# CEIBA Investments Limited (CBA LN)

**Corporate Client**

**Investment Funds** **Current price* 28.0p**

**Corporate**

## Risk & Reward in Cuban Real Estate

13 May 2024

**Over the last 5 years, the value of CEIBA's property assets (Hotels and Offices) has declined c31%, its NAV by 23%, the fund has suspended its dividend and its share price has fallen from c£1.00 to 28p. This de-rating reflects a combination of COVID, a botched economic reform, the reinstatement of Cuba on the US State Sponsors of Terrorism list (including associated loss of European tourists and difficulties for US associated companies to trade with Cuba) and the Russia/Ukraine war (previously a key source of tourists). With the exception of the COVID era, the fund's investments have traded, and continue to trade, profitably. Acknowledging the risks, our view is that the market's reaction (a c70% discount to a written down NAV) is overdone and that as CEIBA & Cuba address their issues there is potential for a substantial, positive, re-pricing of both CEIBA's assets and its share price. Our read of the trajectory for CEIBA's share price is that the market will be reactive not anticipatory. As each item (e.g. Cuba's currency, CEIBA's dividend policy/convertible bond) gets addressed we expect CEIBA's share price to respond. At a 50% discount to NAV (53% upside from the current share price), CEIBA would still be trading on an 8.2% FCF yield and a 14.0% normalised FCF yield.**

### FY23 Results

In FY23, CBA reported a $1.15 ($1.03) NAV & TR of +11.6% driven by the recovery of $15.0m of previously provisioned dividends. The value of Miramar (hotels, c32% of assets) increased (+11.6%) but the value of Monte Barreto (offices, c24% of assets) declined (-5.7%) reflecting a decision to translate trapped cash at the tourism rate (CUP120) and not the official rate (CUP24) and a reduced investment value. Key events include the completion and opening of TosCuba (a new hotel, c29%).

### Valuation

Our view is that (for understandable reasons) the market has given up and lost interest. CEIBA currently trades on a c70% discount to its reported NAV. On a look-through basis & based on SCM calculations, this translates into a distributable free cash flow yield (FCF) of 12.6% rising to 21.5% on a normalised FCF basis.

### Risks

Cuba's economy is weak with limited access to foreign currency and significantly hampered by US sanctions. News reports highlight shortages of food, fuel and medicine that are stimulating protests and significant emigration. In addition, the country is in default on its foreign debt obligations. Key CEIBA risks include access to foreign currency, its ability to repatriate profits and changes to the FX regime. In December 2023, the Cuban Government announced plans to reform its FX regime and to partially dollarise the economy – since this announcement no further details have been forthcoming.

### Trading in CEIBA Shares

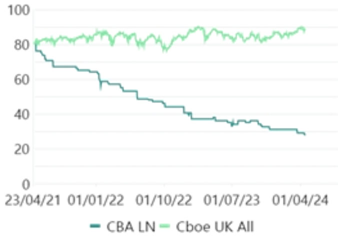
Whilst CEIBA's shares are listed on the LSE, as a result of the US embargo, global custodians have elected not to permit trading in the shares. Where platforms and brokers have their own nominees, the shares can be traded. We understand CEIBA shares can be acquired through Hargreaves Lansdown & AJ Bell. In addition, CEIBA has established custody and dealing arrangements with LINK Registrars for investors.

**Key data**

| | |
|---|---|
| Yield (%) | Nil |
| NAV (31 Dec) | $1.15/92.0p |
| Discount | 69.6% |
| Market cap (£m) | 38.5 |
| Shares in issue (m) | 137.7 |
| Next Event: | 29/09/2024 Interim results |

| | 1m | 3m | 12m |
|---|---|---|---|
| Absolute % | -3.4 | -9.7 | -22.2 |
| Rel. market % | -8.0 | -16.5 | -27.2 |

**Share price chart**

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# Sense and Sensitivities

## How does CEIBA Investments Limited create value and make money?

CEIBA is a specialist Cuban real estate fund targeting a 12.5-17.5%pa $ TR over the long run. The Company invests in, and manages a portfolio of Cuban real estate assets, with a focus on the tourism-related and commercial property sectors. Cuban real estate assets may also include infrastructure, industrial, retail, logistics, residential and mixed-use assets (including development projects). The fund's key assets comprise interests in five operational hotels and a modern office complex.

**Background (Click):** website

## Business positioning

### Strengths

- The company's assets are joint ventures with the Cuban partners, operational and trading profitably.
- 65% of the portfolio comprises 5 hotels (2,232 rooms in total) which are profitable and able to repatriate profits.

### Weaknesses

- The Cuban economy is very weak and access to foreign currency is limited.
- The fund has been unable to repatriate profits (c$5-7m pa) from its office complex (c24% of assets) since the onset of COVID 19.

### Opportunities

- The fund's NAV has declined 23% since 2018 and hotel occupancy hasn't fully recovered.
- The Gov't has a history of pragmatically enabling the fund's trapped cash to be productively redeployed within Cuba in valuable assets and rights.

### Threats

- Cuba is under significant US sanctions. This restricts international investors from doing business with and in Cuba and its access to foreign currency.
- CEIBA has a €25m convertible bond due for re-payment on 31 March 2026.

## Key influences on the share price

### Bull points

- In addition to its assets being marked down, CEIBA's share price has collapsed – resulting in a double discount. Improvements in Cuba's economic situation should result in an uptick in asset values and a reduction in the fund's discount to NAV.

### Bear points

- Further weakness in the Cuban economy or an official deprecation in the FX rate could have a negative impact on the portfolio's value and its profitability but not its profitability (rents and room rates are expressed in US$).

## How does the market view CEIBA Investments Limited?

Reflecting its scale, the issues with Cuba and US sanctions the market ignores CEIBA.

## How do we view CEIBA Investments Limited?

Our view is mixed. CEIBA has demonstrated an ability to operate in a difficult environment and owns profitable assets that are attractively valued that, subject to currency restrictions, are capable of generating a decent investment return. In addition (and there is no sign of this occurring), should the US relax or remove its sanction regime, or should Cuba be more successful in its ongoing reform efforts, we see room for considerable upside from the normalisation of asset values. The removal of Cuba from the controversial US State Sponsors of Terrorism list alone would have a significant positive effect on European tourism to Cuba. That said, the short term outlook is difficult and reflected in the fund's valuation. At this level and acknowledging the risks, we view CEIBA as offering an attractive asymmetric return profile for a long term investor.

