INDIS Malta Ltd.

Rating report

Rating rationale and Outlook:

The A+/Stable rating of INDIS Malta Ltd. (INDIS Malta) is aligned with the ratings of the Republic of Malta (A+/Stable), which reflects:

i) High strategic importance as a key Government Related Entity (GRE) supporting economic and social policies;

ii) Supportive legal framework with extensive operational links to the government as well as strong control and regular support mechanisms; and

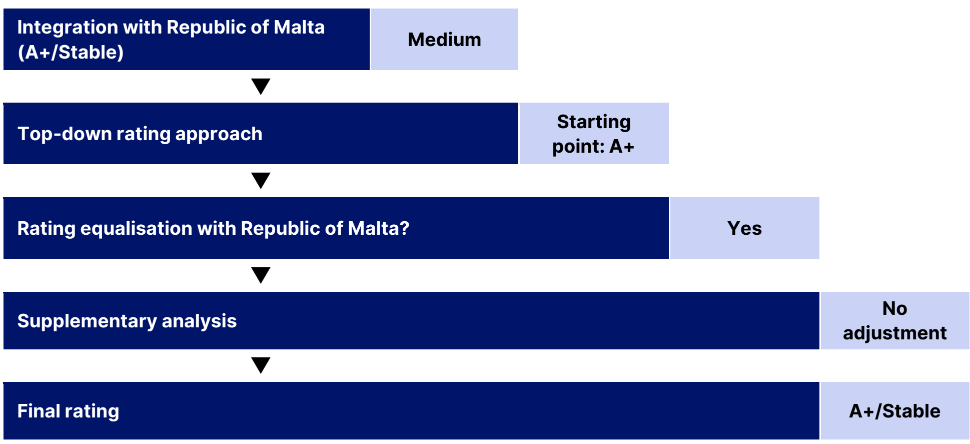
iii) Dominant market position, high occupancy rates and long lease term of its rental agreements, underpinning stable and predictable revenues.

The Republic of Malta has provided unconditional, direct, and irrevocable guarantees on 87% of INDIS Malta's financial liabilities as of September 2024, and the public sponsor is expected to continue providing adequate support for all liabilities, as appropriate. INDIS Malta is also committed to refrain from contracting additional bank or other borrowing without the support of government of the Republic of Malta. On that basis, we apply the equalisation factor.

Furthermore, we acknowledge INDIS Malta's robust standalone credit fundamentals, supported by balanced business and financial risk profiles, which have no impact on creditworthiness, resulting in the final rating of A+.

Nonetheless, INDIS Malta's credit challenges relate to low geographical and tenant diversification, exposure to cyclical industrial sectors – all a reflection of its public policy mandate - and elevated debt levels amid rising development costs and higher interest rates.

Figure 1: Scope's approach to rating INDIS Malta



Source: Scope Ratings

Foreign currency

Long-term issuer rating/Outlook

A+/Stable

Senior unsecured debt

A+/Stable

Short-term issuer rating/Outlook

S-1+/Stable

Local currency

Long-term issuer rating/Outlook

A+/Stable

Senior unsecured debt

A+/Stable

Short-term issuer rating/Outlook

S-1+/Stable

Lead Analyst

Thomas Gillet

+49 30 278911-25

t.gillet@scoperatings.com

Team Leader

Alvise Lennkh-Yunus

+49 69 6677389-85

a.lennkh@scoperatings.com

Disclosure/warning

This rating report is accessible to the general public.

Credit strengths and challenges

Credit strengths	Credit weaknesses
• Guarantees from the sovereign covering most of financial obligations • High strategic importance • Robust control and regular government support mechanisms • Dominant market position	• Elevated tenant and geographical concentration • Exposure to cyclical industrial sectors • Elevated debt outstanding

Outlook and rating triggers

The Stable Outlook reflects Scope's view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
• Upgrade of sovereign ratings	• Downgrade of sovereign ratings • Changes in institutional framework, weakening links with the sovereign • Substantial issuance of non-guaranteed debt, leading to a weaker debt metrics • Material weakening in business or financial risk profile and/or governance quality

Table of contents

Integration with the Government and rating approach

Established by the Republic of Malta in 2001, INDIS Malta acts as the government's sole administrator of industrial property. It is responsible for managing and developing all government-owned industrial parks in Malta (over 3.4m square metres), offering its services to companies in strategic sectors at preferential rates on behalf of the government. It thus contributes to the state's key economic policies and receives government support for its activities. We define INDIS Malta as a GRE, according to our Government Related Entities Rating Methodology.

