
Financial Analysis Summary

23 May 2022

Issuer

AX Real Estate p.l.c.



MZ INVESTMENT SERVICES



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The Directors
AX Real Estate p.l.c.
AX Group, AX Business Centre,
Triq id-Difiza Civili
Mosta MST 1741
Malta

23 May 2022

Dear Board Members,

Financial Analysis Summary

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

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

- (a) Historical financial data for the period 6 June 2019 (being date of incorporation) to 31 October 2019 and for the financial years ended 31 October 2020 and 31 October 2021 has been extracted from audited financial statements of the Company for the period/years in question.
- (b) The projected data for the years ending 31 October 2022, 31 October 2023, 31 October 2024 and 31 October 2025 has been provided by management.
- (c) Our commentary on the results of the AX Real Estate Group and on its financial position is based on the explanations provided by management.
- (d) The ratios quoted in the Financial Analysis Summary have been computed by us applying the definitions set out in Part 4 of the Analysis.
- (e) Relevant financial data in respect of such companies included in Part 3 has been extracted from public sources such as websites of the companies concerned, financial statements filed with the Registrar of Companies or websites providing financial data.



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The Analysis is meant to assist investors in the Company's securities and potential investors by summarising the more important financial data of the AX Real Estate 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
63, St Rita Street,
Rabat RBT 1523,
Malta
Tel: 2145 3739

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PART 1 – INFORMATION ABOUT THE COMPANY

1. COMPANY'S KEY ACTIVITIES

The Company is a subsidiary of AX Group p.l.c. and acts as the holding company of the Real Estate division within the AX Group. During FY2021, the AX Group completed a group reorganisation with the ultimate aim of consolidating its property letting activities into one, newly formed real estate division, the holding entity of which is the Company.

The Company was registered on 6 June 2019 as a private limited liability company and was subsequently converted into a public limited liability company on 23 November 2021. As the holding entity of the AX Real Estate Group, the Company is economically dependent on the financial position and performance of its Subsidiaries.

The AX Real Estate Group is involved in the letting of properties to the AX Group and to a lesser extent, third parties. A description and analysis of the operational activities and performance of the AX Group is included in the last published financial analysis report which is available on the website of the AX Group (<https://axgroup.mt/investment/>).

In February 2022 (FY2022), AX Group listed AX Real Estate p.l.c. on the Malta Stock Exchange, with 25% of the ordinary 'A' shares being taken up by the general public. Through this transaction, the amount of €13.6 million was raised. In conjunction with the share issue, AX Real Estate p.l.c. also issued €40 million unsecured bonds redeemable in 2032. The general public subscribed to €18.4 million of bonds whilst the remaining €21.6 million were allocated to AX Group p.l.c. through the part conversion of an existing intra-group loan with AX Real Estate p.l.c.



2. DIRECTORS AND SENIOR MANAGEMENT

2.1 BOARD OF DIRECTORS

The Company is managed by a Board consisting of seven directors who are entrusted with the overall direction, administration and management of the Real Estate division. The Board currently consists of one executive director, who also occupies the role of Chief Executive Officer, and six non-executive directors of whom three are independent.

Angelo Xuereb	Non-Executive Chairman
Denise Micallef Xuereb	Executive Director and Chief Executive Officer
Michael Warrington	Non-Executive Director
Christopher Paris	Non-Executive Director
Christian Farrugia	Independent Non-Executive Director
Joseph Lupi	Independent Non-Executive Director
Stephen Paris	Independent Non-Executive Director

2.2 SENIOR MANAGEMENT

The Executive Director forms part of the Company's executive team entrusted with the day-to-day management of the Group. The Executive Director is supported in this role by several consultants and key management, and benefits from the know-how gained by members and officers of the AX Group.

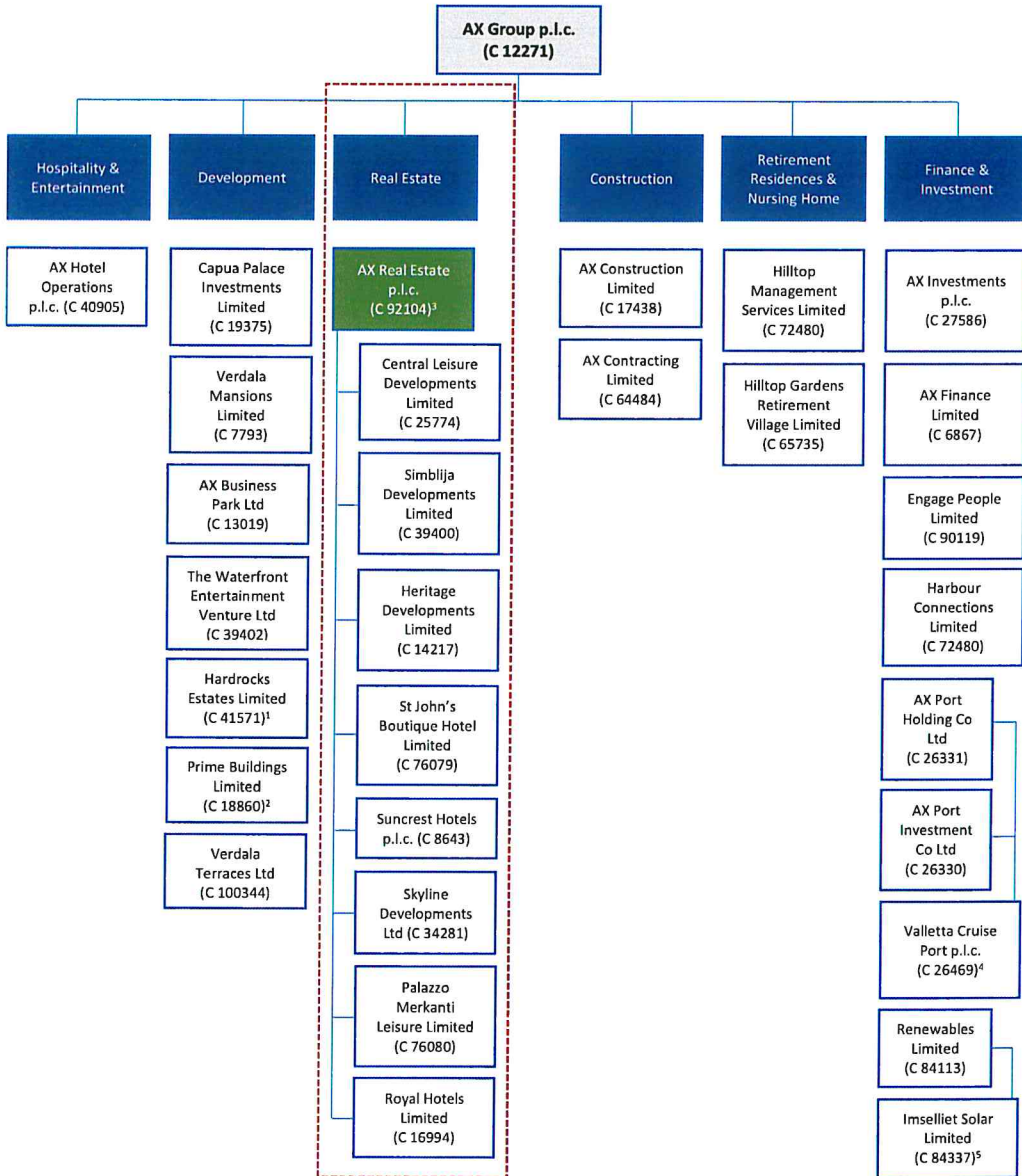
The executive team is composed of the following individuals:

Denise Micallef Xuereb	Chief Executive Officer
Joseph Borg	Chief Financial Officer



3. ORGANISATIONAL STRUCTURE

The diagram hereunder illustrates the organisational structure of the AX Real Estate Group as at the date of this report, indicating the position of the Company and the Real Estate division within the AX Group.



¹ 50% ownership
² 75% ownership
³ 91.13% ownership
⁴ 36% ownership
⁵ 33.3% ownership



4. MAJOR ASSETS OWNED BY THE GROUP

The table below provides a summary of the properties held by the AX Real Estate Group as at 31 October 2021 (classified as 'investment property' in the statement of financial position), valued at €232.5 million.

AX REAL ESTATE PLC Group Assets	31 Oct'21 €'000
Sliema Hotels (The Palace Hotel and The Victoria Hotel)	72,753
Qawra Hotels (Seashells Resort at Suncrest, Sunny Coast Resort & Spa and Luzzu Complex)	74,910
Valletta Hotels (Saint John's Boutique Hotel and Rosselli Hotel)	16,010
Part of the Verdala Site earmarked for the proposed Grand Hotel Verdala and Virtu Heights	8,630
Simblija Care Home & Hilltop Gardens Retirement Village	36,860
Targa Gap Complex, Mosta	11,830
Hardrocks Business Park (8 warehouses, an office block and a plot of land)	6,950
Office space at Falcon House, Sliema	4,320
Blackstead Garage	285
	232,548

Source: Audited consolidated statement of financial position of AX Real Estate p.l.c.

