Country	Company	Company Update			
Malta	**Fortytwo Group**	Events			**New Bond Issue** **FY 2014 Annual Results**
Sector	Date	**S&P**	**Moody's**	**Fitch**	Credit Opinion
Telecommunications	**23rd February 2015**	NR	NR	NR	**Neutral**

Company Information

42 Group Limited is a company set up in Malta. Operations started in Sweden, in 2001 under 42 Telecom AB as an established telecom operator. To date, the company still holds a fully-fledged mobile network operator (MNO) licence. The Group's business operations were relocated in Malta in 2010. The headquarters of the Group are situated in Malta with presence in Sweden, Singapore and the United Kingdom. The operations of the Group are largely divided between Fortytwo Telecom ("42 Telecom"), Haud Systems Ltd ("Haud") and Fortytwo Marketing.

Business Background

The Group's operations are consistent with those of an A2P (application-to-person) global bulk SMS aggregator, carried out through their proprietary SMS gateway. Essentially this involves selling bulk SMSs to organisations, which would use the SMSs to deliver information e.g. a bank to confirm a withdrawal. The success of the Group, to date, was primarily due to its ability to identify 'grey routes' through which SMS could be sent at no or a minimal cost. The bulk SMS market is now shifting towards 'white routes' which require the Group to enter into termination agreements with the MNOs. The Group also plans to introduce OTT (over-the-top) messaging service that will enable it to deliver messages over the internet at a lower cost as opposed to a mobile network. In the longer term, the Group also plans to introduce a M2M (machine-to-machine) product offering. This will involve a technology that allows connected devices and systems to communicate with other devices and systems, creating a network of things.

As a spin off from 42 Telecom's bulk messaging technology, the Group developed Haud, a security and fraud detection solution offered to mobile operators seeking to better control their routes for incoming and outgoing traffic and monetising A2P traffic in the process.

The Group is currently seeking to raise funds to be able to sustain the growth envisaged in the Group's bulk SMS operations including the launch of OTT and M2M services in the next few years and the rapid expansion of Haud. In particular, Haud's operations require substantial capital expenditure relating to customer premises equipment, which would need to be installed at MNOs, as well as expenditure related to business development.

Fortytwo Telecom

• 42 Telecom AB Sweden was incorporated in 2001 and holds the Group's MNO licence.
• 42 Telecom Limited Malta was registered on 9 July 2010. This company focuses on the A2P bulk SMS termination globally through its proprietary SMS gateway.
• 42 Telecom UK Ltd was incorporated on 20 July 2010 while 42 Telecom Singapore was incorporated more recently, on 18 July 2014 to oversee of the Group's operations in this region.

