

SP FINANCE p.l.c

**No. 89, The Strand,
Sliema,
Malta.**

Co. Registration No. C-89462

Ref: SPF - 21/2020

COMPANY ANNOUNCEMENT

The following is a Company Announcement issued by SP Finance p.l.c. a company registered under the laws of Malta with company registration number C-89462 (the "Company") pursuant to Listing Rules issued by the Listing Authority.

QUOTE

The Board of Directors of the Company has approved The Financial Analysis Summary for 2020. This is available and can be accessed on the Company's website <https://pebbleshotelmalta.com/investor-relations/>. A copy of the Financial Analysis Summary is also attached herewith.

UNQUOTE


Dr. Andrea Micallef
Company Secretary
31st August 2020



FINANCIAL ANALYSIS SUMMARY
SP Finance p.l.c.
31st August 2020



Calamatta Cuschieri
YOUR PARTNER IN FINANCIAL SERVICES

The Directors
SP Finance p.l.c.,
89, The Strand,
Sliema, Malta

31st August 2020

Dear Sirs,

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 SP Finance p.l.c. (C 89462) (the “**Issuer**”), and Sea Pebbles Limited (C 6138) (the “**Guarantor**”) and related companies within the group as explained in part 1 of the Analysis. 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 December 2017, 2018 and 2019 has been extracted from the audited financial statements of the Issuer and Guarantor for the three years in question.
- (b) The forecast data for the current financial year 2020 has been provided by management.
- (c) Our commentary on the Issuer and Guarantor’s results and 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) The principal relevant market players listed in Part 3 of the document have been identified by management. Relevant financial data in respect of competitors has been extracted from public sources such as the web sites of the companies concerned, or financial statements filed with the Registrar of Companies or websites providing financial data.

The Analysis is meant to assist investors in the Issuer’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 Issuer and should not be interpreted as a recommendation to invest in any of the Issuer’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 Issuer’s securities.

Yours sincerely,



Nick Calamatta
Director

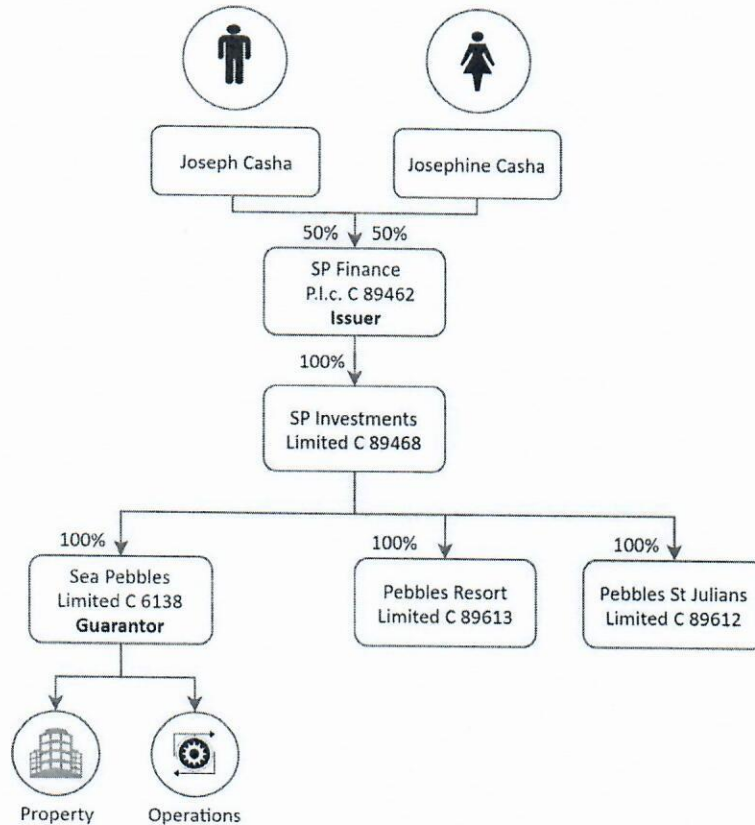
Table of Contents

Part 1 - Information about the Group.....	1
1.1 Issuer, Guarantor and Group’s Subsidiaries Key Activities and Structure	1
1.2 Directors and Key Employees	2
1.3 Major Assets owned by the Group	3
1.4 Operational Developments.....	5
1.4.1 Sea Pebbles Boutique Hotel.....	6
1.4.2 San Pawl Hotel	7
1.5 COVID-19 Update	8
Part 2 – Historical Performance and Forecasts.....	10
2.1 Guarantor’ Statement of Comprehensive Income	10
2.2 Guarantor’ Statement of Financial Position	12
2.3 Guarantor’ Statement of Cash Flows.....	14
2.4 Group’s Income Statement.....	15
2.5 Group’s Variance Analysis.....	18
2.6 Group’s Balance Sheet	20
2.7 Group’s Cash Flow statement.....	22
Part 3 – Key Market and Competitor Data	24
3.1 General Market Conditions.....	24
3.2 Economic Projections	24
3.3 Comparative Analysis.....	27
Part 4 - Glossary and Definitions.....	29

Part 1 - Information about the Group

1.1 Issuer, Guarantor and Group’s Subsidiaries Key Activities and Structure

The Group structure is as follows:



The “**Group**” of companies consists of the Issuer, SP Investments Limited acting as a “**Holding**” company of the fellow subsidiaries of the Group being: the Guarantor, Pebbles Resort Limited and Pebbles St Julians Limited. The objective of the Group is the operating of hotels, in addition to acquiring and financing immovable property.

Following the bond issue, the Issuer, transferred the bond proceeds to the Group subsidiaries through an equity injection. €12m were invested by the Issuer into SP Investments through the allotment of 12m €1 redeemable preference shares. In turn SP Investments Limited invested €3.75m, €3m and €0.6m in Sea Pebbles Ltd, Pebbles Resort Ltd and Pebbles St Julians Ltd, respectively, through the allotment of 3.75m, 3m and 0.6m €1 Ordinary shares.

The Issuer, SP Finance plc, was incorporated on 19 November 2018 as a private limited liability company, registered in terms of the Companies Act with company registration number C 89462, and subsequently changed its status to a public company with effect from 23 January 2019. The Issuer, which was set up and established to act as the parent company of the Group and as a finance vehicle, has an authorised and issued share capital of €250,000 divided into 250,000 ordinary shares of €1 each, all fully paid up. The ultimate beneficial owners are; Mr. Joseph Casha and Ms. Josephine Casha who both hold 125,000 ordinary shares each.

SP Investments Limited, a fully owned subsidiary of the Issuer, is a private limited liability company incorporated and registered in Malta on 19 November 2018, with company registration number C 89468. SP Investments Limited has an authorised and issued share capital of €12,010,000 divided into 10,000 ordinary shares of €1 each, and 12,000,000 redeemable preference shares of €1 each, all fully paid up. SP Investments limited carries out the activity of a holding company within the Group.

The Guarantor, Sea Pebbles Limited, was incorporated on 15 November 1982 as a private limited liability company, registered in terms of the Companies Act with company registration number C 6138. Pursuant to a reorganisation concluded on 10 December 2018, The Guarantor through the Holding company is a wholly owned subsidiary of the Issuer. The authorised and issued share capital of the Guarantor, is €4,215,875 divided into 4,215,875 ordinary shares of €1 each, all fully paid up. The principal objective of the Guarantor is to carry out all or any of the business of hotel-keepers, hotel managers or operators, and to manage and operate one or more hotels and guest houses.

Pebbles Resort Limited (C 89613) and Pebbles St Julians Limited (C 89612) were both incorporated on 28 November 2018 and are wholly owned by the Issuer through the Holding company. Pebbles Resort Limited was set up to operate a hotel ("San Pawl Hotel") situated in St. Paul's Bay, which is held under a 15-years lease commencing from the second quarter of 2019.

Pebbles St Julians Limited was incorporated to construct and manage a hotel overlying Ryan's Pub ("Pebbles St Julians Hotel"), which was held under a 20-year lease. However, the permits for Pebbles St Julians was granted for a 10-room, instead of an 18-room hotel. Management confirmed that the Group had undertaken a feasibility study to verify whether such investment was still considered as being viable. Moreover, since the commercial feasibility of operating the St Julians hotel with 10 rooms was considered to be compromised, the board of directors decided not to proceed with this particular investment. As a result, given that this development was subject to requisite permits being issued, and the board decided not to proceed with this investment, management explained that the Group terminated the respective 20-year lease concerning this specific property in St Julians. Accordingly, as things stand, the company will not carry out any operations and is currently considered as dormant. Further detail concerning such development may be found in section 1.3 and section 1.4 of the Analysis.

1.2 Directors and Key Employees

Board of Directors - Issuer

As at of today, the Issuer is constituted by the following persons:

Name	Office Designation
Joseph Casha	Executive Director
Josephine Casha	Executive Director
Dr Alex Perici Calascione	Independent non-executive Director
Mark Grech	Independent non-executive Director
Reuben Debono	Independent non-executive Director

The business address of all of the directors is the registered office of the Issuer. The company secretary of the Issuer is Dr Andrea Micallef.

Board of Directors – Guarantor

As of today, the Guarantor are constituted by the following persons:

Name	Office Designation
Joseph Casha	Executive Director
Josephine Casha	Executive Director and Company Secretary

The business address of all of the directors is the registered office of the Issuer.