## What are the pivotal issues?

CEIBA's success is intrinsically linked to that of the Cuban economy, currency and its tourist industry. As the rules currently stand, CEIBA's hotel assets have privileged access to FX and are key to repatriation of sufficient funds to re-pay the fund's convertible bond and re-start its dividend. How the fund's board elects to allocate capital will be key to its re-rating.

**Pivotal issues: Cuba's access to FX, the on going issues with the Cuban economy and CEIBA's convertible bond**

## How do we value CEIBA Investments Limited?

- Our principal valuation metric is the price/book ratio (discount) relative to its history and peers.
- Where data is available we supplement our valuation with data regarding the underlying portfolio. This data could include earnings growth, valuation multiples, leverage, sectors/geographies, transaction type, portfolio and balance sheet structure. This data is used to add colour and context to p/b ratio.

Value Chart

# Introduction & Summary

CEIBA is a specialist Cuban real estate fund targeting a 12.5-17.5%pa $ TR. In 2018, The fund listed on the Specialist Fund Market of the London Stock Exchange offering a 4% dividend yield. Prior to its IPO, CEIBA had consistent track record of dividend distributions totalling $75m.

The thesis at IPO was to "get paid while you wait…"; listing a dividend paying company with existing profitable investments in Cuba that would substantially benefit from Cuba's economic reform, the future dismantling of US sanctions versus Cuba, the establishment of Cuba as a US investment destination and the associated re-rating of Cuban investments.

Since IPO, Cuba has suffered from the toxic combination of Covid, The Russia / Ukraine War, an increase in US Sanctions, a weak economy and a botched Cuban currency reform (limiting access to foreign exchange). As a result, the fund's NAV has declined 23% (since 31 Dec 2018), its dividend has been suspended since 2020 and its share price de-rated from a small premium at IPO to a c70% discount (as of 10 May).

In 2023, the fund became internally managed and the management team continues to be led by Sebastiaan Berger.

The fund's portfolio largely (c85% of look-through assets) comprises interests in five hotels (2,235 rooms), and offices (56,000sqm net lettable area) and a construction loan related to one of the hotels which has just recently started trading; the balance (12%) comprises cash and other assets. CEIBA's balance sheet comprises minority (direct and indirect) stakes in the assets that comprise its portfolio & cash / other net current assets. CEIBA's principal liability is a €25m 10% convertible bond (CB) due on 31 March 2026. On a look-through basis, we estimate the leverage at c.14% LTV.

The hotels and the offices are trading profitability and highly cash generative. In 2023, hotel occupancy was 66.5% (55% PY) and the offices were 96% (95%) let. The hotels (excluding the recently completed one) and offices are valued on post-tax earnings yields of 5.5% (9.4% 2022) & 13.5% (14.4%) respectively. The construction loan (8% interest rate) is repayable over 10 years from April 2024 and is 50% guaranteed by CUBANACÁN S.A., the Cuban partner in both Miramar and TosCuba.

We calculate CEIBA's current repatriable (from Cuba) cash flows at $12.7m pa rising to $17.2m pa in a normalised environment. The difference between the current and a normalised environment is largely a function of its ability to repatriate dividends from its office asset which is currently impaired. The lower end of the range assumes that all hotel cash flows (dividends, interest and capital repayments) can be repatriated. Net of offshore costs (Management and interest payments), we estimate the net distributable annual cash flows at $6.5m (4.7 Usc per share) rising to $11.0m (8.1 USc per share).

### Outlook & Look-through valuation

Over the past few years, the portfolio valuation has declined c30% as the independent valuers responded to Cuba's circumstances. The market, exhibiting caution and responding to the dividend suspension, has added its own haircut. Objectively, the market by placing CEIBA on a c70% discount to a written down NAV, is valuing CEIBA as a distress asset.

In our opinion and acknowledging the risks, this feels overly conservative; especially given that its revenues are denominated in US$ and that the TosCuba hotel (28.5% of NAV) has recently started trading. Our analysis suggests that CEIBA has sufficient cash flows to repay the convertible bond (although some restructuring may be required) and, in due course, re-start the payment of a dividend. The key assumption in this analysis is that any changes to the Cuban FX regime are, on balance, neutral to from CEIBA's perspective.

A key feature of the Company's relationship with the Cuban government has been that the Government has proven flexible within the constraints of its limited access to FX. Specifically, where cash has been trapped in Cuba the Government has been prepared to authorize the reinvestment of dividends and allow for the 'transfer' of bank balances from Monte Barreto to the hotel joint venture companies TosCuba and Miramar where same can be gainfully used.

The investment case at IPO (2018) was that investors could earn a reasonable income (c5% yield on NAV) whilst waiting for a normalisation of Cuba's situation. In our opinion, the IPO thesis has the potential to be re-instated. Items to be addressed include a degree of certainty re-the FX regime and, as a result, an articulation the fund's plans for its CB and dividend.

CEIBA's assets are valued (via a DCF) using post tax discount rates of 17%-19% (31 December 2023), up from c9.6%-12.5% in 2018/2019. On a capitalisation rate basis, CEIBA's offices are valued at a 19% cap rate. The Minor Hotels / NH Hotels Group (NHH-ES) group reports that it values its Latin American hotels (Brazil, Chile, Colombia, Cuba, Ecuador, Haiti, Mexico and Uruguay) on discount rates ranging from 9%-14.5%. JLL reports Central America & the Caribbean office cap rates at 9-12% versus 21% for CEIBA's office assets.

CEIBA currently trades on a 70% discount to its reported NAV. On a look-through basis & based on SCM calculations, this translates into a distributable cash flow yield of 12.6%. At a 50% discount to NAV (53% upside from the current share price), CEIBA trades on an 8.2% FCF yield and a 14.0% normalised FCF yield.

# Portfolio

CEIBA's portfolio largely comprises minority interests in Cuban real estate assets. The ownership of the assets is via Cuban Joint Venture Companies with the Cuban state owning either 51% (the Office complex) or 50% (the hotel assets). The balancing interest is held 100% by CEIBA (the offices) or split between CEIBA and Melia Hotels International (IBEX Ticker MEL-ES); CEIBA's strategic partner and hotel operator.

