INDIS Malta Ltd
Rating Report

STABLE OUTLOOK
A+

Credit strengths

- Guarantees from the sovereign covering most financial obligations
- High strategic importance
- Robust control and regular government support mechanisms
- Dominant market position

Credit weaknesses

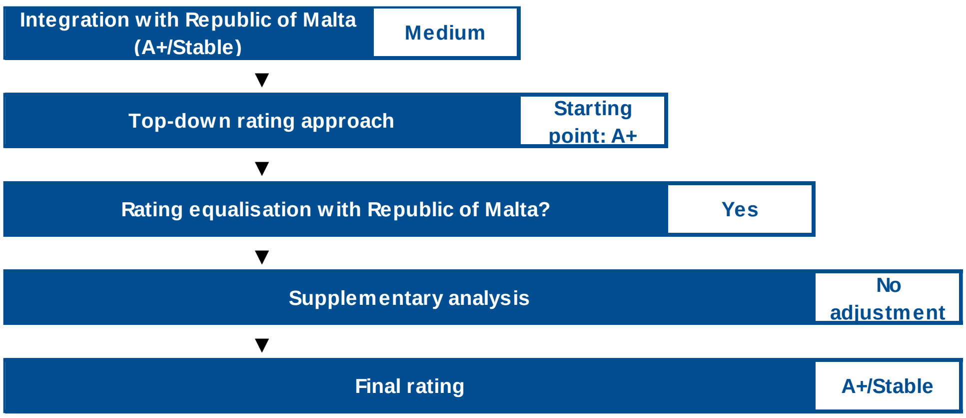
- Elevated tenant and geographical concentration
- Exposure to cyclical industrial sectors
- Elevated debt

Rating rationale and Outlook:

The A+ rating of INDIS Malta Ltd. reflects:

Scope also acknowledges: i) INDIS Malta's high strategic importance as a key government-related entity (GRE) supporting economic and social policies; ii) a supportive legal framework with extensive operational links to the government as well as strong control and regular support mechanisms; and iii) its dominant market position, high occupancy rates and long lease term of its rental agreements, underpinning stable and predictable revenues. 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

The Stable Outlook reflects our assessment that the risks to the ratings are balanced over the next 12 to 18 months.

Positive rating-change drivers

- Upgrade of sovereign rating

Negative rating-change drivers

- Downgrade of sovereign rating
- Change in legal frameworks, weakening links to the sovereign
- Substantial issuance of non-guaranteed debt, leading to a weaker debt metrics

Ratings & Outlook

Foreign currency

Long-term issuer rating	A+/Stable
Senior unsecured debt	A+/Stable
Short-term issuer rating	S-1+/Stable

Local currency

Long-term issuer rating	A+/Stable
Senior unsecured debt	A+/Stable
Short-term issuer rating	S-1+/Stable

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Bloomberg: RESP SCOP

Integration with the Government and rating approach

The state's sole industrial property management entity

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 government related entity (GRE), according to our Government Related Entities Rating Methodology and adopt this methodology for the rating analysis.

'Top-down' approach is adopted for the rating analysis

Under our scorecard, both the Top-Down and Bottom-Up approaches are possible, reflecting INDIS Malta's integration score of 41 with its public sponsor, the Republic of Malta (A+/Stable; see Appendix I, Qualitative Scorecard 1):

- INDIS Malta is a limited company and thus, like other ordinary private sector entities, would be subject to private insolvency laws in a hypothetical default scenario.
- INDIS Malta's activities are conducted on behalf of the Republic of Malta and closely overseen by the Ministry of Economy. The entity 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.
- 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 between INDIS Malta and the Republic of Malta are 'limited' given that its turnover comes almost exclusively from rents and service charges.

We apply the Top-Down approach for assigning the ratings given the high control, regular support and likelihood of exceptional support as detailed in the following sections.

Rating equalisation with the Republic of Malta

Explicit government guarantees underpin rating equalisation

INDIS Malta's rating is equalised with the Republic of Malta"s A+/Stable rating. The Republic of Malta has historically provided unconditional, direct, and irrevocable guarantees for INDIS Malta's financial obligations since the entity stated operations in 2004. As of December 2021, almost 84% of INDIS Malta's outstanding debt benefitted from explicit, unconditional, direct, and irrevocable guarantees from the Republic of Malta. The remaining 16% 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.