Rating equalisation with the Republic of Malta

Explicit government guarantees underpin rating equalisation

INDIS Malta's rating is equalised with the rating of its public sponsor, the Republic of Malta (A+/Stable), which has historically provided unconditional, direct, and irrevocable guarantees for INDIS Malta's financial obligations since the entity stated operations in 2004.

As of September 2024, more than 87% of INDIS Malta's outstanding bank facilities benefitted from explicit, unconditional, direct, and irrevocable guarantees from the government of the Republic of Malta. The remaining 13% benefits from liability support in the form of letters of comfort from the government that commit the Republic of Malta to ensuring that all liabilities contracted by INDIS Malta will be met. As such, creditors have a direct claim against the state for the majority of INDIS Malta's financial obligations, a key credit strength. Finally, the government of Malta is expected to continue providing explicit guarantees for INDIS Malta's debt issuance, within the constraints of state aid limitations.

Top-Down approach

Strong ties with the public sponsor, the Republic of Malta

Under our scorecard, both the Top-Down and Bottom-Up approaches are possible, reflecting the mid-range integration score of INDIS Malta with its public sponsor, the Republic of Malta (A+/Stable; see Appendix I, Scorecard 1):

- **Legal status:** INDIS Malta is a limited company and thus, like other ordinary private sector entities, would be subject to private insolvency and bankruptcy laws in a hypothetical default scenario.
- **Purpose and activities**: INDIS Malta's activities are conducted on behalf of the Republic of Malta and closely overseen by the Ministry of Economy, Enterprise and Strategic Projects. INDIS Malta gives an essential contribution to the government's industrial development strategy and economic policy objectives, developing and managing government-owned industrial land by letting to strategically important industrial players at below-market rates. These operations are conducted on a non-profit maximising basis and for the public benefit.
- **Shareholder structure:** The Republic of Malta is INDIS Malta's sole shareholder, with 9,999 out of 10,000 shares directly held via the Ministry of Finance, and the remaining share via a government-owned entity (Malta Investment Management Company). The government exerts substantial control over the entity's operations as the sole owner via a robust legal framework.
- **Financial interdependencies**: Financial interdependencies between INDIS Malta and the Republic of Malta are limited given that its turnover comes almost exclusively from rents and service charges. Even so, INDIS Malta receives regular equity injections.

INDIS Malta's ratings are aligned with Republic of Malta's ratings

We consider two main factors: i) the support and oversight from the public sponsor to sustain the entity's operations, assessed as 'high'; and ii) likelihood of financial support in exceptional situations, assessed as 'high'. Our assessment results in an alignment of INDIS Malta's ratings with the A+ rating of the Republic of Malta (see Appendix I, Scorecard 2).

Control and regular support

Strong control over strategy and operational policies

We evaluate the level of government control over INDIS Malta's decision-making process as 'high'. Multiple public acts and legal notices define INDIS Malta's rights and responsibilities over the public property it administers[1]. This robust legal framework cements INDIS Malta's position as the sole administrator of public industrial property and shapes the entity's property management activities to support industrial development and economic performance. The Ministry of Economy, Enterprise and Strategic Projects approves the annual accounts, budgets and all new investment programmes. In addition, INDIS Malta continuously coordinates with the government on key issues relating to its activities, such as to conduct due diligence on prospective tenants and allocate property to eligible companies.

Government say in governance bodies is strong

We assess the government's influence on INDIS Malta's key personnel and governing bodies as 'high'. The Ministry of Economy, Enterprise and Strategic Projects appoints the Board of Directors, that includes seven Board Members as well as the Chief Executive Officer, who reports to the Board of Directors.

