ALIGN
RESEARCH

Minoan Group

28th December 2018

The end game and long awaited value realisation point at the company's key Cava Sidero project in Crete now looks to be on the horizon for 2019

Minoan Group joined AIM in 2007 to further its project on the Cavo Sidero peninsular in Crete. Amongst other things, holiday makers visit the Greek islands for the relaxed pace of life. Investors have got to admire the stamina and tenacity of the board, led by Executive Chairman Christopher Egleton who, for more than 10 years, has navigated this project through the Greek system to emerge, finally, triumphant in June 2017.

Upmarket resort project designed to be the most sustainable in Europe

This large Crete holiday resort project is being rapidly advanced further through the planning and development process, adding more value. **Management are now sensibly seeking to crystallise the large value that has been created by bringing onboard operational and financial partners.**

Crete has the best climate in Greece and a shortage of upscale resorts

Problems in the sea and sun destinations of Turkey and Egypt have led to record levels of tourism in Crete, which sits far away from the migrant route. The project lies on an unspoilt peninsular which is a unique location in which to build a modern low density upmarket integrated resort.

Travel & Leisure division sold off reducing debt burden materially

With Stewart Travel now sold, leaving just £900,000 of debt on the balance sheet, **the hindrance to a potential outright sale of the company and the prior onerous debt interest burden has now been removed.**

Our conservative valuation suggests an upside of 244%

Peer comparisons provide a conservative valuation. We update coverage of Minoan Group with a very conservative target price of 8.6p, offering upside of 244% and accordingly we reiterate our **Conviction Buy** stance.

Table: Financial overview

Year to end Oct	2016A	2017A	2018E	2019E
Revenue (£'000)	7,317	8,700	-	-
PTP (£'000)	(2,272)	(2,516)	(1,450)	(1,000)
EPS (p)	(1.19)	(1.23)	(0.66)	(0.38)

Source: Company accounts & Align Research

This investment may not be suitable for your personal circumstances. If you are in any doubt as to its suitability you should seek professional advice. This note does not constitute advice and your capital is at risk. This is a marketing communication and cannot be considered independent research.

CONVICTION BUY – Price Target 8.6p

Key data

EPIC	MIN
Share price	2.5p
52 week high/low	8.15p/2.13p
Listing	AIM
Shares in issue	272.65m
Market Cap	£6.86m
Sector	Tourism & Leisure Services

12 month share price chart

Analyst details

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IMPORTANT: Minoan Group is a research client of Align Research. Align Research holds an interest in the shares of MIN. For full disclaimer information please refer to the last page of this document.

Business overview

Minoan Operations

Minoan Group is a resort development company which currently has the following interests:

• **Crete Project** – A project site of 5,500 acres which accounts for most of the Cavo Sidero peninsular on the North Eastern tip of Crete. In all there are 28 kilometres of coastline which is made up of many bays and coves. **The company has gained an un-appealable Presidential Decree which is for outline planning permission for the development of a resort with 108,000m² of build space.**

Crete

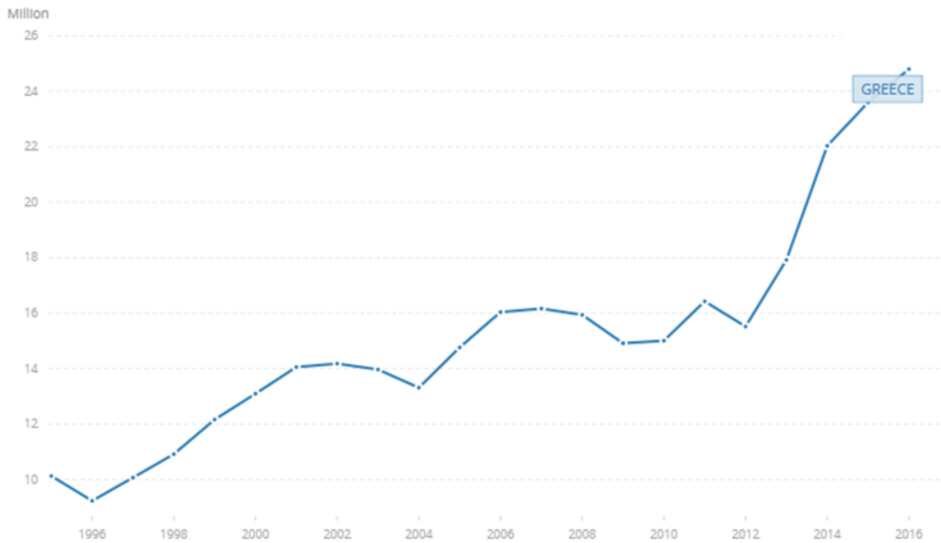
Crete is the largest of the Greek islands, which is about 260 kilometres in length and ranges in width from 10 – 56 kilometres. Most of the island's population live in the central part where Heraklion, the largest city on the island, is located.

Map of the Greek Islands. Source: greekisland.co.uk

Crete has good infrastructure and very good travel connections. In the East they have been improved dramatically by the recently opened Sitia International Airport. The climate is the best in Greece as Crete is the southernmost island. There are more than three hundred days of sunshine a year with summer temperatures averaging 30°C and winter temperatures averaging 12°C. The island of Crete is well-known for its rugged coastline, unspoilt sandy beaches and natural beauty, mixed with archaeologically important sites such as the Minoan palaces at Knossos and Zakros - the latter being close to the Crete project.

Greek tourist market

Greece has always been attractive destination for holiday makers due to its climate and natural beauty. **Over the last twenty years there has been a large increase in the number of international tourists that have visited the country.**



International tourism - the number of people arriving in Greece. Source: World Bank

Greek tourism enjoyed another record year in 2017. Global market researcher Euromonitor International in its country report on travel in Greece (published in September 2017) pointed out that this was due to perceived political stability, along with country being safe and stable. This is in stark contrast to other sea and sun destinations in the region like Northern Africa and Turkey which have experienced well-published terrorist attacks and mounting political tensions.

Greece is also seen to benefit from its expanding airline connections. In 2017 there were apparently more than 150 new air connections and around 6,000 extra flights scheduled to land in Greek airports. Looking ahead, the outlook for tourism in Greece is seen to be positive. Euromonitor's September 2017 report commented that *"… Political stability and security will remain Greece's competitive advantages, while extended air connectivity and constantly developing lodging infrastructure – particularly in the luxury hotel segment – will be crucial in meeting the anticipated increase in demand…"*.

Ahead of the 2017 season, the Greek National Tourism Organisation had forecast that a record 30 million international tourists would visit Greece. Tourism information source CABI suggested that this would represent 7% year-on-year growth, almost twice the global average figure of 3.9%. CABI put this down to Greece really investing in its tourist industry and the destination's improved image overseas.

