
Financial Analysis Summary

2 June 2020

Issuer

Pendergardens Developments p.l.c.
(C58098)



MZ INVESTMENT SERVICES



MZ INVESTMENT SERVICES

The Directors
Pendergardens Developments p.l.c.
GB Buildings,
Triq il-Watar
Ta'Xbiex XBX 1301

2 June 2020

Dear Sirs

Pendergardens Developments p.l.c. Financial Analysis Summary

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

- (a) Historical financial data, for the financial years ended 31 December 2017 to 31 December 2019, has been extracted from the audited financial statements of the Company for the periods in question.
- (b) The forecast data of the Company for the year ending 31 December 2020 has been provided by management of the Company.
- (c) Our commentary on the results of the Company and on its financial position is based on information provided by the Company.
- (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 the companies included in Part 3 has been extracted from public sources such as websites of the companies concerned, financial statements filed with the Registrar of Companies or websites providing financial data.



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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 Company. 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 – COMPANY INFORMATION

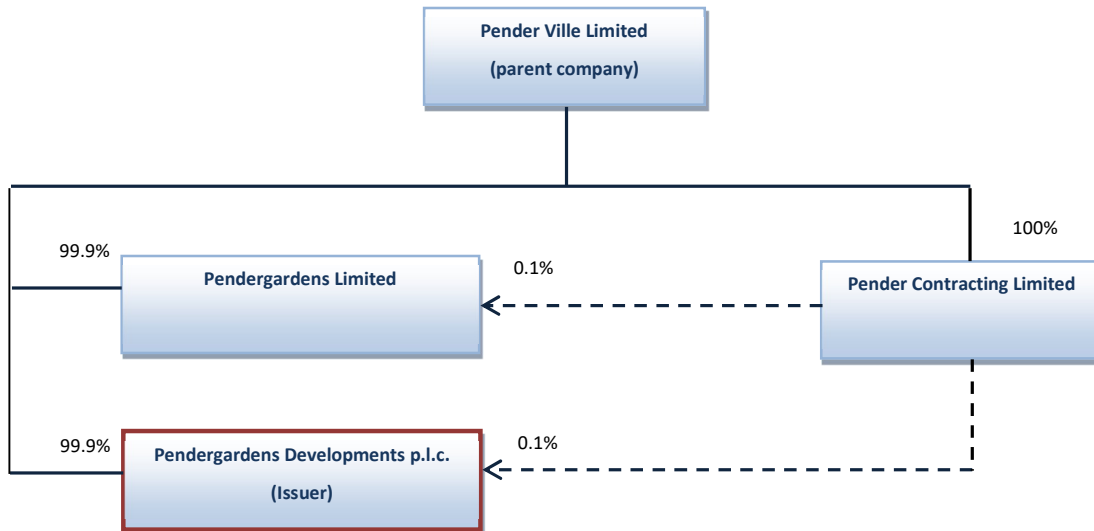
1. KEY ACTIVITIES

The principal activity of Pendergardens Developments p.l.c. (the “**Company**” or “**Issuer**”) is to carry on the business of a property development company. As at the date of this report, the Company has completed the development of Pendergardens Tower (formerly referred to Towers I and II), and is principally involved in disposing of the last remaining residential units, and marketing for sale or lease the retail and office space located in Block 16, Block 17 and Pendergardens Tower. The aforementioned properties comprise the final phase of the Pendergardens Project (“**Phase II**”).

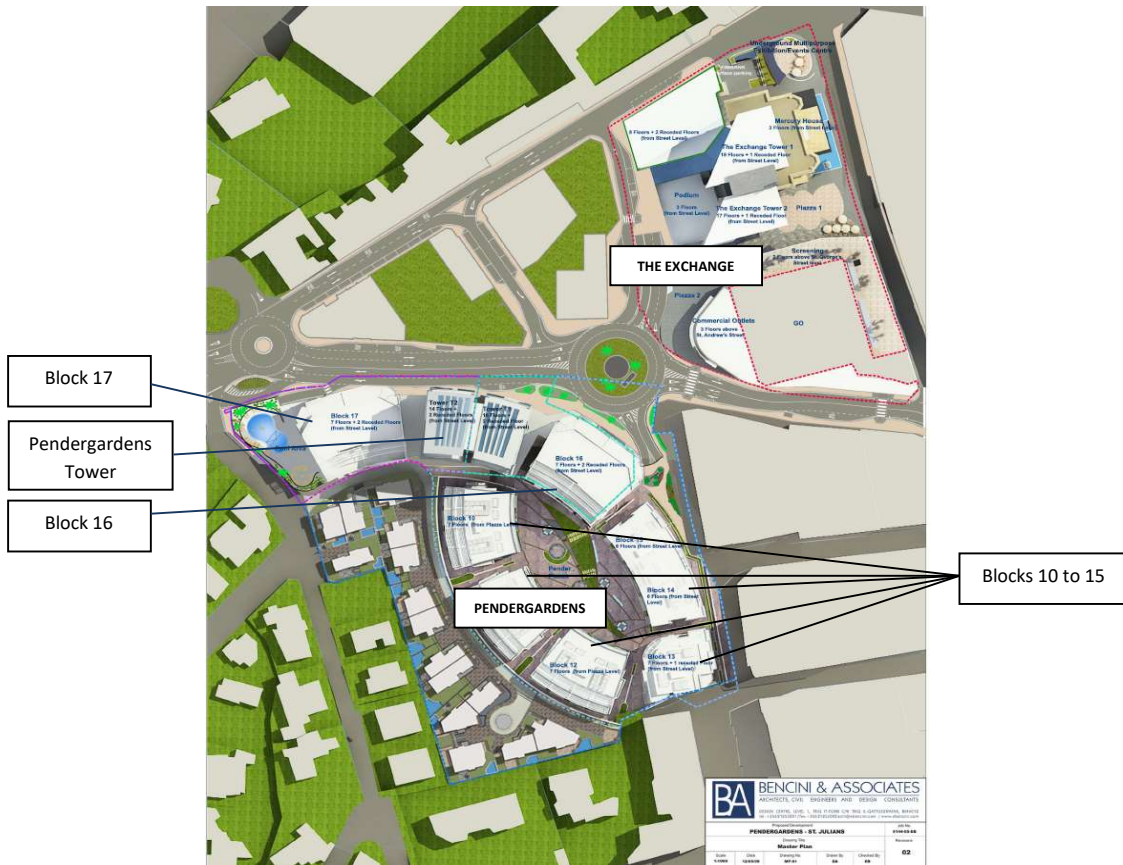
2. PENDERGARDENS GROUP

2.1 Organisational Structure

The Company was incorporated in November 2012 and forms part of the Pendergardens Group as set out in the Group organisational structure hereunder:



The parent company of the Group is Pender Ville Limited. It was set up in July 2005 by a consortium of investors to acquire and develop Pender Place (“Pendergardens”) and Mercury House (“The Exchange”) in St Julians, each site measuring 18,500m² and 8,500m² respectively. The acquired area is depicted in the site plan below:



Site Plan: Pendergardens and The Exchange

Pender Ville Limited commenced development of 150 residential apartments spread over 6 blocks (known as Blocks 10 to 15) together with underlying car park spaces in the first quarter of 2007. All apartments were sold over a 6-year period, except for one apartment which up to 2019 was used by the Pendergardens Group as an office. This unit is currently being converted to a residential apartment for subsequent disposal. Total sales proceeds generated from the afore-mentioned sales amounted to €43.7 million.