Top-Down approach

Top-Down analysis indicates strong ties with the sovereign

Under the Top-Down approach, we start with the Republic of Malta's rating and assess how tight the operational and financial integration of INDIS Malta is with its public sponsor. We consider two main analytical pillars: i) *control and regular support*; and ii) *likelihood of extraordinary support*. Overall, both pillars are assessed as indicating 'high' integration with the Republic of Malta. Our assessments, summarised in Appendix I, Qualitative Scorecard 2, indicate a strong an alignment with the Republic of Malta's credit rating.

Control and regular support

'High' government control and regular support

The first main pillar of the Top-Down analysis is our assessments of the degree to which the Republic of Malta can control INDIS Malta and the degree of ordinary financial support being provided to the entity. Our assessments indicate 'high' control and regular support as follows:

Strong control over strategy and operational policies

First, we assess the government's control over INDIS Malta's strategic and operational decision making 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 for Economy and Industry 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

Second, we assess the government's influence in INDIS Malta's key personnel and governing bodies as 'high'. The Ministry for Economic and Industry 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

Third, INDIS Malta benefits from extensive ordinary financial support from the government to support its activities. 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. In addition, direct public support in the form of explicit and implicit guarantees covering NDIS 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

'High' likelihood of exceptional support

The second main pillar of the Top-Down analysis is the likelihood of extraordinary support being provided by the Republic of Malta for INDIS Malta in case of financial distress. Our assessments indicate a 'high' likelihood of exceptional support as follows:

Strategically important GRE given its policy contributions

First, INDIS Malta's strategic importance for the Maltese government is 'high', reflecting 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 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

Second, we assess substitution difficulties to be 'high' given 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.

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

Meaningful default implications for the Republic of Malta

Third, we consider a hypothetical default on INDIS Malta's liabilities to entail significant reputational and financial implications for the public sponsor. The government's contractual payment obligations due to its guarantees on most of INDIS Malta's debt are macroeconomically relevant, at around 0.6% of GDP. As such a default on INDIS Malta's debt would have tangible reputational and financial consequences. It 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.

Standalone fundamentals

Stand-alone fundamentals reflect balanced business and financial risk profiles

Finally, we perform a supplementary analysis of INDIS Malta's stand-alone fundamentals, including its business and financial risk profile, which largely reflect its public mandate. INDIS Malta presents broadly balanced business risks. The standalone credit profile benefits from its dominant market position, very long weighted average unexpired lease term (WAULT) and high occupancy rates, which provides revenue stability and long-term financial visibility. These factors partially mitigate the risks posed by the entity's limited geographical diversification, high exposure to cyclical sectors and tenant concentration. Stand-alone financial risks balance elevated leverage with comfortable EBITDA interest coverage. Government support in the form of guarantees for the entity's financial obligations further mitigate credit risks.

Supplementary analysis results in no adjustment

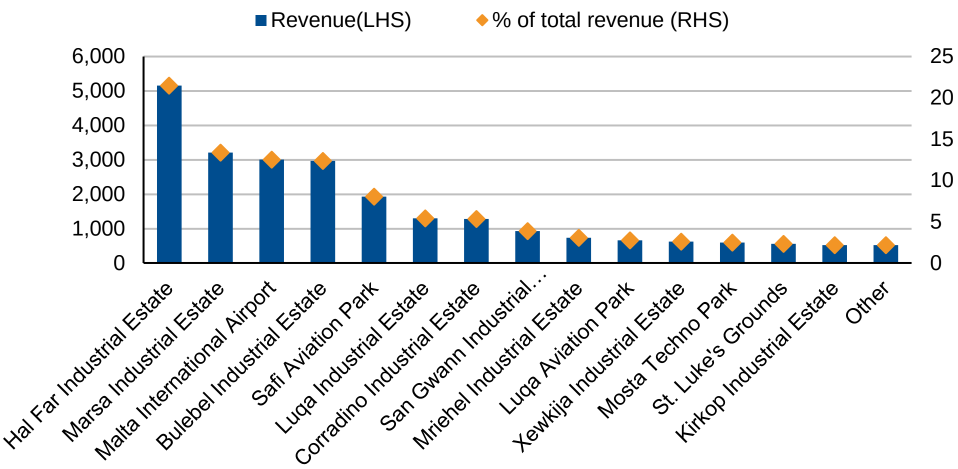
As a result, the supplementary analysis does not lead to additional adjustments to INDIS Malta's credit rating, resulting in the A+ rating.

