IPO note | Investment companies

17 September 2018

CEIBA Investments

Unique access to Cuba

CEIBA Investments Limited (CBA) is an existing investment company focused on real estate investments in Cuba, with a pre-IPO NAV of $175m (approximately £135m). CBA is the pre-eminent foreign investor in Cuban property. Its directors believe there is a window of opportunity to invest in expanding its portfolio while competition from US investors is curtailed by their government's policies.

CBA is targeting (but not guaranteeing) total shareholder returns of between 12.5% and 17.5% per annum (in US dollar terms) and a 4% dividend yield on the issue price.

CBA is listing its existing shares on the specialist fund segment of the London Stock Exchange and is aiming to raise additional gross proceeds of a minimum of £30m and a maximum of £100m. The funds will be used to repay a bridge loan, provided by the principal shareholder to expand the company's asset base in December 2017, and finance further investment in its portfolio (details of which are provided on page 9). Investors in CBA will gain exposure to a well-established and revenue generating portfolio, and a range of projects offering the potential for NAV accretion and enhanced revenues.

Existing investors not selling shares at IPO

None of CBA's existing investors is looking to sell shares in the IPO. The two largest shareholders and the management team have indicated that they will subscribe for additional shares in the IPO and have agreed to be locked in for 12 months from the date of admission. Other shareholders have agreed that, for a 12-month period, they will only sell shares subject to orderly market restrictions (see page 17).

The details of the share issue, including the risk factors that investors should take into consideration, are more fully described in the prospectus published on 17 September 2018 and we urge readers to read this before making any investment decision.

Sector	Other property
Ticker	CBA LN
Base currency	GPB
Domicile	Guernsey
Closing date for applications/ commitments	3 October 2018
Admission date	10 October 2018
Manager	Sebastiaan Berger, Aberdeen Asset Investments Limited

IMPORTANT INFORMATION

NB: Marten & Co has been paid to prepare this note on behalf of CEIBA Investments Limited. This is a marketing communication and not a prospectus.

The note is based upon publicly available information and should be read in conjunction with the CEIBA Investments Prospectus published on 17 September 2018. Readers should not place any reliance on the information contained within this note.

The note does not form part of any offer and is not intended to encourage the reader to subscribe for ordinary shares in CEIBA Investments or deal in any other security or securities mentioned within the note.

Marten & Co does not seek to and is not permitted to provide investment advice to individual investors.

The note is not intended to be read and should not be redistributed in whole or in part in the United States of America, its territories and possessions; Canada; Australia; the Republic of South Africa; or Japan.

Contents

The proposition

CBA is the largest foreign holder of commercial real estate in Cuba

The directors believe that Cuba is at the beginning of a period of profound change. However, it is not easy to get direct exposure to Cuba. CEIBA Investments Limited (CBA), which is in the process of seeking a listing on the London Stock Exchange (LSE), offers a way of achieving this. In fact, over time, CBA has become the largest foreign holder of commercial real estate assets in Cuba.

Targeting returns between 12.5% and 17.5% per annum and a 4% yield

CBA intends to use the proceeds of the IPO to repay its outstanding debt and invest in its portfolio. It is targeting (but not forecasting or guaranteeing) total shareholder returns of between 12.5% and 17.5% per annum (in US dollar terms) and a 4% dividend yield on the issue price. The target returns are not out of line with those that the fund has delivered over the past five years – see page 13.

CBA is not a blind pool

An investment in CBA will provide exposure to an existing portfolio with a 16-year track record of operations

CBA already has a 16-year track record of operations in Cuba, a record of distributing cash dividends to shareholders, an existing portfolio, supportive shareholders and concrete plans for investing its IPO proceeds – this is not a blind pool. In addition, Aberdeen Standard Investments (ASI) has agreed to acquire a management contract from the company, bringing Sebastiaan Berger (the existing lead manager) into its team while leaving CBA's experienced team intact.

Launch costs offset by payment from ASI

The directors estimate that ASI's $5m payment into the fund in exchange for the management contract will cover the issue expenses and the costs associated with retaining and transitioning the management team.

CBA's largest investment is an office complex in Havana, the largest in the country, but the bulk of its assets is exposed to Cuba's burgeoning tourist industry. Many of CBA's hotel investments have been made in partnership with Meliã Hotels International (MHI). MHI is the largest hotel company in Spain and the sixteenth-largest hotel company in the world; it has 370 hotels in 43 countries worldwide. The Sol Palmeras Hotel (opened in 1990) forms part of CBA's portfolio and was Meliã's first investment in Cuba. MHI is the leading international hotel operator in Cuba, with over 30 hotels under management (representing 12,500 rooms). MHI manages all CBA's hotel investments on contracts that extend until 2022 (see page 18).

Figure 1: Locations of CBA's property portfolio

Source: CEIBA Investments Limited, Marten & Co

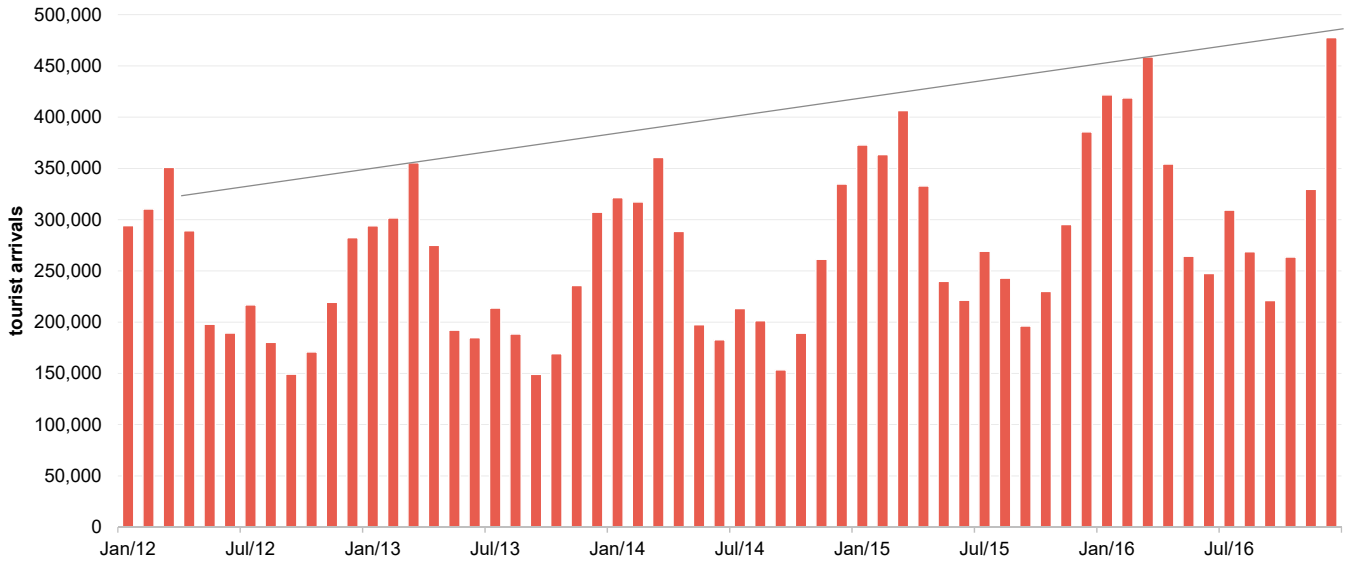
Why Cuba?

Tourism is an important and growing part of Cuba's economy

Part 4 of CBA's prospectus provides a comprehensive overview of Cuba, its geography, economy and political structure. Cuba is the largest island in the Caribbean, about three quarters of the size of England, and is just over 100 miles from the US. It has a population of about 11.5m (2.1m of which live in the capital, Havana) and literacy rates well-ahead of those in the UK.

