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Executive Summary

"Notwithstanding the material impact on the hospitality segment, which represents VDH's largest revenue contributor, the diversification in real estate has been a key contributor to the Group. Moving forward, besides current macroeconomic risks, the way with which the current cash levels are going to be deployed is fundamental to the risk profile of the business. Notwithstanding this, based on current available information, we believe that a **Neutral** credit opinion is justified on this Issuer.

VDH's bond is currently trading at €101.30, translating into a YTM of 3.94%. Despite the improved macroeconomic outlook, in addition to the Group's current strong cash reserves, VDH is still subject to possible downside risks, including risks pertaining to COVID-19 such as the challenges affecting the vaccine roll-out and the risk of the virus mutating further. Additionally, real estate projects involve relatively a high degree of execution risk, which might possibly fail to generate satisfactory returns. Upon taking into account the above considerations, we believe that a **Hold** recommendation is justified on VDH."

Business Overview

The Group is involved in real estate development, real estate leasing, hotel management, and hospitality. VDH has operations in Germany, Poland, Ukraine, Spain, Portugal, Italy, Montenegro, and Malta.

Debt securities issued by the Group

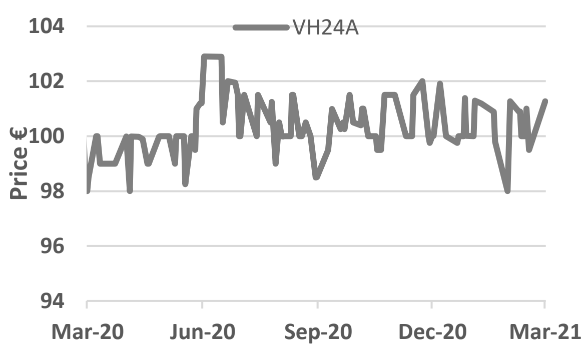
In 2017, the Group, through its financing vehicle Von der Heyden Group Finance plc (the "**Issuer**" or "VDH"), issued a €25m 4.4% unsecured bond 2024.

Group's developments

In Dec 2019, the Group sold its second and last asset, the Blue Tower forming part of the Bavaria Towers office. Additionally, in the same period, VDH sold IBB Hotel Paradis Blau for €5m.

Credit Opinion	Neutral
Country	Malta
Sector	Real Estate and Hospitality
4.4% VDH 2024	
Security	Unsecured
Nominal	€25mln
Ticker	VH24A
Price (17.03.21)	€101.27
Recommendation	Hold
Yield to Maturity	3.94%
Exchange	Malta Stock Exchange (MSE)
52-week range	€98.00 - €102.90

1-Year Price Movement



Source: Malta Stock Exchange

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Trading update: COVID-19 and outlook

Undoubtedly, the COVID-19 pandemic has presented unprecedented conditions to the world economy, with the tourism sector being one of the most severely impacted. Consequently, the VDH Group which is heavily exposed to this sector, noted that the outbreak has led to the material disruption of its hotel and catering operations. In response to this unprecedented event, the Group took immediate actions to mitigate the impact of the sudden loss of demand arising as a result of the lockdown and travel restrictions introduced in the countries where it operates.

The pandemic has accelerated the Group's planned hotel restructuring program, which amongst other measures, resulted in the termination of the lease and operation of the IBB Hotel Passau City Centre (Germany). Additionally, as part of its cost reduction plans, the Group terminated all non-permanent employments, reduction of staff in all hotels down to the minimum necessary level, negotiation of rental and supplier payments, in addition to applying for governmental aid funds, wherever possible.

As noted earlier, late in 2019, the Group sold the Blue Tower and Paradis Blau Hotel which has generated excess liquidity which was key for VDH given the drastic impact on cash flows as a result of the outbreak. In fact, in H1-2020 following the aforementioned sale, the associate which carried out the Bavaria Towers project, paid a substantial dividend of €23.6m to the Group.

As per the latest FAS, in FY20, the Group expects to generate a revenue and EBITDA of €26.2m and €2.6m, respectively, while the closing cash balance is forecasted to amount to €25.1m. Following discussions with senior management, up to June 2020, the Group achieved 67% and 58% of its revenue and EBITDA targets for FY20, with cash reserves in Dec 2020 reaching the €25m target.

In view of the immediate cost cutting procedures taken by management, coupled with the liquidity generated by the above noted assets sale, we are of the opinion that the Group should generate sufficient liquidity to meet all of its financial obligations falling due in FY21, including the next coupon payment (which falls due on 8 March 2021).