A brief description of each property is provided below.

4.1 SLIEMA HOTELS

The Palace Hotel is a luxurious 144-room five-star city hotel located in a prime location in Sliema, offering a strong appeal to business travellers owing to its extensive conference and events facilities. The hotel, which opened its doors for business in 2007, marks AX Group's first investment in the five-star hotel segment. The Palace offers a wide range of facilities to its guests, including five restaurants, namely: TemptAsian, The Tabloid, and Talk of Town Café, an outdoor infinity pool on the rooftop terrace, a generous sized freshwater indoor pool, a steam and sauna room, spa and health and fitness centre. The hotel has an underground car park common with The Victoria Hotel.

The Victoria Hotel is a 142-room classical Victorian-style hotel located in the heart of Sliema. The hotel, which is marketed as a classical five-star experience in a four-star accommodation, opened for business in 1997 and was last refurbished in 2018. The hotel features elegant rooms, outdoor and indoor pools, a steam and sauna room, spa facilities, a health and fitness centre and multi-purpose conference halls. It also houses the Copperfield restaurant and the Penny Black bar. The hotel has an underground car park accessible from the entrance to The Palace Hotel car park which can accommodate 108 cars.



The proximity between The Palace Hotel and The Victoria Hotel allows both hotels to centralise their management function and share many of the fixed cost elements to maximise efficiency, and ultimately operating profits.

Terms of intra-group lease agreement

The Sliema Hotels are leased by Central Leisure Developments Limited (in its capacity as lessor) to AX Hotel Operations p.l.c. (in its capacity as lessee). In turn, AX Hotel Operations p.l.c. sub-leases the spa, gym and a shop to independent third-party operators. The lease agreement entered into with AX Hotel Operations p.l.c. is subject to the following terms:

- (a) the lease term is 20 years and four months, with effect from 1 July 2021, with a right of first refusal in favour of the lessee over any new lease to be entered into by the lessor upon the expiration of the term;
- (b) a minimum fixed base rent;
- (c) a variable rent component ;
- (d) the obligation for ordinary repairs and maintenance rests with the lessee while the costs of new developments or extraordinary repairs which are structural in nature rest with lessor; and
- (e) the lessee may only sub-lease outlets and facilities within the Sliema Hotels to independent third parties, once it obtains the lessor's consent.

4.2 QAWRA HOTELS

The Seashells Resort at Suncrest is a four-star hotel located on the Qawra waterfront, featuring 452 rooms designed in a contemporary style, the Carisma Spa and Wellness International Centre, a large outdoor swimming pool and lido, and various food and beverage outlets. The hotel ceased operations in Q4 2021 for the purposes of constructing four additional floors to the existing property, which will increase the number of rooms to 600, as well as redeveloping the hotel's public areas. The hotel is expected to resume operations in May 2023.

The Sunny Coast Resort and Spa is a 92-room four-star aparthotel situated in Qawra that offers serviced self-catering apartments, with resort facilities on the Qawra coast. It occupies a gross floor area measuring approximately 6,000 sqm. The property has operated in the vacation ownership market since 1983 but ceased such activity on expiration of the timeshare contracts in December 2021. The Sunny Coast Resort and Spa features two restaurants (of which one is leased out to independent third party operators), indoor and outdoor pools, spa and leisure facilities, and a fitness centre.

The Sunny Coast Lido is a facility that forms part of the Sunny Coast Resort and Spa, consisting of a number of restaurants leased out to independent third parties, an indoor swimming pool, a spa, an outdoor pool, and other sports facilities leased out to third parties.

The Luzzu Complex, which occupies a gross floor area of *circa* 2,250 sqm, comprises a seaside restaurant known as the 'Luzzu Restaurant,' a beach club (namely the 'Luzzu Lido') and a recently refurbished conference centre which accommodates up to 300 delegates in theatre style and 450 guests in receptions.



Terms of intra-group lease agreement

The Qawra Hotels, with the exception of the outlet that is sub-leased to third parties as indicated above, are leased by Suncrest Hotels p.l.c. (in its capacity as lessor) to AX Hotel Operations p.l.c. (in its capacity as lessee).

The lease agreement is subject to the following terms:

- (a) the lease term is 20 years and four months with a right of first refusal granted in favour of the lessee over any new lease to be entered into by the lessor upon the expiration of the term. The lease term commenced on 1 July 2021 except for Seashells Resort at Suncrest which lease term will commence on 1 May 2023 or once development has been completed;
- (b) a minimum fixed base rent;
- (c) a variable rent component;
- (d) the obligation for ordinary and extraordinary repairs and maintenance rests with the lessee while the costs of new developments or extraordinary repairs which are structural in nature rest with lessor; and
- (e) the lessee may only sub-lease outlets and facilities within the Qawra Hotels to independent third parties, once it obtains the lessor's consent.

QAWRA PROJECT

The AX Group has developed a master plan for the redevelopment of the Qawra Hotels, which project is expected to be phased over a number of years as further explained hereunder.

Phase 1

Suncrest Hotels p.l.c. ceased operations in Q4 2021 for the purposes of constructing four additional floors to the existing property, which will increase the number of rooms of the hotel to *circa* 600, as well as new pools, restaurants, bars and other facilities to the hotel. The AX Group plans to upgrade the standard of the hotel to a high level in line with the objectives of the master plan to develop its Qawra Hotels into a key destination.

Simultaneously with the extension to the hotel, the lido at the Seashells Resort at Suncrest has been demolished and is presently being excavated. The new lido will include an underground car park, part of the project for the development of a large carpark accommodating 350 cars under the three lidos owned by the AX Group. The new lido will also include a large pool that will eventually form part of a series of laguna pools over the three lido areas, as well as the restaurants and bars operated by the AX Hotels brand.

The overall cost of this project is estimated at *circa* €60 million and completion is scheduled for March/April 2023.



Phase 2

Holiday Resorts Limited (now merged into Suncrest Hotels p.l.c.) has obtained a full development permit for the development of the Sunny Coast Resort & Spa and an outline development permit for the Sunny Coast Lido and Luzzu Complex.

The proposed development of the Sunny Coast Resort & Spa shall comprise the demolition of the existing building and development of a 200-unit aparthotel with food and beverage and leisure facilities. It is further proposed that the underground car park, lidos at Sunny Coast and Luzzu Complex and commercial outlets will eventually be linked to the development described above under Phase 1.

There are presently no firm timelines for the commencement of these works but subject to obtaining the necessary full development permits and the necessary finances and resources are available for the works to commence, it is envisaged that this shall commence within the next five years.

4.3 VALLETTA HOTELS

St. John's Boutique Hotel Limited (C 76079) is the owner of the Saint John's Boutique Hotel, a 19-room boutique hotel located in Merchants Street, Valletta. Once a former merchant's residence and shop, the Saint John's Boutique Hotel was refashioned into a modern hospitable setting while preserving the building's rich historical fabric. Each of the 19 rooms exude an urban industrial feel with exposed brick and natural materials, combining on-trend style with luxury and the latest in-room technology. The boutique hotel features two private meeting rooms accommodating 16 in-theatre style or eight as a board room, ideal for the frequent business traveller who needs to make use of desk space in an office-like setting during his stay. The Saint John's Boutique Hotel is also home to two catering establishments, namely 'Cheeky Monkey Gastropub' and 'Cheeky Monkey Creperie'.

Palazzo Merkanti Leisure Limited (C 76080) holds the Rosselli Hotel under the title of temporary emphyteusis, subject to an annual ground rent of €13,821.60. The 25-room five-star boutique hotel is one of the most prestigious old palazzos in the capital, receiving its first guests in May 2019. The Rosselli Hotel is housed in a luxurious property displaying a fusion of traditional and contemporary design complemented by an advanced suite of technology services for guests. Aside from a three-level restaurant with varied cuisine genres, namely 'Under Grain', 'Grain' and 'Over Grain', offering customers refined culinary experiences on each level with 'Under Grain' having been one of the first of only five restaurants to have clinched a Michelin Star on the island, the boutique hotel has a rooftop terrace and swimming pool. Additionally, hotel butler service is on hand to provide a tailor-made experience for guests staying at the Rosselli Hotel.