The Greek Tourism Board, "SETE", is expecting 2018 to be a particularly positive year for Greek tourism. **In March 2018, SETE's President Yiannis Retsos predicted another two million additional tourists would visit Greece based on the number of additional airline seats booked for the summer.**

Background

Minoan Group Plc floated as Loyalward Group Plc on OFEX (now NEX Markets), in September 1999 and changed its name to Minoan Group Plc in June 2005. The company moved to AIM in May 2007, a couple of months after the Greek Ministry of Environment, Planning and Public Works had formally approved the company's Environmental Impact Study (EIS) for the construction of a proposed resort at Cavo Sidero in Eastern Crete. **At that time the company's interest in the site had just been valued at £115 million by Lambert, Smith, Hampton, an international group of chartered surveyors.** On top of that, Minoan had recently signed its first Hotel Management Agreement for its luxury resort with Kempinski Hotels.

In December 2010, the Greek Council of State annulled the Greek Government's approval of the project in its then current form. This was bad news but did mark the end of a period of protracted indecision. Although the approval of the company's application in its original form had been revoked, the board believed that through the process they had come to a better understanding about the nature of specific modifications which the project needed to fulfil. A new Fast Track process for such planning applications had been launched and it was thought that this project would benefit from these changes in the rules.

Whilst waiting for the longer-term development of the resort at Cavo Sidero, the board embarked on a buy and build strategy in the travel and leisure sector to create a brand new division which could help finance the company while it waited to achieve its goal in Crete. In March 2011, the company acquired King World Travel Limited (KWT), an independent travel agent in Scotland, for a total of £410,000 in cash and shares. KWT indeed became the foundation of a Travel & Leisure division and over the following years there were a number of similar businesses acquired.

In March 2012, Minoan announced that an application had been made for the Crete project to be included in the Fast Track process. This refinement of the approval scheme had been designed to facilitate strategic investment projects and accelerate their approval. **At that time, the development value of the project site was reaffirmed to be worth around €100 million, which was a figure that had first been determined by property valuers CBRE in 2011.**

In June 2012, Minoan entered an agreement with The Candia Investment Corporation to create a financial joint venture concerning the Cavo Sidero project. In exchange for investing up to £2 million cash, later agreed at £1 million, Candia earned a 5% economic interest in the project, **a move which established a value of £20 million for the project without planning consent.**

Palekastro: The Minoan period town in the area

In September 2012, the project was granted Fast Track status by the Greek Government. Despite the support of the government and local people, this decision was appealed against but this appeal was later withdrawn. There was news in November 2013 that the project was to be assessed under Article 24 of the amended Fast Track Laws which would allow Minoan to submit its Strategic Environmental Assessment (SEA), the approval of which was seen as being equivalent to being granting of outline planning permission.

In March 2016, the company was able to announce that the Presidential Decree (PD) granting land use approval for its project in Crete had been issued. The decree had been published in the Government Gazette and at that time the planning rules for the Project were then enshrined in law. All government decisions in Greece are subject to appeal and they are common. So, it was little surprise when appeals were lodged against the PD. The announcement of the company's final results in March 2017 also brought news that the Greek media had reported the dismissal of appeals against the PD**. The decision of the Court went onto confirm this speculation when, in June 2017, the company received the decision that gave Minoan an un-appealable PD and outline planning permission for the project.**

The Travel and Leisure division had supported the company well during these years when the outcome for the project was uncertain. However, now the situation has been resolved for good, the board has made the decision to entirely focus attention on crystallising the full value that had been created at the Crete Project for the benefit of shareholders. This policy led to discussions beginning towards the sale of the Travel and Leisure division which were concluded late summer 2018, being finally sold for a headline figure of £6.56 million and leaving the Group with £900,000 of debt.

Operations

Minoan is now solely focused on the prestigious leisure resort site in Crete which has outline planning permission for a major destination resort after having just recently sold the Travel & Leisure division.

Crete Project

Crete is the largest Greek island and a popular tourist destination in the Mediterranean. Greece is a member of the EU and the Eurozone with a well-established tourist market. Crete is the single largest tourist destination in Greece by a long way and isolated from the migrant route. With problems in Turkey and Egypt, there is high demand for upmarket hotels in the more traditional resorts of Spain, Portugal and Greece. There is a real shortage of high quality hotels in Greece, which has only one integrated resort.

Cavo Sidero Peninsula. Source: Company.

After years of delays due to the slow pace of official decision making in Greece and procedural appeals by third parties eventually shown to lack merit, in Summer 2017, Minoan gained an un-appealable Presidential Decree, which can be described as an outline planning consent for the development of a resort complex on a 5,500 acre site on an unspoilt peninsular in the North East of Crete. In essence, this is a private Cretan estate and the largest such site in the Eastern Mediterranean. This site covers most of the Cavo Sidero peninsular and in total there is some 28 kilometres of coastline, which is made up of numerous bays and coves.

Year	Progress
1998	Contract for long lease equivalent of 5,500 acre site ratified by Greek Government
2007	Planning Consent granted for original project
2010	Consent lost on appeal
2010	“Fast Track” system introduced by Greek Government
2012	Smaller project granted status of “An Investment of Strategic Importance” under Fast Track rules.
2016	Outline Planning Consent granted by means of Presidential Decree
2017	All outstanding appeals dismissed by Supreme Court. Outline Planning Consent un-appealable

History of the Crete Project. Source: Company

Trophy site

There is little doubt that this site is a real trophy asset due to its picturesque location, size and the fact that it has remained unspoilt for years as has been owned by the church. **The consent allows for the construction of a luxury resort which lies just 14 kilometres away from the new international airport at Sitia. The company owns a 95% stake in the project, with the remainder owned by investors involved in shipping and real estate.**

Location of the Crete Project and its proximity to Sitia airport. Source: guide-billig-billeje.dk

