circa €28m, illustrating an improvement of approximately 21.8% over FY18. As noted from the below charts, the majority of the Group's profit before tax was predominantly generated from Premier's Romania operation.



Source: Premier's Financial Statements

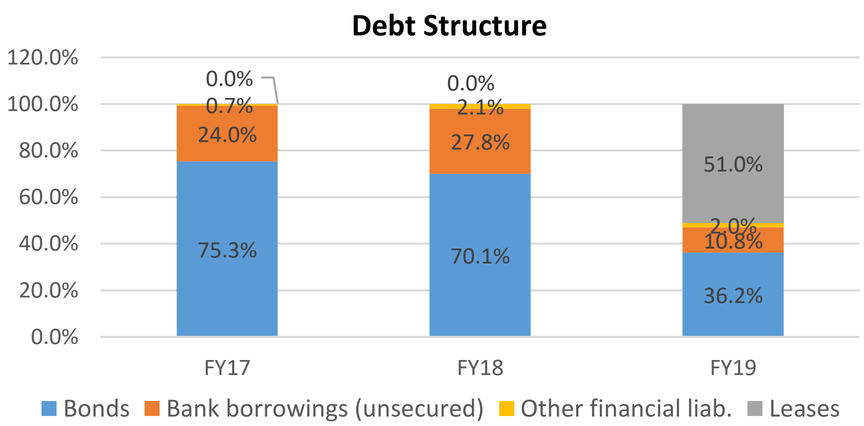
- **Interest coverage –** The Group's interest cover increased from 8.0x in FY17 to 10.4x in FY18 in line with the improvement in EBITDA during the period. As a result of the adoption of IFRS16 during FY19, the Group's interest cover subsequently decreased to 8.0x in FY19. In view of the implications brought about by the COVID-19 pandemic, Premier's interest coverage is anticipated to decline to 6.6x during FY20, which still illustrates the Group's strong ability to service its debt.
- **VAT rates** – During FY19, the VAT rate on food in Greece has been reduced from 24% to 13%, whilst in Romania, the VAT rate on food consumed in restaurants (hence, not applicable for take-outs) has been reduced from 9% to 5%. This has enabled the Group to lower menu prices to some extent, though a portion of the VAT reductions has been retained, which resulted in an increase in profitability margins.

Debt Maturity Profile



Interest Bearing Debt Analysis (€')	FY19
Current Liabilities	
Bank borrowings	5,929,095
Lease liabilities	7,800,421
	13,729,516
Non-current Liabilities	
Bank borrowings	13,290,533
Debt securities in issue	64,352,198
Lease liabilities	82,863,021
	160,723,989
Total Financial Debt	**174,235,268**

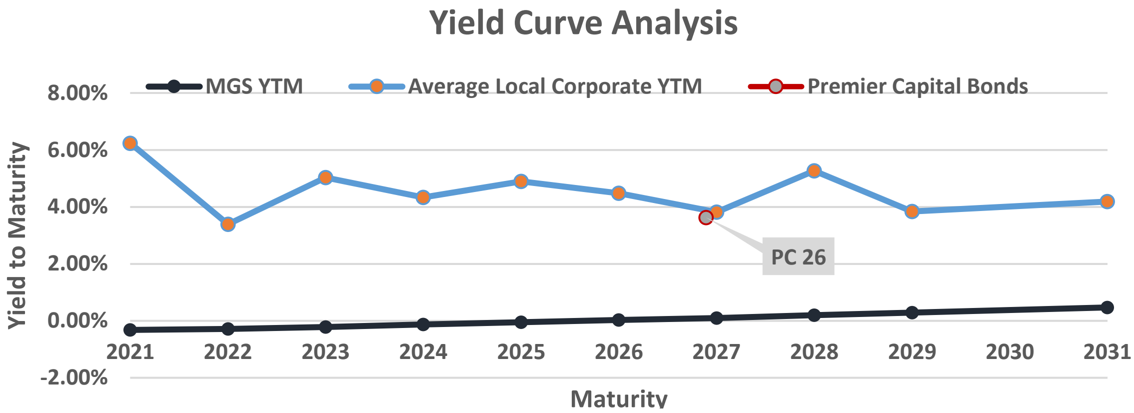
- **During FY16, Premier issued an unsecured €65m bond (2016 – 2026), having a nominal value of €100 each, bearing interest at the rate of 3.75% per annum. The bonds are redeemable at their nominal value on 23 November 2026.**
- **The Group also has (i) a bank loan in Romanian leu equivalent to €10.5m maturing in 2022 bearing an interest rate of 3-mnth ROBOR+2.75%, which is secured by a pledge over the entity's immovable property (ii) a loan facility of €10m maturing in 2023 bearing an interest rate of 1-month EURIBOR+2.5%, which is secured by a pledge agreement between the bank and the Baltic subsidiaries together with pledges over the entities' immovable and movable property and (iii) an unutilised facility of €1m currently bearing an interest rate of 2.35%.**
- **Other financial liabilities represent amounts due to the parent company and to other related companies. These amounts are unsecured, interest free and repayable on demand. Given that such amounts are interest free, we opted to exclude them from the total financial debt calculation.**
- **The Group also has circa €90.7m in lease liabilities which relate to the Premier's buildings and motor vehicles.**



Source: Premier's Financial Statements

Investment Rationale

We have compared the securities yield of Premier Capital 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 plots the entire MGS yield curve and illustrates Premier's yield on a stand-alone basis.

Over the years Premier continued its expansionary model through geographical diversification which proved to be crucial for the Group's success. We believe that the adopted business model which operates under the McDonalds franchisee, will continue to hold a strong foothold in the current positioning, in addition to the prospect of expanding further in selective regions.

More specifically, despite the recent expansionary phase, Premier grew organically, which proves to be an important consideration given the recent new avenues of revenue generation. Furthermore, we believe that the management's capacity to target geographically more attractive margin regions, with further potential expansion, should provide a profit boost in the coming years.

From a credit sanity perspective, we believe Premier Capital is well positioned with very respectable leverage metrics, interest coverage, and more importantly the cash generation through operating activities. Additionally, from a liquidity perspective, we believe that the nature of the business per se is critical in having a lower receivable figure, while adjusting its liquidity needs accordingly. On this basis we are issuing a **Positive** credit opinion on Premier.

In our view, as possible risks, we believe that a second wave might condition negatively the operations of Premier given the lower flow of customers as experienced in the initial days of the second quarter. That said, in line with our discussions with the Group's executives, several cost cutting measures have been enacted, while drive-in efficiencies were ensured to mitigate the physical restrictions. Moreover, we believe that Premier is a crucial contributor towards Hili Group. To this end, we view the possible amendment in dividend policy as a risk in terms of reserve retention. As a result, we believe that at this stage the current policy should be retained. In addition, the reliance on Romania might pose risks, however the geographical capacity, attractive demographics and the more attractive tax regime aid the company in registering higher margins.

PC26 is currently trading at a YTM of 3.75%, which is lower than the average of 4.04% pertaining to the issuers within the same maturity bucket (FY26). We deem such lower yield offering to be in line with the superior credit profile of the Group. In conclusion, we also believe that Premier Capital is well positioned to continue its expansionary path, in addition to sustain its current operations through its geographical diversification. We view that Premier Capital holds a strong ability to service and sustain its debt. All in all, when considering all the aforementioned aspects, both from a macro and micro dynamics, we are issuing a **Buy** recommendation on Premier.

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