Minoan Group Plc

2 June 2023

A clear route to realise project value

Minoan has progressively eliminated most of the outstanding issues which have delayed delivery of its luxury resort in Crete. As it builds momentum, the group's newsflow over the next 12-18 months should turn to confirmation of development partners and financing, plus a firm timetable for the construction of its luxury hotel, residential and leisure project, the key planning consents for which are now in place.

High-end branded residence project in Crete

The location for Minoan's planned 'branded residences' is the 6,000 acres Cavo Sidero peninsula site, amongst the largest private estates in the Eastern Mediterranean. The locality includes ancient Itanos and the Toplou Monastery, 28km of coastline, secluded bays and inlets, and an interior of rolling hills and dramatic valleys. The project was granted **unappealable outline planning consent** via Presidential Decree in 2017 as well as the status of being of National Strategic importance (as such, it can receive certain additional benefits/subsidies from the Greek State).

The recent Greek election saw the incumbent government led by Kyriakos Mitsotakis re-elected with a 20% lead over the main opposition party. That was well ahead of opinion poll predictions and the PM has since called a second election for 25 June. That should, assuming a roughly similar vote, deliver a comfortable overall majority for **a business-friendly administration** and provide the group with a supportive investment environment as it embarks on a 12 - 18 months period where the focus will be to materially progress project commercialisation.

Greek tourism is steady and improving

Greek tourism performed well in 2022, despite the challenging global economic backdrop. Strong growth by the country's luxury hotel sector was driven by the return of American tourists and travel receipts from international business travel were **6.1% ahead of 2019** (hospitalitynet.org). US publication Global Traveller awarded Greece the 'Best Tourism Destination' in both 2021 and 2022, and the country has received similar recognition from other US-travel media.

Results' highlights

There are no revenues from the project during the pre-development phase, so there was a £1.07m pre-tax loss for the year (FY21: £0.75m). The increases are from higher debt service and a small rise in operating costs to £0.54m (FY21: £0.51m). End FY22 net assets were £42.7m (FY21: £42.4m).

Minoan shares could be seen to represent an 'option' on the value of the completed project. Some of which might crystalise over coming months in response to any positive news confirming commercial steps, such as partners being agreed for specific components.

NAV is a multiple of the current share price.

Summary financials

Year end 31 October	2019A	2020A	2021A	2022A
Revenue (£m)	0.00	0.00	0.00	0.00
PBT £m)	(0.88)	(2.08)	(0.75)	(1.07)
EPS (p)	(0.61)	(0.20)	(0.14)	(0.16)
Net assets/share (p)	10.1	8.5	7.0	5.8

Source: Group report & accounts

Company Data

EPIC	MIN
Price (last close)	1.15p
52 weeks Hi / Lo	1.3p / 0.8p
Market cap	£8.5m

Share Price, p

Source: ADVFN

Description

Minoan Group (MIN) has outline planning consent at Cavo Sidero in Eastern Crete and intends to build four luxury hotel and villa complexes.

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Project vision

Minoan's plans incorporate up to four separate five and/or six star branded resort complexes, total capacity 1,936 beds. The proposed facilities will include golf, wellness spas and water sports distributed across hotel rooms and residences/villas built to highest quality and environmental standards.

Site Overview

Source: Minoan documents

It has outline planning consent for up to 108,000 sqm, equivalent to a built footprint below 0.5% of the site. Detailed planning/design elements are flexible, but the resort will comprise contemporary architecture, spacious facilities and integration into the natural landscape (see some design images later in this note). The resort includes private olive groves and vineyards, restaurants and bars, shopping and sports facilities. The latter will include a links golf course, tennis club, water sports and beach clubs.

The location is favourable: being less than 30 mins from Sitia International Airport, two hours from Kazantzakis International Airport in Heraklion prefecture. The planned Kasteli Airport due to open in 2025 is 1.5 hours from the project.

Resilient and growing market, focus on Branded Residences

Minoan intends to leverage the resilient performance of Greece's tourist and hospitality market and target the more exclusive, higher value visitor. Transactions involving both Greek and International investors have picked up materially post Covid, international brands have announced development plans and room rates have grown at above inflation. The outline figures set out within the group business plan point to attractive investment returns, despite deliberate use of low end, conservative assumptions.

Cavo Sidero is categorised, amongst other things, as a **Branded Residence** project, which consists of residential property affiliated by design and servicing to a reputable and recognisable brand.

