

Statement sets out catalysts for potential rerating

6 May 2022

Minoan's statement for the year to end October 2021 sets out the status of its Cavo Sidero project in Crete, and details of the progress made during the period (and post the year-end) to bring the development towards implementation.

Cavo Sidero luxury hotel & villa project, Crete

The project is a luxury hotel and villa development owned by Loyalward Limited, a wholly owned subsidiary of Minoan Group. The site, in the locality of ancient Itanos in Eastern Crete, comprises over 6,000 acres with 28 kilometres of coastline. The development will house four luxury five-star hotels and villa complexes. Minoan commissioned new studies for the detailed environmental assessment of the project and site during FY21. These underpin a revised masterplan which incorporates a new, more luxurious development that fully capitalises on the asset's 'Strategic Investment' status. Deloitte Greece's financial advisory and specialist hospitality divisions have advised and worked with the Company to produce business plans to reflect this ambition.

This provides the basis for constructive negotiations between the group and its Foundation (the Public Welfare Ecclesiastical Foundation Panagia Akrotirian) partners. These aim to bring the contract and lease agreement more into line with modern practice and confirm the Foundation's views on some of the details of the development. An amended agreement with the Foundation is now the key priority.

Financials & value: perceived risks appear fully discounted

The investment case pivots on potential for Minoan to secure (a) an amended agreement with the Foundation in 2022 and (b) development partners to undertake or partner / purchase discrete components of the scheme's hotels or villas, typical for this type of development.

The results record the expenses incurred by Minoan as it moves the project towards initiation. The equity rating is essentially an option on the latter happening i.e., investor views on future value, discounted for risks implicit in finalising key negotiations, securing partners and finance, and carrying out construction.

The current rating appears to reflect material caution. That primarily reflects the lengthy period taken to get the project to this point. The market cap is both well below end FY21 NAV and unrelated to projected valuations or operating returns from completed hotels or villas. The current business plans forecast, once the resort becomes fully operational, a stabilised turnover for hotel & villa rental rooms above €100m pa which excludes real estate profits. Catalysts for rerating, short term, will be provided by firm evidence that Minoan has navigated key challenges and made the development a reality.

In the immediate term, any revised agreement with the Foundation should prompt a reappraisal of the group's investment appeal.

Company Data

EPIC	MIN
Price (last close)	1.13p
52 weeks Hi/Lo	1.48p / 0.87p
Market cap	£7.6m

Share Price, p



Source: ADVFN

Description

Minoan Group (MIN) has a long running project for a luxury leisure, villa and holiday complex in Cavo Sidero in Eastern Crete.

Summary historic financials

Year end 31 October	2019A	2020A	2021A
Revenue (£m)	0.00	0.00	0.00
Operating profit (£m)	(0.80)	(0.86)	(0.51)
Profit before tax (£m)	(2.08)	(0.87)	(0.75)
EPS (p)	(0.61)	(0.20)	(0.14)
NAV (£m)	42.3	41.9	42.4

Source: Group report & accounts

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Cavo Sidero

Minoan plans to provide detail on all aspects of its plans and thinking on its website, so we set out an outline description here. The ideal investment scenario would see the group complete its negotiations with the Foundation during this year, which would provide scope to secure development partners and potential purchasers for components of the scheme.

The company has also recently strengthened its executive management, notably via the appointment of **George Mergos** to the Board in February. George is a very experienced operator at the highest levels of business and government in Greece and will lead the project as it moves towards development. He is well versed in both complex projects and finance and should have the requisite expertise to pursue and then close negotiations with the both the Foundation and potential commercial / financial partners as the project moves into the development phase.

A completed masterplan has been achieved: with Deloitte's input Minoan re-examined all key assumptions and numbers and formulated new detailed project business plans. The latter has been updated to fully reflect current market potential i.e., an investment environment which remains resilient, backed by a new development law, and receding Covid restrictions. The masterplan and business plans have now been presented to the Foundation. The statement also confirmed that site visits by potential commercial partners have resumed.