Terms of intra-group lease agreement

The Saint John's Boutique Hotel is leased by St. John's Boutique Hotel Limited (in its capacity as lessor) to AX Hotel Operations p.l.c. (in its capacity as lessee). The Rosselli Hotel is leased by Palazzo Merkanti Leisure Limited (in its capacity as lessor) to AX Hotel Operations p.l.c. (in its capacity as lessee).



Each of the lease agreements is subject to the following terms:

- (a) the lease term is 20 years and four months, with effect from 1 July 2021, with a right of first refusal in favour of the lessee over any new lease to be entered into by the lessor upon the expiration of the term;
- (b) a minimum fixed base rent;
- (c) a variable rent component;
- (d) the obligation for ordinary and extraordinary repairs and maintenance rests with the lessee while the costs of new developments or extraordinary repairs which are structural in nature rest with lessor; and
- (e) the lessee may only sub-lease outlets and facilities within the Valletta Hotels to independent third parties, once it obtains the lessor's consent.

4.4 PROPOSED GRAND HOTEL VERDALA AND VIRTU HEIGHTS ANNEX SUITES

Royal Hotels Limited (C 16694) owns the land over which the Verdala Hotel will be developed. A full development permit for the proposed development has been obtained and work on the demolition of the former Grand Hotel Verdala has commenced.

Heritage Developments Limited (C 14217) has signed preliminary agreements to purchase four remaining apartments and thus acquiring full ownership of that part of the Verdala site known as Virtu Heights, which consists of a total of 19 apartments, to be subsequently developed into the Verdala Hotel Annex.

Proposed development

In FY2021, works commenced on the Verdala project that will comprise the development of a 25-room five-star all-suite hotel, acting as the main hotel building housing all the main facilities for the proposed new luxury suites and the existing 19 Virtu Heights annex suites, which shall also be refurbished to a luxury standard. A multi-level communal pyramidal atrium shall include all the communal facilities and creates a physical and visual corridor from Triq ir-Rghajja to the ridge views overlooking Malta.

By reducing the overall height from the existing hotel by almost two storeys, the development will blend more harmoniously with the promontory. A system of terraces and voids on the ridge side of the building will mimic the natural forms of the rock strata, whilst the back elevations will have greater solidity to tie into the traditional façade typology found in the surrounding streets.

The project will also open up around 2,350 sqm of formerly developed space to the public through the introduction of public piazzas and open spaces. Furthermore, new vistas will be enjoyed by the public from Triq San Bastjan and Triq ir-Rghajja.

Between the years 2005 and 2019, Heritage Developments Limited entered into 11 deeds of sale pursuant to which 11 out of the 19 apartments were sold to third parties: three of which were rescinded some time thereafter; four were re-acquired by Heritage Developments Limited from said



third parties; and the remaining four form the subject of promise of sale/exchange agreements, pursuant to which Heritage Developments Limited will re-acquire the four apartments in exchange for four residential units (and car spaces) forming part of the Verdala Terraces, defined hereunder.

As part of the Group reorganisation exercise, Royal Hotels Limited has transferred a portion of land by virtue of a public deed in the acts of Notary Rosalyn Aquilina dated 28th October 2021 consisting in an area of 8,831 sqm from level -2 downwards and 9,470 sqm from level -1 upwards to a newly incorporated entity forming part of the AX Group, namely Verdala Terraces Limited (C 100344), on which residential units are intended to be developed by the AX Group (the “Verdala Terraces”).

The Verdala Hotel is being developed on the remaining portion of land owned by Royal Hotels Limited. As described above, Heritage Developments Limited owns Virtu Heights, which will be refurbished into the Verdala Hotel Annex.

Works commenced in August 2021 and it is estimated that the investment in the Verdala Hotel and the refurbishing of the Verdala Hotel Annex is estimated to cost €11.5 million.

Terms of intra-group lease agreement

Royal Hotels Limited and AX Hotel Operations p.l.c. entered into a lease agreement pursuant to which Royal Hotels Limited (in its capacity as lessor) will lease out the Verdala Hotel to AX Hotel Operations p.l.c. (in its capacity as lessee). Heritage Developments Limited and AX Hotel Operations p.l.c. entered into a lease agreement pursuant to which Heritage Developments Limited (in its capacity as lessor) will lease out the Verdala Hotel Annex to AX Hotel Operations p.l.c. (in its capacity as lessee).

Each of the lease agreements is subject to the following terms:

- (a) the lease term is 20 years, effective on 1 November 2023, with a right of first refusal granted in favour of the lessee over any new lease to be entered into by the lessor upon the expiration of the term;
- (b) a minimum fixed base rent;
- (c) a variable rent component;
- (d) the obligation for ordinary and extraordinary repairs and maintenance rests with the lessee while the costs of new developments or extraordinary repairs which are structural in nature rest with the lessor; and
- (e) the lessee may only sub-lease outlets and facilities within the Verdala Hotel to independent third parties, once it obtains the lessor’s consent.



4.5 SIMBLIJA CARE HOME & HILLTOP GARDENS RETIREMENT VILLAGE

Simblija Developments Limited (C 39400) owns the Hilltop Gardens Retirement Village and Simblija Care Home.

Simblija Care Home is a 155-bed care home which provides nursing care to the more dependent elderly residents. The Simblija Care Home also operates the Revive Physiotherapy Centre, which has its own fully equipped state-of-the-art hydrotherapy pool, dedicated services and amenities for short term respite care and convalescence as well as post-operative recovery, and a specialised dementia ward offering specialist support, and assistive technology specifically selected and installed, for residents with dementia.

Hilltop Gardens Retirement Village is the first luxury retirement village developed in Malta, consisting of private residences in the form of one or two bedroom self-catering apartments and penthouses, finished to high standards, landscaped gardens and extensive facilities. The complex includes a spa, hair salon, swimming pool, restaurant, crafts centre, indoor and outdoor kids play areas, library, common room and hall, chapel, and underground parking. A reception desk and 24-hour security personnel complement the residences. Residents may also request certain services be provided at a charge, including cleaning, repairs and maintenance of apartments and preparation and delivery of meals. The setup of the residences allows residents to live independently within a secure community knowing that care is at hand should the need arise. The Hilltop Gardens Retirement Village welcomed its first residents in January 2016 and by August 2018, all 133 apartments in the village had been occupied on leases for definite periods ranging from one month to 50 years by individuals who at the time of taking up residence must be over 55 years of age.

Subject to obtaining the necessary development permits, it is the intention of the Group to construct 50 additional residential units across two additional floors intended for lease in line with the business model of the Hilltop Gardens Retirement Village. No specific date has been set for the commencement of works as of yet.

Terms of intra-group lease agreement

Simblija Developments Limited (in its capacity as lessor) leases the Simblija Care Home and Hilltop Gardens Retirement Village to Hilltop Management Services Limited (C 72480) (in its capacity as lessee), which is then sub-leased to Hilltop Gardens Retirement Village Limited (C 65735). Hilltop Management Services Limited also leases particular establishments within the village in favour of third parties.

The lease agreement entered into by and between Simblija Developments Limited and the Hilltop Management Services Limited is subject to the following terms:

- (a) the lease term is 20 years and four months as from 1 July 2021, with a right of first refusal granted in favour of the lessee over any new lease to be entered into by the lessor upon the expiration of the term;
- (b) a fixed base rent;



- (c) the obligation for ordinary repairs and maintenance rests with the lessee, while the costs of new developments or extraordinary repairs rest with the lessor;
- (d) the right to sub-lease apartments within the Hilltop Gardens Retirement Village to residents who satisfy the residential criteria;
- (e) the lessee may only sub-lease outlets and facilities to independent third parties, once it obtains the lessor's consent.

4.6 TARGA GAP COMPLEX MOSTA

Skyline Developments Ltd (C 34281) owns the Targa Gap Complex in Mosta. The complex which has been built to a high level of finishes and specifications; consists of two blocks of residential apartments, namely the 'Clover' block and the 'Springfield' block. As at the date hereof, the majority of units in the 'Clover' block have been sold to third parties, two will be retained by Skyline Developments Ltd and leased to third parties. Those in 'Springfield' block have also been retained and are currently leased to independent third parties.

The complex also includes the AX Business Centre which houses the 'AX Group Head Office' as well as two separate offices at ground floor level both of which are currently leased to independent third parties. The complex also includes four floors of underground car park. A number of garages in the car park have been sold to owners of the apartments in 'Clover' block. A photovoltaic plant has been installed on the roof of the property.

Terms of intra-group lease agreement

The lease agreement by and between Skyline Developments Ltd (qua lessor) and AX Group p.l.c. (qua lessee) is subject to the following terms:

- (a) the lease term is 20 years and four months as from 1 July 2021, with a right of first refusal granted in favour of the lessee over any new lease to be entered into by the lessor upon the expiration of the term;
- (b) a fixed base rent; and
- (c) the obligation for ordinary repairs and maintenance rests with the lessee while the costs of new developments or extraordinary repairs rest with the lessor.

