FINANCIAL ANALYSIS SUMMARY
Mercury Projects Finance p.l.c.
30 June 2021

Calamatta Cuschieri
YOUR PARTNER IN FINANCIAL SERVICES

The Directors
Mercury Projects Finance p.l.c.
1400, Block 14, Portomaso,
St. Julian's, Malta

30 June 2021

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 Mercury Projects Finance p.l.c. (the "**Issuer**") and Mercury Towers Ltd (the "**Guarantor**"), where the latter is the parent company of the "**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 December 2018, 2019 and 2020 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 2021 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 comparatives 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

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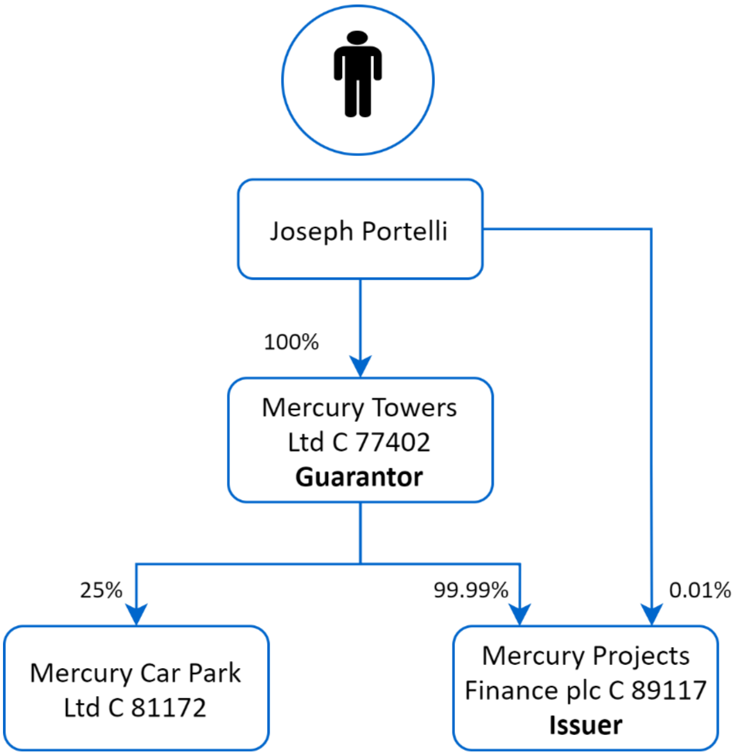
Part 1 - Information about the Group

1.1 Issuer and Guarantor's Key Activities and Structure

The Group structure is as follows:



The Group of companies consists of the Issuer, the Guarantor and a 25% equity holding in Mercury Car Park Limited.

The Issuer, Mercury Projects Finance plc, with company registration number C 89117, is a limited liability company registered in Malta on 16 January 2019. The Issuer is, except for one share that is held by Mr Joseph Portelli, a wholly owned subsidiary of the Guarantor, which latter entity is the parent company of the Group. The Issuer, which was set up and established to act as a finance vehicle, has as at the date hereof an authorised share capital of €500,000 divided into 500,000 ordinary shares of €1 each and has an issued share capital of €250,000 divided into 250,000 ordinary shares of €1 each, all fully paid up.

The Guarantor, Mercury Towers Ltd, is a private limited liability company incorporated and registered in Malta on 28 September 2016, with company registration number C 77402. The Guarantor, which is the parent company of the Group, owns land in the heart of St. Julian's measuring c. 7,702 sqm, which it acquired on a freehold title over two stages, in December 2016 and June 2017 respectively. In August 2018, a related company, Mercury Exchange Ltd, entered into a 3-year Promise of Sale Agreement with SGE Property Company Ltd to acquire the remaining piece of land within the area. As noted in section 1.4 of this Analysis this acquisition is expected to be completed by Mercury Towers Ltd in Q3 2021. The land is currently being developed into a mixed use development project (the "**Project**") comprising, amongst others, a 33-floor tower (incl. serviced apartments), a hotel spanning over the podium area, retail and commercial spaces spanning across the entire project, as well as an underlying car park. The authorised and issued share capital of the Guarantor is €500,000 divided into 500,000 ordinary shares having a nominal value of €1 each. The sole shareholder of the Guarantor is Mr Joseph Portelli. It is the intention of the Guarantor that in 2021 it will be increasing its share capital to €20,000,000 through part capitalisation of revaluation reserve and part shareholder injections.

Mercury Car Park Limited in which the Group holds a 25% equity interest (equivalent to a €1,500 investment), owns and will operate the car park, which is part of the Project and will give access to over 400 parking spaces situated on levels -3 to -6 of the property. The car park area beneath the land to be acquired during 2021 will add 283 additional parking spaces fully owned by the Company.

1.2 Directors and Key Employees

Board of Directors - Issuer

As at the date of this Analysis, the Issuer is constituted by the following persons:

Name	Office Designation
Joseph Portelli	Chairman and Executive Director
Stephen Muscat	Independent non-executive Director
Mario Vella	Independent non-executive Director
Peter Portelli	Independent non-executive Director

The business address of all of the directors is the registered office of the Issuer. Dr Joseph Saliba is the company secretary of the Issuer.

Board of Directors – Guarantor

As at the date of this Analysis, the Guarantor is constituted by the following persons:

Name	Office Designation
Joseph Portelli	Executive Director

The business address of the director is the registered office of the Issuer. Dr Ian Stafrace is the company secretary of the Guarantor.

The sole executive director is responsible for the executive management of the Issuer and the Group, and together with other senior members of the executive team is responsible for the Issuer's and the other Group companies' day to day management. The executive director is responsible for the general executive management and sales and business development as well as for eventual hotel operations. Other members of the Group's management team, apart from the executive director are; Silvan Mizzi who acts as the Guarantor's Chief Financial Officer, and Lorraine Ellul Bonavia, who is responsible for the general legal and administrative affairs of the Guarantor and the Group.

As at the date of this Analysis, the Issuer does not have any employees of its own and the Group has two full-time employees.

1.3 Major Assets owned by the Group

The Issuer does not have any substantial assets other than the loans receivable from the Guarantor since it is essentially a special purpose vehicle set up to act as a financing company.

The Group is currently principally involved in the real estate sector, with a view of entering the hospitality and leisure sector in the near future by operating the areas to be retained by the Guarantor. The Guarantor owns land in the heart of St. Julian's measuring c. 7,702 sqm, which it acquired on a freehold title over two stages, in December 2016 and June 2017 respectively. It will acquire the adjacent land from SGE Property Company Ltd thereby adding c. 1,908 sqm to the property. The land is currently being developed into a mixed use development Project comprising, amongst others, a tower (incl. serviced apartments), a hotel, retail and commercial activity, as well as an underlying car park. In February 2018, the Planning Authority approved the Group's plans for the above-mentioned development, and issued a development permit for the Project. Furthermore, in December 2019, the Planning Authority approved further development on the adjacent land to be acquired together with 3 additional floors on the main tower.

Mercury Car Park Limited owns a portion of the car park, with the remaining part being owned by the Guarantor. Mercury Car Park Limited will operate the whole car park area, which is part of the Project and will give access to over 600 parking spaces situated on levels -3 to -6 of the property.

The major asset of the Group is the underlying land and building on which the Project is being constructed. The land, the constructed portion of the Project and the airspace has been classified as "*property, plant and equipment*" and "*investment property*" in the audited financials. In FY20, the *property* relates to airspaces which will be retained by the Group and used in the supply of services (operated as a hotel). As at December 2020, the property was still under construction and hence was not yet available for use. Moreover, *investment property* includes the rest of the retained property which will be leased out to third parties. This is summarised in the below table:

Asset	Jan-2018	Dec-2018[1]	Dec-2019	Dec-2020
Property	n/a	n/a	€22.3m	€11.7m
Investment Property	€9.4m	€16.6m	€0.4m	€40.9m

1.4 Operational Developments

The Group was set up in view and for the purposes of, and will principally operate by reference to, the Project. The Group has a limited operational history and is of recent origin, with the longest existing member of the Group being the Guarantor, set up in 2016. Albeit, the ultimate beneficial owner of the Group, Mr. Joseph Portelli has a long trading history in the acquisition, development, management and operation of real estate developments including hotels, residential, office and retail property and entertainment projects and outlets. The most recent developments of the Group are described hereunder:

[1] The opening and closing figures for 2018 has been restated in the FY19 financials. The Group was incorporated in early 2019, accordingly balances for 2018 capture the Guarantor's performance at a company level.