The advantages of brand affiliation include an assurance of high levels of service and design. Minoan intends to create an exclusive product at a quality above that at the top end of the Greek market and Crete specifically. It will be aimed at high-net-worth buyers who will pay a premium for a residence built to an exacting specification.

According to Savills research (Savills Spotlight – Branded Residences – World Research 2022) Branded Residences, as a property sector, **has proved incredibly resilient** in the face of global uncertainty and change. It has continued to thrive and grown by over 150% over the past decade. Global distribution for Branded Residences continues to expand, as brands look for new locations to grow their portfolios.

These projects are the result of intense collaborations between developers and brands over significant periods of time, and branded residence schemes are located across all geographies including global cities, emerging markets and resort locations. They will be built to high specification and promote brand specific lifestyles. With sustainability typically a key element for buyers, developers and brands are implementing measures to mitigate their environmental impact.

Financial update

The key message within the recent results (for the 12 months to end October 2022) was reiteration that Minoan's core vision for Cavo Sidero has now crystallised, which gives it a more certain, clearer route to capture the substantial value in the scheme.

The project is currently at the pre-development stage and provides the group with no sources of revenue. The reported £1.07m pre-tax loss for the year to end October 2022 (FY21: £0.75m) reflects a step up in operating costs at £0.54m (FY21: £0.51m), and higher finance costs of £0.52m (£0.24m). Minoan has received terms to renew the debt and expects to enter into a new agreement.

Net assets at end October 2022 were £42.4m and capitalised project costs (inventories), including acquisition and site development and design costs were £47.4m (FY21: £46.8m). The year-end statement provided an outline timeline and key numbers from the Business Plan prepared, in coordination with Deloitte Financial Consultants:

Timeline	
2023	Hotel Letters of Intent
2023/24	Environmental Permitting (detailed)
2023/24	Financial Partnerships and Project Finance Agreements
2024/25	Final building Permits
2025	Commencement of Construction
2026/7	Commencement of first Hotel Operations
5-7 years	Overall construction period

Source: Minoan results

Strategic focus on construction and commercialisation

Management has sought to establish a credible, robust masterplan and business plan.

It has achieved these objectives and presented its plans to the Foundation. It will now move forward to commercialise the project on the basis of the existing contractual documents, but in parallel pursue negotiations with the Foundation with a view to securing valuable additions.

Key project numbers	
Turnover at maturity (excluding villa disposals):	€160m
Expected gross operating profit margin	>30%
Equity IRR	>20%

Source: Company

These are not crucial to its commercial strategy. Outline projections on the basis of the currently approved development scope indicate revenues of c €160m pa at maturity excluding villa disposals. At standard industry gross operating profit metrics EBITDA would be between 33% and 37%, and according to MIN's business plan, equity IRR is above 20%.

Subject to the usual risks associated with taking any project to fruition, these returns underpin (a) a project value at a multiple of the group's current enterprise value, based upon the existing consent and (b) the stated figure in the audited accounts, which MIN confirms has been corroborated by an independent appraisal.

The figures provide a positive sight of the project's potential, but in Minoan's view are **a conservative view of what's possible**, particularly if negotiations with the Foundation provide flexibility regarding the agreed structure of the development and final scheme.

Negotiations with development partners are underway

The immediate strategic focus is to secure partners for the project development and the year-end statement referred to negotiations with both potential investors and hotel groups. These are undisclosed (covered by NDAs) but will be the main focus of management attention short term. MIN will look to tie-up deals with partners in a buoyant environment for top-end resorts, hotels and villas.

