



ISSUER RATING

Long-term Rating



ISSUE RATING

Senior Secured Corporate Bond

Issue: 30,000,000 €

Coupon: 4.25 %

Amortization: 5 years bullet

First rating date: 24/04/2018

Review date: 08/04/2020

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## Executive Summary

Detailed below is an Executive Summary on the rating awarded by Axesor Rating to the corporate debt issued by **Tyche Gestión Corporation, B.V.** Tyche operates as a hotel group that includes four five-star resorts, three of which are located in Punta Cana (Dominican Republic) and one in Cancún (Mexico). The establishments are oriented towards luxury all-included tourism, which operate through the 'Majestic' brand. In 2019 (non-audited), the group reached a consolidated turnover of €117.7MM and an EBITDA of €29.9MM (EBITDA margin: 25.4%), with a NFD/EBITDA ratio of 7.9x. These results imply that Tyche has failed to comply with its financial covenants under their bank financing. Consequently, the group is currently negotiating waivers with its pool of banks, a prerequisite for accessing to new money.

In 2020, the COVID-19 crisis has led the group to close its hotels effective on March 2020. Despite of the implementation of cash preservation measures, the ongoing fixed costs coupled with the lack of liquidity sources implies that the group will need to negotiate delays in their debt payments with their banks and other stakeholders (current and former shareholders). Additionally, in order to continue as an ongoing concern, Tyche will also have to raise new money all of which is currently under negotiation.

## Rating rationale

### Issue Profile

- ▶ **Characteristics.** Total amount of €30MM. As a security guarantee, the Private Placement Issuance includes a promissory mortgage over the land plots and future hotels in Playa Mujeres, Mexico, with a current value of \$72.5MM (€64.7MM, approximately). Additionally, it also includes the pledge over the shares of Skysea Flyer, S.L. (holding) and the personal & corporate guarantee of the rest of the material subsidiaries of the group.
- ▶ **Covenants.** Failure to comply with the Bond's covenants is not an event of default but rather acts as a limit to further indebtedness. The most relevant covenants include: NFD / EBITDA: 4.0x in 2018 and 2019, 3.5x in 2020, 3.0x in 2021, 2.75x in 2022. Furthermore, dividends distribution if NFD / EBITDA < 3.00x (100% of the net income) ; if ≤ 3.50x (50% of the net income). At year-end 2019 (estimated), Tyche's NFD/EBITDA ratio was stood above the limit established.
- ▶ **Recovery.** Tyche Group's financial model has been stress-tested, simulating a default scenario under which the company would be unable to meet its payment commitments and would therefore, be forced to initiate a restructuring process. Under this stress scenario, default would occur in financial year 2021, where the associated waterfall model of the debt structure would allow for a recovery of over 70% of the debt.

### Business Profile

- ▶ **Small-scale player with a portfolio concentrated in the Caribbean**

Small player in terms of number of rooms under management, but with a quality portfolio of assets focused on the holiday sector. However, Tyche Group presents a lack of geographical diversification as a result of its relatively small size when compared to its peers. This aspect has penalized significantly the company's KPIs in 2019, as a result of temporary reputational aspects (decease of a number of US tourists due to causes beyond the hotel establishments) which have affected the hospitality sector as a whole in the Dominican Republic from H2 2019. In this regard, their high concentration in terms of origin of client has supposed a negative factor.

► **Highly procyclical sector, strongly penalized by the current situation**

Business model characterized by its high correlation with the evolution of the economy and the tourism sector. Despite the favorable trend showed by the sector in recent years, the current situation marked by the impact of COVID-19 has led to a drastic slowdown of this trend, implying the closing of Tyche's resorts in line with most of the sector. Additionally, the lack of visibility regarding the full economic and market recovery entails a high degree of uncertainty regarding the prospects of the company's recovery in terms of business generation.

**Financial Profile**

► **Growth in revenues and margins during the last years, in line with sector's positive evolution**

In recent years, the company has experienced a positive evolution as a result of their solid business fundamentals and the favorable evolution of the sector, which has been characterized by strong demand. However, the drop of activity in the sector in Dominican Republic from H2 2019 has affected negatively the company's evolution during this year, with a reduction in turnover of 13%. In addition, the lack of flexibility of their costs structure derived in lower operating margins, with an EBITDA margin of 25.4% in 2019 (34.4% in 2018). On the other hand, we consider that their operating margins still remain at the upper end of the sector.

