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# Financial Analysis Summary

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25 June 2021

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Issuer

**Stivala Group Finance p.l.c.**



MZ INVESTMENT SERVICES



## MZ INVESTMENT SERVICES

The Directors  
Stivala Group Finance p.l.c.  
143, The Strand  
Gzira  
GZR 1026

25 June 2021

Dear Sirs

### **Financial Analysis Summary**

In accordance with your instructions, and in line with the requirements of the Listing Authority Policies, we have compiled the Financial Analysis Summary (the “**Analysis**”) set out in 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 Stivala Group Finance p.l.c. (the “**Group**” or the “**Issuer**” or the “**Company**”). The data is derived from various sources or is based on our own computations as follows:

- (a) Historical financial data for the years ended 31 December 2018, 31 December 2019 and 31 December 2020 has been extracted from the audited financial statements of the two principal operating companies – ST Properties Ltd and ST Hotels Ltd.
- (b) Historical financial data for the period 21 August 2017 (being date of incorporation) to 31 December 2018 and for the financial years ended 31 December 2019 and 31 December 2020 has been extracted from the audited financial statements of the Company.
- (c) The forecast has been extracted from the projected financial information of the Group for the year ending 31 December 2021.
- (d) Our commentary on the results of the Group and on its financial position is based on the explanations provided by the Company.
- (e) The ratios quoted in the Analysis have been computed by us applying the definitions set out in Part 4 of the Analysis.



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- (f) Relevant financial data in respect of the companies included in Part 3 has been extracted from public sources such as websites of the companies concerned, financial statements filed with the Registrar of Companies or websites providing financial data.

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

Yours faithfully,

**Evan Mohnani**

Senior Financial Advisor

**MZ Investment Services Ltd**

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## PART 1 – INFORMATION ABOUT THE GROUP

### 1. KEY ACTIVITIES

#### 1.1 The Company

The Issuer was set up as the holding company and finance arm of the Group on 21 August 2017 and is the principal vehicle for further expansion of the Group's hospitality business and mixed-use developments. On 26 April 2021, Carlo Stivala relinquished his ownership interest in the Stivala Group and in consideration, certain immovable properties owned by Carmelo Stivala Group Limited and North Harbour Limited (a company which does not form part of Stivala Group) were transferred to CAST Holdings Limited (a company that is ultimately owned by Carlo Stivala and his descendants) as further described elsewhere in this report.

Accordingly, following the execution of the above transaction, the remaining ultimate beneficial owners of the Issuer are Martin John Stivala, Ivan Stivala and Michael Stivala, together with their direct descendants and families, in equal proportions.

#### 1.2 The Guarantor

Carmelo Stivala Group Limited (the “**Guarantor**”) acts as the Group's property holding company and owns almost all of the Group's immovable property, which property is subsequently leased to and operated by the subsidiaries of the Stivala Group (“**Subsidiaries**”). The majority of the shares in the Guarantor are owned by the Issuer.

#### 1.3 Historical Development of the Group

The Group's business has evolved over a number of years, dating back to its origins in 1979 when the late Mr Carmelo Stivala founded C. Stivala & Sons Limited (C 4510) with the object of providing construction and development of real estate to personal and corporate customers. Over the years the Group shifted its focus from an exclusively construction company to a developer of real estate, through the acquisition of real estate, development of those sites and their operation through leases of commercial and residential properties and hotel accommodation.

Since 1979, the Group continued to grow and acquired a significant portfolio of real estate. Initially, the strategy was to acquire real estate and apply the Group's experience and expertise in the construction industry, from where it started, to develop and finish those properties with a view to generating revenues from long-term leases of commercial and residential properties, whilst retaining the real estate on balance sheet and benefiting from the residual values of the real estate. The Group's strategy was further diversified in 1998 when Stivala Operators Limited was set up with its principal activity to move into the operation of hotels, hostels and short-let accommodation.



## 2. DIRECTORS AND KEY EMPLOYEES

### 2.1 The Company

The Company is managed by a Board consisting of six directors entrusted with its overall direction and management.

#### Board of Directors

Michael Stivala	Executive Chairman
Martin John Stivala	Executive Director
Ivan Stivala	Executive Director
Francis Gouder	Independent Non-executive Director
Ann Marie Agius	Independent Non-executive Director
Mark Bamber	Independent Non-executive Director

The executive directors are entrusted with the Company's day-to-day management and are also directors or officers of other companies within the Group.

### 2.2 The Guarantor

The Guarantor is managed by a Board of Directors entrusted with its overall direction and management, and is composed as follows:

#### Board of Directors

Martin John Stivala	Executive Director
Michael Stivala	Executive Director
Ivan Stivala	Executive Director

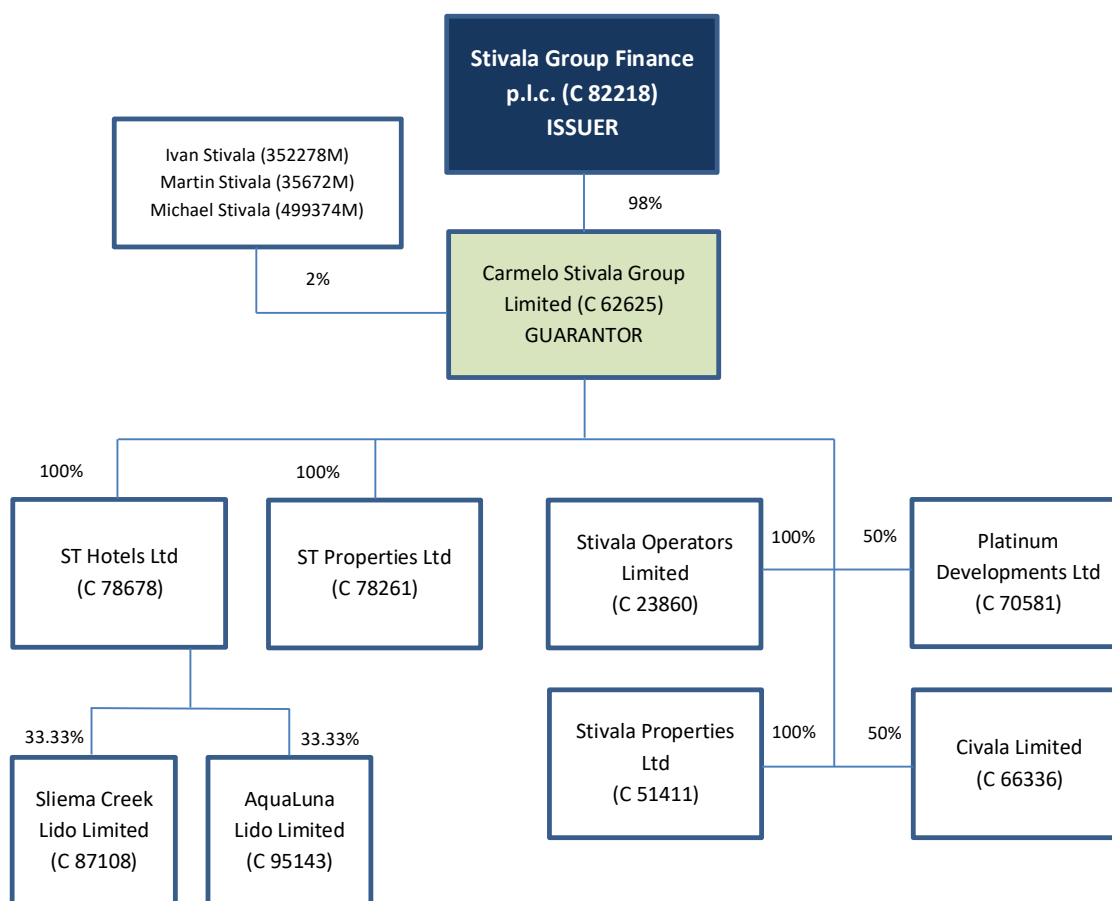
### 2.3 Key Employees of the Group

The key members of the Group's management team, apart from the executive directors, are Kevin Bonnici (Group Financial Controller) and Rebecca Stivala (Group Accounts Manager). The Issuer does not have any employees of its own. As at 31 December 2020, the Group employed 15 staff members in management and administration (2019: 19 employees) and 120 staff members in operational activities (2019: 115 employees).



### 3. ORGANISATIONAL STRUCTURE

The organisational structure of the Group as at the date of this report is illustrated in the diagram below:



*The remaining 50% of Platinum Developments Limited is held by Bastille Malta Trustees Limited as trustee.*

*The remaining 50% of Civala Limited is held by John Cilia (262857M).*

*The remaining 66.67% of each of Sliema Creek Lido Limited and AquaLuna Lido Limited is held by The Waterfront Hotel Limited (C 22209), Marketing and Consultancy Limited (C 8171) and Kennedy Nova Ltd (C57729).*

**ST Properties Ltd** is principally involved in the business of sub-leasing, on a long-term basis, the commercial and residential properties owned by the Guarantor.

**ST Hotels Ltd** is primarily engaged in the operation and management of the Guarantor's hotels, hostels and short let apartments.

Stivala Operators Limited and Stivala Properties Ltd are non-operating entities and will be liquidated in the near future.



