FINCO TREASURY MANAGEMENT LIMITED

The Bastions, Office No.2, Emvin Cremona Street, Floriana FRN1281, Malta
Tel: (++356) 21220002 Fax: (++356) 21243280
Website: www.fincotrust.com E-Mail: investments@fincotrust.com
A Limited Liability Company registered in Malta on 9th November 1994, Registration No. C17017

Qawra Palace Plc - Secured 5.25% 2033

Salient Details & Time Table

Offeror & Issuer	**Qawra Palace Plc**
Security	The Bonds will be secured by a second ranking special hypothec granting the Security Trustee (for the benefit of Bondholders) a right of preference and priority for repayment over the Hypothecated Property, subject to a prior Special Hypothec of €15,000,000
Currency	Euro
Issue Size	€25,000,000
Offer Price	100% at par
Coupon	5.25% per annum
Status & Security	The Bonds (their repayment and the payment of interest thereon) shall constitute the general, direct, and unconditional obligations of the Issuer to the Bondholders, and shall at all times rank pari passu, without any priority or preference among themselves. The Bonds shall rank subsequent to a 1st SH over the same Hypothecated Property for €15 million
Maturity Date	27th February 2033
Listing	Official List, Malta Stock Exchange.
Interest Payment Dates	27th February annually
Offer Period	From 9th January to 3rd February 2023
Minimum Applications accepted by Finco	€2,000 (nominal) and in multiples of €1,000 thereafter

Qawra Palace P.L.C.

The Issuer is a property holding company whose principal objects are as set in its Memorandum of Association – i.e. namely, to carry on the business of a property holding company and to construct, maintain, alter, equip or convert any buildings or amenities as may be required in connection with the establishment of a hotel and/or tourist or leisure centre.

The Issuer enjoys ownership title to the Qawra Palace. Given that the Issuer is not a trading company, it is economically dependent on the income it derives from the Operating Company, Mallard Co Ltd, under the QP Lease & Operating Agreement, as well as the amounts outstanding under the Operating Company Loan and, separately, the monies on-lent to the Operating Company from the proceeds of the Bond Issue. These strands of income are in turn contingent on the operating and financial performance of the Operating Company, which operates the Qawra Palace.

The Qawra Palace is a four-star hotel established in 1985 located on the Qawra promenade, which is managed and operated by the Operating Company pursuant to the QP Lease & Operating Agreement. The Qawra Palace's existing facilities include 394 rooms, indoor and outdoor pools, a games room, mini-golf facilities and six food and beverage outlets.

The majority of incoming residents at the Qawra Palace hail from the United Kingdom (71.83%), with Italy (7.49%), France (5.01%) and Germany (2.15%) also constituting popular target markets for the Qawra Palace. Its primary source of income is derived from its occupancy rates; accounting for approximately 62% of the total revenue generated. Business is predominantly derived from three sources, namely:

(i) tour operators,
(ii) third-party online reservation systems, and
(iii) bookings made directly via the Qawra Palace's website.

The Qawra Palace's management enjoys a good relationship with a wide network of tour operators, and this source of business accounts for over 50% of the Qawra Palace's total sales. Conversely, the revenue generated from third-party online reservation systems accounts to 35% of the Qawra Palace's sales, while the remaining 15% are the result of direct booking

Security & Guarantee

The Issuer shall secure its obligations under the Bond Issue by virtue of a second-ranking special hypothec over the Qawra Palace granted in favour of the Security Trustee for the benefit of the Bondholders (the Special Hypothec), with a first-ranking special hypothec over the Qawra Palace, as well as a general hypothec over all of the present and future assets of the Issuer and Mallard Co Ltd, being granted to BOV for the sum of €15 million. It is very important to appreciate that the value of a 2nd Special Hypothec as in this current case, even if the Prospectus Valuation of the Property should cover both hypothecs, is much inferior to being secured by a 1st ranking charge.

Furthermore, there can be no guarantee that any other prior ranking privileges or security in specific situations will not arise by operation of law during the course of the Issuer's business which may rank with priority or preference to the Special Hypothec. Moreover, it is possible that additional third-party security interests may be registered that will rank in priority to the Bonds.

As a result, in the event of the insolvency of the Issuer, or of a default under the Terms and Conditions, the Bondholders may not be able to recover their investment under the Bonds (in whole or in part) until such time as the claim/s of higher-ranking creditors are duly satisfied.

Description of the Special Hypothec

The obligations of the Issuer to the Bondholders under the Bonds will be secured by means of the Special Hypothec. Specifically, the Issuer shall, pursuant to the Deed of Hypothec, constitute in favour of the Security Trustee (for the benefit of Bondholders) the Special Hypothec over the Hypothecated Property for the full amount of principal and interest due by the Issuer to the Bondholders in respect of the Bonds. The Special Hypothec may be enforced by the Security Trustee upon the Bonds becoming immediately due and payable upon an Event of Default, following which Bondholders shall be paid out of the Hypothecated Property in priority to other creditors, save for any prior ranking security or privilege that may arise by operation of law.