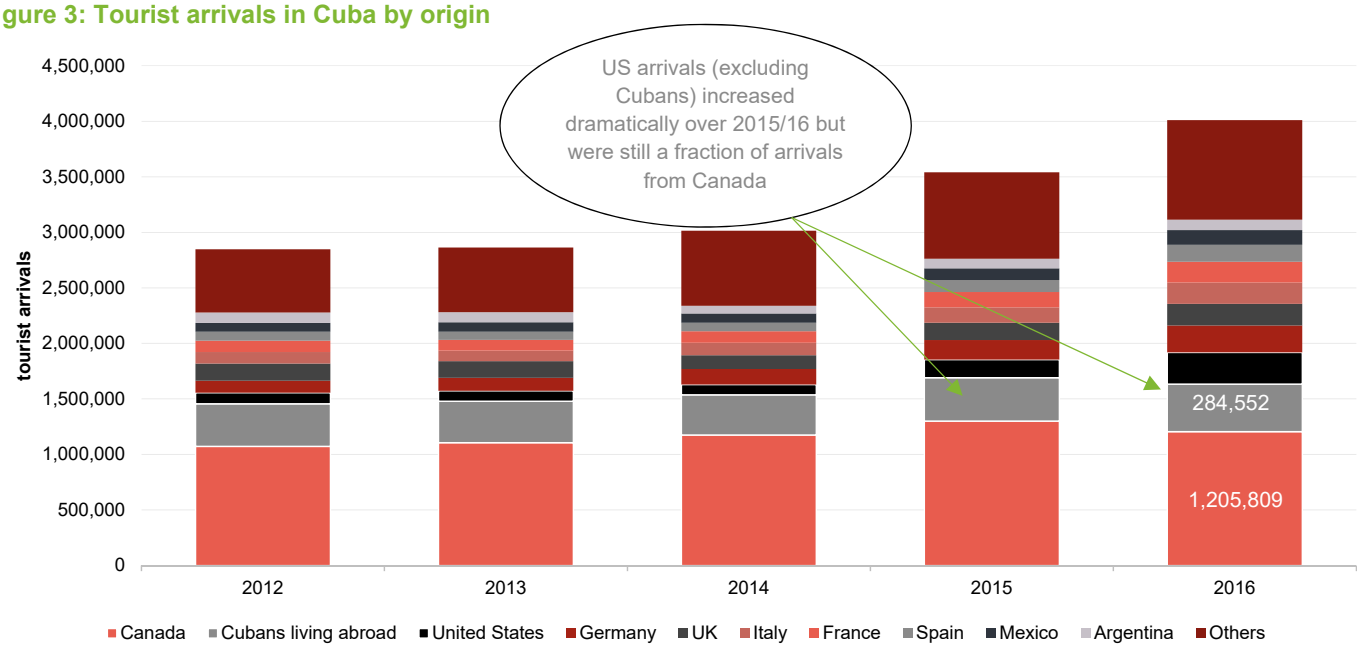
While Cuba's economy has considerable growth potential in other sectors, Cuba's climate, extensive coastline, natural scenery and Spanish colonial heritage make it an ideal tourist destination and, as Figure 2 shows, tourism in Cuba is a growing industry. The World Travel & Tourism Council estimates that tourist arrivals will grow from 4.18m to 7m over the 10 years to 2027. They have a choice of 10 international airports.

Figure 2: Tourist arrivals in Cuba by month



Source: Oficina Nacional de Estadistica e Informacion, Marten & Co

Figure 3: Tourist arrivals in Cuba by origin



Source: Oficina Nacional de Estadistica e Informacion, Marten & Co

Still no unrestricted travel to Cuba from the US

With cordial diplomatic relations between their respective governments, to date, Canadian and EU citizens, in particular, have embraced the opportunity to visit Cuba, as is evident from Figure 3. During the Presidency of Barrack Obama, diplomatic relations were restored, prohibitions on banking transactions were relaxed and US travel to Cuba was made easier (including by reintroducing direct flights and cruise ship travel), resulting in an increase of US visitors. Following his election, President Trump re-imposed some of the travel restrictions and prohibited individual licensed travel.

The Cuban government has enacted reforms aimed at encouraging foreign investment

Beginning in 2011, the Cuban government has enacted reforms intended to modernise Cuba's centrally controlled socialist economy as well as allowing private entrepreneurship in Cuba and encouraging foreign investment. This strategy has been endorsed by the 2016 Communist Party Congress and Miguel Diaz-Canel Bermudez, who recently succeeded Raul Castro as President of the Cuban Council of State (part of a 'changing of the guard' as the original revolutionaries hand over to subsequent generations). On 22 July 2018, the National Assembly published a draft of a new constitution. This recognises the right to own private property and acknowledges a role for a market-based economy but within the strict control of the government. It also reforms the country's political structure, including the creation of the role of Prime Minister, but does not permit the creation of new political parties. Cuban voters will be asked to approve the new constitution in a referendum early in 2019.

Cuba's relationship with the US has been poor since the Cuban revolution and the failed US invasion in 1961. The Helms-Burton (Cuban Liberty and Democratic Solidarity (Libertad)) Act of 1996 strengthened and extended US sanctions against Cuba and may have created uncertainty on the part of non-US investors in Cuba.

A window of opportunity

CBA has built and currently can expand its portfolio without US competition. The directors are hopeful that US/Cuba relations will improve during the course of the next few years

CBA maintains that the US sanctions have created a window of opportunity for non-US investors. CBA has established its portfolio in an environment of limited competition and can continue to enhance and expand this using the proceeds of its IPO. The directors are hopeful that, in accordance with prevailing US and Cuban popular sentiment, the medium-term direction of future US policy with regard to Cuba will tend towards greater open-ness and the further warming of relations. This should result in an increase in US travel, business and investment transactions within the country.

What might happen if the US adopted a more relaxed attitude to Cuba?

The directors believe that:

- without travel restrictions, US travel to Cuba would likely increase, which could have a positive impact on the occupancy and room rates for CBA's hotels;
- without the US embargo in place, bank finance at 'normal' interest rates would be easier to come by (as US and international banks and financial institutions enter the Cuban market);
- discount rates that determine the present value of property investments would likely decrease; and
- demand for CBA's shares may increase, as US investors are given the opportunity to invest in one of very few, and definitely the largest, 'pure Cuba' listed investment vehicle.

Fund profile

A bit of history

CBA has been investing in Cuba since 1996

CBA was incorporated in October 1995 and started making investments in Cuba in 1996. It was listed on the Irish Stock Exchange between 1996 and 2002 and, what was then called, the Channel Islands Stock Exchange between 2004 and 2011. In 2002, a new management team was appointed. This team included Sebastiaan Berger, who set up the Havana office for an international law firm in 1996 and established his own firm with Cameron Young in 1998. Paul Austin joined this team in 2005. More information on the management team is provided on pages 18 and 19.

Pre-IPO investors committed an additional €68.9m to building a fund worth $175m at the end of 2017

In 2001, the fund was worth $19m. A series of fundraises to help expand and develop the portfolio brought in a further €68.9m. By the end of December 2017, the fund had an NAV of $175m and had distributed about $80m in cash dividends. Over the five years to the end of December 2017, the company generated an annualised NAV per share total return of 15.9% in US dollar terms and 20.2% in sterling terms.

Regular income and substantial capital growth

You can access the fund's website at: www.ceibalimited.co.uk

CBA's objective is to provide a regular level of income (a target yield of 4% on the issue price) and substantial capital growth (the target is total returns of between 12.5% and 17.5% per annum) from a portfolio with a primary focus on Cuban real estate assets. The existing portfolio has a focus on tourism-related and commercial property sectors. Its Cuban real estate assets may also include infrastructure, industrial, retail, logistics, residential and mixed-use assets (including development projects).

