

## Plaza Centres p.l.c.



### Executive Summary:

We are downgrading our investment stance to a Hold from a Buy recommendation on Plaza Centres plc, with a 12-month price target of €1.04 from our previous price target of €1.14. The main reason being the revision of the discount rate to 7.8% from 6.9%, to be more in line with local peers, and more representative of the risk profile of the business. Our Hold recommendation is based on:

- The share price fully prices in the expected (a) improvement in the Group's occupancy levels and (b) the increase in the Tigne Place rental rates.
- Our price target caters for both increases in the Group's occupancy levels (2019: 94% vs 2018: 88%) and the rental rates (2019: €264/sqm vs 2018: €250/sqm), and also captures the positive outlook of the Maltese economy.

Nonetheless we like the Company because:

- PZC has for the last five years maintained a dividend distribution, with the current net dividend yield of 3.0%.
- Our model shows that in the foreseeable future, PZC will be in a position to distribute up to 70% of its earnings, which translates to a forward net dividend yield of 3.4%.
- Plaza benefits from a strategic location, which should dampen the risks from the increasing popularity of online shopping.

### Company Overview:

Plaza Centres plc ("PZC" or the "Company") owns and operates 'The Plaza Shopping Centre' located in the heart of Sliema. The Plaza Commercial Centre is spread over an area of 10,500 sqm hosting a mix of retail, catering and office spaces over nine floors built around a central atrium. The shopping centre host both local and international brands. The office space is occupied mainly by betting companies and small financial / investment firms. Rental agreements for retail tenants have a long-term nature (an average of 16 years in 2016) whilst the agreements for the office space are much shorter (on average 2.4 years). Most of the operating and maintenance costs for common areas are recharged to tenants.

In 2016, PZC acquired Tigne Place located in Triq Tigne, Sliema, through its fully owned subsidiary Tigne Place Limited (the "Group"). The acquisition was financed partly through a bank loan (€4.5 million) and partly through the issue of a bond (€5 million). The property spreads over a total area of 4,001 sqm and comprises of two floors and a mezzanine level of office space and the ground floor which is occupied by retail outlets and a language school. The property also includes 100 car spaces in the underground levels.

**Stock Rating**  
Price target (1Yr)

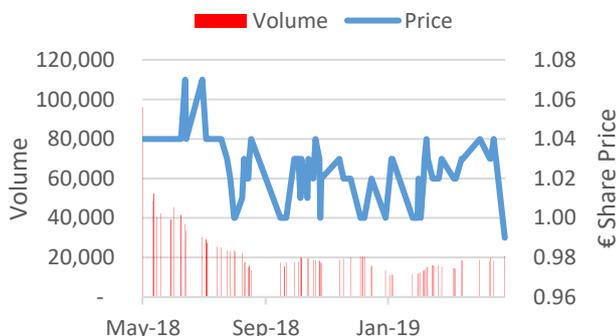
**Hold**  
€1.04

<b>Country</b>	Malta
<b>Industry</b>	Real Estate (Commercial)
<b>Ticker Symbol</b>	PZC
<b>Price (as at 13/05/2019)</b>	€0.99
<b>Price Target (1 Year)</b>	€1.04
<b>Upside / Downside to PT</b>	5.1%
<b>Market Cap</b>	€28.0 million
<b>Shares Outstanding</b>	28.2 million
<b>Free Float</b>	71.6%
<b>Net Dividend Yield *</b>	3.0%
<b>Current P/E *</b>	25.5x
<b>Forward P/E **</b>	20.5x

\* Based on the year-end results of December 2018  
\*\* CC estimates

**1-Year Range:**  
**Price Movement and Volume Movement (20 day moving average)**

Exchange: MSE  
Lowest Price: 0.99  
Highest Price: 1.07



Source: Bloomberg

### Market Research



**Simon Psaila**  
Financial Analyst  
+356 25 688 141  
[simonpsaila@cc.com.mt](mailto:simonpsaila@cc.com.mt)



**Rowen Bonello**  
Financial Analyst  
+356 25 688 305  
[rowenbonello@cc.com.mt](mailto:rowenbonello@cc.com.mt)

## Company Update:

The refurbishment works carried out at Tigne Place (offices acquired in 2016) has been completed in 2018. The Plaza centre is also undergoing a renovation program, and in 2018 the centre completed the conversion of the food hall on level 0. Consequently, management expects that the occupancy levels of the Group will improve in 2019.

