

## Stock Market Review

**Edward Rizzo**

Mr Rizzo is director of Rizzo, Farrugia & Co. (Stockbrokers) Ltd.

# Medserv half-year pre-tax profits climb to €1.5 million

## Strong order book as offshore oil exploration gathers momentum in the Mediterranean

**M**edserv plc, the logistical and support services company in the oil and gas sector which obtained a listing on the Malta Stock Exchange in October 2006, issued its 2009 half-year results on August 31. The financial statements revealed a strong upturn in profitability as the Medserv Group incorporating its 60 per cent owned subsidiary Medserv Misurata, reported a pre-tax profit of €1.5 million.

While its few shareholders (only 147 as the 25 per cent free float was placed among a few investors in 2006) as well as the market expected a healthy profit announcement given the increased activity taking place and the new contracts confirmed in 2008, the extent of the company's growth in profits (+125 per cent over the same period in 2008) may have surprised many.

In fact on May 14, only six weeks prior to the end of their half-year period, Medserv's directors issued their interim statement announcing that during the first quarter of their financial year, the Group "achieved a profit figure in line with expectations and at levels similar to those registered for the corresponding period in 2008". So what happened during the second quarter of 2009?

The 2009 half-year report reveals that the high usage rate of the mud plants contributed significantly to the operating performance in the first half of the year. Medserv experienced an exceptional amount of work during the final few weeks of the half-year period as a large amount of mud used by oil rigs during their exploratory phase was required by one of the leading oil companies. Their rig entered Maltese territorial waters and was serviced by Medserv's facility in Malta.

The half year report shows group revenue of €8.2 million in the first six months of 2009. Medserv's newer base in Misurata accounted for over 30 per cent of the revenue as the Libyan subsidiary was responsible for works related to two exploration wells in the first half of the year helping revenue jump by 80.7 per cent over the first half of 2008.

While one of the oil companies using Misurata failed to strike oil,



the exploration activities of another company has continued in the second half of the year as a result of encouraging signs of an oil and gas find. This could mean further lucrative work for Medserv's 60 per cent owned subsidiary in Misurata. The operating profit of the Libyan subsidiary which surged to €0.55 million from only €0.13 million in the first half of 2008 accounted for almost 35 per cent of total group profits in the first six months of 2009. This vindicates the decision taken to expand outside Malta and establish the Misurata base which is already generating a healthy financial performance although the base commenced operations as recently as July 2007.

Medserv's Libyan-based subsidiary has also concluded negotiations with a bank in Libya to fund its investment of 30,000 sqm of additional open area facilities. The current storage area is already fully rented out and Medserv have had to lease additional space from the free zone to accommodate some of its demand until such time as the additional storage area becomes permanently available. Given the current order book for storage facilities, Medserv estimates that almost 75 per cent of this additional 30,000 sqm will be fully leased out for a number of years.

Earlier this year Medserv had also announced in its interim statement

issued on May 14 that the Misurata base had been appointed to provide logistical support to the Libyan branch of one of the largest global oil and gas companies. While work on this contract is expected to start in the first half of 2010, the Misurata base is expecting further work from a US company to commence by the end of this year. Medserv is also currently awaiting the results of its bid in a substantial tender issued by another leading international oil company.

Apart from focusing on the work being performed and new contracts at the bases in Malta and Misurata, Medserv is being requested by some of its larger clients to look into the possibility of providing its support services also in other regions, such as in Sicily and Egypt. In this respect Medserv announced in the 2009 half-year report that it has entered into a Memorandum of Understanding with Houston-based Tradewinds Petrotrade who specialise in the Asian region but who are also performing some work in Egypt. Medserv and Tradewinds are currently assessing the possibility of servicing the Egyptian market.

Meanwhile, following the discovery of gas in a large area close to Licata in Sicily, one of Medserv's major clients also requested the company to seek ways of providing logistical and support services

from Sicily, once work on this project commences in the near future. A possible base from where to operate has already been identified and Medserv is in early discussions with their client and the owner of this base in Sicily.

Diversification into new geographical areas would enable Medserv to follow its major customers into other markets, thus consolidating their business relationship with these important companies while creating further possibilities to attract new clients.

In recent years, Medserv's major shareholders had entered into discussions with parties who had expressed an interest in acquiring the company's facility located within the Malta Freeport. Medserv have exclusive rights to a 200-metre deep-water quay by title of temporary emphyteusis until 2045.

However after reviewing the current order book and the forecasted activity in the Mediterranean region for the next few years, Medserv's major shareholders decided to abandon the discussions since further significant positive financial results from Medserv could re-ignite interest from additional investors as the group seems to be uniquely placed to benefit from the Mediterranean-rim countries commitment to boost oil output in the coming years. This augurs well for the company and shareholders.

“

**Medserv is being requested by some of its larger clients to look into the possibility of providing its support services also in other regions, such as in Sicily and Egypt.**

”

Rizzo, Farrugia & Co. (Stockbrokers) Ltd, RFC, is a member of the Malta Stock Exchange and licensed by the Malta Financial Services Authority. This report has been prepared in accordance with legal requirements. It has not been disclosed to the issuer/s herein mentioned before its publication. It is based on public information only and is published solely for informational purposes and is not to be construed as a

solicitation or an offer to buy or sell any securities or related financial instruments. The author and other relevant persons may not trade in the securities to which this report relates (other than executing unsolicited client orders) until such time as the recipients of this report have had a reasonable opportunity to act thereon. RFC, its directors, the author of this report, other employees or RFC on behalf of its clients have

holdings in the securities herein mentioned and may at any time make purchases and/or sales in them as principal or agent. Stock markets are volatile and subject to fluctuations which cannot be reasonably foreseen. Past performance is not necessarily indicative of future results. Neither RFC nor any of its directors or employees accept any liability for any loss or damage arising out of the use of all or any part thereof and no

representation or warranty is provided in respect of the reliability of the information contained in this report.

© 2009 Rizzo, Farrugia & Co. (Stockbrokers) Ltd. All rights reserved.

[www.rizzofarrugia.com](http://www.rizzofarrugia.com)

**RIZZO FARRUGIA**  
YOUR INVESTMENT CONSULTANTS