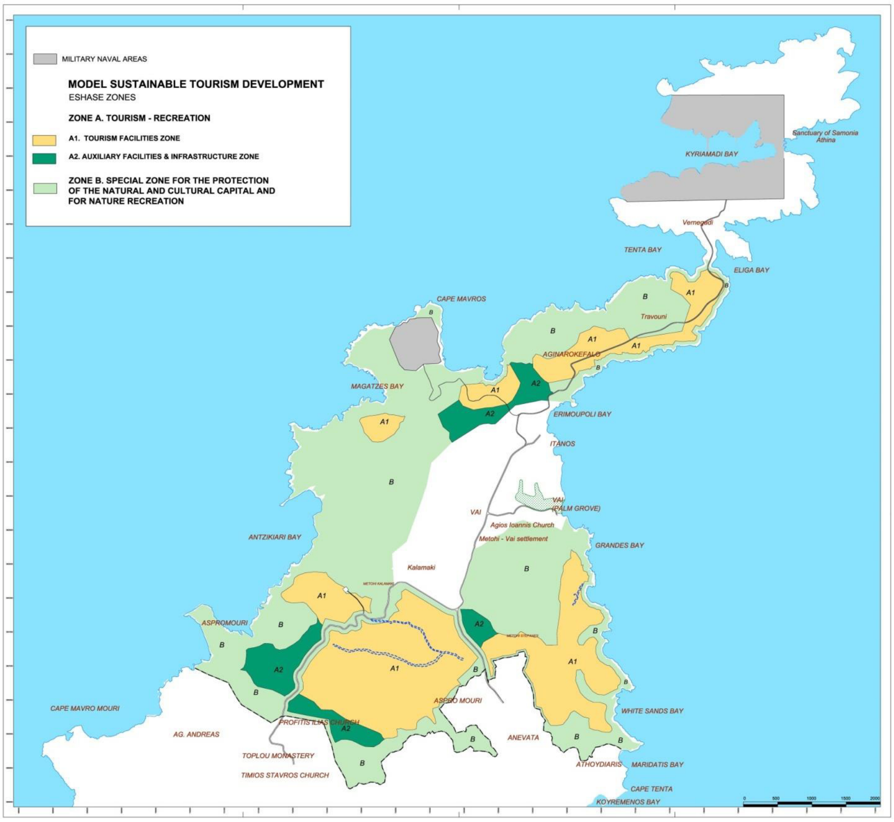
Crete has a long and rich history and the remains of more than a dozen Minoan towns and palace complexes have been found on the island. The Cavo Sidero site itself is the location of the 15th century Toplou Monastery or Monastery of Panagia Akrotiriani (Virgin Mary of the Cape) which is dedicated to the Panagia (Virgin Mary) and St. John the Theologian. Historians consider Toplou to be one of the most significant monasteries in Crete.

One of the inner courts of the Toplou Monastery and ruins at the Cavo Sidero site. Source: Company

The development is planned to be a series of upscale small to medium sized luxury hotels. Minoan is seeking to maintain this very unique ecosystem by adopting the highest environmental standards along with bioclimatic architecture, where building design takes into account the climatic and environmental conditions to ensure that inside is thermally comfortable (such as the use of natural ventilation or mixed-mode ventilation). All of this will make the resort a highly attractive destination for both wealthy guests and villa owners.

Development

The PD gave consent for all tourism land uses including "complex resorts", providing overall planning approval for more than 108,000m² of built space, which equates to 1.2 million square feet, split between five main locations. This built space is set to be designed to blend into the natural surroundings and to remain largely invisible to the casual observer. The Development Zones cover 2,200 acres, which is 40% of the area of the site. The surface area of Zones A1 and A2 totals 8.9 million m² and the build footprint is less than 0.5% of the total site. Luxury hotels are allowed anywhere within Zone 1, whilst hotel facilities and the accompanying infrastructure are permitted anywhere within Zones A1 and A2. Zone B represents a managed area in the control of Minoan to protect the pristine landscape.

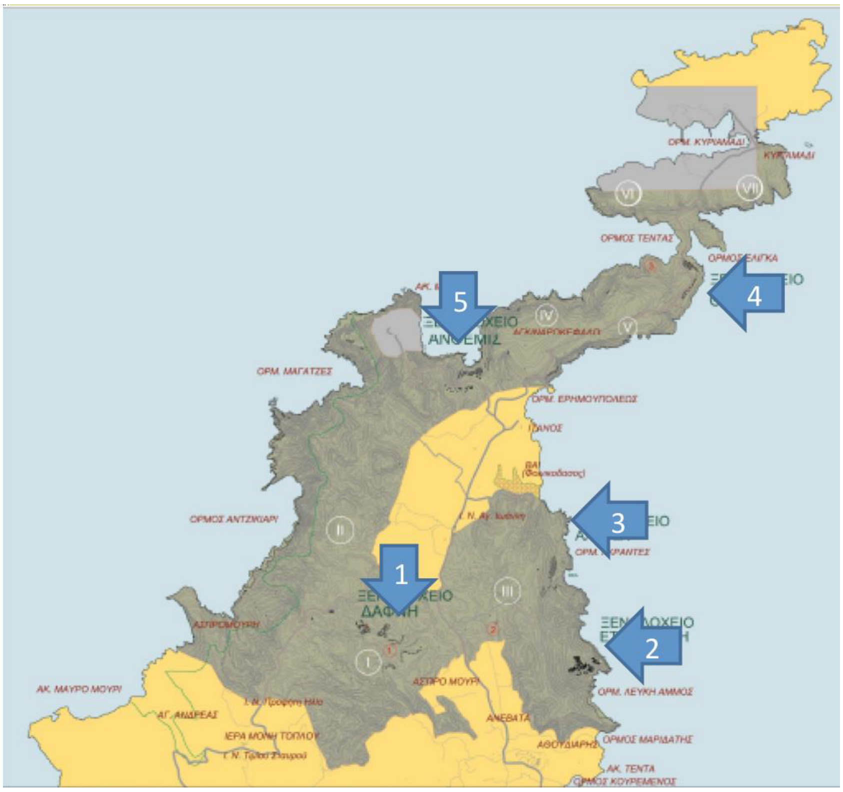


Development zones at the Crete Project. Source: Company

Minoan intends to develop a highly environmentally friendly site with major operating and financial partners. **The resort will represent a new level of luxury on Crete in that it will be completely 5 and 6 star accommodation.** There is planned to be a mix of luxury villas and apartments rather than tradition large hotel buildings for two reasons. Firstly, this is the mix of accommodation that has been found to most appeal at upscale developments. Secondly, apartments and villas can be sold/long leased to potential individual buyers of holiday properties thus reducing the capital required to build out the project and optimise the return on equity.

Cavo Sidero Peninsular. Source: Company

Although 108,000m² of build space is permitted under the PD it is subject to architectural designs which could allow the actual build to be up to 40% larger than the permitted area, an additional 10% is allowed for energy saving buildings, up to another 20% for semi open area and 10% more in mezzanines. On top of that, the lower ground floor space is not included in the allowable build space. As the freehold is owned by a Church Foundation Minoan owns a long leasehold interest of 80 years, based on the legislation at that time. **However since then the law has changed which should allow Minoan to gain a longer lease e.g. for 99 years.**



Five locations chosen for hotel. Source: Company

Build cost

Minoan has estimated that the construction of the project is likely to cost in the region of €200 – 300 million depending on the exact mix of villas, apartments, hotels and other leisure facilities such as the golf course. It is worth noting that within the original requirements of the agreement with the Toplou Monastery Foundation (the body which granted the lease) a minimum of €250 million needs to be invested at the site within ten years of activating the contract. Construction costs in Greece for luxury hotels suggest the total cost is likely to be more towards the top of this range.