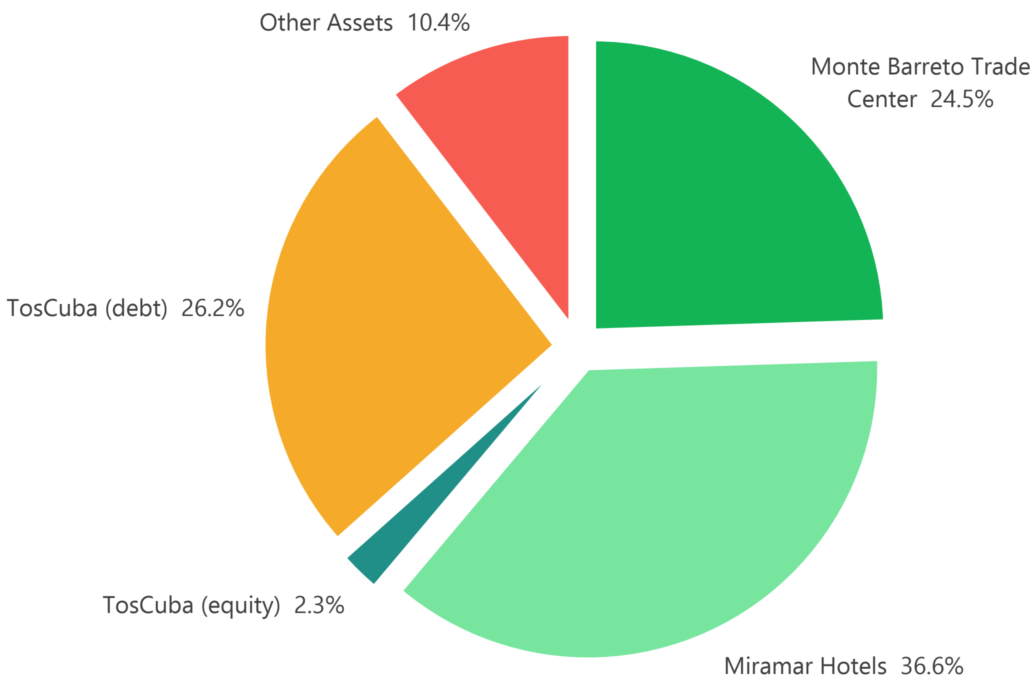
Melia is Spain's largest hotel group. The group has more than 35 hotels under management in Cuba and is the principal international hotel operator active in Cuba.  The only hotels in Cuba in which Melia has an equity interest (in addition to a management role) are the hotels of Miramar and TosCuba.

- The Monte Barreto office complex (56,000 Sqm, 24.1% of assets, 49% ownership),
- The Miramar Hotel Group (four operational hotels / 1,834 rooms, 32.4% of assets, 32.5% indirect ownership) and
- TosCuba a recently completed hotel (401 rooms, 28.6% of assets, 32.5% indirect ownership).

A key feature of CEIBA's assets is that 100% of the revenues are priced in $ or Euro and the hotel revenues are received off-shore. In the case of the office revenues, the agreed US$ rent is translated into Pesos at the official FX rate and collected on shore.

The interests of CEIBA and Melia in the hotels (Miramar and TosCuba) is owned through their respective (65% and 35%) shareholding in HOMASI. CEIBA accounts for HOMASI as an associated; 100% of the value of HOMASI is reflected on CEIBA's balance sheet. Look-through figures used in this report reflects CEIBA's actual interest in the assets and not its accounting interest.

**Figure 1: Look-through asset allocation**




*Source: Company data as of 31 December 2023*

### HOMASI (Hotel Hold-Co)

Incorporated in Spain, HOMASI is the hold-co of the Cuban joint venture companies that own the five hotels in which the fund is invested (the other 50% is owned by the Cuban state owned company CUBANACÁN S.A.). HOMASI is 65% owned by CEIBA and 35% by Melia (the Hotel's operator). As a result of this ownership structure, CEIBA has a 32.5% indirect interest in the hotels.

The income directly generated by the Hotels (international tourism income) is treated as direct export income and collected offshore. As a result of this structure c70% of the 'liquidity' (foreign currency) can be retained by the joint venture and is estimated to be sufficient for the distribution of all profits generated during the year.

The international (gross) tourism income generated by the five hotels in which HOMASI holds an interest is collected offshore. This income is considered by Cuba as "direct export income". Under current Cuban legislation, c70% of the 'liquidity' (foreign currency) can be used by the joint venture to make hard currency payments.

In the case of CEIBA's hotels the monies that are collected offshore (from international tourists) are used in part to guarantee the payment of all non-Cuban purchases of consumables and FF&E for the hotels plus all declared hard currency dividend payments to which HOMASI is entitled.

In its role as a conduit, HOMASI confirms and acts as a guarantor and invoice discounter for suppliers. In addition to being a profitable activity, the service improves the reliability of the supply (and price) of ) of goods and products that need to be imported by the hotels. The procurement activity is undertaken by the joint venture companies. HOMASI's activities are restricted to confirming the order and payments, monitoring procurement activity/costs and approving new suppliers.

### Miramar Hotels (four hotels, 1,834 rooms) ($71.5m, 36.6% of assets)

The Miramar hotel assets comprise:

- The Melia Habana (397 rooms, 5 star, TripAdvisor Score 4.0, 2024 Travellers Choice Award), located opposite the Miramar trade centre in Havana; and

Located in Varadero next to Cuba's only 18 hole golf course, the three beach hotels are:

- The Melia Las Americas (340 rooms, 5 star, TripAdvisor Score 4.5 and 2024 Travellers Choice Award);
- Melia Varadero (490 rooms, 5 star, TripAdvisor Score 4.0); and
- Sol Palmeras Hotel (607 rooms, 4 star, TripAdvisor Score 4.5, 2024 Travellers Choice Award – Best of the Best).