CBA may also invest in any type of financial instrument or credit facility secured by Cuba-related cash flows and, in addition, subject to investment restrictions set out on page 8, may invest in other Cuba-related businesses. These will be businesses that the manager believes are complementary to the core portfolio and may include, but are not limited to, businesses in the construction or construction supply, logistics, energy, technology, and light or heavy industrial sectors.

Quarterly NAVs

CBA's NAV will be calculated and published on a quarterly basis. While its shares are quoted in pounds sterling, its accounts and its NAV will be published in US dollars. CBA will also publish an NAV in sterling based on the prevailing exchange rate.

As part of the NAV calculation, the underlying properties will be valued by an independent third-party valuation adviser, Arlington Consulting – Consultadoria Imobiliaria, Limitada, trading as Abacus Consulting (Abacus). Abacus is a registered member of the Royal Institution of Chartered Surveyors (RICS) and is a certified valuer. Its valuations are produced in accordance with RICS standards. It has provided independent annual valuation reports of the company's real estate investments during the last couple of years. Going forward, it will provide full annual and desktop bi-annual valuation reports. Further details of how the NAV is calculated are given on page 13.

The practicalities of investing in Cuba

Investors should pay close attention to the risks identified in CBA's prospectus

The prospectus lays out the risks associated with an investment in CBA and we urge investors to read these. One key consideration is the practicalities of investing in Cuba and this section, whilst not exhaustive, seeks to highlight some of these.

The Cuban government exercises a high degree of control over the Cuban economy. It has put in place policies designed to encourage tourism and foreign investment into the country. Any change in its policies could impact CBA materially.

Foreigners wishing to invest in Cuba must do so through joint ventures with local investors (typically entities controlled by the Cuban government). CBA does not have full control over these joint ventures and their underlying assets.

CBA's subsidiary, CEIBA Property Corporation (CPC – see page 22 for the entire corporate structure) has a licence to conduct business in Cuba and it employs a number of people who are not Cuban nationals. If CPC's licence was revoked or the work permits that have been given to the non-Cuban personnel were withdrawn, this could impact CBA materially. Cuba's Foreign Investment Act allows the holders of interests in Cuban joint venture companies to transfer their interests to third parties but this is always subject to the approval of the Cuban government.

Surface rights confer on the holder the right to use the property in question and erect constructions on it but do not confer any right to sell or transfer the property

The SPVs that hold the Cuban properties have been granted surface rights over the land that the buildings sit on by the Cuban government. These surface rights confer on the holder the right to use the property in question and erect constructions on it but do not confer any right to sell or transfer the property. The rights exist for fixed terms and, unless extended, then revert to the Cuban government. CBA has plans to continue to seek extensions for the surface rights but there is no guarantee that these will be forthcoming.

Prices of surface rights rose in March 2018

Surface rights for a number of CBA's properties have been extended in recent years (see Figure 4 on page 9 for the current situation). In March 2018, the Cuban government raised the cost of surface rights (Resolución No. 1095/2017) well above the levels paid by CBA.

The Cuban real estate market is not very liquid. This has implications both on the ability of the manager to turn the portfolio into cash and the availability of hard evidence for the valuation of CBA's properties (this is why it values its investments on a discounted cash flow basis – see page 13).

The functional currency for CBA's investments is the US dollar. Fluctuations between the dollar, the Cuban peso/Cuban convertible peso, sterling and other currencies are not hedged.

The US has sanctions in place against Cuba and other legal limitations including a travel ban (see page 5). This is one of the reasons why US persons are presently not permitted to have a direct investment in CBA. In addition, the Helms-Burton Act of 1996 allows for a private right of action against non-US entities allegedly "trafficking" in Cuban-owned property that the Cuban government confiscated after the Cuban revolution without compensating US former owners. CBA actively tries to avoid investing in such property but cannot guarantee that it will not be subject to such an action.

Cuba's tourism industry could be adversely affected by a range of factors including natural disasters. Cuba is potentially vulnerable to both hurricanes and earthquakes. With respect to the latter, the main fault line runs through Santiago de Cuba and Guantanamo in the south of the island, some distance from CBA's properties. There has been no major earthquake since 1992. In recent years, Cuba has been impacted

by Hurricane Matthew in September 2016 and Hurricane Irma in September 2017, and these had some effect on tourism on the island. Currently, the company's properties are insured against such risks; however CBA's prospectus points out that, should an uninsured or underinsured loss occur, this could have a material adverse effect on the company's business, financial condition and results of operations. CBA highlights that its Varadero hotels are well above sea level and the buildings have not been flooded by sea water.

Investment restrictions

On a look-through basis and at the time of acquisition:

- CBA will not knowingly or intentionally use or benefit from confiscated property to which a claim is held by a person subject to US jurisdiction;
- CBA may invest up to 10% of its gross assets in Cuban and non-Cuban companies, joint ventures and other entities that earn all or a substantial part of their revenues from activities outside Cuba;
- with the exception of Monte Barreto (see page 9), the maximum exposure to any one asset will not exceed 30% of gross assets;
- no more than 20% gross assets will be invested in other Cuban assets; and
- no more than 20% of gross assets will be exposed to real estate development projects, being new-build construction projects carried out on undeveloped land (greenfield assets).

The manager

Aberdeen Asset Investments Limited will be responsible for the management of the portfolio post IPO but the lead manager will remain the same

CBA has appointed Aberdeen Fund Managers Limited as its alternative investment manager (AIFM) and, in turn, Aberdeen Fund Managers has subcontracted the job of managing the portfolio to Aberdeen Asset Investments Limited. The lead manager is Sebastiaan Berger. Within the Cuban team (the internal management team), who are employed by subsidiaries of CBA but whose costs are covered by Aberdeen Fund Managers, the board has also identified Cameron Young, Paul Austin, Gilberto Perez and Enrique Rottenberg as key personnel engaged in the day-to-day operation of the portfolio.

More information on the investment team is provided on page 18 and on the internal management team on page 19. Details of the management contract are available on page 18.

Investment process

CBA's portfolio has been established over a considerable period. The investment team on the ground in Cuba has, amongst other things, performed extensive due diligence on potential acquisitions; established a working relationship with the appropriate authorities; negotiated the acquisition (and, later, extension) of surface rights over land; secured planning approvals and labour supply agreements; and worked closely with MHI to optimise the performance of the hotel portfolio.

There is no liquid secondary market in Cuban property and, in any case, the present plans of the manager are to expand and not to trade the portfolio. The investment focus

is on enhancing the existing properties and creating additional space. The manager's plans for the portfolio are detailed on page 12.

Portfolio

The NAV of the pre-IPO portfolio was valued at $175m at the end of December 2017. The gross value of the portfolio was $215m. It comprised the office complex of the Miramar Trade Center, the adjacent Meliã Habana Hotel, three hotels in Varadero next to Cuba's only eighteen-hole golf course, a new hotel construction at the beach next to Trinidad (Cuba) and various financial assets and liabilities. These are discussed in more detail below.

As explained on page 7, each investment is held within an SPV as a joint venture with a local partner. The foreign investor part of that joint venture might be divided between CBA and other foreign investors such as MHI. Page 22 shows CBA's corporate structure.