County	Budget hotels €/m²	Mid market-low €/m²	Mid market – high €/m²	Luxury €/m²
Bulgaria	690 - 810	810 – 1,010	1,000 – 1,210	1,530 – 1,930
Greece	1,060 – 1,270	1,520 – 1,660	1,910 – 2,350	2,640 – 3,230
Italy	1,520 – 1,770	1,670 – 1,920	1,870 – 2,220	2,220 – 2,840
Portugal	970 – 1,220	1,120 – 1,320	1.370 – 1,730	1,470 – 1,990
Spain	1,010 – 1,760	1,510 – 2,010	2,010 – 2,760	2,510 – 3,520
Portugal	820 - 930	880 – 1.110	1,000 – 1,660	1,110 – 2,190

Hotel construction costs. Source: EMEA Hotels Monitor August 2017

Looking at other resorts that are being developed in Greece gives a useful insight into the build costs, financing models and construction time scale. Dolphin Capital Investors (LSE:DCI) is an investor in high-end residential resorts in the eastern Mediterranean and in November 2017 announced it had entered a partnership agreement with Kerzner International Holdings to development the One&Only Kéa Island resort in Greece. This development occupies a site of 65-hectares (160 acres) which is set to be developed into one of the finest resorts in the Mediterranean comprising of 75 ultra-luxury One&Only suites, spa, beach club and leisure facilities. In addition, there will be a number of ultra-luxury One&Only branded residences available for sale. Kerzner and Dolphin Capital are expected to invest a total of €150 million in the construction of the luxury hotels and residences.

Conveniently close to Athens lies the Astir Palace Vouliagmeni resort, which has been redeveloped over the last couple of years. In December 2015, Jermyn Street Real Estate Fund (JSREF) acquired the Astir Palace Resort in southern Athens for €400 million. The planned redevelopment program at this 75 acre resort site consists of the Arion hotel, which has 122 rooms (including 20 suites), whilst the Nasika Hotel comprises of 132 rooms (including 22 suites) and the building of 13 luxury residences (for a total build of 2,880m²) following the demolition of the closed Aphrodite Hotel. In late-2016, the total project value including the redevelopment has been reported to be €600 million, which suggests a €200 million build cost. These examples seem to suggest that there are some economies of scale in building such large projects that might come into play.

Financing

Minoan is now at the stage of searching for suitable operating and financial partners to develop the Crete Project. There are various combinations of partners that could satisfactorily work to achieve the goal of having the construction work fully funded. This means that the financing solution is not restricted to just a single large investor. Under Greek legal terms the company has been granted outline planning permission for “complex resorts”, which allows Minoan (and its future partners) to sell up to 60% of the space that they build - the luxury villas and apartments. It is likely that the hotel component will also be designed as a set of integrated luxury villas and apartments, which means that any of these units could conceivably also be exploited individually.

The largest demand for such properties if sold/leased individually is likely to be buyers from Northern Europe, mainly the UK, Germany and Scandinavia. However as the examples of the Astir Palace and Kea Island Resort projects illustrate significant financing from the Middle East, South Africa or other regions outside of Greece might be attracted to large segments of the project.

Vai Palm Forest and beach is a popular destination in Crete. Source; Company

It is probable that a large proportion of the 60% of luxury villas and apartments that will be designated to be exploited will be leased back to the hotels with the owners getting use of the room for 4-6 weeks a year, which is the standard model, as well as benefiting to some degree in the revenue that the property generates. The operational and financial partners that Minoan will be bringing onboard will need to be committed to spending the €200 – 300 million that is necessary to build this upscale resort. However, the maximum borrowings (or peak funding requirement) are likely to be substantially lower, which might open up the project to a larger group of potential partners/investors.

One of the major benefits of the Crete Project being a "Strategic Investment" under the Fast Track system is that there are significant financial incentives available which includes: grants, tax holidays, and soft loans. Some of these grants for smaller projects can cover more than 30% of costs, however for a development of the size of Minoan’s Crete Project, it is thought that this might serve to increase the level of profitability by at least 10%.

The previous development plans formulated for the Crete Project in 2007 centred around a 7,000 bed resort. It was not quite as luxurious and had a total construction cost of €600 million which was going to be 100% debt funded. Being able to sell off the villas as residential properties and the timing of these funds being received by developers meant that the maximum borrowings in cash flow projects apparently came out at under €70 million. In the current scheme the infrastructure development costs represent a higher percentage of the overall construction budget as it is a smaller development**. Using the same sort of analysis suggests that the maximum borrowings are probably in the range of €40 – 50 million for the new plan**.

A lot can be learnt by looking at the basis of the agreement between Dolphin Capital and Kerzner over the development of the now badged One&Only Kéa Island resort in Greece. Firstly, Kerzner is investing €16 million into the resort project, which gives them a 40% stake. In this move, existing shareholders Dolphin and Exacterea International will see their holdings reduced from 67% to 33% and from 33% to 16.7% respectively. The investment agreement requires that the resort be redesigned to meet the standards of the One&Only brand, a revision of the construction permits and a €30 million senior loan facility against the project to be put in place along with a turn-key construction contract. In November 2017, these conditions were expected to be met by the end of April 2018.

However, the One&Only Kéa Island resort agreement might not be the normal sort of deal as by and large hotel chains do not usually invest in building hotels (unless they are in a major centre like London where high occupancy rates are assured). Their business model tends to involve providing their brand and management in return for 2-3% of turnover plus around 8-10% of gross operating profit. Branding is important for attracting business, but it does come at a cost. Greece has come late into the modern hotel industry and it is probably because domestic operators were not prepared to accept these sorts of terms as they did not fully appreciate the sort of improved returns that such deals could generate.

Timing

The view of the board seems to be that such a development in the UK would take eighteen months and so the suggested timescale for a Greek island is two years after grant of building licences. This time period looks in line with the two examples that we have been discussing.

The redevelopment of the Astir Palace Vouliagmeni saw the acquisition completed in December 2015 and subsequent press reports have suggested that the resort would re-open in early 2018, which suggests a period of just over two years. The conditions attached to the investment agreement for One&Only Kéa Island resort were expected to be met by the end of April 2018, with the resort planned to be ready for the 2020 season, also suggesting another two-year building period.

Agreement with the Church

This eastern end of Crete does look like a wonderful location for siting a low-impact, upscale holiday resort. It is a very unique location and the land is unspoilt because it has been owned by the Toplou Monastery for centuries. At the same time the site is so large that there will never be the fear of building encroachment by other developers. The Toplou Monastery Foundation is a charity and the funds raised from the development of this site will be used, inter-alia, to help local people and to provide scholarships and other things for educational purposes and to provide the establishment of care homes for the elderly.