A board of five directors who are responsible for the overall direction and management of the Issuer currently manage the Issuer. The board currently consists of two executive directors, who are entrusted with the Issuer’s day-to-day management, and three non-executive directors, all of whom are also independent of the Issuer. The main functions of the non-executive directors are to monitor the operations of the executive directors and their performance, as well as to review any proposals tabled by the executive directors. This practice goes in accordance with the generally accepted principles of sound corporate governance, where at least one of the directors shall be a person independent of a group of companies. The Issuer does not have any employees of its own, and thus is dependent on the resources within the Group entities.

The Guarantor has its own board of directors, which is responsible for the management, and direction of the Guarantor. The same two executive directors of the Issuer govern the Guarantor.

1.3 Major Assets owned by the Group

The Issuer does not have any substantial assets other than the investments it holds in its subsidiaries since it is essentially a special purpose vehicle set up to act as a financing company.

The Group, through the Guarantor owns and operates the Sea Pebbles Boutique Hotel (“Sea Pebbles Hotel”) situated at No. 88/89, The Strand, Sliema, a freehold property consisting of a 9-storey block from which the Guarantor operates a 52-room apart-hotel situated along the Gzira – Sliema promenade. The said property overlies the commercial outlet TexMex Bar & Grill. Management confirmed that these properties continued to operate normally in line with recently implemented health authorities’ policies and restrictions.

The Guarantor also owns the neighbouring corner building situated at No. 90, The Strand, Sliema and having another entrance from Saint Agatha Street, Sliema, which property is freehold and is overlying the popular restaurant MEDASIA Fusion Lounge, which is leased out to a related operating company. The said property at No. 90, The Strand, Sliema consists of a 9-storey block with mix use, including a catering establishment, apartments, and garages, all of which are operated by the Guarantor. Management also confirmed that this property has continued to operate normally in line with the recently implemented health authorities’ policies and restrictions.

The Guarantor had entered into a promise of sale agreement to acquire two apartments and the relative airspace overlying the block at No. 90, The Strand Sliema, and an adjoining guesthouse in Sliema for a total amount of €5 million. Management further confirmed that the contract concerning these apartments, more specifically apartment 7 and penthouse 8 (including airspace) overlying the block at No. 90, was signed during May 2019, for a total value including duty and notarial expenses of €2.2m. Moreover, the contract relating to the adjoining guesthouse in Sliema, was signed during November 2019, for a total value including duty and notarial expenses of €2.2m. Therefore the total

value of the two apartments and airspace overlying the block at No. 90, The Strand Sliema and the adjoining guesthouse in Sliema was €4.4m. These apartments and guesthouse were financed through the bond issue proceeds. The difference from the previous projected cost (€0.6m) was utilised to finance the upgrade implemented at the San Pawl hotel, as described in further detail within this section of the Analysis.

As part of the Group's plans, the Group intends to eventually construct and extend the Sea Pebbles Boutique Hotel and to add a further 150 rooms (bringing the total number of rooms up to 202 rooms), with construction previously planned to take place during 2021 and 2022. Management recently confirmed that the relevant permits are in hand, but the company has submitted revised plans which would see the hotel extended to 273 standard rooms. Management further explained that the revised permits are still subject to Planning Authority approval. Due to the significant uncertainties regarding the speed of recovery of the local tourism industry, management is constantly monitoring the situation and definite timelines concerning this development will be drawn up once there are clearer indications that the tourism industry has started to recover from the effects of the COVID-19 pandemic.

Pebbles Resort Limited operates San Pawl Hotel, which is held under a 5-year lease that can be extended by a further two 5-year terms. Given the considerable investment already made by the company, management's intention is to extend the lease for the second and third terms. Management explained that the first lease commenced from May 2019. As part of its lease commitments, the Group had to carry out a comprehensive upgrade of the hotel with an estimated cost of €3m. Management confirmed that the refurbishment relating to San Pawl Hotel was completed during FY19 and the total cost amounted to €4.4m. Management further explained that higher expenditure was incurred for unexpected additional structural, plumbing, electrical works, and also to construct an additional floor which provides facilities for all-inclusive tourists and for conference facilities. It is important to note that the aforementioned refurbishment was financed through the bond proceeds specifically planned for this investment (€3m) and through the unutilised proceeds concerning the acquisition of the two apartments and guesthouse together with the unutilised proceeds relating to the St Julians development as further described in the paragraph below.

As previously discussed, Pebbles St Julians Limited was in the process of constructing the Pebbles St Julians Hotel and subsequently operate it. It is important to note that recently management explained that the permits for Pebbles St Julians was granted for a 10-room, instead of an 18-room hotel, and an appeal is unlikely to be upheld. Additionally, a revised feasibility study indicated that operating a 10-room hotel would not be feasible, and the reduced room capacity would also negatively impact the planned outlet with the originally-proposed development, thus putting at risk the investment of the Bond Funds in this project. Since the commercial feasibility of operating the St Julians hotel with 10 rooms was considered to be compromised, the board of directors decided not to proceed with this particular investment, and given the promising and positive development at the San Pawl Hotel side, the board decided to redirect the relative funds towards the completion of the San Pawl Hotel works in furtherance of one of the principal aims of the bond issue. As a result, given that this development was subject to requisite permits being issued, and the board decided not to proceed with this investment, management explained that the Group terminated the respective 20-year lease concerning this specific property in St Julians.

1.4 Operational Developments

As described above the Group owns a 52-room hotel, which is situated on the Sliema Front overlooking Marsamxett harbour, in addition to the adjacent building and the two underlying commercial properties, which are currently leased to parties outside of the Group. Through the proposed bond issue, the Group financed the acquisition of two apartments (an apartment and a guesthouse) and the relative airspace overlying the adjacent building to the 52-room hotel, in addition to an adjoining guesthouse for a total amount of €4.4m. Further detail on such acquisitions may be found in section 1.3 of this Analysis.

San Pawl hotel which previously was a 3-star 234-room hotel situated in St. Paul's Bay, was re-branded as Pebbles Resort. On 30 August 2018, the Group has entered into a lease agreement through Pebbles Resort Limited for the management of the hotel operations with the hotel's owners for a term of 15-years commencing from the second quarter of 2019. The lease agreement does not provide for an automatic right of renewal in favour of Pebbles Resort Limited.

As part of its lease commitments, the Group during 2019 has undertaken a comprehensive upgrade of the existing premises and opened for operations during Q3 2019. Management confirmed that the refurbishment relating to San Pawl Hotel was completed during 2019 and the total cost amounted to €4.4m in comparison to the previously anticipated cost of €3m. Management further explained that higher expenditure was incurred for unexpected additional structural, plumbing, electrical works, and also to construct an additional floor which provides facilities for all-inclusive tourists and for conference facilities. The renovation costs were financed through the bond proceeds (specific detail concerning how this investment was financed, may be found in more detail in section 1.3 of the Analysis.)

Following the aforesaid redevelopment and upgrade, the Pebbles Resort is operating as a 3-star hotel located in the heart of Saint Paul's Bay, offering elegant, modern and luxurious accommodation. All of the hotel's rooms are fitted with flat screen TV's, showing satellite channels, tea and coffee facilities, private bathrooms with hairdryer, air conditioning, electronic door lock, daily cleaning service, and either a balcony or a terrace overlooking the outside pool, or with a city view. Pebbles Resort offers its patrons four restaurants, all serving different specialities from around the world, besides the two bars situated on the premises. Guests also have access to a seasonal outdoor pool, as well as an indoor pool with hot bath, a garden, a fitness centre and a hair and nail salon. In addition to these facilities, management confirmed that the Group also constructed an additional floor which provides facilities for all-inclusive tourists and for conference facilities. Management further explained that this hotel is expected to be upgraded to a 4 star hotel by end of FY20/ early FY21, following the conclusion of final refurbishing works.

As further explained above, following the permit approval of only a 10-room hotel, rather than an 18-room hotel overlying Ryan's Pub, the Board upon conducting a revised feasibility study which indicated that operating a 10-room hotel would not be feasible, decided not to proceed with the Pebbles St Julians Hotel.

1.4.1 Sea Pebbles Boutique Hotel

The Sea Pebbles Hotel is a freehold property consisting of a 9-storey block from which the Guarantor operates a 2-star¹, 52-room apart-hotel situated along the Gzira – Sliema promenade. The said property overlies the commercial outlet TexMex Bar & Grill.

Operational Performance

The following table sets out the highlights of the hotel's operating performance for the years indicated therein:

Sea Pebbles Boutique Hotel	Dec-17	Dec-18	Dec-19	F2020
	€000s	€000s	€000s	€000s
Revenue	1,372	1,548	1,453	320
Gross operating profit	843	937	805	-14
Gross operating profit margin	61.4%	60.5%	55.4%	-4.4%
Occupancy level	88.7%	90.8%	86.5%	23%
Average daily rate (€)	81.5	89.8	88.5	73.3
Revenue per available room (Rev/PAR) (€)	26.4	29.8	27.9	6.2
Gross operating profit per available room (GOP/PAR)	16.2	18.0	15.5	(0.3)
Benchmark performance²				
Occupancy level	82.6%	82.6%	81.9%	n/a
Average daily rate (€)	75.5	76.5	75.9	n/a
Gross operating profit margin	64.5% ³	64.9%	62.7%	n/a
Gross operating profit per available room (GOP/PAR)	14.7	15.0	14.2	n/a
Rooms	52	52	52	52

The hotel occupancy level increased during 2018 to 90.8% due to popularity and high demand for the location by tourists throughout the year, and to the high ratings achieved on online booking sites such as booking.com. Management further explained that the company managed to keep occupancy in the low season months at a relatively high level of around 79%, while occupancy in the mid and high season was consistently above 95%. As a result, during this period, the hotel has further improved its gross operating profit margin in comparison to the previous historical years. It is important to note throughout this period, the hotel has also outperformed the benchmark performance for 2018 in terms of the GOP/PAR

Hotel occupancy for 2019 declined to 86.5%. Occupancy in the low season months was relatively lower than the previous year, at around 68%, contributing to a lower occupancy over the whole year at

¹ Management confirmed that the Pebbles Hotel in Sliema is rated as a 2-star hotel and was erroneously listed as a 3-star hotel in the previous financial analysis summary.

