

COMPANY ANNOUNCEMENT

The following is a company announcement issued by AX Investments p.l.c. ('the Company') pursuant to the Listing Rules issued by the Listing Authority:

Financial Analysis Summary of AX Investments p.l.c. and of its Guarantor AX Holdings Limited

The Board of Directors of the Company (the "Issuer") announces that the Financial Analysis Summary as at 26th June 2020 and prepared by MZ Investment Services Ltd is being attached hereto and can also be viewed on the following online link to the Issuer's web portal: <https://axinvestmentsplc.com/financial-statements/>

A handwritten signature in black ink, appearing to read 'Dr. Ian Vella Galea', written over a horizontal line.

Dr. Ian Vella Galea
Company Secretary
26th June 2020

Company Announcement AXI211

AX Investments p.l.c.

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Company Reg. No.: C27586

Financial Analysis Summary

25 June 2020

Issuer

AX Investments p.l.c.

Guarantor

AX Holdings Limited



MZ INVESTMENT SERVICES



MZ INVESTMENT SERVICES

The Directors
AX Investments p.l.c.
Ax House, Mosta Road
Lija LJA 9010
Malta

25 June 2020

Dear Sirs

Financial Analysis Summary

In accordance with your instructions, and in line with the requirements of the Listing Authority Policies, we have compiled the Financial Analysis Summary (the “**Analysis**”) set out on the following pages and which is being forwarded to you together with this letter.

The purpose of the financial analysis is that of summarising key financial data appertaining to AX Investments p.l.c. (the “**Company**”) and AX Holdings Limited (the “**Guarantor**” or “**Group**”). The data is derived from various sources or is based on our own computations as follows:

- (a) Historical financial data for the three years ended 31 October 2017 to 31 October 2019 has been extracted from audited financial statements of the Company and Guarantor for the three years in question.
- (b) The forecast data for the year ending 31 October 2020 has been provided by management.
- (c) Our commentary on the results of the Guarantor and on its financial position is based on the explanations provided by management.
- (d) The ratios quoted in the Financial Analysis Summary have been computed by us applying the definitions set out in Part 4 of the Analysis.
- (e) Relevant financial data in respect of such companies included in Part 3 has been extracted from public sources such as websites of the companies concerned, financial statements filed with the Registrar of Companies or websites providing financial data.



MZ INVESTMENT SERVICES

The Analysis is meant to assist investors in the Company's securities and potential investors by summarising the more important financial data of the Group. The Analysis does not contain all data that is relevant to investors or potential investors. The Analysis does not constitute an endorsement by our firm of any securities of the Company and should not be interpreted as a recommendation to invest in any of the Company's securities. We shall not accept any liability for any loss or damage arising out of the use of the Analysis. As with all investments, potential investors are encouraged to seek professional advice before investing in the Company's securities.

Yours faithfully,

Evan Mohnani
Senior Financial Advisor

MZ Investment Services Ltd
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PART 1 – INFORMATION ABOUT THE COMPANY AND GUARANTOR

1. COMPANY'S KEY ACTIVITIES

The principal activity of the Company is to carry on the business of a finance and investment company within the Group.

The Company does not itself carry on any trading activities apart from the raising of capital and the advancing thereof to members of the Group as and when the demands of their business or the demands of a particular project so require. Accordingly, the Company is economically dependent on the Group.

2. GROUP'S KEY ACTIVITIES

The Group is principally engaged in the provision of hospitality services, operates a care home & retirement village and is also involved in construction & property development. The Group operates exclusively in and from Malta. It commenced operations in the 1970s and in the earlier period, construction was the primary activity of the Group. During the 1980s, the Group diversified its activities into hotel operations and developed two hotels, the Sunny Coast Resort & Spa and the Seashells Resort at Suncrest, both located in Qawra Malta. The Group continued to grow this segment through the development of The Victoria Hotel and The Palace Hotel in 1996 and 2007 respectively, both of which are situated in Sliema Malta.

Over the years, the Group was involved in a number of property related projects, including the construction of the Valletta Cruise Port, the four hotels owned by the Group, Verdala Mansions, Capua Hospital and the Parliament Building in Valletta, amongst others. Furthermore, the Group has specialised in restoration works and has to date completed various restoration projects on a number of buildings in Malta, including Casino di Venezia, Valletta Waterfront, Palazzo Capua and Valletta & Birgu bastions.

In FY2014, the Group commenced development of the Simblija Care Home & Hilltop Gardens Retirement Village and by end of 2015 construction was largely complete with finishes at an advanced stage. The property was officially opened on 10 December 2015 and is being marketed as a high-end retirement property, offering independent living with access to a range of facilities and amenities, and 24-hour care when required. The Simblija Care Home & Hilltop Gardens Retirement Village also includes a nursing home which provides intensive nursing care to dependent elderly residents. The expenditure on development and plant & equipment in relation to the aforesaid project amounted to *circa* €25 million. Hilltop Gardens Retirement Village achieved a 100% take up in 2018 and 2019.

In FY2016, the Group increased its shareholding in Valletta Cruise Port p.l.c. from 24% to 36% for a total consideration of €3.9 million. The aggregate value of the said investment as at 31 October 2019 amounts to €6.8 million (FY2018: €7.5 million). During FY2016, the Group also acquired a property in



Merchant Street, Valletta, which has now been converted into a 19-room boutique hotel at a total cost (property acquisition and development) of €5.1 million. The Saint John Boutique Hotel commenced operations in August 2017.

In November 2016 (FY2017), the Group acquired another property in Merchant Street, Valletta for a total consideration of €4.5 million, which was developed into the 5-star Rosselli Hotel for a total cost amounting to *circa* €7.0 million. The hotel commenced operations in May 2019 and comprises 25 luxury rooms, meeting room facilities, a lounge area & restaurant and a roof-top pool.

During November 2019 (FY2020), AX Group p.l.c. (the ultimate parent company) issued €25 million of unsecured bonds, part of which was utilised for the purpose of financing the acquisition of land situated in Marsa and to acquire and develop “41, Merchant Street” situated in Merchant Street, Valletta. The said acquisitions were completed in May 2020.

On 30 April 2020, the Group obtained from the Planning Authority an outline development permit in relation to the Verdala property. The said permit makes reference to the development height and use of the former ‘Grand Hotel Verdala’ site in Rabat, which shall comprise the building of apartments and a hotel.