The historic agreement with Toplou Monastery Foundation consists of a number of elements. Minoan has to pay an initial £5 million, of which £1.1 million has already been paid leaving a further £3.9 million will need to be paid on activating the master lease. In addition, on selling on any of the subsequent leases on the newly built villas and apartments there is a fee of 10% of Minoan's net profit on each dwelling. In addition, the Foundation is due a 10% share of the gross revenue for the hotels (i.e. excluding property sales). Also, in the ten years following activation, the company must invest at least €250 million at the site.

Strategy for growth

After years of dealing with Greek bureaucracy and legal challenges, management can now set about crystallising value from the resort development opportunity at the Crete Project**. It does look as though the next eighteen months could see liquidity events that have long been expected.** It was only in July 2017, when the board had the official permission in writing, that proper discussions could begin with possible partners to help in financing such a large project.

It has to be pointed out that the size of this site makes the Crete Project a rarity in the Eastern Mediterranean and consequently very attractive, especially when considering the consent and the approvals granted for the development. In Crete, by and large tourist development has been mainly aimed at the mass market. However, there is some well-known high end development, mostly around the fashionable village of Elounda in the Prefecture of Lasithi, the Eastern most point of Crete. As Euromonitor pointed out, Greece needs to develop its lodging infrastructure, particularly in the luxury hotel segment and so this project should fulfill an as yet unmet need. **It is for all these reasons that Minoan is likely to be able to attract major, well-respected, operating and financial partners.**

A complete disposal of the project, or a situation in which a third party takes a 50% plus stake in either Minoan Group Plc or its subsidiary company, would require the permission of the Toplou Monastery Foundation. **This suggests that moving ahead any deal done is likely to be some form of a joint venture on the project not least because of the valuable relationships the company has with the Foundation and now within political and business circles in Crete and Athens**.

The company's team in Greece have gained a lot of respect for being able to win the un-appealable PD and overcome other legal and procedural obstacles on the way. The un-appealable planning permission was the first such success for a non-Greek company and it is pretty rare for even Greek entities to achieve. So, joint venture partners do not want to lose such precious skills, especially as this team has established good relationships with the necessary government departments. These skills could well be very useful in helping to further develop the Crete Project along with other planning matters in the country.

There a number of possible scenarios concerning the partner in the joint venture. It could either be a big financial partner who would want full control and/or a managing partner which would undertake an investment in the infrastructure but then work jointly with Minoan to access the financing for the hotels. **Whatever joint venture deal is negotiated, the company will be seeking to retain a reasonable stake, have a free carried interest, have non-dilutive protections in place, as well as a material cash payment.** Most importantly, such a deal will serve to allow an undisputable value to be placed on Minoan's interest in the Crete project as it currently stands and the growing value as the development plans and financial solutions are put in place as the project advances towards the construction phase, the launch of villa sales and the opening of the resort.

Under the Fast Track permission, up to five hotels are allowed. It is most likely that the partners will seek to build three hotels and an annexe. The two flagship hotels are planned to be 5 or 6 star.

In 2007, when the company was last at a similar stage, the team reached an agreement with Kempinski and Six Senses. Kempinski is the well-known 5 star luxury hotel operator whilst Six Senses is a luxury 5/6 star hotels, resorts and spas group which is synonymous with a unique style. These two leading luxury hotel operators were chosen for different reasons. At the time Kempinski was selected as it had a database of 1.5 million people who were interested in purchasing Kempiniski branded holiday property. Six Senses was chosen because it managed a very good villa operation where properties were selling at around €8,000 – 10,000 per m², double the price that Kempinski charged. Today, there is a broader range of potentially interested luxury hotel partners for Minoan to choose between, especially with such an attractive and unique resort development opportunity to offer.

The buyers of the luxury villas and apartments are expected to mainly come from the UK, Germany and Scandinavia. In the past the purchase of such villas has traditionally been funded by a local mortgage for 60%, a second mortgage on the buyer's own home of 20-30% and the remainder as a cash deposit. The market for holiday properties in Greek did stagnate in the early years of the decade as, following the Greek banking crisis, and which stemmed from the 2009 economic downturn, there was no money available for mortgages locally and the government instituted capital controls for individuals wanting to take money back out of Greece. At the same time, second mortgages became more difficult to gain from Northern European banks. **However, for the first time in a few years, buyers can now get mortgages and the rates for second mortgages in the UK and Germany remain at attractively low levels. In addition the capital controls are being slowly relaxed any will likely be abolished by 2019.**

There are likely to be some boardroom changes to ensure that the top management has the right skills set to be able to accelerate the process of realising value from the Crete Project. The company has already appointed an experienced corporate adviser with a good knowledge of the Greek market and is also seeking to appoint an International Real Estate Advisor. These are both seen as key appointments in seeking to maximise the outcome from the project for shareholders. Following the disposal of the Travel and Leisure division, the company has a well-defined path to crystallising the value that has been created and there could be healthy news flow over the next eighteen months and beyond as the various important element slot into place.

We believe that Minoan is currently at an exciting period in its growth story. There are a series of potentially highly positive developments over the coming months and years which could allow the company to bank some of the large value that will further be created for the benefit of shareholders.

Financials & current trading

Operational revenues to date have come from the Travel & Leisure division, which was developed to provide some diversity and near-term cash flow in the company away from the longer-term development project in Greece. The company has invested in this division to support the resort project, but in March 2018 it was announced that this division would be sold. On making that decision, that business was treated as discontinued in the accounts, so there is no revenue shown for 2017.

Y/E 31 October £'000s	2013A	2014A	2015A	2016A	2017A
Revenue	9,217	5,932	6,816	7,317	8,700
Pre-tax profit/loss	-1,150	-1,036	-1,620	-2,272	-2,516
Net profit/loss	-1,172	-1,036	-1,620	-2,272	-2,516

Minoan Group five-year trading history. Source: Company accounts

2017 results

Financial results for the twelve months ended 31st October 2017 included the results of the travel business and showed continued growth. Disposing of the Travel & Leisure division will allow management to focus all its efforts on delivering the value that has been created in the Crete Project to shareholders. This is a job that the board believed would be far easier to achieve without having to carry the current level of debt.

During the year operating expenses increased by 23% to £0.48 million, but corporate development costs were 15% lower at £0.504 million. The net profit of the travel business was £488,000 and shown as discontinued operations. The loss after tax came out at £2,516 million and included in this figure was a charge of £186,000 which related to share-based payments and non-cash finance concerning warrants issued in association with the Hillside loan to the amount of £459,000.

