

Tigné Mall p.l.c.

Executive Summary:

“We are downgrading our stance from a Buy to a Hold on Tigné Mall plc (“TML” or the “Company”) with an updated 12-month price target of €0.78 from our previous target of €1.17.

The decline in our price target is attributable to the implications brought about by the COVID-19 pandemic on the Company, whereby TML’s latest H1-20 interim results illustrate a drop in revenue of circa 37% on a comparative basis.

Following the easing of confinement measures stemming from the COVID-19 outbreak with respect to the retail mall operation, management confirmed that although this has had a positive impact on TML’s retail mall business, their outlook is that economic activity in general and consumer confidence are still expected to remain relatively muted within the short to medium term.

Through their latest results, TML further announced that it has prepared several COVID-19 adjusted projections, in which under the pessimistic scenario, management expects the decline in revenue to sustain until H1-21.

However, in order to stress-test our model, and in line with the fact that we are currently seeing the local retail industry being significantly impacted by the pandemic, we opted to extend TML’s COVID-19 impact until FY22/23, whereby from FY23 onwards, we expect the Company revenues to increase to pre-COVID levels.

We believe that the current price levels already reflects the rental income expected to be generated by TML in the foreseeable future and as such we rate the shares a Hold. We look forward to continue monitoring the current situation closely and we will update investors with more concrete direction once the Company issues further updates.”

Company Update:

As the COVID-19 situation remains relatively fluid, TML decided not to distribute an interim dividend in respect of the H120 results. This decision was taken in order to preserve the company’s liquid resources, enabling the Company to manage the liquidity demands over the coming months.

Company Overview:

TML engages in the ownership and management of ‘The Point Shopping Mall’, which is renowned as being Malta’s largest retail centre. The mall consists of 14,349 square meters of retail floor space and comprises 50 retail units which are distributed over three floors, in addition to a number of kiosks and two ATM’s.

During FY18, TML acquired 132 car parking spaces from MIDI p.l.c. within the mall’s proximity for a consideration of €4.6m, increasing TML’s total parking spaces to 355.

Stock Rating Hold

Price target (1Yr) €0.78

Country Malta
Industry Real Estate (Commercial)

Ticker TML
Price (as at 26/10/2020) €0.80
Price Target (1 Year) €0.78
Upside / downside to PT -2.1%
12m cash div. (Forecast) €0.00 / share
12m Total S’holder Return -2.1%

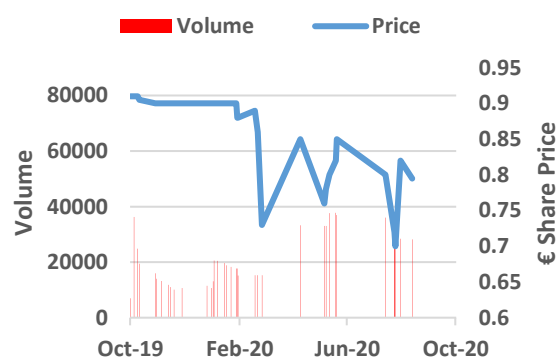
Market Cap €44.8m
Shares Outstanding 56.4m
Free Float 25%

Net Dividend Yield Nil
Current P/E ** 17.6x
1Yr Forward P/E *** 57.9x

** Based on the FY19 results
*** CC estimates

Exchange Malta Stock Exchange (MSE)
12-month range €0.70 - €0.91

Price and Volume Movement (20 day moving average)



Source: Bloomberg

Research Analysts



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



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

SWOT Analysis

Strengths

- ✓ The Point Shopping Mall is situated in a strategic location within the Tigné peninsula and close to the Sliema centre
- ✓ The Mall is regarded to be the best shopping mall in Malta in terms of footfall and size
- ✓ Diversified tenants' base
- ✓ A track record of full occupancy of outlets within the mall
- ✓ Tenants within the mall operate in various lines of business including clothing, electronics and catering
- ✓ Prior to the COVID-19 pandemic, TML had a positive track record of dividend distribution