Regular and explicit liability support from the state

We assess the evidence of financial support from the Republic of Malta for INDIS Malta's activities as 'medium. The Concession Agreement with the Maltese state grants the entity rights to the largest industrial property portfolio in Malta at favorable terms. This represents the entity's largest single cash generating unit and secures its dominant market position. The government also provides financial support to INDIS Malta's infrastructure development activities via capital grants and capital increases via equity injections. In addition, direct public support in the form of explicit and implicit guarantees covering INDIS Malta's financial obligations underpin our view that the Republic of Malta has an active interest in ensuring the entity's financial soundness.

Likelihood of exceptional support

Strategically important GRE given its policy contributions

We assess the strategic importance of INDIS Malta for the government of the Republic of Malta as 'high'. This reflects its central role in meeting key economic objectives by administrating and developing government-owned industrial parks. INDIS Malta's industrial estates and the projects outlined within its investment programme are crucial for supporting economic diversification, attracting inward foreign investment, quality job creation and addressing the scarcity of industrial land on the island. This strategic role has been reinforced in the wake of Covid-19 pandemic as the government is foreseeing substantial investments to support high-value added sectors that INDIS Malta supports.

Low substitution risks thanks to the government-supported monopolist position

We evaluate the substitution difficulty for INDIS Malta to be 'high'. This reflects its domestic quasi-monopolist position with high barriers to entry for competitors. In 2014, the entity signed a concession agreement with the Maltese state for a period of 26 years, automatically renewable for another 10 years. The agreement allows INDIS Malta to operate and administer industrial land owned by the state, which represents the largest industrial real estate portfolio in the country. In addition, INDIS Malta benefits from long-term contracts with its tenants, resulting in limited risks to its dominant market position.

Meaningful default implications for the Republic of Malta

We evaluate the reputational and financial implications of a hypothetical default of INDIS Malta for its public sponsor as "medium". The government's contractual payment obligations due to its guarantees on most of INDIS Malta's debt are macroeconomically relevant, at around 0.4% of GDP. On that basis, we consider that a hypothetical default on INDIS Malta's debt would have tangible reputational and financial consequences for its public sponsor. A hypothetical default could also spillover to other domestic GREs benefitting from government support, adversely impacting their ability to secure financing. Even so, we believe a hypothetical default by INDIS Malta, though unlikely, would not materially weigh on the Republic of Malta's creditworthiness.

[1] This includes the Government Lands Act, the Disposal of Government Land Act, the Commissioner of Land Regulations.

Standalone fundamentals

Supplementary analysis results in no adjustment

We conduct a supplementary analysis of INDIS Malta's stand-alone fundamentals, including an assessment of its business and financial risk profiles, which largely reflect its public mandate. As a result, the supplementary analysis has no impact on INDIS Malta's creditworthiness, resulting in a final rating of A+.

Stand-alone fundamentals reflect balanced business and financial risk profiles

INDIS Malta presents balanced business risks characterized by i) a dominant market position, ii) very long weighted average unexpired lease term (WAULT) and high occupancy rates, iii) revenue stability and long-term financial visibility. These factors partially mitigate risks posed by the entity's limited geographical diversification, high exposure to cyclical sectors and tenant concentration.

Moreover, INDIS Malta's stand-alone financial risks balance elevated leverage with comfortable EBITDA interest coverage. The government support in the form of sovereign guarantees for most of the entity's financial obligations further mitigate credit risks.