3. DIRECTORS AND KEY EMPLOYEES

3.1 COMPANY’S BOARD OF DIRECTORS

AX Investments p.l.c. is managed by a Board consisting of five directors entrusted with its overall direction and management of the Company.

Angelo Xuereb	Chairman
Michael Warrington	Executive Director
Patrick J. Galea	Non-Executive Director
Michael Scortino	Non-Executive Director
Philip A. Ransley	Non-Executive Director

3.2 GUARANTOR’S BOARD OF DIRECTORS

AX Holdings Limited is managed by a Board consisting of seven directors who are responsible for the day-to-day management of the Guarantor and the Group.

Angelo Xuereb	Chairman
Michael Warrington	Chief Executive Officer
Claire Zammit Xuereb	Group Hospitality Director
Denise Micallef Xuereb	Group Construction Director
Chris Paris	Executive Director
John Soler	Non-Executive Director
Josef Formosa Gauci	Non-Executive Director



3.3 GROUP SENIOR MANAGEMENT

The senior management of the Group comprise the Executive Committee, which is responsible for the determination of policy and strategic guidance and management. The Executive Committee is composed of the following individuals:

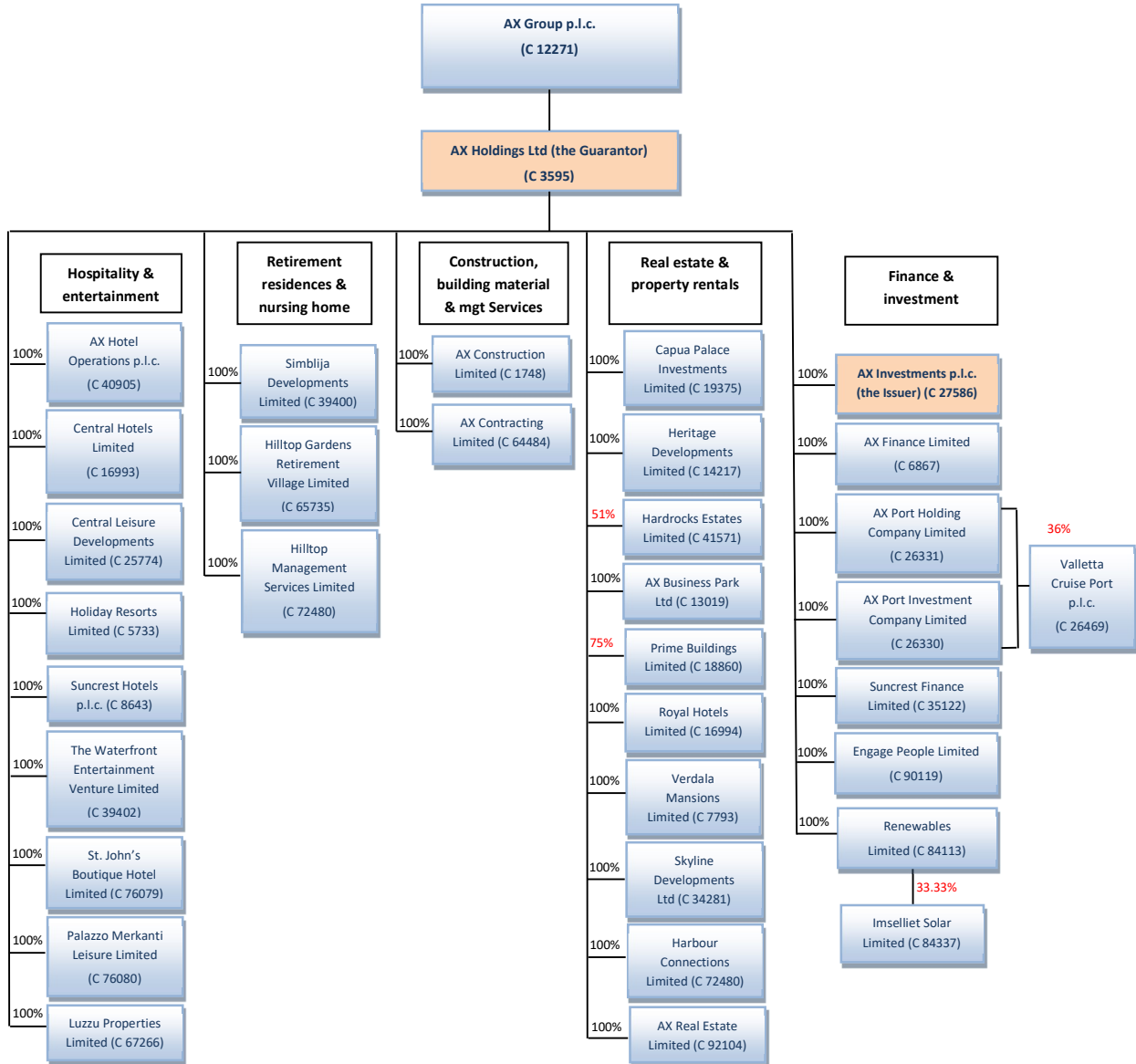
Michael Warrington	Chief Executive Officer
Albert Bonello	Chief Financial Officer
David Wain	Chief Legal Officer
Claire Zammit Xuereb	Group Hospitality Director
Denise Micallef Xuereb	Group Construction and Development Director
Charmaine Attard	General Manager, Hilltop Gardens
Joseph Vella	General Manager, Qawra Properties
Kevin Callus	General Manager, Sliema Properties
Lawrence Degabriele	Head of I.T.
Josephine Grima	Head of Human Resources
Caroline Schembri	Administration Manager

The weekly average number of employees engaged with the companies forming part of the Group during FY2019 amounted to 661 persons (FY2018: 666).



4. GROUP ORGANISATIONAL STRUCTURE

The diagram hereunder illustrates the organisational structure of the Group:



The Group operates in the following industry sectors: (i) hospitality & entertainment; (ii) retirement residences & nursing home; (iii) construction, building materials & management services; and (iv) real estate & rental income. A description of each of the afore-mentioned operational activities, together with the respective sector analysis and performance review, is included in the financial analysis summary of AX Group p.l.c. dated 23 June 2020. The said report also provides information on the major assets of the Group, and a brief overview of the Group’s business development strategy and future investments. The financial analysis report of AX Group p.l.c. has been published and may be downloaded from the Group’s website: <https://axgroup.mt/investment/>



PART 2 – GROUP PERFORMANCE REVIEW

The projected financial statements detailed below relate to events in the future and are based on assumptions which the Group believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between forecast and actual results may be material.