4.7 PROPERTIES AT HARDROCKS BUSINESS PARK

The Company has constructed nine warehouses and an office block at the Hardrocks Business Park. Six of the warehouses are rented to independent third parties on a leasing period between four to fifteen years. Two warehouses and the office block, together with the underlying basement areas, are rented to AX Construction Limited (C 17438) for a term of 20 years and are used as the Company's offices and operating base. Another warehouse (with underlying basement) has been leased out by the Company in part to AX Group p.l.c. and in part to AX Construction Limited. The remaining area of the said warehouse which is currently unoccupied will be leased out to third parties. A third party leases the roof of the warehouses and office blocks.



4.8 OFFICE SPACE AT FALCON HOUSE SLIEMA

The office space at Falcon House in Sliema consists of an area of *circa* 1,180 sqm on two levels, which is entirely leased to third parties.

4.9 BLACKSTEAD GARAGE

The property consists of a stand-alone industrial garage and a complimenting loading bay. The total site area is *circa* 257 sqm and is leased to a third party.

5. ANALYSIS OF REVENUE

The table below analyses the Group's revenue for the historical and projected periods between the principal property categories:

AX Real Estate plc Analysis of Revenue							
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
	Actual	Actual	Actual	Forecast	Projection	Projection	Projection
Hotel properties	-	-	399	4,901	9,269	13,956	14,954
Healthcare property	-	-	72	1,650	1,683	1,717	1,751
Targa Gap Complex	-	-	35	592	609	613	617
Other properties	19	244	292	800	664	681	700
Rental income	19	244	798	7,943	12,225	16,967	18,022
Proceeds from sale of property	-	-	-	732	455	455	-
Total revenue	19	244	798	8,675	12,680	17,422	18,022
Rental income by tenant							
Income from AX Group companies	19	97	586	7,094	11,483	16,245	17,284
Income from third party tenants	-	147	211	849	742	722	738
Rental Income	19	244	797	7,943	12,225	16,967	18,022

Source: Management information.

The revenue of the Company principally relates to rental income on investment property leased out to other entities.

Revenue increased to €243,673 in 2020 compared to €19,355 over the 5-month period ending 31 October 2019. During the financial year ending 31 October 2020, 61% of revenue related to lease income from related parties. During the said financial year, the Company did not have any underlying subsidiaries or investments in associated undertakings.

The Group reorganisation was mainly conducted during Q4 2021 and as such, revenue for the said financial year reflects income of the Company for the full year and revenue generated by the subsidiaries acquired in October 2021. In FY2021, revenue amounted to €0.80 million, an increase of €0.56 million from a year earlier (FY2020: €0.24 million).



The Group's total revenue is forecasted to increase to €8.7 million in FY2022 from €0.80 million in FY2021 and comprises €0.73 million expected to be generated from sale of property. Thereafter, revenue is projected to increase gradually to €18.02 million by FY2025.

The principal driver of the projected growth relates to rental income from hotel properties which is projected to increase from €4.90 million in FY2022 to €14.95 million in FY2025. Rental income from hotel properties is based on a fixed component and a variable rent structure linked to the revenue of each property. Such projected revenue is based primarily on the historical revenue generation of the hotels in the financial years ended 31 October 2018 and 2019, which were the last full financial years prior to the onset of the COVID-19 pandemic. The assumption is that of a gradual recovery from the effects of COVID-19 with hotel revenue returning to pre-pandemic levels by 2023-24.

In FY2021, the Group initiated the extension and refurbishment of the Suncrest Hotel in Qawra which will extend the hotel's room capacity to *circa* 600 rooms by the addition of 4 new floors. It will also allow the hotel to expand its amenities particularly in terms of the food and beverage outlets and lido facilities. In terms of the lease agreement with the Company, the projections assume that the rental charge portion relating to the Suncrest Hotel will be waived during the period of development and resume once the hotel recommences operations in mid-2023.

Furthermore, the Group has commenced the development of the Verdala Hotel, which is expected to become operational in FY2024. The Hotel will be operated by AX Operations in terms of its lease agreement with the AX Real Estate Group. This lease agreement also includes 19 residential apartments forming part of the existing "Virtu Heights" building, which will be utilised by AX Operations as serviced apartments.

Additional revenue in the projected period is also expected from the Rosselli Hotel in Valletta which only opened in June 2019.

The projected rental income from properties other than hotel properties is based on the provisions of the rental agreements that are in place at the time of the preparation of the projections. Any rental agreements that expire in the projection period are assumed to be renewed at the existing terms.

The Healthcare Complex is subject to a long-term lease agreement with Hilltop Management Services Limited, that operates the complex. The agreement provides for fixed rental income with annual increments.

The Targa Gap Complex in Mosta includes a mix of office space, residential units and garage spaces. The vast majority of the office space (including garage spaces) in this building is subject to a long-term agreement with the AX Group. The remaining office space is leased to third parties.

'Other properties' comprise the Hardrock Warehouses in Burmarrad, the Falcon House offices in Sliema and a garage in Naxxar known as Blackstead Garage. The Group's warehouses within the Hardrocks Complex in Burmarrad are currently rented either to other AX Group companies or to third parties. The office space at Falcon House and the Blackstead Garage are both subject to lease agreements in place with third parties.



The projected revenue from the sale of property relates to the assumed disposal of garage spaces at the Targa Gap Complex and which are held as inventory. No other future sales of properties are projected to be effected by the AX Real Estate Group.

6. ECONOMIC UPDATE¹

The economy of Malta is set to continue expanding, by 4.2% in 2022 and by 4.0% in 2023 while withstanding the impact of the increase in commodity prices and Russian invasion of Ukraine. The main factors supporting growth are the robust domestic demand and growth in exports of services, contributed by strong recovery in tourism. The general government balance is projected to remain in deficit, however decreasing in 2022 and 2023, following winding-down of pandemic related policy support on the background of economic growth.

The pressure from the COVID-19 pandemic related restrictions subsided in 2021, creating conditions for a very strong economic recovery of 9.4%, thanks to improved business and consumer sentiment, faster than expected rebound of international tourism and a strong growth in investment and services exports.

In 2022, affected by disruptions related to the Russian invasion of Ukraine, real GDP² growth is forecast to reach 4.2%, which is substantially less than expected in winter, although Malta has very low direct exposure to trade with Russia and Ukraine. Growth in 2022 is set to be driven by domestic consumption, investment, and a small positive contribution from net exports. Export of tourism services is expected to continue gaining ground on the back of easing pandemic-restrictions. Robust government expenditure, in particular via public investment, will continue to support the economy. In 2023, growth is forecast to decrease to a still strong 4.0%, reflecting a general slowdown in performance among trading partners.

With both exports and imports growing, the current account balance is expected to remain positive. The limited downside risks deriving from the June 2021 decision of the Financial Action Task Force (the international standard-setting body on anti-money laundering/countering the financing of terrorism) to include Malta in the list of jurisdictions under increased monitoring have further receded following the FATF initial determination, in February 2022, that Malta has substantially completed its action plan. A final decision is expected in June 2022.

Malta was able to cushion the impact of the pandemic on the labour market thanks to fiscal support. Employment is estimated to have grown by 1.6% in 2021, while the wage support measures remained in place. Employment is expected to continue to increase over the forecast horizon. This positive development in the labour market is congruent with labour shortages being reported by firms. Malta's unemployment rate, at 3.5% in 2021, is set to remain broadly stable in 2022 and 2023.

¹ Economic Forecast – Spring 2022 (European Commission Institutional Paper 173 May '22).

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



HICP³ inflation remained low in 2021 at 0.7%, thanks to energy prices being kept low by government intervention and hedging contracts for gas. Going forward, while Malta's economy is highly energy-intensive, the share of household expenditures on energy is low compared to other Member States and the authorities have expressed a commitment to continue to limit energy prices growth. The higher inflation in the first quarter of 2022 shows that the pressure from increasing international energy and commodity prices is starting to affect Malta via transport costs and imported goods. As a result, inflation is set to rise to 4.5% in 2022. As these factors are expected to persist into 2023, inflation is expected to remain elevated at 2.6%.

The government deficit is estimated to have decreased to 8.0% of GDP in 2021. This still high deficit level is mainly explained by public expenditure related to pandemic-related measures which were maintained in 2021, including the wage support scheme, the utility and rent subsidies for businesses, and healthcare-related expenditures. Pandemic-related economic support measures are expected to be phased out in 2022 and 2023, while several measures in response to the high energy prices were recently introduced.