Opportunities

- Given TML's strategic location, any developments within the vicinity of the mall, might result into a consequent increase within the mall's overall footfall.
- The Company might continue to benefit from the Government aid packages aimed towards mitigating the negative effects of the COVID-19 pandemic

Weaknesses

- ✗ No business and geographical diversification. The Company is highly dependent on the real estate industry in Malta, more specifically its sole shopping mall
- ✗ Very low liquidity relating to the Company's stock
- ✗ Significant implications brought about by the COVID-19 pandemic on the Company's operations, which at H1-20 resulted in a decline in revenue of approximately 37% on a comparative basis

Threats

- ! A potential downturn in the Real Estate industry in Malta. This may possible lead to a depreciation of the Company's assets
- ! A fall in the occupancy rates of outlets might undermine the revenue and profitability potential of the Company
- ! Further escalation of the COVID-19 outbreak, might negatively impact the operations of the Company through a decline in occupancy rates and potential tenants' default
- ! New competitors in the shopping mall sector can negatively affect the Company's footfall, which will hinder the bargaining power of the Company with its customers, being the retail tenants
- ! Online shopping hampering traditional shopping
- ! Highly competitive commercial real estate industry in Malta

Investment Stance

We are downgrading our stance from a Buy to a Hold on Tigne Mall plc with an updated 12-month price target of €0.78 from our previous target of €1.17. The decline in our price target is mainly attributable to the implications brought about by the COVID-19 pandemic on the Company, whereby TML's latest H1-20 interim results illustrate a drop in revenue of circa 37% on a comparative basis.

Following the easing of confinement measures stemming from the COVID-19 outbreak with respect to the retail and catering outlets, management confirmed that although this has had a positive impact on TML's retail mall business, their outlook is that economic activity in general and consumer confidence are still expected to remain relatively muted within the short to medium term.

In the face of such unprecedented circumstances, the Company, through their latest results, announced that it has prepared a set of financial projections to assess the impact that the pandemic might have on the TML's overall financial performance. As a result, management further explained that under the pessimistic scenario, the impact of the expected reduction in revenue and profitability, is anticipated to sustain until H1-21.

However, in order to stress-test our model, and in line with the fact that we are currently seeing the local retail industry being significantly impacted by the pandemic, we opted to extend TML's COVID-19 impact until FY22/23, whereby from FY23 onwards, we expect the Company revenue's to increase to the pre-COVID levels.

Moreover, TML's major concern associated with the Company's overall operations stems from the increasing popularity of e-commerce which may negatively impact the performance of retail outlets. However, due to the strategic position of The Point Shopping Mall, we maintained a full tenant occupancy throughout our forecasted period.

Prior to the COVID-19 outbreak, TML had a positive track record of dividend distribution, however in order to preserve and safeguard its liquidity, the Company recently decided not to distribute an interim (H120) dividend. We believe this to be significant, as in accordance to TML's limited growth opportunities, the Company's constant dividend distribution played a key determining factor to hold the stock.

In view of the above important considerations, we believe that the current price levels already reflects the rental income expected to be generated by TML in the foreseeable future and as such we rate the shares a Hold. We look forward to continue monitoring the current situation closely and we will update investors with more concrete direction once the Company issues further updates.

Valuation

Our one-year price target is €0.78. The price target is calculated using the Free Cash Flow to the Firm (FCFF) model and a discount rate of 7.8%. We applied a 0% terminal value growth rate.