SWOT analysis

Strengths

- ✓ VDH has a wide portfolio of hotels and real estate, both owned and managed, spread over several countries, therefore its dependence on any single hotel and/or market is slim
- ✓ Major ownership of a strong, international, reputable brand name
- ✓ No near term bond maturities
- ✓ The sale of the Bavaria Towers and the Spanish Hotel has generated excess liquidity which has been essential during this depressed environment

Weaknesses

- × The pandemic has significantly impacted the business model of the Group and it is not yet certain when VDH expects to recover back to pre-pandemic levels
- × The Group's performance is sensitive to exchange rate movements between the Euro and the Polish Zloty
- × VDH operates in a capital-intensive industry, consequently it incurs substantial investment cash outflows
- × In recent years, the Group experienced declining cash from operations and generated negative EBITDA

Opportunities

- o The cost reduction actions and efficiencies brought about by the outbreak, might well be maintained post COVID-19
- o VDH's diversified line of business across several geographies might present the Group with additional investment opportunities
- o The Group's hotel restructuring exercise which has been accelerated by the pandemic, can potentially improve the profitability margin of this segment, which has been underperforming
- o In view of the increase in unemployment caused by COVID-19, VDH's barging power in the recruitment of unskilled labour might increase

Threats

- ! Although the recovery post COVID-19 is more visible, the extent of the impact on the Group from the pandemic is not yet fully known
- ! A potential downturn in Europe's property market and hospitality industry
- ! Increased competition within both the real estate and hospitality industries
- ! The increasing popularity of online private accommodation platforms, such as Airbnb might hinder the Group's operations
- ! Inherently, real estate developments carry an execution risk and may fail to generate satisfactory returns

Financial summary

TIMAN Investments Holdings Ltd for the year ended 31 December – **€'000's** (unless otherwise indicated)	FY17A	FY18A	FY19A	FY20F
Income statement				
Revenue	19,360	23,842	25,884	26,167
Cost of Sales	(3,914)	(4,647)	(4,393)	(4,032)
Gross Profit	15,446	19,195	21,491	22,135
Other operating income	262	330	542	776
Administrative expenses	(16,276)	(19,812)	(19,650)	(20,351)
EBITDA	(568)	(287)	2,383	2,560
Depreciation and amortisation	(905)	(1,227)	(5,012)	(4,978)
EBIT	(1,473)	(1,514)	(2,629)	(2,418)
Allowance for expected credit gains/(losses)	-	(872)	703	88
Other gains / (losses)	(585)	(1,062)	301	142
Finance income	1,089	1,247	701	410
Finance costs	(1,785)	(2,672)	(4,171)	(3,228)
Share in profit from associates	2,012	17,867	3,145	-
Loss/(profit) before tax	(742)	12,994	(1,950)	(5,006)
Taxation	(283)	135	(253)	(555)
Loss/(profit) after tax	(1,025)	13,129	(2,203)	(5,561)
Cash flow				
Net cash from operations (CFO)	(2,455)	(10,070)	560	4,259
Capex	(5,539)	(4,351)	(1,244)	(1,500)
Free cash flows (CFO – Capex)	(7,994)	(14,421)	(684)	2,759
Balance sheet				
Cash and cash equivalents	6,907	3,803	6,318	25,132
Current assets	9,952	13,410	13,917	29,018
Non-current assets	86,007	94,076	133,868	104,073
Total assets	95,959	107,486	147,785	133,091
Current liabilities	12,114	15,244	20,089	16,612
Non-current liabilities	48,463	47,333	83,436	78,636
Total liabilities	60,577	62,577	103,525	95,248
Total Financial debt	51,571	53,394	93,612	83,367
Net debt	44,664	49,591	87,294	58,235
Total equity	35,382	44,909	44,260	37,843
Financial ratios				
Growth in Total Revenue (YoY Revenue Growth)	11.9%	23.2%	8.6%	1.1%
Gross profit margin (Gross profit / Revenue)	79.8%	80.5%	83.0%	84.6%
EBITDA margin (EBITDA / Revenue)	-2.9%	-1.2%	9.2%	9.8%
Operating (EBIT) margin (EBIT / Revenue)	-7.6%	-6.4%	-10.2%	-9.2%
Net margin (Net income / Revenue)	-5.3%	55.1%	-8.5%	-21.3%
Return on common equity (Net Income / Total Equity)	-3.1%	32.7%	-4.9%	-13.5%
Return on assets (Net Income / Total Assets)	-1.3%	12.9%	-1.7%	-4.0%
Current ratio (Current assets / Current Liabilities)	0.8x	0.9x	0.7x	1.7x
Interest coverage ratio (EBITDA /Cash interest paid)	(0.2)x	(0.1)x	1.1x	1.2x
Gearing level 1 (Net debt / Net Debt and Total Equity)	55.8%	52.5%	66.4%	60.6%
Gearing level 2 (Total Liabilities / Total Assets)	63.1%	58.2%	70.1%	71.6%
Net debt / EBITDA	(78.6)x	(172.8)x	36.6x	22.7x
Cash from Operations / EBIT	1.7x	6.7x	(0.2)x	(1.8)x