**Figure 2: Miramar Hotels - Financials***

| Date | Dec-18 | Dec-19 | Dec-20 | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|---|---|---|
| Daily Revenue per Available Room (RevPar, $) | 96 | 84.9 | - | 90.7 | 112.7 | 92.7 |
| Daily Revenue per Room Sold ($) | 124.2 | 110.4 | - | 150.4 | 204.4 | 139.4 |
| Model daily rate per room ($) | 133.9 | 120.7 | 107.4 | 112.7 | 119.6 | 103.5 |
| No of rooms | 1,834 | 1,834 | 1,834 | 1,834 | 1,834 | 1,834 |
| Occupancy | 77.3% | 76.9% | 24.0% | 20.0% | 55.0% | 66.5% |
| Revenue ($m) | 94.2 | 85.8 | 29.4 | 19.6 | 72.4 | 62.1 |
| Net Income after tax ($m) | 21.7 | 17.9 | -3.5 | -9.6 | 18.6 | 12.1 |
| Margin (%) | 23.0 | 20.8 | - | - | 25.6 | 19.6 |
| HOMASI Value of a 50% Interest ($m) | 154.6 | 127.9 | 103.2 | 94.5 | 98.6 | 110.1 |
| Average post tax discount rate (%) | 12.3 | 12.5 | 12.6 | 14.5 | 16.0 | 16.7 |
| Value per Hotel Room ($) | 168,626 | 139,463 | 112,524 | 103,066 | 107,565 | 103,697 |
| Earnings Yield (%) | 7.0 | 7.0 | - | - | 9.4 | 5.5 |
| Dividend paid to HOMASI ($m, 50% owner) | 8.6 | 20.7 | 13.3 | 0.5 | 7.7 | 8.2 |
| Payout ratio (%) | 79 | 231 | -755 | -10.4 | 82.9 | 134.5 |

*Source: CEIBA ARAC / Miramar S.A. Miramar S.A. is the Cuban Joint Venture Hotel Company which owns 100% of the Hotels. HOMASI is the offshore holding company (65% owned by CEIBA) that owns 50% of Miramar S.A*
*In 2018, the surface rights of the Miramar hotels were extended/granted to 2042.*

In the period December 2018-2023, the value of the hotel group declined 28.8%, occupancy declined from 77% to 65%, revenue per available room (RevPar) was reasonably steady at $92.7 per room and profitability was restored to close to pre-pandemic levels. During this period the independent valuer's discount rate rose from 12.3% to 16.7% and their model assumptions show a steady increase in occupancy (to c77%) over the coming few years.

In 2023, revenue & profitability declined due to increased competition (The Habana hotel) and a poor client mix (The Varadero). As a result, the historic earning yield (Net Income / Valuation) declined from c9.4% to 5.5%. Discussing the prospects for 2024, the team highlighted an expectation for a normalisation of profitability reflecting a combination of the continued recovery in tourism numbers and the resolution of operational issues at the Varadero. The group is planning a significant room refurbishment for the Varadero and Sol Palmeras Hotels in 2024.

Taking account of management's guidance (for a strong rebound in net income), we expect that the Miramar is likely to continue to pay dividends totalling c$8m pa to HOMASI (i.e. c$5.2m to CEIBA)

### TosCuba (Meliã Trinidad Peninsula Hotel, $56.8 / 28.6% of assets)

After a soft launch in November 2023, the 401 room 5-star hotel was officially inaugurated on 14th January 2024 by Cuba's Prime Minister Manuel Marrero, the Minister of Tourism Juan Carlos García and Gabriel Escarrer, the President of Spain's Meliá Hotels International S.A. The hotel was recently reviewed in the Sunday Times, **click here**. The hotel's initial reviews on **Trip Advisor** have been highly positive (A score of 4.5). The Hotel has received a TripAdvisor Travellers Choice Award (2024)

CEIBA has a 32.5% indirect equity interest (valued at $4.4m, net of construction finance) in TosCuba / Meliã Trinidad Peninsula Hotel via Mosaico Hoteles/HOMASI (see earlier). In addition, CEIBA has provided c$51.1m of construction finance (and accrued interest) at a rate of 8% (i.e. $4.1m pa). CEIBA's total exposure comprises a direct loan and its share of a loan from HOMASI.

The interest is paid offshore (with assigned tourist income) with the first monthly payment starting in April. The principal and interest are scheduled to be repaid over the next c9 years (c$6.3m pa). The construction finance is secured by the future income of the hotel, whilst the repayment of more than half of the facility has also been guaranteed by Cubanacán (the Cuban shareholder in the joint venture company) and is further secured by Cubanacán's dividend entitlements in Miramar.

Discussing the equity valuation, management highlighted that it was entirely dominated by the construction finance (80% provided by CEIBA) and that as this was repaid, the equity value will increase.

### Monte Barreto (Commercial Offices, $52.6m / 22.2% of NAV)

CBA reports that demand for international-standard office accommodation in Havana remains strong, predominantly from multinational companies, joint ventures, NGOs and foreign diplomatic missions. Monte Barreto remains the dominant option in this market segment. The outlook for Monte Barreto remains encouraging, the manager expects occupancy levels to remain in the mid to high 90%. Reflecting the current environment, the management of Monte Barreto is not seeking to increase rents when leases expire.

The majority of leases are for 1 year and tenants have no rights of renewal. Whilst Monte Barreto remains virtually fully let and no new office buildings are being built or planned the potential for rental value growth is limited and dependant on growth in the Cuban economy.

A large part of the total rentable area (56,000 sqm) is leased to Cuba's telecommunication company ETECSA and other (national and joint venture) companies, whose rents are collected in Cuban Pesos. Existing monetary legislation and circumstances restrict or prevent those Pesos from be exchanged or transferred abroad in hard currency. However, arrangements are being made with international tenants to pay their rent overseas and distributable to CEIBA. We understand that as of the current year these arrangements will account for cUS$2m p.a. of rent. The manager reports that the leases are denominated in US$ but payments made in Cuba are paid in Pesos at the official FX rate (US$1.0: CUP24.0); in the event of a devaluation the Pesos receipts will increase proportionally, offsetting the impact of a devaluation. Asked if the Cuban clients would be able to afford the rent should the official FX rate depreciate from CUP24 to CUP120, CEIBA's management highlighted that their clients had substantial US$ incomes whose increased Pesos value would enable them to afford the increased rents.