Tigné Mall plc	FY2019	LTM 2020	FY2020F	FY2021P	FY2022P	FY2023P
Total revenue	6,985,433	5,758,148	4,530,863	5,074,567	5,785,006	6,942,007
Cost of sales (excl. dep)	(264,948)	(239,819)	(262,790)	(284,176)	(289,250)	(291,564)
Gross profit	6,720,485	5,518,329	4,268,073	4,790,391	5,495,756	6,650,443
Administrative Expenses (exl. dep)	(547,677)	(518,129)	(507,457)	(517,606)	(520,651)	(555,361)
EBITDA	6,172,808	5,000,200	3,760,616	4,272,785	4,975,105	6,095,082
Depreciation & Amortisation	(1,782,391)	(1,816,549)	(1,838,395)	(1,843,676)	(1,848,989)	(1,854,337)
EBIT	4,390,417	3,183,651	1,922,221	2,429,110	3,126,116	4,240,745
Finance Income	5,505	4,187	6,000	6,000	6,000	6,000
Finance Costs	(815,101)	(848,766)	(736,569)	(693,144)	(655,248)	(579,456)
Profit Before Tax	3,580,821	2,339,072	1,191,652	1,741,966	2,476,868	3,667,289
Income tax expense	(1,038,526)	(792,489)	(417,078)	(609,688)	(866,904)	(1,041,301)
Profit for the Year	2,542,295	1,546,583	774,573	1,132,278	1,609,964	2,625,988

Ratio Analysis	FY2019	LTM 2020	FY2020F	FY2021P	FY2022P	FY2023P
Revenue Growth (YoY)	7.5%	-11.4%	-35.1%	12.0%	14.0%	20.0%
EBIT Margin	62.9%	55.3%	42.4%	47.9%	54.0%	61.1%
EBITDA Margin	88.4%	86.8%	83.0%	84.2%	86.0%	87.8%
Net Margin	36.4%	26.9%	17.1%	22.3%	27.8%	37.8%
Shares Outstanding (millions)	56.4	56.4	56.4	56.4	56.4	56.4
Earnings Per Share	0.045	0.027	0.014	0.020	0.029	0.047
Growth in EPS (YoY)	3.4%	-39.2%	-69.5%	46.2%	42.2%	63.1%
Earnings Yield	5.7%	3.4%	1.7%	2.5%	3.6%	5.9%
Dividend per Share (€)	0.026	0.026	-	-	-	0.028
Dividend pay-out ratio	58.3%	47.9%	-	-	-	60.00%
Dividend Yield	3.3%	1.7%	-	-	-	3.5%

Source: TML's Financial Statements / CC Workings

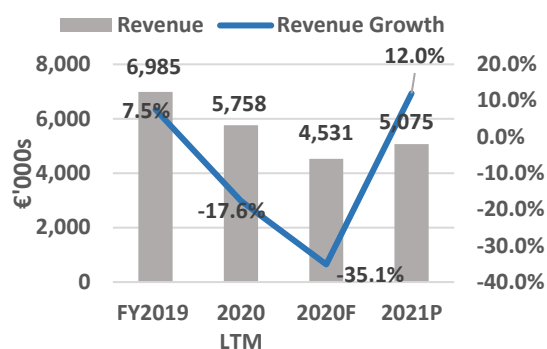
Investment Thesis Variables

- Revenue** – Throughout the first six months of FY20, TML closed its shopping mall operations between 23rd March – 3rd May in line with the directions given by the national health authorities to non-essential retailers. As expected, these developments have had a significant impact in terms of the Company's operations and as result resulted into a 2020LTM revenue decline of circa 17.6% over FY19.

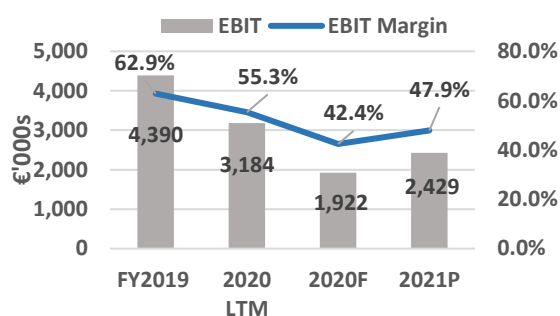
As the local COVID-19 situation remains relatively fluid, and as the full pandemic's impact on the local retail sector is not yet fully known, we expect TML's revenue during FY20 to decline by 35.1% and amount to circa €4.5m. We further expect the Company to gradually start recovering from FY21 onwards, and fully recover to pre-covid levels in FY23. It is important to clarify, that in line with TML's strategic location, we have maintained and assumed full occupancy within across our projected period.