² Data concerning benchmark performance was obtained from: MHRA Hotel Survey by Deloitte Key Highlights: Q4 2019 & Year to date. It is also important to highlight that such benchmark performance data pertains 4-star hotels. Management preferred to utilise such data due to the location of the hotel on the Sliema seafront, the superior quality of the rooms, and the availability of self-catering facilities in all the rooms. Management re-confirmed that the Company is able to charge for accommodation at a 4-star level, so for comparability the 4-star benchmark was used.

86.5%. Consequently, the hotel registered a lower level of gross operating profit margin for 2019 in comparison to the previous financial period. Nonetheless, the hotel still managed to outperform the benchmark performance for the period in terms of GOP/PAR.

In line with the current unprecedented COVID-19 related circumstances, management estimates that the overall occupancy level for 2020 will significantly deteriorate down to 23%. This estimate is deemed to be in line with the recent closure of all hotel establishments in Malta witnessed during the first half of the current financial year. Subsequently, the gross operating profit margin for 2020 includes the COVID-19 impact and as such is not deemed to be comparable to the previous year. Further detail concerning the COVID-19 impact on the Group's operational and financial performance will be further discussed in section 1.5 of the Analysis.

1.4.2 San Pawl Hotel

San Pawl hotel, which was re-branded as Pebbles Resort during 2019, is a 3-star 234-room hotel situated in St. Paul's Bay. The hotel opened its doors for guests in Q3 2019, but not all the rooms were available due to the ongoing refurbishing works. The available hotel rooms increased gradually during the year (2019), and all the rooms became finally available in Q1 2020. For this reason, management was not able to provide data relating to occupancy, revenue per available room and GOPAR for Pebbles Resort Limited for 2019. Further detail regarding the total cost concerning such refurbishment may be found in section 1.3 and section 1.4 of the Analysis.

Operational Performance

The following table sets out the highlights of the hotel's operating performance for the years indicated therein:

San Pawl Hotel	Dec-18 ⁴	Dec-19	F2020
	€000s	€000s	€000s
Revenue	n/a	1395	892
Gross operating profit	n/a	221	24
Gross operating profit margin	n/a	15.8%	2.7%
Occupancy level	n/a	n/a	21.0%
Average daily rate (€)	n/a	n/a	49.7
Revenue per available room (Rev/PAR) (€)	n/a	n/a	3.8
Gross operating profit per available room (GOP/PAR)	n/a	n/a	0.1
Rooms			234

Management confirmed that the San Pawl Hotel opened its doors for guests in Q3 2019, but not all the rooms were available due to the ongoing refurbishing works. The available hotel rooms increased gradually during 2019, and all the rooms became finally available in Q1 2020. Management further explained that the anticipated weak performance for 2020 demonstrated above is in line with current COVID-19 related circumstances. Further detail concerning the COVID-19 impact on the Group's operational and financial performance will be further discussed in section 1.5 of the Analysis.

⁴ Given that the Group did not operate the hotel during 2018, operational performance data for this period is

1.5 COVID-19 Update

In late February 2020, air travellers' concerns regarding the spreading of COVID-19 resulted in the cancellation of thousands of holidays to Malta. Hundreds of flights to and from Malta were also cancelled, culminating in the practically total closure of the Malta International Airport in mid-march 2020.

As a result, in mid-March 2020, the Group was forced to cease operations of the two hotels it operates, which constitute its principal source of income. Other minor sources of income, consisting of rent receivable from related companies operating bars and restaurants were also negatively impacted following the forced closure of catering and entertainment venues to control the spread of the virus.

Assessment of COVID-19 situation, potential impact on the Group, reasonable assumptions to financial forecasts and necessary disclosures.

Given that the negative consequences brought about by the COVID-19 pandemic on the Issuer are not yet fully known, management explained that the Group has evaluated the current situation closely and prepared a set of financial projections to assess the impact that the pandemic might have on the Group's overall financial performance. As a result, the Group preferred to utilise a 'prudent approach' in terms of projections utilised for the purpose of this document.

As a result, management further explained that such projections are based on bookings in hand as of today (August 2020). Following the imposition of measures such as quarantine by various countries upon tourists returning from Malta, which have already resulted in numerous cancellations, the Issuer has taken a very prudent estimate of tourist arrivals for the coming months.

The underlying assumption remains that the hotels will remain open for the remainder of the year, with the airport remaining open, albeit with limited number of travellers, since the situation in Malta and in Europe is not expected to improve dramatically in the short-term. The Group is also targeting local tourism, to mitigate in part for the loss in income from tourists.

The Group's forecasts for FY20 capture the actual trading results for the 6-month period (1 January to 30 June 2020) and the financial projections for the remaining 6-month period (1 July to 31 December 2020).

Liquidity management

Management explained that the Group's operating companies, namely Sea Pebbles Ltd and Pebbles Resort Ltd, have obtained bank loans to cover working capital requirements and shortfall in cash flow resulting from the adverse business conditions following the COVID-19 outbreak in Malta and overseas. These loans have been granted by a local bank under the terms of the COVID-19 guarantee scheme supported by the Malta Development Bank.

In furtherance, management also explained that the amounts sanctioned were of circa €0.6m to Sea Pebbles Ltd and €1.6m to Pebbles Resort Ltd. More importantly, the amount budgeted for the working capital requirements, which was granted in full by the aforementioned local bank, include the repayment of the next instalment of bond interest due in May 2021.

Moreover, management also explained that in line with the various measures introduced by the local authorities to alleviate the financial impact of COVID-19, the Group benefitted from the COVID-19 wage supplement and confirmed that this will remain in place at least until the end of September 2020.

Cost mitigation

At the point where Pebbles Resort Limited was forced to close the hotel due to the implementation of the COVID-19 related restrictions in March 2020, the company had already paid the rent covering the period from February to April 2020.

However, as a cost mitigation procedure undertaken by the Group, Pebbles Resort Limited negotiated with its landlord and obtained a waiver of the rent payments from May 2020 until the reopening of the hotel, which at the time was envisaged to be March 2021. Eventually, when the situation improved and it was announced that travel restrictions would be removed, the company negotiated a 33.3% reduction in the rental payments from July 2020 to January 2021.

Management also confirmed that the Group has been actively working on processes and procedures to mitigate against closure particularly with regards to payroll where a number of measures including a reduced working week and the using up of annual leave were enacted. As revenues reduce to zero, the Group's operational expenses are being reduced through ongoing discussions with suppliers and payroll is now also being supported through a subsidy offered by Government.

Concluding remarks

Following this assessment, the directors concluded that although COVID-19 will negatively impact the 2020 financial results, the Group has adequate resources to continue in operational existence for the foreseeable future. More importantly, as stated above, management has also confirmed that the Issuer has the sufficient resources at its disposal to honour its existing bond interest payment obligations.

Part 2 – Historical Performance and Forecasts

The Issuer was incorporated on 19 November 2018 and, accordingly, has no trading record or history of operations. Furthermore, the Issuer does not have any substantial assets and is essentially a special purpose vehicle set up to act as a financing company solely for the needs of the Group, and, as such, its assets are intended to consist primarily of loans issued to the Group's fellow subsidiaries. The issuer will act as the parent company of the Group, consequently it will issue consolidated financial figures that will capture the operations of all the companies within the Group. Therefore, the projected figures of the issuer on a standalone basis has not been presented as they are captured in the Group's forecasts as set out in section 2.4 of this Analysis.

For the purpose of this document, the focus is on the performance of the Guarantor and the Group. The Guarantor's historical financial information for the period ended 31 December 2017 to 31 December 2019 are taken from the audited financial statements and the financial forecast as at December 2020 is provided by management. The review of the Guarantor's historical performance and the financial forecast are set out in section 2.1 to 2.3 of this Analysis.

2.1 Guarantor' Statement of Comprehensive Income

The Guarantor, Sea Pebbles Limited, carries out all or any of the business of hotel-keepers, hotel managers or operators, and to manage and operate one or more hotels and guest houses. The audited historical performance for the period ended 31 December 2017 to 31 December 2019, together with the financial forecast pertaining to 2020 are presented below.