Figure 4: CBA pre-IPO portfolio (excluding cash raised from IPO)

Investment	Economic interest in foreign shareholder	Economic interest in underlying SPV	Expiry of surface rights	Fair value as at 31/12/17 (USD)	Percentage of gross asset value as at 31/12/17	Projected unlevered net yield (%)
The Miramar Trade Center	100	49	2046	77.7	36.2	9.1%
Meliã Habana Hotel	65	32.5	2042	37.1	17.3	6.4%[1]
Meliã Las Americas Hotel	65	32.5	2042	17.3	8.1	} 10.0%
Meliã Varadero Hotel	65	32.5	2042	17.6	8.2	
Sol Palmeras Hotel	65	32.5	2042	16.3	7.6	
The Meliã Trinidad Hotel project	80	40.0	2048	3.0	1.4	21.3%[2]
FINTUR finance facility – 8%	n/a	n/a	n/a	4.5	2.1	
Cash and receivables	n/a	n/a	n/a	41.1	19.1	
Gross assets				214.5	100.0	
Debt/payables incl. bridge loan				(39.3)		
Net assets				175.2		

Source: CEIBA Investments Limited. Note the figures in the table have been rounded to the nearest decimal place. 1) the projected return on the Meliã Habana upgrade (see page 12) is 43.8%. 2) estimated unleveraged return on hotel construction.

The Miramar Trade Center (Monte Barreto)

CBA owns an indirect 49% interest in Monte Barreto, the Cuban joint venture company that owns the Miramar Trade Center. This is a 55,530 sqm complex of six mixed-use office buildings at the core of the Miramar business district in Havana.

Monte Barreto was incorporated in 1996 for an initial term of 50 years. This company was granted surface rights to the land on which Phase I and Phase II of the trade centre has been constructed and these surface rights end in 2046. The surface rights may be extended if an agreement can be reached with the Cuban partner and the Cuban government approves the extension.

Figure 5: Key financial information for Monte Barreto

	31 December 2015	31 December 2016	31 December 2017
Occupancy	100	100	100
Average monthly rate psqm	21.94	21.89	23.93
EBITDA	13,560	16,125	16,921
Net income	10,298	12,443	11,509*

Source: CEIBA Investments Limited. Note * 2017 net income includes a one-off deferred tax provision of $1.575m.

Occupancy at the Miramar Trade Center has been close to 100% for some years

The complex has limited competition and occupancy rates have typically ranged from 95% to 100%. It is currently one of only four modern commercial office complexes in Cuba (the others being the Lonja de Comercio, 12 y 1ra and Atlantico buildings in Havana), and is the largest in terms of net rentable area. The board estimates that the complex represents approximately 70% of the total modern office space currently available in Havana.

The existing phases were constructed between 1996 and 2006. The original master plan contemplated 18 buildings having a total net rentable area of 150,000sqm. The construction of additional phases of the project is subject to obtaining required government approvals, including those relating to the acquisition of additional land rights and construction permits.

Leases are kept short to facilitate resetting of rent levels

Space is let on very short lease terms (typically one to two years) in order to facilitate the repositioning of tenants and the rapid resetting of rent levels. There is currently a substantial waiting list for space (source: CBA).

Monte Barreto has been developing and presenting various new commercial property projects for approval to the Cuban authorities, including projects regarding the execution of further phases of the Miramar Trade Center, the construction of a new office complex in a new industrial park to be located on the outskirts of Havana, the construction of an office and apartment complex in Cienfuegos and the construction of an office and apartment complex in Varadero.

Meliã Habana Hotel

The Meliã Habana is one of only six five-star hotels in Havana

hotel website

A 397 room (including 16 suites) five-star business hotel located on prime ocean-front property directly facing the Miramar Trade Center, 10 minutes from the city centre and 15 minutes from the airport. The hotel is operated by MHI and is currently one of only six five-star hotels in Havana, and one of only two business hotels in the city. The hotel also offers conference facilities, numerous meeting rooms, a business centre and three executive floors. The majority of rooms have direct ocean views, and the site has extensive gardens and the largest swimming pool of all Cuban city hotels.

Approximately 40% of demand was derived from the corporate and conference segments in 2017 (source: Abacus). MHI has implemented a strategy of decreasing sales to tour operators and increasing direct sales. An extension and upgrade works are planned for the hotel. This would add 168 rooms and a conference centre with capacity for 1,500 people. The only competing conference facility in Havana is the Palacio de Convenciones, which was constructed in 1979. The planned development fits MHI's ambition to increase the so-called MICE (Meetings, Incentives, Conferences, Events) segment of its revenues.

Figure 6: Key financial information for the Meliã Habana hotel

	31 March 2015	31 March 2016	31 March 2017
Number of rooms	397	397	397
Occupancy	87.2	79.9	72.2
Average daily room rate (USD)	127.34	222.42	227.83
EBITDA	8,924	16,775	13,249
Net income	6,084	12,697	9,695

Source: CEIBA Investments Limited

Abacus highlights that all hotels in Havana were affected by Hurricane Irma in 2017 and the subsequent flooding. The manager believes the principal reason for a decline in occupancy in 2017/18 has been President Trump's stance against Cuba.

The Varadero hotels

24 hectares of contiguous prime beach front property adjacent to only 18-hole golf course

The Cuban government identified the Varadero peninsula, 140km east of Havana, as a prime site for tourist projects and has encouraged development there. CBA's Varadero Hotels, combined, have 1,437 four and five-star hotel rooms, located on 24 hectares of contiguous prime beach-front property in Varadero, adjacent to the Varadero Golf Course, which is currently Cuba's only 18-hole golf course.

Meliã Las Americas Hotel

hotel website

The Meliã Las Americas Hotel is a five-star luxury beach resort hotel located next to the Varadero Golf Course. It has 340 rooms, including 90 bungalows and 14 suites. It is located on 400 metres of beachfront and operates as an all-inclusive beach resort. The hotel has been managed by MHI since commencing operations in 1994. Abacus says the majority of hotel demand is derived from the tour operator segment (in excess of 85%).

Figure 7: Key financial information for the Meliã Las Americas hotel

	31 March 2015	31 March 2016	31 March 2017
Number of rooms	340	340	340
Occupancy	89.4	85.2	80.5
Average daily room rate (USD)	117.86	148.04	156.05
EBITDA	6,219	8,182	7,699

Source: CEIBA Investments Limited

Meliã Varadero Hotel

hotel website

The five-star Meliã Varadero Hotel is located adjacent to the Meliã Las Americas Hotel and the golf course. It has 490 rooms, including seven suites and is located on 300 metres of beachfront. It operates as an all-inclusive beach resort. The hotel has been managed by MHI since commencing operations in 1992.

Figure 8: Key financial information for the Meliã Varadero hotel

	31 March 2015	31 March 2016	31 March 2017
Number of rooms	490	490	490
Occupancy	85.3	78.9	74.5
Average daily room rate (USD)	92.85	116.57	115.86
EBITDA	6,750	8,408	7,930

Source: CEIBA Investments Limited

Sol Palmeras Hotel

hotel website

The four-star Sol Palmeras Hotel is located next to the Meliã Varadero Hotel and also borders on the golf course. It has 607 rooms, including 200 bungalows, of which 90 are of suite or deluxe standard. It is located on 500 metres of beachfront and operates as an all-inclusive beach resort. The hotel has been managed by MHI since commencing operations in 1990.

Figure 9: Key financial information for the Sol Palmeras hotel

	31 March 2015	31 March 2016	31 March 2017
Number of rooms	607	607	607
Occupancy	85.8	83.5	78.8
Average daily room rate (USD)	82.27	97.87	106.45
EBITDA	7,133	8,675	8,538

Source: CEIBA Investments Limited

FINTUR finance facility – 8%

CBA has used surplus funds to provide secured finance to Cuba's tourism sector

CBA has invested a small amount ($4m) of its funds in an 8% interest-bearing structured finance transaction with Casa Financiera FINTUR S.A. (FINTUR). FINTUR is the financial house of Cuba's tourism sector and secured finance structures may be set up in the future to serve as a medium-term investment and treasury management tool. The €4m CBA participation in the facility that was executed in March 2016 has been amortised since September 2017, with the final payment due in June 2020.

