



## FINCO TREASURY MANAGEMENT LTD

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A Limited Liability Company registered in Malta on 9th November 1994, Registration No. C17017

### €15 million – Stivala Group Finance P.l.c. 3.65% 2029 (Secured)

#### Salient Details & Time Table

Offeror & Issuer	<b>Stivala Group Finance P.L.C.</b>
Guarantor	Carmelo Stivala Group Limited
Currency	Euro
Offer Price	100% at par
Coupon	3.65% per annum
Status & Security	The Secured Bonds, as and when issued and allotted, shall constitute the general, direct and unconditional obligations of the Issuer and shall at all times rank pari passu, without any priority or preference among themselves. The Secured Bonds shall be guaranteed in respect of both the interest due and the principal amount under said Secured Bonds by the Guarantor in terms of the Guarantee. In respect of the Guarantor, the Secured Bonds shall rank with priority or preference to all other present and future unsecured obligations of the Guarantor, save for such exceptions as may be provided by applicable law, and with first ranking and priority over the Security Property.
Security Property	See page 6
Nature of Security Interest	1 <sup>st</sup> ranking Special Hypothec over Security Property
Maturity Date	29 <sup>th</sup> July 2029
Listing	Official List, Malta Stock Exchange.
Interest Payment Dates	Annually on 29 <sup>th</sup> July
Offer Period	See Time-Table below
Minimum Applications	€2,000 (nominal) and in multiples of €100 thereafter

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

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



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

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

The Group has the following main areas of activity:

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

Group revenue and earnings are derived primarily from the operation of owned hotels, hostels and short let apartments, which business was operated up to 31 December 2016 by Stivala Operators Limited. This business activity accounts for more than 75% of the Group's total revenue. Rentals generated from commercial and long let residential properties were, prior to 1 January 2017, operated by Stivala Properties Ltd.

With effect from 1 January 2017, as part of a Group re-organisation, each of ST Hotels Ltd and ST Properties Ltd took over the business, operations and assets and liabilities of Stivala Operators Limited and Stivala Properties Ltd, which had undertaken the business of hospitality and property rental since their inception in 1998 and 2010 respectively.

## **Ownership of Real Estate**

Until 31 December 2013, C. Stivala & Sons Limited served as one of the main property holding companies of the Group. Following the incorporation of the Guarantor on 14 November 2013, ownership of the Group's immovable property was split between C. Stivala & Sons Limited and the Guarantor. The Guarantor's ownership of the entire Group's real estate portfolio was consolidated following the merger of C. Stivala & Sons Limited into the Guarantor, which came into effect in September 2017.

Accordingly, the Group owns its real estate and properties primarily through the Guarantor, which is engaged principally in acquiring and developing the real estate of the Group. As at 31 December 2018, the carrying value of real estate amounted to €183.6 million.



## Purpose of the Issue and Use of Proceeds

The proceeds from the Bond Issue, which net of Bond Issue expenses are expected to amount to approximately €14,670,000 will be used by the Issuer for the following purposes, in the amounts and order of priority set out below:

- i. **Acquisition of the New Property (see below):** the amount of circa €6,000,000 will be used to finance the purchase of the New Property, which is currently subject to promise of sale agreements. Each property forming part of the New Property shall be held by the Group for future development;
- ii. **Re-financing existing bank loan:** an amount of circa €4,300,000 of the proceeds from the Secured Bonds will be used to re-finance an outstanding banking facility granted by FIMBank p.l.c. to the Guarantor, which funds were originally principally utilised to acquire various properties;
- iii. **Other investments:** the remaining balance of the net Bond Issue proceeds equivalent to €4,370,000 shall be applied towards the costs of completing the ongoing projects of the Group and to acquire other properties in accordance with the Group's business development strategy.

## New Property

The Group intends to utilise part of the net proceeds of the Bond Issue to acquire the following immovable property for the aggregate cash consideration of circa €5,984,125 (including notarial fees, stamp duty and other charges):

- (i) the amount of circa €404,700 shall be disbursed to acquire 26/27/28, Belvedere Street, Gzira;
- (ii) the amount of circa €623,025 shall be disbursed to acquire 60/61, Ponsomby Street, Gzira;
- (iii) the amount of circa €260,925 shall be disbursed to acquire 118 & 120, St Albert Street, Gzira;
- (iv) the amount of circa €4,360,000 shall be disbursed to acquire 137/138, The Strand, Gzira;
- (v) the amount of circa €335,475 shall be disbursed to acquire 11, Triq San Alwigi, Msida.