Statement of Comprehensive Income	Dec-17	Dec-18	Dec-19	Dec-20
	Audited	Audited	Audited	Forecast
	€000s	€000s	€000s	€000s
Revenue	1,372	1,548	1,453	320
Cost of sales	(237)	(611)	(648)	(334)
Gross profit	1,135	937	805	(14)
Administrative expenses (excl. Depreciation)	(292)	(44)	(255)	(102)
Other operating income	61	62	69	42
EBITDA	904	955	619	(74)
Depreciation	(174)	(185)	(181)	(183)
EBIT	730	770	438	(257)
Profit on sale of property	-	358	(14)	-
Fair value gain on investment property	-	324	-	-
Investment income	-	-	-	-
Finance costs	(141)	(130)	(119)	(118)
Profit before tax	589	1,322	305	(375)
Income tax	(205)	(270)	(142)	99
Profit after tax	384	1,052	163	(276)
Other comprehensive income				
Revaluation of property	4,056	3,349	-	-
Total comprehensive income	4,440	4,401	163	(276)
Ratio Analysis	Dec-17	Dec-18	Dec-19	Dec-20F
Gross Profit Margin (Gross Profit / Revenue)	82.7%	60.5%	55.4%	-4.4%
EBITDA Margin (EBITDA / Revenue)	65.9%	61.7%	42.6%	-23.1%

The Guarantor generates revenue from room rentals generated from the Sea Pebbles Boutique Hotel in Sliema. As per latest FY19 results, the Guarantor generated circa €1.5m in revenue, representing a decrease of 6.1% over FY18. As set out in section 1.4.1 of the Analysis, this decrease in revenue is mainly attributable to a lower occupancy rate and lower rental rates achieved during the period. Management further explained that occupancy in the low season months was relatively lower than the previous year, at around 68%, contributing to a lower occupancy over the whole year. In accordance to the current COVID-19 climate, management is anticipating that the Guarantor will generate circa €0.3m in revenue during FY20. This significant drop in revenue is deemed to be in line with the recent closure of all hotel establishments in Malta witnessed during the first half of the current financial year. As stated in section 1.4.1 of the Analysis, the overall expected occupancy relating to Sea Pebbles Boutique Hotel in Sliema for 2020 is 23%.

Management explained that such projections are based on bookings in hand as of today (August 2020). Following the imposition of measures such as quarantine by various countries upon tourists returning from Malta, which have already resulted in numerous cancellations, the Issuer has taken a very prudent estimate of tourist arrivals for the coming months. As previously explained in section 1.5 of the Analysis, the underlying assumption remains that the hotels will remain open for the remainder of the year, with the airport remaining open, albeit with limited number of travellers, since the situation in Malta and in Europe is not expected to improve dramatically in the short-term. The Group is also targeting local tourism, to mitigate in part for the loss in income from tourists.

Cost of sales mainly represent booking fees paid to the third party online booking portals like “booking.com”, in addition to the day to day operating costs such as salaries and wages, water and electricity expenses, and repairs and maintenance expenses. The FY19 results illustrate an increase in cost of sales of 6.1% which is mainly attributable to higher management and marketing costs during the period. Cost of sales during 2020 are anticipated to amount to €0.3m.

Administrative expenses for FY19 increased to circa €0.3m due to the inclusion of directors’ remuneration under administrative expenses (as from FY19 onwards) and a one-off repair cost concerning a fire incident which occurred at Pebbles Boutique Hotel during FY19. Moreover, these are anticipated to decline to €0.1m during FY20. Of note, these relate to fixed costs that are not affected by changes in revenue, such as management fees from the parent company, professional, audit and accounting fees, amortization of bond issue fees, insurance and licences and permits fees.

Other income represents rental income generated by the Guarantor from its properties at ground floor level that are rented out to two restaurants being, TexMex and MedAsia. Such rental income is anticipated to decline to €42k during FY20 due to a period of closure of restaurants, during which rental income was waived.

As a result of the above, both the Guarantor’s gross profit margin and EBITDA margin declined to 55.4% and to 42.6% respectively during FY19. Due to the current COVID-19 related climate these are anticipated to further deteriorate during FY20 as presented above.

The company’s depreciation charge for FY20 is anticipated to remain at the same level of the previous year. Likewise, the Guarantor’s finance costs are expected to amount to circa €0.1m for FY20. Moreover, the income tax charge for FY19 amounted to €0.1m, which is deemed to be in line with a lower profit before tax reported for the period. Given that the company is expected to generate a loss before tax of circa €0.4m in FY20, the Guarantor is anticipated to generate circa €0.1m in tax income.

2.2 Guarantor' Statement of Financial Position

Statement of Financial Position	Dec-17 Audited €000s	Dec-18 Audited €000s	Dec-19 Audited €000s	Dec-20 Forecast €000s
Assets				
Non-current assets				
Property, plant and equipment	20,539	19,905	22,035	21,891
Investment property	-	3,811	5,974	5,974
Right-of-use-assets	-	-	24	17
Investment in associate	-	-	-	-
	<u>20,539</u>	<u>23,716</u>	<u>28,033</u>	<u>27,882</u>
Current assets				
Trade and other receivables	338	1,051	1,189	1,332
Current tax recoverable	-	-	-	-
Cash and cash equivalents	60	9	527	28
	<u>398</u>	<u>1,060</u>	<u>1,716</u>	<u>1,360</u>
Total assets	<u>20,937</u>	<u>24,776</u>	<u>29,749</u>	<u>29,242</u>
Equity and liabilities				
Capital and reserves				
Share capital	466	466	4,216	4,216
Revaluation reserve	14,793	14,800	14,800	14,800
Other reserves	-	2,938	3,992	3,992
Retained earnings	731	890	787	459
Total equity	<u>15,990</u>	<u>19,094</u>	<u>23,795</u>	<u>23,467</u>
Non-current liabilities				
Long-term borrowings	2,160	-	2,556	2,827
Deferred taxation	2,058	2,441	2,494	2,447
	<u>4,218</u>	<u>2,441</u>	<u>5,050</u>	<u>5,274</u>
Current liabilities				
Short-term borrowings	306	2,754	337	275
Trade and other payables	235	88	341	68
Current tax payable	188	399	226	158
	<u>729</u>	<u>3,241</u>	<u>904</u>	<u>501</u>
Total liabilities	<u>4,947</u>	<u>5,682</u>	<u>5,954</u>	<u>5,775</u>
Total equity and liabilities	<u>20,937</u>	<u>24,776</u>	<u>29,749</u>	<u>29,242</u>

Non-current assets, which mostly comprise of property, plant and equipment and investment property, account for 94.2% of the Guarantor's total assets for FY19. Of note, the majority of the Guarantor's property, plant and equipment is composed of land and buildings. During the period under review, the Guarantor's investment property increased by circa €2.1m due to the acquisition of Pace's guesthouse. Since this will not be utilised as part of the operation of the hotel business in the immediate future, it was classified as an Investment Property. Upon the completion of the acquisition,

in the coming years, this property will eventually form part of the hotel operation, upon which it would be reclassified as PPE. Moreover, the Guarantor's non-current assets are anticipated to remain relatively unchanged and as such are expected to amount to €27.9m during FY20.

Additionally, the Guarantor's current assets only consisted of 5.8% of the company's total assets. Apart from cash and cash equivalents, trade and other receivables represent the primary component of current assets, where they mainly comprise of amounts receivable from related parties which remained relatively unchanged in comparison to FY18. As a result, the increase in trade and other receivables is attributable to the inclusion of unamortised bond issue costs during the period.

Following the allotment of 3.75m €1 ordinary shares from the holding company SP Investments Ltd, the Guarantor's share capital increased during FY19, with total equity standing at €23.8m as at end of FY19. Total equity is expected to remain at this level during FY20, apart from experiencing a marginal decline due to the forecasted loss for the current financial year.

Non-current liabilities, which is comprised of long-term borrowings and deferred taxation, account for 84.8% of the Guarantor's total liabilities as at FY19. It is key to note that the company's long-term borrowings mainly consist of a loan from the Guarantor's parent company. This loan is unsecured, interest-free and repayable upon demand. Non-current liabilities during FY20 are expected to increase by 4.4% to €5.3m during FY20.

In addition, current liabilities as per FY19 results, represented 15.2% of the Guarantor's total liabilities. Current liabilities comprise of trade and other payables, current tax liability and short-term borrowings. Total liabilities are expected to remain fairly stable in FY20 amounting to €5.8m (FY19: €6.0m).

2.3 Guarantor' Statement of Cash Flows

Statement of Cash Flows	Dec-17 Audited €000s	Dec-18 Audited €000s	Dec-19 Audited €000s	Dec-20 Forecast €000s
Cash flows from operating activities				
EBITDA	904	955	619	(74)
Recharge of surrendered losses from group companies	-	-	(89)	
Interest and Tax paid	(146)	(145)	(289)	(70)
Dividend received	-			
Tax refunded	10			
Change in trade and other receivables	152	(713)	(70)	(484)
Change in trade and other payables	106	363	76	(154)
Net cash flows generated from operating activities	1,026	460	247	(782)
Cash flows from investing activities				
Capex	(371)	(268)	(5,188)	(32)
Proceeds from the sale of property, plant and equipment	-	580	700	
Other investing activities	-	-	-	
Net cash flows generated from/(used in) investing activities	(371)	312	(4,488)	(32)
Cash flows from financing activities				
Movement in related party loan	-	-	3,690	
Movement in bank loan	(294)	(280)	(2,162)	170
Movement in other borrowings	-	-	(3)	(5)
Issue of share capital	-	-	3,650	
Dividend paid	(725)	(600)	(334)	
Net cash flows generated from/ (used in) financing activities	(1,019)	(880)	4,841	165
Movement in cash and cash equivalents	(364)	(108)	600	(649)
Cash and cash equivalents at start of year	399	35	(73)	527
Cash and cash equivalents at end of year	35	(73)	527	(122)

In line with the deterioration in EBITDA for FY19, the Guarantor reported a net cash flow generated from operating activities of circa €0.2m, which is approximately 46.3% lower in comparison to FY18. This decline is also attributable to a higher level of interest and tax paid during the period. Moreover, due to the implications brought about by the COVID-19 pandemic, the company is anticipating a net cash used in operating activities of negative €0.8m during FY20.