**Figure 3: Monte Barreto – Income Statement ($'000)**

| | Dec-17 | Dec-18 | Dec-19 | Dec-20 | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|---|---|---|---|
| Revenue | 23,075 | 23,396 | 23,867 | 23,390 | 22,557 | 22,664 | 22,896 |
| Operating costs | -6,180 | -6,069 | -5,785 | -4,885 | -3,240 | -3,780 | -4,453 |
| D&A | -1,528 | -1,606 | -1,658 | -1,656 | -1,653 | -1,448 | -1,377 |
| Net Finance expense | 26 | 31 | 31 | 62 | 690 | -45 | -17 |
| tax | -3,884 | -3,038 | -2,919 | -2,533 | -2,754 | -2,657 | -3,904 |
| Profits from operations | 11,509 | 12,714 | 13,536 | 14,378 | 15,600 | 14,734 | 13,145 |
| Margin | 49.9% | 54.3% | 56.7% | 61.5% | 69.2% | 65.0% | 57.4% |
| CEIBA Share of profits | | 6,230 | 6,633 | 7,045 | 7,644 | 7,220 | 6,441 |
| Dividends receivable from Monte Barreto | | | 6,923 | 9,874 | 12,281 | 19,045 | Nil |

*Source: Company data. Monte Bareto's land use right expires in 2046*

Discussing the decline in profitability, the team highlighted that operating expenses increased by some 11%. At 31 December 2022, CEIBA provisioned US$19m of dividend receivables (declared before April 2022) that it was unable to receive in its offshore bank account and stopped declaring dividends. During 2023, CEIBA agreed with its Cuban partners that of the provisioned amount it would reinvest US$14.3m in Miramar (the hotel company that owns the four hotels in Havana and Varadero).

Management is presently discussing similar transactions with its Cuban partners to use the remainder of the provisioned dividends plus an amount of retained earnings, which will be subject to authorization by the Cuban authorities and board approvals.

**Figure 4: Monte Barreto - Balance Sheet**

| | Dec-17 | Dec-18 | Dec-19 | Dec-20 | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|---|---|---|---|
| Cash | 5,790 | 7,191 | 19,141 | 26,725 | 42,336 | 55,481 | 50,807 |
| Current Assets | 5,411 | 5,670 | 2,206 | 1,480 | 1,666 | 2,006 | 2,077 |
| Non current assets | 51,257 | 50,006 | 48,507 | 46,865 | 45,419 | 44,054 | 42,852 |
| Current financial liabilities | -3,326 | -6,286 | -18,389 | -23,450 | -27,428 | -41,446 | -11,530 |
| Non current Fin Liabilities | -3,438 | -3,675 | -3,687 | -3,696 | -3,820 | -3,833 | -4,847 |
| Total | 55,694 | 52,906 | 47,778 | 47,924 | 58,173 | 56,262 | 79,359 |

*Source: Company data*

Discussing Monte Barreto's balance sheet, the team highlighted that the cash was trapped (given Cuba's shortage of FX) and that the non-current financial liabilities represent unpaid dividends – relating to the FX shortage. The reduction in liabilities during 2023 reflects the success of the management team to negotiate the transfer of trapped balances from Monte Barreto to Miramar and TosCuba to fund local currency denominated investment expenditures.

Reflecting the shortage of FX, CEIBA has translated Monte Barreto's trapped (excess) cash using the Tourism FX Rate (CUP120 and not the official rate of CUP24); reducing the value of Monte Barreto by $16.0m (c25%).

**Figure 5: Monte Barreto - Financial Metrics**

| | Dec-17 | Dec-18 | Dec-19 | Dec-20 | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|---|---|---|---|
| Net Lettable Area (Sqm) | 56,000 | 56,000 | 56,000 | 56,000 | 56,000 | 56,000 | 56,000 |
| Asset Value ($m, 49% stake) | 77.7 | 76.2 | 86.7 | 81.4 | 67.7 | 50.2 | 47.8 |
| Discount rate (%) | 9.9 | 9.5 | 9.8 | 9.8 | 12.8 | 18.2 | 19.0 |
| Value per Sqm ($) | 1,388 | 1,360 | 1,548 | 1,454 | 1,209 | 897 | 854 |
| Revenue per Sqm ($) | - | 34.8 | 35.5 | 34.8 | 33.6 | 33.7 | 34.1 |
| Gross to net (%) | 73.2 | 74.1 | 75.8 | 79.1 | 85.6 | 83.3 | 80.6 |
| Net monthly revenue per Sqm ($) | 25.1 | 25.8 | 26.9 | 27.5 | 28.7 | 28.1 | 27.4 |
| Monthly rent per Sqm ($) | - | - | - | - | 26.0 | 26.2 | - |
| Revenue ($m) | 23.1 | 23.4 | 23.9 | 23.4 | 22.6 | 22.7 | 22.9 |
| Profit from operations ($m) | 11.5 | 12.7 | 13.5 | 14.4 | 15.6 | 14.7 | 13.1 |
| CEIBA Share of profits ($m) | 5.6 | 6.2 | 6.6 | 7 | 7.6 | 7.2 | 6.4 |
| Earnings Yield (%) | 7.3 | 8.2 | 7.6 | 8.7 | 11.3 | 14.4 | 13.5 |

*Source: Company data*

Since 2018, the value of CBA's interest in Monte Barreto has declined 37.2% driven almost entirely by an increase in the post-tax discount rate from 9.8% to 19%. The increase in discount rates reflects the country's currency crisis/Monte Barreto's inability to pay a dividend to its overseas shareholders. During this period, Monte Barreto has remained broadly fully let and its post-tax profits rose 3.4%.

Our initial take is that its valuation should stop declining with the potential for the asset to be marked up should multinational tenants start paying their rent offshore.

Our analysis suggests that absent Cuba's currency crisis, Monte Barreto should be capable of paying c$5-7m pa as dividend to CEIBA. Reflecting the arrangements made for foreign tenants to pay their rent offshore (presently estimated by the manager at US$2m p.a.) it seems clear that in the short term the vast bulk of the distributable income will accumulate onshore. We expect that this will incentivise management to pursue a policy of trying to swap trapped dividends for property rights.

# Financial Analysis & Valuation

CEIBA's revenue outside Cuba largely comprises remittances (dividends and interest income) from its assets in Cuba. We calculate CEIBA's total interest in the asset's repatriable net income, interest etc at c$12-14m pa. Discussions with the asset management team (and subject to the ability to repatriate earnings) highlights that:

- The office complex (c24.1% of assets, 13.5% earnings yield), Monte Barreto, ability to grow earnings is limited but the asset is highly cash generative. Currently $3-5m pa of income attributed to Monte Barreto is currently not repatriable.

- The Miramar hotels (c32.4% of assets, 5.5% earnings yield) are cash generative, have significant operational leverage, an ability to grow RevPar (revenue per available room). During 2023, profitability declined by c$6.5m (to $12.1m from $18.6m). Management are guiding for profitability to rebound 2024.

- The TosCuba $52.3m construction loan (8% interest rate, 10 year repayment) interest and amortisation payments are expected to normalise at $6.3m pa. In FY'24 the payments are expected to total $4.7m.

