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FINANCIAL INVESTMENT SERVICES

RESEARCH NOTE

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PLAZA CENTRES PLC

Plaza®

THE SHOPPING CENTRE

Plaza Centres plc

Plaza Centres is a shopping and commercial centre situated in the commercial and shopping district of Sliema. The company generates revenue by leasing shopping and office spaces. Lease agreements normally provide for a twenty-year tenure in the case of outlets and twelve years in the case of offices. Original contracts apply incremental increases every fifth year while newly issued contracts have an annual incremental rent increase. The centre comprises a mix of retail, catering and office facilities which are spread over nine floors covering an area of approximately 13,000 square meters.

History

The company dates back to 1957 when the site was originally developed into the Plaza Cinema. The company closed down its cinema operations during the 1980's and developed the site into a managed shopping and office leasing centre. The centre opened doors in December 1993 and has since attracted local and international brand names to lease floor space within the complex. Plaza Centre's new objective was to operate a high end retail, catering and office suite space. During the past ten years, Plaza Centres plc embarked on three extension projects. Through the mention projects, the company has managed to increase its total rentable area by an additional 4,000 square meters.

Location

The Plaza Centre is located in the busy shopping centre situated on Bisazza Street Sliema. The dense shopping area which is located close to the Sliema front has a variety of retail shops, cafes and catering outlets as well as a number of offices. The area is easily accessible by public and/or private transport. Although there are nearby parking spaces available, Plaza Centre does not have its own parking space. The lack of available of on-site parking can be perceived as discomforting to potential clients. During 2010 a close by (approximately 600 meters away) shopping complex, The Point opened its doors for business. The latter comprises of 17,000 square meters of retail floor space and has its own underground car parking space. Although the opening of The Point increased competitive pressure on the Plaza Centres, customer visits for the past twenty years at the latter shopping complex averaged between 1.8million and 2 million visitors per year with August and December being peak months. During the last financial year, 2013, the Centre had 1.96 million visitors and it is forecasted that during 2014 the Centre will have approximately 2.1 million visitors. In addition the development of new office space in the vicinity (such as the completion of the T14 block at Tigne point in the coming years) could increase competitive pressure on Plaza's income from office space. Despite the increased competition, Plaza's rentable shopping floor area registered 100% occupancy during the first quarter of 2014 (Dec 2013: 93.81%). Meanwhile the 2013 average occupancy rate for Plaza's office space amounted to 72%. During Financial year ended 2013 the average occupancy rate of the complex was 81% (Dec 2012: 84%)[1] but this increased to a stable 89% during the first quarter of 2014. The management of the complex are in negotiations with prospective office tenants and if successful, this would result in higher average occupation rate.

Composition of stores at the Plaza Centres

The Plaza Centres have a healthy mix of retail, catering and office spaces. The total complex rentable area of approximately 13,000 square meters is divided meters into retail, catering (catering outlet found on every floor dedicated to retail space) and office space. The complex has a diverse mixture of retail shops covering clothing, accessories and jewellery, books and stationary, health and beauty, footwear as well as toys and hobbies. Some of the retail brands operating from the complex include high street names such as Bortex, Emporio, Miss Selfridge, United Colors of Benetton, Junction, Mothercare and CModa. It is important to note that most of the Centre's revenue is generated from the retail part of the Complex. Meanwhile, the complex also hosts the very sought after catering areas of McDonald's and Millies Cookies. The diverse mix of retail and catering outlets is a positive factor for Plaza Centres as this offers a one stop shop experience to customers.

Macroeconomics of the Maltese Islands

The macroeconomics outlook for the Maltese islands remains positive during the first quarter of 2014 with the nominal GDP year on year growth registered during 1Q 2014 being 4.6%.[2] Meanwhile the Economic Sentiment Indicator remained at the 4Q 2013 level of 101.[3] Meanwhile, year on year retail sales for the first six months of this year showed positive trend when compared to the previous year.[4] Furthermore, between the period of 2010 and 2013 the Maltese islands registered positive real GDP growth rate.[5] Maltese economic growth augurs well for retail companies such as Plaza Centres plc as the complex will continue to operate close to full leasing capacity.

[1] Due to relocation of one of Plaza's largest office tenant, FIMBank Plc to other premises.
[2] Source: Eurostat
[3] Source: The Malta Chamber of Commerce, Enterprise and Industry, *'2014\Q1 Business Confidence Review'*. 6 June 2014
[4] Year on year retail sales figures for the first six months of 2014, (Jan:7.5%, Feb:5.9%, Mar:9.5%, Apr:0.9%, May:1.6%, Jun:2.4%). Source: Trading economics (http://www.tradingeconomics.com/malta/retail-sales-annual)
[5] Real GDP growth rate for Malta; 2010:4.2%, 2011: 1.5%, 2012: 0.8%, 2013: 2.6%. Source: Eurostat.