In the event of enforcement, the Special Hypothec shall rank subsequent to the first-ranking special hypothec granted to BOV pursuant to the terms of the Operating Company BOV Loan.

The estimated current market value of the Hypothecated Property (as set out in the Valuation Report) is expected to amount to €60,685,642. Accordingly, the value of the Hypothecated Property as at the date of constitution of the Special Hypothec will be substantially higher than the full amount of interest and principal outstanding under the Bonds, as well as the amount due under the Operating Company BOV Loan.

OPERATING COMPANY BOV LOAN	€15,000,000 1St Special Hypothec
QAWRA PALACE BOND plus 1 year interest	€26,250,000 2nd Special Hypothec

Purpose of the Issue and Use of Proceeds:

The net proceeds from the Bond Issue, which net of Bond Issue expenses are expected to amount to approximately €24,600,000, will be utilised for the following purposes, in the order of priority set out below:

1. €16,400,000 will be used for the purpose of repaying the outstanding amounts under the Issuer BOV Loan;
2. €6,700,000 will be utilised to partly finance the extension and refurbishment of the Qawra Palace and will for this purpose be on-lent to the Operating Company to further compliment the amount borrowed by it under the Operating Company BOV Loan; and
3. €1,500,000 will be utilised for general corporate funding purposes.

Ratio Analysis

Ratio Analysis	2020A	2021A	2022A	2023P	2024P	2025P
Financial Strength						
Gearing 1 (Net Debt / Net Debt and Total Equity)	32.6%	19.0%	25.2%	36.8%	33.0%	30.4%
Gearing 2 (Total Liabilities / Total Assets)	42.8%	27.3%	32.3%	42.2%	40.0%	39.2%
Gearing 3 (Net Debt / Total Equity)	48.4%	23.4%	33.7%	58.1%	49.2%	43.8%
Net Debt / EBITDA	2.2x	-3,812.5x	-1,657.9x	41.9x	6.9x	6.3x
Current Ratio (Current Assets / Current Liabilities)	0.0x	0.0x	0.0x	0.5x	4.0x	8.9x
Interest Coverage 1 (EBITDA / Cash interest paid)	N/A	-2.0x	-0.9x	1.5x	2.6x	2.7x
Interest Coverage 1 (EBITDA / Finance Costs)	N/A	-2.0x	-0.9x	0.7x	2.6x	2.7x

Financials of Qawra Palace P.L.C

Issuer's Statement of Financial Position as at 31 March	2020A	2021A	2022A	2023P	2024P	2025P
	€'000s	€'000s	€'000s	€'000s	€'000s	€'000s
Assets						
Non-current assets						
Investment property	12,259	42,095	44,592	53,048	56,242	56,242
Amounts due from MCL	-	2,722	6,344	19,038	18,754	18,333
Total non-current assets	**12,259**	**44,817**	**50,936**	**72,086**	**74,996**	**74,575**
Current assets						
Cash and cash equivalents	-	1	-	282	1,948	3,839
Total current assets	-	**1**	-	**282**	**1,948**	**3,839**
Total assets	**12,259**	**44,818**	**50,936**	**72,368**	**76,944**	**78,414**
Equity						
Share capital	2,329	2,329	2,329	2,329	2,329	2,329
Retained earnings	4,681	30,255	32,161	39,525	43,851	45,336
Total equity	**7,010**	**32,584**	**34,490**	**41,854**	**46,180**	**47,665**
Liabilities						
Non-current liabilities						
Bonds	-	-	-	24,613	24,653	24,693
Borrowings	3,393	7,626	11,605	-	-	-
Deferred tax liability	-	4,210	4,459	5,305	5,624	5,624
Amounts due to MCL	1,444	-	-	-	-	-
Total non-current liabilities	**4,837**	**11,836**	**16,064**	**29,918**	**30,277**	**30,317**
Current liabilities						
Accrued bond interest	-	-	-	417	417	417
Current tax liabilities	135	121	93	-	-	-
Trade and other payables	277	277	289	179	70	15
Total current liabilities	**412**	**398**	**382**	**596**	**487**	**432**
Total liabilities	**5,249**	**12,234**	**16,446**	**30,514**	**30,764**	**30,749**
Total equity and liabilities	**12,259**	**44,818**	**50,936**	**72,368**	**76,944**	**78,414**