- **Impact of COVID-19 on the Group's business**

The Group has been closely monitoring the developments ensuing from the outbreak of the COVID-19 pandemic and the impact on both the local and global economy, with specific reference to the real estate industry.

The pandemic, which is a rapidly evolving situation, has adversely impacted global and local commercial activities. Even at this time, when the outbreak appears to have subsided, the current situation precludes any prediction of its ultimate impact, which may have a continued adverse impact on economic and market conditions and trigger a period of global and local economic slowdown.

To date, the Group has continued to operate without significant disruptions, even during the more challenging months of the pandemic. Construction has been limitedly impacted and at this point in time, given that the Government relaxed the strict COVID-19 related restrictions experienced during the first half of the year, management is confident that the Group can continue to manage the situation without any significant impact.

The Group will continue monitoring developments in relation to the COVID-19 pandemic and is coordinating its operation response based on its business continuity plan and on guidance from health organisations, Government, and general pandemic response best practices. Management is confident that, notwithstanding the current circumstances, the Group will be able to operate through the prevalent market conditions and does not believe that there is any significant financial impact on the Company that would otherwise require any further disclosures.

Notwithstanding the above, it is worth noting that currently certain works are being negatively impacted by restrictions on the availability of imported skilled workforce for specialised work. This may result in the Group experiencing a delay in terms of the Project's completion date.

A detailed update on the development and sale of the Project is found further below in section 1.4.

FY21 Projections

The Group has prepared forecasts to measure the impact of COVID-19 on the Group's operations.

The projections were prepared on the basis of a number of assumptions, which was deemed by management to be as realistic in view of the information and data currently in hand. The salient assumptions on which the projections have been prepared are illustrated below:

- The Group will sell 25 apartments within the tower during FY21, which when combined with the units sold during FY20 (125) and FY19 (106), amounts to 256 apartments by end of year. The units expected to be sold during FY21 are contracts entered into already, or will be entered into by end of 2021;
- The Group expects the remaining 23 apartments to be sold during FY22. It is worth noting that some of these units are already being reserved for clients, however management opted for a conservative approach and excluded such units in the forecasts for FY21;
- The Group will sell a further 92 apartments within the peripheral block (Phase 2 of the Project which will consist a total of 170 serviced apartments) during FY21. Once again, the units expected to be sold during FY21 are contracts to be entered into by the end of 2021;
- The Group expects the remaining 78 apartments pertaining to Phase 2 of the Project to be sold during FY22.

- Management expects cost of sales to be in line with prior projections, and these will vary depending on the number of units sold and state when sold (i.e. be it shell or airspace);
- Given that currently the Group is predominantly focused on real estate development, administrative expenses are not material and are forecasted to remain in line with prior projections;
- The Group enjoys a number of bank relationships which can provide bridge financing from time to time that can supplement the funding from the Bonds and provide the necessary short-term liquidity;
- In October 2019, the Guarantor obtained a bridge loan of €10m, which was revolved to €10.5 million in July 2020;
- Furthermore, during 2021 the Group secured financing amounting to €35m for the second phase of the Project from a local bank;

The Issuer has settled its second bond coupon which was due by the end of the first quarter of 2021. Additionally, the forecasts prepared by the Group indicate that sufficient cash will be generated throughout this financial year and the Group should be in a position to meet its financial commitments, including the next bond interest due on 27 March 2022.

The Group's forecasts for FY21 capture the actual trading results for the 4-month period (1 January to 30 April 2021) and the financial projections for the remaining 8-month period (1 May to 31 December 2021).

- **Mercury Project**

As described above phase 1 of the mercury site was acquired in two stages, for the total price of €24.3m. The first acquisition in December 2016 was made for the total price of €17.4m and was mainly financed through the deposits received by the Guarantor on the preliminary agreements for the sale of airspaces for development of apartments within the Tower. The second acquisition was made on June 2017 for the price of €6.8m, excluding the interest accrued on the payments due between the first and second deed amounting to €305,385, which were financed through a bank loan advanced to the Guarantor. In accordance with the bond's prospectus, this loan was refinanced from the bond's net proceeds, with the remaining proceeds amounting to circa €16.4m utilised for the construction and finishing of Project elements owned by the Guarantor.

In August 2018, a related company, Mercury Exchange Ltd, entered into a 3-year Promise of Sale Agreement to acquire the land adjacent to the mercury site from SGE Property Company Ltd for the total price of €13.75 million, with an additional €250,000 to be paid if the Company would be granted any other permit for the construction within the Property, or in any contiguous area forming part of the same development, of another building exceeding the height of 15 floors apart from the main tower.

It has been agreed to exercise the assignment option included in the Promise of Sale Agreement for the acquisition of the Exchange Site, as originally entered into by Mercury Exchange Ltd with SGE Property Company Ltd on 2 August 2018, such that the Exchange Site is acquired by Mercury Towers Ltd. Mercury Towers Ltd will thus become the owner of the two adjacent sites (the Mercury Site and the Exchange Site), to be developed and eventually operating by it holistically as a single consolidated project.

The Project is designed by internationally renowned architectural firm Zaha Hadid Architects and is one of the final projects signed off by Zaha Hadid herself. Phase 1 of the Project was awarded full development permit by the Malta Planning Authority on 7 February 2018 Planning Authority Permit PA 06955/17.

The second Phase of the Project was awarded full development permit by the Malta Planning Authority on 17 December 2020. Planning Authority Permit PA 01892/19. This Permit also approved some alterations to the main tower, mainly additional 3 floors and a change of use of the roof area.
The finished complex will include a mix of historical and ultra-modern edifices on its site. At its heart is a 19^{th} century heritage building, also known as 'Mercury House', which will be flanked by a 33-storey Tower as well as 2 underground storeys with a hotel situated in its podium and separate 19-storey tower, retail and commercial areas. The complex will also be serviced by an underlying 4-storey car parking facility.

The construction of the Project was limitedly interrupted by the COVID-19 outbreak. Management explained that the majority of workers continued to work during the local partial lockdown, except for a few workers who could not work either due to health restrictions or partial lockdowns imposed by the Government. In fact, the Mercury Tower is now built in shell form, with the commencement of finishing works in Mercury House and in all the levels of the tower. The cladding of the tower, which was contracted to a Turkish company, has commenced after experiencing some delays.

These interruptions were a result of the travel restrictions imposed by the Government to contain the outbreak, which led to the delay of the workers' arrival. To date, only a fraction of the fitters are currently on-site and started working on the cladding installation. Consequently, the opening date of the project is expected to be impacted by these developments. It is too early to assess the length of the delay and the Group will be in a better position to assess the situation during the last quarter of this year. However, the Project may also be affected if local and overseas suppliers and contractors would not be in a position to provide the material and personnel when due. Management confirmed that with the relevant data in hand as at the date of this Analysis, the expected completion date concerning phase 1 of the Project is end of Q1-2022.

The following are the main features of the Project:

- **Tower**

As noted above, the Tower is now going to be spread over 33-stories (previously 30-stories) above ground level, and 6-stories underground, four of which are designated as parking spaces. The gross floor area of the units within the tower (excluding parking spaces) is of 20,591 square meters (previously 19,754 square meters). The tower will consist of 291 (previously 279) branded serviced apartments (an increase of 12 apartments due to the increase in floors permitted under the second phase permit), the majority of which are intended to be sold to third parties (279 apartments), with the remaining 12 apartments intended to be retained by the Guarantor. As at the date of this Analysis, only 23 units are still available for sale out of the 279 apartments (previously 267 apartments), with 11 of these units currently put on hold for interested clients.

