CHARTS WEALTH MANAGEMENT • CORPORATE BROKING

medirect Think ahead. Bank ahead.

EQUITY NOTE

June, 2018

MALTA INTERNATIONAL AIRPORT

COMPANY DATA

Sector	Airport Operator
Ticker	MIA MV
ISIN	MT0000250101
Last Price (€)	5.00
Market Cap. (€'000)	676,500
Free Float	29.9%
Dividend Yield (net)	2.00%
Price/Earnings Ratio	28.09x
2018 Low (€)	4.70
2018 High (€)	5.00

COMPANY SUMMARY

Malta International Airport plc main activity is to develop, operate and manage all the activities related to aviation services. It is also responsible for the management and operation of the non-aviation segment, which includes all the various services offered at the airport including the SkyParks Business Centre and parking facilities.

PERFORMANCE OVERVIEW

In 2017, Malta International Airport plc. (the "**Group**" or "**MIA**") generated revenue of €82.4 million and profit after tax of €24.2 million, representing a growth of 12.7% and 15.0% respectively over the previous financial year. This strong growth was principally due to a 17.5% y-o-y increase in passenger movements (exceeding six million annual movements), partly driven by an increase of 18% in seat capacity (whilst the seat load factor dropped only marginally by 0.8 percentage points to 82.4%). Non-aviation income (primarily retail and property segment) also contributed to the y-o-y improvement with an increase of €1.8 million (+8.3%), from €21.2 million in 2016 to €23.4 million in 2017. The financial position of the Group remained sound in 2017 as net assets increased by €10.7 million from a year earlier to €95.7 million.

INFRASTRUCTURAL INVESTMENTS

Due to the significant increase in passengers in the last few years, the Group has continued to invest in the infrastructure of the airport and in 2017 total capital expenditure amounted to €14 million. Planned expenditure on capital investments in 2018 is expected to be around €11 million.

In February 2018, the Group was granted permission by Planning Authority for its master plan, comprising a €100 million expenditure in the development of MIA's terminal infrastructure and surrounding airport campus (including SkyParks II which will comprise office and retail space and a business hotel). In Q4 2018, construction works are expected to commence on a multi-storey car park (1,300 parking spaces).

OUTLOOK

The Group's outlook for 2018 is again positive as passenger movements are projected to reach 6.5 million (2017: 6.0 million). This growth is expected to be generated from a substantial increase in seat capacity with the same seat load factor as in 2017, mainly as a result of an additional aircraft based at MIA by each of Air Malta and Ryanair. As such, projected revenue and net profit for 2018 are expected to exceed €87 million (+5.6%) and €28 million (+15.7%) respectively. Malta's economic performance is projected to remain positive and thus supportive of MIA's future growth expectations.

SWOT ANALYSIS

Strengths

- The Group operates the only airport in Malta.
- MIA is managed by an organisation specialised in the operation of airports. In 2017, Flughafen Wien AG operated three airports – Malta, Vienna and Kosice Airports.
- MIA operates in the travel & tourism sector, which in 2016 generated €2.4 billion or 26.7% of Malta's annual GDP and supported (directly and indirectly) 49,500 jobs or 27.8% of total employment. As such, the Maltese Government will continue to sustain this industry, thereby benefitting directly and indirectly the operations of the Group.
- The Group generates substantial cash flows on an annual basis, part of which are re-invested in infrastructure upgrades and new facilities with the aim of delivering a high level of service and optimal passenger experiences.
- The Group is focused on developing its non-aviation revenue segment, in order to reduce reliance on airline fees and charges.
- The positive performance of current concessionaires, operating within the Terminal building, has generated strong demand from external entities. This will ensure that the upcoming planned expansion of retail areas at MIA will be highly sought after.
- Over the years MIA managed to attract several airlines to operate to/from Malta, including low-cost airlines such as Ryanair (one of the largest low cost airlines in Europe).