In a bid to proceed with the development of the remaining part of Pendergardens, the Block 16 site (measuring circa 1,379m²) was transferred in December 2012 to Pendergardens Developments p.l.c. The Company issued €12 million in debt securities in February 2013 and initiated construction of 46 residential apartments, 807m² of retail area and car park spaces in the first quarter of 2013. Block 16 was completed in 2015.



Pursuant to the bond offer in May 2014, which comprised the issuance of €15 million 5.5% Secured Bonds 2020 and €27 million 6% Secured Bonds 2022, the Company redeemed the afore-mentioned debt securities and acquired from Pender Ville Limited the last remaining parcel of land at Pendergardens measuring 3,217m² to construct Block 17 and Pendergardens Tower. The aforesaid development is now completed, except for snagging works, and comprises 77 residential apartments, 7 floors of office space, commercial premises and public and residential car park spaces.

In 2009, Pender Ville Limited sold an area measuring 950m² to FIMBank plc. The Pendergardens Group was entrusted with the construction of the FimBank plc property which was completed in 2012.

Between December 2016 and Q4 2017, Pender Ville Limited completed the sale of the site known as The Exchange to a third party acquirer. Furthermore, a portion of land (*circa* 4,300m²) earmarked for the development of 15 detached and semi-detached villas, forming part of the Pendergardens development, has to date been sold to third parties.

Pender Contracting Limited was incorporated in February 2006, principally to act as the main contractor to execute the construction and development of Pendergardens. In March 2020, the company completed the development of Pendergardens Tower and is expected to finalise snagging works during the forthcoming months.

2.2 Key Events

- 2007** Issue of Phase I development permit; official launch of Blocks 11, 12, 13 and 14; the property is awarded Special Designated Area Status
- 2008** Launch of Block 15 on the market
- 2009** Sale of property at The Exchange to FIMBank
- 2010** Development of Blocks 11 to 15 is completed; property owners commence residing at Pendergardens; launch of Block 10 apartments
- 2011** Issue of development permit for remaining sites
- 2012** All apartments in Phase I are sold
- 2013** Launch of Block 16 on the market; commencement of construction of Block 16
- 2014** Commencement of construction of Pendergardens Tower (comprising Pendergardens Tower Residences and Pendergardens Business Centre)
- 2015** Completion of Block 16 and promise of sale agreement for The Exchange is signed
- 2016** Block 16 is completed & sold except for 1 unit; launch of Block 17 and signed 44 pre-sale agreements; signed a pre-sale agreement for the supermarket and three retail units
- 2017** Launch of units at Pendergardens Tower Residences; sold The Exchange and completed first deed of supermarket and retail areas; signed 11 pre-sale agreements for units at Pendergardens Tower Residences and first lease agreement for office space at Pendergardens Business Centre



2018 Completion of Block 17 and underlying public car park; acquired an additional 3,548m² in the public car park thereby increasing the available car spaces from 253 to 323

2019 Pendergardens Business Centre commenced operations on 1 April 2019

2020 Development of Pendergardens Tower was substantially completed in March 2020

3. DIRECTORS AND SENIOR MANAGEMENT

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

Board of Directors

Edmund Gatt Baldacchino	Chairman
Edward Licari	Deputy Chairman
John Attard	Director
Philip Farrugia	Independent Non-Executive Director
Joseph FX Zahra	Independent Non-Executive Director

The Company has no employees and therefore is reliant on the resources seconded to it by its parent company, Pender Ville Limited. The names and responsibilities of the latter's senior management are set out hereunder:

Senior Management

Emmanuel Briffa	Chief Operating Officer
Natalie Scerri	Financial Controller
Ernest Debono	Cost Manager & Quantity Surveyor

4. CORPORATE GOVERNANCE

4.1 Internal Control

The Board appointed an independent internal auditor, Mr Ivan Fsadni, who attends audit committee meetings.

The Company's Board of Directors and Executive Management are responsible for establishing and maintaining an effective system of internal controls. The Internal Audit was set up as a tool to assess the effectiveness of such implemented controls and to provide to the Company's Board of Directors through the Audit Committee with an opinion on the effectiveness of the internal control and risk management framework within the company.



4.2 Attendance at Meetings

Board Meetings

The Board met formally six times during the period under review. The number of board meetings attended by Directors during the year ended 31 December 2019 was as follows:

<i>Members</i>	<i>Attended</i>
Edmund Gatt Baldacchino	6
Edward Licari	6
John Attard	6
Philip Farrugia	6
Joseph FX Zahra	6

Audit Committee

All Directors of the Company sitting on the Audit Committee are of a non-executive capacity. Philip Farrugia acts as chairman, whilst Joseph FX Zahra and Edmund Gatt Baldacchino act as members. The Committee met six times during the year ended 31 December 2019 and all members attended all meetings.

Investment Committee

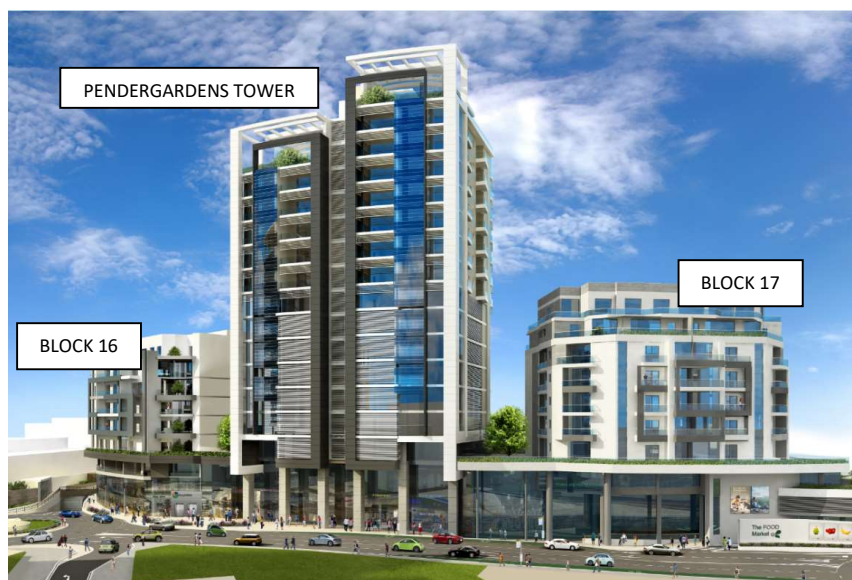
The Investment Committee is made up of Joseph FX Zahra, who is the chairman of the Committee, Philip Farrugia and John Attard. The Committee, which met six times during 2019, is entrusted with overseeing the Company's investment policy and making recommendations to the Board on the subject matter.