The Group plans to convert the above mentioned 12 units into a lesser number of apartments, which will be much larger in size. The Guarantor will predominantly retain these apartments at the uppermost level, which is intended to be used as part of the hotel accommodation pooling arrangement explained below.

The owners of the apartments were given a choice to either keep such apartments for their personal purposes (including rental in their personal capacity), or else to pool these as part of an extended 5-star serviced accommodation for the hotel users. The latter will also be operated as part of the hotel, with these being let to the Guarantor for pre-agreed periods under a pre-agreed rental consideration arrangement.

As described above, the Group is the sole owner of the land on which the tower is being built. The construction, development and finishing of the apartments, as per the prospectus dated 4 March 2019, is being performed by Mercury Contracting Projects Limited (MCPL), a related party to the Group.

In this respect, potential owners seeking to purchase units shall initially enter into a promise of sale agreement with the Guarantor for the sale of the airspace in relation to a particular unit within the tower. The final deed of sale for the airspace will be entered into as soon as the construction of the underlying floor has been completed for units sold as airspace, following which the purchaser shall concurrently enter into a Contract of Works with MCPL for the development and finishing of the said units.

Units already built in shell will be sold in their shell form state, however, the purchaser shall concurrently enter into a Contract of Works with MCPL for the finishing of the said units.

➢ Hotel

Another major element of the Project will be a 19-storey 5-star branded hotel, consisting of a 126-room stand-alone building connected at the podium of the Tower. Its accommodation capacity will extend by virtue of the serviced apartments whose owners sign up to the hotel accommodation pooling arrangement mentioned above.

The Hotel will be owned and operated by the Guarantor which has entered into a hotel management agreement dated 14 August 2018 with the internationally renowned hotel chain Meliá, in particular with Meliá Hotels International S.A. (as Manager) and Prodigios Interactivos S.A. (as Provider), in respect of the Hotel and its facilities.

The Group is currently in discussions with Meliá with respect to timelines and expected dates of opening. It is expected that the serviced apartments in the tower will be finished during the first quarter of next year (Q1-2022). As stated above, the Group is still assessing the extent of the delay brought about by COVID-19.

➢ Commercial Outlets

The Project will also comprise a mix of retail and catering outlets, spanning on levels B01, L00 and L01 of the tower, podium and peripheral building. It is currently planned that the commercial outlets will consist of a number of shops with a total floor area exceeding 8,400 square meters and various catering establishments with a total floor area exceeding 1,500 square meters, although such plans may change from time to time by joining or further splitting such elements or otherwise.

➢ Open areas and amenities

The buildings will be located around several open and landscaped areas, including piazzas, which will occupy approximately a quarter of the total floor area. Moreover, the entire complex will sit on and be serviced by a 4-storey underground car park with over 680 parking spaces, which are generally meant for use by owners and users of the various components of the Project and the public. As noted earlier, the car park will be part owned and fully operated by a company in which the Guarantor has 25% ownership.

- **Phase II – Mercury Project**

Planning Authority has on the 17 December 2020 approved development permit reference number PA01892/19 concerning principally the Exchange Project on the Exchange Site (both terms as defined in the Prospectus, and namely in the Registration Document dated 4th March 2019) but affecting also the main tower and other aspects of the Project on Mercury Site (both terms as defined in the Prospectus, and namely in the Registration Document dated 4th March 2019). By virtue of this permit, which has now become executable, approval was granted:

"To demolish the Go-Exchange building and excavate site to accommodate an entertainment arena, an extension to the existing car park and back of house facilities approved in PA0655/17, and to construct a 9 storey (29m) residential block with retail (Class 4B) facilities on the lower floors and a swimming pool at roof level. The redesign of the podium to include a 19-storey hotel (Class 3B), as an extension to the approved hotel. To restore and refurbish the underground vaults housing the Hotel Spa. To reorganise the uses in the approved main residential floor at level 31, an amenity floor at level 32 and receded roof structure capping the building. The resulting overall height is 121.66m above street level."

As mentioned in the Registration Document dated 4th March 2019, whilst Mercury Towers Ltd is the owner of the Mercury Site on which the Project consisting essentially of the tower, hotel and commercial outlets (Phase 1 Project), Mercury Exchange Ltd which is a related company to the Group that is ultimately beneficially owned by the same shareholder but does not form part of the same group of Companies, entered into a Promise of Sale Agreement with SGE Property Company Ltd to acquire the Exchange Site. The Company was made aware of the intention that the said Mercury Exchange Ltd would develop the Exchange Project (as defined in such Registration Document) on such Exchange Site, consisting essentially of a hotel, offices, retail outlets and residential units (Phase 2 Project).

The development permit PA01892/19 and the design and conceptual changes and developments contained therein have on the one hand been driven by, and have at the same time highlighted and stressed, the desire and sensibility to rationalise and consolidate Phase 1 Project and Phase 2 Project into one single project, from an ownership, design, operational and financial perspective, inter alia for the reasons further explained below.

The project was redesigned to take into account considerations raised by various stakeholders. As a result, the building height of Phase 2 Project is much lower than originally envisaged. Furthermore, the consolidated project, as approved, links both Phases 1 and 2 through the car park, back of house and shopping mall which is spread over 7 floors. The back of house of the entire project is located on the floor above the car park. The shopping mall is located over three floors all across Mercury House, the Tower, the Hotel Podium Area and the Peripheral Block.

Given that the two Phases are intrinsically interlinked, it makes logistical and financial sense to integrate the projects both during the construction phase and, more importantly, during the operational phase especially due to the following considerations:

(i) the shopping mall is being considered as a whole area for rental purposes, and it is thus sensible to consolidate the Phase 1 and Phase 2 properties (and therefore rental income generated therefrom);

(ii) the Tower consists of serviced apartments, some of which will be operated by the Hotel which now forms part of the Phase 2 Project, and therefore this calls for a rationalization of the income of such serviced apartments by consolidating it into the same entity.

In view of the above-mentioned considerations and also in view of the fact that the new designs make the separate cost allocations and revenue attributions between the two distinct Phases impractical, the Company and Mercury Exchange Ltd have been in discussions and concluded that it is more commercially sensible to consolidate the two Phases in all respects. It has therefore been agreed to exercise the assignment option included in the Promise of Sale Agreement for the acquisition of the Exchange Site, as originally entered into by Mercury Exchange Ltd with SGE Property Company Ltd on 2 August 2018, such that the Exchange Site is acquired by Mercury Towers Ltd. Mercury Towers Ltd will thus become the owner of the two adjacent sites (the Mercury Site and the Exchange Site), to be developed and eventually operated by it holistically as a single consolidated project.

The Company has secured financing for the completion of the whole project, including the Commercial Mall, save for financing of the completion of the Hotel. The financing of the completion of the hotel will be sought as soon as it is decided to proceed with the completion of such Hotel as may be deemed sensible in view of developments in the hospitality industry. This financing, together with inflows being, and to be, generated from sales of apartment units to be built of the Peripheral Block is deemed to be sufficient to construct and finish the whole Project.

Although the income streams changed due to the redesign of the various aspects of the whole project, the prospect for repayment of the bonds has not been affected. The total income from the whole project should be more than sufficient to cover the repayment of principal and interest of the bonds and the repayment of the bank loans.

The security given to the Security Trustee for the benefit of bondholders remains unaffected.

1.5 Impact of increased monitor imposed by the Financial Action Task Force

At FATF plenary held between 21 June and 25 June 2021, it was decided that Malta should be put under increased monitoring. The financial projections in this document do not take into consideration any effect that this might have on operations. It is not immediately clear what effect, if any, this development will have on the operations and prospects of the Company. The Company will monitor and assess developments to be in the best position to take any action necessary..