The Group also has four associate companies as follows: (i) Platinum Developments Ltd (C 70581) - owns and leases three residential units and one office on the Sliema Seafront; (ii) Civala Limited (C 66336) – has a long term lease on a 900m<sup>2</sup> plot of land earmarked for the future development of a five-storey car park and overlying office space; and (iii) Sliema Creek Lido Limited (C 87108) and AquaLuna Lido Limited (C 95143) – both involved in the development and operation of a lido opposite the Bayview Hotel in Gzira.

## 4. BUSINESS OVERVIEW OF THE GROUP

### 4.1 Principal Activities

The Issuer was established on 21 August 2017 as the holding company and finance arm of the Group.

The Group's main business is the acquisition of real estate for long term investment purposes, principally in the Gzira, Msida University Heights, Sliema and St Julian's areas. Once acquired, the Group is engaged in the development or re-development of those properties and their conversion into residential and commercial properties. The majority of real estate is retained by the Group to generate rental revenues, both from short letting and tourist accommodation as well as from long-term residential, office and retail lets.

The Group has the following main areas of activity:

- **Ownership of real estate** – comprises the identification of sites or real estate that can be developed for subsequent operation, either as part of its hospitality operations or for residential or commercial letting. The Group directly undertakes the development of projects, thus allowing greater control by the Group over costs and timelines of its property developments;
- **Hospitality operations** – the Group operates properties intended for hospitality purposes consisting of hotels, hostels or apartments for short term accommodation;
- **Long-term letting operations** – comprises the letting over the longer term of commercial properties and residential properties owned by the Group.

Group revenue and earnings are derived primarily from the operation of owned hotels, hostels and short let apartments through ST Hotels Ltd. The balance of revenue is generated by ST Properties Ltd and comprises rental income from commercial and long let residential properties.



## 4.2 Ownership of Real Estate

The Group owns its immovable properties primarily through the Guarantor, which are managed and operated by the two principal operating subsidiaries of the Group – ST Hotels Ltd and ST Properties Ltd.

The real estate portfolio of the Group is included in the statement of financial position under the headings “Property, plant and equipment”, “Investment property” and “Assets held for distribution to owner”. On 23 November 2020, the Directors approved an uplift in fair values of the Group’s immovable properties amounting to €116.0 million, which was based on an independent architect’s valuation report dated 31 May 2020.

As at 31 December 2020, the carrying value of real estate amounted to €319.1 million (FY2019: €193.6 million), analysed further hereunder.

### Stivala Group Finance p.l.c. Group Assets

Name and location	Description	As at 31 Dec'20 EUR'000
ST Balluta Business centre, 196, 197, Main Street, St Julians	Long term letting operations	35,446
Bayview Hotel, 143, the strand, Gzira	Hospitality operations	27,397
Azur Hotel, Belvedere Street, Gzira	Hospitality operations	20,094
Sliema Hotel , The Strand , Gzira	Hospitality operations	16,141
ST Business Centre, 120, The Strand, Gzira	Long term letting operations	15,000
Blubay Hotel, Ponsomby Street, Gzira	Hospitality operations	12,000
EC Language school, Triq Marguerite Mangion, St Julians	Long term letting operations	12,000
ST Tower, Testaferata Street, Ta Xbiex	Property to be developed	10,000
153/154, The Strand + 5, Ponsomby Street, Gzira	Hospitality operations	10,000
Parisio Hotel, Parisio Street, Gzira	Property to be developed	5,000
Ponsomby Hotel + Language School , Ponsomby Street, Gzira	Property to be developed	6,217
Montana Hotel, 28/31 Garage + 32, Coleridge Street, Gzira	Property to be developed	6,000
134/135, The Strand, Gzira	Hospitality operations	5,000
Avalon Residence, The Strand , Sliema	Long term letting operations	5,000
136/137/138, The Strand, Gzira	Hospitality operations	5,000
Proposed Home Elderly, Reid Street, c/w Cameron Street, Gzira	Property to be developed	4,030
Blubay Hostel, 70/72/84, Reid Street, Gzira	Hospitality operations	4,013
165/166, The Strand, Gzira	Hospitality operations	4,000
Tower Mansions, Msida	Long term letting operations	3,500
Blubay, 65/67/69/71/73, Fleet Street, Gzira	Hospitality operations	3,003
4/5, Pace Street, Gzira	Long term letting operations	3,000
Charles Guesthouse & Gardenia Mansions, Msida	Long term letting operations	3,000
110/112/114, Carlo Manche Street, Gzira	Hospitality operations	2,700
Valley Towers, Valley Road, Birkirkara	Long term letting operations	2,550
Orchidea Apts, Tah-Hriereb Street, Msida	Long term letting operations	2,501
176/177, The Strand, Gzira	Hospitality operations	2,500
Other properties		34,108
		<b>259,201</b>



A brief description of properties in the course of development or held for future development is provided below:

**PROPERTIES IN COURSE OF DEVELOPMENT OR HELD FOR FUTURE DEVELOPMENT**

Address	Proposed Development	As at 31 Dec'20 (€'000)
Proposed ST Tower, Testaferrata Street, Ta'Xbiex	This property consists of a plot of land measuring 865 sqm and is earmarked for the development of a commercial property having <i>circa</i> 7,300 sqm of office space. A full development permit was issued by the Planning Authority in April 2020. The Group expects to initiate development works once the current uncertain situation subsides and completion is set for 18 to 24 months thereafter.	10,000
Parisio Hotel, Parisio Street, Gzira	This property is situated within the residential area of Sliema where a building height of 4 floors without semi-basement with a maximum height of 20.8 mt. is permitted according to the North Harbours Local Plan and Development Control Design Policy, Guidance and Standards 2015 (DC15). Presently, the site has been cleared with all buildings demolished, except for a house at 19, Parisio Street, Sliema that is still occupied. The property is earmarked for the development of a hotel. The formal Planning Authority application has been submitted.	5,000
Ponsomby Hotel + Language School , Ponsomby Street, Gzira	This property consists of a number of residential units and the total site area measures 390.65 sqm. In terms of PA0105/17, construction shall comprise a hotel and language school including ancillary facilities. The target date for the completion of this development is 2022.	6,217
Montana Hotel, 28/31 Garage + 32, Coleridge Street, Gzira	This property currently has a permit for a 225-room hostel on part of the site (PA 0398/14). An application for its extension to include the whole site has been submitted to the Planning Authority (PA 5370/17). The development was expected to commence in 2020 but will be delayed due to the COVID-19 pandemic. The project should be completed within a 12 to 15-month period from commencement of development works.	6,000
Proposed Home Elderly, Reid Street, c/w Cameron Street, Gzira	This property consists of a block of apartments and various small houses and the total area is 631.70 sqm. Property is to be redeveloped as a home for the elderly with 244 beds in accordance with PA6204/17. The target date for completion of this development is 2024.	4,030
Other properties	Various sites	5,993
<b>TOTAL</b>		<b>37,240</b>



Below is a list of properties that was agreed to as part consideration due to Carlo Stivala and Carmelo Stivala Trustee Limited as trustee of the Seaside Trust, the beneficiaries of which are Carlo Stivala and his descendants, for the aforesaid parties to relinquish all of their rights and interests in the Group. Such assets were classified in the audited financial statements as 'assets held for distribution to owner' and the final deed of transfer was duly executed in April 2021.

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**Stivala Group Finance p.l.c.**  
**Assets Held for Distribution to Owner**

Name and location	Description	As at 31 Dec'20 EUR'000
Quisisana Seafront, Quisisana	Long term letting operations	25,000
Moroni Residence, Moroni Street, Gzira	Hospitality operations	10,000
Vista Point Residence, Msida	Long term letting operations	7,000
Redeemer, 101, Moroni Street, Gzira	Hospitality operations	3,300
St. Louis Mansions, Msida	Long term letting operations	3,000
122/122A, Misrah Il-Barrieri Street, St. Venera	Long term letting operations	3,000
51/ 55, Moroni Street, Gzira	Hospitality operations	1,700
Petite Paradis Flt & Garage G. Bencini Str, Gzira	Hospitality operations	1,650
Centre Point, Valley Road, Msida	Long term letting operations	1,600
Vista verde, Triq V. Menville, Swieqi	Hospitality operations	1,419
81/83/85/85A, Carlo Manche Street, Gzira	Hospitality operations	1,000
33, Juliani Heights, Triq Zammit Clapp, St Julians	Property held-for-sale	729
91, Cameron Street, Gzira	Long term letting operations	200
2, Sir Patrick Stuart Street, Gzira	Long term letting operations	200
125, Fleet Street, Gzira	Long term letting operations	150
		<b>59,948</b>

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### 4.3 Hospitality Operations

Hospitality operations are performed by ST Hotels Ltd. The financial information about ST Hotels Ltd is included in the audited financial statements of the said company for the financial years ended 31 December 2018, 31 December 2019 and 31 December 2020.