*Dividends* - The Board of directors of PZC has proposed the payment of a final net dividend for 2018 of €831,115 (2017: €831,115).

## SWOT Analysis

### Strengths

- ✓ Very attractive location of the Shopping Centre within the Sliema shopping district.
- ✓ Long term nature of rent agreements for retail spaces at the Shopping Centre.
- ✓ Diversified tenants' base.
- ✓ Constant dividends distribution during the last five years.

### Weaknesses

- ✗ No sector and geographical diversification – the Group is only exposed to the Maltese commercial property market.
- ✗ The Plaza Shopping Centre does not offer parking facilities.
- ✗ Short term nature of rent agreements for the office spaces.
- ✗ The Group operates in a very competitive area, with some of its peers benefiting from a superior strategic location than that of the Group's property.

### Opportunities

- The ongoing refurbishment works at the Plaza centre will boost the attractiveness of the property, which should enable the Company to improve both its occupancy levels and its bargaining power in securing new leases with higher rates.
- Positive outlook of the Maltese economy sustaining the growth in the rental rates, especially within prime locations like the Sliema area.

### Threats

- ! A fall in the occupancy rates of Plaza's outlets might undermine the revenue and profitability potential of the Company
- ! Overheating of the commercial property market in Malta.
- ! Online shopping hampering traditional shopping.

## Investment Stance

We are downgrading our investment stance to a Hold from a Buy recommendation on Plaza Centres plc, with a 12-month price target of €1.04 from our previous price target of €1.14. The main reason being the revision of the discount rate to 7.8% from 6.9%, to be more in line with local peers, and more representative of the risk profile of the business. The Company has carried out an extensive refurbishment project on both of its properties and this has impacted the revenue generated during 2018, which is marginally lower than that of 2017. Moving forward we expect the Group to improve its occupancy levels and this has been reflected in our valuation. Our model also reflects the improved rental rates that are expected to be generated from the Tigne Place following the renegotiation of the expired lease contracts with rental rates aligned with that of the market. Despite our price target catering for both increases in the Group's occupancy levels (2019: 94% vs 2018: 88%) and the rental rates (2019: €264/sqm vs 2018: €250/sqm) the upside is limited, consequently we are of the opinion that PZC is fairly priced at its current value. We believe that our price target also captures the positive outlook of the Maltese economy.

Nonetheless we like the Company because, PZC has for the last five years maintained a dividend distribution, with the current net dividend yield standing at 3.0%. Our model shows that in the foreseeable future, PZC will be in a position to distribute 70% of its earnings, which translates to a healthy forward net dividend yield of 3.4%. The Company is currently trading at a price to earnings ratio ("P/E ratio") of 25.5x, which is slightly higher than its five years historical average of 24.8x. Based on our forecasted earnings of 2019, we expect PZC to be trading at a forward P/E of 20.5x.

There is an element of concern stemming from the increasing popularity of the online shopping business, which may negatively impact the performance of the retail outlets. However, this is partly offset by the favourable location of the properties and the popularity of the Plaza Shopping Centre.

## Valuation

Our one-year price target is €1.04. This price is calculated using a Free Cash Flow to the Firm model with a weighted average cost of capital of 7.6% and a terminal growth rate of 3%. This translates to a forward P/E of 20.5x. The discount rate is in line with that of PZC's peers and factors in the risk of the local property market.

