Tum Finance p.l.c.

Executive Summary:

"Despite we acknowledge that the retail sector is currently facing remarkable challenges, both through the online ideology and more recently, with a higher mark, the COVID-19 saga, from a debt service perspective, the Group holds the ability to service its debt.

It is important to remark that the Guarantor has an important weight on the Group, through its different target market, namely office space and its current strong tenant base. In addition, it is fundamental to note that the Guarantor's EBITDA generation can cover the entire Group's financial obligations, if the Group is faced with a prolonged stressful scenario brought about by COVID-19. As a result, we are issuing a **Neutral** credit opinion on the Issuer.

Additionally, TMF is currently trading at a YTM of 3.75%, which is lower than the average pertaining to the issuers within the same industry in the respective maturity bucket (4.3%).

Upon taking into account such yield offering, together with the above important considerations, we are issuing a **Hold** recommendation on TMF. "

Debt securities issued by the Group:

The Group, through Tum Finance plc (the "**Issuer**" or "**TMF**"), issued an aggregate principal amount of €20m, having a nominal value of €100 each, bearing interest at the rate of 3.75% per annum. These bonds are secured by Easysell Limited (the "**Guarantor**"), a subsidiary of the Company, which is 75% owned by the Issuer.

Business Overview:

The Issuer holds investments in subsidiaries for capital growth and income generation. It also provides financing to companies forming part of the Group and to other related companies. Moreover, the Issuer and its subsidiaries are involved in real estate development, investment and leasing in Malta. More specifically, the Issuer and its fellow subsidiaries are responsible for the operation of Zentrum Business Centre and the Center Parc Retail Hub, both properties being situated in Qormi, Malta.

COVID-19 implications on the Group's operations:

Subsequent to year end (FY19), many governments have implemented travel restrictions and quarantine measures that required entities to limit or suspend business operations. Whilst no disruptions were experienced in terms of the Group's office block, the shopping complex was closed over a stretch of two months during the current financial year, more specifically from end of March 2020 till beginning of May 2020, in line with the recently implemented health authorities' policies and restrictions.

In the face of such an unprecedented pandemic, management explained that the Group has evaluated the situation of each tenant closely and prepared a set of financial projections to assess the impact that the pandemic might have on the Group's overall financial performance

Credit Opinion — Neutral

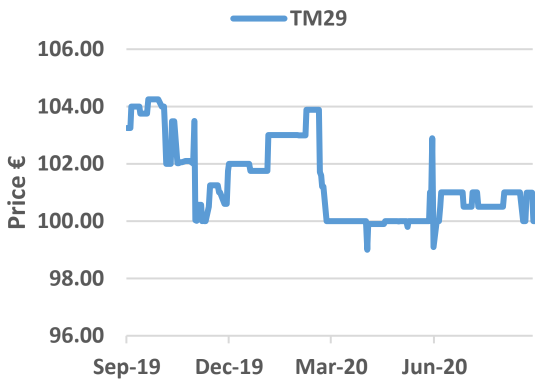
Country	Malta
Industry	Real Estate Development

3.75% TMF 2029

Security	Secured
Nominal	€20m
Ticker	TM29
Price (as at 24/09/20)	€100
Recommendation	**Hold**
Yield to Maturity (YTM)	3.75%

Exchange	Malta Stock Exchange (MSE)
52-week range (TMF29)	€99.00 - €104.25

1-Year Price Movement



Source: Malta Stock Exchange

Research Analysts

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

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

More importantly, management explained that the projections within the 2020 Financial Analysis Summary, which were also used for the purpose of this report, were based on both the Group's actual revenue figures up until June 2020 and were also based on the contractual agreements that the Group currently has in place with its clients, both in terms of Zentrum Business Centre and the Center Parc Retail Hub.

Management further confirmed that up until July 2020, no tenant within the Group's properties has defaulted, and that there is no indication of any tenant defaulting moving forward. In light of the current circumstances, management explained that following a thorough evaluation concerning the financial situation of each tenant and the aforementioned closure of the shopping complex, the Group decided to provide a discount to several tenants within the Center Parc Retail Hub for the months of April and May. Management further confirmed that these discounts only lasted for a two month period (April – May) and from June 2020 onwards, the Group started receiving the full rental income as previously contracted.

Moreover, the Group has compiled cash flow projections primarily based on the expected revenues and receipts from their tenants. However, although the negative consequences brought about by the COVID-19 pandemic on the Issuer are not yet fully known, management confirmed that these projections indicate that the Group is expected to have sufficient liquidity to meet its obligations as they fall due. Based on the above considerations and the current prevailing circumstances, management explained that the Group's capital and liquidity position is considered to be sufficient and adequate to absorb any foreseeable implications brought about by the COVID-19 pandemic. As such, despite the current unprecedented scenario, management confirmed that the Group did not seek any additional bank financing.