4.3 Other Information

Legal Advisors	Dr Massimo Vella of Vella Zammit McKeon Advocates
Auditors	PricewaterhouseCoopers
Security Trustee	Equinox International Limited



5. MAJOR ASSETS & OPERATIONAL DEVELOPMENT OF THE COMPANY



5.1 Phase II – Block 16

In February 2013, the Company entered into a fixed price contract with a related company, Pender Contracting Limited, for €10.02 million (excluding VAT) to construct and develop Block 16. The aforementioned property was completed in 2015.

Block 16 comprises 46 apartments, 4 levels of underlying car spaces and *circa* 807m² of retail area. As at 31 December 2017, a total of 45 contracts of sale were signed having an aggregate sales value of €15.7 million. The final deed for the remaining 3-bedroom duplex penthouse unit in Block 16 with 2 car spaces was signed in May 2019 for the consideration of €1.1 million.

5.2 Phase II – Block 17 and Pendergardens Tower

In 2014, Pendergardens initiated construction of the remaining parcel of land measuring *circa* 3,217m² (known as Block 17 and Pendergardens Tower), which was substantially completed in March 2020. Both properties comprise four levels of car park spaces below ground level, and two levels above ground of retail and office space all together totalling *circa* 15,000m². As from Level 2, Block 17 includes seven floors of residential units and Pendergardens Tower comprises seven levels of office space (lettable area of *circa* 5,200m²) (Pendergardens Business Centre) and a further eight levels of residential units (Pendergardens Tower Residences). The top two floors of the Pendergardens Tower Residences have been developed into two duplex penthouses. The offices and residences at Pendergardens Tower have separate entrances, lobbies and lifts.

As to the level of finishes, Block 17 is similar to Block 16, whereas Pendergardens Tower have a level of finish superior to the other blocks.



5.3 Development Progress – Pendergardens Tower

Finishing works on Pendergardens Tower (being the last block forming part of Pendergardens) were largely completed in March 2020.

5.4 Phase II – Sales Strategy and Projections

BLOCK 16

The 46 residential units in Block 16 have all been sold to date.

PUBLIC CAR PARK

The public car park was opened in February 2018 with 253 car spaces. In May 2018, the Company acquired an additional 3,548m² in the public car park from its parent company, increasing the available car spaces to just over 320.

BLOCK 17 RESIDENTIAL

In May 2016, the Company launched on the market a residential block consisting of 47 apartments (comprising 20 one-bedroom units, 20 two-bedroom units and 7 three-bedroom units) in Block 17. Development works of the residential part of Block 17 were completed in October 2018. During 2019, sale contracts for 16 units were executed, contributing €6.4 million to total sales (inclusive of the sale of 8 car spaces). The last remaining 3 units, having an aggregate value of €2.14 million, were sold in January 2020.

PENDERGARDENS TOWER RESIDENCES

The Company launched on the market 28 three-bedroom residential units at Pendergardens Tower Residences in the second half of 2017 and in 2019 made available the other 2 three-bedroom duplex penthouses, each having an outdoor pool and sky terraces. During 2019, 10 residential units including 11 car spaces were sold for a total consideration of €13.9 million. After year end, 5 more units were sold for *circa* €5.4 million, and to date, 8 residential units valued at *circa* €8.4 million are subject to preliminary sale agreements.

The pricing strategy for the Pendergardens Tower Residences has been devised to target the higher-end of the market and factors the level of finishing that is significantly superior to other parts of the development, and which is reflective of market expectations for such apartments.

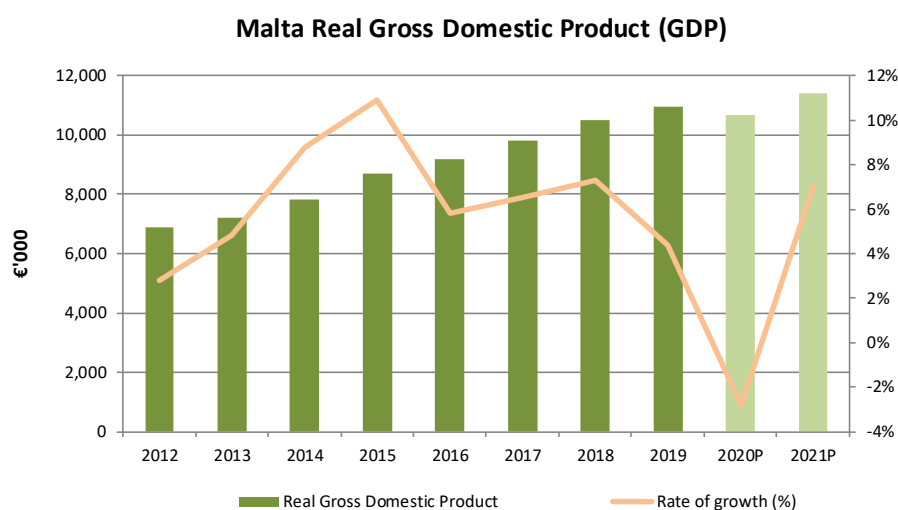
COMMERCIAL

In addition to residential units, Phase II includes the development of a total commercial gross area of *circa* 16,400m² (consisting of a retail podium under Blocks 16 and 17 and Pendergardens Business Centre). Other than the supermarket and the adjacent 3 retail units sold in 2017, both the office and retail areas of Block 16, Block 17 and Pendergardens Business Centre are available on the market for sale or lease.



As of 31 December 2019, seven lease agreements have been signed. Four agreements are for retail units, three within Block 16 and one at Pendergardens Tower. Another two agreements are in respect of 4 floors and half a floor of the 7 office floors at Pendergardens Business Centre. It is planned that a further floor will be occupied by the Company during 2020, whilst vacating and making available for sale or lease their present office space. In addition, the Company has entered into a lease agreement for the wellness centre. The Company is currently in negotiations with other interested parties with respect to available office and retail areas. As at the date of this report, the occupancy level of the commercial areas available for lease is at 76%.