Recent developments

In March 2018, the group updated shareholders on the corporate strategy and the developments in Greece. **The board was able to report that an exclusivity agreement had been signed with a preferred buyer of the Travel & Leisure division and the due diligence process had begun. The Directors were able to point out that under the heads of terms agreement the disposal would leave the group substantially debt free.**

In Greece, the board reported that the property market was beginning to show signs of recovery, not only in the retail market for villas and apartments but also in terms of tourism assets. The Directors were able to point out that a number of deals were now in progress for tourism assets, with prices being achieved that were substantially ahead of previous expectations.

Moving ahead, the company is now focusing on its Crete Project and had recruited an experienced corporate advisor with a good knowledge of the market in Greece to help in this process. At the same time, additional detailed site studies have been commissioned to help move the project forward and enhance the value.

The company was also able to announce recently that an approach had been received from a creditable (credible?) third party which was interested in acquiring a significant stake in the project. With the market capitalisation at a then 70% discount to the net asset value of £43 million, the Directors thought that debt financing was more appropriate and at that time suggested the possibility of a small debt funding issue.

In October 2018 management finally announced the completion of the sale of Stewart Travel for the headline sum of £6.56m. After the settlement of inter-company loans Minoan owes £900,000 to ZAH accruing interest at 10% p.a and being redeemable in March 2020. As part of the deal, Minoan further supplied and revised the terms with ZAH of the warrants over the company and that now that sum to a total of @ 59m shares being equivalent to approx 21.5% of the issued equity at strike prices of 2.5p and 3.5p (the majority, 51.7m being at the 3.5p price).

Risks

Country risk

Greece is seen as a safe and stable country but the political situation was quite turbulent during the Greek-government debt crisis triggered in 2009 and the subsequent successive rounds of tax increases between 2010–16. Capital controls were also established which meant at one stage only €1,500 pcm could be taken out of the country.

Lying between Europe, Asia and Africa, Greece shares its border with Albania, Bulgaria, Macedonia and Turkey. There has been a long troubled relationship with Turkey, but since Greece joined the EU in 1981 the country has been working hard to improve its relationship with its northern neighbour.

Timing risks

Holiday makers visit the Greek islands for the climate, natural beauty and the relaxed pace of life, which also extends to government departments and the legal process. Minoan has already been subject to years of Greek bureaucracy and legal wrangling, which served to greatly prolong the process of gaining the necessary permissions for developing the Crete Project. Even though the company now has an un-appealable PD, there are further steps in the planning process before construction can begin that will need further government approval, which might not be achieved in a timely fashion.

Legislation and taxation risks

With the tourism market booming in Greece, the government might seek to share the benefits with the wider economy by changing policies and restructuring the tax treatment of hotels and restaurants. Such a move could serve to reduce valuations in the sector.

Exchange rate risks

Movements in the value of currencies will have an effect on the company's accounts on translation from euros into pounds. Fluctuations in the value of the euro against sterling may have an effect on the valuation that Minoan is awarded by the UK stock market.

Future funds

The equity fund raising market for small cap companies may have improved over the past two years but can continue to prove to be difficult. Some recent fund raising exercises in the small cap arena have seen share prices being undermined by incoming investors demanding substantial discounts to provide the necessary capital.

Board of Directors

Christopher Egleton - Executive Chairman

After qualifying as a Chartered Accountant and a subsequent career in the City of London in merchant banking, Christopher spent a period of six years with The British Land Company PLC. He then became Chief Executive and founder shareholder of Beckenham Group Plc, a small industrial group which was floated on the Third Market in 1987 and subsequently moved to the Unlisted Securities market in 1989. Christopher relinquished his major executive role in relation to that group in 1991 and retired from the group in 1993. From the late 1980's he was the major shareholder in Pentex Group plc, a UK oil exploration and production company. Christopher realised the bulk of his investment in Pentex Group plc between 1994 and 1995, immediately prior to its flotation, and since that date has concentrated on a number of private business interests but principally that of the Minoan Group, which he joined in 1995.

Grahame Cook - Non-Executive Director

Grahame is a Chartered Accountant who has held a number of senior executive positions. These include most recently his role as Chief Executive at WestLB Panmure, until 2003, where he was responsible for all global functions and the expansion and development of WestLB Panmure's business. Prior to this he spent three years at UBS as a Managing Director where he was on the Global Investment Banking Management Committee. Grahame was also a Director of Barclays de Zoete Wedd. He was a founding member of the London Stock Exchange techMARK Advisory Council and currently holds various other Non-Executive positions.

Barry Bartman - Non-Executive Director

Barry is a specialist in corporate finance and business strategy. After qualifying as a Chartered Accountant in 1965, he worked primarily in corporate finance at Coopers & Lybrand, N M Rothschild & Sons and The British Land Company PLC. He has worked as a consultant for many years with a number of major banks and institutions as well as many private and listed industrial companies. Barry has held various Executive and Non-Executive Directorships/Chairmanships, including Finance Director and Non-Executive Director of Signature Restaurants PLC, where he was involved in the refinancing and growth of the business via acquisition. As senior Non-Executive Director, Barry negotiated the management buy-out of Signature Restaurants led by its Chairman, Luke Johnson. He acted as a consultant to the Minoan Group from May 2005 until he joined the Board in 2006 as Finance Director. Barry became a Non-Executive Director in March 2014.

Timothy Hill - Non-Executive Director

Timothy is a former Director of the Project Management Division of WT Partnership (which provides services to Minoan), one of the largest consultancies in construction in the world. He has more than 30 years international construction experience in Europe, Africa and Asia and has worked either as a designer and/or project manager on a variety of commercial, industrial and governmental projects, specialising in hotel and leisure developments. Relevant projects include the Pine Cliffs golf resort in Portugal, the Pemberton resort in St Thomas in the British Virgin Islands, St James beach hotels in Barbados and the Sandyport Marina Development in Nassau, Bahamas. Timothy joined the board in 1993.

Forecasts

We initiate coverage of Minoan Group with forecasts for the financial years ending 31st October 2018 and 2019. For 2018 we see the sale of the Travel and Leisure division being concluded, which is estimated to leave the company virtually debt free and so reducing financing costs considerably. In the period before this division is sold, we estimate that profits of £250,000 will be recorded from T&L. The group pre-tax loss for the year is determined to be £1.45 million, which equates to a loss per share of 0.66p.

For 2019, we forecast higher operating costs but with no financing costs. The pre-tax loss is calculated to improve to £1.0 million. The number of shares in issue is assumed to rise due to options and warrants being exercised along with shares to be issued to settle certain liabilities and loans. The loss per share for this period comes out at 0.38p.