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 16 main industrial sites covering over 3.4m square meters with close to 1000 tenants (**Figure 2**). 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 property portfolio, 2020
EUR m (LHS); % of total revenue (RHS)



Source: INDIS Malta, Scope Ratings GmbH

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 253.6m as of December 2021. This implies some sensitivity to shocks and higher key person risk. In addition, the entity is exposed to high concentration risks in terms of both 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. Over half of INDIS Malta's tenants operate in the manufacturing sector with major tenants in the aviation industry.

INDIS Malta's relatively small size and geographically constrained operations results in greater exposure to economic developments in Malta and its attractiveness for foreign investors. In particular, the OECD 15% minimum tax rate for large corporations, whose implementation is still in discussion, could adversely impact the country's foreign investment attractiveness and INDIS Malta's ability to find new tenants.

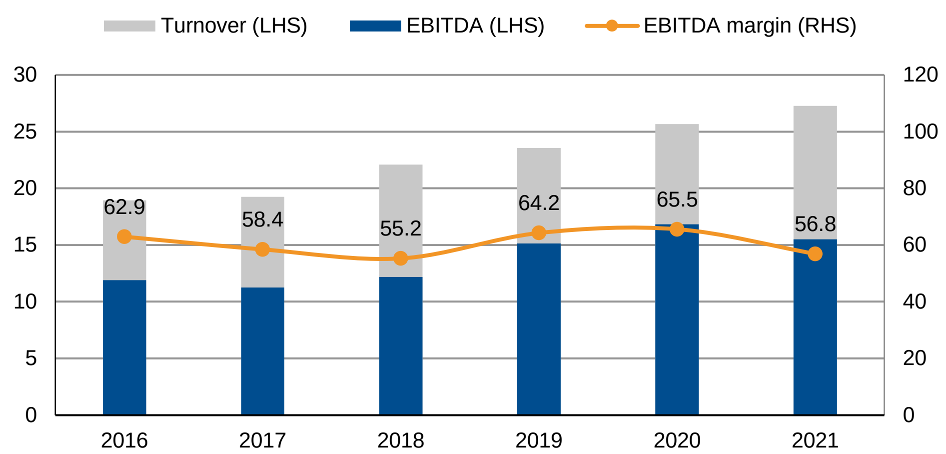
However, sectoral diversification has improved in recent years with target markets extending to non-manufacturing sectors including life sciences, information and communications technology and other knowledge-intensive industries. Moving forward, we expect the share of tenants from these sectors to increase 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, in particular the aviation one, could pose some challenges for its business activity in the coming years, due to the significant vulnerability of these industries to rising energy costs and supply chain disruptions following the escalation of war in Ukraine.

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 which 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 Ministry of Economy.

Figure 3. INDIS Malta's EBITDA margins

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



Source: INDIS Malta, Scope Ratings GmbH

Modest, broadly stable profitability reflects policy role

INDIS Malta's profitability has been remarkably stable in recent years despite the disruption caused by the Covid-19 pandemic. The Scope-adjusted EBITDA margin, fluctuated between 55% and 64% over 2016-21 (**Figure 3**). A dominant market position, high occupancy rates and long lease terms all support cash flow stability. While rent collection and EBITDA margins were impacted in 2020 and 2021, mostly linked to the hard-hit aviation sector, government support measures for the corporate sector cushioned the entity's main revenue streams and mitigated the impact on INDIS Malta's profitability.