The tax revenues resumed growth in 2021 and are expected to continue to increase in 2022 and 2023, following the positive economic growth dynamics. The revenues from social contributions also increased in 2021 and are expected to continue increasing over the forecast horizon, supported by the good performance of the labour market.

The deficit is projected to decrease to 5.6% of GDP in 2022 and further to 4.6% in 2023. The government debt-to-GDP ratio is projected to increase marginally to 58.5% in 2022 and reach 59.5% in 2023 as the negative primary balance is only partially compensated by the nominal GDP growth.

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



PART 2 – GROUP PERFORMANCE REVIEW

7. FINANCIAL INFORMATION RELATING TO AX REAL ESTATE PLC

The following financial information is extracted from the audited financial statements of AX Real Estate p.l.c. for the financial years ended 31 October 2019, 31 October 2020 and 31 October 2021. The consolidated financial information for the projected years 31 October 2022 to 31 October 2025 has been provided by Group management. The Group reorganisation was mainly conducted during Q4 2021. As such, financial information relating to years ended 31 October 2019 and 31 October 2020 reflect the performance of the Company, while financial information with respect to the year ended 31 October 2021 relates to the performance of the Company for the full year and that of the subsidiaries acquired in October 2021.

The projected financial statements are based on future events and assumptions which AX Real Estate Group believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between projections and actual results may be material. The estimates for the projected financial year as presented in this document assume that the carrying values of hotel and investment properties will not be revalued upwards or impaired, and therefore no adjustment has been made as to possible uplifts or impairments in value of assets which can materially affect the consolidated income statement and the balance sheet values.

AX Real Estate p.l.c. Statement of Comprehensive Income for the year ended 31 October							
	2019	2020	2021	2022	2023	2024	2025
	Actual	Actual	Actual	Forecast	Projection	Projection	Projection
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Revenue	19	244	798	8,675	12,680	17,422	18,022
Net operating expenses	(1)	(18)	(88)	(1,121)	(862)	(876)	(713)
Depreciation and amortisation	-	-	-	(148)	(48)	(48)	(48)
Operating profit	18	226	710	7,406	11,770	16,498	17,261
Investment property revaluation	-	-	(23,720)	-	-	-	-
Finance costs	-	-	(63)	(3,206)	(4,961)	(4,503)	(4,387)
Profit (loss) before tax	18	226	(23,073)	4,200	6,809	11,995	12,874
Taxation	(4)	(68)	1,914	(1,383)	(2,496)	(3,316)	(3,587)
Profit (loss) for the year	14	158	(21,159)	2,817	4,313	8,679	9,287
Total comprehensive income (expense)	14	158	(21,159)	2,817	4,313	8,679	9,287



Key Accounting Ratios	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Forecast	FY2023 Projection	FY2024 Projection	FY2025 Projection
Operating profit margin (Operating profit/revenue)	95%	93%	89%	85%	93%	95%	96%
Interest cover (times) (Operating profit/finance cost)	n/a	n/a	11.27	2.31	2.37	3.66	3.93
Net profit margin (Profit after tax/revenue)	74%	65%	-2652%	32%	34%	50%	52%
Earnings per share (€) (Profit after tax/number of shares)	11.67	131.67	(366.99)	0.01	0.02	0.03	0.03
Return on equity (Profit after tax/shareholders' equity)	93%	4%	-27%	2%	3%	6%	7%
Return on capital employed (Op. profit/total assets less current liabilities)	0%	6%	0%	3%	4%	6%	6%
Return on assets (Profit after tax/total assets)	0%	2%	-9%	1%	1%	3%	3%

Source: MZ Investment Services Ltd

Section 5 of this report provides an in-depth analysis of AX Real Estate Group's revenues during the historical financial years (FY2019 to FY2021) and expected to be generated throughout the 4-year projected period (FY2022 to FY2025).

Revenue in FY2021 amounted to €0.8 million, which is reflective of the income generated by the Company for the full year as well as the income derived in October 2021 from subsidiary companies following the Group reorganisation. FY2022 is the first full year of operations wherein the AX Real Estate Group is projected to generate revenue amounting to €8.7 million.

Projected revenue for FY2023 is assumed at €12.7 million, an increase of €4.0 million (+46%) from the prior year, mainly on account of the gradual return to pre-COVID 19 levels in the hospitality sector. A further increase of €4.7 million in revenue (to €17.4 million) is expected in FY2024 in consequence of the re-opening of the Seashells Resort at Suncrest and to a lesser extent the inauguration of the Grand Hotel Verdala. Thereafter, a 3% growth rate has been assumed for the purposes of the projections.

The Group achieved an operating profit margin of 86% in FY2021 and is expected to increase to 96% by FY2025. As such, the trajectory of operating profits is broadly similar to that of Group revenues explained above. Interest cover is projected at 2.31 times in FY2022 and should improve to 3.93 times by FY2025.

In FY2021, the Group recognised a decrease in the fair value of its investment properties of €23.7 million. This arose following new lease agreements entered into by the Group since the property values are being established through the discounting of rental income over the specific projected period and a discounted terminal value. Such decrease in the fair value that is arising from the restrictions imposed by the lease agreements with related parties within the AX Group is then fully reversed in the AX Group consolidated financial statements.



In view of the above, the Group reported a loss before tax in FY2021 of €23.1 million and total comprehensive expense amounting to €21.2 million. In the subsequent year, the Group expects to generate a net profit of €2.8 million. On the assumption that the Seashells Resort at Suncrest re-opens in FY2024 and that hospitality operations return to pre-COVID levels in the same year, the AX Real Estate Group's net profit in FY2024 is expected to amount to €8.7 million. As for FY2025, the Group is projected to increase y-o-y net profit by 7% to €9.3 million.

Projected dividends

The intention of the Directors is to sustain a strong dividend pay-out ratio. Subject to any unforeseen circumstances, the AX Real Estate Group is expected to distribute the majority of the Group's profit after taxation subject to the availability of cash and retaining a minimum cash balance of €1 million. With respect to the payment of dividend, it is projected that an interim dividend (50% of annual dividend) is paid in July and the final dividend (remaining 50% of annual dividend) is paid in January.

The Directors believe that this dividend policy is sustainable because full funding is in place for the capital projects planned for the short to medium term. Furthermore, most of the Group's borrowings relate to the amounts due to the AX Group that are not due for repayment in the next 10 years.

As illustrated in the table below, the AX Real Estate Group expects to regularly declare dividends to shareholders as from FY2022. The net dividend yield, which is based on the IPO price, is projected to progressively increase from 4.1% in FY2022 to 5.1% in in FY2025.

AX Real Estate p.l.c. Projected Dividends for the year ended 31 October	2019 Actual €'000	2020 Actual €'000	2021 Actual €'000	2022 Forecast €'000	2023 Projection €'000	2024 Projection €'000	2025 Projection €'000
Profit for the year	14	158	(21,159)	2,817	4,313	8,679	9,287
Proposed dividends	-	-	-	6,749	6,913	7,736	8,395
Dividend payout as a % of annual profits	-	-	-	240%	160%	89%	90%
Dividend attributable to general public	n/a	n/a	n/a	599	613	686	745
Net dividend yield (based on IPO price) <i>(dividend/€14.60 million)</i>	n/a	n/a	n/a	4.1%	4.2%	4.7%	5.1%