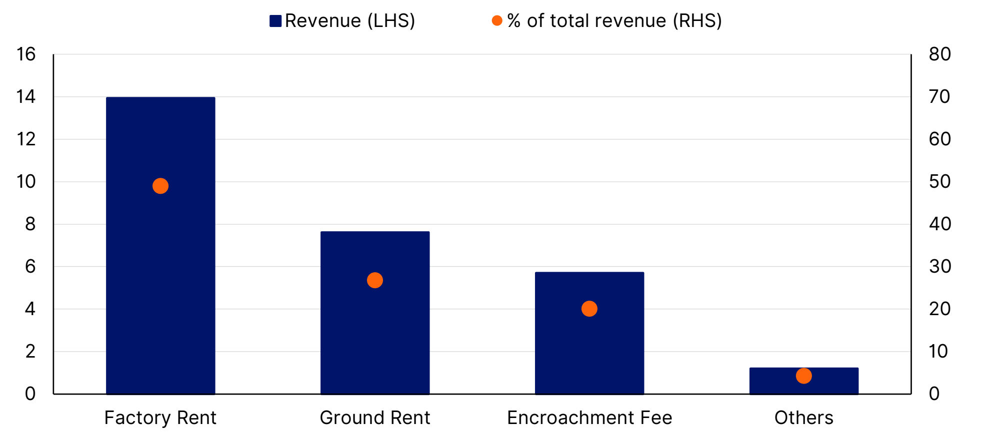
Business risk profile

Quasi-monopolist market position

INDIS Malta benefits from its dominant market position, as the sole administrator of government-owned industrial properties. The entity's property portfolio consists of industrial sites covering over 3.4m square meters with close to 1000 tenants. It effectively holds a quasi-monopolist market position thanks to its administration of the single largest industrial portfolio in Malta and its service offering at preferential rates. The entity does not directly compete with other private sector commercial real estate companies which tend to operate in segments that are not covered by INDIS Malta's mandate. As such, the various players active in the market complement the entity's activities rather than substitute them.

Figure 2: INDIS Malta's core operating revenue, 2023

EUR m (LHS); % of total revenue (RHS)



Source: INDIS Malta, Scope Ratings

Small size and limited diversification reflect policy role

INDIS Malta's size is relatively small in an international context, with total assets amounting to EUR 286m as of December 2023. This implies higher sensitivity to shocks and higher key person risk. In addition, the entity is exposed to high concentration risks in terms of geography and sectors. This is a result of the entity's public mandate, which effectively restricts its activities to the island of Malta with a focus on promoting manufacturing sectors through factory and ground rent. Most of the tenants operate in the manufacturing sector with major tenants in the aviation industry.

INDIS Malta's geographically constrained operations results in greater exposure to economic developments in Malta and its attractiveness for foreign investors. Although Malta enacted in 2024 the relevant provisions of the EU Minimum Tax Directive, it is not expected to materially impact foreign investment and INDIS Malta's ability to find new tenants, including foreign investors.

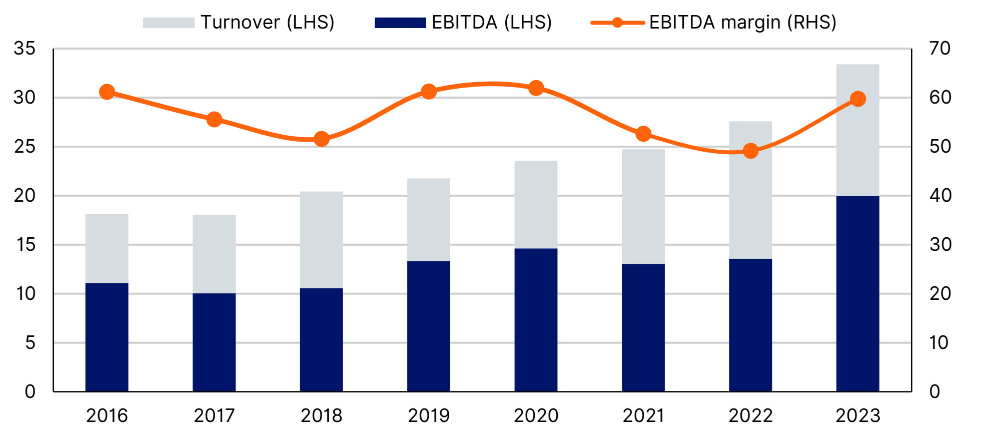
However, sectoral diversification has improved in recent years with target markets extending to non-manufacturing sectors including life sciences, information and communications technology and other knowledge-intensive industries. Moving forward, we expect the share of tenants from these sectors to increase given the government's strategy of supporting the development of high value-added industries. Despite the relatively stable supply-demand balance in the industrial real estate sector, INDIS Malta's high exposure to the manufacturing sector could pose challenges for its business activity due, for example, to its significant vulnerability to energy price volatility.

