ISSUER RATING

Long-term Rating

Tendencia: Estable

Fecha de primer rating: 14/08/2023

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Rating action and rationale

EthiFinance Ratings assigns a first rating for Skysea Flyer S.L., of 'BB' with a Stable outlook.

- The rating is based on the strengthening of the company's financial profile, highlighted by the recovery of profitability levels (EBITDA margin >25%) supported by the recovery of a highly cyclical hotels industry that was strongly impacted by Covid-19, especially in 2020 and 2021. The industry shows favourable fundamentals (high profitability margins, high barriers to entry and decent growth prospects), which reinforces the rating. Additionally, the group has a favourable credit profile, one characterised by a solid loan to value ratio of <40%.
- The rating is constrained by a weak competitive positioning relative to the main international operators, which exhibit greater size and diversification, in terms of number of hotels, brands, segments, and countries of operation. In addition, the group still has relatively high debt (NFD/EBITDA >4.0x) which, together with low interest coverage (EBITDA/interest <3.5x), weakens the overall financial profile.
- In line with our methodology, the hotel sector presents a low ESG risk (sector heatmap score between 2.0 and 3.0) given its limited impact on the environment. This ESG assessment has a neutral impact on the sector rating. Regarding the ESG analysis of the company, the group's policies are considered adequate (ESG score between 1 and 4), having also a neutral effect on the rating.

Issuer description

Skysea Flyer S.L. and its subsidiaries (hereafter the company or the group) constitute a hotel group of four five-star resorts, three of which are located in Punta Cana (Dominican Republic) and one in Cancun (Mexico). Its establishments are oriented towards luxury tourism, with modern facilities for accommodation and leisure with an all-inclusive format, operated through the company's own brand 'Majestic'. Based on preliminary 2022 figures (unaudited), revenue reached €172m (+114.1% YoY) with EBITDA of €44.3m (EBITDA margin of 25.8%) and an NFD/EBITDA ratio of 5.9x.

Fundamentals

Business profile

- **Sector characterised by high margins, high entry barriers to be competitive, and performance linked to macroeconomic developments.** Although there are a large number of players in the market, the barriers to entry are considered high given the significant know-how, expertise, initial investment and brand recognition required to be competitive in the sector, which results in high profitability margins (EBIT margin between 13%-18%). The performance of the hotel industry is strongly linked to the economic environment. It was heavily affected in recent years by the Covid-19 crisis, given the impact of travel restrictions, the resulting fall in demand, and the economic slowdown. However, the sector has been showing clear signs of recovery as the restrictions were progressively eased. In the near future, the industry is expected to show an increasingly consolidated recovery post-pandemic. The macroeconomic environment is likely to be difficult as countries grapple with very high inflation, which could impact demand for leisure services.
- **The hotel sector has low ESG risk (sector heatmap score between 2.0 and 3.0).** It is established as an important source of income for many countries, resulting in potential benefits for local communities. Similarly, its impact on the environment is considered limited, given that it is not particularly resource-intensive (water and land), although the adverse impacts associated with means of transport and the construction of large infrastructure stand out. In particular, we highlight the climatic effects that can affect the industry in terms of physical risks, such as floods or hurricanes, as well as the presence in countries where access to basic services (e.g. water) can affect hotel operations. The sector may also be affected by government policies that restrict leisure activity or that may impact on the sector in other ways, as well as by criticism that may affect the reputation of

establishments.

Competitive positioning

- **Limited diversification.** The group is a small player in terms of turnover and number of rooms managed, with a strong concentration in the luxury holiday segment in the Caribbean, generating all its revenues through its hotels in Punta Cana and Cancun (64.4% and 35.6% of total sales respectively). The Skysea Group has four hotels under its own management, all under the 'Majestic' brand. With regard to the composition of the customer portfolio, tourists from the US are the group's main customers (65.4% of total sales in 2022), followed by residents of Canada (15.0%, meaning over 80% of total from North America), with the remainder distributed between Europe (7.0%), Latin America (1.8%), and other countries around the world (10.8%). We consider both the geographic and the client concentration as risks that limit the company's competitive position.
- **Adequate management indicators**. The group shows a high average occupancy rate, of 80.0% in 2022 (55.2% in 2021 and 18.6% in 2020), reflecting the recovery of the sector post-pandemic. We also highlight the positive evolution of revenue per room (RevPar), reaching an average of $188 in 2022 (vs $114.3 in 2021 and $44 in 2020) and exceeding pre-pandemic levels ($163.2 in 2019). The group's focus on the luxury segment in the Caribbean allows it to have higher room revenues than the sector average. On the downside, the group does not operate hotels through any asset-light formula (franchise and management), which limits the growth rate of its portfolio and exposes it to high demand risk.