AX Real Estate p.l.c. Statement of Financial Position							
as at 31 October							
	2019	2020	2021	2022	2023	2024	2025
	Actual	Actual	Actual	Forecast	Projection	Projection	Projection
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
ASSETS							
Non-current assets							
Intangible assets	-	-	2	2	2	2	2
Investment property	5,216	6,349	232,548	262,240	289,473	296,765	298,786
Other assets	9	-	-	-	-	-	-
	<u>5,225</u>	<u>6,349</u>	<u>232,550</u>	<u>262,242</u>	<u>289,475</u>	<u>296,767</u>	<u>298,788</u>
Current assets							
Inventories	-	-	911	438	219	-	-
Trade and other receivables	19	115	3,603	5,470	3,851	4,918	5,000
Current tax asset	-	-	163	163	-	-	-
Cash at bank and in hand	-	-	1,001	18,327	25,220	3,388	1,152
	<u>19</u>	<u>115</u>	<u>5,678</u>	<u>24,398</u>	<u>29,290</u>	<u>8,306</u>	<u>6,152</u>
Total assets	<u>5,244</u>	<u>6,464</u>	<u>238,228</u>	<u>286,640</u>	<u>318,765</u>	<u>305,073</u>	<u>304,940</u>
EQUITY							
Ordinary A shares	1	1	50	12,149	12,149	12,149	12,149
Ordinary B shares	-	-	-	22,143	22,143	22,143	22,143
Capital contribution	-	3,500	-	-	-	-	-
Revaluation reserve	-	-	38,502	38,502	38,502	38,502	38,502
Share premium	-	-	-	41,458	41,458	41,458	41,458
Other reserves	-	-	331	331	331	331	331
Retained earnings	14	172	39,815	23,434	20,834	21,776	22,669
	<u>15</u>	<u>3,673</u>	<u>78,698</u>	<u>138,017</u>	<u>135,417</u>	<u>136,359</u>	<u>137,252</u>
LIABILITIES							
Non-current liabilities							
Bonds	-	-	-	39,591	39,635	39,679	39,723
Bank borrowings	-	-	8,462	21,897	40,281	35,708	32,024
Amounts due to AX Group companies	5,157	-	120,821	49,176	49,176	49,176	50,826
Trade & other payables	-	-	625	251	-	-	-
Deferred tax liabilities	-	-	20,036	20,036	20,036	20,036	20,036
	<u>5,157</u>	<u>-</u>	<u>149,944</u>	<u>130,951</u>	<u>149,128</u>	<u>144,599</u>	<u>142,609</u>
Current liabilities							
Borrowings and other financial liabilities	-	-	8,090	14,351	30,849	20,694	21,608
Trade & other payables	72	2,791	1,496	3,321	3,371	3,421	3,471
	<u>72</u>	<u>2,791</u>	<u>9,586</u>	<u>17,672</u>	<u>34,220</u>	<u>24,115</u>	<u>25,079</u>
Total liabilities	<u>5,229</u>	<u>2,791</u>	<u>159,530</u>	<u>148,623</u>	<u>183,348</u>	<u>168,714</u>	<u>167,688</u>
Total equity and liabilities	<u>5,244</u>	<u>6,464</u>	<u>238,228</u>	<u>286,640</u>	<u>318,765</u>	<u>305,073</u>	<u>304,940</u>

Key Accounting Ratios	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
	Actual	Actual	Actual	Forecast	Projection	Projection	Projection
Gearing ratio (Net debt/net debt and shareholders' equity)	100%	0%	63%	44%	50%	51%	51%
Gearing ratio 2 (times) (Net debt/shareholders' equity)	343.80	-	1.73	0.77	0.99	1.04	1.04
Net debt to EBITDA (years) (Net debt/EBITDA)	286.50	-	192.07	14.41	11.45	8.60	8.29
Net assets per share (€) (Net asset value/number of shares)	12.50	3,060.83	1,364.98	0.50	0.49	0.50	0.50
Liquidity ratio (times) (Current assets/current liabilities)	0.26	0.04	0.59	1.38	0.86	0.34	0.25

Source: MZ Investment Services Ltd



Total assets as at 31 October 2021 amounted to €238.2 million and principally include the investment property portfolio carried at €232.5 million which is projected to increase in the reviewed period to €298.8 million as at 31 October 2025 (+€66.3 million or +28%). The principal movements shall comprise the development of the Seashells Resort at Suncrest (*circa* €53 million) and the Grand Verdala Hotel (*circa* €12 million). The remaining balance relates to ongoing capital expenditure on other investment properties. The projections exclude any potential adjustments to the carrying amount of the investment property that may arise from the annual valuations of the portfolio.

The Group's total equity and liabilities as at 31 October 2021 amounted to €238.2 million and mainly comprised the revaluation reserve of €38.5 million, retained earnings of €39.8 million and amounts due to the AX Group of €120.8 million. Furthermore, bank borrowings & other financial liabilities amounted to €16.6 million and deferred tax liabilities arising in connection with the revaluation of investment properties amounted to €20.0 million.

In Q1 2022, the Group increased its share capital (including share premium) from €50,000 to €75.7 million pursuant to an initial public offer and capitalisation of amounts due to AX Group. In addition, the Group listed a new bond issue amounting to €40 million and initiated drawdown from a bank loan facility of €15 million.

As at year end, total liabilities are expected to amount to €148.6 million (FY2021: €159.5 million). In non-current liabilities, amounts due to AX Group are projected to decrease from €120.8 million in FY2021 to €49.2 million following the conversion to equity and take-up of €21.6 million of Bonds, while bank borrowings will increase to €21.9 million from €8.5 million in the prior year. The bond issue referred to above will be an addition to FY2022's non-current liabilities. Current liabilities are projected to increase from €9.6 million in FY2021 to €17.7 million in FY2022, mainly on account of unpaid dividends due to AX Group.

The projections assume that the majority of profits generated during the period FY2023 to FY2025 will be distributed as dividends. As such, the book value of the Group's equity is expected to remain broadly unchanged.

Borrowings and other financial liabilities (current & non-current) are projected to increase from €36.2 million in FY2022 to €71.1 million in FY2023. During the latter financial year, the Group expects to obtain a new bank loan facility of €35 million as additional funding for the completion of the Suncrest Hotel and Verdala Hotel development projects.

The gearing ratio is projected at 44% in FY2022 and thereafter at a stabilised ratio of *circa* 50%. The Board's view is that this level of gearing provides sufficient headroom for the Group to cover existing financing obligations, and to support any further borrowing capacity if needed to take advantage of growth opportunities in the future.



AX Real Estate p.l.c. Cash Flow Statement for the year ended 31 October							
	2019	2020	2021	2022	2023	2024	2025
	Actual	Actual	Actual	Forecast	Projection	Projection	Projection
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Net cash from operating activities	67	-	207	6,060	6,157	7,925	9,299
Net cash from investing activities	-	-	(236)	(29,371)	(27,233)	(7,292)	(2,021)
Net cash from financing activities	(67)	-	49	40,637	27,969	(22,465)	(9,514)
Net movement in cash and cash equivalents	-	-	20	17,326	6,893	(21,832)	(2,236)
Cash and cash equivalents at beginning of year	-	-	-	1,001	18,327	25,220	3,388
Upon formation of Group	-	-	981	-	-	-	-
Cash and cash equivalents at end of year	-	-	1,001	18,327	25,220	3,388	1,152
Free cash flow ¹	67	-	(29)	(23,311)	(21,076)	633	7,278

¹ Free cash flow is arrived at by deducting capital expenditure from cash generated from operating activities.

Net cash flows from operating activities principally relate to the operations of the AX Real Estate Group, which are analysed in further detail in sections 5 and 6 of this report. Cash generated from the Group's operations is projected to increase from €6.1 million in FY2022 to €9.3 million in FY2025, which is reflective of the projected increase in profitability in this period.

Net cash used in investing activities between FY2022 and FY2025 is projected to amount to €65.9 million primarily on account of capital expenditure relating to the Suncrest Hotel and Verdala Hotel development projects.

Net cash from financing activities in FY2022 is expected to amount to €40.6 million, on account of €31.2 million raised through the equity and bond issues earlier in the year and €12.8 million drawdown from bank loan facilities. Such inflows are expected to be offset by €3.4 million of dividend payments.

In FY2023, the Group is projecting that it will utilise a bank loan facility of €35 million while dividend payments are expected to amount to *circa* €7.0 million, thus resulting in net cash inflows of €28.0 million. In FY2024 and FY2025, cash outflows from financing activities are projected to amount to €22.5 million and €9.5 million respectively, representing net repayment of Group borrowings and distribution of dividends.

Debt Securities issued by the AX Group

Below is a list of outstanding debt securities as at the date of this report.

Security ISIN	Amount Listed	Security Name	Currency
MT0000081233	40,000,000	6.00% AX Investments p.l.c. 2024	EUR
MT0002361203	15,000,000	3.25% AX Group plc 2026	EUR
MT0002361211	10,000,000	3.75% AX Group plc 2029	EUR
MT0002571215	40,000,000	3.50% AX Real Estate plc 2032	EUR

Source: Malta Stock Exchange



8. VARIANCE ANALYSIS

The following financial information relates to the variance analysis between the forecast financial information for the year ended 31 October 2021 included in the prior year's Financial Analysis Summary dated 6 December 2021 and the audited consolidated financial statements for the year ended 31 October 2021.

AX Real Estate p.l.c. Statement of Comprehensive Income for the year ended 31 October 2021			
	Actual €'000	Forecast €'000	Variance €'000
Revenue	798	723	75
Net operating expenses	(88)	(50)	(38)
Depreciation and amortisation	-	-	-
Operating profit	710	673	37
Investment property revaluation	(23,720)	-	(23,720)
Finance costs	(63)	(70)	7
Profit (loss) before tax	(23,073)	603	(23,676)
Taxation	1,914	(194)	2,108
Profit (loss) for the year	(21,159)	409	(21,568)
Total comprehensive income (expense)	(21,159)	409	(21,568)

The Group reported a loss for the year of €21.2 million compared to a projected profit of €0.4 million. The variance emanates from the recognition of a decrease in the fair value of the Group's investment properties of €23.7 million which was reflected in the forecast statement of financial position but not in the forecast statement of comprehensive income.