5.5 Malta Economic Update¹



Note: Projected real GDP data for 2020 and 2021 are based on IMF estimates (IMF World Economic Outlook, April 2020)
Source: National Statistics Office Malta

The domestic economy continued to register a healthy rate of economic expansion in 2019, notwithstanding the more challenging environment globally and in the euro area. Although GDP² growth moderated to 4.4% from 7.3% in 2018, it remained above its long-term average of around 4.0%. The expansion was driven by domestic demand, particularly government consumption and gross fixed capital formation. Private consumption had a positive impact, although it increased at a slower pace following the very strong outturn in 2018. Meanwhile, the contribution of net exports turned negative, as imports outpaced exports. Nominal gross value added (GVA)³ data show that the expansion continued to be largely supported by services, although the manufacturing and construction sectors also expanded.

¹ Fifty-second Annual Report and Statement of Accounts 2019 – Central Bank of Malta, 2020 (pages 13, 14 and 50).

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

³ Gross Value Added (GVA) is the value of output less the value of intermediate consumption; it is a measure of the contribution to GDP made by an individual producer, industry or sector.



In the immediate term, GDP will be affected significantly, mainly on account of the negative effects of COVID-19 on confidence, disruptions in global supply chains and lower demand in a number of services sectors, most notably those related to tourism. However, growth should recover from 2021. At this juncture, projections of economic activity, both for Malta and globally, critically hinge on the duration of the pandemic, as well as the size of the local and global fiscal response.

The International Monetary Fund (IMF) has in their latest projections⁴ estimated that the global economy will contract sharply by -3% in 2020, much worse than during the 2008-09 financial crisis. In its baseline scenario, which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound, the global economy is projected to grow by 5.8% in 2021 as economic activity normalises, helped by policy support. On the same basis, Malta's real GDP is projected to decline by 2.8% in 2020, but is expected to rebound by 7% in 2021. Such outcome may vary significantly as economic performance is dependent on factors that interact in ways that are hard to predict, including *inter alia* the pathway of the pandemic, the intensity and efficacy of containment efforts, the extent of supply disruptions, shifts in spending patterns, behavioural changes (such as people avoiding shopping malls and public transportation) and confidence effects.

5.6 Property Market & Construction Sector

During the last five years (Q4 2014 to Q4 2019), property prices increased by 56%, primarily on account of a strong economy and a robust labour market. Further analysis of the chart⁵ below shows that the 12-month upward trend in prices (in percentage terms) increased at an accelerating rate from Q2 2013 up to Q2 2018, after having gone through a volatile period between FY2008 to FY2012 as a result of the global financial crisis and its aftermath. In the subsequent 6 quarters - Q3 2018 to Q4 2019 - property prices continued to increase albeit at a slower pace.

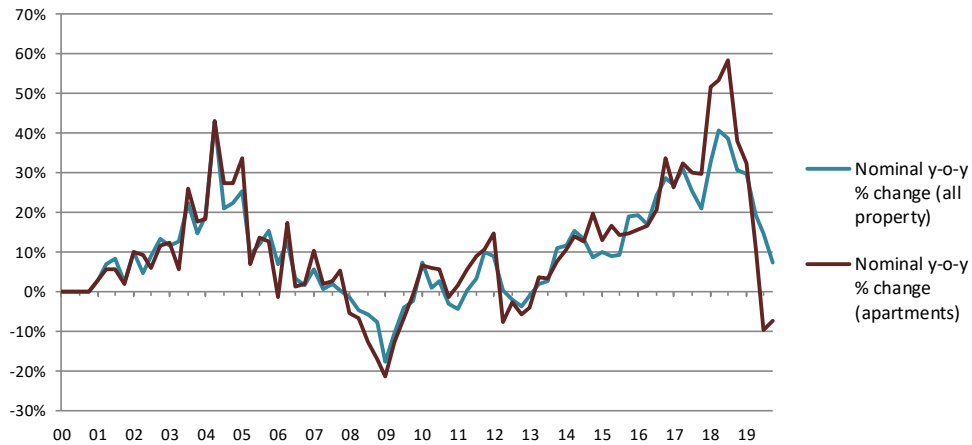
The nominal year-on-year change in apartment prices broadly tracked the aggregate property price movements over the periods under review, except for the periods Q1 2018 to Q4 2019, wherein the yearly increase in prices of apartments between Q1 2018 and Q3 2018 was higher when compared to the broader property market, but declined comparably faster in the subsequent periods (Q4 2018 to Q4 2019). Moreover, in Q3 2019, apartment prices registered a decrease of 10% when compared to Q3 2018 and declined by a further 7% in the subsequent quarter on a comparable basis.

⁴ World Economic Outlook, Chapter 1 The Great Lockdown – International Monetary Fund, May 2020.

⁵ <https://www.centralbankmalta.org/real-economy-indicators> (property prices index based on advertised prices (base 2000 = 100)).



CHART I: Change in Property Prices

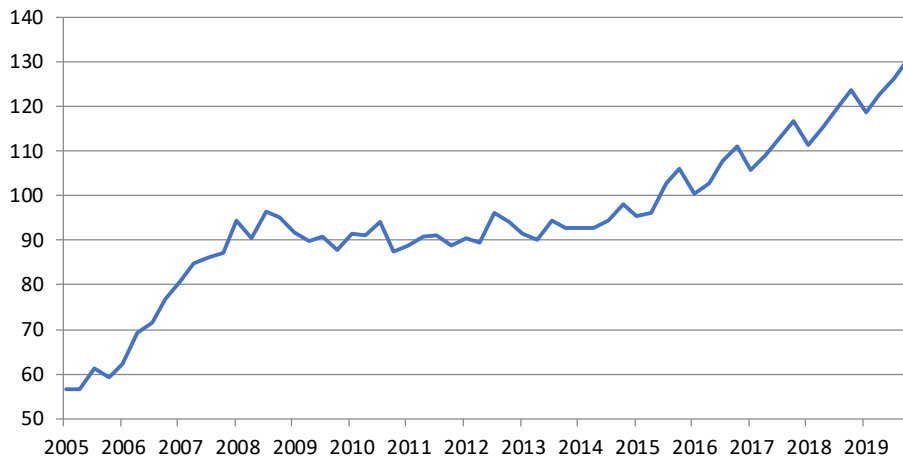


Source: Central Bank of Malta

The above data mainly provides trend information as advertised property prices may not accurately reflect the prices at which sales actually take place.

Eurostat’s House Price Index for Malta⁶ – which captures price changes of all residential properties purchased by households (including flats, detached houses, terraced houses, etc) - also indicates that residential property prices increased. The latest data available refers to Q4 2019 and shows that said prices increased by 5.6% compared with the same quarter of 2018, and over a 5-year period (Q4 2014 to Q4 2019), prices increased by 34% (vide Chart II below).