Although the specific sector in which Plaza operates is characterized by high barriers to entry (due to high initial capital required owning and developing property), during the recent five years two new major shopping complexes opened door for business (Tigne Point and Daniels Shopping Complex in Hamrun). Increased supply of rentable shopping area can lead to tougher competition within the sector potentially resulting in lower revenue streams for shopping complexes.

Plaza Centres Capital Structure

Plaza Centres' assets are funded predominantly by shareholders own funds. As at December 2013, the company's equity amounted to 73% of total balance sheet assets (Dec 2012: 72%). It is worth noting that as at December 2013, 50.8% (Dec 2012: 51.2%) of Plaza Centre's equity capital consisted of the Revaluation reserve account. The latter represents the revaluation surplus (net of applicable deferred taxes) arising on past revaluations. The property was last revalued at 31 December 2011 using the discounted cash flow methodology.[6] As at the last valuation, Plaza's land and building value did not differ materially from the carrying amount of the property. Revaluations are carried out by independent professionally qualified bodies every three years.

As at December 2013, Plaza's borrowing totalled Eur 3.7 million (2012: Eur 3.8 million) which comprises of Eur 2.4 million in non-current liabilities (2012: Eur 2.5 million) and Eur 1.3 million (2012: Eur 1.3 million) in current liabilities. Current borrowings as at Dec 2013 consisted of Eur 1.07 million in bank overdrafts and Eur 0.28 million in bank loans payable within one year. During the past two years the shopping complex has used its bank overdraft facility to supplement its net negative movement in cash and cash equivalent.

The shopping complex operates at a conservative leverage ratio (net debt to average equity) which as at December 2013 stood at 18%. During the past four years, the group's leverage ratio remained fairly constant.

[6] Projected Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) discounted at 4% (estimated growth of company's rentals)

Plaza Centres Major Shareholders

As at March 2014 the largest shareholders of Plaza Centres plc were:

Shareholders name	% holding
MSV Life plc	28.36
Rizzo Farrugia & Co Stockbrokers[7]	9.95
Mizzi Associated Ent. Ltd	8.02
Central Mediterranean Development Corp. Ltd	8.01
Lombard Bank Malta plc	5.07

Share Capital

The authorized share capital of Plaza Centres is Eur 15 million with an issued share capital of fully paid up Eur 5.6 million divided into 28.2 million ordinary shares, each having a nominal value of Eur 0.20.

During May 2000, the company offered the subscription of 3.25 million shares at a nominal value equivalent to Eur 0.683 for the general public through an initial public offering. The shares were admitted to the Official List of the Malta Stock Exchange on 6 June 2000.

On May 2012, shareholders approved the re-denomination of the share capital and a subsequent 3 for 1 share split. As a result the new authorized share capital amounted to 75 million ordinary shares worth Eur 0.20 each (2011: Eur 0.465874 each). Meanwhile the issued and fully paid up capital amounted to 28.2 million ordinary shares.

Financial Analysis

Profitability

During financial year ended December 2013, Plaza reported revenue of Eur 2.17 million, down 3.8% from turnover generated during the previous year. The drop in revenue can be partially explained by the lower occupancy levels registered especially in the office space. As indicated by Plaza, occupancy levels during the last quarter of 2013 have increased to 89% and remained stable during the first quarter of 2014. In an

[7] Nominee account

effort to operate at higher capacities, Plaza is currently in negotiations with potential new office tenants. Higher occupancy levels augur well for shareholders as this will result in higher revenue streams. For financial year ended 2013, Plaza registered Earnings before interest, tax, depreciation and amortization (EBITDA) of Eur 1.81 million, down 3.9% from the previous year. During the period under review Plaza incurred higher maintenance costs (2013: Eur 23,457, 2012: Eur 22,627). The increase in maintenance costs was offset by the improvement in administrative expenses and reduction in marketing costs. It is being forecasted that, for financial year ending 2014, marketing costs should be expected to increase as Plaza is actively looking to increase its occupancy rate. It is worth noting that despite the group's cost to income ratio relatively on the low side (2013: 33.6%, 2012: 33.1%), during the last five years the mentioned ratio edged 280 basis points higher. As Plaza increased its available renting area it should benefit from larger economies of scale which should translate to an improvement in the cost to income ratio.

Net income registered during the last full financial year amounted to Eur 0.79 million representing a 3.6% drop from net income generated during financial year ended 2012. Nevertheless it is worth mentioning that the group's net income margin improved by 100 basis point to 37% (2012: 36%).