Set out below is the statement of total comprehensive income extracted from the audited financial statements of ST Hotels Ltd for the financial years indicated hereunder:

<b>ST Hotels Ltd</b>			
<b>Statement of Total Comprehensive Income</b>			
<b>for the year ended 31 December</b>			
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Revenue	10,972	14,351	5,504
Cost of sales	(4,718)	(6,147)	(3,550)
<b>Gross profit</b>	<b>6,254</b>	<b>8,204</b>	<b>1,954</b>
Other net operating costs	(1,799)	(1,808)	(896)
<b>EBITDA</b>	<b>4,455</b>	<b>6,396</b>	<b>1,058</b>
Depreciation & amortisation	(2,386)	(4,647)	(5,724)
<b>Operating profit (loss)</b>	<b>2,069</b>	<b>1,749</b>	<b>(4,666)</b>
Net finance costs	(402)	(2,169)	(2,217)
<b>Profit/(loss) before tax</b>	<b>1,667</b>	<b>(420)</b>	<b>(6,883)</b>
Taxation	(273)	495	3,721
<b>Profit/(loss) for the year</b>	<b>1,394</b>	<b>75</b>	<b>(3,162)</b>
<b>Total comprehensive income (expense)</b>	<b>1,394</b>	<b>75</b>	<b>(3,162)</b>

Revenue in **FY2018** increased by €1.3 million (+14%) from €9.7 million in FY2017 to €11.0 million, mainly on account of an increase in available units in the segment comprising hostels, short let apartments & other income. Notwithstanding the afore-stated increase in revenue, EBITDA increased only marginally from €4.4 million in FY2017 to €4.5 million as operating & other expenses were higher from a year earlier by €1.2 million. During the year, there was an increase in commissions payable to tour operators, and moreover ST Hotels Ltd incurred one-off application fees for future re-development of certain Group properties.

ST Hotels Ltd reported a profit before tax for FY2018 of €1.7 million, an increase of €0.2 million when compared to normalised profit before tax of €1.5 million in FY2017 (that is, excluding the one-off item of €10.2 million. Profit for the year amounted to €1.4 million (FY2017: €12.1 million).

In April **2019**, St Hotels Ltd commenced operating the 177-room 3-star Azur Hotel situated in Belvedere Street, Gzira, which contributed to the increase of €3.4 million (+72%) in revenue generated from the hotel segment to €8.1 million (FY2018: €4.7 million). Other revenue (including hostels, short let



apartments and other income) remained stable on a y-o-y basis at €6.3 million. As such, total revenue in FY2019 increased by €3.4 million (+31%), from €11.0 million in FY2018 to €14.4 million.

In FY2019, the Company adopted IFRS 16 'Leases' that is effective for periods that begin on or after 1 January 2019. Under the new standard, an asset (the right-of-use of the leased item) and a financial liability to pay rentals are recognised, with the exception of short-term and low-value leases. During the reviewed year, the Company entered into lease agreements with the Guarantor, and accordingly right-of-use assets amounting to €34.6 million and lease liabilities amounting to €33.4 million was recognised. The statement of total comprehensive income includes depreciation charge of €1.8 million and interest on lease liabilities of €1.4 million instead of the annual rental lease of €2.6 million.

Profit for FY2019 amounted to €75,000 compared to €1.4 million in FY2018.

In **FY2020**, the Company's revenue was materially impacted by the COVID-19 pandemic and amounted to €5.5 million. Compared to the prior year, the y-o-y decrease in revenue amounted to €8.8 million or -62%. Further analysis shows that revenue generated by hotels declined by 76% (y-o-y), while other income decreased by 43% (y-o-y). Despite this decline, the Company still managed to register a positive EBITDA of €1.1 million (FY2019: €6.4 million) mainly on account of the cost cutting exercise undertaken by management as well as Government's support through the wage subsidy scheme.

After accounting for depreciation & amortisation and net finance costs of €7.9 million (in aggregate), the Company reported a loss before tax of €6.9 million compared to a loss of €420,000 in the prior year. A tax credit of €3.7 million enabled the Company to reduce its end-of-year loss and thereby reported total comprehensive expense of €3.2 million (FY2019: income of €75,000).



A financial analysis of the three hotels (Bayview Hotel, Sliema Hotel and Azur Hotel) operated by ST Hotels Ltd is provided below:

<b>HOTEL OPERATIONS</b> <b>(Bayview Hotel, Sliema Hotel &amp; Azur Hotel)</b>		<b>FY2018</b> <b>Actual</b>	<b>FY2019</b> <b>Actual</b>	<b>FY2020</b> <b>Actual</b>
Turnover (€'000)		4,693	8,028	1,956
Gross operating profit (€'000)		1,992	4,162	1,017
Gross operating profit margin (%)		42	52	52
Occupancy level (%)		88	89	33
Revenue per occupied room (RevPOR) (€)	(a)	71	75	44
Revenue per available room (RevPAR) (€)		62	66	14
Gross operating profit per available room (GOPAR) (€)	(b)	9,623	12,574	2,727
<b>Benchmark performance<sup>1</sup></b>				
Occupancy level (%)		74	80	n/a
Revenue per occupied room (RevPOR) (€)	(c)	87	89	n/a
Revenue per available room (RevPAR) (€)		64	71	n/a
Gross operating profit per available room (GOPAR) (€)	(d)	5,857	6,652	n/a
<b>Revenue Generating Index (RGI)</b>	(a)/(c)	0.81	0.84	n/a
<b>Gross Operating Profit Generating Index (GOPGI)</b>	(b)/(d)	1.64	1.89	n/a

Note 1: RevPOR is calculated by dividing turnover by occupied room nights

Note 2: RevPAR is calculated by dividing turnover by available room nights

Note 3: GOPAR is calculated by dividing gross operating profit by available room

<sup>1</sup> The BOV MHRA Survey Q4 2019 (published March 2020); statistics for FY2020 are not available.

Source: Management information.

With the addition of the Azur Hotel in April 2019, revenue generated from ST Hotels increased by 71% from €4.7 million in FY2018 to €8.0 million in FY2019. Gross operating profit increased by 109% over the same period, from €2.0 million in FY2018 to €4.2 million in FY2019, thereby improving gross operating profit margin by 10 percentage points to 52%.

The financial information for FY2020 reflects the disruption caused by the pandemic on the hotel's services. During the said period, revenue amounted to €2.0 million, a decrease of €6.0 million from the previous year (FY2019: €8.0 million). Occupancy level declined from 89% in FY2019 to 33% in FY2020, while RevPAR dropped from €66 in FY2019 to €14 (-79%). As a consequence, the Group registered a decrease in GOPAR of €9,847 on a comparable basis to €2,727 (FY2019: €12,574).



## 4.4 Property Rentals

Long lets of residential and commercial Group properties to third parties are administered by ST Properties Ltd. Such leases typically involve rental periods exceeding six months up to a maximum of eight years. Commercial properties principally comprise restaurants, retail outlets and office space.

Financial information about ST Properties Ltd is included in the audited financial statements of the said company for the financial years ended 31 December 2018, 31 December 2019 and 31 December 2020. Set out below is the statement of total comprehensive income extracted from the above-mentioned audited financial statements for the financial years indicated hereunder:

<b>ST Properties Ltd</b>			
<b>Statement of Total Comprehensive Income</b>			
<b>for the year ended 31 December</b>			
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Revenue	5,119	6,457	6,121
<i>Commercial</i>	<i>3,311</i>	<i>2,941</i>	<i>3,560</i>
<i>Residential</i>	<i>1,808</i>	<i>3,516</i>	<i>2,561</i>
Cost of sales	(345)	(675)	(595)
<b>Gross profit</b>	<b>4,774</b>	<b>5,782</b>	<b>5,526</b>
Other net operating (costs)/income	536	661	569
<b>Profit before tax</b>	<b>5,310</b>	<b>6,443</b>	<b>6,095</b>
Taxation	(841)	(967)	(907)
<b>Profit for the year</b>	<b>4,469</b>	<b>5,476</b>	<b>5,188</b>
<b>Total comprehensive income</b>	<b>4,469</b>	<b>5,476</b>	<b>5,188</b>
Gross profit margin	93%	90%	90%
<i>(Gross profit/revenue)</i>			
Net profit margin	87%	85%	85%
<i>(Profit after tax/revenue)</i>			

Revenue generated by ST Properties Ltd in **FY2018** increased by €2.4 million, from €2.7 million in FY2017 to €5.2 million, primarily on account of a full year's rent receivable from the following properties acquired during the prior year: EC language school, St Julian's; The Quisisana Boutique Apartments, Sliema; and the office block at 120, The Strand, Sliema. Overall, the company's profit for the year doubled when compared to FY2017 and amounted to €4.5 million (FY2017: €2.2 million).



In **FY2019**, the Company reported a year-on-year increase of €1.4 million (+26%), from €5.1 million in FY2018 to €6.5 million. The aforesaid growth was due to an increase in the number of residential properties subject to long term lease agreements. The growth in revenue was also reflected in yearly profits which increased by 23%, from €4.5 million in FY2018 to €5.5 million in FY2019.

The results of **FY2020** were adversely impacted by COVID-19 but not to the same extent as the impact on the hospitality operations of the Group. Rental income for the year amounted to €6.1 million, a decrease of €336,000 (-5%) when compared to FY2019. The Company reported mixed results where rents generated from commercial properties increased by 21% (y-o-y) while residential property rental income decreased by 27% (y-o-y). Overall, the Company's profit for the year decreased by €288,000, from €5.5 million in FY2019 to €5.2 million in FY2020.