CHART II: Malta House Price Index



Source: Eurostat

⁶ <https://ec.europa.eu/eurostat/tgm/download.do?tab=table&plugin=1&language=en&pcode=tipsho40> (the data is expressed as quarterly index (2015 = 100)).

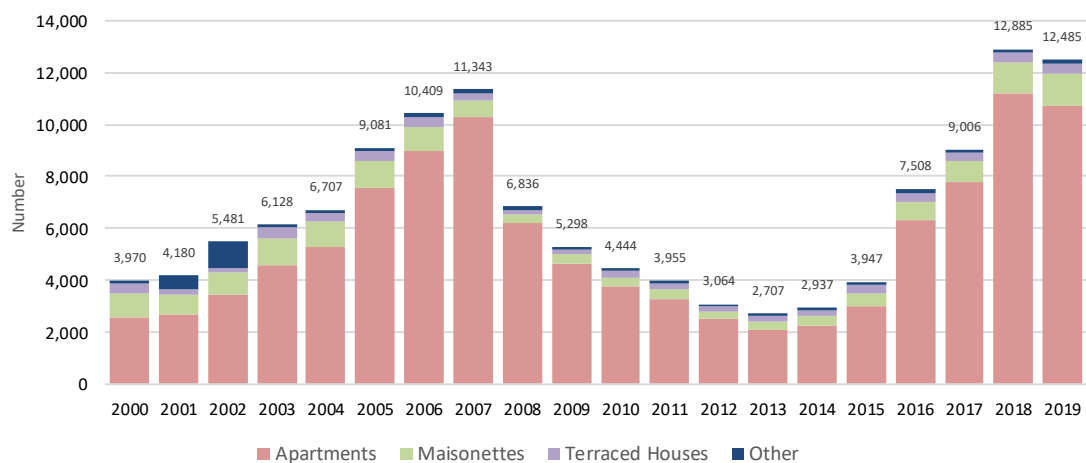


Prior to the pandemic crisis, residential property prices were supported by numerous factors, including the low-interest rate environment that makes property more attractive as an investment, as well as the Government’s schemes for first-time and second-time buyers. Demand for residential property was also driven by favourable labour market conditions, strong growth in tourism (particularly in private accommodation), disposable income and an increase in foreign workers. The Individual Investor Programme also contributed, although property acquisitions under this Programme account for a limited proportion of all property transactions.⁷

In 2019, the number of permits issued for the construction of residential dwellings declined following five consecutive years of substantial growth. Permits issued in 2019 remained high from a historical perspective, standing at 12,485 compared to 12,885 in 2018 (see Chart III below). This was entirely due to a lower number of permits issued for the construction of apartments, which were down by 4.3%. Notwithstanding recent developments, apartments still accounted for 85.9% of total residential permits issued in 2019. On the other hand, permits issued for maisonettes and terraced houses rose during the year under review and accounted for 9.8% and 3.2%, respectively of all residential permits issued during the year. Permits issued for other dwellings also increased over the year, reaching a three-year high. However, these continued to account for a very small proportion of all residential permits issued.

Construction investment increased by 12.6% in nominal terms, following an increase of 3.9% in 2018. This acceleration was driven by non-dwelling investment, which rose by 21.6%, after declining by 10.2% in 2018. By contrast, annual growth in residential investment moderated to 4.6%, from 20.8% previously. GVA in the construction sector increased at a faster pace during 2019. It rose by 13.9% following an increase of 7.9% in the preceding year.⁸

CHART III: Development Permits for Dwellings



⁷ Central Bank of Malta Quarterly Review 2020:1 (page 43).

⁸ Fifty-second Annual Report and Statement of Accounts 2019 – Central Bank of Malta, 2020 (pages 50 and 55).



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

It is too early to reliably determine the impact that the pandemic may have on the commercial property sector in Malta. It is possible that landowners will proceed with the completion of projects currently under development, but new projects will be put on hold or commence once the situation stabilises. Rent rates may have to be reduced until there is a return to normality.

Although the construction and property sectors were not part of the containment measures taken by Government to stem the spread of COVID-19, such sectors will undoubtedly be impacted negatively due to the high level of uncertainty concerning the duration of this pandemic and the resulting adverse effect on the Maltese economy and market sentiment.

PART 2 – COMPANY PERFORMANCE REVIEW

6. FINANCIAL INFORMATION

The following financial information is extracted from the audited financial statements of Pendergardens Developments p.l.c. (the “Issuer”) for the financial years ended 31 December 2017 to 31 December 2019. The financial information for the year ending 31 December 2020 has been provided by the Company.

The projected financial statements detailed below relate to events in the future and are based on assumptions which the Company believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between forecast and actual results may be material.

As a result of the emergence of the COVID-19 pandemic, the Directors have prepared the FY2020 projections using a baseline scenario adopting prudent assumptions. The assumptions factor in the expectation of very limited changes in the Company’s operations given that to date the project is complete and most of the Company’s inventory is either sold or subject to promise of sale agreements. Accordingly, the satisfactory completion of final deeds for properties currently subject to promise of sale agreements has been assumed as well as conservative property sales in relation to available units. Reduced levels of revenues from the car park and also certain assumptions for timing of rental income from investment properties has been factored into the assessment.



Pendergardens Developments p.l.c.				
Statement of Comprehensive Income				
for the year ended 31 December				
	2017	2018	2019	2020
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
Revenue, net of commissions	4,910	11,025	22,115	14,199
Net operating expenses	(3,931)	(9,752)	(15,764)	(9,267)
EBITDA	979	1,273	6,351	4,932
Depreciation	-	(373)	(312)	(327)
Adjustment of property to net realisable value	-	(2,000)	-	-
Realised gains on financial assets	33	-	-	-
Fair value movement on investment property	3,101	14,700	-	-
Net finance costs	(654)	(1,036)	(1,695)	(1,937)
Profit before tax	3,459	12,564	4,344	2,668
Taxation	(471)	(1,255)	(1,713)	(820)
Profit for the year	2,988	11,309	2,631	1,848
Other comprehensive income				
Fair value gains on financial investments	(57)	-	-	-
Total comprehensive income for the year net of tax	2,931	11,309	2,631	1,848

Pendergardens Developments p.l.c.				
Earnings before interest, taxation, depreciation & amortisation (EBITDA)				
for the year ended 31 December				
	2017	2018	2019	2020
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
<i>EBITDA has been calculated as follows:</i>				
Operating profit	4,113	13,600	6,039	4,605
<i>Adjustments:</i>				
Adjustment of property to net realisable value	-	2,000	-	-
Realised gains on financial assets	(33)	-	-	-
Fair value movement on investment property	(3,101)	(14,700)	-	-
Depreciation	-	373	312	327
EBITDA	979	1,273	6,351	4,932

During **FY2017**, the Company generated revenue from the sale of one Block 16 apartment, three car spaces and the sale of the ground floor commercial area underlying Block 17, including three adjacent retail outlets. Net operating expenses amounted to €3.9 million and the resultant EBITDA amounted to €979,000. In FY2017, Block 16 commercial property was transferred from inventory (development project) to investment property at fair value (€4.5 million) as determined by an independent architect. As such, a gain on fair value movement of €3.1 million was accounted for in the income statement. Overall, the Company registered a profit for the year of €3.0 million (FY2016: €74,000) and total comprehensive income of €2.9 million (FY2016: loss of €191,000).