5. FINANCIAL INFORMATION – THE ISSUER

The following financial information is extracted from the audited financial statements of AX Investments p.l.c. (the “**Issuer**”) for the three years ended 31 October 2017 to 31 October 2019. The financial information for the year ending 31 October 2020 has been provided by Group management.

AX Investments p.l.c. Income Statement				
for the year ended 31 October				
	2017	2018	2019	2020
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
Rental income	238	238	238	238
Administrative expenses	(185)	(180)	(179)	(187)
Results from operating activities	53	58	59	51
Share of profit of associated undertaking	256	864	443	-
Net interest income	505	503	473	555
Profit before tax	814	1,425	975	606
Taxation	(203)	(488)	(307)	(203)
Profit for the year	611	937	668	403

AX Investments p.l.c. Cash Flow Statement				
for the year ended 31 October				
	2017	2018	2019	2020
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
Net cash from operating activities	337	626	439	465
Net cash from investing activities	(1,007)	(831)	(233)	-
Net cash from financing activities	256	-	(255)	-
Net movement in cash and cash equivalents	(414)	(205)	(49)	465
Cash and cash equivalents at beginning of year	672	258	53	4
Cash and cash equivalents at end of year	258	53	4	469



AX Investments p.l.c. Statement of Financial Position				
as at 31 October				
	2017	2018	2019	2020
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
ASSETS				
Non-current assets				
Property, plant & equipment	12	8	10	4
Investment property	9,025	9,025	9,025	9,025
Investments in associates	13,066	13,930	14,373	14,373
Loans & receivables	41,483	42,314	42,474	42,474
	63,586	65,277	65,882	65,876
Current assets				
Cash at bank and in hand	258	53	4	469
	258	53	4	469
Total assets	63,844	65,330	65,886	66,345
EQUITY				
Share capital	5,000	5,000	5,000	5,000
Reserves	848	848	848	848
Retained earnings	11,878	12,815	13,415	13,819
	17,726	18,663	19,263	19,667
LIABILITIES				
Non-current liabilities				
Debt securities	39,602	39,665	39,727	39,246
Trade & other payables	-	185	-	-
Deferred tax liabilities	4,588	4,891	5,022	5,558
	44,190	44,741	44,749	44,804
Current liabilities				
Trade & other payables	1,928	1,926	1,874	1,874
	1,928	1,926	1,874	1,874
Total liabilities	46,118	46,667	46,623	46,678
Total equity and liabilities	63,844	65,330	65,886	66,345

Income Statement

The Issuer is a fully owned subsidiary of AX Holdings Limited, the immediate parent company of the Issuer, and is principally engaged to act as a finance and investment company. In FY2017, rental income amounted to €238,360 (FY2016: €238,005) and was primarily derived from the lease of Palazzo Capua to a related party. In FY2018 and FY2019, the rental income remained stable at €238,360.

Share of results of associated undertaking relates to the holding of 19.91% in Suncrest Hotels p.l.c., the owner of the Seashells Resort at Suncrest. During FY2017, the Issuer's share of the associate's profits amounted to €255,666, which increased to €864,142 in the subsequent year. In FY2019, share of associate's results amounted to €442,767.



Net interest income reflects the net difference between interest receivable from advances to Group companies and interest payable on bonds in issue. During the years under review, net interest income amounted to *circa* €0.5 million.

Net profit in FY2020 is projected to decrease from €0.7 million in FY2019 to €0.4 million, on account of the expected decline in profitability from the associated entity due to restrictions imposed by the authorities on the hospitality sector to protect people and contain the pandemic.

Cash Flow Statement

Net cash flows from operating activities mainly comprise rental income, administrative expenses, movements in trade & other receivables and payables, interest paid and received, and taxation paid. On a net basis, operational cash flows in each of FY2017, FY2018 and FY2019 amounted to €337,000, €626,000 and €439,000 respectively. It is estimated that net operating cash inflows in FY2020 will amount to €465,000.

Cash flows from investing and financing activities primarily include movements in amounts due/from related parties. In the last financial year, net cash outflows amounted to €488,000 compared to €831,000 in FY2018.

Statement of Financial Position

The assets of the Issuer principally include the ownership of Palazzo Capua valued at €9.0 million (FY2018: €9.0 million), the 19.91% shareholding in Suncrest Hotels p.l.c. amounting to €14.4 million (FY2018: €13.9 million), and the on-lending of bond proceeds to related parties which amounted to €42.5 million in FY2019 (FY2018: €42.3 million).

The liabilities of the Issuer mainly comprise debt securities listed on the Official List of the Malta Stock Exchange of €39.7 million (FY2018: €39.7 million) and deferred taxation amounting to €5.0 million (FY2018: €4.9 million).

No material movements in assets and, or liabilities have been projected for FY2020 compared to FY2019.



6. FINANCIAL INFORMATION – THE GROUP

The following financial information is extracted from the audited consolidated financial statements of AX Holdings Limited (the “Group”) for the three years ended 31 October 2017 to 31 October 2019. The financial information for the year ending 31 October 2020 has been provided by management.

During FY2020, the business sectors in which the Group operates have been affected to varying degrees by the COVID-19 pandemic, as further explained hereunder:

- The Hotel sector has borne the main brunt of the restrictions taken by the authorities to protect people and contain the pandemic. This segment has historically been the largest of the Group’s businesses and thus the suspension of international travel has and will continue to have a material impact on this division.
- The Construction sector continues to operate and while some restrictions have impacted efficiency, these constraints are not deemed material.
- The Development sector is experiencing pressure on income from rental of residential and commercial property which is not deemed material, but the dividend stream from the Group’s investment in Valletta Cruise Port has been adversely impacted.
- The Care sector has also been impacted by the measures but the commercial effects are overall positive.

In light of the above, the Group’s management has implemented various measures to curtail costs, change work patterns, reduce working times, freeze sub-contracted labour and delay certain capital expenditure projects. Such measures are intended to preserve the financial strength of the Group and to protect its employees and stakeholders.

Prior year adjustment

A prior year adjustment was passed to properly account for share of profits and dividends distributions resulting from investments in associates which was misstated in previous years. The following balance sheet items were affected by such adjustment.