Corporate governance

- **Family shareholder base with strong links to management.** Santiago Batle controls 100% of the share capital of Skysea Flyer, S.L. We highlight the presence in the shareholder base of Egovox, S.L (through 17.58% of the share capital of Tyche Gestión Corporation, B.V), which acts as a partner and helps provide financial muscle to support the company and its expansion plan. The management of the company we consider to be marked by a conservative culture and supported by a growth policy coherent with the evolution of the market.
- **ESG policy.** Although the group has a neutral ESG risk (score of 2.85) and has a sustainability plan in place, we consider that ESG-related risks could increase and are not yet fully taken into account, which could moderately affect future revenues, earnings, cash flow, asset values, and/or reputation. However, the impact would probably remain manageable and is unlikely to be problematic in the short-to-medium term (up to 5 years).

Financial profile

Cash flow and indebtedness

- **Positive evolution of revenues and profitability margins.** The group shows a clear post-pandemic recovery trend, in line with the evolution of the sector. It generated turnover of €80.4m in 2021 and €172.0m (preliminary figures) in 2022, reflecting the gradual lifting of travel restrictions, especially from the second quarter of 2022, as well as increased consumer confidence, higher average spend per trip due to longer periods of stay, travellers' willingness to spend more at their destinations, and higher travel costs due to inflation. There has been as a result a significant improvement in EBITDA, to €15.5m in 2021 (the company was loss-making in 2020), with a positive EBITDA margin of 19.3%, and to a preliminary €44.3m (+185.7% vs 2021) in 2022, with an EBITDA margin of 25.8% (+6.5pps vs 2021), above 2019 levels. Despite the significant improvement in revenues, EBIT for 2021 was negative at €0.8m due to the depreciation expense for that period. However, EBIT is believed to have improved substantially to €21.7m in 2022, with an EBIT margin of 12.6% (vs. 10.3% in 2019). The group reports high financial expenses, associated with its high level of leverage, reaching a total of €7.9m in 2021 and €13.6m (preliminary) in 2022 figures, which significantly reduces pre-tax profit. Although EthiFinance Ratings is positive about the evolution of the company's revenues and the improvement in profitability margins, we believe that the company needs to continue to make progress in the consolidation of its results, which will depend, to

a large extent, on the evolution of the sector.

- **High debt based on a capital-intensive business model that requires significant investments.** The generation of higher revenues during 2022, following the reopening of the hotels and the favourable evolution of the sector, along with the consequent strengthening of the group's cash and cash equivalents position (+196.9% yoy), has contributed to the reduction of the group's net financial debt (-10.9% vs 2021). The NFD/EBITDA ratio stood at 5.9x on a preliminary 2022 basis (2021: 18.9x). However, the group, although showing an improvement, has a low interest coverage of 3.3x (2021: 2.0x) due to the associated high financing cost. Similarly, it is important to mention that, based on preliminary figures as at 31 December 2022, the group would be in breach of some of the ratios established in the debt contracts in force. The group has communicated that this results from an error in the signing of the debt contracts, and has requested the corresponding exemptions (via waivers) from the banks concerned.

Solvency

- **Favourable level of solvency based on adequate financial autonomy and the valuable portfolio of owned assets.** The group has significantly improved its financing structure, with adequate financial autonomy (ratio of equity-to-adjusted total financial debt) of 61.1% at end-2022 (+12.7pps YoY). Equity has been strengthened to €178.9m (+21.6% YoY), by retained profits (net profit for the year of €15.1m) and the increase in reserves (unpaid dividends +€13.4m reclassified from long-term liabilities to equity). Financial debt remained relatively stable at €292.9m (-3.7% YoY). With regard to the structure of financing maturities, equity and non-current liabilities together represent 85.9% of the balance sheet total and 98.4% of fixed assets, showing a balanced structure. This balance sheet stability is further reinforced by the valuation of the asset portfolio (€765.5m at market values) resulting in a solid loan-to-value ratio of 34.5% in 2022.