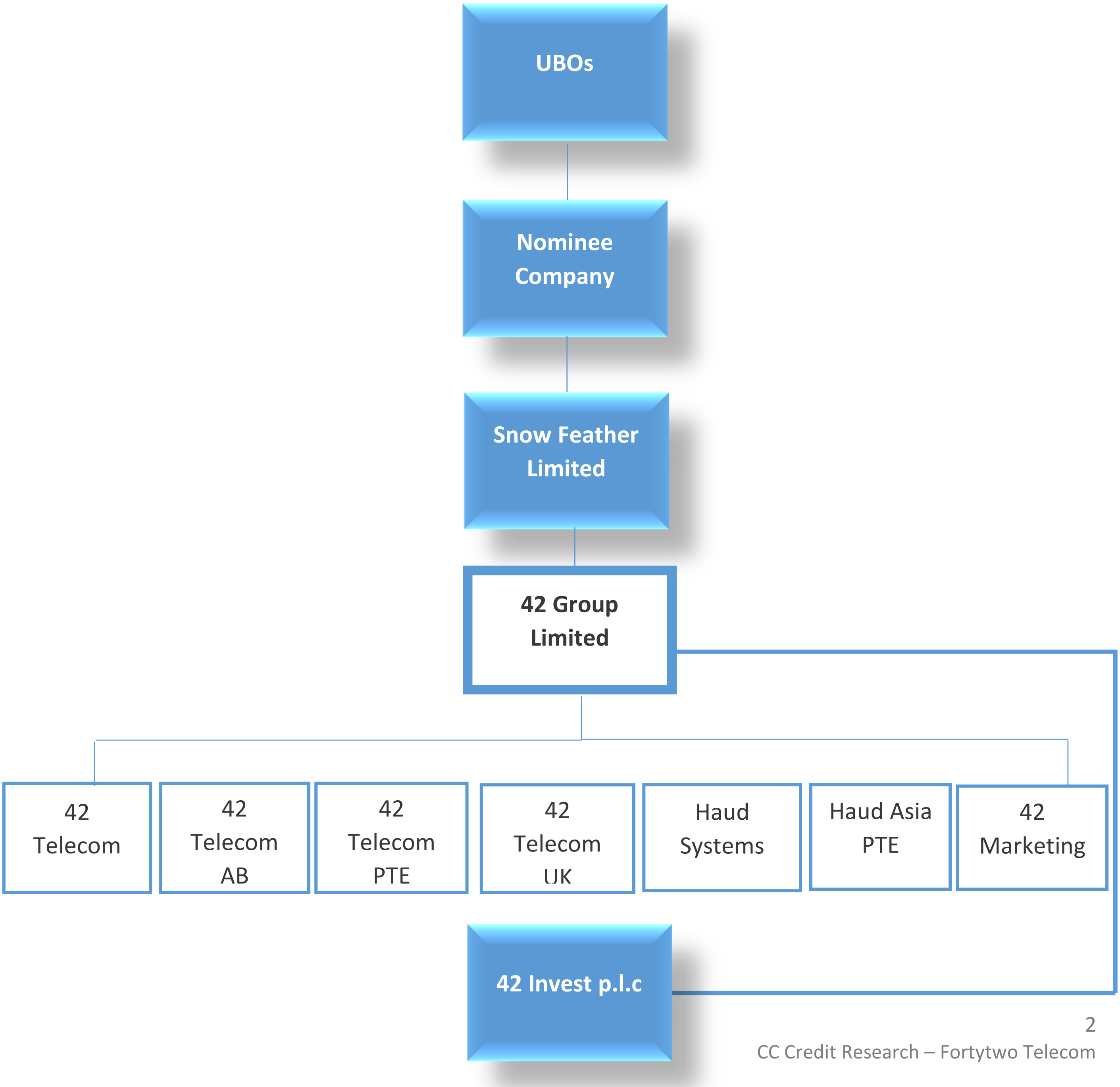
Haud

• Haud Systems Limited Malta is focused on the development of a comprehensive set of filtering techniques providing MNOs SMS firewall solutions as well as other network elements for mobile network operators while Haud Asia PTE is the regional office overlooking the operational aspects within the region.

Fortytwo Marketing

• 42 Marketing Limited Malta is a company incorporated on 30 September 2011. This company is the vehicle used for the purpose of developing and promoting a minor operation within the Group which is that of a web based SMS marketing tool called MESSITO.

Shareholder Structure



SWOT Analysis

Positives

- The company operating in a very large growing market
- Management has a detailed business plan in place for both Telecom and Haud
- The group has a dynamic management team which is focused on the company's direction
- Development product (Haud) is witness to the management's ability to stay ahead of the game by anticipating market changes and benefiting from them.
- Management was very conservative in its projections, which leaves elbow room for shortcomings
- Although off-balance sheet, the company may resort to sell parts of its software (mainly Haud) in order to meet its financial commitments

Concerns

- Relatively small market share, 0.02% of the overall industry
- Changes in technology and market trends
- Future revenue driver, Haud, is a start-up business
- Highly leveraged capital structure
- Weak balance sheet
- Highly dependent on workforce
- Current main revenue under threat as MNOs seek to monetise traffic currently passing through 'grey routes'
- The company's success is dependent on future events and is exposed to a large amount of execution risk