## Consolidated Financials of Stivala Group Finance Ltd

### Consolidated Income Statement for the year ended 31 December

	2016	2017	2018	2019	2020
	Actual	Actual	Actual	Projection	Projection
	(12 mths)	(12 mths)	(16 mths)	(12 mths)	(12 mths)
	€'000	€'000	€'000	€'000	€'000
Revenue	9,590	12,386	19,655	20,436	23,930
Cost of sales	(1,518)	(3,238)	(6,205)	(6,595)	(7,220)
Gross profit	8,072	9,148	13,450	13,841	16,710
Net operating costs	(1,358)	(2,396)	(2,645)	(3,310)	(3,450)
<b>EBITDA</b>	<b>6,714</b>	<b>6,752</b>	<b>10,805</b>	<b>10,531</b>	<b>13,260</b>
Depreciation & amortisation	(1,669)	(2,905)	(3,036)	(2,897)	(3,004)
<b>Operating profit/(loss)</b>	<b>5,045</b>	<b>3,847</b>	<b>7,769</b>	<b>7,634</b>	<b>10,256</b>
Gain from bargain purchase and other net gains	-	8,644	112,886	-	-
Movement in revaluation of property	-	56,945	2,334	-	-
Other	822	253	(1)	-	-
Net finance costs	(379)	(710)	(2,894)	(2,885)	(3,159)
<b>Profit before tax</b>	<b>5,488</b>	<b>68,979</b>	<b>120,094</b>	<b>4,749</b>	<b>7,097</b>
Taxation	(1,135)	(9,035)	(4,532)	(627)	(987)
<b>Profit for the year</b>	<b>4,353</b>	<b>59,944</b>	<b>115,562</b>	<b>4,122</b>	<b>6,110</b>
<b>Other comprehensive income:</b>					
Movement in revaluation of property, net of tax	-	29,085	-	-	-
Deferred taxation	-	-	(35)	-	-
<b>Total comprehensive income</b>	<b>4,353</b>	<b>89,029</b>	<b>115,527</b>	<b>4,122</b>	<b>6,110</b>

### Consolidated Cash Flow Statement for the year ended 31 December

	2016	2017	2018	2019	2020
	Actual	Actual	Actual	Projection	Projection
	(12 mths)	(12 mths)	(16 mths)	(12 mths)	(12 mths)
	€'000	€'000	€'000	€'000	€'000
Net cash from operating activities	9,592	34,844	9,659	8,386	7,664
Net cash from investing activities	(21,731)	(34,742)	(50,274)	(19,644)	(9,619)
Net cash from financing activities	13,956	4,362	39,653	20,356	(1,175)
<b>Net movement in cash and cash equivalents</b>	<b>1,817</b>	<b>4,464</b>	<b>(962)</b>	<b>9,098</b>	<b>(3,130)</b>
Cash and cash equivalents at beginning of year	(1,226)	811	(1,410)	(2,372)	6,726
<b>Cash and cash equivalents at end of year</b>	<b>591</b>	<b>5,275</b>	<b>(2,372)</b>	<b>6,726</b>	<b>3,596</b>



**Consolidated Statement of Financial Position  
as at 31 December**

	2016	2017	2018	2019	2020
	Actual	Actual	Actual	Projection	Projection
	€'000	€'000	€'000	€'000	€'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	-	36	70	-	-
Investment property	31,593	106,035	115,846	130,535	136,712
Property, plant & equipment	13,990	62,841	74,947	74,910	72,918
Loans and receivables	3,400	-	7,621	10,075	12,575
Other non-current assets	1	1	1	1	1
	<u>48,984</u>	<u>168,913</u>	<u>198,485</u>	<u>215,521</u>	<u>222,206</u>
<b>Current assets</b>					
Trade and other receivables	3,379	5,281	3,705	4,354	5,635
Cash and cash equivalents	914	5,538	235	7,474	4,344
	<u>4,293</u>	<u>10,819</u>	<u>3,940</u>	<u>11,828</u>	<u>9,979</u>
<b>Total assets</b>	<u><b>53,277</b></u>	<u><b>179,732</b></u>	<u><b>202,425</b></u>	<u><b>227,349</b></u>	<u><b>232,185</b></u>
<b>EQUITY</b>					
<b>Capital and reserves</b>					
Share capital	1	45,005	300	300	300
Revaluation and other reserves	4,925	77,205	89,169	88,274	88,274
Retained earnings	14,924	22,912	26,357	29,503	35,315
	<u>19,850</u>	<u>145,122</u>	<u>115,826</u>	<u>118,077</u>	<u>123,889</u>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Long-term borrowings	24,940	14,215	59,246	83,302	81,995
Other non-current liabilities	-	13,731	15,394	15,394	15,394
	<u>24,940</u>	<u>27,946</u>	<u>74,640</u>	<u>98,696</u>	<u>97,389</u>
<b>Current liabilities</b>					
Bank overdraft	323	263	2,607	748	748
Borrowings	4,427	1,932	1,077	426	628
Trade and other payables	3,454	3,691	7,072	8,568	8,246
Other current liabilities	283	778	1,203	834	1,285
	<u>8,487</u>	<u>6,664</u>	<u>11,959</u>	<u>10,576</u>	<u>10,907</u>
	<u>33,427</u>	<u>34,610</u>	<u>86,599</u>	<u>109,272</u>	<u>108,296</u>
<b>Total equity and liabilities</b>	<u><b>53,277</b></u>	<u><b>179,732</b></u>	<u><b>202,425</b></u>	<u><b>227,349</b></u>	<u><b>232,185</b></u>