Weaknesses

- The Group is largely dependent on the European market for its aviation revenues, particularly the United Kingdom, Italy, France and Germany, which in 2017 accounted for 57% of total inbound tourists.
- MIA is very much reliant on the Maltese Government to effectively promote Malta as a tourist and business destination, and to further invest in the road network linking the airport to other parts of the Island.
- The Group's operational performance is correlated to Malta's economic environment.
- The possibility of expanding MIA's terminal infrastructure and buildings may be somewhat limited beyond the current master plan, thereby restricting growth in passenger movements and operational performance in the longer term.

Opportunities

- Malta's economic performance in the near term is expected to remain positive, thereby providing the optimum opportunity for MIA to further grow its revenues and profitability.
- The proposed €100 million investment in MIA's terminal infrastructure and airport campus will enable the Group to welcome more tourists and increase non-aviation income in the coming years.
- Travel is a highly competitive industry. Airlines will likely continue to offer new routes, more flexibility and lower prices to encourage more frequent travelling, which will in turn likely drive growth at MIA.
- Unlike other European countries, Malta is a year-round destination for tourists who enjoy the Mediterranean climate.

Threats

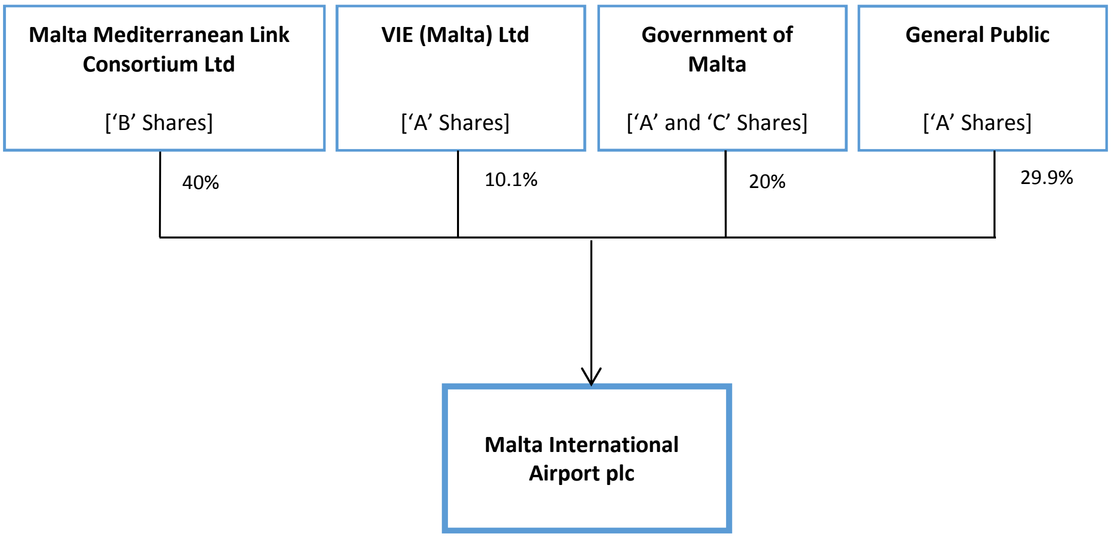
- Economic slowdown can hamper traffic volume.
- Terrorism can prevent growth in the airline business.
- Strict environment rules and regulations may increase travel costs generally, which may potentially reduce travel frequency and affordability.
- Rising oil prices may restrict profitability of airlines, which may result in increased airfares.

COMPANY PROFILE

Malta International Airport plc (the "**Group**" or "**MIA**") was incorporated as a public limited company in May 1991, and became fully operational in 1992, with the objective of managing and operating the air terminal. The construction was partly funded by the Government of Malta, as well as through loans from the European Investment Bank (EIB) and Maltese commercial banks.