Use of the IPO proceeds

Depending on how much CBA raises, the intention is for it to:

- repay the remaining amount outstanding on its bridge loan (see page 16);
- part fund the extension of the surface rights relating to the Meliã Habana to 2042 (approximately $4m – approval has been granted);
- fund CBA's contribution to the construction of the Meliã Trinidad Playa Hotel (approximately $40.5m – see below);
- fund modernisation works to the Meliã Habana Hotel, including the expansion of the hotel through the construction of an additional 168 rooms, a ballroom and conference centre (approximately $32.4m);
- fund refurbishments and enhancements to the Varadero Hotels (approximately $14.1m). CBA says that, if the IPO does not proceed, it would either need to seek alternative ways of financing this commitment or slow down the project so that it can be financed from existing operational cash flows.
- fund the proposed construction of a new hotel at Varadero, the cost of which is estimated to be between $175m and US$250m (see below);
- identify and fund other potential investments that conform to CBA's investment objective; and
- pay ongoing operational expenses and provide for the payment of dividends and other distributions to shareholders in accordance with the company's dividend policy.

It should also be noted that CBA is an existing company with positive cash flows from tis operational assets. CBA's prospectus says that, as at 14 September 2018 (the last practicable date before the publication of the prospectus) the aggregate cash balance in the company's bank accounts was approximately US$22m. In addition, it has paid US$3.4m as an initial deposit under the construction contract for the 400 room Meliã Trinidad Hotel.

Potential new Varadero hotel

CBA's potential new Varadero hotel would be constructed on land over which the joint venture already has the surface rights until 31 December 2042

CBA is currently considering the development and construction of a new hotel in Varadero, branded as a Paradisus hotel (MHI's most luxurious all-inclusive resort hotels). It would be located between the Sol Palmeras Hotel and the Meliã Varadero Hotel, on land for which new surface rights have been granted (until 2042). Currently, these are occupied by low-density accommodation (207 bungalows). CBA expects that this project, which would add approximately 800 additional rooms, if implemented, would cost approximately $175m and would take three to five years to complete. CBA has as yet made no commitment to proceed with this development.

The Meliã Trinidad Hotel project

CBA has a 40% economic interest in the TOSCUBA SA joint venture company that owns a hotel development project on a 4ha beachfront site just outside the town of Trinidad on Cuba's southern coast. Trinidad and the nearby Valle de los Ingenios (the site of many historic sugar mills) are UNESCO world heritage sites. The hotel will, once completed, be a 400 room, four-star resort hotel, inspired by the Paradisus (Meliã) Playa del Carmen La Perla hotel in Mexico.

All necessary construction permits are in place and ground preparation works have been completed. Construction of the project is scheduled to start in Q4 2018 with the start-up of hotel operations expected in December 2020.

The budget for the development is $68m. CBA is targeting an unleveraged project return of 21.3% on this development.

Track record

Calculating the NAV

As described on page 6, CBA intends to publish its NAV on a quarterly basis (unless circumstances outside the control, responsibility or power of the board make this impracticable or potentially detrimental to shareholders). The Cuban joint venture companies that CBA holds its investments through, will be valued six-monthly (for the purposes of the interim and final accounts) by the AIFM. These valuations will be reviewed by the board, the auditors and ASI's Property Valuation Committee.

NAVs based on discounted cash flows over the estimated lives of the assets

The underlying properties will be valued by an independent third-party valuation adviser, a registered member of the Royal Institution of Chartered Surveyors (RICS), in accordance with RICS standards. The method uses discounted forecast cash flows and, normally, these would exclude the impact of taxes. However, local Cuban taxes will be taken into account and the independent adviser will provide the AIFM with both pre and post-tax valuations.

In its calculation of CBA's NAV, Abacus used a 12.5% pre-tax discount rate for the Miramar Trade Center and a 15% pre-tax discount rate for the hotels. Cuban corporation tax is 20%. Post tax therefore, the discount rates used were 10% and 12%, respectively.

For the purposes of preparing accounts for the nine-month period ending 31 December2017, the board used a post-tax discount rate of 9.9% for Monte Barreto, 12.6% for the Meliã Habana Hotel and 12.1% for Varadero hotels. The asset lives are assumed to be coterminous with the expiry of the surface rights.

Historic performance – NAV

Over the past five years, CBA has generated annualised returns of 15.2% per annum in US dollar terms and 19.5% in sterling terms (aided by sterling weakness relative to the dollar).

Figure 10: CEIBA Investments NAV history (in USD)

	31 March 2015	31 March 2016	31 March 2017	31 December 2017
Gross assets	118,501	156,617	173,192	268,376
Net assets	116,063	149,980	169,633	175,220
NAV per share *	1.08	1.39	1.57	1.63

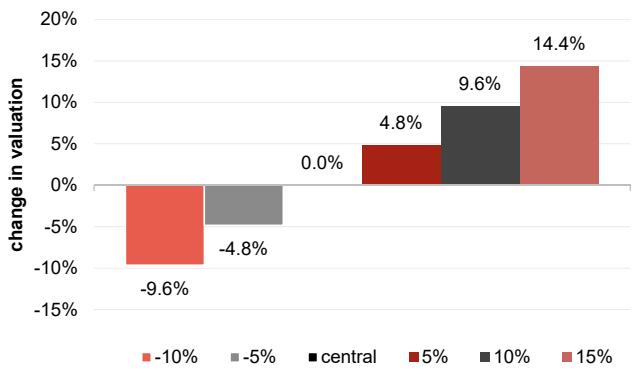
Source: CEIBA Investments Limited, Marten & Co. Note * adjusted for eight-for-one share split.

CBA paid a $7m dividend of USD0.5201 per share on 10 April 2018 and subsequently divided its shares on an eight for one basis (prior to the IPO).

Valuation sensitivities

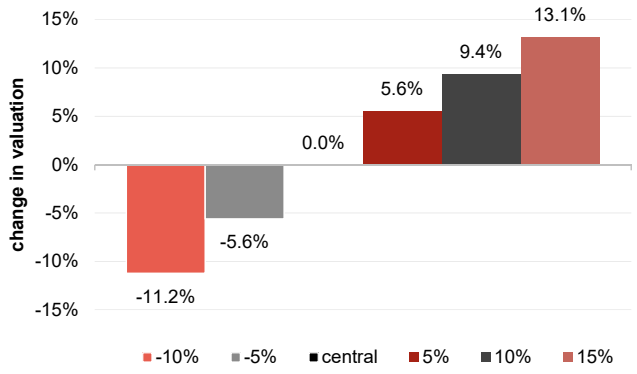
Figures 11 to 13 show how, in the estimation of the directors, the valuation of CBA's property portfolio as at the end of December 2017 would change in various scenarios.