Cash flows generated from operating activities for the period ending December 2013 totalled Eur 1.1 million, representing a 20.3% increase from the previous figure. The improvement in cash generated from operating activities can be predominantly explained by the improvements registered in working capital movements. During financial year ended 2013, Plaza's cash from operating activities was mainly boosted by the 13.6% improvement in trade and other receivables (Dec 2013: Eur 290,255, Dec 2012: Eur 336,028). Lower trade and other receivables and shorter, more efficient cash conversion cycle are positive news for equity holders.

Free cash flow generation

Free cash flow to equity of Plaza for the financial year ended 2013 increased to Eur 310,164, from the previous year end figure of Eur 255,020. Free cash flow to equity however had been higher during 2011 and 2010, Eur 525,387 and Eur 659,373 respectively. These were positive increases from the 2009 negative figure of Eur -42,430.

Enterprise value

The enterprise value of Plaza Centres for the year ended 2013 amounts to Eur 20,994,659 which is higher than that of the previous year 2012; Eur 20,817,234. The enterprise value has remained rather constant throughout the past five years. Tigne Point, one of Plaza Centres main competitors has an enterprise value of Eur 56,400,000 for the financial year ended December 2013. Enterprise value of Plaza Centres as a ratio of free cash to equity is equal to 67.69.

Management efficiency

Plaza Centres generated Eur 0.04 of profit for every Eur 1 of shareholder's equity last financial year ended December 2013. This means that the stock has a return on equity (ROE) of 3.86%. In the previous financial year ending December 2012 the return on equity was slightly higher at 4.02%. Tigne Point also generated Eur 0.04 of profit for every Eur 1 of shareholder's equity for the financial year ended December 2013. However, its stock's return on equity was slightly higher at 4.07%.

The return on assets generated by Plaza Centres was equal to 4.48% for the financial year ended December 2013. Plaza Centres therefore earned Eur 0.04 for every Eur 1 of assets. This is slightly lower than that generated in the previous financial year ending December 2012; return on assets generated was 4.71%. In the case of Tigne Point, it generated a slightly lower return on assets of 3.16% for the financial year ending December 2013; this meant that for every Eur 1 of assets Tigne point earned Eur 0.03.

SWOT Analysis

Strengths

Plaza Centres location is one of its biggest strengths; it is located in the heart of the commercial and shopping district of Sliema. This in turn makes it a busy shopping centre, since it is also located close to the Sliema front and is easily accessible by public or private transport. Plaza Centres was one of the first companies to introduce and implement the concept of a commercial and shopping centre, hence its strengths include loyal customers and good reputation. Plaza has maintained a fairly constant conservative leverage ratio over the past four years; this is a positive aspect of the company since it means that its average equity outweighs its debt. Plaza also has a long track record of high occupancy rates. The majority shareholder of Plaza is MSV Life plc which is jointly owned by Bank of Valletta p.l.c. (50%) and Middlesea Insurance p.l.c. (50%). This is one of Plaza's strengths since if the need arose to inject more capital it helps to have such a financially sound shareholder backing the company.

Weaknesses

Unlike Tigne point, Plaza Centres does not have its own cark park facility. This may be inducing clients to opt for shopping at Tigne Mall due to the added convenience This is a weakness that Plaza Centres may find quite difficult and/or expensive to address. Another weakness is that the building itself has been standing for quite a long time when compared to the more modern Tigne Point and therefore high capital expenditure would be needed in order to be update it. Lack of new space on the current site in order to expand is also a weakness; as there is no room to add on more office or retail spaces, or a car park.

Opportunities

Currently Plaza's management is in negotiations with prospective office tenants and if successful, the result would be higher average occupation rate and therefore higher revenue.

Threats

New shopping complexes are said to be opening their doors soon and this may be a threat to Plaza Centres' profit figures. Increased competitive pressure is also evident with the opening of Daniel's Shopping Complex in Hamrun, the expansion of other shopping malls like High Street in Fgura and Tigne Point shopping mall, since the Supply of rentable shopping area has increased. This could lead to lower revenue intake for shopping complexes. Another threat to Plaza Centres profitability is the development of new office space in the vicinity which could increase competitive pressure on Plaza's income from office space. The threat of tenants leaving is a very real one, in the sense that if Plaza does not keep its prices competitive, tenants might rent elsewhere, now that there is an increased supply of rentable commercial sites.

Conclusion

As mentioned previously, in the first quarter of 2014, occupancy levels have increased to 89% which is positive news for the company. If Plaza is successful in its current negotiations with potential new office tenants this will mean operating at higher capacities and hence higher revenue streams which is a positive aspect for its shareholders.

It is important that Plaza remains up to date, both with respect to the maintenance of the complex itself as well as its presence on social media and marketing. These are important elements for Plaza Centres to remain competitive and achieve its goal, which is to maintain its leadership status in an industry constantly attracting new entrants.