Strong quality of rental base supports revenue stability

INDIS Malta's business risk profile benefits from the strong quality of its rental base, which is underpinned by long-term relationships with industrial players and preferential rental rates and the scarcity of alternative industrial sites in the country. The entity also benefits from the very long timeframes of its rental contracts, with a very long WAULT of over 20 years that provides the entity with long-term visibility on future cash flows, reduces volatility in profits, and facilitates financial planning. INDIS Malta's property portfolio typically has low tenant turnover, supported by a long WAULT and conservative approach to selecting longer-term oriented tenants via a due diligence process together with Malta Enterprise on behalf of the government.

Figure 3: INDIS Malta's EBITDA margins

EUR m (LHS); % of total revenue (RHS)



Source: INDIS Malta, Scope Ratings

Modest, broadly stable profitability reflects policy role

INDIS Malta's profitability has been remarkably stable despite the disruption caused by the Covid-19 pandemic and the cost-of-living crisis. The Scope-adjusted EBITDA margin has been fluctuating around 50% and 60% over 2016-23. A dominant market position, high occupancy rates and long lease terms support cash flow stability. While rent collection and EBITDA margins were impacted over 2020-22, mostly linked to the hard-hit aviation sector, government support measures for the corporate sector during the Covid pandemic and cost-of-living crisis cushioned the INDIS Malta's main revenue streams and mitigated the impact on its profitability.

EBITDA margins supported by solid demand

The rise in EBITDA, from about EUR 14m in 2022 to EUR 20m in 2023, has been driven by the rise in net profit, rising from EUR 1.4m to EUR 5.8m over the period, thanks to higher depreciation and better control of costs and expenses. Even so, the increase in turnover has contained the adjusted EBITDA margin to 60% in 2023, which returned near its average of 57% over 2016-23.

We expect the EBITDA margin to continue fluctuating around its long-term average in the coming years. The scarcity of land in the Republic of Malta is expected to support solid demand for INDIS Malta's services and properties, structurally exceeding supply. While INDIS Malta's profitability is modest in view of its dominant market position, this reflects its non-profit maximising mandate and preferential rental rates charged to tenants. However, we note that INDIS Malta is expected to finance projects that would yield additional revenues, to the extent possible.

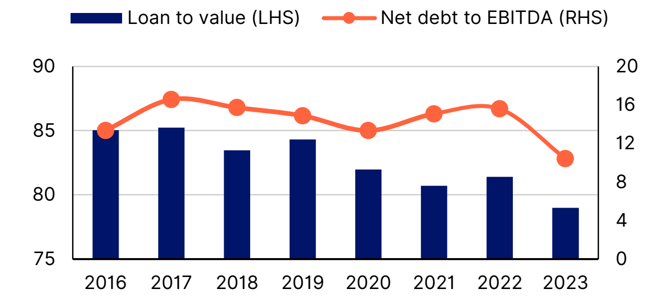
Financial risk profile

Moderately elevated but declining leverage levels

INDIS Malta's indebtedness is elevated. The net debt has steadily increased from less than EUR 150m in 2016 to almost EUR 210m in 2023, among which EUR 195m of long-term debt as of-end 2023. At the same time, expanding EBITDA has supported a decline in the Scope-adjusted debt-to-EBITDA ratio from about 17x in 2017 to 10x in 2023. Similarly, we note that INDIS Malta managed to substantially reduce its loan-to-value ratio, which has steadily declined from 85% in 2017 to 79% in 2023 thanks to sustained growth in its asset portfolio.

Figure 4: Debt burden

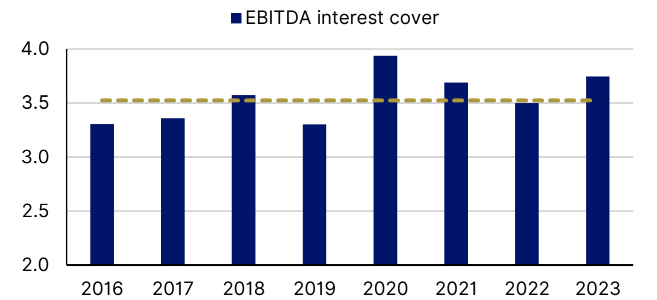
% (l.h.s.); coverage (r.h.s.)