Part 2 – Historical Performance and Forecasts

The Issuer itself 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 Group companies. For the purpose of this document, the focus is on a review of the performance of the Guarantor, which constitutes the entire group of companies.

The financial information in sections 2.1 to 2.3 is extracted from the audited financial statements of the Issuer for the financial years ended 31 December 2018, 2019 and 2020.

The Guarantor's consolidated historical financial information for the three years ended 31 December, 2018, 2019 and 2020, is set out in section 2.4 to 2.6 of this Analysis. Forecasts for 2021 concerning both the Issuer and the Guarantor are based on projections provided by management.

2.1 Issuer's Income Statement

Income statement for the years ended 31 Dec	2019A	2020A	2021F
	€000s	**€000s**	**€000s**
Finance income	825	1,121	1,124
Finance costs	(690)	(899)	(899)
Net finance income	**135**	**222**	**225**
Administrative expenses	(57)	(80)	(83)
Profit before tax	**78**	**142**	**142**
Taxation	(44)	(74)	(73)
Profit after tax	**34**	**68**	**69**

Ratio Analysis	2019A	2020A	2021F
Profitability			
Gross Profit Margin (Gross Profit / Revenue)	16.4%	19.8%	20.0%
EBITDA Margin (EBITDA / Revenue)	4.1%	6.1%	6.1%

The Issuer registered an improved financial performance in FY20, as unlike FY19, this year captures the full year performance of the Group's financing vehicle. As expected, net finance income increased to €222k, with both administrative expenses and the tax change increasing pro-rata. Based on this, the Issuer reported an improved profit after tax of €68k in FY20, which is close to previous expectations.

For FY21 the Issuer is not foreseeing any material changes in its income statement to the figures reported in FY20.

2.2 Issuer's Statement of Financial Position

Statement of Financial Position as at 31 Dec	2019A	2020A	2021F
	€000s	**€000s**	**€000s**
Assets			
Non-current assets			
Loans and receivables	22,444	22,444	22,444
Current assets			
Other receivables	828	1,047	903
Cash and cash equivalents	257	142	354
	1,085	**1,189**	**1,257**
Total Assets	**23,529**	**23,633**	**23,701**
Equity and liabilities			
Share capital	250	250	250
Retained earnings	34	101	170
Total equity	**284**	**351**	**420**
Non-current liabilities			
Interest bearing borrowings	22,500	22,500	22,500
Current liabilities			
Other payables	701	708	708
Current tax liability	44	74	73
	745	**782**	**781**
Total liabilities	**23,245**	**23,282**	**23,281**
Total Equity & Liabilities	**23,529**	**23,633**	**23,701**

The Issuer's major assets mostly comprises of the loans advanced to the Guarantor, where in FY20 this represented circa 95% of the total assets. The remaining 5% mainly represent accrued interest due on the aforementioned loans, in addition to cash and cash equivalents. Total equity in FY20 stood at €351k, with this reflecting the Issuer's share capital of €250k, coupled with the improved profitability recorded during the year under review. Total liabilities amounted to €23.3m with the majority of this being the Series I Bond and Series II Bond totalling €22.5m (coupon rate: 3.75% and 4.25% respectively), followed by the interest due on these bond (classified under other payables).

The Issuer's financial position during FY20 was in line with last year's projections. In addition, the financial position of the Issuer in FY21 is not expected to differ materially. The most notable change is that the Issuer is forecasting other receivables to decline to €0.9m during FY21, while cash reserves are expected to increase to circa €0.4m, primarily as additional funds are expected to be received from the Guarantor during the year.

2.3 Issuer's Cash Flows Statement

Statement of Cash Flows for the years ended 31 Dec	2019A	2020A	2021F
	€000s	€000s	€000s
Cash flows from operating activities			
Profit before tax	78	142	142
Movement in finance income	(825)	(75)	-
Movement in finance expense	693	-	-
Movement in other receivables	(3)	-	-
Movement in other payables	7	8	(1)
Taxes paid	-	(44)	(73)
Net cash used in operating activities	**(49)**	**31**	**68**
Cash flows from investing activities			
Loans advanced to related parties	(22,444)	-	-
Net cash used in investing activities	**(22,444)**	**-**	**-**
Cash flows from financing activities			
Issue of share capital	250	-	-
Proceeds from bond issue	22,500	-	-
Movement on Parent Company Account	1	(146)	144
Net cash generated from financing activities	**22,751**	**(146)**	**144**
Net movements in cash and cash equivalents	**257**	**(115)**	**212**
Opening cash and cash equivalents	-	257	142
Closing cash and cash equivalents	**257**	**142**	**354**

The bond was issued during FY19, consequently at year-end both finance income and finance expense were still accrued. This resulted in the Issuer utilising €49k in operating activities. Following the aforementioned improved financial performance during FY20, as well as favourable movement in working capital, the Issuer's net cash generated from operating activities amounted to 31k during FY20. Net cash generated from operating activities is expected to amount higher to €68k during FY21.

Net cash flows used in investing activities during FY19 reflect the bond issue of €22.5m and the subsequent distribution to the Guarantor. As in the case of FY20, no investing activities are being projected during FY21.

Additionally, while financing activities during FY19 capture the €0.25m share capital of the Issuer, financing activities during FY21 relate to movements on parent company account. In the current financial year, these are projected to amount to €0.1m. Based on the above, the Issuer forecasts a closing cash balance of €354k for FY21.

2.4 Group's Income Statement

Income statement for the years ended 31 Dec	2018A	2019A	2020A	2021F
	€000s	**€000s**	**€000s**	**€000s**
Revenue	4,011	9,047	19,836	26,918
Cost of sales	(2,904)	(7,428)	(12,863)	(19,160)
Gross profit	**1,107**	**1,619**	**6,973**	**7,758**
Other income	-	5	185	-
Total operating costs	(268)	(1,101)	(1,073)	(2,493)
Impairment loss on financial assets	(81)	(127)	(16)	(14)
EBITDA	**758**	**396**	**6,069**	**5,251**
Depreciation	-	-	-	
EBIT	**758**	**396**	**6,069**	**5,251**
Net finance costs	(174)	(1,096)	(899)	(899)
Revaluation of investment property	-	-	24,561	-
Loss/(Profit) before taxes	**584**	**(700)**	**29,731**	**4,352**
Taxation	(265)	(741)	(4,825)	(2,227)
Loss/(Profit) for the period/year	**319**	**(1,441)**	**24,906**	**2,125**

Ratio Analysis	2018A	2019A	2020A	2021F
Profitability				
Growth in Total Revenue (YoY Revenue Growth)	208.5%	125.6%	119.3%	35.7%
Gross Profit Margin (Gross Profit / Revenue)	27.6%	17.9%	35.2%	28.8%
EBITDA Margin (EBITDA / Revenue)	18.9%	4.4%	30.6%	19.5%
Operating (EBIT) Margin (EBIT / Revenue)	18.9%	4.4%	30.6%	19.5%
Net Margin (Profit for the year / Revenue)	8.0%	-15.9%	125.6%	7.9%
Return on Common Equity (Net Income / Average Equity)	54.3%	237.0%	102.5%	6.8%
Return on Assets (Net Income / Average Assets)	0.9%	-2.3%	37.8%	2.3%

Revenue analysis	2018A	2019A	2020A	2021F	Total
Sale of airspace on units PHASE 1:					
Airspace on units sold		106	125	25	256
Total		**106**	**125**	**25**	**256**
	€000s	**€000s**	**€000s**	**€000s**	**€000s**
Total sales on airspace units sold (to date)	4,011	9,047	-	-	13,058
Total sales on airspace units subject to POS	-	-	19,836	6,946	26,782
Total	**4,011**	**9,047**	**19,836**	**6,946**	**39,840**
Sale of airspace on units PHASE 2:					
Airspace on units sold		-	-	92	92
Total		**-**	**-**	**92**	**92**
	€000s	**€000s**	**€000s**	**€000s**	**€000s**
Total sales on airspace units sold (to date)	-	-	-	-	-
Total sales on airspace units subject to POS	-	-	-	19,972	19,972
Total	**-**	**-**	**-**	**19,972**	**19,972**

In FY18, FY19 and FY20, the Group started to recognise revenue from the sale of its units, which as explained earlier pertains to the airspace of these units within the tower. By the end of FY20, the Group sold in total 125 units. This resulted in the Group generating a revenue of €19.8m in FY20.