	Retained earnings 01.11.2017 €’000	Retained earnings 31.10.2018 €’000	Investments in associates 31.10.2018 €’000
As previously stated	19,648	26,387	8,349
Prior year adjustment	(2,182)	(3,214)	(855)
As restated	17,466	23,173	7,494



AX Holdings Limited - Consolidated Income Statement				
for the year ended 31 October				
	2017	2018	2019	2020
	Actual	Restated	Actual	Projection
	€'000	€'000	€'000	€'000
Revenue	46,157	56,776	52,218	29,199
Net operating expenses	(30,790)	(35,829)	(35,577)	(25,877)
EBITDA	15,367	20,947	16,641	3,322
Depreciation	(5,238)	(5,348)	(6,258)	(6,404)
Investment property revaluation	5,811	26,589	-	-
Share of results of associated undertaking	1,087	3	(662)	(714)
Investment income	11	1	-	185
Net finance costs	(3,460)	(3,007)	(2,997)	(3,683)
Profit/(loss) before tax	13,578	39,185	6,724	(7,294)
Taxation	(1,674)	(8,259)	(1,831)	1,243
Profit/(loss) after tax	11,904	30,926	4,893	(6,051)
Other comprehensive income				
Gains on property revaluation	-	13,136	17,745	-
Taxation	-	(1,384)	(2,293)	-
	-	11,752	15,452	-
Total comprehensive income/(expense)	11,904	42,678	20,345	(6,051)

AX Holdings Limited - Earnings before interest, tax, depreciation and amortisation ("EBITDA")				
for the year ended 31 October				
	2017	2018	2019	2020
	Actual	Actual	Actual	Projection
	€'000	€'000	€'000	€'000
<i>EBITDA has been calculated as follows:</i>				
Operating profit/(loss)	10,129	15,599	10,383	(3,082)
<i>Add back</i>				
Depreciation	5,238	5,348	6,258	6,404
EBITDA	15,367	20,947	16,641	3,322



Key Accounting Ratios	FY2017	FY2018	FY2019	FY2020
	Actual	Actual	Actual	Projection
Operating profit margin (EBITDA/revenue)	33%	37%	32%	11%
Interest cover (times) (EBITDA/net finance cost)	4.44	6.97	5.55	0.90
Net profit margin (Profit after tax/revenue)	26%	54%	9%	n/a
Earnings per share (€) (Profit after tax/number of shares)	58.93	153.10	24.22	n/a
Return on equity (Profit after tax/shareholders' equity)	7%	15%	2%	n/a
Return on capital employed (EBITDA/total assets less current liabilities)	6%	7%	5%	1%
Return on assets (Profit after tax/total assets)	4%	10%	1%	n/a

Source: MZ Investment Services Ltd

In **FY2017**, revenue of the Group increased by €8.1 million (+21%), from €38.1 million in FY2016 to €46.2 million in FY2017. The year-on-year increase was spread primarily across the hospitality sector, construction sector as well as the care & retirement home (which is in its second year of operation). Revenue from sale of property, real estate and rental income increased by €0.1 million.

During FY2017, EBITDA increased by €2.7 million (+21%) from €12.7 million in FY2016 to €15.4 million, a significant portion of which was generated from the operations of Seashells Resort by Suncrest. After accounting for depreciation of €5.2 million (FY2016: €4.8 million), investment income and net finance costs of €3.5 million (FY2016: €3.5 million), an uplift of €5.8 million (FY2016: €0.9 million), and share of results of associates of €1.0 million (FY2016: €0.7 million), the Group registered a profit before tax of €13.6 million, compared to €6.0 million in FY2016 (+128%).

Profit after tax amounted to €11.9 million in FY2017 as compared to €4.0 million in FY2016, an increase of €7.9 million (+195%). Total comprehensive income in FY2017 was unchanged at €11.9 million (FY2016: €52.2 million).

During **FY2018**, total revenue generated by the Group increased by €10.6 million (+23%), from €46.2 million in FY2017 to €56.8 million in FY2018. The hospitality sector registered the highest y-o-y increase (in monetary terms) of €4.0 million, while the construction sector and sale of property, real estate and rental income reported increases of €2.6 million and €2.3 million respectively. Revenue from the retirement home increased by €1.4 million, whilst dividends receivable from Valletta Cruise Port p.l.c. increased by €0.3 million to €1.2 million in FY2018.



During FY2018, EBITDA increased by €5.6 million (+36%) from €15.4 million in FY2017 to €20.9 million, a fair amount of which was generated from the sale of property as well as the aggregate increases in revenue in the sub-divisions of the hospitality & entertainment sector. After accounting for depreciation of €5.3 million (FY2017: €5.2 million), investment income and net finance costs of €3.0 million (FY2017: €3.5 million), an investment property revaluation uplift of €26.6 million (FY2017: €5.8 million), and share of results of associates of €2,782 (FY2017: €1.1 million), the Group registered a profit before tax of €39.2 million, compared to €13.6 million in FY2017 (+189%).

Profit after tax amounted to €30.9 million in FY2018 as compared to €11.9 million in FY2017, an increase of €19.0 million (+160%). Total comprehensive income in FY2018 also increased to €42.7 million (FY2017: €11.9 million) due to gains on property revaluation of €11.8 million net of tax (FY2017: nil).

In **FY2019**, revenue decreased by €4.6 million from €56.8 million in FY2018 to €52.2 million. Revenue generated by the hospitality & entertainment division declined by €0.8 million (y-o-y) due to the temporary closure of The Palace Hotel for a refurbishment exercise, which was not compensated for by an increase in RevPAR. In view of more intense competition in the local tourism market, particularly from non-hotel self-catering accommodation properties, management's ability to increase room rates is somewhat limited.

The construction and property divisions also registered a y-o-y decline, from an aggregate of €11.0 million in FY2018 to €5.4 million, due to the fact that no property sales were completed during FY2019. In contrast, revenue from the retirement home improved by €0.9 million (+19%, y-o-y) to €5.7 million in FY2019.

The above-mentioned decrease in revenue adversely impacted FY2019 EBITDA by €4.3 million (-21%) and amounted to €16.6 million (FY2018: €20.9 million). The Group reported a profit before tax in FY2019 of €6.7 million compared to €39.2 million a year earlier. The decline of €32.5 million is mainly attributable to the absence of property revaluations in FY2019 compared to €26.6 million in FY2018. After accounting for taxation of €1.8 million (FY2018: €8.2 million), profit after tax amounted to €4.9 million (FY2018: €31.0 million). The y-o-y positive variance in taxation is mainly on account of the recognition of a deferred tax asset from an investment tax credit on the retirement home of €4.5 million. Overall, total comprehensive income in FY2019 amounted to €22.3 million, a decrease of €23.4 million from the prior year (FY2018: €42.7 million).