<b>Key Accounting Ratios</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
	Actual	Actual	Actual	Projection	Projection
Operating profit margin (EBITDA/revenue)	70%	55%	55%	52%	55%
Interest cover (times) (EBITDA/net finance cost)	17.72	9.51	3.73	3.65	4.20
Net profit margin (Profit after tax/revenue)	45%	484%	588%	20%	26%
Liquidity ratio (times) (Current assets/current liabilities)	0.51	1.62	0.33	1.12	0.91
Gearing ratio (Total net debt/net debt and shareholders' equity)	59%	7%	35%	39%	39%

Source: Charts - a division of MedDirect Bank (Malta) plc



## Status & Security

The Secured Bonds are secured and Bondholders shall have the benefit of the following security:

- (a) a first ranking special hypothec over the Security Property (see below);
- (b) the Guarantee; and
- (c) a pledge on insurance proceeds.

The security shall be constituted in favour of the Security Trustee for the benefit of all Bondholders from time to time registered in the Central Security Depository of the Malta Stock Exchange.

The Issuer and the Guarantor have entered into a Trust Deed with the Security Trustee which consists of the covenants of the Issuer and the Guarantor to pay the principal amount under the Secured Bonds on the Redemption Date and interest thereon, the hypothecary rights under the deed of hypothec, the rights under the pledge agreement and all the rights and benefits under the Security Trust Deed. The Collateral will be vested in the Security Trustee for the benefit of the Bondholders in proportion to their respective holding of Secured Bonds. Pursuant to the provisions of the Trust Deed, the Security Trustee shall retain all proceeds from the Secured Bonds until such time as the Collateral shall have been duly constituted in favour of the Security Trustee. No Secured Bonds shall be issued and allotted until the Collateral has been duly constituted in accordance with the provisions of the said Trust Deed and the Malta Stock Exchange admits the Secured Bonds to trading as listed instruments.

The Security Trustee's role includes holding of the Collateral for the benefit of the Bondholders and the enforcement of the said Collateral upon the happening of certain events. The Security Trustee shall have no payment obligations to Bondholders under the Secured Bonds which remain exclusively the obligations of the Issuer (or, in the case of default by the Issuer, of the Guarantor)

## Secured Property: The following immovable property:

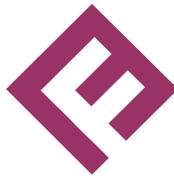
- (i) a plot of land measuring circa 865 m<sup>2</sup> situated in Testaferrata Street, Ta' Xbiex, which is earmarked for the development of a commercial property known as 'ST Tower' as better described in section 4.4.2 of this Registration Document part of the Prospectus.
- (ii) 41 – 43, The Strand, Sliema comprising 3 shops and 3 apartments.

The above properties have been valued at €15,266,000 (in aggregate) by an Issuer – appointed qualified architect

## Our Comments

The Group's balance sheet as at 31st December 2018 comprises total Capital & Reserves of assets of €116 million. Interest cover is at 3.73 times whilst Gearing calculated as Total net debt divided by the sum of net debt and shareholders' equity, stands at an acceptable level of 35%. The bond is also Secured against property which provides added comfort. The coupon rate at 3.65% is adequate when considering the current low interest rate scenario and the medium risks associated with investing in this **secured** bond.

As usual, in new bond issues, it is expected that this bond will be heavily over-subscribed and that not all amounts applied for may be satisfied.



**General Recommendation:** Based on the above, and subject to the consideration of the circumstances of each Investor, Finco issues a general recommendation to clients to this bond provided overall exposure - in this bond and other bonds issued by the same Stivala Group - does not exceed 10% of the overall portfolio.

However, this mail-shot does not constitute a personalised recommendation. This mail circular or web site announcement is a general communication addressed to a wide audience, including all clients of Finco. It is not a personalised communication and therefore does not take into account the specific circumstances of a particular client and it does not constitute advice. Any one interested in pursuing an investment in this security should get in touch with his advisor at Finco for further analysis as to suitability of this bond for his personal circumstances.

#### Time Table

1. Offer Period 22 July 2019 to 29 July 2019
2. Placement date 29 July 2019
3. Commencement of interest on the Secured Bonds 29 July 2019
4. Expected completion date for the constitution of Security 2 August 2019
5. Expected date of notification of registration 8 August 2019
6. Expected date of admission of the securities to listing 8 August 2019

#### Application Procedures

Clients interested in applying for the bonds are kindly requested to contact our office as soon as possible.

*This document has been prepared by Ivan Grech, Director, Finco Treasury Management Ltd, based on the prospectus dated 18th July 2019. Although every effort has been made to ensure the reliability, accuracy and completeness of this information, users should be aware that some of the contents of this circular may have been obtained from other sources. This document is not intended to provide the sole basis for any evaluation of the securities subject of this communication. Investors should consider the full text of the Prospectus, including all risk factors listed therein, which Prospectus is available at our offices for anyone interested therein. In any case Finco Treasury Management Ltd is disclaiming any responsibility arising from any reliance placed upon information contained in this communication.*