Figure 11: Valuation sensitivity to changes in rents/average daily room rates



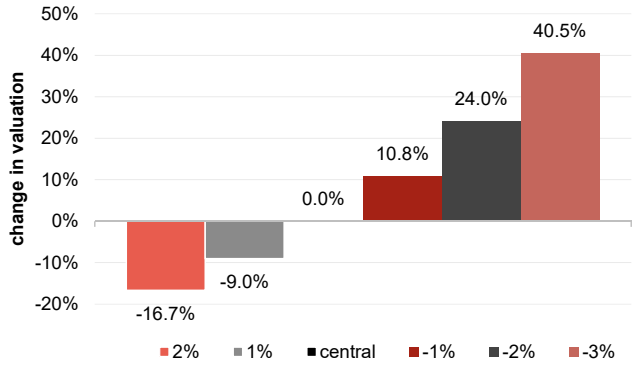
Source: CEIBA Investments Limited, Marten & Co

Figure 12: Valuation sensitivity to changes in occupancy rates



Source: CEIBA Investments Limited, Marten & Co

Figure 13: Valuation sensitivity to changes in discount/capitalisation rates



Source: CEIBA Investments Limited, Marten & Co

Historic performance – income

Figure 14: CEIBA Investments earnings history (in USD)

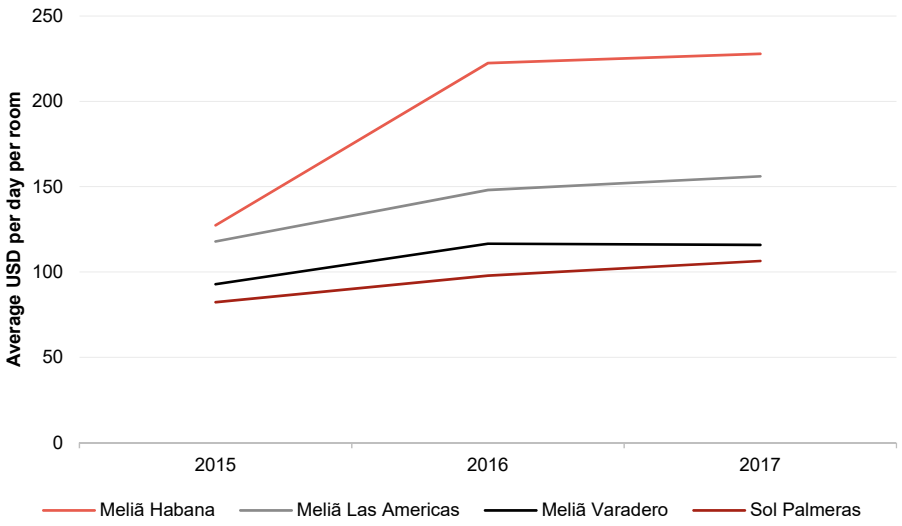
	year to 31 March 2015	year to 31 March 2016	year to 31 March 2017	nine months to 31 December 2017
Net income attributable to owners	15,326	37,768	26,595	5,459
Earnings per share *	0.28	0.70	0.40	0.05

Source: CEIBA Investments Limited, Marten & Co. Note * adjusted for eight-for-one share split.

The hurricanes mentioned on page 8 and the fall in US tourist arrivals, following President Trump's election, both had an impact on occupancy within the hotel portfolio. Abacus notes that "despite the unusual severity of 'Irma', Cuba was back to normal business within a matter of weeks."

CBA's hotels have been able to raise room rates in recent years as is evident in Figure 15.

Figure 15: Average room rates for CBA's hotels



Source: CEIBA Investments Limited

Although it would appear that compared with other Cuban hotels CBA's properties have benefited from above average occupancy rates, occupancy data show that its occupancy rates have also declined in recent years. The data is not strictly comparable – the official data is for calendar years while CBA's data is for years ending 31 March. The data suggests that CBA's properties have above average occupancy.

Figure 16: A comparison of occupancy rates

Heading	star rating	2013*	2014*	2015*	2016*
Meliã Habana	5		87.2	79.9	72.2
Meliã Las Americas	5		89.4	85.2	80.5
Meliã Varadero	5		85.3	78.9	74.5
Sol Palmeras	4		85.8	83.5	78.8
All five-star hotels	5	60.7	61.0	61.1	64.4
All four-star hotels	4	63.2	63.5	63.7	63.1

Source: Oficina Nacional de Estadistica e Informacion, Ceiba Investments Limited. Note * data is calendar years for all four and five-star hotels and years to 31 March for CBA properties.

Contrasting Figures 15 and 16, the managers believe that it has been more important to maintain the room rates at a higher level than to incur a short-term loss in occupancy rates.

Dividend policy

4% yield

CBA intends to pay dividends in sterling and is targeting an annual yield of 4% on the IPO price (in US dollar terms).

Capital structure

Power to issue up to 300m ordinary shares and 200m C shares

CBA has 107.7m ordinary shares in issue prior to the IPO and intends to issue new ordinary shares up to the value of £100m in the IPO. The new ordinary shares will rank equally with the existing ordinary shares. Under the terms of the placing programme described in the prospectus, CBA also has powers to issue additional ordinary shares, up to a total of 300m, and 200m C shares in the future (no C shares will be issued in the IPO). Any C shares will be issued at 100 pence per C share and will convert subsequently into ordinary shares using a conversion ratio calculated on the basis of their respective NAVs.

The shares are being listed on the Specialist Fund Segment (SFM) of the LSE. The LSE advises, but does not mandate, that funds listed on the SFM are not considered suitable for distribution to retail investors. The shares are not subject to the FCA's restriction on the promotion of non-mainstream pooled investments. The board has also concluded that the shares constitute a non-complex product for the purposes of MiFID II.

US persons (as defined in the prospectus) are prohibited from owning shares in CBA and the company's articles give it power to disenfranchise and forcibly transfer any shares acquired by a US person.

Any material changes that the board wanted to make to the company's investment policy, including the gearing limits described below, would need to be approved by shareholders.

CBA's year end was changed to 31 December from 31 March ahead of the IPO.

Gearing

CBA has a €30m bridge loan (as at 14 September 2118, the latest practicable date prior to the publication of the prospectus) that carries an annual interest rate of 12% and was provided by Northview Investment Fund (the largest shareholder in the company ahead of the IPO) in order to expand the company's interest in the Varadero hotels. The bridge loan will be repaid shortly after its IPO. This will leave CBA debt-free, both at the holding company level and the level of each underlying investment. If the company were to try to raise debt against the portfolio or parts of it now, this might be quite expensive. If prospective borrowing costs fall, gearing might make more sense for the company. CBA says that it does not anticipate using gearing for at least three years following the IPO. However, in the event that gearing becomes available in the future, the board expects to limit gearing to 20% of NAV at the time of drawdown.

Major shareholders

The existing shareholders prior to the IPO are shown in Figure 17.

Figure 17: Pre-IPO investors

Shareholder	% of shares pre-IPO	Lock-in status
Northview Investments	29.9	hard – 12 months/ soft – further 12 months
Value Catalyst/Laxey Partners	24.8	hard – 12 months/ soft – further 12 months
Henderson Alternative Strategies	7.2	soft – 12 months
Sebastiaan Berger	2.8	hard – 12 months/ soft – further 12 months
Cameron Young	3.7	hard – 12 months/ soft – further 12 months
Paul Austin	0.1	hard – 12 months/ soft – further 12 months
Others	31.5	of which 3% is subject to a soft lock-in for 12 months

Source: CEIBA Investments Limited

Premium/discount management

The manager's investor relations team, in conjunction with the corporate broker, will seek to maintain regular contact with both current and potential shareholders. ASI is one of the largest managers of London-listed investment companies, by number of funds and assets under management.

CBA may issue new shares if CBA is trading at a premium. As stated on page 16, CBA has powers under the prospectus to issue up to 300m ordinary shares and 200m C shares.

If CBA's shares are trading at a discount, the directors will consider repurchasing shares. A resolution has been passed granting the directors authority to repurchase up to 14.99% of CBA's issued ordinary share capital immediately following the IPO. This permission expires at the next AGM and, thereafter, renewal of this buy-back authority will be sought at each AGM or more frequently if required.

In addition, the Takeover Code (the code) will apply to the company. The code says that, when a person or persons acting in concert, who own between 30% and 50% of a company, increase their percentage ownership, they have to make a takeover offer for the shares they do not already control. Subject to the shape of the shareholder register following the IPO, consideration might have to be given to the possibility of triggering a takeover if the company shrinks its share capital through share buy backs.

