Minoan Group

The tide has turned

15 July 2019

Recent events, notably Greece's switch to a more business-friendly administration after its General Election last weekend, continue to shift the prevailing political and economic winds in Minoan's favour. This result followed the swing to the right in the Regional, Municipal, and European elections in May.

This update provides a very brief summary of the current economic and political backdrop in which the group operates. We intend to follow this with a further more detailed note as the project's value and realisation become more evident.

Hotel & residential development approved in 2017

To recap, the previous Syriza government approved the group's scheme in Crete in 2016, with all appeals cleared in 2017. That followed various approvals from all previous governments. This provided the green light for a projected €250m hotel, residential and leisure development.

However, the current equity valuation reflects the group's long-running negotiations over legal and political issues during a 25-year period, as well as the risks inherent in financing and delivering a substantial scheme. Nevertheless, it appears to discount much of the potential upside when the project begins to be realised.

More stable political, funding and economic outlook

We now see the backdrop to Minoan's plans as more stable, because of changes to various external factors:

- **An improved political backdrop for business and investment post the various election victories by the more business-friendly New Democracy party**
- **More receptive international capital markets, particularly since the start of this year, reflected in a current record low yield on benchmark 10-year Greek government bonds (matching that of the US 10-year Treasury at just over 2%)**
- **The recent performance and relatively stable outlook for Greece's economy. That has been mirrored in the performance of local hotel investment and development markets, and the outlook for tourism generally.**

We set out some of this below and intend to provide a detailed analysis of the company's investment proposition in the next update.

Company Data

EPIC	MIN
Price	2.1p
12m high / low	6.1p / 1.9p
Market cap	£8.7m

Share Price, p

Source: ADVFN

Description

Minoan Group has a long-standing project for a luxury leisure, villa and holiday complex in Cavo Sidero in Eastern Crete.

Roger Leboff (Analyst)
0207 065 2690
roger@equitydevelopment.co.uk

Hannah Crowe
0207 065 2692
hannah@equitydevelopment.co.uk

Improved backdrop

Group in pre-development phase

We anticipate that Minoan will look to secure both local and international partners prior to getting underway. It has already appointed a team of internationally recognised planners, architects and designers. It has reported that it is in discussions to create a JV for one of the five hotel and villa sites, and we understand that other parties have shown interest in recent months.

In the new political climate, these talks are not surprising and we expect this process to accelerate over the coming months.

Minoan's short-term tasks are to complete the legal preliminaries and determine the final shape of the development, whilst it brings partners on board. It is likely to be the partners who do the 'heavy lifting' in terms of the development. In May 2019, Minoan raised c £0.5m net to cover its running and licence costs.

In its last financial year to end October 2018 Minoan reported a post-tax loss of £3.02m (FY17: £2.52m loss) and a significant fall in short-term debt from £6.12m to £1.44m. The Group sold its Travel & Leisure division, partly to pay-down that debt, and has also announced a cost-cutting programme.

Elections: shift to a more business friendly administration

Greece faces a long haul back to respectability amongst international investors, but recent progress is reflected in a reduced (but still high) GDP/Debt ratio and record budget surpluses.

Last weekend's election delivered a more business-friendly, pro-European government. The conservative New Democracy party replaces the left-wing incumbent, Syriza, and plans to use its clear majority in parliament to progress a legislative agenda designed to attract investment. That is expected to include tax cuts and measures to reduce red tape.

Immediate issues include the need for further measures to underpin the stability and liquidity of the domestic banking system, resolution of non-performing loans and successful implementation of economic reforms. The new administration has a stated commitment to improve business competitiveness and fast-track privatisations to attract inward investment and address widespread poverty and high unemployment.

Access to capital markets has eased

Greece's efforts to rebuild its credit rating pivots upon its access to capital markets. Post three bailouts, it owes over three-quarters of its national debt to public bodies such as the European Stability Mechanism and the eurozone bailout fund. Those are long-dated debts, mainly maturing from the mid-2020s onwards, and efforts are being made to restore access to bond markets and improve the credit rating of its sovereign debt such that it qualifies for inclusion in major bond indices.

Yields on Greek bonds have already fallen dramatically over the last few months despite investor caution regarding recent GDP growth vs forecasts. The yield on 10-year debt, at 2.014% immediately after the election result was a new record low. That compared with 4.41% at the start of 2019 and 7.11% 24-months prior to that.

In March 2019, investors placed c €12bn of bids for a new Greek sovereign bond. That helped restore financial respectability after three bailouts by the IMF, the last in mid-2018, and Greece was able to price a 10-year bond for the first time in nine years, raising €2.5bn.

Tourism and hospitality markets are key to sustained recovery

The hospitality sector is pivotal to the Greek economy and despite its resilient performance since the financial crisis, needs to attract broad investment to increase its value, market share and competitiveness vs other global tourism markets. A strategic focus is to transform Greece from a seasonal to an all year-round destination, and attract higher-income tourists, more from outside of the EU and extend demand to secondary destinations.

The country's major tourism destinations (South Aegean, Crete, Ionian, Attica, Thessaloniki and Chalkidiki) have performed well in recent years, and hotel valuations have recovered materially since 2014. Inevitably, the determining factors are location, size and category (star rating). The general stabilisation of the Greek economy has seen a parallel reduction in the country's risk premium, lower debt cost and the perceived risk of tourism development for investors. This has driven recent increases in the value of hotel assets, again focused on destinations most popular with international tourists.

The crisis has led to a continuing process in which the most indebted domestic Greek hotel groups are divesting assets, which in turn is leaving space for international operators to move in. That suits international investors that seek familiar names/covenants which they regard as reliable. This is most apparent in Athens, where existing players such as Marriott and Accor have expanded, and Hyatt has moved in.

Those operators are joining Four Seasons, one of the world's leading luxury hotel operators, which now operates the hotels on the Astir Peninsular, just outside Athens. That is part of €500m investment by AGC Partners in London into a luxury resort there. The overall project will not only include these hotels, but also substantial additional real estate.

We see the above as indicative of **a new business climate and attitude** within the Greek Tourism industry, and an appreciation within the International community that the country's tourism represents long-term value.

For Minoan, **the 'universe' of potential partners, investors and possibly, buyers, has become much larger and more competitive**. In confirmation of this we understand that, aside from those already disclosed, other parties have recently expressed possible interest in the project.

Investor Access

Hannah Crowe
Direct: 0207 065 2692
Tel: 0207 065 2690
hannah@equitydevelopment.co.uk

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More information is available on our website

www.equitydevelopment.co.uk

Equity Development, 15 Eldon Street, London, EC2M 7LD. Contact: info@equitydevelopment.co.uk 0207 065 2690