EBITDA margins to remain stable in coming years

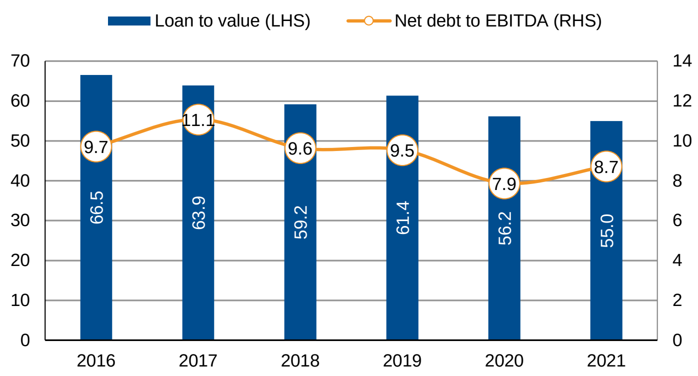
We expect the EBITDA margin to remain stable in the coming years, despite the turmoil caused by the Covid-19 crisis and the recent inflationary pressures. The scarcity of land in the country will support solid demand for INDIS Malta's services and properties, structurally exceeding supply. While INDIS 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.

Financial risk profile

Moderately elevated but declining leverage levels

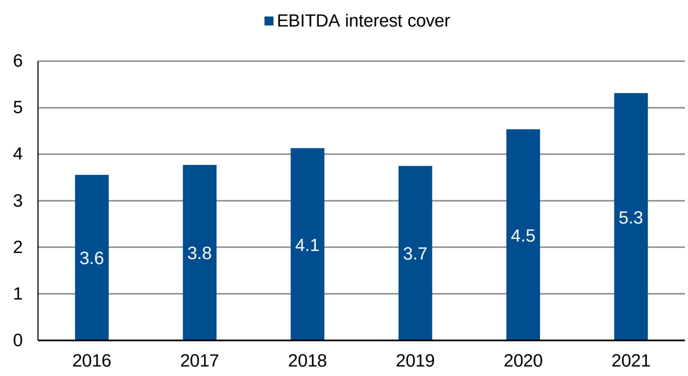
INDIS Malta's indebtedness is elevated. Nominal debt has slightly increased in 2021 to EUR 135.2m from 132.4m in 2020, although remaining below the 2017 peak of EUR 144.4m. At the same time, expanding EBITDA has supported a decline in the Scope-adjusted debt-to-EBITDA ratio to 8.7x in 2021 from 11.1x in 2017 (**Figure 4**). Similarly, INDIS Malta managed to substantially reduce its loan-to-value ratio which has steadily declined to 55% at year-end 2020 from 67% in 2016 thanks to sustained growth in its asset portfolio.

Figure 4. Debt burden
% (l.h.s.); coverage (r.h.s.)



Source : INDIS Malta, Scope Ratings GmbH

Figure 5. EBITDA interest cover
Coverage



Source : INDIS Malta, Scope Ratings GmbH

Favourable debt profile and solid interest cover

INDIS Malta's debt profile is characterised by a high weighted average residual maturity of 16 years, no foreign currency exposures and an average effective interest rate of 1.8%. The entity's debt profile is exposed to interest rate risks given that the majority is floating rate (98%) indexed to the three or six months Euribor, currently at the highest levels since 2009. For this reason, we expect the interest payment burden to increase in the coming years. Importantly, INDIS Malta's debt profile benefits from government guarantees from the Republic of Malta, which covers almost 84% of the entity's financial liabilities. Despite elevated leverage levels, INDIS Malta's Scope-adjusted EBITDA interest cover has improved over the past three years, averaging 4.5x (**Figure 5**), reflecting a low cost of debt.

We expect INDIS Malta's debt to increase over the medium term and the debt-to-EBITDA ratio to deteriorate, as development and maintenance cost pressures persist while interest rates will be substantially higher. However, the debt-to-assets ratio should only moderately deteriorate given the associated increase in INDIS Malta's asset base.