€'000s unless otherwise indicated	FY 2017	FY 2018	2019F <sup>1</sup>	2020P	2021P
	€	€	€	€	€
Revenue	3,276	3,270	3,638	3,822	3,962
Marketing and maintenance costs	(75)	(92)	(98)	(99)	(103)
Administrative expenses	(516)	(594)	(655)	(688)	(713)
<b>EBITDA</b>	<b>2,685</b>	<b>2,584</b>	<b>2,885</b>	<b>3,035</b>	<b>3,146</b>
Depreciation	(506)	(552)	(516)	(520)	(524)
<b>EBIT</b>	<b>2,179</b>	<b>2,032</b>	<b>2,368</b>	<b>2,515</b>	<b>2,621</b>
Investment & other Related Income	31	-	-	-	-
Finance Income	4	4	-	-	-
Finance Costs	(475)	(465)	(418)	(406)	(393)
<b>Profit Before Tax</b>	<b>1,739</b>	<b>1,571</b>	<b>1,950</b>	<b>2,109</b>	<b>2,228</b>
Income Tax Expense	(470)	(476)	(584)	(621)	(647)
<b>Net Income</b>	<b>1,269</b>	<b>1,095</b>	<b>1,366</b>	<b>1,488</b>	<b>1,581</b>
Earnings Per Share – in (€)	0.045	0.039	0.048	0.053	0.056

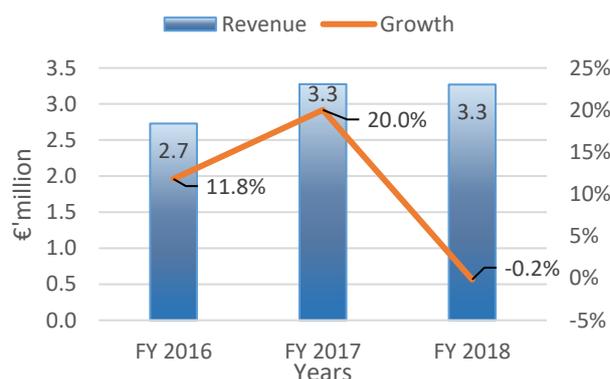
<sup>1</sup> Our forecasted figures do not take into account the implications brought about by the adoption of IFRS 16, where all leases will be capitalised as from 1st January 2019.

Ratio Analysis:	FY 2017	FY 2018	2019F <sup>2</sup>	2020P	2021P
Revenue Growth (YoY)	20.0%	-0.2%	11.2%	5.1%	3.7%
EBITDA Margin	82.0%	79.0%	79.3%	79.4%	79.4%
Net Margin	66.5%	62.1%	65.1%	65.8%	66.2%

Source: Audited Financial Statements and CC Estimates

## Investment Thesis Variables

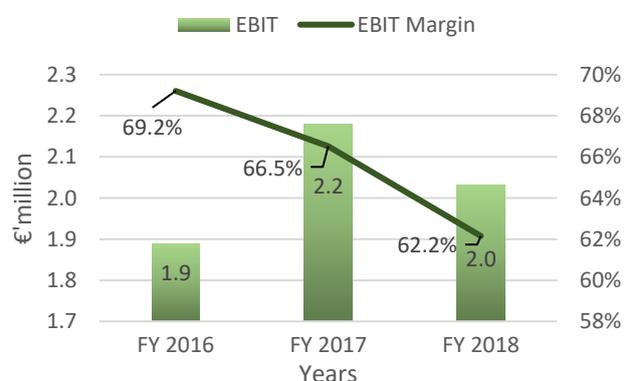
- Revenue** - In 2018, revenue generated was in line with that of 2017, which amounted to €3.3 million, albeit experiencing a marginal decrease of 0.2%. During 2018, the Group carried out refurbishment works on both of its properties and this consequently led to the Group's lower occupancy levels. The Plaza mainly saw the conversion of the food hall on level 0 that led to the Company recording an occupancy level of 91% in 2018 compared to 94% in 2017. The planned refurbishment at the Tighe Place has been concluded and management is in the process of renegotiating lease contracts with rates in line with that of the market, rather than the previously understated rates of older contracts, most of which expired by 2018.



Source: Financial Statements / CC Workings

Following the renovation works, the Group expects better occupancy levels and better rental rates generated at the Tighe Place. For the projected period as shown above we anticipate a 95% occupancy level at the Plaza centre with rental rates experiencing a 4% growth Year-on-Year ("YoY"). With respect to Tighe Place, we expect the rental rates to experience an abnormal increase of around 10% in 2019 with a 90% occupancy level. Moreover, for the period 2020-2021 we anticipate a growth of 3% in the rental rates with a 95% occupancy level in line with that of the Plaza centre. Accordingly, we expect total revenue in 2019 to increase by 11.2% or €0.3 million over the revenue generated in 2018 and for revenue to experience an additional increase of 5.1% and 3.7% in 2020 and 2021 respectively.