Moreover, in line with the Guarantor's capital expenditure of €5.2m during FY19, the company reported a net cash flow used in investing activities figure of negative €4.5m. Management confirmed that this capex figure relates mostly to the acquisition of Pace's guesthouse together with the acquisition of the apartment and penthouse in Sliema. In view of the COVID-19 pandemic, the Guarantor's capex is expected to be minimal during this year, with a forecasted net cash flows utilised in investing activities of €32k.

Following movement in the Guarantor's bank borrowings and in a related party loan, together with the increase in the issued share capital, the Guarantor reported a net cash flow generated from financing activities of €4.8m in FY19. This is expected to amount to €0.2m during FY20.

2.4 Group's Income Statement

Projected Income Statement	Dec-18 Audited	Dec-19 Audited	Dec-20 Forecast
	€000s	€000s	€000s
Revenue	1,548	2,849	1,212
Cost of sales	(611)	(1,918)	(1,233)
Gross profit	937	931	(21)
Administrative expenses (excl. Depreciation)	(44)	(202)	(176)
Other operating income	62	106	128
Third party loan waiver	-	-	144
EBITDA	955	835	75
Depreciation	(185)	(789)	(1,426)
EBIT	770	46	(1,351)
Fair value gain on investment property	324	-	-
(Loss)/ Profit on sale of property, plant & equipment	358	(14)	-
Finance costs	(130)	(607)	(807)
Profit before tax	1,322	(575)	(2,158)
Tax credit / (expense)	(270)	188	770
Profit after tax	1,052	(387)	(1,388)

Ratio Analysis	Dec-18 Audited	Dec-19 Audited	Dec-20 Forecast
Profitability			
Growth in Revenue (YoY Revenue Growth)	12.8%	84.0%	-57.5%
Gross Profit Margin (Gross Profit / Revenue)	60.5%	32.7%	-1.7%
EBITDA Margin (EBITDA / Revenue)	61.7%	29.3%	6.2%
Operating (EBIT) Margin (EBIT / Revenue)	49.7%	1.6%	-111.5%
Net Margin (Profit for the year / Revenue)	68.0%	-13.6%	-114.5%
Return on Common Equity (Net Income / Average Equity)	5.5%	-2.0%	-7.7%
Return on Assets (Net Income / Average Assets)	4.2%	-1.2%	-3.4%

During FY19, the Group reported €2.8m in revenues, illustrating a significant increase of 84.0% over FY18. Management discussed that such upsurge in revenue is mainly attributable to the opening of the Pebbles Resort (San Pawl Hotel) during Q3 2019. More specifically, Pebbles Resort opened its doors for guests in July 2019, but not all the rooms were available due to the ongoing refurbishing works. The available hotel rooms increased gradually during the year, and all the rooms became finally available during Q1 2020. For this reason, management explained that it is not possible to provide data relating to the exact occupancy level achieved at the Pebbles Resort during FY19.

The FY19 revenue figure also incorporates revenue derived from Sea Pebbles Boutique Hotel in Sliema, whose financial performance was discussed in detail throughout 2.1 – 2.3 of the Analysis.

Previously, the consolidated forecasted revenue figure for the SP Group included anticipated revenue derived from the Group's investment in St Julians. However, as noted in further detail in section 1.3 and section 1.4 of the Analysis, the permits for Pebbles St Julians Hotel was granted for a 10-room, instead of an 18-room hotel and as such, following a feasibility study, the board decided not to proceed with this specific investment. As a result, it is important to highlight that the audited revenue figure for FY19, does not include any income derived from Pebbles St Julians Hotel.

Moreover, in line with the fact that the Group was forced to cease operations of the two hotels it operates during FY20, which constitute its principal source of income, the Group is anticipating an overall revenue figure of €1.2m for the period, representing a decline of 57.5% from those achieved during FY19.

Additionally, given that the negative consequences brought about by the COVID-19 pandemic on the Group are not yet fully known, management explained that the Group has evaluated the current situation closely and as a result, the Group preferred to utilise a 'prudent approach' in terms of projections utilised for the purpose of this document.

More specifically, management further explained that such projections are based on bookings in hand as of August 2020. Following the imposition of measures such as quarantine by various countries upon tourists returning from Malta, which have already resulted in numerous cancellations, the revenue projections are based on a very prudent estimate of tourist arrivals in Malta for the coming months.

The underlying assumption remains that the hotels will remain open for the remainder of the year, with the airport remaining open, albeit with limited number of travellers, since the situation in Malta and in Europe is not expected to improve dramatically in the short-term. Management also pointed out that the Group is also targeting local tourism, to mitigate in part for the loss in income from tourists.

As per direction provided by management, cost of sales and administrative expenses need to be analysed together, as previous forecasts included several items of expenditure under administrative expenses which were in turn classified as cost of sales in the FY19 audited results. These collectively include direct costs, wages and salaries, directors' remuneration, utility expenses together with repairs and maintenance costs.

Management further explained that during FY19, the Group incurred higher levels of expenses in terms of directors' and company secretary's remuneration, licences together with accounting, audit and professional fees. Moreover, permit application costs concerning Pebbles St Julians Ltd were expensed rather than capitalised since the board decided that the project was not financially viable. For this reason the permit application costs were written off as an expense. Management also informed us that following an incident occurring during the period, damage was caused at Pebbles Boutique Hotel during FY19. The insurance company responsible to assist in such matter has not yet finalised the claim and therefore, the amount has been expensed in its entirety.

Management anticipate cost of sales to amount to €1.2m during FY20. This is deemed to be in line to the fact that both hotels were closed for nearly 4 months during FY20, and are expected to operate at a very low occupancy level for the remainder of the year due to the current COVID-19 situation.

The decline in administrative expenses for FY19, in comparison to previous projections, is attributable to the aforementioned reclassification of several expenses from administrative to cost of sales. These are expected to decline to circa €0.2m during FY20. The anticipated decline is deemed to be in line with the downward revisions concerning management fees implemented during FY20 following the period of closure of the Group's hotels.

Other operating income generated during FY19 amounted to €0.1m. As discussed in the Guarantor section, this comprises of the rental income generated from the two retail outlets situated at street

related party with effect from October 2019. The rental income from these outlets was waived for the period April to June 2020, but are projected to be received throughout Q3 and Q4 of 2020, therefore management anticipates other operating income to increase to €128k during FY20.

As previously explained throughout section 1.5 of the Analysis, the Group benefitted from rental and loan repayment waivers from a third party following the closure of the Group's hotels. As such, management are projecting to benefit from a third-party loan waiver amounting to €0.1m during FY20. The waiver of the loan repayments is permanent, and is not repayable at a later stage, therefore this was shown as an income in FY20.

Upon taking the above factors into consideration, the Group reported an EBITDA figure of €0.8m for FY19. Following the closure of the Group's hotels during FY20, management anticipate EBITDA to amount to €75k during the period.

Furthermore, the increase in depreciation charge incurred by the Group during FY19 is attributable to the fact that as clearly explained throughout section 1.4 and section 1.5 of the Analysis, refurbishment costs concerning Pebbles Resort Hotel were higher than previously anticipated. This has consequently resulted in a higher depreciation charge for FY19. Depreciation charge is expected to further increase to circa €1.4m during FY20. The reason for the increase is that depreciation of Pebbles Resort Ltd in 2019 was charged only for Q3 and Q4, which is when the asset was ready for use. In 2020, a whole year of depreciation is charged.

Following the bond issue during FY19, higher finance costs were incurred by the Group during the period. These are expected to further increase to circa €0.8m in FY20.

Tax losses incurred mainly by Pebbles Resort Limited resulted in a deferred tax income of €0.3m in FY19. Additionally, lower profits in comparison to previous forecasts which were reported by Sea Pebbles Ltd during FY19 also resulted in an overall lower tax charge for the year. In line with the relatively poor anticipated financial performance for FY20, which is attributable to the current COVID-19 climate, the Group expects to benefit from a tax credit amounting to circa €0.8m for the period.

2.5 Group's Variance Analysis

Statement of Comprehensive Income	Dec-19 Forecast	Dec-19 Audited	Variance
	€'000s	€'000s	€'000s
Revenue	2,836	2,849	13
Cost of sales	(517)	(1,918)	(1,401)
Gross profit	2,319	931	(1,388)
Administrative expenses (excl. Depreciation)	(790)	(202)	588
Other operating income	127	106	(21)
EBITDA	1,656	835	(821)
Depreciation	(687)	(789)	(102)
EBIT	969	46	(923)
Fair value gain on investment property	-	-	-
(Loss)/ Profit on sale of property, plant & equipment	-	(14)	(14)
Finance costs	(861)	(607)	254
Profit before tax	108	(575)	(683)
Tax credit / (expense)	(160)	188	348
Profit after tax	(52)	(387)	(335)

As could be identified from the financial data presented above, actual revenue for FY19 is relatively in line with that previously projected. It is worth mentioning however that previous projections included anticipated revenue derived from the Group's investment in St Julians. However, as noted in further detail in section 1.3 and section 1.4 of the Analysis, the permits for Pebbles St Julians Hotel was granted for a 10-room, instead of an 18-room hotel and as such, following a feasibility study, the board decided not to proceed with this specific investment. As a result, it is important to highlight that the audited revenue figure for FY19, does not include any income derived from Pebbles St Julians Hotel.