Issuer's Statement of Financial Position as at 31 March	2020A	2021A	2022A	2023P	2024P	2025P
	€'000s	€'000s	€'000s	€'000s	€'000s	€'000s
Revenue	1,525	-	-	622	3,349	3,396
Administration expenses	(3)	(2)	(7)	(41)	(63)	(64)
EBITDA	**1,522**	**(2)**	**(7)**	**581**	**3,286**	**3,332**
Depreciation	(98)	(98)	-	-	-	-
Change in fair value of investment property	-	29,934	2,497	8,456	3,194	-
Impairment provision	-	(49)	(326)	-	-	-
EBIT	**1,424**	**29,785**	**2,164**	**9,037**	**6,480**	**3,332**
Interest	-	(1)	(8)	(814)	(1,250)	(1,250)
Deferred bond issue costs	-	-	-	(13)	(40)	(40)
Profit before tax	**1,424**	**29,784**	**2,156**	**8,210**	**5,190**	**2,042**
Current tax	(427)	-	-	-	(545)	(558)
Deferred tax	-	(4,210)	(250)	(846)	(319)	-
Profit for the year	**997**	**25,574**	**1,906**	**7,364**	**4,326**	**1,484**

Financial Overview

The Issuers gearing ratios are expected to remain healthy even after the Bond Issue at 36.8% and 33.0% in FY23 and FY24 respectively. The equity of the Issuer is made up of share capital and retained earnings. Share capital is expected to remain stable throughout the 5 years at €2.3m. Retained earnings, on the other hand, are expected to increase consistently in line with the profit for the year with the biggest jump coming in FY21 from €4.7m to €30.3m mainly due to the aforementioned revaluation of the investment property.

Total equity was €7.0m in FY20, €32.6m in FY21 and €34.5m in FY22, albeit this increased by a property revaluation. It is expected to reach 41.9m in FY23 and €46.2m in FY24. Non-current liabilities increased throughout the historical years in line with increased bank borrowings of €11.6m (FY21: €7.6m).

Deferred tax liabilities also increased slightly but remained relatively stable.

In FY23and FY24, non-current liabilities are expected to increase substantially due to the Bond Issue and remain at this level going into FY25. More specifically non-current liabilities were €4.8m in FY20, €11.8m in FY21 and €16.1m in FY22 before a forecasted increase to €29.9m in FY23 and €30.3m due to the Bond Issue. Current liabilities are minimal and include mainly current tax liabilities, trade and other payables and accrued bond interest. Current tax liabilities were stable in all 3 historical years at €0.1m. Trade and other payables were €0.3m in the historical years and are expected to decrease slightly to €0.2m in FY23 and €0.1m in FY24.

This means that total liabilities totalled 5.3m in FY20, €12.2m in FY21 and €16.5m in FY22. In FY23 and FY24 on the other hand, total liabilities are expected to reach 30.5m and €30.8m in FY24. The Issuer posted negative interest coverage ratios historically but the increased expected profits in FY23 and FY24 will help turn these ratios positive.

The Qawra Palace Plc bond is a ten-year bond with an attractive 5.25% coupon, albeit not with the best security. As global interest rates have increased due to sharp inflation, local corporate bonds have adjusted with higher interest rates too. It may still be too early to anticipate where the end of interest rate increases will be and locking in at 10 years may carry its risks, unless the investor is happy with a 5.25% yearly interest.

This bond is also Secured but only by way of a Second Ranking Special Hypothec.

Interest Coverage (EBITDA / Finance costs) is currently at 0.7 times, however expected to increase to 2.6 times in 2024 and 2025. Gearing (Net Debt / Net Debt and Total Equity) which is also at an acceptable level of 36.8% is expected to continue lower to 33% in 2024 and to 30.4% in 2025.

It is expected that this bond will be over-subscribed. It is recommended to inform Finco telephonically immediately, on Tel: 21220002, should you have interest to invest, as this issue will close on 3rd February 2023 or maybe earlier.

<u>General Recommendation</u>: **Subject to the consideration of the circumstances of each Investor, Finco issues a BUY recommendation to clients to this bond, provided always that the holding is a small part not exceeding 10% of an overall well diversified portfolio.**

Time Table & Application Procedures

1. Offer Period (Intermediaries' Offer) 9th January 2023 –3rd February 2023 at 17:00 CET
2. Announcement of Intermediaries' Offer results 13thFebruary 2023
3. Commencement of interest on the Bonds 13th February 2023
4. Refund of unallocated monies (if any) 20th February 2023
5. Issue Date 27th February 2023
6. Expected date of admission of the Bonds to listing 27th February 2023
7. Expected date of commencement of trading of the Bonds 28th February 2023

Availability of Prospectus

The Prospectus issued by Issuer is available at our offices for whoever is interested to have one. In this respect, anyone interested may call at our offices to collect a copy.