## 5. BUSINESS OUTLOOK AND DEVELOPMENT STRATEGY

The global spread and impact of the COVID-19 pandemic is complex, unpredictable, and continuously evolving and has resulted, since March 2020, in significant disruption and additional risks to the Group's hospitality operations, the travel industries, and the global economy. The COVID-19 pandemic has led governments and other authorities around the world to impose measures intended to control its spread, including restrictions on large gatherings of people, travel bans, border closings and restrictions, business closures, quarantines, shelter-in-place orders, and social distancing measures. As a result, the COVID-19 pandemic and its consequences have significantly reduced global travel and demand for hotel rooms and have had a material detrimental impact on global commercial activity across the hospitality and travel industries, all of which has had, and is expected to continue to have, a material adverse impact on the Group's business, operations, and financial results.

The extent, duration, and magnitude of the COVID-19 pandemic's effects will depend on various factors, all of which are highly uncertain and difficult to predict, including, but not limited to, the impact of the pandemic on global and regional economies, travel, and economic activity, as well as actions taken by governments, businesses, and individuals in response to the pandemic, any additional resurgence, or COVID-19 variants. These factors include the impact of the COVID-19 pandemic on unemployment rates and consumer discretionary spending; governmental or regulatory orders that impact the Group's business and its industry; the demand for travel and transient and group business; levels of consumer confidence; and the pace of recovery when the pandemic subsides. Moreover, even after shelter-in-place orders and travel bans are lifted and vaccines are more widely distributed and available, demand for hotels, including corporate travel and group meetings, may remain depressed for a significant length of time, and as such, the Group cannot predict if and when demand will return to pre-COVID-19 levels.

Beyond COVID-19, the Group's business strategy focuses on achieving positive and sustainable financial and operational results together with long-term appreciation in the value of the Group's real estate portfolio.



In implementing the Group's development strategy, the Directors aim to identify and acquire real estate in Malta, particularly in the Sliema, Gzira, Msida University Heights and St Julian's area, which they believe has the potential to be re-developed and subsequently operated at sustainable operational yields in the hospitality sector or longer term commercial or residential leases.

The Group has been successful in leveraging its experience and expertise in identifying appropriate sites for development and particularly in applying its knowhow of the construction industry to develop those sites. The Directors believe that the deployment of the Group's own experience and resources, through its construction and project management arm that undertakes all necessary construction and finishing works of the Group's own developments allow it significant advantages to complete the development and re-development of projects within controlled budgets and tight delivery dates. This reduces the risk of counter-party default, cost overruns and time delays and enables the Group to retain the development phase of its projects within its own control and strategic priorities.

The Group's operations focus principally on the hospitality segment and the letting of commercial and residential units of the Group's own properties. In the hospitality sector, the Group aims to continue to provide services at the Group's hotels in line with the expectations of customers typically seeking accommodation in 3 star hotels as well as in hostels and similar accommodation. The Group aims at adopting and implementing strategies that allow it the flexibility to adapt to changing market conditions, particularly in the hospitality sector, by rendering its operations in the 3 star hotel segment and its operations in the short-term letting of tourist accommodation as inter-changeable as possible to be able to meet the demands of customers seeking tourist accommodation in this market segment, thus aiming to enhance overall occupancy levels and average room rates.

From a cost perspective, improved results should continue to be registered through the implementation of cost-control and energy-efficient measures in Group properties, particularly with an increase in operational efficiency. This is achievable through the procurement of goods at better discounts, and the consolidation and rationalisation of decision making within the Group, which on the one hand avoids the need for overly complex and costly management and governance structures and on the other allows greater operational efficiency within the Group.

The Group's long term strategic plans involve owning and holding real estate for investment purposes; the primary objective being the generation of income from the rental of properties or to generate income from their operations, in particular, in the case of property used for short-letting and tourist accommodation (being hotels, hostels and guest houses). Other property is rented out on a long-term basis either for residential purposes, as offices or for retail activities. The Group is continuously seeking to acquire more properties including hotels or guest houses.



## 6. MARKET OVERVIEW

### 6.1 Economic Update<sup>1</sup>

*Malta's economy should see a robust recovery in 2021 and 2022, provided that the tourism sector opens up safely. The recovery is expected to be driven by a rebound in tourism-related services exports, household consumption and investment. Given the supportive fiscal policy stance, the general government deficit is set to widen further in 2021 before improving in 2022 on the back of an accelerating recovery and a winding-down of fiscal support measures.*

The COVID-19 pandemic has decimated tourism proceeds and made a deep dent in consumption. Malta's GDP<sup>2</sup> fell significantly in 2020 with services exports and household consumption contracting sharply under the pressure of the pandemic and related safety measures. On the contrary, financial services and gaming sector exports continued to perform robustly. Although the pandemic has clearly depressed economic activity in Malta, the government's sizeable stimulus package has managed to partially offset some of the impact. Wage supplement schemes and other business support measures appear to have cushioned the drop in consumption.

Consumption and investment are expected to pick up as the recovery takes hold, helped by high levels of accumulated savings. The faster-than-expected rollout of vaccinations in Malta, the high rate of vaccination in the UK, and a gradual easing of restrictions in the EU, should put the tourism sector back on the path to recovery in the second half of 2021 and re-invigorate domestic demand. In 2021, real GDP growth is expected to reach 4.6%, mainly driven by domestic consumption and net exports, as inbound tourism and global trade recover. Robust government expenditure is likely to continue supporting the economy, including via public investment. With both exports and imports recovering, the current account deficit is still expected to widen this year before starting to decrease in 2022.

Supported strongly by policy measures, headcount employment actually increased in 2020 especially in the public sector, professional services, and construction, while there was only a limited increase in Malta's unemployment rate, to 4.3% from 3.6% in 2019. As employment is expected to continue growing at a slow pace, the decrease in unemployment is expected to be gradual.

Harmonised Index of Consumer Prices (HICP)<sup>3</sup> inflation averaged 0.8% in 2020, contained mainly by lower energy and services inflation against a backdrop of contracting demand. In 2021, inflation is expected to rise to 1.2% as domestic demand and tourism services recover. In line with a stronger economic recovery in 2022, inflation is set to increase further to 1.5%.

The government deficit increased to over 10% of GDP in 2020. The major increase in expenditure related to pandemic-mitigating measures was the main reason behind the deteriorating fiscal balance. These measures included a wage support scheme, a voucher scheme to support the hospitality and

<sup>1</sup> Economic Forecast – Spring 2021 (European Commission Institutional Paper 149 May '21).

<sup>2</sup> Gross Domestic Product (GDP) is an estimate of the value of goods and services produced in the economy over a period of time.

<sup>3</sup> The Harmonised Indices of Consumer Prices (HICP) measure the changes over time in the prices of consumer goods and services acquired by households.



retail sectors, utility and rent subsidies for businesses, and healthcare-related outlays, which overall amounted to somewhat less than 6.5% of GDP in 2020. On the revenue side, the steep fall in household and tourist consumption led to a drop in indirect tax revenue. Corporate tax revenues plunged, reflecting the worsened profitability of companies. Sustained by government measures and the relatively good performance of the labour market, revenue from social contributions actually increased.

In 2021, the government deficit is projected to increase further to 11.8% of GDP reflecting ongoing supportive fiscal policy. Growing private consumption and a gradual revival of tourism are expected to support the government's intake from indirect taxes. Revenue from income taxes is projected to grow in line with modest wage growth and the stabilised operating environment for businesses. Proceeds from the investor citizenship scheme are expected to stabilise at last year's level. The measures to sustain the recovery including the extended wage supplement scheme, a new round of the voucher scheme, and newly introduced measures to restore the tourism sector, are expected to continue in 2021. As the economy accelerates and economic support measures wear off, the deficit is forecast to decline in 2022 to around 5.5% of GDP.

The government debt-to-GDP ratio surged to 54.3% in 2020 following the deterioration of the fiscal position. Reflecting ongoing high primary deficits, the debt ratio is set to increase further and reach 65.5% in 2022.

## 6.2 Hospitality<sup>4</sup>

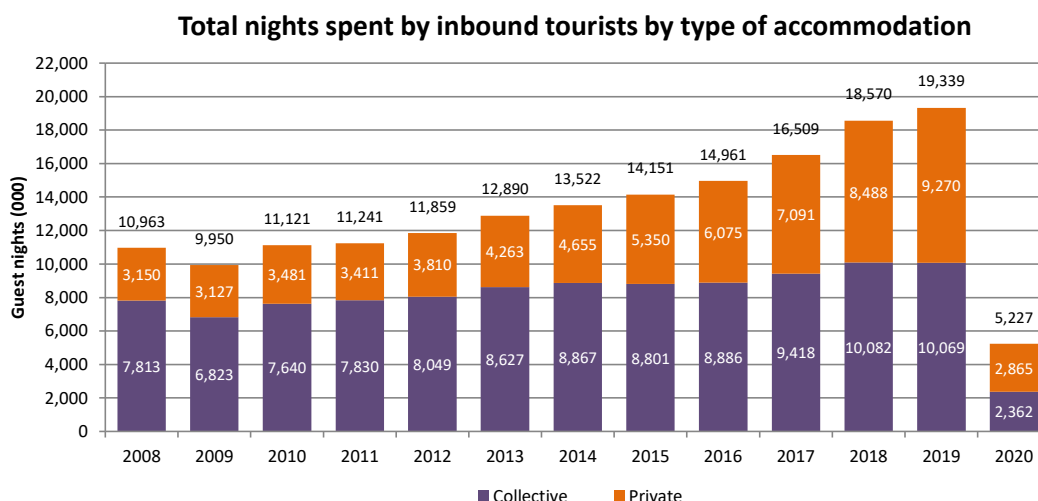
2020 was clearly a very challenging year with COVID-19 heavily impacting demand across the tourism sector. 2021 has begun with many of these challenges still in place, with more meaningful progress towards recovery for the travel industry unlikely until later in the year and dependent on global vaccine rollouts, lifting of restrictions and an acceleration in economic activity.