- EBIT** - The EBIT experienced a decrease of €0.2 million in 2018 when compared to 2017, where the EBIT stood at €2.2 million. In addition to the marginal decrease in the revenue for 2018, the EBIT was mainly impacted by one off admin charges following the demise of the previous CEO and the appointment of a new CEO, and the Group's higher contribution to marketing and maintenance costs, given the lower occupancy rates. In 2018, administrative expenses increased by 15.1% over 2017, and marketing and maintenance costs increased by 22.7% compared to last year, however it is important to note that the aggregate monetary value of these increases amounts to €0.1 million.

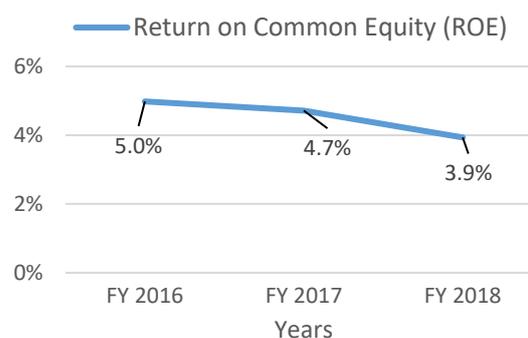


Source: Financial Statements / CC Workings

<sup>2</sup> Our forecasted figures do not take into account the implications brought about by the adoption of IFRS 16, where all leases will be capitalised as from 1st January 2019.

During our forecasted period expenses are forecasted to increase in line with the anticipated increase in the revenue generation of the Group. The EBIT for 2019 is anticipated to amount to €2.4 million, representing an increase of 16.6% or €0.3 million from the EBIT generated in 2018 of €2.0 million.

- Depreciation** - The depreciation expense stood at €0.5 million in 2017 and increased slightly in 2018 to €0.6 million. In our valuation we assumed the depreciation to be at 1% of the total asset cost, which is aligned with the historic depreciation rate. In the short term we expect the Company to incur relatively high capex at €0.4 million annually, as management continues with its refurbishment exercise of the Plaza shopping centre.
- Finance Costs** - PZC's current financial debt is made up of a €8.5 million unsecured bond incurring a fixed interest rate of 3.9% redeemable in September 2026, in addition to €3.6 million bank loan facility incurring variable interest rates the average of which stood at 2.75% in 2018. Moving forward we anticipate that the Group will have sufficient cash reserves to annually repay €0.5 million out of the remaining bank loans, which in accordance to our workings will, for the forecasted period presented, result in €0.4 million finance costs annually, albeit experiencing a marginal decline each year.
- Net Income and Earnings per share (EPS)** - We are forecasting net income in 2019 to experience an increase of around €0.3 million compared to 2018 mainly as result of the anticipated improved rates from the Tigne Place and a general improvement in the Groups occupancy levels. As a result of the refurbishment exercise and the one-off admin expenses as further discussed above the Group generated a net income of €2.0 million in 2018, a decrease of €0.1 million from last year's net income. The EPS is forecasted to be at €0.048 in 2019, representing the increase from 2018 where the EPS stood at €0.039. The tax expense of the Group was estimated on the favourable tax option of the 15% final withholding tax on rental income as elected by the Plaza Centres and the general 35% corporation tax on profits as elected by the Tigne Place.



Source: Financial Statements / CC Workings

The Return on Common Equity (ROE) stood at 5.0% in 2016 and decreased to 4.7% in 2017 as a result of higher financing costs incurred in acquiring the Tigne Place. In 2018, the opportunity cost of the refurbishment exercise continued to dampen the ROE, where this stood at 3.9%.

- Dividends** - The Group has for the last five years distributed a dividend, which on average amounted to around 70% of the total earnings. Our model forecasts that the Group will in the short term have sufficient cash reserves to continue distributing around 70% of its earnings, which translates to a forward dividend yield 3.4%.