Would provide comfort

- Share capital injection to shore up the company's balance sheet
- Tangible signs of revenue growth

Would add risk

- Changes in foreign legislation and regulations
- Brain drain following employee departures
- Swift change in telecom sector causing an adverse market
- Significant increase in competitors

Market Analysis

42 Telecom's solutions services major mobile network operators, financial institutions, social networking websites, OTT providers and governmental organisations. Through 42 Telecom's proprietary A2P messaging system solutions, the Group acts as an international messaging gateway for its clients. A2P messaging system can transmit a large amount of SMS traffic allowing users to keep in touch with their customers directly through their mobile phones, wherever they may be located. A2P messaging is a service whereby SMSs are sent from an application to a mobile subscriber (the end user/ individual). These SMSs can also be two way, that is sent from the mobile subscriber to web allocations, known as person-to-application (P2A) messaging. The common uses of A2P SMS are notifications, alerts, marketing messages and flight alerts. A2P SMS applications are widely used in banking and financial services institutions, tourism, ecommerce, healthcare, entertainment and so forth. A2P SMS is preferred over the other content delivery mediums, such as emails and messenger apps, as it allows senders to have a ubiquitous platform to mobile users through a medium which has very high engagement. It connects over geographically dispersed recipients with ease. End users (subscribers) are reached irrespective which mobile network they are subscribed to at a much lower cost than other content delivery mediums.

42 Telecom's A2P SMS Service

42 Telecom's proprietary solutions have to date delivered billions of text messages to a wide array of clients to every corner of the globe. The Group's track record is the result of its expertise and experience merged with its investment in

human capital to develop a system that is able to determine the most efficient and least costly route to terminate messages. The services offered by 42 Telecom market are segmented into a number of products. These include, in the main, the following: X1 in-house reach; G1 global coverage; D1 Direct to MNO; and S special specific routes. Furthermore 42 Telecom have new services in the pipeline; OTT and M2M services.

Market Developments

In the A2P market, bulk SMS aggregators such as 42 Telecom seek to transmit SMSs through “open” telephony routes since there are only signalling costs for the traffic that is transmitted. This is referred to as “Grey traffic” since whilst it is not illegal, it is generally undetected and unbilled by the terminating mobile network operator. In this regard, aggregators generate profit on account of mobile operators who do not have controls in place to monitor messages passing through their networks. According to the GSMA (Groupe Speciale Mobile Association), such traffic may account to up to 50% revenue loss for mobile operators. As a consequence, more and more operators are reacting by seeking to block “Grey traffic” passing through their routes and are eager to enter into agreements with aggregators to receive a cut on the commercial SMS traffic passing through their routes. This has seen the creation of “white routes”, which in 42 Telecom’s case include the D1 and Wholesale Routes Plus, which include traffic passing through routes for which 42 Telecom has an agreement with the respective MNOs and incurs a charge per SMS transmitted. In future years, management expects more and more traffic to shift towards “white routes’. The creation of “white routes” also enables 42 Telecom to offer a premium product to customers since the 42 Telecom is able to guarantee a higher speed of delivery. In fact, 42 Telecom is currently focused on establishing premium direct routes (D1) with MNOs and offer these premium routes to delivery critical enterprise clients. 42 Telecom charges a higher rate for SMSs transmitted through “white routes”, which enables the Group to absorb the cost charged by MNOs for the transmission of SMSs. This means that the shift to “white routes” is not expected to result in lower profitability. On the contrary, management believes that the Group would be able to generate a higher profit from this business unit on account of the better service that can be offered to customers.

Developing markets

OTT – Over the top messaging
The growth and evolution of the telecom industry is seeing increased influence of IP (internet protocol) and other internet based technologies. Growth in the adoption of smart phones, together with the subscriber expectation towards relevant and personal interactions logically requires OTT (over-the-top) routes to be the next service within the industry. 42 Telecom has already positioned itself to be able to serve and sell within these data-driven markets in the coming years. OTT services represent IP based messaging through applications that are currently a major threat to existing A2P players. Management believes that this strategy will enable the Group to remain at the forefront particularly in the years to come when more and more traffic is expected to shift to OTT.