As per direction provided by management, cost of sales and administrative expenses need to be analysed together, as previous forecasts included several items of expenditure under administrative expenses which were in turn classified as cost of sales in the FY19 audited results. As a result, such re-classification is one reason for the variance concerning cost of sales.

Moreover, management explained that although Pebbles Resort Limited opened its doors during Q3 2019, the hotel started receiving guests towards the end of Q2. Moreover, due to delays in the issuing of the bond, the planned refurbishment of the hotel had been delayed, and major works were still ongoing throughout Q3 2019. For this reason, a majority of the guests were relocated to other hotels during this period, at a considerable cost of €0.4m which was not previously anticipated to be incurred by the Group.

Management further explained that these relocations were often done at no profit, and sometimes even at a loss and therefore recorded as an expense. However, the Group opted to do this rather than cancel the bookings so that it would honour its commitments with various travel agents, in the interest of its long-term relationship with them.

Also included under such cost of sales and administrative costs variance are increases in expenses incurred by the Issuer which were not previously forecasted to be incurred. These mainly relate to

higher levels of expenses incurred in terms of directors' and company secretary's remuneration, licences together with accounting, audit and professional fees.

Moreover, the cost of sales variance is also attributable to the fact that permit application costs concerning Pebbles St Julians Ltd were expensed rather than capitalised since the board decided that the project was not financially viable. For this reason, the permit application costs were written off as an expense.

Management also informed us that following an incident occurring during the period, damage was caused at Pebbles Boutique Hotel during FY19. The insurance company responsible to assist in such matter has not yet finalised the claim and therefore, the amount has been expensed in its entirety.

In view of the above, the Group reported a gross profit figure of €0.9m, being circa €1.4m lower than previously anticipated.

The decline in administrative expenses for FY19, in comparison to what was previously projected, is attributable to the aforementioned reclassification of several expenses from administrative to cost of sales.

In comparison to previous projections, the Group also reported a lower other operating income figure for FY19. The reason for such variance relates to the fact that the acquisition contract of Pace's guesthouse was delayed and signed during November 2019. Therefore, the Group started receiving rental income concerning the guesthouse later than previously anticipated, more specifically in January 2020 rather than during FY19. As a result, during FY19, the Group reported an EBITDA figure of €0.8m.

Refurbishment costs concerning Pebbles Resort Hotel were higher than what previously anticipated. This has consequently resulted into a higher depreciation charge for FY19.

Previous finance cost projections were based on the assumption that the Group's bond issue would be finalised in January 2019. Given that the bond issue was issued during May 2019, the bond interest incurred during the period was lower than previous projections. Management also explained that bank overdraft interest was also less than previously forecasted. As such, the Group incurred €0.3m less in finance costs for FY19.

Tax losses incurred mainly by Pebbles Resort Limited resulted in a deferred tax income of €0.3m. Lower profits in comparison to previous forecasts which were reported by Sea Pebbles Ltd during FY19 also resulted in an overall lower tax charge for the year.

This leaves the Group with an overall loss of circa €0.4m, representing a variance of €0.3m in terms of previous projections.

2.6 Group's Balance Sheet

Projected Balance Sheet	Dec-18 Audited €000s	Dec-19 Audited €000s	Dec-20 Forecast €000s
Assets			
Non-current assets			
Property, plant and equipment	19,905	28,092	27,682
Right-of-use assets	-	5,162	4,488
Investment property	3,811	5,974	5,974
Investment in subsidiary	-	-	-
Financial assets at amortised cost	-	-	-
Other financial assets at amortised cost	1,009	1,082	1,082
Total non-current assets	24,725	40,310	39,226
Current assets			
Trade and other receivables	43	398	265
Current income tax asset	-	112	168
Cash and cash equivalents	12	624	56
Total current assets	55	1,134	489
Total assets	24,780	41,444	39,715
Equity and liabilities			
Capital and reserves			
Share capital	250	250	250
Share premium	17,750	17,750	17,750
Revaluation reserve	14,800	14,800	14,800
Fair value gain reserve	2,938	2,938	2,938
Other reserve	(17,532)	(17,532)	(17,532)
Retained earnings	890	503	(885)
Total equity	19,096	18,709	17,321
Non-current liabilities			
Borrowings	-	13,005	13,717
Lease liability long term	-	5,072	4,819
Deferred tax liability	2,441	2,365	1,651
Total non-current liabilities	2,441	20,442	20,187
Current liabilities			
Trade and other payables	90	1,448	932
Current income tax liability	399	226	158
Borrowings	2,754	400	884
Lease liability	-	219	233
Total current liabilities	3,243	2,293	2,207
Total liabilities	5,684	22,735	22,394
Total equity and liabilities	24,780	41,444	39,715

Ratio Analysis	Dec-18 Audited	Dec-19 Audited	Dec-20 Forecast
Financial Strength			
Gearing 1 (Net Debt / Net Debt and Total Equity)	12.6%	49.1%	53.1%
Gearing 2 (Total Liabilities / Total Assets)	22.9%	54.9%	56.4%
Net Debt / EBITDA	2.9x	21.6x	261.3x
Current Ratio (Current Assets / Current Liabilities)	0.0x	0.5x	0.2x
Interest Coverage (EBITDA / Cash interest paid) ⁵	7.3x	1.4x	0.1x

Non-current assets, which mostly comprise of property, plant and equipment and investment property, account for 97.3% of the Group total assets for FY19. Non-current assets are also composed of right-of-use-assets and other financial assets amortised at cost. As in the case of the Guarantor, during the period under review, the Group's investment property increased by circa €2.2m due to the acquisition of Pace's guesthouse. Since this will not be utilised as part of the operation of the hotel business in the immediate future, it was classified as an Investment Property. Upon the second phase of the project in the coming years, this property will eventually form part of the hotel operation, upon which it would be reclassified as PPE. This is therefore the primary reason as to why the Group reported a property, plant and equipment figure which is lower in comparison to previous projections. Moreover, the Group's non-current assets are anticipated to remain relatively unchanged and as such are expected to amount to €39.2m during FY20.

In addition, the Group's current assets only consisted of 2.7% of total assets. Apart from cash and cash equivalents, trade and other receivables represent the primary component of current assets, where they mainly comprise of trade and other receivables. The increase in trade and other receivables during FY19 is mainly attributable to the inclusion of a VAT refundable amount during the period. It is also important to note that the primary reason as to why the FY19 cash and cash equivalents figure is lower than previous projections is due to a higher level of capital expenditure incurred by the Group during the period. Current assets are projected to amount to €0.5m.

Non-current liabilities, which comprise of long-term borrowings, long-term lease liabilities and deferred tax liabilities, account for 89.9% of the Group's total liabilities. While the increase in long-term borrowings is mostly attributable to the commencement/ inclusion of the Group's bond, the increase in long-term lease liabilities are deemed to be attributable to the adoption of IFRS16 from 1st January 2019 onwards. As such, the main reason for the variance in total non-current liabilities in comparison to previous projections relates to the inclusion of deferred tax liabilities during the period. Non-current liabilities during FY20 are expected remain relatively unchanged from FY19.

Additionally, current liabilities as per FY19 results, represent only 10.1% of the Group's total liabilities. Current liabilities comprise of trade and other payables, current income tax liability, short-term borrowings and short-term lease liabilities. Moreover, the reason for the upsurge in trade and other payables during the period is attributable to an increase in creditors relating to the refurbishment of the Pebbles Resort hotel, an increase in the amounts of deposits received on guest bookings, and a higher balance of VAT, Eco Contributions and FSS payable at the end of the year due to the Group's increased turnover and workforce when compared to FY18. Current liabilities are expected to amount to €2.2m during FY20.

2.7 Group's Cash Flow statement

Projected Cash Flows	Dec-18 Audited	Dec-19 Audited	Dec-20 Forecast
	€000s	€000s	€000s
Cash flows from operating activities			
EBITDA	955	835	75
Third party loan waiver	-	-	(144)
Interest paid	(130)	(266)	(477)
Tax paid	(15)	(173)	(68)
Change in trade and other receivables	(712)	(429)	243
Change in trade and other payables	363	1,040	(626)
Net cash flows generated from operating activities	461	1,007	(997)
Cash flows from investing activities			
Investment Capex	(268)	(11,579)	(479)
Proceeds from sale of property, plant and equipment	580	700	-
Net dividends received	-	-	-
Investment in preference shares of subsidiary	-	-	-
Net cash flows generated from/(used in) investing activities	312	(10,879)	(479)
Cash flows from financing activities			
Movement in bank loans	(280)	(2,162)	1,080
Dividends paid	(600)	-	-
Cash issue of shares	1	-	-
Third party borrowings	-	1,700	(256)
Bond proceeds	-	12,000	-
Bond issue costs	-	(316)	-
Lease liability payments	-	(146)	(400)
Movement in directors' balances	-	(510)	-
Net cash flows generated from/(used in) financing activities	(879)	10,566	424
Movement in cash and cash equivalents	(106)	694	(1,052)
Cash and cash equivalents at start of year	35	(71)	623
Cash and cash equivalents at end of year	(71)	623	(429)

Ratio Analysis	Dec-18 Audited	Dec-19 Audited	Dec-20 Forecast
Cash Flow			
Free Cash Flow (Net cash from operations - Capex)	€193	€(10,572)	€(1,476)

Although the Group reported a lower EBITDA for the period, the Group still reported a net cash flow generated from operating activities of circa €1m, which is approximately 118% higher in comparison to FY18 and is deemed to be in line with previous projections. Due to the implications brought about by the COVID-19 pandemic, the Group is anticipating a net cash used in operating activities of negative €1m during FY20.