Our review of the portfolio leads us to conclude that the assets are trading well (albeit below pre-COVID levels) and generating distributable income. CEIBA's key operational issue is the state of the Cuban economy and, specifically, the ability to repatriate the income from Cuba.

**Figure 6: CEIBA Look-through simplified balance sheet**

| **Assets** | **2022 ($m)** | **2023 ($m)** | **2022 Earnings Yield*** | **2023 Earning Yield*** |
|---|---|---|---|---|
| Miramar Hotels | 61.1 | 64.1 | 9.4 | 5.5 |
| Monte Barreto Trade Centre | 50.2 | 47.8 | 14.4 | 13.5 |
| TosCuba (equity) | 3.5 | 4.4 | 10.0 | 10.0 |
| TosCuba (debt, inc accrued Interest) | 44.3 | 52.3 | 8.0 | 8.0 |
| Other assets | 21.7 | 29.4 | 4.0 | 4.0 |
| **Total assets** | **180.7** | **198.1** | **10.3** | **8.0** |
| **Liabilities** | | | | |
| Current | 12.0 | 10.7 | | |
| Non-current (CB) | 26.7 | 29.4 | | |
| Total Liabilities | 38.6 | 39.6 | | |
| **Shareholder Equity** | **142.1** | **158.5** | | |
| LTV | 14.8% | 14.6% | | |

*Source: Company data, SCM calculations. *Calculated or estimated*

Discussions with management highlights that c$3-5m pa of net income from the offices cannot, currently, be repatriated. This 'trapped' income can be redeployed into productive assets within Cuba. If Cuba's mooted economic reforms (see later) prove effective, this cash flow will become distributable.

**Figure 7: Simplified presentation of CEIBA's 2024 expected distributable cash flows**

| | **Share of cash flows $m (low)** | **Share of cash flows $m (high)** | **Average ($m)** | **Normalised ($)*** |
|---|---|---|---|---|
| Hotels (Miramar) | 4.6 | 5.9 | 5.2 | 5.2 |
| TosCuba (loan + equity)* | 4.7 | 4.7 | 4.7 | 6.3 |
| Subtotal | 9.3 | 10.6 | 9.9 | 10.3 |
| Offices (Monte Barreto)** | 1.8 | 2.5 | 2.2 | 6.4 |
| Discounting interest | 0.6 | 0.6 | 0.6 | 0.6 |
| Total revenue | 11.7 | 13.7 | 12.7 | 17.2 |
| **Costs** | | | | |
| Operating costs | 3.4 | 3.4 | 3.4 | 3.4 |
| CB Interest | 2.7 | 2.7 | 2.7 | 2.7 |
| Total costs | 6.1 | 6.1 | 6.1 | 6.1 |
| Hotel less total costs | -1.6 | -0.3 | -0.9 | -0.9 |
| Hotel plus TosCuba less total costs | 3.1 | 4.4 | 3.8 | 4.1 |
| Net Cash flows | 5.5 | 7.5 | 6.5 | 11. |
| Total revenue less total costs - per share (USc) | 4.0 | 5.5 | 4.7 | 8.1 |

*Source: Company data, SCM calculations. *In 2024 the $4.7m income from TosCoba relates to c8 months. The TosCuba debt and interest repayments normalises at c$6.3m pa until December 2032 . **The income from Monte Barreto comprises offshore US$ income only, a further $3-5m pa (paid in CUP) of net income is trapped in Cuba. * We define 'normalised' as an ability to repatriate 100% of its share of the income from Monte Barreto and a full year's interest and repayments from TosCuba.*

Reflecting discussions with management, we estimate CEIBA is likely to generated c$6.5m of distributable FCF (4.7c per share) in 2024 rising to $11.1m (8.1c) assuming a normalised environment.

On our analysis, CEIBA's repatriatable income is sufficient to pay its non-Cuban costs and start re-paying its CB. CEIBA may need to re-finance or restructure its €25m CB (due on 31 March 2026) in order to better match the cash flows. In our opinion, a full re-finance of the CB complete with a re-profiling of its repayment schedule should enable CEIBA to re-start dividend payments.

## Valuation

Since 2018 the fund's property valuations have declined (reflecting higher post tax discount rates, currently 17-19%, and lower revenues), its dividend has been cancelled and the fund's share price has declined by 73% (from 102p to 28p/ 35USc). CEIBA now trades on a c70% discount NAV.

We do not consider a scenario in which the US dismantles its sanctions regime on the basis that it is too remote. In our opinion, such a scenario would have a strong positive impact on the fund's revenue, its revenue growth, the valuation of its assets and how it trades in the public markets. However, should the US elect to remove Cuba from the list of State Sponsors Terrorism (which would facilitate European tourism) this would have a very positive impact on Cuba and its economy.

Reviewing the valuations, we view the assumptions made (e.g. valuing trapped cash at the tourism rate) and post-tax discount rates (c17% for hotel assets, c19% offices) employed as appropriately conservative given Cuba's situation.

We note that the Minor Hotels / NH Hotels Group (NHH-ES) group values its Latin American hotels (Brazil, Chile, Colombia, Cuba, Ecuador, Haiti, Mexico and Uruguay) on discount rates ranging from 9%-14.5% and JLL reports Central America & the Caribbean cap rates at 9-12% versus 21% for CEIBA's Office assets.

**Figure 8: FCF Yields (%)**

| Cash flow | USc | NAV Yield (%) | Current Share Price Yield (%) | 50% discount Yield (%) |
|---|---|---|---|---|
| Total distributable FCF per share – per share (USc) | 4.7 | 4.1 | 12.6 | 8.6 |
| Total 'normalised' FCF per share – per share (USc) | 8.1 | 7.0 | 21.5 | 14.0 |

*Source: Singer Capital Markets calculations - - NAV 115 USc as of 31 December 2023, Share price 28pps /37.5c as of 7 May 2025*

Reflecting this our valuation analysis focuses on CEIBA's free cash flow (FCF) yield. This reflects our view that given the current stress investors' focus is on the very near term and not the longer term potential.

- On a NAV basis, we assess that CEIBA's assets generate a distributable FCF yield of 4.1% rising to 7.0% on a 'normalised' basis. We define 'normalised' as an ability to repatriate 100% of its share of the income from Monte Barreto and a full year's interest and repayments from TosCuba; and

- On a share price basis (reflecting the fund's 67.4% discount to NAV), we calculate that the market is pricing CEIBA at a 12.6% FCF yield that rises to 21.5% should we see a normalisation of cash flows.