As shown in the chart below, total nights spent by inbound tourists decreased by 73% from 19.3 million nights in 2019 to 5.2 million nights in 2020. Guest nights at collective accommodation made up 55% of the aggregate (2019: 52%), while rented accommodation (other than collective accommodation) held a 45% share (2019: 48%). In 2020, inbound tourist trips totalled 0.7 million compared to 2.8 million in the prior year (-76.1% y-o-y).

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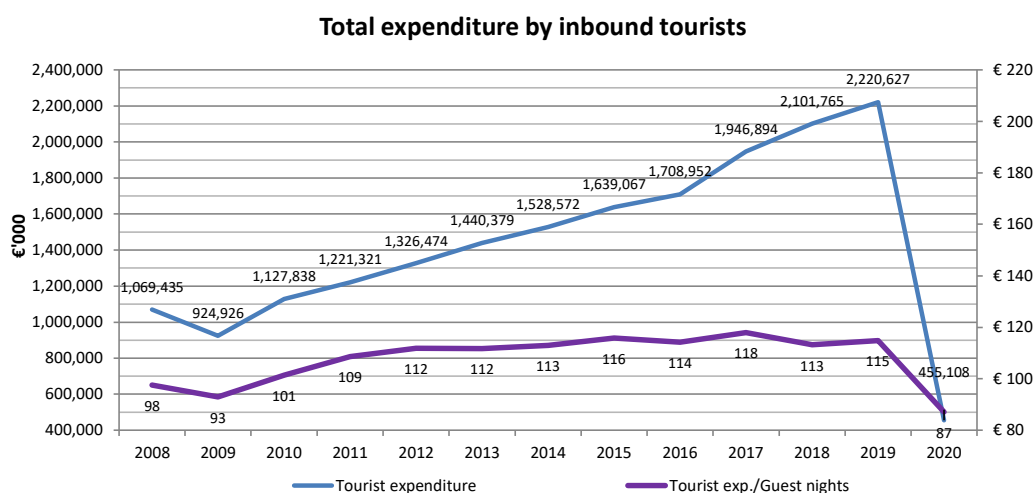
<sup>4</sup> [https://nso.gov.mt/en/News\\_Releases/Documents/2021/News2021\\_018.pdf](https://nso.gov.mt/en/News_Releases/Documents/2021/News2021_018.pdf)





Source: National Statistics Office Malta

Total tourism expenditure declined sharply from €2.2 billion in 2019 to €455.1 million (-79.5% y-o-y), while tourist expenditure per guest night decreased from €115 in 2019 to €87 in 2020 (*vide* chart hereunder).



Source: National Statistics Office Malta

### 6.3 Leases of Commercial and Residential Units

National statistics relating to commercial property in Malta are currently not captured and therefore it is more difficult to gauge the health of this sector. Prior to COVID-19, general business sentiment and the continued drive to promote Malta as a regional hub for the provision of business-related services (notably in the financial, i-gaming, back-office services, information technology, aircraft registration and maritime) generated a positive trend in the commercial property sector, in particular office space.



At present, there are still multiple uncertainties over COVID-19 and its impact on people's health, freedom of movement and the global economy. Vaccine rollouts, travel restrictions and return to workplace policies remain major barriers and accordingly, it is too early to reliably determine the full impact of the pandemic on the commercial property sector in Malta. It is probable that commercial rent rates will trend lower in the near term and may continue in this trajectory until there is a return to normality coupled with a better outlook in terms of demand for such property.

## PART 2 – PERFORMANCE REVIEW

### 7. FINANCIAL INFORMATION

The financial information relating to the Group is extracted from the audited consolidated financial statements of the Issuer for the period 21 August 2017 to 31 December 2018 and for the years ended 31 December 2019 and 31 December 2020.

**The projected consolidated financial information for FY2021 relates to events in the future and are based on assumptions which the Issuer believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between forecast and actual results may be material.**



## Stivala Group Finance p.l.c.

## Consolidated Statement of Total Comprehensive Income

for the year ended 31 December

	2018	2019	2020	2021
	Actual	Actual	Actual	Projection
	(16 mths)	(12 mths)	(12 mths)	(12 mths)
	€'000	€'000	€'000	€'000
Revenue	19,655	22,141	11,748	14,595
Cost of sales	(6,205)	(6,475)	(3,918)	(4,042)
<b>Gross profit</b>	<b>13,450</b>	<b>15,666</b>	<b>7,830</b>	<b>10,553</b>
Net operating costs	(2,645)	(1,555)	(578)	(597)
<b>EBITDA</b>	<b>10,805</b>	<b>14,111</b>	<b>7,252</b>	<b>9,956</b>
Depreciation & amortisation	(3,036)	(3,605)	(5,995)	(6,011)
<b>Operating profit</b>	<b>7,769</b>	<b>10,506</b>	<b>1,257</b>	<b>3,945</b>
Gain from bargain purchase and other net gains	112,886	-	-	-
Movement in revaluation of property	2,334	-	29,021	-
Share in profit of associates	(1)	-	354	-
Loss on distribution to shareholder	-	-	-	(21,131)
Net finance costs	(2,894)	(2,871)	(3,160)	(3,194)
<b>Profit (loss) before tax</b>	<b>120,094</b>	<b>7,635</b>	<b>27,472</b>	<b>(20,380)</b>
Taxation	(4,532)	(1,532)	(480)	(978)
<b>Profit (loss) for the year</b>	<b>115,562</b>	<b>6,103</b>	<b>26,992</b>	<b>(21,358)</b>
<b>Other comprehensive income:</b>				
Movement in revaluation of property, net of tax	-	1,177	81,338	-
Deferred taxation	(35)	-	-	12,973
<b>Total comprehensive income (expense)</b>	<b>115,527</b>	<b>7,280</b>	<b>108,330</b>	<b>(8,385)</b>

## Stivala Group Finance p.l.c.

## EBITDA (Earnings before interest, tax, depreciation

for the year ended 31 December

	2018	2019	2020	2021
	Actual	Actual	Actual	Projection
	(16 mths)	(12 mths)	(12 mths)	(12 mths)
	€'000	€'000	€'000	€'000
<i>EBITDA has been calculated as follows:</i>				
Operating profit	7,769	10,506	1,257	3,945
<i>Add back:</i>				
Depreciation and amortisation	3,036	3,605	5,995	6,011
<b>EBITDA</b>	<b>10,805</b>	<b>14,111</b>	<b>7,252</b>	<b>9,956</b>



Key Accounting Ratios	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Projection
Gross profit margin (Gross profit/revenue)	68%	71%	67%	72%
Operating profit margin (EBITDA/revenue)	55%	64%	62%	68%
Interest cover (times) (EBITDA/net finance cost)	3.73	4.92	2.29	3.12
Net profit margin (Profit after tax/revenue)	588%	28%	230%	-146%
Earnings per share (€) (Profit after tax/number of shares)	385.21	20.34	89.97	-71.19
Return on equity (Profit after tax/shareholders' equity)	100%	5%	12%	-11%
Return on capital employed (EBITDA/total assets less current liabilities)	6%	7%	2%	4%
Return on assets (Profit after tax/total assets)	57%	3%	8%	-7%

Source: MZ Investment Services Ltd

The operating results presented hereinabove primarily reflect the performance of the Group's operating subsidiaries - ST Hotels Ltd and ST Properties Ltd - which are described in further detail in sections 4.3 and 4.4 of this report.

Revenue in **FY2018** increased substantially by €7.3 million (+59%) from €12.4 million in FY2017 to €19.6 million. On a normalised basis (that is, a 12-month period), revenue generated in FY2018 amounted to €15.7 million as compared to €12.4 million a year earlier (+€3.3 million, +27%). In FY2018, profit before tax was positively impacted by a gain from bargain purchase amounting to €112.9 million. This one-off item represented the acquisition by the Issuer of the Guarantor and its subsidiaries. Overall, total comprehensive income in FY2018 amounted to €115.5 million (FY2017: €89.0 million).

#### Adoption of IFRS 16 (leases) as from 1 January 2019

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. On initial application of IFRS 16, for all leases (except as noted below), the Group:

- Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;



- c) Separates the total amount of cash paid into a principal portion (presented with financing activities) and interest (presented within operating activities) in the cash flow statement.

In **FY2019**, the Group applied IFRS 16 'Leases'. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and by requiring the recognition of a right-of-use asset and a lease liability at commencement of all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The date of initial application is 1 January 2019. The disclosure requirements in IFRS 16 have not generally been applied to comparative information.

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets of €645,931 and lease liabilities of €524,823. The Group applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17.

The impact on the income statement in the reporting period is a reduction of the operating expenses by €144,310 (annual rental expense) and increases of depreciation and interest on lease liability by €129,186 and €23,201 respectively.