SWOT Analysis

Strengths

- ✓ The Group operates Zentrum Business Centre with an established positive track record of high occupancy rates
- ✓ No COVID-19 disruption in terms of the Group's office block
- ✓ The Group is successful in identifying appropriate projects for development and in applying its experience to develop those sites
- ✓ The Group's properties are located in a central area (Qormi), which in relation to their purpose and current use, are deemed to be a prime location
- ✓ The Group is deemed to be relatively successful in keeping in line to their schedule of completion in terms of their projects

Weaknesses

- × No geographical diversification. The Group is only exposed to the local commercial real estate market
- × The real estate segment is highly dependent on additional foreign direct investment (FDI) for the Maltese economy with property supply increasing drastically over recent years
- × Although the Group operates within the commercial real estate market, the Group through the operation of the Center Parc Retail Hub is also exposed to the local retail industry which is currently being decimated by the COVID-19 pandemic

Opportunities

- The recent Government aid package aimed towards containing the negative effects of the COVID-19 outbreak might benefit the overall operation of the Group

Threats

- ! Further escalation of the COVID-19 outbreak might negatively impact the operations of the Group through a decline in occupancy rates, potential default of tenants and potential issuance of further discounts to their tenants within the Center Parc Retail Hub in Qormi.
- ! Highly competitive real estate industry in Malta

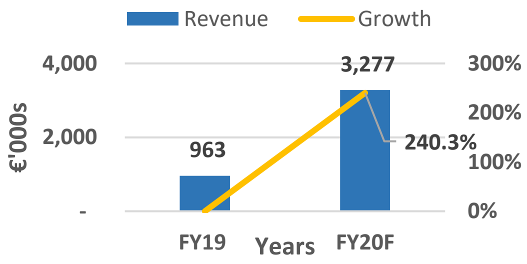
Financial Summary

Tum Finance p.l.c.	Audited 2019* €'000s	Forecast 2020 €'000s
Income statement		
Revenue	963	3,277
Administrative Expenses (exl. Depreciation)	(363)	(537)
EBITDA	**600**	**2,740**
Depreciation	(15)	(14)
EBIT	**585**	**2,726**
Fair value movement relating to investment property	9,736	-
Finance costs	(277)	(789)
Profit before tax	**10,044**	**1,937**
Tax expense	(1,382)	(640)
Net income	**8,662**	**1,297**
Cash flow		
Net cash from operations (CFO)	3,070	(825)
Capex	(5,641)	(79)
Free cash flows (CFO – Capex)	**(2,571)**	**(904)**
Balance sheet		
Cash and cash equivalents	1,085	181
Current assets	2,022	1,967
Non-current assets	57,599	57,663
Total assets	**59,621**	**59,630**
Current liabilities	4,182	2,895
Non-current liabilities	24,848	24,848
Total liabilities	**29,030**	**27,743**
Total Financial debt	20,934	20,327
Net debt	19,849	20,146
Total equity	**30,591**	**31,887**
Ratios		
EBITDA margin (EBITDA / Revenue)	62.3%	83.6%
Operating (EBIT) margin (EBIT / Revenue)	60.7%	83.2%
Net margin (Net income / Revenue)	899.5%	39.6%
Return on assets	14.5%	2.2%
Current ratio (Current assets / Current Liabilities)	0.5x	0.7x
Interest coverage ratio (EBITDA /Cash interest paid)	2.2x	3.5x
Gearing level 1 (Net debt / Net debt and Total equity)	39.4%	38.7%
Gearing level 2 (Total Liabilities / Total Assets)	48.7%	46.5%
Net debt / EBITDA	33.1x	7.4x

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

***The Group's FY19 consolidated financial statements presents the results as from when Tum Operations Ltd, a wholly owned subsidiary of the Issuer, acquired its subsidiaries (April 2019). It is thus key to note that the FY19 financial data presented above reflects a 9-month period and not a full 12-month period.**