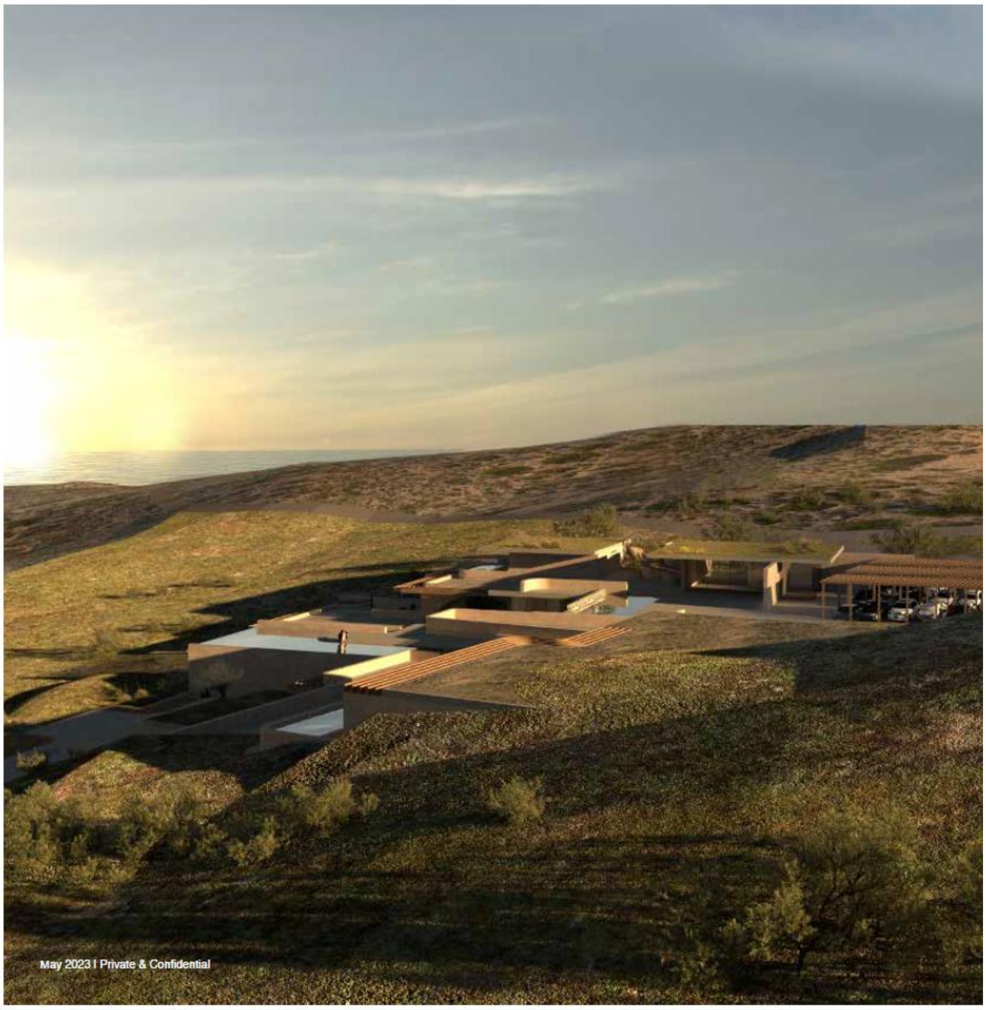
It intends to pursue a number of routes to finance construction. We have been informed that in addition to the above NDAs it is actively engaged in strategic discussions with hotel brands, construction partners and both Greek and international finance providers. It expects a number of these to move towards NDAs and eventual completion.

MIN also believes it will be eligible for Greek grants and qualify for matched EU cash through the recovery fund. Under the latter, EU and commercial loans combined can provide a source of low-cost finance for up to 80% of the full construction expense.