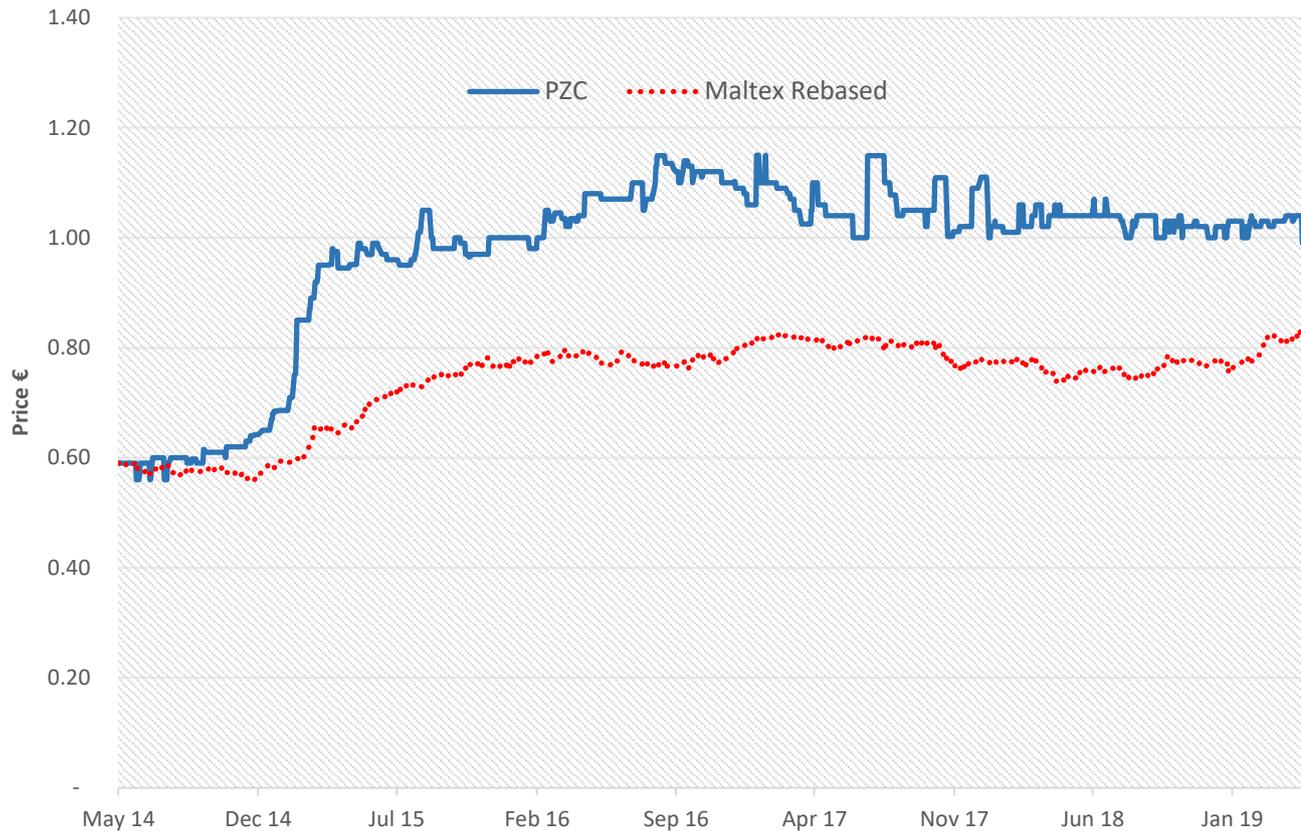
## Key Financial Indicators

€'Millions unless otherwise indicated	Dec-2016	Dec-2017	Dec-2018
<b>Income Statement</b>			
Revenue	2.73	3.28	3.27
<i>Growth in Revenue (YoY)</i>	11.81%	20.01%	-0.16%
EBITDA	2.26	2.68	2.58
EBITDA Margin (EBITDA / Revenue)	82.63%	81.96%	79.04%
Operating Profit (EBIT)	1.89	2.18	2.03
Operating (EBIT) Margin (EBIT / Revenue)	69.21%	66.52%	62.15%
Net Income	1.27	1.27	1.10
Net Margin (Net Income / Revenue)	46.41%	38.74%	33.49%
Earnings per Share (EPS)	0.045	0.045	0.039
<i>Growth in EPS (YoY)</i>	25.31%	0.18%	-13.69%
Dividend per Share (Net Dividends / Shares Outstanding)	0.029	0.029	0.029
Dividends Yield as at Year-end (Dividend per Share / Share Price )	2.70%	2.70%	2.89%
<b>Balance Sheet</b>			
Cash and Cash Equivalents	0.27	0.50	0.22
Current Assets	0.76	1.05	0.99
Non-Current Assets	42.67	43.84	45.04
Total Assets	43.42	44.88	46.04
Current Liabilities	1.24	1.63	1.97
Non-Current Liabilities	16.00	15.62	16.03
Total Equity	26.18	27.62	28.03
Shares Outstanding	28.24	28.24	28.24
<b>Cash flow</b>			
Cash Flow from Operating Activities (CFO)	1.51	1.92	2.21
Capex	(9.95)	(0.57)	(0.78)
Free Cash Flow (FCF)	(8.44)	1.35	1.43
Cash Flow from Investing Activities	(9.95)	(0.58)	(1.12)
Cash Flow from Financing Activities	9.84	(1.10)	(1.37)
<b>Ratios</b>			
<b>Profitability</b>			
Return on Common Equity (Net Income / Common Equity)	4.98%	4.72%	3.94%
Return on Assets (Net Income / Total Assets)	2.92%	2.83%	2.38%
<b>Solvency</b>			
Gearing Ratio Level 1 (Net Debt / Total Equity)	47.59%	43.33%	41.85%
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	39.71%	38.45%	39.10%
Net Debt / EBITDA	5.52x	4.46x	4.54x
Current Ratio (Current Assets / Current Liabilities)	0.61x	0.64x	0.50x
Interest Coverage Ratio (EBITDA / Cash Interest Paid)	9.92x	4.83x	4.56x
Cash from Operations / EBIT	0.80x	0.88x	1.09x

Source: Audited Financial Statements and CC Workings

## Historical 1-Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
PZC	16.02.2018	€1.01	€1.14	Simon Psaila and Elisabetta Gaudiano	Buy
PZC	14.05.2019	€0.99	€1.04	Simon Psaila and Rowen Bonello	Hold



Source: Bloomberg

## Glossary and Definitions

Income Statement	
Revenue	Total revenue generated by the Company/Company from its principal business activities during the financial year.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. It reflects the Company's/Company's earnings purely from operations.
Operating Profit (EBIT)	EBIT is an abbreviation for earnings before interest and tax.
Depreciation and Amortisation	An accounting charge to compensate for the decrease in the monetary value of an asset over time and the eventual cost to replace the asset once fully depreciated.