In July 2002, the Government sold 40% of its shareholding in the Group to Malta Mediterranean Link Consortium Ltd ("**MMLC**"), a company ultimately owned by Flughafen Wien AG (operators of Vienna and Kosice Airports) as to 95.85%. The remaining 4.15% shareholding in MMLC is held by Bianchi Group of Companies. In Q4 2002, the Government of Malta sold a further 20% to the general public through an Initial Public Offering and listed thereafter the 'A' Shares on the Malta Stock Exchange. The Government sold a further 20% of MIA in October 2005 to the general public (9.9%) and VIE (Malta) Ltd (10.1%), the latter being a subsidiary of Flughafen Wien AG. As at the date of this report, the Government holds 20% of the Group's issued share capital, whilst Flughafen Wien AG has an indirect holding of 48.44% in MIA.

ORGANISATIONAL STRUCTURE



Note: *The Ordinary 'A' and 'B' Shares have the same rights, benefits and powers in MIA save for the transferability thereof. Ordinary 'A' Shares are freely transferable and are listed on the Malta Stock Exchange, while the non-transferability clause in relation to 'B' Shares expired in July 2017. Ordinary 'C' Shares carry no voting rights and do not receive dividends.*

BUSINESS OVERVIEW

In July 2002, Government of Malta granted MIA a 65-year concession to develop, operate and manage the Malta International Airport. In June 2012, the land rights held by Government were transferred to Malita Investments plc and presently, MIA pays the latter company two annual ground rents of circa €770,000. Both leases are subject to upward revisions every five years and expire on 25 July 2067.

The Group has four wholly-owned subsidiaries as described hereunder:

- **Airport Parking Limited** – operates all the car parks situated on the land leased to the Group;
- **Sky Parks Development Limited** – manages real estate projects within the land which is under the management of the Group;
- **Sky Parks Business Centre Limited** –operates the SkyParks Business Centre building;
- **Kirkop PV Farm Limited** – was set up to generate electricity using photovoltaic technologies. The company did not trade in 2017.

Activities at the aerodrome include the operation of the airfield, the terminal building and the SkyParks Business Centre. For the purpose of reporting, MIA categorises revenue as '**Aviation Income'** or '**Non-Aviation** Income'. These two categorises are further sub-divided into three segments as follows:

AVIATION INCOME

Aviation Income includes revenue generated from the 'Airport Segment', which comprises the operation and maintenance areas of the terminal, runways, taxiways and aircraft parks. It also includes any operation involving passenger movements, baggage handling, safety operations and security controls in relation to passengers, aircraft and the airport. Aviation charges are not determined by MIA unilaterally, but are determined, reviewed and regulated by the 'Airport Charges Regulatory Board'. The Group has kept these charges unchanged since 2006. In 2017, Aviation Income amounted to €59.0 million (2016: €51.5 million) and contributed 72% (2016: 70%) of aggregate revenue generated by the Group.

NON-AVIATION INCOME

Non-Aviation Income comprises revenue derived from the 'Retail & Property Segment' and 'Other Segment'. The former segment includes income generated from over 40 outlets located within the airport perimeter, Sky Parks Business Centre Ltd, Airport Parking Ltd, advertising sites, warehouses and VIP lounges.

Development of SkyParks Business Centre was completed in July 2012. The property offers 18,325m^2 of office and retail space spread over seven levels and 4,700m^2 of parking space. The facilities being offered within the business centre compliment those provided at the terminal, and include a child care centre, a fitness centre, medical and dental clinics, conference facilities, banking services, and catering outlets. The carrying value of the afore-mentioned property in the statement of financial position as at 31 December 2017 amounted to €16.7 million (2016: €17.2 million). Based on an internal valuation carried out by the directors of MIA, the fair value of the property was in the region of €29 million at 31 December 2017.

'Other Segment' comprises services that do not fall under the Airport Segment and the Retail & Property Segment. These include miscellaneous income and disbursement fees from third parties.

Non-Aviation Income generated in 2017 amounted to €23.4 million, an increase of €1.8 million (+8.3%) when compared to the prior year (2016: €21.6 million).

FINANCIAL REVIEW

The historical financial information provided below is extracted from the audited consolidated financial statements of the Group for the financial years ended 31 December 2015 to 2017. The projected financial information for FY2018 detailed hereunder relates to events in the future and is based on assumptions which the Group's directors believe to be reasonable.