Source: VDH's Audited Financial Statements and Financial Analysis Summary (FAS) of 2020

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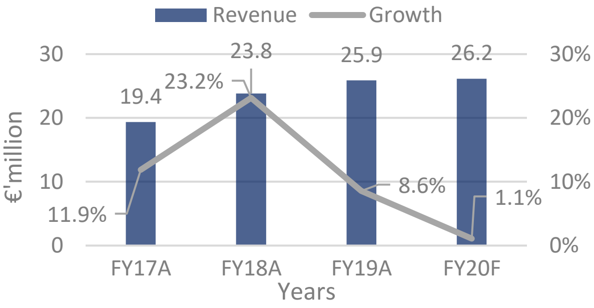
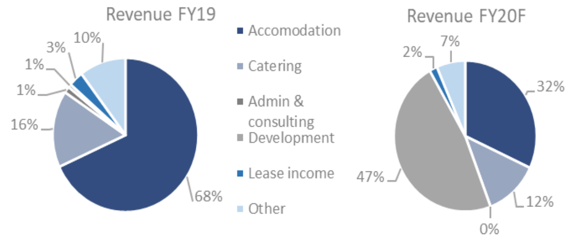
Investment considerations

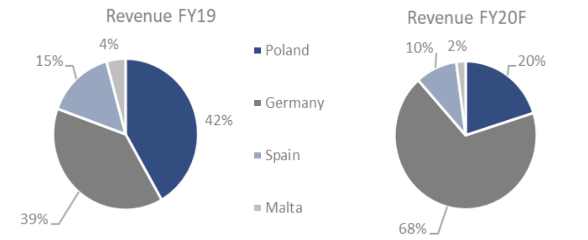
- **Revenue:** As can be analysed, the Group's revenue is mainly derived from the accommodation and catering segments (FY19: 68.2% & 16.2%, respectively). VDH's revenue registered an improvement of 8.6% in FY19, which is mainly attributable to the full-year operations of both, IBB Hotel Dlugi Targ in Poland and the Spanish petrol station in Bailén, which opened in Apr-18 and in Sep-18, respectively. Poland and Germany represent two key geographical revenue streams, where in FY19 they contributed 41.7% and 38.8% to total revenue.

  It is evident that the COVID-19 pandemic has significantly impacted the Group's hospitality segment, with revenue from this segment expected to fall by 47.0% in FY20. Despite this, consolidated revenue is still expected to increase marginally by 1.1% to €26.2m. This is attributable to a surge in real estate development revenue, where up to Aug 2020, the Group generated €12.4m contributing 47.5% to the overall revenue. This income reflects the promote fee earned by VDH for being involved in the sale of the Bavaria Towers.

  The Group's diversification in real estate has clearly paid off and moving forward, this segment will continue to be a key revenue stream for VDH. The European tourism industry is expected to start recovering in mid-2021, assuming that the vaccine roll-out targets are reached. The International Air Transport Association (IATA) predicts that domestic air traffic should recover to pre-pandemic levels in 2023. In view of this, the Group's hospitality segment is expected to start recovering in FY21 and gradually improve in line with the anticipated recovery of passenger traffic.

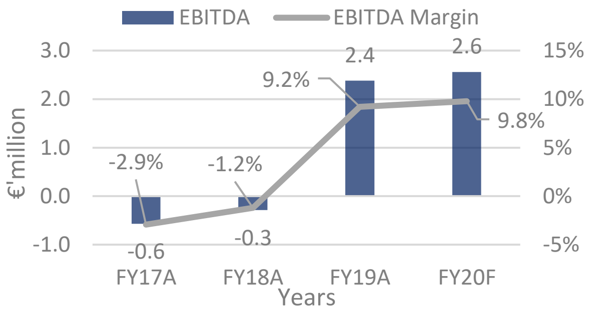






Source: VDH's Audited Financial Statements

- **EBITDA:** As can be analysed, the Group has been underperforming, with a negative EBITDA registered for both FY17 and FY18. Furthermore, even though it reported a positive EBITDA of €2.4m in FY19, once adjusted for the implementation of IFRS 16, the Group still generated a negative EBITDA of circa €1m. VDH reported that during FY19, the performance of the accommodation segment has failed to reach expected profit levels and this stems from aggressive market competition and the need for the Group to restructure some operations.