In our opinion, and reflecting Cuba's economic circumstances, the market is valuing CEIBA as a distressed asset. In light of the fact that CEIBA is generating FCF, the level of the stress reflected by the share price is overdone. That said the route to a re-rating is contingent. Specifically:

- CEIBA needs to articulate (and then execute) its strategy vis-a-vis its CB; and

- Cuba needs to publish and implement the economic reforms that were announced in late 2023.

Discussions with management about the proposed (but undetailed) currency and economic reforms (including a likely devaluation in the Pesos) leads us to conclude that the outcome is likely to be neutral to positive.

Key to this conclusion is that 100% of CEIBA's income is priced in United States Dollars ($) and translated at the appropriate FX rate; thus CEIBA's income is unlikely to be impacted by a devaluation. Also, only a proportion of CEIBA's costs (less than half) are denominated in Pesos – whilst the costs are likely to rise (either immediately or over time) the impact isn't expected significant as key costs (petrol, power) have already started to increase; petrol is already priced at international levels. The most positive outcome will be reforms that improves CEIBAs ability to repatriate its share of the Monte Baretto income – we highlight that a key reason for the valuation discount rates to widen from c9.6%-12.5% in 2018/2019 to c17%-19% for the December 2023 valuation has been deterioration of the economy and the failure of the 2021 currency reforms. As the fiscal and monetary situation improves, our expectation is that overtime property valuation metrics will revert to historic norms.

Our view of CEIBA's current valuation is that the market has given up and lost interest. Our read of the trajectory for CEIBA's share price is that the market will be reactive not anticipatory. As each item (e.g. Cuba's currency, CEIBA's dividend policy/convertible bond) gets addressed we expect CEIBA's share price to respond. We note that at a 50% discount to NAV (53% upside from the current share price), CEIBA trades on an 8.2% FCF yield and a 14.0% normalised FCF yield.

# Cuba - Tourism, The Economy and the Currency

Tourism is a key source of foreign currency income for Cuba. In 2019 4.6m tourists visited Cuba, in 2022 this had declined to 1.6m.

In February 2024, the Ministry of Tourism projected 3.2 million tourist arrivals in 2024, still significantly below pre-pandemic levels. CEIBA's management team reports that similar countries such as the Dominican Republic, where 2023 tourist arrivals exceeded 2019 levels by 25% (excluding cruise ship arrivals).

Canada remains the primary outbound market with nearly 0.6 million visitors and Cubans living abroad was the second most important outbound market with 0.2 million arrivals. U.S. travellers arriving under the 12 authorised categories of licensed travel and Russians are other important categories.

In April 24, the Caribbean Council reported that Q1 tourism numbers are up 7.5% YoY. The figures show numbers from Canada, Cuba's largest market accounted for 49.3% of all visitors so far this year. Visitor numbers from Russia continue to increase significantly as new airlift is added, promotional activity enhanced, and the Russian government actively encourages tour operators, airlines, and investors to take a greater interest in Cuba as a destination. Cuba's principal European markets remain impacted by US travel regulations. US regulations require anyone eligible to enter the US under its ESTA visa waiver scheme to apply for a US visa if they entered Cuba after 12 January 2021. In 2019 Cuba received c1m European tourists by 2023 this had declined to c300,000 tourists. A reversion to 2019 European tourism numbers would have a significant positive impact on the Cuban economy, hotel occupancy levels etc.

### The Economy & Currency

Cuba's economy continues to be weak with 2023 GDP growth reported at -c2.0% and inflation at c30%pa. In addition, the country suffers from shortages of critical products, including food, electricity, fuel, rolling power cuts and transport problems. Agriculture production is at its lowest levels in many years. The private sector continues to show significant growth, with over 8,500 small and medium sized enterprises (SMEs) incorporated under the new rules permitting their formation adopted two years ago.

The hard currency shortage has remained acute, resulting from (i) lower tourist arrivals and tourist income in the first half of the year, and (ii) lower than projected export income.

In January 2021, the Cuban Government undertook significant monetary reforms. The reforms included the creation of "liquidity" rights (denominated in US$) that can be used to exchange Cuban Pesos to hard currency for international transfers on a decentralised basis. As a result of the reforms Cuba has three FX rates: The Official rate (US$1 : CUP 24), the Tourism rate (US$1 : CUP 120) and the Street rate (US$1 : CUP 280).

In December 2023, recognising the issues created by the 2021 reforms, the government announced a new set of financial reforms that included the partial dollarisation of the economy that would be adopted in the near future; replacing the current system. As part of the announcements there was an indication that the Cuban Central bank will be establishing a new (presumably) devalued exchange rate. As yet, no details of the new measures have been provided.

It is likely that some of the 2021 monetary reform benefits (specifically the Tourism FX rate) presently favouring the operations of Miramar and TosCuba may be scaled back and electricity/energy (the principle local currency costs, 40% of total costs) may rise as a result. In March 2024, petrol was repriced from CUP25 to CUP132 per litre ($1.1 per litre at the tourism rate). The Havana Times' reports that the new price was calculated in relation to international prices using the Tourism rate (CUP120).

The main impact of the 2021 regime on CEIBA continues to be in relation to the Company's ability to realise the income generated by Monte Barreto in the form of hard currency dividend payments. Over the course of the year, with the present liquidity crisis in the Cuban banking system, Monte Barreto has been restricted in its ability transfer significant dividends outside the country. In contrast, the International Tourism sector has benefited greatly as money (to pay staff, electricity, tax etc) can be converted at the tourism rate. Under the current rules, hotel operators are permitted to convert FX at the tourism rate in order to pay local currency bills (wages, energy etc, c40% of operating costs). Under these rules 70% of the liquidity (foreign currency income) can be retained by the joint venture and is forecast to be sufficient to allow Miramar to distribute all profits to be generated during the year.

CEIBA's management is cautiously positive about the potential reform, noting that:

- All their revenue is priced in US$;
- Local currency expenses are not dominant; and
- Some key costs (the price of petrol and electricity) have already started to increase.

The team highlights that resolving CUBA's FX issues will free up $3-5m pa of net income trapped by the currency regime.