In FY21, the Group estimates the sale of a further 25 units in relation to phase 1 of the Project. As noted in prior sections of this Analysis, the Issuer is envisaging to also sell 92 apartments vis-à-vis phase 2 of the Project in FY21. On aggregate, total revenue is expected to amount to €26.9m during FY21, representing a growth of 35.7% over FY20.

Cost of sales is directly related to the sale of units, with this expected to amount to €19.2m in FY21, yielding a gross profit of €7.8m.

Operating expenditure, which takes into account the day-to-day expenses of the Group stood at *circa* €1.1m in FY20. In FY21, operating costs are expected to amount to €2.5m, with the majority of this relate to agency/selling fees expected to be incurred by the Group in selling the above-mentioned units. Impairment loss on financial assets stood at €16k in FY20, while in FY21 this is expected to amount lower to €14k.

Based on the above, the Group expects to generate an EBITDA of €5.3m in FY21, translating into an EBITDA margin of 19.5%. Management attribute this projected decline in EBITDA mainly as a result of the elevated level of total operating expenditure (including cost of sales) expected to be incurred by the Group during FY21. It is also important to take into account that the units within phase 1 of the Project attract a higher margin given that these are located within the Tower.

The Project is currently in construction phase, accordingly no depreciation charges have been recognised to date. Depreciation will start to be charged once the project is fully completed. In view of the fact that the Project is not expected to be completed during FY21, no depreciation charge is projected during the year.

Financing costs amounted to €0.9m in FY20 (FY19 €1.1m), which predominantly reflects the interest paid on the Issuer's bonds, more specifically the two issued tranches of €11.5m and €11.0m, incurring a coupon of 3.75% and 4.25%, respectively. Management noted that other interest currently being incurred by the Group is at present being capitalised given that the Project is still under construction. Finance costs incurred during FY21 are expected to remain unchanged and amount to €0.9m.

Fair value of investment property amounted to €24.6m during FY20 with this being mainly attributable to upward revaluation movements concerning the commercial areas and the retail mall forming part of the Project. No further property fair value movements or gains are forecasted for FY21.

The Group's income tax rate is based on a final withholding tax on sale of immovable property as per current legislation. In FY20, income tax amounted to €4.8m, a substantial portion of which relates to deferred tax on the revaluation of investment property. The Group expects taxation to amount to €2.2m during FY21.

Based upon the above considerations, the Group expects to generate a profit of €2.1m in FY21 (FY19: €24.9m). Consequently, net margin is expected to amount lower to 7.9% in FY21 (FY20: 125.6%).

A variance analysis on the Group's income statement is found below in section 2.4.1 of this Analysis.

2.4.1 Group's Variance Analysis

Income Statement	Dec-2020F	Dec-2020A	Variance
	€000s	€000s	€000s
Revenue	21,362	19,836	(1,526)
Cost of sales	(13,185)	(12,863)	322
Gross Profit	**8,177**	**6,973**	**(1,204)**
Other income	-	185	185
Operating expenses	(2,013)	(1,073)	940
Impairment loss on financial assets	(14)	(16)	(2)
EBITDA	**6,150**	**6,069**	**(81)**
Depreciation	-	-	-
EBIT	**6,150**	**6,069**	**(81)**
Finance costs	(1,000)	(899)	101
Revaluation of investment property	-	24,561	24,561
Profit/(loss) before tax	**5,150**	**29,731**	**24,581**
Income tax credit/(expense)	(1,782)	(4,825)	(3,043)
Profit/(loss) after tax	**3,368**	**24,906**	**21,538**

Actual revenue for FY20 was lower when compared to previous expectations by €1.5m. Management explained that this decrease in revenue is a consequence of a re-scheduling in the signing of deeds of nine units, which has now been extended to 2021. In view of this, cost of sales during FY20 is lower when compared to expectations.

The variance in relation to other income recorded by the Group during FY20 relates to the reversal of an over-accrual accounted for in FY19.

In view of the above-mentioned drop in revenue, a positive variance in operating expenses of €0.9m was registered during FY20, which predominantly relate to a lower level of commission expenditure incurred by the Group during the year. In addition, EBITDA during FY20 amounted to €6.1m.

As noted in section 2.4 above, the Group capitalised a portion of its current interest expenses given that the Project is still under construction, with this resulting into a positive variance in finance costs of €0.1m. Moreover, the positive investment property revaluation variance of €24.6m during FY20 relates to the fact that no revaluation movements were factored in when preparing previous projections.

Tax incurred by the Group during FY20 amounted to €4.8m, which is €3m higher when compared to previous expectations. This increase in tax is mainly attributable to deferred tax on the aforementioned movement in investment property. The Group is anticipating to incur €0.5m in taxation costs for FY21.

2.5 Group's Statement of Financial Position

Statement of Financial Position as at 31 December	2018A	2019A	2020A	2021F
	€000s	€000s	€000s	€000s
Assets				
Non-current assets				
Property, plant and equipment	-	22,294	11,661	16,579
Investment property	16,593	401	40,886	74,145
Investment in associate	1	1	2	2
Other receivables	233	689	-	-
Restricted Cash	21	21	21	21
Deferred tax asset	99	143	-	-
	16,947	**23,549**	**52,570**	**90,747**
Current assets				
Inventories	20,839	18,023	8,919	18,655
Trade and other receivables	1,447	20,380	7,337	8,527
Cash and cash equivalents	222	267	578	486
	22,508	**38,670**	**16,834**	**27,668**
Total Assets	**39,455**	**62,219**	**69,404**	**118,415**
Equity and liabilities				
Share capital	500	500	500	20,000
Investment property reserve	-	-	22,596	13,096
Retained earnings	333	(1,108)	1,201	5,271
Total equity	**833**	**(608)**	**24,297**	**38,367**
Non-current liabilities				
Borrowings	1,159	-	-	-
Shareholder's Advances	-	-	-	5,556
Bonds Payable	-	22,500	22,500	22,500
Deferred tax liability	-	-	3,203	3,203
	1,159	**22,500**	**25,703**	**31,259**
Current liabilities				
Borrowings	5,066	10,566	10,406	45,406
Trade and other payables	32,397	29,761	8,924	3,310
Taxation payable	-	-	74	73
	37,463	**40,327**	**19,404**	**48,789**
Total liabilities	**38,622**	**62,827**	**45,107**	**80,048**
Total equity & liabilities	**39,455**	**62,219**	**69,404**	**118,415**

Ratio Analysis	2018A	2019A	2020A	2021F
Financial Strength				
Gearing 1 (Net Debt / Net Debt and Total Equity)	87.8%	101.9%	57.1%	63.7%
Gearing 2 (Total Liabilities / Total Assets)	97.9%	101.0%	65.0%	67.6%
Net Debt / EBITDA	7.9x	82.8x	5.3x	12.8x
Current Ratio (Current Assets / Current Liabilities)	0.6x	1.0x	0.9x	0.6x
Quick Ratio (Current Assets - Inventory / Current Liabilities)	Nil	0.5x	0.4x	0.2x
Interest Coverage level 1 (EBITDA / Cash interest paid)	4.4x	0.4x	6.8x	5.8x

The Group's assets are principally made of property, plant and equipment, investment property, inventories and trade and other receivables. As at FY20, the Group's total assets stood at €69.4m (FY19: €62.2m), of which €11.7m relate to property, plant and equipment.