Source: VDH's Audited Financial Statements

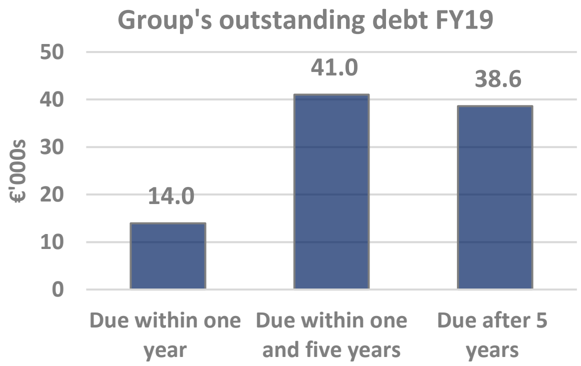
  In FY20, the Group is forecasting an EBITDA generation of €2.6m, which translates into an EBITDA margin of 9.8%. Given the dire economic conditions caused by the pandemic, such result is positive, especially when considering that VDH's hotel activity has been materially impacted by the ramifications of COVID-19.

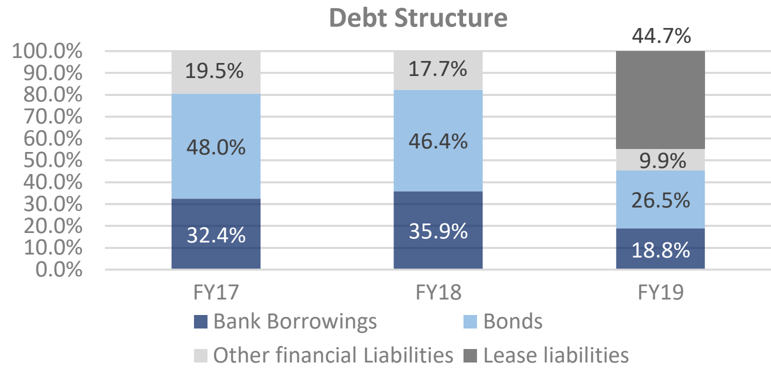
- **Finance costs:** Finance costs mainly consist of interest incurred on the Group's bonds currently in issue, in addition to finance costs on bank borrowings and finance lease liabilities. As a consequence of the implementation of IFRS 16, finance expenses in FY19 amounted to €4.2m, an increase of €1.5m over FY18. In FY20, finance costs are forecasted to decrease by €0.9m to €3.2m, which is mainly due to a reduction in finance costs following negotiations held by management with the Group's respective banks.

- **Interest cover:** In FY19, the Group generated a low EBITDA, which resulted in an interest coverage ratio of 1.1x. VDH is forecasting a marginal increase in its EBITDA for FY20, leading to an improved 1.2x interest coverage ratio.

- **Capital Expenditure -** During FY19, the Group invested €1.2m in capital assets. Given the significant impact of the pandemic, the Group reviewed all of its capital investment plans and during FY20, it only expects to incur €1.5m in capex, which is mainly related to the Andersia Silver development.

Debt maturity profile





Source: VDH's Audited Financial Statements

N.B. The illustrated figures/data are as at end of FY19, therefore these do not capture the renegotiations held by the Group during FY20 in response to the downturn caused by COVID-19.

As can be analysed, the implementation of IFRS 16 has resulted in a significant increase in financial debt, with lease liabilities representing 44.7% of the aggregated debt as at FY19. The majority of the Group's financial debt is due between 1 and 5 years, which mainly reflects the Issuer's €25m unsecured bond 2024 and bank borrowings. Debt due after 5 years predominantly consists of lease liabilities.