AX Real Estate p.l.c. Cash Flow Statement for the year ended 31 October 2021			
	Actual €'000	Forecast €'000	Variance €'000
Net cash from operating activities	207	(1,476)	1,683
Net cash from investing activities	(236)	(2,112)	1,876
Net cash from financing activities	49	17,711	(17,662)
Net movement in cash and cash equivalents	20	14,123	(14,103)
Cash and cash equivalents at beginning of year	-	1,334	(1,334)
Upon formation of Group	981	-	981
Cash and cash equivalents at end of year	1,001	15,457	(14,456)

Actual net movement in cash and cash equivalents amounted to €20,000 compared to a forecast positive balance of €14.1 million. When compiling the projections, it was assumed that the Group would draw down a €15 million bank loan facility in FY2021. In actual fact, such facility will be utilised during FY2022.



AX Real Estate p.l.c. Statement of Financial Position as at 31 October 2021			
	Actual	Forecast	Variance
	€'000	€'000	€'000
ASSETS			
Non-current assets			
Intangible assets	2	0	2
Investment property	232,548	232,977	(429)
Other assets	-	100	(100)
	232,550	233,077	(527)
Current assets			
Inventories	911	1,193	(282)
Trade and other receivables	3,603	3,122	481
Current tax asset	163	-	163
Cash at bank and in hand	1,001	15,457	(14,456)
	5,678	19,772	(14,094)
Total assets	238,228	252,849	(14,621)
EQUITY			
Ordinary A shares	50	12,509	(12,459)
Ordinary B shares	-	18,764	(18,764)
Revaluation reserve	38,502	39,226	(724)
Share premium	-	31,236	(31,236)
Other reserves	331	331	-
Retained earnings	39,815	28,325	11,490
	78,698	130,391	(51,693)
LIABILITIES			
Non-current liabilities			
Bank borrowings	8,462	23,693	(15,231)
Amounts due to AX Group companies	120,821	73,526	47,295
Trade & other payables	625	-	625
Deferred tax liabilities	20,036	20,597	(561)
	149,944	117,816	32,128
Current liabilities			
Borrowings and other financial liabilities	8,090	2,588	5,502
Trade & other payables	1,496	2,054	(558)
	9,586	4,642	4,944
Total liabilities	159,530	122,458	37,072
Total equity and liabilities	238,228	252,849	(14,621)



The material variances between the actual and forecast statement of financial position are as follows:

- (1) The changes in issued share capital were planned to be carried out in FY2021 but in fact were executed in FY2022. Such changes included the conversion of a portion of amounts due to the AX Group into Ordinary A and B share classes.
- (2) An expected draw down of a €15 million bank loan facility did not materialise in FY2021 but was completed in FY2022.

The following financial information relates to the variance analysis between the projected financial information for the years ending 31 October 2022 to 2025 included in the prior year's Financial Analysis Summary dated 6 December 2021 (grey shading) and the updated projected financial information for the years ending 31 October 2022 to 2025.

AX Real Estate p.l.c. Statement of Comprehensive Income								
for the year ended 31 October	2022	2023	2024	2025	2022	2023	2024	2025
	Forecast	Projection	Projection	Projection	Projection	Projection	Projection	Projection
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Revenue	8,675	12,680	17,422	18,022	9,071	13,165	17,422	18,022
Net operating expenses	(1,121)	(862)	(876)	(713)	(968)	(862)	(876)	(713)
Depreciation and amortisation	(148)	(48)	(48)	(48)	(148)	(48)	(48)	(48)
Operating profit	7,406	11,770	16,498	17,261	7,955	12,255	16,498	17,261
Investment property revaluation	-	-	-	-	-	-	-	-
Finance costs	(3,206)	(4,961)	(4,503)	(4,387)	(4,417)	(4,131)	(3,587)	(3,530)
Profit (loss) before tax	4,200	6,809	11,995	12,874	3,538	8,124	12,911	13,731
Taxation	(1,383)	(2,496)	(3,316)	(3,587)	(1,287)	(2,496)	(3,316)	(3,587)
Profit (loss) for the year	2,817	4,313	8,679	9,287	2,251	5,628	9,595	10,144
Total comprehensive income (expense)	2,817	4,313	8,679	9,287	2,251	5,628	9,595	10,144

Revenue has been revised marginally lower by 1.5% (or €0.9 million) from €57.7 million to €56.8 million.

Projected profit before tax for the years 2022 to 2025 has been revised lower from €38.3 million to €35.9 million (-6%), primarily on account of higher than originally projected finance costs estimated for the 4-year period under review.



AX Real Estate p.l.c. Statement of Financial Position as at 31 October								
	2022	2023	2024	2025	2022	2023	2024	2025
	Forecast	Projection	Projection	Projection	Projection	Projection	Projection	Projection
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
ASSETS								
Non-current assets								
Intangible assets	2	2	2	2	-	-	-	-
Investment property	262,240	289,473	296,765	298,786	256,994	281,860	284,107	286,082
Other assets	-	-	-	-	432	384	336	288
	<u>262,242</u>	<u>289,475</u>	<u>296,767</u>	<u>298,788</u>	<u>257,426</u>	<u>282,244</u>	<u>284,443</u>	<u>286,370</u>
Current assets								
Inventories	438	219	-	-	897	720	543	543
Trade and other receivables	5,470	3,851	4,918	5,000	2,797	3,851	4,918	5,178
Current tax asset	163	-	-	-	-	-	-	-
Cash at bank and in hand	18,327	25,220	3,388	1,152	26,169	1,314	1,520	1,808
	<u>24,398</u>	<u>29,290</u>	<u>8,306</u>	<u>6,152</u>	<u>29,863</u>	<u>5,885</u>	<u>6,981</u>	<u>7,529</u>
Total assets	286,640	318,765	305,073	304,940	287,289	288,129	291,424	293,899
EQUITY								
Ordinary A shares	12,149	12,149	12,149	12,149	16,676	16,676	16,676	16,676
Ordinary B shares	22,143	22,143	22,143	22,143	18,764	18,764	18,764	18,764
Revaluation reserve	38,502	38,502	38,502	38,502	39,226	39,226	39,226	39,226
Share premium	41,458	41,458	41,458	41,458	45,470	45,470	45,470	45,470
Other reserves	331	331	331	331	331	331	331	331
Retained earnings	23,434	20,834	21,776	22,669	23,640	22,193	23,674	25,196
	<u>138,017</u>	<u>135,417</u>	<u>136,359</u>	<u>137,252</u>	<u>144,107</u>	<u>142,660</u>	<u>144,141</u>	<u>145,663</u>
LIABILITIES								
Non-current liabilities								
Bonds	39,591	39,635	39,679	39,723	40,000	40,000	40,000	40,000
Bank borrowings	21,897	40,281	35,708	32,024	7,270	5,802	4,289	3,541
Amounts due to AX Group companies	49,176	49,176	49,176	50,826	67,237	69,668	71,610	73,552
Trade & other payables	251	-	-	-	3,468	3,537	4,057	4,311
Deferred tax liabilities	20,036	20,036	20,036	20,036	20,597	20,597	20,597	20,597
	<u>130,951</u>	<u>149,128</u>	<u>144,599</u>	<u>142,609</u>	<u>138,572</u>	<u>139,604</u>	<u>140,553</u>	<u>142,001</u>
Current liabilities								
Borrowings and other financial liabilities	14,351	30,849	20,694	21,608	1,423	1,467	1,514	748
Trade & other payables	3,321	3,371	3,421	3,471	3,187	4,398	5,216	5,487
	<u>17,672</u>	<u>34,220</u>	<u>24,115</u>	<u>25,079</u>	<u>4,610</u>	<u>5,865</u>	<u>6,730</u>	<u>6,235</u>
Total liabilities	148,623	183,348	168,714	167,688	143,182	145,469	147,283	148,236
Total equity and liabilities	286,640	318,765	305,073	304,940	287,289	288,129	291,424	293,899

When compiling the projections for the years 2022 to 2025 in December 2021 (grey shading), the Group expected to raise approximately a further €6 million in equity during the IPO that was held in January/February 2022. In consequence, total equity in FY2022 is lower by €6.1 million to €138.0 million (previous projections - €144.1 million) while total liabilities for the same year is higher by €5.4 million to €148.6 million (previous projections - €143.2 million).