Key accounting ratios – A comparability analysis of the last three financial years shows that FY2018 was the best performing year – operating profit margin and return on capital employed were higher by 5 and 2 percentage points respectively over FY2019 (FY2017: lower by 4 and 1 percentage point/s respectively). Net profit margin was significantly higher at 56% in FY2018 compared to 9% in FY2019 due to the revaluation of property amounting to €26.5 million in the former financial year (FY2017: 26%). The Group's interest cover declined in FY2019, from 6.97 times in FY2018 to 5.55 times (FY2017: 4.44 times).



In the initial 4 months of **FY2020** (November 2019 to February 2020), the Group's operational performance was in line with Board expectations. However, in early March 2020, hotel bookings started to decline due to the COVID-19 outbreak and by the end of March, the Group's hospitality sector experienced an immediate and significant deterioration following the authorities' decision to suspend all inbound commercial flights. Hospitality operations have been completely shut down in April 2020 and May 2020.

The projections for FY2020 take into account the actual trading results of the Group for the period 1 November 2019 to 31 May 2020 (7 months) and financial forecasts for the 5-month period from 1 June 2020 to 31 October 2020. The key assumptions adopted by the Group to compile the projected income statement are the following:

- Most of the Group's catering establishments re-opened in June 2020 and will remain operational during the rest of the financial year;
- Sunny Coast Resort & Spa will operate from 1 July 2020 to 30 September 2020, while Seashells Resort by Suncrest will re-open on 1 October 2020;
- The hotels located in Sliema and Valletta will re-open on 1 October 2020;
- The Group's property division is expected to perform in line with budget set by management;
- The retirement & nursing home shall operate under complete lockdown during the COVID-19 restrictions, and therefore shall not accept new admissions at the Care Home in this period. Notwithstanding, management believes that the set targets are expected to be achieved;
- The Group does not expect to receive any dividends from Valletta Cruise Port.

Revenue in FY2020 is projected to decrease substantially by €23.0 million y-o-y to €29.2 million on account of the complete shutdown of the hospitality operations during April and May 2020, and the expected curtailment of operations during June to October 2020. As a result, EBITDA is expected to decline to €3.3 million in FY2020 (FY2019: €16.6 million). Overall, the Group is projecting to incur a loss for the year amounting to €6.0 million (FY2019: profit of €4.9 million).

The estimates for the projected financial year as presented in this document assume that the carrying values of hotel and investment properties will not be revalued upwards or impaired, and therefore no adjustment has been made as to possible uplifts or impairments in value of assets which can materially affect the consolidated income statement and the balance sheet values.



AX Holdings Limited - Cash Flow Statement				
for the year ended 31 October				
	2017	2018	2019	2020
	Actual	Restated	Actual	Projection
	€'000	€'000	€'000	€'000
Net cash from operating activities	16,836	15,846	12,965	125
Net cash from investing activities	(12,084)	(4,890)	(13,425)	(22,509)
Net cash from financing activities	(4,135)	(10,872)	(4,258)	18,757
Net movement in cash and cash equivalents	617	84	(4,718)	(3,627)
Cash and cash equivalents at beginning of year	5,592	6,209	6,293	1,575
Cash and cash equivalents at end of year	6,209	6,293	1,575	(2,052)

Net cash flows from operating activities principally relate to the operations of the Group. In FY2019, net cash from operating activities decreased from €15.8 million in FY2018 to €13.0 million, mainly on account of higher tax payments during FY2019 of €3.4 million compared to €1.5 million in FY2018. The Group is projecting a breakeven position for FY2020.

Net cash from investing activities principally relate to the acquisition and disposal of properties and annual capital expenditure on the Group properties. In this regard, between FY2017 and FY2019, the Group utilised a net amount of €30.4 million. During the initial part of FY2020, the Group utilised an aggregate amount of *circa* €12.1 million from net proceeds of new bond issues to acquire properties in Marsa and Valletta. A further €10.4 million is projected to be incurred on capital expenditure.

Financing activities principally comprise movement on bank and other borrowings, issuance of debt securities and payment of dividends. In FY2018, the Group repaid €8.4 million of loan facilities and paid dividends to shareholders of €2.5 million (total of €10.9 million). In FY2019, net cash outflows from financing activities amounted to €4.3 million, mainly comprising net repayment of loans.

In December 2019 (FY2020), AX Group p.l.c. (the ultimate parent company) raised €25 million from the issue of bonds in terms of the prospectus dated 22 November 2019. Such funds (net of expenses) were on-lent to the Group, out of which an amount of €4.0 million was utilised to repay Group bank borrowings. The remaining balance mainly represents movement in shareholders' loans.



AX Holdings Limited - Statement of Financial Position				
As at 31 October	2017	2018	2019	2020
	Restated	Restated	Actual	Projection
	€'000	€'000	€'000	€'000
ASSETS				
Non-current assets				
Property, plant & equipment	223,930	235,045	257,749	261,738
Investment property	28,550	56,303	58,805	70,916
Investments in associates	7,491	7,494	6,833	6,846
Deferred tax asset & other non-current assets	-	918	456	462
	259,971	299,760	323,843	339,962
Current assets				
Inventories	2,971	2,859	3,055	4,613
Trade & other receivables	13,841	12,557	13,325	6,454
Cash at bank and in hand	7,353	6,852	2,172	(2,052)
	24,165	22,268	18,552	9,015
Total assets	284,136	322,028	342,395	348,977
EQUITY				
Share capital	471	471	471	471
Reserves	151,771	186,228	201,360	201,361
Retained earnings	17,466	23,173	22,725	16,630
Non-controlling interest	1,434	1,503	1,559	1,602
	171,142	211,375	226,115	220,064
LIABILITIES				
Non-current liabilities				
Borrowings & debt securities	58,024	53,149	54,754	74,367
Trade & other payables	6,578	11,591	13,456	12,087
Deferred tax liabilities	19,096	24,695	26,712	27,641
	83,698	89,435	94,922	114,095
Current liabilities				
Borrowings	10,500	2,919	2,633	1,481
Trade & other payables	18,796	18,299	18,725	13,337
	29,296	21,218	21,358	14,818
Total liabilities	112,994	110,653	116,280	128,913
Total equity and liabilities	284,136	322,028	342,395	348,977