M2M- Machine to machine
Machine to Machine (M2M) refers to technologies that allow both wireless and wired systems to communicate with other devices of the same type. 42 Telecom sets out to launch a M2M platform in the next three years initially offering the back end solutions for data transfer from Machine to Machine. Eventually special scalable innovative services will be offered to market based around the M2M concept.

HAUD

HAUD has an advanced modular filtering solution. A comprehensive set of filtering techniques are used to deliver a robust blocking policy in order to ensure revenue assurance and better customer experience. The service offered by HAUD includes, but is not limited to:
1. Securing global pathways of communications by maximising revenue potential for mobile networks through the provision of tailor-made solutions to monitor and control messages passing through their network.
2. Creating unique and intuitive solutions which provide MNOs, MVNEs and MVNOs with reliable control over their networks resulting in:

a) increased profitability through the generation of revenues from A2P traffic;
b) A reduction in SMS fraud and spam; and
c) Increased subscriber loyalty and churn reduction.

Market forecast

Market data forecast that OTT growth will be substantial over the coming years. OTT is significantly impacting P2P (person-to-person) SMS markets, by 2018 traffic will stand at 63 Trillion messages but will only account for €2.4 billion in revenues. Market shift MNO revenues have been declining significantly and are expected to continue to do so in the near future as a result of internet based messaging and services which are severely affecting MNO revenues. For this reason MNOs are eager to close off open routes. Furthermore, mergers and acquisitions are creating industry heavy weights. Volumes create leverage in a market where control is shifting back into the hands of MNOs through technological advances. The Group is responding to this market shift with the setup of HAUD, a subsidiary within the Group, which has developed a security and fraud detection platform offering MNOs an SMS and Voice firewall and filtering solution.

42 Telecom's market share

In 2014, 42 Telecom transmitted over 1.2 billion SMSs over the various routes available which generated circa €6.1 million in revenue for the year, representing 0.02% of the market. 42 telecom's total revenue (including revenue generated from OTT) is expected to increase at a growth rate of 46% reaching €36 million by 2019 on the back of additional revenue streams from OTT and M2M. Notwithstanding this growth rate, 42 Telecom's reach is still expected to represent a minute share of 0.07% of the market.

Porter's Five Forces – Fortytwo Telecom

Bargaining Power of Buyers – High

- With little product differentiation and industry standards for SMS transmission, buyers are free to choose their preferred aggregation company with little or no impact.
- The market is highly fragmented with many companies offering similar or closely aligned strategies.
- SMS recipients are not normally aware of the company used to terminate such message on the handsets.

Bargaining Power of Suppliers - High

- Traditionally there were no major suppliers and this 'force' used to be listed as low, however with recent market developments MNOs are fast becoming suppliers to aggregators and if correct filtering solutions are present, MNOs can dictate the terms of supply from a position of strength.
- In traditional terms most aggregators still need to purchase routing options from competitors, high value reach and cover places the supplier in a very dominant position. Such reach is becoming harder to acquire.

Threats of Substitution - Medium

- As far as A2P communication channels, in respect to engagement and ubiquity, there still is no dominant substitute for SMS, currently or on the immediate horizon.
- OTT platforms are beginning to encroach into the space of A2P messaging along with specific enterprise apps running on smartphones; such dynamics have already significantly impacted the P2P market but are not yet fully relevant within the A2P market.
- E-mails and other direct marketing channels are also options, though not at the same level of effectiveness as SMS and more specific to certain types of traffic.