- EBIT** – The drop in administrative expenses (9.5%) and in cost of sales exclusive of depreciation (5.4%) as per 2020 LTM results, decreased at a lower rate than revenue (-17.6%), eventually resulting in EBIT margin to significantly deteriorate from 62.9% in FY19 to 55.3%. In line with the implications brought about by the COVID-19 pandemic, we expect EBIT margin to decline to 42.4% during FY20 and as in the case of revenue, we expect the Company's EBIT margin to start recovering from FY21 onwards.

- Operating expenses** – These mainly consist of cost of sales and administrative expenses whereby as per 2020 LTM results, these declined by 5.4% and 9.5% respectively. We expect both cost of goods sold and administrative expenses to also gradually increase from FY21 onwards, in line with the expected recovery in terms of TML's revenue.
- Depreciation** – The shopping mall is treated as property plant and equipment under the requirements of IAS 16 rather than investment property under IAS 40. Following the acquisition of the additional 132 car parking spaces, depreciation as per 2020LTM results increased to €1.8m.
- Finance costs** – Following the undertaking of an additional €4.1m increase in bank facilities to finance the purchase of the 132 car parking spaces, TML's finance costs as per 2020LTM results, increased to circa €0.8m. We expect TML's finance costs to decline on a yearly basis from FY20 onwards, in line with Company's repayment of its outstanding debt.
- Net Profit and Earnings per Share** – 2020 LTM net profit declined by 39.2% to €1.5m, translating into an EPS of €0.027. Following the COVID-19 implications on the TML's mall operations, we expect net profit to amount to €0.8m during FY20. However, we expect TML's net profit to start recovering from FY21 onwards.
- Taxation** – As it is deemed to be more beneficial, we have assumed that from FY20 till FY22, TML will be taxed at the corporate tax rate of 35% on its profit before tax whereby for FY23, the Company will opt to tax their gross ground rental income at a final withholding tax of 15%.