In **FY2018**, the Company generated revenue of €10.8 million, primarily from the sale of 28 apartments in Block 17 and 15 car spaces. Revenue also includes rental income of €0.2 million. Net operating expenses amounted to €9.8 million and the resultant EBITDA amounted to €1.3 million. In FY2018, the remaining commercial property, including that of Block 17 and Pendergardens Business Centre, was transferred from inventory - development project to investment property. The entire commercial property was valued by an independent architect at €32.8 million resulting in an increase in fair value of €14.7 million. The value of car spaces transferred to the public car park was reduced by €2.0 million in line with the market value of car spaces recently sold. After accounting for depreciation of €0.3 million and net finance costs of €1.0 million, total comprehensive income for the year amounted to €11.3 million (FY2017: €2.9 million).

In **FY2019**, the Company generated €21.4 million in revenue, out of aggregate revenue of €22.1 million, from the sale of residential units and car spaces in Block 16, Block 17 and Pendergardens Tower Residences. The balance of revenue was derived from rental income and car park revenues as to €562,000 and €144,000 respectively. EBITDA was materially higher when compared to FY2018, from €1.3 million to €6.4 million.

Net finance costs for the year amounted to €1.7 million compared to €1.0 million a year earlier. The substantial y-o-y variance is mainly driven by the fact that in prior years an element of interest payable was capitalised with inventory relating to property under construction. Overall, profit after tax in FY2019 amounted to €2.6 million (FY2018: €11.3 million).

Revenue for **FY2020** is projected to amount to €14.2 million compared to €22.1 million generated in the prior year. The Company has assumed that revenue from sale of units and car spaces will predominantly be derived from property which as at 31 December 2019 was subject to promise of sale agreements. Furthermore, income from commercial property leases and the car park is expected to decrease from €1.5 million in FY2019 to €1.2 million. In view of the expected decline in revenue, EBITDA is projected to decrease by €1.4 million (-22%) to €4.9 million.

Net finance costs are anticipated to increase by €0.2 million to €1.9 million, since no further interest payable can be capitalised due to the fact that the project is now complete. A substantial decrease in taxation of €0.9 million is being projected, in line with the anticipated reduction in revenue. Profit after tax is expected to decrease from €2.6 million in FY2019 to €1.8 million (-30% or €0.8 million).



Pendergardens Developments p.l.c.				
Statement of Financial Position				
as at 31 December				
	2017	2018	2019	2020
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
ASSETS				
Non-current assets				
Property, plant & equipment	-	8,133	7,877	7,701
Investment property	4,545	32,800	32,800	32,800
Reserve fund	1,300	1,252	1,931	11,592
Other receivables	-	250	525	-
	<u>5,845</u>	<u>42,435</u>	<u>43,133</u>	<u>52,093</u>
Current assets				
Inventory - development project	39,391	16,322	11,189	6,670
Trade and other receivables	9,669	5,443	4,439	3,980
Reserve fund	-	-	14,711	-
Taxation	469	506	325	221
Cash and cash equivalents	13,215	15,346	7,727	2,449
	<u>62,744</u>	<u>37,617</u>	<u>38,391</u>	<u>13,320</u>
Total assets	<u>68,589</u>	<u>80,052</u>	<u>81,524</u>	<u>65,413</u>
EQUITY				
Equity and reserves	<u>14,418</u>	<u>25,712</u>	<u>28,343</u>	<u>30,191</u>
LIABILITIES				
Non-current liabilities				
Borrowings	41,250	41,253	26,628	26,628
Deferred tax liabilities	227	940	940	940
	<u>41,477</u>	<u>42,193</u>	<u>27,568</u>	<u>27,568</u>
Current liabilities				
Borrowings	-	-	14,711	-
Trade and other payables	12,694	12,147	10,902	7,654
	<u>12,694</u>	<u>12,147</u>	<u>25,613</u>	<u>7,654</u>
	<u>54,171</u>	<u>54,340</u>	<u>53,181</u>	<u>35,222</u>
Total equity and liabilities	<u>68,589</u>	<u>80,052</u>	<u>81,524</u>	<u>65,413</u>

Total assets as at 31 December 2019 amounted to €81.5 million (FY2018: €80.0 million), an increase of €1.5 million over the previous year. The principal movements were in reserve fund and cash balances which increased in aggregate from €16.6 million in FY2018 to €24.4 million in FY2019, while the value of inventory decreased from €16.3 million in FY2018 to €11.2 million in FY2019 pursuant to the transfer to cost of sales of apartments sold.

The Company's borrowings of €41.3 million (FY2018: €41.3 million) represent €14.7 million in 5.5% Secured Bonds 2020 and €26.6 million in 6% Secured Bonds 2022. Current liabilities of €10.9 million (FY2018: €12.1 million) mainly comprise deposits on promise of sale agreements of €2.3 million (FY2018: €4.7 million) and accruals & deferred income of €8.0 million (FY2018: €5.1 million).



In FY2020, total assets are expected to principally comprise investment property amounting to €32.8 million, property available-for-sale amounting to €6.7 million (consisting of 8 residential units at Pendergardens Tower Residences and car spaces) and cash balances (including reserve fund) amounting to €14.0 million.

Total liabilities are projected to amount to €35.2 million and will mainly include €26.6 million of outstanding debt securities (6% Secured Bonds 2022).

Key Accounting Ratios	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Forecast
Operating profit margin (EBITDA/revenue)	20%	12%	29%	35%
Net profit margin (Profit after tax/revenue)	61%	103%	12%	13%
Earnings per share (€) (Profit after tax/number of shares)	0.33	1.25	0.29	0.20
Net assets per share (€) (Net asset value/number of shares)	1.59	2.83	3.12	3.33
Asset cover ratio (times) (Immovable property plus receivables less current liabilities/net debt)	1.53	1.72	1.34	2.84
Gearing ratio (Total net debt/net debt and shareholders' equity)	65%	49%	37%	29%

Source: MZ Investment Services Limited

In FY2019, the operating profit margin of the Company improved from 12% in the prior year to 29%, while net profit margin fluctuated from 103% in FY2018 to 12% in FY2019. The high net profit margin in the previous year was due to the effect of fair value movement on investment property and adjustment of property value to net realisable value.