In FY2019, the Group generated revenue amounting to €22.1 million, an increase of €2.5 million (+13%) when compared to FY2018. This increase in revenue is a reflection of a full year's operating income derived from a larger property portfolio, the expansion occurring in all operational sectors of the Group (hospitality, commercial leasing and residential rental sectors). Furthermore, during the year, the Group sold 10 residential units and 4 garages situated at 33, Juliani Heights, Triq Zammit Clapp, St Julians for an aggregate consideration of €2.8 million. As a consequence, the Group's operating profit increased by €2.7 million (+35%) y-o-y to €10.5 million in FY2019. The Group reported a profit after tax in FY2019 amounting to €6.1 million (FY2018: €115.6 million).

Revenue in **FY2020** decreased by €10.4 million (y-o-y) to €11.7 million as a result of the complete shutdown of the hospitality operations from mid-March 2020 to 30 June 2020, and the curtailment of hotel and short-let operations from July to December 2020. On the other hand, rental income from commercial premises and long-let apartments remained broadly stable, although concessions and, or deferments of monthly rental payments were granted to a limited number of tenants during the shutdown period.

In consequence, EBITDA decreased by 49% from €14.1 million in FY2019 to €7.3 million but remained positive on account of the cost cutting exercise undertaken by management as well as Government's support through the wage subsidy scheme. Due to an uplift in property, plant and equipment of €81.3 million (net of deferred tax), depreciation & amortisation increased by 66% from €3.6 million in FY2019 to €6.0 million in FY2020.



Further to accounting for an increase of €29.0 million in fair value of investment property, the Group reported a profit for the year of €27.0 million compared to €6.1 million in FY2019. As a result of the above-mentioned asset revaluation of €81.3 million, total comprehensive income for the year amounted to €108.3 million (FY2019: €7.3 million).

**Key accounting ratios:** The adverse results of the Group in FY2020 compared to FY2019 are reflected in various key performance indicators as follows: gross profit margin was lower by 4 percentage points to 67%, while operating profit margin decreased from 64% in FY2019 to 62%. Interest cover also weakened from 4.92 times to 2.29 times. Other accounting ratios such as net profit margin and return on equity cannot be used as indicators for FY2020 due to exceptional items in the statement of total comprehensive income (movement in revaluation of investment property and property, plant and equipment).

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

Revenue in **FY2021** is projected to increase by €2.8 million (+24%) y-o-y to €14.6 million on account of an expected improvement in hospitality activities. The upswing in business should result in a 37% increase (y-o-y) in EBITDA to €10.0 million and an increase of €2.7 million in operating profit from €1.2 million in FY2020 to €3.9 million.

The income statement includes a loss of €21.1 million incurred by the Group on distribution of property to Carlo Stivala following his divestiture in April 2021. Net finance costs are expected to remain relatively unchanged on a comparable basis, estimated at €3.2 million.

As a result, the loss for the year is forecasted to amount to €21.4 million compared to a profit of €27.0 million in FY2020. Following a reversal of deferred taxation of €13.0 million on account of the above-mentioned distribution to shareholder, the Group is projected to report a total comprehensive expense of €8.4 million (FY2020: total comprehensive profit of €108.3 million).



<b>Stivala Group Finance p.l.c.</b>				
<b>Consolidated Statement of Cash Flows</b>				
<b>for the year ended 31 December</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Projection</b>
	<b>(16 mths)</b>	<b>(12 mths)</b>	<b>(12 mths)</b>	<b>(12 mths)</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Net cash from operating activities	9,659	10,473	8,553	7,738
Net cash from investing activities	(50,274)	(13,605)	(12,303)	(6,738)
Net cash from financing activities	39,653	5,914	1,954	(1,057)
<b>Net movement in cash and cash equivalents</b>	<b>(962)</b>	<b>2,782</b>	<b>(1,796)</b>	<b>(57)</b>
Expected credit loss	-	(3)	3	4
Cash and cash equivalents at beginning of year	(1,410)	(2,372)	407	(1,386)
<b>Cash and cash equivalents at end of year</b>	<b>(2,372)</b>	<b>407</b>	<b>(1,386)</b>	<b>(1,439)</b>

The consolidated cash flow statement shows that in FY2020, the Group generated cash inflows from operating activities of €8.6 million as compared to €10.5 million in FY2019. The material variance from one year to another is mainly attributable to the significant decline in operating profit which was partly mitigated by favourable working capital movements. In the forecast year (FY2021), the Group expects to generate €7.7 million in net cash from operating activities.

Net cash used in investing activities amounted to €12.3 million in FY2020 (FY2019: €13.6 million) and largely related to the expansion of the Group's property portfolio through acquisitions and development. Capital expenditure for FY2021 is projected to amount to €7.3 million, while an amount of €0.6 million is expected to be receivable from other parties.

Net cash inflows from financing activities amounted to €2.0 million in FY2020 (FY2019: €5.9 million), and mainly related to drawdowns from bank borrowings of €5.0 million less interests payable amounting to €2.8 million. Net drawdown from borrowings is estimated to amount to €2.3 million in FY2021. On the other hand, net cash outflows are projected to amount to €3.4 million and include interest payable of €3.2 million and lease payments of €0.2 million.



**Stivala Group Finance p.l.c.****Consolidated Statement of Financial Position****as at 31 December**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Projection</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	70	68	27	-
Right-of-use asset	-	517	816	621
Investment property	115,846	116,469	34,338	35,027
Property, plant & equipment	74,947	84,538	230,620	238,219
Loans and receivables	7,621	-	-	-
Investment in associates	-	-	355	355
Deferred taxation	-	-	4,959	-
Other non-current assets	1	1	-	-
	<u>198,485</u>	<u>201,593</u>	<u>271,115</u>	<u>274,222</u>
<b>Current assets</b>				
Inventory, trade and other receivables	3,705	7,315	6,661	7,946
Assets held for distribution to owner	-	-	59,948	-
Other financial assets	-	15,494	15,753	13,245
Cash and cash equivalents	235	882	592	179
	<u>3,940</u>	<u>23,691</u>	<u>82,954</u>	<u>21,370</u>
<b>Total assets</b>	<b><u>202,425</u></b>	<b><u>225,284</u></b>	<b><u>354,069</u></b>	<b><u>295,592</u></b>
<b>EQUITY</b>				
<b>Capital and reserves</b>				
Share capital	300	300	300	255
Revaluation and other reserves	89,169	89,124	205,498	171,670
Retained earnings	26,357	33,683	25,639	18,468
	<u>115,826</u>	<u>123,107</u>	<u>231,437</u>	<u>190,393</u>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term borrowings & debt securities	59,246	75,140	79,614	81,553
Lease liabilities	-	397	646	383
Other non-current liabilities	15,394	15,110	25,881	9,595
	<u>74,640</u>	<u>90,647</u>	<u>106,141</u>	<u>91,531</u>
<b>Current liabilities</b>				
Bank overdraft	2,607	475	1,978	1,618
Borrowings	1,077	1,227	1,766	1,416
Lease liabilities	-	128	195	263
Trade and other payables	7,072	7,542	9,571	7,768
Other current liabilities	1,203	2,158	2,981	2,603
	<u>11,959</u>	<u>11,530</u>	<u>16,491</u>	<u>13,668</u>
	<b><u>86,599</u></b>	<b><u>102,177</u></b>	<b><u>122,632</u></b>	<b><u>105,199</u></b>
<b>Total equity and liabilities</b>	<b><u>202,425</u></b>	<b><u>225,284</u></b>	<b><u>354,069</u></b>	<b><u>295,592</u></b>



Key Accounting Ratios	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Projection
Net debt to EBITDA (years) ( <i>Net debt/EBITDA</i> )	5.80	5.42	11.53	8.54
Liquidity ratio (times) ( <i>Current assets/current liabilities</i> )	0.33	2.05	5.03	1.56
Gearing ratio ( <i>Total net debt/net debt and shareholders' equity</i> )	35%	38%	27%	31%
Gearing ratio 2 (times) ( <i>Total net debt/shareholders' equity</i> )	0.54	0.62	0.36	0.45

Source: MZ Investment Services Ltd

In the consolidated statement of financial position, the Group's total assets as at 31 December 2020 amounted to €354.1 million (FY2019: €225.3 million), predominantly composed of investment property and property, plant & equipment. The y-o-y increase of €123.9 million mainly comprises an uplift of €116.0 million in fair value of the Group's properties.

Properties to be transferred to Carlo Stivala following his divestiture in the Group, amounting to €59.9 million, were reclassified to 'assets held for distribution to owner'. The overall divestiture was completed on 26 April 2021 and said properties were transferred in consideration for the value of €61.2 million.

A reclassification was made from non-current to current classification of loans to associate and loans to other related undertakings as these were considered repayable on demand. Loans and receivables as at 31 December 2020 (included under the heading 'other financial assets') amounted to €15.8 million (FY2019: €15.5 million).

Non-current liabilities as at 31 December 2020 amounted to €106.1 million (FY2019: €90.6 million), comprising debt securities of €59.6 million, bank loans of €20.0 million and other non-current liabilities (primarily deferred taxation) of €25.9 million. In FY2020, deferred tax liability increased by €10.8 million pursuant to the revaluation of properties during the year. Long-term lease liabilities amounting to €0.6 million were recognised in terms of IFRS 16.