Moreover, in line with the Group's capital expenditure of €11.6m, the Group reported a net cash flow used in investing activities figure of negative €10.9m. Management confirmed that this capex figure partly relates to the acquisition of Pace's guesthouse together with the acquisition of the apartment and penthouse in Sliema. Also listed under this investment capex figure is the refurbishment of Pebbles Resort hotel, which amounted to €6.4m. As explained throughout prior sections of the Analysis, the Group during FY19 incurred higher levels of capital expenditure in terms of the San Pawl Hotel, thus explaining the variance in comparison to previous projections. In line with the implications of the COVID-19 pandemic net cash flows used in investing activities figure are expected to amount to negative €0.5m during FY20.

Following the bond issue proceeds, and other related movements in the Group's bank borrowings, the Group reported a net cash flow generated from financing activities of €10.6m. In line with the current COVID-19 pandemic climate, minimal financing activities are anticipated for FY20.

Part 3 – Key Market and Competitor Data

3.1 General Market Conditions⁶

In July, the Malta Central Bank's Business Conditions' Index (BCI) improved slightly when compared with the previous month, suggesting that economic conditions may have reached their trough. However, it remained significantly below its long-term average. The European Commission's Economic Sentiment Indicator (ESI) rose, but remained well below the level recorded before the onset of COVID-19. The increase in sentiment largely reflects improved confidence in the services sector and in industry. Sentiment also improved in the construction sector and among consumers, but reached a new historical low among retailers.

In June, the volume of retail trade and industrial production contracted again in annual terms, though at a slower pace when compared with May. The number of registered unemployed and the unemployment rate fell when compared with a month earlier, with the latter remaining low from a historical perspective. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) edged up to 1.0% in June, from 0.9% in May, while inflation based on the Retail Price Index (RPI) stood unchanged at 0.7%. Maltese residents' deposits expanded by an annual rate of 7.6% over the year to June, while annual growth in credit to Maltese residents eased to 8.8%. In June, the deficit on the cash-based Consolidated Fund widened significantly compared with a year earlier, reflecting a significant increase in government expenditure and, to a lesser extent, a drop in revenue.

3.2 Economic Projections⁷

The Central Bank of Malta (CBM) expects Malta's Gross Domestic Product (GDP) to contract by 6.6% in 2020. Subsequently, it should grow by around 6.1% and 4.2% in the following two years. While this projection is significantly better than that for other euro area countries, Malta's level of economic activity is expected to be around 7% lower in 2022 compared to the projections that had been made prior to the outbreak of COVID-19. In fact it will take until mid-2022 for Malta's GDP to return to its 2019 level. Compared with the Bank's previous projections, GDP growth has been revised downwards in 2020, due to weaker tourism exports that offset a stronger positive impulse from fiscal measures that were announced in June. In total, Government fiscal and liquidity measures are estimated to boost GDP by 3 percentage points, reducing the decline in GDP by a third.

The largest contributor to the projected decline in GDP in 2020 is net exports, reflecting an expected decrease in foreign demand, restrictions on travel-related activities, and disruptions to the global supply-chain. However, domestic demand is also expected to contribute negatively, as the shut-down of various activities during part of the year and elevated uncertainty are expected to adversely impact private consumption and investment. Almost all sectors are expected to be negatively affected by the pandemic and the associated containment measures, but the accommodation and food services activities, transportation and storage, and wholesale and retail trade sectors, are expected to be the worst affected. Domestic demand is expected to be the main driver of the projected recovery in 2021 and 2022, although the net export contribution is also set to turn positive.

⁶ Central Bank of Malta – Economic Update: Issue 8/2020

In view of the foreseen contraction in economic growth, employment is set to decline somewhat in 2020, leading to an increase in the unemployment rate. Fiscal measures are however expected to be supportive of the labour market, and hence, the expected losses in headcount employment are rather mild when compared with the foreseen decline in GDP. Moreover local labour market developments are much better than the trends observed in the euro area, with Malta registering in June the lowest unemployment rate in the monetary union for the first time. The labour market is expected to rebound in the following years, due to the projected improvement in economic activity levels.

In 2020, lower domestic and international price pressures should also lead toward an easing in annual inflation, from 1.5% to 0.9%, based on the Harmonised Index of Consumer Prices (HICP). However, inflation is also expected to be supported by cost-push factors, in the context of disruptions to the global supply chain. It is then set to edge up to 1.4% by 2022, reflecting a pick-up in economic activity, affecting prices of services and non-energy industrial goods inflation (NEIG).

Public finances are expected to deteriorate in 2020 due to the expected decline in economic activity and the introduction of COVID-19 related support measures. The government balance is projected to be in deficit of 8.6% of GDP in 2020. As most COVID-19 related measures are set to end this year, the shortfall is expected to narrow in 2021, and to stand at 3.5% of GDP by 2022. The government debt-to-GDP ratio is projected to rise from 43.7% in 2019 to 57.9% by 2022, thus remaining well below the levels projected for the euro area.

Given the persistent uncertainty surrounding the pandemic, particularly in respect of timelines for the availability of a vaccine, the CBM has also published a more severe scenario in which health protocols in Malta and overseas would have to be enhanced and extended to contain the spread of the virus. In such a scenario, the contraction in GDP could reach 9.3% this year. GDP growth should then rebound to 5.5% and 3.7%, respectively, in 2021 and 2022. In this case, the level of GDP would remain below 2019 levels by the end of 2022. Moreover, the unemployment rate would rise further, and inflation would be slightly weaker. In addition, the government deficit would reach 11.3% in 2020 before narrowing to 5.4% in the following two years, while the government debt-to-GDP ratio would rise to 66.0% by the end of 2022.

■ Tourism⁸

The tourism industry in Malta has been progressively growing over the years, benefiting from a surge in tourism with records broken year-on-year. This trend is summarised in the below table, illustrating the number of tourist arrivals over the last three years.

	2016	2017	2018	2019	Change 2019/18
Inbound tourists	1,965,928	2,273,837	2,598,690	2,753,239	5.9%
Tourist guest nights	14,961,366	16,509,141	18,569,716	19,338,660	4.1%
Average length of stay	7.6	7.3	7.1	7.0	-1.1%
Tourist expenditure (€'000s)	1,708,952	1,946,894	2,101,765	2,220,627	5.7%
Tourist expenditure per capita (€)	869	856	809	807	-0.3%

⁸ Inbound Tourism December 2019 and March 2020 (NSO) and European Tourism – Trends & Prospects

Unfortunately, the tourism sector both locally and internationally, has been severely impacted by the COVID-19 outbreak. As from early March, Malta started to introduce several confinement measures, with the eventual suspension of all passenger flights as from 21 Mar. This obliterated the local tourism market, in fact in March alone, inbound tourists fell by 56.5% on a comparative basis.

However, since the outbreak, Governments around Europe, including Malta, have started to ease restrictions, including the opening of airports and ports to countries that are deemed as safe destinations. Given that Europe has not experienced a severe spike in COVID-19 cases similar to that witnessed at the start of the pandemic in the first half of the year, it is expected that borders will remain open, except for specific travel restrictions on countries experiencing a spike in COVID-19 cases.

Recently, the Maltese Government re-imposed several restrictions to control the virus spread. Amongst others, these include a new 'amber' list of countries, arrivals from which will need to produce a COVID-19 negative test result of up to 72 hours before arrival. Such restrictions, have also been imposed on Malta by other countries, most notable being the recently imposed 14-day quarantine on travellers arriving in the UK from Malta. Undoubtedly this is a blow to the local tourism industry, given that 25% of local tourists come from the UK. Italy, which represents the second largest market for the local tourism industry (21%), is also requesting a negative test certificate for passengers arriving from Malta. Additionally, during the past weeks, Malta has experienced travel restrictions from several other countries, including amongst others: Greece, Slovenia, Ireland, and the Baltic countries. The consensus is that the current global health crisis will significantly impact the European tourism, with growth expected to remain below 2019 levels until 2023.

3.3 Comparative Analysis

The purpose of the table below is to compare the bond of the Group to other debt instruments. One must note that given the material differences in profiles and industries, the risks associated with the Group's business and that of other issuers is therefore different.

