

# FINANCING A RECOVERY

MALDIVES: TOURISM IN THE AGE OF ESCAPISM

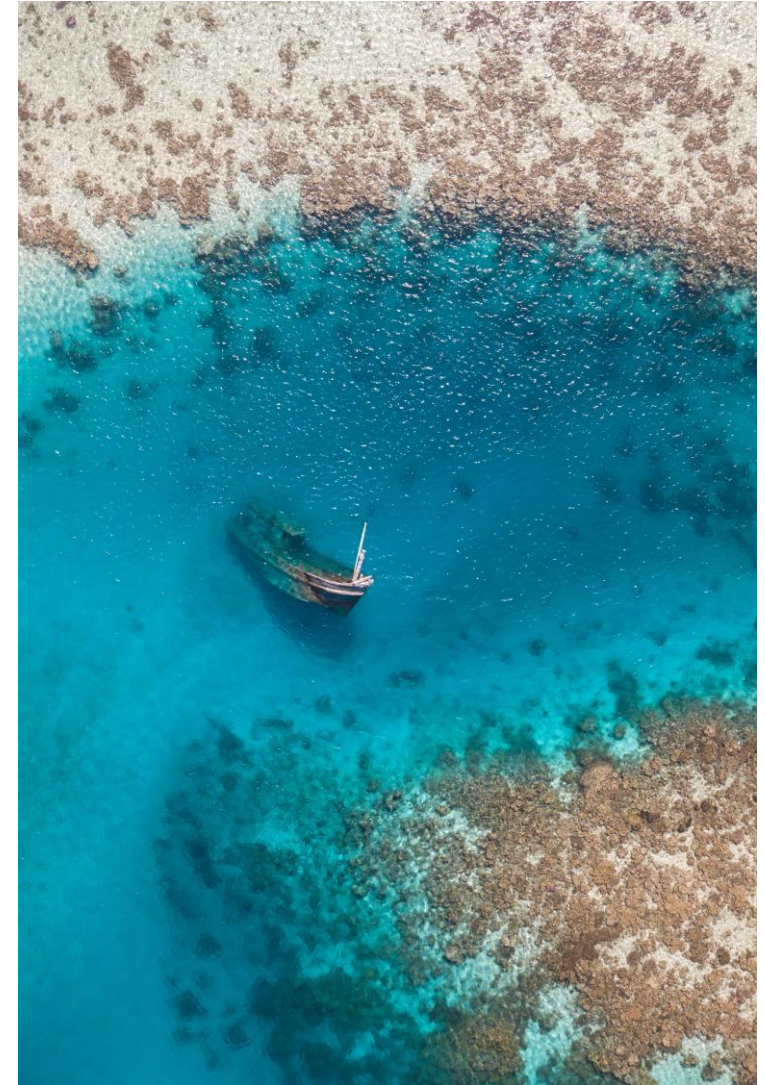
June 2020



# PRE-COVID19

## HOW IT ALL BEGAN

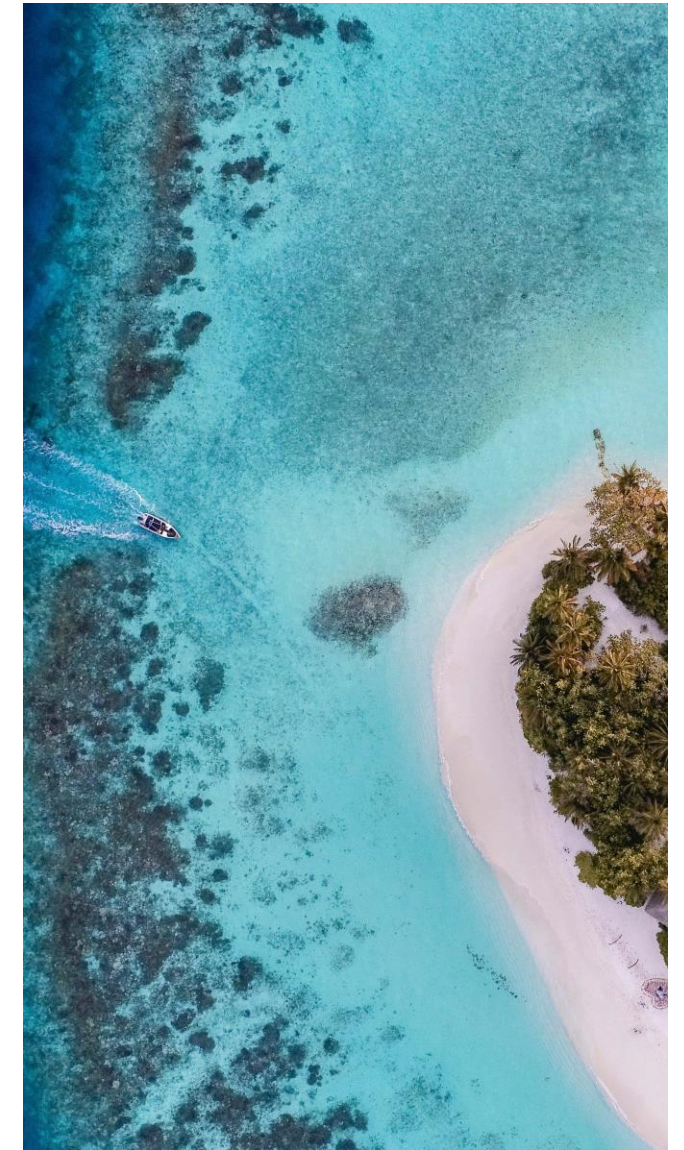
- Dearth of capital has always been an issue in the Maldives.
- The local financial sector has not been able to keep up with the accelerated growth of the hospitality sector.
- The role of international investors and lenders has historically been key to the development of the Maldivian tourism market.
- Over the past 10 years, the market has witnessed various acquisition transactions and the introduction of institutional investors.