Key Accounting Ratios	FY2017	FY2018	FY2019	FY2020
	Actual	Actual	Actual	Projection
Gearing ratio <i>(Net debt/net debt and shareholders' equity)</i>	26%	19%	19%	26%
Net debt to EBITDA (years) <i>(Net debt/EBITDA)</i>	3.94	2.35	3.23	23.44
Net assets per share (€) <i>(Net asset value/number of shares)</i>	840	1,039	1,112	1,081
Liquidity ratio (times) <i>(Current assets/current liabilities)</i>	0.82	1.05	0.87	0.61

Source: MZ Investment Services Ltd

Total assets as at 31 October 2019 amounted to €342.4 million and principally comprise property, plant & equipment and investment property. Investments in associates principally represent a 36% shareholding in Valletta Cruise Port p.l.c. In FY2020, investment property is expected to increase by €12.1 million on account of acquisition of properties situated in Marsa and Valletta. Trade & other receivables are projected to decrease from €13.3 million in FY2019 to €6.5 million in view of the temporary closure and curtailment of the hospitality operations.

Total liabilities include trade and other payables, which are expected to decrease in FY2020 as a result of the temporary shutdown and gradual recovery thereafter of the Group's hospitality operations, deferred taxation and borrowings as provided hereinafter.

AX Holdings Limited				
Group Borrowings	31 Oct'17	31 Oct'18	31 Oct'19	31 Oct'20
	Actual	Actual	Actual	Projection
	€'000	€'000	€'000	€'000
Bank borrowings				
Bank loans	19,937	15,226	14,597	9,130
Bank overdrafts	1,144	559	597	2,052
	<u>21,081</u>	<u>15,785</u>	<u>15,194</u>	<u>11,182</u>
Bonds				
6% Bonds 2024	39,394	39,456	39,518	39,573
	<u>39,394</u>	<u>39,456</u>	<u>39,518</u>	<u>39,573</u>
Other borrowings				
Malta Enterprise	6,529	-	-	-
Related parties and other payables	316	589	2,675	25,093
Shareholder's loan <i>(unsecured, interest free and no fixed date repayment)</i>	1,204	238	-	-
	<u>8,049</u>	<u>827</u>	<u>2,675</u>	<u>25,093</u>
Total borrowings and bonds	<u>68,524</u>	<u>56,068</u>	<u>57,387</u>	<u>75,848</u>



During FY2020, the AX Group p.l.c. (the ultimate parent company) successfully raised €25 million from 2 bond issues in terms of the prospectus dated 22 November 2019. The proceeds thereof were on-lent to Group companies and were utilised to acquire properties situated in Marsa and Valletta. In addition, an amount of €4.0 million was used to repay bank loan facilities and the remaining funds are being utilised for general corporate funding purposes.

The gearing ratio of the Group remained stable at 19% during the last 2 financial years, but net debt to EBITDA weakened from 2.35 years in FY2018 to 3.23 years in FY2019 in view of lower EBITDA generated in FY2019 over the prior year. The liquidity ratio deteriorated from 1.05x in FY2018 to 0.87x due to lower y-o-y cash balances, which funds were utilised for capital expenditure purposes. In consequence of the new bond issues, the gearing ratio is expected to increase in FY2020 to 26% and net debt to EBITDA is projected to increase to 23.44 times. The liquidity ratio is projected to weaken to 0.61 times primarily on account of the disruption to operations caused by the pandemic.

Debt Securities issued by Group Companies

AX Group p.l.c., the ultimate parent company of the Group, has the following outstanding debt securities:

- €15 million AX Group p.l.c. 3.25% Unsecured € Bonds 2026 (ISIN MT0002361203)
- €10 million AX Group p.l.c. 3.75% Unsecured € Bonds 2029 (ISIN MT0002361211)



Variance Analysis

AX Holdings Limited - Consolidated Income Statement for the year ended 31 October 2019			
	Actual	Forecast	Variance
	€'000	€'000	€'000
Revenue	52,218	57,140	(4,922)
Net operating expenses	(35,577)	(39,119)	3,542
EBITDA	16,641	18,021	(1,380)
Depreciation	(6,258)	(5,895)	(363)
Share of results of associated undertaking	(662)	383	(1,045)
Net finance costs	(2,997)	(3,166)	169
Profit before tax	6,724	9,343	(2,619)
Taxation	(1,831)	(2,713)	882
Profit after tax	4,893	6,630	(1,737)
Other comprehensive income			
Gains on property revaluation	17,745	-	17,745
Taxation	(2,293)	-	(2,293)
	15,452	-	15,452
Total comprehensive income	20,345	6,630	13,715

As presented in the above table, revenue generated by the Group in FY2019 was lower than expected by €4.9 million. During the year, construction revenue from third party projects was lower than budgeted, in part due to an increase in internal projects (such as the Targa Gap Complex and Rosselli Hotel) which are not reflected on a Group basis (since intra-group transactions are eliminated on consolidation).

As a result of lower than expected operating expenses amounting to €3.5 million, the adverse variance in EBITDA amounted to €1.4 million. Actual share of results of associated undertaking yielded a loss amounting to €662,000, while the Group had forecasted a profit of €383,000 (thus resulting in an adverse movement of €1.0 million). Gains on property revaluation amounting to €15.5 million were not reflected in the forecast results.



AX Holdings Limited - Statement of Financial Position			
as at 31 October 2019			
	Actual	Forecast	Variance
	€'000	€'000	€'000
ASSETS			
Non-current assets			
Property, plant & equipment	257,749	238,016	19,733
Investment property	58,805	59,082	(277)
Investments in associates	6,833	11,090	(4,257)
Deferred tax asset & other non-current assets	456	8,918	(8,462)
	323,843	317,106	6,737
Current assets			
Inventories	3,055	3,206	(151)
Trade & other receivables	13,325	12,532	793
Cash at bank and in hand	2,172	5,081	(2,909)
	18,552	20,819	(2,267)
Total assets	342,395	337,925	4,470
EQUITY			
Share capital	471	471	-
Reserves	201,360	185,958	15,402
Retained earnings	22,725	33,273	(10,548)
Non-controlling interest	1,559	1,515	44
	226,115	221,217	4,898
LIABILITIES			
Non-current liabilities			
Borrowings & debt securities	54,754	60,905	(6,151)
Trade & other payables	13,456	12,745	711
Deferred tax liabilities	26,712	24,695	2,017
	94,922	98,345	(3,423)
Current liabilities			
Borrowings	2,633	2,405	228
Trade & other payables	18,725	15,958	2,767
	21,358	18,363	2,995
Total liabilities	116,280	116,708	(428)
Total equity and liabilities	342,395	337,925	4,470

Property, plant & equipment was higher than forecast by €19.7 million mainly on account of the uplift in fair value of property reflected in the financial year. This increase was partly offset by a misstatement in investments in associates and lower than expected amount in other non-current assets.