Source: TML's Financial Statements / CC Workings



Source: TML's Financial Statements / CC Workings

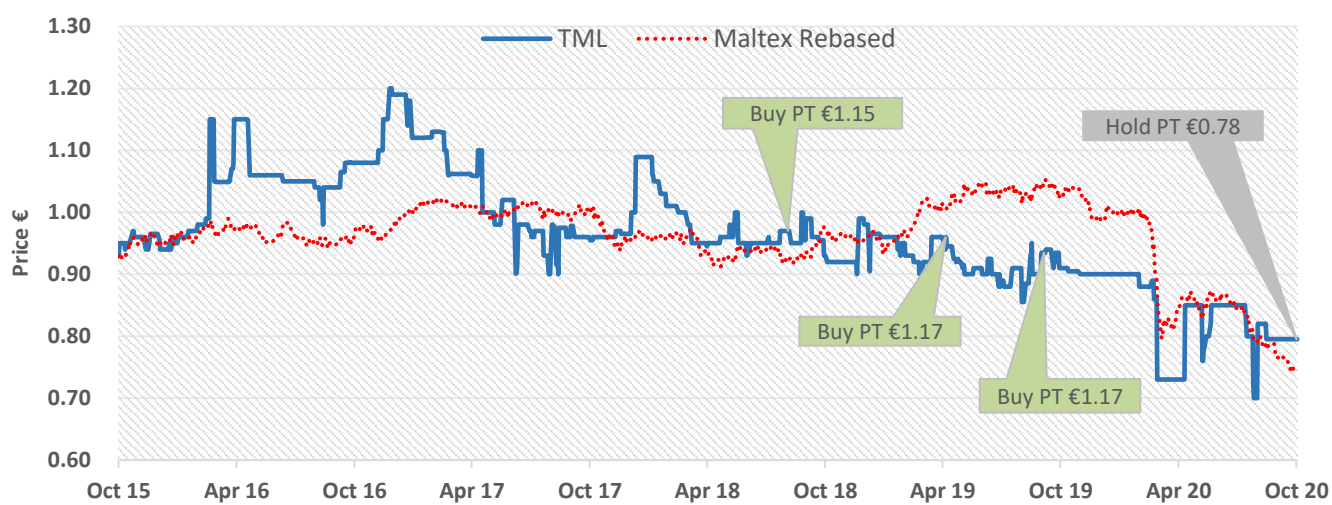
Key Financial Indicators

€'s unless otherwise indicated	2018	2019	2020 LTM
Balance Sheet			
Cash and Cash Equivalents	1,312,877	1,727,290	1,818,820
Current Assets	3,697,896	4,137,618	4,163,648
Non-Current Assets	77,751,819	80,305,140	79,611,100
Total Assets	81,449,715	84,442,758	83,774,748
Current Liabilities	6,448,173	6,914,041	6,015,985
Non-Current Liabilities	28,414,009	29,880,239	29,912,573
Total Liabilities	34,862,182	36,794,280	35,928,558
Total Financial Debt	19,486,602	21,150,979	20,605,874
Total Equity	46,587,533	47,648,478	47,846,190
Net Debt	18,173,725	19,423,689	18,787,054
Shares Outstanding	56,400,000	56,400,000	56,400,000
Cash flow			
Cash Flow from Operating Activities (CFO)	4,588,835	4,759,239	3,838,097
Capex	(5,291,112)	(293,199)	n/a
Free Cash Flow (FCF)	(702,277)	4,466,040	n/a
Cash Flow from Investing Activities	(5,291,112)	(293,199)	(293,199)
Cash Flow from Financing Activities	398,677	(4,051,627)	(3,499,956)
Ratios			
Profitability			
Return on Common Equity (Net Income / Average Equity)	5.3%	5.4%	3.2%
Return on Assets (Net Income / Average Assets)	3.1%	3.1%	1.8%
Solvency			
Gearing Ratio Level 1 (Net Debt / Net Debt and Total Equity)	28%	29%	28%
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	42.8%	43.6%	42.9%
Net Debt / EBITDA	3.1x	3.1x	3.8x
Current Ratio (Current Assets / Current Liabilities)	0.57x	0.60x	0.69x
Interest Coverage Ratio (EBITDA)	0.11x	0.11x	0.13x
Cash from Operations / EBIT	1.11x	1.08x	1.21 x

Source: TMLs Financial Statements / CC Workings

Historical 1 Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
TML	12.10.2019	€0.80	€0.78	Andrew Fenech & Rowen Bonello	Hold
TML	02.10.2019	€0.94	€1.17	Simon Psaila & Andrew Fenech	Buy
TML	15.04.2019	€0.96	€1.17	Simon Psaila & Andrew Fenech	Buy
TML	25.05.2018	€0.96	€1.15	Simon Psaila & Elisabetta Guadiano	Buy



Source: Bloomberg

Explanation of Equity Research Ratings

Buy: Based on a current 12-month view of total shareholder 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 ("CCIS") of Ewropa Business Centre, Triq Dun Karm, Birkirkara, BKR9034, Malta (C13729). CCIS is licensed to conduct Investment Services under the Investment Services Act 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. CCIS has not verified and consequently neither warrants the accuracy nor the veracity of any information, views or opinions appearing on this document. CCIS 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.

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).
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 the statement of financial position date.
Dividends Ratios	
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 the statement of financial position date.
Sustainable Growth Rate in Dividends	This ratio indicates the sustainable growth rate of dividends given the profitability of the Group/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	
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.
Shares Outstanding	Outstanding shares refer to the Group/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 Net Debt and 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 Group/Company to repay its debt through EBITDA generation.
Cash from Operations / EBIT	This ratio measures the ability of the Group/Company to convert its earnings into cash.