- Most recently, there has been limited lender appetite for greenfield projects, while healthy demand from global institutional investors to finance or acquire operational and stable assets has continued.
- Credit has dried up regionally for the Maldives due to legacy issues, capital controls in typical lending markets (Sri Lanka, India).
- Current pipeline is financed mostly by foreign lenders secured against borrower balance sheets outside Maldives.



# NOW: LIQUIDITY IS KEY

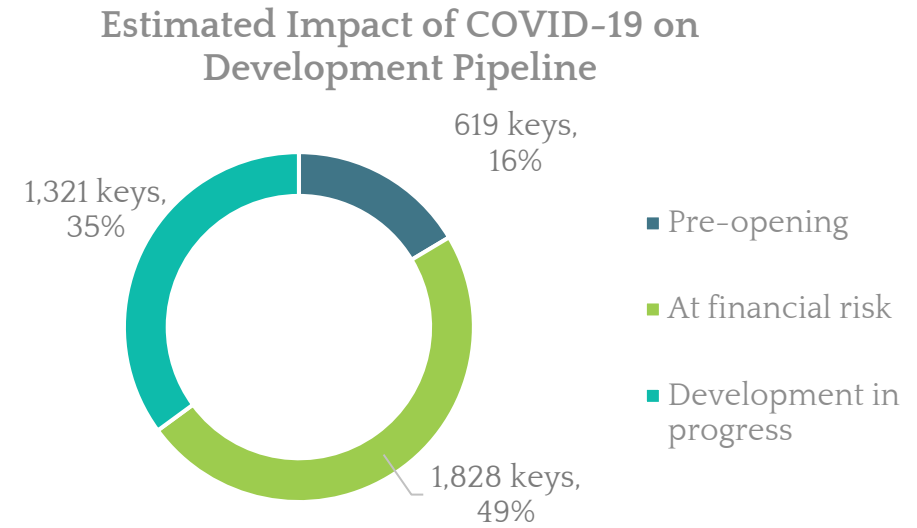
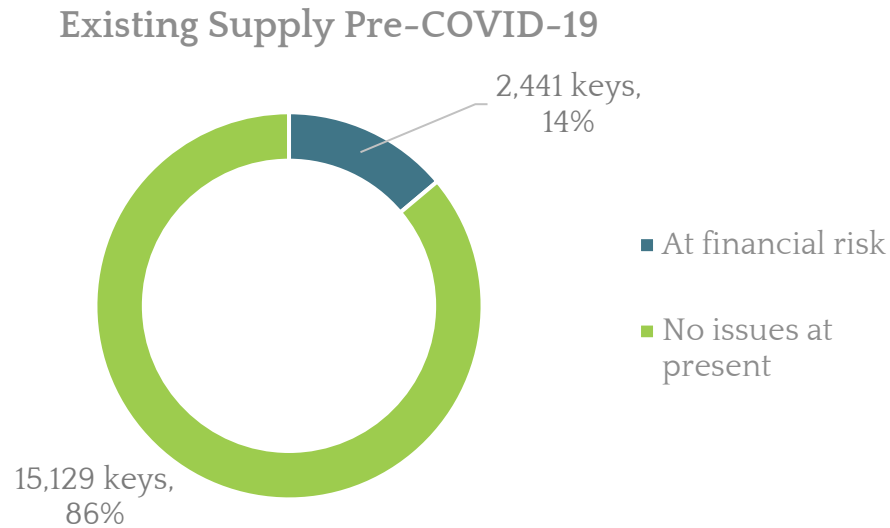
## PUBLIC FINANCES AND BANKING SECTORS ARE UNDER STRESS