The noticeable decline in property plant and equipment during FY20 is mainly attributable to the redesigns of the Mercury Tower Project. Areas which were previously allocated to the hotel are now allocated to the commercial units. As a result, airspace and cost of shell of spaces which changed use, have been reclassified from property plant and equipment to investment property during FY20. Property plant and equipment is expected to amount higher to €16.6m during FY21, mainly on account of additional investments expected to be carried out on the hotel during the year.

Apart from the above mentioned re-classification, the increase in investment property over the review period relates to the upward revaluation movement of €24.6m concerning a number of commercial units and the retail mall forming part of the Project. Investment property is expected to increase to €74.1m during FY21, with management attributing this anticipated increase to an increase in value of the commercial mall within the Project.

Inventories amounted to €8.9m during FY20 and this captures the cost of land, together with the cost of construction and development of the spaces available for sale. Once the Group recognises the sale of the airspace on a unit, the respective cost portion of this unit is transferred to cost of sales. Inventories are expected to increase to €18.7m during FY21, reflecting the increase in units available for sale concerning the second phase of the Project.

Trade and other receivables amounted to €7.3m, the majority of which (€4.2m) represents the advances by the Group to MCPL for contracting works which MCPL will be delivering to the Guarantor in the foreseeable future. These are expected to remain at the same level during FY21.

In FY20, the Group's liabilities amounted to €45.1m, which mainly consist of; financial debt and trade and other payables. Financial debt is made up of the Issuer's €22.5m bonds, and bank borrowings amounting to €10.4m. Trade and other payables amounted to €8.9m, the majority of which (€6.9m) reflects deposits received by potential buyers of the units, as per the POS agreements which is currently being transferred to revenue upon signature of deed of sale.

Total liabilities are expected to increase to €80m during FY20 mainly on account of an increase in bank financing (€35m) in relation to the development of the second phase of the Project. This increase is also attributable to the inclusion of €5.6m in shareholders' advances included under non-current liabilities, which as reported by management relates to development works of the hotel.

Total equity during FY21 is projected to increase to €38.4m, mainly as a result of an increase in share capital by part capitalisation of revaluation reserve and shareholder injection.

2.6 Group's Cash Flows Statement

Statement of Cash Flows for the years ended 31 Dec	2018A	2019A	2020A	2021F
	€000s	€000s	€000s	€000s
Cash flows from operating activities				
Operating profit/(loss) before working capital movements	574	(218)	6,085	5,251
Movement in inventory	274	2,817	9,104	(9,736)
Movement in trade and other receivables	(200)	(19,517)	13,716	(1,190)
Movement in trade and other payables	7,257	(1,821)	(20,793)	(5,614)
Contract liability	-	136	-	-
Tax paid	(294)	(741)	(1,450)	(2,227)
Net cash generated from operating activities	**7,611**	**(19,344)**	**6,662**	**(13,516)**
Cash flows from investing activities				
Acquisition of investment property	(7,220)	-	-	(31,314)
Acquisition of property	-	(6,101)	(5,293)	(4,918)
Acquisition of subsidiary	(250)	-	-	-
Acquisition of other investments	(1)	-	-	-
Net cash used in investing activities	**(7,471)**	**(6,101)**	**(5,293)**	**(36,232)**
Cash flows from financing activities				
Issue of shares	302	-	-	-
Advances by shareholder	-	-	-	5,556
Repayment of bank borrowings	-	-	(159)	
Movements in borrowings	(1,639)	4,340	-	35,000
Movements from loans from related companies	1,350	(1,350)	-	-
Increase in share capital	-	-	-	10,000
Interest paid	-	-	(899)	(899)
Net proceeds of bond	-	22,500	-	-
Net cash generated from/(used in) financing activities	**13**	**25,490**	**(1,058)**	**49,657**
Net movements in cash and cash equivalents	**153**	**45**	**311**	**(92)**
Opening cash and cash equivalents	69	222	267	578
Closing cash and cash equivalents	**222**	**267**	**578**	**486**

Ratio Analysis[2]	2018A	2019A	2020A	2021F
Cash Flow				
Free Cash Flow (Net cash from operations + Interest - Capex)	€391	€(25,445)	€2,268	€(48,489)

Based on the improved FY20 performance and the realisation of a substantial number of units sales during the year, the Group generated €6.7m in cash from operating activities. The Group's operating activities also take into account a negative movement in trade and other payables which mainly relate to the release of deposits concerning signed deeds which in turn were transferred to the income statement. The Group is projecting net cash used from operating activities to amount to €13.5m during FY21.

Investing activities of €6.1m represents the capex carried out during FY20 on the Project. Net cash used in investing activities is expected to increase to €36.2m, reflecting the expected cost of construction and finishing works which are envisaged to be paid in FY21 on investment property

[2] Ratio analysis may not agree to prior FASs, due to a change in the calculation methodology or rounding of figures

While minimal financing activities were recorded during FY20, the Group is expecting to generate €49.7m from financing activities during FY21. As noted in prior sections of this Analysis, these mainly relate to the increase in bank financing (€35m) in relation to the development of the second phase of the Project, the inclusion of €5.6m in shareholders' advances concerning development works at the hotel as well as the expected increase in share capital noted in section 1.1 above.

Part 3 – Key Market and Competitor Data

3.1 General Market Conditions

The Group is subject to general market and economic risks that may have a significant impact on its current and future property developments and their timely completion within budget and their profitable operation. These include factors such as the health of the local property market, inflation and fluctuations in interest rates, exchange rates, property prices and rental rates. In the event that general economic conditions and property market conditions experience a downturn, which is not contemplated in the Group's planning during development, this shall have an adverse impact on the financial condition of the Group and may therefore affect the ability of the Issuer to meet its obligations under the Bonds.

- **Economic Update**[3]

In May, business conditions were positive, reflecting the fact that most macroeconomic variables are improving from the very low levels observed in 2020. It is important to take the latter factor into consideration when considering year-on-year growth rates. European Commission data show that sentiment was positive across all sectors – bar the retail sector, which stood marginally negative. Overall economic sentiment edged down in May, but remained above its long-term average.

In April, annual growth in industrial production turned positive after five consecutive negative readings. The volume of retail trade rebounded strongly in annual terms. The number of registered unemployed fell compared with March, while the unemployment rate remained unchanged. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) remained unchanged at 0.1% in April, while inflation based on the Retail Price Index (RPI) accelerated to 0.9%. Maltese residents' deposits expanded at an annual rate of 7.4% in April, following an increase of 7.0% in the previous month, while annual growth in credit to Maltese residents decelerated to 9.4%, from 11.6% a month earlier. In April, the deficit on the cash-based Consolidated Fund narrowed considerably when compared with a year earlier, reflecting a strong increase in government revenue, coupled with a decline in government expenditure.

- **Economic Outlook**[4]

The pandemic situation has evolved considerably during 2021. Following a sharp increase in active cases during the first two months of the year, a number of containment measures were re-introduced in March and April, such as school closures and the shutdown of non-essential shops and services. These measures were then gradually eased following a subsequent decline in active cases.

At the same time, the pace of vaccination has been remarkable, with more than 70% of the adult population receiving at least one jab of the vaccine, which was better than envisaged in February. Indeed, while herd immunity was initially expected to be attained towards the end of summer, this was achieved a month ahead of its start. In addition, fiscal support to the private sector was extended.

Hence, the Central Bank of Malta (CBM) estimates that the downward impact on activity emanating from higher stringency during the first half of 2021 will be compensated by the enhanced fiscal response and the impact on confidence of the rapid pace of vaccination.