Ordinary shares repurchased may be held in treasury and reissued at a later date (but only at NAV or at a premium).

Fees and costs

CBA will pay the AIFM an annual management fee of 1.5% of NAV. This fee is payable quarterly in arrears. There are no performance fees, transaction fees or property management fees and the fee will be reduced by the running costs of CPC's operations in Havana. The effect is that the cost of the Cuban operations is borne by the AIFM with no additional cost to shareholders.

MHI is entitled to 12% of the first $8.5m of net income from the hotels, 18% on the next $6.5m and 24% of amounts above $24m. This contract runs until 2022 and can be terminated early if minimum net income thresholds are not met.

Figure 18: Meliã Hotels International contract early termination thresholds

Heading	2018	2019	2020	2021	2022
Threshold (USD 000's)	14,399	14,503	14,636	14,783	14,919

Source: Abacus

The administrator and company secretary is JTC Fund Solutions (Guernsey) Limited. It is entitled to an annual fee of £120,000, plus £10,000 per subsidiary, plus some other fees for ad hoc services. The depositary is JTC Global AIFM Solutions Limited; it is entitled to a £30,000 annual fee. The auditor is Ernst & Young LLP; its fee is agreed by the board each year in advance.

The directors estimate that total annual expenses will be below 2%.

The investment team

Sebastiaan Berger is the lead manager. He is a Dutch trained lawyer who has been advising foreign investors in Cuba since 1996, first as founder of the Havana office of an international law firm, then as a founding partner of Berger, Young and Associates (1998). He has been the lead investment manager since 2001 and was appointed as CEO in 2010, when the management of the company was internalised. He will move to become an employee of Aberdeen Asset Investments with effect from the admission of CBA's shares to trading. As at 14 September 2018, Sebastiaan held 376,558 shares in the company.

Stephen Coltman is a senior investment manager within the Alternative Investment Strategies division at ASI. Stephen has extensive experience investing across both public and private markets and spent many years in Latin America. This included a three-year period in Cuba during the 1990s. Stephen holds an MSc in Chemistry from Imperial College, London and is a CFA charterholder.

Christian Pittard is group head of product opportunities. He was previously a director of the company from 2001 to 2005. Christian is qualified as a chartered accountant and a fellow of The Securities Institute by Diploma. He has experience in launching and servicing both closed and open-ended funds. Christian graduated with a BSc (Hons) Degree in Economics from Southampton University.

Pertti Vanhanen joined the manager in 2000 and is ASI's global co-head of real estate. Pertti was formerly also a member of the group management board of Aberdeen Asset Management (before its merger with Standard Life plc). He has been involved in the strategic development of ASI's global property products and processes and has been a key driver in the launch of several non-listed property funds.

Andrew Allen joined the manager in 2011 and is global head of investment research of real estate and a member of the global property management committee. He is primarily responsible for the implementation of property research and strategy. Andrew previously worked for Oriel Securities (now Stifel), and was a founding partner and head of research and strategy at Cordea Savills (now Savills Investment Management).

The internal management team

In addition to the external management provided by the AIFM and the investment manager, CBA will continue to benefit from the services of its extensive and experienced nine-member on-the-ground team. This team will continue to be employed, or their services engaged, by CPC (which has a branch registration in Cuba).

In parallel to his employment contract with the investment manager, Sebastiaan Berger will continue to maintain an employment contract with CPC in connection with the advisory services provided by him to the company in Cuba and an employment agreement with CEIBA Tourism B.V. in connection with services undertaken in the Netherlands.

Cameron Young is a Canadian who has lived and worked in Havana since 1998. Following a number of years as a lawyer with Baker McKenzie in Hungary, he co-founded Berger, Young and Associates, a leading international consulting firm focused on Cuba, in 1998. He originally joined the management team as a principal investment manager in 2002 and became chief operating officer when CBA's management became internalised in 2010. He held 3,979,672 shares in CBA as at 14 September 2018.

Paul S. Austin is a Canadian chartered professional accountant (CPA, CA) who has lived in Havana since 2001. He started his career with Pricewaterhousecoopers where he worked in Toronto, San Jose, California and Cuba. He originally joined the management of the company in 2005 as financial controller and became chief financial officer in May 2013. He held 144,000 shares in CBA as at 14 September 2018.

Gilberto Perez is a Cuban lawyer who heads the day-to-day operations and management of the Havana representative office of CPC. Before joining CPC, Gilberto worked for Corporacion Financiera Habana S.A., the first joint venture in Cuba's financial sector and Grupo B.M., an Israeli company that previously held the 49% interest in the capital of Monte Barreto that was acquired by CBA.

Enrique Rottenberg is a real estate developer who has successfully developed residential and commercial real estate projects in Israel, Spain and Cuba. He was the promoter and driving force behind the development of the Miramar Trade Center and originally joined the management of the company in 2006, when it acquired its interest in Monte Barreto. He continues to act as general manager of the Miramar Trade Center.

The board

CBA has five directors, all of whom are non-executive and independent of the manager. Two of the directors, John Herring and Colin Kingsnorth, have close connections with two of the largest investors in CBA. None of the directors sit together on other boards.

The board considers that John Herring, in his role as chairman, is independent in character and judgement and brings a wealth of experience, particularly in relation to the company and its investments. Due to his historical connection with Northview Investment Fund Limited (the largest pre-IPO shareholder), John is not considered fully independent for the purposes of the UK Corporate Governance Code. The board intends to replace John with a fully independent chairman within six months of the company's admission to trading.

Figure 19: CBA's board

Director	Role	Appointed	Fee	Shareholding
John Herring	Chairman	12 November 2009	40,000	
Peter Cornell	Senior independent director	18 June 2018	35,000	
Keith Corbin	Chairman of the nomination committee	18 June 2018	35,000	
Trevor Bowen	Chairman of the audit committee	18 June 2018	40,000	
Colin Kingsnorth	Director	10 October 2001	35,000	

Source: CEIBA Investments Limited, Marten & Co

John Herring, CBA's chairman and chairman of the management engagement committee, qualified as a chartered accountant in 1982. In 1986, he joined the corporate finance department of Kleinwort Benson, where he was involved in the IPOs on the LSE for several companies. In 1996, he established his own private equity advisory business and joined the boards of a number of public and private companies including JD Wetherspoon Plc, where he became deputy chairman and served as a non-executive director for 14 years. He is currently the non-executive chairman of the Edinburgh Woollen Mill Group Limited. John acts as a consultant to Northview Investment Fund Limited (a substantial investor in CBA).

Keith Corbin is a principal and executive chairman of Nerine International Holdings Limited, a network of trust and fiduciary services companies with operations in Guernsey, British Virgin Islands, Hong Kong, India and Switzerland. He serves as a director of a number of regulated financial services companies and is also the senior independent non-executive director of HarbourVest Global Private Equity Limited, a FTSE 250 company. Keith is an Associate of the Chartered Institute of Bankers (ACIB) and a Member of the Society of Trust and Estate Practitioners (STEP).