Current liabilities amounted to €16.5 million (FY2019: €11.5 million) and include trade and other payable, current portion of bank, other borrowings and lease liabilities, overdraft facilities and other liabilities.

During the year under review, the Group secured a €5 million loan under the MDB COVID-19 Guarantee Scheme to manage its working capital needs.

The gearing ratio of the Group strengthened on a y-o-y basis, from 38% in FY2019 to 27% FY2020, due to a significant increase in shareholders' equity following a revaluation exercise of the Group's properties which more than compensated for the y-o-y increase in borrowings of €7.1 million. An



alternative to assessing leverage is the net debt to EBITDA ratio, which weakened from 5.42 years in FY2019 to 11.53 years pursuant to a 49% decline in FY2020 EBITDA.

Total assets as at 31 December **2021** are expected to amount to €295.6 million, a decrease of €58.5 million from the comparable period. In April 2021, €60.0 million of assets were transferred to Carlo Stivala. Furthermore, financial assets are expected to decrease by €2.5 million (y-o-y) to €13.2 million. On the other hand, property, plant & equipment is projected to increase by €7.6 million which is reflective of planned acquisitions and property improvements for the forecast year.

Total liabilities are projected to decrease by €17.4 million mainly on account of a decrease in deferred taxation in connection with the transfers to Carlo Stivala. In view of the afore-mentioned transfers, the gearing ratio of the Group is anticipated to increase by 4 percentage points from 27% in FY2020 to 31% in FY2021.

## 8. VARIANCE ANALYSIS

Stivala Group Finance p.l.c. Consolidated Statement of Total Comprehensive Income for the year ended 31 December 2020			
	Actual €'000	Projection €'000	Variance €'000
Revenue	11,748	14,379	(2,631)
Cost of sales	(3,918)	(2,080)	(1,838)
<b>Gross profit</b>	<b>7,830</b>	<b>12,299</b>	<b>(4,469)</b>
Net operating costs	(578)	(2,456)	1,878
<b>EBITDA</b>	<b>7,252</b>	<b>9,843</b>	<b>(2,591)</b>
Depreciation & amortisation	(5,995)	(3,168)	(2,827)
<b>Operating profit</b>	<b>1,257</b>	<b>6,675</b>	<b>(5,418)</b>
Movement in revaluation of property	29,021	-	29,021
Share in profit of associates	354	-	354
Net finance costs	(3,160)	(2,888)	(272)
<b>Profit before tax</b>	<b>27,472</b>	<b>3,787</b>	<b>23,685</b>
Taxation	(480)	(1,192)	712
<b>Profit for the year</b>	<b>26,992</b>	<b>2,595</b>	<b>24,397</b>
<b>Other comprehensive income:</b>			
Movement in revaluation of property, net of tax	81,338	-	81,338
<b>Total comprehensive income</b>	<b>108,330</b>	<b>2,595</b>	<b>105,735</b>

As presented in the above table, the Group's FY2020 revenue was lower than expected by €2.6 million which principally emanated from the underperformance of the Group's hospitality segment. EBITDA was lower by a broadly similar amount at €2.6 million.



The positive variance in total comprehensive income of €105.7 million mainly relates to the revaluation of properties amounting to €110.4 million which was not included in the projections. Depreciation & amortisation was higher than projected by €2.8 million due to the higher property values following the aforesaid uplifts.

Stivala Group Finance p.l.c. Consolidated Statement of Cash Flows for the year ended 31 December 2020			
	Actual €'000	Projection €'000	Variance €'000
Net cash from operating activities	8,553	4,320	4,233
Net cash from investing activities	(12,303)	(7,744)	(4,559)
Net cash from financing activities	1,954	3,952	(1,998)
<b>Net movement in cash and cash equivalents</b>	<b>(1,796)</b>	<b>528</b>	<b>(2,324)</b>
Expected credit loss	3	-	3
Cash and cash equivalents at beginning of year	407	407	-
<b>Cash and cash equivalents at end of year</b>	<b>(1,386)</b>	<b>935</b>	<b>(2,321)</b>

Actual net movement in cash and cash equivalents was lower than projected by €2.3 million, mainly on account of lower than expected net drawdowns from bank and other loans. In fact, the variance in net cash from financing activities between actual and projection amounted to - €2.0 million.

The variance in net cash from operating activities was positive and amounted to €4.2 million, which mitigated the higher than expected capital expenditure of €4.6 million incurred during the year.

<b>Stivala Group Finance p.l.c.</b> <b>Consolidated Statement of Financial Position</b> <b>as at 31 December 2020</b>			
	Actual €'000	Projection €'000	Variance €'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	27	70	(43)
Right-of-use asset	816	388	428
Investment property	34,338	123,581	(89,243)
Property, plant & equipment	230,620	85,038	145,582
Loans and receivables	-	15,644	(15,644)
Investment in associates	355	-	355
Deferred taxation	4,959	-	4,959
Other non-current assets	-	1	(1)
	<u>271,115</u>	<u>224,722</u>	<u>46,393</u>
<b>Current assets</b>			
Inventory, trade and other receivables	6,661	5,602	1,059
Assets held for distribution to owner	59,948	-	59,948
Other financial assets	15,753	-	15,753
Cash and cash equivalents	592	2,180	(1,588)
	<u>82,954</u>	<u>7,782</u>	<u>75,172</u>
<b>Total assets</b>	<b><u>354,069</u></b>	<b><u>232,504</u></b>	<b><u>121,565</u></b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	300	300	-
Incentives and benefits reserve	4,826	-	4,826
Revaluation and other reserves	200,672	90,340	110,332
Retained earnings	25,639	36,877	(11,238)
	<u>231,437</u>	<u>127,517</u>	<u>103,920</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term borrowings & debt securities	79,614	80,184	(570)
Lease liabilities	646	231	415
Other non-current liabilities	25,881	15,544	10,337
	<u>106,141</u>	<u>95,959</u>	<u>10,182</u>
<b>Current liabilities</b>			
Bank overdraft	1,978	1,245	733
Borrowings	1,766	-	1,766
Lease liabilities	195	147	48
Trade and other payables	9,571	5,121	4,450
Other current liabilities	2,981	2,515	466
	<u>16,491</u>	<u>9,028</u>	<u>7,463</u>
	<u>122,632</u>	<u>104,987</u>	<u>17,645</u>
<b>Total equity and liabilities</b>	<b><u>354,069</u></b>	<b><u>232,504</u></b>	<b><u>121,565</u></b>



Actual total assets in FY2020 amounted to €354.1 million compared to a forecast figure of €232.5 million. The positive variance of €121.6 million was mainly derived from uplifts in investment property and property, plant & equipment which were not anticipated at the time of preparation of the projections. Furthermore, deferred tax assets amounting to €5.0 million were not reflected in the projections.

The adverse variance in total liabilities amounted to €17.6 million and was mainly due to higher deferred tax liabilities and trade & other payables of €10.3 million and €4.5 million respectively.

## PART 3 – COMPARABLES

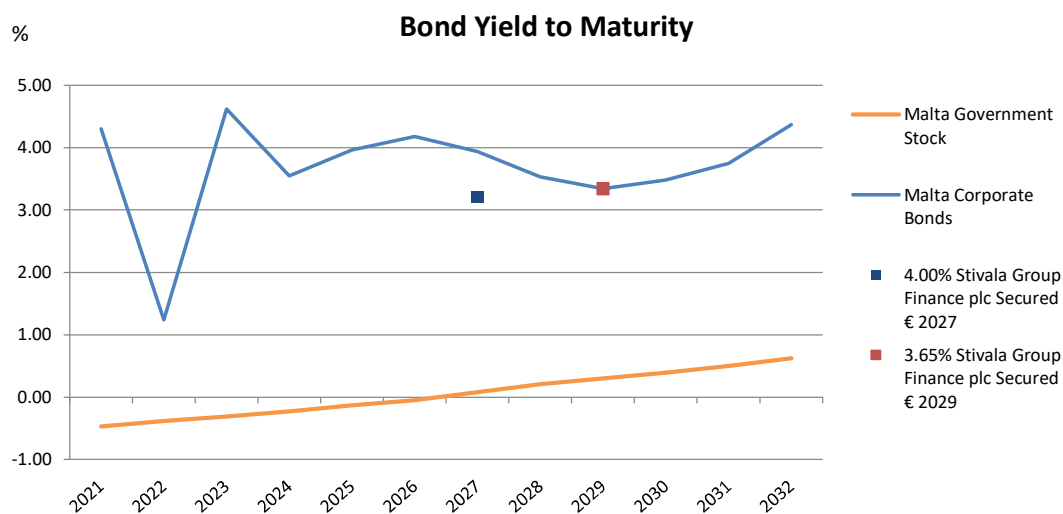
The table below compares the Company and its bond issue to other debt issuers listed on the Malta Stock Exchange and their respective debt securities. Although there are significant variances between the activities of the Company and other issuers (including different industries, principal markets, competition,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