Luxury modern resort in Eastern Crete

The group's vision remains to create the best resort in Greece and the Eastern Mediterranean. It intends the Cavo Sidero scheme to offer a new standard for modern tourism and satisfy emerging trends e.g., meet demands for an ability to work remotely. The main planning legislation for the project is the Presidential Decree (PD) issued in 2016. This has been unappealable since 2017 and sets out detailed guidelines which govern the project, including its size (108,000 sqm of built space), environmental terms and conditions.

The project is expected to be a development lever for the whole of the Eastern Crete area. It is a strategically important investment that will enhance the area's development perspective by attracting major international tourism brands to create high specification tourism infrastructure, build the local economy via employment opportunities and endorse model environmental management.

Project at a glance

The Project relates to the construction of the organized tourism resort of Itanos Gaia in Sitia Crete (the Project) and is an investment of strategic importance as it creates financial benefits from a competition point of view and is an example of environmental management and a tourism interest pole.

Brief Project Presentation

-  The Project will be constructed in the Eastern part of Crete on a Site owned by the charitable Foundation Panagia Akrotiriani. The area lies on Sidero Peninsula of 25 square km and a coast line of about 28 km.
-  From the conception of the Project until today, both the regime of the area has changed (such as inclusion in the Natura 2000 network, planning directions, delineation of forestry areas etc).
-  30 minutes away from Sitia airport, 2,5 hours away from Heraklion Airport
-  Allowed building of 108.000 sm, flexibility of design.
-  Today's proposed Project Design provides for the development of 4 luxurious five star (5*) hotel units, of total capacity of 1936 beds distributed in hotel rooms and tourism residences. A basic assumption is that the facilities will be particularly spacious, utilizing the entirety of the allowed building of 108.000 sm.
-  The hotel units of particular architectural design are planned in different locations utilizing the natural landscape and attracting different commercial interests.



Source: Company materials

The new masterplan has been adapted to reflect the way that tourism and hospitality market trends have evolved in the period since 2016. It also incorporates the pandemic's impact. All buildings will be low-rise and consist of mainly, independent units that offer an exceptional high level of privacy.

A deliberately, inherently flexible project design would facilitate changes to the composition of the hotel and tourist residence elements to adapt and evolve in line with market forces.

The reworked masterplan considers three scenarios based upon: provision of hotel rooms/villas exclusively and alternative ratios of hotel rooms and villas operated directly by the hotel; and the disposal of a proportion to (and lease back from) private buyers. Each scenario has specific attractions from both project development and returns perspectives. The chosen approach would also impact group cashflows.

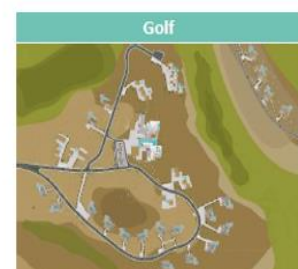
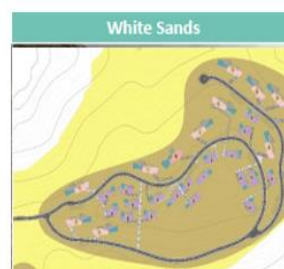
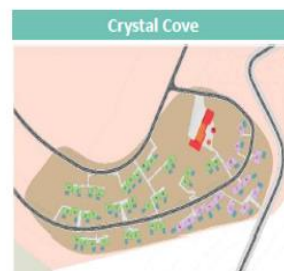
The Group submitted its new masterplan and detailed designs to the Foundation in December 2021. It presented proposals for adjustments to the contract for the lease of the Cavo Sidero site and a full presentation of the Business Plans prepared by Deloitte in March 2022. Amongst these were plans based on principles and documentation which the Foundation set out previously as its preferred basis for cooperation.

Minoan is progressing detailed discussions with the Foundation regarding these and prospective adjustments to its existing contract and other associated legal documentation. It is confident that a suitable structure can be agreed in the near future which would enable it to begin to sign contracts with development and operating partners, obtain final detailed consents, and commence formal site development.

Masterplan Review

The hotel units of particular architectural design are planned in different locations attracting different commercial interests. the aim is to integrate the build volumes into the landscape so that they do not alter the natural Physical shape and contours.