[3] Central Bank of Malta – Economic Update 6/2021
[4] Central Bank of Malta – Economic Projections 2020 – 2023 (2021:2)

The level of gross domestic product (GDP) in 2021 is expected to recover somewhat from last year's contraction but is to remain below the 2019 level. It is expected to then reach and exceed 2019 levels in 2022. Containment measures and uncertainty are expected to have negatively affected the supply-side of the economy. In particular, the Maltese economy attracted a smaller net inflow of foreign workers in 2020, average hours worked dropped, investment was postponed and capacity utilisation declined. As a result, potential output growth is estimated to have slowed down from 6.2% in 2019 to 0.9% in 2020.

Potential output growth is expected to pick up to 1.9% in 2021, reflecting an improvement in capacity utilisation, as well as a recovery in investment. It is projected to increase further in 2022 and 2023, mainly reflecting a recovery in productivity and a return of net migration flows more similar to those seen in the pre-pandemic period. Despite the projected recovery in GDP, the economy is expected to continue operating below its potential. Indeed, while the output gap is expected to narrow over the projection horizon, it remains negative throughout, partly reflecting the expectation that the tourism sector will continue to operate below capacity for an extended period.

GDP is set to grow by 4.9% in 2021, 5.4% in 2022, and 4.7% in 2023. These estimates are mainly attributed to a weaker first half due to higher containment measures, which the CBM expects to be broadly offset by a stronger second half due to the very strong pace of vaccination, as well as the enhanced fiscal response.

Due to the pandemic related challenges, private sector firms' investment plans were mostly postponed last year. As uncertainty begins to recede and the economy begins to recover in 2021, investment is expected to bounce back. Furthermore, the EU Budget as well as Next Generation EU (NGEU) funds will provide a substantial boost to government investment during the next three years.

Exports are set to recover somewhat this year from the sharp decline in 2020, but levels will remain relatively low due to the partial recovery in foreign demand and tourism. The recovery in exports is expected to continue in 2022 and 2023, as travel disruptions ease and travellers respond favourably to the high vaccination rate in Malta, although travel exports are not expected to reach 2019 levels until the end of the projection horizon.

With regards to imports, these are set to increase in 2021, reflecting higher domestic demand as well as positive developments in goods exports. Imports are then set to grow further over the rest of the projection horizon, reflecting the expected recovery in final demand.

The unemployment rate is projected to decline marginally to 4.2% this year, from 4.3% last year. It is then expected to remain stable throughout the rest of the projection horizon.

In terms of consumer prices, annual inflation based on the Harmonised Index of Consumer Prices (HICP) is projected to decelerate in 2021, largely reflecting technical factors, mostly related to the computation of the index. In particular, households' consumption basket changed considerably in 2020 as a result of the pandemic, which brought about a large change in the weights of certain subcomponents of the index in 2021.

In 2021, HICP inflation is projected to stand at 0.3%, down from 0.8% in 2020. Thereafter, inflation is expected to pick up, reaching 1.3% in 2022 and 1.6% in 2023.

- **Hospitality**

The Maltese tourism industry has been progressively growing in recent years, benefiting from a surge in tourism with records broken year-on-year. Indeed, the tourism industry is considered to be an important contributor to the Maltese economy as, directly and indirectly, it is estimated to account for 29% of Malta's GDP and 33,180 jobs, or 14.9% of total employment in 2018[5].

This trend is summarised in the below table, illustrating the number of tourist arrivals over the last three years:

	2018	2019	2020	Change 2020/19
Inbound tourists	2,598,690	2,753,239	658,567	-76.1%
Tourist guest nights	18,569,716	19,338,860	5,227,229	-73.0%
Average length of stay	7.1	7.0	7.9	12.9%
Tourist expenditure (€'000s)	2,101,765	2,220,627	455,108	-79.5%
Tourist expenditure per capita (€)	809	807	691	-14.4%

Unfortunately, the tourism sector both locally and internationally, has been severely impacted by the outbreak of the COVID-19 pandemic. As from early March 2020, Malta started to introduce several confinement measures, with the eventual suspension of all passenger flights as from 21 March 2020. Malta international airport was reopened on 1 July and demand for travel started picking up, however this was short-lived, as after the summer of 2020 several EU countries started to battle the second wave of COVID-19 cases, which resulted in the reintroduction of several confinement measures. The unprecedented impact of the pandemic on the local tourism industry is demonstrated by the data above, where during 2020 local inbound tourists fell by 76.1%. Similarly, the industry experienced a decrease of 73.0% in tourist guest nights, with total tourist expenditure plummeting by 79.5% when compared with 2019.

At a European level, international tourist arrivals to Europe dropped 70% in 2020 over 2019. The pandemic now holds a 58% share of international tourist arrivals worldwide, with Asia Pacific remaining closed to tourism. In early 2021, travel restrictions have been tightened further and lockdowns re-introduced across Europe as destinations suffer a third wave of infections.

For the time being, there is no concrete end in sight of the COVID-19 pandemic as cases rise worldwide and multiple variants of the virus emerge. Nevertheless, the roll-out of vaccines, despite distribution challenges, has provided some grounds for optimism for 2021 projections and, together with improved testing regimes, is expected to stimulate consumer confidence and hasten the easing of movement restrictions. Notwithstanding the positive developments from the vaccine front, a return to typical inter-national travel demand patterns will be gradual and apparent towards the second half of 2021, with 2019 levels are expected to possibly be fully reached by 2023. In view of this, HVS[6] report predicts that the European hotel sector is expected to re-establish its RevPAR 2019 performance by 2024.

[5] OCED Tourism Trends and Policies 2020
[6] HVS: The Impact of COVID-19 on the European Hotel Sector

3.2 Comparative Analysis

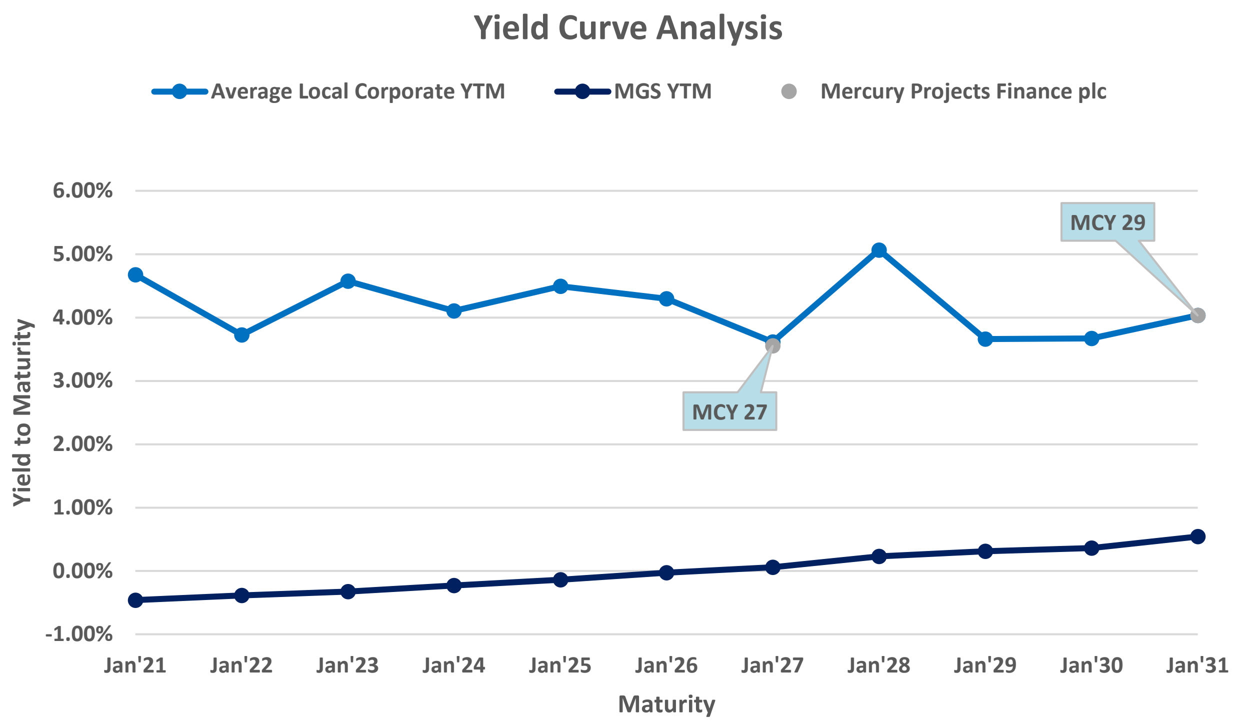
The purpose of the table below compares the debt issuance of the Group to other debt instruments. One must note that given the material differences in profiles and industries, the risks associated with the Group's business and that of other issuers is therefore also different.