Adequate liquidity position

We consider INDIS Malta's liquidity position to be broadly adequate, although it has moderately weakened during the last year. The entity had EUR 7.6m of unrestricted cash in December 2021, down from EUR 12.9m in 2020, mostly explained by larger acquisitions of investment properties in 2021. Net cash flows from operations typically average EUR 14m but declined to EUR 9.9m last year, reflecting movements in trade payables (-EUR 6m). As such, INDIS Malta's internal cash resources are sufficient to fully cover short-term debt repayments of EUR 9.8m and interest payments of around EUR 3m. Almost all financial debt is long term (17 years average residual maturity) with no debt facility expected to mature through 2027, leading to low refinancing risk in the coming years. Moreover, 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				Pillar assesment
			Limited (1)	Medium (50)	High (100)	Not applicable	
Control and regular support	Strategic and operational decision making	33%	○	○	◉	○	High
	Key personnel, governing & oversight bodies	33%	○	○	◉	○	
	Ordinary 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

	2016	2017	2018	2019	2020	2021
Income statement summary (EUR '000s)						
Turnover	18,096	18,033	20,434	21,763	23,560	24,767
Direct costs	-8,489	-9,092	-10,394	-8,904	-9,780	-12,582
Gross profit	**9,607**	**8,941**	**10,040**	**12,858**	**13,780**	**12,185**
Administrative expenses	-3,056	-3,585	-4,164	-6,019	-5,789	-5,215
Other income	831	1,219	1,647	1,797	2,095	2,500
Operating profit	**7,381**	**6,575**	**7,524**	**6,839**	**10,086**	**9,470**
Fair value gain	0	0	0	0	0	0
Interest income	2	1	15	1	0	0
Interest expense	-3,352	-3,349	-2,951	-4,036	-3,705	-2,916
Profit before tax	**4,031**	**3,227**	**4,587**	**4,601**	**6,382**	**6,553**
Taxation	0	0	0	0	0	0
Profit for the financial year	**4,030**	**3,227**	**4,587**	**4,601**	**6,381**	**6,553**
EBITDA	**11,902**	**11,243**	**12,192**	**15,127**	**16,814**	**15,493**
Balance sheet summary (EUR '000s)						
Non current assets	157,177	169,362	183,673	210,112	214,974	224,980
Property, plant and equipment	121	168	172	579	597	451
Right of use assets	0	0	0	28,306	26,904	26,904
Investment property	115,921	129,847	138,315	145,456	146,998	161,581
Investment in subsidiary	1	1	1	1	1	1
Intangible assets	41,135	39,346	37,558	35,769	33,981	32,192
Loans receivable	0	0	7,627	0	6,493	3,851
Current assets	25,790	36,196	28,087	34,826	33,753	28,602
Trade and other receivables	14,697	18,220	13,659	16,948	20,593	19,170
Tax refundable	272	22	22	22	22	22
Loans receivable	1,675	7,229	1,289	8,224	178	1,871
Cash and cash equivalents	9,146	10,724	13,117	9,632	12,959	7,539
Total assets	**182,968**	**205,559**	**211,760**	**244,938**	**248,727**	**253,582**
Capital and reserves	26,020	28,747	32,834	36,933	42,814	48,868
Share capital	6,047	6,047	6,047	6,047	6,047	6,047
Reserves	6,456	6,739	6,986	6,986	7,171	7,318
Profit for the year	4,030	3,227	4,587	4,601	6,381	6,553
Retained earnings	9,487	12,734	15,214	19,299	23,216	28,950
Non-current liabilities	133,231	153,037	155,427	177,057	169,432	175,383
Borrowings	116,595	127,460	122,109	116,404	109,167	106,919
Long term lease liabilities	0	0	0	26,984	26,032	26,084
Deferred income	16,636	25,577	33,318	33,669	34,233	42,380
Current liabilities	23,716	23,775	23,499	30,948	36,481	29,332
Borrowings	8,217	7,812	8,542	9,042	8,562	8,177
Short term lease liabilities	0	0	0	1,585	1,637	1,585
Trade and other payables	15,499	15,963	14,958	20,322	26,282	19,570
Total equity and liabilities	**182,968**	**205,559**	**211,760**	**244,938**	**248,727**	**253,582**
Credit metrics						
Scope-adjusted EBITDA margin, %	62.9	58.4	55.2	64.2	65.5	56.8
Loan-to-value, %	66.5	63.9	59.2	61.4	56.2	55.0
Scope-adjusted debt / Scope-adjusted EBITDA margin, x	9.7	11.1	9.6	9.5	7.9	8.7
Scope-adjusted EBITDA interest cover, x	3.6	3.8	4.1	3.7	4.5	5.3

Source: INDIS Malta Ltd, Scope Ratings

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