► **Strong equity structure, although with a high leverage relative to their EBITDA generation**

Tyche's financial structure is characterised by a high financial autonomy, with equity representing 92% of financial debt in 2019 (estimated). However, the increasing debt levels in recent years as a result of their expansion plan (last resort opened in Mexico in 2020) have led to a high NFD/EBITDA ratio, which stood at 7.9x as of December 2019. Additionally, the group showed a low interest coverage figure, with an EBITDA/Interests ratio of 2.4x in the last year.

► **Very tight liquidity position aggravated by the current market scenario**

Deterioration of the liquidity position motivated to a large extent by the high investment requirements during the last years. In addition, the COVID-19 crisis has limited their access to liquidity levers and has led to the closure of their hotels which have ceased to generate cash flows, placing the company in a weak position to meet its financial payment commitments in the short term. In this regard, the financial situation of Tyche in the short-term notably depends on the successful completion of the debt restructuration process in which it is currently involved. This process would imply primarily the access to new debt as well as the negotiation of delays in annual principal debt payments (principal) corresponding to the years 2020 and 2021.

## Main financial figures

Main figures. Thousand €

	2017 NA <sup>(1)</sup>	2018	2019e	19vs18
Revenues	131,830	135,706	117,728	-13.2%
EBITDA <sup>(2)</sup>	42,265	46,701	29,941	-35.9%
EBITDA margin	32.1%	34.4%	25.4%	-9.0pp
EBT	12,754	31,435	-3,237	-110.3%
Total assets	340,362	432,600	496,887	14.9%
Equity	132,259	183,515	219,839	19.8%
Total financial debt	172,027	220,923	239,616	8.5%
Net financial debt	166,547	211,840	237,147	11.9%
NFD/EBITDA	3.9x	4.5x	7.9x	3.4x
EBITDA/Interests	7.2x	7.1x	2.4x	-4.7x
FFO/NFD	29.2%	23.0%	15.1%	-7.9pp
FFO	48,696	48,687	35,881	-26.3%

(1) Taking into account the perimeter associated to the Caribbean resorts in 2017 as a part of Batle Group. Non-audited. (2) EBITDA's 2018 does not include extraordinary results obtained by the plot's sale.

## Outlook

In Axesor Rating's opinion, the outlook of the current rating is **under observation**. After the close of their establishments as a preventive measure (COVID-19), business generation has all but halted for the time being. Additionally, their dependence on further support from their lenders in order to continue as an on-going concern represents an element of uncertainty.

It should be mentioned that the maintenance of the rating assigned to the company is conditional on the successful completion of the debt restructuring process in which the company is currently involved and compliance with their new financial projections.

Axesor will continue to closely monitor the company with the information flow that it will, from time to time, receive from Tyche.

## Sensitivity analysis

Detailed below are the factors which would impact in Tyche's rating in an individual or aggregate level:

- ▶ **Positive factors:** successful completion of the debt restructuring process as well as the resorts reopening in the estimated dates (between August 2020 and October 2021). Improvement of their financial figures in 2021 as a result of the recovery of the sector and the economies of the main feeder markets.
- ▶ **Negative factors:** failure to complete their debt renegotiation process. Ongoing deterioration of their activity during 2021 as a consequence of the delays in resorts reopening motivated by the prolongation of the current health crisis.

## Regulatory information

### Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

1. Annual Audit Reports.
2. Corporate Website.
3. Information published in the Official Bulletins.
4. Rating book provided by the Company.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, Axesor Rating assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

### Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies, and in accordance with the Bond Rating Methodology that can be consulted on [www.axesor-rating.com/en/about-axesor/methodology](http://www.axesor-rating.com/en/about-axesor/methodology) and according to the Long-term Corporate Rating scale available at [www.axesor-rating.com/en/about-axesor/rating-scale](http://www.axesor-rating.com/en/about-axesor/rating-scale).
- Axesor publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months axesor has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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