- ❖ An indispensable condition to achieve the preservation, the protection and the promotion of the natural environment has been the choice of a development model of buildings in restricted small area clusters with disperse building so that the technical works for their construction and operation are restricted to the absolutely necessary ones.
- ❖ This model found in many traditional settlements of southern Crete, maybe compared **against the settlements with greater cohesion** (the model of the settlements of northern Crete) that require much greater technical works that diversify and change the natural landscape and contours .
- ❖ the order of the buildings follows the course in the orientation of the contour lines so that they can create a natural route and so that they can look like a line parallel to the soil and to the same direction.
- ❖ in order to adjust and incorporate the constructions in the aesthetics of the landscape it was chosen to create small vertical autonomous volumes with a low coverage rate and restricted height so that they could look like the rocks that make the landscape.
- ❖ A significant parameter is the scale of both the buildings clusters as well as every separate construction. the buildings themselves are small volumes that do not impose themselves on the landscape letting the natural image of the rocky area to be the main one.



Source: Company documents

All models presented illustrate the potential to produce substantial returns. They also incorporate relatively conservative assumptions, as a result of which projected gross operating is profit below the industry standard, particularly in the early years.

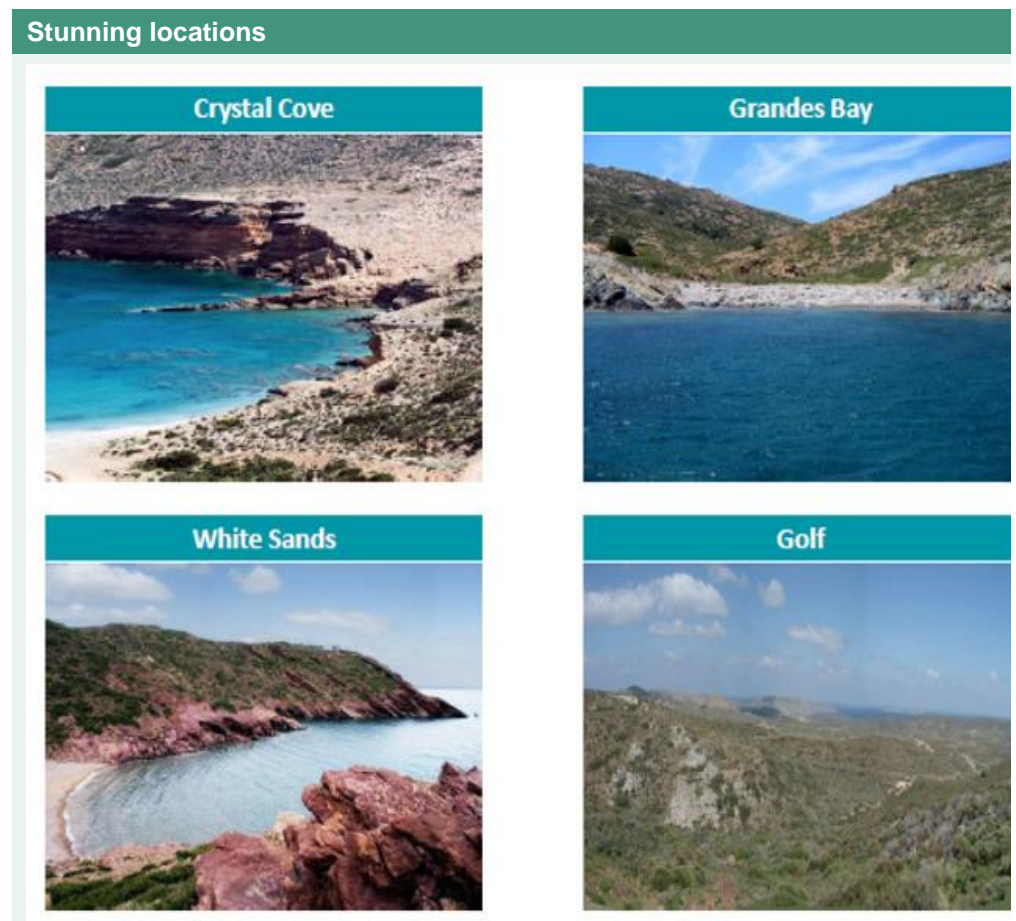
They include multiple risks and sensitivities to illustrate the project's inherent resilience and flexibility. The business plans forecast stable turnover for the operation of the full complement of hotel and villa rental rooms, once the resort becomes fully operational, above €100m pa.