Threats of New Entrants – Medium High

- Various Levels of A2P SMS aggregators exist. At the lower level or Tier 3 and Tier 2 levels the barriers for market entry are not very strong and off the shelf solutions exist. At Tier 1 aggregator levels with in-house signalling capability and connection to the signalling infrastructure, the barriers for entry are greater, with bespoke knowledge and technical knowhow more important.
- Organisations in other areas of Telecoms, find the transition to SMS aggregation easier than unrelated market entrants. With high competition in all areas of the Telecom industry there is the risk of Voice and Data companies looking towards SMS aggregation, for boosting their portfolios.

Competition within Market – HIGH

- The market competition is to be considered high, due to the power of both buyers and suppliers within a highly fragmented market, based around a product which inherently has very little scope for unique attributes; coupled with the relatively significant threats of entrants into the market and the possibility for emerging technologies to impact the same market.

Porter's Five Forces – Haud

Bargaining Power of Buyers – High

- Mobile Network Operators, Mobile Virtual Network Operators and Mobile Virtual Network Enablers are the key buyers.
- Varying pricing models allow for bargaining power of buyers.
- Buyers may dictate features required from product.

Bargaining Power of Suppliers - High

- Software is proprietary and does not require suppliers.
- Suppliers required only for hardware and can be interchangeable as software is not hardware-specific.

Threats of Substitution - Medium

- Few suppliers for substitute products.
- Adoption depends on functionality, features and ease of deployment.
- Product requires constant upgrade to remain well positioned in the market

Threats of New Entrants – Medium

- High initial investment for new entrants.
- Long development process for creation of substitute product.
- Barriers to expansion include CapEx required to deploy solution.

Competition within Market – Low

- Few competitors in the market. Good level of product and pricing differentiation. Some strong industry players are partnering with providers of filtering solutions to gain market share. High level of rivalry and innovation to seek first-mover advantage opportunities.

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Key Highlights– period ending 31 December 2014

- Revenue decreased to €6.3m in 2014 from €7.4m a year earlier (-14.9% YoY)
- Gross profit margin increased from 54% in 2013 to 60% in 2014. Gross profit decreased by €0.1 million to €3.8million.
- Payroll costs increased from €1.3 million in 2012 to €2.0 million in 2014 (+53.8%)
- Marketing and administrative costs amounted to €1.7 million in 2014 fairly in line with 2013.
- In 2014, the Group generated €0.099m EBITDA compared to €0.5 million EBITDA in 2013 (-80.2%) and €32,000 EBIT compared to €0.4 million in the previous year (-92%). The Group's results reflect the marketing and other costs incurred in relation to Haud that are mostly expensed in the income statement

Financial Highlights

EUR 000's	2012	2013	2014*
Financial Results			
Turnover	6,102	7,398	6,270
Gross Profit	3,068	3,971	3,759
Gross Margin %	50.28%	53.68%	59.95%
EBITDA	-324	522	99
EBITDA Margin	-5.31%	7.06%	1.58%
Net Profit	-520	45	129
Net Margin	-8.52%	0.61%	2.06%
Cash flow from Operations	-1,281	-205	49
Free Cash Flow	-1,382	-618	-342
Gross Debt	1,088	851	475
Net Debt	1,076	851	475
Profitability			
ROE	-36%	3%	11%
ROA	-138%	4%	10%
Liquidity			
CFO to Sales	-0.21	-0.03	0.01
CFO to CFI	N/A	N/A	0.13
Current Ratio	0.49	0.63	0.76
Cash Ratio **	N/A	N/A	N/A
Solvability			
Net Debt to Assets	2.86	0.74	0.38
EBITDA/Net Interest	-54	N/A	24.75
Net Debt/EBITDA	-3.32	1.63	4.80

* Estimated
** Cash balance is negative

(Source: Company Financial Statements)

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Investment Considerations

Financial

The historical financial information over the reported years reflects the development costs of Haud which was financed by the revenue generation of the Telecom segment of the group, thus weighing on results. Management guided that as from 2015 Haud will begin contributing to revenue as the company successfully implemented a functioning version of their hardware and software, and the company is currently in the process of consolidating further fixed contracts with their partners/clients once the company receives the relevant financing.