Liquidity

- **Adequate liquidity favoured by the reactivation of the sector.** The group has a business model that usually generates operating cash and an adequate management of its working capital. In addition, the restructuring of financial debt during 2022 helped to improve the debt maturity schedule, reducing cash outflows and increasing the percentage of long-term debt (84.0% of TFD), with most maturities concentrated beyond 2027 (52.4% of TFD), so we consider that the debt schedule is manageable. In general terms, in the current context of recovery of the sector, the group generates solid and recurrent FFO (forecast at €57.2m in 2023). Together with the cash and cash equivalents available at the end of 2022 (€31.2m according to preliminary figures), this indicates that the group will not have difficulties to meet its commitments in the short term (€46.9m).

Summary of financial information

Main financial aggregates. Thousands of euros.[1]

	2019	2020	2021	2022[2]	21vs20	22vs21
Turnover	116.426	39.704	80.350[3]	172.012	102,4%	114,1%
EBITDA	29.319	-14.364	15.517	44.328	208,0%	185,7%
Mg EBITDA	25,2%	-36,2%	19,3%	25,8%	55,5pp	6,5pp
EBIT	12.024	-35.381	-761	21.729	97,8%	2954,1%
Mg EBIT	10,3%	-89,1%	-0,9%	12,6%	88.2pp	13.6pp
EBT	-3.284	-58.390	-5.790	15.845	90,1%	373,7%
Total Assets	511.847	431.662	478.138	494.500	10,8%	3,4%
Equity	217.364	119.160	147.148	178.933	23,5%	21,6%
Total Financial Debt[4]	273.475	293.393	304.116	292.911	3,7%	-3,7%
Net Financial Debt	271.006	288.218	293.560	261.676	1,9%	-10,9%
Loan To Value (LTV)	32,4%	36,2%	33,8%	34,5%	-6,5%	2,1%
Equity/TFD	79,5%	40,6%	48,4%	61,1%	7.8pp	12.7pp

NFD/EBITDA	9,2x	n.a	18,9x	5,9x	n.a	-13,0x
Flow of Operations	19.473	-21.429	12.464	35.439	158,2%	184,3%
FFO/NFD	7,2%	n.a	4,2%	13,5%	n.a	9.3pp
EBITDA/Interest	2,4x	n.a	2,0x	3,3x	n.a	1,3x

[1]USD/EUR exchange rate = 0.93. [2]Preliminary 2022 figures. [3]The actual sales figure for 2021 is estimated at €102.0M ($109.7M) after correction of an accounting error that is expected to be resolved in the audit of 2022 results. [4]Total financial debt has been calculated following EthiFinance Ratings methodology: debentures and marketable securities + bank borrowings + other financial liabilities (related party debt).

Sensitivity analysis

Factors that could (individually or collectively) impact the rating:

- **Positive factors (↑).**

  We do not see any possible rating upgrades over the medium term.

- **Negative factors (↓).**

  Deterioration of the economic environment, especially in the US and Canadian markets, the company's main source of hotel bookings. Deterioration of ratios (Mg EBITDA below 27.0% on a sustained basis, NFD/EBITDA above 5x on average, FFO/NFD below 15%, and EBITDA/interest below 3.0x).

Credit rating

Credit Rating	
Business Profile	**BB-**
Sectoral Analysis	BBB
Competitive Positioning	B
Performance	BB
Governance	BB-
ESG Company	neutral
Financial Profile	**BB**
Profitability	A-
Indebtedness	B-
Solvency	BBB+
Anchor Rating	**BB**
Modifiers	n.a.
Rating	**BB**

Regulatory information

Fuentes de información

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- Página web corporativa.
- Información publicada por los Boletines Oficiales.
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- EthiFinance Ratings publica los datos sobre las tasas históricas de incumplimiento de las categorías de calificación, que se alojan en el repositorio central de estadísticas CEREP, del regulador European Securities and Markets Authority (ESMA).
- De acuerdo con lo estipulado en el Artículo 6, apartado 2, en relación con el anexo I, sección B, punto 4, del Reglamento (CE) Nº 1060/2009 del Parlamento Europeo y del Consejo de 16 de septiembre de 2009, se informa que en el transcurso de los últimos 12 meses EthiFinance Ratings no ha prestado servicios auxiliares a la entidad calificada ni a terceros vinculados.
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