Other material variances as follows:

- (1) Capital expenditure relating to investment property has been revised higher by €12.7 million from €286.1 million to €298.8 million in FY2025. This variance mainly reflects an increase in capital expenditure on the Suncrest Hotel & lido project.
- (2) In the revised projections, AX Group subscribed to €21.6 million of Bonds in exchange for a reduction in amounts due to AX Group. Also, the Group has included a new bank loan facility amounting to €35 million in FY2023.



PART 3 – COMPARABLES

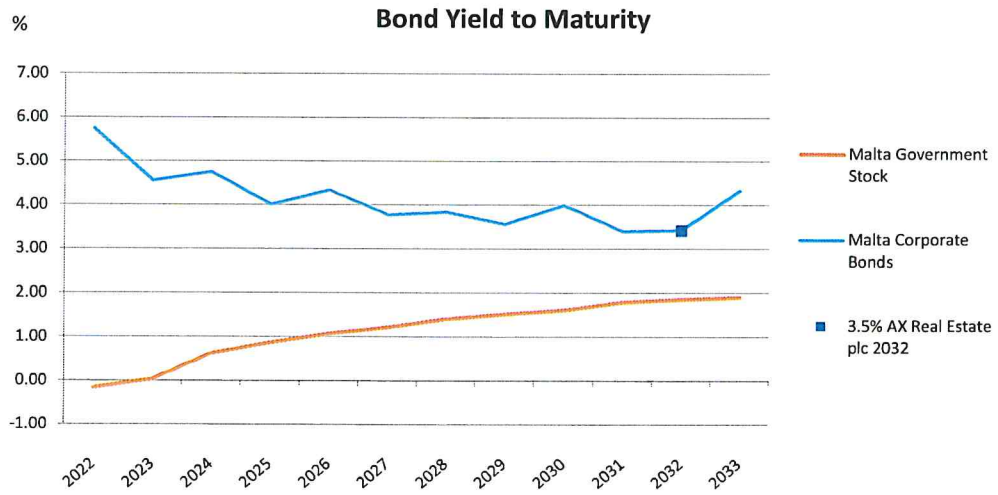
The table below compares the Company and its bonds to other debt issuers listed on the Malta Stock Exchange and their respective debt securities. The list includes issuers (excluding financial institutions) that have listed bonds. Although there are significant variances between the activities of the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

Comparative Analysis	Nominal Value (€)	Yield to Maturity (%)	Interest Cover (times)	Total Assets (€'000)	Net Asset Value (€'000)	Gearing Ratio (%)
6.00% Pendergardens Developments plc Secured € 2022 Series	21,093,400	5.74	1.79	60,578	29,491	36.39
4.25% GAP Group plc Secured € 2023	8,367,900	5.29	14.81	112,173	21,575	60.31
5.30% United Finance Plc Unsecured € Bonds 2023	8,500,000	4.55	0.67	37,298	6,677	75.91
5.80% International Hotel Investments plc 2023	10,000,000	4.54	1.06	1,695,229	838,216	40.59
5.5% Mediterranean Investments Holding plc € 2023	20,000,000	4.64	2.01	310,941	188,651	27.06
6.00% AX Investments Plc € 2024	40,000,000	3.57	1.69	374,099	237,143	25.10
6.00% International Hotel Investments plc € 2024	35,000,000	5.47	1.06	1,695,229	838,216	40.59
5.30% Mariner Finance plc Unsecured € 2024	35,000,000	4.75	3.30	102,348	52,929	46.65
5.00% Hal Mann Vella Group plc Secured € 2024	30,000,000	3.72	2.60	123,752	48,512	53.05
5.10% 1923 Investments plc Unsecured € 2024	36,000,000	4.36	4.58	149,687	52,831	49.89
4.25% Best Deal Properties Holding plc Secured € 2024	12,136,700	2.45	-	24,561	6,893	62.61
3.70% GAP Group plc Secured € 2023-2025 Series 1	21,000,000	3.55	14.81	112,173	21,575	60.31
5.75% International Hotel Investments plc Unsecured € 2025	45,000,000	4.66	1.06	1,695,229	838,216	40.59
5.10% GPM Holdings plc Unsecured € 2025	13,000,000	4.59	52.47	162,889	74,159	14.82
4.50% Hill Properties plc Unsecured € 2025	37,000,000	4.02	1.41	208,696	110,881	32.31
4.35% Hudson Malta plc Unsecured € 2026	12,000,000	4.35	4.51	58,951	12,557	68.49
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	4.11	0.51	1,717,057	828,470	42.64
4.00% International Hotel Investments plc Secured € 2026	55,000,000	3.36	1.06	1,695,229	838,216	40.59
5.00% Dizz Finance plc Unsecured € 2026	8,000,000	4.99	0.45	72,112	4,763	91.27
3.75% Premier Capital plc Unsecured € 2026	65,000,000	3.51	11.70	317,675	60,118	74.24
4.00% International Hotel Investments plc Unsecured € 2026	60,000,000	4.02	1.06	1,695,229	838,216	40.59
3.25% AX Group plc Unsec Bds 2026 Series I	15,000,000	3.25	1.69	374,099	237,143	25.10
3.90% GAP Group plc Secured € 2024-2026	21,000,000	3.90	14.81	112,173	21,575	60.31
4.35% SD Finance plc Unsecured € 2027	65,000,000	4.35	0.88	328,464	131,504	30.32
4.00% Eden Finance plc Unsecured € 2027	40,000,000	3.78	3.63	193,529	109,284	28.55
4.00% Stivala Group Finance plc Secured € 2027	45,000,000	3.49	3.25	362,955	235,392	26.66
3.85% Hill Finance Company plc Unsecured € 2028	40,000,000	3.85	3.44	624,222	106,811	78.42
3.65% Stivala Group Finance plc Secured € 2029	15,000,000	3.57	3.25	362,955	235,392	26.66
3.80% Hill Finance Company plc Unsecured € 2029	80,000,000	3.88	3.44	624,222	106,811	78.42
3.75% AX Group plc Unsec Bds 2029 Series II	10,000,000	3.79	1.69	374,099	237,143	25.10
3.65% International Hotel Investments plc Unsecured € 2031	80,000,000	3.68	1.06	1,695,229	838,216	40.59
3.50% AX Real Estate plc Unsec Bds 2032	40,000,000	3.44	-	238,228	78,698	63.41

29-Apr-22

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

29 April 2022

To date, there are no corporate bonds which have a redemption date beyond 2033. The Malta Government Stock yield curve has also been included since it is the benchmark risk-free rate for Malta.

The bonds is trading at a yield of 3.44%, which is in line when compared to other corporate bonds maturing in the same year. The premium over FY2032 Malta Government Stock is 159 basis points.



PART 4 – EXPLANATORY DEFINITIONS

Income Statement	
Revenue	Total revenue generated by the Group from its business activities during the financial year, including rent receivable and related services.
Net operating expenses	Net operating expenses include the direct expenses and administrative costs.
Operating profit	Operating profit can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.
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.
Profitability Ratios	
Operating profit margin	Operating profit margin is operating income or EBITDA as a percentage of total revenue.
Net profit margin	Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue.
Efficiency Ratios	
Return on equity	Return on equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing profit after tax by shareholders' equity.
Return on capital employed	Return on capital employed (ROCE) indicates the efficiency and profitability of a company's capital investments, estimated by dividing operating profit by capital employed.
Return on Assets	Return on assets (ROA) is computed by dividing profit after tax by total assets.
Equity Ratios	
Earnings per share	Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date.
Cash Flow Statement	
Cash flow from operating activities	Cash generated from the principal revenue-producing activities of the Group.
Cash flow from investing activities	Cash generated from activities dealing with the acquisition and disposal of long-term assets and other investments of the Group.



Cash flow from financing activities	Cash generated from the activities that result in change in share capital and borrowings of the Group.
Free cash flow	Free cash flow is arrived at by deducting capital expenditure from cash generated from operating activities.

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. Such assets principally comprise investment properties.
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, property for resale, cash and bank balances.
Current liabilities	All liabilities payable by the Group within a period of one year from the balance sheet date, and include accounts payable and short-term debt.
Non-current liabilities	The Group's long-term financial obligations that are not due within the present accounting year. The Group's non-current liabilities include long-term borrowings, bonds and long term lease obligations.
Total equity	Total equity includes share capital, reserves & other equity components, retained earnings and minority interest.
Net assets per share	Total assets less total liabilities divided by the number of equity shares in issue.

Financial Strength Ratios

Liquidity ratio	The liquidity ratio (also known as current ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares a company's current assets to its current liabilities.
Interest cover	The interest coverage ratio is calculated by dividing a company's operating profit of one period by the company's interest expense of the same period.
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 Group's net debt by shareholders' equity plus net debt. Alternatively, the gearing ratio can be calculated by dividing a company's net debt by shareholders' equity.