Sales - Revenue increased from €6.1m in 2012 to €7.4m in 2013 and decreased to €6.3m in 2014. Management explained the decrease in revenue in 2014 was mainly due to a change in pricing strategy on some of the products offered by the Group, which did not yield the intended results. Corrective action was taken in late 2014 as the company re-focuses on a higher quality customer with better margins. As a result, Net Revenue is expected to increase in 2015 by lowering the quantity and increasing the margin charged to customers. According to management's guidance, sales growth of 42 Telecom is expected to increase by 46% compounded annually between 2015-2019 due to the rapid growth phase that the company's products are expected to enter into; being the shift to Internal & Wholesale Routes, OTT Route and M2M service.

As part of the company's expansion project, the proceeds of the new bond issue are expected to finance Haud's operations include the setting up of international SMS Monitoring and Filtering Solutions and the operation of an CMP/SMS Hub. Management guided Haud's operations to generate additional revenues of €1.6m in 2015 increasing to €14.7m by 2019.

The group is also expected to benefit from sales synergies associated with offering a larger product range.

Gross margin – The drop in revenue was partly mitigated by an increase in the gross profit margin, from 50% in 2012 to 60% in 2014 as the company switched back to its "higher quality" SMSs services which have higher margins. As a result, gross profit only decreased by €0.1 million to €3.8million. In the short term, management guidance is for margins in its A2P segment to fall slightly as the company is 'forced' to bow to industry pressures of operating its A2P segment through 'white routes' from the previous 'grey routes'; which, at an additional cost are expected to have a negative impact on margins. This negative impact is expected to be mitigated by improving margins on the company's new products: Haud, OTT and M2M services.

Operating costs – Marketing and administrative costs in 2014 amounted to €1.7 million in 2014 fairly in line with 2013. Operating costs aren't expected to vary considerably from their current rate and are expected to increase proportionately to the amount of client's on boarded.

Personnel expenses - Payroll costs increased from €1.3 million in 2012 to €2.0 million in 2014 primarily due to the expansion in the management and marketing team in view of the expansion of Haud. Similarly to operating costs, staff costs are expected to grow in relation to the growth of the number of customers/contracts the company enters into in order to retain the same standard of service.

EBITDA/Operating income – In 2014, the Group generated €0.099m EBITDA compared to €0.5 million EBITDA in 2013 and €0.3 million negative EBITDA in 2012. The Group's results in the past three years however reflect the marketing and other costs incurred in relation to Haud that are expensed in the income statement. In 2013, the Group generated €32,000 EBIT compared to €0.4 million in the previous year and €0.4 million negative EBIT in 2012.

According to management's guidance, 2015 is expected to be another difficult year for the company as it invests heavily in the Haud project. EBIT is expected to come in at around -€2m up until 2016 where all of the company's projects are expected to start giving a positive contribution; which should result in a rapid increase in the company's pre-interest and tax income. EBITDA margin is expected to stabilise at around 22-24% from 2017 onwards. Management's projections are based on ambitious growth targets, which are projected to increase EBITDA from €0.5m in 2014 (before Haud's operating loss) to €12.5m in 2019.

Financial expense – The group's Net Interest expense was close to negligible over the historical three year period. Once the bond issue is launched however, assuming the offered amount is subscribed in full, the company will be liable to pay circa €406,250 per annum in interest; currently 4x more than the average EBITDA in the past three years. Post investment, however management expects EBITDA to increase to an average of €5.5 million over the next five years which would equate to interest coverage of circa 13.5x.

Net Income (loss) – Profit after tax reduced to €28,000 from €45,000 the year before as a result of the marginally lower gross profit and increase in payroll and marketing expenses related to Haud. Management guidance is for net income to continue to be impacted negatively by the Haud project in 2015, and to increase rapidly after 2016 as the Haud project gives a positive contribution, along with the companies' other business lines. Overall, Profit after tax is expected to be positive following a difficult financial year in 2015.