Comparative Analysis	Nominal Value (€)	Yield to Maturity (%)		Interest Cover (times)	Total Assets (€'000)	Net Asset Value (€'000)	Gearing Ratio (%)
5.80% International Hotel Investments plc 2021	20,000,000	4.30	-	0.61	1,544,099	773,176	41.87
3.65% GAP Group plc Secured € 2022	30,049,800	1.24		2.24	103,895	15,134	73.44
6.00% Pendergardens Developments plc Secured € 2022 Series	21,845,300	3.53		1.79	60,578	29,491	36.39
4.25% GAP Group plc Secured € 2023	19,247,300	2.66		2.24	103,895	15,134	73.44
5.30% United Finance Plc Unsecured € Bonds 2023	8,500,000	4.62		1.44	36,921	8,038	70.88
5.80% International Hotel Investments plc 2023	10,000,000	4.47	-	0.61	1,544,099	773,176	41.87
6.00% AX Investments Plc € 2024	40,000,000	4.76		0.76	348,657	217,449	25.57
6.00% International Hotel Investments plc € 2024	35,000,000	4.16	-	0.61	1,544,099	773,176	41.87
5.30% Mariner Finance plc Unsecured € 2024	35,000,000	3.55		3.66	100,350	50,297	48.12
5.00% Hal Mann Vella Group plc Secured € 2024	30,000,000	4.04		2.04	122,396	47,319	52.86
5.10% 1923 Investments plc Unsecured € 2024	36,000,000	4.31		3.09	135,492	45,574	27.66
4.25% Best Deal Properties Holding plc Secured € 2024	14,776,400	3.03		-	27,453	4,128	81.72
3.7% GAP Group plc Secured € 2023-2025 Series 1	21,000,000	3.45		2.24	103,895	15,134	73.44
5.75% International Hotel Investments plc Unsecured € 2025	45,000,000	4.34	-	0.61	1,544,099	773,176	41.87
5.10% GPM Holdings plc Unsecured € 2025	13,000,000	4.56		7.33	160,836	54,602	29.84
4.50% Hili Properties plc Unsecured € 2025	37,000,000	3.96		1.46	149,639	62,675	54.94
4.35% Hudson Malta plc Unsecured € 2026	12,000,000	4.18		3.16	43,383	5,522	81.61
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	3.79	-	0.51	1,717,057	828,470	42.64
4.00% International Hotel Investments plc Secured € 2026	55,000,000	3.46	-	0.61	1,544,099	773,176	41.87
3.75% Premier Capital plc Unsecured € 2026	65,000,000	3.32		7.39	278,759	53,003	75.22
4.00% International Hotel Investments plc Unsecured € 2026	60,000,000	3.64	-	0.61	1,544,099	773,176	41.87
3.25% AX Group plc Unsec Bds 2026 Series I	15,000,000	2.28		0.76	348,657	217,449	25.57
4.35% SD Finance plc Unsecured € 2027	65,000,000	3.96		6.86	324,427	137,612	28.31
4.00% Eden Finance plc Unsecured € 2027	40,000,000	3.94	-	0.50	190,466	108,369	31.32
<b>4.00% Stivala Group Finance plc Secured € 2027</b>	<b>45,000,000</b>	<b>3.21</b>	<b>2.30</b>	<b>354,069</b>	<b>231,437</b>	<b>26.54</b>	
3.85% Hili Finance Company plc Unsecured € 2028	40,000,000	3.53		3.87	628,916	110,128	77.11
<b>3.65% Stivala Group Finance plc Secured € 2029</b>	<b>15,000,000</b>	<b>3.34</b>	<b>2.30</b>	<b>354,069</b>	<b>231,437</b>	<b>26.54</b>	
3.80% Hili Finance Company plc Unsecured € 2029	80,000,000	3.80		3.87	628,916	110,128	77.11
3.75% AX Group plc Unsec Bds 2029 Series II	10,000,000	2.69		0.76	348,657	217,449	25.57

31-May-21

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





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

31 May 2021

To date, there are no corporate bonds which have a redemption date beyond 2032. The Malta Government Stock yield curve has also been included since it is the benchmark risk-free rate for Malta.

The 2027 bonds are trading at a yield of 3.21%, which is *circa* 73 basis points below other corporate bonds maturing in the same year. The premium over FY2027 Malta Government Stock is 329 basis points.

The 2029 bonds are trading at a yield of 3.34%, which is at par when compared to other corporate bonds maturing in 2029. The premium over FY2029 Malta Government Stock is 331 basis points.



## PART 4 – EXPLANATORY DEFINITIONS

Income Statement	
Revenue	Total revenue generated by the Group from its business activities during the financial year, including room reservations, food & beverage, rental income and other revenue streams.
Cost of sales	Direct costs include cost of food, beverages, consumables, labour expenses and all other direct expenses.
Gross profit	Gross profit is the difference between revenue and direct costs. It refers to the profit made by the Group before deducting administrative costs, depreciation & amortisation, finance costs, impairment provisions, share of results from associate and affiliate companies and other operating costs.
Administrative costs	Administrative costs include all operating expenses other than direct costs and include general & administration expenses.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. EBITDA can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.
Share of results of associates	The Guarantor owns minority stakes in a number of companies (less than 50% plus one share of a company's share capital). The results of such companies are not consolidated with the subsidiaries of the db Group, but the Guarantor's share of profit is shown in the profit and loss account under the heading 'share of results of associates'.
Profit after tax	Profit after tax is the profit made by the Group during the financial year both from its operating as well as non-operating activities.
Key Performance Indicators	
Occupancy level	Occupancy level is the percentage of available rooms that were sold during a given period of time. It is calculated by dividing the number of rooms sold by total number of rooms available.
Revenue per occupied room (RevPOR)	RevPOR is calculated by adding all income generated (room accommodation, food & beverage and other income) and dividing it by the number of occupied rooms. A hotel uses this indicator as a performance measure with other hotels in the same category or market to determine how well the hotel property is yielding.



Revenue per available room (RevPAR)	RevPAR is calculated by adding all income generated (room accommodation, food & beverage and other income) and dividing it by the number of available rooms. A hotel uses this indicator as a performance measure with other hotels in the same category or market to determine how well the hotel property is yielding.
Gross operating profit per available room (GOPAR)	GOPAR is the total revenue of the hotel less expenses incurred earning that revenue, divided by the available rooms. This indicator is another performance measure used in the hotel industry.
Revenue generating index (RGI)	A revenue generating index measures a hotel's fair market share of its segment's (competitive set, market, etc) revenue per occupied room. If a hotel is capturing its fair market share, the index will be 1; if capturing less than its fair market share, a hotel's index will be less than 1; and if capturing more than its fair market share, a hotel's index will be greater than 1.
Gross operating profit generating index (GOPGI)	A gross operating profit generating index measures a hotel's fair market share of its segment's (competitive set, market, etc) gross operating profit per available room. If a hotel is capturing its fair market share, the index will be 1; if capturing less than its fair market share, a hotel's index will be less than 1; and if capturing more than its fair market share, a hotel's index will be greater than 1.

#### Profitability Ratios

Gross profit margin	Gross profit margin is the difference between revenue and direct costs expressed as a percentage of total revenue.
EBITDA margin	EBITDA margin is operating income or EBITDA as a percentage of total revenue.
Net profit margin	Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue.

#### Efficiency Ratios

Return on equity	Return on equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing profit after tax by shareholders' equity.
Return on capital employed	Return on capital employed (ROCE) indicates the efficiency and profitability of a company's capital investments, estimated by dividing operating profit by capital employed.
Return on Assets	Return on assets (ROA) is computed by dividing profit after tax by total assets.



### Equity Ratios

Earnings per share	Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date.
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### Cash Flow Statement

Cash flow from operating activities	Cash generated from the principal revenue-producing activities (room revenue, food & beverage, hotel services, rental income etc) of the Group.
Cash flow from investing activities	Cash generated from activities dealing with the acquisition and disposal of long-term assets and other investments of the Group.
Cash flow from financing activities	Cash generated from the activities that result in change in share capital and borrowings of the Group.

### Balance Sheet

Non-current assets	Non-current asset are the Group's long-term investments, which full value will not be realised within the accounting year. Non-current assets are capitalised rather than expensed, meaning that the Group amortises the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in which the asset was acquired. Such assets include intangible assets (including goodwill on acquisition), investments in associates, investment property, and property, plant & equipment.
Current assets	Current assets are all assets of the Group, which are realisable within one year from the balance sheet date. Such amounts include accounts receivable, inventory (food, beverages, consumables, etc), cash and bank balances.
Current liabilities	All liabilities payable by the Group within a period of one year from the balance sheet date, and include accounts payable and short-term debt, including current portion of bank loans.
Non-current liabilities	The Group's long-term financial obligations that are not due within the present accounting year. The Group's non-current liabilities include long-term borrowings and bonds.
Total equity	Total equity includes share capital, reserves & other equity components, retained earnings and non-controlling interest.

### Financial Strength Ratios

Liquidity ratio	The liquidity ratio (also known as current ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts
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	over the next 12 months. It compares a company's current assets to its current liabilities.
Interest cover	The interest coverage ratio is calculated by dividing a company's operating profit of one period by the company's interest expense of the same period.
Net debt to EBITDA	The net debt to EBITDA ratio is a measurement of leverage, calculated as a company's interest bearing liabilities minus cash or cash equivalents, divided by its EBITDA. This ratio shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant.
Gearing ratio	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance a company's assets, and is calculated by dividing a company's net debt by net debt plus shareholders' equity. Alternatively, the gearing ratio can be calculated by dividing a company's net debt by shareholders' equity.