Year End 31 October (000's £)	**FY2016a**	**FY 2017a**	**FY 2018e**	**FY 2019e**
Revenue	-	-		
Cost of sales	-	-	-	-
Gross profit	-	-		
Operating expenses	(389)	(480)	(500)	(1,000)
Other operating expense:				
Corporate development costs	(595)	(504)	(600)	-
Charges related to assets held for sale	-	(650)	-	-
Credit/(charge) in respect of share-based payments	24	(186)	-	-
Operating loss	(960)	(1,820)	(1,100)	(1,000)
Finance costs	(1,341)	(1,184)	(600)	-
Profit from discontinued operations	29	488	250	-
Loss before taxation	**(2,272)**	**(2,516)**	**(1,450)**	**(1,000)**
Taxation	-	-	-	-
Loss after taxation	(2,272)	(2,516)	(1,450)	(1,000)
Loss for year attributable to equity holders of the Company	(2,272)	(2,516)	(1,450)	(1,000)
Loss per share attributable to equity holders of the Company: Basic and diluted (p)	(1.19)	(1.23)	(0.66)	(0.38)

Source: Company/Align Research

Valuation

Minoan undoubtedly has a trophy asset with its Crete Project. **We have sought to value the asset by looking at valuations that have been awarded to other hotel and resort developments in the Mediterranean.** Peer comparisons are seen to be a useful and creditable yardstick by which to derive an informed valuation of the project which reflects the true state of the market for holiday resort sites in Greece. **From the outset, we should point out that our valuation tends towards being conservative.** Below, we set out the analysis on which the valuation is based.

In 2011, at the time of the Fast Track application which successfully led to the granting of the Presidential Decree, property specialists CBRE valued the project on a development appraisal basis at around €100 million. CBRE reaffirmed that valuation in 2012. **In the latest presentation, the board is suggesting a mid-range valuation for the Crete Project of €65m and a corridor of €55m-95m.**

The peer comparisons we have chosen are two resorts in Greece which are being transformed into upscale developments and where acquisitions were made in recent years. These are a site on the Island of Kéa and the Astir Palace Resort at Vouliagmeni.

Island of Kéa

Dolphin Capital Investors (LSE:DCI) is an investor in high-end residential resorts in the eastern Mediterranean. Dolphin was a 67% share holder in a resort on Kéa Island, in the Cyclades archipelago in the Aegean Sea. In November 2017, Dolphin announced that it had entered a partnership agreement with Kerzner International Holdings to development the One&Only Kéa Island resort in Greece.

One&Only Kéa Island resort in Greece. Source: Europe Real Estate

The site for the resort lies on a 65-hectare (160 acres) beach front site on the west side of Kéa Island. Kerzner agreed to invest €16 million for a 40% shareholding in the resort project, to be used in the development of the resort. This level of investment suggests a valuation for the entire project of €40 million. The intention is to develop one of the finest resorts in the Mediterranean which is planned to comprise of 75 ultra-luxury One&Only suites, spa, beach club and leisure facilities. In addition, there will be a number of ultra-luxury One&Only branded residences available for sale.

Astir Palace Vouliagmeni

In December 2015, an Arab-Turkish property fund called Jermyn Street Real Estate Fund (JSREF), managed by AGC Equity Partners, invested €393.1 million for an 88.5% stake in the Astir Palace Resort in southern Athens, valuing the resort at €444 million. The story goes back to January 2013 when the original invitation of interests occurred. In February 2014, JSREF was chosen as the winning bidder having trumped a Greek/Saudi group which had bid €280 million. Generally, the resort was thought to have been worth €150 – 250 million at the time but attracted a high level of interest because it represents such a stunning site covering a peninsular, which has been dubbed the Athens Riviera.

Astir Palace Resort at Vouliagmeni. Source: Greek Travel Pages

The resort was sold by international tender for the privatisation and re-development of the Astir Palace Vouliagmeni, a 75 acre site located on the Attica Riviera which is 20 kilometres from central Athens. When the resort was acquired, it comprised of three existing hotels – Arion Resort, Westin Hotel Athens and the former Aphrodite Hotels. The Arion Resort and Spa had 123 rooms, whilst the Westin Hotel Athens had 162 rooms. The Aphrodite Hotel had been closed down with a then 165 rooms. Following the program of redevelopment, the resort was planned to consist of the Arion Hotel (122 rooms), the Nasika Hotel (132 rooms) and 13 luxury residences built on the site of the to be demolished Aphrodite Hotel.

The Astir Palace Vouliagmeni site already had hotels (4 star) in operation, facilities and other infrastructure. To attempt to determine a value for the site without the existing hotels etc we have assumed that the three hotels had a combined build area of 60,000m² (based on knowing that the Aphrodite hotel had a total build size of 20,027m²).

In attempting to derive a valuation for the site with planning permission with no existing hotel development for comparison purposes, we have undertaken the following analysis. We have taken a discount for the cost of constructing 4 star hotels (by reference to the hotel building costs outlined earlier on in this report) choosing to use a figure of €1,750 per m² in an attempt to estimate the cost of replicating the hotel construction and infrastructure that is already on the site. Based on the figures mentioned above suggests that the site alone might be worth €444 million less €105 million (60,000m² at €1,750/m²) or €339 million. As pointed out earlier, at the time of sale the resort was generally thought to have been worth €150 – 250 million. Repeating the same analysis using a conservative mid-range figure of €200 million, less €105 million, suggests a valuation of €95 million.

Selected valuation

Greece has a shortage of high quality hotels and only one high quality integrated resort in the country and so there are limited peer comparisons available. Both the resorts compared are far smaller in overall size at 164 and 75 acres compared to Minoan's vast 5,500 acre site**. This is an important consideration as although they cannot be built more extensively than the outline planning dictates, it does offer the real scope for Phase II and Phase III developments in the future.**

Unlike Crete, Kéa Island is not a well-known holiday destination and is only reached by a ferry from Lavrio, which lies half an hour outside of Athens. **In contrast, Crete is a renowned holiday island and the recently opened Sitia International Airport already enjoys flights from twelve European cities.** The resort at Kéa Island will have around 30,000 square metres of built space compared to 135,000 for Minoan's so its recent valuation of €40 million seems to serve as a real base case valuation for Minoan's project. However, Minoan's project looks to be a far superior site for a number of very obvious reasons including: size, build density, transport links.