Malta International Airport p.l.c. **Condensed Consolidated Income Statement** **for the financial year 1 January to 31 December**	**2015A** **€'000**	**2016A** **€'000**	**2017A** **€'000**	**2018E** **€'000**
Revenue	66,965	73,064	82,369	87,000
Aviation income	*46,446*	*51,494*	*59,003*	*63,000*
Non-aviation income	*20,519*	*21,570*	*23,366*	*24,000*
Net operating costs	(31,322)	(33,077)	(33,795)	(27,015)
EBITDA[1]	**35,643**	**39,987**	**48,574**	**52,000**
Depreciation & amortisation	(6,639)	(6,842)	(7,411)	(7,000)
EBIT[2]	**29,004**	**33,145**	**41,163**	**45,000**
Investment income	2,761	1,023	4	-
Finance costs	(2,184)	(1,991)	(3,809)	(2,132)
Deferred income	209	209	209	209
Profit before tax	**29,790**	**32,386**	**37,567**	**43,077**
Taxation	(10,519)	(11,405)	(13,417)	(15,077)
Profit for the year	**19,271**	**20,981**	**24,150**	**28,000**
Key Accounting Ratios				
Operating profit margin *(EBITDA/revenue)*	53%	55%	59%	60%
Interest cover (times) *(EBITDA/net finance cost)*	16.32	20.08	12.75	24.39
Net profit margin *(Profit after tax/revenue)*	29%	29%	29%	32%
Earnings per share (€) *(Profit after tax/current no. of shares)*	0.142	0.155	0.178	0.207

[1] *EBITDA - Earnings before Interest, Tax, Depreciation and*
[2] *EBIT - Earnings before Interest and Tax.*

Revenues: MIA announced revenues of €82.4 million in FY2017 (FY2016: €73.1 million), an increase of 12.7% over last year results. Of this figure, €59.0 million was generated from the aviation segment as compared to €51.5 million in 2016 (+15%). The remaining balance of €23.4 million was generated from the retail and property segment which increased by €1.8 million (8%) from the prior corresponding period. MIA's annual growth in revenue is primarily due to a significant increase in the volume of passenger traffic as a result of an increase in routes and seat capacity. In 2017, MIA reached a total of 6.0 million passengers, an increase of 17.5% compared to 2016, making it the fastest-growing year in the airport's history.

Moreover, during the year, the Group recorded an increase of 18.0% in seat capacity, 15.0% in aircraft movement, and an increase of 3.1% in cargo and mail handling. The increase in aircraft movement was primarily due to the introduction of two new airlines and fifteen new routes. In addition, a number of carriers increased frequencies on existing routes or extended their schedules.

The Group's projections indicate that revenue will increase by 5.6% from €82.4 million in FY2017 to €87.0 million in FY2018. EBITDA is projected to increase by €3.4 million, while the Group is expected to report a profit after tax of €28.0 million (FY2017A: €24.2 million).

Operating and administrative costs: Key operating expenses include staff costs, depreciation and other operating overheads. Operating overheads represent 63% of total costs with staff costs and depreciation representing a further 20% and 17% respectively. Excluding staff costs and depreciation, operating overheads increased by 3.2% over 2016 (an increase of €0.8 million). In FY2018, it is projected that these costs are expected to remain stable in line with revenue trends. Net profit margin is projected at 32%, an increase of 3 percentage point when compared to the previous year.

Net profit: Profit for FY2017 amounted to €24.2 million, an increase of €3.2 million (+15%) when compared to €21.0 million achieved in 2016. During the year, the Group incurred a one-time €2.8 million penalty relating to the voluntary early repayment of an €11 million 6% fixed interest rate loan and which is included in finance costs. Net profit in 2018 is projected to increase by €3.9 million or 16% y-o-y to €28.0 million.

PE ratio: At the current market price of €5.00, the forward price/earnings ratio (FY2018) is 24.16x.

Dividend: In February 2018, the Group declared a net final dividend of €0.07, which equates to a total annual net dividend pay-out of €0.10 interim dividend of €0.03 was declared in July 2017. Assuming the same amount of €0.10 is paid in 2018, the net dividend yield based on the current market price of €5.00 is equal to 2.00%.