**USA Relations**

Since 1961, the United States has maintained numerous long standing and other legal limitations aimed at Cuba, including a comprehensive trade embargo and a variety of travel and other trade restrictions limiting the transactions that may be carried out between Persons subject to U.S. jurisdiction and Cuba. The principal legislation creating the U.S. Embargo includes the Cuban Assets Control Regulations of 1963 ("CACR") adopted under the authority of the Trading with the Enemy Act of 1917 (the "TWEA") and the Cuban Democracy Act of 1992 (the "Torricelli Act").

On 12 January 2021, President Trump's administration, the USA designated Cuba as a Sponsor of Terrorism (SST) alongside N. Korea, Iran and Syria. The consequence of the designation is that Cuban entities and foreign investors face substantial difficulties in obtaining standard banking, insurance and other international financial services necessary for regular operations. The designation of Cuba as a state sponsor of terrorism required President Biden (under the U.S. Visa Waiver Program Improvement and Terrorist Travel Prevention Act of 2015) to prohibit travellers who have visited Cuba from benefitting from a U.S. visa waiver under the ESTA (electronic waiver program), having instead to apply for a visa for travel to the U.S. by way of an in-person interview at a U.S. Embassy or Consulate.

In 2022, the USA removed limits on remittances to Cuba and softened its travel curbs between the US and Cuba.

Cuba remains subject to the Helms Burton Act which – under Title IV - imposes administrative sanctions on persons that are using or benefitting from confiscated property in Cuba and which – under Title III - allow U.S. persons that hold a claim regarding such properties to sue persons (including non-U.S. companies) for damages.

# Corporate

The Company was incorporated on 10 October 1995 in Guernsey as a closed-ended investment company with the sole purpose of investing in Cuba. The Company invests in, and manages a portfolio of Cuban real estate assets, with a focus on the tourism-related and commercial property sectors. Cuban real estate assets may also include infrastructure, industrial, retail, logistics, residential and mixed-use assets (including development projects). In 2018, CEIBA listed on the specialist funds market of the London Stock Exchange.

The number of shares in issue is 137,671,576.

### Management Team & Costs

The Company internalised its management in 2023. There has been no change in the underlying key operational management personnel of the Company. The team continues to be headed by Sebastiaan Berger, who is exclusively focused on the Company's assets and business and has acted in this role for some 20 years. He is a full-time employee of the Company.

In addition, there will be no change to the team in Cuba and overall. 4K Keys Limited, which provided consultancy services to the fund regarding local market knowledge and expertise on the ground in Cuba in respect to the investment portfolio continues to provide these services to the Company.

4K Keys Limited is owned by management and provides strategic consulting services in respect of the real estate assets of the Company's subsidiaries. 4K Keys does not receive an going fee but instead has the right to receive remuneration in respect of certain cash distributions to shareholders and liquid assets at the rate of 5.0% thereof.

Over the last four years, the Fund has been able to lower its ongoing charges by 35% (from c$5.59m in 2020 to c$3.65 in 2023) as a result of the internalisation of management and other efficiencies.

### Convertible Bond

CEIBA is levered via a €25m 10% five years CB was issued on 13th April 2021, its strike on the CB is the euro equivalent of £1.043 at the time of conversion. The bond is due on 31 March 2026 and can be repaid (in whole or part) from the third anniversary of issuance.

### Life & discount control

The company has an unlimited life. The Directors may, at their absolute discretion, use available cash to purchase Ordinary Shares in the market should the Ordinary Shares trade at a discount to the prevailing Net Asset Value per Ordinary Share of more than 10 per cent.

### Dividend & Target Return

The fund targets an annual dividend yield of 4% (in $ terms) and a total shareholder return of between 12.5% and 17.5% pa (in $ terms).

It was decided in 2020 that as a result of COVID to suspend the dividend in order to maintain sufficient cash to meet all of its existing and future undertakings. The Board's intention is to reinstate the dividend as soon as possible, subject to the normalisation of tourism (the Fund's most reliable source of distributable income) and without jeopardizing the Fund's obligation to pay the Convertible Bond that expires on 31 March 2026. In the event that the Fund would be able to refinance the Convertible Bond in part or in whole it would likely be able to accelerate the re-start the payment of dividend.

### Tradability of Shares and existence of Corporate Custody Account with LINK Registrars

As a result of the existing US embargo legislation most U.K. and other European banks and some share trading platforms do not allow investors to trade in CBA shares. At present, we are aware that in the U.K. CBA shares can be acquired through Hargraves Lansdown & AJ Bell.

These restrictions naturally limits institutional interest in CEIBA. In order to facilitate and enable investors invest CEIBA has set up special custody & dealing arrangements with LINK Registrars for investors.

### Board of Directors

The seven strong board comprises four independent directors and three non-independent directors.

- John Herring (Chair, Appointed November 2009);
- Trevor Bowen (Independent Chair of the Audit Committee, appointed June 2018);
- Keith Corbin (Independent, Chair of the Nomination Committee, appointed June 2018);
- Peter Cornell (Senior Independent NED, appointed June 2018);
- Jemma Freeman (Independent NED, appointed October 2021);
- Colin Kingsnorth (NED, Appointed October 2001 – retiring post the 2023 AGM);
- Andrew Pegge (NED, Appointed October 2023)

**Figure 9: Major Shareholders**

| Shareholder | Shares Held | % Held |
|---|---|---|
| Northview Investment | 37,764,018 | 27.5 |
| POP Investments | 13,881,374 | 10.1 |
| Ursus Capital | 13,799,197 | 10.0 |
| abrdn plc | 9,388,532 | 6.8 |
| Citco Global Custody | 8,373,144 | 6.1 |
| Management Team | 7,975,689 | 5.8 |
| Total | 83,206,265 | 66.2 |

*Source: Company data as of 31 December 2023*

Members of the Management Team own 7,9975,689 ordinary shares representing 5.79% of the issued capital of the Company.

The Chairman also acts as a Consultant to Northview Investments Ltd which currently owns 37,862,018 Ordinary Shares representing 27.50 per cent. of the existing issued share capital of the Company.

Colin Kingsnorth is a director of Ursus Capital Limited which owns 13,799,197 Ordinary Shares representing 10.02% of the issued share capital of the Company.

Andrew Pegge is a director of POP Investments which owns 13,881,374 ordinary shares representing 10.08% of the issued capital of the Company.

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## Stock ratings

### Recommendation/Target price

**CEIBA Investments Limited (GBP)**

| Date | Rec | TP |
|---|---|---|
| As of 1 year ago 30-Apr-19 | Corporate | Corporate |

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