The asset cover ratio in FY2019 was equal to 1.34 times (FY2018: 1.72 times), meaning that the value of the Company's assets is 1.34 times higher than its net debt obligations. The gearing ratio of the Company improved from 49% in FY2018 to 37% in FY2019 as net debt continued to decrease while shareholders' funds progressively increased on a y-o-y basis.

For the projected financial year (FY2020), asset cover ratio is expected to improve substantially from 1.34 times in FY2019 to 2.84 times, while the gearing ratio is anticipated to decline further from 37% in FY2019 to 29%.



Pendergardens Developments p.l.c.				
Cash Flow Statement				
for the year ended 31 December				
	2017	2018	2019	2020
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
Net cash from operating activities	(9,321)	2,210	(7,563)	(5,128)
Net cash from investing activities	-	-	(56)	(150)
Net cash from financing activities	829	(79)	-	-
Net movement in cash and cash equivalents	(8,492)	2,131	(7,619)	(5,278)
Cash and cash equivalents at beginning of year	21,707	13,215	15,346	7,727
Cash and cash equivalents at end of year	13,215	15,346	7,727	2,449

Net cash from operating activities amounted to -€7.6 million in FY2019 compared to +€2.2 million in FY2018, on account of an adverse movement in working capital. During the reviewed year, an amount of €14.7 million was transferred from the reserve account in non-current assets to trade & other receivables in current assets, in order to fund the redemption of the 5.5% Secured Bonds 2020.

In FY2020, a net cash outflow from operating activities amounting to €5.1 million has been projected due to the impact of working capital movements. Overall, cash and cash equivalents are expected to amount to €2.4 million.

Variance Analysis

The following financial information relates to the variance analysis between the forecasted financial information for the year ended 31 December 2019 included in the prior year's Financial Analysis Summary dated 11 June 2019 and the audited financial statements for the year ended 31 December 2019.

Pendergardens Developments p.l.c.			
Statement of Comprehensive Income			
for the year ended 31 December 2019			
	Actual	Forecast	Variance
	€'000	€'000	€'000
Revenue, net of commissions	22,115	22,798	(683)
Net operating expenses	(15,764)	(17,046)	1,282
EBITDA	6,351	5,752	599
Depreciation	(312)	(351)	39
Net finance costs	(1,695)	(1,054)	(641)
Profit before tax	4,344	4,347	(3)
Taxation	(1,713)	(1,057)	(656)
Profit for the year	2,631	3,290	(659)
Total comprehensive income for the year net of tax	2,631	3,290	(659)



As presented in the above table, the Company recognised lower revenue in FY2019 than forecasted by €683,000, due to the fact that a lower number of sale contracts were concluded during the year than initially anticipated. The decrease in revenue did not however adversely impact actual EBITDA, which was higher than projected by €599,000.

Net finance costs for the year was higher than expected by €641,000 as a lower amount of interest payable was capitalised with inventory relating to property under construction. Furthermore, taxation was higher than projected by €656,000, thereby contributing to a lower than forecast profit for FY2019.

7. RESERVE ACCOUNT

In terms of the Prospectus, the Company is required, through the Security Trustee, to build a reserve fund the value of which will by the respective redemption date of each Bond be equivalent to 100% of the outstanding value of the Bonds. The transfers to the reserve fund shall be based on a fixed percentage of net sales proceeds received upon the signing of sales contracts (residential and commercial) as detailed below. For the purpose of the reserve fund transfers, net sales proceeds shall constitute the contract value excluding initial deposits received on preliminary sales agreements, and after deducting applicable sales commissions and provisional tax. Other income of the Company including rental income from the lease of commercial units and interest receivable on surplus funds will also be excluded from any obligations in relation to the reserve account.

Transfers to the reserve account shall be made as follows:

- The first €25 million of net sales proceeds will be retained by the Company for the specific purpose of meeting construction costs with respect to Block 17 and Pendergardens Tower;
- The following €25 million of net sales proceeds will be allocated as to 90% to the Security Trustee and 10% to the Company; and
- Any further sales over and above the initial €50 million (detailed above) shall be allocated as to 95% to the Security Trustee and 5% to the Company.

The Security Trustee may invest such monies received in the reserve account, subject to the following limitations:

- (i) Any amount out of the reserve account may be applied against the re-purchase of the Secured Bonds in the market; and/or
- (ii) Investment or re-investment in any in debt securities issued by or guaranteed by the Government of Malta or other member state of the European Union or the EEA or by an OECD sovereign state, without any currency exchange risk;
- (iii) Subject to the limitations on amount set out below to deposit with a Bank licensed as a credit institution in Malta or any Member State of the European Union, provided that not more than 50 per cent of any amount standing to the credit of the reserve account, from time to time, shall be deposited with the same institution if the amount of the deposit exceeds the sum of €25 million;



- (iv) Amounts not exceeding €10 million may be invested in debt securities admitted to listing and trading on a Regulated market in the European Union, provided that not more than €2 million may be exposed to one or more debt securities issued by the same issuer; and provided that such investment will not expose the reserve account to any currency exchange risk;
- (v) An amount not exceeding €2 million may be advanced to any member of the Group, under terms and conditions which are at arm's length, provided that the reserve account remains in credit by at least another €2 million following such advance.

As at 31 December 2019, the balance in the sinking fund reserve amounted to €16.6 million (FY2018: €1.3 million), of which, the amount of €14.7 million was utilised to fully redeem the 5.5% Secured Bonds in May 2020.

8. TREASURY MANAGEMENT

As at 31 December 2019, the Company had no 'available-for-sale investments' (FY2018: nil).

The Company's investment policy and strategy is set and monitored by an Investment Committee which is chaired by one of the independent Directors. Investments are liquidated whenever required for operating cash flow purposes.