Outlook: Further passenger growth is expected to continue in 2018, with a 9% increase in passenger traffic when compared to 2017, reaching a total of 6.5 million passengers. Air Malta and Ryanair will operate 3 new aircraft and introduce a number of new routes. In addition, other carriers operating at MIA such as Volotea, Jet2, EasyJet, Wizz Air and Norwegian Airline are expected to introduce new routes, increase frequencies on their existing routes or increase seat capacity on specific routes such as Rome Fiumicino, Warsaw, Skopje and Bucharest. On the other hand, Transavia will reduce capacity from Paris, Orly and Amsterdam, German airline Condor will discontinue their flight to Frankfurt and will be reducing the frequency on the Hamburg route, while Air Malta and Eurowings will no longer operate flights to Berlin Tegel and Vienna, respectively. Overall, the Group is projecting a net increase in seat capacity with a seat load factor equivalent to that achieved in 2017 (which stood at 82.4%).

The positive outlook of the Group is supported by the airline industry, which is likely to experience stronger growth in 2018 over 2017. The International Air Transport Association (IATA) forecasts that net profits of airlines are likely to increase by 11% globally, whilst European airlines' net profits are expected to increase by 17%[1] .The projections given by IATA are being supported by the strong growth in demand for air travel and continued growth in the global economy.

[1] www.iata.org/pressroom/pr/Pages/2017-12-05-01.aspx

Malta International Airport p.l.c.			
Consolidated Statement of Financial Position			
as at	**31 Dec'15**	**31 Dec'16**	**31 Dec'17**
	Actual	**Actual**	**Actual**
	€'000	**€'000**	**€'000**
ASSETS			
Non-current assets			
Property, plant & equipment	97,484	98,670	105,864
Investment Property	18,119	17,240	16,656
Other investments	4,053	4,187	5,653
	119,656	120,097	128,173
Current assets			
Inventories, trade & other receivables	12,614	15,715	16,275
Cash and short term deposits	39,644	36,550	38,402
	52,258	52,265	54,677
Total assets	**171,914**	**172,362**	**182,850**
EQUITY			
Capital and reserves			
Share capital and reserves	35,125	35,080	35,035
Retained earnings	42,564	50,017	60,713
	77,689	**85,097**	**95,748**
LIABILITIES			
Non-current liabilities			
Borrowings	31,348	43,867	31,148
Other non-current liabilities	10,382	10,257	10,002
	41,730	54,124	41,150
Current liabilities			
Bank loan	25,750	2,481	1,869
Trade & other current liabilities	26,745	30,660	44,083
	52,495	33,141	45,952
	94,225	**87,265**	**87,102**
Total equity and liabilities	**171,914**	**172,362**	**182,850**
Key Accounting Ratios			
Liquidity ratio (times)	1.00	1.58	1.19
(Current assets/current liabilities)			
Gearing ratio	18%	10%	(0)
(Total net debt/net debt and shareholders' equity)			
Return on equity	25%	25%	25%
(Profit after tax/shareholders' equity)			
Return on capital employed	30%	29%	35%
(EBITDA/total assets less current liabilities)			
Return on assets	11%	12%	13%
(Profit after tax/total assets)			

Property, plant & equipment includes the land held on temporary emphyteusis, buildings, furniture, fittings and equipment at Malta International Airport, but excludes SkyParks Business Centre. Property, plant & equipment amounted to €105.9 million as at 31 December 2017, being 57.9% of total assets. During the year, the Group continued to invest in the infrastructure of the airport, both in passenger handling facilities as well as on the airfield and runways. Capital expenditure in 2017 amounted to circa €14 million (2016: €7.3 million).

Investment property relates to the SkyParks Business Centre which as at 31 December 2017 had a carrying value of €16.7 million.

Equity as at 31 December 2017 increased by €10.7 million from a year earlier and amounted to €95.7 million (2016: €85.1 million). The increase was registered in retained earnings after including total comprehensive income for the financial year and deducting dividend distributions.