During the period the group also commissioned new environmental assessments for the project and site. These fed into the revised masterplan for the new, more luxurious development in line with its coveted 'Strategic Investment' status.

Additional funds raised

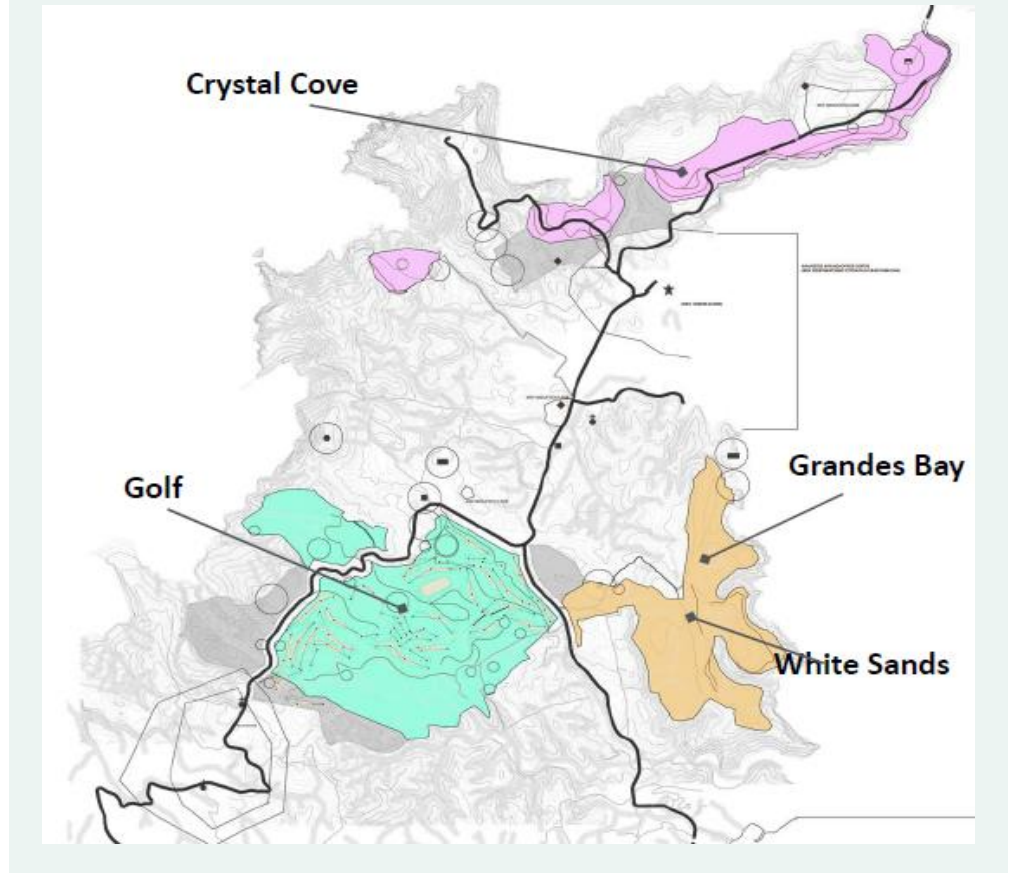
Finally, we note that on the 3rd May the Company bolstered its cash levels by announcing that investors and 3 Directors had subscribed for 52m new shares issued at a price of 1p per share. In addition, 3m new shares are to be issued to settle liabilities. Admission of these new shares is expected to be effective from 9th May 2022.

Cavo Sidero images and maps



Source: Company materials

Closely located



Source: Company materials



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