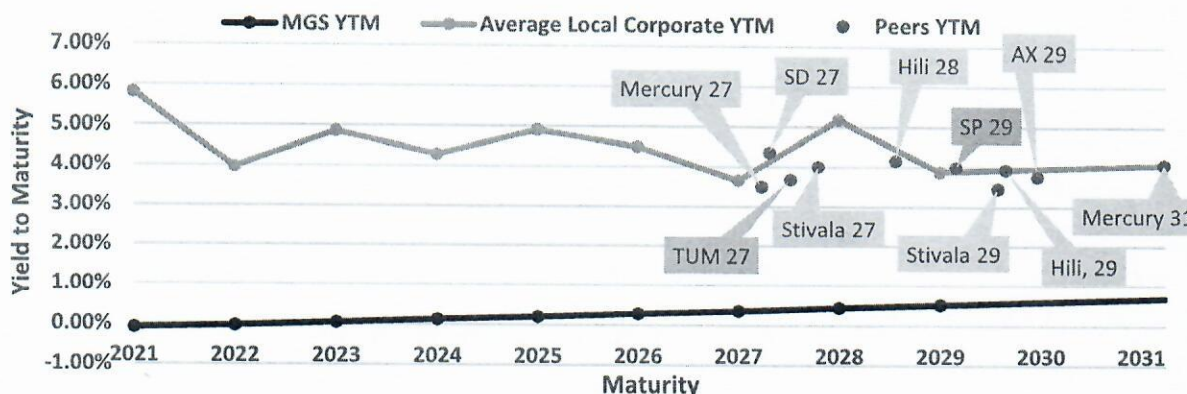
Security	Nom Value €000's	Yield to Maturity (%)	Interest coverage (EBITDA)	Total Assets (€ millions)	Total Equity (€ millions)	Total Liabilities / Assets (%)	Net Debt / Total Equity (%)	Net Debt / EBITDA (times)	Current Ratio	Return on Common Equity (%)	Net Margin (%)	Revenue Growth (YoY) (%)	Last Closing Price *
3.8% International Hotel Investments plc 2021	20,000	5.77%	3.0x	1,687.2	897.1	46.8%	37.3%	7.7x	1.1x	0.6%	1.9%	4.7%	100.00
3.8% International Hotel Investments plc 2023	10,000	5.10%	3.0x	1,687.2	897.1	46.8%	37.3%	7.7x	1.1x	0.6%	1.9%	4.7%	102.00
5% AX Investments Plc € 2024	40,000	3.69%	5.5x	342.4	226.1	34.0%	18.9%	3.2x	0.9x	2.2%	9.4%	-8.1%	107.50
1.4% Von der Heyden Group Finance plc Unsecured € 2024	25,000	3.93%	1.1x	147.8	44.3	70.1%	66.4%	36.6x	0.7x	-4.9%	-8.5%	8.6%	101.50
5% International Hotel Investments plc € 2024	35,000	5.46%	3.0x	1,687.2	897.1	46.8%	37.3%	7.7x	1.1x	0.6%	1.9%	4.7%	101.75
3% Tumas Investments plc Unsecured € 2024	25,000	4.58%	23.0x	266.9	154.5	42.1%	16.4%	0.5x	3.2x	37.3%	36.1%	128.6%	101.51
3.75% International Hotel Investments plc Unsecured € 2025	45,000	5.74%	3.0x	1,687.2	897.1	46.8%	37.3%	7.7x	1.1x	0.6%	1.9%	4.7%	100.00
1.5% Hiii Properties plc Unsecured € 2025	37,000	4.28%	1.8x	150.5	57.6	61.7%	57.7%	12.7x	1.1x	9.9%	62.4%	20.0%	101.00
1% International Hotel Investments plc Secured € 2026	55,000	3.62%	3.0x	1,687.2	897.1	46.8%	37.3%	7.7x	1.1x	0.6%	1.9%	4.7%	102.00
1% International Hotel Investments plc Unsecured € 2026	60,000	4.00%	3.0x	1,687.2	897.1	46.8%	37.3%	7.7x	1.1x	0.6%	1.9%	4.7%	100.00
1.25% AX Group plc Unsec Bds 2026 Series I	15,000	3.25%	5.5x	342.4	226.1	34.0%	18.9%	3.2x	0.9x	2.2%	9.4%	-8.1%	100.00
1.75% Mercury Projects Finance plc Secured € 2027	11,500	3.49%	0.4x	62.2	(6)	101.0%	101.9%	82.9x	1.0x	236.9%	-15.9%	0.0%	101.49
1.35% SD Finance plc Unsecured € 2027	65,000	4.35%	6.8x	324.4	137.6	57.6%	43.3%	4.1x	1.4x	9.0%	20.5%	5.7%	99.97
1.75% Tumas Investments plc Unsecured € 2027	25,000	3.67%	9.1x	244.6	131.5	46.2%	16.5%	1.0x	2.2x	8.6%	20.6%	-52.6%	100.50
1% Stivala Group Finance plc Secured € 2027	45,000	4.00%	4.0x	225.3	123.1	45.4%	40.6%	7.4x	0.7x	5.0%	26.0%	19.5%	100.00
1.85% Hiii Finance Company plc Unsecured € 2028	40,000	4.15%	5.0x	628.9	110.1	82.5%	77.1%	5.7x	1.2x	23.0%	4.6%	14.8%	97.99
1% SP Finance plc Secured € 2029 **	12,000	3.95%	1.4x	41.4	18.7	54.9%	49.1%	21.6x	0.5x	-2.0%	-13.6%	84.0%	100.05
1.65% Stivala Group Finance plc Secured € 2029	15,000	3.45%	4.0x	225.3	123.1	45.4%	40.6%	7.4x	0.7x	5.0%	26.0%	19.5%	101.50
1.8% Hiii Finance Company plc Unsecured € 2029	80,000	3.94%	5.0x	628.9	110.1	82.5%	77.1%	5.7x	1.2x	23.0%	4.6%	14.8%	98.99
1.75% AX Group plc Unsec Bds 2029 Series II	10,000	3.75%	5.5x	342.4	226.1	34.0%	18.9%	3.2x	0.9x	2.2%	9.4%	-8.1%	100.00
1.25% Mercury Projects Finance plc Secured € 2031	11,000	4.06%	0.4x	62.2	(6)	101.0%	101.9%	82.9x	1.0x	236.9%	-15.9%	0.0%	101.56
Average***		4.21%	4.8x	705.9	352.6	55.9%	46.0%	15.1x	1.2x	30.0%	10.0%	9.1%	

* Last price as at 28/08/2020

** The financial analysis of SP Finance reflects the consolidated financial position of the Group for the year ended 31st December 2019.

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

Yield Curve Analysis



Source: Malta Stock Exchange, Central Bank of Malta and Calamatta Cuschieri Estimates

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 issuers having a maturity between 7-11 years respectively (Peers YTM).

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 / net debt and total equity) of 49.1% compared to an average of 46.0% for the industry, with the total liabilities / total assets gearing standing at 54.9%, (average: 55.9%).

As at 28th August 2020, the average spread over the Malta Government Stocks (MGS) for corporates with maturity range of 7-11 years was 342 basis points. The 4% SP Finance plc 2029 is currently trading at a YTM of 399 basis points, meaning a spread of 347 basis points over the equivalent MGS. This means that this bond is trading at a marginal premium of 5 basis points in comparison to the market.

Part 4 - Glossary and Definitions

Income Statement	
Revenue	Total revenue generated by the Group/Company from its principal business activities during the financial year.
Costs	Costs are expenses incurred by the Group/Company in the production of its revenue.
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	
Growth in Revenue (YoY)	This represents the growth in revenue when compared with previous financial year.
Gross Profit Margin	Gross profit as a percentage of total revenue.
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	
Cash Flow from Operating Activities (CFO)	Cash generated from the principal revenue producing activities of the Group/Company less any interest incurred on debt.
Cash Flow from Investing Activities	Cash generated from the activities dealing with the acquisition and disposal of long-term assets and other investments of the Group/Company.
Cash Flow from Financing Activities	Cash generated from the activities that result in change in share capital and borrowings of the Group/Company.
Capex	Represents the capital expenditure incurred by the Group/Company in a financial year.
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 Assets	What the Group/Company owns which can be further classified into Non-Current Assets and Current Assets.
Non-Current Assets	Assets, full value of which will not be realised within the forthcoming accounting year
Current Assets	Assets which are realisable within one year from the statement of financial position date.
Inventory	Inventory is the term for the goods available for sale and raw materials used to produce goods available for sale.
Cash and Cash Equivalents	Cash and cash equivalents are Group/Company assets that are either cash or can be converted into cash immediately.
Total Equity	Total Equity is calculated as total assets less liabilities, representing the capital owned by the shareholders, retained earnings, and any reserves.

Total Liabilities	What the Group/Company owes which can be further classified into Non-Current Liabilities and Current Liabilities.
Non-Current Liabilities	Obligations which are due after more than one financial year.
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.
Current Liabilities	Obligations which are due within one financial year.
Financial Strength Ratios	
Current Ratio	The Current ratio (also known as the Liquidity Ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares current assets to current liabilities.
Quick Ratio (Acid Test Ratio)	The quick ratio measures a Group's/Company's ability to meet its short-term obligations with its most liquid assets. It compares current assets (less inventory) to current liabilities.
Interest Coverage Ratio	The interest coverage ratio is calculated by dividing EBITDA of one period by cash interest paid of the same period.
Gearing Ratio	The gearing ratio indicates the relative proportion of shareholders' Equity and debt used to finance total assets.
Gearing Ratio Level 1	Is calculated by dividing Net Debt by Total Equity.
Gearing Ratio Level 2	Is calculated by dividing Total Liabilities by Total Assets.
Net Debt / EBITDA	The Net Debt / EBITDA ratio measures the ability of the Group/Company to refinance its debt by looking at the EBITDA.
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.
Occupancy Level	The occupancy level is expressed as a percentage and indicates the number of rooms occupied to the total number of available rooms in a given time period.