Cash flow –Over the past three years, the Group incurred an aggregate free cash flow deficit of €2.3m which represents primarily the pre-operating costs incurred to launch and marketing of Haud. Post bond issue, management is projecting free cash flow to average €2.6 million over the life of the bond. The Group is projected to incur a free cash flow deficit of €3.5m in 2015 and €0.9m in 2016. In 2017, the Group is projected to generate free cash flow of €3.1m which is projected to increase further to €6.7m in 2018.

Future expected obligations/Expected Capex – The bond issue (€6.5 million) will be the sole long term obligation and the largest of the company since incorporation. Over the 5 years up to 2019, management projects that €6.3m capex will be spent in aggregate.

A significant amount of the funding proceeds, €4.5 million out of €6.3 million are allocated to the further expansion of Haud. Management specified that the funds will only be withdrawn and actioned once a suitable client has been contracted, thus lowering the risk of undue cash burn. Thus, any delay in the achievement of the target number of MNOs that are signed up, the related capex spend that is required would be lower than the projected amount.

Gearing - Further to the issue of the €6.5 million Bonds, the Group's reported gearing (debt: total capital) based on the book value of assets is projected to increase to 80.5%, which is considerable. It should be noted however that presently the company is benefitting from substantial goodwill from the Haud project which cannot yet be reflected in the balance sheet of the company. According to management guidance, pro forma gearing including the estimated value of Haud falls to 52.7%.

Servicing and Repayment of the Bond

in €000's	2015P	2016P	2017P	2018P	2019P	2020P	2021P
Net cash flow available for servicing of the Bond	-3501	-931	3050	6741	7983	7273	7266
Opening cash balance as at 1 January	475	2967	1678	4371	10754	18380	25295
Issue of the Bond	6500						
Bond issue costs	-150						
Bond Interest	-423	-423	-423	-423	-423	-423	-423
Redemption of the Bond							-6500
Net cash surplus after servicing of the Bond	2901	1613	4305	10689	18314	25230	25638
Debt service cover ratio	9.5x	5.5x	13.0x	30.9x	52.2x	71.6x	N/A

Source: Company Projections

In terms of the redemption of the Bond in 2021, the projections indicate a surplus of €25.7 million after the repayment of the Bond in 2021. This surplus is equivalent to a DSCR of 4.8x and is a measure of the margin of safety underlying the funding plan being proposed by management.

Non-financial

Haud – The future growth rate of the group is highly leveraged around the success of the further development and expansion of Haud. Management indicated that the strategic plan for Haud is on track and the company successfully managed to secure a long term provision of services to an Asian client, with successful installation of all necessary equipment. An additional level of comfort lies in the fact that management indicated that it already has a number of customers lined up, from which the services rendered are expected to increase exponentially once the financing is in place.

Off-balance sheet value – Haud has a large amount of goodwill associated with the value of the software product of the company which still is not reflected in the balance sheet of the group. Although admittedly difficult to quantify at this stage, management guidance is that it is significant and largely outweighs the size of the bond issue itself. This value is only expected to grow once the Haud segment amongst others keeps growing.

Employee Risk – As is the case for most service/software companies the group is highly dependent on the loyalty and quality of its staff complement. This is an ongoing risk for the group, as the loss of key personnel could add further delays to projects and a possible brain drain.