Security	Nom Value	Yield to Maturity	Interest coverage (EBITDA)	Total Assets	Total Equity	Total Liabilities / Total Assets	Net Debt / Net Debt and Total Equity	Net Debt / EBITDA	Current Ratio	Return on Common Equity	Net Margin	Revenue Growth (YoY)
	€000's	(%)	(times)	(€'millions)	(€'millions)	(%)	(%)	(times)	(times)	(%)	(%)	(%)
5.8% International Hotel Investments plc 2021	20,000	5.79%	(.2)x	1,544.1	773.2	49.9%	42.1%	(149.9)x	0.9x	-9.1%	-82.3%	-65.7%
6% Pendergardens Developments plc Secured € 2022 Series II	26,781	3.80%	1.6x	60.6	29.5	51.3%	36.4%	5.2x	2.2x	0.0x	0.0x	(.4)x
5.8% International Hotel Investments plc 2023	10,000	5.79%	(.2)x	1,544.1	773.2	49.9%	42.1%	(149.9)x	0.9x	-9.1%	-82.3%	-65.7%
6% AX Investments Plc € 2024	40,000	4.83%	0.8x	348.7	217.4	37.6%	25.5%	28.3x	0.8x	-3.5%	-27.5%	-44.7%
4.4% Von der Heyden Group Finance plc Unsecured € 2024	25,000	3.99%	1.1x	135.0	41.0	69.6%	58.0%	27.2x	2.1x	-4.1%	-7.4%	-9.2%
6% International Hotel Investments plc € 2024	35,000	5.42%	(.2)x	1,544.1	773.2	49.9%	42.1%	(149.9)x	0.9x	-9.1%	-82.3%	-65.7%
5% Tumas Investments plc Unsecured € 2024	25,000	4.08%	7.2x	229.6	137.5	40.1%	17.6%	1.6x	4.5x	8.3%	32.6%	-42.5%
5.75% International Hotel Investments plc Unsecured € 2025	45,000	5.74%	(.2)x	1,544.1	773.2	49.9%	42.1%	(149.9)x	0.9x	-9.1%	-82.3%	-65.7%
4.5% Hili Properties plc Unsecured € 2025	37,000	4.09%	1.6x	149.6	62.7	58.1%	54.9%	14.6x	0.5x	6.8%	52.9%	-11.5%
4% MIDI plc Secured € 2026	50,000	3.99%	(.5)x	227.6	101.8	55.3%	37.8%	(64.5)x	2.9x	-2.1%	-75.1%	-89.8%
4% International Hotel Investments plc Secured € 2026	55,000	3.65%	(.2)x	1,544.1	773.2	49.9%	42.1%	(149.9)x	0.9x	-9.1%	-82.3%	-65.7%
4% International Hotel Investments plc Unsecured € 2026	60,000	3.75%	(.2)x	1,544.1	773.2	49.9%	42.1%	(149.9)x	0.9x	-9.1%	-82.3%	-65.7%
3.25% AX Group plc Unsec Bds 2026 Series I	15,000	3.25%	0.8x	348.7	217.4	37.6%	25.5%	28.3x	0.8x	-3.5%	-27.5%	-44.7%
3.75% Mercury Projects Finance plc Secured € 2027	11,500	3.59%	5.8x	69.4	24.3	65.0%	57.1%	5.3x	0.9x	102.5%	125.6%	119.2%
4.35% SD Finance plc Unsecured € 2027	65,000	4.03%	6.8x	324.4	137.6	57.6%	43.3%	4.1x	1.4x	9.0%	20.5%	5.7%
4% Eden Finance plc Unsecured € 2027	40,000	3.60%	(.5)x	190.5	108.5	43.1%	31.8%	(51.4)x	0.9x	-4.3%	-39.2%	-73.1%
3.75% Tumas Investments plc Unsecured € 2027 (xd)	25,000	3.65%	7.2x	229.6	137.5	40.1%	17.6%	1.6x	4.5x	8.3%	32.6%	-42.5%
4% Stivala Group Finance plc Secured € 2027	45,000	3.83%	2.6x	354.1	231.4	34.6%	26.5%	11.5x	5.0x	11.7%	229.8%	-46.9%
3.85% Hili Finance Company plc Unsecured € 2028	40,000	4.13%	4.1x	628.9	110.1	82.5%	77.1%	5.7x	1.2x	20.5%	4.6%	0.0%
3.65% Stivala Group Finance plc Secured € 2029 (xd)	15,000	3.43%	2.6x	354.1	231.4	34.6%	26.5%	11.5x	5.0x	11.7%	229.8%	-46.9%
3.8% Hili Finance Company plc Unsecured € 2029	80,000	4.06%	4.1x	628.9	110.1	82.5%	77.1%	5.7x	1.2x	20.5%	4.6%	0.0%
3.75% AX Group plc Unsec Bds 2029 Series II	10,000	3.03%	0.8x	348.7	217.4	37.6%	25.5%	28.3x	0.8x	-3.5%	-27.5%	-44.7%
4.25% Mercury Projects Finance plc Secured € 2031	11,000	4.13%	5.8x	69.4	24.3	65.0%	57.1%	5.3x	0.9x	102.5%	125.6%	119.2%
**Average		4.19%										

Source: Latest available audited financial statements

* Last price as at 28/08/2020

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



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

The above graph illustrates the average yearly yield of all local issuers as well as the corresponding yield of MGSs (Y-axis) vs the maturity of both Issuers and MGSs (X-axis), in their respective maturity bucket, to which the spread premiums can be noted. The graph also illustrates on a stand-alone basis, the yield of Mercury Projects Finance plc bonds.

As at 28 June 2020, the average spread over the Malta Government Stocks (MGS) for comparable issuers with maturity range of 5-7 years was 347 basis points. The 3.75% Mercury 2027 bond is currently trading at a YTM of 3.55%, meaning a spread of 349 basis points over the equivalent MGS. This means that this bond is trading at a marginal premium of 2 basis points in comparison to its peers.

As at 28 June 2020, the average spread over the Malta Government Stocks (MGS) for comparable issuers with maturity range of 8-10 years was 303 basis points. The 4.25% Mercury 2031 bond is currently trading at a YTM of 4.03%, meaning a spread of 349 basis points over the equivalent MGS. This means that this bond is trading at a premium of 46 basis points in comparison to its peers.

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 de 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 de 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 Gearing Ratio Level 1 Gearing Ratio Level 2	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance total assets. Is calculated by dividing Net Debt by Net Debt and Total Equity. Is calculated by dividing Total Liabilities by Total Assets.
Net Debt / EBITDA	The Net Debt / EBITDA ratio measures the ability of the Group/Company to refinance its debt by looking at the EBITDA.
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.
Average Daily Rate (ADR)	Average Daily Rate (ADR) is a performance metric used in the hotel industry and it represents the average rental income per paid occupied room in a given time period.
Revenue per Available Room (Rev/PAR)	Revenue per available room (RevPAR) is a performance metric used in the hotel industry. It is calculated by multiplying a hotel's average daily room rate (ADR) by its occupancy rate or by dividing a hotel's total room revenue by the total number of available rooms in the period being measured.