Investment Considerations

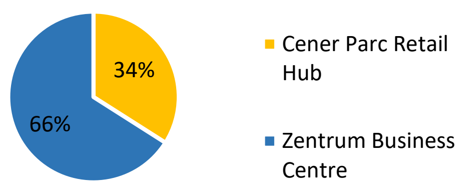


Source: TMF's Financial Statements and FY20 FAS

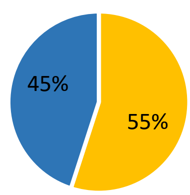
- **Revenue** – Actual consolidated revenue for the 9-month period ending December 2019 amounted to circa €1.0m and reflects revenue generated from the Group's properties, namely Zentrum Business Centre and Center Parc Retail Hub. During FY19, the Center Parc Retail Hub development was fully completed, whereby the shopping complex opened its doors on 4th October 2019 and achieved full occupancy by the end of FY19. It is important to note that due to the implications brought about by the COVID-19 pandemic, the Group issued several discounts to tenants within the shopping complex for the months of April and May, which upon discussions with management are deemed to be immaterial as such discounts only represent 1.6% of the Group's projected revenue for FY20. Management further confirmed that from June 2020 onwards, the Group started receiving the full rental income as previously contracted and also confirmed that up until August 2020, the premises remained fully occupied with tenants and is expected to remain fully occupied during the remaining months of the year

  In terms of Zentrum Business Centre, the Group continued receiving rental income mainly from its two tenants. Development concerning this property was fully completed during Q3 2019. Management confirmed that one of the tenants moved into the Zentrum extension in October 2019, whereby the remainder of the office block started being rented out to third parties from 1st January 2020 onwards. Management explained that this building is currently fully occupied with tenants and is expected to remain fully occupied moving forward. In view of both properties being projected to remain fully occupied during FY20, together with the discounts provided to the Center Parc Retail Hub tenants during the period as further described above, the Group is anticipating to generate a total revenue of €3.3m for FY20. Of note, management confirmed that 55% of the Group's total projected revenue is expected to be derived from Center Parc, whereas the remaining 35% is concerned with the Zentrum Business Centre operation.

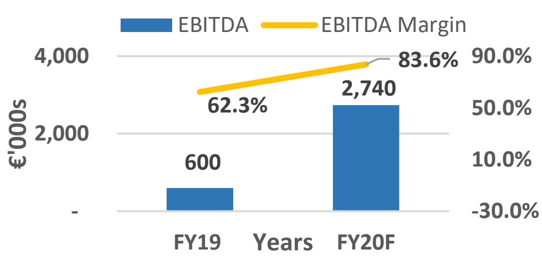
Derivation of Revenue FY19



Derivation of Revenue FY20F



Source: TMF's Financial Statements and FY20 FAS



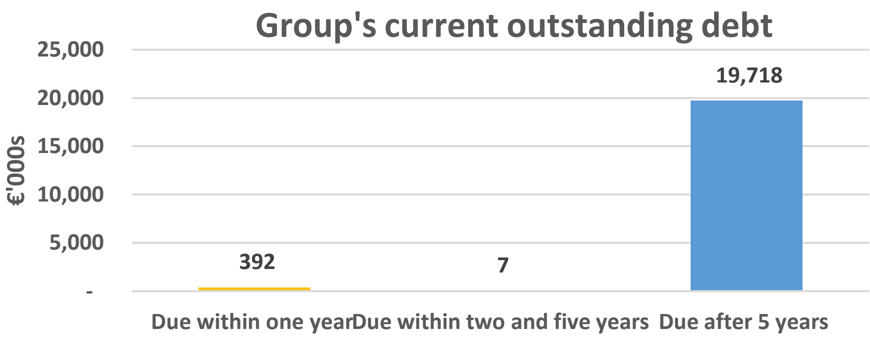
Source: TMF's Financial Statements and FY20 FAS

- **EBITDA –** Overhead expenses include maintenance, utility, common area expenses and other administrative expenses, whereby part of these costs are recovered through the service charge recognised. These amounted to approximately €0.4m as per FY19 results and are projected to increase to €0.5m during FY20. This increase is attributable to the fact that unlike FY19, the projected performance for FY20 reflects a 12-month period of operations in terms of the Group's two properties. As such, higher levels of cleaning and advertising expenses are projected to be incurred.

  Based on the above, the Group expects to generate an EBITDA of €2.7m in FY20, translating into an EBITDA margin of 83.6%. This is an improvement over FY19, where the Group generated an EBITDA of €0.6m, and an EBITDA margin of 62.3%. Such projected improvement in EBITDA margin for FY20 is mainly attributable to the fact that unlike the FY19 results, the projected revenue for FY20 reflects a full 12-months of the Group's Center Parc operations together with the newly derived revenue from the Zentrum extension.