Outstanding Issue in Focus - Recommendation

6.25% Fortytwo 2020-22

Currency	EUR	Min Piece	1,000
Coupon	6.25%	Increment	1,000
Type	Fixed	Size	6,500,000
CPN Frequency	Semi-Annual	Ask Price	100
Next Coupon	1st March 2015	YTM	6.25%
Maturity	1st September 2022		

Call Schedule: Callable after 01/09/2020 @ 100

NB: The bond is not scheduled to be officially listed for secondary trading on the Malta Stock Exchange

Name	Issuer Name	Last Price*	Duration	YTM
4.8% BOV 2020	Bank of Valletta	105.1	4.49	3.69%
6.25% IHI 2017-2020	IHI	103	1.98	5.57%
5.5% PNG 2020 S1	Pender Gardens	108	4.59	3.82%
6.6% EFC 2017-2020	Eden Finance	105.5	2.16	5.40%
6% SFC 2017-2020	Simonds Farsons Cisk	105.01	2.18	4.92%
6.2% TUM 2017-2020	Tumas Group	105.01	2.26	5.13%
6% MIH 2021	Mediterranean Holdings	94.99	5.33	6.99%
4.9% GFC 2019-2021	Gasan Finance	105.1	4.34	4.03%
5.8% IHI 2021	IHI	100	5.80	5.80%
6.25% Fortytwo 2020-22	**Fortytwo**	**100**	**5.65**	**6.25%**
6% CFC 2019-2022	Corinthia Finance	103.5	5.73	5.40%
6% PNG 2022 S2	Pender Gardens	105.01	6.09	5.18%
6% MDS 2020-2023 EUR	Medserv	110	6.59	4.58%
5.3% UFC 2023	United Finance	104.52	7.16	4.66%
5.8% IHI 2023	IHI	103	7.30	5.36%
6% AXI 2024	AX Investments	108.5	7.25	4.83%
6% IHG 2024	IHG	103.5	7.50	5.51%
5.3% MRF 2024	Mariner Finance	109	7.72	4.13%
5% TUM 2024	Tumas Group	107.99	7.87	3.98%
5% HMV 2024	Halmann Vella	103.52	7.87	4.55%
6% MED 2019-2024 EUR	Medbank	106	7.64	5.21%
5.1% PTL 2024	PTL	106.5	7.96	4.28%
Average of Comparables			**5.71**	**4.91%**

***Prices as at 12th February 2015**

The group operates in a technology oriented and dynamic industry which is highly competitive and requires management to operate at the top of their game in order to grow. The industry is undergoing an evolution which will change somewhat the rules of the game for Fortytwo telecom and its peers, affecting the group's main revenue source. Management has anticipated this and has been developing new products to ride this new trend and benefit the most from it through the further development of its Haud product amongst others.

Although management has laid out a detailed business plan and sensitivity tests reveal that the chances of success are very promising, there remains a substantial amount of execution risk, and therefore investors would do well to expect to be rewarded given the inherent risks detailed throughout this report. It is of our opinion that the company is well positioned to take advantage of the upcoming market environment and emerge successful. Having said this, given the company's financial history, and sensitive point in its transformation, there is also a considerable amount of credit risk due to the interest burden in the initial phases of the products under development which are fundamental to the company's future, and which could potentially cause considerable pressure on the company's cash flow position should the projections miss.

The debt issue is being offered at a yield of 6.25%, which when compared with other listed companies, is offered at a premium of around 100-120 bps above the average yield and similar duration, albeit the comparable companies hail from different sectors and leverage positions. The coupon offered is in line with a high yield issuer approaching the market in the current interest rate environment bearing in mind the large capex projections. The investment assumes various risks, however all the pointers indicate that the company is positioned to be successful. Investors should also weigh in the fact that since the bonds will be unlisted they will mostly find it very difficult to benefit from any capital gains as the bonds are not marked to market. Also, the investment should be treated as a long term investment due to liquidity reasons since the issue is unlisted.

Investors wishing to add a position as part of their portfolio should be particularly careful in evaluating the overall allocation and impact on their overall portfolio given the high risk nature of the investment.

Disclaimer

Positive indicates expectations of a general improvement of the market sector / asset class / maturity bucket / credit rating over the next 3 to 6 months

Neutral indicates expectations of a general stable trend of the market sector / asset class / maturity bucket / credit rating over the next 3 to 6 months

Negative indicates expectations of a general deterioration of the market sector / asset class / maturity bucket / credit rating over the next 3 to 6 months