PART 3 – COMPARABLES

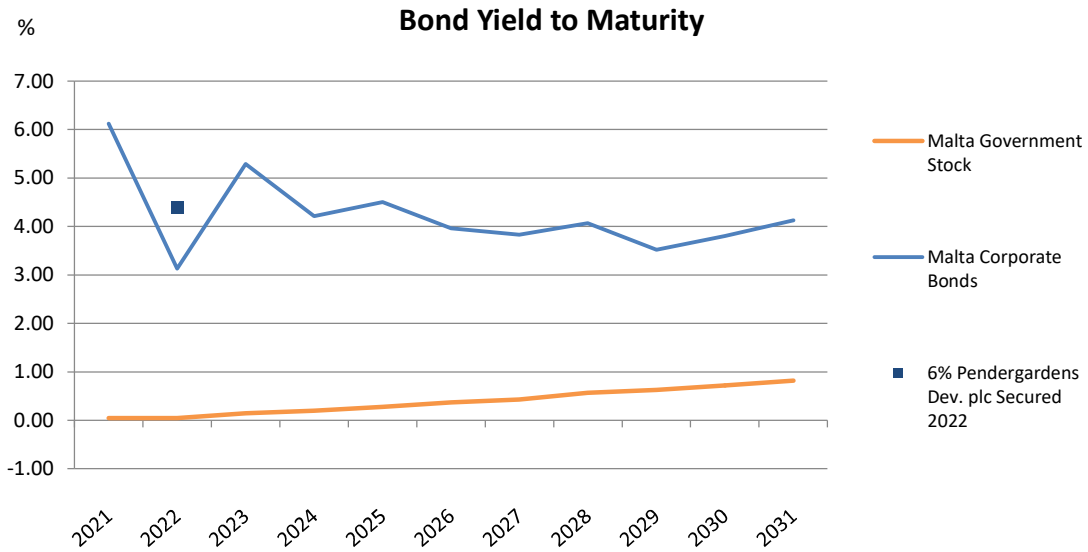
The table below compares the Company and its bond issues to other debt issuers listed on the Malta Stock Exchange and their respective debt securities. Although there are significant variances between the activities of the Company and other issuers (including different industries, principal markets,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

Comparative Analysis	Nominal Value (€)	Yield to Maturity (%)	Interest Cover (times)	Total Assets (€'000)	Net Asset Value (€'000)	Gearing Ratio (%)
5.80% International Hotel Investments plc 2021	20,000,000	6.12	3.27	1,617,853	877,620	36.63
3.65% GAP Group plc Secured € 2022	36,736,000	3.13	4.45	55,237	9,869	71.82
6.00% Pendergardens Developments plc Secured € 2022 Series I	26,921,200	4.38	3.75	81,524	28,343	37.45
4.25% GAP Group plc Secured € 2023	19,443,000	3.85	4.45	55,237	9,869	71.82
5.30% United Finance Plc Unsecured € Bonds 2023	8,500,000	5.29	0.76	27,159	6,916	62.72
5.80% International Hotel Investments plc 2023	10,000,000	6.15	3.27	1,617,853	877,620	36.63
6.00% AX Investments Plc € 2024	40,000,000	5.09	5.55	342,395	226,115	19.63
6.00% International Hotel Investments plc € 2024	35,000,000	5.42	3.27	1,617,853	877,620	36.63
5.30% Mariner Finance plc Unsecured € 2024	35,000,000	4.21	4.81	95,310	47,100	48.85
5.00% Hal Mann Vella Group plc Secured € 2024	30,000,000	4.24	2.67	117,625	45,146	53.77
5.10% 1923 Investments plc Unsecured € 2024	36,000,000	5.54	3.30	137,275	45,063	30.57
4.25% Best Deal Properties Holding plc Secured € 2024	16,000,000	4.24	-	27,455	3,366	85.88
5.75% International Hotel Investments plc Unsecured € 2025	45,000,000	5.75	3.27	1,617,853	877,620	36.63
5.10% GPM Holdings plc Unsecured € 2025	13,000,000	5.13	4.03	4,066	18,883	-
4.50% Hili Properties plc Unsecured € 2025	37,000,000	4.50	1.65	150,478	57,635	57.73
4.35% Hudson Malta plc Unsecured € 2026	12,000,000	3.96	13.74	28,166	6,135	60.96
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	4.25	2.74	1,784,681	908,883	40.11
4.00% International Hotel Investments plc Secured € 2026	55,000,000	4.00	3.27	1,617,853	877,620	36.63
3.75% Premier Capital plc Unsecured € 2026	65,000,000	3.57	8.99	273,233	57,082	60.43
4.00% International Hotel Investments plc Unsecured € 2026	60,000,000	4.01	3.27	1,617,853	877,620	36.63
3.25% AX Group plc Unsec Bds 2026 Series I	15,000,000	3.25	5.55	341,785	227,069	19.11
4.35% SD Finance plc Unsecured € 2027	65,000,000	4.35	8.48	316,563	132,582	31.98
4.00% Eden Finance plc Unsecured € 2027	40,000,000	3.83	6.42	199,265	113,124	26.87
4.00% Stivala Group Finance plc Secured € 2027	45,000,000	4.00	4.92	225,284	123,107	38.32
3.85% Hili Finance Company plc Unsecured € 2028	40,000,000	4.07	3.44	455,113	86,390	73.98
3.65% Stivala Group Finance plc Secured € 2029	15,000,000	3.52	4.92	225,284	123,107	38.32
3.80% Hili Finance Company plc Unsecured € 2029	80,000,000	4.20	3.44	455,113	86,390	73.98
3.75% AX Group plc Unsec Bds 2029 Series II	10,000,000	3.61	5.55	341,785	227,069	19.11

01-Jun-20

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

1 June 2020

To date, there are no corporate bonds which have a redemption date beyond 2031.

The Malta Government Stock yield curve has been included as it is the benchmark risk-free rate for Malta. The Group’s bonds are trading at a yield of 4.38%, which is 125 basis points higher when compared to other corporate bonds maturing in the same year. The premium over FY2022 Malta Government Stock is 433 basis points.

Generally, the difference between corporate bond yields and benchmark Malta Government Stock yields has widened across the entire yield curve due to the global economic fallout from the coronavirus outbreak.



PART 4 – EXPLANATORY DEFINITIONS

Income Statement	
Revenue	Total revenue generated by the Company from its business activity during the financial year, that is, sale of units at Pendergardens.
Operating expenses	Operating expenses include the cost of construction and other related expenses.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. EBITDA can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.
Profit after tax	Profit after tax is the profit made by the Company 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.
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 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.
Cash flow from financing activities	Cash generated from the activities that result in change in share capital and borrowings of the Company.
Balance Sheet	
Current assets	Current assets are all assets of the Company, which are realisable within one year from the balance sheet date. Such amounts include development stock, accounts receivable, cash and bank balances.
Current liabilities	All liabilities payable by the Company within a period of one year from the balance sheet date, and include accounts payable and short-term debt.



Net debt	Borrowings before unamortised issue costs less cash and cash equivalents.
Non-current liabilities	The Company's long-term financial obligations that are not due within the present accounting year. The Company's non-current liabilities include bonds and capital creditors.
Total equity	Total equity includes share capital, reserves & other equity components, and retained earnings.
Financial Strength Ratios	
Asset cover ratio	The asset cover ratio measures the ability of a company to cover its debt obligations with its assets, and is calculated by dividing a company's immovable property (investment property and inventory) plus receivables less current liabilities by net debt.
Gearing ratio	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance a company's assets, and is calculated by dividing a company's net debt by net debt plus shareholders' equity.