Source: INDIS Malta, Scope Ratings

Figure 5: EBITDA interest cover

Coverage



Note: dotted line refers to 2016-23 average. Source: INDIS Malta, Scope Ratings

Favourable debt profile and solid interest cover

INDIS Malta's debt profile is characterised by a high weighted average residual maturity and no foreign currency exposures. The entity's debt profile is exposed to interest rate risks given that almost all of its debt is at floating rate, mostly indexed on the three or six months Euribor, which have peaked in 2023. On that basis, the interest payment burden increased from EUR 3.9m in 2022 to EUR 5.3m in 2023, which is expected to continue in the coming years, although at a more moderate pace given the recent decrease in Euribor rates.

Despite elevated leverage levels and moderately rising cost of debt, INDIS Malta's debt profile benefits from the sovereign guarantees extended by the Republic of Malta, which covers more than 87% of financial liabilities as of September 2024. INDIS Malta's Scope-adjusted EBITDA interest cover has remained solidly anchored in 2023 (3.6x) on its long-term average (3.5x). The rise in adjusted EBITDA was compensated by higher albeit still moderate cost of debt, as INDIS Malta's funding conditions are anchored by the financial support provided by the Republic of Malta.

We expect INDIS Malta's debt to increase over the medium term and the debt-to-EBITDA ratio to deteriorate moderately, as development and maintenance cost pressures persist while interest rates will be increase moderately. Even so, the debt-to-assets ratio should remain anchored given the associated increase in INDIS Malta's asset base, rising by more than 50% over 2016-23.

Adequate liquidity position

We consider INDIS Malta's liquidity position to be adequate, with the monthly average balance of deposits increasing from EUR 7.6m in 2022 to EUR 25.4m as of September 2024. The entity had cash and cash equivalents of EUR 22.9m as of end-2023, which is equivalent to almost two thirds of its short-term debt of EUR 36.4m. Moreover, almost all financial debt is long term with no debt facility expected to mature by September 2027, leading to low refinancing risk in the coming years. Finally, the entity's liquidity position is supported by the government commitments to ensure that INDIS Malta can comfortably meet its obligations.

Appendix I. Qualitative scorecards (QS1, QS2)

Qualitative Scorecard 1: 'Top-Down' approach

Analytical component	Weight	Assessments: Limited (1)	Medium (50)	High (100)	Not applicable
Legal status	40%	◉	○	○	○
Purpose & activities	20%	○	○	◉	○
Shareholder structure	20%	○	○	◉	○
Financial interdependencies	20%	◉	○	○	○

Integration score		41		
Indicative approach	*Score*	1≤ x < 33.3	**33.3 ≤ x ≤ 66.7**	66.7 < x ≤ 100
	Approach	Bottom-Up	**Top-Down or Bottom-Up**	Top-Down
Approach adopted			**Top-Down**	

Source: Scope Ratings

Qualitative Scorecard 2: Integration with the public sponsor

Analytical pillar	Analytical component	Weights	Assessments: Limited (1)	Medium (50)	High (100)	Not applicable	Pillar assesment
Control and regular support	Strategic and operational decision making	33%	○	○	◉	○	High
	Key personnel, governing & oversight bodies	33%	○	○	◉	○	
	Evidence of financial support	33%	○	◉	○	○	
Likelihood of exceptional support	Strategic importance	33%	○	○	◉	○	High
	Substitution difficulty	33%	○	○	◉	○	
	Default implications	33%	○	◉	○	○	

Overall assessments	Notches
Equalisation	0
High	0-1
Medium	1-2
Limited	2-3

Equalisation factor	Yes
Overall assessment	Equalised
Indicative notching	0
Additional adjustment	-
Final indicative notching	**0**