Current assets were lower than forecast by €2.3 million primarily due to a lower than expected cash at bank balances. No significant movements were observed in total liabilities.

AX Holdings Limited - Cash Flow Statement for the year ended 31 October 2019			
	Actual	Forecast	Variance
	€'000	€'000	€'000
Net cash from operating activities	12,965	9,624	3,341
Net cash from investing activities	(13,425)	(11,155)	(2,270)
Net cash from financing activities	<u>(4,258)</u>	<u>(228)</u>	<u>(4,030)</u>
Net movement in cash and cash equivalents	(4,718)	(1,759)	(2,959)
Cash and cash equivalents at beginning of year	<u>6,293</u>	<u>6,293</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>1,575</u>	<u>4,534</u>	<u>(2,959)</u>

Actual net movement in cash and cash equivalents was lower than projected by €2,959,000. Net operating cashflow was higher than expected by €3.3 million, mainly on account of favourable working capital movements.

The variance in net cash from investing activities was negative by €2.3 million due to higher than expected expenditure on capital projects. As to financing activities, net repayment of borrowings amounted to €4.3 million, which was €4.0 million higher than projected.



PART 3 – COMPARABLES

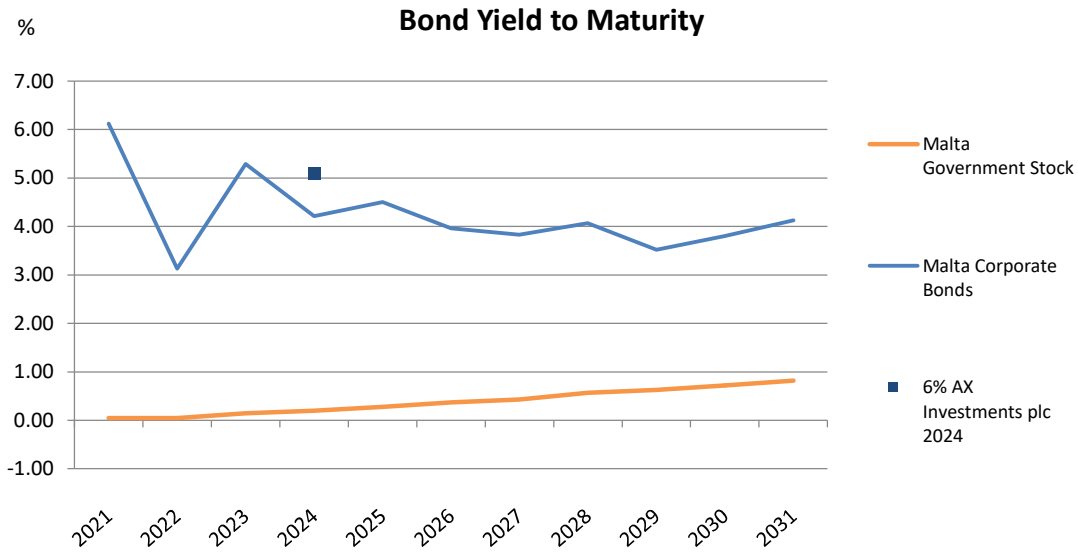
The table below compares the Company and its bond issue to other debt issuers listed on the Malta Stock Exchange and their respective debt securities. The list includes issuers (excluding financial institutions) that have listed bonds. Although there are significant variances between the activities of the Company and other issuers (including different industries, principal markets, competition, capital requirements etc.), and material differences between the risks associated with the Group's business and that of other issuers, the comparative analysis provides an indication of the financial performance and strength of the Group.

Comparative Analysis	Nominal Value (€)	Yield to Maturity (%)	Interest Cover (times)	Total Assets (€'000)	Net Asset Value (€'000)	Gearing Ratio (%)
5.80% International Hotel Investments plc 2021	20,000,000	6.12	3.27	1,617,853	877,620	36.63
3.65% GAP Group plc Secured € 2022	36,736,000	3.13	4.45	55,237	9,869	71.82
6.00% Pendergardens Developments plc Secured € 2022 Series	26,921,200	4.38	3.75	81,524	28,343	37.45
4.25% GAP Group plc Secured € 2023	19,443,000	3.85	4.45	55,237	9,869	71.82
5.30% United Finance Plc Unsecured € Bonds 2023	8,500,000	5.29	0.76	27,159	6,916	62.72
5.80% International Hotel Investments plc 2023	10,000,000	6.15	3.27	1,617,853	877,620	36.63
6.00% AX Investments Plc € 2024	40,000,000	5.09	5.55	342,395	226,115	19.63
6.00% International Hotel Investments plc € 2024	35,000,000	5.42	3.27	1,617,853	877,620	36.63
5.30% Mariner Finance plc Unsecured € 2024	35,000,000	4.21	4.81	95,310	47,100	48.85
5.00% Hal Mann Vella Group plc Secured € 2024	30,000,000	4.24	2.67	117,625	45,146	53.77
5.10% 1923 Investments plc Unsecured € 2024	36,000,000	5.54	3.30	137,275	45,063	30.57
4.25% Best Deal Properties Holding plc Secured € 2024	16,000,000	4.24	-	27,455	3,366	85.88
5.75% International Hotel Investments plc Unsecured € 2025	45,000,000	5.75	3.27	1,617,853	877,620	36.63
5.10% GPM Holdings plc Unsecured € 2025	13,000,000	5.13	4.03	4,066	18,883	-
4.50% Hili Properties plc Unsecured € 2025	37,000,000	4.50	1.65	150,478	57,635	57.73
4.35% Hudson Malta plc Unsecured € 2026	12,000,000	3.96	13.74	28,166	6,135	60.96
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	4.25	2.74	1,784,681	908,883	40.11
4.00% International Hotel Investments plc Secured € 2026	55,000,000	4.00	3.27	1,617,853	877,620	36.63
3.75% Premier Capital plc Unsecured € 2026	65,000,000	3.57	8.99	273,233	57,082	60.43
4.00% International Hotel Investments plc Unsecured € 2026	60,000,000	4.01	3.27	1,617,853	877,620	36.63
3.25% AX Group plc Unsec Bds 2026 Series I	15,000,000	3.25	5.55	341,785	227,069	19.11
4.35% SD Finance plc Unsecured € 2027	65,000,000	4.35	8.48	316,563	132,582	31.98
4.00% Eden Finance plc Unsecured € 2027	40,000,000	3.83	6.42	199,265	113,124	26.87
4.00% Stivala Group Finance plc Secured € 2027	45,000,000	4.00	4.92	225,284	123,107	38.32
3.85% Hili Finance Company plc Unsecured € 2028	40,000,000	4.07	3.44	455,113	86,390	73.98
3.65% Stivala Group Finance plc Secured € 2029	15,000,000	3.52	4.92	225,284	123,107	38.32
3.80% Hili Finance Company plc Unsecured € 2029	80,000,000	4.20	3.44	455,113	86,390	73.98
3.75% AX Group plc Unsec Bds 2029 Series II	10,000,000	3.61	5.55	341,785	227,069	19.11