- **Fair value movement of investment property –** Following the improvements and developments on the Center Parc Retail Hub properties, fair value movement/gain on property amounted €9.7m during FY19. No further property fair value movements/gains are forecasted for FY20. Despite this has no impact on the group's cash levels, it has boosted the equity portion, which in turn reduced gearing.
- **Finance costs –** Finance costs incurred during FY19 amounted to circa €0.3m and mainly include bank charges, bond related interest and lease liabilities interest expenses. It is key to note that actual finance costs figure for FY19 include bond interest expenses as from when the bond was issued (June 2019). Finance costs are projected to amount to circa €0.8m during FY20.

Debt Maturity Profile



Debt Analysis (€'000s)	FY19
Current Liabilities	
Debt securities in issue	390
Due to related parties	818
	1,208
Non-current Liabilities	
Lease liabilities	192
Debt securities in issue	19,534
	19,726
Total Debt	**20,934**
Total Financial Debt	**20,116**

- **During FY19, TMF issued a €20m bond (2019 – 2029), having a nominal value of €100 each, bearing interest at the rate of 3.75% per annum. These bonds are secured by the Guarantor, which provided a corporate guarantee in favour of the Issuer's bondholders to affect the due and punctual performance of all payment obligations undertaken by TMF under the bonds if it fails to do so. More specifically, the Group's bonds are secured by a first ranking special hypothec over the Guarantor's property, being Zentrum Business Centre.**
- **The amounts due to related parties 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 €0.2m in lease liabilities which as per guidance provided by management relate to the Guarantor's property.**

Annual interest rate breakdown	FY19
TMF29	3.75%
Leases	5.62%

Source: TMF's Audited Financial Statements and guidance provided by management

Analysis of outstanding issues

Security	Nom Value	Yield to Maturity	Interest coverage (EBITDA)	Total Assets	Total Equity	Total Liabilities / Total Assets	Net Debt /Net Debt and Total Equity	Net Debt / EBITDA	Current Ratio	Return on Common Equity	Net Margin	Revenue Growth (YoY)	Last Closing Price *
	€000's	(%)	(times)	(€'millions)	(€'millions)	(%)	(%)	(times)	(times)	(%)	(%)	(%)	
5.75% Central Business Centres plc Unsecured € 2021 S1T1	3,000	5.74%	1.9x	29.5	16.6	44.0%	41.4%	13.2x	0.5x	3.0%	45.6%	205.0%	100.00
5.25% Central Business Centres plc Unsecured € 2025 S2T1	3,000	4.82%	1.9x	29.5	16.6	44.0%	41.4%	13.2x	0.5x	3.0%	45.6%	205.0%	102.00
4.0% Shoreline Mall Plc Secured € 2026	14,000	4.00%	4.7x	19.3	18.1	60.1%	87.5%	3.4x	4.7x	24.5%	36.5%	100.0%	100.00
3.9% Plaza Centres plc Unsecured € 2026	8,500	3.81%	5.2x	48.8	31.5	35.5%	26.3%	3.9x	7.7x	4.6%	38.3%	8.6%	100.50
4.4% Central Business Centres plc Unsecured € 2027 S1/17 T1	6,000	4.40%	1.9x	29.5	16.6	44.0%	41.4%	13.2x	0.5x	3.0%	45.6%	205.0%	100.00
4% Exalco Finance plc Secured € 2028	15,000	3.85%	3.9x	68.2	39.7	41.7%	32.0%	5.7x	1.0x	5.0%	44.7%	13.9%	101.00
3.75% TUM Finance plc Secured € 2029	20,000	3.61%	2.2x	59.6	30.6	48.7%	39.4%	33.1x	0.5x	28.3%	899.5%	n/a	100.99
4.75% KA Finance plc Secured Callable Bonds 2026-2029 *	6,000	4.75%	4.9x	23.1	11.1	52.0%	52.2%	9.7x	1.8x	31.9%	548.7%	7.0%	100.00
4.5% Shoreline Mall Plc Secured € 2032	26,000	4.50%	4.7x	19.3	18.1	60.1%	87.5%	3.4x	4.7x	24.5%	36.5%	100.0%	100.00
Average**	**10,188**	**4.5%**	**3.6x**	**33.4**	**21.0**	**47.7%**	**51.2%**	**8.2x**	**2.7x**	**12.5%**	**105.2%**	**105.6%**	