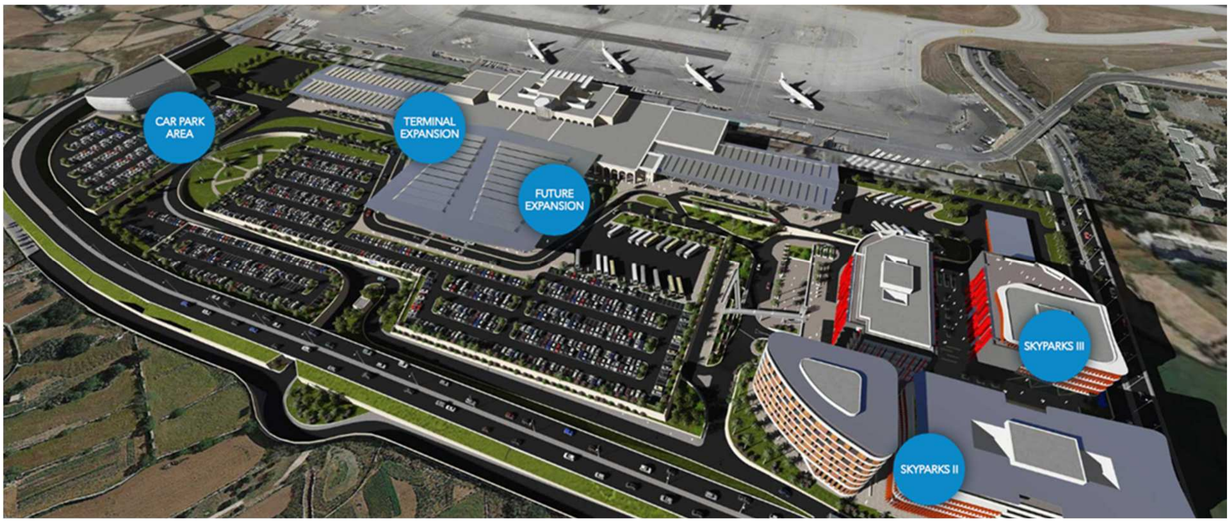
Gearing: Cash and short term deposits amounted to €38.4 million as at 31 December 2017 (2016: €36.6 million), while the Group's overall debt amounted to €33.0 million (2016: €46.3 million), thus resulting in a net cash surplus of €5.4 million.

KEY INVESTMENTS

In 2018, the Group will complete the terminal improvements known as Phase I of the Terminal Reconfiguration Project. The remaining facility upgrades of the project include the Check-In Hall which will be equipped with eight additional check-in desks and a new Baggage Handling System. In addition, the Group will be relocating the central screening to its permanent area.

Furthermore, during the current financial year, the Group will be investing another €10.8 million in terminal and airfield improvements (€4.3 million), airport operations and security (€5.1 million), and plans to develop a new cargo village (€1.4 million).

The Planning Authority approved the airport's Master Plan of €100 million to extend the terminal and surrounding airport campus. The plan includes the completion of the airport's Terminal Reconfiguration Project and draft the design plans for lateral expansion of the terminal, develop the second SkyParks Business Centre, which will house office and retail space and a business hotel, and construct a multi-storey car park providing more than 1,300 parking spaces, which is scheduled to commence in the last quarter of 2018. These developments are planned to be executed in three major phases.



PRICE PERFORMANCE

The chart below shows the share price movement since 2 June 2008 to 1 June 2018. It is observed that the share price reached an all-time high of €5.00 on 17 January 2018 and is currently trading at €5.00.

KEY CONTACTS

Head – Corporate Finance
Evan Mohnani
evan.mohnani@medirect.com.mt

Analyst – Corporate Finance
Stephanie Casha
stephanie.casha@medirect.com.mt

OUR OFFICE

Charts Investment Management Service Ltd
The Centre, Tigné Point, Sliema TPO 0001, Malta
Tel: (+356) 2557 4400