The determined conservative valuation of the site of the Astir Palace Vouliagmeni provides a current top of the range value. Although this has been exceedingly pared down from the valuation at which JSREF acquired the resort, this just shows the upside potential that feverous bidding for a trophy asset can generate. The Greek property market has had its problems and there was a slump 2-3 years ago, but recent news seems to confirm that the hotel real estate market has bounced back strongly and prices are probably no worse than they were in 2013. **Minoan obviously monitors the prices in the Greek hotel real estate market and reports that prices are 75% - 100% higher than in the slump. It cites the recent sale of a Greek 5 star hotel (3½ stars international) that in the slump would have been valued at €50,000 per room but was recently bought by TUI Partner at a price of €102,000 per room.**

The price we have selected to use in our analysis is the average of the price of the resort at Kéa Island (€40 million) and our determined conservative price for the value of Astir Palace Vouliagmeni, which produces €67.5 million (£59.2 million). This figure suggests a well-warranted premium valuation to the Kéa Island resort site as well as providing a nod towards the substantially higher valuation of Astir Palace Vouliagmeni deal.

Minoan valuation

	Valuation £ million
Crete Project (95%) at £59.2 million valuation	56.2
Cash	0.5
Debt (post disposal of the Travel and Leisure division)	Nil
Total	**£56.7m**
Per share (272,659,442)	**20.8p**
Fully diluted basis	
Additional funds brought in re warrant exercises	**£2m**
Total (fully diluted)	**£58.7m**
On a fully diluted basis (341,240,452)	**17.2p**

Source: Align Research

Minoan has a 95% interest in the Crete Project and based on our conservative valuation of £59.2 million this equates to £56.2 million at current exchange rates. **On the current fully diluted basis (341,240,452), the valuation per share is 17.2p.**

Worked example

Elements	**Space/costs etc**	**Assumptions**
Permitted build	108,000m²	Under the PD
Actual build	135,000m²	Subject to architectural designs which allow the actual build to 30 - 40% larger than the permitted area.
Units sold	€360.5m	On a conservative basis, it is assumed that 60% of the built square metres are sold (ie 81,000m²). For a normal up market 5 star (a good Kempinski or better) it would be upwards of €5,000/m² whilst a boutique super luxury 5 star could be much higher). Over 2/3rds of the properties at the Crete Project will have really good sea views and access with the others on and around the golf course with more distant sea views. An average figure of €4.500/m² has been chosen.
Fractional ownership	€182.2m	Half the sales could be fractional ownership where the jv partners could gain an additional revenue of €4,500/m². Based on 40,500m² of fractional ownership.
Total sales	€542.7m	
Build cost	€270.0m	Given the mix of accommodation - 2 flagship hotels and a 4 star golf hotel, a build cost of €2,000m² has been used.
Initial fee	€4m	Fee to be paid to the Toplou Monastery Foundation on activating the contract.
Lease fee	€19.8m	On granting the leases on the villas and apartment leases there is a fee of 10% of the joint venture partners' net profit) on each dwelling to be paid to the Toplou Monastery Foundation. In theory, fractional is not a sale. However, to be conservative, we have worked out the profit after deducting 60% of build costs (ie €162.0m) which suggest a profit of €198.5m. At 10%, €19.85m would need to be paid.
Sunk cost	€55.0m	£48.25m (€55.00m) comes off the profit
Profit	€193.9m	
Value of hotel	€172.5m	Operating hotels using around 600 units, EBITDA would be expected to be more €15m pa. Good hotels in Greece appear to be fetching 11-12 x at the moment, which would indicate a value for the residual of about €172.5m at 11.5x EBITDA.
Sunk cost	€55.0m	£48.25m (€55.00m) is part of Minoan's value at the end
Grants etc	€19.4m	Additional 10% for grants, tax holidays and soft loans.
Selling costs	€10.0m	To be conservative.
Total	€430.8m	
Minoan's share	€129.24m £113.37m	Assuming Minoan retains a 30% stake in the joint venture.
Per share	**41.6p**	**218,516,775 shares**
Fully diluted basis		
	£4.5m	**Full dilution would bring in £4.5m of cash from warrants**
Total	**£117.87m**	
Fully diluted	**34.5p**	**341,240,452 shares**

Source: Align Research

The company is currently at an exciting stage in its development and substantial value has already been created that the board is now seeking to crystallise. The board is working hard alongside a growing team of specialist Greek advisers to bring in creditable operational and strong financial partners. The terms of the joint venture agreements with these partners will allow for a proper market valuation to be placed on the Crete Project and Minoan's stake.

On the previous page, we have provided a worked example to show the sort of value that might be created for Minoan shareholders if the project proceeds as a joint venture and where the company was able to retain a 30% stake. This illustrates succinctly the magnitude of returns that could accrete to shareholders as the project progresses.

Conclusion

We know that the Crete Project is a trophy site and there are few such opportunities today in the Med. The vast size of this untouched site and the low build density does provide the real possibility of Phase II and Phase III developments at a later stage, which must be in the minds of all potential partners.

With all this going on, and bearing in mind the most recent comments in Dec 2018, specifically – *"The Directors and management of the Group are progressing the Joint Venture and Partnership discussions in respect of the Company's project in Crete (the "Project") referred to in recent announcements..."* we now anticipate an update on this in the first quarter of 2019. There is a multitude of potential scenarios that could play out from a part sale to wholesale exit and distribution thereof of the proceeds to shareholders through to an outright takeout.

As the table on the previous page illustrates, however we splice and dice the current market cap with the pared down debt burden, the discrepancy relative to peer valuations for the asset is glaring. At the current price of 2.5p per share we expect positive news on Cava Sidero to deliver multi-fold returns relative to shareholders. The only caveat here is that the Board have had a record of delayed delivery and many market participants are sceptical of a final value realisation event. This has been a long time coming for shareholders but we are confident that management will, finally, deliver this in 2019.

Cognisant of the current stock price and the difficulty management would likely have in obtaining a takeout that is multiples of this stock price notwithstanding the inherent value in the Cretan asset, we accordingly ascribe a new price target of 8.6p - being half of our deemed fundamental value. We stress that this is purely as a consequence of the current depressed sentiment in the stock and in being realistic as to how a potential acquisitor of the entire company would work. **Conviction Buy.**

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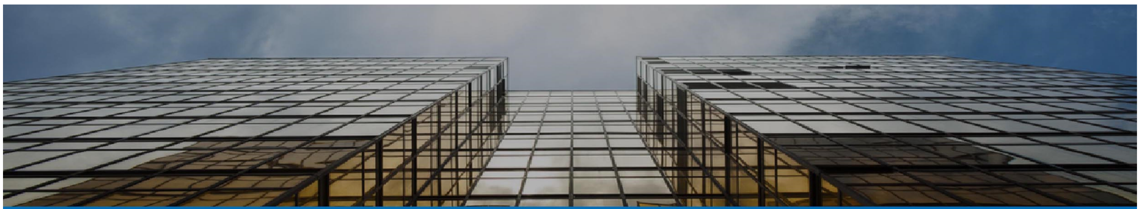

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