- Pre-Covid liquidity issues in the hospitality sector are now becoming more exacerbated.
- Sovereign ratings have been downgraded – likely to increase financing costs.
- Short term liquidity measures taken by the central bank are unlikely to ease cash flow issues.
- Moratoriums have been offered on senior debt repayment.
- Many hospitality companies will face short-term cashflow gaps causing working capital needs to restart operations.
- Bridging / working capital solutions offered by local lenders are too small to bridge cash flow gap for many hotel owners.
- Limited lender appetite for greenfield projects.
- Some well-capitalized hotel owners have taken strict measures during downtime, reducing the pressure on their resources.



# SUPPLY

SOME SUPPLY LIKELY TO BE TAKEN OFF THE TABLE IN THE SHORT TERM

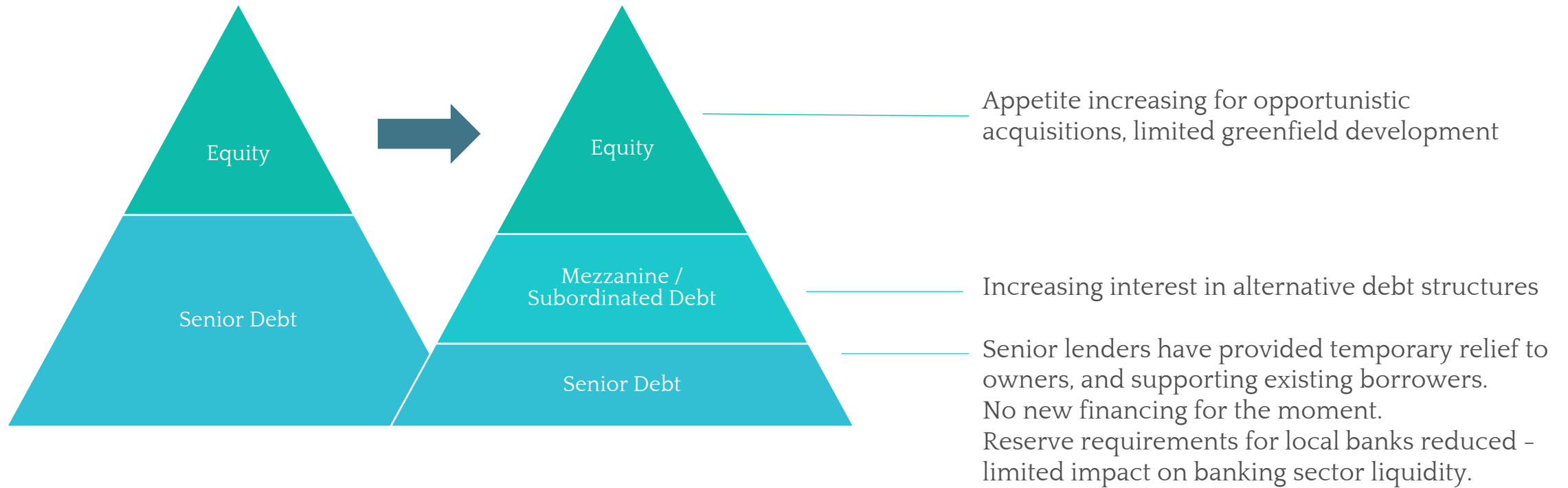


- Properties that have been underperforming prior to Covid-19 will likely struggle to recover.
- Development projects that are thinly capitalized are likely to fall by the wayside.
- Potential opportunities for acquisition at discounted valuations.