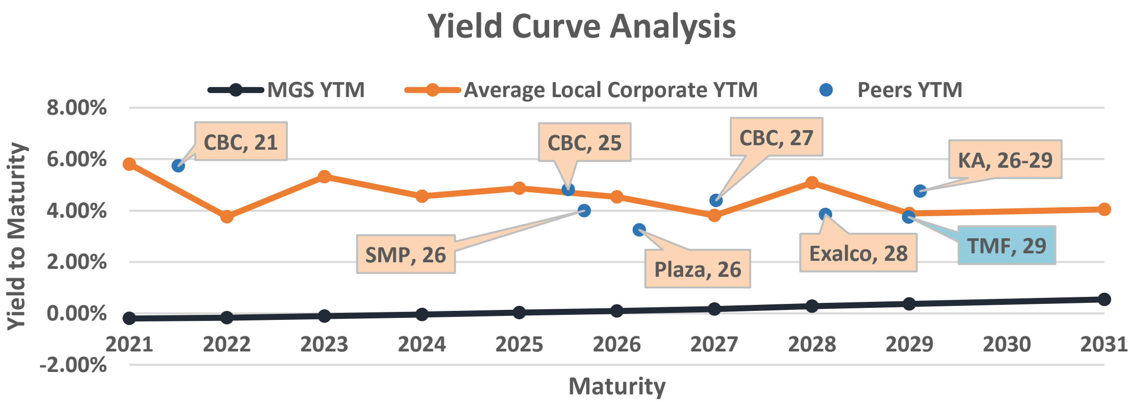
*** Last price as at 15/09/2020**

**** Average figures do not capture the financial analysis of the Group**

Source: Latest available audited financial statements

Investment Rationale

We have compared the securities of Tum Finance plc against similar issuers in the local market. Comparable companies were specifically identified on the basis of the industry in which they operate, more specifically their service offerings. The credit profile of the comparable companies was analysed in terms of leverage and the ability to meet debt obligations.



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, thus taking into consideration the yield of comparable issuers. The graph illustrates on a stand-alone basis, the yield of comparable TMF's peers which operate in the same line of industry.

As can be witnessed in the comparative analysis, the Group's leverage is above the average of its comparable issuers on the Malta Stock Exchange at a gearing (net debt / EBITDA) standing as at 33.1x in FY19 compared to the average of 8.2x. It is however imperative to note that the Group's FY19 results only capture a nine-month period of the Group's operations and therefore not fully comparable to the above depicted credit metrics of the other Issuers. In furtherance, upon taking into consideration the Group's FY20 projections, the Group is anticipating a net debt / EBITDA of 7.4x (FY19: 33.1x). Similarly, as per FY19 results, the Group has also underperformed other issuers in terms of interest coverage: TMF 2.2x vs average peers: 2.2x. However, the Group's projections illustrate that TMF's interest coverage is expected to improve to 3.5x during FY20.

Upon taking into considerations the implications brought about by the COVID-19 pandemic on the Issuer, including the discounts provided to the Center Parc tenants, management reported that up until September 2020, TMF has managed to generate circa 75% of FY20's projected revenue. Moreover, the Group has compiled cash flow projections primarily based on the expected revenues and receipts from their tenants. More specifically, management clarified that such projections indicate that the Group is expected to have sufficient liquidity to meet its obligations as they fall due. Based on the above considerations and the current prevailing circumstances, management explained that the Group's capital and liquidity position is considered to be sufficient and adequate to absorb any foreseeable implications brought about by the COVID-19 pandemic.

However, we are still cognisant of the fact that through their Center Parc operation, the Group is highly exposed to the local retail industry, which we believe is currently being decimated by the COVID-19 pandemic. As the situation locally remains relatively fluid, we also believe that further escalation of the outbreak might negatively impact the Group through a decline in occupancy rates, potential default of tenants and potential issuance of further discounts to their tenants within the Center Parc Retail Hub in Qormi. This concern is sustained through management's confirmation that circa 55% of the Group's FY20 projected revenue is associated to the Center Parc operation. On this basis we are issuing a **Neutral** credit opinion on this Issuer.

TM29 is currently trading at a YTM of 3.75%, which is lower than an average 4.3% pertaining to the issuers within the same industry having a maturity of 7 to 9 years. Upon taking into account such yield offering, together with the above important considerations, we are issuing a **Hold** recommendation on TMF. Our view in based on the fact that despite we acknowledge that the retail sector is currently facing remarkable challenges, both through the online ideology and more recently, with a higher mark, the COVID-19 saga, from a debt service perspective the Group holds the ability to service its debt. It is important to remark that the Guarantor has an important weight on the Group, through its different target market, namely office space and its current strong tenant base. In addition, it is fundamental to note that the Guarantor's EBITDA generation can cover the entire Group's financial obligations, if the Group is faced with a prolonged stressful scenario brought about by COVID-19.

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