Project location in Crete

Source: Minoan documents

Golf Resort

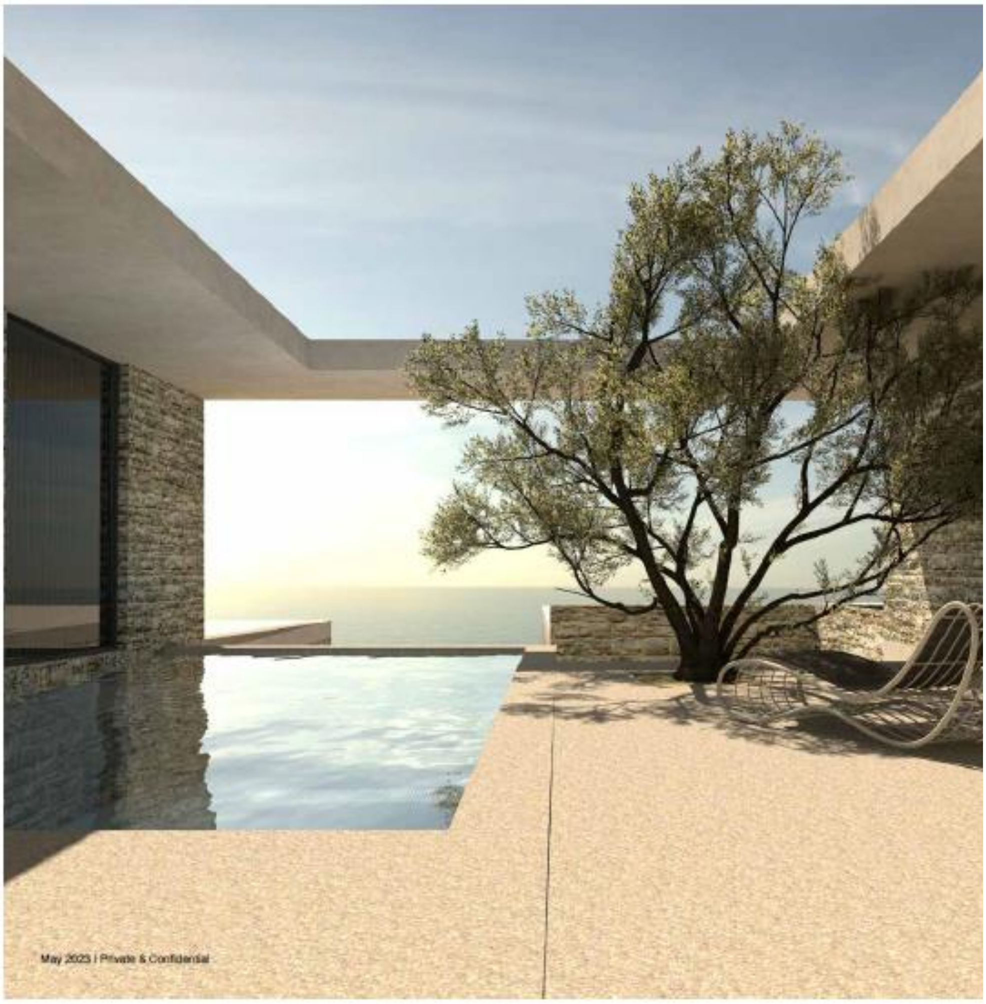


Source: Minoan documents

White Sands Resort

Source: Minoan documents

Grandes Bay Resort



Source: Minoan documents

Financials

Income Statement		
Year to October, £'000s	**2021**	**2022**
Revenue	-	-
Cost of sales	-	-
Gross profit	-	-
Operating expenses	(511)	(541)
Other operating expenses:		
Corporate development costs	-	-
Operating loss	**(511)**	**(541)**
Finance costs	(238)	(524)
Loss before taxation	**(749)**	**(1,065)**
Taxation	-	-
Loss after taxation	(749)	(1,065)
Other Comprehensive income for the year	-	-
Total Comprehensive income for the year	(749)	(1,065)
Loss for year attributable to equity holders of the Company	**(749)**	**(1,065)**
Loss per share: Basic and diluted	**(0.14)p**	**(0.16)p**

Source: Company

Financial Position		
At 31 October, £'000s	**2021**	**2022**
Assets		
Non-current assets		
Intangible assets	3,583	3,583
Property, plant and equipment	157	157
Total non-current assets	3,740	3,740
Current assets		
Inventories	46,758	47,388
Receivables	162	167
Cash and cash equivalents	20	130
Total current assets	**46,940**	**47,685**
Total assets	**50,680**	**51,425**
Equity		
Share capital	19,021	20,321
Share premium account	36,583	36,583
Merger reserve account	9,349	9,349
Warrant reserve	2,571	2,619
Retained earnings	(25,118)	(26,183)
Total equity	**42,406**	**42,689**
Liabilities		
Current liabilities	8,274	8,736
Total equity and liabilities	**50,680**	**51,425**

Source: Company

Consolidated Cash Flow		
Year to 31 October, £'000s	**2021**	**2022**
Cash flows from operating activities		
Loss before taxation	(749)	(1,065)
Finance costs	238	524
Depreciation	-	-
Increase in inventories	(327)	(630)
(Increase) / decrease in receivables	63	(5)
Increase / (decrease) in current liabilities	(514)	370
Net cash (outflow) from operations	(1,289)	(806)
Finance costs	(194)	(476)
Net cash used in operating activities	(1,483)	(1,282)
Cash flows from investing activities		
Purchase of property, plant and equipment	-	-
Net cash used in investing activities	-	-
Cash flows from financing activities		
Net proceeds from the issue of ordinary shares	1,169	1,300
Loans received	328	92
Net cash generated from financing activities	1,497	1,392
Net increase in cash	14	110
Cash at beginning of year	6	20
Cash at end of year	20	130

Source: Company

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