# CASH IS KING – THE KING IS STILL ALIVE

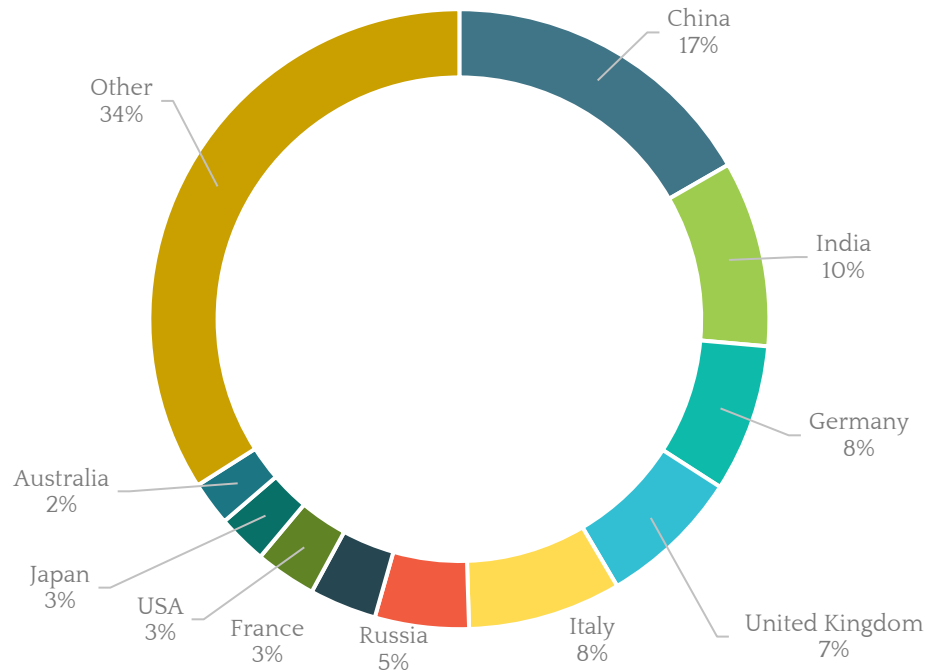
HE'S JUST MOVING DOWN THE CAPITAL STACK



# DEMAND

## RECOVERY WILL BE DRIVEN BY TRAVEL POLICIES IN KEY SOURCE MARKETS

Top 10 Source Markets 2019

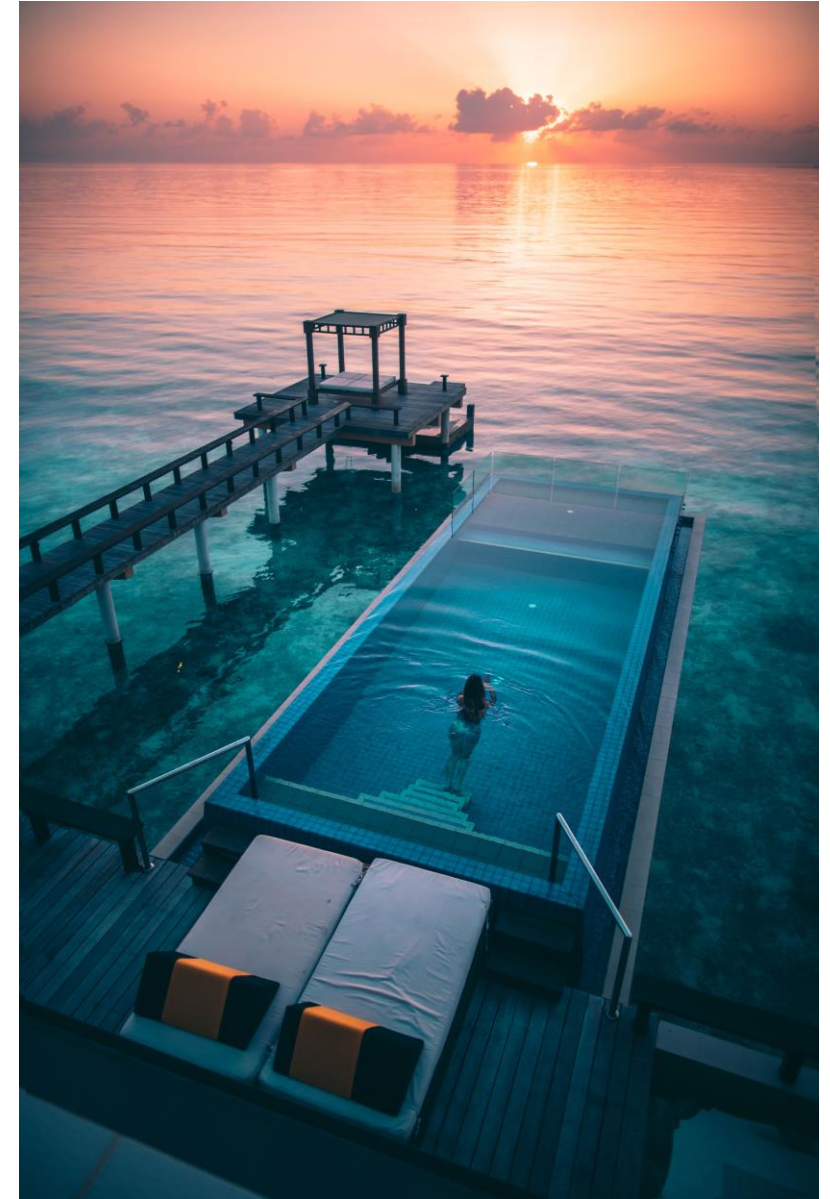


China	<ul style="list-style-type: none"> <li>Entry policies differ between provinces. However, all travelers will be subject to a 14-day mandatory quarantine in the first entry point city</li> <li>Advisory last updated on 24 May with no specified end-date</li> </ul>
India	<ul style="list-style-type: none"> <li>Minimum of 14 days on arrival in India</li> <li>Latest advisory dated 5 May with no specified end-date</li> </ul>
Germany	<ul style="list-style-type: none"> <li>14 days in mandatory quarantine</li> <li>Travel restrictions last extended on 14 May</li> </ul>
United Kingdom	<ul style="list-style-type: none"> <li>14-day quarantine</li> <li>Measures announced on 20 May. No end-date specified but includes a three-week review</li> <li>Hints that after 29 June a series of bilateral deals, described as "air bridges", will allow holidaymakers to travel to and from the most popular destinations without the need to self-isolate on arrival</li> </ul>
Italy	<ul style="list-style-type: none"> <li>14-day quarantine</li> <li>From 3 June Italy plans to lift the quarantine requirement for those arriving from the 26 members of the EU, Schengen Zone and the UK</li> <li>Tourists from outside the EU, Schengen Zone or the UK will not be allowed to enter Italy until at least 15 June</li> </ul>
Russia	<ul style="list-style-type: none"> <li>14-day quarantine</li> <li>Indefinite extension of border closure as of 29 April</li> </ul>
France	<ul style="list-style-type: none"> <li>French nationals entering the country from outside Europe will observe a "voluntary" 14-day quarantine "at home" or in a dedicated hotel from 20 May</li> <li>Restrictions to be "gradually" lifted from mid-June</li> <li>France will review border controls on 15 June</li> </ul>