Net Finance Costs	The interest accrued on debt obligations less any interest earned on cash bank balances and from intra-group companies on any loan advances.
Net Income	The profit made by the Company/Company during the financial year net of any income taxes incurred.
Profitability Ratios	
Growth in Revenue (YoY)	This represents the growth in revenue when compared with previous financial year.
EBITDA Margin	EBITDA as a percentage of total revenue.
Operating (EBIT) Margin	Operating margin is the EBIT as a percentage of total revenue.
Net Margin	Net income expressed as a percentage of total revenue.
Return on Common Equity	Return on common equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing the net income by the average common equity (average equity of two years financial performance).
Return on Assets	Return on assets (ROA) is computed by dividing net income by total assets.
Earnings per Share (EPS)	Earnings per share (EPS) is the amount of earnings per outstanding share of a Group's/Company's share capital. It is computed by dividing net income by total shares outstanding as at statement of financial position date.
Growth in EPS (YoY)	This represents the growth in Earnings per Share (EPS) when compared with previous financial year.
Dividends Ratios	
Net Dividends	Net dividends represent the net amount of dividends in respect of a Group's/Company's fiscal year.
Dividend per Share	Dividend per Share is the amount of dividends per outstanding share of a Group's/Company's share capital. It is computed by dividing net dividends by total shares outstanding as at statement of financial position date.
Growth in Dividends (YoY)	This represents the growth in dividends when compared with previous financial year.
Sustainable Growth Rate in Dividends	This ratio indicates the sustainable growth rate of dividends given the profitability of the Company/Company and the respective level of dividends distribution.
Dividends Yield as at year-end	This ratio indicates how much a Group/Company pays out in dividends each fiscal year relative to its share price. It is computed by the dividing the Dividend per Share by the share price as at year-end.
Cash Flow Statement	
Cash Flow from Operating Activities (CFO)	Cash generated from the principal revenue producing activities of the Company/Company.
Cash Flow from Investing Activities	Cash generated from the activities dealing with the acquisition and disposal of long-term assets and other investments of the Company/Company.
Cash Flow from Financing Activities	Cash generated from the activities that result in change in share capital and borrowings of the Company/Company.
Capex	Represents the capital expenditure incurred by the Company/Company in a financial year.