Source: Scope Ratings

Appendix II. Consolidated financial figures

	2018	2019	2020	2021	2022	2023
Income statement summary (EUR '000s)						
Gross revenue	20,434	21,763	23,560	24,754	27,585	33,399
Direct costs	-10,394	-8,904	-9,910	-13,457	-13,142	-12,891
Gross profit	**10,040**	**12,858**	**13,651**	**11,298**	**14,443**	**20,508**
Administrative expenses	-4,164	-6,019	-5,789	-5,734	-9,217	-9,361
Other income	1,647	1,797	2,218	2,594	3,434	4,924
Operating profit	**7,524**	**6,839**	**7,861**	**5,564**	**5,227**	**11,147**
Fair value gain	0	0	0	0	0	0
Interest income	15	1	0	0	0	0
Interest expense	-2,951	-4,036	-3,705	-3,529	-3,874	-5,332
Profit before tax	**4,587**	**4,601**	**6,375**	**4,629**	**1,353**	**5,815**
Taxation	0	0	0	0	0	1
Profit for the financial year	**4,587**	**4,601**	**6,375**	**4,629**	**1,353**	**5,814**
EBITDA	**10,545**	**13,330**	**14,595**	**13,026**	**13,558**	**19,965**
Balance sheet summary (EUR '000s)						
Non current assets	183,673	210,112	210,224	219,431	235,814	232,296
Property, plant and equipment	172	579	597	451	345	225
Right of use assets	0	28,306	26,904	25,477	28,072	26,743
Investment property	138,315	145,456	148,741	161,310	176,993	188,596
Investment in subsidiary	1	1	1	1	1	1
Intangible assets	37,558	35,769	33,981	32,192	30,404	16,140
Loans receivable	7,627	0	0	0	0	0
Investment	0	0	0	0	0	590
Current assets	28,087	34,826	40,246	32,480	33,532	53,964
Trade and other receivables	13,659	16,948	20,593	18,246	19,063	27,985
Tax refundable	22	22	22	22	22	22
Loans receivable	1,289	8,224	6,672	5,727	4,748	3,059
Cash and cash equivalents	13,117	9,632	12,959	8,485	9,699	22,897
Total assets	**211,760**	**244,938**	**250,470**	**251,911**	**269,346**	**286,259**
Capital and reserves	32,834	36,933	42,807	46,936	48,290	55,345
Share capital	6,047	6,047	6,047	6,047	6,047	6,047
Reserves	6,986	6,986	7,171	7,318	7,318	7,318
Profit for the year	4,587	4,601	6,375	4,629	1,353	5,814
Retained earnings	15,214	19,299	23,216	28,943	33,572	36,167
Non-current liabilities	155,427	177,057	169,432	174,889	189,486	194,539
Borrowings	122,109	116,404	109,167	106,912	115,381	111,525
Long term lease liabilities	0	26,984	26,032	25,791	28,181	28,181
Deferred income	33,318	33,669	34,233	42,186	45,925	54,833
Current liabilities	23,499	30,948	38,231	30,085	31,570	36,375
Borrowings	8,542	9,042	8,562	8,177	5,093	4,985
Short term lease liabilities	0	1,585	1,637	908	5,225	4,716
Trade and other payables	14,958	20,322	28,032	21,000	21,252	26,674
Total equity and liabilities	**211,760**	**244,938**	**250,470**	**251,911**	**269,346**	**286,259**
Scope-adjusted EBITDA margin, %	51.6	61.3	61.9	52.6	49.2	59.8
Loan-to-value, %	83.5	84.3	82.0	80.7	81.4	79.0
Scope-adjusted debt / Scope-adjusted EBITDA margin, x	15.7	14.9	13.3	15.1	15.6	10.4
Scope-adjusted EBITDA interest cover, x	3.6	3.3	3.9	3.7	3.5	3.7

Source: Scope Ratings

Lead Analysts

Analyst
Thomas Gillet
+49 30 278911-25
t.gillet@scoperatings.com

Associate Analyst
Alessandra Poli
+49 698700 274-98
a.poli@scoperatings.com

Team Leader
Alvise Lennkh-Yunus
+49 69 6677389-85
a.lennkh@scoperatings.com

Related research

Scope affirms the Republic of Malta's long-term foreign-currency ratings at A+ with Stable Outlook, 2 August 2024

Applied methodology

Government Related Entities Rating Methodology, 4 September 2024

Scope Ratings GmbH

Lennéstraße 5
D-10785 Berlin
scoperatings.com

Phone: +44 20 7824 5180
Fax: +49 30 27891-100
info@scoperatings.com

in
Bloomberg: RESP SCOP
Scope contacts