01-Jun-20

Source: Malta Stock Exchange, Audited Accounts of Listed Companies, MZ Investment Services Ltd





Source: Malta Stock Exchange, Central Bank of Malta, MZ Investment Services Ltd

1 June 2020

To date, there are no corporate bonds which have a redemption date beyond 2031. The Malta Government Stock yield curve has also been included since it is the benchmark risk-free rate for Malta.

The 2024 bonds are trading at a yield of 5.09%, which is *circa* 88 basis points above other corporate bonds maturing in the same year. The premium over FY2024 Malta Government Stock is 489 basis points.

Due to the global economic fallout from the coronavirus outbreak, the difference between corporate bond yields and benchmark Malta Government Stock yields has widened across the entire yield curve. This unprecedented event has brought about an economic slowdown, which will likely adversely affect operational results of a number of companies.



PART 4 – EXPLANATORY DEFINITIONS

Income Statement	
Revenue	Total revenue generated by the Group from its business activities during the financial year, including hospitality and entertainment; construction works, building materials and management services; care and retirement home operations; sale of property and real estate; and rental income.
Direct costs	Direct costs include cost of food, beverages, consumables, labour expenses and all other direct expenses.
Gross profit	Gross profit is the difference between revenue and direct costs. It refers to the profit made by the Group before deducting depreciation & amortisation, finance costs, impairment provisions, share of profits from associate and affiliate companies and other operating costs.
Operating costs	Operating costs include all operating expenses other than direct costs.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. EBITDA can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.
Share of results of associated undertakings	The Group owns minority stakes in a number of companies (less than 50% plus one share of a company's share capital). The results of such companies are not consolidated with the subsidiaries of the Group, but the Group's share of profit is shown in the profit and loss account under the heading 'share of results of associated undertakings'.
Profit after tax	Profit after tax is the profit made by the Group during the financial year both from its operating as well as non-operating activities.
Occupancy level	Occupancy level is the percentage of available rooms that were sold during a given period of time. It is calculated by dividing the number of rooms sold by total number of rooms available.
Average room rate	Average room rate is calculated by dividing hotel room revenue by rooms sold. Hotels use this measure to calculate the average price at which they are booking hotel rooms each night.



Key Performance Indicators	
Revenue per available room (RevPAR)	RevPAR is calculated by dividing a hotel's total revenue by the total number of available rooms in the period being measured. A hotel uses this indicator as a performance measure with other hotels in the same category or market.
Revenue generating index	A revenue generating index measures a hotel's fair market share of its segment's (competitive set, market, etc.) revenue per available room. If a hotel is capturing its fair market share, the index will be 1; if capturing less than its fair market share, a hotel's index will be less than 1; and if capturing more than its fair market share, a hotel's index will be greater than 1.
Profitability Ratios	
Operating profit margin	Operating profit margin is operating income or EBITDA as a percentage of total revenue.
Net profit margin	Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue.
Efficiency Ratios	
Return on equity	Return on equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing profit after tax by shareholders' equity.
Return on capital employed	Return on capital employed (ROCE) indicates the efficiency and profitability of a company's capital investments, estimated by dividing operating profit by capital employed.
Return on Assets	Return on assets (ROA) is computed by dividing profit after tax by total assets.
Equity Ratios	
Earnings per share	Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date.
Cash Flow Statement	
Cash flow from operating activities	Cash generated from the principal revenue-producing activities of the Group.
Cash flow from investing activities	Cash generated from activities dealing with the acquisition and disposal of long-term assets and other investments of the Group.
Cash flow from financing activities	Cash generated from the activities that result in change in share capital and borrowings of the Group.



Balance Sheet	
Non-current assets	Non-current asset are the Group's long-term investments, which full value will not be realised within the accounting year. Non-current assets are capitalised rather than expensed, meaning that the Group allocates the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in which the asset was purchased. Such assets include investment properties; property, plant & equipment; and investments accounted for using the equity method.
Current assets	Current assets are all assets of the Group, which are realisable within one year from the balance sheet date. Such amounts include accounts receivable, inventory (food, beverages, consumables, construction materials, etc.), property for resale, cash and bank balances.
Current liabilities	All liabilities payable by the Group within a period of one year from the balance sheet date, and include accounts payable and short-term debt.
Non-current liabilities	The Group's long-term financial obligations that are not due within the present accounting year. The Group's non-current liabilities include long-term borrowings, bonds and long term lease obligations.
Total equity	Total equity includes share capital, reserves & other equity components, retained earnings and minority interest.
Financial Strength Ratios	
Liquidity ratio	The liquidity ratio (also known as current 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 a company's current assets to its current liabilities.
Interest cover	The interest coverage ratio is calculated by dividing a company's operating profit of one period by the company's interest expense of the same period.
Debt service cover ratio	The debt service cover ratio measures a company's ability to service its current debts by comparing its EBITDA with its total debt service obligations.
Gearing ratio	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance a company's assets, and is calculated by dividing a Group's net debt by shareholders' equity plus net debt.