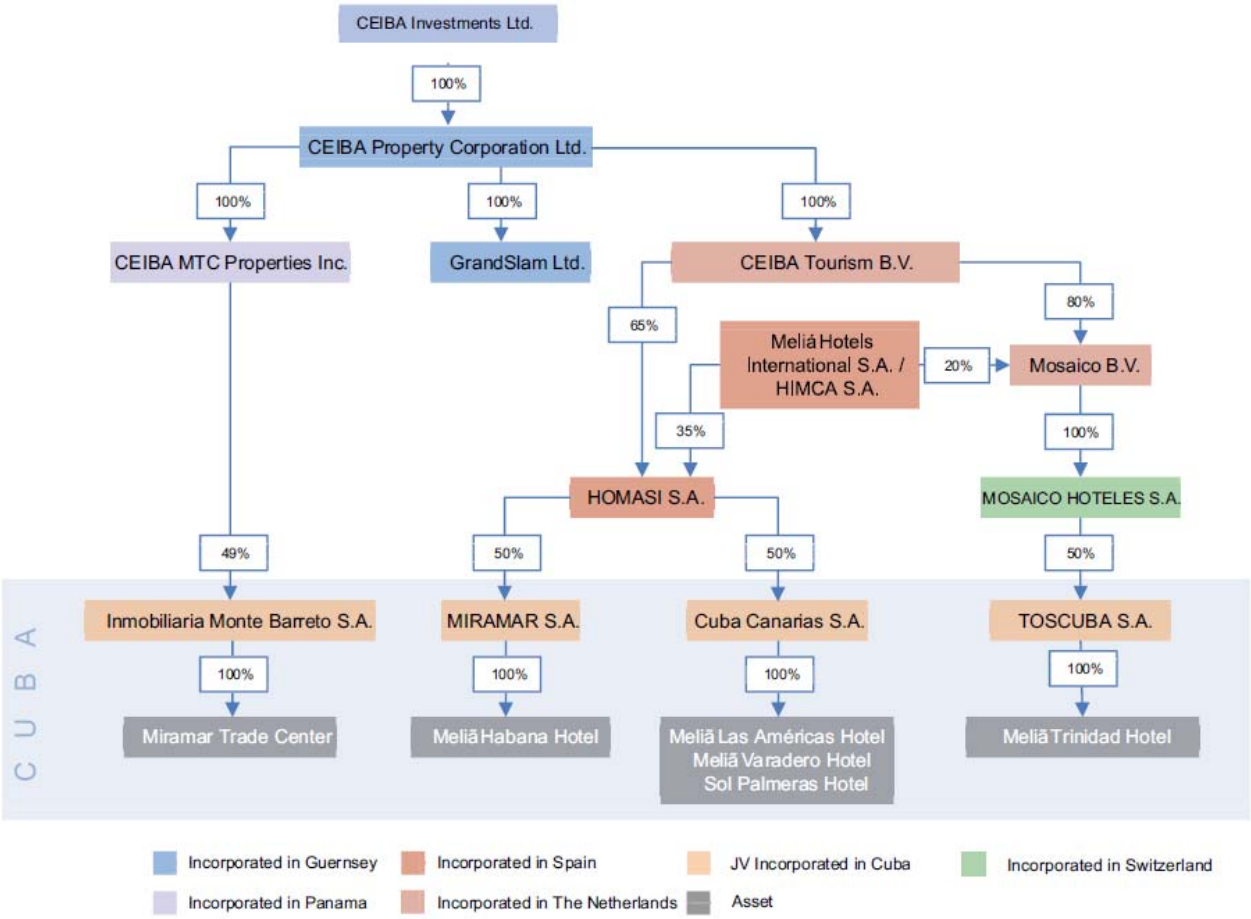
Peter Cornell is a founding partner of Metric Capital, a pan-European special situations fund. He is a non-executive director of F&C Commercial Property Trust Limited and a member of the International Advisory Board of the Madrid Business School. Previously he was global managing partner of Clifford Chance until 2006. During his 36-year tenure with Clifford Chance, his roles included managing partner for Spain and continental Europe. He then became managing director of Terra Firma, a European private equity firm until 2011. Peter holds a BA (Hons) in Economics and History.

Trevor Bowen has over 30 years' experience spanning across a variety of industries. Trevor spent 11 years as a partner of KPMG and 17 years managing U2 and other artists. Trevor has acted as a non-executive director on a number of boards, most notably as a director on the board of Ulster Bank for nine years, which included six years as the chairman of the bank's audit committee. He is an Irish national and a chartered accountant.

Colin Kingsnorth is a partner and director of Laxey Partners, a UK-based active value investment firm focusing on closed-end funds and property investments. Colin previously worked for Robert Fleming Asset Management, headed the investment trust research at Olliff & Partners and managed the emerging markets fund of Buchanan Partners Limited. In 1995, Colin co-founded Regent Kingpin Capital Management. Then, in 1997, he founded Laxey Partners Ltd with Andrew Pegge. Since then Laxey Partners Ltd has become a prominent active value investor focusing on closed-end funds and property investments. Colin holds a BSc in Economics and is a CFA charterholder. Laxey Partners and Value Catalyst Fund are substantial investors in CBA.

Corporate structure

Figure 20: CBA's corporate structure at IPO



1 MOSAICO HOTELES S.A. is in the process of migrating from Switzerland to Spain.

2 Following completion of the migration of MOSAICO HOTELES S.A. from Switzerland to Spain, Mosaico B.V. will be removed from the Group. Following this reorganisation, the shares in MOSAICO HOTELES S.A. will be held 80 per cent. by CEIBA TOURISM B.V. and 20 per cent. by Meliá Hotels International S.A.

Source: CEIBA Investments Limited

QuotedData

QuotedData is a trading name of Marten & CO, which is authorised and regulated by the Financial Conduct Authority
123a Kings Road, London SW3 4PL
0203 691 9430

www.quoteddata.com

Registered in England & Wales number 07981621,
2nd Floor Heathmans House
19 Heathmans Road, London SW6 4TJ

Edward Marten
(em@martenandco.com)

Alistair Harkness
(ah@martenandco.com)

David McFadyen
(dm@martenandco.com)

Investment company research:

James Carthew
(jc@martenandco.com)

Matthew Read
(mr@martenandco.com)

Alexander Tarver
(at@martenandco.com)

IMPORTANT INFORMATION

Marten & Co (which is authorised and regulated by the Financial Conduct Authority) was paid to produce this note on CEIBA Investments Limited.

This note is for information purposes only and is not intended to encourage the reader to deal in the security or securities mentioned within it and readers should place no reliance on the information contained therein.

Marten & Co is not authorised to give advice to retail clients. The research does not have regard to the specific investment objectives, financial situation and needs of any specific person who may receive it.

This note has been compiled from publicly available information and should be read in conjunction with the CEIBA Investments prospectus published 17 September 2018. This note is not directed at any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) the publication or availability of this note is prohibited.

Accuracy of Content: Whilst Marten & Co uses reasonable efforts to obtain information from sources which we believe to be reliable and to ensure that the information in this note is up to date and accurate, we make no representation or warranty that the information contained in this note is accurate, reliable or complete. The information contained in this note is provided by Marten & Co for personal use and information purposes generally. You are solely liable for any use you may make of this information. The information is inherently subject to change without notice and may become outdated. You, therefore, should verify any information obtained from this note before you use it.

No Advice: Nothing contained in this note constitutes or should be construed to constitute investment, legal, tax or other advice.

No Representation or Warranty: No representation, warranty or guarantee of any kind, express or implied is given by Marten & Co in respect of any information contained on this note.

Exclusion of Liability: To the fullest extent allowed by law, Marten & Co shall not be liable for any direct or indirect losses, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note. In no circumstance shall Marten & Co and its employees have any liability for consequential or special damages.

Governing Law and Jurisdiction: These terms and conditions and all matters connected with them, are governed by the laws of England and Wales and shall be subject to the exclusive jurisdiction of the English courts. If you access this note from outside the UK, you are responsible for ensuring compliance with any local laws relating to access.

No information contained in this note shall form the basis of, or be relied upon in connection with, any offer or commitment whatsoever in any jurisdiction.

Investment Performance Information: Please remember that past performance is not necessarily a guide to the future and that the value of shares and the income from them can go down as well as up. Exchange rates may also cause the value of underlying overseas investments to go down as well as up. Marten & Co may write on companies that use gearing in a number of forms that can increase volatility and, in some cases, to a complete loss of an investment.