Debt ranking (€'000s)	FY19
Non-current	
Bonds	24,833
Bank borrowings	11,484
Lease liabilities	38,595
Loans from related parties	2,418
Loans from third parties	2,224
Other borrowings	91
	79,645
Current	
Bank borrowings	6,150
Lease liabilities	3,283
Loans from related parties	3,718
Loans from third parties	764
Other borrowings	51
	13,966
Total financial debt	**93,612**

Bank loans: These facilities are pledged by special hypothecs on owned properties and bear variable interest at rates ranging from 2.1% to 4.5% per annum. **Management confirmed that the Group has not taken on more financial debt during 2020** as it had sufficient liquidity from the sale of the previously mentioned capital assets. Additionally, a **subsidiary which as at FY19 had an outstanding facility of €5.4m maturing in 2020, managed to repay a portion of this debt and renegotiate a 3-year extension.**

Other financial liabilities: This debt primarily captures loans from related parties and third parties. Loans from related parties are unsecured, bear interest at rates ranging from 4.4% to 7.5% per annum and mature on dates ranging from 31 December 2020 to 31 August 2023. Loans from third parties are unsecured, bear interest at rates ranging from 2.98% to 6% per annum.

Analysis of outstanding issues

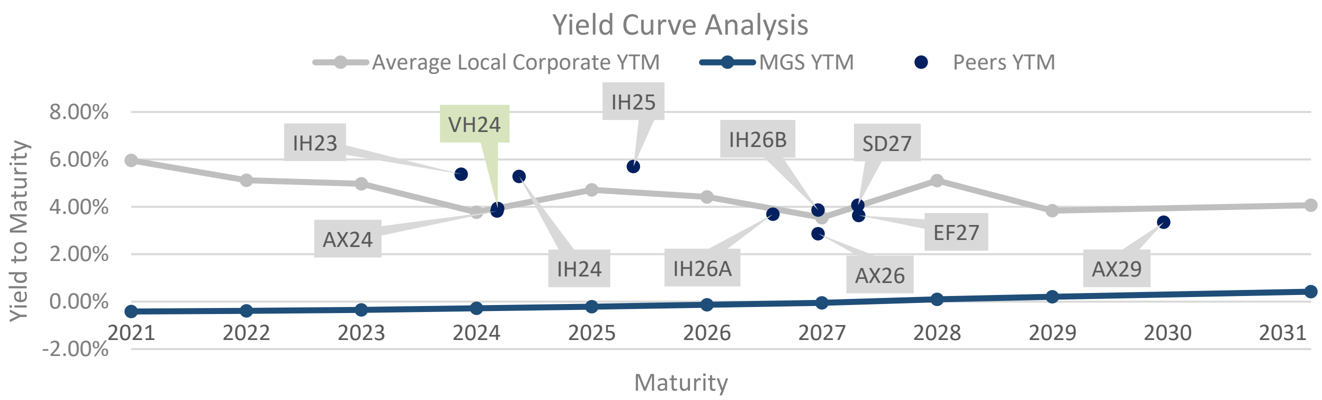
Security	Nom Value €000's	Yield to Maturity (%)	Interest coverage (EBITDA) (times)	Total Assets (€'millions)	Total Equity (€'millions)	Total Liabilities / Total Assets (%)	Net Debt / Net Debt and Total (%)	Net Debt / EBITDA (times)	Current Ratio (times)	Return on Common Equity (%)	Net Margin (%)	Revenue Growth (YoY) (%)	Last Closing Price *
5.8% International Hotel Investments plc 2023	10,000	5.37%	3.0x	1,687.2	897.1	46.8%	37.3%	7.7x	1.1x	0.6%	1.9%	4.7%	101.00
6% AX Investments Plc € 2024	40,000	3.82%	5.5x	342.4	226.1	34.0%	18.9%	3.2x	0.9x	2.2%	9.4%	-8.1%	106.00
4.4% Von der Heyden Group Finance plc Unsecured € 2024	25,000	3.94%	1.1x	147.8	44.3	70.1%	66.4%	36.6x	0.7x	-4.9%	-8.5%	8.6%	101.27
6% International Hotel Investments plc € 2024	35,000	5.29%	3.0x	1,687.2	897.1	46.8%	37.3%	7.7x	1.1x	0.6%	1.9%	4.7%	102.00
5.75% International Hotel Investments plc Unsecured € 2025	45,000	5.70%	3.0x	1,687.2	897.1	46.8%	37.3%	7.7x	1.1x	0.6%	1.9%	4.7%	100.15
4% International Hotel Investments plc Secured € 2026 (xd)	55,000	3.68%	3.0x	1,687.2	897.1	46.8%	37.3%	7.7x	1.1x	0.6%	1.9%	4.7%	101.50
4% International Hotel Investments plc Unsecured € 2026	60,000	3.86%	3.0x	1,687.2	897.1	46.8%	37.3%	7.7x	1.1x	0.6%	1.9%	4.7%	100.70
3.25% AX Group plc Unsec Bds 2026 Series I	15,000	2.87%	5.5x	342.4	226.1	34.0%	18.9%	3.2x	0.9x	2.2%	9.4%	-8.1%	101.99
4.35% SD Finance plc Unsecured € 2027	65,000	4.07%	6.8x	324.4	137.6	57.6%	43.3%	4.1x	1.4x	9.0%	20.5%	5.7%	101.50
4% Eden Finance plc Unsecured € 2027	40,000	3.63%	6.6x	199.3	113.1	43.2%	29.0%	3.4x	1.1x	11.7%	28.1%	9.7%	101.98
3.75% AX Group plc Unsec Bds 2029 Series II	10,000	3.35%	5.5x	342.4	226.1	34.0%	18.9%	3.2x	0.9x	2.2%	9.4%	-8.1%	103.00
Average		**4.2%**											

