

# Stock Market Review

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## Malta among three worldwide stock markets to perform negatively in 2009

**T**he Maltese equity market is among only three stock markets to rank in negative territory during the first nine months of this year. The MSE Share Index has declined by 2.1 per cent (until September 29) since the 2008 year-end level with Iceland and Slovakia as the other two countries to post losses in 2009. In contrast, all other markets posted gains, with the larger indices even registering double-digit growth figures.

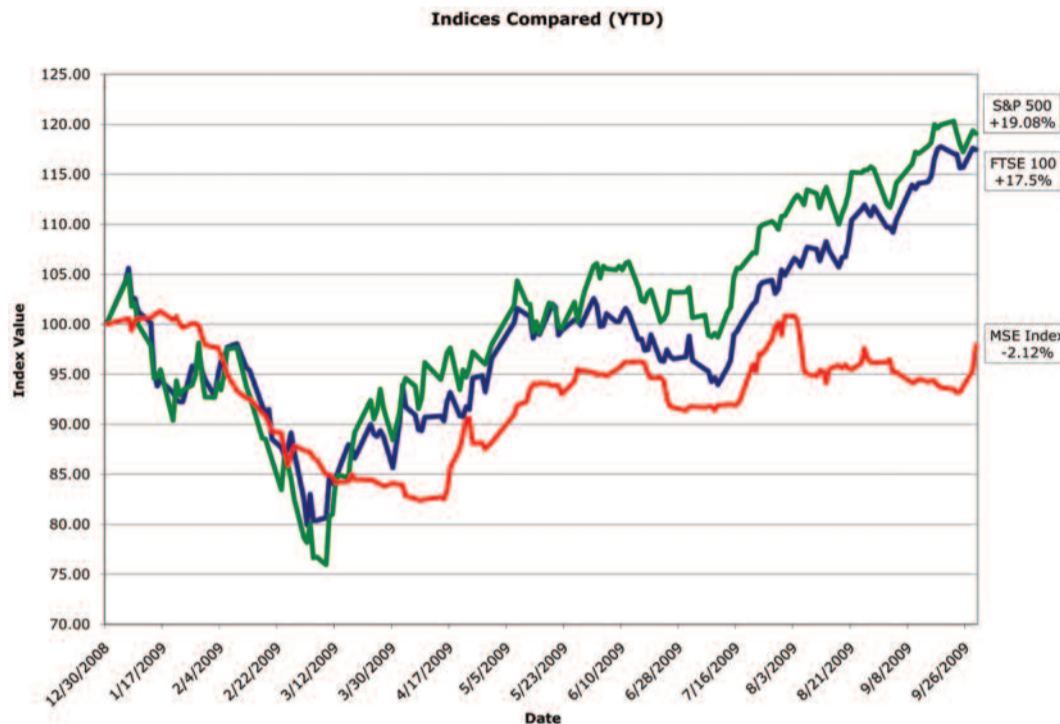
After dropping steadily during the first quarter of the year, international share prices have enjoyed a strong rebound as tentative signs that a global economic recovery may be on the horizon lifted sentiment and boosted equities which had fallen to multi-year lows in the aftermath of the Lehman bankruptcy.

This renewed optimism failed to have an impact on local share prices. Although the two large banking stocks are substantially higher from their 2009 lows (HSBC has climbed 36 per cent from this year's low of €2.060 and BOV is up 67 per cent from its low of €2.001), the lacklustre performance of the third-largest cap International Hotel Investments as well as Go and most of the other equities, hindered the local benchmark index from moving substantially above the 3,000-point level.

Although the global macroeconomic environment remains uncertain and there remains much debate surrounding the extent of the economic recovery, on the international markets various investors with a medium to longer-term view have taken advantage of the panic selling that took place between September 2008 and March 2009.

Warren Buffet, one of the most influential investment gurus, was among the first proponents of pouncing on this "once-in-a-lifetime" opportunity to acquire businesses very cheaply. Although he started buying before share prices bottomed, he has already created lots of value for his publicly-traded investment vehicle Berkshire Hathaway after taking substantial positions in some of the largest companies at the height of the crisis.

Mr Buffet's most famous saying "be fearful when others are greedy and greedy when others are fearful" could not have applied more than in recent months. While some of the highly-leveraged hedge funds were unwinding positions as they became forced sellers, Mr Buffet and other value



investors, who understood that the long-term business model of the company remained intact, were busy building up their stake in such companies at "throw-away prices".

This did not happen in Malta. BoV and HSBC were at very low prices around €2 each in March, and the low levels of turnover suggests that no large investors were building stakes at these multi-year lows. Many local investors continue to question why a similar situation did not take place locally. Certainly the lack of a market-making facility precluded sellers coming to the market hence limiting the chances of trading activity taking place. Furthermore, the negative stream of earnings published during the summer months continued to negatively impact investor sentiment. Moreover, the numerous bond issues that were launched on the local capital market this year may have shifted the focus away from equities as investors risk aversion remained highly evident.

With so many investors placing increasing amounts of their investible funds into fixed-interest securities, this may have also contributed to lower volumes in the equity market. Investors may be right in becoming concerned about the negative interim results published by some companies, however, all market professionals (the banks, stockbrokers and other financial intermediaries) should help investors distinguish between those companies that have chronic problems in their businesses from those that are suffering temporarily as a result of the current economic environment and are strongly placed to benefit from the eventual economic upturn. Some companies are also continue investing in anticipation of an eventual upturn in economic activity.

Once investors identify these companies, some may start to take advantage of the current low price levels aiming for capital growth potential. Some of the publicly-traded companies are also paying handsome dividends to shareholders especially when compared to the current low interest rate environment. As a result, an attractive return can be made in the form of dividend payments coupled with a capital gain at some stage in the future. Unfortunately, however, investors are being put off the local market due to the lack of liquidity arising from the absence of market makers and local investors now prefer to acquire shares in overseas companies as an eventual capital gain may be easily realised whereas this is certainly not yet the case in Malta.

The local market had briefly followed the upturn in global markets during July, however, the disappointing results by Malta's largest company, HSBC Bank Malta, quickly dampened sentiment once again with the MSE Share Index shedding six per cent in the following two weeks until mid-August. The local equity market seems to have woken up over the past week or so led by BoV which rose by 34 cents (+11.3 per cent) in the past four trading sessions to September 29. While BoV's financial performance in 2008 and in the first half of their financial year

to March 31 was mainly impacted by the provisions on their overseas investment portfolio, the bullish sentiment that also benefitted global bondmarkets should positively impact BoV's financials for the six months April to September 2009 (BoV closed off its financial year yesterday).

The BoV full-year results announcement at the end of October as well as the various interim statements due to be published by mid-November will also provide direction to the local equity market for the final quarter of 2009 and the beginning of 2010. Unfortunately for BoV, while on the one hand this positive movement in the bond markets will help their profitability level, the huge losses incurred by Middlesea will need to be reflected in the BoV Group accounts since the bank is a 20 per cent shareholder in this insurance company.

Clearly, as can be seen from the sudden increase in overall trading activity on the *Borża* over recent days, investors seem to be keen to participate in equity investments as well as fixed interest investments, if only the regulatory authorities address the illiquidity problem in the stock market.

Judging by the success achieved by newcomer Island Hotels Group Holdings plc, other companies are likely to "go public" and provide further depth and diversification in the market which should benefit investors and the economy immensely. Malta cannot afford the luxury of losing investors to overseas markets with the consequent negative implications on the government's finances.

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