Free Cash Flows (FCF)	The amount of cash the Company/Company has after it has met its financial obligations. It is calculated by taking Cash Flow from Operating Activities less the Capex of the same financial year.
<b>Balance Sheet</b>	
Total Assets	What the Company/Company owns which can be further classified into Non-Current Assets and Current Assets.
Non-Current Assets	Assets, full value of which will not be realised within the forthcoming accounting year
Current Assets	Assets which are realisable within one year from the statement of financial position date.
Inventory	Inventory is the term for the goods available for sale and raw materials used to produce goods available for sale.
Cash and Cash Equivalents	Cash and cash equivalents are Group/Company assets that are either cash or can be converted into cash immediately.
Total Equity	Total Equity is calculated as total assets less liabilities, representing the capital owned by the shareholders, retained earnings, and any reserves.
Total Liabilities	What the Company/Company owes which can be further classified into Non-Current Liabilities and Current Liabilities.
Non-Current Liabilities	Obligations which are due after more than one financial year.
Total Debt	All debt obligations inclusive of long and short-term debt.
Net Debt	Total debt of a Group/Company less any cash and cash equivalents.
Current Liabilities	Obligations which are due within one financial year.
Shares Outstanding	Outstanding shares refer to the Company/Company stock currently held by all its shareholders.
<b>Financial Strength Ratios</b>	
Current Ratio	The Current ratio (also known as the Liquidity Ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares current assets to current liabilities.
Quick Ratio (Acid Test Ratio)	The quick ratio measures a Group's/Company's ability to meet its short-term obligations with its most liquid assets. It compares current assets (less inventory) to current liabilities.
Interest Coverage Ratio	The interest coverage ratio is calculated by dividing EBITDA of one period by cash interest paid of the same period.
Gearing Ratio	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance total assets.
Gearing Ratio Level 1	Is calculated by dividing Net Debt by Total Equity.
Gearing Ratio Level 2	Is calculated by dividing Total Liabilities by Total Assets.
Net Debt / EBITDA	The Net Debt / EBITDA ratio measures the ability of the Company/Company to refinance its debt by looking at the EBITDA.
Cash from Operations / EBIT	This ratio measures the ability of the Company/Company to convert its earnings into cash.

## Explanation of Equity Research Ratings

---

**Buy:** Based on a current 12- month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

**Sell:** Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, we do not recommend either a Buy or Sell. Current shareholders should consider buying on dips and selling on peaks.

Newly issued research recommendations and target prices supersede previously published research.

## Disclaimer

This document is being issued by Calamatta Cuschieri Investment Services Ltd ("CC") of Ewropa Business Centre, Triq Dun Karm, Birkirkara, BKR9034, Malta and bearing company registration number C13729. CC is licensed to conduct Investment Services in Malta by the Malta Financial Services Authority. This information is being provided solely for information purposes and should not be deemed or construed as investment advice, advice concerning particular investments, advice concerning investment decisions, tax, legal or any other ancillary regulatory advice. Similarly, any views or opinions expressed are not intended and should not be construed as investment, tax and/or legal recommendations or advice. CC has not verified and consequently neither warrants the accuracy nor the veracity of any information, views or opinions appearing on this document. CC does not accept liability for actions, proceedings, costs, demands, expenses, damages and losses suffered by persons as a result of information, views or opinions appearing on this document. No person should act upon any opinion and/or information in this document without first obtaining professional advice.