* Last price as at 17/03/2021

Source: Latest available audited financial statements

Investment rationale

We have compared the securities of Von der Heyden Group 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 Investment Management

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 comparable issuers (Peers YTM).

During the past years, even though the Group was able to grow its revenue year-on-year its EBITDA has been underperforming, where it generated negative returns during the period FY17 to FY19 (FY19 – adjusted for the implementation of IFRS 16). Management attributed this decline in performance to an aggressive market competition within its hotel segment and the need for the Group to restructure this segment. During FY20, the Group's hotel chain was further supressed as a result of the COVID-19 outbreak, which obliterated tourist traffic worldwide.

Notwithstanding the material impact on the hospitality segment, which represents VDH's largest revenue contributor, the diversification in real estate has been a key contributor to the Group. In fact as noted earlier, during FY20, the associate which carried out the Bavaria Towers project paid a substantial cash dividend of €23.6m to the Group. Additionally, VDH has a number of other real estate projects currently undergoing development, which once finalised can potentially yield attractive returns. Most notably, the Group is undergoing the Andersia Silver project, the Nowy Świat Atrium project and the recently acquired Reževići land in Blizikuce, Montenegro, amongst other prospective developments.

Moving forward, we expect that the real estate segment will continue to be a key revenue stream for VDH. Additionally, following positive news on the vaccine front which augurs well for the initiation of an economic recovery in FY21, we believe that the Group's hotel chain will also start to recover. Additionally, the strategic decision taken by management to downsize and restructure unprofitable hotel operations will further aid in the recovery of the Group's fundamentals post COVID-19.

In FY20, the Group is forecasting an interest coverage ratio of 1.2x, a slight improvement over the previous year (FY19: 1.1x). This is mainly attributable to the anticipated reduction in interest costs following negotiations with the Group's banks, coupled with a forecasted marginal growth in EBITDA. The Group is highly leveraged, with its gearing (net debt / EBITDA) standing at 36.6x as at end FY19. Nevertheless, as a result of the strong growth in cash reserves, the Group's gearing is forecasted to improve, although still remaining at a high gearing ratio of 22.7x in FY20.

Based on the above, coupled with the liquidity generated from the assets sale during end of FY19, in addition to the prompt cost reduction measures taken by VDH, we are of the opinion that the Group should generate sufficient liquidity to meet all of its near term financial obligations. Moving forward, besides current macroeconomic risks, the way with which the current cash levels are going to be deployed is fundamental to the risk profile of the business. More specifically, we look forward to receiving further information in regard to the Group's real estate investment fund in Ukraine, which will expose the Group to a riskier geographic region. Notwithstanding this, based on current available information, we believe that a **Neutral** credit opinion is justified on this Issuer.

VH24

VDH's bond is currently trading at €101.30, translating into a YTM of 3.94%. The identified peers are currently yielding an averaged YTM of 4.2%. Despite the positive traits noted above, the Group is still subject to possible downside risks, including risks pertaining to COVID-19 such as the challenges affecting the vaccine roll-out and the risk of the virus mutating further. Additionally, real estate projects involve relatively high execution risks, which can result in the threat that a new investment fails to generate satisfactory returns. Notwithstanding these headwinds, the improved macroeconomic outlook, in addition to the current strong cash reserves warrant a **Hold** recommendation on VH24.

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.

Glossary and definitions

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.

N.B: Newly issued research recommendations supersede previously published research.

Disclaimer