USA	<ul style="list-style-type: none"> <li>No specified end-date</li> <li>14-day home isolation for most states, with stricter requirements in states such as California and New York</li> </ul>
Japan	<ul style="list-style-type: none"> <li>All arrivals to Japan requested to stay at a location designated by the Quarantine Station Chief for 14 days and to refrain from using public transportation.</li> <li>Present measures effective until end of June for most countries</li> </ul>
Australia	<ul style="list-style-type: none"> <li>Mandatory 14-day quarantine</li> <li>Nationals of Australia not allowed to travel out of the country, except those with a residency in another country, airline and maritime crew and associated safety workers, those travelling to offshore facilities for essential work and people travelling on official government business</li> </ul>

# OUTLOOK

## IT MAY GET WORSE BEFORE IT GETS BETTER

- Market recovery will depend on regaining traveler confidence, and policy measures in both source markets and in the Maldives.
- The government is planning to put in place strict measures to airports and resorts to ensure the health and safety of tourists and their environment.
- Low-density properties, geographical dispersion, relatively high-end market positioning and the isolated nature of the Maldives experience may support this effort and accelerate recovery.
- The increasing number of distressed assets will increase the level of non-performing loans (NPL's) on banks balance sheets which requires active and flexible NPL management.
- International capital flows investing in select opportunities will be crucial to expedite recovery.
- Opportunities for private debt investments, under-performing assets, distressed acquisitions and turnaround plays will increase over the next few months, presenting some attractive prospects to investors.





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